

Basel 3 Pillar 3

Disclosure as at 31 December 2014



This is an English translation of the Italian language original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 31 dicembre 2014" that has been prepared solely for the convenience of the reader. The Italian language original "Terzo pilastro di Basilea 3 – Informativa al pubblico al 31 dicembre 2014" was approved by the Management Board of Intesa Sanpaolo on 3 March 2015 and is available on group.intesasanpaolo.com

This document contains certain forward-looking statements, projections, objectives, estimates and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements, projections, objectives, estimates and forecasts are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.

Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. The Intesa Sanpaolo Group's ability to achieve its projected objectives or results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.

All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.



Basel 3 Pillar 3
Disclosures
as at 31 December 2014

Intesa Sanpaolo S.p.A.

Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,724,861,778.88 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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Introduction

Notes to the Basel 3 Pillar 3 disclosure

With effect from 1 January 2014, the reforms of the accord by the Basel Committee (“Basel 3”) were implemented in the EU legal framework. Their aim is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks’ transparency and disclosures. In doing so, the Committee maintained the approach based on three Pillars, which was at the basis of the previous capital accord, known as “Basel 2”, supplementing and strengthening it to increase the quantity and quality of intermediaries’ available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.

In particular, Pillar 3 – which concerns public disclosure obligations on capital adequacy, risk exposure and the general characteristics of related management and control systems, with the aim of better regulating the market – was also reviewed. Amongst other things, the amendments were designed to introduce greater transparency requirements, more information on the composition of regulatory capital and the methods used by banks to calculate capital ratios.

That said, the content of “Basel 3” was incorporated into two EU legislative acts:

- Regulation (EU) No 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
- Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy with Circular 285 of 17 December 2013, which contains the prudential supervision regulations applicable to banks and Italian banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

The aforementioned Circular no longer lays down specific rules for the preparation and publication of Pillar 3, but merely sets forth a list of the provisions of the CRR to this end. The subject is therefore directly governed by:

- the CRR itself, Part Eight “Disclosure by institutions” (Articles 431 – 455) and Part Ten, Title I, Chapter 3, “Transitional provisions for disclosure of own funds” (Article 492);
- the European Commission Regulations, preparation of which has been entrusted to the EBA (European Banking Authority), laying down implementing or regulating technical standards governing uniform templates for the purposes of disclosure of the various types of information.

Additional indications have been provided by the EBA (European Banking Authority) in a specific document concerning the issues of the materiality, proprietary and confidential nature and frequency of disclosures under Pillar 3 (Guidelines on materiality, proprietary and confidentiality and on disclosures frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013).

The subject of Pillar 3 public disclosure has also been analysed by the Basel Committee in its document “Revised Pillar 3 disclosure requirements”, which calls for the introduction of standard templates at the international level starting from 2016.

In accordance with the abovementioned provisions, this document has been drawn up on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (integrated by the proportional consolidation of the jointly controlled entities).

Under the terms of Article 433 of the CRR, banks publish the disclosures envisaged in European regulations at least once a year, at the same time as the financial statements. They are also required to assess the need to publish some or all these disclosures more frequently, based on the significant characteristics of current activities. In particular, entities must assess whether there is a need to publish

disclosures more frequently in relation to "Own funds" (Article 437), "Capital requirements" (Article 438), and disclosures regarding risk exposure or other aspects subject to rapid change. Moreover, in compliance with Article 16 of (EU) Regulation no. 1093/2010, the EBA (European Banking Authority) issued guidance on entities' assessment of the need to publish disclosures more frequently (Guidelines on materiality, proprietary and confidentiality and on disclosure frequency).

Given the above regulatory provisions, when issuing its interim reports of March and September, Intesa Sanpaolo publishes summary disclosures on its "Own funds", "Capital requirements" and "Financial leverage" (the latter starting from 2015 as required by the regulatory provision), supplemented at the half-yearly level by additional disclosure concerning the use of internal models, in accordance with the principle of maximum transparency.

Additional information concerning the various types of risk to which the Intesa Sanpaolo Group is exposed is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). The information on Group risks is set forth in Part E of the Notes to the consolidated financial statements. Part E illustrates:

- the various types of risks of the insurance segment (Part E – Information on risks and relative hedging policies: Section 2 – Risks of insurance companies – page 404);
- banking group liquidity risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the banking group: 1.3 Liquidity risk – page 384);
- banking group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the banking group: 1.2.3 Foreign exchange risk - page 373)
- exposure in structured credit products (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: Information on structured credit products - page 392);
- legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.4 Operational risk - Legal risks and tax litigation - page 396).

In order to better understand the organisation of the Group and the consequent capital absorption by Business Unit and the relevant distribution of the "Risk-weighted assets" reference is made to the Report on operations of the consolidated financial statements ("Breakdown of consolidated results by business area and geographical area" – page 83, "Balance sheet aggregates" – page 68).

The "Corporate Governance Report and Information on Ownership Structures - Report on Remuneration" includes all the information concerning the Intesa Sanpaolo Governance and the remuneration policies in force. The "Report" is available for consultation from the "Governance" section of the bank's website at: www.group.intesasanpaolo.com.

In particular, the information required by Article 435(2) of the CRR is included in the Corporate Governance Report (page 54 and following):

- the number of directorships held by members of the management body;
- the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise;
- the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved;
- whether or not the institution has set up a separate risk committee and the number of times the risk committee has met;
- the description of the information flow on risk to the management body.

The Report on Remuneration also includes all information required by Article 450 of the CRR concerning the remuneration policy and practices for those categories of staff whose professional activities have a material impact on the bank's risk profile.

The Group's website also contains information concerning the value of global systemically important indicators (in the section of the website Governance > Risk management: "Assessment methodology indicators to identify the global systematically important banks").

Given the public importance of this disclosure, the Manager responsible for preparing the Company's financial reports submits the document to the competent Corporate Bodies for approval. This document is therefore subject to the related certification, pursuant to Article 154-bis of Legislative Decree 58/1998 (Consolidated Law on Finance). As a consequence, the "Basel 3 Pillar 3 disclosure" is subject to the checks and controls established in the Group's "Guidelines for administrative and financial governance", which set out the rules for the application of Article 154-bis of the Consolidated Law on Finance in the Intesa Sanpaolo Group. In particular, the internal control system for accounting and financial information is designed to ensure the ongoing verification of the adequacy and effective implementation of the administrative and accounting procedures at Group level.

Given the importance to investors of the "Basel 3 Pillar 3" disclosure, Intesa Sanpaolo has decided that this Document should be the subject of a limited review by the Independent Auditors KPMG S.p.A. The related audit report is published together with this document.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro. As the Basel 3 provisions entered into force from 1 January 2014, comparison "regulatory" figures as at 31 December 2013 – which were based on Basel 2 provisions – are not provided. Moreover, note that the scope of application of the disclosure (prudential scope of consolidation) remains essentially the same as that used to calculate the Regulatory capital as at 31 December 2013.

With regard to the scope of application of the internal models used to calculate regulatory requirements, it should be emphasised that there have been no significant changes compared to the situation as at 31 December 2013, except for the Bank of Italy's authorisation for use of the internal model for counterparty risk (EPE – Expected Positive Exposure) for regulatory purposes, with reference to the parent company Intesa Sanpaolo and Banca IMI.

In addition, in previous periods of 2014, authorisation was obtained for extension of the IRB approach on credit risk to the subsidiary Banca Monte Parma for the SME Retail regulatory segment. Slovakian subsidiary VUB received authorisation for transition to the AIRB approach for the Corporate segment and the IRB approach for the SME Retail segment. Lastly, market risks are reported according to the internal model for capital requirements for the Parent Company's Hedge Fund portfolios.

Lastly, an explanation of the meaning of certain terms and/or abbreviations commonly used in this disclosure is provided in the specific glossary annexed to this document.

The Intesa Sanpaolo Group publishes this disclosure (Basel 3 Pillar 3) and subsequent updates on its website www.group.intesasanpaolo.com.

Own funds and capital ratios as at 31 December 2014

(millions of euro)

Own funds and capital ratios	31.12.2014
Own funds	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,547
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,700
TIER 1 CAPITAL	38,247
Tier 2 capital net of regulatory adjustments	8,043
TOTAL OWN FUNDS	46,290
Risk-weighted assets	
Credit and counterparty risks	231,394
Market and settlement risk	16,476
Operational risks	21,157
Other specific risks ^(a)	763
RISK-WEIGHTED ASSETS	269,790
% Capital ratios	
Common Equity Tier 1 ratio	13.5%
Tier 1 ratio	14.2%
Total capital ratio	17.2%

^(a) Including, inter alia, further specific capital requirements, in terms of risk-weighted assets, required by the Supervisory Authority to single Group entities.

Own funds, risk weighted assets (RWAs) and the capital ratios at 31 December 2014 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation no. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the "Basel 3 Framework") to European Union laws, and on the basis of Bank of Italy Circulars 285, 286 and 154.

Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from Common Equity when the framework is fully effective, will only have a partial percentage effect on Common Equity Tier 1 capital (CET1). Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years). Accordingly, the prudential ratios as at 31 December 2014 take account of the adjustments envisaged by the transitional provisions for 2014.

The prudential treatment of the stake in the Bank of Italy involves weighting it among RWAs as an "equity exposure".

On that basis, as at 31 December 2014, total own funds came to 46,290 million euro, against risk-weighted assets of 269,790 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The total capital ratio stood at 17.2%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 14.2%. The ratio of Common Equity Tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 13.5%.

Article 26 (2) of Regulation 575/2013 provides that institutions may include interim or year-end profits in Common Equity Tier 1 capital before formal approval by the competent corporate body (net of the corresponding dividends) if and only if:

- a) the profits have been verified by the independent auditors;
- b) the institution has demonstrated to the competent supervisory authority that any foreseeable charge or dividend has been deducted from the amount of the profits.

Since Intesa Sanpaolo and most of the Group's companies approved their 2014 draft financial statements after the deadline for submitting reporting streams as at 31 December 2014 to the European banking

supervisory authorities, the first of the above conditions was not met, given that the independent auditors may only issue their report certifying the financial statements after the financial statements have been approved by the competent corporate body.

Accordingly, Common Equity Tier 1 capital (and the corresponding capital ratios) does not take account of either the 2014 net income or the corresponding dividends, distribution of which will be submitted to the Shareholders' Meeting of 27 April 2015 for approval.

If it had been possible to take account of both the net income of 1,251 million euro and the corresponding dividends totalling 1,185 million euro, capital ratios would have remained essentially unchanged, with the exception of the Common Equity Tier 1 (CET1) ratio, which would have risen from 13.5% to 13.6%.

Finally, on the basis of Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its own funds. The effect on Common Equity Tier 1 capital as at 31 December 2014 was four basis point negative.

Section 1- General requirements

Qualitative disclosure

Introduction

The Intesa Sanpaolo Group gives great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.

Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Management Board and Supervisory Board. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo Group's risk position and the economic situation.

The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- Intesa Sanpaolo is a banking group focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, a sound liquidity position and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo aims for a capitalisation level in line with its main European peers (on average with ratings higher than those of the Italian government);
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed;
- the Group attaches great importance to compliance and reputational risks: for compliance risk, the Group aims for formal and substantive compliance with rules in order to avoid penalties and maintain a solid relationship of trust with all of its stakeholders and customers. For reputational risk, the Intesa Sanpaolo Group strives to actively manage its image in the eyes of all stakeholders and aims to prevent and contain any negative effects on said image.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are to be managed, with the establishment of general principles of risk appetite and the resulting structure of the management of:

- the overall risk profile;
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in conditions of severe stress. In addition, it aims to ensure the desired reputational and compliance risk profiles.

In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, even under conditions of severe macroeconomic stress, with respect to both Pillar 1 and Pillar 2. In further detail, capital adequacy is assessed by monitoring:
 - o Common Equity and the Total Ratio, for Pillar 1;
 - o Leverage Ratio and Risk-Bearing Capacity, for Pillar 2;
- liquidity, so as to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situations; the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the Funding/Lending Gap;
- earnings stability, so as to ensure profitability even in stress scenarios through an adequate mix of business;
- management of operational, compliance and reputational risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

Management of the main specific risks is aimed at determining the risk appetite that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing ad hoc limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. Such risks are assessed on the basis of stress scenarios, are subject to periodic monitoring with the framework of Risk Management systems and constitute early warning indicators, especially as regards capital adequacy. In detail, the main specific risks monitored are:

- especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- individual risks that make up the Group's overall risk profile and whose operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

In light of the Italian macroeconomic context and its extreme uncertainty, credit risk was identified as a priority area for analysis, also considering its significant amount for the Group. Moreover, as Intesa Sanpaolo is part of the "leading group" of the top 30 banks in the Eurozone, whose prudential supervision shall be managed by a dedicated Division of the ECB, it was decided to develop, over 2015, a Credit Risk Appetite framework in order to ensure alignment with the emerging European standards.

In compliance with the recent instructions from the Bank of Italy, the Group Risk Appetite is organised (both in terms of the total risk and in terms of the main specific risks) on the subsidiaries that contribute significantly to risks and/or specific local characteristics: Banca IMI, Banca Fideuram, Intesa Sanpaolo Vita, Fideuram Vita and the international subsidiaries. Overall risk management is implemented by monitoring key aspects (capital adequacy, liquidity and reputation) according to an approach similar to that followed at the Group level.

The Risk Appetite Framework informs the Budget and Business Plan and is proposed by the Chief Risk Officer, after its compatibility is assessed together with the Chief Financial Officer and the Heads of the various Business Units. The risk-acceptance strategy and policy thus fall within the context of the Plan and Budget process. In accordance with regulatory constraints and in a manner consistent with the risk profile assumed by the Group, the Chief Financial Officer area lays down the strategic profitability, capital adequacy and liquidity objectives that the Group intends to pursue. These objectives then form the basis for identifying the assets and financial resources to be allocated to the individual business units, including the insurance segment, through a process that involves an assessment of their attractiveness, financial independence, growth potential and ability to create value.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk, the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Supervisory Board and the Management Board along the Group's entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in a comprehensive framework of governance and control limits and procedures.

The assessment of the risk profile and periodic revision are conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules. Since 2013, the Group has also been completing a Recovery Plan process according to indications from the Supervisory Authority.

A culture of risk-awareness

The utmost attention is devoted to spreading and sharing a culture of risk-awareness through both periodic updates to the documents prepared (Tableau de Bord, ICAAP and Risk Appetite Framework) and initiatives undertaken with the aim of dealing with specific issues raised from time to time.

In addition, the Group guarantees the spread of a culture of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.

The Risk Academy initiative, mainly addressed to the international subsidiaries, is a strategic project that pursues the goal of improving management of Risk Governance at Banking Group level.

The measures taken in pursuit of this goal are the establishment of a coordinated approach to risk management and compliance with supervisory regulations, as well as of ongoing support from the Parent Company for the local growth of risk assessment and monitoring systems within the international subsidiaries.

The risk management approach aims to achieve increasingly integrated and consistent risk management,

considering both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 and 3 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

Risk governance organisation

Risk-acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board carries out its activity through specific internal Committees, among which mention should be made of the Internal Control Committee and the Risk Committee. The Management Board relies on the action of managerial committees, among which mention should be made of the Group Risk Governance Committee. Both Corporate Bodies receive support from the Chief Risk Officer, who is a member of the Management Board and reports directly to the Chief Executive Officer.

The body responsible for management has an understanding of all company risks and - within the context of integrated management - of their interrelations to one another and the development of the external scenario. In this context, it is capable of identifying and assessing the factors - including the complexity of the organisational structure - that may result in risks for the bank.

In addition, the body responsible for management undertakes the initiatives and actions required to ensure, on an ongoing basis, the completeness, adequacy, functionality and reliability of the internal control system and brings the results of the audits conducted to the awareness of the body responsible for strategic supervision. In particular, the Management Board certifies each year that the requirements for the use of the chosen systems have been satisfied. It is also for this purpose that it reviews the annual report by internal auditing and the results of the validation process by the validation function.

Taking into account the risk position of the Group and the economic situation, the management body also approves each year an update to the components of the Maximum Acceptable Risk framework for the Group, broken down into:

- general principles of maximum risk tolerance;
- management of the Group's total risk level;
- management of the Group's main specific risks.

The general principles summarise the Group's risk-acceptance strategy (focus on the commercial business model, informed acceptance and management of risks aimed at ensuring long-term business solidity and continuity, contained risk profile, level of capitalisation in line with the main European peers, strong management of specific risks, and acknowledgement of the considerable significance of compliance and reputational risks).

Management of specific risks is implemented by establishing ad hoc limits and mitigation measures to be taken in any event in order to limit the impact of especially severe scenarios on the Group. Limits and actions aim to "steer" particular significant concentrations of risk.

The following are used as the key aspects of the system of limits when managing overall risk: capital adequacy, earnings stability, a solid liquidity position and a strong reputation.

The Group has long established a permanent, independent risk management function, the heads of which meet high standards of professionalism, do not have direct responsibility for the operations areas subject to control, are not hierarchically subordinate to the heads of such areas, and are appointed and removed (with justification) by the body responsible for strategic supervision, in consultation with the body responsible for control. Personnel who participate in the risk management function are not involved in the activities that such functions are tasked with controlling.

In accordance with Bank of Italy Circular 263, the risk management function provides advance opinions of the compliance of significant transactions with the RAF.

The **Chief Risk Officer** is responsible for proposing the Risk Appetite Framework, setting the Group's risk management and compliance guidelines and policies in accordance with Bank strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the Corporate Bodies.

The **Group Risk Governance Committee**, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the

monitoring and management of risks and the safeguarding of corporate value at Group level, in implementation of the strategic guidelines and management policies defined by the Corporate Bodies. The Committee is also responsible for Basel 3 project governance and supervising the projects and measures necessary to guarantee compliance.

The **Group Financial Risks Committee** is a technical body with a decision-making and reporting role that focuses on proprietary financial risk of banking and trading books, as well as on Active Value Management. This Committee, which meets in two separate periodic sessions, one of which is chaired by the Chief Risk Officer and the other by the Chief Financial Officer, is responsible for assessing the following, prior to approval by the Corporate Bodies:

- the methodological and measurement guidelines for financial risks;
- establishment of operational limits and assessment of the risk profile of the Group and its main business units;
- strategic decisions relating to management of the banking book, to be submitted to the competent bodies;
- guidelines concerning liquidity, interest rate and foreign exchange risk.

In addition, it periodically assesses the Group's overall financial risk profile and takes the appropriate measures to mitigate it.

The **Group Internal Control Coordination and Operational Risk Committee** is a technical body that operates with the aim of strengthening the coordination and interfunctional cooperation mechanisms:

- as part of the Group internal control system, facilitating the integration of the risk management process;
- facilitating the effective management of operational risk, including ICT risk.

The Committee operates within the scope of the guidelines set by the Corporate Bodies, on the basis of the operational and functional powers delegated by the Management Board of the Parent Company. The Functions of the Group Internal Control Coordination and Operational Risk Committee are organised into specific, separate sessions:

- Integrated Internal Control System Session, for reporting and consulting purposes;
- Operational Risk session, with decision-making, reporting and consulting purposes (in this context, the Committee's duties include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies).

The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries, these functions are performed, under an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Management Bodies of the subsidiary.

The **Risk Management Head Office Department** performs the following functions:

- it is responsible for risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies;
- it proposes the annual update of the RAF to the Chief Risk Officer;
- it proposes to the Top Management, along with the other competent company functions, the guidelines for managing the overall risk for the Group and the definition of the related system of operational limits, in line with the allocated capital;
- it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process;
- it manages the methodological and organisational framework for operational risks;
- it adopts capital-at-risk measurements for management reporting and assessment of the Group's Economic Capital adequacy;
- it ensures that statutory reports on internal models are sent to the Supervisory Authorities;
- it is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making process, down to individual operational units and desks;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the Corporate Bodies on the situation of the Group's Overall Risk Profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the Boards;
- it draws up the annual update of the criteria for identifying significant transactions and provides a prior opinion on such transactions.

Scope of risks

The risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, also including legal risk, ICT risk and model risk;
- strategic risk;
- risk on equity investments not subject to line by line consolidation;
- risk on real estate assets owned for whichever purpose;
- insurance risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.

Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also intends to maintain adequate levels of reputational risk management so as to minimise the risk of negative events that might jeopardise its image. To that end, it has embarked upon an ex-ante risk management process to identify the major reputational and compliance risks for the Group, define prevention and mitigation tools and measures in advance and implement specific, dedicated reporting flows.

Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum “unexpected” loss the Group might incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario under normal and stress conditions.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

Basel 3 regulations and the Internal Project

As described above in the Introduction to this document, with effect from 1 January 2014 the Basel Committee’s reforms (“Basel 3”) were transposed into the legal framework of the European Union. In order to comply with the new rules envisaged by Basel 3, the Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.

Progressively, the scope of application has been gradually extended to include the Retail SME and Retail Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.

	Corporate		SME Retail	Mortgage Retail
	FIRB	AIRB LGD	IRB LGD	IRB LGD
Intesa Sanpaolo				
Banco di Napoli				
Cassa di Risparmio del Veneto				
Cassa di Risparmio in Bologna				
Cassa di Risparmio del Friuli Venezia Giulia	Dec - 2008	Dec - 2010	Dec - 2012	Jun - 2010
Cassa dei Risparmi di Forlì e della Romagna				
Banca dell'Adriatico				
Banca di Trento e Bolzano				
Mediocredito Italiano				n.a.
Gruppo Cassa di Risparmio di Firenze	Dec - 2009	Dec - 2010	Dec - 2012	Jun - 2010
Cassa di Risparmio dell'Umbria	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio della Provincia di Viterbo	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio di Rieti	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Banca Monte Parma	n.a.	Dec - 2013	Mar - 2014	Dec - 2013
Banca Prossima	n.a.	Dec - 2013	Dec - 2013	n.a.
Banca IMI	n.a.	Jun - 2012	n.a.	n.a.
Intesa Sanpaolo Bank Ireland	Mar - 2010	Dec - 2011	n.a.	n.a.
Vseobecná Uverova Banka	Dec - 2010	Jun - 2014	Jun - 2014	Jun - 2012

Compared to the situation reported as at 31 December 2013 note the mergers by incorporation into the Parent Company Intesa Sanpaolo of Cassa di Risparmio di Venezia and Banca di Credito Sardo and the mergers by incorporation into Mediocredito Italiano of Mediofactoring and Leasint.

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio, which were the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013 as part of the process leading up to the application for authorisation to be submitted in the first quarter of 2015.

The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

With reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014.

With regard to operational risk, the Group obtained authorisation to use the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. The scope of application of the advanced approaches is being progressively expanded in accordance with the roll out plan presented to the Management Bodies and Supervisory Authorities. For additional details see the Section on operational risk.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and sent to the Bank of Italy in April 2014.

Moreover, please note that the Intesa Sanpaolo Group was well above the thresholds required by the 2014 EU-wide Comprehensive Assessment, carried out on the balance sheets of the European banks as at 31 December 2013 and consisted of an asset quality review (AQR), as well as an exercise examining the impact of a negative macroeconomic scenario on banks' capital (Stress Test).

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound, prudent management, the achievement of the following objectives:

- the verification of the implementation of Bank strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- effectiveness and efficiency of the Bank processes;
- the reliability and security of Bank information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with especial regard to those relating to money-laundering, usury and financing for terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire Bank organisation (boards, units, hierarchical levels, all personnel). In compliance with the provisions set out in Chapter 7 of Circular 263 of 27 December 2006 - 15th update issued by the Bank of Italy in July 2013, the "Regulations regarding the integrated internal control system" were issued in July 2014. The purpose of these Regulations is to define the guidelines for the internal control system of Intesa Sanpaolo, as a Bank and as the Parent Company of a banking group, by outlining the reference principles and defining the responsibilities of the bodies and functions with control duties that contribute, in various ways, to the correct operation of the internal control system, as well as identifying the coordination methods and information flows that favour the integration of the system. The structure of internal controls is also outlined by the entire set of company documentation (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls in force, incorporating both the Bank policies and the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and Powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.

More specifically, the Bank rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels to which governance and control functions are assigned;
- allow the prompt notification to the appropriate levels within the Bank and the swift handling of any anomalies found by the business units and the control functions;
- ensure adequate levels of business continuity.

The Bank's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.

At Corporate Governance level, Intesa Sanpaolo has adopted a dual corporate governance system, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Bank, which is exercised by the Management Board in accordance with the provisions of art. 2409-*octies* and subsequent of the Italian Civil Code and art. 147-*ter* and subsequent of the Consolidated Law on Finance.

The Supervisory Board established an Internal Control Committee within the Board (which replaced the Control Committee on 19 December 2014) which proposes, advises and enquires on matters regarding the internal control system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative liability of companies, supervising

operations and compliance with the Organisational, Management and Control Model adopted by the Bank.

The Intesa Sanpaolo Group adopts an internal control system based on three levels, in line with the legal and regulatory provisions in force.

This model envisages the following types of control:

- Level I: line controls which are aimed at ensuring proper performance of operations (for example, hierarchical, systematic and sample-based controls) and which, to the extent possible, are incorporated in the IT procedures. These are conducted by the same operating departments and business units, also through a unit dedicated exclusively to control duties or carried out by the back office;
- Level II: risk and compliance controls for the purpose of ensuring, *inter alia*:
 - o the correct implementation of the risk management process;
 - o compliance with the operating limits assigned to the various functions;
 - o compliance of company operations with the rules, including self-governance rules.

The functions in charge of said controls are separate from production functions and contribute to defining the risk governance policies and the risk management process. In the Intesa Sanpaolo Group, Level II includes the following Parent Company structures and the equivalent local units of the Group companies, where established:

- o Compliance Head Office Department, which carries out a compliance function, as defined by the reference regulations;
- o Anti-Money Laundering Service, which performs an "anti-money laundering function" as defined by the reference regulations;
- o Risk Management Head Office Department, the Credit Quality Monitoring Department and the Internal Validation Department, which perform, each to the extent of its responsibilities, the duties assigned to the "risk management function" as defined by the reference regulations.
- Level III: internal audit controls to identify breaches of procedures and regulations, as well as to periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of the other components of the internal control system and the IT system at Group level, at scheduled deadlines in relation to the nature and intensity of the risks. In the Intesa Sanpaolo Group, internal auditing is carried out by the Internal Auditing Head Office Department of the Parent Company and the equivalent local units of Group companies, where established.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.

Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

The Manager responsible for preparing the Company's financial reports

The Management Board, based on the opinion of the Supervisory Board, appointed Ernesto Riva as the Manager responsible for preparing the Bank's financial reports, pursuant to the provisions of Article 154-bis of the Consolidated Law on Finance.

In accordance with the Articles of Association, the Manager responsible for preparing the Bank's financial reports shall be chosen among the Bank's executives and must meet specific professional requirements connected to adequate skills in financial and accounting disclosures, management or control of the related administrative procedures, gained in a period of at least five years in positions of responsibility in operating departments within the Bank, Group or other companies or entities comparable in terms of activities and organisational structures. The Manager responsible for preparing the Company's financial reports must also meet integrity requirements for members of control bodies of listed companies envisaged under current regulations.

The Manager responsible for preparing the Company's financial reports was vested with adequate powers and means for the performance of his/her functions; he/she is provided with a structure that is adequate in terms of numbers, technical and professional skills and ongoing training programmes to support him/her in the fulfilment of his/her duties, as well as with the cooperation and support of the other corporate departments of the Parent Company and Group Companies.

Supervision on the reliability of the Bank's financial reports is carried out in compliance with the provisions

of Art. 154-bis of the Consolidated Law on Finance and the other implementing provisions issued by regulators; the exercise of that role is also extended to the function in charge of supervising the financial reporting and statutory audit process, which is a requirement to be adhered to by public interest Entities (Article 19 of Legislative Decree 39/2010), as well as the supervisory rules on the management and accounting system to which the companies that control companies governed by the laws of non-EU countries (Article 36 of Consob Market Regulation) are bound.

For the purposes of a harmonised coordination of the regulatory provisions, the Manager responsible for preparing the Company's financial reports oversees the fulfilment of the obligations according to a shared approach at Group level, approved by the Management Board, with the favourable opinion of the Supervisory Board.

With regard to Bank's financial reporting, said Manager:

- guides the Group companies, coordinating the instructions for the correct and uniform application of the accounting standards and measurement criteria, formalised as part of the Group Accounting Regulations, subject to regular periodic updates;
- prepares the management and accounting procedures, taking care of their adaptation in relation to the corporate disclosure requirements defined by Regulators;
- oversees the correspondence between the corporate reporting and the accounting records; to this end, it promptly makes use of any information deemed necessary for the performance of its duties and coordinates the exchange of information with the independent auditors;
- submits public disclosures to the Management Board and certifies the compliance of financial documents and reports with the law.

With regard to monitoring of the financial reporting process, the Manager responsible for preparing the Company's financial reports:

- maintains a system of Information reports and flows with the Parent Company and the Group functions, in order to ensure effective monitoring of the consistency of balance sheet, income statement and financial positions, especially with reference to the main risks and uncertainties to which the Group may be exposed, monitoring the reliability of the data acquisition process and the process of disclosure of the relevant information;
- oversees the internal control system on the financial reporting process, submitting to the Management Board audit plans to ensure the adequacy and effective application of management and accounting procedures over the period, also by subsidiaries subject to the laws of countries that are not European Union Member States, in accordance with the provisions laid down by Article 36 of the Consob Market Regulation; following the assessment of the audit findings, a Report on the internal control system on the financial reporting process is drafted;
- provides feedback on recommendations formulated by the independent auditors at the end of the audit of the Parent Company's and consolidated financial statements for the purpose of continuous improvement of procedures affecting accounting data;
- monitors the assignments granted to independent auditors to supervise the auditors' independence and impartiality, in compliance with legal provisions and in accordance with methods governed by company Regulations;
- shares with the Supervisory Board, pursuant to Law 231/2001 the findings of the audit plan carried out by the Manager responsible for preparing the Company's financial reports in implementation of the monitoring of the financial reporting process, for the purposes of preventing criminal and administrative offences such as those described in the "Organisation, Management and Control Model pursuant to Legislative Decree 231 of 8 June 2001".

In relation to the supervisory and monitoring functions assigned, Manager responsible for preparing the Company's financial reports:

- signs, together with the Managing Director, the documents certifying that the company financial reports match the contents of accounting books and records, and that the documents are suitable to providing a true and fair view of the information on balance sheet, income statement and financial position and on the main risks to which the Group is exposed (Article 154 bis, paragraph 3, of Law 262/2005);
- submits a periodic opinion on the internal control system on the financial reporting process, thereby signing, together with the Managing Director, the documents certifying the adequacy of the management and accounting procedures and the efficiency of the controls on the financial reporting

process (Article 154 bis, paragraph 5, of Law 262/2005);

- prepares the report to be submitted to the Management Board regarding the outcome of the assessments that allow the Parent Company's Management Body to certify the compliance of the management and accounting system of the companies governed by the laws of non-EU countries (Article 36 of the Consob Market Regulation).

The Manager responsible for preparing the Company's financial reports oversees the periodic reports that enable the Management Board to fulfil its legal and regulatory obligations, thereby monitoring the adequacy of powers and means granted. These reports are also submitted to the Internal Control Committee, which reports to the Supervisory Board in order for it to perform its supervisory task of monitoring the financial reporting system, as required by law and the Articles of Association.

The financial reporting process monitoring

Within Intesa Sanpaolo, the monitoring of the accounting and financial reporting process is based on the review of:

- the completeness and consistency of the information disclosed to the market through the management of a structured system of information flows that the functions of the Parent Company and Group companies regularly submit, reporting significant events for the purposes of accounting and financial reporting, especially as regards the main risks and uncertainties to which they are exposed;
- compliance of the processes and procedures used for the preparation of the company financial reports, verifying, in particular, the consistency of the auditing approach and the proper conduct of the activities functional to the financial reporting process; the focus of the audits is represented by the work stages which, within business processes, entail the recording, processing, evaluation and presentation of data and information, as well as of the IT architecture and application monitoring rules, especially with reference to the management of operations and development interventions on the summary systems instrumental to the financial reporting process.

As is known, the Italian legislation does not make express reference to predefined standards in order to assess the adequacy of the management and accounting procedures and to ensure the effectiveness of the internal control system over the financial reporting process. The international benchmarks are COSO Framework and COBIT Framework¹. They were also used as benchmarks by Intesa Sanpaolo insofar as they offer the opportunity for a convergence in the analysis and evaluation methodologies compared to the more widespread consolidated practices at the international level.

The methodologies adopted for the purpose of monitoring the financial reporting process entail:

- the determination of the existence and compliance of the internal control system at corporate level, through the examination, conducted by the Internal Auditing Department, of the governance systems, the presence and dissemination of standards of conduct inspired by ethics and integrity, consistency of the organisational structures and transparent attribution of powers and responsibilities, the effectiveness of risk policies, the soundness of fraud prevention systems and the impact of codes of conduct and personnel disciplinary systems;
- the formalisation of the significant company processes for financial reporting, with specific focus on risks and controls that characterise the phases of recording, processing, assessment and representation of data and information functional to preparing company accounting documents and financial communications to the market. In addition to the financial reporting processes (for example: accounting, financial statements, reporting, management control, risk control), business processes are also envisaged (for example: credit, finance, asset management, insurance), referring to the phases of measurement and reporting of assets and liabilities recorded in the accounting books and represented in corporate documents, and the operations processes supporting transactional and administrative records;
- the performance of an annual audit plan to certify the adequacy of the procedures and the effectiveness of the controls in place, by way of comparison of the methodologies that govern the management of transactions within the scope of business processes and the forms of monitoring of

¹ The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

- the stages associated with the recording, evaluation and presentation of accounting data and financial information;
- the conduct of an annual audit plan to certify the systematic application of IT architecture governance rules with reference to the processing steps instrumental to the preparation of accounting and financial reports;
 - the preparation, for each significant Group Company, of an internal control system Report on the financial reporting process, which sets out: a) the main profiles of operational and valuation complexity of the business, indicating the organisational set up and the application architecture instrumental to the financial reporting process, together with the related control procedures; b) the findings of audits conducted during the year, indicating any shortcomings found and action taken to remedy them; and c) the recommendations expressed by the independent auditors in conducting the legal audit to improve procedures affecting the accounting data;
 - the formulation of an opinion on the internal control system on the financial reporting process, upon the outcome of the monitoring over the correct implementation of the regulations, the audits conducted on the scope of companies and the performance of the evaluation process on a consolidated basis to ensure the application of standard opinion-forming criteria, further studying the material nature of critical points found in relation to the consolidated financial statements;
 - the management of the communication processes between the Manager responsible for preparing the Company's financial reports and the Control Bodies, the corporate Control Functions and Internal Auditing Department, in accordance with the provisions set out in the Regulations on the integrated internal control system;
 - the management of the communication processes between the Manager responsible for preparing the Company's financial reports and the Corporate Bodies and independent auditors pertaining to legal and regulatory obligations.

The model used allows to achieve a reasonable guarantee as to the reliability of the accounting and financial reporting process; however, as evidenced by the COSO Framework, any internal control system, albeit well designed and operating continuously, cannot completely exclude the existence of malfunctions or fraud with a potential impact on the quality of the company financial reports; in relation to the legal and corporate representation of the documents, the correctness of the entries and the accuracy of the statements is also subject to an independent review by the independent auditors, which liaise with the Manager responsible for preparing the Company's financial reports on an ongoing basis.

The Risk Management Department

The Risk Management Department is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The Risk Management Department is responsible for the risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies; it proposes the annual update of the RAF to the Chief Risk Office; it proposes operational limits for financial risks (for both the banking and trading books); it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process; it oversees the methodological and organisational framework for operational risk; it adopts capital-at-risk measurements for management reporting and assessment of the Group's internal capital adequacy; it ensures that statutory reports are sent to the Supervisory Authorities.

The Department's tasks and functions are discussed in detail in the subsequent chapters of this document.

The Credit Quality Monitoring Department

The Credit Quality Monitoring Department, as a Group level II Control Function, is responsible for the ongoing monitoring of the quality, composition and evolution of the Bank's credit portfolio.

It fulfils its mission through structured monitoring activities on the various credit granting and management processes, following the related steps for each administrative risk status, including with respect to credit deterioration, in terms of the consistency of classifications, provisioning and recovery processes. It also initiates any corrective measures that the Bank must implement and those in relation to the Chief Lending Officer and Loan Recovery Department, according to the responsibilities over the positions.

It also carries out monitoring and control of the rating assignment and updating processes.

The Credit Quality Monitoring Department gears its audit activities towards individual exposures or clusters of exposures with "risk based" criteria. In general, the development of the audit activities includes

a preliminary examination of the individual credit processes in order to verify that level I controls are correctly put in place, as well as their regulatory framework and implementation methods.

It monitors the correct implementation by the Bank of regulations concerning control over credit quality. It ensures, in relation to the Bank, that periodic reporting is drawn up concerning the evolution and quantitative and qualitative composition of its credit portfolio, its processes for granting and managing loans, the results of the monitoring and control activities performed and the remediation actions requested and implemented, which it submits to the corporate and control bodies of the Bank, as well as, when deemed necessary, to the control bodies of the Parent Company.

Lastly, the Credit Quality Monitoring Department assigns the Chief Risk Officer the powers to grant and manage loans, defining the limits and criteria for their determination as regards the Bank's levels of autonomy, above which it must request a compliance opinion from the Parent Company.

Moreover, the Credit Quality Monitoring Department examines and submits to the Chief Risk Officer for approval, the decision-making powers adopted by the Bank for limits lower than those set for the request for the compliance opinion. Lastly, it oversees the updating of the related regulations.

The Internal Validation Department

The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the New Supervisory Regulations for banks², of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, company needs and changes in the market of reference. The validation function is entrusted to the Internal Validation Department, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on internal risk measurement systems. The Internal Validation Department reports directly to the Chief Risk Officer and is independent of the units that manage internal system development activities and the internal auditing department. It ensures that internal models, whether already operational or in the development stages, are validated with regard to all risk profiles covered by Pillars 1 and 2 of the Basel Accord, in accordance with the independence requirements established by the reference regulations.

With respect to Pillar 1 in particular, it conducts ongoing assessments of risk management and measurement systems in terms of models, processes, information technology infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference by developing adequate methodologies, tools and operating solutions.

Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Department's activities, documented in accordance with pre-determined standards, are presented to the competent functions, transmitted to the Internal Auditing Head Office Department for its related internal auditing work, as well as to the competent managerial committees and governance bodies for the resolution certifying the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.

With respect to Pillar 2 risks, the Internal Validation Department conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The analyses are conducted both in advance, when adopting/modifying the internal systems used for Pillar 2 purposes, and *ex post* as part of the prudential control process. The latter are summarised in the ICAAP report while, for substantial or significant modifications of internal systems, the Internal Validation Department produces a report to be submitted to the competent Management Committees and the governance bodies³.

The Internal Validation Department also manages the validation process at the Group level, interacting with Supervisory Authorities, the Corporate Bodies of reference and the units responsible for the level III controls provided for in regulations. The Internal Validation Department adopts a decentralised approach for companies with local validation functions⁴ (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others. The

² Regulation (EU) No 575/2013 (CRR); Bank of Italy Circular 285/2013; Bank of Italy Circular 263/2006, as amended (where applicable).

³ In the event of substantial/significant modifications, the approval process requires that the Risk Management Head Office Department submit updates to the Internal Management System, accompanied by the impact analysis on the risk metrics and the report of the validation unit, to the competent Managerial Committee for approval. Subsequently, reporting is drawn up on those modifications to the Management Board and the Supervisory Board.

⁴ Note that the functional reporting of local validation units to the Internal Validation Department has been formalised.

methodologies adopted were developed in implementation of the principles that inspire the Supervisory Regulations for banks, Community Directives, general orientations of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

The Internal Validation Department generally also provides advice and suggestions to company and Group functions on an ongoing basis with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

In 2014, the main validation activities in the area of credit risks pertained to:

- validation activities aimed at presenting the application for the adoption, for the purposes of calculating regulatory capital requirements, internal PD estimates for the Banking Book Equity portfolio;
- periodic quantitative and qualitative analyses (backtesting, performance analyses and empirical analyses of use tests) required by the Bank of Italy for the Residential Mortgages to Private Individuals, Corporate and Retail SME segments (PD and LGD models) in the context of the annual validation report;
- monitoring of the completion of measures taken in accordance with the requirements set in the regulatory capital “floor” revision order of summer 2011.
- preliminary assessment for the operational adoption of the Other Retail approval model;
- half-yearly analyses on guarantees used to mitigate credit risk (mortgage, personal and financial guarantees).

In the cases of the international subsidiaries, the Internal Validation Department conducted its own assessments in collaboration with the local validation functions, where present, so that the relevant applications could then be submitted to the competent Supervisory Authorities. In detail, analyses of the adequacy of internal risk measurement systems for the purposes of determining capital requirements for credit risk were completed for the following subsidiaries:

- VUB (Slovakia): pre-validation report for authorisation of the internal adoption of models relating to Non-Banking Financial Institutions (NBFI), assessment of the changes made to the validated Structured Finance models (RED / SPV) and updating of the Corporate model (IALC);
- PBZ (Croatia): pre-validation report for the authorisation of the internal adoption of Corporate, Specialised Lending and Residential Mortgages for Individuals (Housing/Mortgage) models;
- CIB (Hungary): pre-validation analyses for the Corporate PD model and the Specialised Lending Scorecards models;
- BIB (Serbia): pre-validation report for authorisation of the internal adoption of the Large and SME Corporate models;
- Banka Koper (Slovenia): support to activities concerning parallel calculation and Credit Risk Mitigation (CRM).

Validation activities for operational risk conducted in 2014 took the form of:

- analysis of the results obtained simultaneously by the AMA calculation engine developed by SAS and that under production (developed by R/Matlab) to verify that they match;
- verification of the strength of the model in the event of significant changes in the loss data during 2014 (internal and external);
- execution of ongoing validation analyses for the purpose of drawing up the annual report. These include the activity - conducted by the Internal Validation Department for the first time during 2014 - of replicating and verifying the database used by the calculation engine to quantify capital requirements. For the purposes of such activities, the information drawn from documentary and empirical analyses (using Isidoro data) was supplemented by specific onsite inspections of international banks included in the scope of AMA (with the support of the local validation functions), aimed at ascertaining the actual application of the monitoring and management process for operational risks and by methodological analyses. Concurrently, in the first half of 2014, the Internal Validation Department completed the Remote Verification Process for the Organisational Units/Legal Entities within the AMA scope.

The activity of the Internal Validation Department relating to the market risk component focused on the following areas:

- periodic quantitative and qualitative analysis as part of the ongoing validation activity (in particular,

backtesting of the Value at Risk (VaR) model and stress testing of the Incremental Risk Charge (IRC model);

- monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation;
- verifications conducted to support the request to revise the add-ons defined by the Bank of Italy, to calculate the capital requirement for market risk using the internal model, in relation to the completion of the corrective measures requested.

The Bank of Italy also involved the Internal Validation Department in the inspection concerning the AQR (Asset Quality Review). The customised analyses are part of a wider range of ongoing activities concerning pricing issues (for example, verification of the consistency of non-contributed bonds pricing among the end of quarter measurements carried out by the Risk Management Head Office Department, and operational pricing, monitored by Product Control of Banca IMI).

For Counterparty Risk, in March 2014 the Bank of Italy authorised Intesa Sanpaolo and Banca IMI to use the internal model for calculating capital requirements. As part of the quarterly update required, the Internal Validation Department monitors the progress of the corrective measures implemented for the findings reported by the Bank of Italy in the authorisation letter. Preliminary validation activities were also conducted for the roll-out of the internal model to the Banks in the Banca dei Territori Division and to several Product Companies.

With regard to Pillar 2 Risks, the following analyses have been planned to assess the methods to be used to calculate economic capital as at 31 December 2014:

- impact analysis on the use of management metrics in the portfolio model;
- analysis of economic capital for Pillar 2 credit risk (i.e., including the additional components compared to Pillar 1, for example, the concentration component) for International banks and comparison with the economic capital used for local ICAAP reporting;
- analysis of the banking book interest rate model;
- assessment of possible changes in the remaining Pillar 2 models (for example, adopting the PD/LGD approach for equity risk and the adoption of the stochastic LGD in the portfolio model);
- assessment of the corrective measures implemented or under way on findings by Internal Valuation during the previous ICAAP report.

Moreover, in 2014, the Risk Management Head Office Department conducted the annual valuation of the parameters of demand deposits to quantify shift sensitivity. The purpose of this valuation was to assess the need for re-estimation as a result of changes in the composition and amount of demand deposits. In light of the results, the Risk Management Head Office Department, in agreement with the Internal Validation Department, decided it was not necessary to re-estimate the parameters.

The Compliance Department

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

Management of compliance risk is entrusted to the Compliance Department, which reports to the Chief Risk Officer, from a position of autonomy with respect to operating departments, and of separation from internal auditing.

The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Management Board and Supervisory Board, which indicate the responsibilities and macro processes for compliance, set out to mitigate compliance risk through a joint effort by all company functions. The Compliance Model was revised during 2014, with the aim of adapting to the new provisions on internal control systems issued by the Bank of Italy in July 2013, extending the responsibility of the compliance function to the management of compliance risk of all company operations.

The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. Moreover:

- with regard to the regulatory areas of strategic importance to the Supervisory Authorities or for which centralised management of compliance risk is considered necessary, the Compliance Department is responsible for identifying and assessing compliance risks, proposing of the functional and organisational measures for their mitigation, assessing the consistency of the company's bonus system, conducting pre-assessments on the compliance of innovative projects, operations and new products and services, providing advice and assistance to the governing bodies and the business units in all areas with significant compliance risk, monitoring, including through the use of information

provided by the other control functions, ongoing compliance, and promoting a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules;

- for all other regulatory areas applicable to the Bank and exposed to the compliance risk, for which Specialist Functions with the necessary duties have been identified, the tasks assigned to the compliance Function are entrusted to said structures, without prejudice to the Compliance Department's responsibility for defining, through their collaboration, risk assessment methodologies and procedures aimed at mitigating those same risks and issuing an independent opinion of the compliance risk and the adequacy of the management in place.

The Compliance Department submits periodic reports to Corporate Bodies on the adequacy of compliance control, with regard to all regulatory aspects applicable to the bank which show compliance risks. On an annual basis, these reports include an identification and assessment of the primary compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a half-yearly basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.

The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group's structure in operational and territorial terms. In particular:

- compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent Company are centralised with the Compliance Department;
- for the other Companies, specifically identified on the basis of the existence of a legal obligation or their material nature, as well as for International Branches an internal compliance function is established and a local Compliance Officer is appointed, which are assigned compliance responsibilities. The local Compliance Officers of the subsidiaries functionally report to the Compliance Department, while the branches have hierarchical reporting, except in specifically identified cases where they carry out functional reporting.

The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of compliance risk, including in light of the most significant ongoing projects that are part of the Company Strategic Plan, as well as the measures to comply with new regulations enacted at an international level (e.g., MiFID 2 and MiFIR, EMIR, the Dodd Frank Act and the short-selling law). In particular:

- in the financial intermediation and investment services area, monitoring of the procedural organisational structure in support of the service model adopted by the Bank continued, also in light of the Guidelines on suitability issued by ESMA in July 2012 concerning adequacy, a project for adjustment to MiFID 2 and MiFIR was launched at Group level. Work also continued in the area of monitoring personal transactions, clearing new products and services and controlling customer operations in order to prevent market abuse. In the area of conflict of interest management and the circulation of insider information, work continued to be done with the aim of enhancing the model adopted by the Bank;
- legislative developments in the areas of banking products and services were monitored, with a particular focus on the issue of transparency, consumer credit and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of ensuring that customer-protection provisions are properly managed;
- in the area of insurance and pension services, business functions received constant advice, concerning in particular policies paired with mortgages and motor policies. In addition, initiatives continued with the aim of enhancing governance of compliance risks pertaining to the insurance and pension segment, with respect to the Group's distribution networks. In particular, the Bank's service model for insurance products was defined through the formalisation of rules for the sale of Life Business Class I policies, Non-Life and Protection products;
- the Organisational, Management and Control Model pursuant to Italian Legislative Decree 231/2001 was overseen by verifying its compliance with the company regulations and coordinating verification of its proper implementation.

Concurrently, the progressive implementation of the new Compliance Model was launched on the specialised functions, with a primary focus, pursuant to a risk-based approach, on the tax and ICT areas, and the models and methods for strengthening assurance activities were defined.

Additional activities were aimed at reinforcing management and coordination activity for international subsidiaries, with the aim of implementing a supervisory model comparable to that adopted by the Parent

Company, involving the establishment of shared control guidelines and standards for the most sensitive areas.

Considerable importance was attached to personnel training programmes, involving the implementation, in collaboration with the competent company functions, of initiatives aimed at pre-defined targets in order to maximise their efficacy.

The Anti-Money Laundering Department

In August 2011, in line with the regulatory provisions issued by the Bank of Italy on 20 March 2011, responsibilities in the area of the prevention of money laundering and embargo management, previously entrusted to the Compliance Department, were reassigned to a specific Anti-Money Laundering Department reporting directly to the Chief Risk Officer. The Department is charged with monitoring compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:

- laying down the general principles to be adopted within the Group for the management of compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic information for Corporate Bodies and Top Management;
- fulfilling specific obligations for the Parent Company and subsidiaries on a centralised basis, such as enhanced customer review, controls of proper management of the Single Electronic Archive and monitoring and monthly submission to the Financial Reporting Unit of data concerning aggregated anti-money laundering reports.
- assessing reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

During 2014, the Anti-Money Laundering Department devoted the utmost attention to projects aimed at reinforcing coverage of the Group's Italian and international companies in the area of money laundering and embargoes, including in light of the new provisions of law enacted at the national and international level and instructions from the Supervisory Authorities. In further detail, organisational, IT and training activities were performed with the aim of implementing applicable regulations in this area.

The Internal Auditing Department

Internal auditing activities are performed by the Internal Auditing Head Office Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board. It also liaises with the Internal Control Committee and has no direct operating responsibilities.

The Department has a structure and a control model which is organised consistently with the organisational model of Intesa Sanpaolo and, more generally, of the Group.

As part of its duties, the Department also liaises with the Internal Auditing structures of the Group's Italian and international companies.

The Internal Auditing Department performs overall level III assessment of the internal control system, reporting possible improvements to the Corporate Bodies, with specific regard to the RAF, the risk management process and risk measurement and control instruments.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control systems, the risk management process and corporate processes, also with regard to their capacity to identify errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance company functions, also through participation in plans, in order to create value added and to improve the effectiveness of the control and corporate governance processes. The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the processing of defining the Risk Appetite Framework, the internal consistency of the overall framework and its compliance with Bank operations.

The Head of the Internal Auditing Department enjoys the due autonomy and independence from operating departments. The Department has free access to the activities, data and documents of all company functions.

The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing

established by the Institute of Internal Auditors (IMIA).

The Department has earned the maximum rating in the external Quality Assurance Review envisaged by the international standards “Generally Compliant.”

In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and Corporate Bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Internal Control Committee and subsequent approval by the Management Board and the Supervisory Board, on the basis of which it conducts its activities during the year, in addition to a Long-Term Plan with hedging commitments.

During 2014, auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments, controls were conducted (indirect auditing).

Supervision activity was conditioned by the continuing delicate economic scenario. Consequently, in accordance with instructions issued by the Internal Control Committee and the top management, audits were primarily aimed at monitoring the evolution of the risks associated with credit quality, internal capital adequacy estimation criteria and international activities. Particular attention was also devoted to the issues of compliance with money laundering prevention regulations.

Control activity was generally oriented towards the processes carried out by company functions with the aim of assessing:

- the functionality of line and level II controls;
- the reliability of operating departments and delegation mechanisms;
- the accuracy of the information available in the various activities and the adequate use of the same.

Direct surveillance, both on-site and remote, was carried out in particular through supervision of processes relating to:

- credit granting, management and classification, verifying its adequacy with respect to the risk control system and the operation of measurement mechanisms in place;
- measurement, management and control of the Group’s exposure to the various market, counterparty, real-estate, liquidity, interest rate, operational, credit and country risks. Particular attention was dedicated to the adequacy of the processes and criteria for estimating internal capital with respect to the Risk Appetite Framework as well as in accordance with the Prudential Supervisory regulations;
- controls carried out by compliance risks governance functions and operating functions, in particular on provisions of law concerning money laundering, investment services, transactions with related parties and the administrative liability of entities pursuant to Legislative Decree 231/01;
- IT system development and management, to ensure their reliability, security and functionality;
- management of financial operations with the aim of verifying the adequacy of related risk control systems;
- management of operations.

Control activity was then completed through:

- measures affecting Italian product company subsidiaries, with a priority focus on credit quality and processes, as well as on money laundering prevention and embargo processes;
- verification of the operations performed by foreign banks, companies and branches, with interventions by both local internal auditors and internal auditors from the Parent Company;
- control of the governance activity performed by the Parent Company for the International Subsidiary Banks;
- timely performance of the assessments requested by Supervisory Authorities in specific areas such as management remuneration and incentive systems, the Parent Company’s management and coordination powers over asset management companies, obligations under new authorisations, privacy, business continuity, provisioning for doubtful loans and Asset Quality Review.

Indirect auditing was conducted via the steering and practical coordination of the auditing departments of Italian and international subsidiary banks and companies, to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, was also performed for those companies, as mentioned above.

Any weak points detected during control activities have been systematically notified to the company functions involved for prompt improvement actions which are monitored by follow-up activities.

Summary internal control system assessments from the checks have been periodically submitted to the

Control Committee, Management Board and Supervisory Board. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be systematically monitored. The reports on the audits with a negative outcome or with remarkable irregularities observed were submitted in full and illustrated to the Corporate Bodies.

Lastly, the Internal Auditing Head Office Department ensured constant assessment of its own efficacy and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice.

Independent Auditing

For Intesa Sanpaolo, as a listed company (Public Interest Entity pursuant to the relevant regulations), auditing of the accounts may only be conducted by an independent auditing firm (Auditor), responsible for verifying, during the year, the regular keeping of corporate accounts and the proper recording of management operations in the books, and for expressing, through the appropriate reports, an opinion on the Parent Company's and consolidated financial statements, as well as on the half-yearly report, after ascertaining that they correspond to the accounting entries and related audits and that such records comply with the relevant regulations.

The independent auditors are KPMG S.p.A., to which the ordinary Shareholders' Meeting of 10 May 2011 awarded the engagement for financial years 2012-2020, at the proposal of the Supervisory Board.

In order to monitor compliance with laws governing independent auditors engaged for the auditing of the accounts of Group companies, while ensuring the conditions to protect the independence of independent auditors, Intesa Sanpaolo has adopted specific Group Regulations used to introduce a supervisory system aimed at monitoring the appointment of independent auditors and other engagements awarded by the Parent Company's Departments and Group companies to independent auditors, their business networks and their affiliates, in accordance with the guidelines set forth by the Management Board and Supervisory Board.

Based on current Group provisions, the appointment of independent auditors by Parent Company Departments and Group companies to provide services other than accounting audits requires prior examination by the Manager responsible for preparing the Parent Company's financial reports and subsequently by the Parent Company's Control Committee or Board of Statutory Auditors of the companies concerned. The Manager responsible for preparing the Company's financial reports is also responsible for reporting to the Control Committee, the Supervisory Board and the Management Board on a periodic basis - as well as to Consob, as required by laws in force - on assignments awarded during the period by the Group to the independent auditors of the Parent Company and to any other Group independent auditors and the fees paid to them over the year.

CREDIT RISK

Risk management strategies and processes

The Group's strategies, powers and rules for the granting and managing of loans 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;
- given the current economic climate, 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 levels of autonomy assigned to the decision-making bodies are determined by agreement between the Bank/Banking Group regarding the counterparty/economic group. The rating assigned, along with any other credit-risk mitigating factors, conditions the determination of the decision-making competence of each delegated body. Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to

credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.

In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo guides, governs and supports the Group:

- the system of Credit Granting and Monitoring Powers and Rules governing the ways in which credit risk to customers is assumed;
- the “Credit-granting Limit”, intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the “Compliance Opinion” on credit-granting to large customers (single name or Economic Group) which exceeds certain thresholds.

The exchange of basic information flows between different Group entities is assured by the Group’s “Centrale Rischi” (exposure monitoring and control system) and by “Posizione Complessiva di Rischio” (global risk position), that highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.

The activities within the Chief Risk Officer's purview are carried out directly by the Risk Management Department and the Credit Quality Monitoring Department, for the Parent Company and the main subsidiaries under an outsourcing contract, whereas the other control structures operating within the individual companies report regularly to the aforementioned functions of the Parent Company.

Structure and organisation of the associated risk management function

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the Corporate Bodies, which, each within its purview, 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 departments 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:

- the Chief Lending Officer;
- the Chief Risk Officer;
- the Chief Financial Officer.

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation.

The Chief Lending Officer assesses the creditworthiness of the loan applications received and, where competent, approves them or issues a compliance opinion, manages and monitors non-performing loans, sets the Credit Granting and Management Rules, ensures that positions classified as non-performing, within his/her purview, are properly measured for financial statement purposes, and also defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, on some occasions at the proposal of the Group’s various functions/departments.

The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, implements credit controls, including rating controls, constantly monitors risk and credit quality performance and ensures the consistency of the risk measurements and control systems with the processes and valuations methods of company activities, coordinating with the company departments concerned.

In accordance with the strategic guidelines and risk management policies set by the Management Board and approved by the Supervisory Board, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate), oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.

In addition, within the framework of the loan assessment process, the Administration and Tax Head Office Department, which reports directly to the Managing Director and CEO, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.

Intesa Sanpaolo Group Services provides specialised operating support for loan recovery activity and in defining credit processes while ensuring cost and performance synergies in the service offered.

Scope of application and characteristics of the risk measurement and reporting system

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and of exposures subject to country risk.

Risk measurement is performed by means of different rating models according to counterparty segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Public Sector Entities and Financial institutions). 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 uniform scale of reference.

A number of rating models are used for the Corporate segment:

- 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.

In general terms, the structure of these models requires the integration of multiple modules:

- a quantitative module that processes financial and behavioural data;
- a qualitative module that requires the manager to fill in a questionnaire;
- an independent assessment by the manager, organised as a structured process, which triggers the override procedure if there is a discrepancy with respect to the integrated rating.

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. Any improvement override proposals are validated by a Specialist Unit allocated to the Parent Company, within the Chief Lending Officer's staff. The Specialist Unit is responsible for, among other duties, the task of assigning what are known as "centralised ratings" provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.

The models applied to the Retail portfolio are as follows:

- for the Retail SME segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the development data sources and historical series;
- for the Retail Mortgage segment (residential mortgages to private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
- for products aimed at individuals (the Other Retail segment), a new Approval model was made available in September 2014 for operational purposes, which is applied to all new disbursements (such as personal loans, credit cards, and credit facilities on current accounts).

The PD rating models for the Corporate, Mortgage and Retail SME segments, which received authorisation to use the AIRB approach (effective the report as at 31 December 2011) and the IRB approach (effective from the report as at 30 June 2010 for Mortgage and 31 December 2012 for Retail SME), respectively, are described in greater detail in the Section on the IRB approaches.

As regards the other segments, a brief summary is provided below of the current status of the models and the expected developments. The use of internal models for operational purposes also extends to the segments where the internal ratings are not intended to be used for regulatory reporting.

The Banks model, used from March 2011, is a "default model" (which, with reference to the low default segment, has used both internal data and data on external defaults for its estimates).

From the standpoint of determining probability of default, the key decision was to differentiate the models for banks in mature economies and banks in emerging countries, the structure of which, however, is highly similar. In short, these consist of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "manager's opinion") that allows the rating to be modified in certain conditions.

In the Public Entities segment, the models of reference have been differentiated according to the type of

counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An approach based on an extension of the rating of the entity of reference (such as the Region) has been adopted for local healthcare authorities and other sector entities, with possible notching on the basis of financial statement assessments.

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries. The structure of the model involves:

- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market listing of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of individual sovereign countries.

For counterparties belonging to the Non Banking Financial Institutions sub-segment (Insurance Companies, Credit Guarantee Consortia, etc.), for which the Permanent Partial Use has been requested, a series of exclusively operational models is already used or under development, based on a variety of statistical techniques (shadow rating, portfolio approaches) and supplemented by experience-based elements.

Rating models have been adopted for the local counterparties of the International Subsidiary Banks, partly derived from the Parent Company and adapted to the local situation (global models) and partly fully developed by the Subsidiaries concerned (local models).

The LGD model is 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 Doubtful 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 a correction factor, known as "Danger Rate": the Danger Rate is a multiplying correction factor, used to recalibrate Doubtful LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events 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 Doubtful status (Substandard or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, Retail SME, Retail Mortgage, Factoring, Leasing and Public Entities).

The Banks LGD model partly diverges from the models developed for the other segments given the peculiarities of the segment, which has a low number of defaults ("low-default portfolios"). The estimation model is a market LGD approach, based on the market price of debt instruments observed 30 days after the official date of default for a sample of defaulted banks from all over the world, The market data are provided by 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 LGD models for the Corporate, Retail SME and Retail Mortgage segments, for which the AIRB and IRB approaches, respectively, were approved, are described in further detail in the Section on IRB approaches.

In 2014 the development of an internal model for determining EAD (Exposure at Default) was launched.

LGD models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and adapted to the local situation and partly fully developed by the Subsidiaries concerned.

The rating system also includes a risk trend indicator, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the proactive Management Process.

Starting from July 2014, the new Proactive Credit Management process was activated, setting up a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures. The objective is to promptly identify performing positions with early signs of difficulty and immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The introduction of Proactive Management also significantly simplified the processes and statuses of non-performing loans, eliminating the Risks Under Observation and introducing the new status of Restoration.

The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.

Ratings and mitigating credit factors (guarantees, types of loan products/lending facilities and covenants) play a fundamental role in the loan granting and monitoring process and contribute to setting the Credit Granting and Monitoring Powers and Rules.

The Credit Quality Monitoring Department oversees the above aspects at the Group level, through specific, extensive control and monitoring activities. The Department focuses its verifications on the various credit granting and management processes, overseeing the phases of each administrative risk status and verifies the individual exposures and clusters of exposures, assessing the consistency of their classification in the various administrative risk statuses, the adequacy of provisions and of the credit recovery process. In the event that inconsistency is found in the valuations, it takes restoration action, imposing its determinations. It also carries out monitoring and control of the rating assignment and updating processes.

This activity is carried out using risk-based criteria, applying suitable methods and instruments fine-tuned over time and periodically subject to internal auditing, to improve their effectiveness and timeliness in detecting the occurrence of anomalies.

In general, the development of the audit activities includes a preliminary examination of the individual credit processes in order to verify that level I controls are correctly put in place, as well as their regulatory framework and implementation methods.

These activities are implemented with the aid of the information technology tools which are made available to the Division units according to their respective areas of responsibility. Examples of such tools include the Hermes - Rating Controls application, a tool that allows rating control activities to be managed by computer, and the Credit Monitoring Portal.

The latter receives input from the Credit Control Panel and is the Group's primary source in supporting the monitoring of the loan portfolio in terms of its development over time and for quantitative and qualitative composition as well as for loan-related processes aimed at identifying any areas showing potential critical weaknesses. The information available refers to all Group banks and companies that operate on the target information technology system.

In this context, the peripheral units within the Banca dei Territori and Corporate & Investment Banking Divisions down to the Area level, enjoy access to "information" dashboards that provide an organic, structured report prepared with the aim of:

- providing a structured, navigable overview of the phenomenon under review;
- reducing the time required to search for and process information;
- facilitating the identification of critical areas and defining priority actions;
- supporting the exchange of information between units on a consistent basis.

The aforementioned tools are subject to constant maintenance performed by the Credit Quality Monitoring Department, which from a developmental standpoint aims to ensure that the set of information available is expanded through the creation of new dashboards for controlling and monitoring general phenomena and/or specific aspects of the lending process.

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 assessed in the context of the granting of credit to non-resident entities in order to arrive at a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at optimising the risk implicit in the Group's cross-border lending operations.

Counterparty risk is a particular type of credit risk associated with OTC derivatives and SFTs (Securities Financing Transactions), such as repurchase agreements, securities lending, etc. For a more detailed discussion of this topic, see the specific Section of this document.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.

The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.

The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated 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.

The expected loss, transformed into "incurred loss" as indicated by IAS 39, is used in the collective assessment of loans, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.

The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving 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.

The Group's lending activity is focused on Italian customers (83% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

Policies for hedging and mitigating risk

Mitigation techniques are adopted in order to reduce the Loss Given Default. They include in particular 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 presence 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 companies, 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.

An overall revision of the rules, processes and instruments concerning guarantees received and, more generally, instruments that mitigate credit risk is underway. The goal of these activities is to increase the efficiency of management, reduce the related operational risks and increase the level of eligibility of the guarantees. Following a detailed analysis, the requirements and architecture of a new application platform to manage all the phases in the lifecycle of a guarantee (acquisition, modification, extinction, enforcement, control, monitoring and custody) were defined. An initial release will be gradually implemented, starting from the first half of 2015, issuing the model for personal guarantees.

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 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 skills, professionalism and experience. The valuation of residential properties secured by mortgages 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 Code prepared by the Bank. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association.

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 applied to prices/coefficients 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 conduct inspections and verify the work progress for properties under construction. The valuation is 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, every three years for major exposures.

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 mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.

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 guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. 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.

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 for credit and debt positions to be netted against one another if a counterparty defaults.

This is achieved by entering into ISDA and ISMA/PSA 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 indices to mitigate the risk of adjustment of the valuation of the credit or CVA.

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.

In 2014 the Parent Company launched the “GARC” (Active Credit Risk Management) project to create a platform to monitor credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending of SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.

This type of transactions provide synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (Regulation (EU) No 575/2013 and Bank of Italy Circular 285/2013).

As part of these operations, during the year the junior risk relating to a total portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and SME Corporate segments, valued by applying internal approaches (Advanced IRB) was sold to a specialised investor.

MARKET RISKS

MARKET RISKS/TRADING BOOK

Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company’s Management Bodies, through the attribution of operating limits in terms of VaR to the various Group units. The allocation of these limits is mainly aimed at Intesa Sanpaolo and Banca IMI as they represent the main portion of the Group’s market risks. Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk.

The Group Financial Risks Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the Group Risk Governance Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risks Committee, which discusses the guidelines for the management of market risks.

As part of its functions, the Risk Management Department (especially through the Market Risks and Financial Valuations Unit) is responsible for the:

- calculation, development and definition of the risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;

- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).

The structure of the Risk Management Department is based on the following guidelines:

- structuring of the responsibilities according to the main risk taking centres and to “Risk Type”;
- focusing and specialisation of the resources on the “Risk Owners”;
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
 - o the methodological development;
 - o the collection, processing and production of data;
 - o the maintenance and refinement of the instruments and application models;
 - o the general consistency of the data produced.

Scope of application and characteristics of the risk measurement and reporting system

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group’s market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indices;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

The risk indicators used may be divided into six main types:

- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark to Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
- Incremental Risk Charge (IRC), an additional measure to VaR that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk.
- Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document “Revision to the Basel II market risk framework”.

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Risk Management Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).

This set of information represents an effective means for deciding policies for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.

During the weekly meetings the Risk Management Department ensures the consistency of the positions with the decisions taken in the Group Financial Risks Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.

More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group Companies that carry out retail and corporate banking transactions.

Specifically, in managing interest rate risk in the banking book, the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, positions are adopted that are consistent with the strategic views produced during the regular meetings of the Group Financial Risks Committee, which is also responsible for the assessment of the overall financial risk profile of the Group and its main business units.

The “structural” foreign exchange risk refers to the exposures deriving from the commercial operations and strategic investment decisions of the Intesa Sanpaolo Group. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities and income of branches and banking subsidiaries abroad.

The banking book also includes the exposure to the price risk deriving from the equity investments in companies not consolidated on a line-by-line basis and to the foreign exchange risk represented by equity investments in foreign currency, including Group companies.

Structure and organisation of the associated risk management function

Within the Risk Management Department, the market risks of the Banking Book and the Liquidity risk (discussed below) are overseen by the Banking Book Financial Risks Unit, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the business units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, under specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Corporate Bodies, reporting on their progress to Top Management and the Parent Company’s operating departments;
- analysing the overall financial risk profile of the Group’s banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed under outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the AVM and Strategies Unit in relation to strategic ALM.

Scope of application and characteristics of the risk measurement and reporting system

The financial risks generated by the banking book are measured monthly, using two types of measurement, namely Value at Risk (VaR) and Sensitivity analysis.

Value at Risk corresponds to the maximum loss that the book can incur in the following ten business days in 99% of cases, on the basis of the volatilities and the historical correlations (of the last 250 business days) between the individual risk factors, consisting, for each foreign currency, of the reference curves, the exchange rates and the prices of the equities⁵. Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, and equity).

The measurements include an estimate of the prepayment effect and of the risk originated by on demand customer deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits.

Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve, over a period of 12 months.

Policies for hedging and mitigating risk

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve, or (ii) at reducing the volatility of future cash flows related to a particular asset/liability.

The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover the risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets and liabilities (micro-hedging), mainly consisting of bonds issued or acquired by the Bank and loans to customers. Moreover, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic in the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date on which the rate is set and the date of payment of the relevant interests.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).

The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.

Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.

For equity investments in Group companies held in foreign currencies, risk hedging policies are assessed by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

LIQUIDITY RISK

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

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

⁵ Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

The new provisions on liquidity - introduced in the European Union on 27 June 2013 with the publication of (EU) Regulation 575/2013 and Directive 2013/36/EU, which was followed by European Commission Delegated Regulation of 10 October 2014, incorporated the new minimum liquidity requirements set out in the reform plan that the Basel Committee on Banking Supervision (BCBS) promoted to strengthen regulations on liquidity, by adjusting them to European specificities. Since March 2014, banking groups have been required to fulfil specific reporting obligations to record their exposure to liquidity risk.

The “Guidelines for Group Liquidity Risk Management” approved by Intesa Sanpaolo’s Corporate Bodies, incorporate the above regulatory provisions and illustrate the tasks of the various company functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The Guidelines for the Fund Transfer Pricing System were also updated both as regards governance and the general principles to be applied to defining transfer prices.

The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

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

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.

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

The company functions of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department and the Planning Department, Strategic ALM and Capital Management Head Office Department, responsible for liquidity management, and the Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.

The aforementioned Guidelines include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies. Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months’ time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of 1 week (cumulative projected imbalance in wholesale operations) and of 1 month (Liquidity Coverage Ratio).

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations. Based on the applicable European regulations, the LCR requirement will gradually come into force, starting with a percentage of 60% in October 2015 to reach 100% on 1 January 2018.

The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio. This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum "acceptable" amount of funding exceeding 1 year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force starting from 1 January 2018.

Within the Liquidity Policy it is also envisaged the time extension of the stress scenario for LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indices, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

The Group's sound liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained well within the risk limits set out in the current Group Liquidity Policy for all of 2014: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the ISP Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.

Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

OPERATIONAL RISK

Operational risk management strategies and processes

The control of the Group's operational risk was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.

Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include, inter alia, periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

Organisational structure of the associated risk management function

The Group has a centralised function within the Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.

In compliance with current regulations, the individual Organisational Units are responsible for the identification, assessment, management and mitigation of risk. Specific functions have been identified within these Organisational Units responsible for the Operational Risk Management processes of their unit (collection and structured census of information relating to operational events, scenario analyses and assessment of the level of risk associated with the business environment).

Scope of application and characteristics of the risk measurement and reporting system

On 31 December 2009 the Group adopted the Advanced Measurement Approaches (AMA - internal model), in partial use with the standardised (TSA) and basic (BIA) approaches, to determine the capital requirement for regulatory purposes. The AMA approach was adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium and by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The remaining companies, currently using the Standardised approach (TSA), which are included in the roll-out plan, will migrate progressively to the Advanced approaches starting from the first half of 2015, based on the roll-out plan presented to the Management Bodies and Supervisory Authorities.

The Integrated Self-diagnosis process, conducted on an annual basis, allows the Group to:

- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- create significant synergies with the specialised functions of the Personnel and Organisation Department that supervise the planning of operational processes and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-diagnosis process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of this risk.

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.

Operational risks are monitored by an integrated reporting system, which provides Management with support information for the management and/or mitigation of the operational risk.

In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in this process.

Policies for hedging and mitigating risk

The Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. In order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an innovative insurance coverage policy known as Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market. The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

OTHER RISKS

In addition to the risks discussed above, the following other risks have been identified and monitored by the Group.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.

The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Management Board and the Supervisory Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated.

An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its business units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses.

Reputational risk

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.

The Group actively manages its image in the eyes of all stakeholders and aims to prevent and contain any negative effects on said image, also through strong and sustainable growth capable of creating value for all stakeholders, while also minimising any possible negative event through strict and specific governance, control and guidance in the activities provided at the various service and operational levels.

Management/mitigation of reputational risk is also achieved by limiting exposure to primary risks.

The reputational risk governance model of Intesa Sanpaolo envisages that management and mitigation of reputational risk is pursued:

- systematically and independently by the company structures with specific tasks aimed at preserving corporate reputation, through a structured system of organisational monitoring measures;
- across the various company functions, through the Reputational Risk Management process governed by specific Guidelines.

The "systematic" monitoring of reputational risk envisages:

- specific organisational structures which, each for their purview, monitor the Bank's reputation and manage the relationships with the various stakeholders;
- an integrated monitoring system for primary risks, to limit exposure to them;
- the respect of ethical and behavioural standards;
- the definition and management of customers' risk tolerance, with identification of their various risk tolerance profiles based on subjective and objective characteristics of customers.

The "cross-function" monitoring of reputational risk is entrusted to the Reputational Risk Management (RRM) process, conducted yearly and aimed at integrating and consolidating the main findings provided by the organisational structures more directly involved in monitoring the company's reputation. The objective of that process is to identify and mitigate the most significant reputational risk scenarios to

which the Intesa Sanpaolo Group is exposed through:

- the identification of the main risk scenarios to which the Group is exposed, by the Risk Management Head Office Department, along with the Compliance Head Office Department as regards the compliance risks and with the cooperation of the other relevant corporate functions;
- the assessment of said scenarios by the Top Management;
- the definition and monitoring of adequate communication strategies and specific mitigation measures.

The Reputational Risk Management process of Intesa Sanpaolo, a cross-function process managed by the Risk Management Head Office Department (along with the Compliance Head Office Department as regards compliance risks, and in cooperation with the other relevant functions), involves the organisational structures of the Parent Company, Intesa Sanpaolo Group Services and the main Group companies.

The Group adopts a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

Particular attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk appetite profiles according to subjective and objective traits of each customer.

Particular consideration has been given to financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.

Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.

This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More in particular, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner, whether credit, financial or operational) and the customer (portfolio risk, complexity and frequency of transactions, concentration on issuers or on foreign currency, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the owned real-estate portfolio is represented by using a VaR-type model based on indices of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

Insurance risk

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services. With regard to insurance, it operates in both the life business, primarily, and in the non-life business.

The Intesa Sanpaolo Group defines insurance risk as the risk connected with the possibility of suffering economic losses on the value of the insurance assets (net of liabilities), deriving from an unfavourable variation of the market, technical and operating risk factors.

These risks are incorporated in the measurement of economic capital, used to assess capital adequacy (see

the Section on Capital requirements).

As also mentioned in the Introduction to this Disclosure, the insurance risk is not analysed specifically in this document. This risk is discussed in detail in the Group's consolidated financial statements in Part E – Section 2 – Risks of insurance companies.

Section 2 - Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

Intesa Sanpaolo S.p.A., Parent Company of the Banking Group "Intesa Sanpaolo", included in the National Register of Banking Groups.

Outline of differences in the basis of consolidation for accounting and prudential purposes

The disclosure contained in this document refers solely to the Intesa Sanpaolo "Banking Group" as defined by the prevailing Regulatory provisions.

The "Banking Group" (or prudential) scope of consolidation differs from the scope of consolidation for the accounting purposes (a full list of consolidated companies is presented in Part A of the Notes to the Consolidated financial statements), which includes Intesa Sanpaolo and the companies which it directly and indirectly controls and also considers in the scope of consolidation – as specifically set out by IAS/IFRS – companies operating in dissimilar sectors from the Parent Company as well as private equity investments. Similarly, special purpose entities/vehicles (SPEs/SPVs) are included when the requisite of effective control is met, even if there is no stake in the company.

By contrast, the scope of consolidation for prudential purposes excludes from line-by-line consolidation companies that engage in insurance or commercial activity, as well as some types of special-purpose vehicles. In addition, companies jointly controlled by Intesa Sanpaolo, which are measured according to the equity method in consolidation for accounting purposes, are consolidated according to the proportional method for prudential purposes.

The following companies are subject to different consolidation methods for prudential purposes than for accounting purposes:

- Jointly controlled companies consolidated according to the proportional method (carried at equity in the financial statements):
 - MIR Capital S.C.A. SICAR
 - Allfunds Bank
 - Pbz Croatia Osiguranje Public Limited Company For Compulsory Pension Fund Management
 - VUB Generali Dochodkova Spravcovska¹
- Companies carried at equity (consolidated line by line in the financial statements):
 - companies that are not part of the Banking Group since they conduct insurance business
 - Intesa Sanpaolo Vita¹
 - Intesa Sanpaolo Life¹
 - Intesa Sanpaolo Assicura¹
 - Fideuram Vita¹
 - companies that are not part of the Banking Group since they conduct commercial business
 - TT1 Lux
 - In.Fra (Investire nelle Infrastrutture)
 - C.I.F. (Compagnia Italiana Finanziaria)
 - I.L. (Iniziative Logistiche)
 - Cib Car Trading

¹ Company in which the Banking Group has a direct interest, deducted from own funds with regard to the portion beyond the deductible established by the regulations.

- Cib Insurance Broker
- Recovery Property Utilisation and Service
- Brivon Hungary
- special-purpose entities/vehicles (SPEs/SPVs)
 - Duomo Funding
 - Lunar Funding V
 - Romulus Funding
 - Trade Receivables Investments Vehicle
 - Adriano Lease Sec.

Intragroup transactions involving companies excluded from prudential consolidation (in that they are carried at equity) have been regarded as transactions with third parties.

Derogation to the application of liquidity requirements on an individual basis

The competent authorities may waive in full or in part the application of Part Six of the CRR to an institution and to all or some of its subsidiaries in the European Union and supervise them as a single liquidity sub-group. Pursuant to Article 8(2) of the CRR, the application on an individual basis of the provisions of Part Six of the CRR may be derogated for Italian banks belonging to a banking group. The Parent Company complies with the provisions of Part Six of the CRR on a consolidated basis, and where relevant, at the level of the liquidity sub-group (see Bank of Italy Circular 285 of 17 December 2013 – Part II, Chapter 11, Section III).

Section 3 – Own funds

Qualitative disclosure

Introduction

The new harmonised rules for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) into European Union laws, became applicable from 1 January 2014.

These regulatory provisions were adopted in Italy through the following circulars:

- Bank of Italy Circular 285: Supervisory regulations for banks;
- Bank of Italy Circular 286: Instructions for preparing prudential reports for banks and Italian investment companies;
- Update to Bank of Italy Circular 154: Credit and financial institutions supervisory reports: Preparation and transmission.

The new regulatory framework requires that Own Funds (or regulatory capital) are made up of the following tiers of capital:

- Tier 1 capital, in turn composed of:
 - o Common Equity Tier 1 Capital (CET1);
 - o Additional Tier 1 Capital (AT1);
- Tier 2 Capital (T2).

Tier 1's predominant element is Common Equity, mainly composed of equity instruments (e.g. ordinary shares net of treasury shares), share premium reserves, profit reserves, valuation reserves, eligible minority interests, plus deducted elements.

In order to be eligible for Common Equity, the equity instruments issued must guarantee absorption of losses on going concern, by satisfying the following characteristics:

- maximum level of subordination;
- option for suspending the payment of dividends/coupons at the full discretion of the issuer and in a non-cumulative manner;
- unredeemability;
- absence of redemption incentives.

At present, with reference to the Intesa Sanpaolo Group, no equity instrument other than ordinary shares is eligible for inclusion in Common Equity.

A number of prudential filters are also envisaged with effects on Common Equity:

- filter on profits associated with future margins deriving from securitisations;
- filter on cash flow hedge (CFH) reserves;
- filter on profits or losses on liabilities designated at fair value (derivatives or otherwise) associated with changes in own credit rating;
- adjustments to fair value assets associated with the "prudent valuation".

The regulations also envisage a series of elements to be deducted from Common Equity Tier 1:

- goodwill and intangible assets;
- deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences (e.g. DTA on tax losses carried forward);
- expected losses exceeding total credit risk adjustments (the shortfall reserve) for positions weighted according to IRB approaches;
- net assets deriving from defined benefit plans;
- exposures for which it is decided to opt for deduction rather than a 1.250% weighting among RWA;
- CET1 instruments of financial sector entities where the institution does not have a significant investment (deducted for the amount exceeding the threshold envisaged in the regulations);

- deferred tax assets (DTA) that rely on future profitability and arise from temporary differences (deducted for the amount exceeding thresholds envisaged in the regulations);
- CET1 instruments of financial sector entities where the institution has a significant investment (deducted for the amount exceeding thresholds envisaged in the regulations).

In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of credit risk adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches.

As previously specified, the new regulatory framework will be introduced gradually over a transitional period, generally until 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from Common Equity, will only have a partial percent effect on Common Equity Tier 1 Capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from Additional Tier 1 Capital (AT1) or Tier 2 capital (T2), or is considered among risk-weighted assets.

Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Summary information on the main terms and conditions of the features of capital items

The table below details the captions of the consolidated shareholders' equity that together with the capital components pertaining to third party shareholders contribute to the determination of the regulatory capital.

Group and third party consolidated shareholders' equity

	31.12.2014			31.12.2013		
	Group	Third parties	Total	Group	Third parties	Total
Share capital	8,725	273	8,998	8,546	369	8,915
Ordinary shares	8,240	270	8,510	8,061	366	8,427
Savings shares	485	3	488	485	3	488
Share premium reserve	27,349	20	27,369	30,934	55	30,989
Reserves	9,054	39	9,093	10,721	146	10,867
Legal reserve	1,710	-	1,710	1,709	-	1,709
Extraordinary reserve	774	-	774	1,519	-	1,519
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	232	232	-	232
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	302	302	-	302
Consolidation reserve	5,503	39	5,542	6,690	133	6,823
Other reserves	533	-	533	269	13	282
Equity instruments	-	-	-	-	-	-
(Treasury shares)	-74	-3	-77	-62	-3	-65
Valuation reserves:	-1,622	-9	-1,631	-1,074	-17	-1,091
Financial assets available for sale	829	5	834	363	7	370
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-1,364	-1	-1,365	-873	-1	-874
Foreign exchange differences	-751	-9	-760	-566	-19	-585
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-775	-5	-780	-371	-5	-376
Share of valuation reserves connected with investments carried at equity	89	1	90	13	-	13
Legally-required revaluations	350	-	350	360	1	361
Parent Company's net income (loss) and minority interest	1,251	59	1,310	-4,550	-7	-4,557
Shareholders' equity	44,683	379	45,062	44,515	543	45,058

The main features of the items listed above are summarised below.

The share capital of the Bank as at 31 December 2014 amounted to 8,725 million euro, divided into 15,846,089,783 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro per share. Each ordinary share gives the right to one vote in the Shareholders' Meeting. Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders. Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in a financial year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference shall be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the total dividend per savings share will be 2% of nominal value higher than for ordinary shares. In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

As at 31 December 2014, Intesa Sanpaolo had 77 million euro of treasury shares (of which 66 million euro within the scope of the banking group).

At the date of this document the share capital was fully paid-in.

The share premium reserve essentially includes the same balance sheet item as the Parent Company, primarily generated by the entries made in accordance with IFRS 3 for the merger between Banca Intesa and Sanpaolo IMI, as well as recognition of a portion of the capital increase completed in June 2011 as share premium.

Reserves amounted to 9,054 million euro and included: legal reserve, statutory or extraordinary reserve, concentration reserves (Law 218 of 30/7/1990, Art. 7, par. 3, and Law 218 of 30/7/1990, Art. 7), consolidation reserve and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year. The statutory or extraordinary reserve was set up as provided for by the Articles of Association by the allocation of residual net income after dividend distribution to ordinary and savings shares. Such reserve also includes unclaimed and forfeited dividends, as provided for by the Articles of Association. Concentration reserves pursuant to Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law. Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

The breakdown of the Group and third party shareholders' equity for the Group's various operating segments is shown in the table below.

Group and third party consolidated shareholders' equity: breakdown by type of company

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total as at 31.12.2014
(millions of euro)					
Share capital	8,998	-	181	-181	8,998
Ordinary shares	8,510	-	181	-181	8,510
Savings shares	488	-	-	-	488
Share premium reserve	27,369	-	-	-	27,369
Reserves	9,093	-809	-339	1,148	9,093
Equity instruments	-	-	-	-	-
(Treasury shares)	-66	-11	-	-	-77
Valuation reserves:	-1,631	618	12	-630	-1,631
Financial assets available for sale	216	618	-	-	834
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-1,365	-	-	-	-1,365
Foreign exchange differences	-760	-	12	-12	-760
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-780	-	-	-	-780
Share of valuation reserves connected with investments carried at equity	708	-	-	-618	90
Legally-required revaluations	350	-	-	-	350
Parent Company's net income (loss) and minority interest	1,310	498	-31	-467	1,310
Shareholders' equity	45,073	296	-177	-130	45,062

The table above indicates the components of shareholders' equity, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to the Banking group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated here at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the Banking group. The columns Netting and adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

In addition to the effect of the distribution in 2014 of a total of 822 million euro, or 0.05 euro per share, from the extraordinary reserve to each Intesa Sanpaolo S.p.A. ordinary and non-convertible savings share, the consolidated shareholders' equity (Group and minority interests) changed over the two periods under review essentially due to the net income for 2014, the performance of valuation reserves and the acquisition of several minority interests. In addition, the shareholders' equity attributable to the Group changed as a result of the share capital increases carried out on 1 December 2014 in the context of the investment plan based on financial instruments designated the "*Leveraged Employee Co-Investment Plan*" ("*Lecoip*"). Certification of the share capital increase was filed with the Turin Company Register on 2 December 2014. On 1 December 2014 a total of 328,923,966 Intesa Sanpaolo ordinary shares were thus issued, carrying regular rights and having a nominal value of 0.52 euro each, resulting in an increase in share capital from 8,553,821,316.56 euro to 8,724,861,778.88 euro.

The breakdown of the different types of valuation reserves and their movements during the year are shown in the tables below.

Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2014		Net reserve
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	
1. Debt securities	831	-358	566	-3	-	-	-566	3	831	-358	473
2. Equities	346	-27	46	-1	-	-	-46	1	346	-27	319
3. Quotas of UCI	77	-23	16	-6	-	-	-16	6	77	-23	54
4. Loans	14	-14	-	-	-	-	-	-	14	-14	-
Total as at 31.12.2014	1,268	-422	628	-10	-	-	-628	10	1,268	-422	846
of which: Financial assets available for sale											834
of which: Share of valuation reserves connected with investments carried at equity											12
Total as at 31.12.2013	913	-542	341	-22	-	-	-341	22	913	-542	371

Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans	TOTAL as at 31.12.2014
1. Initial amount	67	280	26	-2	371
2. Positive fair value differences	922	270	76	3	1,271
2.1 Fair value increases	845	241	66	-	1,152
2.2 Reversal to the income statement of negative reserves	50	25	6	3	84
- impairment	2	25	1	3	31
- disposal	48	-	5	-	53
2.3 Other changes	27	4	4	-	35
3. Negative fair value differences	-516	-231	-48	-1	-796
3.1 Fair value decreases	-220	-181	-27	-1	-429
3.2 Impairment losses	-	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	-252	-20	-18	-	-290
3.4 Other changes	-44	-30	-3	-	-77
4. Closing amount	473	319	54	-	846

The complete terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments are set forth in Attachment 1 to this document. Attachment 2 contains the Transitional Own funds disclosure template provided for in the EBA's instructions.

Quantitative disclosure

Breakdown of Own Funds

The structure of the Intesa Sanpaolo Group's Own funds as at 31 December 2014 is summarised in the table below. As mentioned previously (see the "Introduction" to this document), comparison figures from the previous year, which were calculated according to Basel 2 rules, are not provided. For an illustration of these figures, please see the Pillar 3 Disclosure as at 31 December 2013.

	(millions of euro)
	31.12.2014
A. Common Equity Tier 1 (CET1) before the application of prudential filters	43,067
of which CET1 instruments subject to transitional adjustments	-
B. CET1 prudential filters (+ / -)	-465
C. CET1 before items to be deducted and effects of transitional period (A +/- B)	42,602
D. Items to be deducted from CET 1	-7,842
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional adjustments	1,787
F. Total Common Equity Tier 1 (CET1) (C-D +/-E)	36,547
G. Additional Tier 1 (AT1) before items to be deducted and effects of transitional period	2,131
of which AT1 instruments subject to transitional adjustments	1,640
H. Items to be deducted from AT1	-
I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 pursuant to transitional adjustments	-431
L. Total Additional Tier 1 (AT1) (G - H +/- I)	1,700
M. Tier 2 (T2) before items to be deducted and effects of transitional period	8,354
of which T2 instruments subject to transitional adjustments	1,464
N. Items to be deducted from T2	-178
O. Transitional period - Impact on T2 (+ / -), including instruments issued by subsidiaries and included in T2 pursuant to transitional adjustments	-133
P. Total Tier 2 (T2) (M - N +/- O)	8,043
Q. Total own funds (F + L + P)	46,290

The tables below provide a detailed summary of the various capital levels before regulatory adjustments and transitional regime adjustments, together with the reconciliation between Common Equity Tier 1 and Shareholders' equity. With regard to transitional regime adjustments, note that for the eligibility of:

- grandfathered instruments;
- minority interests;
- unrealised profits or losses on instruments designated at fair value;
- negative amounts resulting from the calculation of expected losses (shortfall reserve);
- IAS 19 filter on valuation reserves for actuarial gains or losses on defined benefit plans;
- other minor captions

the regulations envisage specific treatment allowing gradual entry into force of the rules, to be applied during the transitional period. In this respect, they state specific percentages for deductions and eligibility for Common Equity.

A full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's Own funds and the balance sheet in the financial statements are presented at the end of this section.

Reconciliation of Shareholders' equity and Common Equity Tier 1 capital

(millions of euro)

	31.12.2014
Group Shareholders' equity	44,683
Minority interests	379
Shareholders' equity as per the Balance Sheet	45,062
Dividend to Intesa Sanpaolo shareholders ^(a)	-
Shareholders' equity following distribution to shareholders	45,062
Adjustments for instruments eligible for inclusion in AT1 or T2	
- Capital of savings shares eligible for inclusion in AT1	-485
- Minority interests eligible for inclusion in AT1	-6
- Minority interests eligible for inclusion in T2	-5
- Ineligible minority interests on full phase-in	-322
- Ineligible net income for the period ^(b)	-1,251
- Treasury shares included under regulatory adjustments	63
- Other ineligible components on full phase-in	11
Common Equity Tier 1 capital (CET1) before regulatory adjustments	43,067
Regulatory adjustments (including transitional adjustments)	-6,520
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,547

^(a) Not including the dividend to be distributed in 2015.

^(b) Net income for 2014 is not included in Common equity tier I capital, as conditions envisaged in Art. 26, paragraph 2 of (EU) Regulation 575 of 26 June 2013 (CRR) have not been met for inclusion.

Further details are provided below on the composition of each capital level making up Own funds.

Common Equity Tier 1 (CET1)

	(millions of euro)
	31.12.2014
Common Equity Tier 1 capital (CET1)	
Share capital - ordinary shares	8,240
Share premium reserve	27,349
Reserves ^(a)	9,054
Accumulated other comprehensive income	-1,622
Net income (loss) for the period	1,251
Net income (loss) for the period not eligible ^(b)	-1,251
Dividends to be distributed ^(c)	-
Minority interests	46
Common Equity Tier 1 capital (CET1) before regulatory adjustments	43,067
Common Equity Tier 1 capital (CET1): Regulatory adjustments	
Treasury shares	-63
Goodwill	-4,237
Other intangible assets	-2,861
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-273
Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-112
Defined benefit pension funds assets	-
Prudential filters	-
- of which Cash Flow Hedge Reserve	1,362
- of which Gains or Losses due to changes in own credit risk (DVA)	-39
- of which Prudent valuation adjustments	-169
- of which Other prudential filters	-
CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically, which exceed the threshold of 10% of Common Equity	-
Deductions with 10% threshold ^(d)	-1,619
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-1,619
Deductions with threshold of 15% ^{(e) (f)}	-
Positive or negative elements - other	-296
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-8,307
Total adjustments in the transitional period (CET1)	1,787
Common Equity Tier 1 (CET1) - Total	36,547

^(a) Amount included in CET1.

^(b) In the calculation of Common Equity Tier 1 no account has been taken of profit for 2014, as the eligibility conditions of Art. 26, paragraph 2 of (EU) Regulation 575 of 26 June 2013 (CRR) are not satisfied (audit by independent auditors and authorisation from the supervisory authority).

^(c) Not including the dividend to be distributed in 2015.

^(d) For details of the calculation of the deduction thresholds, refer to the specific table.

^(e) The deductions shown refer only to DTA and Significant investments for which 10% was not deducted.

^(f) The threshold refers to the percentage indicated by the regulations for the transitional period. In 2018 this threshold will be increased to 17.65%.

As already mentioned in the introduction to this disclosure, Art. 26, paragraph 2 of CRR 575/2013 envisages the option of including interim and annual profit for the period in the regulatory capital prior to formal approval by the relevant corporate body (net of the corresponding dividends) only if:

- a) the profit has been verified by the independent auditors;
- b) the bank has proved to the supervisory authority that it has deducted all foreseeable charges and dividends from such profits.

Since Intesa Sanpaolo and most other Group companies approved their draft financial statements after the deadline for submitting reporting flows as at 31 December 2014 to the European bank supervisory authorities, the first of the conditions indicated was not satisfied in that the independent auditors can only issue the report certifying the financial statements after their approval by the relevant corporate body. For this reason, the Common Equity Tier 1 capital (and likewise the capital ratios) do not take into account either the 2014 profit achieved or the related dividends to be distributed, after approval by the Shareholders' Meeting of 27 April 2015.

The “Negative elements – other” mainly include the sterilisation in common equity of deferred tax assets (DTA) associated with tax realignment of a single item of goodwill. Exclusion is gradual. The amount of the filter as at 31 December 2014 is 146 million euro and, based on the Supervisory Provisions, includes the first two years and the amount attributable to the period. The remaining amounts will gradually be eliminated from the calculation of own funds by 31 December 2016.

Additional Tier 1 (AT1)

(millions of euro)	
31.12.2014	
Additional Tier 1 capital (AT1)	
Saving shares	485
Other AT1 instruments	-
Minority interests	6
Additional Tier 1 capital (AT1) before regulatory adjustments	491
Additional Tier 1 capital (AT1): Regulatory adjustments	
AT1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-
AT1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-
Positive or negative items - other	-
Total regulatory adjustments to Additional Tier 1 (AT1)	-
Total adjustments in the transitional period, including minority interests (AT1)	-431
AT1 instruments eligible for grandfathering	1,640
Additional Tier 1 (AT1) - Total	1,700

The details of instruments making up Additional Tier 1 and eligible for grandfathering are provided in the following table.

Additional Tier 1 (AT1) equity instruments eligible for grandfathering

Issuer	Interest rate	S t e p - u p	Issue date	Expiry date	Early redemption as of	C u r r e n c y	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 b.p./year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	593
Intesa Sanpaolo	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	464
Intesa Sanpaolo	9.5% fixed rate	NO	01-Oct-2010	perpetual	01-Jun-2016	Eur	YES	1,000,000,000	383
Intesa Sanpaolo	8.698% up to 24/9/2018 (excluded); thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	200
Total Additional Tier 1 equity instruments									1,640

Tier 2 capital (T2)

	(millions of euro)
	31.12.2014
Tier 2 Capital (T2)	
T2 Instruments	6,885
Minority interests	5
Excess of provisions over expected losses eligible (excess reserve)	-
Tier 2 capital before regulatory adjustments	6,890
Tier 2 Capital (T2): Regulatory adjustments	
T2 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-
T2 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-178
Positive or negative items - other	-
Total regulatory adjustments to Tier 2 (T2)	-178
Total adjustments in the transitional period, including minority interests (T2)	-133
T2 instruments eligible for grandfathering	1,464
Tier 2 Capital (T2) - Total	8,043

Tier 2 (T2) capital decreased compared to 30 September 2014, when it totalled 10,083 million euro, of which 10,385 million euro was attributable to T2 instruments before regulatory adjustments. This decrease reflects not only the natural flow of maturities for outstanding subordinated securities, but also the effects of a more rigorous application of eligibility criteria for several types of securities issued. In particular, it was decided to adopt a prudential approach in line with a narrow interpretation of the regulations for Tier 2 subordinated securities with redemption of principal within five years of the date of issuance, owing in part to the informal indications provided by the Bank of Italy. Specifically, subordinated securities of this kind issued before 31 December 2011 have been grandfathered, whereas only the bond issued after 31 December 2011 was completely excluded from own funds.

The details of instruments making up Tier 2, including those eligible for grandfathering, are provided in the following table. On this subject, it should be noted that:

- during the course of the second quarter of 2014, Intesa Sanpaolo S.p.A. launched a subordinated benchmark Tier 2 bond issue for 2 billion USD exclusively targeting the U.S. and Canadian markets. It is a 10-year, fixed-rate issue under the U.S.D. Medium Term Notes Programme of Intesa Sanpaolo. The coupon, payable semi-annually in arrears on 26 June and 26 December of each year from and including 26 December 2014 up to the maturity date, is equal to 5.017% per annum. The re-offer price was set at 100%. The total spread for the investor is equal to the yield of the 10-year U.S. Treasury Bill plus 240 basis points per annum. The settlement date was 26 June 2014;
- on 8 September Intesa Sanpaolo launched 1 billion euro subordinated Tier 2 benchmark bond on the Euromarket targeting the international markets. It is a 12-year, fixed-rate issue under the Euro Medium Term Notes Programme of Intesa Sanpaolo. The coupon, payable in arrears on 15 September of each year from and including 15 September 2015 up to the maturity date, is equal to 3.928% per annum. The re-offer price was set at 100%. The yield to maturity is equivalent to the 12-year mid-swap rate plus 260 basis points. The settlement date was 15 September 2014.

Tier 2 (T2) equity instruments

Issuer	Interest rate	S t e p - u p	Issue date	Expiry date	Early redemption of	C u r r e n c y	Subject to grandfathering	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	up to 2/3/2015: 3.75% p.a.; subsequently: 3-month Euribor + 0.89% p.a.	YES	02-Mar-2005	02-Mar-2020	02-Mar-2015	Eur	YES	500,000,000	267
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 1.6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	NO	805,400,000	266
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	NO	373,400,000	194
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 1.60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	NO	479,050,000	165
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; then 3-month Euribor + 687 bps/year	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	YES	1,500,000,000	148
Intesa Sanpaolo (*)	up to 20/6/2018 (excluded): 8.047% p.a.; subsequently: 3-month Euribor + 4.10 p.a.	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	YES	1,250,000,000	115
Intesa Sanpaolo (*)	9.5% fixed rate	NO	01-Oct-2010	perpetual	01-Jun-2016	Eur	YES	1,000,000,000	84
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	NO	635,350,000	58
Intesa Sanpaolo (*)	up to 24/9/2018 (excluded): 8.698% p.a.; subsequently: 3-month Euribor + 5.05 p.a.	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	YES	250,000,000	50
Intesa Sanpaolo	4% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	NO	1,096,979,000	32
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	NO	544,546,000	19
Intesa Sanpaolo	interest paid quarterly according to the formula (3-month Euribor + 4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	NO	165,050,000	16
Intesa Sanpaolo	up to 18/3/2019 (excluded): 5.625% p.a.; subsequently: 3-month Sterling LIBOR + 1.125 p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	YES	165,000,000	15
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	NO	415,156,000	15
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	NO	382,401,000	12
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	NO	800,000,000	8
Total Tier 2 instruments subject to transitional provisions									1,464
Intesa Sanpaolo	5.017% fixed rate	NO	26-Jun-2014	26-Jun-2024	NO	Usd	NO	2,000,000,000	1,647
Intesa Sanpaolo	6.663% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	NO	1,445,656,000	1,407
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	NO	1,500,000,000	990
Intesa Sanpaolo	3.928% fixed rate	NO	15-Sep-2014	15-Sep-2026	NO	Eur	NO	1,000,000,000	912
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	NO	1,250,000,000	912
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	NO	1,250,000,000	562
Intesa Sanpaolo	5.75% fixed rate; from 28/05/2013 3-month Euribor + 1.98%	YES	28-May-2008	28-May-2018	NO	Eur	NO	1,000,000,000	171
Intesa Sanpaolo	up to 20/2/2013 (excluded): 3-month Euribor + 0.25% p.a.; subsequently: 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	NO	Eur	NO	750,000,000	93
Intesa Sanpaolo	6.16 % fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	NO	120,000,000	84
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4.375% p.a.; subsequently: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	NO	500,000,000	76
Intesa Sanpaolo	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	NO	30,000,000	15
Intesa Sanpaolo	6.375% fixed rate; from 12/11/2012 3-month Sterling LIBOR	YES	12-Oct-2007	12-Nov-2017	NO	Gbp	NO	250,000,000	3
Intesa Sanpaolo	6.11% fixed rate; from 23/02/2005 97% 30-year Euro Mid-Swap rate	NO	23-Feb-2000	23-Feb-2015	NO	Eur	NO	65,000,000	2
Intesa Sanpaolo	92% 30-year Euro Mid-Swap rate; never less than that of previous coupon	NO	12-Mar-2001	23-Feb-2015	NO	Eur	NO	50,000,000	2
Lower subordinated liabilities issued by other Group companies									9
Total Tier 2 instruments not subject to transitional provisions									6,885
Total Tier 2 instruments									8,349
(*) Instrument subject to grandfathering in the Additional Tier 1 capital, capped portion pursuant to art. 486 of EU Regulation 575/2013 (CRR).									

Deduction limits for DTAs and investments in companies operating in the financial sector

	(millions of euro)
	31.12.2014
A. Threshold of 10% for CET1 instruments of financial sector entities where the institution does not have a significant investment	3,638
B. Threshold of 10% for CET1 instruments of financial sector entities where the institution has a significant investment and for DTA that rely on future profitability and arise from temporary differences	3,638
C. Threshold of 15% for significant investments and DTA not deducted in the threshold described under point B ^(*)	5,457

^(*) The threshold refers to the percentage indicated by the regulations for the transitional period. In 2018 this threshold will be increased to 17.65%.

The regulations envisage that for certain regulatory adjustments, such as those for DTAs based on future income and deriving from temporary differences, and for significant and minor investments in CET1 instruments issued by companies in the financial sector, certain limits or “deductibles” are specified, calculated on Common Equity estimated using different approaches.

For minor investments in CET1 instruments issued by companies in the financial sector the deduction of amounts exceeding 10% of CET1 prior to deductions deriving from exceeding the limits and adjustments during the transitional period is envisaged.

For significant investments in CET1 instruments and DTAs, however, an initial limit on deductions is envisaged, still calculated as 10% of CET1 prior to deductions deriving from exceeding the limits and adjustments during the transitional period, adjusted to take into account any excess over the limit described in the previous point. A further limit is indicated, calculated on 15% of Common Equity adjusted for the above 10% limit, to be applied in aggregate on amounts not deducted using the first limit.

All amounts not deducted are weighted among risk-weighted assets in accordance with the percentages envisaged in the regulations for individual cases.

As mentioned previously, these deductions are introduced gradually through the application of specific transitional rules. In addition to applying deductions with an increasing impact, these rules also envisage different treatment, compared to that applied when fully operative, for amounts not deducted.

Transitional period adjustments

Greater details are provided below on the impact of the transitional regime on the different levels of capital for the period under review.

	Adjustments to CET1			Adjustments to AT1	Adjustments to T2
	Amounts eligible /deductible on full phase-in	Adjustments to CET1	Net effect on CET1 at the date		
Instruments eligible for grandfathering	-	-	-	1,640	1,464
Minority interests	46	142	188	-	-
Other adjustments in the transitional period	840	-840	-	-	-
- of which Unrealised gains on assets measured at fair value	840	-840	-	-	-
- of which Unrealised losses on assets measured at fair value	-	-	-	-	-
Regulatory adjustments	-2,780	2,485	-295	-431	-431
- of which Deferred tax assets that rely on future profitability and do not arise from temporary differences	-273	218	-55	-	-
- of which Negative amounts resulting from the calculation of expected losses (shortfall reserve)	-112	89	-23	-45	-45
- of which IAS 19 Reserves	-776	752	-24	-	-
- of which CET1 instruments of financial sector entities where the institution does not have a significant investment, held directly, indirectly and synthetically	-	-	-	-	-
- of which Deferred tax assets (DTA) that rely on future profitability and arise from temporary differences	-	-	-	-	-
- of which CET1 instruments of financial sector entities where the institution has a significant investment, held directly, indirectly and synthetically	-1,619	1,426	-193	-386	-386
Other filters and adjustments	-	-	-	-	298
Total adjustments in the transitional period and instruments eligible for grandfathering	n.s.	1,787	n.s.	1,209	1,331

Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

ASSETS	Accounting data		Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
	Financial statements scope	Prudential scope		
100. Investments in associates and companies subject to joint control	1,944	6,682	-1,306	8, 19, 41b, 56b
<i>of which: implicit goodwill in associated companies IAS 28-31</i>	341	835	-835	8, 19, 41b, 56b
130. Intangible assets	7,243	6,505	-6,973	8
<i>of which: goodwill</i>	3,899	3,429	-3,899	8
<i>of which: other intangible assets</i>	3,344	3,076	-3,074	8
140. Tax assets	14,431	13,984	-55	10
<i>of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability</i>	273	273	-55	10
LIABILITIES	Accounting data		Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
	Financial statements scope	Prudential scope		
30. Securities issued	123,768	127,176	9,990	33, 46, 47, 52
<i>of which: subordinated instruments subject to transitional arrangements</i>	0	3,104	3,104	33, 47
<i>of which: subordinated instruments not subject to transitional arrangements</i>	0	6,886	6,886	46, 52
80. Tax liabilities	2,323	1,528	215	8
a) Current tax liabilities	662	635	n.d.	
b) Deferred tax liabilities	1,661	893	n.d.	
<i>of which: tax liabilities related to goodwill and other intangible assets</i>	215	215	215	8
140. Valuation reserves	-1,622	-1,622	-51	3, 9, 11, 26a, 56c
<i>of which: valuation reserves on securities available for sale</i>	840	840	297	26a, 56c
<i>of which: valuation reserves on cash flow hedges</i>	-1,362	-1,362	0	11
<i>of which: foreign exchange differences</i>	-674	-674	-674	
<i>of which: legally-required revaluations</i>	350	350	350	
<i>of which: valuation reserves on net actuarial losses</i>	-776	-776	-24	9
<i>of which: other</i>		0	0	
170. Reserves	9,054	9,054	9,054	2
180. Share premium reserve	27,349	27,349	27,349	1
190. Share capital	8,725	8,725	8,725	1, 30
<i>of which: ordinary shares</i>	8,240	8,240	8,240	1
<i>of which: savings shares</i>	485	485	485	30
200. Treasury shares (-)	-74	-74	-63	16
210. Minority interests (+/-)	379	268	199	5, 34, 48
<i>of which CET1 compliant</i>			188	5
<i>of which AT1 compliant</i>			6	34
<i>of which T2 compliant</i>			5	48
220. Net income (loss) for the period (+/-)	1,251	1,251	1,251	5a
<i>of which net income (loss) for the period, net of the dividend in distribution on the net income (loss) for the period</i>			-1,251	5a
OTHER COMPONENTS OF OWN FUNDS			Relevant amount for the purpose of own funds	See table "Transitional own funds disclosure template"
Total other components, of which:			-794	
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities			-39	14
Value adjustments due to the requirements for prudent valuation			-169	7
IRB shortfall of credit risk adjustments to expected losses			-112	12, 41a, 56a
IRB Excess of provisions over expected losses eligible			0	50
Filter on unrealised capital gains on real properties			-34	26
Filter on double tax realignment			-146	26
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment			-178	55
Indirect investments			-116	26
Total own funds as at 31 December 2014			46,290	

Section 4 – Capital requirements

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.

The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:

- Regulatory Capital for Pillar 1 risks;
- overall Economic Capital for Pillar 2 risks, for the ICAAP process.

The Regulatory Capital and the overall Economic Capital differ in terms of their definition and the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent use of internal models for the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints (Basel 3 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The processes of assessment of capital adequacy are therefore based on a “twin track” approach: Regulatory Capital for the purposes of compliance with the Pillar 1 requirements and overall Economic Capital for the purposes of the ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also to run its operations. In this regard, the allocation of capital to the Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the Regulatory Capital and the Economic Capital, in accordance with the criteria of the “use test” established by the supervisory provisions.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.

The first verification occurs in the process of assignment of budget objectives: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are quantified and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.

Compliance with capital adequacy is obtained via various levers, such as pay-out policy, definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of loan policy on the basis of counterparty risk.

This dynamic management approach is aimed at identifying the risk capital raising instruments and hybrid capital instruments most suitable to the achievement of the objectives.

Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.

A further step in the preventive analysis and control of the Group's capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

As emphasised above, the Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk, where capital adequacy, earnings stability, liquidity and a strong reputation are key to protecting current and prospective profitability.

The policies relating to the acceptance of risks are defined by the Supervisory Board and the Management Board of the Parent Company with support from specific operating Committees, the most important of

which is the Control Committee, and from the Group Risk Governance Committee and Chief Risk Officer reporting directly to the Chief Executive Officer. The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management, compliance and legal guidelines and policies in accordance with company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures oversight of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk.

The Economic Capital, defined as the maximum "unexpected" loss that the Group may incur over a period of one year, is a key measure for determining the Group's financial structure and guiding its operations, ensuring the balance between risks assumed and shareholder return.

Consequently, when determining the risk tolerance considered to be acceptable, the Group's objective is to ensure that its liabilities are covered over a period of 12 months with a 99.93% confidence level (in line with the solvency targets for entities with an agency rating of A).

With regard to the objectives of financial stability, the Group's aim is to ensure that risk is covered with a 99.9% confidence level, even under conditions of stress.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in an intricate framework of governance, control limits and procedures.

As presented above in the first section of this document, the risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- financial risk of the trading book, including issuer, position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mainly represented by:
 - o interest rate and foreign exchange rate risk;
 - o risk on equity investments not subject to line by line consolidation;
 - o risk on real estate assets owned for whichever purpose;
- operational risk, also including legal risk, ICT risk and model risk;
- insurance risk;
- strategic risk.

The level of absorption of Economic Capital is estimated on the basis of the current situation and also at a forecast level, on the definition of Risk Appetite approved by the Group, based on the Budget assumptions and the projected economic scenario under ordinary and stress conditions.

The Group's overall risk position as of December 2014 and based on the 2015 budget in terms of overall Economic Capital is defined according to an approach that envisages assessment with a confidence interval of 99.93%, which is consistent with the solvency of parties with A rating, and consideration of the benefits of diversification among the various risk factors.

The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The following graphs illustrate the breakdown of the Group's Economic Capital by Business Unit and by type of risk.

Overall Economic Capital – breakdown by type of risk and by Business Unit



The absorption of Economic Capital by Business Unit reflects the distribution of the Group’s various activities and the specialisations of the business areas.

The majority of risk is concentrated in the Business Unit "Corporate & Investment Banking" (39.2% of the total Economic Capital): this is due to the type of customers served (Corporate and Financial Institutions) and to the main activities (Investment Banking and Capital Market). In fact, a significant portion of credit risk and trading book risk is attributable to this Business Unit, as well as a significant portion of the Banking Book financial risk (mainly equity).

The "Banca dei Territori" Business Unit (36.6% of the total Economic Capital) is the second source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of the credit risk component, as well as operational risk and insurance risk.

The "International Subsidiary Banks" and "Banca Fideuram" Business Units are respectively assigned 7.8% and 2.8% of the total risk, predominantly credit risk.

In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, as well as the Banking Book interest rate risk, specifically in the management of demand positions.

Absorption of Economic Capital by Eurizon Capital is marginal (0.4%) due to the nature of its business, which is predominantly aimed at asset management activities.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the requirements laid down by the Second Pillar, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the corporate bodies – with the figures of the previous years on a consolidated basis. The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2014 and the forecasts as at 31 December 2015, and the final document is due to be sent to the Bank of Italy by 30 April 2015. The results of the ICAAP process have confirmed the soundness of the Group's capital base and that the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

Quantitative disclosure

According to the regulations for the prudential supervision of banks (Bank of Italy Circular 285 of 17 December 2013 and subsequent amendments), which adopt the provisions on capital measurement and capital ratios (Basel 3), the Banking Group's capital must amount to at least 10.5% of total risk-weighted assets (total capital ratio) arising from the risks typically associated with banking and financial activity (credit, counterparty, market, and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risk following insurance coverage.

As already illustrated in the Section on "Own funds", the total regulatory capital is made up of the algebraic sum of the elements specified below:

- Tier 1 capital (capable of absorbing losses under going concern conditions). This capital is divided into Common Equity Tier 1 and Additional Tier 1;
- Tier 2 capital (capable of absorbing losses in the event of a crisis).

The elements indicated above are subject to the following limits:

- Common Equity Tier 1 must at all times be equal to at least 4.5% of risk-weighted assets;
- Tier 1 must at all times be equal to at least 6% of risk-weighted assets;
- Own funds (i.e. the total regulatory capital), equal to Tier 1 plus Tier 2 capital, must at all times be equal to at least 8.0% of risk-weighted assets.

Also, in addition to top-quality capital necessary to satisfy own funds requirements, banks are expected to maintain a capital retention reserve amounting to 2.5% of the bank's total risk exposure. The minimum capital requirements requested from the Intesa Sanpaolo Group from 1 January 2014 equal 7% of the Common Equity Tier 1, including the capital retention reserve equal to 2.5%, 8% of Tier 1 (in view of the 5.5% minimum requirement for 2014 only, rather than 6%) and 10.5% of Tier Total.

The Common Equity Tier 1 ratio requirements set by the ECB as part of the Comprehensive Assessment was 8%.

In this regard, on 26 October the European Central Bank and European Banking Authority communicated the results of the 2014 EU-wide Comprehensive Assessment, the exercise conducted by said authorities on the financial statements of European banks for the year ended 31 December 2013 and consisting of an Asset Quality Review (AQR) and the simulation of the impact of an adverse macroeconomic scenario on capital solidity (Stress Test).

For the Intesa Sanpaolo Group the Common Equity Tier 1 ratio (CET1) that emerged was well above the minimum threshold set by the Comprehensive Assessment.

Lastly, on 25 February 2015 Intesa Sanpaolo received the ECB's final decision regarding the specific capital requirements to be respected at consolidated level. The directors of the Bank do not recognise any difficulties relating to the Intesa Sanpaolo's existing or future ability to respect these requirements, which amount to:

- a Common Equity Tier 1 ratio of 9%, and
- a Total Capital ratio of 11.5%.

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

	Unweighted amounts	31.12.2014 Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS			
A.1 Credit and counterparty risks	521,077	229,873	18,389
1. Standardised approach	227,775	103,830	8,306
2. Internal models (IRB)	2,342	4,903	392
3. Internal models - Advanced approach and retail exposures	286,470	116,701	9,336
4. Securitisations - banking book	4,490	4,439	355
A.2 Credit risk adjustment		1,521	122
A.3 Settlement risk		1	-
A.4 Market risk		16,475	1,318
1. Standardised approach		4,168	333
2. Internal models		12,307	985
A.5 Concentration risk		-	-
A.6 Operational risk		21,157	1,693
1. Basic indicator approach		660	53
2. Standardised approach		3,181	255
3. Advanced measurement approach		17,316	1,385
A.7 Other capital requirements		-	-
A.8 Other calculation elements ^(a)		763	61
A.9 Total capital requirements		269,790	21,583
B. CAPITAL RATIOS (%)			
B.1 Common Equity Tier 1 ratio			13.5%
B.2 Tier 1 ratio			14.2%
B.3 Total capital ratio			17.2%

^(a) In terms of risk-weighted assets, this caption includes the specific additional capital requirements required by the supervisory authorities for individual Group entities.

In the case of the standardised approach, "unweighted amounts" correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, "unweighted amounts" correspond to "exposure at default" (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are included when determining EAD.

As mentioned previously (see the "Introduction" to this document), comparison figures from the previous year, which were calculated according to Basel 2 rules, are not provided. For an illustration of these figures, please see the Pillar 3 Disclosure as at 31 December 2013.

The tables below provide details of the Group's different capital requirements as at 31 December 2014. Additional details, for the "unweighted" amounts, are also shown:

- for the standardised approach and the securitisations subject to the standardised approach in the specific Section (which also shows the amounts of the off-balance sheet transactions before weighting for the credit conversion factors – CCF);
- for the internal models approach (including securitisations) in the specific Section.

With regard to the "weighted" amounts, on the other hand, additional information on securitisations and equity instruments is provided in the Sections specifically dedicated to these types of exposures.

Capital requirement for Credit and Counterparty Risk

The following table breaks capital requirements down between credit risk and counterparty risk.

	(millions of euro)
	Capital requirement
	31.12.2014
Credit risk	17,778
Counterparty risk	611
Total capital requirement for credit and counterparty risk	18,389

Counterparty risk is calculated on both the trading book and the banking book. The relative requirements are presented, for each regulatory portfolio, in the following tables.

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

	(millions of euro)
Regulatory portfolio	Capital requirement
	31.12.2014
Exposures to or secured by central governments and central banks	991
Exposures to or secured by regional governments or local authorities	238
Exposures to or secured by public sector organisations	330
Exposures to or secured by multilateral development banks	-
Exposures to or secured by international organisations	-
Exposures to or secured by supervised institutions	1,074
Exposures to or secured by corporates	1,904
Retail exposures	1,534
Exposures secured by real estate property	156
Default exposures	405
High-risk exposures	60
Exposures in the form of covered bonds	14
Short-term exposures to corporates or to supervised institutions	-
Exposures to UCIs	138
Equity exposures	988
Other exposures	474
Total capital requirement for credit and counterparty risk (Standardised Approach)	8,306

Capital requirement for Credit and Counterparty Risk (IRB Approach)

Regulatory portfolio	(millions of euro) Capital requirement 31.12.2014
A. Exposures to or secured by corporates (FIRB & AIRB Approach)	8,282
A.1) Specialised lending	885
A.2) Specialised lending - slotting criteria	80
A.3) SMEs	2,517
A.4) Other corporates	4,800
B. Retail exposures (IRB Approach)	1,111
B.1) Exposures secured by property: SMEs	75
B.2) Exposures secured by property: natural persons	794
B.3) Other retail exposures: SMEs	242
C. Equity exposures	335
C.1) Equity exposures (Simple risk weight approach)	209
- Private equity exposures in sufficiently diversified portfolios	7
- Exchange-traded equity exposures	46
- Other equity exposures	156
C.2) Equity exposures (PD/LGD approach)	-
C.3) Equity exposures (Exposures subject to fixed weighting factors)	126
Total capital requirement for credit and counterparty risk (IRB Approach)	9,728

Breakdown of Capital requirement for Credit and Counterparty Risk (IRB approaches) - Specialised lending - slotting criteria

Regulatory portfolio	(millions of euro) Capital requirement 31.12.2014
A. Specialised lending - slotting criteria	80
A.1) Category 1 - 50% - 70% greater than or equal to 2.5 years	6
A.2) Category 2 - 70% less than 2.5 years - 90%	23
A.3) Category 3 - 115%	37
A.4) Category 4 - 250%	14
A.5) Category 5 - 0%	-
Total capital requirement for credit and counterparty risk (IRB Approach) - slotting criteria	80

Capital requirement for Credit and Counterparty Risk on securitisations – banking book

Regulatory portfolio	(millions of euro) Capital requirement 31.12.2014
Securitisations - Standardised Approach	215
Securitisations - IRB (Rating Based Approach - Supervisory formula approach)	140
Total capital requirement for credit and counterparty risk on securitisations	355

Capital requirement for Market Risk

	(millions of euro)
	Capital requirement 31.12.2014
Assets included in the regulatory trading book	1,196
Position risk ^(a)	1,196
Other assets	122
Foreign exchange risk	91
Commodity risk	31
Total capital requirement for market risk	1,318

(a) The caption includes capital requirements for exposures to securitisations for 141 million euro.

Capital requirement for Operational Risk

	(millions of euro)
	Capital requirement 31.12.2014
Basic indicator approach	53
Standardised approach	255
Advanced measurement approach	1,385
Total capital requirement for operational risk	1,693

As already noted, almost all the Group companies used the Advanced Measurement Approach (AMA) and – to a lesser extent – the Standardised Approach to determine capital requirements for operational risk. A small remaining number of companies use the Basic Indicator Approach (BIA). For the AMA Approach the requirement is recalculated on a half yearly basis, whereas for the Standardised and the BIA Approaches the requirement is only calculated annually, unless one or more Group companies change approach during the year, by migrating towards more evolved models.

Section 5 - Credit risk adjustments: general disclosure

Qualitative disclosure

Definitions of “non-performing” loans and “past due” loans

Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.

For the classification of non-performing assets in the various risk categories (doubtful loans, substandard loans, restructured loans and exposures past due, in decreasing order of severity), the Group applies regulations issued by the Bank of Italy, consistent with the regulations envisaged by the Basel Accords and IAS/IFRS, supplemented by internal provisions that establish criteria and rules for the transfer of loans to the various risk categories, including via automatic mechanisms (with the exception of doubtful loans).

The information presented in the following chapters, in continuity with the contents of financial statements from previous years relating to financial restructuring transactions and, more generally, the renegotiation of credit exposures, also takes account of the instructions provided by the European Securities and Markets Authority (ESMA) in the document published in December 2012, “Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions.”

In detail, non-performing assets not classified as doubtful loans are subject to an individual measurement process or calculation of the expected loss for homogenous categories (such categories are identified on the basis of the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position.

This measurement is performed upon classification of the assets at the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated in Part A.2 – Accounting Policies, Main financial statement captions, Loans, to which specific reference should be made.

With reference to past due loans, restructured loans and substandard loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, directly at the operating points that handle the accounts, or within peripheral organisational units that perform specialist activities and within the Head Office units, which are responsible for the overall management and coordination of these matters.

On the subject of doubtful loans, it should be remarked that effective from the second half of 2010 the Group adopted an organisational model based on the specialisation of management competencies between internal and external structures, calling for the positions of greatest significance and complexity to be handled internally. In particular, this model calls for:

- the attribution to the Loan Recovery Department of Intesa Sanpaolo Group Services of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks within the Banca dei Territori Division) of customers classified as doubtful effective from July 2010 showing exposures in excess of a pre-determined threshold amount;
- the attribution to Italfondionario S.p.A. (for Intesa Sanpaolo and almost all banks within the Banca dei Territori Division) of direct management – under a specific mandate, and with pre-defined limits – of customers classified as doubtful effective from July 2010 showing exposures below the aforementioned threshold amount (the activity of Italfondionario is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondionario S.p.A. with the management of certain types of loans;
- the retention of management competency, defined according to the previous organisational model, between the Loan Recovery Department and Italfondionario for doubtful loans existing as at 30 June 2010;
- for doubtful positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as doubtful, with some specific exceptions.

The Loan Recovery Department draws on its own specialist units throughout the country to manage

recovery activity 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 have been examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. In order to identify such events rapidly, the information set relative to borrowers is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly controlled.

The activity of Italfondario in managing the loans entrusted to it under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.

Said organisational model was subject to a revision in December 2014, which will be implemented in the first part of 2015. As a result of that revision of the model, the assignment to Italfondario S.p.A. of management of new flows of doubtful loans will be terminated. These loans will substantially be managed by the Group Loan Recovery Department.

The classification of positions within non-performing financial assets and in the relative management systems was 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 loan monitoring and recovery. Assets are also classified as non-performing for financial reporting purposes through automatic mechanisms when given objective default thresholds are exceeded. Such mechanisms apply to past-due loans, identified at the Group level, as well as positions that have met the objective requirements for non-standard status established by the Bank of Italy.

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 aims. Significance is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

The return to performing of exposures classified as substandard, restructured and doubtful, is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the aforementioned structures responsible for their management, upon ascertainment 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 substandard in accordance with internal instructions when automatic mechanisms detect that the conditions that triggered reclassification no longer apply. The overall non-performing loan portfolio is continually monitored through a pre-determined control system, as well as through single name audits conducted by the Credit Quality Monitoring Unit, and periodic managerial reporting.

The definitions of the various categories of "non-performing" loans are set forth below:

Doubtful loans

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank; irrespective, therefore, of whether any (secured or personal) guarantees have been established to cover the exposures. Also included are exposures to Italian local authorities (municipal and provincial) in a state of financial distress for the amount subject to the associated liquidation procedure. Contrary to the Supervisory Authority's instructions, which envisage their classification under substandard loans, these prudentially also include loans to natural persons fully backed by related mortgages for the purpose of purchasing residential properties where such persons reside, where they will reside or which will be leased by the borrower, when the debtor has been notified of encumbrance.

Substandard loans

On- and off-balance sheet exposures to borrowers in a temporary situation of objective difficulty, which may be expected to be remedied within a reasonable period of time. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures. Substandard loans should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to quoted debt securities, unless they meet the conditions for classification as

doubtful loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security. Substandard captions include, in any event (“objective substandard exposures”) exposures other than: a) exposures classified as doubtful; b) exposures included in the “Central Governments and Central Banks”, “Local authorities” and “Public-sector entities” portfolios for the purpose of calculating capital requirements for credit and counterparty risk) which meet both of the following conditions:

- i. they are past due on an ongoing basis:
 - 1) by over 150 days, in the case of exposures related to consumer credit with an original duration of less than 36 months;
 - 2) by over 180 days, in the case of exposures related to consumer credit with an original duration equal to or more than 36 months;
 - 3) by over 270 days, for exposures other than those mentioned in the previous points 1) and 2);
- ii. the total amount of exposures pursuant to the previous line i. and the other portions past due by less than 150, 180 or 270 days (excluding any overdue interest requested from the customer), if the type of exposure past due, from the same borrower, is equal to at least 10 per cent of the entire exposure to said borrower (excluding overdue interest). In order to calculate the denominator, the book value is considered for securities, and the cash exposure for other credit positions; moreover, mortgage loans are not considered in calculating either the numerator or the denominator.

Restructured exposures

On- and off-balance sheet exposures for which a bank (or a pool of banks), as a result of the deterioration of the borrower’s financial situation, agrees to amendments to the original terms and conditions (for example, rescheduling of deadlines, reduction of the debt and/or the interest) that give rise to a loss. These do not include exposures to corporates where the termination of the business is expected (for example in cases of voluntary liquidation or similar situations). The requirements relating to the “deterioration in the borrower’s financial situation” and the presence of a “loss” are assumed to be met when the restructuring involves exposures already classified under the classes of substandard positions or past due exposures. If the restructuring relates to exposures to borrowers classified as “performing” or to unimpaired past due exposures, the requirement relating to the “deterioration in the borrower’s financial situation” is assumed to be met when the restructuring involves a pool of banks. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

Past due exposures

On- and off-balance sheet exposures, other than those classified as doubtful, substandard or restructured exposures that, as at the reporting date, are past due by more than 90 days on a continuous basis. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

European Banking Authority (EBA) provisions concerning the criteria for identifying non-performing exposures (NPEs) and forbearance

The new definitions of “non-performing exposures” (NPEs) and “forbearance” in the Implementing Technical Standards (ITS) published by the EBA on 21 October 2013 are essentially in line with the definitions adopted to date. Accordingly, a material impact is not expected on the non-performing loans aggregate from initial application of the new regulation.

On this subject, it should be noted that on 9 January 2015 the European Commission definitively approved the new regulations proposed by the EBA. Following this measure, the Bank of Italy issued an update to its regulations which modifies the pre-existing breakdown of risk classes of non-performing financial assets, to bring them into line with the new European Community approaches.

The new Bank of Italy provisions enter into effect on 1 January 2015 and require, in extremely short form, the breakdown of non-performing financial assets into three categories: “doubtful loans”, “unlikely to pay” and “non-performing past due exposures”. Therefore, the categories of substandard and restructured exposures are eliminated, as they are effectively included in the unlikely to pay category.

A new category is also established, “exposures subject to concessions – forbearance”, referring to exposures subject to renegotiation due to customer financial difficulties which effectively constitute a subgroup of both non-performing and performing loans, depending on the level of risk of the exposure.

The new regulation will apply from 1 January 2015. Therefore, the financial statements as at 31 December 2014 have been drawn up using the pre-existing definitions.

Description of the methods adopted to calculate the adjustments

At every balance sheet date the financial assets not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subject to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.

A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.

The measurement of impairment is carried out on an individual basis for financial assets which present specific evidence of losses and collectively for financial assets for which individual measurement is not required or which do not lead to adjustments. Collective measurement is based on the identification of portfolios of financial assets with the same risk characteristics with respect to the borrower/issuer, the economic sector, the geographical area, the presence of any guarantees and other relevant factors.

Specifically, loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include doubtful loans, substandard, restructured or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS regulations.

Three different cases of restructuring of credit exposures may be identified:

- proper restructurings (as defined in Bank of Italy Circular 272);
- renegotiations;
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

In accordance with the Bank of Italy regulations, debt (credit exposure) restructuring is defined as a transaction whereby the bank, for economic reasons, makes a concession to the debtor, in consideration of the financial difficulties experienced by the debtor, which concession the bank otherwise would not have made and which results in a loss for the creditor. The bank's concession essentially consists of a waiver of certain of its contractually defined rights, which translates into an immediate or deferred benefit for the debtor, which derives an advantage from such waiver, and in a corresponding loss for the bank. The effects of such waiver are measured by the decrease (increase) in the economic value of the loan (debt) compared to the carrying amount of the loan (debt) prior to restructuring.

Relationships that fall into this category are classified among non-performing loans.

The renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, when it is due to commercial reasons other than the deterioration in the borrower's financial situation, provided that the interest rate applied is a market rate at the renegotiation date.

As an alternative to the scenarios outlined above (restructurings and renegotiations), the bank and debtor may agree on the discharge of the original debt through:

- novation or assumption by another debtor (assignment with release);
- substantial modification of the nature of the contract involving a debt-equity swap.

Such events, since they entail a substantial modification of the contractual terms, from an accounting standpoint result in the extinguishment of the previous relationship and the ensuing recognition of the new relationship at fair value, with the recognition in the income statement of a gain or loss equal to the difference between the book value of the former loan and the fair value of the assets received.

Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.

The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.

The adjustment is recorded in the income statement.

The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment include time value effects.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence. Collective adjustments are recorded in the income statement.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained Basel 3 regulation. In particular, the parameters of the calculation model set out in the supervisory provisions, namely, Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months for counterparties who are natural persons. This reduction is based on a statistically significant sample of mortgages which showed an average period of six months between the first missed payment and the classification as default. Conversely, for the Corporate and SME Retail segments, the time period of a year is increased by 10%. Lastly, the time period of a year is decreased by 30% for the factoring segment, in order to take into account certain specific characteristics related to the activity of acquiring short-term trade receivables.

The allocation also takes into account corrective factors such as the state of the economic cycle and the concentration of credit risks towards persons who have a significant exposure to the Group.

As required under IFRS, financial assets available for sale are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The Intesa Sanpaolo Group's policy for managing impairment testing calls for the verification of the presence of impairment indicators and the determination of any losses.

The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.

Within the first category, the following indicators are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the initial recognition value, a fair value reduction of over 30% is considered "significant", and a continuous reduction of over 24 months is considered a "prolonged" reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

The amount of the impairment is calculated with reference to the fair value of the financial asset.

For an illustration of the valuation techniques used to determine fair value, see the relevant Section (see Market risks).

Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, determined applying the same criteria set out above with respect to loans, are recorded under Other liabilities, as set out by Bank of Italy instructions.

Quantitative disclosure

As required by the regulations, the information in this Section is furnished solely with respect to the banking group, as defined in the Supervisory Instructions.

The tables that refer to the banking group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes. The values of transactions with entities not included in the banking group, recorded in the consolidated financial statements alone pursuant to IAS/IFRS, were not netted.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

(millions of euro)			
Assets	31.12.2014 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group (*)	31.12.2014 Regulatory- scope balance sheet
10. Cash and cash equivalents	6,631	-	6,631
20. Financial assets held for trading	53,741	-769	52,972
30. Financial assets designated at fair value through profit and loss	43,863	-42,437	1,426
40. Financial assets available for sale	124,150	-71,604	52,546
50. Investments held to maturity	1,471	-	1,471
60. Due from banks	31,372	-816	30,556
70. Loans to customers	339,105	2,660	341,765
80. Hedging derivatives	9,210	-2	9,208
90. Fair value change of financial assets in hedged portfolios (+/-)	59	-	59
100. Investments in associates and companies subject to joint control	1,944	4,738	6,682
110. Technical insurance reserves reassured with third parties	27	-27	-
120. Property and equipment	4,884	-55	4,829
130. Intangible assets	7,243	-738	6,505
<i>of which: goodwill</i>	3,899	-470	3,429
140. Tax assets	14,431	-447	13,984
150. Non-current assets held for sale and discontinued operations	229	-	229
160. Other assets	8,067	-2,577	5,490
Total Assets	646,427	-112,074	534,353
Liabilities and Shareholders' Equity	31.12.2014 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group	31.12.2014 Regulatory- scope balance sheet
10. Due to banks	51,495	26	51,521
20. Due to customers	230,738	4,622	235,360
30. Securities issued	123,768	3,408	127,176
40. Financial liabilities held for trading	46,376	-145	46,231
50. Financial liabilities designated at fair value through profit and loss	37,622	-37,622	-
60. Hedging derivatives	10,300	-53	10,247
70. Fair value change of financial liabilities in hedged portfolios (+/-)	1,449	-	1,449
80. Tax liabilities	2,323	-795	1,528
<i>a) current</i>	662	-27	635
<i>b) deferred</i>	1,661	-768	893
90. Liabilities associated with non-current assets held for sale and discontinued operations	201	-	201
100. Other liabilities	12,119	-1,680	10,439
110. Employee termination indemnities	1,480	-5	1,475
120. Allowances for risks and charges	3,793	-18	3,775
<i>a) post employment benefits</i>	1,167	-1	1,166
<i>b) other allowances</i>	2,626	-17	2,609
130. Technical reserves	79,701	-79,701	-
140. Valuation reserves	-1,622	-	-1,622
150. Redeemable shares	-	-	-
160. Equity instruments	-	-	-
170. Reserves	9,054	-	9,054
180. Share premium reserve	27,349	-	27,349
190. Share capital	8,725	-	8,725
200. Treasury shares (-)	-74	-	-74
210. Minority interests (+/-)	379	-111	268
220. Net income (loss)	1,251	-	1,251
Total Liabilities and Shareholders' Equity	646,427	-112,074	534,353

(*) The effects are attributable to:

- deconsolidation of companies that are not part of the Banking Group;
- proportional consolidation of the jointly controlled companies that are consolidated at equity in the financial statements.

The tables below show the Gross credit exposures - total and average - and the related adjustments broken down by risk class, geographical area, counterparty category and residual maturity, together with the adjustments made during the period. The figures represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

“On-balance sheet exposures” include all on-balance sheet financial assets claimed from banks and customers, irrespective of their portfolio of IAS/IFRS allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal. An exception is represented by equity exposures which, consistently with the Annual Report (Part E of the Notes to the financial statements – Credit risk) regulated by Circular 262 of the Bank of Italy, are excluded from this disclosure. Equity exposures included in the banking book are detailed in the specific section of this document. In compliance with the provisions already referred to, the units of UCI are included only under the Residual maturity table.

“Off-balance sheet exposures” include all financial activities that are not on the balance sheet (guarantees given, Irrevocable commitments to lend funds, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with SFTs (securities financing transactions) defined in prudential regulations.

The following table presents such exposures by risk class and IAS/IFRS portfolio, also including in the “Financial assets held for trading” portfolio derivatives positions not already classified to the Hedging derivatives portfolio.

Overall credit exposure by risk class ^(*)

Portfolios/category	(millions of euro)					
	Doubtful loans		Substandard loans		Restructured exposures	
	Gross	Net	Gross	Net	Gross	Net
1. Financial assets held for trading	5	4	429	373	62	49
2. Financial assets available for sale	33	2	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	31	18	14	8	-	-
5. Loans to customers	38,044	14,179	20,286	15,485	3,091	2,546
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets under disposal	167	58	28	20	-	-
8. Hedging derivatives	-	-	-	-	-	-
TOTAL - 31.12.2014	38,280	14,261	20,757	15,886	3,153	2,595
TOTAL - 31.12.2013	34,688	12,999	18,224	13,981	2,771	2,349

Portfolios/category	Past due exposures		Other exposures		Total	
	Gross	Net	Gross	Net	Gross	Net
1. Financial assets held for trading	36	35	50,487	50,487	51,019	50,948
2. Financial assets available for sale	-	-	46,793	46,793	46,826	46,795
3. Investments held to maturity	-	-	1,471	1,471	1,471	1,471
4. Due from banks	-	-	30,566	30,530	30,611	30,556
5. Loans to customers	1,468	1,252	310,651	308,252	373,540	341,714
6. Financial assets designated at fair value through profit and loss	-	-	1,248	1,248	1,248	1,248
7. Financial assets under disposal	4	1	93	92	292	171
8. Hedging derivatives	-	-	9,208	9,208	9,208	9,208
TOTAL - 31.12.2014	1,508	1,288	450,517	448,081	514,215	482,111
TOTAL - 31.12.2013	2,244	1,969	455,594	453,125	513,521	484,423

(*) This table provides figures pertaining exclusively to the Banking Group.

The disclosures provided in the Notes to the Consolidated financial statements (Part E: Section 1 – Credit quality) include additional information concerning exposures subject to renegotiation as part of collective agreements (e.g., the Framework Agreement between the Italian Banking Association and Ministry of the Economy and Finance) and renegotiated exposures granted by individual banks to customers in financial difficulty. An ageing analysis of past-due exposures not considered non-performing is also provided in the Notes for these categories, which are classified among performing loans.

Credit exposures by geographical area to customers and banks

Credit exposures by geographical area – customers ^(*)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	13,007	-21,428	1,216	-2,360	3	-35	2	-29	11	-154
A.2. Substandard loans	14,328	-4,348	1,052	-388	57	-36	13	-1	55	-36
A.3. Restructured exposures	2,034	-414	278	-111	-	-	149	-6	85	-14
A.4. Non-performing past due exposures	1,180	-178	58	-37	34	-	6	-1	9	-2
A.5. Other exposures	285,051	-1,776	64,163	-496	7,939	-32	3,659	-23	4,396	-74
Total A	315,600	-28,144	66,767	-3,392	8,033	-103	3,829	-60	4,556	-280
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	165	-82	39	-27	-	-	-	-1	4	-14
B.2. Substandard loans	1,291	-84	51	-16	9	-2	-	-1	3	-
B.3. Other non-performing assets	243	-73	6	-2	-	-	-	-	1	-
B.4. Other exposures	49,173	-102	43,226	-106	12,625	-18	1,144	-2	540	-5
Total B	50,872	-341	43,322	-151	12,634	-20	1,144	-4	548	-19
TOTAL (A+B) 31.12.2014	366,472	-28,485	110,089	-3,543	20,667	-123	4,973	-64	5,104	-299
TOTAL 31.12.2013	397,075	-25,395	100,739	-3,649	20,617	-73	3,456	-59	4,513	-276

^(*) This table provides figures pertaining exclusively to the Banking Group.

Credit exposures by geographical area – banks ^(*)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	18	-7	-	-6	-	-	-	-	-	-
A.2. Substandard loans	-	-	-	-	-	-	8	-6	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.5. Other exposures	6,835	-3	22,043	-22	2,074	-7	5,008	-4	1,397	-
Total A	6,853	-10	22,043	-28	2,074	-7	5,016	-10	1,397	-
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	1	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Other exposures	2,403	-5	41,438	-14	8,709	-3	2,725	-19	493	-9
Total B	2,403	-5	41,438	-14	8,709	-3	2,726	-19	493	-9
TOTAL (A+B) 31.12.2014	9,256	-15	63,481	-42	10,783	-10	7,742	-29	1,890	-9
TOTAL 31.12.2013	10,148	-18	78,935	-82	6,072	-3	6,312	-27	1,919	-10

^(*) This table provides figures pertaining exclusively to the Banking Group.

Credit exposures and adjustments to customers by counterparty ^(*)

(millions of euro)

	GOVERNMENTS			OTHER PUBLIC ENTITIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	2	-9	X	192	-70	X
A.2. Substandard loans	2	-1	X	147	-33	X
A.3. Restructured exposures	-	-	X	-	-	X
A.4. Non-performing past due exposures	36	-	X	2	-	X
A.5. Other exposures	64,321	X	-12	16,953	X	-51
Total A	64,361	-10	-12	17,294	-103	-51
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	-	-	X	-	-	X
B.2. Substandard loans	-	-	X	13	-2	X
B.3. Other non-performing assets	-	-	X	-	-	X
B.4. Other exposures	4,811	X	-	1,505	X	-1
Total B	4,811	-	-	1,518	-2	-1
TOTAL - 31.12.2014	69,172	-10	-12	18,812	-105	-52
TOTAL - 31.12.2013	80,513	-10	-5	20,385	-92	-54

	FINANCIAL INSTITUTIONS			INSURANCE COMPANIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	178	-571	X	-	-	X
A.2. Substandard loans	628	-214	X	-	-	X
A.3. Restructured exposures	110	-14	X	-	-	X
A.4. Non-performing past due exposures	27	-5	X	-	-	X
A.5. Other exposures	38,651	X	-134	2,396	X	-
Total A	39,594	-804	-134	2,396	-	-
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	2	-1	X	-	-	X
B.2. Substandard loans	18	-2	X	-	-	X
B.3. Other non-performing assets	-	-22	X	-	-	X
B.4. Other exposures	26,807	X	-10	692	X	-
Total B	26,827	-25	-10	692	-	-
TOTAL - 31.12.2014	66,421	-829	-144	3,088	-	-
TOTAL - 31.12.2013	64,129	-533	-104	3,446	-	-3

	NON-FINANCIAL COMPANIES			OTHER COUNTERPARTIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	11,622	-20,477	X	2,245	-2,879	X
A.2. Substandard loans	13,200	-3,918	X	1,528	-643	X
A.3. Restructured exposures	2,420	-522	X	16	-9	X
A.4. Non-performing past due exposures	1,019	-141	X	203	-72	X
A.5. Other exposures	162,972	X	-1,877	79,915	X	-327
Total A	191,233	-25,058	-1,877	83,907	-3,603	-327
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	199	-108	X	6	-15	X
B.2. Substandard loans	1,317	-100	X	6	-	X
B.3. Other non-performing assets	249	-52	X	2	-	X
B.4. Other exposures	71,291	X	-190	1,602	X	-32
Total B	73,056	-260	-190	1,616	-15	-32
TOTAL - 31.12.2014	264,289	-25,318	-2,067	85,523	-3,618	-359
TOTAL - 31.12.2013	270,526	-22,591	-2,131	87,401	-3,575	-354

(*) This table provides figures pertaining exclusively to the Banking Group.

The above table presenting “Credit exposures and adjustments to customers by counterparty” includes exposures to SMEs totalling (on- and off-balance sheet exposures, net of adjustments) 118,753 million euro.

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

Credit exposures by residual contractual maturity ^(*)

	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
ON-BALANCE SHEET EXPOSURES	73,977	17,954	10,623	13,048	30,159	22,420	34,630	121,352	114,663	2,773
A.1 Government bonds	14	55	55	232	1,830	4,369	7,830	23,814	14,885	32
A.2 Other debt securities	61	76	1,191	1,108	689	444	1,163	9,169	10,127	3
A.3 Quotas of UCI	2,352	-	-	-	-	-	-	-	-	-
A.4 Loans	71,550	17,823	9,377	11,708	27,640	17,607	25,637	88,369	89,651	2,738
- Banks	12,889	4,162	1,216	1,635	2,851	2,256	1,177	958	116	2,693
- Customers	58,661	13,661	8,161	10,073	24,789	15,351	24,460	87,411	89,535	45
OFF-BALANCE SHEET EXPOSURES	110,923	41,936	17,822	31,470	50,903	26,892	33,112	98,963	45,887	30
B.1 Financial derivatives with exchange of capital										
- Long positions	725	17,150	8,700	15,387	23,390	9,662	13,318	27,535	19,230	13
- Short positions	1,176	17,497	8,797	15,493	22,051	9,926	13,920	26,710	18,864	13
B.2 Financial derivatives without exchange of capital										
- Long positions	37,196	65	8	183	325	262	444	1,177	288	-
- Short positions	38,408	64	8	127	203	254	437	1,205	269	-
B.3 Irrevocable commitments to lend funds										
- Long positions	212	4,983	300	150	440	1,201	1,350	21,301	2,708	1
- Short positions	30,755	2,169	8	122	130	231	293	304	824	2
B.4 Financial guarantees given	125	8	1	8	46	48	36	149	256	1
B.5 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	2,159	2,654	1,657	10,291	1,724	-
- Short positions	-	-	-	-	2,159	2,654	1,657	10,291	1,724	-
B.6 Credit derivatives without exchange of capital										
- Long positions	1,160	-	-	-	-	-	-	-	-	-
- Short positions	1,166	-	-	-	-	-	-	-	-	-
TOTAL AS AT 31.12.2014	184,900	59,890	28,445	44,518	81,062	49,312	67,742	220,315	160,550	2,803
TOTAL AS AT 31.12.2013	162,314	65,059	34,250	45,991	84,091	56,788	73,438	249,925	138,743	2,916

^(*) This table provides figures pertaining exclusively to the Banking Group.

The following tables present value adjustments recognised in the income statement and include both specific adjustments to non-performing positions and collective adjustments to performing positions.

Net adjustments for on-balance sheet exposures: breakdown
Due from banks and Loans to customers ^(*)

	(millions of euro)			
	Impairment losses	Recoveries	2014	2013
A. Due from banks	-23	14	-9	-11
- Loans	-21	14	-7	-11
- Debt securities	-2	-	-2	-
B. Loans to customers	-6,299	2,206	-4,093	-6,585
Non-performing loans purchased	-40	20	-20	-17
- Loans	-40	20	-20	-17
- Debt securities	-	-	-	-
Other	-6,259	2,186	-4,073	-6,568
- Loans	-6,221	2,172	-4,049	-6,544
- Debt securities	-38	14	-24	-24
C. Total	-6,322	2,220	-4,102	-6,596

^(*) This table provides figures pertaining exclusively to the Banking Group.

Financial assets available for sale ^(*)

	Impairment losses	Recoveries	2014	2013
(millions of euro)				
A. Debt securities	-2	-	-2	-2
B. Due from banks	-6	-	-6	-
C. Loans to customers	-	-	-	-
F. Total	-8	-	-8	-2

^(*)This table provides figures pertaining exclusively to the Banking Group.

Net adjustments for off-balance sheet exposures: breakdown(*)

	Impairment losses	Recoveries	2014	2013
(millions of euro)				
A. Guarantees given	-108	89	-19	-108
B. Credit derivatives	-	2	2	-
C. Commitments to lend funds	-33	28	-5	-1
D. Other operations	-12	12	-	-3
E. Total	-153	131	-22	-112

^(*)This table provides figures pertaining exclusively to the Banking Group.

Changes in adjustments relating to non-performing on-balance sheet exposures to customers and banks
Changes in adjustments relating to non-performing on-balance sheet exposures to customers as at 31 December 2014 ^(*)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
(millions of euro)				
A. Initial total adjustments	21,635	4,178	413	274
B. Increases	5,424	3,567	439	544
B.1 impairment losses	2,875	2,414	146	388
B.1bis losses on disposal	30	19	1	-
B.2 transfers from other non-performing exposure categories	1,597	719	261	22
B.3 other increases	922	415	31	134
B.4 business combinations	-	-	-	-
C. Decreases	-3,053	-2,936	-307	-600
C.1 recoveries on impairment losses	-854	-533	-60	-68
C.2 recoveries on repayments	-242	-96	-15	-8
C.2bis profits on disposal	-15	-9	-	-
C.3 write-offs	-1,115	-330	-20	-3
C.4 transfers to other non-performing exposure categories	-144	-1,809	-152	-494
C.5 other decreases	-683	-159	-60	-27
C.6 business combinations	-	-	-	-
D. Final total adjustments	24,006	4,809	545	218

^(*)This table provides figures pertaining exclusively to the Banking Group.

Changes in adjustments relating to non-performing on-balance sheet exposures to banks as at 31 December 2014 ^(*)

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	49	6	-	-
B. Increases	-	-	-	-
B.1 impairment losses	-	-	-	-
B.1bis losses on disposal	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	-36	-	-	-
C.1 recoveries on impairment losses	-3	-	-	-
C.2 recoveries on repayments	-	-	-	-
C.2bis profits on disposal	-4	-	-	-
C.3 write-offs	-6	-	-	-
C.4 transfers to other non-performing exposure categories	-	-	-	-
C.5 other decreases	-23	-	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	13	6	-	-

^(*) This table provides figures pertaining exclusively to the Banking Group.

Section 6 - Credit risk: disclosure for portfolios subject to the standardised approach

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting: Standard & Poor's ratings Services, Moody's Investors Service, and Fitch Ratings. These agencies are valid for all Group banks.

When determining the capital requirements, if there are two ratings for the same customer, the most prudential of the two is used, and when three ratings are available the middle rating is adopted.

List of the external Rating Agencies

Portfolio	ECA/ECAI		
Exposures to or secured by governments and central banks ^(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Exposures to or secured by international organisations ^(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Exposures to or secured by multilateral development banks ^(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Exposures to or secured by corporates and other entities ^(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Exposures to UCI ^(*)	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Position on securitisations with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services
Position on securitisations different from those with short-term rating	Fitch Ratings	Moody's Investors Service	Standard & Poor's Rating Services

^(*) Ratings characteristics: solicited/unsolicited.

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with Regulation (EU) no. 575/2013 (CRR), the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation. The risk weighting assigned to the exposures has been determined, in general for the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Regulation are met, through the use of the issuer rating. The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

Quantitative disclosure

The quantitative disclosures in this Section complement those provided in the section on Risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

- amount of on- and off-balance exposures, “without” the risk mitigation, which does not take into account the decrease in exposure arising from application of collateral and guarantees; in the case of guarantees, which transfer risk in respect of the guaranteed portion, reference is made to the guarantor’s regulatory portfolios and weightings, while as to the residual exposure, reference is made to the guaranteed party’s information;
- amount of the same exposures “with” the risk mitigation effect, i.e. net of the guarantees mentioned in the previous point. The difference between exposures “with” and “without” credit risk mitigation thus represents the amount of approved guarantees, disclosed in the section on Risk mitigation techniques.

The above information is listed in the “with” and “without” credit risk mitigation columns and associated with the risk weightings defined by the current Prudential Supervisory regulations.

The exposures listed in the columns “Exposures with credit risk mitigation” and “Exposures without credit risk mitigation” also contain the off-balance sheet exposures in relation to guarantees and commitments (including the margins available on lines of credit) without the application of the credit conversion factors (CCF) required by the prudential regulations. The off-balance sheet exposures in relation to guarantees and commitments are disclosed side by side with the counterparty weighting factor.

Please note that exposures backed by collateral - whose exposure level is reduced due to the application of the comprehensive method as provided for by applicable regulations - are conventionally represented side by side with 0% weighting in the table “Exposures without credit risk mitigation”.

The column “Exposures deducted from regulatory capital” reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Own funds).

Breakdown of exposures: standardised approach

(millions of euro)

Regulatory portfolio	31.12.2014		
	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by central governments and central banks	90,637	96,042	X
Exposures to or secured by regional governments or local authorities	17,137	17,562	X
Exposures to or secured by public sector organisations	7,657	7,676	X
Exposures to or secured by multilateral development banks	2,617	2,620	X
Exposures to or secured by international organisations	91	91	X
Exposures to or secured by supervised institutions	66,695	105,817	X
Exposures to or secured by corporates and other entities	33,814	40,007	X
Retail exposures	31,811	33,331	X
Exposures secured by real estate property	4,901	4,902	X
Exposures in default	4,407	4,528	X
High-risk exposures	503	503	X
Exposures in the form of covered bonds	960	960	X
Short-term exposures to corporates and other entities or supervised institutions	1	1	X
Exposures to UCI	2,100	2,269	X
Equity exposures	7,876	7,876	X
Other exposures	11,967	11,967	X
Securitisations (*)	1,669	1,669	X
Total credit risk	284,843	337,821	1,315

(*) Further information on securitisations is contained in the section "Securitisations".

For certain regulatory portfolios (Exposures to or secured by corporates, Retail exposures and Exposures secured by real estate property), the Group uses the standardised approach to a lesser extent, as it obtained authorisation to use the IRB approaches. For information on the different scope of companies which the IRB approaches are applied to, see the information in the specific Section.

The exposure value shown in the tables of this section is stated net of adjustments.

Further details on the amounts of exposures with or without credit risk mitigation are provided in the two following tables.

Breakdown of exposures by credit quality step and by exposure class: standardised approach – exposures “with” credit risk mitigation

(millions of euro)

Regulatory portfolio	31.12.2014												TOTAL
	0%	2%	10%	20%	35%	50%	75%	100%	150%	200%	250%	Other	
Exposures to or secured by central governments and central banks	79,456	X	X	43	X	454	X	9,646	33	X	1,005	-	90,637
Exposures to or secured by regional governments or local authorities	41	X	X	16,761	X	157	X	178	-	X	X	X	17,137
Exposures to or secured by public sector organisations	51	X	X	37	X	53	X	7,516	-	X	X	X	7,657
Exposures to or secured by multilateral development banks	2,612	X	X	-	X	5	X	-	-	X	X	X	2,617
Exposures to or secured by international organisations	91	X	X	X	X	X	X	X	X	X	X	X	91
Exposures to or secured by supervised institutions	62	2,244	X	28,833	X	24,518	X	10,657	381	X	X	X	66,695
Exposures to or secured by corporates and other entities	-	457	X	1,107	X	914	X	31,211	125	X	X	X	33,814
Retail exposures	-	X	X	X	X	X	31,811	X	X	X	X	X	31,811
Exposures secured by real estate property	X	X	X	X	2,280	2,621	X	X	X	X	X	X	4,901
Exposures in default	-	X	X	X	X	-	X	2,610	1,797	X	X	X	4,407
High-risk exposures	X	X	X	X	X	X	X	-	503	-	X	X	503
Exposures in the form of covered bonds	X	X	375	540	X	45	X	-	X	X	X	X	960
Short-term exposures to corporates and other entities or supervised institutions	-	X	X	1	X	-	X	-	-	X	X	X	1
Exposures to UCI	-	X	X	-	X	84	X	1,780	42	X	X	194	2,100
Equity exposures	-	X	-	-	-	-	-	4,891	-	-	2,985	-	7,876
Other exposures	3,921	X	X	2,652	X	X	X	5,393	1	X	X	X	11,967
Securitisations	X	X	X	X	X	X	X	X	X	X	X	X	1,669
Total credit risk 31.12.2014 (*)	86,234	2,701	375	49,974	2,280	28,851	31,811	73,882	2,882	-	3,990	194	284,843

(*) Total credit risk includes Securitisations.

Breakdown of exposures by credit quality step and by exposure class: standardised approach – exposures “without” credit risk mitigation

(millions of euro)

Regulatory portfolio	31.12.2014												TOTAL
	0%	2%	10%	20%	35%	50%	75%	100%	150%	200%	250%	Other	
Exposures to or secured by central governments and central banks	84,764	X	X	59	X	513	X	9,668	33	X	1,005	-	96,042
Exposures to or secured by regional governments or local authorities	41	X	X	17,162	X	157	X	202	-	X	X	X	17,562
Exposures to or secured by public sector organisations	61	X	X	37	X	55	X	7,523	-	X	X	X	7,676
Exposures to or secured by multilateral development banks	2,615	X	X	-	X	5	X	-	-	X	X	X	2,620
Exposures to or secured by international organisations	91	X	X	X	X	X	X	X	X	X	X	X	91
Exposures to or secured by supervised institutions	38,299	2,244	X	28,860	X	25,081	X	10,952	381	X	X	X	105,817
Exposures to or secured by corporates and other entities	6,100	457	X	1,107	X	955	X	31,263	125	X	X	X	40,007
Retail exposures	1,520	X	X	X	X	X	31,811	X	X	X	X	X	33,331
Exposures secured by real estate property	1	X	X	X	2,280	2,621	X	X	X	X	X	X	4,902
Exposures in default	121	X	X	X	X	-	X	2,610	1,797	X	X	X	4,528
High-risk exposures	X	X	X	X	X	X	X	-	503	-	X	X	503
Exposures in the form of covered bonds	X	X	375	540	X	45	X	-	X	X	X	X	960
Short-term exposures to corporates and other entities or supervised institutions	-	X	X	1	X	-	X	-	-	X	X	X	1
Exposures to UCI	169	X	X	-	-	84	X	1,780	42	X	-	194	2,269
Equity exposures	-	X	-	-	-	-	-	4,891	-	-	2,985	-	7,876
Other exposures	3,921	X	X	2,652	X	X	X	5,393	1	X	X	X	11,967
Securitisations	X	X	X	X	X	X	X	X	X	X	X	X	1,669
Total credit risk 31.12.2014 (*)	137,703	2,701	375	50,418	2,280	29,516	31,811	74,282	2,882	-	3,990	194	337,821

(*) Total credit risk includes Securitisations.

Section 7 - Credit risk: disclosures for portfolios subject to IRB approaches

Qualitative disclosure

Credit risk – disclosures for portfolios treated under IRB approaches

The rollout plan for the internal models

The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn divided into a Foundation Internal Rating Based (FIRB) approach and an Advanced Internal Rating Based (AIRB) approach that differ in the risk parameters that banks are required to estimate. Under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach the latter are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As illustrated in the first Section of this document (“Basel 3 regulations and the Internal Project” paragraph), the development of the rating models for the various segments and the extension of the scope of companies for their application are continuing in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:

- exposures to central governments and banks;
- exposures to the banking Group;
- exposures to minor operational units;
- non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the Corporate segment and the Residential Mortgages segment

Structure of the internal rating systems (PD)

The main features of the rating systems used are as follows:

- the rating is determined at counterparty level;
- the rating is based at Group level, and is the same for each counterparty, even when it is shared by several entities of the Group;
- the definition of default used corresponds to substandard, doubtful and past due loans (see Section 5), also taking into account the cure rate (return to performing) for the technical substandard loans, and is the same across the Group and within its various uses (development, backtesting, disclosure, etc.);
- the data used for the estimate relate as far as possible to the entire Group; where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
- the length of the historical series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the Group for the future;
- the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;

- within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. turnover, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
- the models incorporate financial, behavioural and qualitative components. With regard to the Corporate segment, the manager must also provide an independent assessment of the counterparty's creditworthiness and if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;
- the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

The output PD of the models is mapped on the internal Master Scale, which is broken down into a different number of classes depending on the model type.

The table below illustrates the correspondence between the (n) internal rating classes and the ratings by the major agencies: Standard & Poor's ratings Services, Moody's Investors Service, and Fitch Ratings. As indicated in the table, compared to the counterparties rated with Large Corporate Italia and International Corporate models where there is full correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on Rating and, therefore, on their reported PD.

Correspondence between internal rating classes and ratings by the major external Rating Agencies

	External Agency Rating			Corporate International and Italian rated	Corporate Italia	Specialised Lending	Sme Retail	Mortgages
	S&P's	Moody's	Fitch					
AAA	Aaa	AAA		I.1.A	-	-	-	-
AA+	Aa1	AA+		I.1.B	-	-	-	-
AA	Aa2	AA		I.1.C	-	-	-	-
AA-	Aa3	AA-		I.1.D	-	-	-	-
A+	A1	A+		I.1.E	-	-	-	-
A	A2	A		I.1.F	I1	-	-	MT1
A-	A3	A-		I2	I2	-	-	-
				I3	I3	-	I3	MT2
BBB+	Baa1	BBB+		I4	I4	I4	I4	MT3
				I5	I5	I5	I5	-
BBB	Baa2	BBB		I6	I6	I6	I6	MT4
BBB-	Baa3	BBB-		M1	M1	M1	M1	MT5
				M2	M2	M2	M2	-
BB+	Ba1	BB+		M3	M3	M3	M3	MT6
BB	Ba2	BB		M4	M4	M4	M4	MT7
BB-	Ba3	BB-		R1	R1	R1	R1	MT8
				R2	R2	R2	R2	-
B+	B1	B+		R3	R3	R3	R3	-
B	B2	B		R4	R4	R4	R4	-
B-	B3	B-		R5	R5	R5	R5	-
CCC	Caa1	CCC						MT9

Structure of the internal rating systems (LGD)

The main features of the LGD models are as follows:

- the LGD is calculated by analysing losses suffered by the Group on historical defaults (“LGD workout”);
- the definition of default used is the same as that applied in the PD estimation models;
- the LGD is based at Group level, and is the same for each counterparty/relationship, even when they are shared by several entities of the Group, and characterised by the same discriminating variables;
- the data used for the estimate relate to the Parent Company, to the main Network Banks and to the product companies Leasint and Mediofactoring, now incorporated into Mediocredito;
- the segmentation of the LGD models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used, suitably differentiated on the basis of analytical criteria considered to be relevant;
- the LGD model is 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;
- the approach used involves the econometric estimation of an LGD model observed starting from the classification of the loan as doubtful, and the subsequent recalibration of said estimate on definition of default using the Danger Rate model;
- for the Doubtful loans model, the length of the historical series used, although impacted by the unique company characteristics, meets the need to cover a broad timescale and is based on an extensive historical series, while the Danger Rate model meets the need to represent the structure of the Group for the future and is based on observation of defaults in the most recent periods.

Use of the rating systems (PD and LGD)

The ratings are decisive in the process of granting credit and its monitoring and management, and also in pricing, the financial statement processes, the calculation of economic capital, value governance, and reporting, as described below.

Credit granting

The granting of credit involves the use of the rating as an essential reference for the various phases of the process of approving a line of credit for a counterparty. In particular, the rating determines:

- the assignment of the Credit Strategies and Rules for the granting and managing of loans, which govern the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing, and regulating the issue of credit to customers with lower credit quality, also directing them towards lines of credit with higher levels of guarantees;
- the exercise of the delegated powers, for which the Risk Weighted Assets parameter was used during the year to define the limits for granting credit by each decision-making body. The new approach is the evolution of the previous system for the definition of delegated profiles, which already included PD and LGD among its main drivers. It makes it possible to more precisely break down delegated risk, expanding operations for low-risk customers, while bringing to the attention of the higher-level delegated Bodies positions which actually show higher risk.

As part of the annual update to the Group RAF, credit risk was identified as a priority area for analysis and it was decided to develop a specific RAF (Credit Risk Appetite Framework) during 2015 to break down the bank's risk tolerance, adopting logic based on direct governance of the (current and future) expected loss through clear modulation of PD, LGD and EAD in order to facilitate growth on the best customers (without development limits) and provide more prudent, restrictive instructions on the worst customers.

Credit monitoring and management

Customer credit risk is continuously monitored. In particular, the new process of Proactive Credit Management aims to intercept and promptly manage customers showing varying levels of signs of difficulty to immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The new process involves a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures. The positions are intercepted monthly on the basis of several indicators, and are managed according to the risk level established within a structured process with preset rules. The activities involve the re-examination of the positions intercepted via the updating, if necessary, of the rating, as well as the adjustment of the credit operational guidelines and the establishment of operational procedures aimed at minimising the risk.

The monitored PD is calculated centrally on a monthly basis, using the same engine as the online PD, and is therefore capable of capturing the changes in the counterparty's credit rating because it is able to make use of both the updated financial and behavioural information. The comparison between the online PD and the monitored PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the online rating becomes "non-performing" and must be re-assigned.

Pricing

The Group has a model to calculate the correct pricing of credit risk, able to quantify the minimum spread with respect to the internal rate of transfer of funds that the business must implement in order to ensure the coverage of the expected loss, the cost of capital and all the items that enable the generation of value.

Financial Statement Processes

The ratings (PD and LGD) contribute to the preparation of the Financial Statements and the drafting of the Notes to the financial statements through: the collective valuation of performing loans, transforming the expected loss into incurred loss in accordance with the IAS/IFRS; the fair value measurement of derivatives and financial assets available for sale; and the drawing up of tables of distribution of assets by rating class and the presentation of the banking book at fair value in the Notes to the financial statements.

The LGD is also used in preparing the Financial Statements through the statistical valuation of Past Due Loans by over 90 days, irrespective of the amount of the exposure, and of Substandard and Doubtful loans, up to cash exposure of one million euro (the previous threshold of 250,000 euro was raised at the

end of 2013 for substandard loans; for doubtful loans it started on 1 January 2014, only for the positions entering this risk status).

Calculation of economic capital and value governance

In accordance with the provisions of the Second pillar, the methods used to estimate the Economic Capital are based on internal rating models (for both the PD and the LGD component). Through the regulatory and economic capital, the internal ratings contribute to the determination of the Group's value creation during both the assignment of targets to the Business Units and the operational performance measurement.

Reporting

The rating and the LGD form the basis of the management reporting and are spread across the risks of the loan portfolio.

For the management reporting, the Risk Management Department produces the Risks Tableau de Bord on a quarterly basis that provides an overall view of the Group's risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 3 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and the specific measurement criteria for each individual risk (e.g. sensitivity, expected loss).

The process for managing and recognising credit risk mitigation techniques

The proper monitoring of credit risk mitigation instruments is ensured by a detailed management system which identifies roles, responsibilities, rules, processes and support instruments, in charge of verifying compliance with general and specific requirements set forth by regulatory provisions for the various approaches. The general and specific requirements may be summarised as:

- technical and legal requirements: aimed at ensuring the legal certainty and the effectiveness of the guarantees, and specific to the characteristics of the individual types of guarantee;
- specific requirements: established for each type of guarantee in relation to its specific features, they are aimed at ensuring that the credit protection is highly effective;
- organisational requirements: general requirements aimed at ensuring an efficient system for the management of credit risk mitigation techniques that oversees the entire process of acquisition, valuation, control and implementation of the Credit Risk Mitigation (CRM) instruments.

For each type of guarantee, analyses are carried out to verify the admissibility of the protection instrument in the various regulatory approaches. Through these analyses, each type of guarantee can be classified, ex ante, into one of the following categories:

- admissible types: these are types of guarantees which, in general, comply with the generic and specific requirements detailed by regulations;
- non-admissible types: these are types of guarantees which do not meet the generic and/or specific requirements set forth by regulations.

As already highlighted in Section 1 of this document, 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.

If the individual guarantees acquired are an admissible type, they 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. The support application verifies whether guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. 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 2014 a series of measures continued with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

A project was started for International Subsidiary Banks with the aim of guaranteeing consistent approaches at group level to the use of the credit risk mitigation techniques. In further detail, the gap analysis of five international subsidiary banks was completed. For four of these, an action plan was drawn up and is now being implemented.

Control and auditing of the rating systems

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.

The department responsible for the internal validation process for the Intesa Sanpaolo Group is Internal Validation, which operates independently from the functions that manage the development activities and from the function responsible for the internal audit. Specifically, this department is responsible for continuously and interactively validating risk measurement and management systems in order to assess their compliance with regulatory provisions, operational company demands and the reference market.

Therefore, with regard to the macro processes of adoption, extension, management and control of the internal measurement systems for credit risk, the following activities are assigned exclusively to Internal Validation:

- validation aimed at assessing the adequacy of the system with respect to the regulatory requirements and to the operational demands of the business and the target market, and formulation of an opinion on the overall performance of the systems, their proper functioning and effective use within the various areas of business management, also identifying any problems and necessary improvements;
- preparation of the validation report to be presented to the Management Board and the Supervisory Board to accompany the resolution for the certification of compliance of the internal system with the regulatory requirements and the application for authorisation to the Bank of Italy;
- regular issue of recommendations to the development functions in relation to the performance, operation and use of the internal systems;
- periodic analyses of the consistency of the corrective measures in case of critical issues/areas of improvement of the system highlighted by the same Internal Validation and the Supervisory Authority, based on the progress report periodically provided by the Risk Management Head Office Department;
- regular analyses aimed at assessing the performance, proper functioning of the internal system and the provision of the related information to the internal auditing function and the competent managerial Committee;
- preparation of the annual validation report highlighting any problems/areas for improvement of the system to be submitted to the attention of the development functions, the internal auditing function and the Corporate Bodies.
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies, when existing, both in the first adoption/extension phase and in the annual validation phase.

The internal auditing function for the Intesa Sanpaolo Group is assigned to the Internal Auditing Head Office Department. This department conducts assessments of the entire process of adoption, extension, management and control of the internal measurement systems for credit risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.

Specifically, this department is responsible for assessing the effectiveness of the overall structure of the control system overseeing the process of measurement, management and control of the Group's exposure to credit risk also through the regular audit of the internal validation process for the related models developed in accordance with Basel 3 and the Prudential Supervisory regulations.

The Internal Auditing Head Office Department is therefore responsible for the activities of:

- internal audit aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- assessment of the effectiveness of the overall structure of internal controls:

- o audit of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency of the results);
- o audit of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- verifications of the completeness and reliability of the IT system;
- drafting of the relevant report accompanying the application for authorisation to the Bank of Italy;
- self-assessment of the Group’s ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3;
- drafting of the annual internal auditing report with presentation to the competent Corporate Bodies, also in relation to the corrective action plan in case of critical issues/areas of improvement highlighted by the same Internal Auditing, Internal Validation and the Supervisory Authority, based on the progress report periodically provided by the Risk Management Head Office Department;
- steering and practical coordination of Auditing departments in the subsidiaries, to guarantee control consistency with the actions of the Parent Company.

The macro process of adoption, extension, management and control of the Internal Systems involves a series of structured phases shared within the Group and arranged as follows:

- definition of the Internal System and activation of the strategic management for the adoption of the Internal Systems;
- development and adoption of the Internal System;
- extension of the Internal System;
- management, maintenance and updating of the Internal System, including the significant amendments to the Internal System already authorised;
- internal verifications, consisting of periodic validation and internal auditing.

Description of the regulatory Corporate segment internal rating systems (PD)

The regulatory Corporate segment consists of companies or groups of companies with exposure of the Banking group of over 1 million euro or with consolidated turnover of over 2.5 million euro.

Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial institutions. The second refers to “specialised lending” and in particular to project finance, asset finance and, more generally, real estate development initiatives.

Specific models for the Slovak market are in use at the subsidiary VUB.

The Corporate Italia and Large Corporate Italia models

The Corporate Italia rating model applies to the Italian unrated Corporate customers (i.e. not assigned an agency rating) belonging to the manufacturing, commercial, services, long-term production and real estate sectors, and it can be used for both standalone and consolidated financial statements.

The definition of default (impairment) used comprises Past Due, Substandard and Doubtful loans, net of “technical defaults”.

The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.

Each customer's initial score is calculated by means of a linear combination of appropriately converted indicators originating from two quantitative areas (a finance area - whereby the main financial statement indicators are used to assess profitability and debt servicing, the capital structure and management of working capital - and a behavioural area). The model is optimised by turnover bracket and is called “Financial” when only the financial statement information is available, and “Financial-Behavioural” when the set of information also includes the data from “Centrale dei Rischi”. The historical data used for the estimate cover the period from 1999 to 2006.

The score is converted into a probability of default (PD) via the calibration (differentiated according to turnover bracket and macro geographical areas) on the long-term past experience (“central tendency”), in order to reflect the customer's structural characteristics and limit influences on the risk of economic fluctuations.

The PD is then turned via the master scale into classes of credit rating, obtaining the statistical rating.

The period of reference for calibration, which initially covers the years 2005-2009, was updated to 2012 and, therefore, the values of the Master Scale (macro class R) were changed.

In between the quantitative and the qualitative module there is a comparison with an internal behavioural indicator of the counterparty's level of risk, which considers various behavioural aspects of the customer (trend in relationship with the Bank, with the System, regular transactions, etc.), which in certain cases can worsen the risk class.

The qualitative module consists of a questionnaire through which the manager provides a structured assessment of the company, broken down into several areas of analysis (economic and financial, business risks, sector and position, strategies and company plans, ownership structure, management and Group influence). For the Large Corporate counterparties (domestic counterparties with an annual counterparty turnover of over 500 million euro that have not been assigned a rating by one of the main agencies) a specific qualitative questionnaire is used, adapted with suitable adjustments from the questionnaire used for the assessment of the international counterparties (see below).

The model's output is broken down into several areas of analysis, with respect to which the manager is required to provide an independent assessment that interacts with the model's output as part of the abovementioned override procedure, determining the final rating.

The International Corporate models

The International Corporate segment is assessed on the basis of two different models, both developed on the basis of a shadow rating approach, namely using the agency rating as a target estimation variable instead of the performing/default status. This set up was required because of the small number of defaults recorded in this segment in the Bank's historical databases.

The International Large Corporate rating model applies to non-resident customers with a turnover of over 500 million euro and to Italian corporate customers with an agency rating (rated)¹, whereas the International Middle Market model is used to assess non-resident customers with a turnover of less than 500 million euro. For the international models the override procedure is activated by a comparison with the agency rating, if available, or by providing an assessment over several areas of analysis, in the same way as the Corporate Italia segment, for unrated counterparties.

a) The International Large Corporate Model

Like the Domestic Corporate segment, this model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to rules established in the override process.

The quantitative module is estimated on a sample of international businesses with an agency rating, and generates a score that is the linear combination of financial statement indicators.

The qualitative model consists of a questionnaire divided into two areas of analysis (sector and competitive position and the specific features of the counterparty). The two parts of the qualitative module generate scores that are integrated with the quantitative score on a statistical basis, producing an overall score that is then calibrated on a central tendency representing the long-term default rate of the portfolio concerned.

b) The International Middle Market Model

Unlike the models described above, this model only has one module containing both quantitative indicators, automatically updated from the financial statement figures, and qualitative indicators, integrated into a linear combination.

The score is calibrated in the same way as in the International Large Corporate segment, also in terms of the benchmark PD.

The Specialised Lending Models

The Specialised Lending segment is covered by various models for the different exposure categories, in particular Project Finance, Real Estate and Asset Finance.

a) The Project Finance model

The model is used to assess the exposures of vehicle companies whose sole purpose is to implement and manage a specific project (large infrastructures, systems, etc.). The model consists of a quantitative model, which unlike the standard econometric models, is based on a Monte Carlo simulation of the future cash flows, using the project's prospective economic and financial information. The model includes a

¹ Those assigned a rating by at least one of the main Agencies (Standard & Poor's, Moody's, and Fitch).

qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

b) Commercial Real Estate

This model assesses the medium and large-sized real estate projects designated for sale and/or letting, carried out by special purpose vehicles as well as by property funds. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from rent and/or sales are impacted by the trends in historical market data. The model includes a qualitative questionnaire used to complete the analysis of the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

c) The Real Estate Development (RED) model

This model is used to assess smaller real estate transactions, aimed exclusively at the sale by special purpose vehicles. The model is the result of a series of statistical developments of the instrument, originally created by experts and supported by the available quantitative data. It consists of a quantitative module containing the figures of the initiative and a qualitative module used to complete the analysis of the main project risks.

d) Asset Finance

This model is used to assess transactions involving the purchase of ships, with a mortgage-type interest over the asset financed, to be leased to a third party that does not belong to the Borrower's group. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from leasing are impacted by the trends in market data. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

e) Leveraged & Acquisition Finance

This model is used to assess extraordinary finance transactions aimed at corporate acquisitions carried out predominantly with debt capital (high financial leverage); although it does not fall under the regulatory categories of Specialised Lending, it shares the key characteristics of these models. The model consists of a quantitative modules based on a Monte Carlo simulation of the future cash flows using the prospective economic and financial information following the acquisition. The model includes a qualitative questionnaire deriving from the corporate models, in which the analyst adds additional information in a structured manner. The model's outputs are the PD and LGD parameters, used for reporting purposes.

The Corporate models used by VUB

a) The International Active Large Corporate (IALC) model

The International Active Large Corporate model coincides with the International Large Corporate Model used by the Parent Company, except for a different calibration due to the scope of application of the model, which refers to counterparties with turnover under 40 million euro.

The model consists of a quantitative and a qualitative section, both of which are statistically estimated and integrated according to a matrix-based approach. The integrated rating may be modified by the proposing manager according to the override process.

b) The Small and Medium Enterprises (SME) model

VUB's SME model, internally estimated by the Slovak subsidiary, is divided into two modules. The first module, statistical, consists of a component relating to the characteristics of the counterparty, such as geographical location, number of employees, age and legal nature, as well as a financial component, differentiated according to the accounting structure (ordinary or simplified accounting schemes). The second model, which considers behavioural variables, is statistically integrated with the first. The model rating is related to the Parent Company's Master Scale.

c) The Specialised Lending models

The models adopted for Specialised Lending are partly derived from the Parent Company, adapting them to the local situation, and produce a slotting class as the output (with the exception of real estate initiatives designated for sale).

Description of the regulatory Retail Mortgages segment internal rating systems (PD)

The internal mortgage rating system is divided into an Application Model, used for new loans request, and a Behavioural Model, used for subsequent assessment during the lifetime of the mortgage.

The Application Model consists, in turn, of two modules: the personal characteristics module which uses the socio-demographic information of all applicants; and the contractual module which uses the specific information regarding the mortgage agreement. The rating deriving from the integration of the two modules may be modified using notching matrices: by the internal behavioural indicator of the counterparty's level of risk, if present, and by several indicators of reliability not included in other modules. The rating calculated according to the Application Model remains in effect for the first year of the life of a mortgage, unless there is a deterioration in the internal risk behavioural. In such cases, the Behavioural rating enters into effect in advance of usual practice, where worse than the Application rating. From the second year, the Behavioural rating is always activated and is calculated on a monthly basis with the greatest weighting given to the behavioural related component provided by the internal behavioural indicator, which, by definition, is always calculated. The Application rating is still included within the explanatory variables of the Behavioural model when the mortgage is in its second or third year of life, whereas its weighting is cleared to zero starting from the fourth year.

In the first half of 2013, the Behavioural Model was updated in order to incorporate the latest historical series and the changes to the internal risk behavioural of the counterparty. Reference is made in particular to the activities of:

- updating of the historical series;
- calculation of new Central Tendency (with long-term default rates of the portfolio referring to the period 2008-2012) and consequent recalibration of the models.

VUB Retail Mortgage PD Model

The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company as part of the specific Project.

The PD model consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information regarding operations, non-payment, use of credit lines, duration of relationship with the Bank, etc.

Both of these modules are subsequently integrated statistically with additional information on the customer's risk status. Finally, the model assigns a rating based on an internal scale related to that of the Parent Company.

Description of the regulatory SME Retail segment internal rating systems (PD)

The new SME Retail rating models are applied to the entire SME Retail population, identified on the basis of two criteria defined at the regulatory level (exposure of the banking group under 1 million euro) and at the Intesa Sanpaolo Group level (with individual or consolidated turnover of under 2.5 million euro).

The counterparties are subdivided into Micro Business and Core Business, based on objective criteria defined by the process; the definition of default (impairment) used comprises Past Due, Substandard and Doubtful loans, net of technical defaults.

Both models consist of two modules: a quantitative module and a qualitative module.

The Quantitative module is differentiated based on the variables "existing customer/new customer" (according to the presence of the internal behavioural indicator on counterparty risk) and legal form (sole proprietorships or partnership/joint-stock company). In fact, the information used to assess creditworthiness varies depending on the type of customer, and it is therefore a combination of the different basic calculation modules that provides the quantitative score.

These basic modules consider personal details, financial statement data for joint-stock companies, the tax report for sole proprietorships and partnerships, risks to the Group and to the credit system and, finally,

data on the asset under management of the customer and of joint and related parties, which allow significant refinement in the treatment of new customers and borrowers.

The qualitative module, on the other hand, consists of a Qualitative Questionnaire whose weights have been statistically estimated and also differs in terms of number of questions and weight between the Micro and Core rating model.

Furthermore, a specific set of questions has been drawn up for new customers and newly-formed counterparties, with the objective of enhancing the specific soft information known by the manager and their contribution, in terms of experience, to the assessment for this type of counterparty.

A statistically estimated matrix integrates the quantitative rating and the qualitative score.

The process for Small Business Core rating counterparty requires that, after calculation of the integrated rating, the Manager express an overall assessment of the customer risk under the override procedure, determining the final rating.

The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.

In the first half of 2013, some changes were implemented for Small Retail rating models in order to incorporate the most recent historical series. The main adjustments, already applied for the June 2013 report, mainly involved the following:

- updating of the historical series;
- calculation of new Central Tendency (with long-term default rates of the portfolio referring to the period 2006-2012) and consequent recalibration of the models;
- revision of the internal Master Scale by updating the PD class.

Description of the LGD model for the Corporate, SME Retail and Mortgage segments

The model for the estimation of the LGD is made up of the following elements:

- estimate of a Doubtful LGD Model: starting from the LGD observed on the portfolio (10-year historical series), or the “workout LGD”, determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event; the procedure allows avoidance of the instability of estimates that would result from the use of the cell averages, despite the presence of consistent historical series data, on the relatively unpopulated individual subsets;
- application of a correction factor, known as the “Danger Rate”: the Danger Rate is a multiplying correction factor (estimated on a historical series starting from 2008), aimed at recalibrating the Non-Performing LGD with the information available on other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;
- application of other correction factors, known as the “Final Settlement Component”: this component is used as an add-on to the recalibrated estimate of the Danger Rate in order to take account of the loss rates associated with positions that have not become Non-Performing.

The data of the estimation sample have been normalized: censoring/percentile treatment of LGD values that are negative or higher than 100%, filtering of small amount exposures and of positions with information gaps.

The Incomplete Workout phenomenon is then considered in the estimation model. This phenomenon regards default positions still active at the observation date, but with an age of more than 10 years. For these positions, the residual exposure at the observation date is considered to be completely unrecoverable.

The time factor is taken into consideration by discounting at a risk-free rate all cash movements, recoveries and charges occurring from the time of default to the time of closure (or return to performing status) of the position. The rates are then increased by a spread determined according to the segment, in order to include a premium that takes account of the risk implicit in the volatility of recoveries.

In order to comply with regulatory provisions that require the adjustment of LGD estimates for an economic downturn, and in the absence of a direct relationship between the economic cycle and LGD, it was decided to incorporate this element in the discounting process, by using a suitably stressed risk premium.

As regards the econometric estimation of the Doubtful Loans Model, starting with a long list of variables, using univariate statistical analyses, the short list was defined, based on the contribution of the single

variables in the valuation of the loss rate. For the Corporate segment, the following bases of analysis were significant: geographical area, presence/absence of personal guarantee, presence/absence of mortgage, type of relationship, and legal form. For the SME Retail segment, the following were significant: geographical area, type of relationship, presence/absence of personal guarantee, presence/absence of mortgage, amount of real estate coverage and exposure level. For the Retail Mortgages segment, the geographical area and amount of real estate coverage were significant. The model applied to the small set of variables involves the use of a multivariate regression, in order to capture the joint capacity of the explanatory variables in the valuation of the loss rate. The outcome of the multivariate model is the estimate of the Doubtful LGD, determined in relation to the significant bases of analysis. The Danger Rate model and the Final Settlement Corrections are then applied to these results.

Bankruptcy revocatory actions for transactions implemented prior to the bankruptcy date, indicated as “pursuant to Art. 67 of the Bankruptcy Law” and similar articles, are included in the “boundary” category between credit risk and operational risk. Considering the significant dependence on operations of credit risk, as well as the consolidated orientation deriving from comparison with other Italian Groups and Banks, Intesa Sanpaolo decided to include Bankruptcy Revocatory Actions in the area of credit risk. Revocatory actions which are not attributable to credit risk are managed in the area of operational risk.

The LGD models for the Corporate segment of the Leasing and Factoring products

The LGD Corporate models developed for Leasing and Factoring products have the same methodological layout used in the LGD Corporate model of Intesa Sanpaolo's banking products, duly customised in order to take into account the specific characteristics of the two products. The main differences are highlighted below.

For the “Doubtful Loans” model, the length of the historical series used is impacted by restrictions related to the actual availability of data and is based on a 9-year historical series, while the “Danger Rate” model, which meets the need to represent the structure of the Group for the future, is based on observation of defaults in the most recent periods (observations since 2009 for Leasing and 2010 for Factoring), also due to changes in the non-performing loan management processes of the two product companies, now incorporated into Mediocredito.

Management of the Incomplete Workout differs from the Parent Company's model in the choice of maximum duration of non-performing status, due to the specific nature of the products, and is 6 years for Leasing and 8 years for Factoring. The particularly rigorous approach used for leasing has reduced the need to introduce precautionary margins, especially for the real estate sector, characterised by few defaults and limited losses.

The statistical analyses carried out indicate that the bases of analysis that are significant for Leasing are product type (real estate, instrumental, naval-aviation and railway, and motor vehicles) and the regulatory segment (Corporate and SME Corporate). The following were significant for Factoring: product type (with recourse, without recourse), geographical area (Italy, Foreign) and regulatory segment (Corporate, SME Corporate).

LGD model for the VUB mortgage segment

The LGD model was developed based on a “workout” approach, analysing the losses sustained by the Bank on the historical defaults. LGD is therefore determined based on the recovery rates achieved during the default period, taking into consideration direct and indirect costs and recovery times. Assessment of the loss rates was carried out for each individual transaction. The model classifies the data into two groups, according to two risk factors: LTV (residual debt at default over the value of the guarantee provided) and PPI (purchasing power index of the geographical area in which the collateral is situated).

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2014, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the “Corporate” (Foundation and Advanced IRB), “Residential mortgages to private individuals” (IRB²) and “SME retail” (IRB) regulatory segments.

Scope of companies for application of the IRB approaches

	Corporate FIRB	Corporate AIRB LGD	SME Retail IRB LGD	Mortgage IRB LGD
Intesa Sanpaolo				
Banco di Napoli				
Cassa di Risparmio del Veneto				
Cassa di Risparmio in Bologna				
Cassa di Risparmio del Friuli Venezia Giulia	Dec - 2008	Dec - 2010	Dec - 2012	Jun - 2010
Cassa dei Risparmi di Forlì e della Romagna				
Banca dell'Adriatico				
Banca di Trento e Bolzano				
Mediocredito Italiano				n.a.
Gruppo Cassa di Risparmio di Firenze	Dec - 2009	Dec - 2010	Dec - 2012	Jun - 2010
Cassa di Risparmio dell'Umbria	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio della Provincia di Viterbo	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio di Rieti	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Banca Monte Parma	n.a.	Dec - 2013	Mar - 2014	Dec - 2013
Banca Prossima	n.a.	Dec - 2013	Dec - 2013	n.a.
Banca IMI	n.a.	Jun - 2012	n.a.	n.a.
Intesa Sanpaolo Bank Ireland	Mar - 2010	Dec - 2011	n.a.	n.a.
Vseobecna Uverova Banka	Dec - 2010	Jun - 2014	Jun - 2014	Jun - 2012

Compared to the situation reported as at 31 December 2013 note the mergers by incorporation into the Parent Company Intesa Sanpaolo of Cassa di Risparmio di Venezia and Banca di Credito Sardo and the mergers by incorporation into Mediocredito Italiano of Mediofactoring and Leasint.

The exposure values as at 31 December 2014 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value 31.12.2014
Exposures to or secured by corporates:	
- Specialised lending	-
- SMEs (Small and Medium Enterprises)	145
- Other corporates	795
Total credit risk (IRB)	940

² Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the Foundation and the Advanced IRB approach.

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value 31.12.2014
Exposures to or secured by corporates:	
- <i>Specialised lending</i>	16,563
- <i>SMEs (Small and Medium Enterprises)</i>	72,531
- <i>Other corporates</i>	110,822
Total credit risk (Advanced IRB approach)	199,916

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value 31.12.2014
Retail exposures:	
- <i>Exposures secured by residential property: SMEs</i>	6,341
- <i>Exposures secured by residential property: private individuals</i>	63,764
- <i>Other retail exposures: SMEs</i>	15,490
Total credit risk (IRB)	85,595

Values of exposures to securitisations (IRB Approach)

(millions of euro)

Securitizations	Exposure value 31.12.2014
<i>Exposures to securitisations (RBA)</i>	2,246
Total credit risk (IRB)	2,246

For detailed information on exposures to securitisations, see the specific section.

The exposure value shown in the tables set forth in this Section is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the techniques for mitigation of risk which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

The table below breaks down exposures subject to IRB approaches by geographical area, broken down by the main countries for which cumulative exposures on both portfolios exceed the threshold of 2 billion euro and which, in any event, represent a total of approximately 95% of the Group's total IRB exposures.

Amounts of exposures: PD and LGD by geographical area (IRB Approaches)

(millions of euro)

Regulatory portfolio	31.12.2014		
	Exposure value	Weighted average PD ^(*) (%)	Weighted average LGD (%)
- Retail exposures	85,595		
1. Italy	81,864	15.42	20.6
2. The United States	14	4.57	12.9
3. France	9	5.22	13.5
4. Slovakia	3,521	3.65	25.3
5. The Netherlands	11	3.73	14.9
6. Germany	10	16.05	15.3
7. The United Kingdom	34	7.13	14.5
8. Spain	2	10.03	15.8
9. Other countries	130	X	X
- Exposures to or secured by corporates	200,856		
1. Italy	163,598	26.46	36.4
2. The United States	6,941	1.91	39.2
3. France	3,717	2.73	38.4
4. Slovakia	3,531	4.48	43.4
5. The Netherlands	3,349	3.35	39.0
6. Germany	2,596	2.17	40.6
7. The United Kingdom	2,365	7.78	41.4
8. Spain	2,074	4.31	40.3
9. Other countries	12,685	X	X

(*) The PDs presented refer to both performing and defaulted exposures.

**Breakdown of exposures by exposure class and PD class
(Foundation IRB Approach and Advanced IRB Approach)**

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	31.12.2014		
			Exposure value	Average risk weight	Weighted average LGD (%) (*)
Exposures to or secured by corporates					
- Specialised lending			16,563		
	-class from				
	1 to 3	-	-	-	-
	-class 4	0.04	-	-	-
	-class 5	0.05	-	-	-
	-class 6	0.07	-	-	-
	-class 7	0.10	4	43%	38.0
	-class 8	0.15	4	41%	38.0
	-class 9	0.23	80	40%	27.2
	-class 10	0.34	596	44%	25.6
	-class 11	0.49	1,193	52%	23.7
	-class 12	0.83	1,332	56%	24.8
	-class 13	1.24	1,919	68%	27.5
	-class 14	1.83	2,223	78%	26.1
	-class 15	2.87	2,254	77%	24.5
	-class 16	4.92	1,294	98%	30.1
	-class 17	8.39	611	106%	28.4
	-class 18	12.45	1,110	122%	27.8
	-class 19	17.56	434	127%	25.3
	-class 20	27.34	502	157%	28.0
	-class 21				
	(default)	100.00	3,007	0%	38.6
- SMEs (Small and Medium Enterprises)			72,676		
	-class from				
	1 to 3	-	-	-	-
	-class 4	0.04	-	-	-
	-class 5	0.05	7	15%	38.7
	-class 6	0.07	1,161	13%	33.2
	-class 7	0.10	1,279	16%	33.2
	-class 8	0.15	2,341	22%	32.8
	-class 9	0.23	2,648	27%	33.6
	-class 10	0.34	2,292	33%	33.2
	-class 11	0.49	4,350	43%	33.5
	-class 12	0.83	4,109	51%	32.8
	-class 13	1.24	5,122	58%	32.5
	-class 14	1.83	5,452	66%	32.1
	-class 15	2.87	6,605	73%	31.7
	-class 16	4.92	5,012	85%	31.3
	-class 17	8.39	2,842	103%	30.7
	-class 18	12.45	2,258	119%	30.1
	-class 19	17.56	96	145%	36.8
	-class 20	27.34	2,547	143%	30.5
	-class 21				
	(default)	100.00	24,555	0%	49.2

(*) The disclosure refers only to the Advanced IRB approach.

(millions of euro)

Regulatory portfolio	Rating class	31.12.2014			
		Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)
Exposures to or secured by corporates -continued					
- Other corporates			111,616		
	-class 1	-	-	-	-
	-class 2	-	-	-	-
	-class 3	0.03	3,223	13%	38.5
	-class 4	0.04	2,029	11%	39.0
	-class 5	0.05	4,218	16%	38.0
	-class 6	0.07	6,174	18%	35.9
	-class 7	0.10	5,903	27%	38.6
	-class 8	0.15	11,546	34%	38.3
	-class 9	0.23	5,879	33%	34.5
	-class 10	0.34	10,853	52%	37.8
	-class 11	0.49	10,714	60%	36.2
	-class 12	0.83	8,018	69%	35.9
	-class 13	1.24	6,880	79%	34.6
	-class 14	1.83	7,202	94%	37.2
	-class 15	2.87	6,300	108%	36.4
	-class 16	4.92	3,572	127%	36.3
	-class 17	8.39	1,628	151%	35.5
	-class 18	12.45	1,542	186%	36.9
	-class 19	17.56	165	211%	39.1
	-class 20	27.34	1,606	203%	33.9
	-class 21 (default)	100.00	14,164	0%	43.9

(*) The disclosure refers only to the Advanced IRB approach.

Breakdown of exposures by exposure class and PD class (IRB Approach)

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	31.12.2014		
			Exposure value	Average risk weight	Weighted average LGD (%)
Retail exposures					
- Exposures secured by residential property: SMEs			6,341		
-class from 1 to 5		-	-	-	-
-class 6		-	-	-	-
-class 7		-	-	-	-
-class 8		0.15	764	6%	22.1
-class 9		-	-	-	-
-class 10		0.34	493	8%	22.0
-class 11		0.49	330	11%	22.1
-class 12		0.83	371	15%	21.9
-class 13		1.24	493	19%	22.0
-class 14		1.83	626	23%	22.1
-class 15		2.87	568	25%	22.2
-class 16		4.92	380	26%	22.1
-class 17		8.39	232	30%	22.4
-class 18		12.45	6	34%	22.4
-class 19		17.56	252	40%	22.3
-class 20		27.34	250	46%	22.5
-class 21		-	-	-	-
(default)		100.00	1,576	-	32.7
- Exposures secured by residential property: private individuals			63,764		
-class from 1 to 2		-	-	-	-
-class 3		0	967	2%	22.7
-class 4		-	-	0%	-
-class 5		-	-	-	-
-class 6		0	6,755	3%	13.9
-class 7		-	-	0%	-
-class 8		0	2,652	4%	13.5
-class 9		0	8,206	6%	13.2
-class 10		0	2	24%	49.7
-class 11		0	19,272	10%	13.0
-class 12		1	9,931	17%	14.0
-class 13		1	6	53%	44.8
-class 14		2	3,637	24%	14.1
-class 15		3	2,426	32%	13.7
-class 16		5	3,158	49%	13.9
-class 17		8	3	136%	44.4
-class 18		12	1	150%	40.4
-class 19		18	2	134%	28.9
-class 20		27	2,711	84%	14.0
-class 21		-	-	-	-
(default)		100	4,035	-	24.2

(millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	31.12.2014		
			Exposure value	Average risk weight	Weighted average LGD (%)
Retail exposures - continued					
- Other retail exposures: SMEs			15,490		
	-class from				
	1 to 5	-	-	-	-
	-class 6	-	-	-	-
	-class 7	-	-	-	-
	-class 8	0.15	1,885	8%	33.0
	-class 9	0.23	9	18%	49.2
	-class 10	0.34	1,194	13%	34.0
	-class 11	0.49	769	18%	34.7
	-class 12	0.83	809	24%	35.4
	-class 13	1.24	995	31%	36.0
	-class 14	1.83	1,250	37%	36.3
	-class 15	2.87	1,161	42%	36.8
	-class 16	4.92	704	45%	37.3
	-class 17	8.39	465	51%	37.8
	-class 18	12.45	10	71%	50.3
	-class 19	17.56	419	66%	37.3
	-class 20	27.34	322	79%	38.4
	-class 21				
	(default)	100.00	5,498	-	64.3

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value
	31.12.2014
A) Exposures to or secured by corporates:	
Specialised lending - slotting criteria	960
A.1) Category 1 - 50% - 70% equal to or higher than 2.5 years	111
A.2) Category 2 - 70% lower than 2.5 years - 90%	342
A.3) Category 3 - 115%	408
A.4) Category 4 - 250%	71
A.5) Category 5 - 0%	28
B. Equity exposures: Simple risk weight approach	771
B.1) Private equity exposures in sufficiently diversified portfolios	44
B.2) Exchange-traded equity exposures	200
B.3) Other equity exposures	527
C. Equity exposures: Exposures subject to fixed weighting factors	631
Total Specialised lending and equity exposures subject to the IRB approaches	2,362

The weighted values of the equity exposures subject to the IRB approaches and the weighted values of the equity exposures subject to the Standardised approach are detailed in the specific Section “Equity exposures: disclosures for positions not included in the trading book”.

Actual losses and comparison with expected losses

The table below shows the actual losses recognised in the income statement during the last three years on the counterparties in default belonging to the regulatory portfolios for which the Group applies internal methods to calculate the capital requirements for credit risk.

Actual losses by regulatory portfolio

Regulatory portfolio	Actual losses (millions of euro)		
	2014	2013	2012
Exposures to or secured by corporates (Corporate)	-3,111	-4,881	-2,546
Exposures secured by residential property (Retail mortgages)	-129	-176	-166
Exposures to SMEs (SME retail)	-352	-410	-359

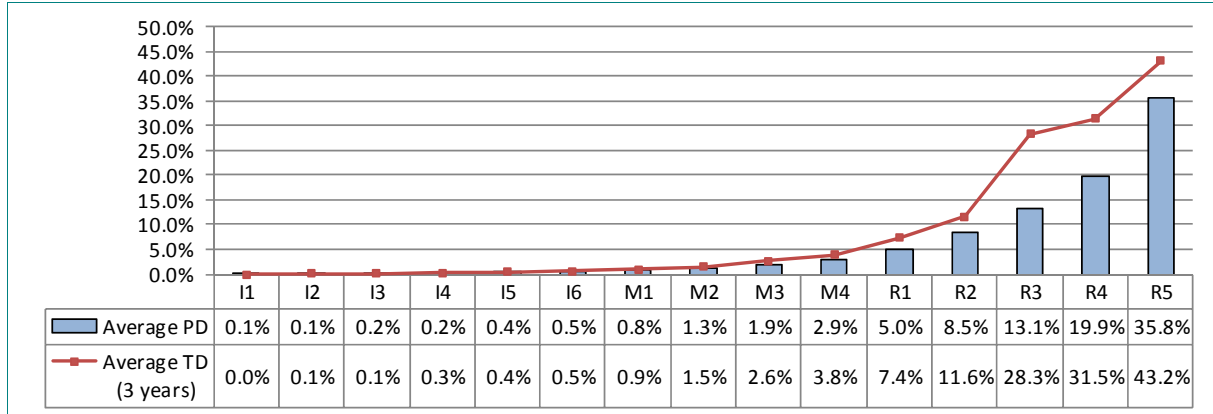
During the 2012-2014 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 4,063 million euro. The actual losses recorded during the same period, presented in the foregoing table, significantly exceeded the expected losses, due to deterioration of the economic context in the final part of 2011, which continued through 2014, which resulted in both a transfer to non-performing loans greater than the ex-ante PD, as presented in the paragraph below concerning backtesting of ratings, and a deterioration in prospects for the recovery of non-performing loans. Though showing a drop in adjustments during 2014, it should be noted that in the last three years, there was an increase in negative trends within the non-performing loans category: transfers into the non-performing category increased, while those in the performing category decreased. It was also necessary to make significant adjustments to existing non-performing positions that worsened following the crisis in the financial markets and the real estate sector and, subsequently, due to the recession which hit most countries where the Group operates, Italy above all. The total amount of actual losses over the last three years, therefore, was significantly impacted by the losses sustained on non-performing loans in prior periods, not included in the expected losses calculated for the performing portfolio at the beginning of the year.

Expected losses in 2012-2014 for residential mortgages amounted to a total of 399 million euro, slightly below the actual loss figure indicated above.

Finally, a comparison of the SME Retail exposure class is only possible for the last two years, as the internal systems were recognised at the end of 2012; it shows an expected loss of 386 million euro which, as already recorded for the Corporate area, is significantly below the actual losses.

Comparison of PD and DR figures by rating class for the Corporate regulatory segment

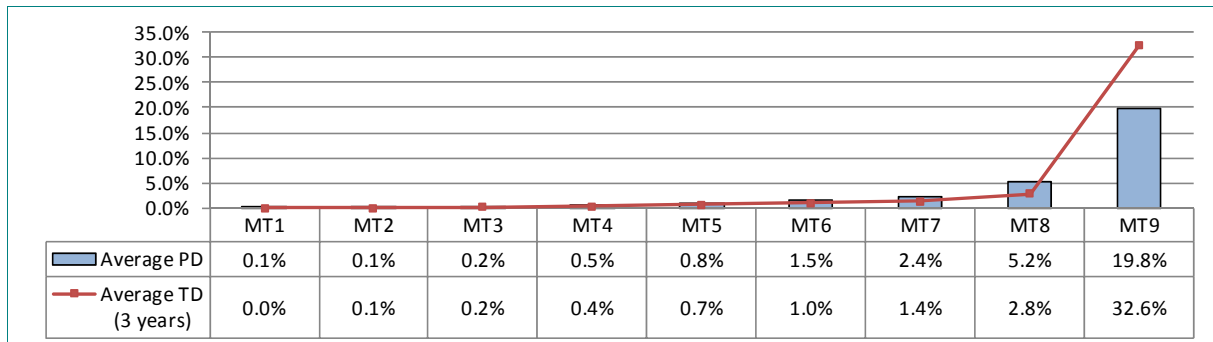
As part of its ongoing validation work, Internal Validation periodically (on a quarterly and/or half-yearly basis) compared the default rates recorded on the models validated for IRB purposes with the average PDs by individual rating class. The following table presents a breakdown of PD and default figures for the Domestic corporate regulatory segment by rating class.



The default rate, calculated as an average for the years 2012-2013-2014, fully absorbing the impacts of the recession under way, shows a monotonic increase as the rating class worsens. The riskier classes show an increase in DR and consequent exceeding of the relative PD. The performance of the model in terms of discriminating power is fully satisfactory. Accuracy ratio levels fall between 69% and 83% by turnover bracket and combination of turnover bracket/geographical area.

Comparison of PD and DR figures by rating class for the Residential mortgages to private individuals regulatory segment

The same distribution by rating class as shown for the Behavioural portfolio is presented for the model for residential mortgages to private individuals. The scope also includes performing mortgage relationships within IRB validated scope and with valid Behavioural rating.

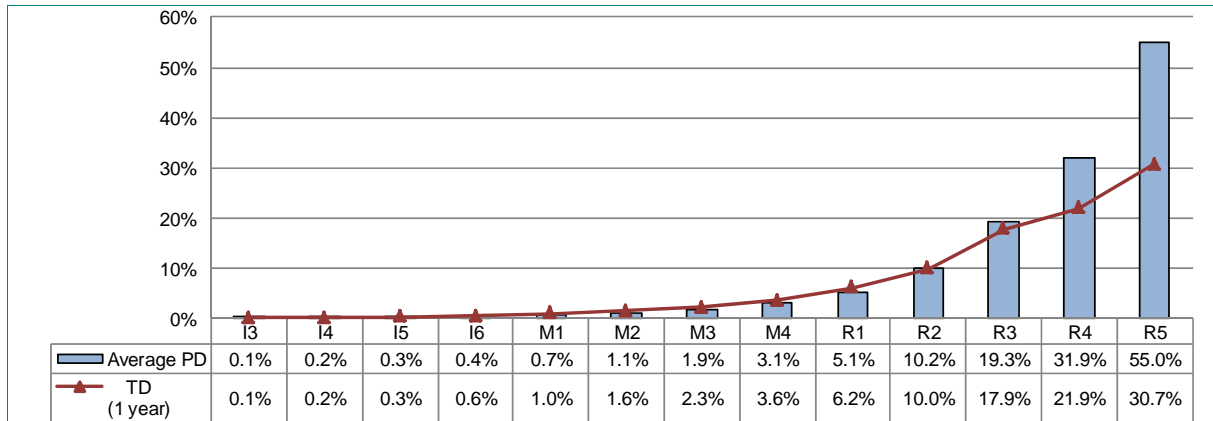


There is a monotonic increase in the default rate as the rating class worsens. The class PDs are in line with the default rates observed for the classes from MT1 to MT5, higher for classes MT6, MT7 and MT8 and significantly lower for MT9.

At 71%, the discriminating power of the Residential Mortgages to Private Individuals model is also above the acceptance threshold.

Comparison of PD and DR figures by rating class for the SME Retail regulatory segment

For the assessment of the counterparties in the SME Retail segment, the same distribution of PD and default rate is reported by rating class referred to the IRB validated portfolio.



The recent authorisation of the model allows the comparison with only two observation windows of the default. The default rates appear to be generally in line with the theoretical PDs of band I, slightly higher in band M and generally lower in band R, with the exception of R1, and feature a monotonic trend that increases along the rating classes. The performance of the models in terms of discriminating power is generally satisfactory. Accuracy Ratio levels fall between 50% and 70% by customer type and the duration of the relationship with the Bank.

Section 8 - Credit risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

The Group entered into (bilateral) netting agreements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).

This takes place through the signature of ISDA agreements (for derivative transactions) and GMRA and OSLA/GMSLA agreements (repurchase agreements and securities lending, respectively). Both of these protocols enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.

The Group also establishes collateral agreements to cover transactions in OTC derivatives and SFTs (the Credit Support Annex and Global Master Repurchase Agreement/OSLA/GMSLA, respectively). Moreover, the Group relies on the clearing services provided by LCH Clearnet for the Swapclear derivative segment. This is a clearing service for the most standard types of over the counter derivative contracts (plain vanilla IRS). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. LCH Clearnet provides for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.

In addition to the reduction of operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), SwapClear offers the typical advantages of centralised netting and collateralisation agreements. Also, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.

For more detailed information, reference should be made to the quantitative disclosure indicated in the Counterparty risk section of this document.

Policies and processes for collateral evaluation and management

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 – differentiated according to pledged and mortgage collateral. The enforcement of the guarantee is handled by specialist departments responsible for credit recovery. In any case, the presence of collateral does not grant exemption from a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee. Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. Mitigating factors are defined based on elements that contribute to reducing the potential losses for the Bank in the case of default of the counterparty. For operational purposes, the extent of the mitigating factors is determined based on a series of factors. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of elements mitigating credit risk.

Guarantees received are included in the calculation of the Loss Given Default, based on (i) the initial value; (ii) the strength of said value over time; and (iii) the ease of realisation.

The guarantees received with the highest impact include:

- pledges on financial assets, differentiated based on the underlying (cash, OECD government bonds, financial instruments issued by the Bank, shares and bonds quoted on regulated markets, mutual funds, etc.);

- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.); provided that:
 - they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
 - they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

During the credit granting phase, 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 or set of financial instruments accepted as collateral.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to real estate collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.

Assets are evaluated, prior to the decision to grant the credit, using both internal and external technicians. The external technicians are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The valuation of residential properties secured by mortgages 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' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.

The technicians are required to produce estimates on the basis of standardised expert technical reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.

In order to ensure that the valuation criteria and approaches are uniform, a "Property Valuation Code" is in force, which ensures the comparability of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis. The content of the internal code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association.

Property valuations are managed through a specific integrated platform (the Appraisals Portal) covering the entire technical 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.

During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.

The value of the real estate collateral is updated on a monthly basis by using the prices/coefficients acquired from an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

The revaluation takes place by adopting four main methods:

- Survey value index method
The method uses indexes of revaluation of the prices of the real estate to be applied to the survey value of the property in question. It is the main revaluation method, adopted when the survey value is considered reliable through specific tests.
- Comparables method
The method assumes market values per square metre and applies them on the basis of the size (in square meters) of the property. The method is used when the survey value is not considered to be reliable. It is also used as "backtesting" implied in the survey value.
- Financing value index method
The method applies the price revaluation indexes to 125% of the original value of the financing (thus it is prudentially assumed that the financing was originally disbursed with the maximum LtV of 80%).

The method is applied in the presence of subdivisions or if the survey value is not reliable and it is impossible to apply the comparables.

– Cost method

In case of properties under construction, market practices suggest a valuation based on the estimate of the overall costs incurred in correspondence with the work progress made on the property in question.

The real estate collateral connected to exposures above 3 million is subject, every three years, to the regular update of the valuation made by an internal expert (so-called "re-appraisal").

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.

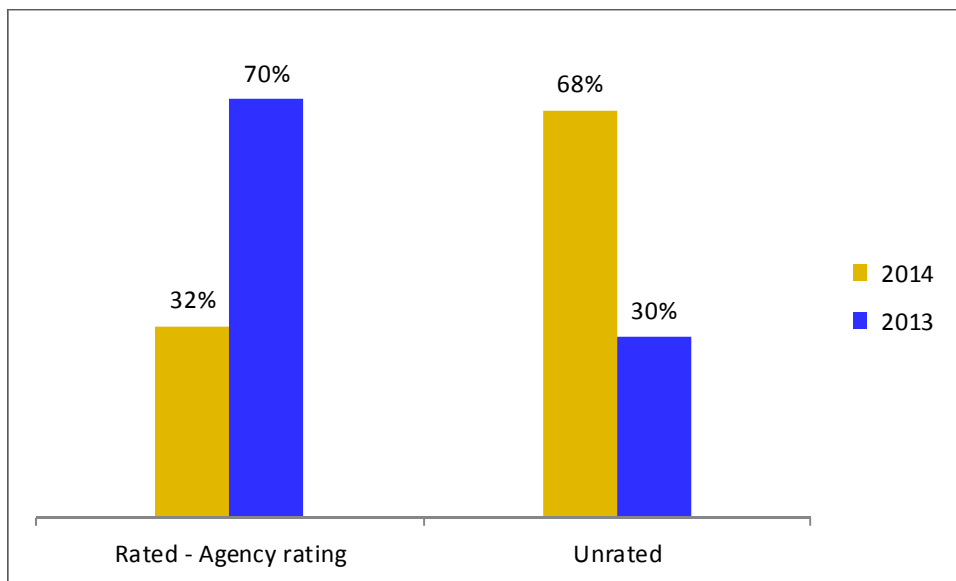
The valuation is updated in case of restriction or subdivision of the mortgage and of damages to the property that imply the payment of an insurance indemnity.

To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property's reconstruction cost new.

The main types of guarantor and credit derivative counterparty and their creditworthiness

With regard to credit derivative transactions, in December 2014 there was a sharp decrease in EAD compared to December 2013 (over two-thirds) in the rated component. In fact, that component (32% in December 2014 and 70% in December 2013), there was outflow of operations, only slightly offset by the inflow of new customers, and a slight decrease in EAD on shared customers in the two periods of analysis. That component is exclusively comprised of banks with agency ratings with a high investment grade.

Creditworthiness of the counterparties in credit derivative transactions



Information about market or credit risk concentrations under the credit risk mitigation instruments used

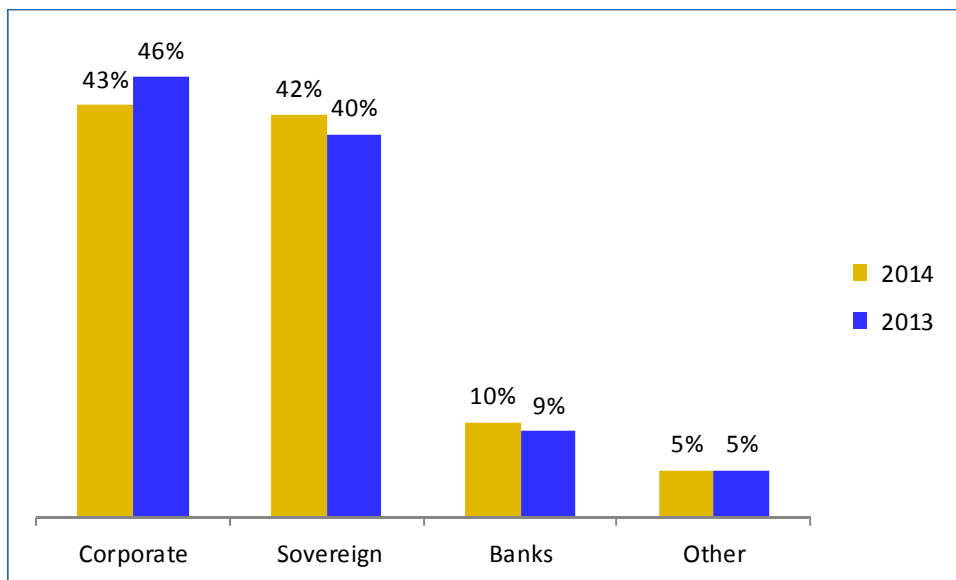
Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.

The share associated with Corporate guarantors accounts for 43% of the total amount. Sovereign guarantors (primarily the Italian and German governments) and banks (such as Credit Agricole SA) account for 42% and 10%, respectively.

There were other no material concentrations of guarantors.

Personal guarantees by type of guarantor

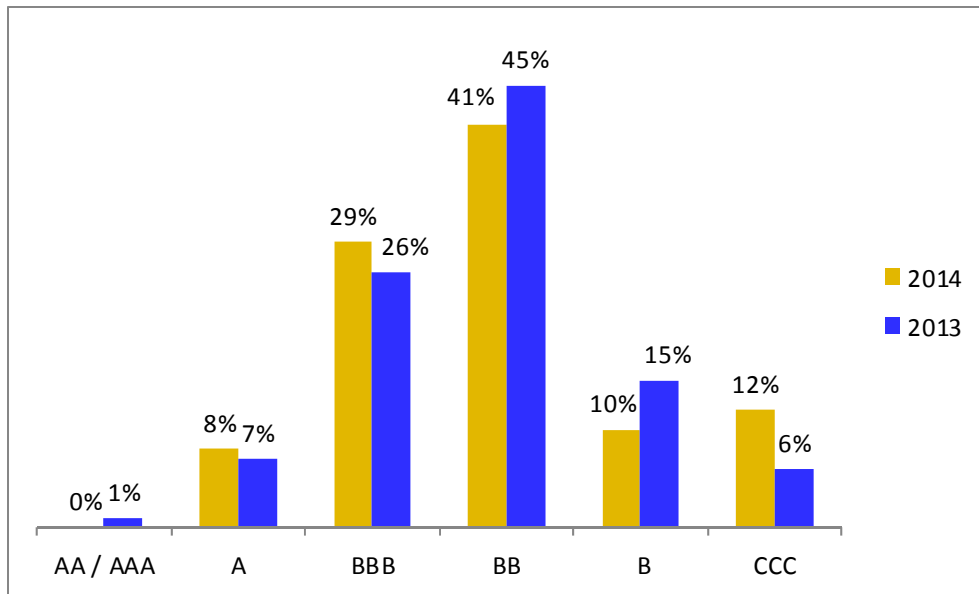


Personal guarantees by guarantor rating classes

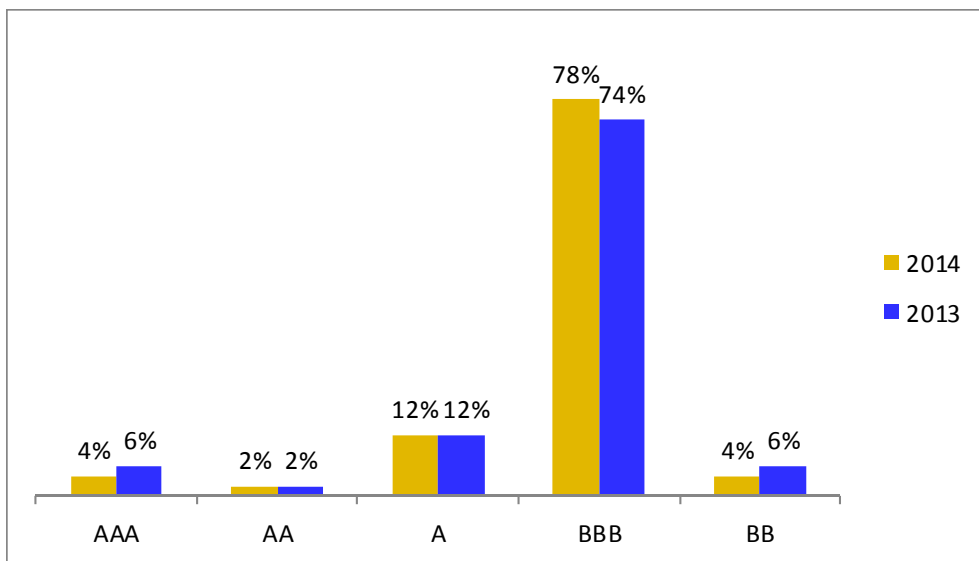
By type of personal guarantee, guarantors show a high credit quality, with 69% investment grade (66% in December 2013)

The distribution by rating classes shows that Corporate guarantors and guarantors belonging to other segments classified as investment grade have shares of approximately 37% and 95%, respectively (35% and 94% in December 2013). The former are assigned ratings using the internal model, and the latter are assigned ratings by Agencies.

Corporate personal guarantees by guarantor rating classes



Other non-corporate segment personal guarantees by guarantor rating classes



Financial collateral

The majority (around 93%) of the financial collateral eligible for risk mitigation relates to repurchase agreements. The significant growth compared to the previous analysis (70% in December 2013) is specifically justified by the increase in securities issued by the Republic of Italy used as underlyings for these transactions. The main issuers in addition to the sovereign state had a high investment grade rating. As regards the potential exposure to market risk, it should be noted that 67% of these securities have a maturity of less than 5 years (53% in December 2013). The remaining 7% of financial collateral relates to pledges on bonds, cash deposits and funds.

Other collateral

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank’s exposure to a systematic risk factor represented by the prices

of the real estate assets. This exposure, which is naturally inherent to lending operations, is quantified by means of appropriate scenario and stress analyses within the ICAAP process.

Quantitative disclosure

As required by the specific regulations, this Section lists only the portions of exposures secured by financial collateral and personal guarantees subject to the calculation of capital requirements using the standard and foundation IRB approaches. The column “Personal guarantees or credit derivatives” consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.

Breakdown of exposures secured by collateral, guarantees or credit derivatives by exposure class

Secured exposures subject to the Standardised approach

Regulatory portfolio	31.12.2014 (millions of euro)	
	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by governments and central banks	1	5,404
Exposures to or secured by regional or local authorities	-	425
Exposures to or secured by public sector organisations	5	14
Exposures to or secured by multilateral development banks	-	3
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	38,237	885
Exposures to or secured by corporates and other entities	6,100	93
Retail exposures	1,520	-
Exposures secured by real estate	1	-
Defaulted exposures	121	-
High-risk exposures	-	-
Exposures in the form of covered bonds	-	-
Short-term exposures to corporates and other entities or supervised institutions	-	-
Exposures to UCI	169	-
Other exposures	-	-
Securitisations	-	-
Total	46,154	6,824

The table above complements the disclosures in the credit risk - standard approach section, in the sub-table “exposures with credit risk mitigation”, which shows the residual exposure not covered by these guarantees. Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor’s regulatory portfolio; consequently, the representation of personal guarantees included in this Section is the guarantor’s responsibility.

Exposures secured by mortgage collateral, for which the regulations require the assignment of preferential weightings, are not shown, as they are already included under “exposures secured by real estate property”. Collateral on transactions secured by real estate property refer to marginal additional collateral received for that type of transactions.

Secured exposures subject to the foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2014	
	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates		
<i>Specialised lending</i>	-	-
<i>SMEs</i>	10	-
<i>Other corporates</i>	3	-
Specialised lending - slotting criteria	-	-
Total	13	-

The secured exposures subject to the foundation IRB approach solely regard VUB Banka, the only company of the Group that still uses the foundation IRB approach after migration by the Group's other companies to the advanced approaches (AIRB).

Exposures secured by mortgage collateral for private individuals or retail, for which the Group applies the IRB approach (other than the foundation IRB approach), are not included in this Section inasmuch as they are specifically indicated in the Section on the use of IRB approaches.

Section 9 - Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with supervisory instructions, is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.

In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- Securities Financial Transactions – SFTs (e.g. repurchase agreements);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements (“Master netting agreements”) is permitted, subject to compliance with statutory requirements.

Banca IMI and the Parent Company adopted the internal model method of regulatory reporting for the counterparty requirement for OTC and ETD contracts starting with the March 2014 report, following authorisation from the supervisory authority. The other group companies continue to report their counterparty risk requirements according to the standard method, although the authorisation process with the supervisory authority for banks belonging to the Banche dei Territori Division and extension of the scope of the internal model to SFT instruments is currently in progress.

Potential exposure (estimated with the actual average PFE) has been adopted by Banca IMI, the Parent Company, and the banks in the Banca dei Territori Division for the purposes of operational measurement of uses of lines of credit for replacement risk.

For the rest of the Group, the definition of the use of the credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.

Add-ons indicate the maximum potential future exposure (95th percentile), regularly estimated by the Risk Management Department by macro-product type and maturity. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, in consideration of the specific elements of the OTC derivative transactions, and transactions for which the exposure may change over time as the underlying risk factors change. PFE measurements are calculated daily by the Risk Management Department, analysed and sent to the monitoring systems for the lines of credit for OTC derivatives. The Risk Management Department (DRM) also provides a daily report on the positions with a use above 70%, to support the facility monitoring activities, with indication of the financial analysis underlying the change of the PFE measurement over time. For entities or instruments outside the scope of application of PFE, the grid for the operational add-ons forms part of the monitoring systems for the lines of credit for OTC derivatives that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty. The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.

In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the “use test” requirement of Basel 3, the Group has adopted an operational model aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time.

The organisational functions involved, as described in the Bank's internal regulations, are:

- the Parent Company's Risk Management Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the positions assumed;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of lines of credit.

In addition, effective from July 2013 the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above, for the Parent Company and Banca IMI:

- 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 at the portfolio level authorised by the Group Financial Risks Committee for OTC derivatives transactions;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives transactions with collateral agreements (CSA);
- 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.

The Parent Company Intesa Sanpaolo and Banca IMI have adopted a programme of stress tests on the counterparty risk with the objective of assessing the effects connected with the occurrence of extreme scenarios relating to market and credit factors that influence counterparty risk exposures.

The stress tests allow the estimate of potential sudden liquidity needs of the Bank with regard to the collateralised exposures, due to extreme movements of the risk factors underlying transactions in OTC derivatives.

The stress test programme allows the identification of market scenarios the Bank is mostly exposed to and represents a risk analysis tool that complements the management and regulatory metrics.

The stress test programme is based on the application of mono-factor and multi-factor scenarios to the "reference set", which is the set of market data used for the pricing of the financial instruments present within the scope of the internal model. Analysed in addition to the stress on the market risk factors is the effect of the deterioration of the creditworthiness of the counterparty through the joint stress on market and credit variables (PD, LGD).

The generic wrong way risk (WWR) arises when there is positive correlation between the probability of default of a counterparty and the general market risk factors.

A methodology is followed to identify the generic WWR, which uses the results from the stress tests conducted as part of the stress testing programme for the counterparty risk, focusing on the counterparties whose credit spread is more historically correlated to the risk factors identified by the stress tests.

The reports and the analysis of the results are aimed at highlighting the most significant effects at portfolio level, of segments of counterparties or individual counterparties.

The specific WWR arises in case of positive correlation between the future exposure towards a counterparty and the probability of its default due to the nature of the transactions with this counterparty, or in case of a legal connection between the counterparty and the issuer of the derivative's underlying.

A methodology is followed to identify the specific WWR without legal connection, which is based on the analysis of the relation between the Mark To Market forecasts of the portfolio of a counterparty and the credit spread forecasts of the same counterparty, in the various scenarios of the EPE model, at a certain future time-step.

As part of the specific WWR with legal connection, an organisation process has been defined in order to identify, report, authorise, and monitor in a specific manner the transactions with such risk, also for the purposes of the depreciative treatment established by the regulations in terms of capital requirement.

In order to consistently represent and monitor the overall risk profile in terms of counterparty risk generated by transactions in OTC derivative instruments, the Group Financial Risks Committee has resolved a system of specific limits defined at Legal Entity level, monitored by the Risk Management Department, for the Intesa Sanpaolo Parent Company and Banca IMI, comprising:

- a regulatory capital limit, calculated with the internal model on the counterparty risk, with the formulas set by the Basel 3 requirements;
- a CP VaR limit that measures the exposure to the default risk of the counterparties of OTC derivative transactions, calculated with internal metrics in terms of unexpected loss over a time period of one year.
- a CVA VaR limit that measures the exposure to the risk of increase in the credit spreads of the counterparties of the OTC derivative transactions, calculated in terms of daily VaR.

These limits allow a synthetic and homogenous control of the levels of risk exposure for transactions in OTC derivatives of the portfolios of Intesa Sanpaolo and Banca IMI. Adopting such indicators also results in the consolidation, through a process of subsequent aggregations, of the exposure to different types of risk in the individual activity segments (for both collateralised and non-collateralised counterparties) to obtain the measurement of the overall exposure at Legal Entity, Region, Industry and counterparty level.

The internal counterparty risk model allows the estimate of the liquidity requirement deriving from collateralised OTC derivative instruments (in terms of inflow and outflow of collateral), by predicting the expected variation of the Mark To Market. These measures are aimed at feeding the system of the Risk Management Department that measures the liquidity risk (Liquidity Risk System), while guaranteeing the information details needed to develop the various measurement metrics currently set for internal purposes (Liquidity Policy) and for the weekly liquidity report to the Surveillance Body, and are also the subject of the programme of stress tests on the counterparty risk.

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. Compared to the adjustment of the mark to market through the calculation of the Credit Risk Adjustment (CRA) already in use, the introduction of the new accounting standards IFRS13 included the calculation of the own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.

In order to comply with the new standard, a new calculation model was developed – the Bilateral Credit Value Adjustment (bCVA) – which in addition to the effects of changes in the counterparty credit rating (the first subject of the credit risk adjustment methodology) also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA) and identifies a series of refinements to the previous methodology. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):

- the CVA (negative) takes into account scenarios whereby the Counterparty fails before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal to the cost of replacing the derivative;
- the DVA (positive) takes into account scenarios whereby the Bank fails before the Counterparty and has a negative exposure to the Counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

Compared to the calculation of the CRA, the new bCVA model identifies a series of refinements of the pre-existing CRA methodology, including the calculation of the risk exposure valued by incorporating the average of the future exposures (positive/negative Expected Positive/Negative Exposure).

The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

Quantitative disclosure

The table below shows the overall EAD of exposures in financial and credit derivatives and SFTs, broken down by measurement approach (EPE internal models or mark-to-market approach).

Counterparty risk

Transaction categories	Exposure ad default (EAD)			
	31.12.2014		31.12.2013	
	Current Exposure Method	EPE Internal Method	Current Exposure Method	EPE Internal Method
Derivative contracts	1,424	17,093	17,420	-
SFT transactions (Securities Financing Transaction) and long settlement transactions	48,473	-	20,363	-

(millions of euro)

The exposure value shown in the table above refers to both positions in the regulatory trading book and the banking book.

As already stated, starting from April 2014, valid for the March 2014 reporting, Banca IMI and the Parent Company were authorised to use EPE (Expected Positive Exposure) internal models to determine the requirement for counterparty risk. This approach is applicable to almost the entire derivatives portfolio (as shown in the table below, as at 31 December 2014 approximately 92% of the total EAD of financial and credit derivatives is measured using EPE models). At consolidated level, derivatives whose counterparty risk is measured using approaches other than internal models represent a residual portion of the portfolio (as at 31 December 2014 accounting for approximately 8% of overall EAD) and refer to:

- residual non-EPE contracts of Banca IMI and Intesa Sanpaolo (in compliance with the insignificance of the EBA thresholds);
- EAD generated by all other banks and companies in the group which report using the mark-to-market approach.

For the banks in the Banca dei Territori division, the activities are underway to extend the internal model. With the entry into force of the new rules of Basel 3, the scope of counterparty risk is expected to also include Exchange Traded Derivatives (ETD) and contracts with central counterparties (CCP).

The EPE internal model considers the collateral collected to mitigate credit exposure and any excess collateral paid. The value of guarantees received and included in the calculation of the EAD amounted to over 3.5 billion euro for Banca IMI and the Parent Company, while the collateral paid amounted to 8.8 billion euro.

For reverse repurchase agreements, the Group considers the guarantee in securities as financial collateral, directly reducing the value of the exposure (“comprehensive” method), whereas for repurchase agreements, the cash received is considered as financial collateral.

In addition to the foregoing with regard to the EPE method, the exposures in the table above benefited from risk mitigation (collateral) for a total of 44,439 million euro, mainly referring to SFTs (16,845 as at 31 December 2013).

The capital requirement for “counterparty risk”, for both the regulatory trading book and the banking book, is shown - for the individual regulatory portfolios - in the tables of the capital requirements for credit risk treated under the standardised approach and the IRB approach.

Financial derivatives - Regulatory trading book: period-end and average notional amounts

(millions of euro)

	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	2,029,568	103,420	2,168,308	131,615
a) Options	161,775	8,893	195,842	52,892
b) Swaps	1,867,734	-	1,970,987	-
c) Forwards	59	-	24	-
d) Futures	-	94,527	1,455	78,723
e) Others	-	-	-	-
2. Equities and stock indices	14,864	47,319	31,672	26,962
a) Options	14,456	46,023	31,242	25,510
b) Swaps	357	-	370	-
c) Forwards	51	-	60	-
d) Futures	-	1,296	-	1,452
e) Others	-	-	-	-
3. Foreign exchange rates and gold	125,045	237	113,895	175
a) Options	19,034	-	14,788	-
b) Swaps	38,880	-	32,153	-
c) Forwards	65,878	-	64,816	-
d) Futures	-	237	-	175
e) Others	1,253	-	2,138	-
4. Commodities	5,361	2,926	7,677	1,612
5. Other underlying assets	-	-	-	-
TOTAL	2,174,838	153,902	2,321,552	160,364
AVERAGE VALUES	2,261,922	153,999	2,554,287	148,530

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 1,546,732 million euro as at 31 December 2014 (1,163,518 million euro as at 31 December 2013).

Financial derivatives - Banking book: period-end and average notional amounts

Hedging

(millions of euro)

	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	241,671	-	237,254	-
a) Options	5,079	-	5,384	-
b) Swaps	236,592	-	231,870	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	3,706	-	3,363	-
a) Options	-	-	-	-
b) Swaps	3,706	-	3,363	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	245,377	-	240,617	-
AVERAGE VALUES	241,324	-	260,363	-

Other derivatives

(millions of euro)

	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	5,860	-	10,430	-
a) Options	4,055	-	5,256	-
b) Swaps	1,805	-	5,174	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	4,024	-	5,255	-
a) Options	4,024	-	5,255	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	2,227	-	952	-
a) Options	96	-	43	-
b) Swaps	1,359	-	780	-
c) Forwards	772	-	129	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	12,111	-	16,637	-
AVERAGE VALUES	14,252	-	18,193	-

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss, operational foreign exchange risk hedging derivatives correlated to specific foreign-currency funding and the put and call options relating to commitments on equity investments.

Financial derivatives - gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	34,080	732	27,044	790
a) Options	5,345	625	4,728	693
b) Interest rate swaps	24,361	-	20,164	-
c) Cross currency swaps	2,135	-	1,331	-
d) Equity swaps	7	-	6	-
e) Forwards	1,408	-	646	-
f) Futures	-	107	-	97
g) Others	824	-	169	-
B. Banking book - hedging	9,208	-	7,535	-
a) Options	137	-	303	-
b) Interest rate swaps	8,543	-	6,992	-
c) Cross currency swaps	528	-	240	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	845	-	689	-
a) Options	321	-	289	-
b) Interest rate swaps	497	-	396	-
c) Cross currency swaps	14	-	3	-
d) Equity swaps	-	-	-	-
e) Forwards	13	-	1	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	44,133	732	35,268	790

Financial derivatives - gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value			
	31.12.2014		31.12.2013	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	36,910	1,033	33,034	550
a) Options	6,642	532	9,476	488
b) Interest rate swaps	26,302	-	21,262	-
c) Cross currency swaps	2,322	-	1,465	-
d) Equity swaps	7	-	2	-
e) Forwards	1,357	-	645	-
f) Futures	-	501	-	62
g) Others	280	-	184	-
B. Banking book - hedging	10,247	-	7,584	-
a) Options	-	-	-	-
b) Interest rate swaps	9,912	-	7,383	-
c) Cross currency swaps	335	-	201	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	639	-	856	-
a) Options	569	-	726	-
b) Interest rate swaps	60	-	120	-
c) Cross currency swaps	8	-	10	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	47,796	1,033	41,474	550

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 4,884 million euro (2,749 million euro as at 31 December 2013).

The data contained in the two tables below - unlike the previous tables - refers exclusively to operations in Over the Counter derivatives.

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2014

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	7,225	2,707	370,402	1,617,578	989	30,495	172
- positive fair value	3,959	644	18,552	3,558	25	2,196	16
- negative fair value	-6	-20	-21,277	-8,733	-17	-384	-1
2. Equities and stock indices							
- notional amount	1	-	10,404	2,417	1,927	92	23
- positive fair value	-	-	339	148	-	8	-
- negative fair value	-	-	-1,871	-134	-193	-1	-3
3. Foreign exchange rates and gold							
- notional amount	342	170	75,459	28,129	1,062	19,798	86
- positive fair value	-	-	1,515	1,139	142	986	-
- negative fair value	-4	-78	-2,827	-516	-10	-574	-2
4. Other values							
- notional amount	-	-	340	142	-	4,879	-
- positive fair value	-	-	34	3	-	817	-
- negative fair value	-	-	-13	-12	-	-233	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2014

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	433	237,759	6,161	-	152	3,026
- positive fair value	-	5	9,063	250	-	6	2
- negative fair value	-	-	-9,245	-803	-	-	-210
2. Equities and stock indices							
- notional amount	-	-	3,213	230	-	344	237
- positive fair value	-	-	153	15	-	-	-
- negative fair value	-	-	-222	-	-	-	-55
3. Foreign exchange rates and gold							
- notional amount	812	-	4,603	498	-	6	14
- positive fair value	13	-	520	25	-	-	-
- negative fair value	-	-	-205	-146	-	-1	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Credit derivatives – period-end and average notional amounts

(millions of euro)

	Regulatory trading book		Banking book	
	single counterparty	more counterparties (basket)	single counterparty	more counterparties (basket)
1. Protection purchases				
- Credit default products	16,832	40,608	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Other	-	-	-	-
Total 31.12.2014	16,832	40,608	-	-
Average values	18,401	43,826	-	-
Total 31.12.2013	18,565	46,994	-	-
2. Protection sales				
- Credit default products	16,600	40,077	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	25	-	-	-
- Other	-	-	-	-
Total 31.12.2014	16,625	40,077	-	-
Average values	23,703	43,399	-	-
Total 31.12.2013	18,071	46,690	-	-

Over the counter credit derivatives – gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value	
	31.12.2014	31.12.2013
A. Regulatory trading book	1,343	1,497
a) Credit default products	1,297	1,402
b) Credit spread products	-	-
c) Total rate of return swap	46	95
d) Other	-	-
B. Banking book	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	1,343	1,497

Over the counter credit derivatives – gross negative fair value: breakdown by product

	(millions of euro)	
	Negative fair value	
	31.12.2014	31.12.2013
A. Regulatory trading book	1,467	1,734
a) Credit default products	1,386	1,636
b) Credit spread products	-	-
c) Total rate of return swap	81	98
d) Other	-	-
B. Banking book	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	1,467	1,734

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty as at 31 December 2014

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	108	38,734	18,598	-	-	-
- positive fair value	-	76	75	83	-	-	-
- negative fair value	-	-	-748	-339	-	-	-
2. Protection sales							
- notional amount	-	-	39,890	16,812	-	-	-
- positive fair value	-	-	741	368	-	-	-
- negative fair value	-	-	-134	-246	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Application of the amendments to IFRS 7 regarding the disclosure of netting arrangements became mandatory starting from 1 January 2013.

According to these amendments, IFRS 7 requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by “netting framework arrangements or similar” that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, the Intesa Sanpaolo Group has netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements. In particular, these are arrangements that regulate the clearing of Over the Counter derivatives through subscription to the SwapClear service (LCH Group). This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred, so that the mutual credit and debt positions are automatically offset. In the table below, therefore, the column regarding the amount of financial assets/liabilities offset in the balance sheet represents the negative fair values on interest rate derivatives offset with the positive fair values for representation in the financial statements. The information is mirrored in the following table.

In terms of instruments that may be potentially offset upon occurrence of such events, it is noted that the Group uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRA (for repurchase agreements).

For the purposes of preparing the tables and in line with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) “Financial instruments”, together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) “Cash deposits received/provided as collateral”;
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value. Derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) “Net amount”.

Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in statement of financial position (b)	Net amount of financial assets presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2014 (f = c-d-e)	Net amount 31.12.2013
				Financial instruments (d)	Cash collateral (e)		
1. Derivatives	84,633	43,325	41,308	32,504	2,792	6,012	3,721
2. Repurchase agreements	18,460	-	18,460	18,449	-	11	276
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2014	103,093	43,325	59,768	50,953	2,792	6,023	X
TOTAL 31.12.2013	74,201	24,456	49,745	43,412	2,336	X	3,997

Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in statement of financial position (b)	Net amount of financial liabilities presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		Net amount 31.12.2014 (f = c-d-e)	Net amount 31.12.2013
				Financial instruments (d)	Cash deposits pledged as collateral (e)		
1. Derivatives	88,155	43,325	44,830	31,584	11,845	1,401	381
2. Repurchase agreements	19,909	-	19,909	19,748	12	149	760
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
TOTAL 31.12.2014	108,064	43,325	64,739	51,332	11,857	1,550	X
TOTAL 31.12.2013	78,764	24,456	54,308	46,061	7,106	X	1,141

Section 10 - Securitisations

Qualitative disclosure

Securitisations: objectives and the roles undertaken by the Bank

Own securitisations

The own securitisations of the Intesa Sanpaolo Group may be differentiated into:

- securitisations that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position (see section "self-securitisations and eligibility") and are not standard securitisations as they do not transfer the risk outside the Group;
- securitisations structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("originated securitisations" and Asset Backed Commercial Paper programmes) or in order to provide service to customers.

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Self-securitisations and eligibility

In the years prior to the financial crisis, Intesa Sanpaolo's cash securitisations (non-synthetic) were mainly a medium-long term funding instrument, structured with the aim of reducing the liquidity gap between medium-term loans and short-term deposits, of diversifying the sources of financing and the investor base, and of obtaining funding at a competitive rate, through the issue of securities with a AAA rating or in any case with a rating higher than the Group's rating.

In view of the critical condition of the financial markets, the Group has considered it prudent to enhance its portfolio of eligible assets to establish a liquidity reserve activated through ECB financing operations or by means of the instruments established as part of the emergency measures adopted by the Italian Government and the Bank of Italy to guarantee the stability of the credit system.

This has mainly taken place through "self-securitisations" of Group assets, also through the analysis of particular types of assets (such as certain loans to the public sector and large corporates). Despite the fact that it has an excellent liquidity profile, Intesa Sanpaolo has considered it appropriate to expand its options for access to the short-term funding market.

Nevertheless, a prudential decision has been made, given the current market environment, to maintain an adequate and equivalent level of eligible assets in relation to its interbank funding (also in the form of CDs and CPs).

The granting of Italian residential mortgages helps in issuing RMBS and creating the cover pool supporting the issues of medium and long term covered bonds to be placed in the institutional market.

A large part of the RMBS notes originating from self-securitisations are therefore designated for use for ECB eligibility, but may also be subsequently used as the cover pool for the Covered Bonds programme.

In any event, the securities will initially form part of the portfolio of eligible assets, however, they may be placed in the market in the future if the conditions of the markets improve.

From this perspective, the structure of the "self-securitisations" is usually fully equivalent to the transactions carried out previously and placed in the market.

These consist of a sale by Intesa Sanpaolo of a portfolio of assets to an SPV established pursuant to Law 130/99 that issues two tranches of notes (one senior and one subordinate constituting the credit enhancement). The Group then subscribes in full for the notes issued by the SPV to fund the purchase of

the loans. The senior notes (rated and quoted) are eligible and may be used for the purposes described above.

With regard to the assets to be securitised, on the basis of the assessment conducted by the Group for this purpose, priority is generally given to assets equivalent (or similar) to those already securitised in the past, such as, for example:

- real estate mortgages and mortgage loans of the Group's Network banks;
- ineligible fixed-income securities of the Parent Company and of Banca IMI;
- ineligible loans to the public sector;
- leasing rentals;
- mortgage loans of Mediocredito Italiano.

The assets underlying the self-securitisations are generally included in the Group's IAS Loans & Receivables portfolio and, thus, in the banking book. The measurement criteria are the same as those for the other assets in that portfolio.

The self-securitisations do not contribute to the figures included in the tables, because – as already mentioned – they do not constitute standard securitisations.

Standard securitisations

The securitisations in this category are as follows:

– Da Vinci:

A synthetic securitisation concluded in 2006 by Banca Intesa aimed at covering and actively managing its risk exposure in the aircraft and aeronautic sector (nominal amount of around 650 million dollars). The guarantees supporting the Da Vinci portfolio consisted of 128 aircraft belonging to 22 airline companies from 14 countries. With this transaction, Banca Intesa acquired protection through a credit default swap utilising:

- o for the unfunded portion (84%), a Senior Swap contract underwritten by a leading financier, covering the risk of the Da Vinci risk portfolio with a rating higher than or equivalent to AA;
- o for the funded portion (12%), the Special Purpose Vehicle Da Vinci Synthetic Plc, which issued notes for an overall value of 78.2 million dollars, consisting of three tranches (the first with an A rating for 32.5 million dollars, the second with a BBB rating for 26.1 million dollars and the third with a BB+ rating for 19.6 million dollars) placed with international institutional investors only.

The structure of this transaction also allowed for the sale at any time of the remaining 4% of the risk, corresponding to around 26 million dollars. The rating agencies used were S&P, Fitch and Moody's.

– Intesa Sec 3:

Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 "performing" residential mortgages, issued predominantly in Northern Italy, to private individuals, and guaranteed by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.

– Cr Firenze Mutui:

At the year end Banca CR Firenze had an outstanding securitisation relating to "performing" mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle had issued securities for 521 million euro. The rating agencies used were S&P, Fitch and Moody's.

– Intesa Sec Npl:

This transaction, completed in 2001, involved the securitisation of doubtful loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to families and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred "without recourse" to the special purpose vehicle IntesaBci Sec NPL, for a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto and they

subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro, both unrated) on the other hand were subscribed by IntesaBci. The rating agencies used were Fitch and Moody's.

– **Intesa Sec:**

During 2000 Banca Intesa carried out a securitisation of mortgages of the Group. The portfolio, placed in the market through the special purpose vehicle Intesa Sec, consisted of over 20,000 performing mortgages granted to private individuals. Against loans with a residual capital of around 993 billion Italian lira purchased at nominal value, the vehicle issued three tranches of rated securities for a value of 977 billion that were placed with institutional investors. The fourth unrated tranche of around 16 billion was subscribed for directly by the Group. This transaction was part of an operational strategy aimed at improving the return on capital by reinvesting the liquidity generated and using the regulatory capital made available. The rating agencies used were Fitch and Moody's.

– **Electricity Securitisation and Gas Securitisation:**

These transactions were conducted in 2011 on portfolios of trade receivables purchased by the Intesa Sanpaolo Group from third parties. Risks of the portfolio of receivables, originated by primary customers and purchased by the Group without recourse, were subsequently securitised. Against receivables with a nominal value of approximately 727 million euro, numerous tranches of unrated securities were issued. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., and Duomo Funding Plc..

– **Food & Beverages Securitisation:**

This transaction was carried out in several tranches, starting from 2012 on portfolios of trade receivables purchased by the Intesa Sanpaolo Group from third parties. Risks of the portfolio of receivables, originated by primary customers and purchased by the Group without recourse, were subsequently securitised. Numerous tranches of unrated securities were issued against receivables. The securitisation of commercial loans in the Food & Beverages sector was expanded during 2014, bringing the nominal value of securitised loans from 355 to 597 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., and Duomo Funding Plc..

– **Automotive, Electronics and Mechanics Securitisation (Conan):**

This transaction was carried out in several tranches, starting from 2012 on portfolios of trade receivables purchased by the Intesa Sanpaolo Group from third parties. Risks of the portfolio of receivables, originated by primary customers and purchased by the Group without recourse, were subsequently securitised. Numerous tranches of unrated securities were issued against receivables. This securitisation was expanded during 2014, bringing the nominal value of securitised loans from 80 to 380 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l., and Duomo Funding Plc..

– **Electricity Securitisation 2 and Gas Securitisation 2:**

The transaction Electricity 2, of 50 million euro involving securitisation of commercial loans in the electrical sector, was completed at the beginning of 2013. This was followed by an additional transaction of 35 million euro in April, involving loans in the gas sector (Gas 2). The vehicle used for the two transactions was Duomo Funding Plc. The securities issued are unrated.

– **Active Credit Risk Management (GARC) Securitisation / Telephony Securitisation:**

See the description provided in the section "Securitisations carried out during the period".

Asset-Backed Commercial Paper (ABCP) programmes

In accordance with IAS/IFRS, Intesa Sanpaolo controls and fully consolidates:

– **Romulus Funding Corporation:**

a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;

– **Duomo Funding PLC:**

an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Romulus Funding Corporation and Duomo Funding Plc. are asset-backed commercial paper conduits, originally established to support Intesa Sanpaolo's strategy of offering customers an alternative financing channel via access to the international commercial paper market. The assets originated by customers are concentrated in Duomo, leaving Romulus activity of fund-raising on the U.S. market. Nonetheless, due to the subsequent downgradings of Intesa Sanpaolo at the end of 2014, US investors gradually divested

without the vehicle being able to find new third party investors with which to place the commercial papers. As at 31 December 2014, around 2.2 billion euro of the around 2.4 billion euro in securities issued by Romulus had been subscribed by the Parent Company Intesa Sanpaolo.

The risks associated with these entities, and more specifically, the potential interest rate and exchange rate risks arising from the operations of the two companies, must be covered in accordance with the Intesa Sanpaolo Group policy for the management of these risks. Risk management performs dynamic hedging on the OTC derivatives market to manage both volatility and interest rate risks, as well as listed derivatives to optimise interest rate strategies. Companies are not generally permitted to take foreign-exchange positions.

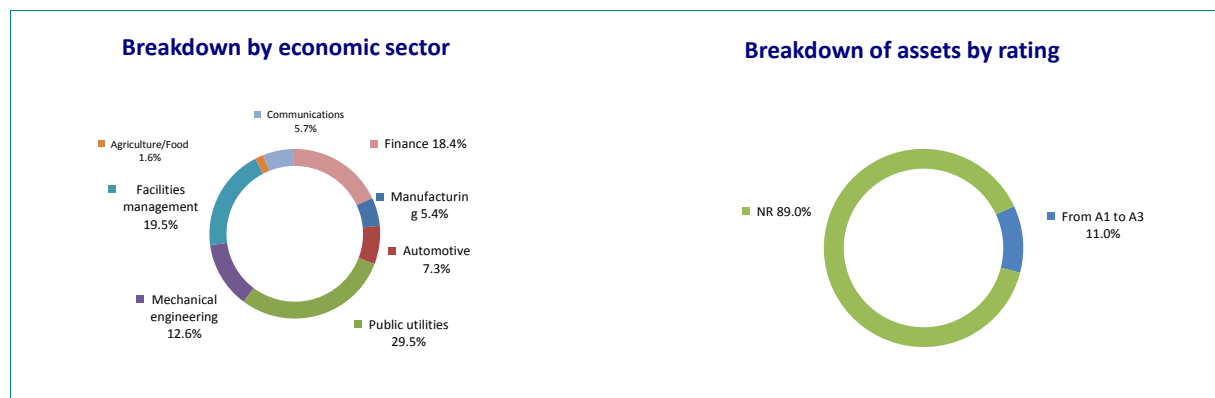
As at 31 December 2014, the investment portfolio of vehicle Romulus included 2,361 million euro in loans to the vehicle Duomo. These are in addition to 2 million euro in positive fair value of hedging derivatives and 1 million euro in cash and other assets.

Against those assets, the vehicle issued asset-backed commercial paper (ABCP) with a nominal value of 2.4 billion euro, which, as mentioned above, were almost fully acquired by the Parent Company.

At the end of 2014 the portfolio of the vehicle Duomo consisted – in addition to loans to banks of the Group of 1,571 million euro - also loans to customers of 767 million euro, fully comprised of structured credit products subscribed in the context of normal customer lending activity, the collateral for which had not shown any sign of impairment as at 31 December 2014. In portfolio, the vehicle also holds quotas of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 36 million euro as at 31 December 2014.

The total assets of the conduits Romulus and Duomo, net of dealings between the two vehicles, made up 0.37% of the total consolidated assets.

The portfolio of the two vehicles is approximately 75% accounted for by commercial loans and the remainder by consumer loans (10%), by inventory-backed loans (8%), by loans deriving from lease contracts (4%) and by loans/lease contracts to pharmaceutical companies (3%). Almost all of the eligible assets held by the vehicles are expressed in euro (98.6% of the total portfolio). The remainder is denominated in US dollars. The following information is provided concerning the portfolio of eligible assets.



List of stakes in special purpose vehicles held by the Banking Group

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION ^(f)	(millions of euro)					
			ASSETS ^(a)			LIABILITIES ^(a)		
			Loans	Debt	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l.	Conegliano Veneto (TV)	(b)	3,080	-	207	48	3,044	-
Intesa Sanpaolo SEC SA ^(b)	Luxembourg	Consolidated	59	-	262	305	-	16
Intesa Sanpaolo Securitisation Vehicle S.r.l.	Milano	Consolidated	190	-	1		(c)	
Intesa Sec S.p.A.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Intesa Sec 3 S.r.l.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Intesa Sec NPL S.p.A.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Augusto S.r.l. ^(e)	Milano	(f)	5	-	2	17	-	-
Colombo S.r.l. ^(e)	Milano	(f)	45	-	10	5	40	10
Diocleziano S.r.l. ^(e)	Milano	(f)	15	-	3	67	-	-
CR Firenze Mutui	Conegliano Veneto (TV)	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) ^(h)	Milano	Consolidated	20,000	-	6,457		26,016	
ISP CB Ipotecario S.r.l. ^(h)	Milano	Consolidated	14,440	-	5,794		18,807	
ISP CB Pubblico S.r.l. ^(h)	Milano	Consolidated	5,876	2,677	4,143		12,062	

^(a) Figures gross of any intercompany relations.

^(b) Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4 of the Consolidated Financial Statements 2014.

^(c) This vehicle (former Intesa Lease Sec S.r.l.) has been used to launch the first phase of a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CLB Hungary, also in currencies other than the euro, for a total of 343 million euro. During February 2015 the securitisation transaction was completed with the issue of 192 million euro in senior securities and 160 million euro in junior securities, fully subscribed by Intesa Sanpaolo SpA.

^(d) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.9 of the Notes to the Consolidated Financial Statements 2014.

^(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2013).

^(f) Vehicle consolidated at equity.

^(g) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.7 of the Notes to the Consolidated Financial Statements 2014.

^(h) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section E.4 in Part E of the Notes to the Consolidated Financial Statements 2014.

⁽ⁱ⁾ Consolidation method referring to the "prudential" scope.

"Third party" securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

Nature of the risks, including liquidity risk, relating to the securitised assets

In addition to credit risk, the securitised assets are subject to other types of risk. These include:

- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Section on market risks) for financial statement purposes, as well as their eligibility for refinancing with Central Banks and liquidity, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

Exposures to own and third party re-securitisations: type of risk

The Group has exposures to re-securitisations only as products issued by third parties ("Third party re-securitisations"). The exposures included in the trading book mainly comprise credit derivatives (essentially cash CDOs) with underlying ABSs. The Group's re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures, (see Quantitative information in this Section) and progressively declining.

Procedures for monitoring changes in credit and market risks of the securitisations

For ABS positions in the trading book, the Risk Management Department calculates the VaR within the infrastructure of the Internal Model to calculate market risk. Specifically, the method used relates to the treatment of illiquid parameters. The absorption and use are calculated on ABS exposure, in terms of VaR and issuer risk. The ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC is included.

Risk hedging policies for exposures to securitisations and re-securitisations

Currently, no strategies to purchase protection are in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

Securitisations: methods for calculating the risk weighted exposures

Intesa Sanpaolo applies the Standardised approach and, with effect from 31 December 2012, the IRB approach (Rating Based Approach - RBA and Supervisory Formula Approach - SFA) to calculate the capital requirement for credit risk in connection with securitisation transactions with underlying for which there is a validated internal model in the corresponding credit risk. The regulatory segments that currently have been validated are the Corporate, Mortgage and SME Retail approaches. The IRB approach - RBA is used for third-party securitisations with public rating (Agency Rating). The IRB approach - SFA is used for own securitisations.

Securitisations: accounting standards

The rules for the recognition of securitisations, governed by the IAS/IFRS in the IAS 39 document (paragraphs relating to derecognition), are divided according to whether or not the underlying assets must be derecognised.

In the event of derecognition

When all the risks and benefits from the ownership are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.

If the consideration received is not made up entirely of an amount of available cash, but consists partly of financial assets, these are initially recognised at fair value. Their fair value is also used in the calculation of the profit or loss from the sale.

Should derecognition be permitted, if only a part of the cash flows that derive from a loan is sold, the carrying value of the part maintained is recognised at fair value as at the date of the sale. Any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.

The assets sold are derecognised and the profit or loss from the sale, together with any receivable relating to the sale consideration, are recorded in the financial statements as at the date of the completion of the sale. More generally, the entry date for the transaction in the financial statements depends on the contractual clauses. If the cash flows from the assets sold are transferred after the execution of the agreement, for example when there are suspending clauses, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows.

In the event of no derecognition

If the requirements established by IAS 39 are not met and the securitisation does not therefore qualify for derecognition, the originator records the loan as an offsetting entry for the consideration received.

A common example is when the originator sells a loan portfolio to the special purpose vehicle, but subscribes for the junior class in full (and therefore for the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.

In this case, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained. If there is no derecognition, the loans securitised continue to be recorded in the originator's financial statements.

Subsequently, the originator must recognise any income from the asset transferred and any charges incurred on the liability recorded without offsetting any of the costs and revenues.

The loan portfolio transferred continues to be classified in the loan category that it originally formed part of and, consequently, is measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.

It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2 and Intesa Sec Npl), the Group made use of the exemption from compliance with the IAS/IFRS requirements

permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recorded in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

Provisions for guarantees and commitments

Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, possibly included in the securitisation transactions, determined applying the same criteria set out with respect to other types of loans and receivables, are recorded under Other liabilities, as set out by Bank of Italy instructions.

Assessment of exposures to securitisations - banking book

For securities deriving from securitisations, the need to record impairment is assessed if the fair value is lower than the carrying value by a percentage set a priori, or if there is evidence of potential impairment. This process has not changed with respect to the previous year.

If one of these conditions is in place and, as a result of an analysis of the type of securitisation, it is found that the reduction in fair value is due to impairment of the collateral and not to a generic increase in the spread on the secondary market, for bonds issued mainly by vehicles - as the overall structures refer to bankruptcy-remote entities, the analysis concentrates on the performance of the underlyings, which constitute the vehicle's assets, and how this reflects on the notes subordination in the portfolio.

Specifically, the procedure involves the following steps:

- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or the early termination of the deal. The analysis is based on the periodic reports from the administrators and rating agencies;
- specifically for junior tranches of securitisations originated by Intesa Sanpaolo which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to loans recovery times for the underlying loans.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, it must be verified that the note's credit enhancement can still sufficiently absorb the actual losses. In the event of negative results of this verification, the security must necessarily be impaired.

Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- the fair value is recalculated based on the new rules and the new available cash flows are compared with the credit enhancement of the tranche in the portfolio, in the event of trigger covenants resulting in new payment priorities.

Assessment of exposures to securitisations - trading book

Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Section on market risks).

Synthetic securitisations

Synthetic securitisations are usually recognised on the basis of the following rules.

The loans subject to synthetic securitisation continue to be recorded in the assets of the bank (protection buyer) that has retained full ownership of them. The premium paid by the bank to the protection seller for the purchase of the protection Credit Default Swap is recorded under commission expense in the income statement, where the premiums relating to the credit derivatives associated with the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

Securitisations: recognition criteria for prudential purposes

The prudential rules for securitisations are set forth directly in the CRR, and in particular in Part Three, Title II, Chapter 5, and in Part Five. In addition, the subject is further discussed in the EBA guidelines:

- for defining normal market conditions when a transaction is not structured so as to provide support;
- on the significant transfer of risk pursuant to Articles 243 and 244 of the CRR.

Although the prudential regulations indicated above present clear analogies with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not material for the purposes of recognition for prudential purposes. Therefore, intermediaries may see situations where the accounting figures and the reports for prudential purposes are different. In the case of the Intesa Sanpaolo Group, this possibility is not significant, as there is only one transaction – Intesa Sec 3 – where the financial statement criteria and prudential reporting criteria are different (see Quantitative Disclosure below). In fact, Intesa Sec 3 is:

- not de-recognised for financial statement purposes, due to the credit enhancement granted in the form of subordinated coverage of the first loss, based on which the Group – in accordance with the accounting principles – has essentially maintained the risks and benefits of the portfolio transferred;
- de-recognised for prudential supervision purposes, following – based on the prudential rules in effect upon creation of the securitisation – a significant transfer of risk, as the prudential requirement of exposures to the securitisation in the portfolio (“post-securitisation” requirement) was lower – upon structuring of the transaction – than the amount calculated on the securitised assets (“ante-securitisation” requirement) (the “static test”).

Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: amount of the originated and third party securitisation positions

(millions of euro)

	On-balance sheet exposures						Guarantees given					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	1,387	1,387	71	71	96	93	-	-	-	-	-	-
a) Non-performing	-	-	-	-	17	17	-	-	-	-	-	-
b) Other	1,387	1,387	71	71	79	76	-	-	-	-	-	-
B. Third party underlying assets (*)	4,832	4,829	359	357	43	42	-	-	-	-	-	-
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	4,832	4,829	359	357	43	42	-	-	-	-	-	-
TOTAL 31.12.2014	6,219	6,216	430	428	139	135	-	-	-	-	-	-
TOTAL 31.12.2013	4,507	4,497	446	426	113	108	-	-	-	-	-	-

	Credit lines						Total					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	1,564	1,564	-	-	-	-	2,951	2,951	71	71	96	93
a) Non-performing	-	-	-	-	-	-	-	-	-	-	17	17
b) Other	1,564	1,564 (**)	-	-	-	-	2,951	2,951	71	71	79	76
B. Third party underlying assets (*)	852	852	-	-	-	-	5,684	5,681	359	357	43	42
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	852	852	-	-	-	-	5,684	5,681	359	357	43	42
TOTAL 31.12.2014	2,416	2,416	-	-	-	-	8,635	8,632	430	428	139	135
TOTAL 31.12.2013	2,102	2,102	-	-	-	-	6,609	6,599	446	426	113	108

(*) Including Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes as detailed in the tables relating to third party securitisations.

(**) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

With the exception of the Da Vinci and GARC securitisation (synthetic securitisations), the Group's originated securitisations include only traditional transactions and ABCP (Asset Backed Commercial Paper) programmes.

Total amount of assets awaiting securitisation

In 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).

For each of the agreements stipulated, the loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. The tranching of the portfolio is to be determined by the bank by applying the Supervisory Approach Formula. As a guarantee for the two potential portfolios, the Bank has received a total cash collateral amount of 16 million euro, into an interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.

The construction of the portfolios pertaining to the first and second agreements, which began in 2011 and 2012, was concluded, per contract, in October 2014.

Given the specific purposes of the investments required under the aforementioned agreements and the persistently difficult economic conditions, applications for special-purpose loans were limited, and it was possible to enter into a limited number of transactions (a total of 23 transactions were undertaken, for a residual value of 15 million euro as at 31 December 2014). Considering the low level of representativeness of the total customer pool, the transactions in question have prudentially been regarded as senior unsecured loans, pending a joint definition with the Ministry of Economic Development of the exact amount of the cash collateral that is to secure the two portfolios.

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

	On-balance sheet exposures ^(*)			Off-balance sheet exposures ^(*)		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,208	227	28	-	-	-
Financial assets measured at fair value	1	-	-	-	-	-
Financial assets available for sale	418	1	12	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans ^(**)	3,202	129	24	852	-	-
TOTAL 31.12.2014	4,829	357	64	852	-	-
TOTAL 31.12.2013	4,497	340	45	1,269	-	-

^(*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 1.529 million euro. As at 31 December 2014, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 1.564 million euro.

^(**) This caption includes off-balance sheet exposures referred to "Guarantees given" and "Credit lines".

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	-	-	-	-	22	2
A.1 Intesa Sec Npl - performing mortgages	-	-	-	-	17	2
A.2 Intesa Sec ^(*) - performing mortgages	-	-	-	-	-	-
A.3 CR Firenze Mutui - performing mortgages	-	-	-	-	5	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	1,387	-	71	-	71	-
C.1 GARC ^(**) - loans to business	1,387	-	-	-	5	-
C.2 Da Vinci ^(*) ^(**) - loans to the aircraft sector	-	-	-	-	-	-
C.3 Intesa Sec 3 - performing residential mortgages	-	-	44	-	53	-
C.4 Food & Beverage Securitisation ^(*) - trade receivables	-	-	-	-	-	-
C.5 Telefonía Securitisation - trade receivables	-	-	-	-	1	-
C.6 Luce Securitisation - trade receivables	-	-	25	-	8	-
C.7 Gas Securitisation - trade receivables	-	-	2	-	2	-
C.8 Automotive, Electronic & Mechanics Securitisation - trade receivables	-	-	-	-	2	-
TOTAL 31.12.2014	1,387	-	71	-	93	2
TOTAL 31.12.2013	-	-	86	1	81	-5

^(*) The positions of Intesa Sec and Da Vinci in the Parent Company's portfolio and the Food & Beverage Securitisation in Banca IMI's portfolio have values of less than 1 million euro. Therefore, they are shown in the table at values equal to zero.

^(**) Da Vinci and GARC securitisations are synthetic.

Intesa Sec 3 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

	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 for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes	-	-	-	-	-	-	1,564	-	-	-	-	-
C.1 Duomo Funding Plc. - trade receivables	-	-	-	-	-	-	1,564	-	-	-	-	-
TOTAL 31.12.2014	-	-	-	-	-	-	1,564	-	-	-	-	-
TOTAL 31.12.2013	-	-	-	-	-	-	833	-	-	-	-	-

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(millions of euro)

	On-balance sheet exposures								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non	Book value	Adjust./ recoveries	of which: non	Book value	Adjust./ recoveries	of which: non
A.1 Romulus ^(*)									
- Asset backed commercial papers									
of which: Banking book	2,211	-	-	-	-	-	-	-	-
A.2 Fondo Immobili Pubblici									
- financial credits deriving from rental of properties to the public sector									
of which: Banking book	159	-	-	-	-	-	-	-	-
of which: Trading book	26	2	-	-	-	-	-	-	-
A.3 Posillipo Finance									
- loans to the Italian health system									
of which: Banking book	153	-	-	-	-	-	-	-	-
A.4 ASTI Finance Srl									
- residential mortgages									
of which: Banking book	88	-	-	-	-	-	-	-	-
of which: Trading book	28	-	-	2	-	-	-	-	-
A.5 CLARIS Finance S.r.l.									
- residential mortgages									
of which: Banking book	56	-	-	-	-	-	-	-	-
of which: Trading book	62	-	-	-	-	-	-	-	-
A.6 Sunrise S.r.l.									
- consumer credit									
of which: Banking book	59	-	-	2	-	-	-	-	-
of which: Trading book	37	-	-	4	-	-	-	-	-
A.7 Berica Residential MBS S.r.l.									
- residential mortgages									
of which: Banking book	75	-	-	7	-	-	-	-	-
of which: Trading book	7	-	-	4	-	-	-	-	-
A.8 Mecenate									
- residential mortgages									
of which: Trading book	89	-	-	2	-	-	-	-	-
A.9 VOBA FINANCE Srl									
- residential mortgages									
of which: Banking book	78	-	-	-	-	-	-	-	-
of which: Trading book	9	-	-	-	-	-	-	-	-
A.10 Quadrivio RMBS									
- Residential mortgages									
of which: Banking book	75	-	-	-	-	-	-	-	-
of which: Trading book	7	-	-	-	-	-	-	-	-
A.11 Quadrivio SME									
- financing for SMEs									
of which: Trading book	75	-	-	-	-	-	-	-	-
A.12 PARAGON MORTGAGES									
- residential mortgages									
of which: Banking book	8	-	-	-	-	-	-	-	-
of which: Trading book	43	-	-	18	-	-	6	-	-
A.13 D'Annunzio									
- Trade receivables from the Italian health system									
of which: Banking book	71	-	-	-	-	-	-	-	-
A.14 GRANITE									
- residential mortgages									
of which: Banking book	-	-	-	12	-	-	-	-	-
of which: Trading book	6	-	-	35	1	-	13	-	-
A.15 VELA HOME Srl									
- residential mortgages									
of which: Banking book	11	-	-	-	-	-	-	-	-
of which: Trading book	47	2	-	1	-	-	-	-	-
A.16 Residual portfolio divided into 295 securities ^(**)									
of which: Banking book	1,349	2	-	270	2	-	23	1	-
of which: Trading book	579	-	-	109	-	-	15	-	-
of which: Trading book	770	2	-	161	2	-	8	1	-
TOTAL 31.12.2014	4,829	6	-	357	3	-	42	1	-
of which: Banking book	3,623	-	-	130	-	-	15	-	-
of which: Trading book	1,206	6	-	227	3	-	27	1	-
TOTAL 31.12.2013	4,497	5	-	340	4	-	27	-1	-
of which: Banking book	3,398	-2	-	209	-	-	18	-1	-
of which: Trading book	1,099	7	-	131	4	-	9	-	-

^(*) Romulus securities held in the Banking Group's portfolios are shown under third party securitisations, as these are ABCP issued by the vehicle partly for assets of the Banking Group and partly for risks originating from other economic operators, without distinction.

^(**) Please note that 64 million euro included among "Residual portfolio" refers to single tranche securitisations, classified as Senior securities and not as exposures to securitisations for supervisory purposes.

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure: composition of the residual banking book as at 31 December 2014

(millions of euro)

Residual portfolio divided by type of underlying asset - banking book	On-balance sheet exposures 31.12.2014								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing
Residential mortgages	350	-	-	52	-	-	1	-	-
Commercial mortgages	38	-	-	45	-	-	-	-	-
Other ABS (CLO-CMO-CFO)	85	-	-	10	-	-	-	-	-
Loans to the Italian health system	49	-	-	-	-	-	-	-	-
Project finance loans	-	-	-	-	-	-	14	-	-
Loans to foreign public bodies	31	-	-	-	-	-	-	-	-
Electrical company loans due from the public sector	23	-	-	-	-	-	-	-	-
Public property	2	-	-	1	-	-	-	-	-
Loans deriving from leasing contracts	1	-	-	1	-	-	-	-	-
TOTAL	579	-	-	109	-	-	15	-	-

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure: composition of the residual trading book as at 31 December 2014

(millions of euro)

Residual portfolio divided by type of underlying asset - trading book	On-balance sheet exposures - 31.12.2014								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing
Residential mortgages	310	1	-	28	2	-	-	-	-
Financing for SMEs	149	2	-	2	-	-	-	-	-
Commercial mortgages	78	-	-	38	-	-	4	1	-
Other ABS (CLO-CMO-CFO) (*)	74	-2	-	44	-1	-	-	-	-
Loans deriving from leasing contracts	54	-	-	21	-	-	-	-	-
Consumer credit	73	-	-	20	-	-	-	-	-
CDO Cash	23	-	-	-	-	-	-	-	-
Public property	-	-	-	5	1	-	-	-	-
Personal loans	-	-	-	-	-	-	4	-	-
Other assets	9	1	-	3	-	-	-	-	-
TOTAL	770	2	-	161	2	-	8	1	-

(*) Includes position part of packages, whose credit risk is entirely hedged by a specific credit default swap (CDS). The adjustment highlighted was, therefore, practically identical to the positive fair value of the derivative.

Securitisations: breakdown of off-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(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.1 Duomo - ABCP Conduit transactions	-	-	-	-	-	-	852	-	-	-	-	-
Total 31.12.2014	-	-	-	-	-	-	852	-	-	-	-	-
Total 31.12.2013	-	-	-	-	-	-	1,269	-	-	-	-	-

(*) In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2014 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 137 million euro.

Securitisations: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2014	
	Originated securitisations	Third-party securitisations
Risk weight 20%	-	58
Risk weight 35% (*)	1	-
Risk weight 40%	-	-
Risk weight 50%	-	217
Risk weight 100%	-	365
Risk weight 150% (*)	25	-
Risk weight 225%	-	131
Risk weight 350%	-	599
Risk weight 650%	-	111
Risk weight 1250% - with rating	-	1,070
Risk weight 1250% - without rating	292	228
Look-through - second loss in ABCP	-	-
Look-through - other	-	627
Deducted from regulatory capital	-	-
Total	318	3,406

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

Securitisations: weighted amounts of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach – Supervisory Formula Approach)

(millions of euro)

Risk weight bands	31.12.2014	
	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	-	35
Risk weight 12 - 18%	-	83
Risk weight 20 - 35%	9	38
Risk weight 40 - 75%	-	67
Risk weight 100%	4	22
Risk weight 150%	-	125
Risk weight 200%	-	5
Risk weight 225%	-	-
Risk weight 250%	-	39
Risk weight 300%	-	8
Risk weight 350%	-	-
Risk weight 425%	-	135
Risk weight 500%	-	50
Risk weight 650%	-	91
Risk weight 750%	-	215
Risk weight 850%	-	-
Risk weight 1250% - with rating	-	1,405
Risk weight 1250% - without rating	-	-
Deducted from regulatory capital	-	-
Total	13	2,318

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations and the type of exposure underlying transactions with weightings of 1250%.

Additional information concerning the market risks of the trading book, including the requirement for the securitisations included in that book, is provided in the section of this document dedicated to market risks, which also presents a separate account of the requirements for exposures to securitisations in the trading book, including the credit default swaps with underlying exposures to securitisations and included in the correlation portfolio.

Banking Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Weighted amounts (RWA)				
Risk weight 20%	-	-	21	-
Risk weight 35% ^(*)	1	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	70	-
Risk weight 100%	-	-	251	68
Risk weight 150% ^(*)	25	-	-	-
Risk weight 225%	-	-	131	131
Risk weight 350%	-	-	546	-
Risk weight 650%	-	-	111	111
Risk weight 1250% - with rating	-	-	384	298
Risk weight 1250% - without rating	292	-	228	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	627	-
Deducted from regulatory capital	-	-	-	-
Total RWA Banking book as at 31.12.2014	318	-	2,369	608
Capital requirements				
Risk weight 20%	-	-	2	-
Risk weight 35% ^(*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	6	-
Risk weight 100%	-	-	20	5
Risk weight 150% ^(*)	2	-	-	-
Risk weight 225%	-	-	10	10
Risk weight 350%	-	-	44	-
Risk weight 650%	-	-	9	9
Risk weight 1250% - with rating	-	-	31	24
Risk weight 1250% - without rating	23	-	18	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	50	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Banking book as at 31.12.2014	25	-	190	48

^(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

Trading Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Weighted amounts (RWA)				
Risk weight 20%	-	-	37	-
Risk weight 35% ^(*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	147	-
Risk weight 100%	-	-	114	-
Risk weight 150% ^(*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	53	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	686	-
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total RWA Trading book as at 31.12.2014	-	-	1,037	-
Capital requirements				
Risk weight 20%	-	-	3	-
Risk weight 35% ^(*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	12	-
Risk weight 100%	-	-	9	-
Risk weight 150% ^(*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	4	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	55	-
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Trading book as at 31.12.2014	-	-	83	-

^(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

Banking Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach – Supervisory Formula Approach)

Risk weight bands	(millions of euro)			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Weighted amounts (RWA)				
Risk weight 7 - 10%	-	-	10	-
Risk weight 12 - 18%	-	-	49	-
Risk weight 20 - 35%	6	-	17	1
Risk weight 40 - 75%	-	-	24	2
Risk weight 100%	4	-	14	-
Risk weight 150%	-	-	68	68
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	39	-
Risk weight 300%	-	-	8	8
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	129	-
Risk weight 500%	-	-	21	21
Risk weight 650%	-	-	68	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	1,148	-
Risk weight 1250% - without rating	-	-	-	-
SFA - Supervisory Formula Approach	147	-	-	-
Deducted from regulatory capital	-	-	-	-
Total RWA Banking book 31.12.2014	157	-	1,595	100
Capital requirements				
Risk weight 7 - 10%	-	-	1	-
Risk weight 12 - 18%	-	-	4	-
Risk weight 20 - 35%	-	-	1	-
Risk weight 40 - 75%	-	-	2	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	5	5
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	3	-
Risk weight 300%	-	-	1	1
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	10	-
Risk weight 500%	-	-	2	2
Risk weight 650%	-	-	5	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	92	-
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Banking book as at 31.12.2014	-	-	127	8

Trading Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach – Supervisory Formula Approach)

Risk weight bands	(millions of euro)			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Weighted amounts (RWA)				
Risk weight 7 - 10%	-	-	25	-
Risk weight 12 - 18%	-	-	34	-
Risk weight 20 - 35%	3	-	21	-
Risk weight 40 - 75%	-	-	43	-
Risk weight 100%	-	-	8	2
Risk weight 150%	-	-	57	57
Risk weight 200%	-	-	5	5
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	-	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	6	-
Risk weight 500%	-	-	29	29
Risk weight 650%	-	-	23	-
Risk weight 750%	-	-	215	215
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	257	186
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total RWA Trading book 31.12.2014	3	-	723	494
Capital requirements				
Risk weight 7 - 10%	-	-	2	-
Risk weight 12 - 18%	-	-	3	-
Risk weight 20 - 35%	-	-	2	-
Risk weight 40 - 75%	-	-	3	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	5	5
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	-	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	2	2
Risk weight 650%	-	-	2	-
Risk weight 750%	-	-	17	17
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	21	15
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Trading book as at 31.12.2014	-	-	58	39

Exposures to own and third party re-securitisations – exposures covered by credit risk mitigation techniques

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Breakdown of exposures for positions weighted at 1250% - Standardised and IRB Approaches

(millions of euro)

	Banking book		Trading book	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
CDO cash	-	-	-	207
RMBSs	292	668	-	49
CMBSs	-	328	-	82
Other ABS (CLO/CMO/CFO)	-	518	-	200
Credit derivatives	-	-	-	313
Project Finance loans	-	178	-	-
CLO	-	7	-	-
Loans deriving from leasing contracts	-	-	-	72
WL Collateral CMO	-	61	-	-
Other assets	-	-	-	20
Total weighted exposure at 1250% 31.12.2014	292	1,760	-	943

In the requirements relating to exposures to securitisations in the trading book are included the requirements referring to Credit Default Swaps with underlying exposures to securitisations included in the correlation portfolio.

Securitisations carried out during the period

– **Active Credit Risk Management (GARC) Securitisation:**

In 2014 Intesa Sanpaolo launched the "GARC" (Active Credit Risk Management) project to create a platform to monitor 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. This type of transactions provide synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation 575/2013 and Bank of Italy Circular 285/2013). As part of these operations, in 2014 the junior risk relating to a total portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) was sold to a specialised investor.

– **Telephony Securitisation:**

The transaction, involving securitisation of commercial loans in the telephony sector of 150 million euro, was completed at the beginning of 2014. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc. The securities issued are unrated.

Section 11 - Market risks

Qualitative and quantitative disclosure

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

Risk factors	
Interest rates	Spreads in credit default swaps (CDS)
Equity and market indexes	Spreads in bond issues
Investment funds	Correlation instruments
Foreign exchange rates	Dividend derivatives
Implied volatilities	Asset Backed Securities (ABS)
	Commodities

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

	BOOK VALUE (supervisory scope)	MAIN RISK MEASUREMENT METRICS		
		VaR	Other	Risk factors measured using metrics included under Other
(millions of euro)				
Assets subject to market risk	496,626	99,385	397,241	
Financial assets held for trading	52,972	51,792	1,180	Interest rate risk, credit spread, equity
Financial assets designated at fair value through profit and loss	1,426	1,065	361	Interest rate risk, credit spread
Financial assets available for sale	52,546	46,508	6,038	Interest rate risk, rischio equity
Financial assets held to maturity	1,471	-	1,471	Interest rate risk
Due from banks	30,556	-	30,556	Interest rate risk
Loans to customers	341,765	-	341,765	Interest rate risk
Hedging derivatives	9,208	20	9,188	Interest rate risk
Investments in associates and companies subject to joint control	6,682	-	6,682	Equity risk
Liabilities subject to market risk	470,535	46,571	423,964	
Due to banks	51,521	-	51,521	Interest rate risk
Due to customers	235,360	-	235,360	Interest rate risk
Securities issued	127,176	-	127,176	Interest rate risk
Financial liabilities held for trading	46,231	45,737	494	Interest rate risk
Financial liabilities designated at fair value through profit and loss	-	-	-	
Hedging derivatives	10,247	834	9,413	Interest rate risk

Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.

In particular, the validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI; (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI; (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios.

Starting from 1 July 2014, the capital requirements deriving from the use of internal models will benefit from the reduction in the prudential multipliers established by the Surveillance Body following completion of the previously recommended corrective actions.

Breakdown of capital requirements by Calculation approach

(milioni di euro)	
Informazione	31.12.2014
Total risk weighted exposures: market risk	1,318
Standardised approach	333
<i>Position risk on debt instruments</i>	153
<i>Position risk on equity exposures</i>	90
<i>Foreign exchange risk</i>	90
<i>Position risk on commodities</i>	-
Internal models	985
Total risk weighted exposures: concentration risk	-

Under position risk, the requirements relating to exposures to securitisations in the trading book are presented separately, amounting to 141 million euro, including 26 million euro referring to Credit Default Swaps with underlying exposures to securitisations included in the correlation portfolio.

Stressed VaR

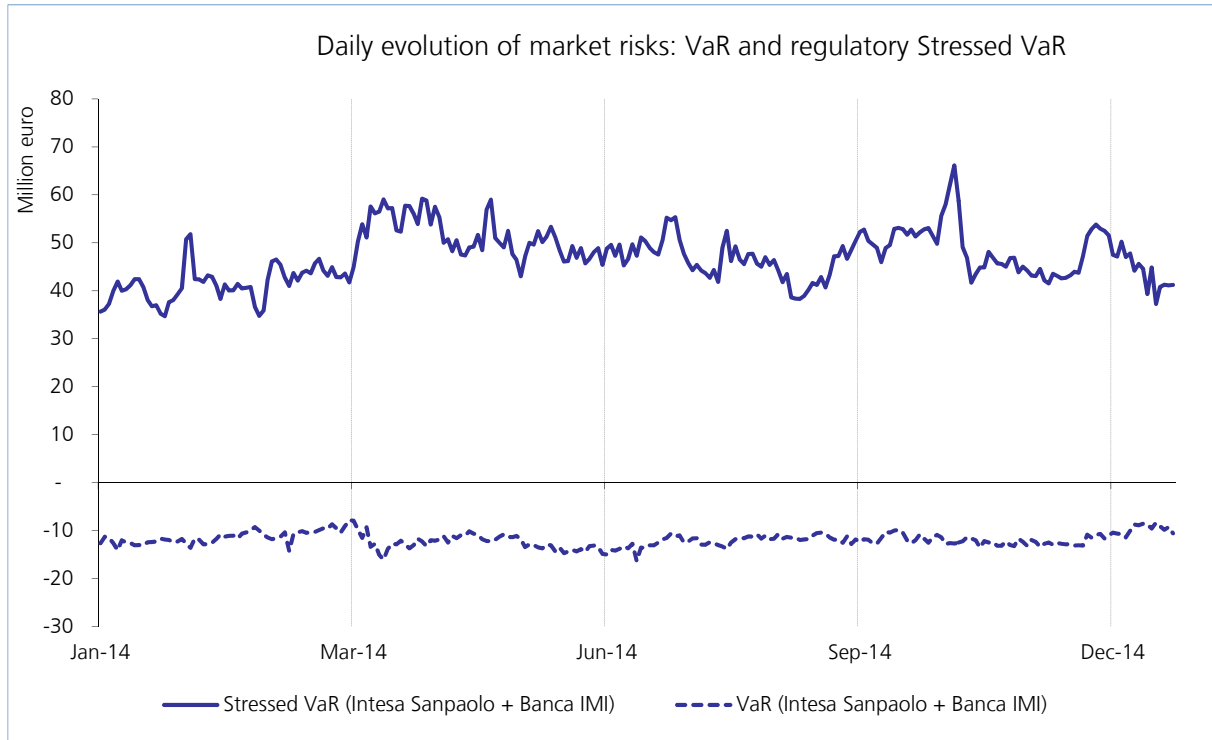
The requirement for stressed VaR is included when determining capital absorption effective 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the document, the period relevant to the measurement of stressed VaR was set as 1 January to 30 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

The graph below shows the trend of the measures.



The table below shows the summary figures relating to regulatory capital, with a breakdown of current VaR and stressed VaR.

Daily current value-at-risk

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	5.2	3.4	7.2	6.8	7.4	3.5
Banca IMI	6.4	4.4	8.3	5.1	5.5	7.7
Total	11.6	7.8	15.5	11.9	12.9	11.2

(millions of euro)

Stressed value-at-risk

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	22.2	14.6	27.4	26.7	23.3	14.0
Banca IMI	24.8	17.4	42.7	20.3	27.8	27.9
Total	47.0	32.0	70.1	47.0	51.1	41.9

(millions of euro)

VaR

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

The section “Quantitative information” presents the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Daily VaR evolution

During the fourth quarter of 2014, the market risks originated by Intesa Sanpaolo and Banca IMI increased compared to the previous periods: the average daily VaR for the fourth quarter of 2014 was 60.3 million euro, up on the third quarter.

With regard to the whole of 2014, the Group's average risk profile (48.5 million euro) decreased compared to the average values in 2013 (57.9 million euro).

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between the 4th and 3rd quarter of 2014 ^(a)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	8.2	5.7	11.2	9.3	9.6	9.4
Banca IMI	52.0	37.0	66.5	32.9	35.0	37.0
Total	60.3	45.0	73.8	42.2	44.7	46.5

(millions of euro)

^(a) Each line in the table sets out past estimates of daily operating VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for Intesa Sanpaolo and Banca IMI are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

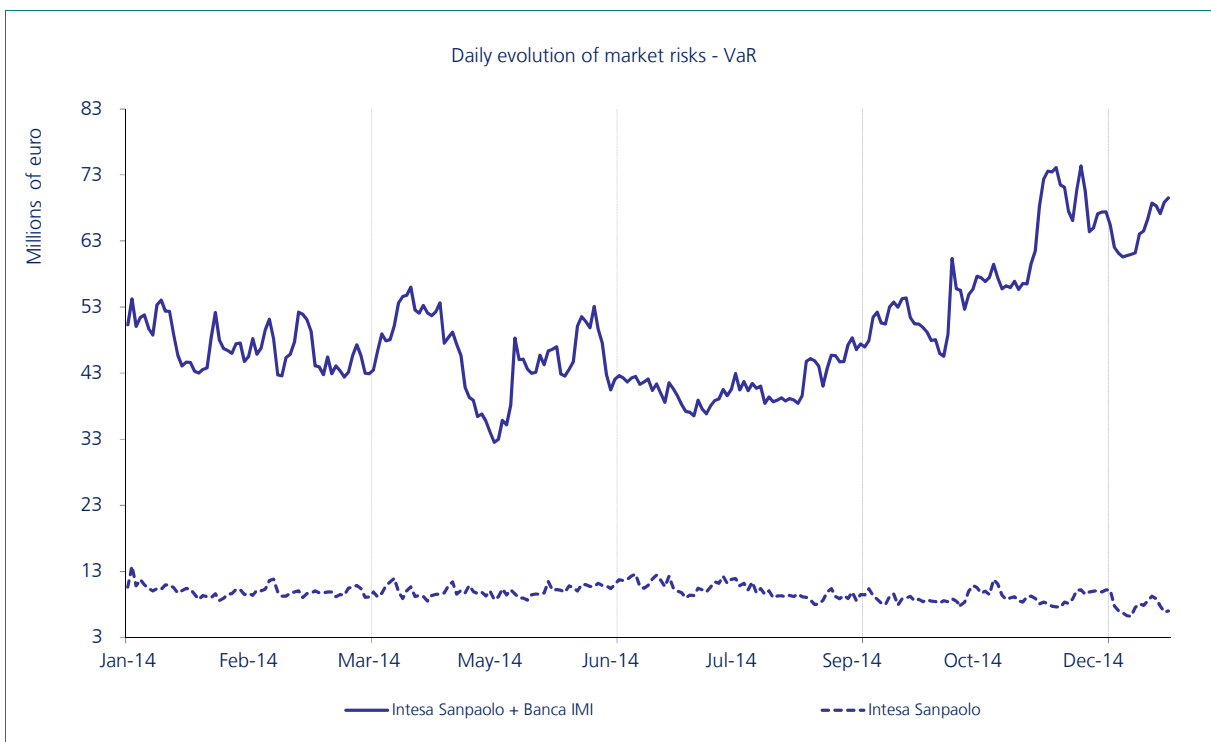
Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between 2014 - 2013 ^(a)

(millions of euro)

	2014				2013		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	9.1	5.6	12.0	7.4	11.1	6.4	18.1
Banca IMI	39.3	23.8	66.4	62.5	46.9	31.1	74.2
Total	48.5	32.0	73.8	69.8	57.9	37.8	88.5

^(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

The trend in the Group’s VaR, shown in the following chart, was mainly determined by Banca IMI. During the fourth quarter there was an increase in risks, in particular, in October new volatility scenarios arose pertaining to credit spreads, which resulted in an increase in VaR. Furthermore, in relation to the portfolio composition, there was an increase in risks (size and duration) on the Italian government securities portfolio classified on the AFS book of Banca IMI.



For Intesa Sanpaolo, the breakdown of risk profile in the fourth quarter of 2014, with regard to various factors, shows a general prevalence of equity risk, which accounted for 44% of total VaR. That percentage relates to the equity portion of hedge funds, for which full transparency is not available. Credit spread risk, which includes the risk associated with sovereign government bonds, was the most significant component for Banca IMI, representing 64% of the total.

Contribution of risk factors to total VaR ^(a)

4th quarter 2014	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	44%	9%	10%	29%	7%	1%	0%
Banca IMI	3%	0%	13%	64%	1%	15%	4%
Total	10%	1%	13%	58%	2%	12%	4%

^(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the fourth quarter of 2014, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

With regard to the hedge fund portfolio, the table below shows the exposures broken down by type of strategy adopted.

Contribution of strategies to portfolio breakdown^(a)

	31.12.2014	31.12.2013
- Catalyst Driven	18.0%	19.0%
- Credit	45.0%	47.1%
- Directional trading	16.0%	13.7%
- Equity hedged	15.0%	16.0%
- Equity Long Only	5.5%	4.0%
- Multi-strategy	0.5%	0.2%
Total hedge funds	100.0%	100.0%

(a) The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2014 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (45% of the total in terms of portfolio value).

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	-12	9	-61	134	234	-231	-4	-20	15	-25

In particular:

- on stock market positions, a 5% decrease in stock prices with a resulting 10% increase in volatility would have led to a loss of approximately 12 million euro;
- on interest rate exposures, a rise of the curves of 70 basis points would have had a negative impact of 61 million euro, whereas a scenario with near zero rates would have led to potential gains;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 231 million euro loss;
- on foreign exchange exposures, were the Euro to appreciate against the US dollar by 10%, a loss of approximately 20 million euro would be recorded. Losses would also be recorded in the event of a depreciation due to option risks on the portfolio of Banca IMI;
- lastly, on commodity exposures, gains would be recorded in case of a 50% decrease in prices; conversely, in case of an increase, the potential losses would be equal to 25 million euro.

Backtesting

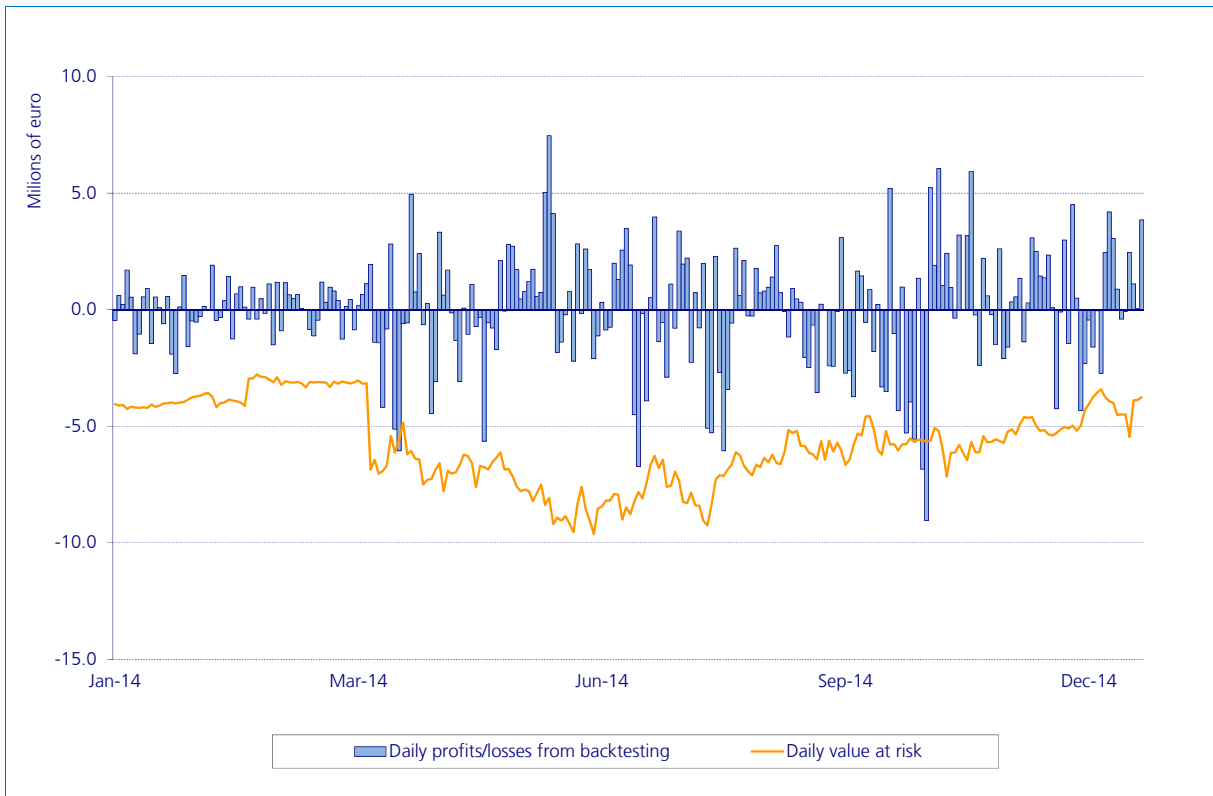
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on revaluation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

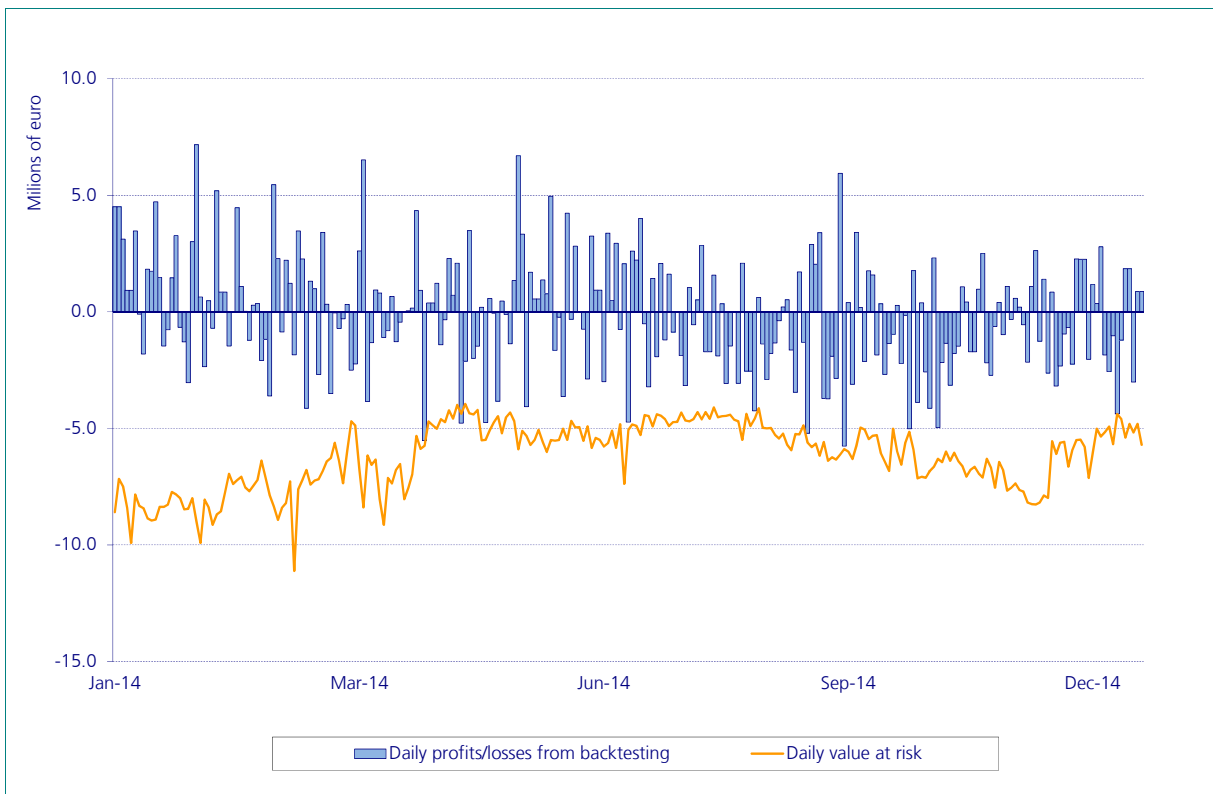
Backtesting in Intesa Sanpaolo

Intesa Sanpaolo's regulatory backtesting exceptions derive from linear positions in the equity component.



Backtesting in Banca IMI

Banca IMI's backtesting exception refers to the actual P&L data. The loss is to be attributed to the fluctuation of Italian stock prices since early May 2014.



Il rischio emittente

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it is monitored through a system of operating limits based on both rating classes and concentration indexes.

Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI ^(a)

	Total	of which					
		Corporate	Financial	Emerging	Covered	Government	Securitis.
Intesa Sanpaolo	57%	16%	4%	0%	28%	50%	2%
Banca IMI	43%	5%	24%	2%	18%	1%	50%
Total	100%	11%	13%	1%	24%	29%	22%

^(a) In the Total column, the table reports the contribution to total exposure of Intesa Sanpaolo and Banca IMI to issuer risk, breaking down the contribution to exposure by type of issuer. The scope is the trading book subject to issuer credit limit (excluding Italian Government and AAA, own securities), including cds.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities in the government segment for Intesa Sanpaolo and the securitisation segment for Banca IMI.

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction described below.

The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits: are approved by the Management Board, after the opinion of the Group Financial Risks Committee. Limit variations are proposed by the Risk Management Department, after the opinion of the Heads of Operating Departments. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risks Committee.
- second level limits: have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

The RAF 2014 established an overall limit for the trading component of 110 million euro, stable in relation to the previous year.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 43% in 2014, with a maximum use of 56%. For Banca IMI, the average VaR limit came to 46%, with a maximum use of 78%. It should be specified that for Banca IMI the VaR limit also includes the AFS component, inasmuch as these assets are managed in close synergy with HFT assets.

The use of the IRC limits at year end amounted to 50% for Intesa Sanpaolo (limit of 290 million euro) and 52% for Banca IMI (limit of 330 million euro). The table below shows the summary figures relating to performance for the quarter.

Incremental Risk Charge

	(milioni di euro)					
	4° trimestre medio	4° trimestre minimo	4° trimestre massimo	3° trimestre medio	2° trimestre medio	1° trimestre medio
Intesa Sanpaolo	170.5	134.2	193.9	169.1	144.2	111.5
Banca IMI	178.0	142.5	207.3	163.7	205.9	239.2
Totale	348.5	276.7	401.2	332.8	350.1	350.7

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 55%. On discussion of the RAF 2014, the limit on that component was decreased from 150 million euro to 135 million euro. That decision was made in light of the average uses of the VaR for the period.

Description of the level of conformity with the rules governing the systems and controls aimed at ensuring prudent and reliable valuations of the positions included in the regulatory trading book

The Fair Value Policy

The Intesa Sanpaolo Group's Fair Value Policy governs the measurement of financial instruments after initial recognition with reference to the Group's portfolios measured at Fair Value.

The Fair Value Policy, in all of its constituent documents, is governed and formalised by the Risk Management Department, applies to the Parent Company and all consolidated subsidiaries, is integrated into the risk measurement and management processes, is subject to regular review and updating and approval by the relevant functions, and is used for the preparation of the financial statement documents. The related accounting policies are detailed below. A summary is also provided below of the various stages of the process of measurement of financial instruments together with details of the valuation models used to measure the financial instruments.

Accounting policies: Fair value measurement methods (Fair value hierarchy)

The application of IFRS 13 governing fair value measurement and related disclosure became mandatory from 1 January 2013.

The new standard does not extend the scope of application of measurement at fair value, but rather provides a guide as to how to measure the fair value of financial instruments and non-financial assets and liabilities where already required or permitted by other accounting standards. The aim was to concentrate into a single standard the rules for measurement at fair value, previously contained in various standards, in some cases with prescriptions in conflict with one another.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single entity. Underlying the definition of fair value is the assumption that the company is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

A business has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best way possible.

Financial instruments

The fair value of financial instruments is determined according to a hierarchy of criteria based on the origin, type and quality of the information used. In detail, this hierarchy assigns top priority to quoted prices (unadjusted) in active markets and less importance to unobservable inputs. Three different levels of input are identified:

- level 1: input represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date;
- level 2: input other than quoted prices included in level 1 that are directly or indirectly observable for the assets or liabilities to be measured;
- level 3: unobservable input for the asset or liability.

As level 1 inputs are available for many financial assets and liabilities, some of which are traded in more than one active market, the company must pay particular attention to defining both of the following aspects:

- the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
- whether the company can complete a transaction involving the asset or liability at that price and in that market as at the measurement date.

The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Group generally operates.

A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

In specific cases regulated by internal policies, research is carried out in order to verify the significance of official market values, despite being quoted on regulated markets.

In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out.

The following are considered as level 1 financial instruments: contributed bonds (i.e. quoted on the EuroMTS circuit, or for which it is possible to continuously derive from the main price contribution international platforms at least three bid and ask prices, or for which prices are provided by the Markit platform, with at least three bid and ask prices for bonds and convertibles¹, European ABSs available on the Markit platform, with at least five bid and ask prices, harmonised mutual funds contributed, spot exchange rates, and derivatives for which quotations are available on an active market (for example, futures and exchange traded options).

Finally, level 1 instruments also include hedge funds for which the fund administrator provides the NAV (Net Asset Value) with the frequency established in the subscription contract, and the check list, which is the summary document of significant information on underlying assets of the fund, does not highlight any critical points in terms of liquidity risk or counterparty risk.

For level 1 financial instruments, the current bid price is used for financial assets and the current asking price for financial liabilities, struck on the principal active market at the close of the reference period.

For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no quotation on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3).

In the case of level 2 inputs, the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final valuation.

The calculation of the fair value of certain types of financial instruments is based on valuation models which consider parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator (level 3). In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

- the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available,

¹ Bonds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange) may be reclassified as level one, but only for foreign branches and international banks where the decentralised Risk Management units confirm that there is an active market, and when the Risk Management Department expressly authorises it.

past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured under the Mark-to-Model Approach:

- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- shareholding and other equities measured using models based on discounted cash flows;
- other loans, of a smaller amount, classified in the available-for-sale portfolio;
- derivative transactions relating to securitisations and equity-risk structured options.

The valuation process of financial instruments entails the following phases:

- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means. In particular:
 - o reference categories are established for the various types of market parameters;
 - o the reference requirements governing the identification of official revaluation sources are set;
 - o the fixing conditions of official figures are established;
 - o the data certification conditions are established;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement. The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. All models used for the measurement must be submitted to an internal certification process which involves various competent structures or independent companies in highly complex or particularly critical cases;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

A more detailed description of the fair value measurement models can be found below in the section on “Information on valuation models used to measure the financial instruments”.

Certification and monitoring of the market parameters and the model risk

As part of its overall monitoring of the controls on the individual transactions dealt with by the ICT Systems Department (IT modules) and the Operations Department (back office controls), the Risk Management Department monitors and certifies the models used for the valuation processes and the market parameters identified to feed them. If the valuation systems are found to be incapable of providing reliable valuations, the Risk Management Department values the financial instrument directly using specially developed internal instruments. These activities are broken down into various stages, which are described briefly below.

Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end the Market Data Reference Guide – a document prepared and updated by the Risk Management Department on the basis of the Group’s Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate

for the assessment of financial instruments held for any purpose in the proprietary portfolios of the Bank and its subsidiaries. These same sources are used in valuations carried out for third parties under Service Level Agreements, reached in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price. The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Risk Management Department, in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Model Risk Management

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a series of analyses and checks carried out at different stages, aimed at certifying the various pricing methods used by the Bank (“Model Validation”), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market (“Model Risk Monitoring”) and at identifying any adjustments to be made to the valuations (“Model Risk Adjustment”, see the section below “Adjustments adopted to reflect model risk and other uncertainties related to the valuation”).

Model Validation

In general, all the pricing models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). The internal certification process is activated when a new financial instrument that requires an adjustment to the existing pricing methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the valuation of existing contracts. The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model’s ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Risk Management Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official valuations. If the analysis identifies a significant “Model Risk”, which, however, is within the limits of the approach’s ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

Model Risk Monitoring

The performance of the valuation models in operation is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant and sufficiently liquid. For interest rate derivatives, an automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

Adjustments adopted to reflect model risk and other uncertainties related to the valuation

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the abovementioned factors, the Mark-to-Market Adjustment Policy also provides for other types of adjustments relating to other factors capable of influencing the valuation. These factors essentially involve:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration) and
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the valuation is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities are valued directly at mid price, whereas for quoted securities with low liquidity and unquoted securities the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are represented in this market context, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-

collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and “quanto” correlation (connected to pay offs and index-linking expressed in different currencies).

The management of the Mark-to-Market Adjustment process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken by the New Product Committee upon the proposal of the Risk Management Department.

Information on valuation models which are concretely used for measurement of financial instruments

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products), on the valuation models used for the various financial instruments.

I. Pricing model for non-contributed securities

The pricing of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security to be priced is considered relatively to the issuer’s debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market quotes and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the “fair” credit spread component, to take account of the higher premium demanded by the market compared to similar contributed securities.

If there is also an embedded option a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlyings. This component is calculated on the basis of the type of option and its maturity.

II. Models for pricing interest rate, foreign exchange, equity, inflation and commodity derivatives

For derivatives, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.

Interest rate, foreign exchange, equity, inflation and commodity derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to price OTC derivatives on the basis of the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White at 1 and 2 factors, Mixture of Hull-White at 1 and 2 factors, Bivariate longnormal, Rendistato	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV)	Interest rate curves, spot and forward FX, FX volatility
Equity	Net present Value Equity, Black-Scholes Generalised, Heston, Jump Diffusion	Interest rate curves, underlying asset spot rate, interest rate curves, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations

As envisaged by IFRS 13, in determining fair value, the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer’s own credit risk.

For derivatives in particular, the Bilateral Credit Value Adjustment (bCVA) model fully takes into account the effects of changes in the counterparty credit rating, as well as changes in its own credit rating. In fact, the bCVA consists of the sum of two addends, calculated by considering the possibility that both counterparties go bankrupt:

- the CVA (Credit Value Adjustment) is a negative measure that takes into account scenarios whereby the counterparty fails before the bank and the bank has a positive exposure to the counterparty. In these scenarios the bank suffers a loss equal to the cost of replacing the derivative;
- the DVA (Debt Value Adjustment) is a positive measure that takes into account scenarios whereby the bank fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

The bCVA depends on the exposure, probability of default and the Loss Given Default of the counterparties. Lastly, the bCVA must be calculated taking into account any counterparty risk mitigation agreements, particularly collateral and netting agreements for each individual counterparty. In the event of netting agreements with a specific counterparty, the bCVA is calculated with regard to the portfolio including all transactions subject to netting with that counterparty.

The measurement of creditworthiness uses various sources. Specifically:

- in the case of counterparties with CDS spread quoted on the market (including Intesa Sanpaolo), calculation of the bCVA is carried out by considering the neutral probability of default towards risk (namely estimated based on the prices of bonds and not on historical figures) quoted on the market and regarding both the counterparty and the investor, measured on the basis of the listed CDS spread credit curve;
- for Large Corporate counterparties without CDS quoted on the market with significant turnover, the bCVA is calculated by considering the neutral probability of default towards risk of a counterparty associated to the counterparty of the contract (comparable approach). Creditworthiness is measured:
 - o for Project Finance counterparties, using the comparable Industrial CDS spread credit curve;
 - o for other counterparties, using the comparable CDS spread credit curve for the counterparty;
- for illiquid counterparties not included in the above categories, the bCVA is calculated by considering the probability of default of the counterparty and of the Intesa Sanpaolo Group, determined by using the credit curve obtained by the default probability matrices.

On the other hand, for counterparties in default, an estimate of the counterparty risk consistent with the provisioning percentage applied to on-balance sheet exposures is carried out.

The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

III. Model for pricing structured credit products

Regarding ABSs, if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs).

In this case, the cash flows are obtained from info providers or specialised platforms; the spreads are gathered from the new issues and/or from the major investment banks, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures. The results of these analyses are subject to backtesting with actual sales prices.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.

The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collateral present in the structure and the expected residual life of the contract.

For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multicontribution platforms and market spread estimates made available by major dealers are used.

The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.

For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for underlying REITS);
- stress of asset value correlation: inter and intra correlations have been increased and decreased by 15% or 25% depending on the type of product;
- stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 25%;
- stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

The valuation framework used for the CDO Cash Flows also manages the Waterfall effects. The latter entails the correct definition of the payment priorities according to the seniority of the various tranches and the contractual clauses. In general these provide for the diversion of the capital and interest payments from the lower tranches of the Capital Structure to the higher tranches, upon the occurrence of Trigger Events, such as the failure of the Overcollateralisation and Interest Coverage tests.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are valued at level 3 when no

reliable and verifiable quotes are available from the Risk Management Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

IV. Valuation of equities with relative and absolute models

Financial instruments for which fair value is determined using level 2 inputs also include equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions.

Equities to which the above "relative" models are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the stock value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

V. The pricing model for hedge funds

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to funds managed through the use of a Management Account Fund infrastructure and funds not managed according to such a platform.

For the funds managed in the Managed Account platform, which ensures full daily transparency of the assets underlying the funds, the NAV provided by the Fund Administrator is considered as fair value of the fund. It is not deemed necessary to apply the two prudential adjustments described above to the NAV, since:

the adjustment for counterparty risk is not necessary because the Managed Account platform is subject to limited recourse clauses and non-petition provisions, through which each Managed Account Fund achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the quotas of the MAF;

the adjustment for illiquidity risk is not necessary because there is a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary.

Moreover, a due diligence confirmed that the pricing model used by the Fund Administrator is consistent with the Intesa Sanpaolo's Fair Value Policy.

If the daily full transparency analysis were to bring to light additional elements of risk, mark-to-market adjustments would be applied in accordance with Intesa Sanpaolo's Fair Value Policy.

The platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For funds not managed in the Managed Account platform, the operating NAV (Net Asset Value) provided by the Fund Administrator is used. However, this value may be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of an individual valuation process aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- counterparty risk;
- illiquidity risk.

Specifically, the first risk driver – counterparty risk - relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, which is a potential source of risk in the case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

With regard to the illiquidity drivers, these relate to the risk intrinsic to the pricing of the fund assets, therefore, the prudential adjustment is applied based on the availability of prices or certain weaknesses in the pricing policies used by the fund.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

vi. Other level 2 and 3 valuation models

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	(thousands of euro)	
						Favourable changes in FV	Unfavourable changes in FV
Securities	Discounting Cash Flows	Credit Spread	-13	24	%	555	-885
Structured securities	Black model	Volatility	-9	6	%	9	-13
Structured securities	Two-factor model	Correlation	-11	24	%	31	-228
ABSs	Discounting Cash Flows	Credit Spread	-45	111	%	1,832	-4,525
ABSs	Discounting Cash Flows	Recovery rate	-8	0	%	-	-1,022
CDO / CLOs	Gaussian copula	Credit Spread	-15	60	%	7,120	-28,479
CDO / CLOs	Gaussian copula	Joint default correlation	-10	10	%	2,372	-2,372
CDO / CLOs	Gaussian copula	Recovery rate	-25	10	%	8,913	-3,565
OTC derivatives subject to FV adjustment for CVA/DVA - Non-performing counterparties	bCVA	Loss Given Default Rate (LGD)	0	100	%	30,276	-38,070
OTC derivatives subject to FV adjustment for CVA/DVA - Performing counterparties	bCVA	Probability of default (PD) based on counterparty's internal rating	CCC	AA	Internal Rating	1,412	-2,255
OTC Derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	-30.75	43.99	%	65	-67
OTC Derivatives - Commodity option	Black - Scholes model	Historical volatility - Terna	9.47	31.70	%	109	-177
OTC Derivatives - Spread option on swap rates	Black - Scholes model	Correlation between swap rates	19.69	80.32	%	1,962	-6,173
OTC Derivatives - Equity option	Black - Scholes model	Historical volatility - EuroClass	33.01	73.11	%	1,513	-1,186

Section 12 - Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

On 31 December 2009 the Group adopted the Advanced Measurement Approaches (AMA - internal model), in partial use with the Standardised (TSA) and Basic Indicator Approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The remaining companies, currently using the Standardised approach, which are included in the roll-out plan, will migrate progressively to the Advanced approach starting from the first half of 2015, based on the roll-out plan presented to the Management and Supervisory Authorities.

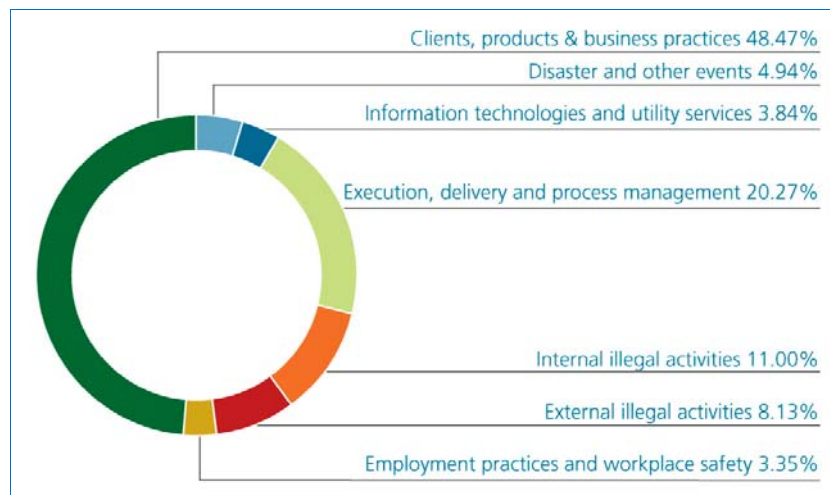
Breakdown of capital requirements by Calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	1,385
Traditional Standardised Approach (TSA)	255
Corporate Finance	5
Trading & Sales	16
Retail Banking	129
Commercial Banking	81
Payment & Settlement	16
Agency Services	2
Asset Management	4
Retail Brokerage	2
Basic Indicator Approach (BIA)	53
Total as at 31.12.2014	1,693

The following shows the breakdown of capital requirement relating to the AMA approach by event type.

Breakdown of capital requirement (Advanced Measurement Approaches - AMA) by event type



The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (Self-diagnosis).

The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (the Operational Riskdata eXchange Association).

The qualitative component (Scenario Analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by Management (Parent Company's Head Office Departments and Business Units, Subsidiaries) with the objective of assessing the potential economic impact of particularly severe operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take account of the effectiveness of controls in the various organisational units.

In addition the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. In order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an innovative insurance coverage policy known as Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market. The internal model's insurance mitigation component was approved by the Bank of Italy with its benefits on operations and on the capital requirements as from June 2013.

Section 13 - Equity exposures: disclosures for positions not included in the trading book

Qualitative disclosure

Equity exposures not included in the trading book: differentiation between exposures according to the objectives pursued

The investments in equity instruments present in the Banking Group have a variety of functions:

- strategic: companies subject to significant influence, joint ventures with industry partners and institutional investments;
- instrumental to the Bank's business and the development of commercial operations;
- systemic institutional: investments in public finance, consortium companies, and local bodies and institutions;
- financial investment: especially private equity investments.

Recognition and valuation of the equity exposures not included in the trading book

As set forth by Legislative Decree 38 of 28 February 2005, the Intesa Sanpaolo Group's Consolidated financial statements have been prepared in compliance with the accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Regulation (EC) No 1606/2002 of 19 July 2002.

The Consolidated financial statements as at 31 December 2014 have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements of banks and financial companies, which are parent companies of banking groups" issued by the Bank of Italy, in the exercise of powers set forth by Article 9 of Legislative Decree 38/2005, with Regulation of 22 December 2005, which issued Circular 262/05, and with the subsequent updates of 18 November 2009, 21 January 2014 and 22 December 2014.

These Instructions set out compulsory financial statement forms, as well as the contents of the Notes to the financial statements.

The equity exposures not included in the trading book are classified under the balance sheet items Investments in associates and companies subject to joint control and Assets available for sale. They are not, however, except for marginal amounts, included within the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group usually classifies under this category investments in relation to insurance policies (not included in the scope of this disclosure) and some debt securities with embedded derivatives or debt securities subject to financial hedging.

For an illustration of the methods used to account for and measure equity exposures not included in the trading book, refer to Part A of the Notes to the Consolidated financial statements – Accounting policies, which sets forth the accounting criteria applied by the Intesa Sanpaolo Group for each item (A.2 – MAIN FINANCIAL STATEMENT CAPTIONS). In particular, points 2, 5 and 7 indicate the criteria for classification, recognition, measurement and derecognition of "Financial assets available for sale", "Financial assets designated at fair value through profit and loss" and "Investments in associates and companies subject to joint control", respectively. Point 19 contains the methods of determining impairment losses for both financial assets and investments in associates and companies subject to joint control. For the methods used to conduct impairment tests for financial assets available for sale and investments in associates and companies subject to joint control, refer to Part B of the Notes (SECTION 4 – FINANCIAL ASSETS AVAILABLE FOR SALE and SECTION 10 – INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL). Last, for a description of the valuation techniques used to calculate fair value, see the discussion of this subject on the section of this document on market risks.

Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies. The value of investments in insurance companies deducted from the regulatory capital is shown in the Section on Own funds.

Non-trading book: on-balance sheet equity exposures ^(*)

(millions of euro)

Exposure type/values	Book value		Fair value		31.12.2014 Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)
	A. Investments in associates and companies subject to joint control (**)	134	1,770	127	X	127	510	-180	X
B. Financial assets available for sale (AFS)	187	4,556	187	4,556	187	101	-189	297	-26
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X

Exposure type/values	Book value		Fair value		31.12.2013 Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)
	A. Investments in associates and companies subject to joint control (**)	144	1,925	261	X	261	2,701	-382	X
B. Financial assets available for sale (AFS)	115	4,446	115	4,446	115	240	-239	253	-19
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X

(*) This table provides figures pertaining exclusively to the Banking Group.

(**) For Investments, the fair value refers to listed investments only (level 1).

Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2014 of 38 million euro (33 million euro at the end of 2013), with peak and minimum values of 60 million euro and 30 million euro respectively (this figure coincides with the value at the end of 2014).

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of $\pm 10\%$ for the abovementioned listed assets recorded in the AFS category.

Non-trading book: impact on shareholders' equity of price risk as at 31 December 2014

(millions of euro)

	Impact on shareholders' equity
Price shock	+10% 19
Price shock	-10% -19

Non-trading book: on-balance sheet equity exposures – weighted exposures

(millions of euro)

	Weighted exposure
	31.12.2014
IRB approach	4,192
Equity exposures (Simple risk weight approach)	
- Private equity exposures in sufficiently diversified portfolios	83
- Exchange-traded equity exposures	581
- Other equity exposures	1,951
Equity exposures (PD/LGD approach)	-
Equity exposures (Exposures subject to fixed weighting factors)	1,577
Standardised approach	12,882

Section 14 - Interest rate risk on positions not included in the trading book

Qualitative disclosure

Interest rate risk

Interest rate risk originated by the banking book arises primarily in the Parent Company and in the other Group Companies that carry out retail and corporate banking and represents the risk that potential variations in the rates will have an impact on the interest margin and on the net present value of the assets and liabilities included within the banking book.

As already mentioned in the Section “General Requirements” of this Disclosure, two types of measurement have been adopted for the consolidated measurement of the financial risks generated by the banking book, at least monthly, namely Value at Risk (VaR) and Sensitivity analysis.

In addition to being used to measure the price and exchange risks generated by the equity investments, the VaR is also used to consolidate exposure to financial risks of the various Group companies that perform banking book activities, thereby taking into account diversification benefits.

The shift sensitivity analysis, with reference to the interest rate risk, defines the movement as a parallel and uniform shift of ± 100 basis points of the rate curve.

In measurements, capital items are represented as “to maturity” or “repricing” depending on whether they involve a fixed or variable rate, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the interest margin both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.

The sensitivity of the interest margin is measured on the basis of a parallel and instantaneous shock in the interest rate curve of 100 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of variations in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of the interest margin.

The Group's overall financial risk profile and the eventual necessary changes are examined periodically by the Group Financial Risks Committee.

Quantitative disclosure

Interest rate risk

Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 217 million euro at the end of 2014, in reduction compared to the 264 million euro at the end of 2013.

In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group's year-end net income and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2014, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, averaged 124 million euro, with a year-end figure of 190 million euro compared to the 206 million euro at the end of 2013.

The table below shows the impact on the banking book of the ± 100 bp shock, broken down into the main currencies that the Intesa Sanpaolo Group is exposed to.

		(millions of euro)
		31.12.2014
EUR	Euro	133
CHF	Swiss Franc	38
EGP	Egyptian pound	10
USD	US dollar	7
	Other currencies	2
TOTAL		190

Interest rate risk, measured in terms of VaR, averaged 17 million euro in 2014, with a minimum value of 9 million euro and a maximum value of 28 million euro. At the end of December 2014, VaR totalled 11 million euro (40 million euro at the end of 2013).

The reduction in the economic value in the event of a 200 bp change in interest rates stayed within the limits of the alert threshold set by the prevailing Regulatory provisions (20% of the Own funds).

Section 15 - Encumbered and unencumbered assets

Qualitative disclosure

In conducting its business, the Intesa Sanpaolo Group carries out numerous transactions involving encumbered own assets or encumbered assets pledged as collateral. The main transactions of this type include:

- repurchase contracts and agreements and securities lending;
- assets used for covered bond issuance;
- underlying assets from securitisation structures, where the financial assets have not been derecognised;
- collateral agreements, for instance, collateral placed for the market value of derivatives transactions;
- financial guarantees that are collateralised;
- collateral placed at clearing systems, central counterparties (CCPs) and other infrastructure institutions as a condition for access to service. This includes default funds and initial margins;
- instruments pledged for various reasons as collateral for deposits from central banks or multilateral development banks.

These types of transactions are implemented either to allow the Group to access forms of funding considered advantageous at the time of the transaction or because the pledging of collateral is a standard requirement to access specific markets or types of operations (for example, in operations with central counterparties). Specifically, the collateral for the refinancing operations at the European Central Bank amounts to approximately 34 billion euro for the on-balance-sheet own assets and to approximately 1 billion euro for the off-balance-sheet assets.

Usually, encumbered asset transactions are implemented mainly by the Parent Company or Banca IMI. The Group's network banks participated in setting up a pool of assets for the creation of covered bond issues. The issue of covered bonds is also extensively covered in the Notes to the consolidated financial statements, in the specific point of Part E: "Covered Bond Transactions".

Quantitative disclosure

Based on the provisions issued by the EBA as a result of the CRR (art. 433), banks must indicate the quantity of encumbered and unencumbered assets, broken down by asset type. "Encumbered" assets are on-balance-sheet assets that have been either pledged or transferred without derecognition or are otherwise encumbered, as well as collateral received that meet the conditions to be recognised on the balance-sheet of the transferee. The information reported below refers to the specific figures as at 31 December 2014, the first period of validity of the new prudential regulations on Asset encumbrance.

Encumbered and unencumbered assets as at 31 December 2014

(millions of euro)

	Encumbered assets		Unencumbered assets	
	Book value	Fair value	Book value	Fair value
Total Banking Group assets	105,439	X	428,914	X
1. Equity instruments	12	12	7,943	7,883
2. Debt securities	21,703	21,260	57,860	55,163
3. Other assets	83,724	X	363,111	X

Information on collateral received by asset type is also provided below. Collateral received does not meet the requirements for direct recognition in the on-balance-sheet assets of the transferee and, thus, are kept off-balance sheet.

Collateral received as at 31 December 2014

(millions of euro)

	Fair value	
	Encumbered collateral or own securities	Unencumbered collateral or own securities
Total collateral received by the Banking Group	19,184	24,125
1. Equity instruments	217	30
2. Debt securities	18,967	19,507
3. Other guarantees received	-	4,588
Debt securities issued other than covered bonds and ABS	2,107	16,264

Lastly, the liabilities associated with encumbered assets or collateral received are detailed.

Liabilities associated with encumbered assets, collateral received or own securities as at 31 December 2014

(millions of euro)

	Associated liabilities	Encumbered assets, collateral or own securities
Liabilities associated to encumbered assets, collateral received or own securities	101,618	126,667

Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 3 - Pillar 3 as at 31 December 2014" corresponds to the corporate records, books and accounts.

March 3 2015

Ernesto Riva
Manager responsible for preparing
the Company's financial reports

Independent Auditors' Report on Basel 3 Pillar 3



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(Translation from the Italian original which remains the definitive version)

Limited assurance report on the Basel 3 Pillar 3 - Disclosure

To the management board of
Intesa Sanpaolo S.p.A.

- 1 We have reviewed the Basel 3 Pillar 3 - Disclosure (the “Pillar 3”) of the Intesa Sanpaolo Group at 31 December 2014. The parent’s management board is responsible for the preparation of the Pillar 3 in accordance with the provisions of Circular no. 285 of 17 December 2013 and subsequent amendments. It is also responsible for establishing and maintaining appropriate performance management and internal control processes for the preparation of the data and information contained in the Pillar 3. Our responsibility is to issue this report based on our review.
- 2 We carried out our review in accordance with International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we comply with applicable ethical requirements (the “Code of Ethics for Professional Accountants” issued by the International Federation of Accountants, IFAC), including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 is free from material misstatement.

Specifically, we carried out the following procedures:

- comparing the information and data presented in the Pillar 3 to the corresponding information and data included in the Intesa Sanpaolo Group’s consolidated financial statements as at and for the year ended 31 December 2014, on which we issued our report dated 12 March 2015 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;
- interviews and discussions with the management of Intesa Sanpaolo S.p.A. and the main banks included in the “Banking Group” as defined in Section 2 of the Pillar 3, to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3;
- sample-based analyses of documentation supporting the preparation of the Pillar 3 to obtain evidence of the processes put in place to prepare the data and information presented therein;

- reading correspondence with Banca d'Italia in relation to the authorisation process related to using internal systems in calculating capital requirements;
- reading the reports issued by the Internal Auditing and Internal Validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3;
- obtaining the representation letter on the compliance of the Pillar 3 with Circular no. 285 of 17 December 2013 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

A review is less in scope than an audit carried out in accordance with ISAE 3000 and, therefore, it offers a lower level of assurance that we have become aware of all significant matters and events that would be identified during an audit.

The Pillar 3 includes the corresponding information and data of the prior year Pillar 3 for comparative purposes, with respect to which reference should be made to our report dated 8 April 2014.

- 3 Based on our review, nothing has come to our attention that causes us to believe that the Pillar 3 of the Intesa Sanpaolo Group at 31 December 2014 is not prepared, in all material respects, in accordance with the provisions of Circular no. 285 of 17 December 2013 and subsequent amendments.
- 4 This report has been prepared for the management board of Intesa Sanpaolo S.p.A. in compliance with our engagement. We carried out our work for the purposes of informing Intesa Sanpaolo S.p.A. of the matters contained herein. Therefore, we have no responsibility to any party other than Intesa Sanpaolo S.p.A. in relation to the work performed, this report or the conclusions expressed herein.

Milan, 16 March 2015

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

Attachment 1

Own funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072618
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Ordinary shares - Art. 28 CRR
8	Amount recognised in regulatory capital (€/mln)	35,526
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0000072626
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Preferred shares - Art. 52 CRR
8	Amount recognised in regulatory capital (€/mln)	485
9	Nominal amount of instrument: original amount in currency of issuance (mln)	N/A
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004634983
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	266
9	Nominal amount of instrument: original amount in currency of issuance (mln)	805
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	805
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/09/2010
12	Perpetual or dated	Dated
13	Original maturity date	30/09/2017
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 160bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004648686
3	Governing law(s) of the instrument	Italian law
REGULATORY TREATMENT		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	165
9	Nominal amount of instrument: original amount in currency of issuance (mln)	479
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	479
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	10/11/2010
12	Perpetual or dated	Dated
13	Original maturity date	10/11/2017
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 160 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = Not applicable		

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004692817
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	194
9	Nominal amount of instrument: original amount in currency of issuance (mln)	373
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	373
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	31/03/2011
12	Perpetual or dated	Dated
13	Original maturity date	31/03/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 200bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004400658
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	33
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,097
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,097
9a	Issue price	93.5
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/09/2008
12	Perpetual or dated	Dated
13	Original maturity date	30/09/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.04
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004457807
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	58
9	Nominal amount of instrument: original amount in currency of issuance (mln)	635
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	635
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	24/02/2009
12	Perpetual or dated	Dated
13	Original maturity date	24/02/2016
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 400 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004423114
3	Governing law(s) of the instrument	Italian law
REGULATORY TREATMENT		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	19
9	Nominal amount of instrument: original amount in currency of issuance (mln)	545
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	545
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/11/2008
12	Perpetual or dated	Dated
13	Original maturity date	12/11/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0625
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = Not applicable		

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004331077
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	8
9	Nominal amount of instrument: original amount in currency of issuance (mln)	800
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	800
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	28/03/2008
12	Perpetual or dated	Dated
13	Original maturity date	28/03/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.048
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004429590
3	Governing law(s) of the instrument	Italian law
REGULATORY TREATMENT		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	15
9	Nominal amount of instrument: original amount in currency of issuance (mln)	415
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	415
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/11/2008
12	Perpetual or dated	Dated
13	Original maturity date	26/11/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0587
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = Not applicable		

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004416795
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	12
9	Nominal amount of instrument: original amount in currency of issuance (mln)	382
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	382
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	29/10/2008
12	Perpetual or dated	Dated
13	Original maturity date	29/10/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0616
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	IT0004467186
3	Governing law(s) of the instrument	Italian law
REGULATORY TREATMENT		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	16
9	Nominal amount of instrument: original amount in currency of issuance (mln)	165
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	165
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/03/2009
12	Perpetual or dated	Dated
13	Original maturity date	12/03/2016
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 400 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = Not applicable		

1	Issuer	Banca Monte Parma S.p.A.
2	Unique identifier	IT0004628761
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	3
9	Nominal amount of instrument: original amount in currency of issuance (mln)	20
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	20
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	30/07/2010
12	Perpetual or dated	Dated
13	Original maturity date	30/10/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.03
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Banca Monte Parma S.p.A.
2	Unique identifier	IT0004537251
3	Governing law(s) of the instrument	Italian law
REGULATORY TREATMENT		
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	3
9	Nominal amount of instrument: original amount in currency of issuance (mln)	5
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	5
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	25/09/2009
12	Perpetual or dated	Dated
13	Original maturity date	25/09/2016
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.032
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
N/A = Not applicable		

1	Issuer	Banca Monte Parma S.p.A.
2	Unique identifier	IT0004522410
3	Governing law(s) of the instrument	Italian law
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	3
9	Nominal amount of instrument: original amount in currency of issuance (mln)	5
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	5
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	11/08/2009
12	Perpetual or dated	Dated
13	Original maturity date	11/08/2016
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.035
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0456541506
3	Governing law(s) of the instrument	English law, except for subordination provisions
REGULATORY TREATMENT		
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	593 (AT1) - 148 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,500
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or Additional Amount Event); 100% or Make Whole (in case of Capital Disqualification Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	14/10/2009
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	14/10/19
	Contingent call dates and redemption amount	08/02/04
16	Subsequent call dates, if applicable	In addition to issuer call on 14.10.2019 and each IPD thereafter, issuer may also redeem following Capital Disqualification Event or Tax Event at any time before 14.10.2019 subject to notice
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed, then floating (from 14/10/2019)
18	Coupon rate and any related index	8.375% through to 14.10.2019. Following reset, 3m Euribor plus margin of 6.871 per cent. (thus 687.1 bps)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

Basel 3 Pillar 3 – Attachment 1: Own funds: Terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0388841669
3	Governing law(s) of the instrument	English law, except for subordination provisions
REGULATORY TREATMENT		
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	200 (AT1) - 50 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	250
9a	Issue price	100
9b	Redemption price	100% (in caso di esercizio dell'opzione di rimborso o "Additional Amount Event"); 100% o "Make Whole " (in caso di "Regulatory Event" o "Tax Deductibility Event")
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	24/09/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	24/09/18
	Contingent call dates and redemption amount	06/09/00
16	Subsequent call dates, if applicable	In addition to issuer call on 24.9.2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed, then floating (from 24/09/2018)
18	Coupon rate and any related index	8.698% through to 24.9.2018. Following reset, 3m Euribor plus margin of 5.05 per cent. (thus 505 bps)
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
N/A = Not applicable		

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0371711663
3	Governing law(s) of the instrument	English law, except for subordination provisions
REGULATORY TREATMENT		
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	464 (AT1) - 115 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100% (in case of Issuer Call or Additional Amount Event); 100% or Make Whole (in case of Regulatory Event or Tax Deductibility Event)
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	20/06/2008
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	20/06/18
	Contingent call dates and redemption amount	03/06/03
16	Subsequent call dates, if applicable	In addition to issuer call on 20.6.2018 and each IPD thereafter, issuer may also redeem following Regulatory Event or Tax Event at any time before the first call date subject to notice
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed, then floating (from 20/06/2018)
18	Coupon rate and any related index	8.047% through to 20.6.2018. Following reset, floating rate at 3m Euribor plus 4.10%
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part) if no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; or • in whole if Capital Deficiency Event has occurred or otherwise prohibited by Italian law Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 12 months; or redemption/repurchases of Junior Obligations during last 12/6/3 months, unless mandatory suspension of interest applies
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely)
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	In priority to Junior Obligations and pari passu with Parity Obligations
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0545782020
3	Governing law(s) of the instrument	English law, except for subordination provisions
REGULATORY TREATMENT		
4	Transitional CRR rules	Additional Tier 1
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62/486 CRR
8	Amount recognised in regulatory capital (€/mln)	383 (AT1) - 84 (T2)
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100% in case of Issuer Call or Additional Amount Event; 102% in case of Capital Disqualification Event; 100% or Make Whole in case of Tax Deductibility Event
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	01/10/2010
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	01/06/16
15	Contingent call dates and redemption amount	26/09/02
16	Subsequent call dates, if applicable	Issuer Call on 1.6.2016 and on 1st June every 5th year thereafter, provided nominal amount has been reinstated to original principal amount if there has been principal write down Capital Disqualification Event at any time after 1.1.2013 Tax Call at any time before first call date
COUPONS / DIVIDENDS		
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	9.5% through to 1.6.2016 Thereafter, 5-year mid swap plus 7.57% reset every 5th year
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	Optional suspension of interest (in whole or in part), in circumstances such as no Distributable Profits and/or no dividends/distributions on Junior Obligations since last AGM Mandatory suspension of interest: • in whole or in part if interest payment would lead to Capital Deficiency Event; • in whole or in part if Capital Deficiency Event has occurred, or prohibited by Italian law, or required by lead regulator, or nominal amount not reinstated following principal write down Dividend pusher applies, with reference to: • dividends/distributions on Junior Obligations during last 3 months; or • redemption/repurchases of Junior Obligations during last 3 months, unless Capital Deficiency Event has occurred Optional/mandatory suspension of interest disappplied upon Capital Disqualification Event
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	Optional write down upon Capital Deficiency Event (i.e. regulatory capital on a consolidated or non-consolidated basis falls below minimum requirements, or lead regulator determines that Capital Deficiency Event is likely) Mandatory write down if regulatory capital falls below 6% or other minimum threshold imposed by lead regulator; if lead regulator determines that Capital Deficiency Event is likely, or if required by lead regulator
32	If write-down, full or partial	Full or partial
33	If write-down, permanent or temporary	Temporary
34	If temporary write-down, description of write-up mechanism	Pro rata with shares and other instruments with similar write down and write up features
35	Position in subordination hierarchy in liquidation	Senior to shares, pari passu with Parity Obligations and junior to Tier 2
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Dividend pusher/loss absorption mechanisms are not compatible with AT1 requirements
N/A = Not applicable		

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	US46115HAT41
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,647
9	Nominal amount of instrument: original amount in currency of issuance (mln)	2,000
	Nominal amount of instrument: original amount - currency of issuance	USD
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,466
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/06/2014
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2024
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.05017
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0971213201
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	1,407
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,446
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,446
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	13/09/2013
12	Perpetual or dated	Dated
13	Original maturity date	13/09/2023
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.06625
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0452166324
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo and consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	990
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,500
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/09/2009
12	Perpetual or dated	Dated
13	Original maturity date	23/09/2019
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.05
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0526326334
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	912
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	16/07/2010
12	Perpetual or dated	Dated
13	Original maturity date	16/07/2020
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0515
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0360809577
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	562
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,250
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,250
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	08/05/2008
12	Perpetual or dated	Dated
13	Original maturity date	08/05/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.06625
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Banca Intesa)
2	Unique identifier	XS0365303675
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	171
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	28/05/2008
12	Perpetual or dated	Dated
13	Original maturity date	28/05/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed (then floating from 28/05/2013)
18	Coupon rate and any related index	3m Euribor + 198 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Sanpaolo IMI)
2	Unique identifier	XS0243399556
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	93
9	Nominal amount of instrument: original amount in currency of issuance (mln)	750
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	750
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	20/02/2006
12	Perpetual or dated	Dated
13	Original maturity date	20/02/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 85 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS0364645852
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	84
9	Nominal amount of instrument: original amount in currency of issuance (mln)	120
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	120
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	27/06/2008
12	Perpetual or dated	Dated
13	Original maturity date	27/06/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.0616
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A.
2	Unique identifier	XS1109765005
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	912
9	Nominal amount of instrument: original amount in currency of issuance (mln)	1,000
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	1,000
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	15/09/2014
12	Perpetual or dated	Dated
13	Original maturity date	15/09/2026
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed
18	Coupon rate and any related index	0.03928
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Sanpaolo IMI)
2	Unique identifier	XS0258143477
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	76
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	26/06/2006
12	Perpetual or dated	Dated
13	Original maturity date	26/06/2018
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 100 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Centro Leasing Banca S.p.A.)
2	Unique identifier	XS0311441322
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	15
9	Nominal amount of instrument: original amount in currency of issuance (mln)	30
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	30
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	17/07/2007
12	Perpetual or dated	Dated
13	Original maturity date	17/07/2017
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m Euribor + 85 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Banca Intesa)
2	Unique identifier	XS0107510983
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	2
9	Nominal amount of instrument: original amount in currency of issuance (mln)	65
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	65
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	23/02/2000
12	Perpetual or dated	Dated
13	Original maturity date	23/02/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	CMS linked
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Banca Intesa)
2	Unique identifier	XS0125218049
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	2
9	Nominal amount of instrument: original amount in currency of issuance (mln)	50
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	50
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/03/2001
12	Perpetual or dated	Dated
13	Original maturity date	23/02/2015
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	CMS linked
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Sanpaolo IMI)
2	Unique identifier	XS0188046543
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	15
9	Nominal amount of instrument: original amount in currency of issuance (mln)	165
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	247
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	18/03/2004
12	Perpetual or dated	Dated
13	Original maturity date	18/03/2024
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	18/03/19
	Contingent call dates and redemption amount	03/09/00
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 18/03/2019)
18	Coupon rate and any related index	5.625 until 18/3/19, then 3m Libor + 1.125
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Step up
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Sanpaolo IMI)
2	Unique identifier	XS0213101230
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Not eligible
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 488 CRR
8	Amount recognised in regulatory capital (€/mln)	267
9	Nominal amount of instrument: original amount in currency of issuance (mln)	500
	Nominal amount of instrument: original amount - currency of issuance	Euro
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	500
9a	Issue price	99
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	02/03/2005
12	Perpetual or dated	Dated
13	Original maturity date	02/03/2020
14	Issuer call subject to prior supervisory approval	Yes
15	Optional call date	02/03/15
	Contingent call dates and redemption amount	14/05/01
16	Subsequent call dates, if applicable	Each interest payment date after 02/03/2015
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Fixed, then floating (from 02/03/2015)
18	Coupon rate and any related index	3.75% until 02/03/15; then 3m Euribor + 89 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	Yes
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	Yes
37	If yes, specify non-compliant features	Step up
	N/A = Not applicable	

1	Issuer	Intesa Sanpaolo S.p.A. (formerly Banca Intesa)
2	Unique identifier	XS0324790657
3	Governing law(s) of the instrument	English law, except for subordination provisions
	REGULATORY TREATMENT	
4	Transitional CRR rules	Tier 2
5	Post-transitional CRR rules	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo & consolidated
7	Instrument type	Debt instrument - Art. 62 CRR
8	Amount recognised in regulatory capital (€/mln)	3
9	Nominal amount of instrument: original amount in currency of issuance (mln)	250
	Nominal amount of instrument: original amount - currency of issuance	GBP
	Nominal amount of instruments: conversion of original amount into euro (€/mln)	298
9a	Issue price	100
9b	Redemption price	100
10	Accounting classification	Liability - amortised cost
11	Original date of issuance	12/10/2007
12	Perpetual or dated	Dated
13	Original maturity date	12/11/2017
14	Issuer call subject to prior supervisory approval	No
15	Optional call date	N/A
	Contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	3m GBP + 135 bps
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
	Fully discretionary, partially discretionary or mandatory (in terms of timing) - reasons for discretion	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	No
22	Noncumulative or cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	No
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation	Senior to Additional Tier 1, Junior to Senior Unsecured
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
	N/A = Not applicable	

Attachment 2

Own funds: Transitional own funds disclosure template

		(millions of euro)	
		Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts <i>of which: Ordinary shares</i>	35,589 35,589	
2	Retained earnings	9,054	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-1,622	
3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1 capital Public sector capital injections grandfathered until 1 January 2018	- -	
5	Minority interests (amount allowed in consolidated CET1)	188	209
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	43,209	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-169	
8	Intangible assets (net of related tax liability) (negative amount)	-7,099	
9	Transitional adjustment related to IAS 19	752	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-55	-272
11	Fair value reserves related to gains or losses on cash flow hedges	1,362	
12	Negative amounts resulting from the calculation of expected loss amounts	-23	-112
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-39	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct and indirect holdings by the institution of own CET1 instruments (negative amount)	-63	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-192	
20	[not relevant in EU regulation]	-	
20a	Exposure amount of the following items which qualify for a risk weighting of 1250%, where the institution opts for the deduction alternative	-	
20b	<i>of which: qualifying holdings outside the financial sector (negative amount)</i>	-	
20c	<i>of which: securitisation positions (negative amount)</i>	-	
20d	<i>of which: free deliveries (negative amount)</i>	-	
21	Deferred tax assets arising from temporary differences (amount above the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	

		(millions of euro)
		Amount at disclosure date
		Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
22	Amount exceeding the 15% threshold (negative amount)	-
23	<i>of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities</i>	-
24	Deferred tax assets	-
25	<i>of which: deferred tax assets arising from temporary differences</i>	-
25a	Losses for the current financial year (negative amount)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-
26	Regulatory adjustments applied to CET1 in respect of amounts subject to pre-CRR treatment	-296
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-840
	<i>of which: Unrealised gains on debt securities issued by European Union central governments</i>	-97
	<i>of which: Unrealised gains on debt securities of issuers other than European Union central governments</i>	-375
	<i>of which: Unrealised gains on equities and quotas of UCI</i>	-368
26b	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre-CRR	-
	<i>of which deduction of deferred tax assets that rely on future profitability and do not arise from temporary differences (Articles 469(1)(a), 36(1)(c) and 478(1) of the CRR)</i>	-
	<i>of which deduction of negative amounts resulting from the calculation of expected loss amounts in accordance with Articles 158 and 159 of the CRR (Articles 469(1)(a), 36(1)(d) and 478(1) of the CRR)</i>	-
	<i>of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)</i>	-
	<i>of which impacts arising from deductible under transitional adjustments</i>	-
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-
28	Total regulatory adjustments to Common Equity Tier 1 (CET1) capital	(6,662)
29	Common Equity Tier 1 (CET1) capital	36,547

		(millions of euro)
	Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	485
31	<i>of which: classified as equity under applicable accounting standards</i>	-
32	<i>of which: classified as liabilities under applicable accounting standards</i>	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1	1,640
	Public sector capital injections grandfathered until 1 January 2018	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	6
35	<i>of which: instruments issued by subsidiaries subject to phase-out</i>	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	2,131
Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)	-
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from CET1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	(45)
	<i>of which residual amount by which expected losses exceed adjustments for IRB positions</i>	(45)
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	(386)
	<i>of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)</i>	(400)
	<i>of which impacts arising from deductible under transitional adjustments</i>	14
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre-CRR	-
	<i>of which: possible filter for unrealised losses</i>	-
	<i>of which: possible filter for unrealised gains</i>	-
	<i>of which: other filter</i>	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	(431)
44	Additional Tier 1 (AT1) capital	1,700
45	Tier 1 capital (T1 = CET1 + AT1)	38,247

		(millions of euro)
	Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Capitale di classe 2 (T2): strumenti e accantonamenti		
46	Strumenti di capitale e le relative riserve sovrapprezzo azioni	7,009
47	Importo degli elementi ammissibili di cui all'articolo 484, paragrafo 5, e le relative riserve sovrapprezzo azioni, soggetti a eliminazione progressiva del capitale di classe 2	1,464
	Conferimenti di capitale pubblico che beneficiano della clausola di grandfathering fino al 1 gennaio 2018	-
48	Strumenti di fondi propri ammissibili inclusi nel capitale di classe 2 consolidato (compresi gli interessi di minoranza e strumenti di capitale aggiuntivo di classe 1 non inclusi nella riga 5 o nella riga 34) emessi da filiazioni e detenuti da terzi	5
49	di cui: strumenti emessi da filiazioni soggetti a eliminazione progressiva	-
50	Rettifiche di valore su crediti	-
51	Capitale di classe 2 (T2) prima delle rettifiche regolamentari	8,478
Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	(123)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-
54	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-
54a	of which new holdings not subject to transitional arrangements	-
54b	of which holdings existing before 1 January 2013 and subject to transitional arrangements	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(178)
56	Regulatory adjustments applied to T2 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
56a	Residual amounts deducted from T2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	(45)
	of which residual amount by which expected losses exceed adjustments for IRB positions	(45)
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period pursuant to Article 475 of Regulation (EU) No 575/2013	(386)
	of which deduction of the applicable amount of direct, indirect and synthetic holdings by the institution of CET1 instruments of financial sector entities where the institution has a significant investment in those entities and deferred tax assets that rely on future profitability and arise from temporary differences (Articles 469(1)(c), 36(1)(c) and (i) and 478(1) and (2) of the CRR)	(400)
	of which impacts arising from deductible under transitional arrangements	14
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre-CRR	297
	of which: possible filter for unrealised losses	-
	of which: unrealised gains on AFS securities subject to additional national filter	297
	of which: other filter	-
57	Total regulatory adjustments to Tier 2 (T2) capital	(435)
58	Tier 2 (T2) capital	8,043
59	Total capital (TC = T1 + T2)	46,290
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-
	of which: items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. deferred tax assets that rely on future profitability, net of the related tax liabilities, indirect holdings of own CET1 instruments, etc.)	-
	of which: items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be deducted line by line, e.g. reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)	-
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities, etc.)	-
60	Total risk weighted assets	269,790

		(millions of euro)
	Amount at disclosure date	Amounts subject to pre-Regulation (EU) No 575/2013 treatment or prescribed residual amount of Regulation (EU) No 575.2013
Capital ratios and buffers		
61	Common Equity Tier 1 capital (as a percentage of risk exposure amount)	13.5%
62	Tier 1 capital (as a percentage of risk exposure amount)	14.2%
63	Total capital (as a percentage of risk exposure amount)	17.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.0%
65	<i>of which: capital conservation buffer requirement</i>	2.5%
66	<i>of which: countercyclical buffer requirement</i>	-
67	<i>of which: systemic risk buffer requirement</i>	-
67a	<i>of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer</i>	-
68	Common Equity Tier 1 capital available to meet buffers (as a percentage of total risk exposure amount)	6.2%
69	[not relevant in EU regulation]	
70	[not relevant in EU regulation]	
71	[not relevant in EU regulation]	
Capital ratios and buffers		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	1,236
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below the 10% threshold and net of eligible short positions)	3,674
74	[not relevant in EU regulation]	-
75	Deferred tax assets arising from temporary differences (amount below the 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	992
Applicable caps on the inclusion of provisions in T2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-
79	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach	740
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)		
80	Current cap on CET1 instruments subject to phase-out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase-out arrangements	1,640
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	396
84	Current cap on T2 instruments subject to phase-out arrangements	3,782
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Glossary

GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 3 disclosure" and excluding the terms today widely used in the Italian language or which are used in a context that already clarifies their meaning

AIRB (Advanced Internal Rating Based)

Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only for certain regulatory segments by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

ABS – Asset-Backed Securities

Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.

Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)

ABS whose collateral is made up of receivables.

AMA

(Advanced Measurement Approach) - A method for determining the operational risk capital requirements using calculation models based on operational loss data and other assessment elements collected and processed by the bank. Specific access thresholds and eligibility requirements are defined for adoption of the Standardised and Advanced approaches. For AMA systems, the requirements concern not only the management system but also the measurement system.

AT1

Additional Tier 1 (AT1) In general, the AT1 category includes equity instruments other than ordinary shares (which are eligible for Common Equity) and which meet the regulatory requirements for inclusion in that level of own funds (e.g. savings shares).

Backtesting

Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book

Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

Capital structure

It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:

Equity (or Junior) Tranche: The riskiest portion of the portfolio, it is also known as "first loss" and is

subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche: The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.

Senior/Supersenior Tranche: The tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Cap test

A test performed in respect of the originator or the promoter to establish capital requirements in securitisation transactions. Under the regulations, the risk-weighted value of all exposures in respect of a single securitisation cannot exceed the weighted value of the securitised assets, calculated as if said assets had not been securitised (cap). The capital requirement in respect of all exposures to the same securitisation is equal to 8% of the cap.

Categories of financial instruments provided for by IAS 39

Financial assets "held-for-trading", which include: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking; assets designated at fair value, under the IAS, this category may include the assets that the entity decides in any case to measure at fair value with value changes recognized through profit and loss, in the cases provided for by IAS 39; *financial assets "held-to-maturity"*, non-derivative assets with fixed-term and fixed or determinable payments, that an entity intends and is able to hold to maturity; *"Loans and receivables"*, non-derivative financial assets with fixed or determinable payments not quoted in an active market; *financial assets "available-for-sale"*, specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

CCF – Credit Conversion Factor

For banks that use the Standardised Approach and the FIRB, the Credit Conversion Factor is the weighting - provided for by the applicable regulations - applied to off-balance sheet exposures to determine their EAD:

- 100% to full-risk guarantees and commitments;
- 50% to medium-risk guarantees and commitments (e.g. margins available on irrevocable credit lines with an original maturity of more than one year);
- 20% to medium-low risk guarantees and commitments (import-export documentary credits);
- 0% to low-risk guarantees and commitments (e.g. undrawn revocable credit facilities);

Collective assessment of performing loans

With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

CET1

Common Equity Tier 1.

Common equity tier 1 ratio (CET1 Ratio)

The ratio of Common Equity Tier 1 (CET1) to total risk-weighted assets.

Corporate

Customer segment consisting of medium- and large-sized companies (*mid-corporate and large corporate*).

Covered bond

Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

Credit default swap/option

Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives

Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit risk

The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

CRM

Credit Risk Mitigation.

Cumulative loss

Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Default

Declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency

Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

EAD – Exposure At Default

Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

EDF – Expected Default Frequency

Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

Exotics (derivatives)

Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

EPE

Internal model to determine the requirement for counterparty risk (Expected Positive Exposure). According to this model, the EPE is calculated as a statistical-time-based average of the future mark-to-market evolution of the derivatives, strengthened by conservative restrictions on the mark-to-market profiles that do not decrease over time.

Expected loss

Amount of losses on loans or receivables that an entity could sustain over a holding period of one year. Given a portfolio of loans and receivables, the expected loss represents the average value of the distribution of losses.

Fair value

The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

FiRB

See "IRB"

Goodwill

The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Grandfathering

The new composition of own funds according to Basel 3 and other less significant measures shall enter into force following a transitional period. Specifically, old instruments included in Basel 2 regulatory capital which are not included as per Basel 3 shall be gradually eliminated (known as the grandfathering period).

Hybrid instruments included in Tier 1 capital

Financial instruments that may be included in Tier 1 capital up to specific limits when the funding raised is available on an ongoing basis and there is an ability to absorb losses that fully guarantees the bank's capital stability. Such instruments may be classified as innovative or non-innovative depending on whether there are incentives for early redemption by the issuer (e.g., step-up clauses).

IAS/IFRS

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

IASB (International Accounting Standard Board)

The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).

ICAAP

Under the "Second Pillar" banks are required to adopt processes and instruments for implementing the Internal

Capital Adequacy Assessment Process, (ICAAP) to determine the amount of capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IFRIC (International Financial Reporting Interpretations Committee)

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

IMA

Internal Models Approach: it can be used to calculate market risks.

Impairment

When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Incurred loss

Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss."

Intangible asset

An identifiable, non-monetary asset lacking physical substance.

IRB (Internal Rating Based)

Approach based on internal ratings within the framework of the New Basel Accord. In the internal ratings approach the expected loss on a loan portfolio is estimated through three parameters (PD, LGD and EAD). In the foundation approach only the PD is estimated by the Bank, for the other parameters reference is made to the indications from the supervisory authorities.

Junior

In a securitisation transaction it is the lowest-ranking tranche of the securities issued (Equity tranche), being the first to bear losses that may occur in the course of the recovery of the underlying assets.

LDA - Loss Distribution Approach

It is a model used to assess exposure to operational risk. It makes it possible to estimate the amount of expected and unexpected loss for any event/loss combination and any *business line*.

Liquidity risk

The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly

affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Loss Given Default (LGD)

It indicates the estimated loss rate in the event of borrower default.

Macro-hedging

Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

Market risk

Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

M-Maturity

The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Mezzanine

In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Non performing

Term generally referring to loans for which payments are overdue.

Operational risk

The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is the risk of losses deriving from breach of laws or regulations, contractual or non-contractual liability or other disputes; it does not include strategic risk (losses due to wrong management strategies) or reputational risk (loss of market shares as a consequence of negative publicity regarding the bank).

Past due loans

"Past due loans" are non-performing loans on which payments are past due on a continuing basis for over 90/180 days, in accordance with the definition set forth in current supervisory reporting rules.

Performing

Term generally referring to loans characterised by regular performance.

Pool (transactions)

See "*Syndicated lending*".

Private equity

Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

Probability of Default (PD)

The likelihood that a debtor will default within the space of 1 year.

Prudential filters

In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

Ratings

An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Retail

Customer segment mainly including households, professionals, retailers and artisans.

Risk Management

Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

Risk Weighted Assets (RWA)

On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

Scoring

System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Securitisation

A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

Senior/Super senior tranche

In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity

It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer

In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

Syndicated lending

Loans arranged and guaranteed by a pool of banks and other financial institutions.

Slotting

A system for calculating capital requirements, based on regulatory classification criteria, applicable to the exposures relating to Specialised Lending by banks authorised to use the internal credit risk rating system (for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section V).

SPE/SPV

Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Spread

This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

Stress tests

A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Tier 1

Tier 1 equity includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1).

Tier 1 ratio

The ratio of Tier 1 capital, which includes Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) to total risk-weighted assets.

Tier 2

Tier 2 capital is mainly composed of eligible subordinated liabilities and any excess of adjustments over and above expected losses (the excess reserve) for positions weighted according to IRB approaches. Specific transitional provisions (grandfathering) have also been established for subordinated instruments that do not meet the requirements envisaged in the new Basel 3 regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).

Total capital ratio

Capital ratio referred to own funds components (Tier 1 plus Tier 2).

Trading book

The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

VaR - Value at Risk

The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

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