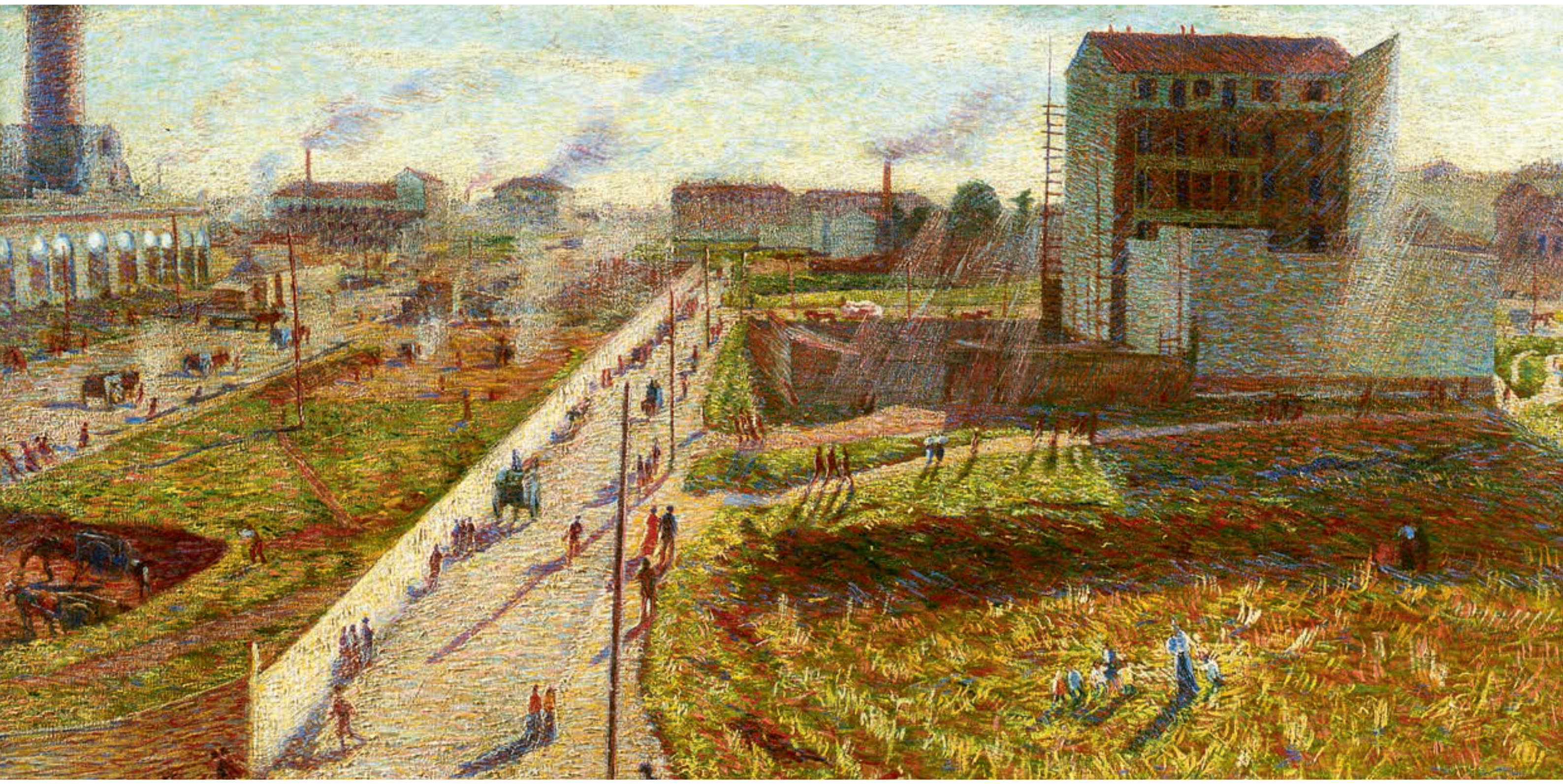
INTESA SANPAOLO

Basel 2 Pillar 3

Disclosure as at 31 December 2012



In accordance with Article 9 ter, paragraph 3, of the Shareholder Rights Directive II and Article 84-quater, paragraph 1, of the Issuers' Regulation, this document replaces the document previously published on 29 April 2013

This is an English translation of the Italian original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2012" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and is available on group.intesasanpaolo.com.

This document contains certain forward-looking statement, 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 2 Pillar 3 Disclosures as at 31 December 2012

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 8.545.681.412,32 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.

Contents

Introduction

Notes to the Basel 2 Pillar 3 disclosure

The purpose of the disclosure defined as "Basel 2 Pillar 3" is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), encouraging market efficiency by identifying the transparency requirements that give operators access to fundamental information concerning regulatory capital, exposure and risk assessment processes and thus concerning intermediaries' capital adequacy. This has particular relevance under the framework introduced by Basel 2, where reliance on internal methodologies gives banks more discretion in assessing capital requirements. The procedures to be adopted by Italian banks or banking groups when disclosing information (referred to in brief as Pillar 3) to the public have been laid down by the Bank of Italy in its Circular 263 of 27 December 2006: "New regulations for the prudential supervision of banks" (Title IV). This disclosure has been prepared in compliance with these provisions, which incorporate the provisions of Annex XII to EU Directive 2006/48 and the subsequent changes made to the regulatory framework.

In accordance with the provisions of the abovementioned Circular, this document is divided into sections called "Tables" and 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). The Tables include both a "qualitative section" and a "quantitative section". The "Basel 2 Pillar 3" disclosure is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

- figures as at 31 December: full qualitative and quantitative disclosure;
- figures as at 30 June: update of the quantitative disclosure only (with the exception of information on remuneration - Table 15), because Intesa Sanpaolo is one of the groups that have adopted IRB and/or AMA approaches for credit and operational risk;
- figures as at 31 March and 30 September: update solely of the quantitative disclosure on capital (Table 3) and capital adequacy (Table 4), because Intesa Sanpaolo forms part of the groups that have adopted IRB and/or AMA approaches for credit and operational risk.

For the sake of completeness, please note that the information regarding the regulatory capital and the capital uses is also published in Part F of the Notes to the consolidated financial statements, in the formats required by Circular 262 of 22 December 2005 of the Bank of Italy, which governs financial statement disclosure in accordance with IAS/IFRS. That section also illustrates the insurance regulatory capital and capital ratios of the insurance companies controlled by Intesa Sanpaolo, as well as the capital adequacy of the financial banking-insurance conglomerate (Part F – Information on consolidated capital: Section 3 - Insurance regulatory capital and capital ratios - page 398 / Part F – Information on consolidated capital: Section 4: The capital adequacy of the financial conglomerate - page 399).

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 382);
- 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 357);
- 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 345)
- 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 365);
- 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 376);
- Exposure to Greece - page 363.

Last, the Report on Operations outlines the Group's exposure to sovereign risk - page 74;

The "Corporate Governance Report and Information on Ownership Structures - Report on Remuneration" includes all the information concerning 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..

The regulations governing the drafting of the "Basel 2 Pillar 3" disclosure require credit institutions to adopt a formal policy to meet the minimum public disclosure requirements and to put instruments in place that enable them to assess its adequacy. To this end, the Management Board and the Supervisory Board of the Parent Company Intesa Sanpaolo S.p.A. have approved a specific document "Guidelines on Pillar 3 disclosure". This document sets out the duties and responsibilities of the Corporate Bodies and the various Group departments involved in the different stages of the process governing this disclosure. Given its public importance, this document is submitted by the Manager responsible for preparing the Company's financial reports for approval to the competent Corporate Bodies. This document is therefore subject to the related certification, pursuant to Art. 154 bis of Legislative Decree 58/1998 (Consolidated Law on Finance). As a consequence, the "Basel 2 Pillar 3" disclosure is subject to the checks and controls established in the Group's "Guidelines for administrative and financial governance", the document that sets out the rules for the application of art. 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 2 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. The figures shown for comparison refer to the "Pillar 3 Basel 2" disclosure published as at 31 December 2011. In this regard, the scope of consolidation of the disclosure does not essentially differ from the one used in 2011.

The notion of immateriality, is only applied in this document for the establishment of the scope of consolidation, from which subsidiaries with assets of less than 10 million euro can be excluded. However, the total of the assets excluded from the full consolidation cannot exceed 50 million euro.

Last, 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 2 Pillar 3) and subsequent updates on its Internet site at the address www.group.intesasanpaolo.com.

Capital ratios as at 31 December 2012

(millions of euro)

Regulatory capital and capital ratios	31.12.2012	31.12.2011
Regulatory capital		
Tier 1 capital	36,013	37,295
of which: instruments not included in Core Tier 1 ratio (*)	*2,544*	*4,498*
Tier 2 capital	8,141	12,201
Minus items to be deducted (**)	-3,410	-3,144
REGULATORY CAPITAL	**40,744**	**46,352**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**40,744**	**46,352**
Risk-weighted assets		
Credit and counterparty risks	253,309	277,498
Market risks	18,427	17,488
Operational risks	25,745	24,825
Other risks (***)	1,138	5,395
RISK-WEIGHTED ASSETS	**298,619**	**325,206**
Capital ratios %		
Core Tier 1 ratio	11.2	10.1
Tier 1 ratio	12.1	11.5
Total capital ratio	13.6	14.3

(*) This caption includes preferred shares, savings shares and preference ordinary shares.

(**) In compliance with the provisions of the Bank of Italy Circular 263/2006, in the calculation of capital ratios, elements to be deducted from total regulatory capital have been deducted separately and for an equal amount from Tier 1 and Tier 2 capital, with the exception of the contributions deriving from the insurance business that refer to contracts which arose prior to 20 July 2006 and continue to be deducted from total capital.

(***) In relation to risk-weighted assets, this caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities. It also includes the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

Regulatory capital and related capital ratios as at 31 December 2012 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions.

As at the end of 2012, total regulatory capital came to 40,744 million euro, compared to risk-weighted assets of 298,619 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The decrease in risk-weighted assets recorded constantly throughout 2012 is attributable to various factors: optimisation processes, the lesser impact in absolute terms of the floor envisaged in prudential regulations and the elimination/reduction of specific capital requirements for certain subsidiaries following authorisation from the Supervisory Authority. The decline was also due to the extension of the use of internal models by the Group (see Table 7 "The rollout plan for the internal models"). In further detail, it should be noted that, effective the figures for the fourth quarter of 2012, the Group was authorised to use advanced methods to calculate requirements for credit risk on the SME Retail regulatory segment (+22 basis points in terms of the core tier 1 ratio). Lastly, the decrease in weighted assets may also be attributed to a moderate contraction of lending and its different composition for the purposes of capital absorption.
Regulatory capital, in addition to ordinary operations, also takes account of the opposite effects of the purchase of subordinated Tier 1 and Tier 2 notes, as well as senior bonds, which on the one hand resulted in a decrease in non-core capital, while on the other yielding a considerable amount of net income, with the resulting increase in top-quality capital.
As always, regulatory capital as at 31 December 2012 takes into account the dividend distribution drawn against the net income for 2012 that the Management Board will propose to the Shareholders' Meeting, i.e. 0.061 euro per savings share and 0.050 euro per ordinary share, for a total dividend disbursement of 832 million euro.

The Total capital ratio stood at 13.6%, while the Group's Tier 1 ratio was 12.1%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 11.2%.

Last, in a Regulation dated 18 May 2010, the Bank of Italy provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among "Financial assets available for sale". In particular, the Regulation allows the capital gains and losses recognised through such reserves associated with the foregoing securities to be completely neutralised effective from 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 31 December 2012 account for this measure (the effect on the Core Tier 1 ratio is +7 basis points).

Table 1 – General requirements

Qualitative disclosure

Introduction

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 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 representation of the risk level of the Group's portfolios.
The efforts of recent years to secure the Supervisory Authority's validation of internal models for credit, operational, market and credit derivative risk should be seen in this context.
The definition of the Risk Appetite Framework and the resulting operating limits related to market risk indicators, the use of risk measurement instruments in granting and monitoring loans and controlling operational risk and 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 strategic and management guidelines defined by the Supervisory Board and the Management Board along the Group's entire decision-making chain, down to the single operating units and to the single desk.
The main principles in risk management and control are:

– clear identification of responsibility for acceptance of risk;
– measurement and control systems in line with international best practices;
– organisational separation between the functions that carry out day-to-day operations and those that carry out controls.

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 and Commissions, 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.

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. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, as part of the Group's Risks Tableau de Bord.
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, control limits and procedures.

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:
  - interest rate and foreign exchange rate risk;
  - risk on equity investments not subject to line by line consolidation;
  - risk on real estate assets owned for whichever purpose;
- operational risk, including legal risk;
- insurance risk;
- strategic 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.
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 protection against reputation risk 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 reputation and compliance risks for the Group, define prevention and mitigation tools and measures in advance and implement specific, dedicated reporting flows.

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, on the basis of an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.
For the purposes described above, Intesa Sanpaolo uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

The Basel 2 and Basel 3 Project

The goal of the Basel 2 Project is the adoption of advanced approaches for credit and operational risks by the main Group companies.
The credit risk situation differs by portfolio:

- for the Corporate segment, authorisation has been obtained from the Supervisory Authority for the use of the AIRB approach on a scope that extends to the Parent Company, the network banks, Banca Infrastrutture Innovazione e Sviluppo [1] and Mediocredito Italiano (effective 31 December 2010; the FIRB approach had been in use since December 2008) and the foreign subsidiary Intesa Sanpaolo Bank Ireland Plc. (effective reporting as at 31 December 2011). The foreign bank VUB Banka obtained authorisation to use the FIRB approach effective from the report as at 31 December 2010. With effect from June 2012 permission was obtained to extend the AIRB approach to the subsidiary Banca IMI and for the adoption of rating models for the hedging of Specialised Lending[2] exposures at Group Level, together with the use of internal LGD estimates for the Corporate segment in relation to the Group companies Leasint and Mediofactoring (the FIRB approach had been in use since December 2008);
- for the Retail Mortgage segment, authorisation was granted for the use of the IRB approach effective June 2010, extended to the former Casse del Centro network banks effective the report as at 31 December 2011 and to VUB Banka with effect from 30 June 2012;
- authorisation for transition to the IRB approach was granted for the SME Retail segment effective the December 2012 report, extending to a scope that includes the Parent Company, Banca dei Territori and Mediocredito Italiano.

The Group is also proceeding with development of the rating models 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 regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement

[1] The full demerger of the Bank in favour of the Parent Company and Leasint S.p.A. was completed in December 2012.
[2] The Bank of Italy's validation process also authorised use of the Leveraged & Acquisition Finance rating system which, although not part of the Specialised Lending portfolio, is developed along the same lines.

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 and to the Supervisory Authorities. For additional details see the section on operational risk.

In 2012 the Group presented its Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for the measurement of risk, internal capital and total capital available.

As far as developments in the set of regulations known as "Basel 3" are concerned, the main changes regard the level and quality of capital of the Banks, introduction of the leverage ratio (ratio of Core Tier I and Total Assets, including off balance sheet adjusted for the actual derivatives exposure), changes in the valuation of counterparty risk and the introduction of two new regulatory liquidity indicators (Liquidity Coverage Ratio and Net Stable Funding Ratio).
In preparing to adopt 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. See the chapters below for a more detailed analysis.

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, procedures and organisational structures aimed at ensuring compliance with Company strategies and the achievement of the following objectives:

- the effectiveness and efficiency of Company processes;
- the safeguard of asset value and protection from losses;
- reliability and integrity of accounting and management information;
- transaction compliance with the law, supervisory regulations as well as policies, plans, procedures and internal regulations.

The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, incorporating both the Company 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 Company 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 assigned the functions of governance and control;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

The Company'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 governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company, 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 has established an internal Control Committee that proposes, advises and enquires on matters regarding the internal control system, risk management and the accounting and IT 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.

From a more strictly operational perspective the Bank has identified the following macro types of control:

- line controls, aimed at ensuring the correct application of day-to-day activities and single transactions. Normally, such controls are carried out by the productive structures (business or support) or incorporated in IT procedures or executed as part of back office activities;
- risk management controls, which are aimed at contributing to the definition of risk management methodologies, at verifying the respect of limits assigned to the various operating functions and at controlling the consistency of operations of single productive structures with assigned risk-return targets. These are not normally carried out by the productive structures;
- compliance controls, made up of policies and procedures which identify, assess, check and manage the risk of non-compliance with laws, Supervisory Authority measures or self-regulating codes, as well as any other rule which may apply to the Bank;
- internal auditing, aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the overall functioning of the internal control system. It is performed by different structures which are independent from productive structures.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
As a consequence, Intesa Sanpaolo's control structure is in compliance with the instructions issued by the Supervisory Authorities. Indeed, alongside an intricate system of line controls involving all the function heads and personnel, a Chief Risk Officer area has been established specifically dedicated to second level controls that incorporates both units responsible for the control of risk management (in particular, the Risk Management Department, Credit Quality Monitoring, and Internal Validation in accordance with Basel 2 rules), and the management of compliance controls (Compliance Department, Anti-Money Laundering Service). Also reporting in functional terms to the Chief Risk Officer is the Legal Affairs Department, which monitors and controls the legal risk of Intesa Sanpaolo and its Group.
There is also a dedicated Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board, and is also functionally linked to the Control Committee.

Risk Management

In the context of second level internal controls, the Risk Management Department is responsible for developing methods for controlling risk exposure within the various business units, reporting on the overall situation to corporate governance Bodies, adopting risk capital measures for management reporting and the assessment of the adequacy of the Group's internal capital and providing the Supervisory Authorities with the information required by applicable regulations. The Department's tasks and functions are discussed in detail in the subsequent chapters of this document.

Internal Validation

The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the New Regulations for Prudential Supervision issued by the Bank of Italy, 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 Internal Validation, 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 function reports directly to the Chief Risk officer and is independent of the functions that manage internal system development activities and the function in charge of internal auditing. It ensures that internal models, whether already operational or in the development stages, are validated with regard to all risk profiles covered by Pillars I and II of the Basel II Accord, in accordance with the independence requirements established by the Bank of Italy.

With respect to the first pillar 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 Internal Validation activities, documented in accordance with pre-determined standards, are presented to the competent functions, transmitted to the Internal Auditing 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-two risks, Internal Validation 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 main analyses are conducted in the context of the prudential control process and summarised in the ICAAP book.
The function also manages the internal validation process at the Group level, interacting with Supervisory Authorities, the company bodies of reference and the functions responsible for the level-three controls provided for in regulations.
The Internal Validation function adopts a decentralised approach for companies with local validation functions (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others.
The methodologies adopted were developed in implementation of the principles that inspire the New Regulations for Prudential Supervision issued by the Bank of Italy, 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 function 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 2012, the main validation activities in the area of credit risks pertained to:
- the adoption of the AIRB approach for the regulatory SME Retail segment (PD and LGD models);
- the adoption of the AIRB approach for Leasint and Mediofactoring (LGD model);
- the adoption of the AIRB approach for the Specialised Lending models (LAF/AF/CRE/PF);
- the periodic quantitative analyses required by the Bank of Italy for the regulatory Residential Mortgage for Private Individuals and Corporate segments (PD and LGD models);
- monitoring analyses (backtesting, performance analyses and empirical analyses of use tests) for the Residential mortgage for Private Individuals and Corporate segments authorised for the IRB approach in the context of the annual validation report;
- the analyses functional to the assessment of the measures taken on the corporate FIRB and mortgage IRB system of VUB, conducted together with the local validation function in order to meet the requirements of regulators (slotting models for SPV and real estate development exposures, IALC PD, SME and mortgage PD recalibration, measures to improve the mortgage LGD model, new calculation methods for the conservative margin for determining the central tendency and refinements of the validation framework).

Validation activities for Operational Risk conducted in 2012 primarily took the form of:
- monitoring the measures taken in accordance with the requirements set in the regulatory capital "floor" revision order of summer 2011;
- amongst validation activities aimed at presenting three applications: the application for the inclusion of insurance policies in the AMA internal system for the purposes of calculating the capital requirement for operational risks; the application to extend the AMA internal system to the first tranche of what is known as the "fourth scope" of adoption, consisting of the main companies of the Fideuram Group and the two subsidiaries of the VUB Group, VUB Leasing and Consumer Financial Holding (the analyses of the subsidiaries of the VUB Group were conducted together with the local validation function); and, lastly, the application for the modification of the method of allocating the requirement calculated with the AMA internal method;
- executing the annual validation analyses (annual report).

For the purposes of such validation activities, the information drawn from documentary and empirical analyses was supplemented, for certain organisational units, by specific onsite inspections aimed at ascertaining the actual application of the monitoring and management process for operational risks and by methodological analyses.

Internal validation activity relating to the market risk component focused on the following areas:

– validation activity aimed at the application for authorisation of the extension of the market risk internal model to the "specific debt security risk" factor (Spread VaR and Incremental Risk Charge models);
– annual validation analyses (annual report);
– 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. The analyses were replicated on an extraordinary basis in August 2012 inasmuch as stressed VaR was in some cases lower than non-stressed VaR in the third quarter of 2012;
– periodic analyses required by the Bank of Italy on the progress of corrective measures applied to the spread VaR and IRC models.

The Bank of Italy conducted two pre-validation visits in 2012 relating to counterparty risk, currently used for management purposes only by the Parent Company and Banca IMI. The Internal Validation function analysed both the calculation system implemented and the organisational processes and information technology systems underlying the management of counterparty risk.
The main analyses conducted in 2012 with regard to Pillar II risks pertain to:

– the method used to assess loan portfolio concentration risk;
– the updating of the model for measuring banking book property risk;
– the core deposit behavioural component pertaining to banking book interest rate risk;
– certain components of liquidity risk (for example, committed lines of credit).

Stress testing methodologies, foreign exchange risk, equity risk for the banking book, insurance risk and strategic risk, which were validated in previous years, were not subject to change in 2012. It was therefore not deemed necessary to update the associated validation analyses.

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 non-compliance risk is entrusted to the Compliance Department, which reports to the Chief Risk Officer, from a position of autonomy with respect to operational 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. These Guidelines identify the responsibilities and macro processes for compliance, aimed at mitigating the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of non-compliance risk. The Compliance Department, including through the coordination of other corporate functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the assessment of the company's bonus system, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, including through the use of information provided by the Internal Auditing Department, of ongoing compliance, and the promotion of a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.
The Compliance Department submits periodic reports to Corporate Bodies on the adequacy of compliance control. On an annual basis, these reports include an identification and assessment of the primary non-compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a semi-annual 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 Branches Abroad, an internal compliance function is established and a local Compliance Officer is appointed. In functional terms, the Compliance Officer reports to the Compliance Department and is assigned compliance responsibilities.

The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of non-compliance risk, including in light of the most significant ongoing projects, such as Out-of-branch offering and initiatives aimed at achieving compliance with new regulations enacted at an international level (e.g., EMIR, Dodd Frank Act, 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. In this context, work was done on both the internal rules that govern the provision of investment services, adjusting those roles to the changed economic scenario, and on the procedures that apply to operations with the aim of improving the service rendered to customers, with particular reference to the adequacy assessment model. 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, including through changes to the internal rules applicable in the area;
- 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 particular, work focused on revising the commission scheme applied to customers, in accordance with the new art. 117-*bis* of the Consolidated Law on Banking concerning "Interest on credit facilities and overdrafts" introduced by the "Save Italy" Decree;
- in the area of insurance and pension services, business functions received constant advice, concerning in particular new legal developments relating to motor policies and policies paired with mortgages. In addition, initiatives continued with the aim of enhancing governance of non-compliance risks pertaining to the insurance and pension segment, with respect to the Group's distribution networks. In this area, the line of pension products and the associated marketing process were revised and a project was launched in order to return the residual premium for policies associated with loans repaid in advance;
- the organisational, management and control Model pursuant to Italian Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations, updating it to take into account the new predicate offences, and coordinating verification of its proper implementation.

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 Function

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 Function reporting directly to the Chief Risk Officer. The function 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;

- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment of reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

During 2012, the Anti-Money Laundering Function 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. In further detail, organisational, information technology and training activities were performed with the aim of implementing applicable regulations in this area.

The Internal Auditing Department

With regard to internal auditing activities, the Internal Auditing Department is responsible for ensuring the ongoing and independent supervision of the regular progress of the Bank's operations and processes for the purpose of preventing or identifying any anomalous or risky behaviour or situation. The Internal Auditing Department assesses the functionality of the overall internal control system and its adequacy to ensure:

– the effectiveness and efficiency of Company processes;
– the safeguarding of asset value and protection from losses;
– the reliability and integrity of accounting and management information;
– the compliance of transactions with the policies set by Company governance bodies and internal and external regulations.

Furthermore, it provides consulting to the Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management and organisation governance processes.

The Internal Auditing Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practice and standards for internal auditing established by the Institute of Internal Auditors (IIA). Internal auditors conduct their activity in accordance with the principles laid down in the Internal Auditor's Code of Ethics, inspired by that proposed by the Institute of Internal Auditors. The Function has earned the maximum rating in the external Quality Assurance Review envisaged by the international standards: "Generally Compliant".

The Internal Auditing Department has a structure and a control model which is organised consistently with the divisional model of Intesa Sanpaolo and the Group.

During the year, the auditing was performed directly for the Parent Company Intesa Sanpaolo and for Banche dei Territori, and also other subsidiaries with an outsourcing contract. For the other Group companies second level controls were conducted (indirect surveillance).

The Internal Auditing Department also enjoyed free access to the data and documents of all company functions.

Supervision activity was conditioned by the continuing delicate economic scenario. Consequently, also in accordance with instructions issued by the Control Committee and the top management, verifications were primarily aimed at monitoring the evolution of the risks associated with credit quality, liquidity risk measurement and management, interest rate, property and counterparty risk, internal capital adequacy estimation criteria and international activities. Particular attention was also devoted to the themes of compliance with money laundering prevention legislation.

Control activity was generally oriented towards the processes of structures with the aim of assessing:

– the functionality of line and risk management controls;
– compliance with internal and external rules;
– the reliability of operating structures and delegation mechanisms;
– the accuracy of the information available in the various activities and the adequate use of the same.

Direct surveillance was carried out in particular through:

– control of the processes of the network and central structures, including through onsite intervention;
– the surveillance, via distance monitoring integrated by on-site visits, of the credit origination and management process, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
– the surveillance over the process for the measurement, management and control of the Group's exposure to various market, counterparty, property, liquidity, interest rate, operational and credit risks. Particular attention was dedicated to the adequacy of the processes and criteria for estimating internal

capital in accordance with Basel 2 and Prudential Supervision regulations;

- the verification of the control processes carried out by compliance risk governance functions, in particular of provisions of law concerning embargoes, money laundering, investment services, conflicts of interest, transactions with related parties, transparency, and the administrative liability of entities pursuant to Legislative Decree 231/01;
- the valuation of adequacy and effectiveness of information technology system development and management processes, to ensure their reliability, security and functionality;
- the surveillance of the processes related to financial operations and the adequacy of related risks control systems;
- measures affecting Italian product company subsidiaries, with a priority focus on credit quality and processes, as well as the money laundering prevention process;
- the 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;
- the timely performance of the activities 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 and obligations under new authorisations.

During the year the Internal Auditing Department also ensured the supervision of all the main development projects, paying particular attention to control mechanisms in the new Bank’s models and processes and, in general, to the efficiency and the effectiveness of the control system established within the Group.
Indirect audit 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 reviews and verification interventions were also conducted.
In conducting its duties, the Internal Auditing Department used methodologies for the preliminary analysis of risks in the various areas. Based on the assessments made and on the consequent priorities, the Internal Auditing Department prepared and submitted an Annual Intervention Plan for prior examination to the Control Committee, the Management Board and the Supervisory Board, on the basis of which it conducted its activities during the year, completing the scheduled audits.
Any weak points have been systematically notified to the Departments involved for prompt improvement actions which are monitored by follow-up activities.

The valuations of the internal control system deriving from the checks have been periodically transmitted to the Control Committee, to the Management Board and to the Supervisory Board which receive detailed updates also on the state of solutions under way to mitigate weaknesses; furthermore, the most significant events have been promptly signalled to the Control Committee.
A similar approach is used with respect to the responsibilities of administrative bodies pursuant to Legislative Decree 231/01 for the Control Committee, as surveillance body.
Finally, the Internal Auditing 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 practice.

Manager responsible for preparing the Company’s financial reports: the financial reporting process

As required by art. 154-bis of the Consolidated Law on Finance, the delegated management bodies and the Manager responsible for preparing the Company’s financial reports must issue a specific report annexed to the financial statements in which it is certified that the administrative and accounting procedures were adequate and effectively applied during the period, the Company’s accounting documents match the contents of accounting books and records, the documents are suitable to providing a true and fair view of the assets, liabilities, profit or loss and financial position of the Company and the set of companies included in the scope of consolidation, and the analysis of the Group’s performance and results presented in the Report on operations is reliable, along with a description of the main risks and uncertainties to which the Group is exposed.
Intesa Sanpaolo has established a governance and control system that is appropriate to monitoring the risks typical of the company and the Group on an ongoing basis. In detail, the internal control system for accounting and financial information is supervised by the Manager responsible for preparing the Company’s financial reports in accordance with the Company Regulations “Guidelines for administrative and financial governance”, which concern the methods of implementation for verification of the adequacy

and effective application of administrative and accounting procedures at the Group level, as well as responsibilities and rules for the maintenance of an adequate system of relationships with the corporate functions of the Parent Company and subsidiaries.
The monitoring of the quality of accounting and financial information is based on a joint review of:

- the efficacy and efficiency of the organisational arrangements adopted, in specific reference to the functionality of internal controls of financial information, through an audit plan aimed at ongoing assessment of the adequacy and effective application of the administrative and accounting procedures instrumental to the preparation of financial statement documents and all other financial disclosures to the markets, including, in particular, the Basel 2 Pillar 3 public disclosure document; in order accurately to document the quality of arrangements for controlling the flow of accounting data and information presented to the market, reviews are conducted not only of administrative and accounting processes, narrowly construed, but also of all phases of work that involve acquiring, recording, processing and presenting data managed in guidance and control processes (planning, management control and risk control), business processes (lending, financial intermediation, asset management and insurance, etc.), supporting processes (operations) and general governance rules for technological infrastructure and applications conceived to ensure proper management of information processes and appropriate forms of monitoring of development activities regarding information technology systems, particularly those used to produce accounting and financial information;
- the completeness and consistency of the information disclosed to the market by enhancing surveillance of internal communications processes with the management by the Manager responsible for preparing the Company's financial reports of a structured system of information flows that the functions of the Parent Company and subsidiaries regularly transpose, reporting significant events for the purposes of accounting and financial information, especially as regards the main risks and uncertainties to which they are exposed.

The Manager responsible for preparing the Company’s financial reports, aided by the Administrative and Financial Governance Unit, has identified the scope of the subsidiaries viewed as material to financial information on the basis of their respective contributions to captions of the consolidated income statement and balance sheet and qualitative assessments of the complexity of the processes of producing financial information in relation to the specific nature of the business, risk profiles and operating context. The schedule of reviews of the adequacy and effective application of administrative and accounting procedures privileged the examination of:

- the reliability of the processes of producing and disseminating the financial statement information deemed most sensitive;
- the reliability of the methods and assumptions on which forecasting estimates and valuation models are based;
- the logical consistency of the criteria for presenting the main risks and uncertainties to which the Group is exposed.

The resulting schedule set for the year was implemented in accordance with the criteria set out in the Regulation “Guidelines for administrative and financial governance”, applying the methods taken as reference, which reflect international standards deriving from the COSO and COBIT Framework[3] to ensure homogeneous application of the verification process conducted on Group companies and valuation criteria for the system of internal controls on financial information. In particular, the method involves an initial overall assessment of the state of the internal control system at the Company-wide level aimed at determining whether there are adequate governance systems, standards of conduct inspired by ethics and integrity, effective organisational structures, a clear structure of delegated powers and responsibilities, adequate risk policies, effective codes of conduct and fraud prevention systems and personnel disciplinary systems. These general areas are examined on the basis of enquiries and evidence provided by Internal Auditing functions, followed by further inquiry by the Manager responsible for preparing the Company's financial reports, primarily concerning company regulations, organisational arrangements and the operating mechanisms most relevant to management of the administrative and accounting system. In a subsequent phase, the method calls for further development of general assessments involving a set of case-by-case reviews of the adequacy and effective application of administrative and accounting procedures and governance rules for technological infrastructure and applications. This examination is

[3] 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.

conducted according to specific techniques, reinforced by auditing standards, overseen by the Manager responsible for preparing the Company's financial reports through dedicated structures (Administrative and Financial Governance Unit) and on the basis of enquiries and evidence provided by the various Company control functions with a view towards fully sharing information and maximising operational synergies. Once Group activity has been completed, each Company then prepares a Report on the internal control system functional to financial reporting, which is enhanced in concert with the Parent Company's Administrative and Financial Governance Unit before being formally sent to the Manager responsible for preparing the Company's financial reports. These Reports, presented as part of the periodic information provided to each company's supervisory bodies, were drafted to include:

– the results of the reviews conducted by control functions and enquiries carried out with the management, as well as suggestions submitted by the independent auditors in the performance of their duties in certifying the financial statements;
– the information flows sent to the Manager responsible for preparing the Company's financial reports by the companies with the aim of presenting facts that may have a material effect on earnings or financial position and the elements helpful to consolidated presentation of operating performance and margins, highlighting the main risks and potential uncertainties to which the Group is exposed.

The Reports thus present an overview of the Company's situation, with a particular focus on the factors of greatest operational complexity to be dealt with to ensure the reliability of accounting information processes and the efficacy of the system of internal controls safeguarding them. In addition, a specific illustration is provided of the schedule of reviews carried out during the year, with a summary of the results and a description of the situations of deficiency detected and the measures taken to restore full functionality of the internal control system on processes sensitive to financial reporting. The Administrative and Financial Governance Unit coordinates the assessment process to be conducted within each company according to consistent methods and technical instructions. The process is then completed through the submission to the Manager responsible for preparing the Company's financial reports of an equal number of reports on the internal control system for financial reporting, accompanied by certification of responsibility by the respective delegated body. Once the assessment phase has been completed on a company basis, all of the deficiencies detected within the Group are factored and evaluated on a consolidated basis, assessing the possible connections and the risk of potential distortion effects on financial reporting, and setting the related intervention priorities and work schedules to be monitored over time in accordance with the significance of the operational malfunctions.

Once the assessment process conducted in concert with Group companies has been completed, the Administrative and Financial Governance Unit prepares a periodic report that the Manager responsible for preparing the Company's financial reports presents to the Control Committee and Financial Statements Committee, for subsequent presentation to the Supervisory Board and Management Board. The above report contains:

– the degree of dissemination of the administrative and financial governance model achieved within the Group, a process of gradual extension of which to companies of more limited operating scope also continued in 2012;
– monitoring of the functionality of the organisational and control arrangements already adopted by all significant companies, including a review of the regularity of the planned communication flows with the management, control bodies and independent auditors;
– the main initiatives carried out with the aim of enhancing the administrative and accounting system during the year, with regards to the completion of measures aimed at developing the application architecture for generating the Group's accounting information and rationalising processing steps instrumental to generating consolidated supervisory reports;
– the improvements made to company processes, which contemplate the phases of acquisition, recording, processing and presentation of data sensitive to financial reporting, with an assessment of the compliance of accounting processing phases with respect to changes in regulations that have been incorporated into the Group Accounting Rules;
– the malfunctions detected, specifying the potential risk of distortion of information and the accounts that may have been affected, as well as of the compensatory controls that had a mitigating effect;
– an overarching judgment, considering the information provided during the year by the companies and Parent Company's functions, the opinions stated by management and any suggestions made by the independent auditors.

Upon completion of the set of reviews conducted during the year to express an opinion of the adequacy and effective application of controls of administrative and accounting procedures, the reliability of the internal control system for accounting and financial information is confirmed. However, the fact that

administrative and accounting procedures are suitable to providing an accurate representation of the assets, liabilities, profit or loss and financial position of the Bank and Group in the financial statements does not mean that there is no room for improvement, which is then the object of measures taken by the interested units and systematic monitoring by the Manager responsible for preparing the Company's financial reports.
The information is presented to the Control Committee, Management Board and Supervisory Board in relation to their respective spheres of competence. The work done provided the basis for the Managing Director – CEO and Manager responsible for preparing the Company's financial reports to issue the certifications required by art. 154-*bis* of Legislative Decree 58/98 with respect to the 2012 Annual Report, and, referring only to the Manager responsible for preparing the Company's financial reports, to the Basel 2 Pillar 3 disclosure as at 31 December 2012, in accordance with the model established by the Consob Regulation.

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 borrower/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 exercises its direction, governance and support of the Group:
- the system of Credit Powers and Granting and Monitoring Rules governing the ways in which credit risk to customers is assumed;
- "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 client/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 Unit, for the Parent Company and the main subsidiaries, on the basis of a service 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 to the extent of its competence, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.
The coverage and governance of credit ensured by the Corporate Bodies is reflected in the current organisational structure, which identifies four important areas of central responsibility, in addition to the business units:
- the Chief Lending Officer;
- the Chief Risk Officer;
- the Chief Operating Officer; and
- 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 and functionally coordinates the recovery of doubtful loans by Intesa Sanpaolo Group Services through the Loan Recovery Department, sets the Credit Granting and Management Rules, ensures that positions classified as non-performing, within his purview, are properly measured for financial statement purposes, and 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/structures.
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, and constantly monitors risk and credit quality performance.
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.
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 and coordinates the process of assessing loans for reporting purposes. 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.

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

Intesa Sanpaolo has developed a set of instruments which ensures analytical control over the quality of the loans to customers and financial institutions, and loans subject to country risk.
Risk measurement uses rating models that are differentiated according to the borrower’s segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian Public sector entities, Financial institutions). These models make it possible to summarise the credit quality of the counterparty in a measurement, 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. Statistical calibrations have rendered these ratings fully consistent with those awarded by rating agencies, forming a single 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 remaining Retail portfolio are as follows:

- for the Small Business 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 and 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 data sources and historical series used in development;
- for the Retail Mortgage segment (residential mortgages for 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;
- a class of models is gradually being developed for other products aimed at individuals (the Other retail segment) such as personal loans, consumer credit, credit cards, current account overdrafts, etc. These models will gradually replace the management rating or scoring systems currently in use for various products.

The PD rating models for the Corporate, Mortgage and SME Retail segments, which received authorisation to use the AIRB approach (effective the report as at 31 December 2011) and the IRB approach (effective the report as at 30 June 2010 for Mortgage and 31 December 2012 for SME Retail), respectively, are described in greater detail in Table 7.

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 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 quotations 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.

The Banks model, in use 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) that differentiates between banks from Mature Countries and banks from emerging Countries. The Banks from Mature Countries model, with suitable slight adjustments, is also applied to the near-banking sector (specifically to leasing and factoring).
The counterparties of the Public Entities sub-segment will be assessed through approaches currently in the implementation phase, differentiated by Region, Province and Municipality.

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.

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. LGD is estimated based on the losses measured for a population of closed defaults over an extensive period of observation (ten-year historical series) based on econometric multivariate analysis models. The LGD models for the

Corporate, SME Retail and Retail Mortgage segments, for which the AIRB and IRB approaches, respectively, were approved, are described in further detail in Table 7.

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 Non-performing Loan Process. This process, supported by a dedicated electronic procedure, enables constant monitoring, largely automatic, of all the phases for the management of anomalous positions. The positions which show an anomalous trend are classified into different processes based on the risk level, including the automatic classification in non-performing assets, as described in the related paragraph below.
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 Powers and Granting and Monitoring Rules. The Credit Quality Monitoring Unit oversees the above aspects at the Group level, through specific, extensive control and monitoring activities. However, these activities are part of a broader system of credit controls that the Unit implements directly and coordinates with the aid of the cutting-edge information technology tools which are also made available to the business units for their respective areas of responsibility, in part, to the extent within their respective purviews, by Division departments. Examples of such tools include the Ermes - Rating Controls application, a tool that allows rating control activities to be managed by computer, and the Credit Monitoring Portal.
This latter application, which has been in use since 2010 and receives input from the Credit Control Panel, is the Group's primary source in supporting the monitoring of the loan portfolio in terms of its development over time and quantitative and qualitative composition as well as the 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 a full, 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 the information;
- facilitating the identification of critical areas and the definition of 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 Unit, 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 transfer risk due to the freezing of international payments and 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 Table 9 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 macro economic 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 credit 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.

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 loan granting and monitoring 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 corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:
– all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
– for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
– the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The 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 technicians. The external technicians are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties 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 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 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 (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.
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.
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.
In 2012 a series of measures were completed with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

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).

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:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;
  - 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 indexes;
- 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 polices 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 main subsidiaries that carry out retail and corporate banking.
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 risk profile of the Group and its main operational 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 operational 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, through 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 Statutory Bodies, reporting on their progress to Top Management and the Parent Company's operational structures;
– 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 by 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 equities[4]. 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 loans and 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, sensitivity of the interest margin 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),

[4] 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.

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). In other cases, cash flow hedges are applied to specific assets or liabilities.
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 obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market at large, 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.
The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. 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 communicated throughout the institution;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- a prudential approach to the estimation of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
- the constant availability of an adequate amount of 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;
- integration into the wider risk management and measurement system, with incisive controls consistent with developments in the context of reference;
- 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 such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of 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 are assigned to the Parent Company's corporate bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only with reference to its own organisation, but also by assessing the Group's overall position and the liquidity risk to which it is exposed.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury 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 corporate bodies. Within this framework, liquidity risk measurement metrics are broken down into 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 respond to periods of tension, including extended periods of tension, 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 one week (cumulative projected imbalance in wholesale operations) and of one month (Short Term Gap).

The indicator of projected cumulative wholesale exposure 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 short-term gap indicator measures, for the various short-term time brackets, the ratio between availability of liquidity reserves and expected positive cash flows to expected and potential cash outflows, with reference to both on- and off-balance sheet items. This indicator aims to ensure that the Bank maintains an adequate level of unencumbered liquidity reserves that may be converted into cash to meet expected and potential liquidity requirements. To that end, the behavioural coefficients and assumptions underlying the valuation of expected and potential cash flows incorporate cautionary and extremely prudential assumptions (such as (i) the loss of a portion of customer demand deposits, (ii) unforeseen uses of undrawn committed credit and liquidity lines and (iii) an increase in market volatility for determining haircuts on liquidity reserves and estimating the potential future exposure associated with derivatives positions) effectively constituting an especially severe "base prudential scenario," with the adoption of run-off percentages for demand deposits more conservative than those identified by Basel 3 (LCR).

The structural Liquidity Policy of the Intesa Sanpaolo Group incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits on maturities' transformation aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.
The Guidelines also call for the periodic estimate of the liquidity position in an acute combined stress scenario (both firm specific and market related), with the definition of a target threshold for the 3-month stressed short-term gap, aiming at establishing an overall level of reserves suitable to face greater cash outflows during a period of time (3 months) adequate to take the required operating measures to restore the Group to balanced conditions. The acute stress scenario is determined by combining:
– a "firm-specific" stress scenario, relating to a liquidity crisis specific to the Bank, reflected in an accelerated withdrawal of funds by deposit-holders, a significant reduction in the realised value of

assets due to the need for immediate liquidation of assets not eligible for refinancing through repurchase agreements, the activation of downgrade triggers and the need to repurchase own debt securities or honour extra-contractual obligations in order to attenuate reputational risk;
- a "market-related" stress scenario, representing a general market crisis extending to both the financial and industrial sectors, characterised by, for example: (i) failure to repay granted facilities to corporate customers; (ii) a sudden increase in uses of lines of credit and guarantees; and (iii) a significant increase in market volatility, with negative effects on the value of reserves or potential future exposure associated with positions in derivatives, resulting in larger haircuts and the need for additional guarantees.

Together with the short term and structural Liquidity Policy and the stress test, the Guidelines also provide for management methods for 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 pre-warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.
In 2012, the Group's liquidity position remained largely within the risk limits provided for in the Group's Liquidity Policy both in terms of short-term and structural liquidity indicators. The stress test, applied by considering total available liquidity reserves, yielded results far in excess of the target threshold, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than three months.
The regulatory indicators envisaged by Basel 3 have also already been satisfied (LCR and NSFR > 100%), prior to the regulatory revision of early January 2013, and have further improved following the definition of the new standards. Adequate, 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 prevalent risk factors.

OPERATIONAL RISK

Operational risk management strategies and processes

The control of the Group's operational risks 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.
The tasks of the Group Compliance and Operational Risk Committee include periodically reviewing the Group's 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 the management of the Group's operational risks. 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 the prevailing 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

The Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirements for regulatory purposes:

- effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
- effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
- effective 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo[5].

In December 2012, an application was submitted to the Bank of Italy for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding). The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2013, based on the roll-out plan presented to the Management and Supervisory Authorities.

The Integrated self-assessment 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 Organisation and Security Department that supervise the planning of operational processes and business continuity issues and with control functions (Compliance and 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-assessment process identified a good overall level of control of operational risks and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.
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 has 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, although it does not have an impact in terms of capital requirements. The internal model insurance mitigation component was submitted for regulatory approval through a specific application to the Bank of Italy in December 2012.

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

[5] The full demerger of the Bank in favour of the Parent Company and Leasint S.p.A. was completed in December 2012.

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, and the levels at which, strategic decisions are reached, 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.

Reputation risk

The Intesa Sanpaolo Group attaches great importance to reputation 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 has adopted and published a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with objectives more ambitious than those required by mere compliance with the law. On the subject of customer relations, it should be recalled that the Group has set up a systematic dialogue process. It 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 also provides effective governance for compliance risk as a prerequisite for mitigating reputation risk.
There has been a particular focus on 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 subscribe for 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) and the customer (sustainability in terms of risk to return ratio, flexibility, concentration, 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 portfolio of owned properties is represented by using a VaR-type model based on indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's property 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 associated with unfavourable changes in insurance Embedded Value (EEV). In other words, it reflects the risk of the deterioration of the value of the insurance business. This allows Intesa Sanpaolo Group to assesses the adequacy of the whole of the financial conglomerate, by incorporating the EEV as a measure of the value of the insurance business.

These risks are incorporated in the measurement of economic capital, used to assess capital adequacy (see Table 4).

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.

Table 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 purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

– the line-by-line consolidation in the IAS/IFRS financial statements of non-banking, financial and instrumental companies (primarily the insurance segment) not included in the "Banking group";
– the proportional consolidation in the "Banking Group" of the jointly controlled entities conducting banking, financial and instrumental business that are consolidated at equity in the financial statements.

Furthermore, the proportional consolidation of subsidiaries subject to joint control does not generate any significant differences. Please also note that companies are defined as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by the Intesa Sanpaolo Group and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.

Since this disclosure only refers to the consolidated figures of the (jointly or otherwise) controlled banking, financial and instrumental companies of the "Banking Group", these figures also include the (on- and off-balance sheet) asset and liability and income and expense transactions with the other companies included in the IAS/IFRS scope of full consolidation. In the financial statements, however, these figures are netted as intragroup transactions.
Also, following the Bank of Italy's update in November 2009 of the instructions for the preparation of financial statements of banks, some of the information reported in the consolidated financial statements (Part E - Information on risks and the relative hedging policies – Section 1: Risks of the Banking group) fall within the scope of consolidation of the Banking group and, consequently, do not differ from the information contained in this document.

The "prudential" scope of consolidation as at 31 December 2012 does not differ substantially from that as at 31 December 2011.

Basis of consolidation for accounting and prudential purposes

Entities consolidated as at 31 December 2012

Company name	Registered office		Treatment in prudential reporting			Treatment in financial statements	
	Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity (RWA)	Consolid. line-by-line	Consolid. at equity
BANKS							
INTESA SANPAOLO S.p.A.	Torino	ITALY	X			X	
ALLFUNDS BANK S.A.	Alconbendas	SPAIN		X			X
BANCA DELL'ADRIATICO S.p.A.	Pesaro	ITALY	X			X	
BANCA DI CREDITO SARDO S.p.A.	Cagliari	ITALY	X			X	
BANCA DI TRENTO E BOLZANO S.p.A.	Trento	ITALY	X			X	
BANCA FIDEURAM S.p.A.	Roma	ITALY	X			X	
BANCA IMI S,p,A.	Milano	ITALY	X			X	
BANCA INTESA ZAO	Moskow	RUSSIA	X			X	
BANCA INTESA A.D. - BEOGRAD	Novi Beograd	SERBIA	X			X	
BANCA MONTE PARMA S.p.A.	Parma	ITALY	X			X	
BANCA PROSSIMA S.p.A.	Milano	ITALY	X			X	
BANCO DI NAPOLI S.p.A.	Napoli	ITALY	X			X	
BANK OF ALEXANDRIA S.A.E.	Il Cairo	EGYPT	X			X	
BANKA KOPER D.D.	Koper	SLOVENIA	X			X	
CASSA DEI RISPARMI DI FORLI' E DELLA ROMAGNA S.p.A.	Forli	ITALY	X			X	
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.p.A.	Gorizia	ITALY	X			X	
CASSA DI RISPARMIO DEL VENETO S.p.A.	Padova	ITALY	X			X	
CASSA DI RISPARMIO DELLA PROVINCIA DI VITERBO S.p.A.	Viterbo	ITALY	X			X	
CASSA DI RISPARMIO DI ASCOLI PICENO S.p.A.	Ascoli Piceno	ITALY	X			X	
CASSA DI RISPARMIO DI CIVITAVECCHIA S.p.A.	Civitavecchia	ITALY	X			X	
CASSA DI RISPARMIO DI FIRENZE S.p.A.	Firenze	ITALY	X			X	
CASSA DI RISPARMIO DI PISTOIA E DELLA LUCCHESIA S.P.A.	Pistoia	ITALY	X			X	
CASSA DI RISPARMIO DI RIETI S.p.A.	Rieti	ITALY	X			X	
CASSA DI RISPARMIO DI VENEZIA S.p.A.	Venezia	ITALY	X			X	
CASSA DI RISPARMIO IN BOLOGNA S.p.A.	Bologna	ITALY	X			X	
CASSE DI RISPARMIO DELL'UMBRIA S.p.A.	Terni	ITALY	X			X	
CIB BANK LTD	Budapest	HUNGARY	X			X	
FIDEURAM BANK LUXEMBOURG S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	ALBANIA	X			X	
INTESA SANPAOLO BANK IRELAND PLC	Dublin	IRELAND	X			X	
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	BOSNIA AND HERZEGOVINA	X			X	
INTESA SANPAOLO PRIVATE BANK (SUISSE) S.A.	Lugano	SWITZERLAND	X			X	
INTESA SANPAOLO PRIVATE BANKING S.p.A.	Milano	ITALY	X			X	
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Arad	ROMANIA	X			X	
MEDIOCREDITO ITALIANO S.p.A.	Milano	ITALY	X			X	
PBZ STAMBENA STEDIONICA D.D.	Zagreb	CROATIA	X			X	
PRAVEX BANK Public Joint-Stock Company Commercial Bank	Kiev	UCRAINA	X			X	
PRIVREDNA BANKA ZAGREB D.D.	Zagreb	CROATIA	X			X	
SOCIETE' EUROPEENNE DE BANQUE S.A.	Luxembourg	LUXEMBOURG	X			X	
VSEOBECNA UVEROVA BANKA A.S.	Bratislava	SLOVAK REPUBLIC	X			X	
FINANCIAL COMPANIES							
B.I. PRIVATE EQUITY Ltd	Dublin	IRELAND	X			X	
BANCA IMI SECURITIES CORP.	New York	UNITED STATES OF AMERICA	X			X	
CENTRO FACTORING S.p.A.	Firenze	ITALY	X			X	
CENTRO LEASING S.p.A.	Firenze	ITALY	X			X	
CIB FACTOR FINANCIAL SERVICES LTD.	Budapest	HUNGARY	X			X	
CIB INVESTMENT FUND MANAGEMENT LTD.	Budapest	HUNGARY	X			X	
CIB LEASING HOLDING LIMITED LIABILITY COMPANY	Budapest	HUNGARY	X			X	
CIB LEASING LTD.	Budapest	HUNGARY	X			X	
CIB REAL ESTATE LTD.	Budapest	HUNGARY	X			X	
CIB RENT OPERATIVE LEASING LTD.	Budapest	HUNGARY	X			X	
CONSUMER FINANCE HOLDING A.S.	Kezmarok	SLOVAK REPUBLIC	X			X	
EPSILON ASSOCIATI SGR S.p.A.	Milano	ITALY	X			X	
EQUITER S.p.A.	Torino	ITALY	X			X	
EURIZON CAPITAL S.A.	Luxembourg	LUXEMBOURG	X			X	
EURIZON CAPITAL SGR S.p.A.	Milano	ITALY	X			X	
EUROTLX SOCIETA' DI INTERMEDIAZIONE MOBILIARE S.p.A.	Milano	ITALY		X			X

Company name	Registered office		Treatment in prudential reporting			Treatment in financial statements	
	Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity (RWA)	Consolid. line-by-line	Consolid. at equity
EURO-TRESORERIE S.A.	Paris	FRANCE	X			X	
FIDEURAM ASSET MANAGEMENT (IRELAND) LTD.	Dublin	IRELAND	X			X	
FIDEURAM FIDUCIARIA S.p.A.	Torino	ITALY	X			X	
FIDEURAM GESTIONS S.A.	Luxembourg	LUXEMBOURG	X			X	
FIDEURAM INVESTIMENTI - S.G.R. S.p.A.	Milano	ITALY	X			X	
FINANCIERE FIDEURAM S.A.	Paris	FRANCE	X			X	
FINOR LEASING D.O.O.	Koper	SLOVENIA	X			X	
IMI CAPITAL MARKETS USA CORP.	New York	U.S.A.	X			X	
IMI Finance Luxembourg S.A.	Luxembourg	LUXEMBOURG	X			X	
IMI Fondi Chiusi SGR S.p.A.	Bologna	ITALY	X			X	
IMI INVESTIMENTI S.p.A.	Bologna	ITALY	X			X	
IMI INVESTMENTS S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA FUNDING LLC	Wilmington - Delaware	U.S.A.	X			X	
INTESA GLOBAL FINANCE COMPANY LTD	Dublin	IRELAND	X			X	
INTESA LEASE SEC S.r.l.	Milano	ITALY	X			X	
INTESA LEASING (CLOSED JOINT STOCK COMPANY)	Moscow	RUSSIA	X			X	
INTESA LEASING D.O.O. BEOGRAD	Beograd	SERBIA	X			X	
INTESA SANPAOLO CARD BH D.O.O.	Sarajevo	BOSNIA AND HERZEGOVINA	X			X	
INTESA SANPAOLO CARD D.O.O. - LJUBLJANA	Ljubljana	SLOVENIA	X			X	
INTESA SANPAOLO CARD D.O.O. - ZAGREB	Zagreb	CROATIA	X			X	
INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	Luxembourg	LUSSEMBURGO	X			X	
INTESA SANPAOLO LEASING ROMANIA IFN S.A.	Bucarest	ROMANIA	X			X	
INTESA SANPAOLO PREVIDENZA - SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.p.A.	Milano	ITALY	X			X	
INTESA SANPAOLO PROVIS S.r.l.	Roma	ITALY	X			X	
INTESA SANPAOLO TRUST COMPANY FIDUCIARIA S.p.A.	Milano	ITALY	X			X	
INTESA SEC. 3 S.r.l.	Milano	ITALY	X			X	
INTESA SEC. NPL S.p.A.	Milano	ITALY	X			X	
INTESA SEC. S.p.A.	Milano	ITALY	X			X	
INTESA SODITIC TRADE FINANCE LIMITED	London	UNITED KINGDOM		X			X
INVERSIONES MOBILIARIAS S.A. "IMSA"	Lima	PERU'	X			X	
ISP CB IPOTECARIO S.r.l.	Milano	ITALY	X			X	
ISP CB PUBBLICO S.r.l.	Milano	ITALY	X			X	
ISP OBG S.r.l.	Milano	ITALY	X			X	
LEASINT S.p.A.	Milano	ITALY	X			X	
LIMA SUDAMERIS HOLDING S.A. in liquidazione	Lima	PERU'	X			X	
LUX GEST ASSET MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X			X	
MEDIOFACTORING S.p.A.	Milano	ITALY	X			X	
MONETA S.p.A.	Bologna	ITALY	X			X	
NEOS FINANCE S.p.A.	Bologna	ITALY	X			X	
PBZ Card D.O.O.	Zagreb	CROATIA	X			X	
PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management	Zagreb	CROATIA		X			X
PBZ Invest D.O.O.	Zagreb	CROATIA	X			X	
PBZ Leasing D.O.O.	Zagreb	CROATIA	X			X	
PRIVATE EQUITY INTERNATIONAL S.A.	Luxembourg	LUXEMBOURG	X			X	
RECOVERY A.S.	Bratislava	SLOVAK REPUBLIC	X			X	
SANPAOLO INVEST IRELAND LIMITED	Dublin	IRELAND	X			X	
SANPAOLO INVEST Società di Intermediazione Mobiliare S.p.A.	Roma	ITALY	X			X	
SETEFI - SERVIZI TELEMATICI FINANZIARI PER IL TERZIARIO S.p.A.	Milano	ITALY	X			X	
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.p.A.	Milano	ITALY	X			X	
SUDAMERIS S.A.	Paris	FRANCE	X			X	
VUB ASSET MANAGEMENT SPRAVCOVSKA SPOLOCNOST A.S.	Bratislava	SLOVAK REPUBLIC	X			X	
VUB FACTORING A.S.	Bratislava	SLOVAK REPUBLIC	X			X	
VUB LEASING A.S.	Bratislava	SLOVAK REPUBLIC	X			X	
INSTRUMENTAL COMPANIES							
AGRIVENTURE S.p.A. (*)	Firenze	ITALY			X		X
CONSORZIO STUDI E RICERCHE FISCALI - GRUPPO INTESA SANPAOLO (*)	Roma	ITALY			X		X
EXELIA S.r.l. (*)	Brasov	ROMANIA			X		X
IMMOBILIARE NUOVA SEDE S.r.l.	Firenze	ITALY	X			X	
INFOGROUP S.c.p.A.	Firenze	ITALY	X			X	
INTESA SANPAOLO GROUP SERVICES S.c.p.A.	Torino	ITALY	X			X	
INTESA SANPAOLO IMMOBILIERE S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA SANPAOLO REAL ESTATE ROMANIA S.A. (*)	Arad	ROMANIA			X		X
INTESA SANPAOLO REAL ESTATE S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA SANPAOLO SERVICOS E EMPREEND. Ltda (*)	Sao Paulo	BRAZIL			X		X
INTESA SANPAOLO SERVITIA S.A.	Luxembourg	LUXEMBOURG	X			X	
PBZ NEKRETNINE D.O.O.	Zagreb	CROATIA	X			X	
TEBE TOURS S.p.A. (*)	Mirandola	ITALY			X		X

(*) Banking Group's subsidiary consolidated at equity for immateriality.

Entities deducted from capital as at 31 December 2012

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements		
	Town	Country	Deductions from capital	Consolidated line-by-line	Consolid. at equity	AFS
INSURANCE COMPANIES						
FIDEURAM VITA	Roma	ITALY	X	X		
INTESA SANPAOLO VITA	Torino	ITALY	X	X		
VUB GENERALI A.S.	Bratislava	SLOVAK REPUBLIC	X		X	
BANKS						
BANCA D'ITALIA	Roma	ITALY	X	at cost		
BANCA IMPRESA LAZIO S.p.A.	Roma	ITALY	X		X	
BANK OF QINGDAO CO. LTD	Qingdao	PEOPLE'S REPUBLIC OF CHINA	X		X	
BANQUE ESPIRITO SANTO ET DE LA VENETIE S.A.	Paris	FRANCE	X			X
CASSA DI RISPARMIO DELLA PROVINCIA DI CHIETI S.p.A.	Chieti Scalo	ITALY	X			X
CASSA DI RISPARMIO DI FERMO S.p.A.	Fermo	ITALY	X		X	
ISTITUTO PER IL CREDITO SPORTIVO	Roma	ITALY	X			X
FINANCIAL COMPANIES						
ACCESSIBLE LUXURY HOLDINGS 1 S.A.	Luxembourg	LUXEMBOURG	X			X
AMBIENTA Società di Gestione del Risparmio S.p.A.	Milano	ITALY	X		X	
ATLANTIS S.A.	Buenos Aires	ARGENTINA	X		X	
BAMCARD D.D.	Sarajevo	BOSNIA AND HERZEGOVINA	X			X
EMERALD UK LIMITED PARTNERSHIP	St. Peter Port - Guernsey	GUERNSEY	X			X
EQUINOX TWO SCA	Luxembourg	LUXEMBOURG	X			X
F2I - Fondi Italiani per le Infrastrutture SGR S.p.A.	Milano	ITALY	X			X
FIDI TOSCANA S.p.A.	Firenze	ITALY	X			X
FIDIA-FONDO INTERBANCARIO D'INVESTIMENTO AZIONARIO SGR S.p.A.	Milano	ITALY	X			X
FINEUROP S.p.A.	Milano	ITALY	X			X
FONDO ITALIANO D'INVESTIMENTO SGR S.p.A.	Milano	ITALY	X			X
GCL HOLDINGS L.P. S.a.r.l.	Luxembourg	LUXEMBOURG	X		X	
GEPAFIN S.p.A.-GARANZIE PARTECIPAZIONI E FINANZIAMENTI	Perugia	ITALY	X			X
GESTIONES Y RECUPERACIONES DE ACTIVOS S.A.	Lima	PERU	X		X	
INTESA SANPAOLO SEC S.A.	Luxembourg	LUXEMBOURG	X		X	
INTESA SEC. 2 S.r.l.	Milano	ITALY	X		X	
ITALCONSULT S.p.A.	Roma	ITALY	X		X	
ITALFONDIARIO S.p.A.	Roma	ITALY	X		X	
LA COMPAGNIA FINANZIARIA S.p.A.	Milano	ITALY	X			X
LKS 2 S.A.	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL PARTNERS SCA SICAR	Luxembourg	LUXEMBOURG	X			X
MARCHE CAPITAL S.p.A.	Osimo	ITALY	X			X
MENHIR L.L.P.	London	UNITED KINGDOM	X			X
MEZZANOVE CAPITAL (SCA) SICAR	Luxembourg	LUXEMBOURG	X			X
MEZZANOVE CAPITAL MANAGEMENT S.a.r.l.	Luxembourg	LUXEMBOURG	X		X	
MIR CAPITAL MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X		X	
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Il Cairo	EGYPT	X		X	
MISR FINANCIAL INVESTMENTS CO.	Giza	EGYPT	X			X
PENGHUA FUND MANAGEMENT Co. Ltd.	Shenzhen	PEOPLE'S REPUBLIC OF CHINA	X		X	
S.A.F.I. S.r.l.	Spinea	ITALY	X		X	
SCHEMAQUATTORDICI S.p.A.	Treviso	ITALY	X			X
SLOVAK BANKING CREDIT BUREAU S.R.O.	Bratislava	SLOVAK REPUBLIC	X		X	
SOCIETA' PER LA GESTIONE DI ATTIVITA' - SGA S.p.A.	Napoli	ITALY	X			X
SVILUPPO IMPRESE CENTRO ITALIA S.G.R. S.p.A.	Firenze	ITALY	X			X
SVILUPPO INDUSTRIALE S.p.A.	Pistoia	ITALY	X		X	
Targetti Poulsen S.p.A.	Firenze	ITALY	X			X
TOWER 2 S.a.r.l. EN LIQUIDATION VOLONTAIRE	Luxembourg	LUXEMBOURG	X			X
TRILANTIC CAPITAL PARTNERS IV (EUROPE) SCA Sicar	Luxembourg	LUXEMBOURG	X			X
VARESE INVESTIMENTI S.p.A.	Varese	ITALY	X		X	
VEISPASTRUM.FINANZ	Vicenza	ITALY	X			X
VER CAPITAL S.G.R. p.A.	Milano	ITALY	X			X

With effect from 31 December 2009, the investment in the Bank of Italy is deducted in full from the Regulatory Capital (50% from the Tier 1 capital and 50% from the Tier 2 capital).

Entities added to the risk-weighted assets as at 31 December 2012

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity
BANKS					
ABANKA VIPA LJUBLJANA D.D.	Ljubljana	SLOVENIA	X	X	
AFRICAN EXPORT IMPORT BANK	Il Cairo	EGYPT	X	X	
BANCA DELLE MARCHE S.p.A.	Ancona	ITALY	X	X	
BANCA DI CREDITO COOPERATIVO DI CAMBIANO S.C.p.A.	Castelfiorentino	ITALY	X	X	
BANCA ITB S.p.A.	Milano	ITALY	X	X	
BANCA MEDIOCREDITO DEL FRIULI-VENEZIA GIULIA S.p.A.	Udine	ITALY	X	X	
BANCA UBAE joint-stock company under extraordinary administration	Roma	ITALY	X	X	
BANCO POPOLARE SOCIETA' COOPERATIVA	Verona	ITALY	X	X	
BANQUE GALLIERE S.A. In liquidation	Paris	FRANCE	X	X	
BANQUE INTERNATIONALE ARABE DE TUNISIE - B.I.A.T. Société Anonyme	Tunisi	TUNISIA	X	X	
CASSA DI RISPARMIO DI RAVENNA S.p.A.	Ravenna	ITALY	X	X	
EUROPEAN INVESTMENT FUND - EIF	Luxembourg	LUXEMBOURG	X	X	
GARANZIA DEI DEPOSITI DELLE BANCHE E BANCHIERI G.m.b.H.	Wien	AUSTRIA	X	X	
HRVATSKA GOSPODARSKA BANKA D.D. Under bankruptcy proceedings	Zagreb	CROATIA	X	X	
ISVEIMER S.p.A. In liquidation	Roma	ITALY	X	X	
PRIVREDNA BANKA D.D.	Sarajevo	BOSNIA AND HERZEGOVINA	X	X	
RAZVOJNA BANKA VOJVODINE A.D.	Novi Sad	SERBIA	X	X	
FINANCIAL COMPANIES					
360 CAPITAL ONE S.C.A. (SICAR)	Luxembourg	LUXEMBOURG	X	X	
ABE CLEARING SAS	Paris	FRANCE	X	X	
ALPHA PRIVATE EQUITY FUND 6 SCA SICAR	Luxembourg	LUXEMBOURG	X	X	
ANGELVENTURES SERVICOS DE CONSULTORIA S.A.	Funchal	PORTUGAL	X	X	
APAX EUROPE VII - B L.P.	St. Peter Port - Guernsey	GUERNSEY	X	X	
ARAB TRADE FINANCING PROGRAM	Abu Dhabi	ABU DHABI	X	X	
ASSOCIAZIONE IN PARTECIPAZIONI RETEX	Venezia	ITALY	X	X	
ATHENA PRIVATE EQUITY S.A.	Luxembourg	LUXEMBOURG	X	X	
AUGUSTO S.r.l.	Milano	ITALY	X		X
B.GROUP S.p.A.	Bologna	ITALY	X	X	
BANKART D.O.O. LJUBLJANA	Ljubljana	SLOVENIA	X	X	
CARLYLE EUROPE PARTNERS II, L.P.	London	UNITED KINGDOM	X	X	
CASA ROMANA DE COMPENSATIE S.A.	Sibiu	ROMANIA	X	X	
CENTROFIDI TERZIARIO S.C.p.A.	Firenze	ITALY	X	X	
CHINA INTERNATIONAL PACKAGING LEASING CO. LTD (LEASEPACK)	Beijing	PEOPLE'S REPUBLIC OF CHINA	X	X	
CME GROUP INC.	Chicago	UNITED STATES OF AMERICA	X	X	
COLOMBO S.r.l.	Milano	ITALY	X		X
CONFIDICOOP MARCHE Società Cooperativa	Ancona	ITALY	X	X	
CONVERGENZA S.C.A. In liquidation	Luxembourg	LUXEMBOURG	X	X	
CR FIRENZE MUTUI S.r.L.	Conegliano Veneto	ITALY	X		X
DIOCLEZIANO S.r.l.	Milano	ITALY	X		X
EFFEPI S.p.A. In liquidation	Milano	ITALY	X	X	
EGYPTIAN INTERNATIONAL MUTUAL FUND CO.	Il Cairo	EGYPT	X	X	
e-MID Società di Intermediazione Mobiliare S.p.A.	Milano	ITALY	X	X	
EQUITYPAR-COMPANHIA DE PARTECIPACOES S.A.	Sao Paulo	BRAZIL	X	X	
EURIZONVITA (Beijing) BUSINESS ADVISORY CO. LTD.	Beijing	PEOPLE'S REPUBLIC OF CHINA	X		X
EUROCASSE SIM S.p.A. In liquidation	Milano	ITALY	X	X	
EUROCLEAR CLEARANCE SYSTEM PUBLIC LIMITED COMPANY	London	UNITED KINGDOM	X	X	
EUROFIDI - SOCIETA' CONSORTILE DI GARANZIA COLLETTIVA FIDI S.C.p.A.	Torino	ITALY	X	X	
EUROPROGETTI E FINANZA S.p.A. In liquidation	Roma	ITALY	X		X
EUROQUBE S.A. In liquidation	Bruxelles	BELGIUM	X	X	
FAWRY FOR BANKING & PAYMENT TECHNOLOGY SERVICES CO.	Il Cairo	EGYPT	X	X	

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity
FI.R.A. S.p.A. Finanziaria Regionale Abruzzese	Pescara	ITALY	X	X	
FI.SVI. - ISTITUTO FIN. SVIL. ECON. LOCALI S.p.A. (In bankruptcy)	Potenza	ITALY	X	X	
FIDIMPRESA LIGURIA - Società Consortile per azioni di garanzia collettiva fidi	Genova	ITALY	X	X	
FINEST S.p.A. - SOC. FINANZIARIA PROMOZIONE COOPERAZ.ECONOMICA PAESI EST EUROPEO	Pordenone	ITALY	X	X	
FINRECO - Consorzio Regionale Garanzia Fidi Soc. Coop. a r.l.	Udine	ITALY	X	X	
FORNARA - Società Finanziaria e di Partecipazioni S.p.A. In liquidation	Milano	ITALY	X	X	
FOURTH CINVEN FUND LIMITED PARTNERSHIP - LONDON	London	UNITED KINGDOM	X	X	
FRIULIA S.p.A.-FINANZIARIA REG. FRIULI VENEZIA GIULIA	Trieste	ITALY	X	X	
GARANTIQA HITELGARANCIA Zrt.	Budapest	HUNGARY	X	X	
GIRO Elszamolasforgalmi Rt.	Budapest	HUNGARY	X	X	
ILP III SCA SICAR	Luxembourg	LUXEMBOURG	X	X	
INVESTINDUSTRIAL II L.P.	St. Helier - Jersey	JERSEY	X	X	
INVESTINDUSTRIAL III BUILD UP L.P.	St. Helier - Jersey	JERSEY	X	X	
INVESTINDUSTRIAL IV L.P.	St. Helier - Jersey	JERSEY	X	X	
INVESTITORI ASSOCIATI II S.A. In liquidation	Luxembourg	LUXEMBOURG	X	X	
ION INVESTMENT FUND 1 LTD. In liquidation	Dublin	IRELAND	X	X	
ITACA FINANCE S.A r.l.	Luxembourg	LUXEMBOURG	X	X	
LCH.Clearnet Group Ltd	London	UNITED KINGDOM	X	X	
MISR FOR CLEARING, SETTLEMENT AND CENTRAL DEPOSITORY CO.	Il Cairo	EGYPT	X	X	
MITTEL S.p.A.	Milano	ITALY	X	X	
MTS S.p.A. - SOCIETA' PER IL MERCATO DEI TITOLI DI STATO	Roma	ITALY	X	X	
NICCO UCO ALLIANCE CREDIT LTD	Calcutta	INDIA	X	X	
OMNIA FACTOR S.p.A.	Milano	ITALY	X	X	
PAR.FIN S.p.A. Under bankruptcy proceedings	Bari	ITALY	X	X	
PENSPLAN INVEST SGR S.p.A.	Bolzano	ITALY	X	X	
PRELIOS SGR S.p.A.	Milano	ITALY	X		X
SIBEX SIBIU STOCK EXCHANGE S.A.	Sibiu	ROMANIA	X	X	
SOCIETA' ITALIANA PER LE IMPRESE ALL'ESTERO - SIMEST S.p.A.	Roma	ITALY	X	X	
SOCIETA' REGIONALE DI GARANZIA MARCHE S.C.p.A.	Ancona	ITALY	X	X	
SOCIETE' DE LA BOURSE DE LUXEMBOURG S.A.	Luxembourg	LUXEMBOURG	X	X	
SREBOS INVEST D.D. in liquidation	Vitez	BOSNIA E HERZEGOVINA	X	X	
SREDISNJE KLIRINSKO DEPOZITARNO DRUSTVO D.D.	Zagreb	CROATIA	X	X	
TRANSFOND S.A.	Bucarest	ROMANIA	X	X	
TRZISTE NOVCA AD	Beograd	SERBIA	X	X	
TRZISTE NOVCA I KRATKOROCNIH VRIJEDNOSNICA D.D.	Zagreb	CROATIA	X	X	
UMBRIA CONFIDI SOCIETA' COOPERATIVA	Perugia	ITALY	X	X	
VALDIVIA LBO FUND LIMITED	St. Peter Port - Guernsey	GUERNSEY	X	X	
VALFIDI S.C. SOCIETA' COOPERATIVA DI GARANZIA COLLETTIVA DEI FIDI FRA LE IMPRESE DELLA VALLE D'AOSTA	Aosta	ITALY	X	X	
VEI CAPITAL S.p.A.	Vicenza	ITALY	X	X	
VENETO SVILUPPO S.p.A.	Venezia	ITALY	X	X	
VISA EUROPE LTD	London	UNITED KINGDOM	X	X	
ZAGREBACKA BURZA D.D.	Zagreb	CROATIA	X	X	
NON-FINANCIAL COMPANIES					
08 GENNAIO S.r.l.	Milano	ITALY	X		X
08 JANUARY S.r.l.	Milano	ITALY	X		X
A4 HOLDING S.P.A.	Verona	ITALY	X		X
AEROPORTI HOLDING S.r.l.	Caselle Torinese	ITALY	X		X
AGRICOLA INVESTIMENTI S.r.l. In liquidation	Milano	ITALY	X		X
AL.FA. - UN'ALTRA FAMIGLIA DOPO DI NOI - IMPRESA SOCIALE S.r.l.	Milano	ITALY	X		X

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity
ALITALIA - COMPAGNIA AEREA ITALIANA S.p.A.	Fiumicino	ITALY	X		X
AUTOSTRADA PEDEMONTANA LOMBARDA S.p.A.	Milano	ITALY	X		X
AUTOSTRADE LOMBARDE S.p.A.	Bergamo	ITALY	X		X
BE OPERATIONS EXECUTE, MANAGE & PERFORM S.p.A.	Roma	ITALY	X		X
BE THINK, SOLVE, EXECUTE S.p.A.	Roma	ITALY	X		X
CARGOITALIA S.p.A. In liquidation	Milano	ITALY	X		X
COLLEGAMENTO FERROVIARIO GENOVA-MILANO S.p.A.	Genova	ITALY	X		X
CONSORZIO BANCARIO SIR S.p.A In liquidation	Roma	ITALIA	X		X
CORMANO S.r.l.	Olgiate Olona	ITALY	X		X
EMIL EUROPE '92 S.r.l. in liquidation	Bologna	ITALY	X		X
ENERPOINT ENERGY S.r.l.	Desio	ITALY	X		X
EUROMILANO S.p.A.	Milano	ITALY	X		X
FONDO DI RIGENERAZIONE URBANA SICILIA S.r.l.	Torino	ITALY	X		X
FONDO SARDEGNA ENERGIA S.r.l.	Cagliari	ITALY	X		X
GREEN INITIATIVE CARBON ASSETS (GICA) SA	Paradiso	SWITZERLAND	X		X
I.TRE - Iniziative Immobiliari Industriali S.p.A.	Rovigo	ITALY	X		X
IMMIT - IMMOBILI ITALIANI S.r.l.	Torino	ITALY	X		X
IMPIANTI S.r.l. in liquidazione	Milano	ITALY	X		X
INCUBE S.r.l.	Bologna	ITALY	X		X
INTESA SANPAOLO EURODESK S.p.r.l.	Bruxelles	BELGIUM	X		X
INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni	Napoli	ITALY	X		X
INTESA SANPAOLO HOUSE IMMO S.A.	Luxembourg	LUXEMBOURG	X		X
IREN S.p.A.	Torino	ITALY	X		X
ISM INVESTIMENTI S.p.A.	Mantova	ITALY	X		X
LEONARDO TECHNOLOGY S.p.A.	Milano	ITALY	X		X
MANUCOR S.p.A.	Milano	ITALY	X		X
MATER-BI S.p.A.	Milano	ITALY	X		X
MISR INTERNATIONAL TOWERS CO.	Il Cairo	EGYPT	X		X
NH HOTELES S.A.	Madrid	SPAIN	X		X
NH ITALIA S.r.l.	Milano	ITALY	X		X
NOVERCA ITALIA S.r.l.	Roma	ITALY	X		X
NOVERCA S.r.l.	Roma	ITALY	X		X
NUOVO TRASPORTO VIAGGIATORI S.p.A.	Roma	ITALY	X		X
OOO INTESA REALTY RUSSIA	Moskow	RUSSIA	X		X
OTTOBRE 2008 S.r.l.	Milano	ITALY	X		X
PIETRA S.r.l.	Milano	ITALY	X		X
PIRELLI & C. S.p.A.	Milano	ITALY	X		X
PORTOCITTA' S.r.l.	Trieste	ITALY	X		X
PRELIOS S.p.A.	Milano	ITALY	X		X
R.C.N. FINANZIARIA S.p.A.	Mantova	ITALY	X		X
RISANAMENTO S.p.A.	Milano	ITALY	X		X
RIZZOLI CORRIERE DELLA SERA MEDIAGROUP S.p.A.	Milano	ITALY	X		X
SAGAT S.p.A.	Caselle Torinese	ITALY	X		X
SHANGHAI SINO-ITALY BUSINESS ADVISORY COMPANY LIMITED	Shanghai	PEOPLE'S REPUBLIC OF CHINA	X		X
SIRTI S.p.A.	Milano	ITALY	X		X
SMIA S.p.A.	Roma	ITALY	X		X
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.p.A.	Brescia	ITALY	X		X
SOLAR EXPRESS S.r.l.	Firenze	ITALY	X		X
STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	ITALY	X		X
TELCO S.p.A.	Milano	ITALY	X		X
TERMOMECCANICA S.p.A.	La Spezia	ITALY	X		X
UMBRIA EXPORT SOCIETA' CONSORTILE A r.l.	Perugia	ITALY	X		X
UNIMATICA S.p.A.	Bologna	ITALY	X		X
UNITED VALVES CO. (BUTTERFLY) In liquidation	Il Cairo	EGYPT	X		X
UPA SERVIZI S.p.A.	Padova	ITALY	X		X
VENDOR ITALIA S.r.l.	Spinea	ITALY	X		X
ZACCHERINI ALVISI S.r.l.	Milano	ITALY	X		X

Reduction in individual capital requirements applied to the Parent Company and the Italian subsidiaries

With its Circular 263 of 27 December 2006, the Bank of Italy established that "for Italian banks belonging to a banking group, the individual capital requirements for credit, counterparty, market and operational risks shall be reduced by 25 per cent, provided that regulatory capital at the consolidated level is at least equal to the total capital requirement". As at 31 December 2012 the Intesa Sanpaolo Group met that requirement at consolidated level, and therefore benefited from this provision.

Quantitative disclosure

Name of subsidiaries not included in the consolidation

Entities consolidated in the financial statements and not included in the prudential scope of consolidation as at 31 December 2012

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
INSURANCE COMPANIES (*)		
Bentos Assicurazioni S.p.A.		X
Intesa Sanpaolo Life Limited	X	
Intesa Sanpaolo Assicura S.p.A.	X	
OTHER		
A.I.2 S.r.l.		X
Adriano Finance 2 S.r.l. (**)	X	
Adriano Finance S.r.l. (**)	X	
Adriano Lease Sec (**)	X	
Arten Sicav	X	
BRIVON HUGARY ZRT.	X	
Canova Sicav	X	
Cib Car Trading Limited Liability Company	X	
Cib Insurance Broker Ltd	X	
CIF S.r.l.	X	
CIL MNM LTD.		X
Cimabue Sicav	X	
DB Platinum II Sicav	X	
Duomo Funding Plc	X	
Eurizon Investimenti Sicav	X	
Eurizon Multi Alpha Classe I	X	
Fideuram Fund Bond Global Emerging Markets	X	
Fideuram Fund Bond Usa	X	
Fideuram Fund Bond Yen	X	
Fideuram Fund Bond Euro High Yield	X	
Fideuram Fund Equity Euro	X	
Fideuram Fund Equity Euro Corporate Bond	X	
Fideuram Fund Equity Europe Growth	X	
Fideuram Fund Equity Europe Value	X	
Fideuram Fund Equity Global Emerging Markets	X	
Fideuram Fund Equity Italy	X	
Fideuram Fund Equity Japan	X	
Fideuram Fund Equity Pacific Ex Japan	X	
Fideuram Fund Equity Usa	X	
Fideuram Fund Equity Usa Growth	X	
Fideuram Fund Equity Usa Value	X	
Fideuram Fund Euro Bond Long Risk	X	
Fideuram Fund Euro Bond Low Risk	X	
Fideuram Fund Euro Bond Medium Risk	X	
Fideuram Fund Euro Defensive Bond	X	
Fideuram Fund Euro Short Risk	X	
Fideuram Fund Flexible Opportunity	X	
Fideuram Fund Zero Coupon 2013	X	
Fideuram Fund Zero Coupon 2014	X	
Fideuram Fund Zero Coupon 2015	X	
Fideuram Fund Zero Coupon 2016	X	
Fideuram Fund Zero Coupon 2017	X	
Fideuram Fund Zero Coupon 2018	X	
Fideuram Fund Zero Coupon 2019	X	
Fideuram Fund Zero Coupon 2020	X	

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
Fideuram Fund Zero Coupon 2021	X	
Fideuram Fund Zero Coupon 2022	X	
Fideuram Fund Zero Coupon 2023	X	
Fideuram Fund Zero Coupon 2024	X	
Fideuram Fund Zero Coupon 2025	X	
Fideuram Fund Zero Coupon 2026	X	
Fideuram Fund Zero Coupon 2027	X	
Fideuram Fund Zero Coupon 2028	X	
Fideuram Fund Zero Coupon 2029	X	
Fideuram Fund Zero Coupon 2030	X	
Fideuram Fund Zero Coupon 2031	X	
Fideuram Fund Zero Coupon 2032	X	
Fideuram Fund Zero Coupon 2033	X	
Fideuram Fund Zero Coupon 2034	X	
Fideuram Fund Zero Coupon 2035	X	
Fideuram Fund Zero Coupon 2036	X	
Fideuram Fund Zero Coupon 2037	X	
Fideuram Fund Zero Coupon 2038	X	
Fideuram Fund Zero Coupon 2039	X	
Fideuram Fund Zero Coupon 2040	X	
Fideuram Fund Zero Coupon 2041	X	
Fideuram Fund Zero Coupon 2042	X	
Fondo Bond Eur Long Term	X	
Fondo Bond Eur Medium Term	X	
Fondo Bond Eur Short Term	X	
Fondo Bond GBP	X	
Fondo Bond JPY	X	
Fondo Bond USD	X	
Fondo Caravaggio	X	
Fondo Cash Eur	X	
Fondo Equity Consumer Discretionary	X	
Fondo Equity Eastern Europe	X	
Fondo Equity Emerging Market	X	
Fondo Equity Europe	X	
Fondo Equity High Tech	X	
Fondo Euro Cash	X	
Fondo Flexible Strategy	X	
Fondo Hayez	X	
Fondo Total Return Alpha Strategy	X	
IN.FRA. Investire nelle Infrastrutture S.p.A.	X	
Iniziative Logistiche	X	
Levanna Sicav	X	
Lunar Funding V Plc	X	
Mercurio Sicav	X	
RE.Consult Infrastrutture	X	
Recovery Property Utilisation and Services ZRT	X	
Romulus Funding Corporation	X	
SP Lux Sicav II	X	
Split 2 (**)	X	
Starling Financial Plc	X	
Tiepolo Sicav	X	
Trade Receivables Investment Vehicle S.a.r.l. (**)	X	
TT1 LUX S.A.	X	

(*) The book value of Fideuram Vita, Intesa Sanpaalo Vita and VUB generali have already been deducted from capital.

(**) A SPV for securitisation transactions whose securitised assets have not been derecognised for supervisory purposes by the Group company that originated the securitisation.

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements

As at 31 December 2012 there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Table 3 – Regulatory capital structure

Qualitative disclosure

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

Regulatory capital and capital ratios have been calculated on the basis of the new provisions (13th update to Circular 263 of December 2006 and 14th update to Circular 155 of December 1991) issued by the Bank of Italy following the implementation of the amendments of Directives 2009/27, 2009/83 and 2009/111 (known as "CRD II - Capital Requirements Directive II") and Directive 2010/76 of 24 November 2010 (amendments to "CRD III"), which govern the capital requirements for banks and banking groups introduced by the New Basel Capital Accord (known as Basel 2").
On the basis of stricter criteria than under the previous rules, these provisions redefine the notion of capital, that may be included in regulatory capital without limits, which is limited to ordinary shares or shares that do not grant rights to minimum return, do not call for the compulsory payment of dividends, do not enjoy preference in the coverage of losses or enjoy a right to residual assets upon liquidation that is subordinate to that of all other shareholders and creditors. For the Intesa Sanpaolo Group, application of the these criteria resulted in the exclusion of the nominal value of preferred shares (including savings shares) from Tier 1 capital on the grounds that such shares do not meet the requirements (lack of advantages in liquidation and preferential remuneration mechanisms based on the nominal value of the instrument).
The rules for innovative and non-innovative capital instruments call for:
- reinforcement of their capital quality in terms of the flexibility of payments and the ability to absorb losses;
- a rise in the overall limit on inclusion from the current 20% to 50% (with a specific limit of 15% for innovative instruments with incentives for early redemption or a contractual maturity and 35% for non-innovative instruments without incentives for early redemption). A new category has also been added, i.e. instruments compulsorily convertible into ordinary shares in the event of an emergency or at the Bank of Italy's request, which may be included up to 50%. The prudential provisions call for a transitional regime set out in the Directive (known as "grandfathering") for a 30-year period, which contemplates the gradual reduction of the eligibility of instruments included in regulatory capital prior to 31 December 2010 that do not meet the new eligibility requirements.

Regulatory capital is calculated as the sum of positive and negative components, on the basis of their capital quality; in order to be eligible for the calculation of capital absorptions, positive components must be fully available for the Bank.
Regulatory capital is made up of Tier 1 capital and Tier 2 capital, adjusted by the "prudential filters" and net of certain deductions. In particular:
- Tier 1 capital includes ordinary paid-in share capital, reserves, innovative and non-innovative capital instruments, grandfathered capital instruments, net income for the period (only the portion to be allocated to reserves); plus positive "prudential filters" of Tier 1 capital; the total of these elements, net of treasury shares or quotas, intangible assets, losses recorded in previous years and in the current year, "other negative components", as well as negative Tier 1 "prudential filters", makes up "Tier 1 capital before items to be deducted".
- Tier 1 capital is made up of the difference between "Tier 1 capital before items to be deducted" and 50% of "items to be deducted";
- Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses up to the limit of 0.6% of assets weighted for credit and/or counterparty risk, and the other positive elements that constitute capital items of a secondary nature. The positive "prudential filters" of Tier 2 capital are also included. The total of these elements, less net unrealised capital losses on equity investments, negative items related to loans, other negative elements, and negative Tier 2 "prudential filters", makes up "Tier 2 capital before items to be deducted".

– Tier 2 capital is made up of the difference between "Tier 2 capital before items to be deducted" and 50% of "items to be deducted".

Each caption of Tier 1 and Tier 2 capital includes interests pertaining to the Banking group and to third parties.

The most significant prudential filters for the Intesa Sanpaolo Group are calculated applying the following provisions:

– for financial assets available for sale, relatively to equities, quotas of UCI and debt securities, unrealised profits and losses are offset: the balance, if negative, reduces Tier 1 capital; if positive it contributes for 50% to Tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded. On this subject, it should be noted that the Group has decided to apply the Regulation issued by the Bank of Italy on 18 May 2010 which allows for the effect of valuation reserves for available-for-sale (AFS) securities issued by the central governments of EU countries on regulatory capital to be neutralised;
– for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised.

For completeness it should be noted that, effective from 2011, the negative filter on the effects arising from the tax realignment of goodwill has been removed pursuant to the specific notification of the Bank of Italy as a result of the provisions of the so-called "2010 Milleproroghe Decree" (Art. 2, paragraph 55, of Law 10/2011, enacting Law Decree 225/2010) concerning deferred tax assets.

Deductions are made, in the manner described above, 50% from "Tier 1 capital before items to be deducted" and 50% from "Tier 2 capital before items to be deducted" on equity investments and – if eligible for inclusion in the issuers' regulatory capital – on innovative and non-innovative capital instruments, hybrid capital instruments and subordinated instruments in banks, financial companies and insurance companies.

With respect to the amount by which expected losses exceed total impairment provisions made on portfolios subject to internal models and expected losses on capital instruments, the amounts of those expected losses are compared with the total impairment provisions for each class of assets in the regulatory portfolio.

50% of the sum of the amounts by which the expected losses exceed total impairment provisions for each class of assets is deducted from Tier 1 capital and the other 50% from Tier 2 capital.

Conversely, the sum of the amounts by which total impairment provisions exceed the expected losses for each class of assets is added to Tier 2 capital up to the limit of 0.6% of assets weighted for credit and/or counterparty risk.

Until 31 December 2012, equity investments and subordinated instruments held in insurance companies are deducted from Total capital, instead of 50% each from Tier 1 and Tier 2, if acquired before 20 July 2006.

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.

(millions of euro)

	31.12.2012			31.12.2011		
	Group	**Third parties**	**Total**	**Group**	**Third parties**	**Total**
Share capital	**8,546**	**317**	**8,863**	**8,546**	**403**	**8,949**
Ordinary shares	*8,061*	*314*	*8,375*	*8,061*	*400*	*8,461*
Savings shares	*485*	*3*	*488*	*485*	*3*	*488*
Share premium reserve	**30,934**	**55**	**30,989**	**36,143**	**70**	**36,213**
Reserves	**9,941**	**168**	**10,109**	**13,843**	**176**	**14,019**
Legal reserve	1,709	-	1,709	*1,329*	-	*1,329*
Extraordinary reserve	1,326	-	1,326	*4,984*	-	*4,984*
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	6,016	168	6,184	*6,934*	*176*	*7,110*
Other reserves	356	-	356	*62*	-	*62*
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
(Treasury shares)	**-14**	**-**	**-14**	**-4**	**-**	**-4**
Valuation reserves:	**-1,399**	**-3**	**-1,402**	**-3,298**	**6**	**-3,292**
Financial assets available for sale	-58	4	-54	*-2,353*	*-2*	*-2,355*
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-	-
Cash flow hedges	-1,291	-2	-1,293	*-922*	*-2*	*-924*
Foreign exchange differences	-418	-7	-425	*-394*	*1*	*-393*
Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	-	-
Valuation reserves of investments carried at equity	17	1	18	*27*	*1*	*28*
Legally-required revaluations	351	1	352	*344*	*8*	*352*
Net income (loss) pertaining to the Group and minority interests	**1,605**	**49**	**1,654**	**-8,190**	**63**	**-8,127**
Shareholders' equity	**49,613**	**586**	**50,199**	**47,040**	**718**	**47,758**

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

The share capital of the Bank as at 31 December 2012 amounted to 8,546 million euro, divided into 15,501,512,155 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro each. 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 2012, Intesa Sanpaolo had 14 million euro in treasury shares.
At the date of this document the share capital was fully paid-in and liberated.

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 9,941 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 ex 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.

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

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

(millions of euro)

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total as at 31.12.2012
Share capital	**8,863**	**-**	**131**	**-131**	**8,863**
Ordinary shares	8,375	-	131	-131	8,375
Savings shares	488	-	-	-	488
Share premium reserve	**30,989**	**-**	**-**	**-**	**30,989**
Reserves	**10,109**	**182**	**-77**	**-105**	**10,109**
Equity instruments	**-**	**-**	**-**	**-**	**-**
(Treasury shares)	**-12**	**-2**	**-**	**-**	**-14**
Valuation reserves	**-1,402**	**219**	**-4**	**-215**	**-1,402**
Financial assets available for sale	-275	221	-	-	-54
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-1,293	-	-	-	-1,293
Foreign exchange differences	-425	-	-4	4	-425
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-	-	-	-	-
Share of valuation reserves connected with investments carried at equity	239	-2	-	-219	18
Legally-required revaluations	352	-	-	-	352
Net income (loss) pertaining to the Group and minority interests	**1,654**	**397**	**-90**	**-307**	**1,654**
Shareholders' equity as at 31.12.2012	**50,201**	**796**	**-40**	**-758**	**50,199**

The table above indicates the components of net book value, 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.

As well as being the result of the distribution of reserves to shareholders by Intesa Sanpaolo S.p.A. in 2012 for a total of 822 million euro, consolidated shareholders' equity (Group and third parties) essentially changed over the two periods under review due to the net income for 2012, the improvement in valuation reserves and the acquisition of several minority interests. 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 (by share) investments carried at equity: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2012		
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Net reserve (*)
1. Debt securities	754	-1,125	328	-145	-	-	-328	145	754	-1,125	-371
2. Equities	353	-63	21	-6	-	-	-21	6	353	-63	290
3. Quotas of UCI	62	-29	25	-1	-	-	-25	1	62	-29	33
4. Loans	13	-19	-	-	-	-	-	-	13	-19	-6
Total as at 31.12.2012	**1,182**	**-1,236**	**374**	**-152**	**-**	**-**	**-374**	**152**	**1,182**	**-1,236**	**-54**
of which: Financial assets available for sale											-54
of which: Share of valuation reserves connected with investments carried at equity											-
Total as at 31.12.2011	**536**	**-2,889**	**79**	**-1,054**	**2**	**-**	**-81**	**1,054**	**536**	**-2,889**	**-2,353**

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

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans	TOTAL as at 31.12.2012
1. Initial amount	**-2,600**	**267**	**-20**	**-**	**-2,353**
2. Positive fair value differences	**2,900**	**311**	**92**	**1**	**3,304**
2.1 Fair value increases	2,780	264	76	-	3,120
2.2 Reversal to the income statement of negative reserves	78	27	10	-	115
- impairment	*5*	*12*	*3*	-	*20*
- disposal	*73*	*15*	*7*	-	*95*
2.3 Other changes	42	20	6	1	69
3. Negative fair value differences	**-671**	**-288**	**-39**	**-7**	**-1,005**
3.1 Fair value decreases	-459	-78	-30	-	-567
3.2 Impairment losses	-	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-88*	*-186*	-	-	*-274*
3.4 Other changes	-124	-24	-9	-7	-164
4. Closing amount	**-371**	**290**	**33**	**-6**	**-54**

Innovative and non-innovative instruments - contribution to Tier 1, Tier 2 and Tier 3 capital

The main contractual characteristics of innovative and non-innovative instruments which, together with share capital and reserves, are included in the calculation of Tier 1 and Tier 2 capital, are summarised below. Prior to this summary, however, we highlight that the Group carried out three purchases of subordinated securities during 2012. In these transactions, announced respectively on 6 February, 27 July and 25 October 2012, Intesa Sanpaolo made specific offers to purchase its own subordinated securities.

The first offer regarded the purchase of Tier 1 subordinated notes issued by the Parent Company and included in Tier 1 Capital but excluded from Core Tier 1 Capital. It should be noted that such instruments – pursuant to the Capital Requirements Directive (CRD IV) published by the European Commission – will be subject to grandfathering regime and, thus, progressively derecognised as Additional Tier 1 Capital.

Description of the notes	Purchase price (% of Nominal value)	Nominal value issued	Value accepted for purchase	Nominal value after settlement date [(a)]
9.5% Fixed Rate Resettable Perpetual Subordinated Notes	90.0%	€ 1,000,000,000	€ 277,900,000	€ 722,100,000
8.375% Fixed to Floating Rate Perpetual	91.0%	€ 1,500,000,000	€ 493,750,000	€ 1,006,250,000
8.047% Fixed to Floating Rate Perpetual	88.0%	€ 1,250,000,000	€ 454,200,000	€ 795,800,000

(a) Represents for each note the nominal value at the issue date net of the aggregate nominal value of the notes accepted for purchase pursuant to the invitation. Any notes already held by the Purchaser and its subsidiaries are not excluded.

The second offer included both Tier 1 notes and other types of subordinated notes, as well as 507 million in senior notes (at a purchase price of approximately 500 million, not included in the following table as they are not included in regulatory capital).

Description of the notes	Purchase price (% of Nominal value)	Nominal value issued	Value accepted for purchase	Nominal value after settlement date [(a)]
Tier 1				
9.5% Fixed Rate Resettable Perpetual Subordinated Notes	90.0%	€ 722,100,000	€ 243,950,000	€ 478,150,000
8.375% Fixed to Floating Rate Perpetual Subordinated Notes	84.0%	€ 1,006,250,000	€ 264,400,000	€ 741,850,000
8.047% Fixed to Floating Rate Perpetual Subordinated Notes	82.0%	€ 795,800,000	€ 215,800,000	€ 580,000,000
Upper Tier 2				
6.625% Subordinated Notes 2018	98.5%	€ 1,250,000,000	€ 122,900,000	€ 1,127,100,000
Lower Tier 2				
Fixed/Floating Rate Callable Subordinated Notes 2020	80.0%	€ 497,750,000	€ 22,000,000	€ 475,750,000
Fixed Floater Callable Subordinated Notes 2024	84.0%	£ 165,000,000	£ 140,099,000	£ 24,901,000
5.00% Subordinated Notes 2019	93.0%	€ 1,500,000,000	€ 52,900,000	€ 1,447,100,000
5.15% Subordinated Notes 2020	92.5%	€ 1,250,000,000	€ 46,850,000	€ 1,203,150,000

(a) Represents for each note the nominal value at the issue date net of the aggregate nominal value of the notes accepted for purchase pursuant to the invitation. Any notes already held by the Purchaser and its subsidiaries are not excluded.

The third offer regarded the exchange of circulating subordinated Lower Tier 2 notes with newly issued senior notes.

Description of the notes	Exchange price (% of value)	Pro-ratio factor (%)	Nominal value issued	Value accepted in exchange [(a)]	Nominal value of newly issued security
Lower Tier 2					
Fixed to Floating Rate Subordinated Notes due 2017	98.50%	n.a	£ 250,000,000	£ 244,650,000	€ 300,625,000
Floating Subordinated Notes due 2018	93.75%	82.56%	€ 750,000,000	€ 529,800,000	€ 496,710,000
Fixed to Floating Rate Subordinated Notes due 2018	94.50%	82.40%	€ 1,000,000,000	€ 637,950,000	€ 602,875,000
Fixed/Floating Rate Callable Subordinated Notes 2018	93.50%	82.40%	€ 500,000,000	€ 332,250,000	€ 310,696,000

(a) After application of the Pro-ration factor.

The three transactions allowed Intesa Sanpaolo to increase its Core Tier 1 Capital as a result of the capital gain arising from the purchase of the notes tendered at prices below their book values, as follows:

– with the first transaction, the Intesa Sanpaolo Group's net income for the first quarter of 2012 registered a contribution of 183 million euro, including the positive impact of the unwinding of interest rate risk derivatives and taking account of tax effects. This amount corresponds to approximately 6 basis points of Core Tier 1 ratio;
– with the second transaction, the Intesa Sanpaolo Group's net income for the third quarter of 2012 registered a contribution of 219 million euro, including the positive impact of the unwinding of interest rate risk derivatives and taking account of tax effects. This amount corresponds to approximately 7 basis points of Core Tier 1 ratio;
– with the third transaction, the Group recorded a contribution in the fourth quarter of 2012, including the positive impact of the unwinding of interest rate risk derivatives, of approximately 110 million euro for profit before tax, 74 million euro for net income and 2.5 basis points for the Core Tier 1 ratio.

Following these transactions, the breakdown of innovative and non-innovative instruments that contribute to Tier 1, Tier 2 and Tier 3 capital was as follows.

Tier 1 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	9.5% fixed rate	NO	01-Oct-2010	perpetual	01-Jun-2016	Eur	1,000,000,000	478
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	1,250,000,000	580
Intesa Sanpaolo (*)	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	250,000,000	250
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 6.87%	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	1,500,000,000	741
Total preference shares and innovative and non-innovative equity instruments (Tier I)								**2,049**

(*) Securities subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 11th update of 31 January 2012, "New regulations for the prudential supervision of banks".

Tier 2 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	1,250,000,000	1,095
Intesa Sanpaolo	6.16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	120,000,000	120
Banca CR Firenze	6-month Euribor + 0.95%	NO	05-Dec-2003	05-Dec-2013	NO	Eur	200,000,000	148
Centro Leasing Banca	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	30,000,000	26
Total hybrid instruments (Upper Tier II)								**1,389**
Banca CR Firenze	6-month Euribor + 0.15%	NO	22-May-2006	22-May-2013	NO	Eur	85,000,000	17
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	16-Jun-1998	17-Jun-2013	NO	Lit	500,000,000,000	36
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	30-Jun-1998	01-Jul-2013	NO	Lit	200,000,000,000	15
Intesa Sanpaolo	8% for 1st coupon, 5% for 2nd coupon, 4% for 3rd coupon, thereafter 70% of 10-year swap rate	NO	09-Mar-1999	09-Mar-2014	NO	Lit	480,000,000,000	84
Intesa Sanpaolo	8% 1st coupon, 5.5% 2nd coupon, 4% 3rd coupon, thereafter 65% of 10-year swap rate with minimum 4%	NO	15-Jul-1999	15-Jul-2014	NO	Eur	250,000,000	87
Intesa Sanpaolo	6.11% fixed rate; as of 23/02/2005 97% of 30-year euro swap mid rate	NO	23-Feb-2000	23-Feb-2015	NO	Eur	65,000,000	39
Intesa Sanpaolo	92% of 30-year Euro Swap mid rate: never less than that of previous coupon	NO	12-Mar-2001	23-Feb-2015	NO	Eur	50,000,000	30
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Nov-2017	NO	Gpb	250,000,000	7
Intesa Sanpaolo	up to 20/2/2013 (excluded): 3-month Euribor + 0.25% p.a.; thereafter 3-month Euribor + 0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	NO	Eur	750,000,000	206
Intesa Sanpaolo	up to 18/03/2019 (excluded): 5.625% p.a.; thereafter: 3-month Sterling LIBOR + 1.125% p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	165,000,000	30
Intesa Sanpaolo	up to 02/03/2015 (excluded): 3.75% p.a.; thereafter: 3-month Euribor +0.89% p.a.	YES	02-Mar-2005	02-Mar-2020	02-Mar-2015	Eur	500,000,000	472
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4.375% p.a.; thereafter: 3-month Euribor + 1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	NO	Eur	500,000,000	162
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	415,000,000	242
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	544,546,000	320
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	382,401,000	222
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	800,000,000	477
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	1,096,979	640
Intesa Sanpaolo	5.75% fixed rate; as of 28/5/2013 3-month Euribor + 1.98%	YES	28-May-2008	28-May-2018	NO	Eur	1,000,000,000	351
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	635,350,000	499
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	165,050,000	123
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	1,500,000,000	1,411
Intesa Sanpaolo	quarterly interests according to the formula (3-month Euribor + 1.6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	805,400,000	776
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	1,250,000,000	1,200
Intesa Sanpaolo	quarterly interests according to the formula: (3-month Euribor + 1.60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	479,050,000	466
Intesa Sanpaolo	quarterly interests according to the formula: (3-month Euribor + 2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	373,400,000	364
Pravex Bank	6,032% (Libor + 5%)	NO	other issues placed as of 12/09/2000	other issues with final expiry at 31/07/2016	NO	Usd	14,100,000	7

Issuer	Interest rate	Step-u	Issue date	Expiry date	Early redemption as of	Curren	Original amount in currency	Contribution to regulatory capital (millions of euro)
Banca Monte Parma	3.80% fixed rate	NO	20-Feb-2008	20-Feb-2013	NO	Eur	10,000,000	2
Banca Monte Parma	4.30% fixed rate	NO	27-May-2008	27-May-2013	NO	Eur	9,905,000	2
Banca Monte Parma	4.60% fixed rate	NO	25-Jun-2008	25-Jun-2013	NO	Eur	10,000,000	2
Banca Monte Parma	4.60% fixed rate	NO	26-Aug-2008	26-Aug-2013	NO	Eur	20,000,000	4
Banca Monte Parma	3.25% fixed rate	NO	04-Feb-2009	04-Feb-2014	NO	Eur	11,500,000	5
Banca Monte Parma	4.50% fixed rate	NO	05-Feb-2009	05-Feb-2014	NO	Eur	5,000,000	2
Banca Monte Parma	2.80% fixed rate	NO	22-Apr-2009	22-Apr-2014	NO	Eur	10,000,000	4
Banca Monte Parma	3.10% fixed rate	NO	09-Jul-2009	09-Jul-2014	NO	Eur	9,000,000	4
Banca Monte Parma	3.50% fixed rate	NO	11-Aug-2009	11-Aug-2016	NO	Eur	5,000,000	4
Banca Monte Parma	3.20% fixed rate	NO	25-Sep-2009	25-Sep-2016	NO	Eur	5,000,000	4
Banca Monte Parma	3.00% fixed rate	NO	30-Jul-2010	30-Oct-2015	NO	Eur	20,000,000	12
Total eligible subordinated liabilities (Lower Tier II)								**8,328**
TOTAL								**9,717**

Tier 3 capital

As at 31 December 2012 and 31 December 2011 no subordinated debts were issued which are eligible to be considered in Tier 3 Capital, net of intragroup operations, to "cover" market risks.

Reconciliation of Net book value and Tier 1 Regulatory Capital

The components of "Net book value" and the innovative capital instruments illustrated above contribute, based on the rules established by the Bank of Italy, to forming the "Tier 1" regulatory capital, as summarised in the table below:

(millions of euro)

Information	31.12.2012	31.12.2011
Shareholders' equity pertaining to the Group	49,613	47,040
Shareholders' equity pertaining to minority interests	586	718
SHAREHOLDERS' EQUITY	**50,199**	**47,758**
Components of shareholders' equity not pertaining to the Banking group	2	2
Dividend to Intesa Sanpaolo S.p.A. shareholders (-) (*)	-832	-822
OTHER COMPONENTS:	**-11,414**	**-8,165**
- Innovative and non-innovative equity instruments (+)	2,056	4,010
- Goodwill (-)	-9,125	-9,177
- Other intangible assets pertaining to the Banking group (-)	-5,186	-5,467
- Valuation reserves pertaining to the Banking group (-)	1,402	3,292
- Negative valuation reserves pertaining to the Banking group included as negative filters (-)	-353	-621
- Fair value option: changes in bank's own creditworthiness included as negative filters (-)	-	-14
- Other negative prudential filters (-)	-34	-34
- Other supervisory adjustments (+/-)	-174	-154
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**37,955**	**38,773**
TOTAL ITEMS TO BE DEDUCTED	**-1,942**	**-1,478**
TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED	**36,013**	**37,295**

(*) As per the recommendation of the Management Board. For 2011 the caption included the assignment of extraordinary reserves.

Detailed information on the breakdown of regulatory capital (Tier 1, Tier 2 and the related deductions) is provided in the following quantitative section of this Table.

Quantitative disclosure

Regulatory capital structure

The structure of the regulatory capital of the Intesa Sanpaolo Group as at 31 December 2012 is summarised in the table below:

(millions of euro)

Information	31.12.2012	31.12.2011
A. Tier 1 capital before the application of prudential filters	**38,342**	**39,442**
B. Tier 1 capital prudential filters	**-387**	**-669**
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	-387	-669
C. Tier 1 capital before items to be deducted (A+B)	**37,955**	**38,773**
D. Items to be deducted from Tier 1 capital	**1,942**	**1,478**
E. Total Tier 1 capital (C-D)	**36,013**	**37,295**
F. Tier 2 capital before the application of prudential filters	**10,175**	**13,737**
G. Tier 2 capital prudential filters	**-92**	**-58**
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-92	-58
H. Tier 2 capital before items to be deducted (F+G)	**10,083**	**13,679**
I. Items to be deducted from Tier 2 capital	**1,942**	**1,478**
L. Total Tier 2 capital (H-I)	**8,141**	**12,201**
M. Items to be deducted from total Tier 1 and Tier 2 capital	**3,410**	**3,144**
N. Regulatory capital (E+L-M)	**40,744**	**46,352**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N+O)	**40,744**	**46,352**

Regulatory capital takes into account the dividend distribution on 2012 income that the Management Board will propose to the Shareholders' Meeting, i.e. 0.05 euro per savings share and 0.061 euro per ordinary share, for a total dividend disbursement of 832 million euro.

"Items to be deducted from Tier 1 and Tier 2 Capital" include contributions deriving from the insurance business that refer to contracts entered into prior to 20 July 2006, and as such, will continue to be deducted from total capital up to 31 December 2012, instead of 50% from Tier 1 Capital and 50% from Tier 2 Capital.

More details of the breakdown of the Tier 1 and Tier 2 capital are provided in the following table.

Tier 1 capital

(millions of euro)

Information	31.12.2012	31.12.2011
TOTAL TIER 1 CAPITAL[(a)]		
- Share capital - ordinary shares (b)	8,236	8,289
- Share capital - preference savings shares (c)	488	488
- Share premium reserve	30,989	36,212
- Reserves and net income	10,896	13,279
- Non-innovative equity instruments	478	1,000
- Innovative equity instruments with final expiry	-	-
- Innovative equity instruments subject to transition requirements (grandfathering) (c)	1,578	3,010
- Positive IAS / IFRS prudential filters (+)		
Fair value option: changes in bank's own creditworthiness	-	-
Redeemable shares	-	-
Capital resources forming the object of forward purchase commitments included in tier 1 capital	-	-
Other positive prudential filters	-	-
TOTAL POSITIVE ITEMS	**52,665**	**62,278**
- Treasury shares or quotas (d)	-12	-2
- Goodwill	-9,125	-9,177
- Other intangible assets	-5,186	-5,467
- Loss for the period	-	-8,190
- Adjustments to loans	-	-
- Adjustments calculated on the regulatory trading and banking books	-	-
- Other	-	-
- Negative IAS / IFRS prudential filters (-)		
Fair value option: changes in bank's own creditworthiness	-	*-14*
Negative reserves on equities and quotas of UCI available for sale	-	-
Negative reserves on debt securities available for sale (d)	*-353*	*-621*
Net accumulated capital gain on tangible assets	-	-
Capital resources forming the object of forward purchase commitments not included in tier 1 capital	-	-
Other negative prudential filters (e)	*-34*	*-34*
TOTAL NEGATIVE ITEMS	**-14,710**	**-23,505**
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**37,955**	**38,773**
TOTAL ITEMS TO BE DEDUCTED	**-1,942**	**-1,478**
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries purchased after 20 July 2006	-604	-552
- Other banking and financial investments higher than 20% of the investee's capital	-270	-252
- Excess expected losses with respect to adjustments (IRB approaches)	-600	-230
- Other deductions	-156	-132
TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED	**36,013**	**37,295**

(a) The individual components of the regulatory capital include both the portion relating to the capital of the Group and of the third party shareholders.

(b) It does not include 7 millions euro of preference shares subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

(c) Securities subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

(d) The caption essentially includes ordinary shares, only for the component relating to the Banking Group.

(e) The caption does not include the negative reserves on government bonds of EU countries, for which the supervisory regulations provided for the option – exercised by the Group – to exclude these from the negative Tier 1 capital filters, with an effect on the Core Tier 1 ratio of 7 basis points.

The "Total items to be deducted" amounted to half the overall deductions, 50% of which were allocated as a reduction to the Tier 1 capital and the remaining 50% as a reduction to the Tier 2 capital.

Tier 2 capital

(millions of euro)

Information	31.12.2012	31.12.2011
TIER 2 CAPITAL [a]		
- Valuation reserves - Tangible assets		
Legally-required revaluations	*352*	*352*
Property and equipment used in operations	-	-
- Valuation reserve - Securities available for sale		
Equities and quotas of UCI	*184*	*117*
Debt securities	-	-
- Non-innovative equity instruments not included in tier 1 capital	-	-
- Innovative equity instruments not included in tier 1 capital	-	-
- Hybrid capital instruments	1,389	1,707
- Tier 2 subordinated liabilities	8,328	11,549
- Excess total adjustments with respect to expected losses	237	363
- Net capital gains on equity investments	3	-
- Other positive items	-	1
- Positive IAS / IFRS prudential filters (+)		
Net accumulated capital gain on tangible assets	-	-
Capital resources forming the object of forward purchase commitments included in tier 2 capital	-	-
Other positive items	-	-
TOTAL POSITIVE ITEMS	**10,493**	**14,089**
- Net capital losses on equity investments	-	-54
- Loans	-	-
- Other negative items	-318	-298
- Negative IAS / IFRS prudential filters (-)		
Portion not included of the valuation reserve on property and equipment used in operations	-	-
Portion not included of positive reserves on securities available for sale - Equities	*-92*	*-58*
Portion not included of positive reserves on securities available for sale - Debt securities	-	-
Tier 2 subordinated liabilities and hybrid capital instruments forming the object of forward purchase commitments not included in tier 2 capital	-	-
Other negative filters	-	-
TOTAL NEGATIVE ITEMS	**-410**	**-410**
TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**10,083**	**13,679**
TOTAL ITEMS TO BE DEDUCTED	**-1,942**	**-1,478**
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries purchased after 20 July 2006	-604	-552
- Other banking and financial investments higher than 20% of the investee's capital	-270	-252
- Excess expected losses with respect to adjustments (IRB approaches)	-600	-230
- Other deductions	-156	-132
TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED	**8,141**	**12,201**

(a) The individual components of the regulatory capital include both the portion relating to the capital of the Group and of the third party shareholders.

Table 4 – Capital adequacy

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 2 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 Table 1, 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:
  - interest rate and foreign exchange rate risk;
  - risk on equity investments not subject to line by line consolidation;
  - risk on real estate assets owned for whichever purpose;
- operational risk, including legal 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 2012 and based on the 2013 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 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" (47.1% 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 (27.9% 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 8.4% and 1.2% 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 core deposits.
Absorption of Economic Capital by Eurizon Capital is marginal (0.2%) 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 of Circular 263, 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 2012 and the forecasts as at 31 December 2013, and the final document is due to be sent to the Bank of Italy by 30 April 2013. 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.

During 2012, Intesa Sanpaolo also met the Core Tier 1 requirement of 9%, calculated by considering a capital buffer for exposures to sovereign issuers, as required by the EBA for the bank capital strengthening concluded in October 2012 with publication of the results for each of the European Banks involved during the year.

Quantitative disclosure

According to the "New regulations for the prudential supervision of banks" (Bank of Italy Circular 263 of 27 December 2006 and subsequent amendments), which adopt the provisions on the International convergence of capital measurement and capital standards (Basel 2), the banking Group's capital must amount to at least 8% 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.
In general terms, the group-level capital requirement is calculated as the sum of the individual requirements of the individual companies that make up the Banking group, net of exposures arising from intragroup relations included in the calculation of credit, counterparty and settlement risk.
Moreover, the Intesa Sanpaolo Group was subject to a capital requirement restriction, consisting in a floor of 90% of the sum of the requirements for credit, market and counterparty risk, calculated based on the Basel 1 rules. This penalty was prudently introduced by the Bank of Italy on authorising the use of Internal Methods for the calculation of requirements for credit risk in relation to several aspects deemed worthy of implementing. Taking account of the measures implemented by the Intesa Sanpaolo Group in relation to the problems detected, the Bank of Italy authorised the reduction of said floor from 90% to 85% starting from 30 June 2011.
In addition to the Total capital ratio referred to above, other more rigorous ratios are also used to assess capital soundness: the Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets, and the Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of preferred shares and savings shares and preference ordinary shares) and risk-weighted assets.

For the calculation of credit and counterparty risk capital requirements, the Intesa Sanpaolo Group, having received authorisation from the Supervisory Authority, uses the Advanced IRB approach (AIRB) and the foundation IRB approach (FIRB) for the Corporate segment and the IRB approach[1] for the Retail Mortgage segment (Residential mortgages for private individuals) and SME retail segment (retail exposures). In particular:

- for the Corporate segment, authorisation has been obtained from the Supervisory Authority for the use of the AIRB approach on a scope that extends to the Parent Company, the network banks, Banca Infrastrutture Innovazione e Sviluppo (for which a full demerger in favour of the Parent Company and Leasint S.p.A. was carried out in December 2012) and Mediocredito Italiano, as well as for the foreign companies Intesa Sanpaolo Bank Ireland Plc and VUB Banka (the authorisation for the latter is for the Foundation IRB). With effect from June 2012 permission was obtained to extend the AIRB approach to the subsidiary Banca IMI and for the adoption of rating models for the hedging of Specialised Lending exposures at Group Level, together with the use of internal LGD estimates for the Corporate segment in relation to the product companies Leasing and Mediofactoring (the FIRB approach had been in use since December 2008);
- for the Retail Mortgage segment, permission was granted for the use of the IRB approach effective from June 2010, extended to the former Casse del Centro network banks effective from the report as at 31 December 2011 and to VUB Banka with effect from the report as at 30 June 2012.
- authorisation for transition to the IRB approach was granted for the SME Retail segment effective from the December 2012 report for the Parent Company, the network banks and Mediocredito Italiano.

The Group is also proceeding with the development of the rating models for the other segments, to which the standard methods are applied, and the extension of the scope of companies and their application in accordance with the plan presented to the Supervisory Authority.
Banks must also comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk, settlement risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo and Banca IMI apply the internal model to calculate general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and general position risk (rate fluctuation risk) for debt securities. Effective from the report as at 30 September 2012, Intesa Sanpaolo and Banca IMI have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration

[1] 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.

of the incremental risk charge into the calculation of the capital requirement for market risks; for Banca IMI, position risk in quotas of UCIs is also included in the internal model (with regard to the Constant Proportion Portfolio Insurance – CPPI component). The scope of validated risks has subsequently been extended to position risk on dividend derivatives and position risk on commodities for Banca IMI, which is the only legal entity in the Group authorised to hold open positions in commodities. In addition, since December 2011, Banca IMI and Intesa Sanpaolo have been using Stressed VaR to calculate the requirement for market risks. Standardised approaches are used for the other types of risk. Counterparty risk is calculated independently of the portfolio of allocation.
With respect to Operational Risks, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirements for regulatory purposes:

– effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
– effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
– effective from 31 December 2011, for a third set including Banca Infrastrutture Innovazione e Sviluppo[2].

In December 2012, an application was submitted to the Bank of Italy for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding). The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2013, based on the roll-out plan presented to the Management and Supervisory Authorities.

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

Information	31.12.2012			31.12.2011		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	**569,162**	**253,309**	**20,265**	**563,946**	**277,498**	**22,200**
1. Standardised approach	256,202	105,908	8,473	274,917	132,167	10,573
2. Internal models (IRB)	4,254	4,308	345	29,885	22,907	1,833
3. Internal models - Advanced approach and retail exposures	305,171	136,848	10,947	254,900	116,365	9,309
4. Securitisations - bankig book	3,535	6,245	500	4,244	6,059	485
A.2 Market risk		**18,427**	**1,474**		**17,488**	**1,399**
1. Standardised approach		6,294	504		12,240	979
2. Internal models		11,927	954		5,246	420
3. Concentration risk		206	16		2	-
A.3 Operational risk		**25,745**	**2,059**		**24,825**	**1,986**
1. Basic indicator approach		1,038	83		1,088	87
2. Standardised approach		4,339	347		4,075	326
3. Advanced measurement approach		20,368	1,629		19,662	1,573
A.4 Other capital requirements		-	-		-	-
A.5 Other calculation elements [(a)]		**1,138**	**91**		**5,395**	**432**
A6 Total capital requirements		**298,619**	**23,889**		**325,206**	**26,017**
B. CAPITAL RATIOS (%)						
B.1 Core Tier 1			**11.2%**			**10.1%**
B.2 Tier 1 ratio			**12.1%**			**11.5%**
B.3 Total capital ratio			**13.6%**			**14.3%**

(a) The caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities and the supplement for the floor relating to the calculation of capital requirements for the credit risk according to IRB approaches.

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 also included when determining EAD.

[2] The full demerger of the Bank in favour of the Parent Company and Leasint S.p.A. was completed in December 2012.

As always (see also the "Introduction" of this document), the comparative figures presented refer to the Pillar 3 Report of the prior year. For a better comparison of the figures for the two periods in the table above (non-uniform in terms of scope of application of the internal models), please note that:
- Banca IMI's shift from the Standardised Approach to the Advanced Internal Approaches for the Corporate segment involved a shift of the assets at risk between the two aggregates for approximately 11.5 billion euro (unweighted amounts);
- the transition by Mediofactoring and Leasint from the IRB approach to the AIRB approach involved a shift of the assets at risk between the two aggregates for approximately 22 billion euro (unweighted amounts). The further decrease in unweighted amounts referring to the foundation IRB approach relates to the use of advanced approaches for Specialised Lending (approximately 4 billion euro);
- VUB Banka's shift from the Standardised Approach to the Internal Approaches for the Mortgage segment involved an analogous shift of the assets at risk between the two aggregates for approximately 2 billion euro (unweighted amounts).

The tables below provide details of the Group's different capital requirements as at 31 December 2011. Additional details, for the "unweighted" amounts, are also shown:
- for the standardised approach and the securitisations subject to the standardised approach in Table 6 (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 Table 7 and the part of Table 6 relating to the specialised lending and equity exposures subject to the IRB approaches.

With regard to the "weighted" amounts, on the other hand, additional information is provided:
- for the securitisations in Table 10;
- for the equities (IRB and standardised approach) in Table 13.

Capital requirement for Credit and Counterparty Risk

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

(millions of euro)

Information	Capital requirement	
	31.12.2012	31.12.2011
Credit risk	19,424	21,482
Counterparty risk	841	718
Total capital requirement for credit risk and counterparty risk	**20,265**	**22,200**

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 illustrating capital requirements for credit and counterparty risk.

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

(millions of euro)

Regulatory portfolio (a)	Capital requirement 31.12.2012	Capital requirement 31.12.2011
Exposures to or secured by governments and central banks	123	111
Exposures to or secured by local authorities	284	292
Exposures to or secured by not for profit and public sector organisations	566	311
Exposures to or secured by multilateral development banks	-	1
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,531	1,429
Exposures to or secured by corporates	2,259	3,377
Retail exposures	1,842	2,757
Exposures secured by real estate property	296	573
Past due exposures	503	668
High-risk exposures	105	120
Exposures in the form of covered bonds	53	2
Short-term exposures to corporates	65	63
Exposures to UCI	117	164
Other exposures	729	705
Total capital requirement for credit risk and counterparty risk (Standardised Approach)	**8,473**	**10,573**

(a) The equity exposures for the companies that have adopted the IRB approach for the corporate regulatory portfolio, subject to grandfathering provisions regarding capital requirements, have a capital requirement of 155 million euro (167 million as at 31 December 2011).

Capital requirement for Credit and Counterparty Risk (IRB Approach)

(millions of euro)

Regulatory portfolio	Capital requirement 31.12.2012	Capital requirement 31.12.2011
A. Exposures to or secured by corporates (Foundation IRB Approach)	**9,803**	**10,204**
A.1) Specialised lending	1,291	490
A.2) Specialised lending - slotting criteria	8	297
A.3) SMEs	3,143	3,484
A.4) Other corporates	5,361	5,933
B. Retail exposures	**1,403**	**861**
B.1) Exposures secured by residential property: SMEs	50	-
B.2) Exposures secured by residential property: natural persons	926	861
B.3) Other retail exposures: SMEs	427	-
C. Equity exposures (simple risk weight approach)	**86**	**77**
C.1) Private equity exposures in sufficiently diversified portfolios	21	26
C.2) Exchange-traded equity exposures	3	3
C.3) Other equity exposures	62	48
D. Equity instruments: Other assets - Ancillary investments	**-**	**-**
E. Exposures subject to supervisory transition regarding capital requirements	**-**	**-**
Total capital requirement for credit risk and counterparty risk (IRB Approach)	**11,292**	**11,142**

Capital requirement for Credit and Counterparty Risk on securitisations – banking book (Standardised Approach)

(millions of euro)

Information	Capital requirement	
	31.12.2012	31.12.2011
Originated securitisations	35	41
Third-party securitisations	274	444
Total capital requirement for credit risk and counterparty risk on securitisations (Standardised approach)	**309**	**485**

Capital requirement for Credit and Counterparty Risk on securitisations – banking book (IRB Approach – Rating Based Approach)

(millions of euro)

Information	Capital requirement	
	31.12.2012	31.12.2011
Originated securitisations	1	-
Third-party securitisations	190	-
Total capital requirement for credit risk and counterparty risk on securitisations (IRB - Rating Based Approach)	**191**	**-**

Capital requirement for Market Risk

(millions of euro)

Information	Capital requirement	
	31.12.2012	31.12.2011
Assets included in the regulatory trading book	**1,396**	**1,265**
Position risk [(a)]	1,380	1,265
Concentration risk	16	-
Other assets	**78**	**134**
Foreign exchange risk	48	67
Settlement risk for DVP (Delivery Versus Payment) transactions	-	-
Commodity risk	30	67
Total capital requirement for market risk	**1,474**	**1,399**

(a) The caption includes capital requirements for exposures to securitisations of 169 million euro.

Capital requirement for Operational Risk

(millions of euro)

Information	Capital requirement	
	31.12.2012	31.12.2011
Basic indicator approach	83	87
Standardised approach	347	326
Advanced measurement approach	1,629	1,573
Total capital requirement for operational risk	**2,059**	**1,986**

Almost all the Group companies used the Advanced Measurement Approach (AMA) and 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.

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Table 5 – Credit risk: general disclosures for all banks

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.
These assets are measured in accordance with the criteria and methods illustrated in this Table.
With reference to loans past due, restructured loans and substandard loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, within peripheral organisational units that perform specialist activities and within the Head Office units, which also have specialist skills and are responsible for the overall management and coordination of these matters.
On the subject of doubtful loans, it should be remarked that effective from 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 Service of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and almost 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 Italfondiario (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 Italfondiario is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondiario 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 Italfondiario 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 Italfondiario in managing the loans entrusted to it under management mandate is monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans is 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.
The classification of positions within non-performing financial assets and in the relative management systems is undertaken on the 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" are restored to performing status automatically 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 predetermined control system and periodic managerial reporting.

The definitions of the various categories of "non-performing" loans (past due, substandard, restructured and doubtful) are briefly set out 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.

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 reliably quantified 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 geographic area, the presence of any guarantees and other relevant factors.

Specifically, loans are reassessed for the purpose of identifying those which, due to events occurring 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 extinguishing 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 cause 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 in the "New capital accord" generally known as Basel 2. 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 solely for counterparties that are natural persons for whom the recognition of a worsening credit situation and the consequent transfer among the non-performing loans generally take place following unpaid instalments or continuous defaults for more than 90 days.
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 chapter (see also Table 11).

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

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 Table 5. Equity exposures included in the banking book are detailed in Table 13 hereof. In compliance with the provisions already referred to, the units of UCI are included in Table 5 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 table below 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 (*)

(millions of euro)

Portfolios/category	Doubtful loans			Substandard loans			Restructured exposures		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
1. Financial assets held for trading	6	4	8	115	81	94	46	38	30
2. Financial assets available for sale	2	2	3	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-	-	-	-
4. Due from banks	119	37	138	-	-	1	-	-	-
5. Loans to customers	28,362	11,203	26,262	14,480	11,494	13,033	3,587	2,863	3,867
6. Financial assets designated at fair value through profit and loss	-	-	-	7	7	2	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
TOTAL - 31.12.2012	**28,489**	**11,246**	**26,411**	**14,602**	**11,582**	**13,130**	**3,633**	**2,901**	**3,897**
TOTAL - 31.12.2011	**25,128**	**9,079**	**22,781**	**11,566**	**9,182**	**11,421**	**4,052**	**3,439**	**3,775**

Portfolios/category	Past due exposures			Other exposures			Total		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
1. Financial assets held for trading	25	23	16	60,686	60,686	60,558	60,878	60,832	60,706
2. Financial assets available for sale	4	4	1	50,541	50,541	40,460	50,547	50,547	40,464
3. Investments held to maturity	-	-	-	2,168	2,166	2,350	2,168	2,166	2,350
4. Due from banks	4	4	2	36,173	36,154	35,103	36,296	36,195	35,244
5. Loans to customers	3,244	2,912	2,523	352,843	350,254	355,055	402,516	378,726	400,740
6. Financial assets designated at fair value through profit and loss	-	-	-	1,202	1,202	1,067	1,209	1,209	1,069
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	11,651	11,651	11,189	11,651	11,651	11,189
TOTAL - 31.12.2012	**3,277**	**2,943**	**2,542**	**515,264**	**512,654**	**505,782**	**565,265**	**541,326**	**551,762**
TOTAL - 31.12.2011	**1,329**	**1,156**	**1,453**	**491,481**	**488,304**	**490,885**	**533,556**	**511,160**	**530,315**

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

(**) Half-yearly average.

In relation to the definition of default, the exception granted by the Supervisory Authority for past due positions, which permitted the calculation of exposures to Italian counterparties, limited to several regulatory portfolios, using the time limit of 180 days, has expired. Therefore, starting from 1 January 2012, the Group applies the limit of 90 days to all regulatory portfolios. This has resulted in a portion of the performing portfolio (past due by over 90 days to 180 days) moving to non-performing status (past due loans).

Credit exposures by geographical area to customers and banks

Credit exposures by geographical area – customers (*)

(millions of euro)

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	9,668	-14,669	1,505	-2,231	11	-39	2	-22	20	-198
A.2. Substandard loans	10,213	-2,568	1,127	-376	54	-1	9	-3	98	-37
A.3. Restructured exposures	2,534	-677	166	-31	4	-1	148	-11	11	-3
A.4. Past due exposures	2,724	-270	153	-54	5	-	5	-	30	-8
A.5. Other exposures	343,249	-1,985	53,410	-504	9,295	-29	2,628	-12	4,341	-62
Total A	**368,388**	**-20,169**	**56,361**	**-3,196**	**9,369**	**-70**	**2,792**	**-48**	**4,500**	**-308**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	140	-61	37	-27	-	-	-	-1	5	-16
B.2. Substandard loans	592	-56	23	-5	-	-	-	-	5	-1
B.3. Other non-performing assets	515	-26	5	-1	-	-	-	-	4	-
B.5. Other exposures	53,557	-180	51,363	-72	14,231	-15	731	-2	576	-3
Total B	**54,804**	**-323**	**51,428**	**-105**	**14,231**	**-15**	**731**	**-3**	**590**	**-20**
TOTAL (A+B) 31.12.2012	**423,192**	**-20,492**	**107,789**	**-3,301**	**23,600**	**-85**	**3,523**	**-51**	**5,090**	**-328**
TOTAL 31.12.2011	**395,465**	**-18,754**	**105,463**	**-3,437**	**28,429**	**-108**	**4,634**	**-60**	**5,392**	**-341**

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

Credit exposures by geographical area – banks (*)

(millions of euro)

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	20	-73	-	-	-	-2	-	-
A.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	5	-	-	-	4	-	-	-
A.5. Other exposures	13,400	-3	24,919	-9	2,139	-4	1,610	-3	1,209	-
Total A	**13,418**	**-10**	**24,944**	**-82**	**2,139**	**-4**	**1,614**	**-5**	**1,209**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	1	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.5. Other exposures	4,737	-1	78,248	-11	4,931	-1	1,493	-6	876	-2
Total B	**4,737**	**-1**	**78,249**	**-11**	**4,931**	**-1**	**1,493**	**-6**	**876**	**-2**
TOTAL (A+B) 31.12.2012	**18,155**	**-11**	**103,193**	**-93**	**7,070**	**-5**	**3,107**	**-11**	**2,085**	**-2**
TOTAL 31.12.2011	**23,302**	**-13**	**77,207**	**-97**	**7,682**	**-4**	**3,978**	**-16**	**2,155**	**-2**

(*) 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	1	-10	X	177	-64	X
A.2. Substandard loans	5	-2	X	17	-4	X
A.3. Restructured exposures	-	-	X	-	-	X
A.4. Past due exposures	5	-	X	42	-1	X
A.5. Other exposures	73,764	X	-12	21,098	X	-44
Total A	**73,775**	**-12**	**-12**	**21,334**	**-69**	**-44**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	-	-	X	-	-	X
B.2. Substandard loans	-	-	X	-	-	X
B.3. Other non-performing assets	-	-	X	-	-	X
B.4. Other exposures	5,330	X	-1	1,770	X	-3
Total B	**5,330**	**-**	**-1**	**1,770**	**-**	**-3**
TOTAL - 31.12.2012	**79,105**	**-12**	**-13**	**23,104**	**-69**	**-47**
TOTAL - 31.12.2011	**52,024**	**-10**	**-261**	**22,084**	**-51**	**-43**

	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	74	-301	X	-	-	X
A.2. Substandard loans	361	-46	X	-	-	X
A.3. Restructured exposures	24	-4	X	-	-	X
A.4. Past due exposures	9	-3	X	-	-	X
A.5. Other exposures	32,415	X	-91	1,478	X	-2
Total A	**32,883**	**-354**	**-91**	**1,478**	**-**	**-2**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	1	-1	X	-	-	X
B.2. Substandard loans	24	-	X	-	-	X
B.3. Other non-performing assets	2	-	X	-	-	X
B.4. Other exposures	34,745	X	-10	1,507	X	-4
Total B	**34,772**	**-1**	**-10**	**1,507**	**-**	**-4**
TOTAL - 31.12.2012	**67,655**	**-355**	**-101**	**2,985**	**-**	**-6**
TOTAL - 31.12.2011	**54,844**	**-422**	**-127**	**4,618**	**-**	**-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	9,082	-14,074	X	1,872	-2,710	X
A.2. Substandard loans	9,518	-2,308	X	1,600	-625	X
A.3. Restructured exposures	2,805	-684	X	34	-35	X
A.4. Past due exposures	2,333	-213	X	528	-115	X
A.5. Other exposures	199,933	X	-2,120	84,235	X	-323
Total A	**223,671**	**-17,279**	**-2,120**	**88,269**	**-3,485**	**-323**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	177	-88	X	5	-17	X
B.2. Substandard loans	586	-60	X	9	-2	X
B.3. Other non-performing assets	517	-26	X	5	-	X
B.4. Other exposures	74,953	X	-246	2,153	X	-8
Total B	**76,233**	**-174**	**-246**	**2,172**	**-19**	**-8**
TOTAL - 31.12.2012	**299,904**	**-17,453**	**-2,366**	**90,441**	**-3,504**	**-331**
TOTAL - 31.12.2011	**313,426**	**-15,275**	**-2,567**	**92,387**	**-3,531**	**-410**

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

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
A. ON-BALANCE SHEET EXPOSURES	**69,966**	**22,526**	**10,494**	**18,721**	**32,909**	**28,266**	**44,585**	**141,346**	**118,276**	**6,594**
A.1 Government bonds	36	37	1,385	525	5,396	7,869	13,405	24,792	7,477	5
A.2 Other debt securities	169	1,257	953	912	1,101	996	1,972	9,317	12,361	4
A.3 Quotas of UCI	2,487	-	-	-	-	-	-	-	-	-
A.4 Loans	67,274	21,232	8,156	17,284	26,412	19,401	29,208	107,237	98,438	6,585
- Banks	*12,828*	*6,742*	*1,216*	*1,656*	*2,072*	*1,021*	*1,148*	*922*	*287*	*6,576*
- Customers	*54,446*	*14,490*	*6,940*	*15,628*	*24,340*	*18,380*	*28,060*	*106,315*	*98,151*	*9*
B. OFF-BALANCE SHEET EXPOSURES	**142,783**	**54,558**	**20,318**	**38,061**	**41,898**	**39,357**	**32,348**	**152,802**	**33,069**	**116**
B.1 Financial derivatives with exchange of capital										
- Long positions	*301*	*15,574*	*9,840*	*18,587*	*15,487*	*13,585*	*8,506*	*62,228*	*10,177*	*20*
- Short positions	*394*	*17,215*	*9,745*	*18,492*	*15,436*	*13,194*	*8,644*	*21,129*	*10,426*	*20*
B.2 Financial derivatives without exchange of capital										
- Long positions	*48,957*	*117*	*244*	*352*	*741*	*1,030*	*1,031*	*1,114*	*587*	*-*
- Short positions	*47,687*	*175*	*85*	*405*	*501*	*748*	*828*	*1,202*	*727*	*-*
B.3 Irrevocable commitments to lend funds										
- Long positions	*823*	*19,428*	*383*	*80*	*1,026*	*2,462*	*1,789*	*16,515*	*2,065*	*35*
- Short positions	*42,384*	*2,035*	*9*	*20*	*137*	*291*	*733*	*310*	*470*	*38*
B.4 Financial guarantees given	*193*	*14*	*12*	*9*	*86*	*115*	*65*	*232*	*139*	*3*
B.5 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*58*	*4,242*	*3,966*	*5,376*	*25,036*	*4,239*	*-*
- Short positions	*-*	*-*	*-*	*58*	*4,242*	*3,966*	*5,376*	*25,036*	*4,239*	*-*
B.6 Credit derivatives without exchange of capital										
- Long positions	*961*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*1,083*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
TOTAL AS AT 31.12.2012	**212,749**	**77,084**	**30,812**	**56,782**	**74,807**	**67,623**	**76,933**	**294,148**	**151,345**	**6,710**

(*) 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 (*)

(millions of euro)

	Impairment losses	Recoveries	31.12.2012	31.12.2011
A. Due from banks	**-5**	**13**	**8**	**1**
- Loans	-2	10	8	**3**
- Debt securities	-3	3	-	**-2**
B. Loans to customers	**-6,362**	**2,046**	**-4,316**	**-4,230**
Non-performing loans purchased	**-4**	**-**	**-4**	**-4**
- Loans	-4	-	-4	**-4**
- Debt securities	-	-	-	**-**
Other	-6,358	2,046	-4,312	**-4,226**
- Loans	-6,264	2,013	-4,251	**-3,761**
- Debt securities	-94	33	-61	**-465**
C. Total	**-6,367**	**2,059**	**-4,308**	**-4,229**

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

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

(millions of euro)

	Impairment losses	Recoveries	31.12.2012	31.12.2011
A. Guarantees given	-79	48	-31	-15
B. Credit derivatives	-	-	-	-
C. Commitments to lend funds	-37	16	-21	3
D. Other operations	-15	14	-1	-
E. Total	**-131**	**78**	**-53**	**-12**

(*) 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 2012 (*)

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**15,963**	**2,360**	**607**	**172**
B. Increases	**5,417**	**2,945**	**466**	**675**
B.1 impairment losses	3,044	2,052	286	490
B.1bis losses on disposal	36	4	-	-
B.2 transfers from other non-performing exposure categories	1,429	607	135	36
B.3 other increases	835	282	45	149
B.4 business combinations	73	-	-	-
C. Decreases	**-4,221**	**-2,320**	**-350**	**-515**
C.1 recoveries on impairment losses	-657	-373	-24	-59
C.2 recoveries on repayments	-305	-95	-3	-6
C.2bis profits on disposal	-24	-5	-	-
C.3 write-offs	-2,425	-99	-96	-6
C.4 transfers to other non-performing exposure categories	-121	-1,556	-152	-378
C.5 other decreases	-689	-192	-75	-66
C.6 business combinations	-	-	-	-
D. Final total adjustments	**17,159**	**2,985**	**723**	**332**

(*) 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 2012 (*)

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**85**	**-**	**-**	**1**
B. Increases	**3**	**-**	**-**	**-**
B.1 impairment losses	3	-	-	-
B.1bis losses on disposal	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-6**	**-**	**-**	**-1**
C.1 recoveries on impairment losses	-3	-	-	-1
C.2 recoveries on repayments	-	-	-	-
C.2bis profits on disposal	-	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other non-performing exposure categories	-	-	-	-
C.5 other decreases	-3	-	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	**82**	**-**	**-**	**-**

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

Table 6 – Credit risk: disclosures for portfolios subject to the standardised approach and for specialised lending and equity exposures subject to the IRB approaches

Qualitative disclosure

External agencies used

The Intesa Sanpaolo Group determines standardised risk weightings using the ratings of the following external agencies for all of its portfolios subject to 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 Bank of Italy Circular 263, 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 Circular 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 Table complement those provided in Table 8 – 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 Table 8 - Risk mitigation techniques.

The 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 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 Table 3). These exposures include both exposures deducted at 50% from the Tier 1 capital and 50% from the Tier 2 capital (net of expected losses in excess of impairment losses – IRB models) and the exposures deducted from the total of the Tier 1 and Tier 2 capital.

Breakdown of exposures: standardised approach

(millions of euro)

Regulatory portfolio	31.12.2012			31.12.2011		
	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by governments and central banks	96,117	100,950	624	68,767	72,688	624
Exposures to or secured by local authorities	21,058	21,535	-	19,885	20,300	-
Exposures to or secured by not for profit and public sector organisations	9,973	10,157	-	10,922	11,536	-
Exposures to or secured by multilateral development banks	1,032	1,036	-	2,333	2,338	-
Exposures to or secured by international organisations	41	41	-	40	40	-
Exposures to or secured by supervised institutions	89,603	101,414	336	87,475	116,889	327
Exposures to or secured by corporates	37,962	43,824	-	56,350	60,346	-
Retail exposures	38,560	40,675	-	62,992	65,510	-
Exposures secured by real estate property	8,670	8,670	-	17,145	17,145	-
Past due exposures	5,522	5,598	-	7,415	7,496	-
High-risk exposures	926	926	-	1,062	1,062	-
Exposures in the form of covered bonds	1,632	1,632	-	272	272	-
Short-term exposures to corporates	1,256	1,305	-	1,216	1,272	-
Exposures to UCI	1,767	1,862	-	2,441	3,156	-
Other exposures	14,839	14,839	5,136	13,616	13,616	4,688
Securitisations (*)	2,445	2,445	-	4,478	4,478	-
Total credit risk	**331,403**	**356,909**	**6,096**	**356,409**	**398,144**	**5,639**

(*) Further information on securitisations is contained in Table 10 - 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 was authorised to use the IRB approaches. For information on the different scope of companies which the IRB approaches are applied to, see the information in Table 7.

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

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

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

(millions of euro)

Regulatory portfolio	31.12.2012										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	94,020	X	37	X	1,452	X	608	-	X	-	96,117
Exposures to or secured by local authorities	85	X	20,346	X	123	X	502	2	X	X	21,058
Exposures to or secured by not for profit and public sector organisations	-	X	131	X	14	X	9,813	15	X	X	9,973
Exposures to or secured by multilateral development banks	1,015	X	12	X	5	X	-	-	X	X	1,032
Exposures to or secured by international organisations	41	X	X	X	X	X	X	X	X	X	41
Exposures to or secured by supervised institutions	-	X	61,319	X	1,234	X	26,764	286	X	X	89,603
Exposures to or secured by corporates	-	X	613	X	1,662	X	35,292	395	X	X	37,962
Retail exposures	-	X	X	X	X	38,560	X	X	X	X	38,560
Exposures secured by real estate property	X	X	X	4,129	4,541	X	X	X	X	X	8,670
Past due exposures	-	X	X	X	91	X	3,288	2,143	X	X	5,522
High-risk exposures	X	X	X	X	X	X	508	50	368	X	926
Exposures in the form of covered bonds	X	225	227	X	1,180	X	-	X	X	X	1,632
Short-term exposures to corporates	-	X	-	X	-	X	1,256	-	X	X	1,256
Exposures to UCI	-	X	6	X	-	X	1,531	41	X	189	1,767
Other exposures	4,048	X	1,777	X	X	X	9,014	X	X	X	14,839
Securitisations	X	X	X	X	X	X	X	X	X	X	2,445
Total credit risk 31.12.2012 (*)	**99,209**	**225**	**84,468**	**4,129**	**10,302**	**38,560**	**88,576**	**2,932**	**368**	**189**	**331,403**
Total credit risk 31.12.2011 (*)	**73,410**	**237**	**75,322**	**9,032**	**42,397**	**62,992**	**84,456**	**3,664**	**421**	**-**	**356,409**

(*) Total credit risk includes Securitisatoins.

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

(millions of euro)

Regulatory portfolio	31.12.2012										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	98,189	X	47	X	2,106	X	608	-	X	-	100,950
Exposures to or secured by local authorities	86	X	20,792	X	123	X	532	2	X	X	21,535
Exposures to or secured by not for profit and public sector organisations	155	X	131	X	14	X	9,842	15	X	X	10,157
Exposures to or secured by multilateral development banks	1,019	X	12	X	5	X	-	-	X	X	1,036
Exposures to or secured by international organisations	41	X	X	X	X	X	X	X	X	X	41
Exposures to or secured by supervised institutions	10,685	X	61,855	X	1,261	X	27,327	286	X	X	101,414
Exposures to or secured by corporates	5,629	X	614	X	1,893	X	35,292	396	X	X	43,824
Retail exposures	2,115	X	X	X	X	38,560	X	X	X	X	40,675
Exposures secured by real estate property	X	X	X	4,129	4,541	X	X	X	X	X	8,670
Past due exposures	76	X	X	X	91	X	3,288	2,143	X	X	5,598
High-risk exposures	X	X	X	X	X	X	508	50	368	X	926
Exposures in the form of covered bonds	X	225	227	X	1,180	X	-	X	X	X	1,632
Short-term exposures to corporates	49	X	-	X	-	X	1,256	-	X	X	1,305
Exposures to UCI	95	X	6	X	-	X	1,531	41	X	189	1,862
Other exposures	4,048	X	1,777	X	X	X	9,014	X	X	X	14,839
Securitisations	X	X	X	X	X	X	X	X	X	X	2,445
Total credit risk 31.12.2012 (*)	**122,187**	**225**	**85,461**	**4,129**	**11,214**	**38,560**	**89,198**	**2,933**	**368**	**189**	**356,909**
Total credit risk 31.12.2011 (*)	**111,714**	**237**	**76,644**	**9,032**	**44,467**	**62,992**	**84,495**	**3,664**	**421**	**-**	**398,144**

(*) Total credit risk includes Securitisations.

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2012	31.12.2011
A) Exposures to or secured by corporates: Specialised lending - slotting criteria	**94**	**3,994**
A.1) Regulatory assessment - weak	-	13
A.2) Regulatory assessment - sufficient	43	921
A.3) Regulatory assessment - good	51	2,712
A.4) Regulatory assessment - strong	-	348
A.5) Default	-	-
B. Equity exposures: Simple risk weight approach	**362**	**346**
B.1) Private equity exposures in sufficiently diversified portfolios - 190%	139	170
B.2) Exchange-traded equity exposures - 290%	12	13
B.3) Other equity exposures - 370%	211	163
C. Equity instruments: Other assets - Ancillary investments - (100%)	-	-
Total Specialised lending and equity exposures subject to the IRB approaches	**456**	**4,340**

The decrease of Specialised Lending, whose capital requirement is calculated by means of the slotting criteria, derives from the authorisation received during the first half of 2012 for the use of advanced internal rating based approaches for Project Finance, Commercial Real Estate, Asset Finance and Leveraged & Acquisition Finance sub-segments (see Table 7).

The weighted values of the equities subject to the IRB approaches and the weighted values of the equity instruments subject to the Standardised approach are detailed in Table 13 “Equity exposures: disclosures for banking book positions”.

Table 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 already outlined in Table 1 in the paragraph entitled "The Basel 2 Project", the scope of application of internal systems for credit risk underwent the following changes in 2012:

- effective from the report as at 30 June 2012, authorisation was obtained from the Bank of Italy to use the advanced internal credit risk rating system for exposures under Specialised Lending[1] relating to the broader regulatory Corporate segment (AIRB Approach – Advanced Internal Rating Based) to calculate the capital requirements; on the same date, subsidiary Banca IMI also obtained authorisation to calculate the capital requirements for credit risk under the regulatory Corporate segment using the AIRB Approach. Lastly, effective as of June 2012, authorisation was obtained by the Bank of Italy for the use of the AIRB approach with internal LGD estimates for the Corporate segment in relation to the product companies specialised in leasing and factoring (Leasint and Mediofactoring);
- for the Retail Mortgage segment, the company VUB Banka obtained permission to use the IRB Approach effective from the report as at June 2012;
- for the SME Retail segment, authorisation was obtained for transition to the IRB approach starting from the report as at December 2012.

The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application 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 and exposures to the banking group;
- exposures to minor operational units and non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

[1] The Bank of Italy's validation process also authorised use of the Leveraged & Acquisition Finance rating system which, although not part of the Specialised Lending portfolio, is developed along the same lines.

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 Table 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. revenue, 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	Internal class				
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	-	-	-
BBB+	Baa1	BBB+	I3	I3	-	I3	MT2
			I4	I4	I4	I4	MT3
BBB	Baa2	BBB	I5	I5	I5	I5	-
BBB-	Baa3	BBB-	I6	I6	I6	I6	MT4
BB+	Ba1	BB+	M1	M1	M1	M1	MT5
			M2	M2	M2	M2	-
BB	Ba2	BB	M3	M3	M3	M3	MT6
BB-	Ba3	BB-	M4	M4	M4	M4	MT7
B+	B1	B+	R1	R1	R1	R1	MT8
			R2	R2	R2	R2	-
B	B2	B	R3	R3	R3	R3	-
B-	B3	B-	R4	R4	R4	R4	-
CCC	Caa1	CCC	R5	R5	R5	R5	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 are 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;
- 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 involves the econometric LGD model 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;
- the length of the historical series used for the Doubtful loans model, although impacted by each company characteristics, meets the need to cover a broad timescale and is based on an extensive historical series. The Danger Rate model meets instead the need to represent current Group policies (forward looking approach) and is based on observation of defaults in the most recent periods;
- the organisational process set up requires a yearly update of estimates.

Use of the rating systems (PD and LGD)
The ratings are decisive in the process of credit granting, 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 powers assigned, where the PD and LGD are among the main drivers. The method adopted allows the approval limits to be tailored to the customer's level of risk, permitting their extension for low risk customers and progressively transferring the decision concerning the higher risk customers to the senior decision-making bodies.

Credit monitoring and management
Customer credit risk is continuously monitored. In particular, the Non-performing Loan Process is aimed at intercepting and promptly managing customers who show more or less severe signs of difficulty with the possible impairment of the quality of the risk assumed. 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 of the rating, the adjustment, if necessary, of the credit policies, and the establishment of operational procedures aimed at minimising the risk.
The monitoring PD is calculated centrally on a monthly basis, using the same engine for online PD, and is therefore capable of capturing the changes in the counterparty's credit rating because it is able to make use of updated information, both financial and behavioural. The comparison between the online PD and the monitoring PD enables to highlight 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 lump-sum valuation of Expired loans and Past Due by over 90 days, irrespective of the amount of the exposure, and of Substandard and Doubtful loans, up to cash exposure of 250,000 euro.

Calculation of economic capital and value governance
In accordance with the provisions of the Pillar 2, 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 aggregation of all the risk factors, according to the layout established by Basel 2 (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 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 Table 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 2012 a series of measures were completed with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

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 function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation office, which operates independently from the functions that manage the development activities described above and from the function responsible for the internal audit. Therefore, with regard to the macro processes of adoption and management of the internal measurement systems for credit risk, the following activities are assigned exclusively to the Internal Validation office:

- validation aimed at assessing the adequacy of the system (comprising models, organisational processes and aspects, and IT systems) 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;
- regular analyses aimed at assessing the performance, proper functioning and ongoing compliance with the regulatory requirements by the internal system and the provision of the related information to the internal auditing function and the Group Risk Governance 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.

The internal auditing function for the Intesa Sanpaolo Group is assigned to the Internal Auditing Department. This department conducts assessments of the entire process of adoption and management of the internal measurement systems for credit and operational 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 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 2 and the Prudential Supervisory regulations.

The Internal Auditing 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 Prudential Supervisory regulations, through direct risk review of the models, processes, quality of data and internal validation activities;
- assessment of the effectiveness of the overall structure of internal controls:
    - audit of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency/soundness of the results);
    - 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 support system;
- regular issue of recommendations to the development functions and internal validation of the performance, operation and use of the internal rating systems;
- drafting of the internal audit report accompanying the application for authorisation to the Bank of Italy;
- drafting of the annual internal auditing report with presentation to the Group Risk Governance Committee, the Control Committee, the Management Board and the Supervisory Board;
- self-assessment of the Group's ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3.

The macro process of measurement, management, maintenance and updating of the internal rating system involves the following activities that represent the system's normal "life cycle":

- activation of the management, maintenance and updating process;
- amendments to the system;
- 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 revenue 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" (see Table 5).
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 behavioral area). The model is optimised per revenue band 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 on the long-term default rates of the portfolio ("central tendencies") referring to the 2005-2009 period, differentiated according to revenue band and macro geographical area. The PD is then turned via the master scale into classes of credit rating, obtaining the rating statistic.
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 revenue 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 revenue of over 500 million euro and to Italian corporate customers with an agency rating (rated)[2], whereas the International Middle Market model is used to assess non-resident customers with a revenue 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.

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

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 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 3

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.

[3] The RED model has already been approved with the advanced approaches for calculation of the capital requirements since 31 December 2008.

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 Internationally Active Large Corporate (IALC) model
The Internationally 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 calibrated according 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 Mortgages segment internal rating systems (PD)
The internal mortgage rating system is divided into an Application Model, used for new loans request, and a Performance 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 behavioral 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 performance. In such cases, the Behavioral rating enters into effect in advance of usual practice, where worse than the Application rating. From the second year, the Behavioral rating is always activated and is calculated on a monthly basis with the greatest weighting given to the performance 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.

VUB Retail Mortgage Models
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 Basel 2 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.

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 three risk factors: LTV (residual debt at default over the value of the guarantee provided), PPI (purchasing power index of the geographical area in which the collateral is situated) and type of collateral.

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

The new Small Business rating models are applied to the entire Small Business 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 revenue 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" (see Table 5).
Both models consists of two modules: a quantitative module and a qualitative one.
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 proprietorship 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 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 counterparties 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.

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 "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 cell mean techniques, on the relatively unpopulated individual subsets, despite the presence of consistent historical series;
– application of a correction factor, known as "Danger Rate": the Danger Rate is a multiplying correction factor (estimated on a historical series starting from 2008), aimed at recalibrating the Doubtful 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 "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 (Substandard and Past Due positions that end the default with a return to performing status or a loss).

Data from the estimation sample have been normalized: censoring of LGD values that are negative or higher than 100%, filtering of exposures of small amounts and the exclusion 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.
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 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 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.
Starting with a long list of variables, using univariate statistical analyses, the short list is 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 real estate, facility type, and legal form. For the SME Retail segment, the following were significant: geographical area, facility type, presence/absence of personal guarantee, presence/absence of real estate, amount of real estate coverage and exposure level. For the Residential 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 variables.
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.

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" 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 current Group policies (forward looking approach), is based on observation of defaults in the most recent periods (observations since 2009 for Leasint and 2010 for Mediofactoring), also due to changes in the non-performing loan management processes of the two product companies.

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 Leasint and 8 years for Mediofactoring. The particularly rigorous approach used for leasing due to the need of introducing 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).

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2012, 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" (IRB[4]) and "SME retail" (IRB) regulatory segments.

Scope of companies for application of the IRB approaches

Name	Regulatory segment			
	Corporate		SME retail	Residential mortgages to private individuals
	Foundation	Advanced		
Intesa Sanpaolo S.p.A.		x	x	x
Banca CR Firenze S.p.A.		x	x	x
Banca dell'Adriatico S.p.A.		x	x	x
Banca di Credito Sardo S.p.A.		x	x	x
Banca di Trento e Bolzano S.p.A.		x	x	x
Banca IMI S.p.A.		x		
Banco di Napoli S.p.A.		x	x	x
Cassa di Risparmio del Friuli Venezia Giulia S.p.A.		x	x	x
Cassa di Risparmio del Veneto S.p.A.		x	x	x
Cassa di Risparmio della Provincia di Viterbo S.p.A.		x	x	x
Cassa di Risparmio di Ascoli Piceno S.p.A.		x	x	x
Cassa di Risparmio dell'Umbria S.p.A.		x	x	x
Cassa di Risparmio di Civitavecchia S.p.A.		x	x	x
Cassa dei Risparmio di Forlì e della Romagna S.p.A.		x	x	x
Cassa di Risparmio di Pistoia e della Lucchesia S.p.A.		x	x	x
Cassa di Risparmio di Rieti S.p.A.		x	x	x
Cassa di Risparmio di Venezia S.p.A.		x	x	x
Cassa di Risparmio in Bologna S.p.A.		x	x	x
Intesa Sanpaolo Bank Ireland P.l.c.		x		
Leasint S.p.A.		x		
Mediocredito Italiano S.p.A.		x	x	
Mediofactoring S.p.A.		x		
Vseobecna Uverova Banka A.S.	x			x

The exposure values as at 31 December 2012 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	
	31.12.2012	31.12.2011
Exposures to or secured by corporates:		
- *Specialised lending*	*817*	*754*
- *SMEs (Small and Medium Enterprises)*	*1,004*	*11,259*
- *Other corporates*	*1,968*	*13,530*
Total credit risk (IRB)	**3,789**	**25,543**

[4] 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	
	31.12.2012	31.12.2011
Exposures to or secured by corporates:		
- Specialised lending	*19,294*	*7,098*
- SMEs (Small and Medium Enterprises)	*75,618*	*67,420*
- Other corporates	*123,808*	*119,847*
Total credit risk (Advanced IRB approach)	**218,720**	**194,365**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2012	31.12.2011
Retail exposures:		
- Exposures secured by residential property: SMEs	*2,981*	*-*
- Exposures secured by residential property: private individuals	*63,918*	*60,535*
- Other retail exposures: SMEs	*19,366*	*-*
Total credit risk (IRB)	**86,265**	**60,535**

Exposure values to securitisations (IRB - RBA Approach)

(millions of euro)

Securitizations	Exposure value	
	31.12.2012	31.12.2011
Exposures to securitisations (RBA)	*1,231*	*-*
Total credit risk (IRB)	**1,231**	**-**

For details on exposures to securitisations, see the information in Table 10.

The exposure value shown in the tables set forth in this Table 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.

Breakdown of exposures by exposure class and PD class (Foundation IRB Approach and Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Rating class	31.12.2012 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)	Revocable and irrevocable margins (*)	Weighted average EAD (*)	31.12.2011 Exposure value
Exposures to or secured by corporates								
- Specialised lending			**20,111**			**3,010**		**7,852**
	-class from 1 to 3	-	-	-	-	-	-	-
	-class 4	0.04	4	9%	41.7	-	-	-
	-class 5	0.05	28	31%	38.7	-	-	-
	-class 6	0.07	52	24%	41.5	-	-	-
	-class 7	0.10	2	19%	20.9	-	-	-
	-class 8	-	-	-	-	-	-	-
	-class 9	0.23	1,360	39%	27.3	296	57%	46
	-class 10	0.36	624	36%	23.1	51	44%	126
	-class 11	0.51	1,646	42%	21.3	254	34%	298
	-class 12	0.84	1,942	62%	27.6	345	51%	533
	-class 13	1.28	1,870	77%	28.9	303	49%	753
	-class 14	1.79	2,249	89%	30.7	328	41%	1,208
	-class 15	2.86	3,490	86%	27.6	565	37%	1,104
	-class 16	4.67	2,068	100%	29.3	347	43%	1,037
	-class 17	6.82	1,032	115%	31.3	86	31%	827
	-class 18	10.51	1,394	127%	27.3	145	40%	953
	-class 19	15.98	492	183%	35.8	104	50%	132
	-class 20	25.02	795	140%	23.1	126	56%	214
	-class 21 (default)	100.00	1,063	-	35.5	60	36%	621
- SMEs (Small and Medium Enterprises)			**76,622**			**3,186**		**78,679**
	-class from 1 to 3	-	-	-	-	-	-	-
	-class 4	0.04	2	7%	34.5	2	39%	1
	-class 5	0.05	1	10%	40.4	-	-	3
	-class 6	0.07	1,299	14%	33.7	119	5%	1,907
	-class 7	0.10	1,467	17%	33.5	118	7%	1,659
	-class 8	0.15	2,616	23%	32.7	216	8%	2,779
	-class 9	0.23	3,262	29%	33.5	242	9%	3,899
	-class 10	0.36	2,822	36%	33.4	163	9%	3,422
	-class 11	0.51	5,470	44%	33.0	265	8%	6,107
	-class 12	0.84	5,435	54%	32.6	238	9%	5,905
	-class 13	1.28	6,753	61%	32.1	291	11%	7,231
	-class 14	1.79	7,231	70%	31.9	308	13%	7,797
	-class 15	2.86	8,430	77%	31.1	361	16%	8,799
	-class 16	4.67	6,054	84%	30.4	251	19%	6,961
	-class 17	6.82	3,312	93%	29.5	147	22%	3,663
	-class 18	10.51	3,368	117%	30.2	145	24%	3,309
	-class 19	15.98	1,050	136%	30.1	36	22%	1,058
	-class 20	25.02	1,197	147%	29.4	60	27%	1,203
	-class 21 (default)	100.00	16,853	-	48.3	224	24%	12,976
- Other corporates			**125,776**			**37,757**		**133,377**
	-class 1	-	-	-	-	-	-	-
	-class 2	-	-	-	-	-	-	-
	-class 3	0.03	4,155	12%	38.7	3,617	36%	4,333
	-class 4	0.04	1,995	18%	39.0	1,844	49%	7,684
	-class 5	0.05	5,991	15%	38.0	3,697	30%	3,532
	-class 6	0.07	8,914	22%	36.1	3,924	30%	10,214
	-class 7	0.10	6,663	26%	38.2	2,858	31%	11,618
	-class 8	0.15	13,483	33%	38.1	6,390	37%	8,880
	-class 9	0.23	4,735	36%	36.3	1,491	24%	6,228
	-class 10	0.36	14,257	47%	35.8	5,127	29%	15,016
	-class 11	0.51	13,206	59%	36.5	2,688	28%	14,328
	-class 12	0.84	10,503	67%	35.8	1,139	20%	9,021
	-class 13	1.28	8,154	78%	34.4	1,049	25%	10,481
	-class 14	1.79	8,623	93%	35.6	1,456	29%	7,561
	-class 15	2.86	7,071	106%	35.6	949	33%	8,001
	-class 16	4.67	2,115	119%	34.9	292	33%	2,804
	-class 17	6.82	1,966	138%	34.9	256	31%	1,598
	-class 18	10.51	2,020	167%	35.5	243	38%	1,898
	-class 19	15.98	1,054	187%	36.3	183	28%	785
	-class 20	25.02	625	200%	34.9	54	35%	414
	-class 21 (default)	100.00	10,246	-	41.9	500	30%	8,981

(*) The disclosure refers only to the Advanced IRB approach. The weighted average EAD refers to both revocable and irrevocable margins.

Breakdown of exposures by exposure class and PD class (IRB Approach)

(millions of euro)

Regulatory portfolio	Rating class	31.12.2012 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%)	Revocable and irrevocable margins	Weighted average EAD	31.12.2011 Exposure value
Retail exposures								
- Exposures secured by residential property: SMEs			**2,981**			**63**		**-**
	-class from 1 to 5	-	-	-	-	-	-	-
	-class 6	-	-	-	-	-	-	-
	-class 7	-	-	-	-	-	-	-
	-class 8	0.15	362	8%	22.1	15	50%	-
	-class 9	0.23	122	11%	22.0	5	50%	-
	-class 10	0.36	96	14%	22.0	2	50%	-
	-class 11	0.51	132	18%	22.0	3	50%	-
	-class 12	0.84	146	22%	22.1	3	51%	-
	-class 13	1.28	198	26%	22.0	4	50%	-
	-class 14	1.79	272	30%	22.1	6	51%	-
	-class 15	2.86	297	33%	22.1	6	50%	-
	-class 16	4.67	224	35%	22.4	4	50%	-
	-class 17	6.82	149	37%	22.5	3	50%	-
	-class 18	10.51	201	41%	22.3	6	50%	-
	-class 19	15.98	61	49%	22.5	1	50%	-
	-class 20	25.02	75	61%	22.7	2	50%	-
	-class 21 (default)	100.00	646	-	31.4	3	50%	-
- Exposures secured by residential property: private individuals			63,918			150		60,535
	-class from 1 to 5	-	-	-	-	-	-	-
	-class 6	0.07	2,679	4%	18.4	9	84%	1,604
	-class 7	-	-	-	-	-	-	-
	-class 8	0.15	2,227	4%	13.0	10	59%	2,275
	-class 9	0.23	6,130	6%	13.1	17	72%	5,798
	-class 10	-	-	-	-	-	-	-
	-class 11	0.51	13,881	10%	12.9	28	61%	13,267
	-class 12	0.84	14,255	15%	13.1	24	57%	13,440
	-class 13	-	-	-	-	-	-	-
	-class 14	1.79	10,939	23%	13.5	18	55%	10,764
	-class 15	2.86	4,903	32%	14.0	18	55%	5,079
	-class 16	4.67	3,908	49%	13.7	11	54%	4,021
	-class 17	-	-	-	-	-	-	-
	-class 18	10.51	7	60%	12.2	-	-	-
	-class 19	-	-	-	-	-	-	-
	-class 20	25.02	1,620	86%	14.5	14	89%	1,285
	-class 21 (default)	100.00	3,369	-	22.3	1	50%	3,002
- Other retail exposures: SMEs			19,366			418		-
	-class from 1 to 5	-	-	-	-	-	-	-
	-class 6	-	-	-	-	-	-	-
	-class 7	-	-	-	-	-	-	-
	-class 8	0.15	2,711	11%	30.7	158	6%	-
	-class 9	0.23	738	15%	31.8	28	5%	-
	-class 10	0.36	704	20%	32.1	24	5%	-
	-class 11	0.51	921	26%	32.1	28	4%	-
	-class 12	0.84	1,020	33%	32.4	24	4%	-
	-class 13	1.28	1,301	39%	32.6	26	5%	-
	-class 14	1.79	1,537	45%	32.9	28	5%	-
	-class 15	2.86	1,671	50%	33.4	27	5%	-
	-class 16	4.67	1,178	53%	34.0	17	5%	-
	-class 17	6.82	860	56%	34.3	12	5%	-
	-class 18	10.51	911	62%	34.1	16	8%	-
	-class 19	15.98	311	75%	34.5	5	6%	-
	-class 20	25.02	278	94%	35.3	6	7%	-
	-class 21 (default)	100.00	5,225	-	59.6	19	12%	-

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. For the SME Retail segment, validated from 2012, only the figure for that year is provided.

Actual losses by regulatory portfolio

(millions of euro)

Regulatory portfolio	Actual losses		
	2012	2011	2010
Exposures to or secured by corporates (Corporate)	-2,546	-2,023	-1,410
Exposures secured by residential property (Retail mortgages)	-166	-100	-194
Exposures to SMEs (SME retail)	-359	X	X

During the 2011-2012 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 2,759 million euro. The actual losses recorded during the same period, presented in the foregoing paragraph, significantly exceeded the expected losses, due to deterioration of the economic context in the final part of 2011, 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. In this respect, it should be noted that in the last two 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 in the real estate sector. The total amount of actual losses over the last two 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.

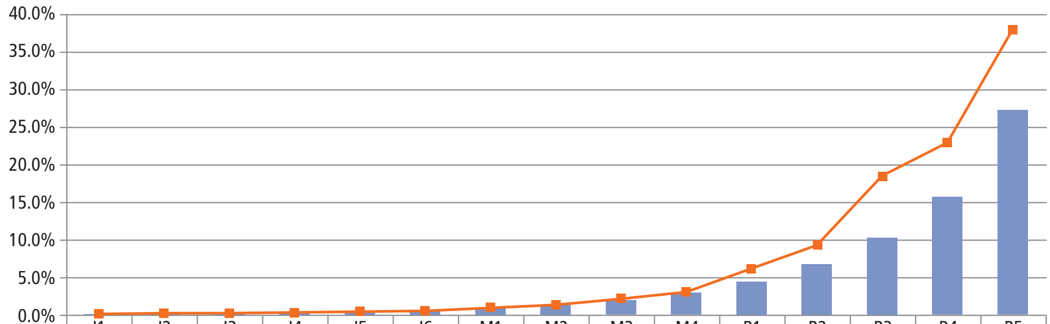
Expected losses in 2011-2012 for residential mortgages amounted to a total of 267 million euro, essentially in line with the actual loss figure indicated above.

Lastly, the expected 2012 losses figure for the PMI Retail asset class are not available, as the internal systems were approved at the end of the year.

For the PD backtesting, the default rates over a one-year period are compared with the ex ante estimated PDs, using measures of the performance of the model's discriminating power, in other words its ability to correctly rank the counterparties according to creditworthiness, and statistical tests to assess its calibration, namely the ability to correctly predict the default rates (DR).

The following table presents a breakdown of PD and default figures for the Domestic corporate regulatory segment by rating class.

Comparison of PD and DR figures by rating class for the Corporate regulatory segment

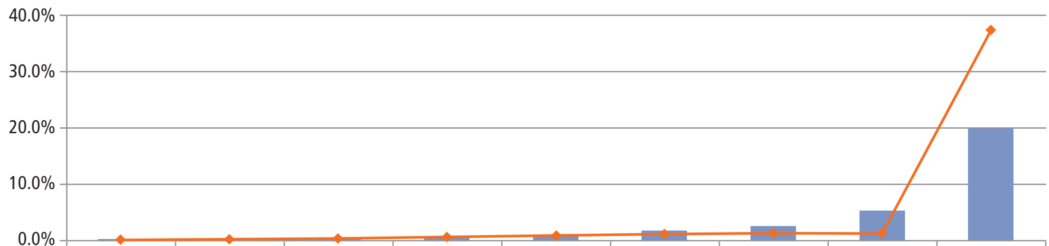


	I1	I2	I3	I4	I5	I6	M1	M2	M3	M4	R1	R2	R3	R4	R5
PD mean	0.1%	0.1%	0.2%	0.2%	0.4%	0.5%	0.8%	1.3%	1.9%	2.9%	4.4%	6.7%	10.2%	15.6%	27.1%
DR mean (3 years)	0.1%	0.2%	0.2%	0.3%	0.4%	0.5%	0.9%	1.3%	2.1%	3.0%	6.1%	9.2%	18.4%	22.8%	37.8%

The default rate, calculated as an average for the years 2010-2012, shows a monotonic increase as the rating class worsens. The riskier classes show an increase in DR due to the economic situation and consequent exceeding of the relative PD. In interpreting the analysis, it is necessary to take into account that the PD is based on a definition of default which, as envisaged by the regulations, excludes technical defaults. Therefore, to a certain extent, it tends to underestimate the default rate, for which technical defaults are not excluded.
The model's performance was found to be fully satisfactory in terms of discriminating power. Accuracy ratio levels fall between 69% and 79% by turnover bracket and combination of turnover bracket/geographical area.

The same distribution by rating class as shown for the Performance portfolio is presented for the model for residential mortgages for private individuals. The scope also includes performing mortgage relationships within IRB validated scope and with valid Performance rating.

Comparison of PD and DR figures by rating class for the Residential mortgages to private individuals regulatory segment



	MT1	MT2	MT3	MT4	MT5	MT6	MT7	MT8	MT9
PD mean	0.1%	0.1%	0.2%	0.5%	0.8%	1.5%	2.4%	5.2%	19.8%
DR mean (3 years)	0.0%	0.1%	0.2%	0.5%	0.8%	1.0%	1.2%	1.1%	37.0%

There is a monotonic increase in the default rate as the rating class worsens, except for classes MT7 and MT8. The class PDs are in line with the default rates observed for the classes from MT1 to MT6, higher for classes MT7 and MT8 and significantly lower for MT9.
At 68%, the discriminating power of the Residential Mortgages for Private Individuals model is also above the acceptance threshold.

Table 8 – 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 Intesa Sanpaolo Group does not use on-balance sheet offsetting techniques for mutual items between the Bank and the counterparty.
The Group uses (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 subscription of ISDA agreements (for transactions in derivatives) and GMRA/OSLA agreements (repurchase agreements and securities lending). 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 (respectively the Credit Support Annex and Global Master Repurchase Agreement). Another mitigation technique used within the Group is the subscription to the SwapClear service. This is a clearing service (provided by LCH Clearnet Ltd for the professional interbank market) 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 via a legal novation mechanism. SwapClear 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.

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. Loss Given Default (LGD) is one of the more important. 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.

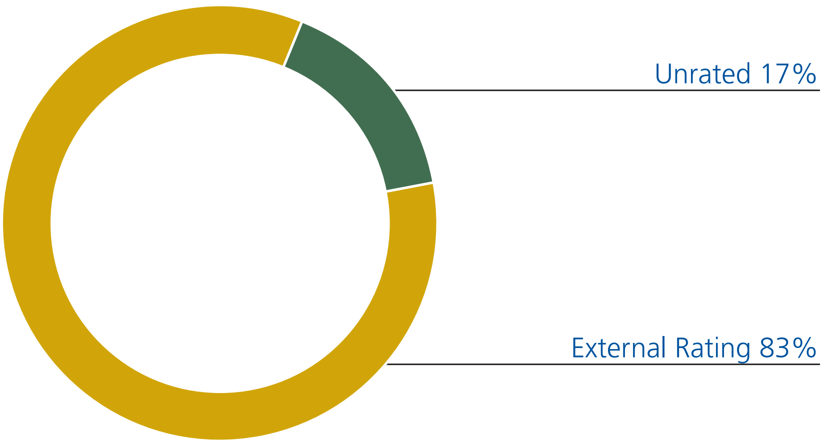
With regard to mortgage collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.
Assets are evaluated, prior to the decision to grant the credit, using both internal and external technicians. The external 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 in collaboration with Agenzia del Territorio, Tecnoborsa and the major professional associations.
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 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 for transactions on a work progress basis.
The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property and, in any case, every three years for major exposures.

To cover the residual risks, the borrower is required to provide an insurance policy against fire 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

The credit derivative transactions have banks and international financial and insurance institutions as counterparties, almost all of which have an agency rating with a high investment grade.

Creditworthiness of the counterparties in credit derivative transactions



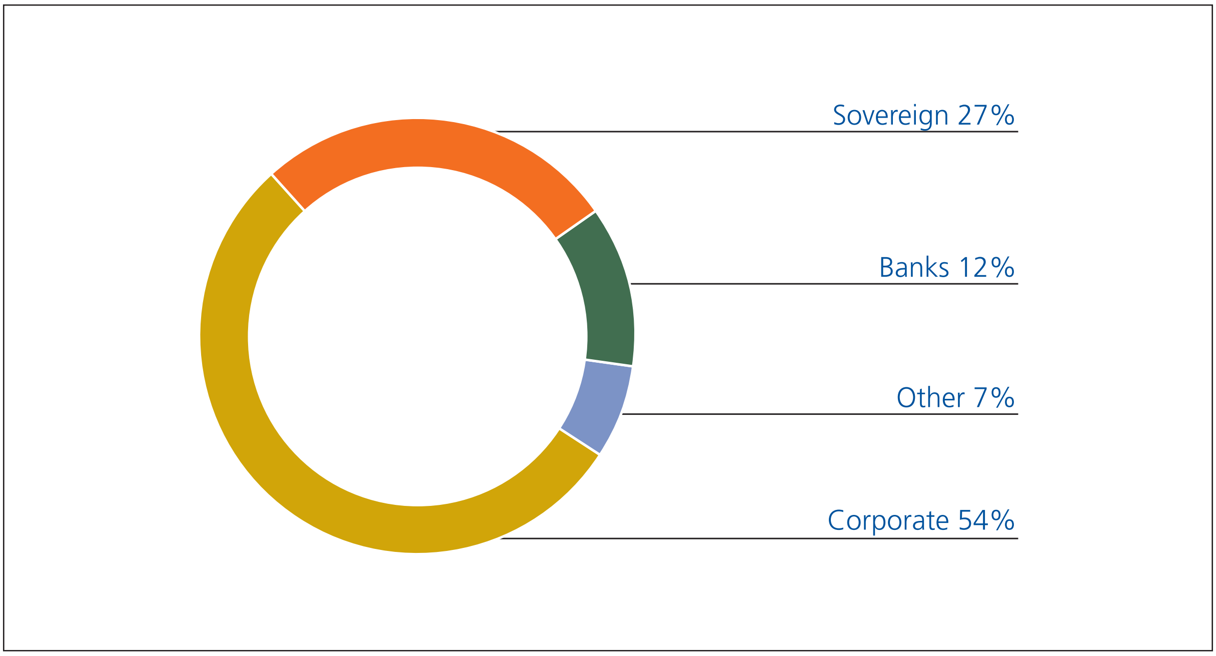
Information about market or credit risk concentrations under the credit risk mitigation instruments used

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 54% of the total amount. Sovereign guarantors (primarily the Italian and German governments) and banks (such as Credit Agricole SA) account for 27% and 12%, respectively. There were other no material concentrations of guarantors. Compared to the previous analysis, there was a consistent decrease of bank guarantors (26% in December 2011) following the downgrade of Italy in September 2012, which entailed the deterioration of the related weighting for regulatory purposes.

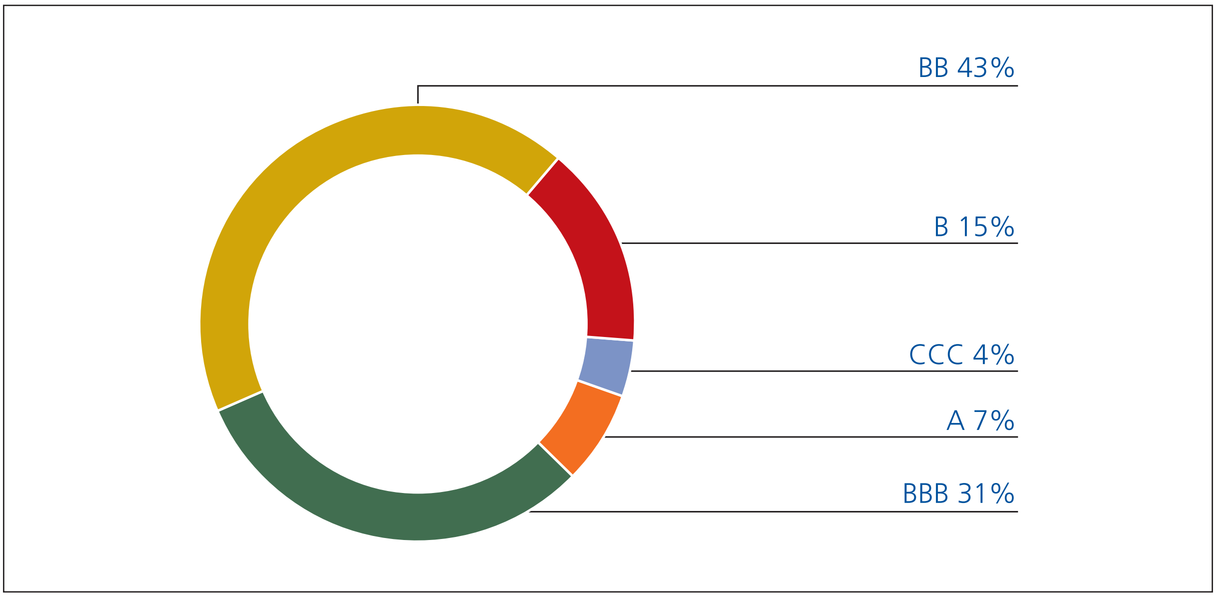
Personal guarantees by type of guarantor



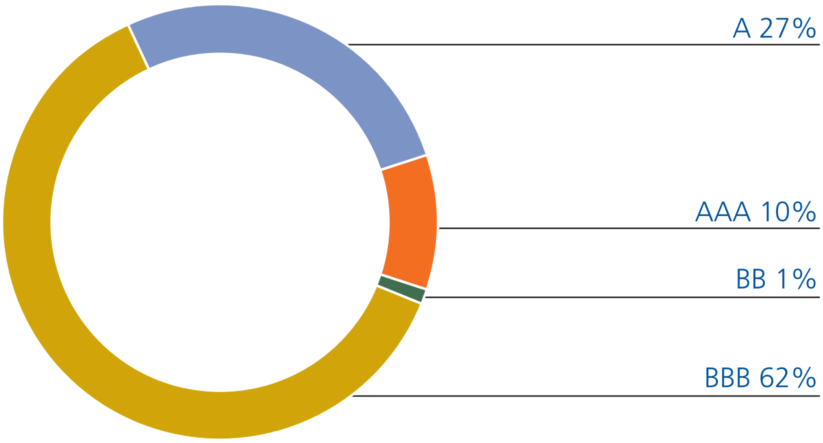
Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 65% investment grade (61% in December 2011).
The distribution by rating classes shows that Corporate guarantors and guarantors belonging to other segments classified as investment grade have shares of approximately 38% and 99%, respectively (50% and 99% in December 2011). The former are assigned ratings using the internal model, and the latter are assigned ratings by Agencies.
With regard to other non-corporate segment personal guarantees there was a sharp drop of the A rating class (68% in December 2011) with a corresponding increase of the BBB class (17% in December 2011) due to the downgrade of Italy's rating in 2012.

Corporate personal guarantees by guarantor rating classes



Other non-corporate segment personal guarantees by guarantor rating classes



Financial collateral

The majority (around 78%) of the financial collateral eligible for risk mitigation relates to repurchase agreements. The securities are almost all issued by the Italian government and other sovereign issuers with high investment grade ratings. As regards the potential exposure to market risk, it should be noted that 57% of these securities have a maturity of less than 5 years.
The remaining 22% of financial collateral relates to cash deposits and pledges on bonds.

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 table 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

(millions of euro)

Regulatory portfolio	31.12.2012			31.12.2011		
	Collateral		Personal guarantees or credit derivatives	Collateral		Personal guarantees or credit derivatives
		of which: Simple approach			*of which: Simple approach*	
Exposures to or secured by governments and central banks	984	452	3,849	572	422	3,349
Exposures to or secured by local authorities	1	-	476	1	-	414
Exposures to or secured by not for profit and public sector organisations	155	-	29	592	-	22
Exposures to or secured by multilateral development banks	3	3	1	4	4	1
Exposures to or secured by international organisations	-	-	-	-	-	-
Exposures to or secured by supervised institutions	10,705	20	1,106	27,372	46	2,042
Exposures to or secured by corporates	5,628	-	234	3,862	-	134
Retail exposures	2,115	-	-	2,518	-	-
Past due exposures	76	-	-	81	-	-
High-risk exposures	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Short-term exposures to corporates	49	-	-	56	-	-
Exposures to UCI	95	-	-	715	-	-
Other exposures	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-
Total	**19,811**	**475**	**5,695**	**35,773**	**472**	**5,962**

The Table above complements the disclosures in Table 6, 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 Table is the guarantor's responsibility.
Exposures secured by mortgage collateral, for which the regulations require the assignment of preferential weightings, are not shown in this Table, as they are already included in Table 6 under "exposures secured by real estate property".

Exposures secured by guarantees or credit derivatives and collateral – simplified method: guarantor weighting factors (Standardised approach)

(millions of euro)

Regulatory portfolio	Guarantor's weights										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	Total as at 31.12.2012
Exposures to or secured by governments and central banks	3,637	X	10	X	654	X	-	-	X	-	4,301
Exposures to or secured by local authorities	-	X	446	X	-	X	30	-	X	X	476
Exposures to or secured by not for profit and public sector organisations	-	X	-	X	-	X	29	-	X	X	29
Exposures to or secured by multilateral development banks	4	X	-	X	-	X	-	-	X	X	4
Exposures to or secured by international organisations	-	X	X	X	X	X	X	X	X	X	-
Exposures to or secured by supervised institutions	-	X	536	X	27	X	563	-	X	X	1,126
Exposures to or secured by corporates	1	X	1	X	231	X	-	1	X	X	234
Retail exposures	-	X	X	X	X	-	X	X	X	X	-
Exposures secured by real estate property	X	X	X	-	-	X	X	X	X	X	-
Past due exposures	-	X	X	X	-	X	-	-	X	X	-
High-risk exposures	X	X	X	X	X	X	-	-	-	X	-
Exposures in the form of covered bonds	X	-	-	X	-	X	-	X	X	X	-
Short-term exposures to corporates	-	X	-	X	-	X	-	-	X	X	-
Exposures to UCI	-	X	-	X	-	X	-	-	X	-	-
Other exposures	-	X	-	X	X	X	-	X	X	X	-
Securitisations	X	X	X	X	X	X	X	X	X	X	-
Total 31.12.2012	**3,642**	**-**	**993**	**-**	**912**	**-**	**622**	**1**	**-**	**-**	**6,170**
Total 31.12.2011	**3,003**	**-**	**1,322**	**-**	**2,070**	**-**	**39**	**-**	**-**	**-**	**6,434**

Secured exposures subject to the foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2012		31.12.2011	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	*17*	-	-	-
SMEs	*69*	-	*4,518*	*112*
Other corporates	*4*	-	*2,324*	*41*
Specialised lending - slotting criteria	-	-	-	-
Total	**90**	**-**	**6,842**	**153**

Following migration of Leasint and Mediofactoring to Advanced IRB approaches during the first half of 2012, as at 31 December 2012 there are secured exposures subject to the foundation IRB approach only in relation to VUB Banka.

Exposures for private individuals or retail exposures secured by mortgage collateral, for which the Group applies the IRB approach (other than the foundation IRB approach), are not included in this Table inasmuch as they are specifically indicated in Table 7.

Table 9 – Counterparty risk

Qualitative disclosure

In accordance with Bank of Italy Circular 263 – "New regulations for the prudential supervision of banks", counterparty risk 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 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.

For regulatory reporting purposes the Group currently uses the "mark-to-market" approach for the calculation of the exposures subject to counterparty risk for OTC financial and credit derivatives, whereas for reverse repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method).
Potential future exposure (estimated with the actual average PFE) has been adopted by Banca IMI (effective October 2010) and the Parent Company (effective from April 2012), for the purposes of operational measurement of uses.
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 (peak measurement), regularly estimated by the Risk Management Department by macro-product type and maturity. For each contract used as a benchmark, the measure is equal to the peak in the Potential Future Exposure at the 95th percentile. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, as the transactions in derivatives represent a particular form of use by the customers. PFE measurements are calculated daily by the Risk Management Department and sent to the monitoring systems for the lines of credit for OTC derivatives. 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.

The validation process for regulatory purposes (in view of Basel 2 and Basel 3) of the internal counterparty risks model for Intesa Sanpaolo and Banca IMI was initiated in 2012.
The advanced measurement approach for counterparty risk is in the development phase for the network banks, with the aim of launching the validation process for regulatory purposes by the end of 2013.

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 2 and Basel 3, a specific project has been set up 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 central and divisional credit 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.

The project yielded the following results:

- April 2010: adoption for the entire Group of a new grid of operational add-ons that is more granular than its predecessor, with a revision of estimates for each risk profile;
- October 2010: adoption for management purposes only of the new simulation method and a new statistical measurement - Potential Future Exposure (PFE) – for measuring credit lines utilisation on non-collateralised derivatives by Banca IMI;
- November 2012: extension of the PFE measurement to the collateralised derivatives of Banca IMI;
- April 2012 – adoption for management purposes only of PFE for calculating credit lines utilisation for non-collateralised derivatives by the Parent Company, Intesa Sanpaolo; the measurement will also be extended to collateralised derivatives in the first few months of 2013;
- October 2012: re-estimation of add-ons on interest-rate derivatives.

As part of the project, following internal validation by the responsible company functions (Internal Validation and the Internal Auditing Department), plans call for an application for validation to be submitted for the Parent Company and Banca IMI in 2013, with the aim of obtaining authorisation for the use of the model for regulatory purposes.
For the rest of the Group, use is monitored through the combined use of mark-to-market and add-ons estimated by the Risk Management Department.

Wrong Way Risk (WWR) is the risk deriving from the presence of a positive correlation between the probability of default of a counterparty and the relative exposure. It is broken down into generic WWR, where the probability of default of one's counterparties and the relative exposures are positively correlated due to general market trends, and specific WWR, where the probability of default of a counterparty and the relative exposures are positively correlated due to the nature of the transaction.
Basel 2 regulations require banks with an internal counterparty risks model to implement procedures to identify, monitor and control cases of unfavourable correlation risk. These requirements are confirmed and expanded by the Basel 3 regulations, which also introduce the Stressed EPE for generic WWR and a capital requirement in the case of specific WWR.
As part of the project for validation of the internal counterparty risk model, the Risk Management Department is developing specific analysis methods in order to identify any counterparties with generic WWR. These methods are based on analysis of the correlation between credit spread historical series and exposure to the counterparty, within probabilistic scenarios referring to defined time steps in the model that calculates future exposure by counterparty risk; these analyses will be supplemented with the appropriate stress tests.
In terms of specific WWR, an organisational process is being defined in order to identify the roles and responsibilities and regulate the monitoring of this type of risk.

For the purposes of the balance sheet measurements, the counterparty risk represents a measurement element (fair value) used to adjust the mark-to-market of the OTC derivatives through Credit Risk Adjustment (CRA). The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also the credit quality of the counterparty in relation to the current and potential exposure.
CRA is determined with reference to the cost of a protection CDS on the default of the counterparty on the basis of the average residual maturity of the contract, and in the absence of the expected loss and the capital absorption deriving from the internal rating assigned to the counterparty. These costs are applied to the current exposure, if positive, or otherwise to the potential future exposure (add-on).

Following introduction of the new IFRS 13 accounting standards, the Group implemented a project for transition to the so-called bilateral Credit Value Adjustment method (CVA/DVA), which also considers the DVA (Debt Value Adjustment) component, linked to the Bank's creditworthiness. Transition to this new calculation method is envisaged during the first half of 2013.
With reference to the impact in terms of guarantees that the Bank would have to provide in the event of the downgrading of its credit rating, some of the collateral agreements signed by the Group provide for the reduction of the minimum transfer amount and of the thresholds in the event of the Group's downgrading.

Quantitative disclosure

Counterparty risk

(millions of euro)

Transaction categories	Mark-to-market method - Exposure	
	31.12.2012	31.12.2011
Derivative contracts	21,481	19,563
SFT transactions (Securities Financing Transaction) and long settlement transactions	17,736	38,560
Cross product netting	-	-

The figures in the table above – in accordance with the prudential regulations - are presented net of exposures to central counterparties for an amount of 2,396 million euro for derivative contracts and 32,739 million euro for SFTs. The amounts in the other tables below include said exposures, in line with the financial statement regulations envisaged for Italian banks.

For regulatory reporting purposes the Group uses the "mark-to-market" approach for the calculation of the exposures subject to counterparty risk for OTC financial and credit derivatives, whereas for reverse repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method). For repurchase agreements, the cash received is considered as financial collateral.

The exposure value shown in the table above, for both positions in the regulatory trading book and the banking book, is calculated by referring to:

– for positions in derivatives, at the loan equivalent, which takes account of the effects of any netting arrangements, but does not consider the effect of any guarantees received;
– for positions deriving from SFTs with long-term settlement, at the exposure value, without taking account of risk mitigation techniques.

The exposures in the table above benefited from risk mitigation (collateral) for a total of 17,273 million euro, of which 3,442 million euro referring to derivative exposures (33,720 million euro and 3,271 million euro respectively as at 31 December 2011).

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.

The tables below show the information on financial and credit derivatives required by the regulations. In particular, the fair value of OTC derivative financial instruments was determined considering the creditworthiness of the single counterparties ("Credit Risk Adjustment"). With regard to contracts outstanding as at 31 December 2012, this led to a net negative impact of 164 million euro being recorded in the income statement of which 113 million euro referring to contracts negotiated with customers (81 million euro and 75 million euro respectively as at 31 December 2011). Adjustments, which were recorded, for every single contract, on the market value determined using the risk free curves, amounted to 330 million euro as at 31 December 2012, of which 46 million euro relating to non-performing positions (274 million euro and 33 million euro respectively as at 31 December 2011).

Financial derivatives - Regulatory trading book: period-end and average notional amounts

(millions of euro)

	31.12.2012		31.12.2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**2,641,115**	**119,053**	**2,929,078**	**188,079**
a) Options	264,213	35,847	328,496	105,366
b) Swaps	2,376,024	-	2,599,155	-
c) Forwards	55	-	199	-
d) Futures	823	83,206	1,228	82,713
e) Others	-	-	-	-
2. Equities and stock indices	**22,432**	**19,721**	**27,431**	**18,627**
a) Options	21,492	18,474	26,817	18,059
b) Swaps	568	-	445	-
c) Forwards	372	-	169	-
d) Futures	-	1,247	-	568
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**106,769**	**270**	**114,384**	**129**
a) Options	12,982	-	12,807	-
b) Swaps	24,906	-	20,328	-
c) Forwards	68,389	2	80,645	-
d) Futures	-	268	-	129
e) Others	492	-	604	-
4. Commodities	**7,714**	**2,009**	**4,504**	**1,452**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**2,778,030**	**141,053**	**3,075,397**	**208,287**
AVERAGE VALUES	**2,942,130**	**170,625**	**2,930,368**	**215,414**

Transactions in futures presented in the column "Over the counter" refer to transactions closed through direct participants in organised futures markets not belonging to the banking group.

By convention, the column "Over the counter" includes the transactions of Banca IMI transferred to the Swapclear circuit (LCH group) of 928,321 million euro as at 31 December 2012 (910,480 million euro as at 31 December 2011). This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred.

Financial derivatives - Banking book: period-end and average notional amounts

Hedging

(millions of euro)

	31.12.2012		31.12.2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**279,361**	**-**	**262,464**	**-**
a) Options	8,982	-	9,584	-
b) Swaps	270,379	-	252,880	-
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	**4,027**	**-**	**5,344**	**-**
a) Options	-	-	-	-
b) Swaps	4,027	-	5,344	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**283,388**	**-**	**267,808**	**-**
AVERAGE VALUES	**257,416**	**-**	**262,677**	**-**

Other derivatives

(millions of euro)

	31.12.2012		31.12.2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**12,931**	**-**	**12,979**	**-**
a) Options	8,022	-	7,857	-
b) Swaps	4,909	-	5,122	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**4,174**	**-**	**6,109**	**-**
a) Options	4,174	-	6,109	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**3,255**	**-**	**5,003**	**-**
a) Options	80	-	41	-
b) Swaps	1,388	-	2,308	-
c) Forwards	1,787	-	2,654	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**20,360**	**-**	**24,091**	**-**
AVERAGE VALUES	**22,192**	**-**	**24,400**	**-**

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not 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			
	31.12.2012		31.12.2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**42,092**	**451**	**37,081**	**670**
a) Options	6,175	361	5,889	574
b) Interest rate swaps	34,071	-	28,666	-
c) Cross currency swaps	825	-	1,161	-
d) Equity swaps	30	-	33	-
e) Forwards	826	-	1,113	-
f) Futures	-	90	-	58
g) Others	165	-	219	38
B. Banking book - hedging	**11,651**	**-**	**10,208**	**-**
a) Options	314	-	524	-
b) Interest rate swaps	10,732	-	8,996	-
c) Cross currency swaps	605	-	688	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**746**	**-**	**757**	**-**
a) Options	212	-	169	-
b) Interest rate swaps	519	-	485	-
c) Cross currency swaps	13	-	98	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	5	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**54,489**	**451**	**48,046**	**670**

Financial derivatives - gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value			
	31.12.2012		31.12.2011	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**45,922**	**506**	**40,868**	**795**
a) Options	8,162	433	7,145	712
b) Interest rate swaps	35,224	-	30,661	-
c) Cross currency swaps	1,593	-	1,502	-
d) Equity swaps	23	-	7	-
e) Forwards	725	-	1,371	-
f) Futures	-	73	-	42
g) Others	195	-	182	41
B. Banking book - hedging	**10,460**	**-**	**8,324**	**-**
a) Options	82	-	156	-
b) Interest rate swaps	10,145	-	7,939	-
c) Cross currency swaps	233	-	229	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**874**	**-**	**878**	**-**
a) Options	634	-	603	-
b) Interest rate swaps	184	-	187	-
c) Cross currency swaps	54	-	59	-
d) Equity swaps	-	-	-	-
e) Forwards	2	-	29	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**57,256**	**506**	**50,070**	**795**

The column "Over the counter" conventionally includes transactions by Banca IMI transferred to the Swapclear circuit (LCH group) of 768 million euro. This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred.

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2012

Contracts not included under netting arrangements

(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	-	3,041	22,483	5,259	1,920	35,780	268
- positive fair value	-	597	705	318	5	2,350	17
- negative fair value	-	-114	-906	-173	-35	-314	-
- future exposure	-	22	118	27	8	212	1
2. Equities and stock indices							
- notional amount	2	-	3,249	533	4,155	10	20
- positive fair value	-	-	2	13	-	-	-
- negative fair value	-	-	-2,853	-10	-168	-	-4
- future exposure	-	-	9	10	3	3	-
3. Foreign exchange rates and gold							
- notional amount	-	156	5,555	10,532	396	10,316	65
- positive fair value	-	-	25	55	-	223	-
- negative fair value	-	-113	-584	-132	-9	-116	-
- future exposure	-	12	62	198	4	183	-
4. Other values							
- notional amount	-	-	11	11	-	5,846	-
- positive fair value	-	-	-	-	-	143	-
- negative fair value	-	-	-60	-1	-	-137	-
- future exposure	-	-	-	1	-	630	-

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2012

Contracts included under netting arrangements

(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	8,225	29	1,467,262	1,094,236	988	1,624	-
- positive fair value	3,353	5	27,148	4,708	20	135	-
- negative fair value	-10	-	-33,162	-4,996	-15	-14	-
2. Equities and stock indices							
- notional amount	-	-	9,598	4,685	180	-	-
- positive fair value	-	-	304	104	2	-	-
- negative fair value	-	-	-193	-105	-8	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	67,977	7,120	518	4,134	-
- positive fair value	-	-	842	380	130	390	-
- negative fair value	-	-	-1,441	-68	-2	-90	-
4. Other values							
- notional amount	-	-	428	205	-	1,213	-
- positive fair value	-	-	99	5	-	14	-
- negative fair value	-	-	-31	-7	-	-52	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2012

Contracts not included under netting arrangements

(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	-	451	38,687	9	-	50	8,248
- positive fair value	-	7	1,183	-	-	5	5
- negative fair value	-	-	-1,490	-	-	-	-360
- future exposure	-	7	24	-	-	-	8
2. Equities and stock indices							
- notional amount	-	-	2,805	294	-	344	370
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	-206	-	-	-93	-43
- future exposure	-	-	4	-	-	4	-
3. Foreign exchange rates and gold							
- notional amount	-	-	1,268	37	-	3	35
- positive fair value	-	-	35	-	-	-	-
- negative fair value	-	-	-49	-	-	-	-
- future exposure	-	-	8	-	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2012

Contracts included under netting arrangements

(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	-	-	235,731	9,116	-	-	-
- positive fair value	-	-	10,218	293	-	-	-
- negative fair value	-	-	-8,081	-757	-	-	-
2. Equities and stock indices							
- notional amount	-	-	335	26	-	-	-
- positive fair value	-	-	43	7	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	5,772	167	-	-	-
- positive fair value	-	-	595	5	-	-	-
- negative fair value	-	-	-192	-63	-	-	-
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	25,335	52,159	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	410	-	-	-
- Other	-	-	-	-
Total 31.12.2012	**25,745**	**52,159**	**-**	**-**
Average values	**28,564**	**40,768**	**-**	**-**
Total 31.12.2011	**30,624**	**29,399**	**-**	**-**
2. Protection sales				
- Credit default products	24,884	52,520	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	109	-	-	-
- Other	-	-	-	-
Total 31.12.2012	**24,993**	**52,520**	**-**	**-**
Average values	**35,985**	**41,036**	**-**	**-**
Total 31.12.2011	**28,269**	**29,686**	**-**	**-**

Over the counter credit derivatives – gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value	
	31.12.2012	31.12.2011
A. Regulatory trading book	**1,544**	**3,342**
a) Credit default products	1,394	3,099
b) Credit spread products	-	-
c) Total rate of return swap	150	243
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	**1,544**	**3,342**

Over the counter credit derivatives – gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value	
	31.12.2012	31.12.2011
A. Regulatory trading book	**1,879**	**3,789**
a) Credit default products	1,737	3,579
b) Credit spread products	-	-
c) Total rate of return swap	142	210
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	**1,879**	**3,789**

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts not included under netting arrangements as at 31 December 2012

(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	-	95	473	1,039	-	-	-
- positive fair value	-	86	29	9	-	-	-
- negative fair value	-	-	-3	-5	-	-	-
- future exposure	-	5	39	76	-	-	-
2. Protection sales							
- notional amount	-	-	568	1,308	-	-	-
- positive fair value	-	-	4	15	-	-	-
- negative fair value	-	-	-33	-339	-	-	-
- future exposure	-	-	14	27	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts included under netting arrangements as at 31 December 2012

(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	-	-	54,269	22,028	-	-	-
- positive fair value	-	-	665	306	-	-	-
- negative fair value	-	-	-483	-105	-	-	-
2. Protection sales							
- notional amount	-	-	52,675	22,962	-	-	-
- positive fair value	-	-	280	150	-	-	-
- negative fair value	-	-	-519	-392	-	-	-
BANKING BOOK		-					
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Over the counter credit and financial derivatives – net fair values and future exposure by counterparty as at 31 December 2012

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Financial derivatives - bilateral agreements							
- positive fair value	3,343	5	2,466	508	147	447	-
- negative fair value	-	-	-2,356	-826	-20	-64	-
- future exposure	111	-	860	2,482	47	148	-
- net counterparty risk	3,454	5	1,096	586	193	595	-
2. Credit derivatives - bilateral agreements							
- positive fair value	-	-	-	1	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	1	3	-	-	-
- net counterparty risk	-	-	1	4	-	-	-
3. "Cross product" agreements							
- positive fair value	-	-	1,281	525	-	-	-
- negative fair value	-	-	-5,734	-763	-	-	-
- future exposure	-	-	3,883	892	-	-	-
- net counterparty risk	-	-	3,915	1,171	-	-	-

The net amount of counterparty risk has been decreased compared to financial companies to account for the Banca IMI transactions transferred to the Swapclear circuit (LCH group) for 2,396 million euro. This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred.

The effect of netting on the positive fair value of OTC (financial and credit) derivative contracts included under netting arrangements (bilateral and/or cross-product) amounted to 41,477 million euro, mainly referring to banking counterparties (40,603 million euro as at 31 December 2011).

The total positive net fair value of derivatives concluded OTC or with Central Counterparties was 14,557 million euro (10,785 million euro as at 31 December 2011). This amount includes both contracts included under netting arrangements as well as those not included under such arrangements.

Table 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 issue of RMBS in relation to Italian residential mortgages also helps in 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 programme of Covered Bonds.
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 of Leasint;
- 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:
  - for the unfunded portion (84%), a Senior Swap contract underwritten by a leading financer, covering the risk of the Da Vinci risk portfolio with a rating higher than or equivalent to AA;
  - 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.
- ***Split 2:***
  In 2004, Sanpaolo Leasint sold to the vehicle Split 2 Srl, without recourse, the loans deriving from performing leasing contracts covering real estate, motor vehicles and capital goods for a total amount of 1,805 million euro. To raise the funds needed to purchase the loans, Split 2 issued three classes of securities with ratings assigned by all three agencies (Moody's, S&P and Fitch) that were placed in the market, and a Junior class of 18.1 million euro entirely subscribed by Sanpaolo Leasint. The transaction was aimed at diversifying the company's funding sources, temporally matching the underlying funding and loans and freeing up economic and regulatory capital.
- ***Intesa Sec 2:***
  In 2002, Banca Intesa structured a securitisation on a portfolio consisting of 67,000 "performing" residential mortgages, issued predominantly in Northern Italy to private individuals, and guaranteed by first lien mortgages, for 2,026 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 special purpose vehicle IntesaBci Sec 2 S.r.l., which issued mortgage-

backed securities placed with institutional investors in four tranches: class A1 of 405.5 million euro with a AAA rating; class A2 of 1,519.6 million euro with a AAA rating; class B of 40.6 with a AA rating; and class C of 61 million euro with a BBB rating. The rating agencies used were S&P, Fitch 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, Gas Securitisation and Facility Services 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 746 million euro, numerous tranches of unrated securities were issued. To close the transactions, the Group used the vehicles Trade Investment Receivable Vehicle S.a.r.l., Natitri S.a.r.l. and Duomo Funding Plc..
– ***Conan Securitisation and Food & Beverages Securitisation:***
  For a description of the transactions, see the quantitative section of this Table (Securitisations carried out during the period).

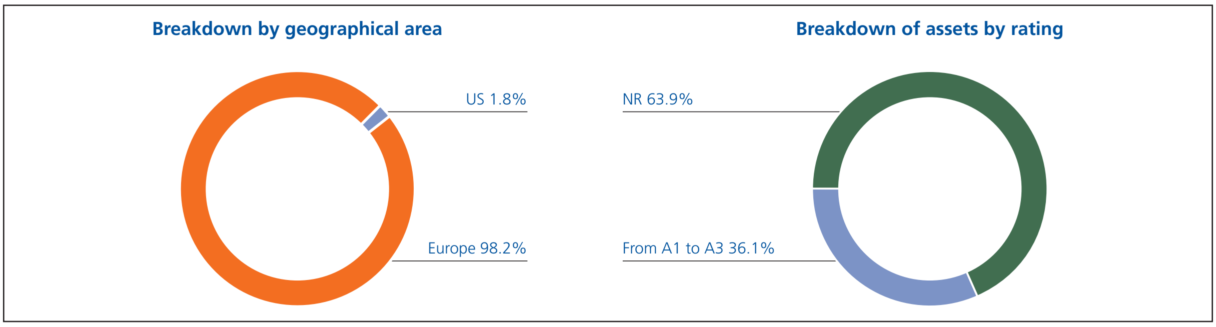
Asset-Backed Commercial Paper (ABCP) programmes

In accordance with IAS/IFRS (SIC 12), 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.

Since 2011, the assets originated by customers have been placed in the Duomo vehicle, leaving Romulus activity of fund-raising on the U.S. market. However, it should be noted that due to the difficult liquidity situation in the U.S. commercial paper market, as at 31 December 2012 the securities issued by Romulus had been almost fully subscribed by the Parent Company Intesa Sanpaolo with a nominal value of approximately 2 billion euro.

The total assets of the Romulus vehicle include receivables from Duomo for 2,224 million euro. The vehicle's assets are completed by financial derivatives hedging against foreign exchange risk with a positive fair value of 2 million euro as at 31 December 2012, in addition to cash and other assets of 1 million euro.
With regard to the portfolio of the Duomo vehicle, at the end of 2012 – in addition to receivables from Group banks for 1,005 million euro – this portfolio includes loans to customers for 1,096 million euro. Of these, 1,357 million euro consisted 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 2012. The vehicle holds in its portfolio units of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 127 million euro as at 31 December 2012.
The total assets of the above SPEs, net of dealings between the two vehicles, made up 0.3% of the total consolidated assets.
The following additional information is provided concerning the portfolios of assets held by the two vehicles:



The composition of the portfolio of the two vehicles changed, showing a sharp reduction in exposures to US entities (from 2.4% as at 31 December 2011 to 1.8% as at 31 December 2012). The rating of exposures was also subject to a decrease in rated entities (about 36%) and to the concentration of exposures on unrated entities. Please note that the uses in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were of sufficient quality for the commercial papers issued by Romulus to maintain the A-2/P-2 ratings.

List of stakes in special purpose vehicles held by the Banking Group

Name	Direct ownership	Registered office	% Stake
Adriano Lease Sec S.r.l. (*)	Intesa Sanpaolo	Conegliano Veneto	5.00%
Intesa Sec S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec 2 S.r.l.	Intesa Sanpaolo	Milano	100.00%
Intesa Sec 3 S.r.l.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec Npl S.p.A.	Intesa Sanpaolo	Milano	60.00%
Augusto S.r.l. (**)	Intesa Sanpaolo	Milano	5.00%
Colombo S.r.l. (**)	Intesa Sanpaolo	Milano	5.00%
Diocleziano S.r.l. (**)	Intesa Sanpaolo	Milano	5.00%
Cr Firenze Mutui	CR Firenze	Conegliano Veneto	10.00%
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (***)	Intesa Sanpaolo	Milano	60.00%
ISP CB Ipotecario S.r.l. (***)	Intesa Sanpaolo	Milano	60.00%
ISP CB Pubblico S.r.l. (***)	Intesa Sanpaolo	Milano	60.00%

(*) Adriano Lease Sec is a self-securitisation vehicle.

(*) Augusto, Colombo and Diocleziano are securitisation vehicles for assets, primarily land and public works financing, of a company subject to joint control and later sold.

(**) ISP CB Ipotecario and ISP CB Pubblico are not traditional securitisation vehicles which issue securities, but are involved in covered bond issues.

"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. The second category concerns purchases of portfolios of receivables due to third parties from public authorities. These portfolios are purchased by vehicles whose securities are subscribed by the Group. For the health receivables, the completion of the securitisation is however subject to the issue of a guarantee by the competent regional authority (delegated payment), thanks to which the risk relating to the portfolio is transformed into a transaction with recourse against the regional authority.

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 Table 11) for financial statement purposes, as well as their eligibility for refinancing with Central Banks and liquidability, 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, amounting to 432 million euro as at 31 December 2012 and progressively declining (667 million euro as at 31 December 2011).

Procedures for monitoring changes in credit and market risk 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 uses the Standardised approach and, starting from 31 December 2012, the IRB Approach (Rating Based Approach – RBA) to calculate the capital requirement for credit risk from securitisations. The IRB Approach - RBA is used for third-party securitisations with public rating (Agency Rating).

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, Intesa Sec Npl and Intesa Lease Sec), 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, in extreme cases, the advance 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 and the features of the payment waterfall.

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 Table 11).

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

For prudential purposes, securitisations refer to transactions that regard one or more assets that undergo segmentation (tranching) of the risk profile into two or more segments (tranches) that have different levels of subordination in sustaining the losses on securitised assets. This category includes:

(i) traditional securitisation, whereby a party transfers a specific portfolio of assets to a vehicle company, which finances the purchase through the issue of securities (asset-backed securities, ABSs);

(ii) synthetic securitisation, in which the transfer of risk takes place without transferring the asset, but typically through the use of credit derivatives. The synthetic securitisations category includes transactions backed by credit protection (collateral or personal guarantee) that envisage forms of risk segmentation ("tranched").

The regulations are outlined in detail in Bank of Italy Circular 263 of 27 December 2006: "New regulations for the prudential supervision of banks" (Title II – Chapter 2: Part Two). In essence, the prudential provisions establish both the requirements for recognition of securitisation transactions for prudential purposes, as well as the treatment applied by the transferor to the securitised assets. If the securitisation respects the aforementioned requirements, the transferor may:

– in the case of traditional securitisation, exclude the securitised assets from the calculation of the amount of credit risk weighted exposures and, where applicable, the relative expected losses;
– in the case of synthetic securitisation, calculate the amount of credit risk weighted exposures and, where applicable, the expected losses relative to the securitised assets, according to the specific rules envisaged by the prudential regulations.

If the aforementioned requirements are not met, the securitisation is not recognised for prudential purposes.

Traditional securitisations

Securitisation is recognised for prudential purposes if the following conditions are respected:

a) a significant amount of the credit risk to which the securitised assets are exposed is transferred to third parties;
b) the documentation on the securitisation reflects the economic substance of the actual transaction;
c) the securitised assets are not subject to claims by the transferor or its creditors, also in the event in which said transferor undergoes insolvency proceedings. The existence of this condition must be confirmed by legal firms with specific experience in the sector. It is satisfied in the case of securitisations carried out in accordance with Italian Law 130/99;
d) the guarantor is a special purpose vehicle;
e) the securities issued by the special purpose vehicle do not consist of payment obligations borne by the transferor;
f) the transferor does not maintain material or indirect control over the assets transferred. The transferor is assumed to have maintained material control over the assets transferred if – without prejudice to the provisions under point g) – said transferor is entitled to repurchase the assets from the guarantor in order to realise income, and is thereby obliged to take on the risk transferred once again. Maintenance by the transferring bank of the servicing rights or obligations does not in itself constitute a form of indirect control on the assets transferred;
g) clean-up call [1] options are permitted, provided that:
   - they are exercisable at the discretion of the transferor;
   - they can be exercised only when the residual amount of securitised assets is equal to or less than 10% of the lower of nominal value of the securitised assets and transfer price;
   - they are not structured in such a way as to avoid the losses from impacting the positions supporting credit or other positions held by investors other than the transferor or promoter;
   - they are not structured in such a way as to constitute credit support;
h) the contracts governing the securitisation do not contain clauses, except for that of accelerated depreciation/amortisation, that:
   - require the transferor to improve the credit quality of the positions on the securitisation through, for example, changes to the securitised assets or increase in the yield payable to investors other

[1] A clean-up call option is a contractual option that allows the transferor to repurchase or settle all positions relative to the securitisation before all of the securitised assets have been repaid, once the amount of these falls below a specific, pre-established threshold. In traditional securitisations, this generally occurs through repurchase of the remaining positions on the securitisation. In synthetic securitisations, the option generally takes the form of a clause that removes the credit risk protection of the securitised assets.

than the transferor and promoter, following impairment of the credit quality of the securitised assets;
- o envisage an increase in the yield payable to holders of positions on the securitisation, following impairment of the credit quality of the securitised assets;

i) the transferor and promoter respect the requirements in terms of granting and management of credit envisaged by the prudential regulations.

The securitisation is in any case recognised for prudential purposes if, without prejudice to respect of the conditions under points b) to i), the transferor only holds securitisation positions subject to a weighting factor of 1250% or to deduction from the supervisory capital.

Synthetic securitisations

Synthetic securitisation transactions are recognised for prudential purposes if, in addition to the conditions envisaged for traditional securitisations, the following conditions exist:

a) the credit protection instruments with which the credit risk is transferred are compliant with the provisions of the prudential regulations; to this end, special purpose vehicles are not considered to be appropriate in providing personal credit protection;

b) the instruments used to transfer the credit risk do not contain terms or conditions that:
   - o impose significance thresholds below which the credit protection is deemed inactive, despite the occurrence of a credit event;
   - o allow transfer of the protection, following impairment of the credit quality of the underlying exposures;
   - o require the transferor bank to improve exposures to the securitisation;
   - o raise the cost of credit protection borne by the bank or raise the yield payable to holders of exposures to the securitisation, upon impairment of the credit quality of the underlying aggregate;

c) an opinion by qualified legal consultants confirms the enforceability of the credit protection in all relevant jurisdictions.

The securitisation is in any case recognised for prudential purposes if, without prejudice to respect of the conditions outlined in this paragraph, as well as those under points b) to i) for traditional securitisations, where compatible, the transferor only holds securitisation positions subject to a weighting factor of 1250% or to deduction from the supervisory capital.

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 derecognised 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;
- derecognised for prudential supervision purposes, following – based on the prudential rules in effect on the creation of the securitisation – a significant transfer of risk, such as the prudential requirement of exposures to the securitisation in the portfolio (“post-securitisation” requirement) was lower – on 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 securitisation positions originated and third party

(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	**7**	**7**	**152**	**152**	**83**	**79**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	*17*	*17*	-	-	-	-	-	-
b) Other	*7*	*7*	*152*	*152*	*66*	*62*	-	-	-	-	-	-
B. Third party underlying assets (*)	**5,004**	**4,997**	**434**	**429**	**25**	**25**	**15**	**15**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	*5,004*	*4,997*	*434*	*429*	*25*	*25*	*15*	*15*	-	-	-	-
TOTAL 31.12.2012	**5,011**	**5,004**	**586**	**581**	**108**	**104**	**15**	**15**	**-**	**-**	**-**	**-**
TOTAL 31.12.2011	**5,693**	**5,684**	**556**	**551**	**146**	**142**	**24**	**24**	**-**	**-**	**-**	**-**

	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	**1,101**	**1,101**	**-**	**-**	**-**	**-**	**1,108**	**1,108**	**152**	**152**	**83**	**79**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	*17*	*17*
b) Other	*1,101*	*1,101 (**)*	-	-	-	-	*1,108*	*1,108*	*152*	*152*	*66*	*62*
B. Third party underlying assets (*)	**1,558**	**1,558**	**-**	**-**	**-**	**-**	**6,577**	**6,570**	**434**	**429**	**25**	**25**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	*1,558*	*1,558*	-	-	-	-	*6,577*	*6,570*	*434*	*429*	*25*	*25*
TOTAL 31.12.2012	**2,659**	**2,659**	**-**	**-**	**-**	**-**	**7,685**	**7,678**	**586**	**581**	**108**	**104**
TOTAL 31.12.2011	**2,326**	**2,326**	**-**	**-**	**-**	**-**	**8,043**	**8,034**	**556**	**551**	**146**	**142**

(*) Including Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes as detailed in the tables relating to third party securitisations.

(**) All 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 securitisation (synthetic securitisation), the Group's originated securitisations include only traditional transactions and ABCP (Asset Backed Commercial Paper) programmes.

Total amount of assets awaiting securitisation

At the end of December 2012, the Group had no specific significant securitisation transactions pending in the short term. A small transaction (50 million euro) involving securitisation of commercial loans in the electrical sector was completed at the beginning of 2013. Furthermore, in 2011, Mediocredito Italiano stipulated 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.
Creation of the portfolio under the first agreement was initiated during 2012 and is expected to be completed during 2013.
Given the ongoing difficult economic conditions and the specific investment objectives indicated by the aforementioned agreements, a limited number of transactions were carried out in 2012, for a value of just under 4 million euro which, considering their limited representativeness with respect to the overall

portfolio, were prudentially considered as senior unsecured loans. Creation of the portfolio under the second agreement was initiated at the beginning of 2013.

Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure

(millions of euro)

	On-balance sheet exposures (*)			Off-balance sheet exposures		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,250	131	2	-	-	-
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	12	3	16	-	-	-
Investments held to maturity	49	-	-	-	-	-
Loans (**)	3,687	295	29	1,573	-	-
Total 31.12.2012	**4,998**	**429**	**47**	**1,573**	**-**	**-**
Total 31.12.2011	**5,678**	**433**	**85**	**1,702**	**-**	**-**

(*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 215 million euro. As at 31 December 2012, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 1,101 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

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**1**	**-**	**-**	**-2**	**22**	**-8**
A.1 Intesa Sec Npl						
- performing mortgages	*-*	*-*	*-*	*-2*	*17*	*-8*
A.2 Cr Firenze Mutui						
- performing mortgages	*1*	*-*	*-*	*-*	*5*	*-*
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**6**	**2**	**152**	**1**	**57**	**-**
C.1 Intesa Sec 3						
- performing residential mortgages	*-*	*-*	*109*	*-*	*29*	*-*
C.2 Da Vinci						
- loans to the aircraft sector	*6*	*2*	*1*	*1*	*-*	*-*
C.3 Split 2 (*)						
- performing leasing contracts	*-*	*-*	*11*	*-*	*18*	*-*
C.4 Facility Services Securitisation						
- trade receivables	*-*	*-*	*3*	*-*	*-*	*-*
C.5 Electricity Securitisation						
- trade receivables	*-*	*-*	*24*	*-*	*8*	*-*
C.6 Gas Securitisation						
- trade receivables	*-*	*-*	*4*	*-*	*2*	*-*
TOTAL 31.12.2012	**7**	**2**	**152**	**-1**	**79**	**-8**
TOTAL 31.12.2011	**9**	**-1**	**139**	**-2**	**113**	**-1**

(*) A securitisation vehicle not recorded under the Banking Group, but whose securitised assets are not derecognised by the Group originating the securitisation.

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	-	-	-	-	-	-	-	-	-	-	-	-
A.1 Duomo Funding Plc. - *trade receivables*	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes	-	-	-	-	-	-	**1,101**	-	-	-	-	-
C.1 Duomo Funding Plc. - *trade receivables*	-	-	-	-		-	*1,101*	-	-	-	-	-
TOTAL 31.12.2012	-	-	-	-	-	-	**1,101**	-	-	-	-	-
TOTAL 31.12.2011	-	-	-	-	-	-	**742**	-	-	-	-	-

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 performing		Book value	Adjust./ recoveries	of which: non performing		Book value	Adjust./ recoveries	of which: non performing
A.1 Romulus (*)											
- *Asset backed commercial papers*											
of which: Banking book	*2,039*	-	-		-	-	-		-	-	-
A.2 Tevere Finance											
- *Exposures to Italian local authorities*											
of which: Trading book	*307*	*13*	-		-	-	-		-	-	-
A.3 TCWGP											
- *Project Finance loans*											
of which: Banking book	*278*	-	-		-	-	-		-	-	-
A.4 Fondo Immobili Pubblici											
- *Financial credits deriving from rental of properties to the public sector*											
of which: Banking book	*187*	-	-		-	-	-		-	-	-
of which : Trading book	*55*	*-4*	-		-	-	-		-	-	-
A.5 Posillipo Finance											
- *Loans to the Italian health system*											
of which: Banking book	*178*	*-1*	-		-	-	-		-	-	-
A.6 Siena Mortgage											
- *Residential mortgages*											
of which: Banking book	*50*	-	-		-	-	-		-	-	-
of which : Trading book	*77*	*1*	-		-	-	-		-	-	-
A.7 D'Annunzio											
- *Loans to the Italian health system*											
of which: Banking book	*123*	-	-		-	-	-		-	-	-
A.8 Sunrise S.r.l.											
- *Consumer credit*											
of which: Banking book	*3*	-	-		*5*	-	-		-	-	-
of which : Trading book	*86*	*1*	-		*15*	-	-		-	-	-
A.9 Duchess (**)											
- *CLOs*											
of which : Trading book	*104*	*6*	-		-	-	-		-	-	-
A.10 Cordusio RMBS Securitisation											
- *Residential mortgages*											
of which: Banking book	*41*	-	-		*18*	-	-		-	-	-
of which : Trading book	*26*	*1*	-		*15*	*1*	-		-	-	-
A.11 Berica Residential MBS S.r.l.											
- *Residential mortgages*											
of which: Banking book	*61*	-	-		*8*	-	-		-	-	-
of which : Trading book	*30*	-	-		-	-	-		-	-	-
A.12 Nepri Finance S.r.l.											
- *Residential mortgages*											
of which : Trading book	*97*	*6*	-		-	-	-		-	-	-
A.13 CLARIS Finance S.r.l.											
- *Residential mortgages*											
of which: Banking book	*24*	-	-		-	-	-		-	-	-
of which : Trading book	*50*	*1*	-		-	-	-		-	-	-
A.14 Mecenate											
- *Residential mortgages*											
of which : Trading book	*58*	-	-		-	-	-		-	-	-
A.15 TBRNA											
- *Trust Preferred Securities*											
of which : Trading book	*54*	*29*	-		-	-	-		-	-	-
A.16 Vintage Finance											
- *electric company receivables from the public sector*											
of which: Banking book	*52*	-	-		-	-	-		-	-	-
A.17 Residual portfolio divided in 415 securities (***)	*1,017*	*-8*	-	(****)	*368*	*-3*	-	(*****)	*25*	*-1*	-
of which: Banking book	*711*	*-7*	-		*267*	*-7*	-		*23*	*-1*	-
of which : Trading book	*306*	*-1*	-		*101*	*4*	-		*2*	-	-
TOTAL 31.12.2012	**4,997**	**45**	**-**		**429**	**-2**	**-**		**25**	**-1**	**-**
of which: Banking book	**3,747**	**-8**	**-**		**298**	**-7**	**-**		**23**	**-1**	**-**
of which: Trading book	**1,250**	**53**	**-**		**131**	**5**	**-**		**2**	**-**	**-**
TOTAL 31.12.2011	**5,675**	**-114**	**5**	**-**	**412**	**-11**	**-**	**-**	**29**	**-1**	**-**
of which: Banking book	**4,330**	**-83**	**5**	**-**	**335**	**-4**	**-**	**-**	**26**	**-1**	**-**
of which: Trading book	**1,345**	**-31**	**-**	**-**	**77**	**-7**	**-**	**-**	**3**	**-**	**-**

(*) 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.

(**) Position included in 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.

(***) Please note that 48 million euro included among "Residual portfolio divided in 415 securities" refers to single tranche securitisations, classified as Senior securities and not as exposures to securitisations for supervisory purposes.

(***) Of which -5 million euro related to securities included in packages.

(****) Of which 2 million euro related to securities included in packages.

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 2012

(millions of euro)

Residual portfolio divided by type of underlying asset - banking book	On-balance sheet exposures - 31.12.2012								
	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	288	-7	-	140	-	-	3	-1	-
Commercial mortgages	70	-	-	89	-5	-	-	-	-
CDO cash	136	-	-	-	-	-	-	-	-
Other ABS (CLO-CMO-CFO)	50	-	-	6	-	-	-	-	-
Loans to the Italian health system	46	-	-	-	-	-	-	-	-
Loans to foreign public bodies	38	-	-	-	-	-	-	-	-
Financing for SMEs	22	-	-	10	-2	-	-	-	-
Public property	7	-	-	14	-	-	-	-	-
Project finance loans	-	-	-	-	-	-	20	-	-
WL Collateral CMO	12	-	-	-	-	-	-	-	-
Loans deriving from leasing contracts	6	-	-	5	-	-	-	-	-
Loans to energy companies	9	-	-	-	-	-	-	-	-
Consumer credit	3	-	-	-	-	-	-	-	-
Car loans	-	-	-	3	-	-	-	-	-
Credit cards	3	-	-	-	-	-	-	-	-
Personal loans	1	-	-	-	-	-	-	-	-
Other assets	20	-	-	-	-	-	-	-	-
TOTAL	**711**	**-7**	**-**	**267**	**-7**	**-**	**23**	**-1**	**-**

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 2012

(millions of euro)

Residual portfolio divided by type of underlying asset - trading book	On-balance sheet exposures - 31.12.2012								
	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	104	1	-	20	2	-	2	-	-
Loans deriving from leasing contracts	75	2	-	35	2	-	-	-	-
Financing for SMEs	52	-	-	37	1	-	-	-	-
Other ABS (CLO-CMO-CFO) (*)	43	-4	-	-	-	-	-	-	-
Trade receivables	19	-	-	-	-	-	-	-	-
Consumer credit	10	-	-	-	-	-	-	-	-
Public property	1	-	-	7	-1	-	-	-	-
Car loans	2	-	-	-	-	-	-	-	-
Other assets	-	-	-	2	-	-	-	-	-
TOTAL	**306**	**-1**	**-**	**101**	**4**	**-**	**2**	**-**	**-**

(*) 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*	-	-	-	-	-	-	*1,497*	-	-	-	-	-
A.2 Romulus - *ABCP Conduit transactions*	15	-	-	-	-	-	61	-	-	-	-	-
Total 31.12.2012	**15**	**-**	**-**	**-**	**-**	**-**	**1,558**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2011	**24**	**-**	**-**	**-**	**-**	**-**	**1,584**	**-**	**-**	**-**	**-**	**-**

(*) In addition to that shown in the table, the Group's trading portfolio as at 31 december 2012 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 258 million euro.

Securitisations: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2012		31.12.2011	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	-	5	21	304
Risk weight 35% (*)	-	-	45	-
Risk weight 40%	-	-	-	45
Risk weight 50%	-	148	2	278
Risk weight 100%	7	416	10	521
Risk weight 150% (*)	46	-	78	-
Risk weight 225%	-	-	-	276
Risk weight 350%	-	742	-	608
Risk weight 650%	-	292	-	202
Risk weight 1250% - with rating	-	1,990	-	5,729
Risk weight 1250% - without rating	377	490	370	632
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	754	-	577
Deducted from regulatory capital	-	-	-	-
Total	**430**	**4,837**	**526**	**9,172**

(*) 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)

(millions of euro)

Risk weight bands	31.12.2012		31.12.2011	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	-	36	-	-
Risk weight 12 - 18%	-	64	-	-
Risk weight 20 - 35%	27	68	-	-
Risk weight 40 - 75%	-	99	-	-
Risk weight 100%	4	59	-	-
Risk weight 150%	-	60	-	-
Risk weight 200%	-	91	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	79	-	-
Risk weight 300%	-	211	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	220	-	-
Risk weight 500%	-	66	-	-
Risk weight 650%	-	218	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	1,783	-	-
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total	**31**	**3,054**	**-**	**-**

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 on market risks of the trading book, including the capital requirement in relation to the securitisations included in that book, is set out in Table 11.

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%	-	-	3	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	70	-
Risk weight 100%	7	-	357	-
Risk weight 150% (*)	46	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	467	-
Risk weight 650%	-	-	292	292
Risk weight 1250% - with rating	-	-	1,006	967
Risk weight 1250% - without rating	377	-	490	190
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	745	-
Deducted from regulatory capital	-	-	-	-
Total RWA Banking book as at 31.12.2012	**430**	**-**	**3,430**	**1,449**
Total RWA Banking book as at 31.12.2011	**518**	**-**	**5,541**	**2,110**
Capital requirements				
Risk weight 20%	-	-	-	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	6	-
Risk weight 100%	1	-	29	-
Risk weight 150% (*)	4	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	37	-
Risk weight 650%	-	-	23	23
Risk weight 1250% - with rating	-	-	80	77
Risk weight 1250% - without rating	30	-	39	15
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	60	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Banking book as at 31.12.2012	**35**	**-**	**274**	**115**
Total Requirements Banking book as at 31.12.2011	**41**	**-**	**443**	**169**

(*) 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%	-	-	2	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	78	-
Risk weight 100%	-	-	59	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	275	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	984	672
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	9	-
Deducted from regulatory capital	-	-	-	-
Total RWA Trading book as at 31.12.2012	**-**	**-**	**1,407**	**672**
Total RWA Trading book as at 31.12.2011	**8**	**-**	**3,631**	**3,195**
Capital requirements				
Risk weight 20%	-	-	-	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	6	-
Risk weight 100%	-	-	5	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	22	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	79	54
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	1	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Trading book as at 31.12.2012	**-**	**-**	**113**	**54**
Total Requirements Trading book as at 31.12.2011	**1**	**-**	**290**	**256**

(*) 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)

(millions of euro)

Risk weight bands	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Weighted amounts (RWA)				
Risk weight 7 - 10%	-	-	30	-
Risk weight 12 - 18%	-	-	31	-
Risk weight 20 - 35%	10	-	49	2
Risk weight 40 - 75%	-	-	51	-
Risk weight 100%	4	-	18	-
Risk weight 150%	-	-	60	60
Risk weight 200%	-	-	91	91
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	57	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	220	-
Risk weight 500%	-	-	66	66
Risk weight 650%	-	-	218	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	1,480	94
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total RWA Banking book 31.12.2012	**14**	**-**	**2,371**	**313**
Total RWA Banking book 31.12.2011	**-**	**-**	**-**	**-**
Capital requirements				
Risk weight 7 - 10%	-	-	2	-
Risk weight 12 - 18%	-	-	2	-
Risk weight 20 - 35%	1	-	4	-
Risk weight 40 - 75%	-	-	4	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	5	5
Risk weight 200%	-	-	7	7
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	5	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	18	-
Risk weight 500%	-	-	5	5
Risk weight 650%	-	-	17	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	118	8
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Banking book as at 31.12.2012	**1**	**-**	**188**	**25**
Total Requirements Banking book as at 31.12.2011	**-**	**-**	**-**	**-**

Trading Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based 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 7 - 10%	-	-	6	-
Risk weight 12 - 18%	-	-	33	-
Risk weight 20 - 35%	17	-	19	-
Risk weight 40 - 75%	-	-	48	-
Risk weight 100%	-	-	41	36
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	22	-
Risk weight 300%	-	-	211	211
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	303	270
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total RWA Trading book 31.12.2012	**17**	**-**	**683**	**517**
Total RWA Trading book 31.12.2011	**-**	**-**	**-**	**-**
Capital requirements				
Risk weight 7 - 10%	-	-	-	-
Risk weight 12 - 18%	-	-	3	-
Risk weight 20 - 35%	1	-	2	-
Risk weight 40 - 75%	-	-	4	-
Risk weight 100%	-	-	3	3
Risk weight 150%	-	-	-	-
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	2	-
Risk weight 300%	-	-	17	17
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	-	-
Risk weight 650%	-	-	-	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	24	22
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Requirements Trading book as at 31.12.2012	**1**	**-**	**55**	**42**
Total Requirements Trading book as at 31.12.2011	**-**	**-**	**-**	**-**

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	-	996	-	170
RMBSs	377	467	-	21
Other ABS (CLO/CMO/CFO)	-	340	-	86
CMBSs	-	437	-	-
Financing for SMEs	-	257	-	-
Credit derivatives	-	-	-	312
Project Finance loans	-	252	-	-
Loans deriving from leasing contracts	-	-	-	26
WL Collateral CMO	-	38	-	-
Trust preferred securities	-	-	-	672
Other assets	-	189	-	-
Total weighted exposure at 1250% 31.12.2012	**377**	**2,976**	**-**	**1,287**

Securitisations carried out during the period

In 2012 the Group implemented new securitisations with similar characteristics (Conan Securitisation and Food & Beverages Securitisation) and restructured a transaction implemented in 2011 (Facility Services Securitisation). These transactions were conducted 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 295 million euro on the new transactions, numerous tranches of unrated securities were issued. For these transactions, the Group used the vehicles Trade Investment Receivable S.a.r.l., CorpEquity Capital S.a.r.l., Hermes Trade Receivables S.a.r.l. and the vehicle Duomo Funding Plc.

Table 11 – Market risks: disclosures for banks using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk

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 2% 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.

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.

Breakdown of capital requirements by Calculation approach

(millions of euro)

Information	Approach		
	Standardised approach	Internal models	Concentration risk
Assets included in the regulatory trading book	**456**	**924**	**16**
Position risk	456	924	-
Concentration risk	-	-	16
Other assets	**48**	**30**	**-**
Foreign exchange risk	48	-	-
Settlement risk for DVP transactions (Delivery Versus Payment)			
Commodity risk	-	30	-
Total capital requirement for market risk as at 31.12.2012	**504**	**954**	**16**
Total capital requirement for market risk as at 31.12.2011	**979**	**420**	**-**

Under position risk, the requirements relating to exposures to securitisations in the trading book are presented separately, amounting to 169 million euro, including 25 million euro referring to Credit Default Swaps with underlying exposures to securitisations included in the correlation portfolio.

Stressed VaR

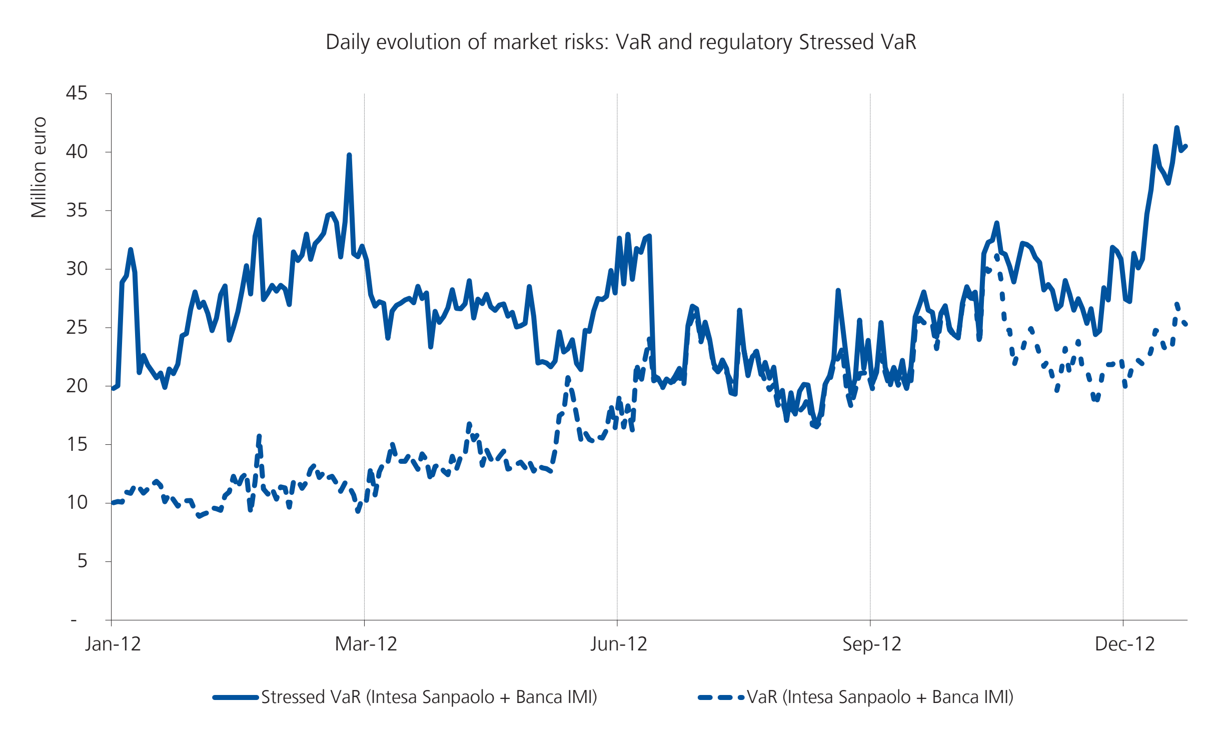
The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications 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 is considered set as 1 January to 30 December 2011 for both Banca IMI and Intesa Sanpaolo.

The following graph shows the trend of the parameters.



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 development 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 2012, 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 2012 was 82.5 million euro, up by 18% on the third quarter.
With regard to the whole of 2012, the Group's average risk profile (82.1 million euro) increased compared to the average values in 2011 (58.8 million euro).

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI [a]

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	16.8	15.5	19.7	19.6	24.6	24.1
Banca IMI	65.7	51.6	80.7	49.5	55.3	72.9
Total	**82.5**	**70.1**	**99.2**	**69.1**	**79.9**	**97.0**

[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.

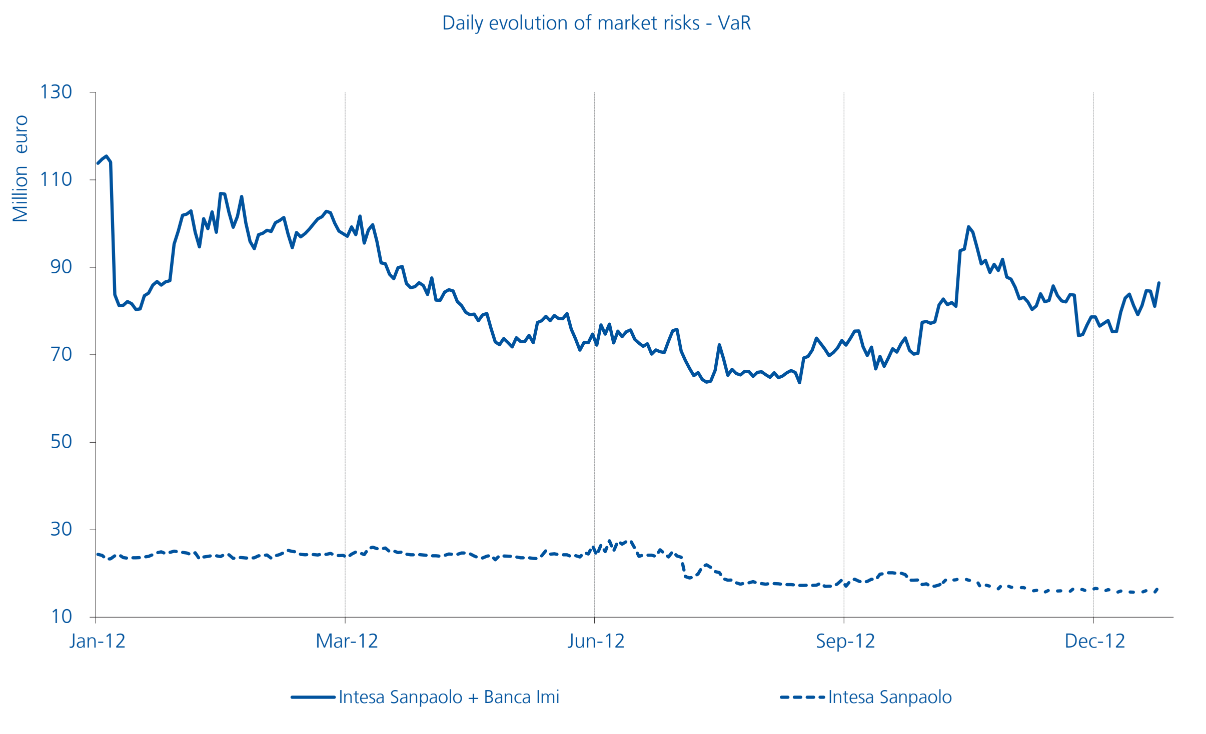
Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between 2012 and 2011 [a]

(in millions of euro)

	2012				2011		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	21.3	15.5	27.5	17.0	20.1	14.0	26.5
Banca IMI	60.8	41.7	92.1	69.4	38.7	13.6	92.4
Total	**82.1**	**63.5**	**115.4**	**86.4**	**58.8**	**30.7**	**118.0**

[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 operational VaR, shown in the following chart, was mainly determined by Banca IMI, which at the beginning of the year recorded an increase linked to its activity on the Italian government bond market.



For Intesa Sanpaolo, the breakdown of the risk profile in the fourth quarter of 2012 with regard to the various factors shows the prevalence of the hedge fund risk, which represented 41% of total VaR. Credit spread risk, which includes the risk associated with sovereign government bonds, was the most significant component for Banca IMI, representing 74% of the total.

Contribution of risk factors to overall VaR [(a)]

2nd quarter 2012	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	7%	41%	4%	37%	3%	8%	0%
Banca IMI	5%	0%	12%	74%	0%	5%	4%
Total	**5%**	**9%**	**11%**	**66%**	**1%**	**5%**	**3%**

[(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 2012, 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)]

	31.12.2012	31.12.2011
- Credit	68%	81%
- Directional trading	13%	4%
- Equity hedged	18%	14%
- Multi-strategy	0%	1%
Total hedge funds	**100%**	**100%**

[(a)] The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2012 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (68% of the total in terms of portfolio value). There was an increase in the contribution of directional trading and equity hedge strategies.

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	13	-13	25	-29	105	-104	-6	4	5	1
of which SCP					*3*	*-3*				

In particular:
- on stock market positions, a 5% increase in stock prices with a resulting 10% decrease in volatility would have led to a loss of approximately 13 million euro;
- for exposures to interest rates, a parallel +25 basis point shift in the yield curve would have led to a 29 million euro loss, whereas a parallel -25 basis point shift would have led to a 25 million euro gain;
- for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would have led to a 104 million euro loss, of which about 3 million euro attributable to structured credit products (SCP);
- on foreign exchange exposures, the depreciation of the euro would have resulted in a loss of approximately 6 million euro;
- finally, on commodities exposures, gains would result from both a 50% decrease and increase in prices, owing to the presence of options profiles in portfolio.

Backtesting

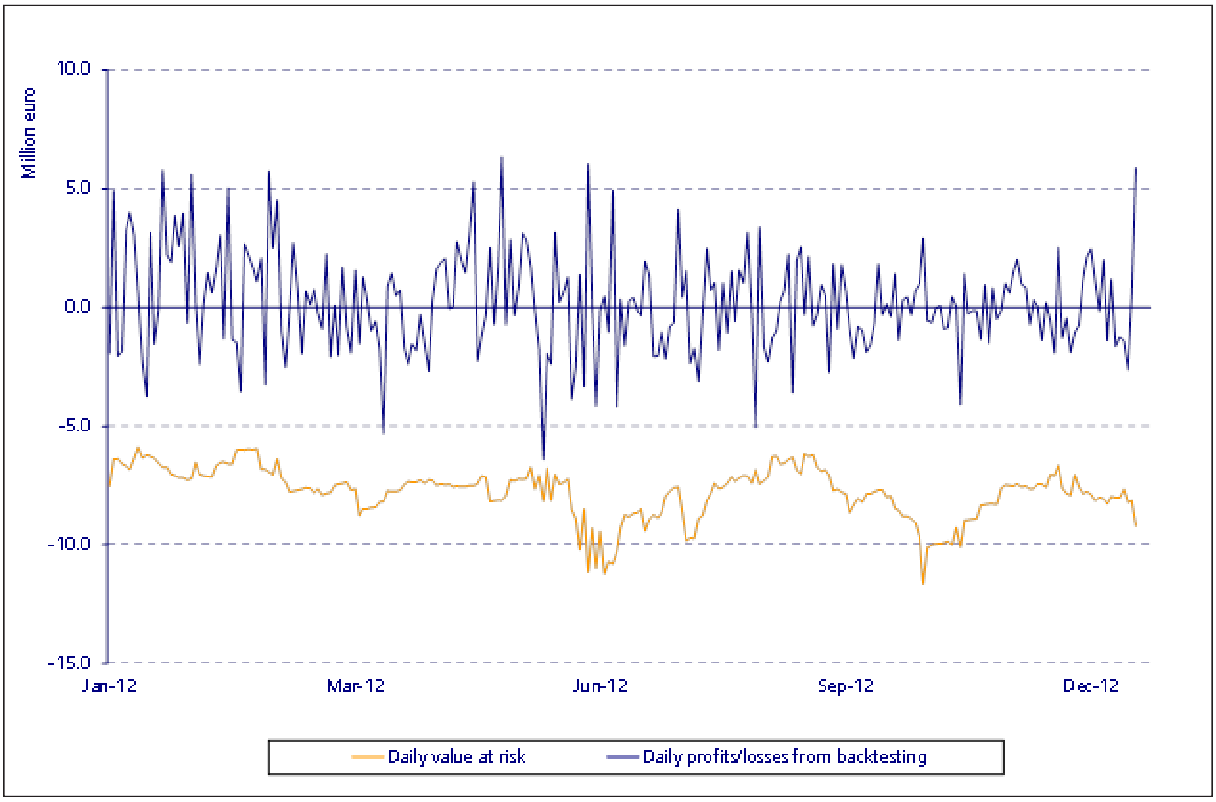
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:
- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by 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.

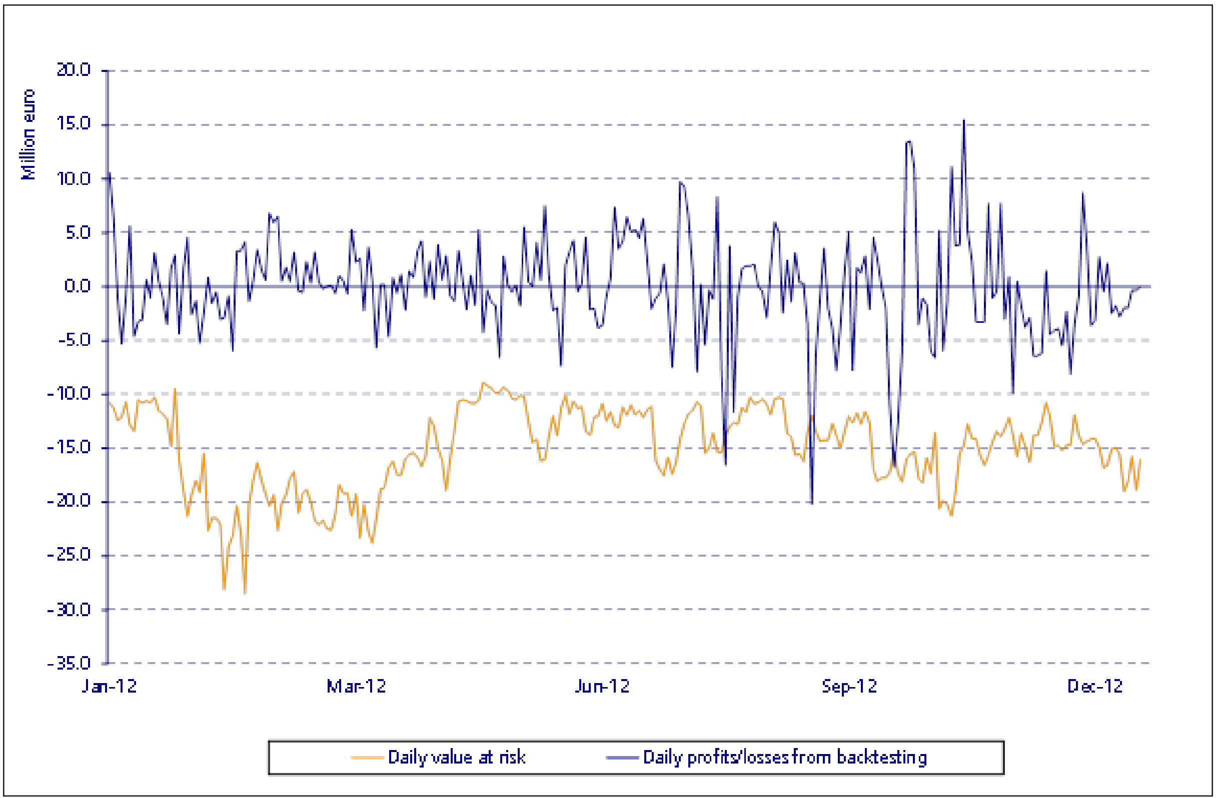
Backtesting in Intesa Sanpaolo

Intesa Sanpaolo's regulatory backtesting, shown in the following graph, did not reveal any critical situations during the last year.



Backtesting in Banca IMI

Banca IMI's three backtesting exceptions refer to the actual P&L data and are related to the period of high volatility that characterised credit spreads during the summer period.



Issuer risk

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) (b)]

	Total	of which				
		Corporate	Financial	Emerging	Covered	Securitis.
Intesa Sanpaolo	34%	11%	14%	3%	72%	0%
Banca IMI	66%	17%	21%	3%	15%	44%
Total	**100%**	**15%**	**19%**	**3%**	**34%**	**29%**

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to issuer risk exposures. The other columns indicate percentage breakdown by type of issuer.

(b) Period-end percentage on area total, excluding Government bonds, own bonds and including CDS.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities of the covered bond 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.

In the first quarter of 2012, the Management Board resolved a new VaR limit for the Group of 130 million euro, an increase compared to the previous 80 million euro. The increase was approved almost entirely for Banca IMI in order to allow it to seize opportunities in 2012 in relation to the performance of the Italian public debt market.

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 71% in 2012, with a maximum use of 93%. For Banca IMI, the average VaR limit came to 76%, with a maximum use of 188%. 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 49% for Intesa Sanpaolo (limit of 220 million euro) and 85% for Banca IMI (limit of 230 million euro).

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 49%. The limit for that component was revised in the first quarter of 2012, raising it from 100 million euro to 200 million euro. The increase was approved almost entirely for the Parent Company's Treasury Department in order to allow it to seize opportunities in 2012 in relation to the performance of the Italian public debt market.

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)

Fair value is the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing counterparties in an arm's length transaction. Underlying the definition of fair value is an assumption that an entity is a going concern without any need to liquidate or curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value reflects the credit quality of the instrument since it incorporates counterparty risk.

Financial instruments

The fair value of financial instruments is determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets or via internal valuation techniques for other financial instruments.

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.

When no quote 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-offer 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 of a hypothetical arm's length transaction, motivated by normal business considerations, as at the measurement date. Such techniques include:

– reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile (Comparable Approach);
– valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the valuator (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: absolute priority is attributed to effective market quotes (level 1) for valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (Comparable Approach - level 2) and a lower priority to assets and liabilities whose fair value is determined using valuation techniques based on non-observable and, therefore, more discretional inputs (Mark-to-Model Approach - level 3).

The following instruments are considered quoted on an active market (level 1): equities quoted on a regulated market, bonds quoted on the EuroMTS circuit and those for which it is possible to continuously derive from the main price contribution international platforms at least three bid and ask prices, mutual funds, spot exchange rates, derivatives for which quotes are available on an active market (for example, futures and exchange traded options). Conversely, all other financial instruments, which do not fall in the categories described above, are not considered quoted on an active market.

For financial instruments quoted on active markets, the current bid price is used for financial assets and the current asking price for financial liabilities, struck on the most advantageous 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.

Lastly, hedge funds for which the fund administrator provides the NAV (Net Asset Value) with the frequency established in the subscription contract, are considered as quoted on an active market, provided that no adjustments are required for the valuation of the liquidity or counterparty risks of the underlying assets.

When no prices can be derived on active markets, the fair value of financial instruments is determined using the Comparable Approach (level 2) which uses measurement models based on market parameters. In this case, 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. The calculation methodologies used in the Comparable Approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation.

The fair value of bonds without official quotes expressed by an active market is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics. Credit spread sources are contributed and liquid securities of the same issuer, credit default swaps on the same reference entity, contributed and liquid securities issued by an issuer with the same rating and belonging to the same sector. The different seniority of the security to be priced relatively to the issuer's debt structure is also considered.

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.
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 valued through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market.
Moreover, when determining fair value, the credit quality of the counterparty is also considered. Fair value considers counterparty credit risk and future exposures of the contract through Credit Risk Adjustment (CRA).
With respect to structured credit products, in the case of ABS, if significant prices are not available, valuation techniques consider parameters which may be presumed from the market (Comparable Approach), such as spreads presumed from new issuers and/or collected from the major investment banks, further strengthened by a qualitative analysis relative to the performance of the underlying asset presumed from periodic investor reports and subject to backtesting with actual sale prices.
Financial instruments for which fair value is determined using the Comparable Approach 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.
Finally, loans also fall under the financial instruments whose fair value is determined using the Comparable Approach. 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.

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, 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;
- interest rate derivatives and equity-risk structured options, valued using input data not directly observable on the market.

The fair value of debt securities and complex credit derivatives (funded and unfunded CDOs) is determined based on a quantitative model which estimates 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 collaterals present in the structure and the expected residual life of the

contract. 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. On the basis of this valuation, 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, condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.), are summarised in an indicator representing credit quality on which downgrades depend, so as to proceed to a consistent adjustment in the valuation. Finally, for this class of products, management has the possibility to decide a further adjustment which must be based on prices observed from counterparties and on expert opinions.
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.
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 funded management account infrastructure and funds not managed according to such a platform.
In the former case, fair value corresponds to the NAV provided by the fund administrator.
The fair value of hedge funds is determined by reducing the operating NAV provided by the Fund Administrator, by an amount deriving from an individual measurement process of the counterparty risk (being the risk associated with the credit quality of the fund's prime brokers[1]) and the liquidity risk (which occurs when the assets in which the fund is invested become so illiquid that they cast doubts as to the validity of the valuation process).Equities to which the "relative" models indicated with respect to level 2 are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the security 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.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.
The valuation process of financial instruments ("Fair Value Policy") 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:
  - reference categories are established for the various types of market parameters;
  - the reference requirements governing the identification of official revaluation sources are set;
  - the fixing conditions of official figures are established;
  - 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

[1] The Prime Broker is an international financial intermediary that operates as agent in the settlement process, carrying out the financial transactions ordered by the hedge fund's manager with the utmost confidentiality. The Prime Broker also acts as the fund's lender, providing credit lines and securities lending for short selling, and directly obtaining guarantees in respect of the financing granted to the fund. The Prime Broker also provides risk management services, monitoring the hedge fund's risk exposure to ensure conditions of financial stability. Other services provided by the Prime Broker are holding and deposit of the fund's cash and securities, handling of the netting and settlement process, and recording of all market transactions.

market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

The fair value policy also provides for adjustments to reflect the model risk and other uncertainties relating to valuation. In particular, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. Indeed, it is possible that models using price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shift), and periodically reviewed. These fair value adjustments, due to model risks, are part of a Mark to Market Adjustment Policy adopted for the purpose of considering, in addition to model risk described above, also other factors eligible to influence valuation and essentially attributable to:

– 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.

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 (RMD), 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 diverse series of analyses and checks carried out at various 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

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 (in application of the comparable approach): given a non-contributed security, the level of the credit spread is estimated starting from contributed and liquid financial instruments with similar characteristics. The hierarchy of sources which are used to estimate the level of the credit spread is the following:

- contributed and liquid securities (benchmark) 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.

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 quoted 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

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. In terms of fair value hierarchy, prices determined in this way fall in the Comparable Approach category.

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

Moreover, the determination of the fair value of OTC derivatives must consider, in addition to market factors and the nature of the contract (maturity, type of contract, etc.), also the credit quality of the counterparty. In particular:

– mark-to-market, namely the pricing using risk free (particularly interest rate curve and volatility) market data;
– fair value, which considers counterparty credit risk and future exposures of the contract.

The difference between fair value and mark-to-market – so-called Credit Risk Adjustment (CRA) – is the discounted value of the expected future loss, considering that the future exposure has a volatility related to that of the markets. The application of this methodology occurs as follows:

– in the case of positive net present exposure, the CRA is calculated starting from the latter, from credit spreads and in function of the average residual life of the contract;
– in the case of net present exposure close to zero or negative, the CRA is determined assuming that the future exposure may be estimated through Basel 2 add-on factors.

III. Model for pricing structured credit products

Regarding ABS, if significant prices are not available from consensus platforms/info providers (level 1, effective market quotes), valuation techniques are used that take into account parameters that can be gathered from an active market (level 2, comparable approach).

In this case, the cash flows are obtained from info providers or specialised platforms, whereas the spreads are gathered from new issues, from consensus platforms and from market research produced by major investment banks, verifying the consistency and coherence of these valuations with the prices gathered from the market (level 1).

Lastly, the valuation based on quantitative models and parameters is accompanied by a qualitative analysis 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.

With reference to complex credit derivatives (CDOs), in view of the market dislocations between the financial and credit markets, Intesa Sanpaolo has paid particular attention to pricing methodologies, and prepared a new Fair Value Policy that has been applied since the 2007 financial statements. No material changes were made to the Policy, although the ongoing improvement of input treatment continued, in order to ensure consistent adherence to the market figures. At the same time the Waterfall assessment was refined. The Fair Value Policy also sets out specific procedures on the inputs necessary for valuations.

Regarding CDO pricing, Intesa Sanpaolo uses 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 collaterals 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 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 10%;
- 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 area of the Chief Financial Officer.

IV. The pricing model for hedge funds

Effective from June 2011, the Group adopted a new approach to managing hedge funds, involving the transfer of operations to dedicated vehicles, Managed Account Funds (MAFs) residing in the platform of the same name managed by Goldman Sachs. The Managed Account platform allows access to investments in hedge funds through distinct vehicles independent of the managers of the funds, which have the particular characteristic of ensuring the full daily transparency of the assets underlying the funds. This allows the Risk Management Department to conduct daily monitoring of market risks in a manner consistent with the Group's other positions. The new fund management method suggested the application of a valuation policy involving two separate approaches, one applied to funds not managed within the Managed Account platform and the other applied to funds managed within the Managed Account platform.

The previous Fair Value Policy is used for funds not managed within the Managed Account platform, according to which the main parameter used for the valuation of hedge funds is the NAV (Net Asset Value), which however 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 area of the Chief Financial Officer.

Effective from 1 January 2012, it is not deemed necessary to apply the two prudential adjustments envisaged for funds not in the platform to funds managed within the Managed Account platform:

– 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.

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.

Table 12 – Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

The Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirements for regulatory purposes:

– effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
– effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
– effective from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo[1].

In December 2012, an application was submitted to the Bank of Italy for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding). The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2013, based on the roll-out plan presented to the Management and Supervisory Authorities. A remaining, residual, number of companies use the Basic Indicator Approach (BIA)[2].

The table below shows the breakdown of capital requirements using the three different Approaches.

Breakdown of capital requirements by Calculation approach

(millions of euro)

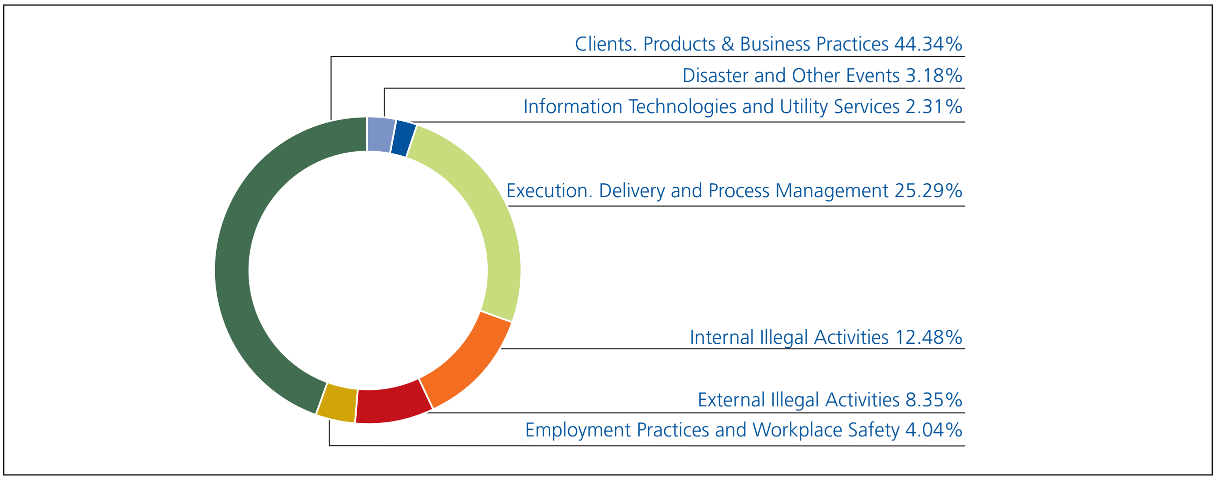
Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,629**
Traditional Standardised Approach (TSA)	**347**
Corporate Finance	1
Trading & Sales	18
Retail Banking	129
Commercial Banking	112
Payment & Settlement	16
Agency Services	2
Asset Management	69
Retail Brokerage	-
Basic Indicator Approach (BIA)	**83**
Total as at 31.12.2012	**2,059**
Total as at 31.12.2011	**1,986**

[1] The full demerger of the Bank in favour of the Parent Company and Leasint S.p.A. was completed in December 2012.

[2] In 2012 Intesa Sanpaolo Card doo – Zagreb migrated from the BIA Approach to the Standardised Approach without significantly impacting the total capital requirement.

The following shows the breakdown of capital requirement relating to the Advanced AMA Approach by type of operational event.

Breakdown of capital requirement (Advanced Measurement Approaches - AMA) by type of operational event



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-assessment).
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 analyses) 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 (subsidiaries, Parent Company's business areas and the Corporate Centre) 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 model (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, to take account of the effectiveness of internal controls in the various organisational units.

The Group has 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, although it does not have an impact in terms of capital requirements. The internal model insurance mitigation component was submitted for regulatory approval through a specific application to the Bank of Italy in December 2012.

Table 13 – Equity exposures: disclosures for banking book positions

Qualitative disclosure

Equity exposures included in the banking book: differentiation between exposures according to the objectives pursued

The investments in equities 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 instruments included in the banking book

The equity exposures included in the banking book are classified under the balance sheet items Investments and Assets available for sale. However, except for marginal amounts, they are not included within the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group essentially classifies investments in relation to insurance policies in this category (not included in the scope of this disclosure, see Table 2) and certain debt securities with embedded derivatives or debt securities subject to financial hedging.

Financial assets available for sale – accounting policies

1. Classification criteria

This category includes equities that are not classified as Financial assets held for trading, Financial assets designated at fair value through profit and loss or Investments. Specifically, this item includes equity investments that are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds.

2. Recognition criteria

Initial recognition of financial assets occurs at settlement date. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument. For a description of the valuation techniques used to calculate fair value, see the discussion of this subject in Table 11 of this document.

3. Measurement criteria

After initial recognition, the Financial assets available for sale are measured at fair value, the gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, recent comparable transactions, etc..
The equities included in this category for which the fair value cannot be reliably determined are maintained at cost.
Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured by means of specific valuation methods (see item 5 below).

If the reasons for impairment are no longer valid following an event subsequent to the registration of impairment, recoveries are posted through shareholders' equity.

4. Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

5. Impairment tests for financial assets available for sale

The impairment of financial assets available for sale and other financial assets is described in Table 5 under the item "Description of the methods adopted to calculate the adjustments".

Equity investments – accounting policies

1. Classification criteria

This caption includes investments in companies subject to joint control (other than the entities conducting banking or insurance business, which are consolidated in this document according to the proportional consolidation method – see Table 2) and associates.
Companies are considered as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by Intesa Sanpaolo, directly or indirectly, and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.
Companies are considered associates, that is subject to significant influence, when Intesa Sanpaolo, directly or indirectly, holds at least 20% of voting rights (including "potential" voting rights as described above) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates – has the power of participating in the determination of the financial and operating policies of the company.
Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since Intesa Sanpaolo, directly or indirectly, exclusively has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the protection of its economic interests.
The caption also includes the equity stake in Bank of Italy.

2. Recognition criteria

Initial recognition occurs at settlement date. On initial recognition, the investments are recorded at cost, including transaction costs and revenues directly attributable to the instrument.

3. Measurement criteria

The investments are valued by consolidation at equity. Intesa Sanpaolo has also opted to use this consolidation method for companies subject to joint control instead of proportional consolidation, as permitted by IAS 31.
The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the company's shareholders' equity. Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company. The valuation of the portion of shareholders' equity does not consider any potential voting rights.
The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.
If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the

present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement. If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.
The most recent approved (annual or interim) figures have been used in consolidation of companies subject to joint control and investments in associates. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.
The investment in the Bank of Italy and certain investments in marginal companies i) in liquidation and/or terminating activities and ii) at the start-up phase with no balance sheet are maintained at cost.

4. Derecognition criteria

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

5. Impairment tests of equity investments

As required under IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.
With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as 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; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets, or by a carrying value of the investment in the separate financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.
In particular, given the fact that impairment indicators relative to prices lower than the unit carrying values were recorded with respect to certain investments, "fundamental" analyses were carried out based on an estimation of expected discounted cash flows. The results of these assessments led to the recognition of impairment losses. In particular, the most significant impairment loss referred to the investment in Telco S.p.A. for 116 million euro.

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 Table 3.

Banking book: on-balance sheet equity exposures (*)

(millions of euro)

Exposure type/values	31.12.2012								
	Book value		Fair value		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 (**)	205	2,487	215	X	215	79	-209	X	X
B. Financial assets vailable for sale (AFS)	539	1,489	539	1,489	539	177	-91	329	-57
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X

Exposure type/values	31.12.2011								
	Book value		Fair value		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 (**)	265	2,365	157	X	157	139	-346	X	X
B. Financial assets vailable for sale (AFS)	672	1,481	672	1,481	672	522	-62	412	-148
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	14	-	14	-	-	-	X	X

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

(**) For Investments, fair value refers to listed investments only (level 1).

As at 31 December 2012 there were no net capital losses on equity investments to be included under the negative elements of the Tier 2 capital (54 million euro as at 31 December 2011).

Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2012 of 89 million euro (102 million euro at the end of 2011), with minimum and peak values of 68 million euro and 101 million euro respectively. The VaR at the end of 2012 amounted to 81 million euro.

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 ±10% for the abovementioned quoted assets recorded in the AFS category.

Banking book: impact on shareholders' equity of price risk as at 31 December 2012

		Impact on shareholders' equity (millions of euro)
Price shock	-10%	-53
Price shock	10%	53

Banking book: on-balance sheet equity exposures - weighted values

(millions of euro)

	Weighted exposure	
	31.12.2012	**31.12.2011**
IRB approach	**1,082**	**964**
Private equity exposures in sufficiently diversified portfolios	265	322
Exchange-traded equity exposures	36	38
Other equity exposures	781	604
Other assets: instrumental investments	-	-
Standardised approach	**2,753**	**2,846**

Table 14 – Interest rate risk on positions in the banking book

Qualitative disclosure

Interest rate risk

Interest rate risk originated by the banking book occurs 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 Table 1 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: 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 with 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 floating rate, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice has been 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 (over-hedging) and to liquidity risk (over-funding);
– 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, cannot be considered as a predictor of the future levels of the interest margin.

The Group's overall financial risk profile and the appropriate interventions aimed at changing it 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 270 million euro at the end of 2012, in line with the 240 million euro at the end of 2011.

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 approach.

In 2012, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, averaged 374 million euro, with a year-end figure of 386 million euro compared to the 482 million euro at the end of 2011.

The table below shows the impact on the banking book of the ±100bp shock, broken down into the main currencies to which Intesa Sanpaolo Group is exposed.

(millions of euro)

		31.12.2012
EUR	Euro	318
USD	US dollar	30
HRK	Croatian kuna	12
EGP	Egyptian pound	8
CHF	Swiss Franc	6
RUB	Russian rouble	5
	Other currencies	7
TOTAL		**386**

Interest rate risk, measured in terms of VaR, averaged 107 million euro in 2012, with a minimum value of 83 million euro and a maximum value of 130 million euro. At the end of December 2012, VaR totalled 83 million euro (139 million euro at the end of 2011).

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 Regulatory Capital).

Table 15 - Remuneration and incentive systems and practices

Qualitative disclosure

The remuneration of listed companies and financial intermediaries has been the subject of increasing scrutiny by international bodies and regulators, aiming to guide issuers and intermediaries towards the adoption of remuneration systems that are consistent with the principles - intensified by the economic and financial crisis - governing the process for drawing up and approving the remuneration policies, their compensation structure and their transparency.

In particular, according to these principles, remuneration systems must take into account current and future risks and the level of capitalisation of each intermediary, and guarantee remuneration based on results actually achieved.

In 2011, Italian Authorities defined a set of key rules, also in accordance with the relative community regulations adopted on this issue.

By a regulation dated 30 March 2011, the Bank of Italy issued new provisions dictating harmonised rules and regulations to govern banks' remuneration policies, systems and practices, in terms of the relative process of preparation and control, compensation structure and disclosure obligations. The Supervisory Authority further intensified monitoring of the latter by including remuneration systems and practices among the information to be disclosed under Pillar 3 reporting, pursuant to Title IV of Circular 263 dated 27 December 2006.

Moreover, ISVAP (now IVASS), with regulation 39 of 9 June 2011, dictated the principles regarding the decision-making processes, structure and disclosure obligations of the remuneration policies of insurance companies.

In its resolution 18049 of 23 December 2011, Consob regulated implementation of the provisions contained in Article 123-ter of the Consolidated Law on Finance, which require issuers to draw up and publicly disclose a report on remuneration.

Last, several important updates have been introduced on the self-governance level as well. After being initially modified (March 2010) in the part regarding remuneration, the Corporate Governance Code underwent a complete overhaul that resulted in the publication of a new edition in December 2011.

Subsequently, the Bank of Italy revisited the topic of remuneration policies with a communication on 2 March 2012, highlighting in general the opportunity for banks to define a strategy that is consistent with the objective of preserving, with a view to the future, the equilibrium of the company's position, as well as maintaining the conditions of capital adequacy and prudent management of liquidity risk. In November 2012, the Supervisory Authority, in implementation of the guidelines of the European Banking Authority (EBA) calling for a comparative analysis at the European level, launched a thorough process of collecting information concerning the remuneration of all employees, in which it dedicated particular attention to the amount of variable remuneration of "key personnel" and "high-earners" whose total annual remuneration is at least 1 million euro.

Procedures for the adoption and implementation of remuneration policies

The role of Corporate bodies

For companies adopting the dual management and control system, the remuneration policies are partly resolved by the Shareholders' Meeting and partly by the Supervisory Board.
The relative procedure is complex and involves, as regards the remuneration policies for employees and other staff, the Management Board.

a. The Shareholders' Meeting

In accordance with Article 2364-bis, paragraph 1, no. 2) of the Italian Civil Code and pursuant to the provisions of the Articles of Association, the Shareholders' Meeting of Intesa Sanpaolo is responsible for determining the remuneration for Supervisory Board Members appointed by the same and for Members appointed to special offices.
The Shareholders' Meeting is also responsible for approving the remuneration policy for Management Board Members and the financial-instrument based remuneration schemes.
Pursuant to the aforementioned Supervisory Provisions, the Shareholders' Meeting receives a report (at least yearly) on the implementation methods for the remuneration policies resolved by the Meeting for Management Board Members, as well as those subject to resolution by the Supervisory Board, which regard employees and other staff.
Furthermore, based on the provisions of Article 123-ter of the Consolidated Law on Finance, the Shareholders' Meeting resolves, in favour or opposed, on Section I of the Report on Remuneration, limited to the remuneration policies adopted by the Bank for Management Board Members, General Managers and Key Managers, as well as the relative procedures for adoption and implementation of those policies.
The resolution is not binding and its outcome must be disclosed within 5 days from the Meeting date, in accordance with Article 125-quarter, paragraph 2 of the Consolidated Law on Finance. In this respect, the Shareholders' Meeting held on 28 May 2012 agreed on the remuneration policies for the Management Board Members, General Managers and Key Managers, as well as on the procedures used to adopt and implement said policies.

b. The Supervisory Board

In accordance with the remuneration policies resolved by the Shareholders' Meeting, the Supervisory Board is responsible for determining the remuneration for Management Board Members, including in relation to the offices and duties attributed to them (Chairman, Deputy Chairman, Managing Director, Executive Board Member).
The Supervisory Board is also responsible for approving - on proposal by the Management Board - the remuneration policies for employees (including General Managers and Key Managers) and other staff not bound to the company by an employment agreement.
The Remuneration Committee is called upon to support the Supervisory Board in all activities concerning remuneration, assisting it in the preparatory activity by formulating specific opinions. The Committee has advisory duties and makes proposals in terms of compensation for Bank managers.
The Supervisory Board is also required to verify achievement of the parameters of the variable component of remuneration for the Managing Director and Executive Board Members.
Information on the composition and mandate of the "Remuneration Committee" is specifically illustrated, for the purpose of homogeneous treatment, along with the activities of the other Committees in the Supervisory Board, in the same Chapter of the "Report on Corporate Governance and Ownership Structures". The Chapter also summarises the activities carried out by the Committee in 2012. The Report on Corporate Governance and Ownership Structures is available on the website www.group.intesasanpaolo.com (Governance section).

c. The Management Board

In terms of remuneration, the Management Board, in accordance with the Articles of Association, has the exclusive responsibility for making decisions regarding:
- determination of the compensation for General Managers, further to the mandatory opinion of the Supervisory Board;
- determination, further to the mandatory opinion of the Supervisory Board, of the compensation for the Manager responsible for preparing the Company's financial reports;
- the definition, further to the opinion of Supervisory Board, of the remuneration for the managers of internal control functions, including internal audit, compliance to regulations and risk management, pursuant to the applicable laws or regulations.

The Control Functions

As mentioned above, the Supervisory Board is responsible for approving the policies on remuneration of employees and other staff not bound to the company by an employment agreement, upon proposal of the Management Board and with the involvement of the Remuneration Committee.
These Bodies also have the option of resolving on updates, amendments and/or derogations to the policy.

The Human Resources Department is responsible for drawing up the aforementioned remuneration policies that undergo the relative approval procedure, involving the following, to the extent of their responsibilities, as envisaged by the Regulations:

- the Risk Management Department, in order to ensure consistency of the remuneration policies and consequent incentive systems with the Group's risk appetite/strategy;
- the Planning and Control Department and the Active Value Management and Strategies (Strategic Planning) Service, in order to ensure consistency of the remuneration policies and consequent incentive systems with:
  - the strategic short and medium-long term objectives of the Companies and of the Group;
  - the level of capitalisation and liquidity of the Companies and of the Group;
- the Compliance Department, in order to verify compliance of the remuneration policies and consequent incentive systems with the Group's rules, regulations, codes of ethics and standards of conduct.

In accordance with the guidelines of the Supervisory Authority, the Internal Auditing Department annually verifies compliance of the remuneration implementation procedures to the relevant policies, informing the Supervisory Board and the Shareholders' Meeting on the results of the verifications conducted.

Criteria used to assess the performance targets at the basis of assignment of variable components

Identification of the parameters used to evaluate the performance objectives on which to base the assignment of incentives to management, risk takers and, more in general, all personnel of the Group, is carried out by the strategic planning function, examining the economic and financial indicators considered most significant for achievement of the budget objectives, periodically monitored through internal reporting tools and available at the consolidated level as well as according to division and/or business unit.

The process used to identify these parameters also involves the internal control functions (risk management, compliance and human resources), in order to ensure full compliance with the Group's Risk Appetite and with the regulatory provisions in effect at the time in question.

This has resulted in the selection of a complex mix of qualitative and quantitative parameters - transparent, objective and measurable (see paragraph "The Correlation between remuneration, risk and performance") - allowing a 360-degree evaluation of the company's performance in terms of profitability, risks taken, capitalisation and liquidity.

Remuneration of the Supervisory Board Members

General criteria

The Bank's Articles of Association envisage that members of the Supervisory Board, in addition to the reimbursement of expenses sustained due to their office, shall be entitled to remuneration for the services rendered, which is determined for the entire period of their office by the Shareholders' Meeting at the time of their appointment, also taking into account the remunerations due to Board Members appointed to special offices.

For the remuneration of the Supervisory Board Members that will be appointed for the years 2013/2014/2015, see the specific point in the agenda of the Shareholders' Meeting convened pursuant to Art. 2364-bis of the Italian Civil Code for renewal of the Board.

The Supervisory Board Members appointed for the expiring mandate (2010, 2011 and 2012) receive a gross, fixed annual remuneration of 150,000 euro as established by the Shareholders' Meeting held on 30 April 2010, which appointed them.

The characteristics of the remuneration system for members of the control body - predetermined and invariable - are a guarantee of the independence of their activity, whose diligence must never be based on expectations of an increase in remuneration depending on the results achieved by the company. The Supervisory Provisions on remuneration confirm that members of the control body may not receive any variable remuneration.
Effective from 1 July 2012, the Supervisory Board Members, in acceptance of the Chairman's invitation, reduced by one-third their fixed remuneration for their position and personal offices held within the Board. As for the Chairman of the Supervisory Board, this reduction is in addition to the waiver of one-third of the compensation for the position applied effective 1 May 2012.

Finally, an insurance policy (the so-called "D&O policy") has been stipulated in favour of the Supervisory Board Members.

Conduct of special offices

The Articles of Association envisage that some Members shall be invested with special offices and that, as a consequence, the Shareholders' Meeting shall determine their relative remuneration.
The Shareholders' Meeting has therefore established the following additional annual remuneration: 1,200,000 euro gross to the Chairman; 200,000 euro gross to each Deputy Chairman; 150,000 euro gross to the Secretary.

Membership of Committees

In terms of the activities that the Members are called upon to carry out as members of the Committees established within the Supervisory Board also pursuant to the Articles of Association, the Shareholders' Meeting has recognized the following additional remuneration: 50,000 euro gross, annual pay to the Chairmen of the Committees; 2,000 euro gross, as an attendance allowance, to each Supervisory Board Member designated to participate in the Committees and based on actual attendance at each meeting.
Pursuant to the Articles of Association, the members of the Control Committee are required to participate in meetings of the Management Board. The Shareholders' Meeting has determined that this task be remunerated and, in this respect, has recognised a gross, unit attendance allowance of 2,000 euro to each member of the Control Committee, based on actual attendance at each meeting of the Management Board.
The Chairmen of the Nomination Committee, Strategy Committee and Remuneration Committee have waived – as in the prior term – the annual remuneration envisaged for this office.

Termination of office; employee termination indemnities

The Supervisory Board Members are not in the regular employ of the Bank. No agreements exist obliging the Bank to pay Board Members an indemnity in the event of their resignation or termination of their office following a public takeover bid.

Remuneration policy for Management Board Members

Objectives and structure

The Articles of Association require the Shareholders' Meeting to approve the remuneration policy for Management Board Members and the Supervisory Board to determine the relative remuneration amount.

To this end, with respect to the remuneration policies for the Management Board Members that will be appointed by the Supervisory Board for the years 2013/2014/2015, see the specific report drawn up by said Board, under the specific point of the agenda of the Shareholders' Meeting convened pursuant to Art. 2364-bis of the Italian Civil Code.

On the occasion of the previous renewal of the Bank's Corporate bodies, the Shareholders' Meeting of 30 April 2010, on the proposal of the Supervisory Board (with the support of the Remuneration Committee, in turn supported by Russel Reynolds, a leading international consulting firm), approved the remuneration policy for the Management Board Members appointed for the years 2010/2011/2012.
This policy combines the following objectives:

- boosting the Bank's and Group's competitiveness in the domestic and international context in which they operate;

- attracting qualified professional profiles suitable for the management requirements of the Bank and Group;
- aligning the interests of Management Board Members with pursuit of medium-/long-term value creation for our shareholders, with a view to prudent risk management and accountability towards all stakeholders;
- promoting the long-term sustainability of remuneration policies, balancing them with a full awareness of risks taken and of risk control measures, consistently with medium-/long-term objectives.

According to the policy in force, the remuneration of Management Board Members consists of a fixed portion and a variable portion. The fixed amount depends on the role assigned to the Management Board Members and the time required to properly fulfil the assigned tasks, while the variable portion is reserved exclusively for the executive members, namely the Managing Director and members of the specialised Commissions. Therefore:

- as members of the Bank's management body, all Management Board Members shall receive a gross, fixed, annual remuneration for each year of their term of office;
- Management Board Members holding special offices (Chairman, Deputy Chairman, Managing Director, Commission member) shall receive an additional remuneration consisting of a fixed annual amount for each year of their term of office. In the event of more than one office, only the highest fixed remuneration will be assigned.

With particular regard to the balance between the fixed and variable component, the remuneration policy is based on an assessment of the individual positions, with careful analysis of the following elements:

- the responsibilities associated with the position under the law and the Articles of Association;
- the peculiar aspects and complexity of the duties of the position;
- the expected long-term contribution to increasing the sustainability of the Bank's performance, not only in economic terms, and to value creation for shareholders and stakeholders.

With regard to the variable components, however, the policy envisages that the Supervisory Board:

- identify the relative parameters and values, according to pre-determined quantitative and qualitative indicators that can be objectively measured, ensuring there is a link between the level of risk taken and the achievement of results;
- ensure that they are aligned with actual performance and therefore are significantly reduced or forfeited if performance falls below target or is negative;
- ensure that they take into account the results achieved by the Bank and the Group.

As mentioned, the variable component shall apply to the Managing Director and the Executive Management Board Member (member of Commissions).
Previously, the Managing Director received an annual variable remuneration component linked to the target Budget and a further variable component linked to the Business Plan. Upon approval of the new Incentive System in July 2011, these fixed variable components were unified with effect from 2011.

Each Executive Management Board Member is entitled to a pre-established variable remuneration amount equal to a maximum of 20% of the fixed component. This variable component is linked to the objectives set out in the Business Plan and to parameters to be identified by the Supervisory Board. With respect to 2011, the executive Management Board Members waived the variable component correlated to the achievement of objectives for the year of reference.

Finally, an insurance policy (the so-called "D&O policy") has been stipulated in favour of the Management Board Members.

Non-executive Management Board Members
Non-executive Management Board Members are entitled to a gross, fixed, annual remuneration for 2010/2011/2012 of 150,000 euro, as determined by the Supervisory Board.

Conduct of special offices
The Supervisory Board has established the following additional annual remuneration: 1,200,000 euro gross to the Chairman; 200,000 euro gross to each Deputy Chairman.
The Chairman of the Management Board, like the Chairman of the Supervisory Board, waived one-third of the compensation for the position effective 1 May 2012.

The Supervisory Board subsequently resolved an additional remuneration in favour of the Senior Deputy Chairman, for the fixed, gross amount of 150,000 euro, due to a special task assigned by the Management Board to handle, in agreement with the Managing Director and in coordination with the Chairman of the Management Board, development of the Bank's and the Group's international relations and internationalisation projects.

Managing Director and Executive Management Board Members

For the Managing Director, the Supervisory Board has established a fixed annual remuneration (350,000 euro), in addition to that as member of the Management Board.
Since the Managing Director covers the functions of the Chief Executive Officer, the Supervisory Board has determined an additional remuneration, on an annual basis, consisting of a fixed portion and a variable portion.
The fixed share of such compensation was approved for [redacted] in the amount of 1,800,000 euro, of which 300,000 euro for the stability pact referred to below, plus insurance and welfare benefits, as well as the supplementary pension benefit, equal to 20% of said annual gross remuneration.

With regard to the 2012 incentive system for the Managing Director and CEO, the Supervisory Board has established that:

- the amount of the variable component of remuneration is to be indexed on the fixed portion (1,800,000 euro), with a maximum multiple of 1.5;
- the conditions for access to the incentive system must be satisfied; these conditions are the regulatory requirement in terms of core tier 1 capital (EBA), minimum income before tax from continuing operations and the absence of individual compliance breaches;
- it is also to be verified that the assigned targets have been met, sub-divided into quantitative Group targets (the total weight of which is 70%) and those relating to qualitative individual evaluation (which accounts for 30% of the total); the former are the KPIs identified for the implementation of the strategic drivers Productivity, Profitability and Cost of Risk/Sustainability, also measured in comparison with competitors (e.g., income before tax from continuing operations/tangible equity vs. peers); the latter refer to the actions taken, against which to measure managerial qualities and particular key projects.
- the variable component is disbursed according to the schedule, with the tools, provided that the malus conditions have been met and after the holding periods established in regulations and described below.

The aforementioned key projects for 2012 are six initiatives aimed at improving credit quality, recouping profitability and investing in planning and strategic control culture and tools (Tableau de Board): overall, these measures will have a weight of 15%. The same weight will be assigned to managerial qualities, which are to be measured through Talent Management, as well as the eight reorganisation projects, which will continue their work beyond 2012.

Comparison between the results obtained and targets identified, weighted according to the above weights, yields the incentive percentage achieved: variable remuneration is then obtained by multiplying that percentage by the base amount of fixed remuneration (1,800,000 euro). A 60% share of that amount will be subject to deferral into 2014, 2015 and 2016, in equal instalments, with the following malus conditions: a core tier 1 ratio in excess of the regulatory threshold and AV2 consistent with the Group's Risk Appetite Framework. Variable remuneration is paid 50% in cash and 50% in Intesa Sanpaolo Group shares.

Based on the provisions of the remuneration policy, for 2012 the Supervisory Board established the following for executive Management Board Members, without prejudice to the specific fixed annual compensation (150,000 euro) in addition to that as Management Board member and not cumulative, in line with the policy resolved by the Shareholders' Meeting, with that of Deputy Chairman, if the same person holds both offices:

- a base amount of variable remuneration equal to 20% of the fixed component for the office, as determined by the Supervisory Board in its resolution of 7 May 2010;
- the payment of the amount solely in cash;

- verification of compliance with the regulatory requirement in terms of Core Tier 1 (EBA) and the achievement of a minimum income before tax from continuing operations, as envisaged for the Managing Director and CEO;
- verification of the achievement of the targets assigned to the Managing Director and CEO in relation to the Group, namely the KPIs identified for the implementation of the strategic drivers Productivity, Profitability and Cost of Risk/Sustainability.

Comparison between the results obtained and the above targets, with the relative weighting, will yield the bonus target percentage achieved: variable remuneration for 2012 is then obtained by multiplying that percentage by the base amount of variable remuneration for each Member concerned.

A 60% share of that amount will be subject to deferral into 2014, 2015 and 2016, in equal instalments, with the following malus conditions: a core tier 1 ratio in excess of the regulatory threshold and AV2 consistent with the Group's Risk Appetite Framework.

For 2012, excepting the above-mentioned restrictions regarding the amount of variable remuneration and payment by cash, the incentive to which executive Management Board members are entitled was defined in accordance with the remuneration policy guidelines in effect for Top Management and Risk Takers.

No stock option plan is currently in place for the Managing Director or other Management Board Members. However, a share of the annual incentive system for the Managing Director and CEO is to be paid in financial instruments, equal to 50% of the portion paid up front and 100% and 50% of the second and third deferred portions, disbursed in 2015 and 2016, following verification of the conditions described above (malus conditions) and in accordance with the respective holding periods (two years for shares paid as the up-front portion and one year for shares paid as the deferred portion).

Termination of office; employee termination indemnities
The Members of the Management Board, with the exception of the Managing Director who is also General Manager, are not in the regular employ of the Bank.
No agreements exist that envisage payment of an indemnity in the event of resignation or termination of employment following a public takeover bid.

As stated, the Supervisory Board deemed it appropriate to formalise an agreement with the new Managing Director and CEO, in order to provide stability to the Bank's top management.
The formula selected is a stability pact that offers guarantees to both parties of an onerous commitment for the period from the appointment date ([redacted]) and 20 February 2015. The remuneration for said stability pact is 300,000 euro, which is added to the annual gross remuneration for the office of Chief Executive Officer and General Manager (GAP). In the event of violation of the pact, the penalty will be two years of the GAP for the Bank and one year for the party in question.
Taking into account the above, the Supervisory Board has set the amount of GAP recognised to the new Managing Director at 1,800,000 euro, including 300,000 euro for the aforementioned stability pact, also confirming the additional remuneration components for the same office (supplementary pension equal to 20% of the GAP, insurance coverage, accident insurance, etc.).

Remuneration policy for the corporate bodies of subsidiaries

Remuneration for members of the corporate bodies of Group companies is defined by Intesa Sanpaolo in its capacity as majority shareholder and entity responsible for management and coordination activities, pursuant to the relative statutory and banking regulations. The remuneration policy for corporate bodies, therefore, complies with the following principles, applied uniformly at Group level, in accordance with the regulatory context of the various countries in which Intesa Sanpaolo operates through its subsidiaries.

Members of the management and supervisory boards of companies of the Intesa Sanpaolo Group receive compensation commensurate to their assigned duties and responsibilities. To ensure uniformity and normalisation in accordance with Group standards, specific determination of the compensation of directors is carried out by considering parameters such as the capital and economic size and organisational complexity of the company in question, as well as other objective and qualitative elements, such as the nature of the business carried out by the subsidiary and its operating risk profile. Similar criteria apply in determining the compensation for directors appointed to special offices, pursuant to Article 2389 of the Italian Civil Code and similar provisions in effect in foreign countries.

Variable compensation amounts, bonuses linked to results, profit-sharing clauses or options to buy shares at predetermined prices are not normally envisaged. Exemptions from this principle are envisaged only on an exceptional and justified basis, in accordance with the Group remuneration policies and the relative supervisory regulations in force. In general, there are no differences in the remuneration of directors who are Group employees, professionals, independent, etc. The remuneration of Group employees who are appointed as directors in subsidiaries is paid through the company with which an employment agreement is in place.

Remuneration of members of the board of statutory auditors of Italian subsidiaries is determined upon appointment for the entire term of office, pursuant to Article 2402 of the Italian Civil Code, with a fixed yearly amount. The amount paid to statutory auditors is determined through a uniform calculation method at Group level that takes into account objective parameters, namely capital and revenues of the company, in order to identify a specific compensation amount.

Members of the corporate bodies normally have the right to reimbursement of the expenses incurred as a result of their office.

Finally, an insurance policy (the "D&O policy") is stipulated for the corporate officers of subsidiaries.

Remuneration policy for employees and other staff not bound by an employment agreement

This chapter deals with the remuneration policy for all personnel, as approved by the Bodies for 2013, including for the purposes of the Shareholders' Meeting vote as envisaged by Article 123-ter of the Consolidated Law on Finance - General Managers and Key Managers. In the current organisational structure of Intesa Sanpaolo and in accordance with the provisions of the Group Procedures relating to the conduct of related party transactions, these also include, in addition to Members of the Supervisory Board and Management Board and to the General Managers:

- the Manager responsible for preparing the financial reports
- the Heads of the Divisions and Business Units
- the Chief Operating Officer, Chief Financial Officer, Chief Risk Officer and Chief Lending Officer
- the Heads of Head Office Departments that report directly to the Managing Director, the Chairman of the Management Board and the Chairman of the Supervisory Board
- the Head of the General Secretariat of the Supervisory Board
- the Head of Strategic Operations and Special Projects.

Objectives of the remuneration policy

The remuneration policy of the Intesa Sanpaolo Group is based on the following principles:

a) alignment of the conduct of management and employees to the interests of shareholders, to the medium and long-term strategies and to company objectives, as part of the set of rules aimed at accurate monitoring of the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
b) merit, to guarantee better matching with actual performance and the quality of management identified, through:
    - remunerative flexibility via the variable remuneration component linked to results achieved;
    - a focus on key staff members demonstrating high management quality, to whom competitive salary brackets, aligned to the market of reference, are reserved;
    - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;
c) equality, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
    - the correlation of a person's fixed salary to the weight of the role held;
    - the differentiation of salary brackets and the proportion of variable pay components on global remuneration, on the basis of professional categories;
d) external competitiveness of overall annual remuneration with respect to the levels in the large European banking groups, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market;

e) sustainability, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
   - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved, while also taking account of the reference peer group;
   - selective reviews of fixed pay;
   - the use of objective parameters when reviewing pay;
   - alignment of costs to company performance, by varying the amount of remuneration paid to management;
   - the determination of appropriate caps on both total incentives and the amount of individual bonuses;

f) compliance with the international, European and national legal and regulatory provisions and the consequent focus on Key Managers, Risk Takers and Control Functions.

Segmentation of personnel

The remuneration policy guidelines of the Intesa Sanpaolo Group have always been based on the principle of segmentation, according to the role and contribution provided, with respect to the corporate governance processes as well as the systems and tools adopted.
The rationale underlying the segmentation principle is also used by the Regulator with reference to the type and content of operational risk assumed by personnel and has resulted in the following grouping, which contains some new elements compared to the population segments traditionally used in the Group:

- Key Personnel;
- Extended Scope;
- Other Managers
- Remaining Personnel.

The first segment ("Key Personnel") is identified by the Bank of Italy as i) executive directors, ii) the general manager and heads of the main business lines, corporate functions or geographical areas, as well as those who report directly to bodies with strategic, management and control duties, iii) heads and higher-level personnel of the internal control functions[1], iv) other individuals who, individually or collectively, take on significant risk and v) any employee whose total remuneration falls within the same range as categories ii) and iv).
Intesa Sanpaolo Group "Key Personnel" are identified through the application of organisational criteria, considering:

- the clear definition of rules, processes and procedures from which the specific assignment of responsibility derives, differentiated among the various hierarchical levels (Divisions, Governance Areas, Departments, Services, Offices, Units);
- the close correlation between the role and position covered within the Group's organisational structure and the assignment of independent management powers, powers in terms of credit granting and management, and risk limits (VaR) for Banca IMI, with the power and independence to impact the Group's overall risk profile, limited to those with the most important positions in the Group's organisation.

In addition to the Chief Executive Officer, the following are classified under "Key Personnel":

- General Managers and the remaining Key Managers (excluding those with "Control Functions"[2]);
- the Managing Directors/General Managers of Banca Fideuram, Eurizon Capital, Banca IMI and Intesa Sanpaolo Vita;
- the Heads of the Group "Control Functions" (Chief Risk Officer, Internal Auditing Department, Human Resources Department, Manager responsible for preparing the Company's financial reports, Compliance Department and Risk Management Department, Anti-Money Laundering Service);
- other individuals taking on significant risk include:
   - o the heads of the remaining Head Office Departments;
   - o the heads of the Business Departments in the Corporate and Investment Banking Division, Banca dei Territori Division and International Subsidiary Banks Division of Banca Fideuram and Eurizon Capital;
   - o the Managing Directors / General Managers of large banks and subsidiaries;

[1] i.e. functions of internal audit, compliance, risk management, anti-money laundering, human resources and those with direct responsibility for the truthfulness and accuracy of the bank's accounting and financial data.
[2] Although the Chief Risk Officer, Head of the Internal Auditing Department and Manager responsible for preparing the Company's financial reports are all Key Managers, they are considered to carry out "Control Functions" for the purposes of application of the specific regulations on incentives envisaged by the new Supervisory Provisions.

- o the key roles of responsibility in terms of finance/investment banking, with particular reference to Banca IMI, where not already included in the personnel outlined in the previous point;
- o the CEOs of the international subsidiary banks.

Any individuals whose variable remuneration is equal to or greater than 500,000 euro are also subject to the same treatment, as outlined below, for "Key Personnel" belonging to the first two clusters indicated above.

The "Extended Scope" includes managers identified in application of the "principle of proportionality," namely:

- those who report directly to the Heads of Head Office Departments and the Heads of Business Units within the Corporate and Investment Banking Division, Banca dei Territori Division, International Subsidiary Banks Division, Banca Fideuram and Eurizon Capital, who, due to the nature of their roles, assume significant risks (e.g., roles of responsibility in the lending process) and/or enjoy levels of remuneration significantly above average;
- the remaining personnel of a higher level than the "Control Functions," where not already included among "Key Personnel" (typically line reporting or control duties within the Group's Italian and international legal entities).

The third segment (Other Managers) includes the remaining department heads not included amongst "Key Personnel" and the "Extended Scope."

The fourth segment (Remaining Personnel) includes all of the other employees and financial advisors of the Group whose remuneration is predominantly defined by the contractual provisions in effect from time to time in the countries in which the Group operates.

The correlation between remuneration, risk and performance

The correlation between remuneration, performance and risk is ensured for all employees through:

- use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- the introduction, on the basis of the "financial sustainability principle", of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as income before tax from continuing operations;
- use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group's overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group's income before tax from continuing operations;
- the introduction of the "guided discretion principle", which translates into the assignment to the CEO of a limited part of the Group's bonus pool (10%), eligible for allocation once the threshold has been reached, to departments that have exceeded their access thresholds, as further recognition for the quality and level of performance achieved;
- observance of the access conditions provided for in international and national regulations, namely, at the Group level, the achievement of the required capital adequacy levels (core tier 1 capital in excess of the regulatory threshold) and, at the individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- measurement of performance from multiple perspectives, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different perimeters (Group/Department/Individual). The following are some examples of indicators for performance drivers:
  - o profitability: price/BV vs. peers, income before tax from continuing operations/capital allocated, portfolio mix (assets under management vs. assets under administration) and combined ratio (non-life business);
  - o growth: operating income, revenues / total assets (asset management);

  - o productivity: cost/income, recovery on directly managed problem portfolios (top level doubtful and non-performing loans) and PON/FTE;
  - o cost of risk/sustainability: improvement of the funding/lending gap, RWAs relating to credit/loans, balance sheet quality and active risks profile;
- the use of an additional mechanism that measures the adequacy of each Business Unit's internal control systems (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

For the Manager responsible for preparing the Company's financial reports and the Heads and higher-level personnel of the internal control functions, assuming application of conditions set out above and the "malus condition" described below, determination of the incentive accrued is strictly defined with reference to the specific qualitative and quantitative indicators of the respective functions, in accordance with the Supervisory Provisions. In the particular case of the Manager responsible for preparing the Company's financial reports, such indicators allow assessment of i) the quality of administrative and financial reporting disclosures to the market , ii) accuracy in the preparation of the consolidated financial statements, iii) the effectiveness of guidelines and policies governing financial reporting and tax obligations and iv) the effective, timely fulfilment of accounting and supervisory obligations.

With regard to the Chief Risk Officer, the Heads of the Risk Management, Compliance and Internal Auditing Departments, the Head of the Anti-Money Laundering Service and the higher-level personnel of these areas, these indicators measure their performance in accomplishing their respective control activities with regard to the various types of risk (market, credit, interest rate, liquidity, operational, country, and non-compliance, as well as money laundering and terrorism financing). Performance is measured both in quantitative terms (e.g., value of unexpected operating loss, number of sanctions received from regulatory entities, etc.) and qualitative terms (e.g., the quality of cooperation with the business in improving the ways in which risk and compliance are managed, reinforcement of the culture/skills of risk and compliance by means of effective risk management guidelines, the development of tools/skills for monitoring risks abroad, etc.).

For the Head of the Human Resources Department and higher-level personnel, the indicators allow measurement of performance in both quantitative terms (e.g., qualitative and quantitative coverage of the workforce required to achieve the Group's strategic objectives and the cost of labour target at the level of the consolidated financial statements) and in qualitative terms (e.g., quality of training, talent recruitment and succession plan development).

Remuneration components

Employee remuneration is broken down into:

a) fixed component, defined based on the contractual agreement, the role held, any responsibilities assigned, and the specific experience and expertise acquired by the employee, including any indemnity;
b) variable component, linked to employee's performance and aligned to the short and long-term results actually achieved, and consisting of:
   - specific incentive systems, as described further on, that provide for bonuses in line with market standards, as reported by periodic specialist surveys such as the Italian Banking Association's annual salary survey, focusing on personnel of the commercial network;
   - company bonus, envisaged by the Italian collective labour agreement and designed to reward employees for productivity increases, on the basis of their respective job profiles;
c) any benefits designed to increase employee motivation and loyalty; these may be of a contractual nature (e.g., supplementary pension, health benefits, etc.) or the result of remuneration policy decisions (e.g., company car) and, therefore, have different treatment with respect to different categories of personnel.

The remunerative pay mix

For the purposes of this Report, the term "pay mix" refers to the weight of the fixed and variable components expressed as a percentage of total remuneration, as described above.

In accordance with the regulatory guidelines, the Intesa Sanpaolo Group adopts a pay mix that is appropriately balanced between the aforementioned components, in order to:

- allow flexible management of labour costs, as the variable portion may significantly decline, even down to zero, depending on the performance actually achieved during the year in question;

- discourage behaviours focused on the achievement of short-term results, particularly if these involve taking on greater risk.

In order to achieve the above objectives, ex ante limitations were established in terms of maximums for variable remuneration, through the definition of specific caps on the increase of bonuses in relation to any over-performance.
Moreover, the pay mix was differentiated with respect to the following:
- the various categories of personnel, with particular focus on "Key Personnel" and the "Extended Scope", in order to adequately reflect the level of impact on risk and performance, limiting the weight of the variable component for personnel of the internal control functions;
- professional categories, i.e. by business unit, consistently with the results obtained from specific benchmark analysis of the leading European banking groups that also guarantee observance of the internal equality principle, given the use of common benchmarks for each statistical population;
- key staff members demonstrating high management quality, in order to support meritocracy and retention of these resources.

The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.

In relation to market data, the Intesa Sanpaolo Group aims to align the overall remuneration to median values, notwithstanding the possibility to make the appropriate differentiations for particularly critical positions and/or resources with high management skills.

In terms of guidelines, the incidence of the variable component with respect to the fixed component is periodically revised for the various categories of personnel according to the performance of the business, human resources management and development strategies and the law in force at the time.
In general, remuneration of personnel is subject to periodic review, in order to verify constant alignment to developments in the internal situation and in the market, also taking into account the results of performance evaluations. In these cases, under the annual budget allocations (based on the overall economic compatibility), measures aimed at adjusting the total pay of personnel, through tools defined by the Group management policies and in accordance with the powers in terms of personnel effective from time to time, may be envisaged.

The appropriateness of total pay is also evaluated in cases of assignment of tasks or changes in organisational position, in order to verify consistency with the required skills and assigned responsibilities in the new position.

All decisions regarding remuneration are to be taken in accordance with the Group's Remuneration Policies, in concert with the Human Resources Department and in a manner consistent with international and national regulation.

Incentive systems for Group personnel

a. Group's bonus funding mechanism and configuration by department

All of the Group's human resources incentive systems are funded by a structured bonus pool mechanism.

The Group's bonus pool is activated if, and only if, income before tax from continuing operations exceeds the minimum access threshold, and it gradually increases as the thresholds are exceeded, up to a predefined maximum (cap).

The portion of income before tax from continuing operations to be allocated to funding the Group's bonus pool is determined in advance, on an annual basis, according to an historical analysis and budget projections. The resulting Group bonus pool is corrected according to an evaluation of the performance of Intesa Sanpaolo relative to a panel of its domestic peers defined during the budgeting process (+/- 10%), on the basis of criteria of comparability by size (assets), capital and talent market and business mix.

The Group's bonus pool funds all incentive systems, with the exception of those of Banca IMI, for which a specific bonus pool is defined. As a matter of fact, commercial and investment banking performances have followed opposite, alternating trends, especially in the recent past. In order to prevent the distorting or offsetting effects, it was decided to separate the Banca IMI perimeter from the rest of the Group, thus yielding two bonus pools, independent in terms of funding and equal in terms of functional mechanisms (with the sole exception of the correction for relative performance, which does not apply to Banca IMI, considering the limited presence and relevance of domestic peers).

The allocation of the Group's bonus pool by department is correlated to size (relative weight of the department's target total bonus within the Group's total bonus) and adjusted according to the degree of contribution during the year concerned (the department's income before tax from continuing operations with respect to the access threshold).

The financial sustainability principle is also computed at department level. Accordingly, only departments that exceed their access thresholds receive the predefined pool (once the Group's minimum threshold has been reached). The bonus pool of a department that has not exceeded its access threshold (the "additional" bonus pool) may be allocated to departments that have exceeded their access thresholds.

b. "Key Personnel" and "Extended Scope"

The regulations dictate specific rules on the variable remuneration component for "Key Personnel", requiring that:

- at least 40% (which can be raised to 60% for executive directors, top managers and heads of the main business lines, corporate functions or geographical areas) be subject to deferred payment systems for a period of at least 3 years, so that the remuneration takes into account the trend in risks taken by the bank over time;
- a significant portion of at least 50% be adequately balanced among shares, instruments linked to shares or, for unlisted banks, equivalent instruments and, where appropriate, innovative and non-innovative capital instruments up to 50% of Tier 1 capital and that adequately reflect the bank's credit quality on an on-going basis; this percentage is applied, in the same proportion, to the deferred variable component as well as to the non-deferred (upfront) component;
- there be a specific retention mechanism in place (of at least 2 years for the upfront component, shorter for the deferred component) for the above financial instruments;
- it be subject to the appropriate ex post (malus or clawback) adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuing, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative.

For the "Extended Scope," the law requires the application of the proportionality principle, by which is meant the "discretionary" adjustment of the rules set for "Key Personnel."

The Intesa Sanpaolo Group has defined the following in application of the above regulations.

Deferred disbursement of variable remuneration
The deferral percentages required by law are applied to "Key Personnel":
- 60% for categories 1 and 2; and
- 40% for the remaining categories.

The deferral percentage applied to the "Extended Scope" is 40%.

Payment of variable remuneration through financial instruments:
The assignment of financial instruments of the Intesa Sanpaolo Group is envisaged for "Key Personnel" with respect to:
- 50% of the upfront remuneration
- 50% of the deferred remuneration.

The assignment of financial instruments is not envisaged for the "Extended Scope".

Deferral period:
For "Key Personnel", the deferral period is equal to 3 years, with payment of three equal instalments at the three annual deadlines following the year of accrual of the upfront component. Considering the retention period specified below for the portion paid in shares to "Key Personnel", payment of the incentive is complete after five years from the reference year.
A simpler deferral method (with a single solution after two years) is envisaged for the "Extended Scope".

Breakdown of deferred portions:
The composition of the deferred portions for "Key Personnel" is as follows:
- 1st deferred portion: 100% cash;
- 2nd deferred portion: 100% financial instruments;
- 3rd deferred portion: 50% financial instruments, 50% cash.

The composition of the deferred portion for the "Extended Scope" is 100% cash.

Retention period:
The following holding period is envisaged for the assigned financial instruments:
- 2 years for those assigned as the upfront portion;
- 1 year for those assigned as the deferred portion.

Relevant Bonus
The threshold for identification of a "Relevant Bonus" is set at 80,000 euro, down from the previous figure (100,000 euro).

Bonuses below that threshold are paid entirely in cash and up front, inasmuch as the amounts that would result from the application of the deferral, payment in shares and holding period mechanisms would be quite insignificant in both absolute and relative terms with respect to total remuneration collected, to such an extent as to result in effective invalidation of the principle that inspires the mechanism (correlation between the amount of a bonus and assumption of risks).

Variable remuneration payment conditions:
The deferred portion is subject to the individual remaining with the Group at the end of the deferral period or at the deadlines envisaged for actual delivery of the financial instruments, save as provided in paragraph "Termination of the employment agreement", as well as to the "malus condition" described below and to the non-existence of negative events directly attributable to the person's behaviour, in carrying out their activities, that jeopardises the sustainability of results over time.

Calculating the total incentive payable:
The total amount due (sum of the up-front and deferred components) is assigned annually to individual managers according to the position achieved in the "internal rankings" of their Business Units/departments.

The rankings are obtained by ordering the scores of the results of the individual performance sheets, constructed according to the criteria illustrated above, assigned to each manager.

Those placed above the third quartile in the rankings (equivalent to 25% of managers) receive the maximum bonus. This bonus is equal to 150% of GAP, with the exception of heads and higher-level personnel of Internal Control Functions, for which it comes to approximately 67% of GAP (net of any role indemnities).

By contrast, managers who place below the first quartile (equivalent to 25% of the total) do not receive any bonus.

Those placed between the second and third quartile (equivalent to 50% of the population) receive a bonus that is a function of the share of the bonus pool assigned to their business unit/department according to the funding mechanism described above, after deducting the total bonuses attributable to the best performers (i.e., managers who have placed above the third quartile).

The individual incentive calculation mechanism described above allows the application of the principles of selectivity, merit and differentiation of performance.

Malus condition on the deferred portion of variable remuneration:
Each deferred portion is subject to an ex post adjustment mechanism - the so-called malus condition - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced, even to zero, by the level of achievement, in the year to which the deferred portion refers, of specific objectives that reflect the maximum risk acceptable for the Group in terms of liquidity (AV2 consistent with the limits set by the Group's Risk Appetite Framework) and capitalisation (core tier 1 in excess of the regulatory threshold).

c. Other Managers
The remaining managerial population that does not belong to either "Key Personnel" or the "Extended Scope" is subject to an incentive system that is consistent with the provisions envisaged for the above segments. In fact, bonuses are determined according to the results achieved with respect to the targets set out in the individual performance sheets, the structure of which is entirely analogous to that applied to "Key Personnel" and the "Extended Scope".

Accordingly, the individual incentive calculation mechanism also implements the principles of selectivity, merit and differentiation of performance of this segment of the population as well.

Any "Relevant Bonuses" awarded to this segment, by which are meant bonuses in excess of the threshold of 80,000 euro, are subject to the deferral mechanisms envisaged for the "Extended Scope".

d. Remaining personnel
Specific incentive systems are in place for all Group employees, drawn up in accordance with the above-described principles, guidelines and rules envisaged for management.
In an effort to build fair and motivating incentive systems, studies were conducted on internal practices and their alignment with specific market benchmarks.

The incentive systems adopted call for bonus-award mechanisms that are differentiated by business area with the aim of implementing measures consistent with the specific professional qualities present within the company, recognising individual merit and rewarding teamwork.

The amount of bonuses paid is correlated to the performance of both the Division/Business Unit and the Group as a whole (financial sustainability and solidarity mechanisms).

The rationale underlying the incentive systems introduced and applied by the company can be summarised as follows:

- Retail & Private Business (Banca dei Territori Division): bonuses are awarded to reward team work, duly adjusted to take into account individual performance. The objective parameters used for determining incentives refer to the typical revenues of the business area, appropriately adjusted for risk (e.g. net revenues per employee) and aspects of a business nature (taking into consideration the compliance guidelines), duly combined with customer satisfaction and service quality indicators. In accordance with the principles of financial sustainability, merit and differentiation of performance, the system also calls for pre-determined selectivity criteria;

- Corporate & Finance Business (Corporate and Investment Banking Division) and Asset Management Business (Eurizon Capital, some Banca Fideuram subsidiaries): bonuses are awarded primarily to reward individual merit, also considering qualitative and behavioural elements, within the limits of team spirit, rewarding outstanding performance with incentives comparable to the target levels of markets of reference;
- Financial Advisors: without prejudice to the specific characteristics of the agency mandate (remuneration through commissions) in dealings with Banca Fideuram and Sanpaolo Invest, financial advisors, in accordance with the legislative provisions in effect from time to time, benefit from annual incentive schemes that, given suitable qualitative indicators, are connected with the level of achievement of the business objectives defined to support the company's growth, sustainability and profitability target;
- Governance Functions (Head Office Departments and Division Staff): incentives are awarded on the basis of overall Group/Division results. Consistent with the principles of financial sustainability, merit and differentiation of performance, the system also uses a series of selectivity criteria (in terms of a maximum number of staff members that may be rewarded) so as to ensure that bonuses are awarded exclusively for outstanding service and excellent conduct;
- International Subsidiary Banks: without prejudice to the use of adequate qualitative-quantitative indicators and compliance with the general Group policy, incentives are awarded on the basis of the procedures and local regulations in force from time to time in each Country.

Any "Relevant Bonuses" awarded to Remaining Personnel, by which are meant bonuses in excess of the threshold of 80,000 euro, are subject to the deferral mechanisms envisaged for the "Extended Scope".

e. Guaranteed bonuses

The assignment of guaranteed bonuses is not envisaged, with the sole exception of limited cases of recently hired employees, without prejudice to thorough assessment and analysis of market practice, solely for the first year.

Clawback mechanisms

The company reserves the right to activate clawback mechanisms, namely the return of bonuses already paid as required by regulations, as part of the disciplinary initiatives and provisions envisaged for fraudulent behaviour or gross negligence by personnel, also taking into account the relative legal, contributory and fiscal profiles.

Prohibition of hedging strategies

It is expressly prohibited to undertake hedging or insurance strategies on the fixed and variable component of remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods outside, or dodging, provisions of law.

Termination of the employment agreement

The termination of service of personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred. In all other cases, the company has the right to award any amounts, depending on the specific situations, also through consensual retrenchment agreements providing termination indemnities.
In any case, observance of the principles contained in the Group's Code of Ethics excludes the possibility of "golden parachutes" to its managers and employees.
In recent years, the Bank has signed specific agreements with the trade unions with regard to the "solidarity fund", applied to employees of all grades, including executives, which also governs the treatment of sums payable to personnel on termination of service.

Discretionary pension benefits

Discretionary pension benefits, when recognised, are assigned to beneficiaries in accordance with the regulations in force and, therefore:

- in the case of resources who are not entitled to receive a pension, will be invested in Intesa Sanpaolo shares or other related instruments, held by the bank for a period of at least five years and subject to ex post adjustment mechanisms related to the Group's performance net of risk;
- in the case of resources entitled to a pension, will be invested in Intesa Sanpaolo shares or other related instruments and held by the bank for a period of at least five years.

Description of remuneration items and consistency with the relevant policy

The remuneration of Board Members, General Managers and other Key Managers consists of:

a) a fixed component including, for:
    1. Supervisory Board Members, the remuneration resolved by the Shareholders' Meeting, including compensation for the performance of special offices and attendance fees;
    2. Management Board Members, the remuneration resolved by the Supervisory Board in accordance with the specific remuneration policies approved by the Shareholders' Meeting, including compensation for the performance of special offices;
    3. General Managers and other Key Managers, the gross remuneration amount defined individually based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the manager, including any indemnity;

b) a variable component (to which Supervisory Board Members or non-executive Management Board Members are not entitled), linked to performance and aligned to the short and long-term results actually achieved by the Bank and by the Group overall, resulting from application of the incentive systems approved by the relative corporate bodies in accordance with the remuneration policies in force. The variable component also includes the financial instrument-based incentive plan targeted to the Top Management and Risk Takers, approved in accordance with the remuneration policies, by the Management Board and the Supervisory Board, each within the scope of its remit, on 3 August 2012. For information on the implementation of said plan, refer to the proposal for assignment of financial instruments pursuant to Art. 114-bis of the Consolidated Law on Finance, subject to separate resolution by the Ordinary Shareholders' Meeting on 22 April 2013;

c) a component resulting from valuation of the benefits assigned to the General Managers and other Key Managers and including the amount paid by the company into the manager's supplementary pension fund and the premiums (taxable) paid by the Company for the relative insurance coverage; the tables do not report any other benefits granted to said personnel (for example, a company car) that are not taxable, also due to specific conditions under company policy (for example, if a monetary contribution by the manager is required)

Generally, no specific agreements are envisaged to govern benefits or indemnities to be paid on termination of the employment relationship, to Directors, General Managers and the other Key Managers, to which, in addition to the payment of the fees envisaged by the Italian Civil Code and, if such parties are employees, by the national collective employment agreement, the provisions in the previous paragraphs shall apply.

Quantitative disclosure

The 2012 incentive system for Top Management and Risk Takers

Introduction

Intesa Sanpaolo's remuneration and incentive policies were approved by the Supervisory Board based on a proposal of the Management Board of 17 April 2012 and subjected, limited to the scope of its responsibilities, to an advisory vote by the Shareholders' Meeting of 28 May 2012, which was favourable. On 3 August 2012, the Management Board and Supervisory Board approved, each within the scope of its remit, the incentive system for Top Management and Risk Takers (subsequently also referred to as the "System") implementing the policies.

The System is fully consistent with the recent regulatory provisions, with particular reference to:

- identification of "Key personnel", meaning those whose decisions have a significant impact on the Bank's risk profile, to which specific remuneration rules must be applied in terms of payment of variable remuneration;
- the ratio of the fixed component to the variable component of remuneration, suitably balanced;
- the structure of the variable component, of which:
  a) at least 40% (which can be raised to 60% for executive directors, top managers and heads of the main business lines, corporate functions or geographical areas) must be subject to deferred payment systems for a period of at least 3 years;
  b) at least 50% must be disbursed in shares or instruments linked to shares; this percentage is applied, in the same proportion, to the deferred variable component as well as to the non-deferred (upfront) component;
- the presence of a specific retention mechanism (of at least 2 years for the upfront component, shorter for the deferred component) for the financial instruments pursuant to point b);

Recipients

The System is addressed to "Key personnel", as defined by the Supervisory Provisions, identified by the Management Board and the Supervisory Board, each acting under its remit, as the Chief Executive Officer, the General Managers, the other Key Managers, the heads of the internal control functions at Group level, including the main hierarchical and functional reports, the heads of the main corporate functions and business areas and the persons defined by the regulations as "risk takers", who may take on significant risks for the Group, such as, merely by way of example, the heads of the main business units of Banca IMI, for a total of about 130 resources.

Therefore, recipients include managers who have regular access to privileged information and have the power to make management decisions which may affect the Group's evolution and outlook.

Plan objectives

Incentive plans are designed, in general terms, to retain managers and support their motivation to achieve the company's goals. Where they include financial instrument-based compensation, they also reinforce alignment of Management conduct, interests of shareholders and medium-/long-term results, in addition to managers' direct participation in corporate risk. Under this approach, the plans are an integral component of the Intesa Sanpaolo Group compensation system addressed to executive officers and remaining personnel, fully in line with its investment in human capital development, in the framework of a policy targeting sustainable long-term development and accountability vis-à-vis all stakeholders, by incentivising the achievement of goals identified by the competent corporate functions from among the indicators that best reflect Group profitability over time, also taking account of risks assumed, the cost of capital, liquidity and the level of capitalisation required to handle the activities implemented.

The structure of the incentivising mechanism is also geared towards respect of the current Supervisory Provisions, requiring that the assignment of at least 50% of the variable amount accrued by Management be in shares or related instruments.

Characteristics of the financial instruments to be awarded

The System provides for the assignment to the recipients identified above of a bonus comprised of 50% cash and 50% ordinary Intesa Sanpaolo shares, which will be purchased on the MTA market (mercato telematico azionario) in compliance with the mandates specifically granted by the Shareholders' Meeting. 60% of the entire bonus (reduced to 40% for the Chief Executive Officer, Key Managers and other specific positions) will be paid to the recipients in the year following the year the bonus refers to (upfront portion) according to the same cash/shares ratio as above. The remaining portion will, instead, be assigned proportionally in the three further following years, broken down as follows: the first third is paid entirely in cash, the second third exclusively through shares and the last third equally divided into cash and shares.

As for the Supervisory Provisions, each portion of the bonus assigned in shares shall be subject to a retention period of 2 years for the upfront portion and 1 year for the deferred portions. The retention period starts from the accrual date of the bonus. The shares accrued in each case shall be delivered to the recipients only at the end of the retention period described above and, save for the cases described hereunder, shall be subject to the employee remaining in service with any Group company. In the light of the above, the shares to be purchased on the basis of the Shareholders' Meeting mandate may be delivered to the recipients starting from 2015 (the upfront portion referring to the net income for 2012) and up to 2017 (for the last deferred tranche).

Incentives below 100,000 euro gross are in any case paid entirely in cash and upfront, inasmuch as the amounts that would result from the application of the deferral, payment in shares and holding period mechanisms would be quite insignificant in both absolute and relative terms with respect to total remuneration collected, to such an extent as to result in effective invalidation of the principle that inspires the mechanism (correlation between the amount of the incentive and assumption of risks).

As has become traditional practice in the Group, and in line with regulators' indications, according to which the ratio of the fixed component of remuneration to the variable component "must be suitably balanced, exactly determined and carefully assessed in relation to the characteristics of the intermediary and the various categories of personnel", the theoretical bonus which could be distributed is correlated to the level of each recipient's fixed component of remuneration. More specifically, beneficiaries may at most receive a yearly bonus, including the deferred portion and the portion assigned in shares, of approximately 60% of the remunerative pay mix. In the light of regulators' indications, the Heads of the internal control functions, even if they are included under Key Managers, may benefit from a variable portion of compensation, with the same characteristics as that for "Key personnel", though smaller – amounting at the most to approximately 40% of the remunerative pay mix (net of any role indemnities).

The assignment of incentives to beneficiaries is financed by a structured bonus pool mechanism, whose overall Group total is correlated, in full harmony with the criterion of symmetry between the amount of bonuses paid and actual corporate performance, to the trend of a summary economic indicator, namely the income before tax from continuing operations. The latter is appropriately adjusted (+/- approx. 10%) according to an evaluation of relative performance of Intesa Sanpaolo by a panel of domestic peers selected based on comparability by size, business mix, capital market and talent market.

The financial sustainability principle is ensured by the presence of access thresholds – in terms of income before tax from continuing operations (of the Group and individual Divisions/Business Units) and achievement of the required capital adequacy level (measured through Group Core Tier 1), and in relation to the propriety of individual conduct – below which the payment of incentives to beneficiaries is not envisaged. Once the aforementioned access thresholds are exceeded, the total amount due to beneficiaries is defined, in respect of the Group and Division/Business Unit bonus pool, according to the position achieved by each Manager in the internal ranking of their Division/Business Unit. These rankings are obtained by ordering the scores of individual performance sheets that measure performance based on a number of aspects, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects and managerial qualities). Moreover, each deferred portion is subject to an ex-post adjustment mechanism - the "malus condition" – according to which the relative amount paid and the number of shares assigned, if any, may be reduced, even down to zero, by the level of achievement, in the year to which the deferred portion refers, of specific targets that reflect respect of the maximum acceptable risk for the Group, in terms of capitalisation (using the Core Tier 1, or Common Equity Tier 1 value as a reference) as well as specific liquidity levels (through indicators such as the Basel III

Net Stable Funding Ratio, which enable monitoring of the structural trend of liquidity in the medium to long term).

Quantitative information subdivided by business area

At the overall Group level, thereby considering employees of all grades and employees of the international subsidiaries, the total variable component allocated in the financial statements to reward 2012 results, including the contractual portion or company bonus, is equal to approximately 1.9% of the Group's operating income, 0.7% of the shareholders' equity, 0.05% of total assets and 6% of the total cost of labour. All of the values, both in absolute as well as relative terms, are essentially stable compared to those of the prior year.

As in past years, distribution of the amounts allocated in the financial statements for payment of the variable component referring to 2012 results gives priority to employees of the business sectors most exposed to market variations (asset management, finance and investment banking), consistently with the results of specialised surveys of a sample of Italian and European banking groups which, due to size and composition of the business, constitute the reference benchmarking for Intesa Sanpaolo.

Comparison of percentage distribution of staff, fixed cost and variable component for 2012 and 2011 (*)

	Staff 2012	Fixed cost 2012	Variable Component 2012
Central Structures (including Top Management)	12%	15%	20%
Banca dei Territori	51%	63%	51%
Corporate & Investment Banking	4%	7%	15%
Banca Fideuram	2%	3%	4%
Eurizon Capital	< 1%	1%	4%
International Subsidiary Banks	31%	11%	6%

	Staff 2011	Fixed cost 2011	Variable Component 2011
Central Structures (including Top Management)	12%	16%	19%
Banca dei Territori	51%	63%	45%
Corporate & Investment Banking	4%	6%	16%
Public Finance	< 1%	1%	1%
Banca Fideuram	2%	2%	3%
Eurizon Capital	< 1%	1%	2%
International Subsidiary Banks	31%	11%	14%

(*) The figures shown in this table also include insurance staff. At the end of 2011, Banca Infrastrutture Innovazione e Sviluppo (BIIS), created to serve public and private entities participating in the construction of large infrastructures and the improvement of public services, was placed under the direct responsibility of the General Manager and Head of the Corporate and Investment Banking Division. Consequently, the figures of the former Public Finance division are included in 2012 under the Corporate and Investment Banking Division. The full demerger of the Bank in favour of the Parent Company and Leasint S.p.A. was completed in December 2012.

Quantitative information subdivided among the various categories of "key personnel" 2012 and 2011(*)

(thousands of euro)

Segment (as at 31.12.2012)	No.	Total Remuneration 2012		Detail of Variable Component 2012				Variable deferred amount from prior years paid in 2012	
		Fixed remuneration	Variable remuneration	Upfront Cash	Upfront Shares	Deferred Cash	Deferred Shares	No longer payable	Payable/Paid
[redacted] [1]	1	2,300	1,800	360	360	540	540	-	-
GM, Other Key Managers[2] and MD/GM of the main Business Units/Companies	13	9,225	10,536	2,107	2,107	3,161	3,161	310	1,021
Heads of the Internal Control Functions[3]	6	3,279	1,340	312	312	358	358	78	155
Other individuals who, individually or collectively, take on significant risk[4]	102	26,525	23,196	7,446	6,750	4,500	4,500	535	3,366

[1] The amount indicated under the column "Fixed Remuneration" also includes remuneration received as [redacted].
[2] Excluding 3 Key Managers who are included under Managers of Internal Control Functions.
[3] The amount indicated under the column "Fixed Remuneration" also includes any amounts paid as role indemnity.
[4] Including any other managers with a variable remuneration of over 500,000 euro.

Segment	No.	Total Remuneration 2011		Detail of Variable Component 2011				Variable deferred amount from prior years paid in 2011
		Fixed remuneration [1]	Variable remuneration	Upfront Cash	Upfront Shares	Deferred Cash	Deferred Shares	
[redacted]	1	67	-	-	-	-	-	-
[redacted] [2]	1	1,758	-	-	-	-	-	-
GM, Other Key Managers[3] and MD/GM of the main Business Units/Companies	15	10,873	5,676	1,135	1,135	1,703	1,703	-
Heads of the Internal Control Functions[4]	7	3,402	1,440	320	320	400	400	-
Other individuals who, individually or collectively, take on significant risk[5]	96	24,914	13,704	3,961	3,961	2,891	2,891	-

[1] Excluding any remuneration, including remuneration from unused holidays, recognised upon termination of employment.
[2] The amount indicated under the column "Fixed Remuneration" also includes remuneration received as [redacted].
[3] Excluding 4 Key Managers who are included under Heads of Internal Control Functions.
[4] The amount indicated under the column "Fixed Remuneration" also includes any amounts paid as role indemnity.
[5] Including any other managers with a variable remuneration of over 500,000 euro.

(*) The figures shown in this table also include employees in insurance company.

Indemnities for the start of employment relationships and Employee termination indemnities

In terms of the information required on employee termination indemnities paid during the year, it is specified that, apart from [redacted], there were 3 cases of termination of Key Managers and 5 cases of Managers under the "Key Personnel" category in 2012.

The total amount of termination indemnities paid to these 9 managers amounted to 7,279 thousand euro, the highest of which was 2,850 thousand euro, paid to then [redacted] as an exit incentive, inclusive of all benefits due under the CCNL collective bargaining agreement for executives of the credit sector.

A total of 7 Managers under the "Key Personnel" category were recruited on the market in 2012, to whom 4 "signing bonuses" were recognised, for a total of 880 thousand euro, and 1 bonus guaranteed for the first year, for 100 thousand euro, to be paid during 2013.

***

The issue of remuneration of the Intesa Sanpaolo Group is also covered in the "Report on Remuneration", contained in the separate file "Report on Corporate Governance and Ownership Structures - Report on Remuneration". The Report on Remuneration is available on the website www.group.intesasanpaolo.com (Governance section). Please refer to said report for a comprehensive description of remuneration and incentive systems and practices, and for the related quantitative information, as well as for a summary of the results of the internal auditing department assessments of the remuneration system.

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 2 - Pillar 3 as at 31 December 2012" corresponds to the corporate records, books and accounts.

March 21 2013

Ernesto Riva
Manager responsible for preparing
the Company's financial reports

EMARKET
SDIR
CERTIFIED

Independent Auditors' Report on Basel 2 Pillar 3

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(Translation from the Italian original which remains the definitive version)

Limited assurance report on the Basel 2 Pillar 3 - Disclosure

To the management board of
Intesa Sanpaolo S.p.A.

1 We have reviewed the Basel 2 Pillar 3 - Disclosure (the "Pillar 3") of the Intesa Sanpaolo Group at 31 December 2012. The parent's management board is responsibile for the preparation of the Pillar 3 in accordance with the provisions of Banca d'Italia Circular no. 263 of 27 December 2006 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 2012, on which we issued our report dated 20 March 2013 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 Table 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;

KPMG

- 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 Banca d'Italia Circular no. 263 of 27 December 2006 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 the report of other auditors dated 23 April 2012.

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 2012 is not prepared, in all material respects, in accordance with the provisions of Banca d'Italia Circular no. 263 of 27 December 2006 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. solely 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, 21 March 2013

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli
Director

Glossary

GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 2 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.

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.

Core Tier 1 ratio
The ratio of *Tier 1 capital*, net of excluded instruments (*preferred shares and savings shares*), to total risk-weighted assets. *Preferred shares* are innovative capital instruments, usually issued by foreign subsidiaries, and included in the tier 1 capital if their characteristics ensure the banks' asset stability. The Tier 1 ratio is the same ratio inclusive of the preferred shares in the numerator.

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.

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*"

Floor
The "New regulations for the prudential supervision of banks" of the Bank of Italy, consistent with international guidelines, required that parties which used internal models in 2007, 2008 and 2009 (deadline extended also to the following years) - to maintain capital levels of no less than 95%, 90% 80%, respectively ("floors") of the total requirement calculated based on the supervisory provisions in force at the end of 2006 ("Basel 1"). Similarly, the term floor is used to define the additional prudent penalty which may be introduced by the supervisory authority on authorising the use of Internal Approaches for the calculation of capital requirements in relation to aspects deemed worthy of implementing. The penalty consists in a restriction on capital requirements, which may not be less than a floor set as a percentage of the sum of requirements for various risks calculated based on the Basel 1 rules.

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Grandfathering
Grandfathering clause regarding capital requirements, exempting from IRB treatment equity exposures acquired prior to 31 December 2007 (for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section VI).

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" (Title III) 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.
Lower Tier 2
It designates subordinated liabilities that meet the eligibility criteria for inclusion in supplementary (Tier 2) capital.

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*".

Preferred shares
See "*Core Tier 1*".

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
Core capital (Tier 1) includes the paid-in capital, the share premium reserve, reserves from retained earnings (including IAS/IFRS first-time–adoption reserve other than those included under valuation reserves), and excludes treasury shares and intangible assets. Consolidated Tier 1 capital also includes minority interest.

Tier 2
Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses, and the other positive elements that constitute capital items of a secondary nature; the positive "prudential filters" of Tier 2 capital are also included. The total of these elements, less net unrealised capital losses on equity investments, negative items related to loans, other negative elements, and negative Tier 2 "prudential filters", makes up "Tier 2 capital before items to be deducted". Tier 2 capital is made up of the difference between "Tier 2 capital before items to be deducted" and 50% of "items to be deducted".

Total capital ratio
Capital ratio referred to regulatory capital components (Tier 1 plus Tier 2).

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Upper Tier 2
Hybrid capital instruments (e.g., perpetual loans) that make up the highest quality elements of Tier 2 capital.

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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PREPRESS AND PRINTING: AGEMA CORPORATION – ITALIA

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GALLERIE D'ITALIA.
THREE MUSEUM CENTRES, A CULTURAL NETWORK FOR THE COUNTRY.

With the Gallerie d'Italia project, Intesa Sanpaolo shares its artistic and architectural assets with the community: 1,000 works of art, selected from the 10,000 owned by the Group, exhibited in three cities, to form a museum network unique in nature.

In Milano, the Piazza Scala Galleries, in an extremely valuable architectural setting, host a selection of two hundred works by nineteenth century artists from Lombardy and an exhibition covering the major artists and trends in Italian art in the second half of the twentieth century.
In Vicenza, the Palazzo Leoni Montanari Galleries exhibit the greatest collection of Russian icons in the Western world and works from Venetian eighteenth century painters.
In Napoli, the Palazzo Zevallos Stigliano Galleries present the *Martyrdom of saint Ursula*, a work from Caravaggio's last season, along with eighteenth and nineteenth-century vedutas of the countryside of Campania.

On the cover:
Umberto Boccioni
(Reggio Calabria, 1882 - Verona, 1916)
Officine a Porta Romana (Porta Romana Worksites), 1910
oil on canvass, 75 x 145 cm
Intesa Sanpaolo's Collection
Gallerie d'Italia-Piazza Scala, Milano