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 and a pillar of "significant de-risking at no cost to shareholders" in which the effective management of non-performing loans is one of the first priorities. 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 Credit Head Office Department, CIB Credit Head Office Department, ISB Credit Head Office Department, Credit Governance Head Office Department, Credit Transformation Head Office Department and Capital Light Bank Head Office Department):
- assesses the creditworthiness of the credit proposals received and approves or issues a compliance opinion, where applicable;
- ensures the proactive management of credit and the management and the monitoring of non-performing loans, for its area of responsibility;
- innovatively manages the corporate crisis situations of its customers, through business and financial restructuring instruments;
- analyses the loan portfolio and the evolution of the cost of credit within the Group;
- sets the rules for credit granting and for non-performing loans;
- ensures the correct valuation for financial reporting purposes of positions under its responsibility that are classified as non-performing loans;
- assigns ratings to positions requiring specialist valuations and assesses proposals for improvement overrides made by the competent structures;
- defines the operational processes for credit, also on proposal from the various functions/structures of the Group, in collaboration with the Transformation Center;
- optimises the non-core assets for the bank in line with the Group's objectives, with a view to progressive reduction and disposal, also in collaboration with the other functions involved;
- performs a contact and monitoring role with respect to the external servicer Intrum Italy, and ensures the overall coordination of the subsidiaries Intesa Sanpaolo RE.O.CO. and Intesa Sanpaolo Provis.

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 allocation of the Credit Granting and Management Powers;
– validates internal risk measurement systems;
– performs level 2 controls for credit risk oversight.

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.

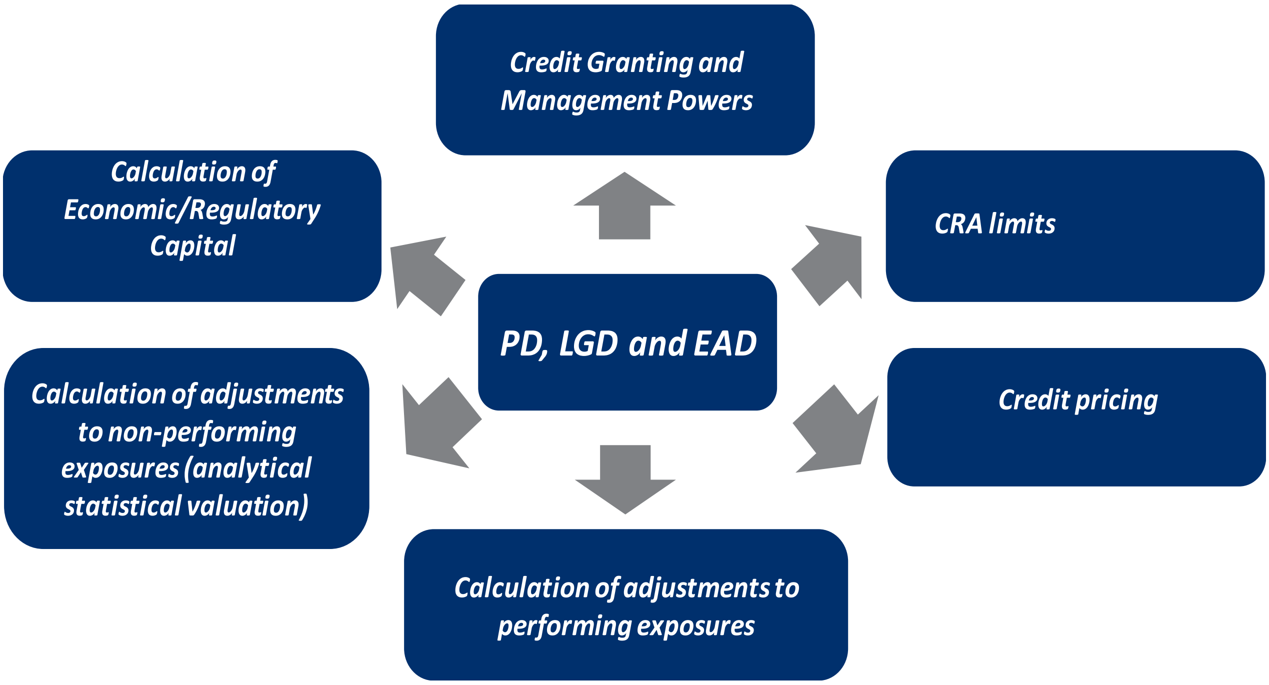
With regard to the credit management policies, the Chief Financial Officer Governance Area
– assists the Corporate Bodies in defining, in accordance with the Group corporate strategies and objectives, the guidelines and policies on administration, planning and management control, studies and research, 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 and participation in market operations on performing 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 Internal Auditing Head Office Department 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 presumption of loss 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 and Management 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[19] is based on methods consistent with IFRS 9 and are described in detail in Section "A. 2 - Main financial statement captions" and in particular in the paragraph "Impairment of assets*".*

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

Counterparty risk is a particular kind of credit risk associated with OTC 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 case of default of the counterparty, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
With regard to counterparty risk, the Banking Group has an internal model for measuring this risk both for operational and regulatory purposes.

Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the entire Banking Group for the measurement of counterparty risk. The Financial and Market Risks Head Office Department (FMRD) performs daily estimates for the counterparty risk measurements, for the measurement of the uses of credit lines for both OTC derivatives and SFTs for the Parent Company, Banca IMI and the banks belonging to Banca dei Territori division. 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.

[19] The analytical statistical valuation of the non-performing exposures applies to positions below 2 million euro

– 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 (82% 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.
In 2018, the preparation was completed 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. Since September 2018, the new reporting system has therefore been operational in compliance with the regulatory provisions established by the ECB and put in place by the competent National Central 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 new rating model by counterparty has been in use since September 2018. This model has replaced the previous model for residential mortgages to private individuals, as well as the Other Retail exceptions management model that covered all the other products aimed at private individuals.

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 detailed 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 by countries hit by crises from the International Monetary 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; Leases and Factoring)	CCF/K factor model (Corporate)	FIRB authorised since December 2009, 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)	AIRB Retail since September 2018 (2)
	Default model (Retail SME)	Workout model (Retail SME)	Regulatory parameters (Retail SME)	AIRB authorised since December 2012 (3)

1) Banca dei Territori: FIRB authorised since December 2008, LGD AIRB since December 2010 and AIRB since 2017 (EAD model authorisation). Banca Prossima since December 2013 and Mediocredito Italiano since December 2009. Banca Imi (2012), ISP Ireland (2010), VUB (2010), Banka Intesa dd (2017), and ISP Luxembourg (2017). Since 2017, the Corporate model has also been used to calculate the risk on the banking book equity portfolio with LGD 65%/90%
2) The authorisation for the IRB Retail model received in 2018 represented a model change for the Retail Mortgage component, already authorised in 2010, and a new validation for the Other Retail component. VUB has been authorised since June 2012 for the PD and LGD Retail Mortgage models.
3) Banca Prossima has been authorised since December 2013. VUB has been authorised since June 2014.
4) Banca dei Territori, Banca Prossima, Mediocredito Italiano and Banca Imi authorised since 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 specific requirements of the standard. A detailed description of the methods adopted by the Group is provided in 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 2018-21, 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 +0.95% for Italy's Real GDP and -0.18% for Italy's Real Estate Prices. Italy's unemployment rate is expected to be 9.7% on average over the period. The forecasts for the financial markets indicate compound annual growth rates for the period of

+3.38% for the DJ Eurostoxx and +3.37% for the S&P500, while the BTP-Bund Spread is expected to be 270 bps on average for the period.

The table 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 2018-2021)	0.95%	1.19%	0.75%
Italian real estate property prices growth rate (CAGR 2018-2021)	-0.18%	3.91%	-1.32%
DJ Eurostoxx 50 growth rate (CAGR 2018-2021)	3.38%	5.68%	-7.92%
S&P 500 growth rate (CAGR 2018-2021)	3.37%	6.81%	-4.77%
Average unemployment rate in Italy (Average 2018-2021)	9.7%	9.5%	9.9%
Average Spread vs. Bund (Average 2018-2021)	270	255	281

The estimates of the future best- and worst-case scenarios compared to the most-likely scenario indicate the following differences: Italy's Real GDP +24 bps for the best-case scenario and -20 bps for the worst-case scenario, Italy's Real Estate Prices +409 bps for the best-case scenario and -114 bps for the worst-case scenario, Italy's Unemployment Rate -26 bps for the best-case scenario and +16 bps for the worst-case scenario, DJ Eurostoxx 50 stock index +230 bps for the best-case scenario and -1130 bps for the worst-case scenario, S&P 500 stock index +344 bps for the best-case scenario and -814 bps for the worst-case scenario, and BTP-Bund Spread -15 bps for the best-case scenario and +10 bps for the worst-case scenario.

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.

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.
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 personal guarantees and real estate collateral uses a single platform at Group level, which is integrated with the register of real estate 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 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 ISDA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
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 2018 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 involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.
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).
The transactions completed during the year included the tranched cover synthetic securitisation, supported by the Central Guarantee Fund, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. In particular, admission to the Fund's guarantee was obtained for 4 portfolios of 300 million euro of new loans, for which the disbursements to SMEs and Mid-Caps were initiated in 2018 and will be completed by the second half of 2019.
For details of the transactions carried out in 2018 under the GARC Project, see the description provided in paragraph C. Securitisations of this chapter.
In order to optimise capital absorption, a transaction was also completed with the counterparty SACE to hedge the risk of expropriation of the compulsory and unrestricted reserves of the ISP Group banks operating in Albania, Bosnia, Serbia and Egypt.

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).
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. In further detail, the gap analysis of seven International Subsidiary Banks was completed for the main types of guarantees. For five of these, an action plan was drawn up and is now being implemented. 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 20 March 2018, the Board of Directors approved the annual revision of the Group NPL Plan, carried out on the basis of the ECB Guidelines on non-performing loans, which was sent to the ECB at the end of March 2018. 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 assumptions underlying the NPL Plan, and in particular the sales of non-performing loans envisaged, were used for the purposes of the FTA in accordance with IFRS 9 as described in the section “Transition to IFRS 9”.
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 divisional 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). With the finalisation of the agreement with Intrum at the end of 2018, more than 60% of the objective 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 29.9% year-on-year, bringing the ratio of non-performing loans (before adjustments) to total loans to 8.8%, and the cost of credit fell to 61 basis points at the end of 2018.

Non-performing financial assets include loans classified as bad, 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.
On 9 January 2015, on the proposal of the European Banking Authority (EBA), the European Commission approved the "final" version of the “Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013”.
Following this decision, the Bank of Italy issued an update to its corpus of regulations that, in line with the previous representation of the risk statuses of non-performing loans, fully reflects the new Community regulations with effect from 1 January 2015.
Based on the regulatory framework, supplemented by internal implementing rules, non-performing financial assets are therefore classified into three categories, based on their level of severity: “bad loans”, “unlikely to pay” and “non-performing past due exposures”.
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.
The process of managing such exposures, in close accordance with regulatory provisions concerning classification times and methods, is assisted by an IT tool that ensures pre-established, autonomous and independent management procedures.
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.
Non-performing assets are subject to an individual measurement process or calculation of the expected loss for uniform categories (identified based on the risk status, duration of non-performance and significance of the exposure represented), which results in 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, based on the use of specific LGD grids;
- 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 analytical-statistical measurement models or through individual expert evaluation, an add-on component is used to take into account the future macroeconomic scenarios, the incremental risk of the counterparty as long as it remains in the specific risk status (vintage) and any sale prospect, where present.

The measurement methods for non-performing loans are described in detail in 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 or upon the occurrence of significant events and are reviewed periodically.
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 bad loans, during 2018 the Group adopted a new organisational configuration. Until November 2018, in continuity with previous years, the organisational model envisaged:
- the assignment to the Loan Recovery Department of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks in the Banca dei Territori Division) of all positions that it manages and customers classified to the bad loan category from May 2015 (with the exception of a portion of loans with individual exposures below a given threshold, collectively representing an insignificant percentage in terms of exposure with respect to total bad loans, which are assigned for management to new external servicers under a specific agreement and with pre-defined limits);
- the suspension (with limited exceptions) from May 2015 of assignment to Italfondiario S.p.A. of new bad loan flows, without prejudice to its management of the bad positions assigned to it until 30 April 2015;
- for bad positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as bad loans, with some specific exceptions.

The Loan Recovery Department relied on its own specialist units throughout the country to manage the recovery for loans entrusted directly to it. As part of these activities, in order to identify the optimal strategies to be implemented for each position, judicial and non-judicial solutions are examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

From December 2018, the organisational model envisages the outsourcing of recovery activities to a specialist external servicer, a leading international operator, with whom a partnership has been established with the aim of further improving recovery activities and achieving future value creation through the development of a best-in-class platform in Italy, which is one of the largest European markets for NPL servicing.
The positions classified by the ISP Group as sensitive are managed by an internal recovery unit. Within the CLO area, the Capital Light Bank Head Office Department has the task of liaising with the Servicer in the operational management and monitoring of performance levels.
The Servicer, for the positions assigned under its management, is required to comply with the valuation rules adopted by the ISP Group.

The valuation of the loans is also reviewed whenever new events capable of impacting on the recovery prospects of the Bank occur (e.g. change in the value of assets secured by a guarantee, developments regarding ongoing disputes, 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.
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 probation period, if the conditions apply for the reallocation of those exposures to non-performing loans.
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.

The Internal Validation and Controls Head Office Department of the Chief Risk Officer Governance Area carries out the II level controls on signle positions to verify the proper classification and provisioning. Controls were carried out on doubtful with provisioning calculated using LGD grids too, also in accordance with the internal validation framework for backtesting of accounting LGD applied to doubtful positions (LGD defaulted assets).

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) waiver of the credit claim, due to the unilateral cancellation of the debt or residual amount as a result of settlement agreements;
c) disposal of loans.

In some cases, partial write-offs of gross loans are also necessary to bring them into line with the Bank's actual credit claims. These circumstances occur, for example, in the case of unchallenged measures, in bankruptcy proceedings, under which a claim lower than the amount entered in the accounts is recognised.

In addition, on a periodic basis (at least every six months) the Group has established the possibility of defining portfolios of bad loans to be subject to total or partial write-offs with the following macro-characteristics:

– percentage coverage > 95%
– vintage (understood as the period of time in “bad loan” status) > 5 years or > 8 years, respectively, for non-mortgage and mortgage loans

In 2018, the Group carried out write-offs on gross bad loans for around 3 billion euro, for the most part using the allowance already set aside. More than 60% 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 is about to face, difficulties in meeting their 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 the borrower to be 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 revenues 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 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:

- a significant deterioration in the borrower’s rating during the period prior to the renegotiation (e.g. three months);
- the presence of exposures past due by thirty days or more in the three months prior to the renegotiation;
- the inclusion of exposures pertaining to the borrower in a watch list that indicates a particular level of risk.

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. 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

At the end of 2018, the Group recognised gross on-balance sheet forborne exposures to customers, in its on-balance sheet credit exposures, amounting to 9,745 million euro for non-performing loans and 8,531 million euro for performing loans.

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.
As previously indicated, the Group has exercised the option established in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards", according to which – subject to the retrospective application of the new measurement and presentation rules required by the standard – there is no requirement for the compulsory restatement on a like-for-like basis of the comparative information in the financial statements of first-time adoption of the new standard. As a result, in this chapter, certain information for comparison, referring to 31 December 2017, strictly correlated to the new IFRS 9 categories, such as those referring to the various credit risk stages, is not provided.
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	1,218	342	702	864	506	742	455	260	11,987
2. Financial assets measured at fair value through other comprehensive income	8	-	-	-	-	-	-	-	-
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	*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	*of which: individual impairment losses*	*of which: collective impairment losses*
A. Initial amount	**955**	**41**	***679***	***317***	**1,667**	**18**	***1,169***	***516***
Increases in purchased or originated financial assets	287	9	*107*	*189*	121	-	*15*	*106*
Derecognition other than write-offs	-281	-1	*-107*	*-175*	-206	-	*-119*	*-87*
Net losses/recoveries for credit risk	-177	-2	*-146*	*-33*	-11	-5	*-45*	*29*
Changes in contracts without derecognition	-6	-	*1*	*-7*	-5	-	*1*	*-6*
Changes in the estimation methodology	1	-	-	*1*	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Other changes	106	-6	*129*	*-29*	-164	-7	*73*	*-244*
Final amount	**885**	**41**	***663***	***263***	**1,402**	**6**	***1,094***	***314***
Recoveries on collection of financial assets previously written off	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-20	-	*-20*	-

(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	*of which: individual impairment losses*	*of which: collective impairment losses*		Stage 1	Stage 2	Stage 3	
A. Initial amount	**29,578**	**32**	***24,050***	***5,560***	**545**	**133**	**75**	**276**	**32,775**
Increases in purchased or originated financial assets	201	-	*65*	*136*	2	32	16	25	691
Derecognition other than write-offs	-8,639	-	*-8,519*	*-120*	-258	-27	-11	-17	-9,182
Net losses/recoveries for credit risk	2,447	-	*2,379*	*68*	5	-30	-4	7	2,225
Changes in contracts without derecognition	-29	-	*-30*	*1*	-	-1	-	-	-41
Changes in the estimation methodology	-	-	-	-	-	-	-	-	1
Write-offs	-3,158	-	*-3,043*	*-115*	-84	-	-	-21	-3,179
Other changes	-503	3	*4,521*	*-5,021*	-3	-21	2	15	-575
Final amount	**19,897**	**35**	***19,423***	***509***	**207**	**86**	**78**	**285**	**22,715**
Recoveries on collection of financial assets previously written off	74	-	*74*	-	-	-	-	-	74
Write-offs recognised directly through profit or loss	-250	-	*-238*	*-12*	-	-	-	-	-270

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	38,469	34,010	3,188	1,777	1,364	553
2. Financial assets measured at fair value through other comprehensive income	-	43	-	-	-	-
3. Commitments to disburse funds and financial guarantees given	11,304	11,418	297	99	129	43
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	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
c) Non-performing past due exposures	-	X	-	-	-
- of which: forborne exposures	-	*X*	-	-	-
d) Performing past due exposures	X	3	-	3	-
- of which: forborne exposures	*X*	-	-	-	-
e) Other performing exposures	X	74,536	-93	74,443	-
- of which: forborne exposures	*X*	*100*	*-1*	*99*	-
Total (A)	**4**	**74,539**	**-97**	**74,446**	**4**
B. Off-balance sheet exposures					-
a) Non-performing	-	X	-	-	-
b) Performing	X	58,120	-2	58,118	-
Total (B)	**-**	**58,120**	**-2**	**58,118**	**-**
Total (A+B)	**4**	**132,659**	**-99**	**132,564**	**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	21,827	X	-14,666	7,161	4,722
- of which: forborne exposures	*2,623*	*X*	*-1,616*	*1,007*	*125*
b) Unlikely to pay	15,687	X	-5,462	10,225	577
- of which: forborne exposures	*7,086*	*X*	*-2,238*	*4,848*	*442*
c) Non-performing past due exposures	473	X	-121	352	11
- of which: forborne exposures	*36*	*X*	*-8*	*28*	*-*
d) Performing past due exposures	X	6,062	-222	5,840	-
- of which: forborne exposures	*X*	*556*	*-51*	*505*	*-*
e) Other performing exposures	X	455,118	-2,026	453,092	-
- of which: forborne exposures	*X*	*7,975*	*-372*	*7,603*	*-*
Total (A)	**37,987**	**461,180**	**-22,497**	**476,670**	**5,310**
B. Off-balance sheet exposures					
a) Non-performing	2,556	X	-287	2,269	-
b) Performing	X	251,620	-187	251,433	-
Total (B)	**2,556**	**251,620**	**-474**	**253,702**	**-**
Total (A+B)	**40,543**	**712,800**	**-22,971**	**730,372**	**5,310**

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

- 244 million euro, adjusted by 24 million euro, included among gross non-performing on-balance sheet exposures to customers;
- 6,990 million euro, adjusted by 35 million euro, included among gross performing on-balance sheet exposures to customers;
- 74 million euro, adjusted by 4 million euro, included among gross non-performing off-balance sheet exposures to customers;
- 6,418 million euro, adjusted by 12 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/Quality	Bad loans	Unlikely to pay	Non-performing past due exposures
A. Initial gross exposure	**4**	**-**	**-**
- of which: exposures sold not derecognised	-	-	-
B. Increases	**-**	**1**	**-**
B.1 inflows from performing exposures	-	1	-
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	**-**	**-1**	**-**
C.1 outflows to performing exposures	-	-	-
C.2 write-offs	-	-	-
C.3 collections	-	-1	-
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**	**-**	**-**
- 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	**-**	**-**
- of which: exposures sold not derecognised	*-*	*-*
B. Increases	**-**	**101**
B.1 inflows from non-forborne performing exposures	-	24
B.2 inflows from forborne performing exposures	-	X
B.3 inflows from non-performing forborne exposures	X	-
B.4 other increases	-	77
C. Decreases	**-**	**-1**
C.1 outflows towards non-forborne performing exposures	X	-
C.2 outflows towards forborne performing exposures	-	X
C.3 outflows towards non-performing forborne exposures	X	-
C.4 write-offs	-	-
C.5 collections	-	-1
C.6 profits on disposal	-	-
C.7 losses on disposal	-	-
C.8 other decreases	-	-
D. Final gross exposure	**-**	**100**
- 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	**34,224**	**17,912**	**475**
- of which: exposures sold not derecognised	*166*	*284*	*14*
B. Increases	**3,140**	**5,455**	**2,174**
B.1 inflows from performing exposures	95	2,540	2,041
B.2 inflows from purchased or originated credit-impaired financial assets	6	8	-
B.3 transfers from other non-performing exposures categories	2,628	1,670	45
B.4 changes in contracts without derecognition	-	1	-
B.5 other increases	411	1,236	88
C. Decreases	**-15,537**	**-7,680**	**-2,176**
C.1 outflows to performing exposures	-78	-1,802	-452
C.2 write-offs	-3,051	-383	-2
C.3 collections	-1,553	-2,157	-192
C.4 profits on disposal	-2,738	-226	-
C.5 losses on disposal	-21	-49	-1
C.6 transfers to other non-performing exposure categories	-219	-2,610	-1,514
C.7 changes in contracts without derecognition	-	-18	-
C.8 other decreases	-7,877	-435	-15
D. Final gross exposure	**21,827**	**15,687**	**473**
- of which: exposures sold not derecognised	*84*	*171*	*7*

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 effects of the sale to Intrum of the “Savoy” portfolio of bad loans.

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	**11,379**	**7,941**
- of which: exposures sold not derecognised	*45*	*23*
B. Increases	**2,334**	**5,432**
B.1 inflows from non-forborne performing exposures	175	3,375
B.2 inflows from forborne performing exposures	716	X
B.3 inflows from non-performing forborne exposures	X	1,337
B.4 other increases	1,443	720
C. Decreases	**-3,968**	**-4,842**
C.1 outflows towards non-forborne performing exposures	X	-2,101
C.2 outflows towards forborne performing exposures	-1,337	X
C.3 outflows towards non-performing forborne exposures	X	-716
C.4 write-offs	-293	-2
C.5 collections	-1,127	-1,676
C.6 profits on disposal	-319	-
C.7 losses on disposal	-	-
C.8 other decreases	-892	-347
D. Final gross exposure	**9,745**	**8,531**
- of which: exposures sold not derecognised	*80*	*282*

For the non-performing forborne exposures, the “Other increases” mainly include the transfers from non-forborne exposures to forborne exposures, within each risk status.
The “other decreases” mainly include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans.

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	**2**	**-**	**-**	**-**	**-**	**-**
B.1 adjustments to purchased or originated credit-impaired assets	1	*X*	-	*X*	-	*X*
C.2 other adjustments	-	-	-	-	-	-
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	**-2**	**-**	**-**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-2	-	-	-	-	-
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**	**-**	**-**	**-**	**-**	**-**
- 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	**23,661**	**1,887**	**5,900**	**2,546**	**104**	**41**
- of which: exposures sold not derecognised	*82*	*2*	*52*	*5*	*2*	*-*
B. Increases	**4,397**	***636***	**2,756**	***1,082***	**436**	***46***
B.1 adjustments to purchased or originated credit-impaired assets	88	*X*	102	*X*	12	*X*
C.2 other adjustments	3,002	*267*	1,985	*692*	380	*44*
B.3 losses on disposal	13	*10*	42	16	-	-
B.4 transfers from other non-performing exposures categories	1,095	*251*	493	121	13	1
B.5 changes in contracts without derecognition	-	*X*	10	*X*	-	*X*
B.6 other increases	199	*108*	124	253	31	1
C. Decreases	**-13,392**	**-907**	**-3,194**	**-1,390**	**-419**	**-79**
C.1 recoveries on impairment losses	-1,537	*-149*	-822	-557	-16	-
C.2 recoveries on repayments	-375	*-30*	-130	-53	-4	-
C.3 profits on disposal	-43	*-14*	-49	-18	-	-
C.4 write-offs	-3,051	*-134*	-383	-159	-2	-
C.5 transfers to other non-performing exposure categories	-139	*-65*	-1,093	-250	-369	-68
C.6 changes in contracts without derecognition	-	*X*	-35	*X*	-1	*X*
C.7 other decreases	-8,247	*-515*	-682	-353	-27	-11
D. Final total adjustments	**14,666**	**1,616**	**5,462**	**2,238**	**121**	**8**
- of which: exposures sold not derecognised	*25*	*2*	*49*	*39*	*-*	*-*

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” include the effects of the sale to Intrum of the “Savoy” portfolio of bad loans. This caption also includes the collections of overdue interest applied in previous years, losses on disposal not covered by the allowance and the decrease in the balances of allowances in foreign currency due to changes in the exchange rate.

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 and DBRS 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	**15,911**	**13,359**	**84,789**	**10,857**	**6,708**	**2,024**	**368,181**	**501,829**
- Stage 1	15,770	11,244	80,686	9,319	6,402	1,556	290,549	415,526
- Stage 2	141	2,115	4,103	1,538	306	119	41,342	49,664
- Stage 3	-	-	-	-	-	349	36,290	36,639
B: Financial assets measured at fair value through other comprehensive income	**14,320**	**14,744**	**23,615**	**2,491**	**134**	**14**	**2,079**	**57,397**
- Stage 1	14,320	14,716	23,594	2,352	72	-	2,055	57,109
- Stage 2	-	28	21	139	62	-	3	253
- Stage 3	-	-	-	-	-	14	21	35
Total (A+B)	**30,231**	**28,103**	**108,404**	**13,348**	**6,842**	**2,038**	**370,260**	**559,226**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*693*	*693*
C. Commitments to disburse funds and financial guarantees given								
- Stage 1	9,876	22,432	36,750	12,455	3,224	57	129,646	214,440
- Stage 2	20	181	284	553	442	19	13,166	14,665
- Stage 3	-	-	-	-	-	289	2,283	2,572
Total (C)	**9,896**	**22,613**	**37,034**	**13,008**	**3,666**	**365**	**145,095**	**231,677**
Total (A+B+C)	**40,127**	**50,716**	**145,438**	**26,356**	**10,508**	**2,403**	**515,355**	**790,903**

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**
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**
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**	**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)

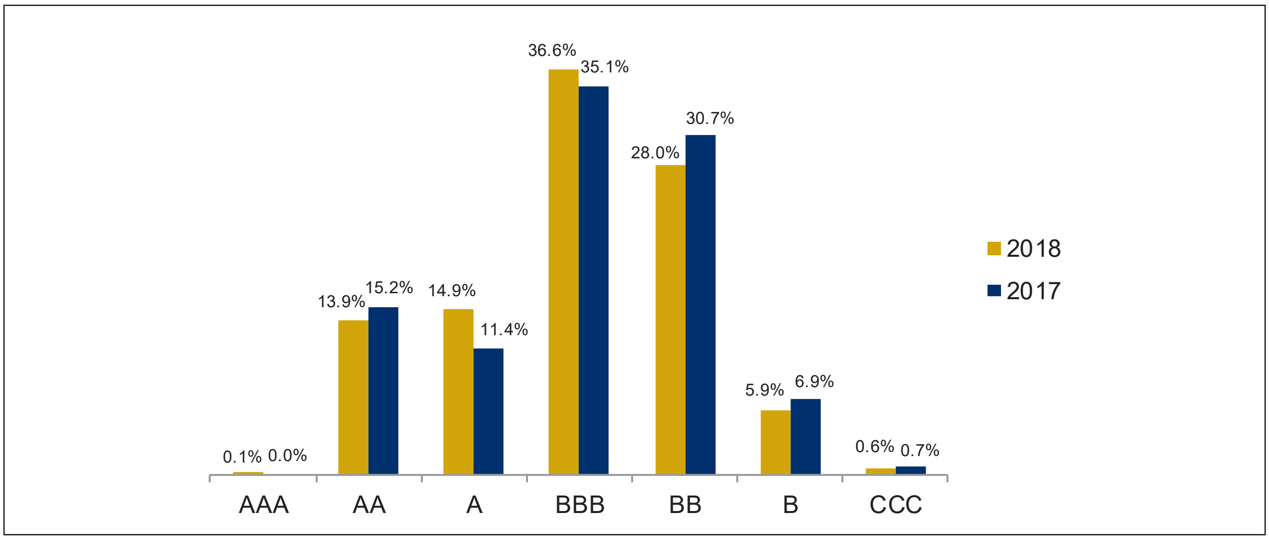
As indicated above in the paragraph entitled “Basel 3 Regulations”, the Intesa Sanpaolo Group has a set of ratings for the various operating segments of the counterparties (Corporate, Retail SME, Retail, Public Sector Entities and Banks).
The breakdown of exposures by internal rating classes shown in 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 10.6% of all exposures to performing counterparties and refer to customer portfolios for which a rating model is not yet available, to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries which have yet to be fully integrated into the credit risk management system.

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 76% of the total, whilst 19.7% fall within the BB+/BB- range (class 4) and 4.3% fall under higher risk classes (of which around 0.4% are below B-).

(millions of euro)

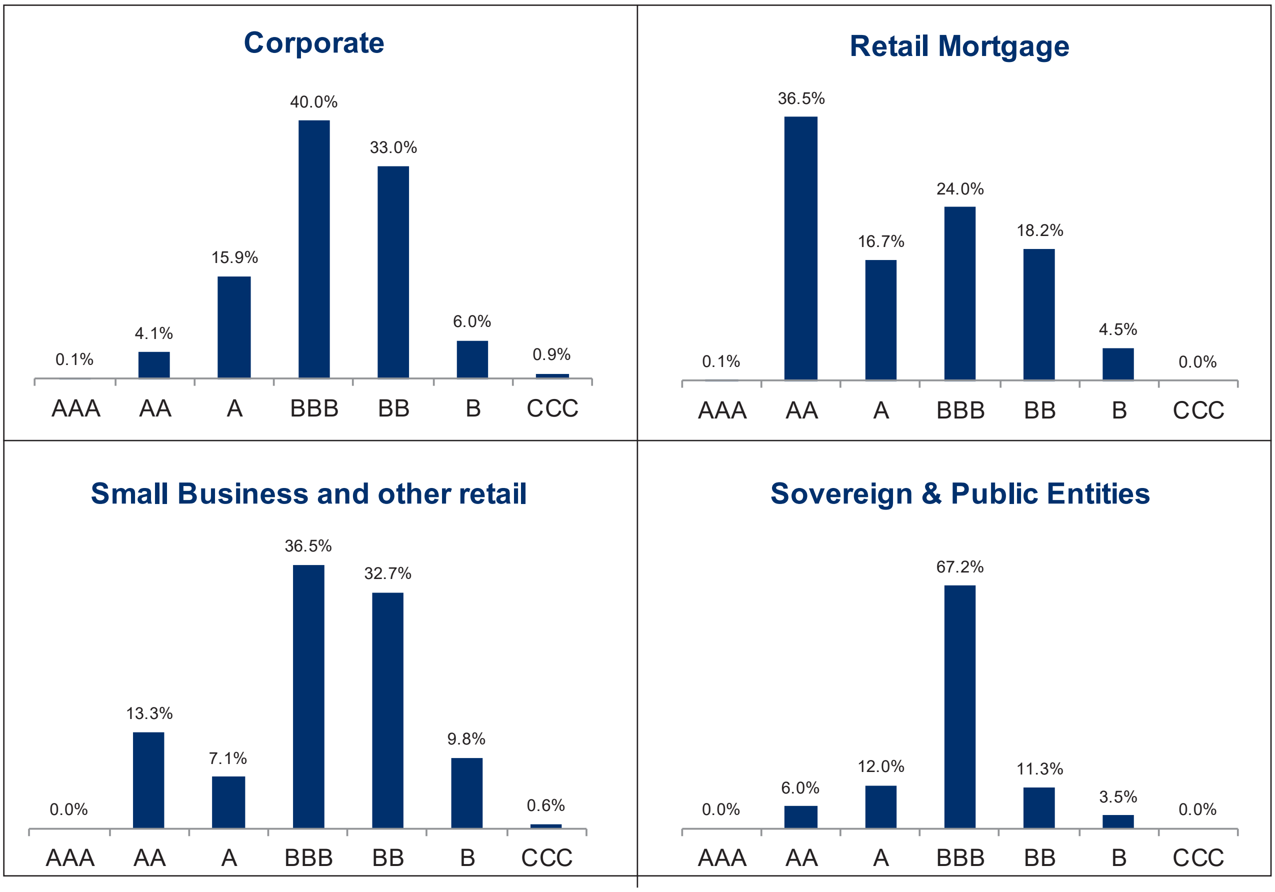
Exposures	Internal rating classes						UNRATED	TOTAL
	Rating 1	Rating 2	Rating 3	Rating 4	Rating 5	Rating 6		
A. Financial assets measured at amortized cost	**72,560**	**49,606**	**176,147**	**88,954**	**20,751**	**3,569**	**90,242**	**501,829**
- Stage 1	71,524	47,471	168,372	72,215	10,897	296	44,751	415,526
- Stage 2	1,036	2,135	7,775	16,739	9,854	1,664	10,461	49,664
- Stage 3	-	-	-	-	-	1,609	35,030	36,639
B. Financial assets measured at fair value through other comprehensive income	**8,747**	**16,324**	**24,351**	**2,617**	**135**	**3**	**5,220**	**57,397**
- Stage 1	8,747	16,296	24,330	2,478	73	-	5,185	57,109
- Stage 2	-	28	21	139	62	-	3	253
- Stage 3	-	-	-	-	-	3	32	35
Total (A+B)	**81,307**	**65,930**	**200,498**	**91,571**	**20,886**	**3,572**	**95,462**	**559,226**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	*693*	*693*
C.Commitments to disburse funds and financial guarantees given								
- Stage 1	25,120	44,905	91,618	33,730	3,865	106	15,096	214,440
- Stage 2	13	90	1,020	7,268	1,872	385	4,017	14,665
- Stage 3	-	-	-	-	-	423	2,149	2,572
Total (C)	**25,133**	**44,995**	**92,638**	**40,998**	**5,737**	**914**	**21,262**	**231,677**
Total (A+B+C)	**106,440**	**110,925**	**293,136**	**132,569**	**26,623**	**4,486**	**116,724**	**790,903**

In addition to the tables required by the financial reporting regulations, the rating allocation for performing credit exposures to customers attributable to banks with internal models is shown below.
As at 31 December 2018, performing loans to customers assigned an individual rating internally or by an external agency accounted for 95% of the loans of banks with internal models and for 78% of the entire aggregate at the Group level.



The allocation shows a high level of investment grade exposures (from AAA to BBB inclusive), at 65.5%, up compared to the previous year (61.7%).
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 and Sovereign & Public Entities.



Investment grade positions account for 60.1%, 77.3%, 56.9% and 85.2% 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)				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:	**9,925**	**9,902**	**-**	**6**	**9,013**	**52**	**-**	**-**
1.1 totally guaranteed	9,832	9,810	-	6	9,013	52	-	-
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	93	92	-	-	-	-	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**4,197**	**4,197**	**-**	**-**	**1,146**	**2,315**	**-**	**-**
2.1 totally guaranteed	2,377	2,377	-	-	1,146	741	-	-
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	1,820	1,820	-	-	-	1,574	-	-
- of which non-performing	-	-	-	-	-	-	-	-

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

(millions of euro)

	Personal guarantees (*) (2)							Total
	Credit derivatives			Commitments				
	Other derivatives			Public Administration	Banks	Other financial companies	Other counterparties	(1)+(2)
	Banks	Other financial companies	Other counterparties					
1.Guaranteed on-balance sheet credit exposures:	**-**	**-**	**-**	**16**	**623**	**70**	**40**	**9,820**
1.1 totally guaranteed	-	-	-	16	591	67	8	9,753
- of which non-performing	-	-	-	-	-	-	-	-
1.2 partly guaranteed	-	-	-	-	32	3	32	67
- of which non-performing	-	-	-	-	-	-	-	-
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**112**	**368**	**-**	**92**	**4,033**
2.1 totally guaranteed	-	-	-	83	360	-	46	2,376
- of which non-performing	-	-	-	-	-	-	-	-
2.2 partly guaranteed	-	-	-	29	8	-	46	1,657
- 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:	**272,258**	**258,348**	**137,489**	**9,132**	**41,020**	**11,235**	**-**	**32**
1.1 totally guaranteed	244,940	233,857	134,260	9,122	40,290	9,897	-	32
- of which non-performing	*21,873*	*12,058*	*7,342*	*1,990*	*44*	*481*	-	-
1.2 partly guaranteed	27,318	24,491	3,229	10	730	1,338	-	-
- of which non-performing	*4,335*	*1,684*	*878*	*2*	*9*	*66*	-	-
2. Guaranteed off-balance sheet credit exposures:	**33,614**	**33,483**	**2,813**	**61**	**4,397**	**1,709**	**-**	**-**
2.1 totally guaranteed	27,491	27,400	2,206	30	3,899	1,272	-	-
- of which non-performing	*655*	*591*	*232*	-	*2*	*12*	-	-
2.2. partly guaranteed	6,123	6,083	607	31	498	437	-	-
- of which non-performing	*245*	*223*	*59*	-	*1*	*12*	-	-

(*) 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	**-**	**19**	**-**	**14,161**	**444**	**2,166**	**26,354**	**242,052**
1.1 totally guaranteed	-	2	-	11,456	334	1,892	22,315	229,600
- of which non-performing	-	-	-	*129*	*4*	*486*	*1,509*	*11,985*
1.2 partly guaranteed	-	17	-	2,705	110	274	4,039	12,452
- of which non-performing	-	-	-	*31*	-	*132*	*256*	*1,374*
2. Guaranteed off-balance sheet credit exposures:	**-**	**-**	**-**	**1,322**	**186**	**520**	**19,924**	**30,932**
2.1 totally guaranteed	-	-	-	1,197	164	374	18,163	27,305
- of which non-performing	-	-	-	*63*	-	*38*	*241*	*588*
2.2. partly guaranteed	-	-	-	125	22	146	1,761	3,627
- of which non-performing	-	-	-	-	*26*	*20*	*35*	*153*

(*) 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	**258**	**275**	**-52**	**223**	**51**
A.1 Used in operations	-	-	-	-	-
A.2. Investment	64	63	-1	62	12
A.3 Inventories	194	212	-51	161	39
B. Equities and debt securities	**3**	**3**	**-1**	**2**	**-**
C. Other assets	**2**	**3**	**-1**	**2**	**2**
D. Non-current assets held for sale and discontinued operations	**34**	**34**	**-2**	**32**	**-**
D.1 Property and equipment	34	34	-2	32	-
D.2. Other assets	-	-	-	-	-
Total 31.12.2018	**297**	**315**	**-56**	**259**	**53**

For the purpose of completing this table, in line with the indications of Circular 262 and the ECB “Guidance to banks on non-performing loans (NPL)” - March 2017, guarantees enforced are defined as assets held in the financial statements that may have been obtained through legal proceedings (enforced in the strict sense), bilateral agreements with the borrower (for example, converting the debt into shares or other assets, so-called swaps) or other types of transfer from the borrower to the creditor.

For the Group, repossessed assets (book value) are mainly represented by:
- Investment property: buildings (62 million euro);
- Property and equipment – Inventories: land (3 million euro), buildings (158 million euro);
- Non-current assets held for sale and discontinued operations: buildings (32 million euro).

In addition to the assets described above, it is noted that the FVTOCI accounting portfolio includes 27 million euro (book value) in equities and equity instruments deriving from the recovery of impaired financial assets.
An additional 77 million euro (prudential consolidated book value) refers, instead, to the investment in Risanamento consolidated on a line-by-line basis in the accounting consolidation and at equity in the prudential consolidation.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

The significant increase in off-balance sheet credit exposures compared to 31 December 2017 is mainly attributable to the inclusion in the off-balance sheet credit exposures (starting from the 2018 Financial Statements) of revocable commitments.

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	173	-93	100	-278	-	-
- of which: forborne exposures	-	*-21*	*14*	*-56*	-	-
A.2 Unlikely to pay	114	-49	296	-225	-	-
- of wich: forborne exposures	*41*	*-32*	*195*	*-179*	-	-
A.3 Non-performing past due exposures	-	-	6	-3	-	-
- of which: forborne exposures	-	-	-	-	-	-
A.4 Performing exposures	85,405	-138	74,338	-118	1,562	-
- of which: forborne exposures	*475*	*-11*	*208*	*-5*	-	-
Total (A)	**85,692**	**-280**	**74,740**	**-624**	**1,562**	**-**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	3	-5	71	-2	-	-
B.2 Performing exposures	27,642	-2	36,019	-22	8,863	-
Total (B)	**27,645**	**-7**	**36,090**	**-24**	**8,863**	**-**
Total (A+B) 31.12.2018	**113,337**	**-287**	**110,830**	**-648**	**10,425**	**-**
Total (A+B) 31.12.2017	**98,018**	**-138**	**95,445**	**-653**	**6,707**	**-**

(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	5,279	-11,585	1,609	-2,710
- of which: forborne exposures	*813*	*-1,383*	*180*	*-156*
A.2 Unlikely to pay	8,013	-4,473	1,802	-715
- of which: forborne exposures	*3,928*	*-1,859*	*684*	*-168*
A.3 Non-performing past due exposures	156	-49	190	-69
- of which: forborne exposures	*20*	*-6*	*8*	*-2*
A.4 Performing exposures	163,414	-1,266	135,775	-726
- of which: forborne exposures	*5,896*	*-346*	*1,529*	*-61*
Total (A)	**176,862**	**-17,373**	**139,376**	**-4,220**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,104	-271	91	-9
B.2 Performing exposures	176,193	-136	11,383	-27
Total (B)	**178,297**	**-407**	**11,474**	**-36**
Total (A+B) 31.12.2018	**355,159**	**-17,780**	**150,850**	**-4,256**
Total (A+B) 31.12.2017	**279,759**	**-21,993**	**147,694**	**-5,541**

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	6,891	-13,854	231	-688
A.2 Unlikely to pay	9,549	-4,935	506	-380
A.3 Non-performing past due exposures	322	-103	26	-16
A.4 Performing exposures	335,430	-1,658	87,310	-457
Total (A)	**352,192**	**-20,550**	**88,073**	**-1,541**
B. Off-balance sheet exposures				
B.1 Non-performing exposures	2,142	-238	111	-42
B.2 Performing exposures	138,349	-94	79,591	-80
Total (B)	**140,491**	**-332**	**79,702**	**-122**
Total (A+B) 31.12.2018	**492,683**	**-20,882**	**167,775**	**-1,663**
Total (A+B) 31.12.2017	**419,400**	**-26,320**	**155,111**	**-1,698**

(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	-22	1	-6	37	-96
A.2 Unlikely to pay	61	-89	25	-9	84	-49
A.3 Non-performing past due exposures	-	-	-	-	4	-2
A.4 Performing exposures	22,866	-35	6,545	-7	6,781	-91
Total (A)	**22,928**	**-146**	**6,571**	**-22**	**6,906**	**-238**
B. Off-balance sheet exposures						
B.1 Non-performing exposures	11	-	3	-	2	-7
B.2 Performing exposures	23,883	-6	7,141	-3	2,273	-4
Total (B)	**23,894**	**-6**	**7,144**	**-3**	**2,275**	**-11**
Total (A+B) 31.12.2018	**46,822**	**-152**	**13,715**	**-25**	**9,181**	**-249**
Total (A+B) 31.12.2017	**32,917**	**-134**	**6,766**	**-22**	**6,722**	**-151**

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	2,120	-4,432	1,397	-2,888	1,682	-3,472	1,692	-3,062
A.2 Unlikely to pay	3,555	-1,763	1,901	-905	2,434	-1,377	1,659	-890
A.3 Non-performing past due exposures	97	-34	59	-17	58	-17	108	-35
A.4 Performing exposures	102,672	-646	62,774	-303	124,818	-401	45,166	-308
Total A	**108,444**	**-6,875**	**66,131**	**-4,113**	**128,992**	**-5,267**	**48,625**	**-4,295**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	616	-40	570	-75	785	-112	171	-11
B.2 Performing exposures	56,620	-31	28,691	-18	42,443	-32	10,595	-13
Total B	**57,236**	**-71**	**29,261**	**-93**	**43,228**	**-144**	**10,766**	**-24**
Total (A+B) 31.12.2018	**165,680**	**-6,946**	**95,392**	**-4,206**	**172,220**	**-5,411**	**59,391**	**-4,319**
Total (A+B) 31.12.2017	**133,506**	**-8,813**	**77,925**	**-5,626**	**155,473**	**-6,095**	**52,496**	**-5,786**

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		41,932	-67	26,379	-18
Total (A)		**41,932**	**-67**	**26,379**	**-19**
B. Off-balance sheet exposures					
B.1 Non-performing exposures		-	-	-	-
B.2 Performing exposures		5,672	-	30,563	-1
Total (B)		**5,672**	**-**	**30,563**	**-1**
Total (A+B)	**31.12.2018**	**47,604**	**-67**	**56,942**	**-20**
Total (A+B)	**31.12.2017**	**47,898**	**-56**	**42,411**	**-35**

(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		-	-	-	-	-	-
A.3 Non-performing past due exposures		-	-	-	-	-	-
A.4 Performing exposures		2,295	-3	1,737	-1	2,103	-4
Total (A)		**2,295**	**-3**	**1,737**	**-4**	**2,103**	**-4**
B. Off-balance sheet exposures							
B.1 Non-performing exposures		-	-	-	-	-	-
B.2 Performing exposures		6,230	-	10,609	-	2,772	-1
Total (B)		**6,230**	**-**	**10,609**	**-**	**2,772**	**-1**
Total (A+B)	**31.12.2018**	**8,525**	**-3**	**12,346**	**-4**	**4,875**	**-5**
Total (A+B)	**31.12.2017**	**3,497**	**-19**	**3,465**	**-14**	**2,153**	**-6**

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	5,699	-16	470	-48	35,717	-3	46	-
Total A	**5,699**	**-16**	**470**	**-48**	**35,717**	**-3**	**46**	**-**
B. Off-balance sheet exposures								
B.1 Non-performing exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	4,353	-	361	-	947	-	11	-
Total B	**4,353**	**-**	**361**	**-**	**947**	**-**	**11**	**-**
Total (A+B) 31.12.2018	**10,052**	**-16**	**831**	**-48**	**36,664**	**-3**	**57**	**-**
Total (A+B) 31.12.2017	**6,722**	**-4**	**443**	**-49**	**40,680**	**-3**	**53**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	142,047
b) Weighted value (millions of euro)	10,927
b) Number	7

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by Regulation (EU) 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.

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 2018 are summarised below:

GARC Securitisations

In 2018 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 businesses, particularly SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. As part of these operations, during the year two synthetic securitisations, GARC SME-7 and GARC Corp-1, were completed through which the junior risk was sold to specialist investors relating respectively to (i) a total portfolio of 4 billion euro in loans to around 8,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) and (ii) a portfolio of around 4 billion euro in loans to around 215 companies in the Corporate regulatory segment. Both portfolios mainly consist of businesses operating in Northern Italy.

Central Guarantee Fund Tranched Cover Securitisation

In 2018, a tranched cover synthetic securitisation, supported by the Central Guarantee Fund, was initiated, which allows businesses to access the benefits provided for by Law no. 662/96, aimed at facilitating access to new credit for Italian SMEs. This initiative is financed by the Ministry of Economic Development and provides for the issue of a personal guarantee by the Central Guarantee Fund through which the risk of first losses is covered in relation to four portfolios of newly disbursed loans, each amounting to around 300 million euro, whose disbursements were started in 2018 and will be completed by the second half of 2019.

Savoy Securitisation

With a view to the reduction of the Group's risk profile envisaged in the Business Plan, in 2018, a traditional securitisation was structured through the sale to the vehicle company Penelope SPV S.r.l. of a loan portfolio originated by Intesa Sanpaolo and by eight Banks of the Banca dei Territori Division (Banco di Napoli, Cassa di Risparmio in Bologna, Cassa dei Risparmi di Forlì e della Romagna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Firenze, Cassa di Risparmio di Pistoia e della Lucchesia, Cassa di Risparmio del Veneto, and Mediocredito Italiano). The underlying consisted of loans classified as bad loans for a gross total value, at the cut-off date of 1 January 2018, of 10.8 billion euro (gross of adjustments) at a price of 3.1 billion euro, in line with the carrying amount already determined for the portion of the Group's saleable bad loans, taking into account the sale scenario.
The securitised assets are mainly related to loans to businesses (including SMEs) with the following geographical distribution: 30% North West, 26% North East, 23% Central Italy and 21% South and Islands.

The transaction enabled the derecognition of the loans for each Selling Bank. The accounting and administrative management of the Vehicle is entrusted to Securitisation Services S.p.A.

The consideration for the sale of the portfolio was settled, also considering the net collections since the cut-off date of 1 January 2018, with the issue on 3 December 2018, by the SPV, of three tranches of unlisted securities that are currently unrated: a senior tranche, a mezzanine tranche and a junior tranche. The securities were issued and subscribed as follows:

- Senior tranche of 1,635.4 million euro, of which 364.5 million euro (22.3%) was subscribed by Banca IMI and the remainder by third-party investors;
- Mezzanine Tranche of 490.6 million euro, of which 240.4 million euro (49%) was subscribed by Intesa Sanpaolo and 51% by a third-party investor;
- Junior tranche of 599.6 million euro, of which 293.8 million euro was subscribed by Intesa Sanpaolo (49%) and 51% by a third-party investor.

Fuel 2 Securitisation

This transaction has been carried out in several tranches starting from 2018, on portfolios of trade receivables in the oil & gas sector originated by primary customers and purchased without recourse by the Intesa Sanpaolo Group. The risk of the portfolio was subsequently securitised. In relation to these receivables, limited recourse loans were disbursed and/or tranches of securities without ratings were issued with different levels of subordination. At the end of 2018, the nominal value of the securitised loans was 60 million euro. To close the transactions, the Group used the vehicles Lana Trade Receivables S.a.r.l. and Duomo Funding Plc.

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	**389**	**-**	**244**	**-**	**303**	**1**
– Consumer credit	24	-	4	-	9	1
– Loans to businesses (including SMEs) (*)	365	-	240	-	294	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**11,067**	**-12**	**458**	**59**	**1,026**	**-9**
– Trade receivables	10	-	38	-	-	-
– Mortgages on residential properties	271	-2	216	-3	919	-9
– Loans to businesses (including SMEs) (**)	10,786	-10	204	62	107	-
TOTAL	**11,456**	**-12**	**702**	**59**	**1,329**	**-8**

(*) The entire amount refers to non-performing financial assets associated with the Savoy transaction.

(**) The amounts also include non-performing financial assets amounting to 79 million euro in Senior exposures, 203 million euro in Mezzanine exposures and 53 million euro in Junior exposures. "Loans to businesses (including SMEs)" also include amounts relating to the GARC synthetic securitisations referring to performing exposures.

The securitisations in point A in the above table also include – in addition to the securitisations that meet the requirements of IFRS 9 for derecognition – those for which the Group has exercised the option of exemption from compliance with IAS/IFRS permitted by IFRS 1 on first-time adoption. Based on this exemption, assets or liabilities sold and not derecognised, based on previous accounting standards and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

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
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**-**
– Consumer credit	-	-	-	-	-	-	19	-	-	-	-	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**2,528**	**-5**	**-**	**-**	**-**	**-**
– Trade receivables (*)	-	-	-	-	-	-	2,528	-5	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**2,547**	**-5**	**-**	**-**	**-**	**-**

(*) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IFRS 9

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
Other assets (*)	5,628	10	30	-	3	-
Securitisations	53	3	-	-3	-	-
Consumer credit	49	-	8	-	-	-
Trade receivables	234	-3	-	-	1	-
Leases	14	-	22	-	-	-
Commercial mortgage loans	93	-	10	-	2	-
Residential mortgage loans	673	-3	210	-1	2	-
Loans to businesses (including SMEs) (**)	480	-1	184	6	61	-1
TOTAL	**7,224**	**6**	**464**	**2**	**69**	**-1**

(*) The amount also includes the Romulus securities for 5,094 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.

(**) The exposures include non-performing financial assets amounting to 67 million euro in Senior exposures, 73 million euro in Mezzanine exposures and 56 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.

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	-	-	-	-	-	-	*3,061*	*-6*	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**3,061**	**-6**	**-**	**-**	**-**	**-**

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)	(f)	3,390	-	228	2,227	-	1,350
Intesa Sanpaolo SEC SA (c)	Luxembourg	Consolidated	21	-	302	306	-	16
Intesa Sec 3 S.r.l.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Augusto S.r.l. (e)	Milano	(f)	1	-	2	13	-	-
Colombo S.r.l.	Milano	(f)	1	-	6	-	4	10
Diocleziano S.r.l. (e)	Milano	(f)	4	-	1	52	-	-
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (h)	Milano	Consolidated	32,447	-	5,618		37,791	
ISP CB Ipotecario S.r.l. (h)	Milano	Consolidated	19,872	-	4,907		22,975	
ISP CB Pubblico S.r.l. (h)	Milano	Consolidated	3,149	1,958	2,521		7,361	
BRERA SEC S.r.l. (c)	Conegliano Veneto (TV)	(f)	11,035	-	972	9,168	-	2,597
Claris Finance 2005 S.r.l (i)	Roma	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2007 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris Finance 2008 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	118		7		39	55
Claris RMBS 2014 S.r.l (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Claris RMBS 2016 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	872	-	66	651	116	144
Claris SME 2015 S.r.l. (c) (i)	Conegliano Veneto (TV)	Not consolidated	629	-	66	-	249	403
Claris SME 2016 S.r.l. (i)	Conegliano Veneto (TV)	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 3 S.r.l. (i)	Vicenza	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 4 S.r.l. (i)	Vicenza	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
Berica ABS 5 S.r.l. (c) (i)	Vicenza	Not consolidated	493		38	383	60	52
Apulia Finance n. 4 S.r.l. (i)	Conegliano Veneto (TV)	(f)	(g)	(g)	(g)	(g)	(g)	(g)

(a) Consolidation method referring to the "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) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.6 of these Notes to the consolidated financial statements.

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2017).

(f) Vehicle consolidated at equity.

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

(h) 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.

(i) 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 and Savoy, 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 (*)	CLARIS FINANCE 2007 S.r.l. (*) (**)	CLARIS RMBS 2014 S.r.l. (*) (**)	Berica ABS 4 S.r.l. (*) (**)	CLARIS SME 2016 S.r.l. (*) (**)	CLARIS FINANCE 2005 S.r.l. (*)	BERICA ABS 3 S.r.l. (*)	APULIA Finance n. 4 S.r.l. issues I and II (*)
A. Assets	**472**	**112**	**416**	**561**	**421**	**52**	**473**	**179**
A.1 Loans	472	112	416	561	421	50	473	177
A.2 Securities	-	-	-	-	-	-	-	-
A.3 Other assets	-	-	-	-	-	2	-	2
B. Use of cash and cash equivalents	**-**	**13**	**16**	**21**	**38**	**12**	**18**	**16**
B.1 Deposits with banks	-	13	16	-	38	12	-	15
B.2 Prepayments and accrued income	-	-	-	-	-	-	-	-
B.3 Other	-	-	-	21	-	-	18	1
B Liabilities	**472**	**125**	**432**	**548**	**489**	**64**	**453**	**195**
B.1 Class A Securities issued	416	66	219	304	72	4	216	51
B.2 Class B Securities issued	24	6	-	76	393	24	94	70
B.3 Class C Securities issued	-	13	-	47	-	10	-	19
B.4 Class J Securities issued	31	9	176	95	-	-	115	14
B.5 Other liabilities	1	31	37	26	24	26	28	41
C. Interest expense and other expenses	**11**	**4**	**12**	**11**	**25**	**1**	**12**	**22**
D. Interest income and other revenues	**11**	**4**	**12**	**14**	**15**	**-**	**13**	**5**

(*) 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	Intesa Sec 3 S.r.l.	23	136	5	79	0%	100%	0%	97%	0%	0%
Intesa Sanpaolo	BRERA SEC S.r.l. (*)	26	11,009	1	1,181	0%	10%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2005 S.r.l.	18	32	1	10	0%	94%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS FINANCE 2007 S.r.l.	14	98	3	13	0%	84%	0%	0%	0%	21%
Intesa Sanpaolo	CLARIS FINANCE 2008 S.r.l. (*)	19	99	1	16	0%	100%	0%	12%	0%	21%
Intesa Sanpaolo	CLARIS RMBS 2014 S.r.l.	9	407	2	46	0%	93%	0%	0%	0%	0%
Intesa Sanpaolo	CLARIS SME 2015 S.r.l. (*)	105	520	19	174	0%	100%	0%	20%	0%	20%
Intesa Sanpaolo	CLARIS SME 2016 S.r.l.	34	386	10	109	0%	87%	0%	0%	0%	11%
Intesa Sanpaolo	CLARIS RMBS 2016 S.r.l. (*)	7	873	2	113	0%	33%	0%	0%	0%	21%
Intesa Sanpaolo	Berica ABS 3 S.r.l.	8	466	3	77	0%	74%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 4 S.r.l.	4	557	3	87	0%	58%	0%	0%	0%	0%
Intesa Sanpaolo	Berica ABS 5 S.r.l. (*)	1	492	-	74	0%	24%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. emissione I	10	59	-	14	0%	95%	0%	0%	0%	0%
Banca Apulia	APULIA Finance n. 4 S.r.l. emissione II	19	89	-	13	0%	90%	0%	0%	0%	0%
Total		**297**	**15,223**	**50**	**2,006**						

(*) Vehicle used for self-securitisations

C.6 Prudential consolidation – Consolidated securitisation vehicles

Intesa SEC 3 S.r.l.
Securitisation of performing residential mortgage loans

(millions of euro)

A. Securitised assets	**160**
A.1 Loans	159
A.2 Securities	-
A.3 Other assets	1
B. Investments of the funds collected from loans management	**107**
B.1 Debt securities	-
B.2 Equities	-
B.3 Liquidity	107
C. Securities issued	**153**
C.1 Class A1	-
C.2 Class A2	-
C.3 Class A3	7
C.4 Class B	73
C.5 Class C	73
D. Financing received	**49**
E. Other liabilities	**74**
E.1 Amounts due for services rendered	-
E.2 Due to customers	-
E.3 Due to Parent Company	38
E.4 Due to securitisation vehicle	-
E.5 "Additional return" allowance	36
E.6 Accrued expenses – interest on securities issued	-
E.7 Other accrued expenses	-
F. Interest expense on securities issued	**-**
G. Commissions and fees	**1**
G.1 Servicing	1
G.2 Other services	-
H. Other expenses	**4**
H.1 Interest expense	2
H.2 Forecasted losses on loans	2
H.4 Additional return	-
I. Interest income on securitised assets	**4**
L. Other revenues	**-**
L.1 Interest income	-

D. SALES

A. Financial assets sold not fully derecognised

Qualitative information

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

Quantitative information

D.1. 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	**2,478**	**-**	***2,478***	***X***	**2,474**	**-**	***2,474***
1. Debt securities	2,478	-	*2,478*	*X*	2,474	-	*2,474*
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	**28,064**	**-**	***28,064***	**-**	**27,712**	**-**	***27,712***
1. Debt securities	28,064	-	*28,064*	-	27,712	-	*27,712*
2. Equities	-	-	-	*X*	-	-	-
3. Loans	-	-	-	-	-	-	-
E. Financial assets measured at amortised cost	**4,426**	***1,577***	***2,849***	***188***	**3,824**	***1,032***	***2,792***
1. Debt securities	2,849	-	*2,849*	-	2,792	-	*2,792*
2. Loans	1,577	*1,577*	-	*188*	1,032	*1,032*	-
TOTAL 31.12.2018	**34,968**	***1,577***	***33,391***	***188***	**34,010**	***1,032***	***32,978***
TOTAL 31.12.2017	**27,681**	***4,579***	***23,102***	***329***	**26,554**	***3,763***	***22,791***

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 SEC3 and K-Equity securitisations, as well as securitisations resulting from the acquisition of the former Venetian banks.

D.2. Prudential consolidation – Financial assets sold partly recognised and related financial liabilities: book value

These are not present in the Intesa Sanpaolo Group.

D.3. 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	31.12.2018	31.12.2017
A. Financial assets held for trading	**2,478**	**-**	**2,478**	**4,611**
1. Debt securities	2,478	-	2,478	4,611
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	**28,064**	**-**	**28,064**	**18,094**
1. Debt securities	28,064	-	28,064	18,094
2. Equities	-	-	-	-
3. Loans	-	-	-	-
E. Financial assets measured at amortised cost (fair value)	**4,376**	**-**	**4,376**	**4,818**
1. Debt securities	2,794	-	2,794	366
2. Loans	1,582	-	1,582	4,452
Total financial assets	**34,918**	**-**	**34,918**	**27,523**
Total related financial liabilities	**34,014**	**-**	**34,014**	**26,545**
Net value 31.12.2018	**904**	**-**	**904**	**X**
Net value 31.12.2017	**978**	**-**	**X**	**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.

B. Financial assets sold fully derecognised with recognition of continuing involvement

This type of exposure did not exist as at 31 December 2018.

D.4. 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 at the end of July 2009, reached an amount of 20 billion euro (the original 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. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.3 billion euro (net of retrocessions of assets of 0.5 billion euro) were sold. The last sale (amounting to around 1 billion euro) took place in April 2013. As at 31 December 2018, loans and securities sold to the vehicle had a book value of 5 billion euro.
Against these sales, Covered Bonds were issued over time for a total nominal value of 24.2 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 12 billion euro relating to issues purchased by the Parent Company and cancelled or subject to early redemption and 3.2 billion euro relating to an exchange offer to investors during 2012).
In 2018, the eleventh series of Covered Bonds reached maturity, with an original nominal value of 1.1 billion euro, already previously partly redeemed.

Therefore, as at 31 December 2018 a total nominal amount of 5.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 5.5 billion repurchased and 0.1 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans, government bonds and Adriano Finance S.r.l. bonds originated by Intesa Sanpaolo were transferred with a total original nominal value of 24.8 billion euro (net of retrocessions). During 2018, Intesa Sanpaolo transferred residential mortgage loans to the vehicle in May, for a total original nominal value of approximately 2.5 billion euro.
As at 31 December 2018, loans sold to the vehicle had a book value of 20 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 1 billion euro relating to a covered bond that reached maturity in the fourth quarter of 2015 and 8.2 billion euro subject to early redemption in 2012).
During 2018:
- the fifteenth series of CB reached maturity, with a nominal value of 0.75 billion euro;
- in February, the twenty-third series of CB was issued in the form of a floating-rate bond (3-month Euribor +0.29%) for a nominal value of 2 billion euro, with a 12-year maturity, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely subscribed by Intesa Sanpaolo;
- in July, the twenty-fourth series of CB was issued in the form of a fixed-rate bond, with a 7-year maturity, for a nominal value of 1 billion euro, listed on the Luxembourg Stock Exchange with a Moody's Aa2 rating. The bond was entirely placed with institutional investors in the market.

As at 31 December 2018, a total nominal amount of 17.4 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, of which 12 billion placed with third party investors and 5.4 billion subscribed by Intesa Sanpaolo.

The third multi-originator CB issue programme, launched in 2012, is secured by mortgages for a maximum amount of 40 billion euro (the original 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. In particular, Intesa Sanpaolo sold mortgages to the vehicle for an original total nominal value of 18.1 billion euro (net of exclusions). The following sales were carried out in 2018: 0.8 billion euro in March, 4.1 billion euro in June, 2 billion euro in September and 1.9 billion euro in November.

As at 31 December 2018, the loans sold to the vehicle by Intesa Sanpaolo had a book value of 28.3 billion euro. The other Group Banks sold assets to the vehicle for an amount of 4.3 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 2018:
- in February, the eleventh series of CB reached maturity, with an original value of 1.5 billion euro and a residual nominal amount at maturity of 1.375 billion euro;
- in August, the twelfth series of CB reached maturity, with an original value of 2.35 billion euro and a residual nominal amount at maturity of 2.154 billion euro;
- in March, the twenty-fifth series of CB was issued with a nominal value of 1.75 billion euro. This is a 7-year, floating-rate bond;

- in March, the twenty-sixth series of CB was issued with a nominal value of 2.15 billion euro. This is a 10-year, floating-rate bond;
- in September, the twenty-seventh series of CB was issued with a nominal value of 1.6 billion euro. This is an 11-year, floating-rate bond;
- in September, the twenty-eighth series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rate bond;
- in November, the twenty-ninth series of CB was issued with a nominal value of 1.6 billion euro. This is an 8-year, floating-rate bond;
- in November, the thirtieth series of CB was issued with a nominal value of 1.6 billion euro. This is a 12-year, floating-rate bond;
- in December, the thirty-first series of CB was issued with a nominal value of 1.275 billion euro. This is a 13-year, floating-rate bond.

All the securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and rated A (High) by DBRS. The characteristics of the issues make them eligible for Eurosystem refinancing operations.
As at 31 December 2018, a total nominal amount of 29.9 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2018 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	7,628	8	7,361	147	153
ISP CB IPOTECARIO (3)	RMBSs (Performing residential mortgages)	24,878	161	22,975	11,963	12,670
ISP OBG (4) (5)	Mortgages	38,065	368	37,791	-	-

(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.

(4) The total assets amount to 32,630 million euro for Intesa Sanpaolo; of the remainder: 3,476 million euro is comprised of securitised assets of CR Firenze and 1,959 million euro is comprised of securitised assets of Cassa di Risparmio in Bologna.

(5) The write-downs to the securitised portfolio amount to 352 million euro for Intesa Sanpaolo; of the remainder: 7 million euro relates to assets of Cassa di Risparmio in Bologna and 9 million euro relates to assets of CR Firenze.

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 2018, the subsidiary VUB had issued 2.3 billion euro in this type of securities, booked in the financial statements at a value of approximately 2.3 billion euro.

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

As at 31 December 2018, the expected loss on performing loans to customers was 0.45% of disbursed loans, essentially unchanged on the figure as at the end of 2017 (+0.01%). The total economic capital corresponded to 2.37% of disbursed loans, in line with the figure for 2017 (+0.02%).

The substantial stability of the risk indicators derived from the offsetting of several elements: the increase resulting from the updating of the time series of the risk parameters was offset by risk mitigation measures and by the improvement of the credit quality of the portfolio.

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 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 performances of the models. This report, approved by the Board of Directors of Intesa Sanpaolo, confirms compliance with the regulatory requirements.