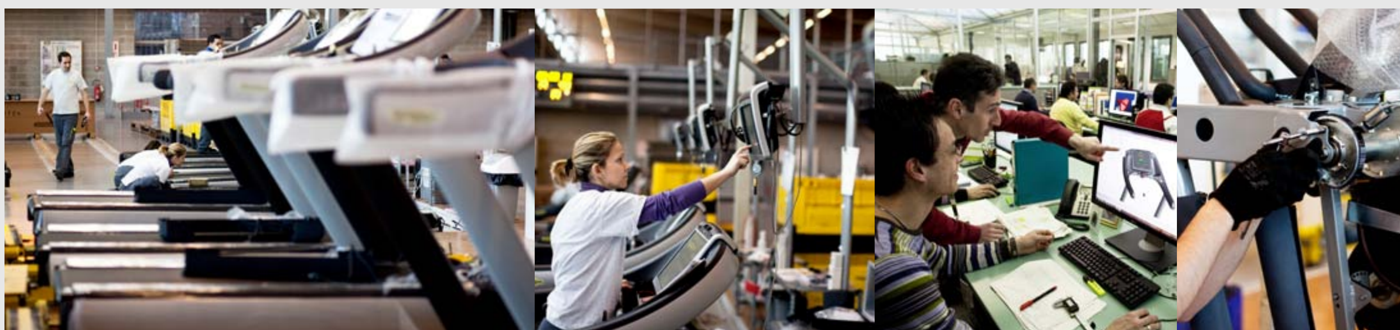
INTESA SANPAOLO

Basel 2 Pillar 3

Disclosure as at 31 December 2011



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 9 May 2012

This is an English translation of the Italian original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2011" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A.

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 2011

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 8.545.561.614,72 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		7
Table 1	General requirements	11
Table 2	Scope of application	37
Table 3	Regulatory capital structure	49
Table 4	Capital adequacy	61
Table 5	Credit risk: general disclosures for all banks	69
Table 6	Credit risk: disclosures for portfolios subject to the standardised approach and for specialised lending and equity exposures subject to the IRB approaches	81
Table 7	Credit risk: disclosures for portfolios subject to IRB approaches	87
Table 8	Risk mitigation techniques	103
Table 9	Counterparty risk	111
Table 10	Securitisations	123
Table 11	Market risks: disclosures for banks using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk	139
Table 12	Operational risk	157
Table 13	Equity exposures: disclosures for banking book positions	159
Table 14	Interest rate risk on positions in the banking book	165
Table 15	Remuneration and incentive systems and practices	167
Declaration of the Manager responsible for preparing the Company's financial reports		187
Independent Auditors' Report on the Consolidated financial statements		189
Glossary		193
Contacts		201

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), by encouraging market efficiency through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on regulatory capital, risk exposures, risk assessment processes, and therefore the capital adequacy of the institution. 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" (Attachment A, 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 also note that the information regarding the regulatory capital and to 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 – pag. 394 / Part F – Information on consolidated capital: Section 4: The capital adequacy of the financial conglomerate – pag. 395).

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 of 22 December 2005 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 – pag. 378);
- banking group liquidity risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the banking group: 1.3 Liquidity risk – pag. 354);
- 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 – pag. 342)
- exposure in structured credit products (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group Structured credit products – pag. 362);
- 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 – pag 373).

The Report on Operations in the consolidated financial statements illustrates:
- Sovereign risk exposure – pag. 75;
- Exposure to Greece – pag. 76 (for a summary of the impacts on 2011 see Table 5 herein).

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 Reconta Ernst & Young 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 2010. In this regard, the scope of consolidation of the disclosure differs from the one used in 2010, essentially due to:
- the sale of Cassa di Risparmio della Spezia and 96 Group branches to Crédit Agricole, as well as Fideuram Bank Suisse;
- the acquisition of Banca Monte Parma, Banca Sara and Banco Emiliano Romagnolo.

See "Table 4 – Capital adequacy" herein for an analysis of impacts in terms of assets at risk sold or purchased by the Group as part of these transactions.

With regard to the notion of immateriality, this 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.

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

The Intesa Sanpaolo Group publishes this disclosure (Basel 2 Pillar 3) and subsequent updates on its Internet site at the address www.group.intesasanpaolo.com.

Capital ratios as at 31 December 2011

(millions of euro)

Regulatory capital and capital ratios	31.12.2011	31.12.2010
Regulatory capital		
Tier 1 capital	37,295	31,175
of which: instruments not included in Core Tier 1 ratio (*)	*4,498*	*5,016*
Tier 2 capital	12,201	16,348
Minus items to be deducted (**)	-3,144	-3,721
REGULATORY CAPITAL	**46,352**	**43,802**
Tier 3 subordinated loans	-	-
TOTAL REGULATORY CAPITAL	**46,352**	**43,802**
Risk-weighted assets		
Credit and counterparty risks	277,498	289,172
Market risks	17,488	15,385
Operational risks	24,825	27,175
Other risks (***)	5,395	426
RISK-WEIGHTED ASSETS	**325,206**	**332,158**
Capital ratios %		
Core Tier 1 ratio	10.1	7.9
Tier 1 ratio	11.5	9.4
Total capital ratio	14.3	13.2

(*) The caption includes preferred shares and, as of 31 December 2010, 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, the 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 2011 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions. Moreover, effective from 31 December 2010, the new methods for determining regulatory capital call for exclusion of the nominal value of preference shares issued by the Group from the Core Tier 1 Ratio.

At the end of 2011, total regulatory capital came to 46,352 million euro, compared to risk-weighted assets of 325,206 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
Regulatory capital takes into account the distribution of the extraordinary reserve that the Management Board will propose to the Shareholders' Meeting, i.e. 0.05 euro per ordinary or non-convertible savings share, for a total disbursement of 822 million euro.
All capital ratios improved compared to 31 December 2010. The total capital ratio stood at 14.3%, while the Group's Tier 1 ratio was 11.5%. The ratio of Tier 1 capital net of preferred shares to risk-weighted assets (Core Tier 1) was 10.1%.
In addition to ordinary operations, the increase in the ratios compared to 31 December 2010 derives from the capital increase resolved and subscribed during the second quarter of 2011 (approximately +150 basis points on Core Tier 1), the sale of Cassa di Risparmio della Spezia and of 96 branches to Crédit Agricole (+20 basis points on Core Tier 1 ratio), the sale of the second tranche of Findomestic (+11 basis points on Core Tier 1), the sale of part of the investment in Prada (+8 basis points on Core Tier 1), the removal of negative filters on the effects deriving from the tax realignment of goodwill during the last few years (+14 basis points on the Core Tier 1 ratio), based on the specific notification of the Bank of Italy as a result of the provisions of the so-called "Milleproroghe Decree 2010" (Article 2, paragraph 55 of Law no. 10/2011, converting Law Decree no. 225/2010) on the matter of deferred tax assets, and from the realignment of goodwill envisaged by Law Decree no. 98/2011 (+52 basis points on Core Tier 1). These increases were partially offset by the acquisition of Banca Monte Parma (-9 basis points on Core Tier 1), the impairment on Greek bonds (-22 basis points on Core Tier 1) and the charges for staff exit plans relating to the agreement of 29 July 2011 (-16 basis points on Core Tier 1), to mention the most important non-recurring transactions.
Lastly, in a Regulation published on 18 May 2010, the Bank of Italy provided new supervisory instructions concerning the prudential treatment of valuation 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 had elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 31 December 2011 account for this measure (the effect on the Core Tier 1 ratio is +31 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, 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.
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;
- market risk (trading book), including 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 and tax risk;
- strategic risk;
- insurance risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance

between mitigation/hedging action, control procedures/processes and capital protection measures.
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 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 and Mediocredito Italiano (effective from 31 December 2010; the FIRB approach had been in use since December 2008) and the foreign company Intesa Sanpaolo Bank Ireland Plc. (effective from reporting as at 31 December 2011). In January 2012, an application was submitted for authorisation for the use of the AIRB approach with internal LGD estimates for the Corporate segment in relation to the product companies Leasint and Mediofactoring (where the FIRB method has been used since December 2008). The foreign bank VUB Banka obtained permission to use the FIRB approach effective from the report as at 31 December 2010. An application for authorisation for use of the AIRB method for Banca IMI will be submitted in the first half of 2012;
- 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. The application for authorisation of extension to VUB Banka was submitted in December 2011;
- an application for authorisation of transition to the IRB approach for the SME Retail segment is expected to be submitted in the first half of 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 a plan presented to the Supervisory Authority.
With regard to Operational Risk, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement 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.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, based on the roll-out plan presented to the Management and Supervisory Authorities.
In 2011 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.

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 responsibility 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 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.

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. Internal Validation 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. Its tasks may be summarised as follows:

- ensuring that internal models, whether already operative or in development, 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; conducting 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;
- managing 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;
- conducting analyses of methodologies in support of the overall assessment of capital adequacy, 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.

At the Group level, Internal Validation 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 by Internal Validation 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 international best practices in the area and take the form of documentary, empirical and operating practice analyses.

With respect to Pillar I risks, 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 II risks, the main analyses are conducted in the context of the prudential control process and summarised in the ICAAP book.

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 2011, the main validation activities in the area of credit risks pertained to:
– the adoption of the AIRB approach for the regulatory Corporate segment (PD and LGD models);
– the periodic quantitative analyses required by the Bank of Italy for the regulatory Retail Mortgage and Corporate segments (PD and LGD models);
– monitoring analyses (backtesting, performance analyses and empirical analyses of use tests) for the Residential mortgages to private individuals segment authorised for the IRB approach in the context of the annual validation report;
– analyses referring to upgrades to ratings models for the Regulatory Corporate segment (recalibration, update of master scale and integration of modules);
– the update of analyses of adequacy of the Corporate FIRB system for VUB and analyses functional to the submission of the application for the IRB approach for the Mortgages of VUB, conducted in concert with the local validation team.

Validation activities for Operational Risk conducted in 2011 primarily took the form of:
– monitoring the measures taken in accordance with the requirements set in the AMA authorisation order of February 2011 and the capital floor revision order of summer 2011;
– performing validation activities aimed at submitting the AMA application for Banca Infrastrutture Innovazione e Sviluppo;
– 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.
In parallel, in the first half of 2011 Internal Validation completed the revision of the operational risk validation process with the aim of ensuring that it is sustainable and complete as the authorised scope expands and formal consent has been granted by the Bank of Italy for the use of the new process in January 2012.

With regard to the market risks component, Internal Validation's activity was aimed, on the one hand, at conducting further review of the scope of the internal model risks previously authorised by the Bank of Italy for the purposes of the annual validation report, and, on the other, at conducting an analysis of the specific risk calculation model for debt securities (the VaR Spread and Incremental Risk Charge models) for application purposes and an analysis of the Stressed VaR model used for reporting purposes beginning in December 2011.
The annual validation report was submitted to the Bank's governance bodies in June 2011 and then forwarded to the Bank of Italy.
With respect to activities relating to the validation of the specific risk model for debt securities, during the year analyses were completed of the VaR Spread model, following launch of those analyses in 2010, and further review was conducted of analyses of the Incremental Risk Charge component.
Lastly, Internal Validation assessed the adequacy of the Stressed VaR measure implemented by the Risk Management Department with respect to regulatory requirements and examined the criteria that resulted in the identification of historical stress scenarios for the two Group legal entities affected (the Parent Company and Banca IMI).

The main analyses conducted in 2011 with regard to Pillar II risks pertain to:
– methodological changes made to the assessment model for loan portfolio concentration risk;
– an evaluation of the "Guidelines for Group Liquidity Risk Management" (December 2011);
– updates to the risk aggregation and capital reallocation methodology;
– an assessment of behavioural components (prepayment of residential mortgages for private individuals and demand positions) relating to the interest rate risk model for the banking book.

Stress testing methodologies, foreign exchange risk, property risk and equity risk for the banking book and strategic risk, which were validated in previous years, were not subject to change in 2011. 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.

The management of non-compliance risk is assigned to the Compliance Department, established in June 2008, in accordance with the supervisory regulations issued by the Bank of Italy on 10 July 2007 and the rules contained in the Joint Regulation issued by Consob and the Bank of Italy on 29 October 2007. The Compliance Department reports to the Chief Risk Officer.

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, also 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, also 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. 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 and the procedures that apply to operations with the aim of improving the service rendered to customers. In particular, such work involved: (i) refining the customer profiling and adequacy assessment model by completing implementations that allow a long-term holding period to be surveyed and managed; (ii) automating the process of printing the information sheets for the bonds placed; and (iii) adjusting the rules that apply to the provision of investment services to the changed economic and financial context. Work also continued in the area of monitoring personal transactions and related training initiatives, clearing new products and services and monitoring customer operations in order to prevent market abuse. In the specific 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 the area of insurance and pension services, ongoing advice was provided to business functions in support of the entry of the Bank into the motor liability policies segment. In addition, developments in

regulations governing policies paired with loan contracts were monitored and planned initiatives continued in the area of a specific project aimed at reinforcing the coverage of non-compliance risk relating to the insurance and pension segment, with regard to the Group's distribution networks;
- 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 the training activities and the verification of its proper implementation;
- controls of company processes functional to certification by the Manager responsible for preparing the Company's financial reports in accordance with art. 154-*bis* of the Consolidated Law on Finance continued and assurance activities were enhanced according to a risk-based approach.

The Anti-Money Laundering Function
In August 2011, in line with the regulatory provisions issued by the Bank of Italy on 10 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 2011, 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). In 2011, 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 for a limited number of 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 aimed at monitoring the evolution of the risks associated with credit quality, transactions with counterparties from the Financial Institutions segment, liquidity risk management, internal capital adequacy estimation criteria and international activities.
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 market, counterparty, 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;
- the verification of the operations performed by foreign branches, with interventions by internal auditors both local and from the Head Office;
- 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; obligations under new authorisations.

During the year the Internal Auditing Department also ensured the supervision of all the main development projects, primarily arising from the 2011-2013 Business Plan, 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 subsidiary Auditing departments, 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 request 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 administrative liability 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".
The monitoring of the quality of accounting and financial information is based on a joint review of:

- the organisational arrangements and functionality of internal controls of financial information, through a review plan aimed at constantly evaluating the adequacy and effective application of the administrative and accounting procedures instrumental to the preparation of financial statement documents and all other financial disclosures including, in particular, the Basel 2 Pillar 3 disclosure document. To the extent helpful to accurately documenting the quality of arrangements for controlling accounting data flows 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 systems;
- 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 assessments of business complexity and underlying risk types. In detail, 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, processing and disseminating the financial statement information deemed most sensitive;
- the processes of presenting the main risks and uncertainties to which the Company and the Group are exposed, as well as the methods used to determine the assumptions on which forecasting estimates and valuation models are based.

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[1] to ensure

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

homogeneous application of the verification process and valuation criteria throughout the Group. The method involves an initial 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 areas are examined on the basis of evidence provided by Internal Auditing functions, followed by further inquiry by the Manager responsible for preparing the Company's financial reports into 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 assessments involving a case-by-case review of the adequacy and effective application of administrative and accounting procedures and governance rules for technological infrastructure and applications. This examination is 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 evidence provided by the various Company control functions with a view towards maximising synergies.
After completing this process, each Company then produced a Report on the internal control system functional to financial reporting, which was enhanced and completed 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 outcomes of reviews conducted by control functions that support the work schedule set by the Manager responsible for preparing the Company's financial reports and further inquiries conducted with the management and any suggestions from the Independent Auditors in the performance of their duties;
- 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 an analysis of operating performance and margins, as well as for an appreciation of the main risks and potential uncertainties to which they are exposed.

The Reports 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 quality of accounting information processes and the efficacy of the system of internal controls safeguarding them. In addition, a presentation is provided of the schedule of reviews and audits 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 processes sensitive to financial reporting. The Administrative and Financial Governance Unit provides operational coordination of the assessment process conducted within each company according to the methods and technical instructions disseminated, which 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 inquiry and assessment phase has been completed on a company basis, the deficiencies detected 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 implemented accordingly. In completion of the activities performed on the Group, the Administrative and Financial Governance Unit prepares periodic information including:

- the degree of dissemination of the administrative and financial governance model within the Group, with regards to which 2011 saw the continuation of the gradual extension to companies of more modest operating size and the systematic monitoring of the proper functionality of the organisational and control arrangements previously adopted by all significant companies, with a review of the regularity of the communication flows provided for with the management, control bodies and independent auditors;
- the main initiatives carried out with the aim of enhancing the administrative and accounting system in 2011, with regards to the substantial completion of the development project aimed at rationalising the information technology architecture in support of the generation of the Group's accounting information and further intervention recently promoted to refine the calculation processes instrumental to the generation of consolidated supervisory reports;
- the refinement activities that were conducted in 2011 on 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 reflected in timely indications in the Group Accounting Rules;
- the malfunctions detected, specifying the potential risk of the distortion of information contained in the transaction flows, the accounts that may be affected and the compensatory controls that had a mitigating effect, scaling assessments of deficiencies on the basis of the values and information presented at the consolidated level;
- an overarching judgment is expressed, considering both the information provided during the period by the Parent Company's functions and the subsidiaries and the opinions stated by management of any suggestions made by the independent auditors.

Following completion of the 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 not room for improvement, which is then the object of measures taken by the interested units and the supervision provided by the Manager responsible for preparing the Company's financial reports.
The information was 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 2011 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 2011, 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 loans 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 the recovery of doubtful loans and 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 also defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, on some occasions at the proposal of the Group's various functions/structures.
The Chief Risk Officer is responsible 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 and constantly monitors risk and credit quality performance.
The Chief Operating Officer provides specialised support 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 ensure 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 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 PD rating models for the Corporate and Retail Mortgage segments, which received authorisation to use the AIRB approach (effective from the report as at 31 December 2011) and the IRB approach (effective from the report as at 30 June 2010), respectively, are described in greater detail in Table 7.

The models applied to the remaining Retail portfolio are as follows:

– for the Small Business segment, since the end of 2008, a Group counterparty rating model has been adopted, based on similar criteria to the Corporate model, namely highly decentralised and where the quantitative-objective elements are supplemented by qualitative subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity and commercial potential, 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.

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 and external defaults for its estimates) that differentiates between banks from developed countries and banks from emerging countries. The Banks from Developed Countries model, with suitable slight adjustments, is also applied to the near-banking sector (specifically leasing, factoring and consumer credit).

For Public Entities, a Regions model and a Provinces model have been developed, based on a "shadow model" approach, composed of a quantitative module (substantially a closed algorithm, using input from databases, which determines counterparty ratings) and a qualitative module. For Municipalities, a "default mode" rating model is being investigated, which may differentiate between Small and Large Municipalities.

For counterparties belonging to the Non Bank 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 are 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. Plans call for the development of an internal model for determining EAD (Exposure at Default).
The LGD models for the Corporate and Retail Mortgage segments, for which the AIRB and IRB approaches, respectively, were approved, are described in further detail in Table 7.

As mentioned briefly above, ratings and mitigating credit factors (guarantees, technical forms and covenants) play a fundamental role in the entire loan granting and monitoring process: they are used to set Credit Powers and Granting and Monitoring Rules.
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.

The Credit Control Panel is the application used by the Group as the primary source employed to control and monitor the loan portfolio in terms of its development over time and quantitative and qualitative composition and to carry out 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.
The Credit Monitoring Portal was launched in 2010. The Portal, into which data is input through the Credit Control Panel, is used by the peripheral units within the Banca dei Territori and Corporate & Investment Banking Divisions down to the Area level to access "informational" dashboards that provide an organic, structured report prepared with the aim of:
- providing a structured, navigable overview of the phenomenon under review;
- reducing the time required to search for and process information;
- facilitating the identification of critical areas and defining priority action;
- supporting the exchange of information between units on a consistent basis.

The Credit Monitoring Portal is subject to constant maintenance, 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 specific phenomena/processes.

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 country's 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 specific type of credit risk, associated with OTC derivative contracts, relating to the potential default by the counterparty prior to the expiry of the contract. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.

Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
The Group uses risk mitigation techniques for counterparty risk, which are also recognised for regulatory purposes and are discussed in this document in the section on risk mitigation techniques (see Table 8).
From a regulatory standpoint, banks must meet strict capital requirements for counterparty risk, regardless of the portfolio to which the positions are allocated (for regulatory purposes, both the banking book and trading book are subject to capital requirements for counterparty risk).
In particular, the Intesa Sanpaolo Group adopts at the moment the Current Exposure Method (to both the trading book and banking book) in order to determine the loan equivalent of OTC derivatives, which is useful when computing capital requirements.
For operational purposes, the definition of the use of the credit lines for transactions in OTC derivatives generally 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.
Banca IMI has used potential exposure (estimated according to the average actual PFE) to measure its use since October 2010.
The advanced measurement approach for counterparty risk is being consolidated by the use test on subsidiaries and is being rolled out for the Parent Company, with the aim of launching the validation process for regulatory purposes by the end of 2012.
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, 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 - for loans by Banca IMI, according to internal policy.

In 2011 a project aimed at extending the use of the measurement to the Parent Company for management purposes was launched. The application to the Supervisory Authority for authorisation of the use of the model for regulatory purposes will be sent in 2012 for Banca IMI, following internal validation by the responsible company functions (Internal Validation and the Internal Auditing Department).
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.
In 2011 the Risk Management Department participated in the quantitative impact studies required by the Supervisory Authority in order to determine the impact of the new rules for determining the requirement for counterparty risk set by Basel III (the Credit Value Adjustment, Stressed EPE, Increased Margin Period of Risk and requirements for transactions through Central Counterparties).

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 loans 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.

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 on a monthly basis through various statistical revaluation 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.

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:
  - o the methodological development;
  - o the collection, processing and production of data;
  - o the maintenance and refinement of the instruments and application models;
  - o the general consistency of the data produced.

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

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

- interest rates;
- equities and market 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 five 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 mitigation 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 short-term and long-term interest rates, the exchange rates and the prices of the equities[2]. 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), 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 variable rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). 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 Group's various companies as concerns their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.
As concerns 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.

[2] 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.

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).
Preparing an adequate management and monitoring system for this risk is of fundamental importance 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.
In implementation of Community Directives, the Bank of Italy began in 2010 to issue a series of updates to the "New regulations for the prudential supervision of banks and banking groups" – Circular 263 of 27 December 2006. In further detail, the fourth update of 13 December 2010 transposed Directive 2009/111/EC ("CRD II"), which introduced important changes concerning the management and monitoring of liquidity risk.
In order to reflect the aforementioned New Supervisory Regulations governing liquidity and the experience with recent financial market turbulence, in 2011 Intesa Sanpaolo's corporate bodies approved new "Guidelines for Group Liquidity Risk Management", which represent an update to the previous Liquidity Policy.
The Guidelines illustrate the tasks of the various company departments, 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 disclosed throughout the bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- 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 the developments of the specific scenario;
- the adoption of a Fund Transfer Price System which accurately incorporates liquidity cost/benefit, based on 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 supervision management bodies such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early-warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's Corporate Bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall 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 company bodies. Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of (certain or estimated) cash inflows and outflows within a period of 12 months, in order to respond to even extended periods of tension, on the various funding sourcing markets, by establishing adequate liquidity reserves in the form of liquid securities on private markets and securities eligible for refinancing with Central Banks. To that end, and in keeping with the liquidity risk appetite, the system of limits is established by determining two short-term indicators for holding periods of one week and one month:

– an indicator of cumulative projected imbalances in wholesale operations: this measures the independence from unsecured wholesale funding in the event of a freeze of the money market, assuming the use of only the most highly liquid reserves;
– the short-term gap indicator: this measures, for the various short-term time bands, the ratio of available reserves and expected positive cash inflows to expected and potential cash outflows using all on- and off-balance sheet items, considering behavioural maturities for positions characterised by an expected liquidity profile differing from the contractual profile.

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 for the maturities mismatch 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 preparation of an impact estimate in an acute combined stress scenario (including both firm secific and market related stress scenario), with an indication of the scenarios of reference to be used and the introduction of a target threshold named "Stressed Short-Term Gap", aimed at establishing an overall level of reserves suitable to meet the greatest cash outflows during a period of time adequate to take the required operating measures to restore the Group to balanced conditions.

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 early-warning indicators, aimed at spotting the signs of a potential liquidity strain, both systemic and specific, are monitored with daily frequency by the Risk Management Department.

In a market situation characterised by severe tensions correlated with economic problems in the eurozone and the crisis in peripheral euro area countries and Italy in particular, the system of indexes provided for in the Contingent Liquidity Plan has proved efficient in providing timely reports, through early-warning signals, of the intensification of tension and activating specific measures to face vulnerability factors and allowing the timely implementation of the required corrective measures.

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 from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, based on the roll-out plan presented to the Management and Supervisory Authorities.

The Integrated self-assessment process allows the Group to:

– identify, measure, monitor and mitigate operational risk; and
– 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 231/05, 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.

Operational risks are monitored by an integrated reporting system, which provides management with the information necessary 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 the process of managing and mitigating operational risk.

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. Coverage has already been extended to higher deductible and limit of liability levels, and the internal model insurance mitigation component will be submitted for regulatory approval in 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 the risk associated with a potential decrease in profits or capital due to changes in the operating context, misguided company decisions, inadequate implementation of decisions, and 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 Supervisory Board and the Management Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:
- a component associated with the possible impact of misguided company decisions and an inability to react sufficiently to changes in the competitive scenario. This component does not require capital, but is one of the risks mitigated by the ways in which, and the levels at which, strategic decisions are reached, where all significant decisions are always supported by ad hoc 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 decrease 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 more ambitious objectives than those required just to comply 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 policies 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 the 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" 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 for the figures as at 31 December 2011 differs from that of 2010 essentially due to the following:

- the sale of Cassa di Risparmio della Spezia and 96 branches of the Group to Crédit Agricole, as well as the sale of Fideuram Bank (Suisse);
- the acquisition of Banca Monte Parma, Banca Sara and Banco Emiliano Romagnolo.

Basis of consolidation for accounting and prudential purposes

Entities consolidated as at 31 December 2011

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 C.R. FIRENZE ROMANIA S.A.	Bucarest	ROMANIA	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 INFRASTRUTTURE INNOVAZIONE E SVILUPPO S.p.A.	Roma	ITALY	X			X	
BANCA INTESA (Closed Joint-Stock Company)	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	
BANCO EMILIANO ROMAGNOLO S.p.A.	Bologna	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.	Forlì	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 CITTA' DI CASTELLO S.p.A.	Città di Castello	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 FOLIGNO S.p.A.	Foligno	ITALY	X			X	
CASSA DI RISPARMIO DI PISTOIA E PESCIA S.p.A.	Pistoia	ITALY	X			X	
CASSA DI RISPARMIO DI RIETI S.p.A.	Rieti	ITALY	X			X	
CASSA DI RISPARMIO DI SPOLETO S.p.A.	Spoleto	ITALY	X			X	
CASSA DI RISPARMIO DI TERNI E NARNI S.p.A.	Terni	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	
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	
MEDIMURSKA BANKA D.D.	Cakovec	CROATIA	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	AMERICA	X			X	
CENTRO FACTORING S.p.A.	Firenze	ITALY	X			X	
CENTRO LEASING S.p.A.	Firenze	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**
CIB FACTOR FINANCIAL SERVICE 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	
EURO-TRESORERIE S.A.	Paris	FRANCE	X			X	
FIDEURAM ASSET MANAGEMENT (IRELAND) LTD	Dublin	IRELAND	X			X	
FIDEURAM FIDUCIARIA S.p.A.	Roma	ITALY	X			X	
FIDEURAM GESTIONS S.A.	Luxembourg	LUXEMBOURG	X			X	
FIDEURAM INVESTIMENTI - Società di Gestione del Risparmio S.p.A.	Milano	ITALY	X			X	
FINANCIERE FIDEURAM S.A.	Paris	FRANCE	X			X	
FINANZIARIA B.T.B. S.p.A.	Trento	ITALY	X			X	
FINOR LEASING D.O.O.	Koper	SLOVENIA	X			X	
IMI CAPITAL MARKETS USA CORP.	New York	UNITED STATES OF AMERICA	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	UNITED STATES OF AMERICA	X			X	
INTESA GLOBAL FINANCE COMPANY LTD	Dublin	IRELAND	X			X	
INTESA INVESTIMENTI S.p.A.	Milano	ITALY	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	LUXEMBOURG	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 TRUST COMPANY FIDUCIARIA S.p.A.	Milano	ITALY	X			X	
INTESA SEC. 2 S.r.l.	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	
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	
LEASINT S.p.A.	Milano	ITALY	X			X	
LIMA SUDAMERIS HOLDING S.A. In liquidation	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 Invest D.O.O.	Zagreb	CROATIA	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
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
CIB REAL PROPERTY UTILISATION AND SERVICES LTD	Budapest	HUNGARY	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 REAL ESTATE S.r.l.	Milano	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 EMPREENDIMENTOS Ltda (*)	Sao Paulo	BRAZIL			X		X
INTESA SANPAOLO SERVITIA S.A.	Luxembourg	LUXEMBOURG	X			X	
PBZ NEKRETNINE D.O.O.	Zagreb	CROATIA	X			X	
SEP - Servizi e Progetti S.c.p.A. (*)	Torino	ITALY			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 2011

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	
VUB POISTOVACI 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	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

Please also note that, 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).

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
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
EURIZON CAPITAL A.D. BEOGRAD	Beograd	SERBIA	X		X	
EUROTLX SOCIETA' DI INTERMEDIAZIONE MOBILIARE S.p.A.	Milano	ITALY	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 SODITIC TRADE FINANCE LIMITED	London	UNITED KINGDOM	X		X	
ISP SEC. 4 S.r.l.	Milano	ITALY	X		X	
ITALFONDIARIO S.p.A.	Roma	ITALY	X		X	
LA COMPAGNIA FINANZIARIA S.p.A.	Milano	ITALY	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	
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Il Cairo	EGYPT	X		X	
MISR FINANCIAL INVESTMENTS CO.	Giza	EGYPT	X			X
OBIETTIVO NORDEST SICAV - SOCIETA' DI INVESTIMENTO PER AZIONI A CAPITALE VARIABILE	Venezia Marghera	ITALY	X		X	
PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management	Zagreb	CROATIA	X		X	
PENGHUA FUND MANAGEMENT Co. Ltd.	Shenzhen	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	
SVILUPPO TM S.p.A.	Milano	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	
VER CAPITAL S.G.R. p.A.	Milano	ITALY	X			X

Entities added to the risk-weighted assets as at 31 December 2011

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	
BANKA POSTANSKA STEDIONICA A.D.	Beograd	SERBIA	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					
21 CENTRALE PARTNERS III FCPR	Paris	FRANCE	X	X	
360 CAPITAL ONE S.C.A. (SICAR)	Luxembourg	LUXEMBOURG	X	X	
ABE CLEARING SAS	Paris	FRANCE	X	X	
Adriano Lease Sec S.r.l.	Conegliano	ITALY	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	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	
CONSORZIO BANCARIO SIR S.p.A In liquidation	Roma	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	
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	
HOPA S.p.A.-HOLDING DI PARTECIPAZIONI AZIENDALI	Brescia	ITALY	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	
LONDON STOCK EXCHANGE GROUP PLC.	London	UNITED KINGDOM	X	X	
LYCEUM CAPITAL FUND 2000 (NUMBER ONE) Limited Partnership	London	UNITED KINGDOM	X	X	
MISR FOR CLEARING, SETTLEMENT AND CENTRAL DEPOSITORY CO.	Il Cairo	EGYPT	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
PRESAFIN S.p.A. in liquidation	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	
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
B.E.E. SOURCING S.p.A.	Spoleto	ITALY	X		X
B.E.E. TEAM S.p.A.	Roma	ITALY	X		X
CARGOITALIA S.p.A. In liquidation	Milano	ITALY	X		X
CENTRO LEASING GMBH In voluntary liquidation	Bad Homburg v.d. Hoehe	GERMANY	X		X
COLLEGAMENTO FERROVIARIO GENOVA-MILANO S.p.A.	Genova	ITALY	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
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
INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni	Napoli	ITALY	X		X
INTESA SANPAOLO HOUSE IMMO S.A.	Luxembourg	LUXEMBOURG	X		X
INTESASANPAOLO EURODESK S.p.r.l.	Bruxelles	BELGIUM	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
MEGA INTERNATIONAL S.p.A.	Faenza	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	CHINA	X		X
SIA S.p.A.	Milano	ITALY	X		X
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.p.A.	Brescia	ITALY	X		X
SOCIETA' GESTIONE PER IL REALIZZO S.p.A. In liquidation	Roma	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 2011 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 2011

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
INSURANCE COMPANIES (*)		
INTESA SANPAOLO LIFE LIMITED	X	
INTESA SANPAOLO ASSICURA S.P.A. (FORMER EURIZONTUTELA S.p.A.)	X	
OTHER		
ADRIANO FINANCE 2 S.r.l. (**)	X	
ADRIANO FINANCE S.r.l. (**)	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	
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 TERM	X	
FIDEURAM FUND ZERO COUPON 2012	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	
FIDEURAM FUND ZERO COUPON 2021	X	
FIDEURAM FUND ZERO COUPON 2022	X	
FIDEURAM FUND ZERO COUPON 2023	X	
FIDEURAM FUND ZERO COUPON 2024	X	

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
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 2041	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 SICAV	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 REAL ESTATE MANAGEMENT LTD	X	
ROMULUS FUNDING CORPORATION	X	
SANPAOLO INTERNATIONAL FORMULAS FUND	X	
SP LUX SICAV II	X	
SPLIT 2 (**)	X	
TIEPOLO SICAV	X	
TRADE RECEIVABLES INVESTMENT VEHICLE S.a.r.l. (**)	X	

(*) Fideuram Vita, Intesa Sanpaalo Vita and Vub Poistovaci have already been included in the table "Entities 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 2011 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 (7th, 8th, 9th, 10th, and 11th updates 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").
In detail, already in the previous year stricter criteria than under the previous rules were applied to redefine the notion of capital, that may be included in regulatory capital without limits, which 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 new 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). Conversely, Tier 1 capital may still include the share premium reserve, even the part associated with savings shares, since the different preference in distribution of dividends and pre-emption in liquidation relate to share capital only.

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; positive components, in order to be eligible for the calculation of capital absorptions, 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 minority 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 2011 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.

In addition, 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.

Concerning equity investments and subordinated instruments held in insurance companies, until 31 December 2012 they 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)

	31.12.2011			31.12.2010		
	Group	**Third parties**	**Total**	**Group**	**Third parties**	**Total**
Share capital	**8,546**	**403**	**8,949**	**6,647**	**441**	**7,088**
Ordinary shares	*8,061*	*400*	*8,461*	*6,162*	*438*	*6,600*
Savings shares	*485*	*3*	*488*	*485*	*3*	*488*
Share premium reserve	**36,143**	**70**	**36,213**	**33,102**	**125**	**33,227**
Reserves	**13,843**	**176**	**14,019**	**12,143**	**421**	**12,564**
Legal reserve	1,329	-	1,329	*1,329*	-	*1,329*
Extraordinary reserve	4,984	-	4,984	*3,674*	-	*3,674*
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	6,934	176	7,110	*6,542*	*421*	*6,963*
Other reserves	62	-	62	*64*	-	*64*
Equity instruments	**-**	**-**	**-**	**-**	**-**	**-**
(Treasury shares)	**-4**	**-**	**-4**	**-10**	**-**	**-10**
Valuation reserves:	**-3,298**	**6**	**-3,292**	**-1,054**	**9**	**-1,045**
Financial assets available for sale	-2,353	-2	-2,355	*-664*	*2*	*-662*
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-	-
Cash flow hedges	-922	-2	-924	*-488*	*-2*	*-490*
Foreign exchange differences	-394	1	-393	*-248*	*-1*	*-249*
Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	-	-
Valuation reserves of investments carried at equity	27	1	28	*2*	*2*	*4*
Legally-required revaluations	344	8	352	*344*	*8*	*352*
Net income (loss) pertaining to the Group and minority interests	**-8,190**	**63**	**-8,127**	**2,705**	**71**	**2,776**
Shareholders' equity	**47,040**	**718**	**47,758**	**53,533**	**1,067**	**54,600**

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

After the recapitalisation of 5 billion euro completed in June (of which 1,899 million euro was attributable to share capital), the Bank's share capital amounted to 8,546 million euro at 31 December 2011, divided into 15,501,281,775 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 2011, Intesa Sanpaolo had treasury shares with a carrying amount of 4 million euro, essentially held by Banca IMI in relation to its institutional trading activities and by collective investment entities owned by the Group's insurance companies and consolidated in accordance with the IAS/IFRS.
At the date of this document the share capital was fully paid-in and liberated.

The share premium reserve mainly 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. This reserve component, of 31,093 million euro, is the difference between the acquisition cost of the SANPAOLO IMI Group and the nominal value of the shares issued for the exchange. The increase in the reserve compared to the end of 2010 was essentially due to the share of the aforementioned capital increase attributable to share premium, 3,101 million euro before the allocation of accessory costs drawn against the reserve.

Reserves amounted to 13,843 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 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 31.12.2011
Share capital	**8,949**	**-**	**161**	**-161**	**8,949**
Ordinary shares	8,461	-	161	-161	8,461
Savings shares	488	-	-	-	488
Share premium reserve	**36,213**	**-**	**2**	**-2**	**36,213**
Reserves	**14,019**	**212**	**-90**	**-122**	**14,019**
Equity instruments	**-**	**-**	**-**	**-**	**-**
(Treasury shares)	**-2**	**-2**	**-**	**-**	**-4**
Valuation reserves	**-3,292**	**-977**	**11**	**966**	**-3,292**
Financial assets available for sale	-1,380	-975	-	-	-2,355
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-924	-	4	-4	-924
Foreign exchange differences	-393	-	5	-5	-393
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-	-	-	-	-
Share of valuation reserves connected with investments carried at equity	-947	-2	2	975	28
Legally-required revaluations	352	-	-	-	352
Net income (loss) pertaining to the Group and minority interests	**-8,127**	**-28**	**-41**	**69**	**-8,127**
Shareholders' equity as at 31.12.2011	**47,760**	**-795**	**43**	**750**	**47,758**

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 due to the dividend paid by Intesa Sanpaolo S.p.A. on ordinary shares and savings shares from the 2010 net income for a total of 1,033 million euro, consolidated shareholders' equity (Group and third parties) essentially changed over the two periods under review due to the net income for 2011, the aforementioned capital increase, the decrease in valuation reserves, which presented negative values, 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 31.12.2011		
	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	97	-2,697	65	-1,024	2	-	-67	1,024	97	-2,697	-2,600
2. Equities	401	-134	9	-18	-	-	-9	18	401	-134	267
3. Quotas of UCI	24	-44	5	-12	-	-	-5	12	24	-44	-20
4. Loans	14	-14	-	-	-	-	-	-	14	-14	-
Total as at 31.12.2011	**536**	**-2,889**	**79**	**-1,054**	**2**	**-**	**-81**	**1,054**	**536**	**-2,889**	**-2,353**
of which: Financial assets available for sale											-2,355
of which: Share of valuation reserves connected with investments carried at equity											2
Total as at 31.12.2010	**787**	**-1,445**	**224**	**-507**	**2**	**-22**	**-226**	**529**	**787**	**-1,445**	**-658**

(*) This amount includes 2 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

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 31.12.2011
1. Initial amount	**-1,060**	**386**	**17**	**-1**	**-658**
2. Positive fair value differences	**667**	**198**	**24**	**1**	**890**
2.1 Fair value increases	115	163	15	-	293
2.2 Reversal to the income statement of negative reserves	400	20	1	-	421
- impairment	*326*	*19*	*-*	*-*	*345*
- disposal	*74*	*1*	*1*	*-*	*76*
2.3 Other changes	152	15	8	1	176
3. Negative fair value differences	**-2,207**	**-317**	**-61**	**-**	**-2,585**
3.1 Fair value decreases	-1,983	-171	-45	-	-2,199
3.2 Impairment losses	-	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	*-50*	*-132*	*-4*	-	*-186*
3.4 Other changes	-174	-14	-12	-	-200
4. Closing amount (*)	**-2,600**	**267**	**-20**	**-**	**-2,353**

(*) This amount includes 2 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

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 in the following tables.

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	1,000
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	1,250
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	1,500
Total preference shares and innovative and non-innovative equity instruments (Tier I) as at 31.12.2011								**4,000**
Total preference shares and innovative and non-innovative equity instruments (Tier I) as at 31.12.2010								**4,500**

(*) 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".

It should be noted that on 6 February Intesa Sanpaolo announced an invitation to repurchase the following Tier 1 subordinated notes issued by the Parent Company.

Description of securities	Purchase price (% of nominal value)	Nominal value issued	Nominal value accepted for purchase	Nominal value after settlement date (*)
9.5% Fixed Rate Resettable Perpetual Subordinated Notes	90%	€ 1,000,000,000	€ 277,900,000	€ 722,100,000
8.375% Fixed to Floating Rate Perpetual Subordinated Notes	91%	€ 1,500,000,000	€ 493,750,000	€ 1,006,250,000
8.047% Fixed to Floating Rate Perpetual Subordinated Notes	88%	€ 1,250,000,000	€ 454,200,000	€ 795,800,000

(*) For each security, this represents the nominal value at the issue date net of the aggregate nominal value of the securities accepted for purchase pursuant to the invitation. Any securities previously held by the purchaser and its subsidiaries have not been excluded.

The above instruments were included in Tier 1 Capital but excluded from Core Tier 1 Capital as at 31 December 2011.
The transaction allows Intesa Sanpaolo to increase its Core Tier 1 Capital as a result of the capital gain arising from the repurchase of subordinated notes tendered at prices below their book value. It should also 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.

As a result of the buy back finalisation on 20 February, the Intesa Sanpaolo Group's net income for the first quarter of 2012 will register a contribution of approximately 180 million euro, including the positive impact of the unwinding of interest rate risk derivatives, which corresponds to approximately 6 basis points of Core Tier 1 ratio, considering the RWAs as at 31 December 2011.

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	1,222
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 + 1.40%	NO	21-Jun-2002	21-Jun-2012	NO	Eur	200,000,000	189
Banca CR Firenze	6-month Euribor + 0.95%	NO	05-Dec-2003	05-Dec-2013	NO	Eur	200,000,000	149
Centro Leasing Banca	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	30,000,000	27
Total hybrid instruments (Upper Tier II) as at 31.12.2011								**1,707**
Total hybrid instruments (Upper Tier II) as at 31.12.2010								**1,706**
Banca CR Firenze	6-month Euribor + 0.15%	NO	22-May-2006	22-May-2013	NO	Eur	85,000,000	34
Banca Intesa Beograd	6-month Euribor + 2.25%	NO	15-Jun-2006	15-Dec-2012	15-Jun-2012	Eur	60,000,000	12
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	71
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	29
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	126
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	131
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	52
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	40
Intesa Sanpaolo	5.20% fixed rate	NO	15-Jan-2002	15-Jan-2012	NO	Eur	265,771,000	53
Intesa Sanpaolo	5.50% fixed rate	NO	12-Apr-2002	12-Apr-2012	NO	Eur	126,413,000	25
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Nov-2017	12-Nov-2012	Gpb	250,000,000	299
Intesa Sanpaolo	5.375% fixed rate	NO	13-Dec-2002	13-Dec-2012	NO	Eur	300,000,000	60
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	20-Feb-2013	Eur	750,000,000	732
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	198
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	495

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	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	26-Jun-2013	Eur	500,000,000	491
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	415,000,000	323
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	545,000,000	427
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	382,401,000	297
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	800,000,000	636
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	1,097,000,000	846
Intesa Sanpaolo	5.75% fixed rate; as of 28/5/2013 3-month Euribor + 1.98%	YES	28-May-2008	28-May-2018	28-May-2013	Eur	1,000,000,000	972
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	635,350,000	626
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	165,050,000	154
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	1,500,000,000	1,459
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	792
Intesa Sanpaolo	5.15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	1,250,000,000	1,246
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	473
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	371
Pravex Bank	7.025% (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	10
Banca Monte Parma	Up to 19/10/2008: 4.00%; up to 19/10/2009: 4.25%; up to 10/10/2010: 4.50%; up to 19/10/2011: 4.75%; up to 19/11/2012: 5.00%	NO	19-Oct-2007	19-Oct-2012	NO	Eur	5,000,000	1
Banca Monte Parma	4.40% fixed rate	NO	21-Dec-2007	21-Dec-2012	NO	Eur	5,000,000	1
Banca Monte Parma	3.80% fixed rate	NO	20-Feb-2008	20-Feb-2013	NO	Eur	10,000,000	4
Banca Monte Parma	4.30% fixed rate	NO	27-May-2008	27-May-2013	NO	Eur	9,905,000	4
Banca Monte Parma	4.60% fixed rate	NO	25-Jun-2008	25-Jun-2013	NO	Eur	10,000,000	4
Banca Monte Parma	4.60% fixed rate	NO	26-Aug-2008	26-Aug-2013	NO	Eur	20,000,000	8
Banca Monte Parma	3.25% fixed rate	NO	04-Feb-2009	04-Feb-2014	NO	Eur	11,500,000	7
Banca Monte Parma	4.50% fixed rate	NO	05-Feb-2009	05-Feb-2014	NO	Eur	5,000,000	3
Banca Monte Parma	2.80% fixed rate	NO	22-Apr-2009	22-Apr-2014	NO	Eur	10,000,000	6
Banca Monte Parma	3.10% fixed rate	NO	09-Jul-2009	09-Jul-2014	NO	Eur	9,000,000	5
Banca Monte Parma	3.50% fixed rate	NO	11-Aug-2009	11-Aug-2016	NO	Eur	5,000,000	5
Banca Monte Parma	3.20% fixed rate	NO	25-Sep-2009	25-Sep-2016	NO	Eur	5,000,000	5
Banca Monte Parma	3.00% fixed rate	NO	30-Jul-2010	30-Oct-2015	NO	Eur	20,000,000	16
Total eligible subordinated liabilities (Lower Tier II) as at 31.12.2011								**11,549**
Total eligible subordinated liabilities (Lower Tier II) as at 31.12.2010								**16,043**
TOTAL AS AT 31.12.2011								**13,256**
TOTAL AS AT 31.12.2010								**17,749**

Tier 3 capital

As at 31 December 2011 and 31 December 2010 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	31.12.2011	31.12.2010
Shareholders' equity pertaining to the Group	47,040	53,533
Shareholders' equity pertaining to minority interests	718	1,067
SHAREHOLDERS' EQUITY	**47,758**	**54,600**
Components of shareholders' equity not pertaining to the Banking group	2	4
Assignment of extraordinary reserves to Intesa Sanpaolo S.p.A. shareholders (-) (*)	-822	-1,033
OTHER COMPONENTS:	**-8,165**	**-20,545**
- Innovative and non-innovative equity instruments (+)	4,010	4,528
- Goodwill (-)	-9,177	-19,587
- Other intangible assets pertaining to the Banking group (-)	-5,467	-5,419
- Valuation reserves pertaining to the Banking group (-)	3,292	1,045
- Negative valuation reserves pertaining to the Banking group included as negative filters (-)	-621	-453
- Fair value option: changes in bank's own creditworthiness included as negative filters (-)	-14	-11
- Other negative prudential filters (-)	-34	-491
- Other supervisory adjustments (+/-)	-154	-157
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**38,773**	**33,026**
TOTAL ITEMS TO BE DEDUCTED	**-1,478**	**-1,851**
TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED	**37,295**	**31,175**

(*) As per the recommendation of the Management Board. For 2010 the caption included the dividend.

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 2011 is summarised in the table below:

(millions of euro)

Information	31.12.2011	31.12.2010
A. Tier 1 capital before the application of prudential filters	**39,442**	**33,981**
B. Tier 1 capital prudential filters	**-669**	**-955**
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	-669	-955
C. Tier 1 capital before items to be deducted (A+B)	**38,773**	**33,026**
D. Items to be deducted from Tier 1 capital	**1,478**	**1,851**
E. Total Tier 1 capital (C-D)	**37,295**	**31,175**
F. Tier 2 capital before the application of prudential filters	**13,737**	**18,315**
G. Tier 2 capital prudential filters	**-58**	**-116**
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-58	-116
H. Tier 2 capital before items to be deducted (F+G)	**13,679**	**18,199**
I. Items to be deducted from Tier 2 capital	**1,478**	**1,851**
L. Total Tier 2 capital (H-I)	**12,201**	**16,348**
M. Items to be deducted from total Tier 1 and Tier 2 capital	**3,144**	**3,721**
N. Regulatory capital (E+L-M)	**46,352**	**43,802**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N+O)	**46,352**	**43,802**

More details of the breakdown of the tier 1 and tier 2 capital are provided below; please note that "Items to be deducted from total Tier 1 and Tier 2 capital" include contributions deriving from the insurance business that refer to contracts which arose prior to 20 July 2006, and as such continue to be deducted from total capital.

Tier 1 capital

(millions of euro)

Information	31.12.2011	31.12.2010
TOTAL TIER 1 CAPITAL(*)		
- Share capital - ordinary shares (**)	8,289	6,454
- Share capital - preference savings shares (***)	488	488
- Share premium reserve	36,212	33,225
- Reserves and net income	13,279	14,299
- Non-innovative equity instruments	1,000	1,000
- Innovative equity instruments with final expiry	-	-
- Innovative equity instruments subject to transition requirements (grandfathering) (***)	3,010	3,528
- 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	**62,278**	**58,994**
- Treasury shares or quotas (****)	-2	-7
- Goodwill	-9,177	-19,587
- Other intangible assets	-5,467	-5,419
- 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*	*-11*
Negative reserves on equities and quotas of UCI available for sale	-	-
Negative reserves on debt securities available for sale (*****)	*-621*	*-453*
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 (******)	*-34*	*-491*
TOTAL NEGATIVE ITEMS	**-23,505**	**-25,968**
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**38,773**	**33,026**
TOTAL ITEMS TO BE DEDUCTED	**-1,478**	**-1,851**
- Investment in the Bank of Italy	-312	-314
- Insurance subsidiaries purchased after 20 July 2006	-552	-429
- Other banking and financial investments higher than 20% of the investee's capital	-252	-436
- Excess expected losses with respect to adjustments (IRB approaches)	-230	-594
- Other deductions	-132	-78
TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED	**37,295**	**31,175**

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

(**) It does not include 11 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".

(***) 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".

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

(*****) 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 31 basis points.

(******) Until 31 December 2010, the caption mainly included the prudential filter related to the alignment of tax values of goodwill to its book values. The filter was removed as at 31 March 2011.

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	31.12.2011	31.12.2010
TIER 2 CAPITAL (*)		
- 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	*117*	*232*
Debt securities	-	-
- Non-innovative equity instruments not included in tier 1 capital	-	-
- Innovative equity instruments not included in tier 1 capital	-	-
- Hybrid capital instruments	1,707	1,706
- Tier 2 subordinated liabilities	11,549	16,043
- Excess total adjustments with respect to expected losses	363	167
- Net capital gains on equity investments	-	-
- 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	**14,089**	**18,500**
- Net capital losses on equity investments	-54	-22
- Loans	-	-
- Other negative items	-298	-163
- 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	*-58*	*-116*
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**	**-301**
TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**13,679**	**18,199**
TOTAL ITEMS TO BE DEDUCTED	**-1,478**	**-1,851**
- Investment in the Bank of Italy	-312	-314
- Insurance subsidiaries purchased after 20 July 2006	-552	-429
- Other banking and financial investments higher than 20% of the investee's capital	-252	-436
- Excess expected losses with respect to adjustments (IRB approaches)	-230	-594
- Other deductions	-132	-78
TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED	**12,201**	**16,348**

(*) 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 manage 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 all 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 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 99.95% confidence level (in line with the solvency targets for entities with an agency rating of A+).
With regard to the objectives of systemic 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;
- market risk (trading book), including 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, based on the Budget assumptions and the projected economic scenario under ordinary and stress conditions. The capital position forms the basis for the 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.

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 2011 and the forecasts as at 31 December 2012, and the final document is due to be sent to the Bank of Italy by 30 April 2012. 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.

Moreover, the outcomes of the 2011 EU-wide stress test coordinated by the European Banking Authority (EBA), in cooperation with the European Central Bank (ECB) and the Bank of Italy, in which Intesa Sanpaolo also participated, were published in July. The Intesa Sanpaolo Group passed the stress test carried out on the 90 major European banking groups. Under a what-if adverse scenario, the Group would register a Core Tier 1 ratio of 8.9% at year-end 2012 compared to the 7.9% ratio of year-end 2010 and the minimum level of 5% required for the purposes of this stress test, with a buffer of approximately 14 billion euro of Core Tier 1 capital against the threshold of the minimum capital adequacy ratio required for the purposes of this exercise. The above results reflect the effects of the capital increase completed in June 2011, net of which the ratio would come to 7.4% under stressed conditions, still in excess of the minimum.

It should be noted that in 2011 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 December 2011.

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, counterparty and operational 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 improvement achieved 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, effective from 31 December 2010, preferred savings and ordinary shares) and risk-weighted assets.
As mentioned above in late October 2011 the European Banking Authority (EBA) had proposed a capital exercise, requiring banks to strengthen their capital positions by building up a temporary capital buffer against sovereign debt exposures to reflect market prices. In further detail, it required them to establish a buffer such that the Core Tier 1 capital ratio reaches a level of 9% by the end of June 2012. The amount of any final capital shortfall identified was based on September 2011 figures. Following completion of the capital exercise conducted by the European Banking Authority, in close cooperation with the competent national authority, the exercise had determined that Intesa Sanpaolo had met the 9% Core Tier 1 ratio after the removal of the prudential filters on sovereign assets in the Available-for-Sale portfolio and prudent valuation of sovereign debt in the Held-to-Maturity and Loans and receivables portfolios, reflecting current market prices.

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 for the Corporate segment and the IRB approach[1] for the Retail Mortgage segment (Residential mortgages for private individuals), from the report as at 31 December 2008 (31 December 2010 for the Advanced approach) and 30 June 2010 respectively. With respect to the report as at 31 December 2011, it should be noted that the IRB approach was extended for the Retail Mortgage segment to the former Intesa Casse del Centro and the AIRB model was adopted for Intesa Sanpaolo Ireland. The scope of application of the foundation and Advanced IRB approaches is presented in Table 7 of this document.
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 for their application in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.
Banks must also comply with capital requirements for market risks (see Table 11) 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. Banca IMI's internal model also includes the position risk on quotas of UCI (for the Constant Proportion Portfolio Insurance - CPPI component). The scope of validated risks has subsequently been extended to dividend derivatives and commodity risk positions for Banca IMI. In addition, Banca IMI and Intesa Sanpaolo S.p.A. have been using

[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.

stressed VaR to calculate the requirement for market risks since December 2011. Standardised approaches are used for the other types of risk. Counterparty risk is calculated independently of the portfolio of allocation.
With regard to Operational Risk, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement 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.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, based on the roll-out plan presented to the Management and Supervisory Authorities (see Table 12).

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

Information	31.12.2011			31.12.2010		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	**563,946**	**277,498**	**22,200**	**544,764**	**289,172**	**23,134**
1. Standardised approach	274,917	132,167	10,573	270,698	135,773	10,862
2. Internal models (IRB)	29,885	22,907	1,833	27,798	22,589	1,807
3. Internal models - Advanced approach and retail exposures	254,900	116,365	9,309	240,696	125,277	10,022
4. Securitisations - banking book	4,244	6,059	485	5,572	5,533	443
A.2 Market risk		**17,488**	**1,399**		**15,385**	**1,231**
1. Standardised approach (*)		12,240	979		12,229	978
2. Internal models (**)		5,246	420		2,523	202
3. Concentration risk		2	-		633	51
A.3 Operational risk		**24,825**	**1,986**		**27,175**	**2,174**
1. Basic indicator approach		1,088	87		1,613	129
2. Standardised approach		4,075	326		5,275	422
3. Advanced measurement approach		19,662	1,573		20,287	1,623
A.4 Other capital requirements		**-**	**-**		-	-
A.5 Other calculation elements (***)		**5,395**	**432**		**426**	**34**
A6 Total capital requirements		**325,206**	**26,017**		**332,158**	**26,573**
B. CAPITAL RATIOS (%)						
B.1 Core Tier 1			**10.1%**			**7.9%**
B.2 Tier 1 ratio			**11.5%**			**9.4%**
B.3 Total capital ratio			**14.3%**			**13.2%**

(*) In terms of risk-weighted assets and requirements, the caption also includes coverage of market risk on securitisations in the trading book for an amount of 291 million euro (3,637 million euro for risk-weighted assets), including 19 million euro referring to Credit Default Swaps with underlying exposures to securitisations included in the correlation portfolio.
(**) Starting from 31 December 2011, in terms of risk-weighted assets and requirements, the caption also includes the new coverage of market risk for Stressed VaR for an amount of 228 million euro (2,853 million euro for risk-weighted assets).
(***) 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.

For a better comparison of the figures for the two periods shown in the table above (figures for the previous period were not recalculated to take into account the change in the scope of consolidation), please note that:
- the sale of Cassa di Risparmio della Spezia and of 96 branches of the Group to Crédit Agricole resulted in a reduction in the assets at risk - weighted amounts - of around 3 billion euro (essentially credit and counterparty risks);
- the acquisition of Banca Monte Parma resulted in an increase in the assets at risk of around 2.7 billion euro (also in this case, essentially credit and counterparty risk).

The acquisition of Banca Sara and Banco Emiliano Romagnolo, as well as the sale of Fideuram Bank (Suisse) did not have a significant impact on assets at risk.

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 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 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 standard approach) in Table 13.

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

(millions of euro)

Regulatory portfolio	**Capital requirement**	
	31.12.2011	**31.12.2010**
Exposures to or secured by governments and central banks	111	108
Exposures to or secured by local authorities	292	287
Exposures to or secured by not for profit and public sector organisations	311	162
Exposures to or secured by multilateral development banks	1	1
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,429	1,194
Exposures to or secured by corporates	3,377	3,588
Retail exposures	2,757	2,892
Exposures secured by real estate property	573	626
Past due exposures	668	670
High-risk exposures	120	154
Exposures in the form of covered bonds	2	1
Short-term exposures to corporates	63	98
Exposures to UCI	164	341
Other exposures	705	740
Total capital requirement for credit risk and counterparty risk (Standardised Approach)	**10,573**	**10,862**

Capital requirement for Credit and Counterparty Risk (IRB Approach)

(millions of euro)

Regulatory portfolio	Capital requirement	
	31.12.2011	**31.12.2010**
A. Exposures to or secured by corporates (Foundation IRB Approach)	**10,204**	**10,795**
A.1) Specialised lending	490	515
A.2) Specialised lending - slotting criteria	297	176
A.3) SMEs	3,484	3,613
A.4) Other corporates	5,933	6,491
B. Exposures secured by residential property (IRB Approach)	**861**	**982**
B.1) Retail	861	982
C. Equity exposures (simple risk weight approach)	**77**	**52**
C.1) Private equity exposures in sufficiently diversified portfolios	26	25
C.2) Exchange-traded equity exposures	3	10
C.3) Other equity exposures	48	17
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)	**11,142**	**11,829**

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 167 million euro (214 million euro as at 31 December 2010).

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

(millions of euro)

Information	Capital requirement	
	31.12.2011	**31.12.2010**
Originated securitisations	41	43
Third-party securitisations	444	400
Total capital requirement for credit risk and counterparty risk on securitisations (Standardised approach)	**485**	**443**

Capital requirement for Market Risk

(millions of euro)

Information	Capital requirement	
	31.12.2011	**31.12.2010**
Assets included in the regulatory trading book	**1,265**	**1,120**
Position risk (*)	1,265	1,069
Concentration risk	-	51
Other assets	**134**	**111**
Foreign exchange risk	67	67
Settlement risk for DVP (Delivery Versus Payment) transactions	-	-
Commodity risk	67	44
Total capital requirement for market risk	**1,399**	**1,231**

(*) The caption includes capital requirements for exposures to securitisations of 291 million euro.

Effective from 31 December 2011, requirements for market risks also include the new stressed VaR calculation mechanism for an amount of 228 million euro.

The capital requirement for "counterparty risk" is 718 million euro (496 million euro as at 31 December 2010). Counterparty risk is calculated for both the trading book and banking book. This requirement is shown - for the individual regulatory portfolios - in the tables of capital requirements for credit risk under the standardised approach and the IRB approach.

Capital requirement for Operational Risk

(millions of euro)

Information	Capital requirement	
	31.12.2011	31.12.2010
Basic indicator approach	87	129
Standardised approach	326	422
Advanced measurement approach	1,573	1,623
Total capital requirement for operational risk	**1,986**	**2,174**

Almost all the Group companies use 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 recalculated annually, unless one or more Group companies change approach during the year by migrating towards more sophisticated methods (as occurred in the first quarter of 2011, when the international subsidiaries Banca Intesa Beograd and Bank of Alexandria migrated from the BIA Approach to the Standardised Approach). Effective from 31 December 2011, Banca Infrastrutture Innovazione e Sviluppo (BIIS) also began to use the Advanced Measurement Approach (AMA).

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 initial recognition, 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 expired and/or past due, in decreasing order of severity), the Group applies regulations issued by the Bank of Italy, consistent with the regulations envisaged for such purpose 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 expired and/or 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 non-performing loans, it should be remarked that effective from the second half of 2010 the Group adopted an organisational model based on the specialisation of management competencies between internal and external structures, calling for the positions of greatest significance and complexity to be handled internally. In particular, this model calls for:

- attribution to the Loan Recovery Department of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo S.p.A. 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 S.p.A. (for Intesa Sanpaolo S.p.A. 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 S.p.A. is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondiario S.p.A. with the management of certain types of loans;
- the retention of management competency, defined according to the previous organisational model, between the Loan Recovery Department and Italfondiario S.p.A. 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 has been reviewed whenever events capable of significantly changing recovery prospects became 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 S.p.A. in managing the loans entrusted to it under management mandate was monitored by the responsible internal units of the Bank.
In particular, it should be noted that the assessment of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.
The classification of positions within non-performing financial assets and in the relative management

systems was undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of loan monitoring and recovery.
Assets are also classified as non-performing for financial reporting purposes through automatic mechanisms when given objective default thresholds are exceeded. Such mechanisms apply to expired and/or 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 "expired and/or 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 set forth below. In brief:

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. These 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 due and/or 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 due by less than 150, 180 or 270 days (excluding any overdue interest requested from the customer), if the type of exposure 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

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 due/past due exposures. If the restructuring relates to exposures to borrowers classified as "performing" or to unimpaired due/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

Due and/or 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 due or past due by more than 180 days on a continuous basis. For certain types of exposure (essentially banks and central governments and non-resident customers, as well as exposures secured by real estate property not subject to the IRB approach for calculating capital requirements) the Regulatory provisions have set a period of 90 days instead of 180 days. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

In addition to the types of non-performing exposures referred to above, the Intesa Sanpaolo Group also monitors and periodically reports its past due loans over 90 days to the Bank of Italy (still included under performing loans), defined as due and/or past due exposures over 90 days not already classified under one of the classes of non-performing loans.

Description of the methods adopted to calculate the adjustments

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

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

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

With reference to loans to customers and due from banks, positions attributed the status of doubtful, substandard, restructured or past due according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.

These 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 expected 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.

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, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category. Measurement also considers the risk connected to the borrower's country of residence.

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 new 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 90/180 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.

With reference to assets available for sale, the process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.
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 latter amount, a fair value reduction of over 30% is considered significant, and a reduction of over 24 months is considered a "prolonged" continuous 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 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 allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
"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.).
On-balance sheet exposures are classified in the financial statements under the various accounting portfolios required by the IAS/IFRS regulations. The following table presents such exposures by risk class and IAS/IFRS portfolio, also including in the Financial assets held for trading portfolio derivatives positions not already classified to the Hedging derivatives portfolio.

Overall credit exposure by risk class (*)

(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	11	10	9	79	55	76	20	14	14
2. Financial assets available for sale	5	5	4	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-	-	-	-
4. Due from banks	151	66	135	1	1	21	-	-	-
5. Loans to customers	24,961	8,998	22,633	11,486	9,126	11,324	4,032	3,425	3,761
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
TOTAL - 31.12.2011	**25,128**	**9,079**	**22,781**	**11,566**	**9,182**	**11,421**	**4,052**	**3,439**	**3,775**
TOTAL - 31.12.2010	**20,676**	**7,378**	**18,624**	**11,522**	**9,114**	**12,278**	**3,641**	**3,341**	**3,306**

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	8	7	8	57,425	57,425	60,742	57,543	57,511	60,849
2. Financial assets available for sale	-	-	-	26,505	26,505	23,004	26,510	26,510	23,008
3. Investments held to maturity	-	-	-	2,641	2,639	3,125	2,641	2,639	3,125
4. Due from banks	2	2	1	34,785	34,758	39,553	34,939	34,827	39,710
5. Loans to customers	1,319	1,147	1,444	359,039	355,891	357,653	400,837	378,587	396,815
6. Financial assets designated at fair value through profit and loss	-	-	-	877	877	946	877	877	946
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	10,209	10,209	5,862	10,209	10,209	5,862
TOTAL - 31.12.2011	**1,329**	**1,156**	**1,453**	**491,481**	**488,304**	**490,885**	**533,556**	**511,160**	**530,315**
TOTAL - 31.12.2010	**1,677**	**1,523**	**1,902**	**502,199**	**499,674**	**508,864**	**539,715**	**521,030**	**544,974**

(*) This table provides figures pertaining exclusively to the Banking Group.
(**) Half-yearly average.

For a clearer understanding of the quantitative data shown in the Table, the table below shows the Intesa Sanpaolo Group's exposure (including the insurance business) to the Greek government and Hellenic Railways, and the measurements made in the financial statements as at 31 December 2011. In brief, the measurements performed resulted in the recording of a total of 1,046 million euro of impairment of the bonds in 2011 (939 million euro net of amounts allocated to insurance products under separate management), of which 312 million in the fourth quarter of 2011 (321 million euro net of amounts allocated to insurance products under separate management). The carrying amount of said bonds, after impairment, is 269 million euro. The fair value of these securities, measured based on the prices as at 31 December 2011, came to 234 million euro.

In terms of classification, the Intesa Sanpaolo Group decided to keep the credit risk exposure to the Greek government and Hellenic Railways among performing loans, considering that the Bank of Italy's definition of non-performing loans does not include exposures whose anomalous situation is attributable to causes relating to country risk, and that the agreement for restructuring of Greek debt was defined only on 21 February 2012.

Exposure to Greece

(millions of euro)

	Nominal value as at 31.12.2011	Amortised cost	Adjustment on security due to fair value hedge	Book value before valuation (net of accruals)	Profits (losses) on trading/Income from insurance business (*)	Impairment as at 31.12.2011	Book value as at 31.12.2011 (net of accruals)
Government bonds							
Loans and receivables	192	180	110	290	-63 (1)	-238 (2)	64
Financial assets available for sale	654	664	128	792	-8 (1)	-632	153 (3)
Financial assets held for trading	12	--	--	8	- (4)	-	2
TOTAL GOVERNMENT BONDS	**858**	**844**	**238**	**1,090**	**-71**	**-870**	**219**
Bonds issued by public entities							
Hellenic Railways							
Loans and receivables	200	203	23	226	-2 (1)	-176	50
TOTAL OTHER SECURITIES	**200**	**203**	**23**	**226**	**-2**	**-176**	**50**
GRAND TOTAL	**1,058**	**1,047**	**261**	**1,316**	**-73**	**-1,046**	**269**
of which: banking group	*828*	*806*	*261*	*1,071*	*-69*	*-859*	*215*
of which: insurance business	*230*	*241*	--	*245*	*-4*	*-187*	*54* (5)
TOTAL ADJUSTMENTS (net of amounts allocated to insurance portfolios under separate management)						**-939**	

(*) Includes -69 million euro comprised in Profits (Losses) on trading and -4 million euro in Income from insurance business in the reclassified income statement.

(1) Amounts referring to derivatives reclassified in the trading portfolio.

(2) Includes 12 million euro adjustment for the elimination of the AFS reserve, "crystallised" when reclassifying the security pursuant to IAS 39 amendment (October 2008).

(3) The amount of impairment takes into account the presence of income from financial guarantees of 7 million euro.

(4) Includes impairment of trading securities of -6 million euro and realised net income of +6 million euro.

(5) The exposure and impairment in the insurance business are mainly the result of Assets available for sale and, to a residual extent, the trading portfolio (exposures of 5 million euro adjusted by 4 million euro).

In addition to the above exposures, as stated, the Group has exposures in bonds of other public and private entities resident in Greece for a nominal value of 57 million euro, with a book value of 36 million euro (21 million euro among Loans and receivables, 15 million euro as Financial assets available for sale) and with a fair value of 36 million euro, for which the measurement criteria applied as at previous reporting dates remained unchanged without impairment loss recognition. Furthermore, loans to Greek parties (banks and other customers) have been disbursed for 125 million euro, in addition to margins available on irrevocable credit lines of 34 million euro.

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	8,072	-13,706	889	-1,973	10	-37	2	-22	30	-225
A.2. Substandard loans	7,647	-1,994	1,418	-345	28	-3	2	-1	31	-17
A.3. Restructured exposures	3,059	-550	197	-33	22	-11	147	-13	-	-
A.4. Past due exposures	1,001	-128	126	-44	1	-	3	-	16	-
A.5. Other exposures	318,896	-2,065	56,920	-948	9,700	-44	2,752	-20	5,057	-74
Total A	**338,675**	**-18,443**	**59,550**	**-3,343**	**9,761**	**-95**	**2,906**	**-56**	**5,134**	**-316**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	139	-52	10	-4	5	-	-	-1	6	-19
B.2. Substandard loans	554	-70	88	-15	1	-	-	-	6	-1
B.3. Other non-performing assets	511	-24	6	-1	8	-	8	-	-	-
B.5. Other exposures	55,586	-165	45,809	-74	18,654	-13	1,720	-3	246	-5
Total B	**56,790**	**-311**	**45,913**	**-94**	**18,668**	**-13**	**1,728**	**-4**	**258**	**-25**
TOTAL (A+B) 31.12.2011	**395,465**	**-18,754**	**105,463**	**-3,437**	**28,429**	**-108**	**4,634**	**-60**	**5,392**	**-341**
TOTAL 31.12.2010	**408,944**	**-15,883**	**110,748**	**-2,637**	**25,175**	**-105**	**5,994**	**-76**	**5,764**	**-300**

(*) 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	43	-8	21	-72	-	-	3	-5	-	-
A.2. Substandard loans	1	-	-	-	-	-	-	-	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	2	-1	-	-	-	-	-	-
A.5. Other exposures	15,121	-4	21,161	-15	2,836	-3	2,471	-5	1,439	-
Total A	**15,165**	**-12**	**21,184**	**-88**	**2,836**	**-3**	**2,474**	**-10**	**1,439**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.5. Other exposures	8,137	-1	56,023	-9	4,846	-1	1,504	-6	716	-2
Total B	**8,137**	**-1**	**56,023**	**-9**	**4,846**	**-1**	**1,504**	**-6**	**716**	**-2**
TOTAL (A+B) 31.12.2011	**23,302**	**-13**	**77,207**	**-97**	**7,682**	**-4**	**3,978**	**-16**	**2,155**	**-2**
TOTAL 31.12.2010	**22,007**	**-12**	**63,079**	**-87**	**9,101**	**-6**	**6,362**	**-27**	**2,458**	**-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	175	-45	X
A.2. Substandard loans	-	-	X	51	-6	X
A.3. Restructured exposures	-	-	X	-	-	X
A.4. Past due exposures	1	-	X	10	-	X
A.5. Other exposures	47,918	X	-261	20,011	X	-39
Total A	**47,920**	**-10**	**-261**	**20,247**	**-51**	**-39**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	5	-	X	-	-	X
B.2. Substandard loans	-	-	X	-	-	X
B.3. Other non-performing assets	-	-	X	8	-	X
B.4. Other exposures	4,099	X	-	1,829	X	-4
Total B	**4,104**	**-**	**-**	**1,837**	**-**	**-4**
TOTAL - 31.12.2011	**52,024**	**-10**	**-261**	**22,084**	**-51**	**-43**
TOTAL - 31.12.2010	**58,147**	**-9**	**-14**	**21,215**	**-39**	**-69**

	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	65	-362	X	-	-	X
A.2. Substandard loans	260	-53	X	-	-	X
A.3. Restructured exposures	19	-2	X	-	-	X
A.4. Past due exposures	9	-3	X	-	-	X
A.5. Other exposures	26,455	X	-121	2,225	X	-2
Total A	**26,808**	**-420**	**-121**	**2,225**	**-**	**-2**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	2	-2	X	-	-	X
B.2. Substandard loans	31	-	X	-	-	X
B.3. Other non-performing assets	-	-	X	-	-	X
B.4. Other exposures	28,003	X	-6	2,393	X	-1
Total B	**28,036**	**-2**	**-6**	**2,393**	**-**	**-1**
TOTAL - 31.12.2011	**54,844**	**-422**	**-127**	**4,618**	**-**	**-3**
TOTAL - 31.12.2010	**63,816**	**-415**	**-97**	**5,171**	**-**	**-96**

	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	7,076	-12,697	X	1,686	-2,849	X
A.2. Substandard loans	7,197	-1,727	X	1,618	-574	X
A.3. Restructured exposures	3,358	-577	X	48	-28	X
A.4. Past due exposures	909	-111	X	218	-58	X
A.5. Other exposures	211,933	X	-2,328	84,783	X	-400
Total A	**230,473**	**-15,112**	**-2,328**	**88,353**	**-3,509**	**-400**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	147	-56	X	6	-19	X
B.2. Substandard loans	584	-82	X	34	-3	X
B.3. Other non-performing assets	525	-25	X	-	-	X
B.4. Other exposures	81,697	X	-239	3,994	X	-10
Total B	**82,953**	**-163**	**-239**	**4,034**	**-22**	**-10**
TOTAL - 31.12.2011	**313,426**	**-15,275**	**-2,567**	**92,387**	**-3,531**	**-410**
TOTAL - 31.12.2010	**317,069**	**-12,646**	**-2,061**	**91,207**	**-3,122**	**-433**

(*) 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	**62,578**	**14,592**	**8,299**	**23,115**	**28,519**	**27,667**	**37,892**	**133,972**	**121,166**	**4,343**
A.1 Government bonds	157	55	77	803	4,002	5,220	7,273	9,473	7,486	-
A.2 Other debt securities	920	813	786	439	1,211	3,185	3,731	11,370	12,205	63
A.3 Quotas of UCI	2,069	-	-	-	-	-	-	-	-	-
A.4 Loans	59,432	13,724	7,436	21,873	23,306	19,262	26,888	113,129	101,475	4,280
- Banks	*8,176*	*6,715*	*671*	*3,026*	*3,097*	*1,759*	*1,191*	*788*	*124*	*4,054*
- Customers	*51,256*	*7,009*	*6,765*	*18,847*	*20,209*	*17,503*	*25,697*	*112,341*	*101,351*	*226*
B. OFF-BALANCE SHEET EXPOSURES	**125,523**	**69,379**	**20,550**	**37,469**	**47,980**	**26,732**	**32,584**	**131,618**	**35,894**	**94**
B.1 Financial derivatives with exchange of capital										
- Long positions	*194*	*27,232*	*10,003*	*18,421*	*22,475*	*10,286*	*10,278*	*14,382*	*11,581*	*10*
- Short positions	*177*	*30,322*	*10,365*	*18,521*	*21,690*	*7,879*	*10,111*	*15,802*	*11,670*	*10*
B.2 Financial derivatives without exchange of capital										
- Long positions	*42,929*	*126*	*60*	*165*	*569*	*835*	*997*	*1,699*	*639*	*-*
- Short positions	*43,925*	*132*	*69*	*182*	*592*	*940*	*1,101*	*1,799*	*776*	*-*
B.3 Irrevocable commitments to lend funds										
- Long positions	*3,361*	*6,832*	*50*	*94*	*1,299*	*4,393*	*5,754*	*41,991*	*6,955*	*21*
- Short positions	*34,827*	*4,526*	*3*	*67*	*1,261*	*2,274*	*4,164*	*55,672*	*4,134*	*26*
B.4 Financial guarantees given	*110*	*209*	*-*	*19*	*94*	*125*	*179*	*273*	*139*	*27*
TOTAL AS AT 31.12.2011	**188,101**	**83,971**	**28,849**	**60,584**	**76,499**	**54,399**	**70,476**	**265,590**	**157,060**	**4,437**
TOTAL AS AT 31.12.2010	**142,793**	**74,022**	**24,094**	**58,970**	**84,149**	**52,143**	**73,401**	**261,550**	**160,385**	**3,580**

(*) 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	31.12.2011	31.12.2010
A. Due from banks	**-12**	**13**	**1**	**-11**
- Loans	-10	13	3	-10
- Debt securities	-2	-	-2	-1
B. Loans to customers	**-6,494**	**2,264**	**-4,230**	**-2,795**
- Loans	-6,029	2,264	-3,765	-2,789
- Debt securities	-465	-	-465	-6
C. Total	**-6,506**	**2,277**	**-4,229**	**-2,806**

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

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

(millions of euro)

	Impairment losses	Recoveries	31.12.2011	31.12.2010
A. Guarantees given	-79	64	-15	-1
B. Credit derivatives	-	-	-	-
C. Commitments to lend funds	-29	32	3	3
D. Other operations	-6	6	-	-1
E. Total	**-114**	**102**	**-12**	**1**

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

Changes in adjustments relating to non-performing exposures to customers and banks

Changes in adjustments relating to non-performing exposures to customers as at 31 December 2011 (*)

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**13,221**	**2,372**	**297**	**153**
B. Increases	**5,354**	**2,193**	**544**	**367**
B.1 impairment losses	3,128	1,503	408	256
B.2 transfers from other non-performing exposure categories	1,370	355	88	20
B.3 other increases	708	274	46	89
B.4 business combinations	148	61	2	2
C. Decreases	**-2,612**	**-2,205**	**-234**	**-348**
C.1 recoveries on impairment losses	-942	-463	-26	-57
C.2 recoveries on repayments	-303	-111	-3	-4
C.3 write-offs	-720	-40	-103	-4
C.4 transfers to other non-performing exposure categories	-103	-1,420	-60	-250
C.5 other decreases	-507	-159	-42	-33
C.6 business combinations	-37	-12	-	-
D. Final total adjustments	**15,963**	**2,360**	**607**	**172**

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

Changes in adjustments relating to non-performing exposures to banks as at 31 December 2011 (*)

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**78**	**9**	**-**	**-**
B. Increases	**12**	**1**	**-**	**1**
B.1 impairment losses	2	1	-	1
B.2 transfers from other non-performing exposure categories	7	-	-	-
B.3 other increases	3	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-5**	**-10**	**-**	**-**
C.1 recoveries on impairment losses	-1	-	-	-
C.2 recoveries on repayments	-1	-	-	-
C.3 write-offs	-2	-3	-	-
C.4 transfers to other non-performing exposure categories	-	-7	-	-
C.5 other decreases	-1	-	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	**85**	**-**	**-**	**1**

(*) 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

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting: Standard & Poor's ratings Services, Moody's Investors Service, and Fitch Ratings. These agencies are valid for all Group banks.
When determining the capital requirements, if there are two ratings for the same customer, the most prudential of the two is used, and when three ratings are available the middle rating is adopted.

List of the external Rating Agencies

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

(*) Ratings characteristics: solicited/unsolicited.

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

In compliance with the 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 above information is listed in the "with" and "without" credit risk mitigation columns and associated with the risk weightings defined by the current Prudential Supervisory regulations.

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

Please note that exposures backed by collateral - whose exposure level is reduced due to 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".

Breakdown of exposures: standardised approach

(millions of euro)

Regulatory portfolio	31.12.2011			31.12.2010		
	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	68,767	72,688	624	57,277	59,609	627
Exposures to or secured by local authorities	19,885	20,300	-	20,505	20,874	-
Exposures to or secured by not for profit and public sector organisations	10,922	11,536	-	10,774	11,836	-
Exposures to or secured by multilateral development banks	2,333	2,338	-	1,390	1,390	-
Exposures to or secured by international organisations	40	40	-	40	40	-
Exposures to or secured by supervised institutions	87,475	116,889	327	75,510	127,364	727
Exposures to or secured by corporates	56,350	60,346	-	61,530	66,594	-
Retail exposures	62,992	65,510	-	65,890	71,563	-
Exposures secured by real estate property	17,145	17,145	-	18,939	18,939	-
Past due exposures	7,415	7,496	-	7,397	7,468	-
High-risk exposures	1,062	1,062	-	1,210	1,210	-
Exposures in the form of covered bonds	272	272	-	162	162	-
Short-term exposures to corporates	1,216	1,272	-	1,828	1,923	-
Exposures to UCI	2,441	3,156	-	4,826	4,826	-
Other exposures	13,616	13,616	4,688	15,314	15,314	4,881
Securitisations (*)	4,478	4,478	-	5,572	5,572	-
Total credit risk	**356,409**	**398,144**	**5,639**	**348,164**	**414,684**	**6,235**

(*) Further information on securitisations is contained in Table 10 - Securitisations.

For certain regulatory portfolios (Exposures to or secured by corporates and Exposures secured by real estate property), the Group uses the standardised approach to a lesser extent, as it obtained authorisation to use the IRB approaches. For information on the different scope of companies which the IRB approaches are applied to, see the information in Table 7.

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

The exposures deducted from the Regulatory Capital include both the 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 (see Table 3).

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

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

(millions of euro)

Regulatory portfolio	31.12.2011										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	66,746	X	567	X	866	X	583	5	X	-	68,767
Exposures to or secured by local authorities	85	X	18,878	X	480	X	442	-	X	X	19,885
Exposures to or secured by not for profit and public sector organisations	-	X	34	X	9,471	X	1,417	-	X	X	10,922
Exposures to or secured by multilateral development banks	2,277	X	51	X	5	X	-	-	X	X	2,333
Exposures to or secured by international organisations	40	X	X	X	X	X	X	X	X	X	40
Exposures to or secured by supervised institutions	635	X	52,420	X	19,915	X	14,404	101	X	X	87,475
Exposures to or secured by corporates	25	X	1,888	X	3,195	X	50,677	565	X	X	56,350
Retail exposures	-	X	X	X	X	62,992	X	X	X	X	62,992
Exposures secured by real estate property	X	X	X	9,032	8,113	X	X	X	X	X	17,145
Past due exposures	-	X	X	X	252	X	4,264	2,899	X	X	7,415
High-risk exposures	X	X	X	X	X	X	593	48	421	X	1,062
Exposures in the form of covered bonds	X	237	35	X	-	X	-	X	X	X	272
Short-term exposures to corporates	X	X	-	X	-	X	1,216	-	X	X	1,216
Exposures to UCI	-	X	52	X	100	X	2,243	46	X	-	2,441
Other exposures	3,602	X	1,397	X	X	X	8,617	X	X	X	13,616
Securitisations	X	X	X	X	X	X	X	X	X	X	4,478
Total credit risk	**73,410**	**237**	**75,322**	**9,032**	**42,397**	**62,992**	**84,456**	**3,664**	**421**	**-**	**356,409**

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

(millions of euro)

Regulatory portfolio	31.12.2011										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	69,892	X	735	X	1,473	X	583	5	X	-	72,688
Exposures to or secured by local authorities	86	X	19,256	X	480	X	478	-	X	X	20,300
Exposures to or secured by not for profit and public sector organisations	593	X	44	X	9,481	X	1,418	-	X	X	11,536
Exposures to or secured by multilateral development banks	2,282	X	51	X	5	X	-	-	X	X	2,338
Exposures to or secured by international organisations	40	X	X	X	X	X	X	X	X	X	40
Exposures to or secured by supervised institutions	27,962	X	53,115	X	21,305	X	14,406	101	X	X	116,889
Exposures to or secured by corporates	3,887	X	1,959	X	3,258	X	50,677	565	X	X	60,346
Retail exposures	2,518	X	X	X	X	62,992	X	X	X	X	65,510
Exposures secured by real estate property	X	X	X	9,032	8,113	X	X	X	X	X	17,145
Past due exposures	81	X	X	X	252	X	4,264	2,899	X	X	7,496
High-risk exposures	X	X	X	X	X	X	593	48	421	X	1,062
Exposures in the form of covered bonds	X	237	35	X	-	X	-	X	X	X	272
Short-term exposures to corporates	56	X	-	X	-	X	1,216	-	X	X	1,272
Exposures to UCI	715	X	52	X	100	X	2,243	46	X	-	3,156
Other exposures	3,602	X	1,397	X	X	X	8,617	X	X	X	13,616
Securitisations	X	X	X	X	X	X	X	X	X	X	4,478
Total credit risk	**111,714**	**237**	**76,644**	**9,032**	**44,467**	**62,992**	**84,495**	**3,664**	**421**	**-**	**398,144**

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2011	**31.12.2010**
A) Exposures to or secured by corporates: Specialised lending - slotting criteria	**3,994**	**2,394**
A.1) Regulatory assessment - weak	13	14
A.2) Regulatory assessment - sufficient	921	473
A.3) Regulatory assessment - good	2,712	1,358
A.4) Regulatory assessment - strong	348	549
A.5) Default	-	-
B. Equity exposures: Simple risk weight approach	**346**	**266**
B.1) Private equity exposures in sufficiently diversified portfolios - 190%	170	165
B.2) Exchange-traded equity exposures - 290%	13	44
B.3) Other equity exposures - 370%	163	57
C. Equity instruments: Other assets - Ancillary investments - (100%)	-	-
Total Specialised lending and equity exposures subject to the IRB approaches	**4,340**	**2,660**

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. The following should be noted with regard to the Basel 2 Project, presented in detail in Table 1 (in the paragraph "The Basel 2 Project"), concerning the plan to extend the internal models:

- the application for authorisation of extension of the IRB method to VUB Banka for the retail mortgage segment was submitted in December 2011;
- an application for authorisation to use the AIRB approach with internal LGD estimates was submitted in January 2012 for the Corporate segment in relation to the product companies specialised in leasing and factoring (Leasint and Mediofactoring);
- an application for authorisation to use the AIRB method for Banca IMI will be submitted at the end of the first half of 2012 in relation to the Corporate segment;
- an application for authorisation of transition to the IRB approach for the SME Retail segment is expected to be submitted in the first half of 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 roll-out 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).

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:
- 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 past series used for the development and calibration of the models has been determined on the basis of a trade-off between the need to cover a broad time horizon and the need to be forward looking in representing the Group;
- 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.

Structure of the internal rating systems (LGD)

The main features of the LGD models are:
- the LGD is calculated by analysing losses suffered by the Group on historical defaults ("LGD workout");
- the definition of default used is the same as that applied in the PD estimation models;
- the LGD is based at Group level, and is the same for each counterparty/relationship, even when they are shared by several entities of the Group, and characterised by the same discriminating variables;
- the data used for the estimate relate to the Parent Company and the main Network Banks;
- for the Doubtful loans model, the length of the historical series used meets the need to cover a broad timescale and is based on a 10-year historical series, while the Danger Rate model meets the need to represent the current policies of the Group (forward looking approach) for the future and is based on observation of defaults in the most recent periods (observations since 2008);
- the segmentation of the LGD models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used, suitably differentiated on the basis of analytical criteria considered to be relevant;
- the LGD model is based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group;
- the approach used involves the econometric LGD Model starting from the classification of the loan as doubtful, and the subsequent recalibration of estimate on definition of default using the Danger Rate model;
- 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 granting credit and its monitoring and management, and also in pricing, in financial statement processes, in the calculation of economic capital, in value governance, and in 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 as for the online PD, and is therefore capable of capturing the changes in the counterparty’s credit rating because it is able to make use of updated information, both financial and behavioural. The comparison between the online PD and the monitoring PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the online rating becomes “non-performing” and must be re-assigned.

Pricing

The Group has a model to calculate the correct pricing of credit risk. This tool can 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 180 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 aggregate 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, responsible for 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 shown in Table 1, 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 2011 an overall revision was applied to the Group's internal regulations in this area and 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 in adopting 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 of 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 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 and proper functioning of 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 regulations;
- 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 system;
- regular issue of recommendations to the development functions and internal validation of the performance, operation and use of the internal systems;
- drafting of the 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.

The macro process of 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 involves Italian and foreign non-financial institutions. The second refers to "specialised lending" and in particular to project finance and real estate development initiatives. Specific models for the Slovak market are in use at the subsidiary VUB.

The Corporate Italy and Large Corporate Italy models

The Corporate Italy 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 (see Table 5).
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be modified 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 transformed indicators originating from two quantitative areas (financial and behavioural). The model is optimised per revenue band and is called "Financial and behavioural" when only the financial statement information is available, and "Financial-Performance" 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 of 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 that 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. 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: economic and financial - which are in turn broken down into profitability and debt servicing, management of current assets and capital structure -, qualitative - also divided into various areas – and behavioural. The manager is required to provide an independent assessment for each area, which 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)[1], 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 Italy segment, for unrated counterparties.

[1] 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 the model for Project Finance and the RED (Real Estate Development) model for the real estate development initiatives.

a) The Project Finance model

The Project Finance model consists of a statistical module, which unlike the standard models is based on a Monte Carlo simulation of the future cash flows, and therefore looks at prospective information as opposed to historical data, generating a value of expected loss (PDxLGD) as an output, and of a qualitative model, which determines the classification of the project based on the slotting approach.

The Expected Loss resulting from the statistical module is integrated with a slotting assessment by means of a coherency matrix, with the support of an opinion provided by the analyst.

The slotting approach (see Table 6) is currently being used for regulatory reporting purposes, while the request for authorisation to use the complete model is planned to be submitted in the first quarter of 2012.

b) The Real Estate Development (RED) model

The RED model is of the expert-based type, meaning that it has been created on the basis of the experience of credit analysts and calibrated to account for the available quantitative evidence.

It consists of a questionnaire compiled by the manager, partly through answers to qualitative questions and partly by entering numeric data, and is split into:

– a quantitative section, which provides a quantitative rating;
– a qualitative section, which produces a notching of the quantitative rating (overall rating);
– a section relating to the guarantees, which enables the calculation of the project LGD and consequently also of the expected loss.

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 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 modul, 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 Project Finance (PF) and Real Estate Development (RED) models
For project finance and real-estate development initiatives, the Parent Company's models are used, as described above, subject to periodic monitoring in order to verify their performance and stability.

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

Description of the LGD model for the Corporate and Mortgage segments
The model for the estimation of the LGD is made up of the following elements:

- estimate of a Non-Performing LGD Model: starting from the LGD observed on the portfolio, or the "workout LGD", determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event; the procedure avoids the instability of estimates that would result from the use of the cell averages, despite the presence of substantial time series data, on the relatively unpopulated individual subsets;
- application of a correction factor, known as the "Danger Rate": the Danger Rate is a multiplying correction factor, aimed at recalibrating the Non-Performing LGD with the information available on other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;
- application of other correction factors, known as the "Final Settlement Component": this component is used as an add-on to the recalibrated estimate of the Danger Rate in order to take account into 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).

The data from the estimation sample has been subject to normalising: 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 operations of credit risk, as well as the consolidated orientation deriving from comparison with other Italian Groups and Banks, Intesa Sanpaolo decided to include Bankruptcy Revocatory Actions in the area of credit risk. Revocatory actions which are not attributable to credit risk are managed in the area of operational risk.
The 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 mortgage, type of relationship, and legal form. 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 Non-Performing LGD, determined in relation to the significant bases of analysis.
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.

Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2011, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the "Corporate" (Foundation and Advanced IRB) and "Residential mortgages to private individuals" (IRB[2]) regulatory segments.

Scope of companies for application of the IRB approaches

Name	Regulatory segment		
	Corporate		Residential mortgages to private individuals
	Foundation	Advanced	
Intesa Sanpaolo S.p.A.		x	x
Banca CR Firenze S.p.A.		x	x
Banca dell'Adriatico S.p.A.		x	x
Banca di Credito Sardo S.p.A.		x	x
Banca di Trento e Bolzano S.p.A.		x	x
Banco di Napoli S.p.A.		x	x
BIIS - Banca Infrastrutture Innovazione e Sviluppo S.p.A.		x	
Cassa di Risparmio del Friuli Venezia Giulia S.p.A.		x	x
Cassa di Risparmio del Veneto S.p.A.		x	x
Cassa di Risparmio della Provincia di Viterbo S.p.A.		x	x
Cassa di Risparmio di Ascoli Piceno S.p.A.		x	x
Cassa di Risparmio di Città Castello S.p.A.		x	x
Cassa di Risparmio di Civitavecchia S.p.A.		x	x
Cassa di Risparmio di Foligno S.p.A.		x	x
Cassa dei Risparmio di Forlì e della Romagna S.p.A.		x	x
Cassa di Risparmio di Pistoia e Pescia S.p.A.		x	x
Cassa di Risparmio di Rieti S.p.A.		x	x
Cassa di Risparmio di Spoleto S.p.A.		x	x
Cassa di Risparmio di Terni e Narni S.p.A.		x	x
Cassa di Risparmio di Venezia S.p.A.		x	x
Cassa di Risparmio in Bologna S.p.A.		x	x
Intesa Sanpaolo Bank Ireland P.l.c.		x	
Leasint S.p.A.	x		
Mediocredito Italiano S.p.A.		x	
Mediofactoring S.p.A.	x		
Vseobecna Uverova Banka A.S.	x		

As explained in the paragraph "The Basel 2 Project" of Table 1, the scope of application of the AIRB approach for the Corporate segment includes the Parent Company, the network banks, Banca Infrastrutture Innovazione e Sviluppo and Mediocredito Italiano. The foreign company Intesa Sanpaolo Bank Ireland Plc obtained authorisation for the use of the advanced approach effective from the report as at 31 December 2011. The foreign bank VUB Banka obtained permission to use the FIRB approach effective from the report as at 31 December 2010.
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.
The development of rating models for the other segments and the extension of the scope of companies is proceeding according to the gradual roll-out plan for the advanced approaches presented to the Supervisory Authority.

The exposure values as at 31 December 2011 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

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

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2011	**31.12.2010**
Exposures to or secured by corporates:		
- *Specialised lending*	*754*	*774*
- *SMEs (Small and Medium Enterprises)*	*11,259*	*10,769*
- *Other corporates*	*13,530*	*13,556*
Total credit risk (IRB)	**25,543**	**25,099**

Exposure values by regulatory portfolio (Advanced IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2011	**31.12.2010**
Exposures to or secured by corporates:		
- *Specialised lending*	*7,098*	*6,653*
- *SMEs (Small and Medium Enterprises)*	*67,420*	*62,896*
- *Other corporates*	*119,847*	*115,869*
Total credit risk (Advanced IRB approach)	**194,365**	**185,418**

Exposure values by regulatory portfolio (IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2011	**31.12.2010**
Exposures secured by residential property		
- *Retail*	*60,535*	*55,330*
Total credit risk (IRB)	**60,535**	**55,330**

The exposure value shown in the tables 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	31.12.2011 Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)	Revocable and irrevocable margins (*)	Weighted average EAD (*)	31.12.2010 Exposure value
Exposures to or secured by corporates								
- Specialised lending			**7,852**			**1,795**		**7,427**
	-class from 1 to 8	-	-	0%	-	-	0%	-
	-class 9	0.23	46	27%	24.0	8	24%	28
	-class 10	0.35	126	39%	25.2	30	61%	68
	-class 11	0.50	298	49%	26.2	89	59%	282
	-class 12	0.83	533	54%	25.9	127	53%	468
	-class 13	1.25	753	62%	25.9	210	63%	791
	-class 14	1.74	1,208	72%	28.0	337	49%	1,060
	-class 15	2.78	1,104	77%	27.6	296	46%	1,051
	-class 16	4.58	1,037	95%	27.7	170	48%	1,113
	-class 17	6.60	827	105%	30.2	265	61%	662
	-class 18	10.15	953	116%	28.1	135	50%	959
	-class 19	15.51	132	129%	27.0	30	59%	202
	-class 20	23.80	214	145%	26.1	43	56%	338
	-class 21 (default)	100.00	621	0%	33.8	55	49%	405
- SMEs (Small and Medium Enterprises)			**78,679**			**4,242**		**73,665**
	-class from 1 to 3	-	-	0%	-	-	0%	-
	-class 4	0.04	1	9%	n.s.	1	49%	1
	-class 5	0.05	3	16%	n.s.	-	0%	-
	-class 6	0.07	1,907	15%	36.3	293	10%	2,965
	-class 7	0.10	1,659	18%	35.0	140	7%	1,866
	-class 8	0.15	2,779	24%	35.5	237	8%	1,933
	-class 9	0.23	3,899	30%	34.9	220	8%	2,228
	-class 10	0.35	3,422	37%	34.2	227	9%	2,868
	-class 11	0.50	6,107	46%	34.0	330	10%	4,082
	-class 12	0.83	5,905	54%	33.1	298	11%	6,596
	-class 13	1.25	7,231	62%	32.3	392	14%	7,446
	-class 14	1.74	7,797	71%	32.6	428	15%	6,732
	-class 15	2.78	8,799	79%	31.7	467	18%	7,926
	-class 16	4.58	6,961	87%	31.5	481	28%	7,518
	-class 17	6.60	3,663	97%	30.4	266	33%	3,932
	-class 18	10.15	3,309	117%	30.5	127	27%	2,995
	-class 19	15.51	1,058	139%	31.4	75	31%	1,305
	-class 20	23.80	1,203	158%	31.0	44	22%	1,818
	-class 21 (default)	100.00	12,976	0%	47.1	216	33%	11,454
- Other corporates			**133,377**			**45,745**		**129,425**
	-class 1	-	-	0%	-	-	0%	-
	-class 2	-	-	0%	-	-	0%	1,136
	-class 3	0.03	4,333	14%	43.0	3,604	38%	929
	-class 4	0.04	7,684	16%	41.0	4,259	48%	6,736
	-class 5	0.05	3,532	21%	42.4	2,831	49%	3,085
	-class 6	0.07	10,214	26%	41.3	6,399	40%	9,241
	-class 7	0.10	11,618	29%	40.6	5,286	39%	9,845
	-class 8	0.15	8,880	35%	39.8	4,459	39%	8,928
	-class 9	0.23	6,228	41%	39.2	2,752	33%	6,053
	-class 10	0.35	15,016	52%	39.0	5,010	32%	14,241
	-class 11	0.50	14,328	60%	37.8	3,366	31%	10,670
	-class 12	0.83	9,021	72%	36.3	980	23%	11,571
	-class 13	1.25	10,481	85%	38.0	2,323	35%	13,173
	-class 14	1.74	7,561	103%	37.8	1,072	30%	7,449
	-class 15	2.78	8,001	112%	36.9	1,827	39%	7,270
	-class 16	4.58	2,804	122%	35.3	462	37%	3,897
	-class 17	6.60	1,598	139%	33.8	210	44%	2,941
	-class 18	10.15	1,898	170%	36.1	199	38%	2,366
	-class 19	15.51	785	195%	37.6	58	24%	939
	-class 20	23.80	414	228%	39.9	88	45%	1,348
	-class 21 (default)	100.00	8,981	0%	39.5	560	43%	7,607

(*) 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	31.12.2011				31.12.2010
		Central PD (%)	Exposure value (*)	Average risk weight	Weighted average LGD (%)	Exposure value
Exposures secured by residential property						
Retail			**60,535**			**55,330**
	-class from 1 to 5	-	-	-	-	-
	-class 6	0.07	1,604	2%	12.4	1,082
	-class 7	-	-	-	-	-
	-class 8	0.15	2,275	4%	12.4	1,716
	-class 9	0.23	5,798	6%	12.5	4,733
	-class 10	-	-	-	-	-
	-class 11	0.50	13,267	10%	12.7	12,681
	-class 12	0.83	13,440	15%	12.8	12,964
	-class 13	-	-	0%	-	-
	-class 14	1.74	10,764	23%	13.2	10,201
	-class 15	2.78	5,079	31%	13.6	4,276
	-class 16	4.58	4,021	47%	13.3	3,425
	-class 17	-	-	-	-	-
	-class 18	-	-	-	-	-
	-class 19	-	-	-	-	-
	-class 20	23.80	1,285	78%	13.2	1,418
	-class 21 (default)	100.00	3,002	0%	21.9	2,834

(*) Given the nature of the sole regulatory portfolio for which the IRB approach is currently used, the Exposure value for Unused margins is only 96 million euro. This Exposure value takes into account, usually, the application of an average credit conversion factor, or "Weighted average EAD", of 50% for all rating classes.

Actual losses and comparison with expected losses

The actual adjustments made during 2011 on the counterparties in default belonging to the Corporate regulatory portfolio amounted to 2,023 million euro (1,410 million euro in 2010).
With respect to the regulatory segment Residential mortgages to private individuals, adjustments to counterparties in default came to 100 million euro, compared to 194 million euro in 2010, a year in which there was a higher amount of transfers to higher-risk non-performing categories.

At the end of 2010, the expected loss for performing Corporate counterparties amounted to 1,470 million euro. The actual losses registered in 2011, presented in the foregoing paragraph, exceeded that expected loss by approximately 550 million euro. The excess may be attributed to the deterioration of the economic context, particularly in the final part of the year, which resulted in both a transfer to non-performing loans slightly 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 the restructured loans portfolio in particular, it was necessary to apply considerable adjustments to positions already subject to previous restructuring, which showed a deterioration of the assets during the year as a result of the financial market and real-estate sector crisis.
In the residential mortgages segment, the expected loss came to 144 million euro at the end of 2010, representing an overestimate of 44 million euro compared to the actual losses presented above, attributable to prudential calibrations of risk parameters, as also shown by backtesting.

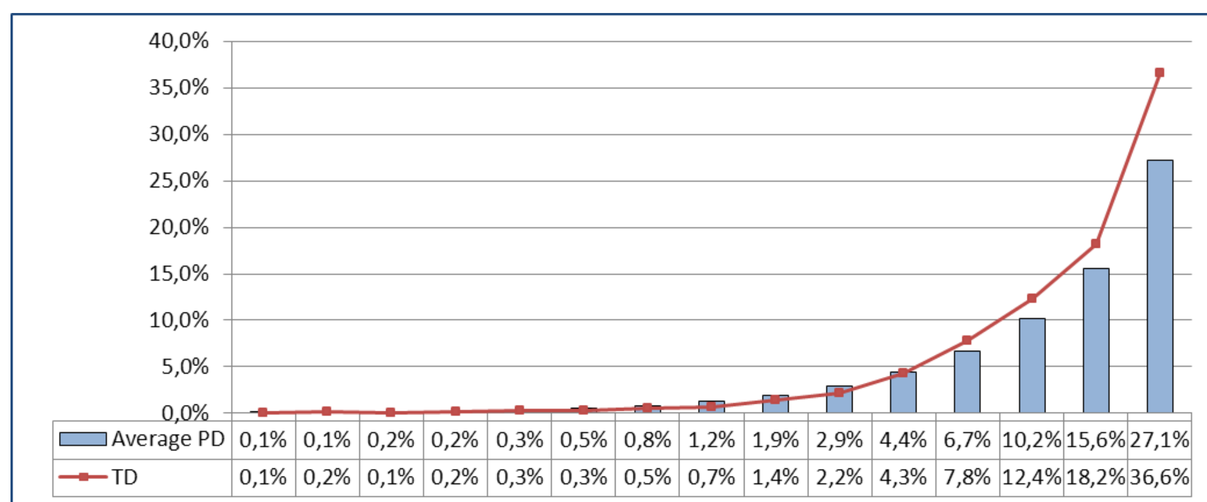
As previously highlighted, the Intesa Sanpaolo Group adopts advanced methods for determining capital requirements for the Corporate and Retail Mortgage segments. Therefore, for these two portfolios, the PD (probability of default) and LGD (loss given default) parameters, estimated internally, are used.
The comparison between estimated losses and actual losses is carried out by the Internal Validation Unit as part of the backtesting procedures. That comparison is then examined separately for the two components – PD and LGD.

For the PD, 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.

For the Corporate segment, the comparison of estimated PD to actual default rates shows a decisive improvement on the previous year's situation, also due to the aforementioned upgrades to the model. The default rates are at higher levels than the average portfolio PD, but only slightly, and the correctness of their calibration was confirmed by the tests which incorporate the cyclicality level. On the Mortgage segment, the default rate is lower than the average PD assigned ex ante.

In terms of LGD, it can be noted that the approach adopted in the estimation phase (including the most recent data and introducing various prudential elements) guarantees the application of parameters representing conservative estimates of losses.
As part of its ongoing validation work, Internal Validation periodically (on a quarterly and/or half-yearly basis) conducts analyses aimed at verifying models' discriminating power and calibration. The following table presents a breakdown of PD and TD (default rate) figures for the Domestic Corporate regulatory segment by rating class.

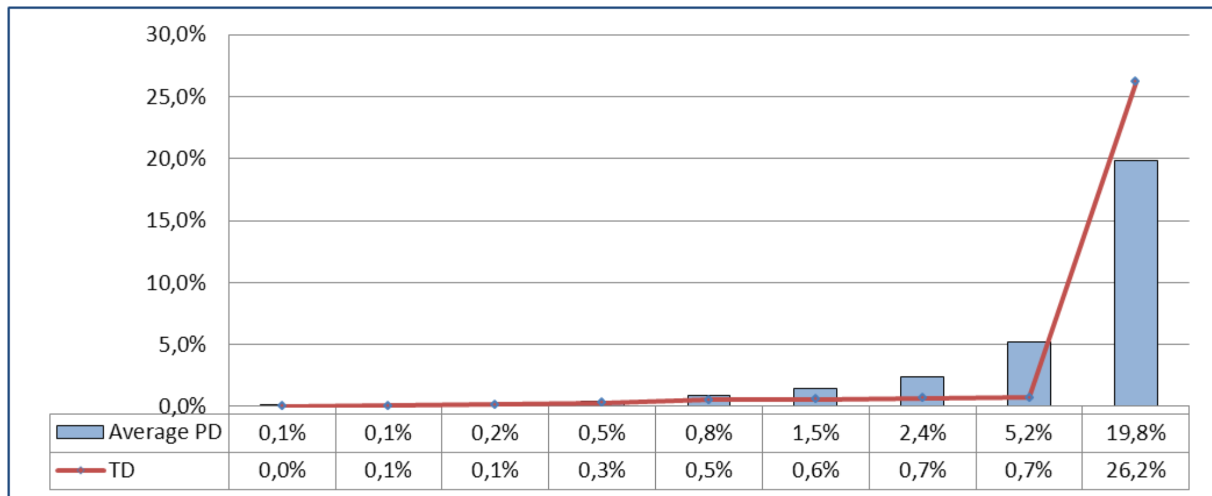
Comparison of PD and TD figures by rating class for the Corporate regulatory segment



The chart shows a monotonic increase in the default rate as the rating class worsens. The overall PD of 3.0% slightly underestimates the default rate of 3.2% due to the increase in defaults in the fourth quarter, coinciding with the deterioration of the economic scenario. The model's performance was found to be fully satisfactory in terms of discriminating power. Accuracy Ratio levels fall between 70% and 78% by turnover bracket and combination of turnover bracket/geographical area.

The same distribution by rating class as shown for the Performance portfolio is also presented for the model for residual mortgages for private individuals. The scope also includes mortgage relationships within IRB validated scope that are performing and have a valid Performance rating (see the qualitative part of this Table – Description of internal rating systems for the PD of the Mortgages segment).

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



Average PD	0,1%	0,1%	0,2%	0,5%	0,8%	1,5%	2,4%	5,2%	19,8%
TD	0,0%	0,1%	0,1%	0,3%	0,5%	0,6%	0,7%	0,7%	26,2%

There is a monotonic increase in the default rate as the rating class worsens. The portfolio's PD is 1.6% and its default rate is 1.2%, highlighting the model's ample margins of prudence. At 73%, the discriminating power of the Retail 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 signature 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. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of elements mitigating credit risk.

Guarantees received are included in the calculation of the Loss Given Default, based on (i) the initial value; (ii) the strength of said value over time; and (iii) the ease of realisation.
The guarantees received with the highest impact include:

- pledges on financial assets, differentiated based on the underlying (cash, OECD government bonds, financial instruments issued by the Bank, shares and bonds quoted on regulated markets, mutual funds, etc.);

- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.);

provided that:

- they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
- they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

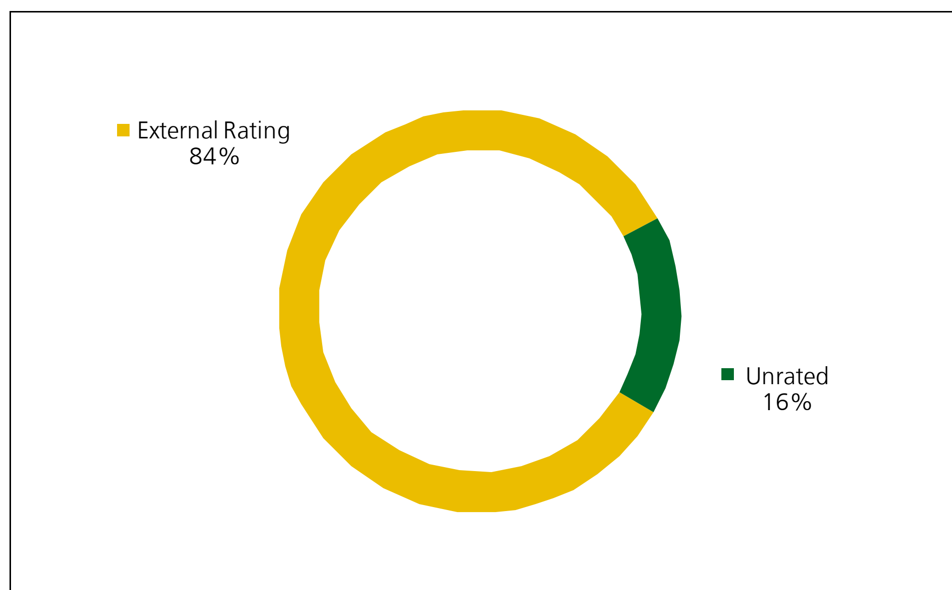
During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to 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, issued by companies that have an agreement with or are approved by the Bank. 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



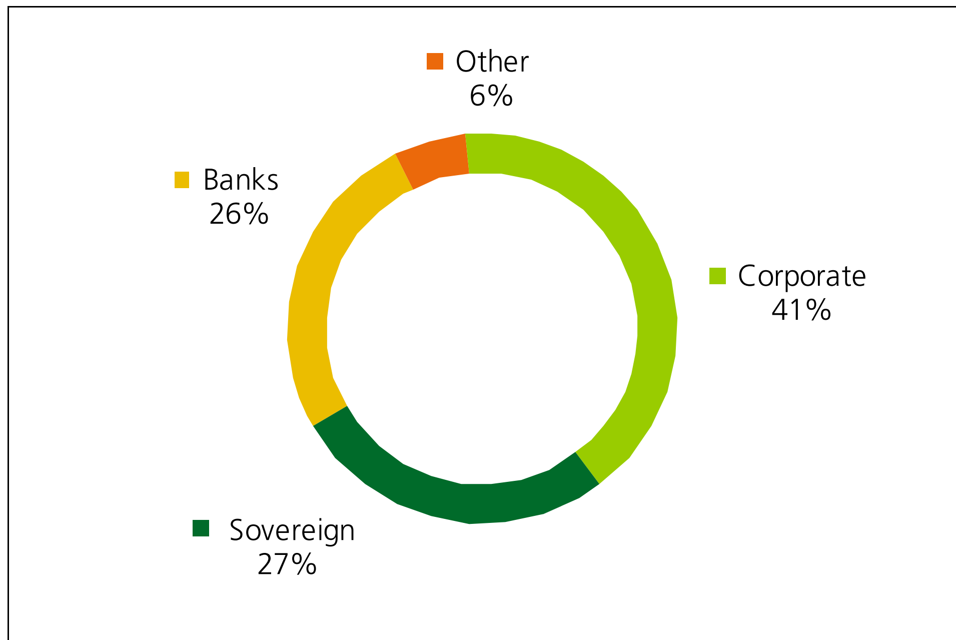
Information about market or credit risk concentrations under the credit risk mitigation instruments used

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 41% of the total amount. Sovereign guarantors (primarily the Italian government and the Export Credit Agency SACE) and banks (among which Credit Guarantee Consortia) account for 27% and 26%, respectively. There were other no material concentrations of guarantors.

Personal guarantees by type of counterparty

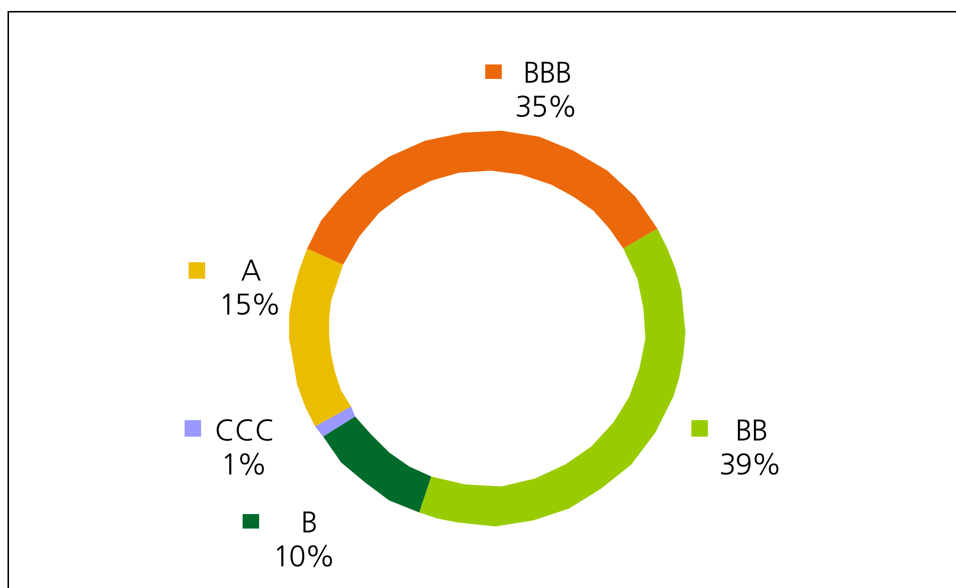


Personal guarantees by guarantor rating classes

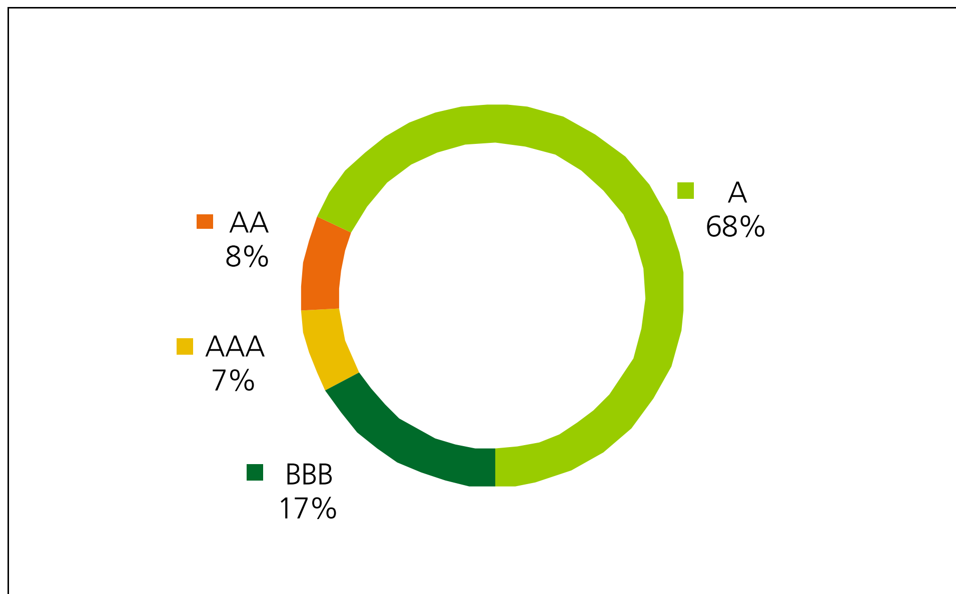
By type of personal guarantee, guarantors show a high credit quality, with 61% investment grade (54% in December 2010).

The distribution by rating classes shows that Corporate guarantors and guarantors belonging to other segments classified as investment grade have shares of approximately 50% and 99%, respectively (40% and 98% in December 2010). The former are assigned ratings using the internal model, and the latter are assigned ratings by Agencies.

Corporate personal guarantees by guarantor rating classes



Other non-corporate segment personal guarantees by guarantor rating classes



Financial collateral

The majority (around 83%) 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 62% of these securities have a maturity of less than 5 years.

The remaining approximately 17% 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	31.12.2011			31.12.2010		
	Collateral		Guarantees or credit derivatives	Collateral		Guarantees or credit derivatives
		of which: Simple approach			*of which: Simple approach*	
Exposures to or secured by governments and central banks	572	422	3,349	52	52	2,280
Exposures to or secured by local authorities	1	-	414	5	-	364
Exposures to or secured by not for profit and public sector organisations	592	-	22	1,044	-	18
Exposures to or secured by multilateral development banks	4	4	1	-	-	-
Exposures to or secured by international organisations	-	-	-	-	-	-
Exposures to or secured by supervised institutions	27,372	46	2,042	49,688	70	2,166
Exposures to or secured by corporates	3,862	-	134	4,948	-	116
Retail exposures	2,518	-	-	5,673	2	-
Past due exposures	81	-	-	71	-	-
High-risk exposures	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Short-term exposures to corporates	56	-	-	95	-	-
Exposures to UCI	715	-	-	-	-	-
Other exposures	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-
Total	**35,773**	**472**	**5,962**	**61,576**	**124**	**4,944**

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".

The performance of "Exposures to or secured by supervised issuers" was a result of a decrease in repurchase agreements, which were nearly halved during the period considered.

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 31.12.2011
Exposures to or secured by governments and central banks	2,996	X	168	X	607	X	-	-	X	-	3,771
Exposures to or secured by local authorities	-	X	378	X	-	X	36	-	X	X	414
Exposures to or secured by not for profit and public sector organisations	1	X	10	X	10	X	1	-	X	X	22
Exposures to or secured by multilateral development banks	5	X	-	X	-	X	-	-	X	X	5
Exposures to or secured by international organisations	-	X	X	X	X	X	X	X	X	X	-
Exposures to or secured by supervised institutions	1	X	695	X	1,390	X	2	-	X	X	2,088
Exposures to or secured by corporates	-	X	71	X	63	X	-	-	X	X	134
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	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	**3,003**	**-**	**1,322**	**-**	**2,070**	**-**	**39**	**-**	**-**	**-**	**6,434**

Secured exposures subject to the foundation IRB approach (*)

(millions of euro)

Regulatory portfolio	31.12.2011		31.12.2010	
	Collateral	Guarantees or credit derivatives	Collateral	Guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	-	-
SMEs	*4,518*	*112*	*4,365*	*187*
Other corporates	*2,324*	*41*	*2,639*	*95*
Specialised lending - slotting criteria	-	-	-	-
Total	**6,842**	**153**	**7,004**	**282**

Exposures secured by residential mortgage collateral for private individuals (regulatory segment of residential mortgages for private individuals), for which the Group applies the IRB approach, are not included in this Table inasmuch as they are specifically indicated in Table 7.

Table 9 – Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with Bank of Italy Circular 263 – "New regulations for the prudential supervision of banks", is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.
In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

– over-the-counter (OTC) financial and credit derivatives;
– Securities Financial Transactions – SFTs (e.g. repurchase agreements);
– transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.

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 repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method).

For operational purposes, the definition of the use of the credit lines for transactions in OTC derivatives generally 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.
Banca IMI has used potential exposure (estimated according to the average actual PFE) to measure its use since October 2010.
The advanced measurement approach for counterparty risk is being consolidated by the use test on subsidiary and is being rolled out for the Parent Company, with the aim of launching the validation process for regulatory purposes by the end of 2012.

The loan facility for OTC transactions is defined on precisely the same basis as the on-balance sheet exposures, as the transactions in derivatives represent a particular form of use by the customers. 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 (see Table 8 for further details).

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, 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.

Specifically, the following measures were defined:

- PFE (potential future exposure): evolution over time of the credit exposure (i.e. positive mark-to-market) with a 95% confidence level; this is a prudent measure used for operational purposes;
- EPE (expected positive exposure): weighted average for the expected time of the credit exposure, where the weightings are the portions that each time step represents of the entire time period. This is a regulatory measure.

The project yielded the following results:

1. 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;
2. October 2010: Banca IMI's adoption for management purposes only of the new simulation method over time and the mean effective PFE for credit lines utilization, according to internal policy.

For the rest of the Group, capital use is monitored through the joint application of mark-to-market and add-on values estimated by the Risk Management Department.

In 2011 the Risk Management Department participated in the Quantitative Impact Study requested by the supervisory authority to quantify the impact of the new rules for determining the capital requirement for counterparty risk pursuant to Basel 3 (CVA capital Charge, Stressed EPE, Increased Margin Period of risk and requirements for transactions through Central Counterparties).
In terms of the new aspects introduced by Basel 3, Stressed EPE, jointly with the Alpha coefficient (previously in place for banks using internal models) aims at capturing generic wrong way risk (attributable to systemic risk), meaning the risk deriving from the positive correlation of counterparties' probability of default and market factors.
Basel 3 also requires the monitoring of transactions that generate specific wrong way risk, to which a more penalising requirement will be applied. For the purpose of carrying out the QIS, no transactions of this type were identified in the portfolio at the recognition date.

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).

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	
	31.12.2011	31.12.2010
Derivative contracts	19,563	17,599
SFT transactions and long settlement transactions	38,560	60,452
Cross product netting	-	-

As previously mentioned, 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 repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method). For reverse 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 33,720 million euro, of which 3,271 million euro referring to derivative exposures.

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 2011, this led to a net negative impact of 81 million euro being recorded in the income statement (of which 75 million euro referring to contracts negotiated with customers). Adjustments, which were recorded, for every single contract, on the market value determined using the risk free curves, amounted to 274 million euro as at 31 December 2011, of which 33 million euro relating to non-performing positions.

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

(millions of euro)

	31.12.2011		31.12.2010	
	Over the counter	**Central counterparties**	**Over the counter**	**Central counterparties**
1. Debt securities and interest rates	**2,929,078**	**188,079**	**2,609,337**	**210,215**
a) Options	328,496	105,366	373,205	126,555
b) Swaps	2,599,155	-	2,235,310	-
c) Forwards	199	-	764	-
d) Futures	1,228	82,713	58	83,660
e) Others	-	-	-	-
2. Equities and stock indices	**27,431**	**18,627**	**36,937**	**17,658**
a) Options	26,817	18,059	36,543	16,012
b) Swaps	445	-	156	-
c) Forwards	169	-	238	-
d) Futures	-	568	-	1,646
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**114,384**	**129**	**101,916**	**7**
a) Options	12,807	-	11,793	-
b) Swaps	20,328	-	25,052	-
c) Forwards	80,645	-	64,597	-
d) Futures	-	129	-	7
e) Others	604	-	474	-
4. Commodities	**4,504**	**1,452**	**2,615**	**1,513**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**3,075,397**	**208,287**	**2,750,805**	**229,393**
AVERAGE VALUES	**2,930,368**	**215,414**	**2,719,832**	**300,071**

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.

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

Hedging

(millions of euro)

	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**262,464**	**-**	**264,509**	**-**
a) Options	9,584	-	8,946	-
b) Swaps	252,880	-	255,563	-
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	**5,344**	**-**	**5,718**	**-**
a) Options	-	-	-	-
b) Swaps	5,344	-	5,718	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**267,808**	**-**	**270,227**	**-**
AVERAGE VALUES	**262,677**	**-**	**263,820**	**-**

Other derivatives

(millions of euro)

	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	**12,979**	**-**	**13,860**	**-**
a) Options	7,857	-	8,763	-
b) Swaps	5,122	-	5,097	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	**6,109**	**-**	**6,920**	**-**
a) Options	6,109	-	6,920	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	**5,003**	**-**	**4,688**	**-**
a) Options	41	-	31	-
b) Swaps	2,308	-	714	-
c) Forwards	2,654	-	3,943	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
TOTAL	**24,091**	**-**	**25,468**	**-**
AVERAGE VALUES	**24,400**	**-**	**16,620**	**-**

Financial derivatives - gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value			
	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**37,081**	**670**	**35,244**	**782**
a) Options	5,889	574	5,367	676
b) Interest rate swaps	28,666	-	27,373	-
c) Cross currency swaps	1,161	-	1,508	-
d) Equity swaps	33	-	4	-
e) Forwards	1,113	-	810	-
f) Futures	-	58	-	37
g) Others	219	38	182	69
B. Banking book - hedging	**10,208**	**-**	**7,377**	**-**
a) Options	524	-	505	-
b) Interest rate swaps	8,996	-	6,503	-
c) Cross currency swaps	688	-	369	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**757**	**-**	**699**	**-**
a) Options	169	-	319	-
b) Interest rate swaps	485	-	370	-
c) Cross currency swaps	98	-	6	-
d) Equity swaps	-	-	-	-
e) Forwards	5	-	4	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**48,046**	**670**	**43,320**	**782**

Financial derivatives - gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value			
	31.12.2011		31.12.2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	**40,868**	**795**	**38,083**	**674**
a) Options	7,145	712	6,525	579
b) Interest rate swaps	30,661	-	28,749	-
c) Cross currency swaps	1,502	-	1,880	-
d) Equity swaps	7	-	7	-
e) Forwards	1,371	-	745	-
f) Futures	-	42	-	57
g) Others	182	41	177	38
B. Banking book - hedging	**8,324**	**-**	**5,753**	**-**
a) Options	156	-	176	-
b) Interest rate swaps	7,939	-	5,037	-
c) Cross currency swaps	229	-	540	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
C. Banking book - other derivatives	**878**	**-**	**1,223**	**-**
a) Options	603	-	879	-
b) Interest rate swaps	187	-	219	-
c) Cross currency swaps	59	-	5	-
d) Equity swaps	-	-	-	-
e) Forwards	29	-	120	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	**50,070**	**795**	**45,059**	**674**

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2011

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	-	3,679	39,224	12,896	2,570	41,025	333
- positive fair value	-	505	526	139	20	1,789	11
- negative fair value	-	-93	-880	-205	-47	-309	-33
- future exposure	-	31	129	64	8	214	2
2. Equities and stock indices							
- notional amount	1	1	267	3,096	3,791	8	23
- positive fair value	-	-	1	28	-	1	-
- negative fair value	-	-	-2,135	-14	-14	-	-2
- future exposure	-	-	1	11	4	-	-
3. Foreign exchange rates and gold							
- notional amount	-	159	14,062	12,601	272	9,950	134
- positive fair value	-	-	102	144	7	232	3
- negative fair value	-	-121	-616	-176	-1	-157	-1
- future exposure	-	12	90	181	3	136	1
4. Other values							
- notional amount	-	-	2	28	-	3,726	-
- positive fair value	-	-	-	2	-	96	-
- negative fair value	-	-	-2	-	-	-94	-
- future exposure	-	-	-	3	-	403	-

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2011

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	2,350	-	1,665,755	1,159,205	896	1,145	-
- positive fair value	724	-	25,953	4,154	15	55	-
- negative fair value	-8	-	-29,469	-3,781	-15	-10	-
2. Equities and stock indices							
- notional amount	-	-	12,684	7,455	105	-	-
- positive fair value	-	-	358	131	-	-	-
- negative fair value	-	-	-335	-166	-7	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	66,419	7,183	480	3,125	-
- positive fair value	-	-	1,082	434	127	337	-
- negative fair value	-	-	-1,877	-107	-	-142	-
4. Other values							
- notional amount	-	-	-	32	-	716	-
- positive fair value	-	-	90	4	-	11	-
- negative fair value	-	-	-17	-4	-	-30	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2011

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	-	-	73,102	1,471	-	-	8,534
- positive fair value	-	-	1,366	164	-	-	3
- negative fair value	-	-	-3,919	-540	-	-	-395
- future exposure	-	-	27	19	-	-	4
2. Equities and stock indices							
- notional amount	-	-	2,856	96	-	293	1,666
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	-177	-	-	-72	-42
- future exposure	-	-	6	2	-	2	-
3. Foreign exchange rates and gold							
- notional amount	388	-	2,664	10	-	70	27
- positive fair value	-	-	51	-	-	-	-
- negative fair value	-10	-	-172	-	-	-2	-
- future exposure	4	-	29	-	-	-	-
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 2011

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	-	-	185,834	6,502	-	-	-
- positive fair value	-	-	8,365	218	-	-	-
- negative fair value	-	-	-3,321	-405	-	-	-
2. Equities and stock indices							
- notional amount	-	-	977	221	-	-	-
- positive fair value	-	-	40	6	-	-	-
- negative fair value	-	-	-	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	6,590	598	-	-	-
- positive fair value	-	-	682	69	-	-	-
- negative fair value	-	-	-145	-2	-	-	-
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	29,817	29,399	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	807	-	-	-
- Other	-	-	-	-
Total 31.12.2011	**30,624**	**29,399**	**-**	**-**
Average values	**30,110**	**29,146**	**-**	**-**
Total 31.12.2010	**29,459**	**28,894**	**-**	**-**
2. Protection sales				
- Credit default products	28,121	29,686	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	148	-	-	-
- Other	-	-	-	-
Total 31.12.2011	**28,269**	**29,686**	**-**	**-**
Average values	**33,227**	**29,681**	**-**	**-**
Total 31.12.2010	**26,286**	**29,677**	**-**	**-**

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

(millions of euro)

	Positive fair value	
	31.12.2011	**31.12.2010**
A. Regulatory trading book	**3,342**	**2,233**
a) Credit default products	3,099	1,824
b) Credit spread products	-	-
c) Total rate of return swap	243	409
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	**3,342**	**2,233**

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

(millions of euro)

	Negative fair value	
	31.12.2011	**31.12.2010**
A. Regulatory trading book	**3,789**	**2,382**
a) Credit default products	3,579	2,146
b) Credit spread products	-	-
c) Total rate of return swap	210	236
d) Other	-	-
B. Banking book	**-**	**-**
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	**3,789**	**2,382**

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts not included under netting arrangements as at 31 December 2011

(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	-	75	1,795	1,753	-	-	-
- positive fair value	-	87	145	101	-	-	-
- negative fair value	-	-	-255	-2	-	-	-
- future exposure	-	7	123	113	-	-	-
2. Protection sales							
- notional amount	-	-	1,258	1,830	-	-	-
- positive fair value	-	-	1	2	-	-	-
- negative fair value	-	-	-73	-285	-	-	-
- future exposure	-	-	23	44	-	-	-
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 2011

(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	-	-	43,914	12,486	-	-	-
- positive fair value	-	-	1,964	811	-	-	-
- negative fair value	-	-	-102	-14	-	-	-
2. Protection sales							
- notional amount	-	-	40,984	13,883	-	-	-
- positive fair value	-	-	49	182	-	-	-
- negative fair value	-	-	-2,007	-1,051	-	-	-
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 2011

(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	716	-	1,726	404	141	296	-
- negative fair value	-	-	-1,693	-231	-20	-74	-
- future exposure	30	-	840	2,708	34	125	-
- net counterparty risk	745	-	1,167	2,949	170	421	-
2. Credit derivatives - bilateral agreements							
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3. "Cross product" agreements							
- positive fair value	-	-	1,608	366	-	-	-
- negative fair value	-	-	-2,630	-57	-	-	-
- future exposure	-	-	3,687	673	-	-	-
- net counterparty risk	-	-	3,625	758	-	-	-

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 40,603 million euro, mainly referring to banking counterparties.

The total positive net fair value of derivatives concluded OTC or with Central Counterparties was 10,785 million euro; this amount includes both contracts included under netting arrangements and 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 Bank'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 Banca Infrastrutture Innovazione e Sviluppo ("BIIS") and Banca IMI;
– ineligible BIIS loans;
– 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..

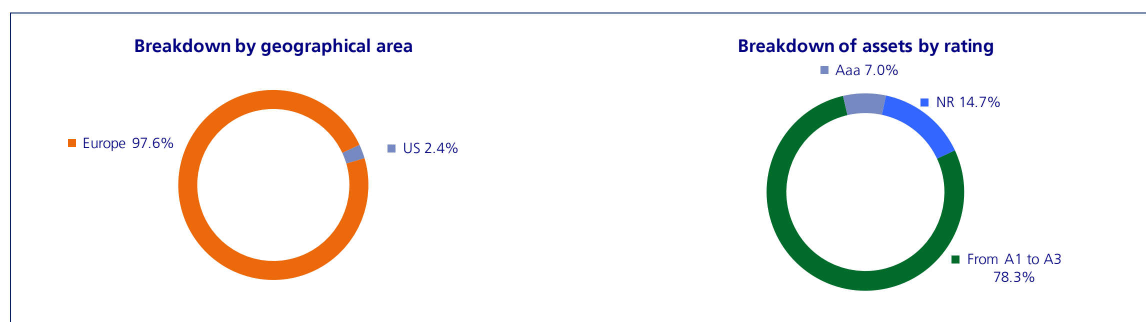
Asset-Backed Commercial Paper (ABCP) programmes

In accordance with IAS/IFRS (SIC 12), Intesa Sanpaolo controls and fully consolidates:

- ***Romulus Funding Corporation:***
  a company based in the USA that purchases financial assets, represented by loans or securities, with predefined characteristics (eligibility criteria), originated by the Bank's customers, and finances the purchases by issuing Asset-Backed Commercial Paper;
- ***Duomo Funding PLC:***
  an entity that operates in a similar manner to Romulus Funding, but is limited to the European market, and is financed through funding agreements with Romulus.

The total assets of the vehicle Romulus include loans to Duomo of 1,919 million euro and loans to third parties of 50 million euro. During 2011, the securities within the scope of structured credit products, which had been present at the end of 2010, were transferred to the Parent Company Intesa Sanpaolo, at their fair values, without any impact on the consolidated income statement. The vehicle's assets are completed by financial derivatives hedging against foreign exchange risk with a positive fair value of 38 million euro as at 31 December 2011, in addition to cash and other assets of 4 million euro.
At the end of 2011, the vehicle Duomo's portfolio consisted of loans to Group banks (34 million euro to Intesa Sanpaolo, 105 million euro to Intesa Sanpaolo Bank Ireland and 620 million euro to Société Européenne de Banque S.A.) and loans to customers of 1,122 million euro. Of these, 764 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 2011. In the fourth quarter of 2011, the vehicle held in portfolio quotas of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 41 million euro as at 31 December 2011.
The following additional information is provided concerning the portfolios held by the two vehicles:



Following the aforementioned transfer of eligible securities from the vehicle Romulus to the Parent Company, the composition of the portfolio of the two vehicles changed, showing a sharp reduction in exposures to US entities (from 11% as at 31 December 2010 to 2.4% as at 31 December 2011). The rating of the exposure was also changed, concentrating approximately 85% of exposure in ratings classes higher than A1. Please note that, although a minimum portion of the uses (approximately 15%) in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were not supported by an external rating, they were of sufficient quality for the commercial papers issued by Romulus to maintain the A-1/P-1 ratings. However, it should be noted that due to the difficult liquidity situation in the U.S. commercial paper market, as at 31 December 2011 the securities issued by Romulus had been fully subscribed by the Parent Company Intesa Sanpaolo with a nominal value of approximately 2 billion euro.

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

Name	Direct ownership	Registered office	% Stake
Intesa Lease Sec S.r.l.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec 2 S.r.l.	Intesa Sanpaolo	Milano	60.00%
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 Sec 4 S.r.l. (*)	Intesa Sanpaolo	Milano	100.00%
ISP CB Ipotecario S.r.l. (**)	Intesa Sanpaolo	Milano	60.00%
ISP CB Pubblico S.r.l. (**)	Intesa Sanpaolo	Milano	60.00%

(*) The company ISP Sec 4 was not operative as at 31 December 2011

(**) 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 BIIS, a division of the Intesa Sanpaolo Group, specialising 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 BIIS. 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"). These exposures are only included in the trading book and mainly comprise credit derivatives (essentially cash CDOs) with underlying ABS.

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 applies the standardised approach for the calculation of the capital requirement to cover the credit risk relating to the securitisations.

Securitisations: accounting standards

The rules for the recognition of securitisations, governed by the IAS/IFRS in the IAS 39 document (paragraphs relating to derecognition), are divided according to whether or not the underlying assets must be derecognised.

In the event of derecognition

When all the risks and benefits from the ownership are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.
If the consideration received is not made up entirely of an amount of available cash, but consists partly of financial assets, these are initially recognised at fair value. Their fair value is also used in the calculation of the profit or loss from the sale.
Should derecognition be permitted, if only a part of the cash flows that derive from a loan is sold, the carrying value of the part maintained is recognised at fair value as at the date of the sale. Any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.

The assets sold are derecognised and the profit or loss from the sale, together with any receivable relating to the sale consideration, are recorded in the financial statements as at the date of the completion of the sale. More generally, the entry date for the transaction in the financial statements depends on the contractual clauses. If the cash flows from the assets sold are transferred after the execution of the agreement, for example when there are suspending clauses, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows.

In the event of no derecognition

If the requirements established by IAS 39 are not met and the securitisation does not therefore qualify for derecognition, the originator records the loan as an offsetting entry for the consideration received.
A common example is when the originator sells a loan portfolio to the special purpose vehicle, but subscribes for the junior class in full (and therefore for the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.
In this case, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained. If there is no derecognition, the loans securitised continue to be recorded in the originator's financial statements.
Subsequently, the originator must recognise any income from the asset transferred and any charges incurred on the liability recorded without offsetting any of the costs and revenues.
The loan portfolio transferred continues to be classified in the loan category that it originally formed part of and, consequently, is measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.
It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, 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.

Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The amounts shown in the tables represent the exposures in the financial statements, as also reported in Part E: Information on Risks and relative hedging policies, in the Notes to the consolidated financial statements, and include both the positions relating to the banking book and the regulatory trading book.

In 2011, the Group's total exposure to securitisations decreased on the whole, mainly concentrated in off-balance sheet exposures (Duomo Funding Plc credit line). Conversely, on-balance sheet exposures reported growth concentrated in third party securitisations. This is mainly attributable to banking book positions and, in particular, the exposure relating to Romulus Funding Corp.. (1,941 million euro outstanding as at 31 December 2011 compared to 130 million euro as at 31 December 2010). Conversely, the trading book decreased. The qualitative disclosure in this Table sets out an analysis of the assets of the vehicles Romulus Funding Corporation and Duomo Funding Plc..

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	**9**	**9**	**139**	**139**	**117**	**113**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	*5*	*5*	*27*	*27*	-	-	-	-	-	-
b) Other	*9*	*9*	*134*	*134*	*90*	*86*	-	-	-	-	-	-
B. Third party underlying assets (*)	**5,684**	**5,675**	**417**	**412**	**29**	**29**	**24**	**24**	**-**	**-**	**-**	**-**
a) Non-performing	*5*	*5*	-	-	-	-	-	-	-	-	-	-
b) Other	*5,679*	*5,670*	*417*	*412*	*29*	*29*	*24*	*24*	-	-	-	-
TOTAL 31.12.2011	**5,693**	**5,684**	**556**	**551**	**146**	**142**	**24**	**24**	**-**	**-**	**-**	**-**
TOTAL 31.12.2010	**5,221**	**5,220**	**571**	**562**	**147**	**144**	**73**	**42**	**-**	**-**	**-**	**-**

	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	**742**	**742**	**-**	**-**	**-**	**-**	**751**	**751**	**139**	**139**	**117**	**113**
a) Non-performing	-	-	-	-	-	-	-	-	*5*	*5*	*27*	*27*
b) Other	*742*	*742 (**)*	-	-	-	-	*751*	*751*	*134*	*134*	*90*	*86*
B. Third party underlying assets (*)	**1,584**	**1,584**	**-**	**-**	**-**	**-**	**7,292**	**7,283**	**417**	**412**	**29**	**29**
a) Non-performing	-	-	-	-	-	-	*5*	*5*	-	-	-	-
b) Other	*1,584*	*1,584*	-	-	-	-	*7,287*	*7,278*	*417*	*412*	*29*	*29*
TOTAL 31.12.2011	**2,326**	**2,326**	**-**	**-**	**-**	**-**	**8,043**	**8,034**	**556**	**551**	**146**	**142**
TOTAL 31.12.2010	**2,329**	**2,329**	**-**	**-**	**-**	**-**	**7,623**	**7,591**	**571**	**562**	**147**	**144**

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

(**) Including 648 million euro referring to credit 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, the Group's originated securitisations include only traditional transactions and ABCP programmes.

Total amount of assets awaiting securitisation

At the end of December, the Group had no specific securitisation transactions pending in the short term. For the sake of completeness, it is noted that in December 2011, the Intesa Sanpaolo Group entered into an agreement with the Ministry of Economic Development, through Mediocredito Italiano, which provides subsidies in the form of cash collateral provided as pledge to the bank for a portfolio of credit exposures disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).
The loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with an A- rating. The tranching of the portfolio is to be determined by the bank by applying the Supervisory Approach Formula, i.e., through certification of the rating by an external rating agency. As at 31 December 2011, Mediocredito had not yet disbursed the financial assets to be covered by these transactions (awaiting securitisation), rather, it had only received 5 million euro in cash collateral under its liabilities.

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	1,349	84	3	-	-	-
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	58	15	32	-	-	-
Investments held to maturity	118	-	-	-	-	-
Loans (**)	4,153	334	50	1,702	-	-
Total 31.12.2011	**5,678**	**433**	**85**	**1,702**	**-**	**-**
Total 31.12.2010	**5,207**	**462**	**98**	**2,371**	**-**	**-**

(*) Excluding on- balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 181 million euro. As at 31 December 2011, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 648 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	**3**	**-**	**21**	**-2**	**56**	**-1**
A.1 Intesa Sec 2						
- performing residential mortgages	*-*	*-*	*16*	*-*	*23*	*-*
A.2 Intesa Sec						
- performing mortgages	*-*	*-*	*-*	*-*	*1*	*-*
A.3 Intesa Sec Npl						
- doubtful mortgages	*-*	*-*	*5*	*-2*	*27*	*-1*
A.4 Cr Firenze Mutui						
- performing mortgages	*-*	*-*	*-*	*-*	*5*	*-*
A.5 Facility Services Securitisation						
- trade receivables	*3*	*-*	*-*	*-*	*-*	*-*
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**6**	**-1**	**118**	**-**	**57**	**-**
C.1 Intesa Sec 3 (*)						
- performing residential mortgages	*-*	*-*	*85*	*-*	*29*	*-*
C.2 Da Vinci (**)						
- loans to the aircraft sector	*3*	*-1*	*1*	*-*	*-*	*-*
C.3 Split 2 (***)						
- performing leasing contracts	*3*	*-*	*4*	*-*	*18*	*-*
C.4 Electricity Securitisation						
- trade receivables	*-*	*-*	*24*	*-*	*8*	*-*
C.5 Gas Securitisation						
- trade receivables	*-*	*-*	*4*	*-*	*2*	*-*
TOTAL 31.12.2011	**9**	**-1**	**139**	**-2**	**113**	**-1**
TOTAL 31.12.2010	**14**	**2**	**116**	**-7**	**105**	**-6**

(*) Not derecognised for financial statement purposes, but derecognised for prudential purposes.

(**) Synthetic securitisation.

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

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	**-**	**-**	**-**	**-**	**-**	**-**	**94**	**-**	**-**	**-**	**-**	**-**
A.1 Duomo												
- trade receivables	*-*	*-*	*-*	*-*	*-*	*-*	*94*	*-*	*-*	*-*	*-*	*-*
B. Partly derecognised for accounting and prudential purposes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised for accounting and prudential purposes	**-**	**-**	**-**	**-**	**-**	**-**	**648**	**-**	**-**	**-**	**-**	**-**
C.1 Duomo												
- trade receivables	*-*	*-*	*-*	*-*	*-*	*-*	*648*	*-*	*-*	*-*	*-*	*-*
TOTAL 31.12.2011	**-**	**-**	**-**	**-**	**-**	**-**	**742**	**-**	**-**	**-**	**-**	**-**
TOTAL 31.12.2010	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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 Funding Corp.									
- Romulus portfolio									
- Banking book	*1,941*	-	-	-	-	-	-	-	-
A.2 TCW GLOBAL PROJECT FUND III									
- Project Finance loans									
- Banking book	*415*	-	-	-	-	-	-	-	-
A.3 Tevere Finance									
- Exposures to Italian local authorities									
-Trading book	*357*	*-15*	-	-	-	-	-	-	-
A.4 Fondo Immobili Pubblici									
- Financial credits deriving from rental of properties to the public sector									
- Banking book	*197*	-	-	-	-	-	-	-	-
-Trading book	*56*	*-4*	-	-	-	-	-	-	-
A.5 Posillipo Finance									
- Loans to the Italian health system									
- Banking book	*181*	*-1*	-	-	-	-	-	-	-
A.6 Nepri Finance S.r.l.									
- Residential mortgages									
-Trading book	*141*	*-6*	-	-	-	-	-	-	-
A.7 D'Annunzio									
- Loans to the Italian health system									
- Banking book	*138*	*-1*	-	-	-	-	-	-	-
A.8 Euterpe (*)									
- Amounts due from tax authorities									
- Banking book	*69*	-	-	-	-	-	-	-	-
-Trading book	*66*	*-2*	-	-	-	-	-	-	-
A.9 Duchess (**)									
- CLOs									
-Trading book	*121*	*8*	-	-	-	-	-	-	-
A.10 Cordusio RMBS Securitisation									
- Residential mortgages									
- Banking book	*51*	-	-	*18*	-	-	-	-	-
-Trading book	*35*	*-3*	-	*10*	*-2*	-	-	-	-
A.11 Sunrise S.r.l.									
- Consumer credit									
-Banking book	*5*	-	-	*4*	-	-	-	-	-
-Trading book	*102*	*2*	-	-	-	-	-	-	-
A.12 Geldilux									
- Corporate loans									
- Banking book	*100*	-	-	-	-	-	-	-	-
A.13 Siena Mortgage									
- Residential mortgages									
- Banking book	*50*	-	-	-	-	-	-	-	-
-Trading book	*29*	-	-	-	-	-	-	-	-
A.14 Vintage Finance									
- Electric company receivables from the public sector									
- Banking book	*78*	*-1*	-	-	-	-	-	-	-
A.15 Berica Residential MBS S.r.l.									
- Residential mortgages									
- Banking book	*44*	-	-	*9*	-	-	-	-	-
-Trading book	*16*	*-1*	-	-	-	-	-	-	-
A.16 AYT Cedulas									
- Residential mortgages									
-Banking book	*68*	-	-	-	-	-	-	-	-
A.17 CLARIS Finance Srl									
- Residential mortgages									
- Banking book	*25*	-	-	-	-	-	-	-	-
-Trading book	*42*	*-3*	-	-	-	-	-	-	-
A.18 Cartesio									
- Loans to the Italian health system									
- Banking book	*65*	-	-	-	-	-	-	-	-
A.19 GSC Partners CDO Fund. Ltd.									
- Corporate loans									
- Banking book	*52*	-	-	-	-	-	-	-	-
A.20 Residual portfolio divided in 389 securities	*1,231*	*-87*	*5 (***)*	*371*	*-9*	- *(****)*	*29*	*-1*	-
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**	**-**	**-**
TOTAL 31.12.2010	**5,206**	**-8**	**-**	**446**	**11**	**-**	**39**	**-3**	**-**
of which: Banking book	**3,289**	**-3**	**-**	**365**	**-6**	**-**	**36**	**-1**	**-**
of which: Trading book	**1,917**	**-5**	**-**	**81**	**17**	**-**	**3**	**-2**	**-**

(*) Exposure to Euterpe (with 114 million euro included in the "residual portfolio") refers to single tranche securitisations, not classified as exposures to securitisations for supervisory purposes.

(**) 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.

(***) Of which -6 million euro related to securities included in packages.

(****) Of which -3 million euro related to securities included in packages.

For a more detailed illustration of the operations of the vehicle Romulus, refer to the qualitative disclosure in this Table.

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 2011

(millions of euro)

Residual portfolio divided by type of underlying asset - banking book	On-balance sheet exposures - 31.12.2011								
	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	329	-5	-	150	-	-	4	-1	-
Commercial mortgages	84	-2	-	111	-4	-	-	-	-
Other ABS (CLO-CMO-CFO) (*)	95	-10	-	6	-	-	-	-	-
CDO Cash	149	-63	5	1	-	-	-	-	-
Financing for SMEs	27	-	-	22	-	-	-	-	-
Loans to foreign public bodies	41	-	-	-	-	-	-	-	-
Electric company receivables from the public sector	39	-	-	-	-	-	-	-	-
Project finance loans	-	-	-	-	-	-	22	-	-
Loans to energy companies	19	-	-	-	-	-	-	-	-
WL Collateral CMO	18	-	-	-	-	-	-	-	-
Loans deriving from leasing contracts	15	-	-	6	-	-	-	-	-
Loans to foreign local authorities	15	-	-	-	-	-	-	-	-
Consumer credit	10	-	-	4	-	-	-	-	-
Public property	6	-	-	2	-	-	-	-	-
Personal loans	1	-	-	2	-	-	-	-	-
Credit cards	3	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
TOTAL	**851**	**-80**	**5**	**304**	**-4**	**-**	**26**	**-1**	**-**

(*) Includes position part of packages, whose credit risk is entirely hedged by a specific credit default swap (CDS). The adjustment highlighted was, therefore, practically identical to the positive fair value of the derivative.

Securitisations: breakdown of 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 2011

(millions of euro)

Residual portfolio divided by type of underlying asset - trading book	On-balance sheet exposures - 31.12.2011								
	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	91	-3	-	24	-3	-	3	-	-
Loans deriving from leasing contracts	84	-3	-	10	-2	-	-	-	-
Other ABS (CLO-CMO-CFO) (*)	57	-6	-	-	-	-	-	-	-
CDO cash	38	5	-	-	-	-	-	-	-
Car loans	61	-	-	5	-	-	-	-	-
Financing for SMEs	19	-	-	17	-	-	-	-	-
Public property	1	-	-	7	-	-	-	-	-
Personal loans	-	-	-	4	-	-	-	-	-
Consumer credit	1	-	-	-	-	-	-	-	-
Other assets	28	-	-	-	-	-	-	-	-
TOTAL	**380**	**-7**	**-**	**67**	**-5**	**-**	**3**	**-**	**-**

(*) 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)

	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*	-	-	-	-	-	-	*1,535*	-	-	-	-	-
A.2 Romulus - *ABCP Conduit transactions*	24	-	-	-	-	-	49	-	-	-	-	-
Total 31.12.2011	**24**	**-**	**-**	**-**	**-**	**-**	**1,584**	**-**	**-**	**-**	**-**	**-**
Total 31.12.2010	**42**	**-31**	**-**	**-**	**-**	**-**	**2,329**	**-**	**-**	**-**	**-**	**-**

(*) In addition to that shown in the table, the Group's trading portfolio as at 31 December 2011 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 616 million euro.

For a more detailed illustration of the operations of the vehicles Duomo and Romulus, refer to the qualitative disclosure in this Table.

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

(millions of euro)

Risk weight bands	**31.12.2011**		**31.12.2010**	
	Originated securitisations	**Third-party securitisations**	**Originated securitisations**	**Third-party securitisations**
Risk weight 20%	21	304	7	458
Risk weight 35% (*)	45	-	74	-
Risk weight 40%	-	45	-	-
Risk weight 50%	2	278	-	250
Risk weight 100%	10	521	11	251
Risk weight 150% (*)	78	-	85	-
Risk weight 225%	-	276	-	-
Risk weight 350%	-	608	-	275
Risk weight 650%	-	202	-	-
Risk weight 1250% - with rating	-	5,729	-	885
Risk weight 1250% - without rating	370	632	361	352
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	577	-	2,524
Deducted from regulatory capital	-	-	-	-
Total	**526**	**9,172**	**538**	**4,995**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

The table above details 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%. Starting from 31 December 2011, disclosure on the requirements of securitisations was also introduced for the trading book, including for credit default swaps with underlying exposures to securitisations. This provision was not in force in 2010, which explains the increase recorded under "third party securitisations" in the table above . For a homogenous comparison with the 2010 figures, refer to "Breakdown of net exposures to securitisations by financial assets portfolio and by type of exposure" of this Table.

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 hereof.

Banking Book securitisation transactions: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2011			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Risk weight 20%	13	-	211	-
Risk weight 35% (*)	45	-	-	-
Risk weight 40%	-	-	45	45
Risk weight 50%	2	-	221	-
Risk weight 100%	10	-	504	20
Risk weight 150% (*)	78	-	-	-
Risk weight 225%	-	-	92	92
Risk weight 350%	-	-	355	-
Risk weight 650%	-	-	202	202
Risk weight 1250% - with rating	-	-	2,702	1,456
Risk weight 1250% - without rating	370	-	632	295
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	577	-
Deducted from regulatory capital	-	-	-	-
Total Banking book	**518**	**-**	**5,541**	**2,110**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

It is specified that the exposures referring to re-securitisations did not benefit from credit risk mitigation techniques.

Trading Book securitisation transactions: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2011			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
Risk weight 20%	8	-	93	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	57	-
Risk weight 100%	-	-	17	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	184	184
Risk weight 350%	-	-	253	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	3,027	3,011
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total Trading book	**8**	**-**	**3,631**	**3,195**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

Breakdown of exposures for positions weighted at 1250%

(millions of euro)

	31.12.2011			
	Banking book		Trading book	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
CDO cash	-	1,283	-	2,350
RMBSs	370	291	-	21
Other ABS (CLO/CMO/CFO)	-	525	-	87
CMBSs	-	353	-	-
Financing for SMEs	-	286	-	12
Project Finance loans	-	273	-	-
Credit derivatives	-	-	-	245
Personal loans	-	27	-	-
Car loans	-	1	-	-
Other assets	-	295	-	312
Total weighted exposure at 1250%	**370**	**3,334**	**-**	**3,027**

Securitisations carried out during the period

In 2011, the Group implemented three new securitisations with similar characteristics (Electricity Securitisation, Gas Securitisation and Facility Services Securitisation). For their description, refer to the specific paragraph in the qualitative section of this Table.

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 on debt securities and generic/specific on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of funds underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, and (iii) position risk on dividend derivatives.
From the second quarter 2010, the validated risk profiles were extended to commodity risk for Banca IMI, the only legal entity of the Group authorised to hold open positions in commodities.

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	**912**	**353**	**-**
Position risk	912	353	-
Concentration risk	-	-	-
Other assets	**67**	**67**	**-**
Foreign exchange risk	67	-	-
Settlement risk for DVP transactions (Delvery Versus Payment)			
Commodity risk	-	67	-
Total capital requirement for market risk as at 31.12.2011	**979**	**420**	**-**
Total capital requirement for market risk as at 31.12.2010	**978**	**202**	**51**

Under position risk, the requirements relating to exposures to securitisations in the trading book are presented separately, amounting to 291 million euro, including 19 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 II 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 had been set as:

- 1 July 2008 to 30 June 2009 for Banca IMI;
- 1 October 2010 to 30 September 2011 for Intesa Sanpaolo.

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 following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests are applied periodically to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters, for example 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 2011, the amount of market risks originated by Intesa Sanpaolo and Banca IMI increased compared to the previous periods: the average daily VaR for the fourth quarter of 2011 was 95.6 million euro, up by 43% on the third quarter.

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between the 4th and 3rd quarter of 2011 (a)

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	25.0	23.5	26.4	21.4	15.3	18.7
Banca IMI	70.6	48.4	92.4	45.3	21.1	17.4
Total	**95.6**	**73.0**	**118.0**	**66.7**	**36.4**	**36.1**

(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.

With regard to the whole of 2011, the Group's average risk profile (58.8 million euro) increased compared to the average values in 2010 (38 million euro).

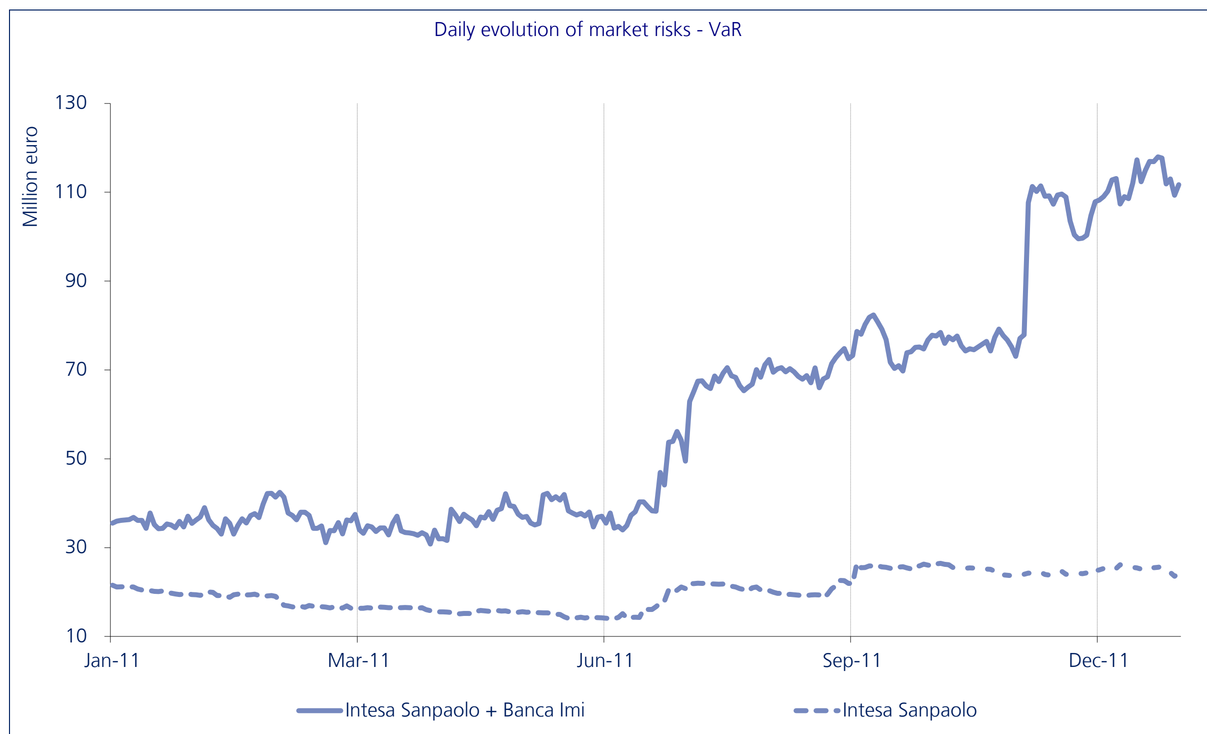
Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison 2011-2010 (a)

(in millions of euro)

	2011				2010		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	20.1	14.0	26.5	24.6	24.1	17.8	32.2
Banca IMI	38.7	13.6	92.4	87.4	13.9	8.9	22.4
Total	**58.8**	**30.7**	**118.0**	**112.0**	**38.0**	**27.6**	**49.9**

(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.

The Parent Company alone recorded an average VaR in decline compared with the previous year. Observing the performance over the year, it may be remarked that risk measurements increased, especially for Banca IMI, at moments coinciding with the euro area sovereign market crisis. In further detail, the crisis manifested itself in the form of increasing volatility of the spreads on Italian government bonds from July 2011 onwards, with peak volatility in early November.



For Intesa Sanpaolo, the breakdown of the risk profile in the fourth quarter of 2011 shows the prevalence of the hedge fund risk, which represented 38% of total VaR. Credit spread risk, which includes the risk associated with sovereign government bonds, was the most significant component for Banca IMI, representing 81% of the total.

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

4th quarter 2011	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	1%	38%	14%	37%	4%	7%	0%
Banca IMI	5%	0%	7%	81%	1%	4%	3%
Total	**3%**	**12%**	**9%**	**68%**	**1%**	**5%**	**2%**

(a) Each line in the table sets out the contribution of risk factors considering the overall VaR 100%, calculated as the average of daily estimates in the fourth quarter of 2011, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

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]

	31.12.2011	31.12.2010
- Catalyst Driven	0%	0%
- Credit	81%	75%
- Non credit strategies	0%	5%
- Directional trading	4%	4%
- Equity hedged	14%	8%
- Fixed Income Arbitrage	0%	8%
- Multi-strategy	1%	0%
- Volatility	0%	0%
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 2011 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (81% of the total in terms of portfolio value).

Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December is summarised in the following table.

(millions of euro)

	Equity		Interest rates		Credit spreads		Foreign Exchange rates		Commodities	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	-2	0	6	-3	90	-89	14	-12	-4	5
of which SCP					*5*	*-5*				

In particular:

– on stock market positions, a 5% decrease in stock prices with a resulting 10% increase in volatility would have led to a loss of approximately 2 million euro;
– for exposures to interest rates, a parallel +25 basis point shift in the yield curve would have led to a 3 million euro loss, whereas a parallel -25 basis point shift would have led to a 6 million euro gain;
– for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would have led to an 89 million euro loss, of which about 5 million euro attributable to structured credit products (SCP);
– on foreign exchange exposures, the revaluation of the euro would have recorded a loss of about 12 million euro;
– lastly, on commodity exposures a 4 million euro loss would have been recorded had there been a 50% decrease in prices.

Backtesting

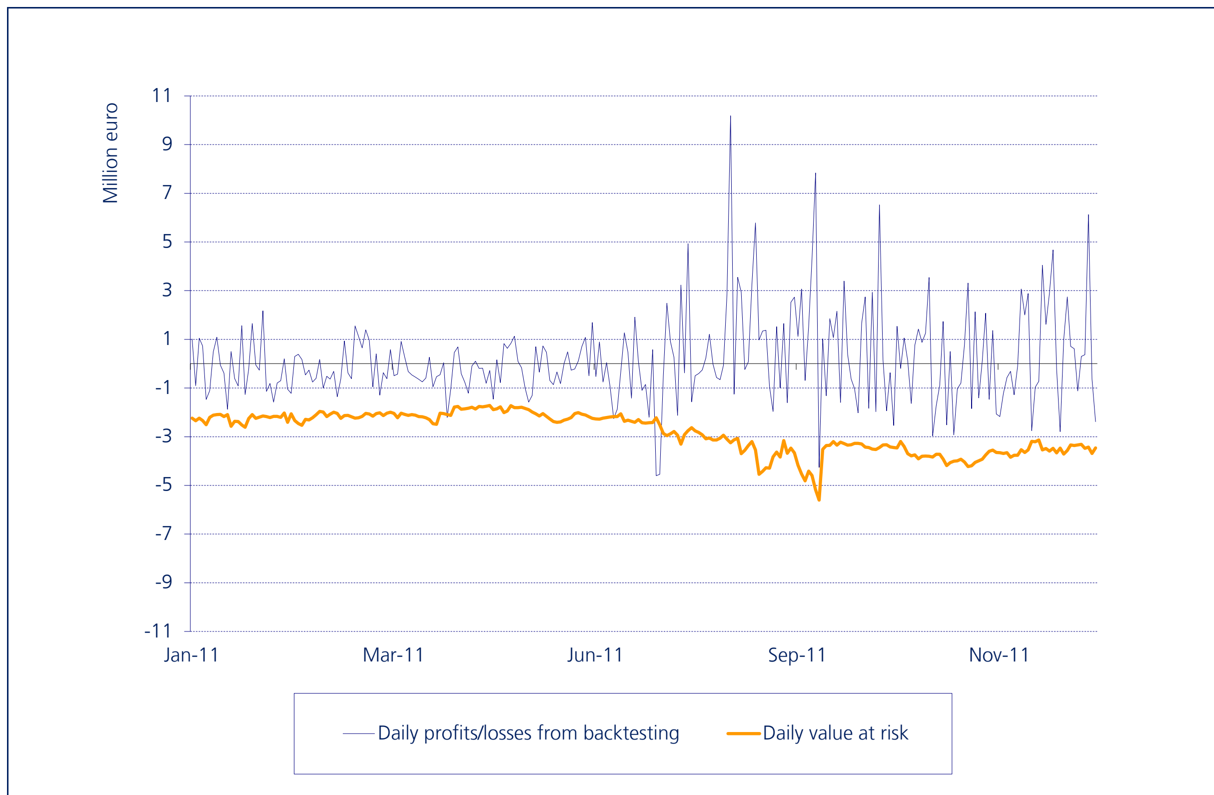
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– 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.

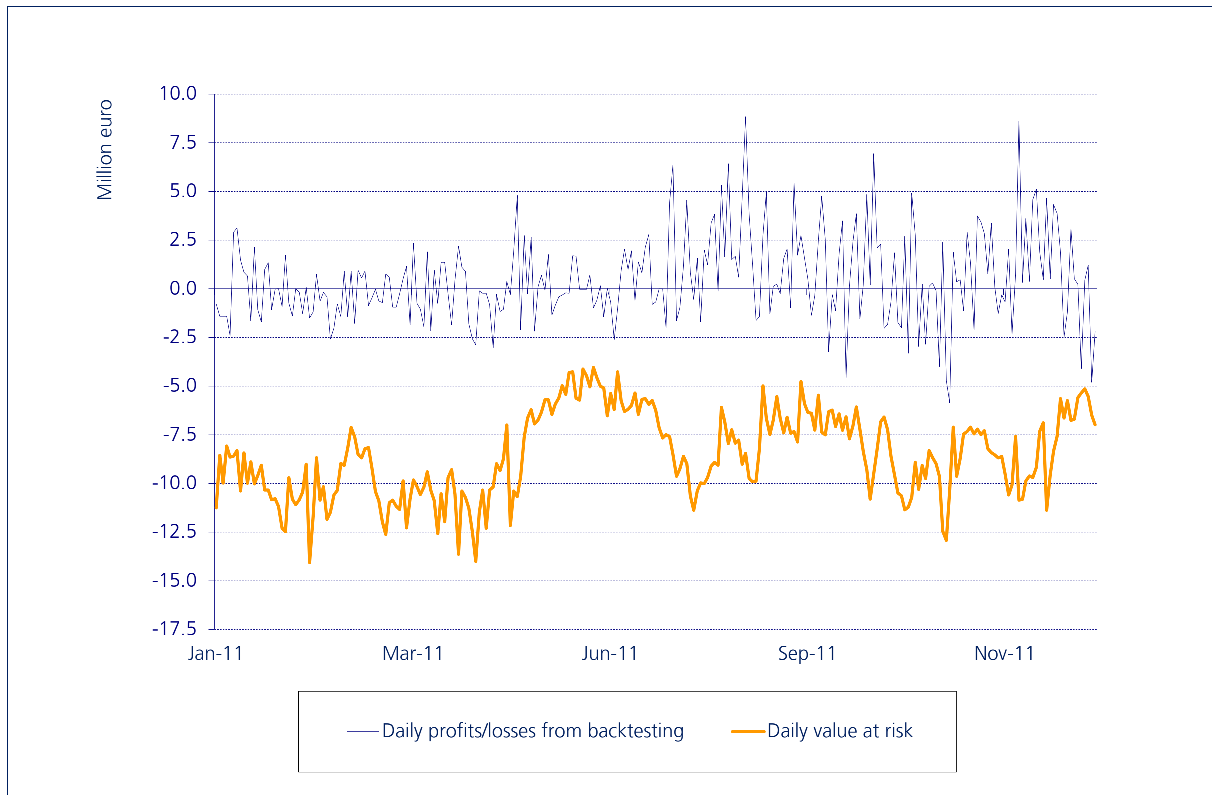
Backtesting in Intesa Sanpaolo

Intesa Sanpaolo's regulatory backtesting, shown in the following graph, found four cases where the daily losses from backtesting were higher than the VaR estimate. Two of the four excesses (April and July) were not significant in extent. The other two backtesting exceptions (8 and 11 July 2011) were due to the government bond crisis, and the Italian government bond crisis in particular, which manifested itself in the form of high volatility of spreads beginning in July 2011. It should be emphasised that the VaR subject to the internal model for Intesa Sanpaolo (reduced perimeter of factors compared to VaR) is concentrated on the interest rate risk factor. Conversely, Banca IMI (section below) shows validated risk factors with greater diversification (interest rate risk and equity risk).



Backtesting in Banca IMI

Banca IMI's regulatory backtesting, shown in the following graph, did not reveal any critical situations.



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	58%	1%	42%	1%	56%	0%
Banca IMI	42%	-16%	40%	2%	7%	67%
Total	**100%**	**2%**	**40%**	**0%**	**35%**	**23%**

(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 concepts of hierarchy and interaction.
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 third quarter 2011, the Management Board resolved a new VaR limit for the Group of 80 million euro, an increase compared to the previous 70 million euro. This increase is not indicative of a greater risk appetite for the Group, but rather was defined, in light of the volatility of the spread on Italian government bonds, the effects of which are reflected in an increase in risks, in order to permit the business continuity of Intesa Sanpaolo and Banca IMI.

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 65% in 2011, with a maximum use of 96%. For Banca IMI, the average VaR limit came to 101%, 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. Net of that AFS component, the average use of the limit comes to 36%, with a peak of 56%.

The use of the IRC limits at year end amounted to 59% for Intesa Sanpaolo (limit of 220 million euro) and 57% for Banca IMI (limit of 230 million euro).

The use of Group VaR operating limits on the AFS component (excluding Banca IMI) at year end was 106%. The limit for the AFS component was revised in the third quarter of 2011, raising it from 55 million euro to 100 million euro. The increase in this limit was decided in light of the volatility of the spread on Italian government bonds, the effects of which are reflected in an increase in risks, considering that 85% of the AFS position refers to Italian sovereign risk.

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). 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. 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, obtained on the most advantageous available 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.

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 derived from official quotes 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.
In consideration of their number and complexity, a systematic reference framework has been developed for derivatives 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 the so-called 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 so-called "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 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 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

[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.

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 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 Operating Systems 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 revaluations 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 risk model 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)[2]. 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 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 quoted 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 plain vanilla 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 (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity (options on indexes and on single stocks), credit (CDS) and commodity (options on commodity indexes) instruments. 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.

[2] For example, Intesa Sanpaolo used a similar validation for CDO exposures.

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);
- 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, discussed in further detail above) 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, etc.), 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 are 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 lognormal, 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 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, 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 (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. Finally, for this class of products, Top Management has the possibility to decide a further adjustment which must be based on prices observed from counterparties and on expert opinions.

IV. *The pricing model for hedge funds*

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 and certain risk drivers, aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- counterparty risk;
- illiquidity risk.

These elements have been measured starting from 2008, the year when the deepening crisis had significant impacts on banks, and the fair value policy was reviewed to fully incorporate the changes in the operating environment and the risks associated with hedge funds in particular following the Lehman default. This policy was introduced during 2009 after a backtesting stage which endorsed the choices made. During 2009-2010 several qualitative parameters were reviewed as part of the regular revision of the policy.

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.

Table 12 – Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

As illustrated in the Introduction, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement 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.

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2012, 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).

The table below shows the capital requirements, calculated using the three different Approaches.

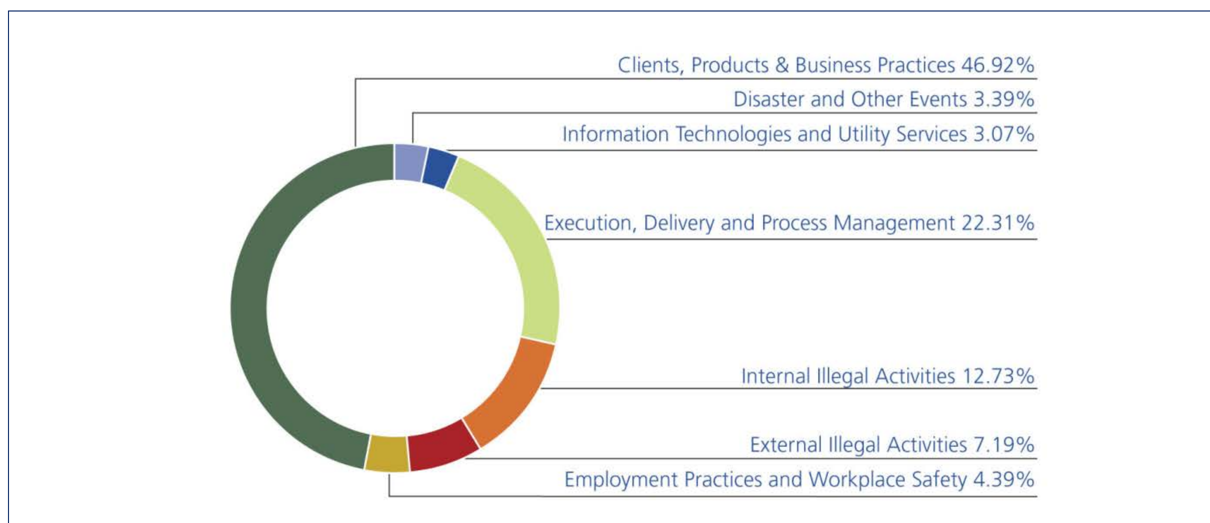
Breakdown of capital requirements by Calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	**1,573**
Traditional Standardised Approach (TSA)	**326**
Corporate Finance	-6
Trading & Sales	-3
Retail Banking	136
Commercial Banking	117
Payment & Settlement	12
Agency Services	2
Asset Management	66
Retail Brokerage	2
Basic Indicator Approach (BIA)	**87**
Total as at 31.12.2011	**1,986**
Total as at 31.12.2010	**2,174**

The following shows the breakdown of capital requirement relating to the Advanced AMA Approaches 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 to combine all the main sources of quantitative 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 (from 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 serious 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 and internal control factors, to take into account the effectiveness of internal controls in the various organisational units.

The Group adopts 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. Coverage has already been extended to higher deductible and limit of liability levels, and the internal model insurance mitigation component will be submitted for regulatory approval in 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. They are not, however, except for marginal amounts, included within the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group essentially usually 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 the Parent Company, directly or indirectly, holds at least 20% of voting rights or if the Parent Company – with a lower equity stake – has the power of participating in the determination of the financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.
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.
For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. 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

Equity investments 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 is calculated, represented by the higher of the fair value less costs to sell and the value in use, and if the latter 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 (value in use) were carried out based on an estimation of expected discounted cash flows. The results of these assessments led to the recognition of impairment losses. The most significant amounts pertained to the investment in Telco S.p.A. for 251 million euro and in Rizzoli Corriere della Sera Mediagroup S.p.A for 14 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	31.12.2011								
	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

Exposure type/values	31.12.2010								
	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 (**)	221	2,495	176	X	176	365	-72	X	X
B. Financial assets vailable for sale (AFS)	762	2,046	762	2,046	762	5	-42	465	-89
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).

The net capital losses on equity investments included under the negative elements of the Tier 2 capital amount to 54 million euro (22 million euro as at 31 December 2010).

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 2011 of 91 million euro (86 million euro at the end of 2010), with minimum and peak values of 71 million euro and 110 million euro respectively. The VaR at the end of 2011 amounted to 102 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

		Impact on shareholders' equity (millions of euro)
Price shock	-10%	-64
Price shock	10%	64

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

(millions of euro)

	Weighted exposure	
	31.12.2011	**31.12.2010**
IRB approach	**964**	**653**
Private equity exposures in sufficiently diversified portfolios	322	314
Exchange-traded equity exposures	38	126
Other equity exposures	604	213
Other assets: instrumental investments	-	-
Standardised approach	**2,846**	**3,444**

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

Qualitative disclosure

Interest rate risk

Interest rate risk originated by the banking book arises primarily in the Parent Company and in the other Group Companies that carry out retail and corporate banking and represents the risk that potential variations in the rates will have an impact on the interest margin and on the net present value of the assets and liabilities included in the banking book.

In the banking book, the capital items are represented as "to maturity" or "repricing" depending on whether they involve a fixed or floating rate with the exception of customer sight deposits and loans for which the choice has been made to use a behavioural as opposed to contractual representation for the calculation of the risk measures.

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, namely Value at Risk (VaR) and Sensitivity analysis.

The VaR, in addition to being used to measure the price and exchange risks generated by the equity investments, is also used to consolidate exposure to financial risks of the various Group companies that perform banking book activities, thereby taking into account diversification benefits.

With reference to the interest rate risk, the shift sensitivity analysis defines the movement as a parallel and uniform shift of ±100 basis points of the rate curve.
The measurement procedures include suitable representative behavioural models for categories of instruments which have risk profiles different to those contractually envisaged. In particular:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the interest margin both in absolute terms and in terms of variability over time.

The sensitivity of the interest margin is measured on the basis of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of variations in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of the interest margin.

The Group's overall financial risk profile and the 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 rise in interest rates – amounted to +240 million euro (-241 million euro in the event of reduction) at the end of 2011; these values increased compared to the 2010 year-end figures (+163 million euro and -166 million euro, respectively, in the event of an increase/decrease in interest rates).

In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group's year-end net income and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2011, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, averaged 313 million euro, with a year-end figure of 482 million euro compared to the 426 million euro at the end of 2010.

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

(millions of euro)

		31.12.2011
EUR	Euro	397
USD	US dollar	50
HRK	Croatian kuna	10
EGP	Egyptian pound	9
RSD	Serbian dinar	5
RUB	Russian rouble	3
	Other currencies	8
TOTAL		**482**

Interest rate risk, measured in terms of VaR, averaged 109 million euro in 2011, with a minimum value of 67 million euro and a maximum value of 173 million euro. At the end of December 2011 VaR totalled 139 million euro (98 million euro at the end of 2010).

The reduction in the economic value in the event of a 200 bp change in interest rates remained 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 issue of remuneration of listed companies and financial intermediaries has been gaining growing attention from international bodies and regulators, aiming to guide issuers and intermediaries towards adopting remuneration systems that are consistent with the principles of equality, sustainability and 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 of set of rules, also in accordance with the relative community regulations adopted on this issue.
By Regulation dated 30 March 2011, the Bank of Italy issued new provisions dictating harmonised rules and regulations to govern the remuneration policies, systems and practices in banks, in terms of the relative process of drawing up and control, compensation structure and disclosure obligations. The Supervisory Authority further intensified monitoring of this last issue by including remuneration systems and practices among the information to be disclosed under Pillar 3 reporting.
Moreover, ISVAP, with Regulation no. 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 no. 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.
Finally, 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.

In fact, the Bank of Italy recently 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.

Procedures for adoption and implementation of the 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 includes, as regards the remuneration policies for employees and other staff, involvement of 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 amount 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 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 these 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.

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 - upon 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". Said Chapter also summarises the activities carried out by the Committee in 2011. The Report on Corporate Governance and Ownership Structures is available on the website http://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, after consultation with 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;
- definition 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 and with approval from the Supervisory Board.

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.

On an annual basis, the Internal Auditing Department, in accordance with the guidelines of the Supervisory Authority, 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 objectives 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 personnel), 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 the subsequent 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 Intesa Sanpaolo Articles of Association envisage that members of the Supervisory Board be entitled, in addition to the reimbursement of expenses sustained due to their office, to a 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, taking also into account the remunerations due to Board members appointed to special offices.

The Supervisory Board Members appointed for the current 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.

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 be invested with special offices and that, as a consequence, the Shareholders' Meeting 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 envisaged recognition of 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 envisaged 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 Members of the Supervisory Board 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.
On occasion of renewal of the Bank's Corporate bodies, the Shareholders' Meeting of 30 April 2010, upon proposal by 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:
- all Management Board Members, being members of the Bank's management body, 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 component, 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, said fixed variable components were unified effective 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.
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 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 portion of this remuneration was resolved:

- [redacted], in the amount of 1,500,000 euro, plus insurance and welfare benefits, as well as the supplementary pension benefit, equal to 20% of said annual gross remuneration;
- [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.

The variable component for 2010 was linked to the 2010 Budget and to the achievement of a positive EVA® for the Group, as well as to the achievement of targets regarding profitability (Operating Income), credit quality (Net Adjustments to Loans) and operating efficiency (Cost/Income), with a further indicator of control (qualitative assessment of provisioning policies to cover credit risk, based on expected loss and conducted by comparing the loan provisions established with the relative forecasted data).
For 2010, the Supervisory Board resolved, upon verifying achievement of a positive EVA® for the Group and full achievement of the targets envisaged, recognition of a one-off variable component equal to an annual gross remuneration, with two-thirds paid in cash and the remaining one-third deferred to 2013, in favour of [redacted].

An additional variable component was linked to the Business Plan, correlated to the "Long-Term Incentive Plan" based on financial instruments, approved by the Shareholders' Meeting of 30 April 2010.
The new Business Plan was adopted by the Bank in 2011, for the years 2011-2013, with an extension to 2015. Given the absence of this plan for the year 2010, the relative variable component was eliminated.

For 2011, the new remuneration system unified the annual variable component and the multi-year variable component (under the "Long-Term Incentive Plan") in favour of the Managing Director as Chief Executive Officer, equal to 1.5 times the annual gross remuneration. Considering the parameters envisaged in the 2011-2013 incentive system and the 2011 Budget, attribution of the 2011 incentive depends on the achievement of a positive EVA® for the Group and parameters regarding profitability (Operating Income),

credit quality (Adjustments to Loans), operating efficiency (Cost/Income) and economic sustainability, taking into account risks taken and cost of capital (EVA®), with an additional qualitative indicator, determined based on the total average of audit report evaluations following supervision of the regular performance of operations and processes of the various structures.

60% of such variable remuneration is envisaged to be deferred throughout three successive years (2013, 2014 and 2015) in equal amounts, upon verification of achievement of a positive EVA® for the Group, net of the provisions for the incentive system, and observance of the parameters regarding capital (Core Tier 1 ratio) and liquidity (AV2).
Given the termination of service and of the role held, effective from [redacted] is no longer entitled to receive the incentive with respect to results achieved in 2011, or the deferred portion regarding results achieved in 2010.

Based on the provisions of the remuneration policy, 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 variable remuneration, equal to 20% of the fixed component linked to the office (within the deadlines established by the Supervisory Board with resolution of 7 May 2010 and in accordance with the aforementioned rule of non-cumulativeness), paid in cash, depending on the duration of the Members' mandate related to the years under the Plan and, therefore, limited to 2011 and 2012; even the determination and any payment of this variable portion is linked to the objectives of the new Business Plan and to parameters to be identified by the Supervisory Board;
- adoption of the performance indicators and sustainability and deferral mechanisms approved for Top Management and Risk Takers.

Payment of the variable remuneration component for 2011 - subject to deferral over the three successive years (2013, 2014, 2015) - is linked to the positive EVA® for the Group, net of the provisions for the incentive system, and observance of the parameters regarding capital (Core Tier 1 ratio) and liquidity (AV2).
For 2012, without prejudice to 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.

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.

Resignation of [redacted] has resulted in the recognition only of the amounts set forth by the national collective employment agreement and the Italian Civil Code.

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, which in the short-term will likely be called upon to make decisions regarding a time frame that, by definition, will extend beyond the duration of the Management Board's mandate.
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 [redacted] (GAP) recognised to [redacted]. 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 recognised to [illegible] 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 so-called "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 2012, 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 company objectives and to the medium and long-term strategies, 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 component linked to results achieved;
   - a focus on key staff members demonstrating high management quality, to whom the most competitive salary brackets, aligned to the market of reference, are reserved;
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 the Business Plan objectives, via:
   - 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;
   - determination of the appropriate caps on the amount of pay and mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and to the results achieved, also with respect to the reference peer;
f) compliance with the national and European legal and regulatory provisions and the consequent focus on Top Executives, Management, 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
- Other members of the Top Executive Group (hereinafter also "TEG")
- Middle Management and Strategic Professional
- 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, 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);

[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.

- 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:
  - the heads of the remaining Head Office Departments;
  - 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;
  - 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;
  - 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 second segment ("Other members of the Top Executive Group") consists of members of the Top Executive Group – comprising the first and second line of reporting to the Chief Executive Officer and the Managing Directors/General Managers of the main banks and subsidiaries, with specific additions/limitations according to the type/significance of the position held - who, due to their specific activities, do not fall within the category of "Key personnel".

The third segment consists of the heads of key departments within the Group (Middle Management) and of resources with specific importance in terms of the contribution provided (Strategic Professional) and not included in the first two segments.

Heads and higher-level personnel of the "Control Functions", where not already included under "Key personnel", are included in the other segments outlined above.
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;
- introduction, based on the so-called sustainability principle, of a mechanism that reduces, and in extreme cases eliminates, the variable component of remuneration - and consequently the amount of bonuses - should a specific critical point in the Group's profitability indicators be identified;
- 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 and in part on the performance of the specific Organisational Unit;

[2] Although the Chief Risk Officer, Head of the Internal Auditing Department, Head of the Human Resources 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.

- compliance with the principle of symmetry, according to which the amount of bonuses paid is closely linked to the results achieved by the Group, the Business Unit and the individual, and may be reduced significantly, even down to zero, in the event of results not in line with the company's objectives and expectations. Furthermore, through multiplication/reduction factors, the total bonus pool amount is correlated to the achievement of pre-established budget levels and, where possible, to relative performance compared to the reference peer group;
- use of accurate performance indicators, closely linked to the multi-year goals of the Business Plan, which consider the following objectives: i) economic-financial (e.g. operating income, revenues on deposits, net inflows, etc.), ii) efficiency (e.g. cost/income), iii) risk containment (market risk, credit risk and/or liquidity risk), iv) sustainability, considering the risks taken and the cost of capital (e.g. ratio of profit and capital, ratio of revenues and RWA, EVA®);
- evaluation of individual performance and conduct, carried out by the respective Head, through which the level of achievement of the qualitative and quantitative objectives assigned to Management and to the remaining personnel is certified, integrated with the appropriate adjustments following the Audit results of the relative unit, as well as any opinions expressed by the Chief Executive Officer.

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 the "malus condition" described below, determination of the incentive accrued is strictly defined with reference to the specific qualitative indicators of the respective functions, in accordance with the Supervisory Provisions. In particular, for the Manager responsible for preparing the Company's financial reports, these indicators permit the following to be evaluated: i) accurate presentation of the income statement and balance sheet results of the Bank and of the entire Group, ii) fulfilment of the accounting and Supervisory obligations, iii) quality control of the processes governing administrative and financial reporting disclosures to the market and iv) the definition of guidelines and policies on financial statement and tax obligation matters, consistent with corporate strategies and objectives.

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), through the definition of guidelines, policies and methodological rules for managing risk, guaranteeing on-going and independent surveillance of the Group's operations and processes to prevent or identify any anomalous or risky behaviour or situation.

For the Head of the Human Resources Department and higher-level personnel, the indicators allow the following: i) evaluation of the level of definition of the Group's human resource guidelines and policies, including employment and trade union relations policies; ii) verification of the proper qualitative-quantitative coverage of required staff to achieve the strategic objectives of the Group; iii) monitoring of the compliance with objective in terms of labour cost at the consolidated financial statements level.

Remuneration components

Employee remuneration is broken down into the following:

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", 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 specific business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with a certain 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 impact of the variable component compared to the fixed and the portion of variable remuneration that is deferred are reviewed periodically for the different categories of personnel.

Any exceptions may be authorised only in exceptional cases, taking into account the independent management powers in effect from time to time and the specific characteristics of Key Managers. In any case, as they involve changes to Group policies, they must be made in collaboration with the Human Resources Department, which will report to the Parent Company Bodies, as far as their responsibilities are concerned, at least annually.

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.

In particular, for personnel classified as "key" and for personnel belonging to the Top Executive Group, any remunerative decision must be made in collaboration with the Human Resources Department, in order to ensure the level of consistency and alignment required for this category by the national and international regulator.

Incentive systems for Group personnel

a. Key personnel

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.

Payment of variable remuneration through financial instruments.
The assignment of financial instruments of the Intesa Sanpaolo Group is envisaged for:
- 50% of the upfront remuneration
- 50% of the deferred remuneration

Deferral period.
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, payment of the incentive is complete after 5 years from the reference year.

Breakdown of deferred portions:
The deferred portion is broken down as follows:
- 1st deferred portion: 100% cash
- 2nd deferred portion: 100% financial instruments
- 3rd deferred portion: 50% financial instruments, 50% shares

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.

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, 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 payable (sum of upfront and deferred components) is assigned annually to the individual Managers based on a mix of appropriately balanced indicators, according to the results achieved in the prior year by the Group, by the Division/Business Unit and by the individual. The assigned amounts are closely correlated to the performance of the individual managers, also through greater polarisation of the distribution of the incentive in order to reward top performers more than proportionally, simultaneously ensuring maximum recognition of individual merit. Respect of the bonus pool of the specific Division/Business Unit and of the overall bonus pool is also ensured, taking into account the effects resulting from application of the sustainability principle and solidarity mechanism.

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 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 and capitalisation.

b. Other members of the Top Executive Group, Middle Management and Strategic Professionals
The same incentive mechanism as "Key personnel" is adopted for this category, if compatible with the economic sustainability restrictions of the incentives and in application of the "proportionality principle" established by the Regulators, except for a simpler deferral method (with a single solution after two years) and liquidation of the bonus. The deferred portion is normally paid fully through financial instruments for members of the Top Executive Group and entirely in cash for the remaining resources; the upfront portion is paid exclusively in cash to all beneficiaries that are not part of "Key personnel".

c. 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 envisage a range of rewards, diversified on the basis of the business unit, so as to offer incentives that reflect the professional skills present in the company, reward individual merit and team work and, in certain cases, promote the mid/long-term sustainability of results through the deferral of a part of the annual bonuses earned, always envisaged for any part that exceeds the GAP.
The amount of bonuses paid is correlated to the performance of both the Division/Business Unit and the Group as a whole (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. second level gross income) and aspects of a business nature (taking into consideration the compliance guidelines), duly combined with customer satisfaction and service quality indicators;
- 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 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. The system also uses, in a manner consistent with merit management guidelines and sustainability objectives, 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.

d. Guaranteed bonuses
Guaranteed bonuses to personnel are not envisaged. However, in accordance with the aforementioned reference regulations, they may be used in limited cases and only for the first year for new employees.

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.

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.

Summary of remuneration items and consistency with the relevant policy

In brief, 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 allowances;
   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 includes the financial instrument-based incentive plan targeted to the Top Management and Risk Takers, approved as part of the remuneration policies, by the Management Board and the Supervisory Board, each within the scope of its remit, on 20 July 2011. 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 28 May 2012;

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 component does not include 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 indemnity 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 2011 incentive system for Top Management and Risk Takers

Introduction

On 20 July 2011 the Intesa Sanpaolo Supervisory Board - upon proposal of the Management Board - approved updating of the Group's remuneration policies, in order to adopt the regulations issued by the Bank of Italy on this matter within the established deadline of 31 July 2011.
These policies include the 2011 Incentive System (subsequently also "System") intended for a part of the Management staff and the so-called "risk takers" of the Intesa Sanpaolo Group. This System replaced the long-term incentive Plan approved by the Shareholders' Meeting of 30 April 2010, in the light of the relevant changes that took place in national and international regulations.
The previous Plan already met, to a large extent, the criteria provided for in the new regulations, among which incentives linked to actual medium-term value creation and the appropriate balancing between fixed and variable components. The most significant difference between the proposed System and the previous Plan regarded the use - explicitly required by the Bank of Italy - of shares or equivalent financial instruments also as part of the short-term variable component.

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, 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 120 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.
The Company may also decide to expand participation in the System to a larger group of recipients ("extended scope") than the individuals which can be identified through the mere application of the regulatory provisions, in order to disseminate a culture focused on sustainability as much as possible within the Group through a real connection between remuneration and the effectiveness and stability over time of results and the level of capitalisation.
For persons in the "extended scope", totalling a maximum of 780 resources, there are specific methods for deferring the variable component of remuneration, while the use of shares is limited, also in terms of amount, to the members of the Top Executive Group who, due to the activities they supervise, are not classified as "Key personnel" (around 70 executives).

Plan objectives
Long-term incentive plans are designed, in general terms, to retain managers and support their motivation to achieve the company's long-term goals. Where they include financial instrument-based compensation, they also favour alignment of interest between employees and shareholders, via the 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, key managers and strategic professionals, 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 yearly and multi-year 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.

Characteristics of the financial instruments to be awarded
For 2011, 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 authorisations duly issued by the Shareholders' Meeting.
60% of the entire bonus (reduced to 40% for the Chief Executive Officer, Key Managers and other specific positions) is 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 is, instead, 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 per 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 of mutually agreed termination of employment, termination due to having reached retirement age or other similar situations, subject to continuation of employment in any company of the Group.

Given the unification of the prior short and long-term incentive plans into a single instrument, the total amount of the award to which recipients are theoretically entitled each year is essentially equal to the sum of the annual target bonus and the annual portion of the long-term incentive plan approved by the Shareholders' Meeting of 30 April 2010, with a reduction of about 10% for "Key personnel", in order to adopt the new regulatory provisions without an increase in costs for the income statement.
More specifically, if the assigned targets are achieved, "Key personnel" may generally receive a yearly bonus, including the deferred portion and the portion assigned in shares, of approximately 60% of the remunerative pay mix. In light of regulator's 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 to approximately 40% of the remunerative pay mix.

The personnel in the "extended scope" benefit from the same incentive mechanism as that for "Key personnel", except for a simpler deferral method (with a single solution after two years) and payment of the bonus. The deferred portion is normally paid fully through equity instruments for members of the Top Executive Group and entirely in cash for the remaining resources; the upfront portion is paid exclusively in cash to all recipients in the "extended scope".

In full harmony with the criterion of symmetry between the amount of bonuses paid and actual corporate performance, the amount of the incentive, without prejudice to the provisions made for the Manager responsible for preparing the Company's financial reports and the Heads of the internal control functions[3], is linked to the degree of achievement of the yearly and multi-year corporate targets. Said targets are subject to verification following approval of the draft financial statements by the competent bodies. If the

[3] For the Heads of the internal control functions, determination of the incentive accrued is strictly defined with reference to the specific qualitative indicators of the respective functions, in compliance with the Supervisory Provisions.

targets are only partially achieved, there will be a corresponding reduction in the bonus, while if the assigned targets are exceeded, the incentive may be increased.

Accrual of the total bonus is subject to achievement of the Group's targets, measured through the EVA® indicator, and to exceeding of a minimum threshold, at both the Group and Division/Business Unit level, for the specific overall performance indicator outlined below, which is also used to quantify the incentive.
The value of the bonus to be paid, including the deferred position and any portion assigned in shares, is linked to the degree of achievement of a specific summary indicator composed of targets regarding i) profitability (operating income), ii) efficiency (cost/income), iii) risk containment (adjustments to loans), iv) sustainability, considering the risks taken on and the cost of capital (EVA®), and v) quality, fairness in relations with customers, or containment of legal and reputational risks (i.e. customer satisfaction, report of the control functions.) The economic targets, as a whole, have the greatest impact in forming the aforementioned summary indicator (approximately 20-25% each), while the qualitative parameters have a maximum weight of 10%.
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 by the level of achievement, in the year to which the deferred portion refers, of specific targets which measure the sustainability of value creation over time (EVA®) and 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

Through its communication of 2 March 2012, the Bank of Italy also urged banks and banking groups to define the "total amount of variable remuneration" to be paid with respect to 2011 results with a value that is "sustainable with respect to the bank's financial position" and that does not "limit its capacity to maintain or achieve an adequate level of capitalisation".
In full harmony with the spirit of the regulatory provisions and anticipating the contents of the aforementioned communication by the Supervisory Authorities, the Bank has already adopted instruments (sustainability mechanism) that allow it to reduce ex post the amount of variable remuneration based on the financial statement restrictions.

In accordance with the above-described scenario, 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 2011 results, including the contractual portion or company bonus, amounts to 333 million euro, and is equal to approximately 2% 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 significantly down compared to those of the prior year.

Without prejudice to the total amount indicated above, the Management and Supervisory Boards of 17 April 2012, to the extent of their respective responsibilities, have decided to modify the Group's incentive system application methods, with the objective of correcting any distortions created in summarising the results of the various Business Units, from measurement of the non-recurring components, and achieving, therefore, greater equality in recognising the contribution provided by management and by all employees who, despite the particularly difficult situation, have demonstrated constant commitment and a strong sense of responsibility.

As in past year, distribution of the amounts allocated in the financial statements for payment of the variable component referring to 2011 results gives priority to employees of the business sectors most exposed to market variations (asset management, finance, corporate 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 percent distribution of staff, fixed cost and variable component for 2011 (*)

	Staff	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.

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

(thousands of 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	
	1	67	-	-	-	-	-	-
[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 .
[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 insurance staff.

For the , the conditions for recognition of the variable component of remuneration for 2011 have not been met. The executive Management Board Members have waived their right to receive the variable portion of remuneration for 2011.

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] – who, as we know, left the Group to take on key government positions, there was only 1 case of termination in 2011 among "Key personnel", consisting of a resignation.

The total amount of termination indemnities paid to these managers amounted to 1,525 thousand euro, the highest of which was 1,125 thousand euro, paid to [redacted], in application of the relevant provisions under the Italian Civil Code and the Collective Labour Agreement for executive personnel.

In the previous year, no special benefits were paid for the start of employment relationships.

***

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 http://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 2010" corresponds to the corporate records, books and accounts.

17 April 2012

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

Independent Auditors' Report on Basel 2 Pillar 3

Ernst & Young

Reconta Ernst & Young S.p.A.
Corso Vittorio Emanuele II, 83
10128 Torino

Tel. (+39) 011 5161611
Fax (+39) 011 5612554
www.ey.com

Independent auditors' report
(Translation from the original Italian text)

To the Management Board of Intesa Sanpaolo S.p.A.

1. We have reviewed the "Basel 2 Pillar 3 - Disclosure" (the "Pillar 3") of Intesa Sanpaolo S.p.A. and its subsidiaries (the "Intesa Sanpaolo Group") as of and for the year ended December 31, 2011. As described in the section "Notes to the Basel 2 Pillar 3 disclosure", the preparation of Pillar 3 in conformity with the Circular n. 263 of December 27, 2006 and subsequent updates issued by the Bank of Italy, Title IV "Disclosure" is the responsibility of the Intesa Sanpaolo S.p.A.'s Management Board. The implementation and maintenance of adequate management and internal control processes for the preparation of data and information contained in Pillar 3 is the responsibility of the Intesa Sanpaolo S.p.A.'s Management Board. Our responsibility is to issue this report based on our review.

2. We conducted our work 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. We planned and performed our work to obtain reasonable assurance, less in scope than an audit, that the financial information reported in Pillar 3 is not materially misstated.

   In detail, we performed the following procedures:

   - comparison of data and financial information reported in Pillar 3 and data and information included in the consolidated financial statements of Intesa Sanpaolo Group as of and for the year ended December 31, 2011 on which we issued our audit report dated as this report;
   - interview and discussion with the management of Intesa Sanpaolo S.p.A. and of its main subsidiaries, included in the "Banking Group", as defined in Table 2 of Pillar 3, to obtain information about information technology, accounting and reporting systems used in preparing Pillar 3, as well as about processes and internal control procedures that support the data collection, aggregation, processing and transmission of such data and information to the manager responsible for preparing the company's financial reports in order to prepare Pillar 3;
   - sample-based analyses of supporting documentation used in preparing Pillar 3, in order to obtain evidence of the processes implemented for the preparation of data and information disclosed in Pillar 3;

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

- reading of the communications with the Bank of Italy in connection with the authorization process to use internal systems to determine capital requirements;
- reading of the reports prepared by the Internal Audit Department and Internal Validation Function, regarding the management and internal control processes relating to the preparation of data and information reported in Pillar 3;
- obtaining the representation letter on the compliance of Pillar 3 with the Circular n. 263 of December 27, 2006 and subsequent updates issued by the Bank of Italy and on the reliability and completeness of the information and data contained in Pillar 3.

Our work has been performed to achieve the scope of our engagement. We did not perform audit procedures such as tests of compliance or other substantive procedures, and our work was substantially less in scope than an audit conducted in accordance with ISAE 3000. Accordingly, the work performed does not give us assurance to be aware of all relevant fact and circumstances that could have been identified by performing an audit.

With respect to the Pillar 3 of the prior year, presented for comparative purposes, reference should be made to our report issued on April 6, 2011.

3. Based on our review, nothing has come to our attention that causes us to believe that Pillar 3 of Intesa Sanpaolo Group as of December 31, 2011, prepared on the basis of the methodologies and processes described in the same document, is not consistent with the data and information included in the consolidated financial statements of Intesa Sanpaolo Group as of and for the year ended December 31, 2011 and consequently, that it has not been prepared, in all significant respects, in conformity with the criteria established by the Circular n. 263 of December 27, 2006 and subsequent updates issued by the Bank of Italy, Title IV "Public Disclosures".

4. This report was prepared for the Management Board in accordance with our engagement. Our work has been conducted to report to Intesa Sanpaolo S.p.A. only the matters presented in this report. Therefore, we have no responsibility to any party other than Intesa Sanpaolo S.p.A., regarding the work performed, this report or the conclusions reported herein.

Turin, Italy, April 23, 2012

Reconta Ernst & Young S.p.A.
signed by: Guido Celona, partner

Glossary

Glossary

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 2 disclosure" and with exclusion of 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 (preference 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." It represents the risk level inherent in the portfolio of performing loans and constitutes the basic indicator for determining the size of the stock of collective adjustments to be set aside in the financial statements.

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 and/or overdue 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*".

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).

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.

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.

Contacts

Intesa Sanpaolo S.p.A.

Registered office
Piazza San Carlo, 156
10121 Torino
Telephone: +39 011 555 1

Secondary registered office
Via Monte di Pietà, 8
20121 Milano
Telephone: +39 02 879 11

Investor Relations
Telephone: +39 02 8794 3180
Fax: +39 02 8794 3123
E-mail investor.relations@intesasanpaolo.com

Media Relations
Telephone: +39 02 8796 3845
Fax: +39 02 8796 2098
E-mail stampa@intesasanpaolo.com

Internet: group.intesasanpaolo.com