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# Risk management

## **BASIC PRINCIPLES**

The policies relating to risk acceptance are defined by the Parent Company's Management Bodies (Supervisory Board and Management Board), with support from specific Committees.

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.

The risk measurement and management tools together define a risk-monitoring framework at Group level, capable of assessing risks assumed from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure and for guiding operations, ensuring a balance between risks assumed and shareholder returns. 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 capital position forms the basis for 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.

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.

## **BASEL 2 REGULATIONS AND THE INTERNAL PROJECT**

In June 2004, the Basel Committee on Banking Supervision published the final version of the Capital Accord ("Basel 2"), adopted by the European Union at the end of 2005 through the Capital Adequacy Directive and in Italy by Law Decree no. 297 of 27 December 2006.

In 2007, Intesa Sanpaolo launched the "Basel 2 Project", with the mission of preparing the Group for the adoption of advanced approaches, building on the pre-merger experience of Intesa and Sanpaolo IMI. In 2008, it began the approval process for their adoption.

With regard to credit risks, a "first scope" of Group entities that use approaches based on internal models was identified. For this scope of entities, the Group obtained authorisation to use the IRB Foundation approach for the Corporate segment, starting from the report as at 31 December 2008. The rating models and credit processes for the SME Retail and Retail (Residential mortgages) segments were also implemented in 2008. With the release of the Loss Given Default (LGD) model, now being completed, in the first half of 2010 it will be possible to adopt the Advanced IRB approach.

Rating model development for other segments and extension of the business application scope is in progress, in line with a gradual programme for the adoption of advanced approaches submitted to the Supervisory Authority.

With regard to operational risks, implementation of the AMA approach for some Group Companies (which includes Banks and Companies of the Banca dei Territori Division, Leasint, Eurizon Capital and VUB Banka) was completed. Moreover, authorisation to use the internal Advanced Measurement Approach (AMA) for the purposes of the calculation of the capital requirements has been requested to the Bank of Italy.

With respect to the Internal capital adequacy assessment process (i.e., ICAAP of the second Pillar of the Basel II Accord), the Group presented the interim and final reports for 2008, 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 reports show satisfactory capital adequacy under both ordinary and stress conditions.

As part of the adoption of "Basel 2" by the Italian banking system, Bank of Italy Circular 263 of 27 December 2006 "New regulations for the prudential supervision of banks" sets out the procedures that must be adopted by Italian banks and banking groups in public disclosures on capital adequacy, risk exposure and the general features of the risk identification, measurement and management systems (Basel 2 - Pillar 3).

In brief, the new instructions envisage the drawing up of a separate report on banking group risk in

addition to that already included in the financial statements. This disclosure, drawn up in accordance with the provisions of the aforementioned circular, which incorporates the provisions of Annex XII to EU Directive 2006/48, 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 (as Intesa Sanpaolo is among the groups that have adopted IRB and/or AMA approaches for credit and operational risk);
- figures as at 31 March/30 September: update of the information relating to capital and capital adequacy (as Intesa Sanpaolo is among the groups that have adopted IRB and/or AMA approaches for credit and operational risk).

The Intesa Sanpaolo Group publishes the Basel 2 Pillar 3 disclosure and subsequent updates on its website at the address: [group.intesasanpaolo.com](http://group.intesasanpaolo.com).

## CREDIT RISK

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.

In particular, with respect to loans to customers, risk is measured using rating models which change according to the segment to which the counterparty belongs.

The policies applied by the Group in financing the economy are aimed at:

- coordination of actions to achieve a sustainable objective, consistent with the Group's risk appetite and value creation;
- portfolio diversification, limiting the concentration of exposures on single counterparties/groups, single sectors or geographical areas;
- efficient selection of the single borrowers via an attentive creditworthiness analysis aimed at containing default risk, notwithstanding the objective of privileging commercial lending or loans to support new production capacity with respect to merely financial interventions.

The management of credit risk profiles of the loan portfolio is assured, starting from the analysis and granting phases, by:

- checking the existence of the necessary conditions for creditworthiness, with particular focus on the customer's current and prospective capacity to produce satisfactory income and congruous cash flows, considering the course of the relationship already in progress;
- applying the regulations on Credit policies;
- assessing the nature and size of proposed loans, considering the actual requirements of the counterparty requesting the loan, the course of the relationship already in progress, the presence of any relationship between the client and other borrowers and the Credit Policies defined;
- controlling the relationships, by means of information technology procedures and systematic surveillance of the relationships which present irregularities, both aimed at rapidly identifying any signs of deterioration in risk exposures.

Constant monitoring of the quality of the loan portfolio is also ensured by specific operating checks for all the phases of loan management: these actions are aimed at monitoring the transition of exposures from performing to non-performing status and vice-versa, including through the deterioration of the rating, following the calculation/confirmation of the group administrative position.

## Credit quality

The overall non-performing loan portfolio is continually monitored through a predetermined control system and periodic managerial reporting. In particular, such activities are performed using measurement methods and performance controls that allow the production of synthetic risk indicators. They allow timely assessments to be formulated when any anomalies arise or persist and interact with processes and procedures for loan management and for credit risk control.

Positions to which the synthetic risk indicator attributes a persistent high-risk rating are intercepted (manually or automatically) and included in an operational category based on their risk profile. They are classified in the following categories: doubtful loans, i.e. exposures to borrowers in default or in similar situations; substandard loans, i.e. exposures to borrowers in temporary difficulty, deemed likely to be settled in a reasonable period of time; restructured loans, i.e. positions for which, due to the deterioration of the economic and financial position of the borrower, the bank (or group of banks) agrees to modify the original contractual terms giving rise to a loss. Lastly, non-performing loans include loans past due by over 90 or 180 days which exceeded the warning threshold, as set out by the Bank of Italy.

(in millions of euro)

	30.06.2009			31.12.2008			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	14,476	-9,934	4,542	13,047	-9,079	3,968	574
Substandard loans	10,795	-2,386	8,409	7,011	-1,720	5,291	3,118
Restructured loans	1,956	-88	1,868	534	-135	399	1,469
Past due loans	2,012	-186	1,826	2,022	-156	1,866	-40
<b>Non-performing loans</b>	<b>29,239</b>	<b>-12,594</b>	<b>16,645</b>	<b>22,614</b>	<b>-11,090</b>	<b>11,524</b>	<b>5,121</b>
Performing loans	353,573	-2,441	351,132	370,611	-2,442	368,169	-17,037
Performing loans represented by securities	19,186	-639	18,547	15,863	-367	15,496	3,051
<b>Loans to customers</b>	<b>401,998</b>	<b>-15,674</b>	<b>386,324</b>	<b>409,088</b>	<b>-13,899</b>	<b>395,189</b>	<b>-8,865</b>

Figures restated on a consistent basis, considering the changes in the scope of consolidation.

At the end of the first half of 2009 the Group recorded an increase in non-performing loans in both gross terms (+29.3%) and net of adjustments (+44.4%). This trend led to a higher incidence of net non-performing loans on total loans to customers, increasing from 2.9% to 4.3%. As at 30 June 2009, the coverage of non-performing loans, pursued through prudent provisioning policies extended to all commercial banks, came to approximately 43%, compared to the 49% recorded at the end of 2008. The decrease is mainly due to the inclusion of a position of a significant amount under restructured loans, deemed fully recoverable following the restructuring transaction performed. The coverage ratio for doubtful loans decreased slightly from 69.6% to 68.6%.

In particular, doubtful loans net of adjustments totalled 4,542 million euro, with a 574 million euro rise from the beginning of the year; the incidence on total loans was 1.2%, with a coverage ratio of 69%.

Substandard loans, 8,409 million euro, net of adjustments, recorded a 59% rise with respect to 31 December 2008. This is due to new positions of a significant amount, assisted by guarantees, which required limited provisions; the incidence on total loans increased to 2.2%, with a coverage ratio of 22%.

Restructured loans, amounting to 1,868 million euro, showed an increase over the 399 million euro at 31 December 2008, mainly due to the above-mentioned restructuring transaction. The related coverage ratio is 5%.

Past due loans amounted to 1,826 million euro, with a 40 million euro decrease and a 9% coverage ratio.

Cumulated collective adjustments on performing loans came to 0.7% of gross exposure relating to loans to customers, stable with respect to the figure at the end of the previous year. The risk associated with the performing loan portfolio is calculated collectively on the basis of the risk configuration of the entire portfolio analysed by means of models that consider the Probability of Default (PD) and Loss Given Default (LGD) for each loan.

## MARKET RISKS

### INFORMATION ON FINANCIAL PRODUCTS

The following information on credit and market risk exposure, in various forms, directly or through vehicles, is provided in line with the requests for utmost transparency made by supranational and national Supervisory authorities. As for the previous reports, reference is made to the requirements of the Bank of Italy (communication of 18 June 2008), and Consob (letter of 23 July 2008), also considering the recommendations contained in the Report of the Financial Stability Forum of April 2008, referred to by both Supervisory Authorities.

### DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

#### General Principles

IAS/IFRS state that financial products in the trading portfolio must be measured at fair value through profit and loss. The existence of official prices in an active market<sup>1</sup> represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities in the trading portfolio.

If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date, in an arm-length exchange, motivated by normal business considerations. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach);
- valuations performed using – even partly – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: if a published price quotation in an active market is available then the other valuation approaches may not be used.

#### Hierarchy of fair value

As described above, the hierarchy of measurement models, i.e. of the approaches adopted for fair value measurement, attributes absolute priority to effective market quotes for valuation of assets and liabilities or for similar assets and liabilities (comparable approach) and a lower priority to non-observable and, therefore, more discretionary inputs (Mark-to-Model Approach).

#### 1. Effective market quotes

In this case the valuation is the price of the same financial instrument to be measured on the basis of prices quoted on an active market.

The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:	
- cash	80.0%
- derivatives	1.9%
Financial liabilities:	
- cash	27.8%
- derivatives	2.0%

#### 2. Valuation Techniques: Comparable Approach

In this case the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official 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 search for transactions on active markets in relation to

<sup>1</sup> A financial instrument is considered as quoted on an active market if the quotations, reflecting normal market transactions, are promptly and regularly available through organised markets (exchanges), brokers, intermediaries, companies operating in the sector, quotation services or authorised bodies, and such prices represent effective and regular market transactions taking place over a normal period of reference.

instruments that, in terms of risk factors, are comparable with the instrument to be measured.

The calculation methodologies (pricing models) used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from 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 percentage of the instruments valued with this method (determined in relation to fair value in the case of derivatives) in the total of the instruments measured at fair value is as follows:

Financial assets:

- cash	16.6%
- derivatives	97.6%

Financial liabilities:

- cash	72.2%
- derivatives	96.2%

### 3. Valuation Techniques: Mark-to-Model Approach

In this case valuations are based on various inputs, which are not presumed directly from parameters which may be observed on the market and therefore imply estimates and assumptions on the part of the valuator.

In particular, with this approach the valuation of the financial instrument uses a calculation method (pricing model) 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 these are 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 percentage of the instruments valued with this method (determined in relation to fair value in the case of derivatives) in the total of the instruments measured at fair value is as follows:

Financial assets:

- cash	3.4%
- derivatives	0.5%

Financial liabilities:

- cash	-
- derivatives	1.8%

The cash financial assets include investments in equities of 1.4 billion euro, classified as securities available for sale.

### The valuation process of financial instruments

The valuation process of financial instruments is substantially unchanged with respect to that published in the financial statements as at 31 December 2008, to which reference should be made.

### Information on valuation models which are concretely used for measurement of financial instruments

With respect to the valuation models concretely used by the Intesa Sanpaolo Group for measurement of non-contributed securities, pricing of interest rate, foreign exchange, equity and inflation derivatives, and pricing of structured credit products, no significant changes took place with respect to that stated in the financial statements as at 31 December 2008, to which reference should be made.

As at 30 June 2009, hedge funds are still measured using the operating NAV (Net Asset Value)<sup>2</sup> provided by the Fund Administrator, prudentially reduced by an adjustment percentage arising from a valuation process that is both statistical and analytical, based on the main drivers of counterparty risk (being the risk 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 concern in the case of default) and the illiquidity risk (being the risk intrinsic to the pricing of the fund assets due to the poor availability of prices or certain weaknesses in the pricing policies applied).

### Adjustments adopted to reflect Model Risk and other uncertainties related to the valuation

No significant changes occurred with respect to the financial statements as at 31 December 2008, to which reference should be made, concerning adjustments, which are adopted to reflect the Model Risk and other uncertainties relating to the valuation when determining fair value.

### QUANTITATIVE INFORMATION ON THE FINANCIAL ASSETS AND LIABILITIES

The tables below detail the book values of the:

- financial assets represented by securities measured at amortised cost and fair value; the latter have been broken down into quoted and unquoted instruments with an indication of the level of hierarchy for the determination of fair value applied;
- financial liabilities represented by securities and subject to measurement at fair value, broken down into quoted and unquoted instruments and with an indication of the level of hierarchy of fair value applied;
- financial and credit derivative instruments, broken down into quoted and unquoted instruments and with an indication of the level of hierarchy of fair value applied.

(in millions of euro)						
Financial assets represented by securities/ Derivatives	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Securities held to maturity	5,196	-	X	X	5,196	4,975
Securities classified under loans to customers	-	15,915	X	X	15,915	13,138
Securities classified under loans to banks	-	3,150	X	X	3,150	1,459
Securities held for trading	21,682	4,967	3,727	1,240	26,649	15,736
Securities on which the fair value option has been exercised	13,693	7,244	7,244	-	20,937	19,688
Securities available for sale	26,394	3,273	1,849	1,424	29,667	25,503
<b>Total Financial assets represented by securities</b>	<b>66,965</b>	<b>34,549</b>	<b>12,820</b>	<b>2,664</b>	<b>101,514</b>	<b>80,499</b>
Derivatives held for trading	722	38,212	38,027	185	38,934	42,302
<b>TOTAL</b>	<b>67,687</b>	<b>72,761</b>	<b>50,847</b>	<b>2,849</b>	<b>140,448</b>	<b>122,801</b>

(in millions of euro)						
Financial liabilities represented by securities and designated at fair value / Derivatives	Unquoted	unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Short positions on securities designated at fair value	1,509	45	45	-	1,554	1,760
Issued securities on which the fair value option has been exercised	-	3,871	3,871	-	3,871	3,878
<b>Total Financial liabilities represented by securities and designated at fair value</b>	<b>1,509</b>	<b>3,916</b>	<b>3,916</b>	<b>-</b>	<b>5,425</b>	<b>5,638</b>
Derivatives held for trading	776	38,997	38,261	736	39,773	44,110
<b>Total</b>	<b>2,285</b>	<b>42,913</b>	<b>42,177</b>	<b>736</b>	<b>45,198</b>	<b>49,748</b>

The tables below provide an overview of the financial instruments represented by securities and derivatives that are subject to measurement at fair value and that contribute to different items in the financial statements, with a separate indication of the values associated with certain areas (structured credit products, hedge funds, and merchant banking investments). For the sake of completeness, tables have also been included with a breakdown of the securities valued at amortised cost, with a separated indication of the abovementioned areas.

<sup>2</sup> Main parameter used for the valuation of hedge funds. The operating NAV does not always coincide with the NAV used for accounting purposes (so-called accounting NAV) as the former can be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of certain indicators, circumstances or events.

(in millions of euro)

Financial assets: securities classified under loans to customers	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Structured credit products	-	2,835	X	X	2,835	2,102
Other debt securities	-	13,080	X	X	13,080	11,036
<b>TOTAL</b>	<b>-</b>	<b>15,915</b>	<b>-</b>	<b>-</b>	<b>15,915</b>	<b>13,138</b>

(in millions of euro)

Financial assets: securities classified under loans to banks	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Structured credit products	-	13	X	X	13	15
Other debt securities	-	3,137	X	X	3,137	1,444
<b>TOTAL</b>	<b>-</b>	<b>3,150</b>	<b>-</b>	<b>-</b>	<b>3,150</b>	<b>1,459</b>

(in millions of euro)

Financial assets: securities held for trading	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
<b>Debt securities</b>	<b>20,556</b>	<b>4,188</b>	<b>3,548</b>	<b>640</b>	<b>24,744</b>	<b>13,506</b>
Structured credit products	-	769	224	545	769	921
Other securitisations	-	309	214	95	309	383
Other debt securities	20,556	3,110	3,110	-	23,666	12,202
<b>Equities</b>	<b>309</b>	<b>47</b>	<b>47</b>	<b>-</b>	<b>356</b>	<b>276</b>
<b>Quotas of UCI</b>	<b>817</b>	<b>732</b>	<b>132</b>	<b>600</b>	<b>1,549</b>	<b>1,954</b>
Hedge Funds	58	600	-	600	658	852
Other quotas of UCI	759	132	132	-	891	1,102
<b>TOTAL</b>	<b>21,682</b>	<b>4,967</b>	<b>3,727</b>	<b>1,240</b>	<b>26,649</b>	<b>15,736</b>

(in millions of euro)

Financial assets: securities on which the fair value option has been exercised	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Debt securities	11,732	244	244	-	11,976	12,102
Equities	1,840	-	-	-	1,840	1,688
Quotas of UCI	121	7,000	7,000	-	7,121	5,898
<b>TOTAL</b>	<b>13,693</b>	<b>7,244</b>	<b>7,244</b>	<b>-</b>	<b>20,937</b>	<b>19,688</b>

(in millions of euro)

Financial assets: securities available for sale	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
<b>Debt securities</b>	<b>24,814</b>	<b>1,404</b>	<b>1,404</b>	<b>-</b>	<b>26,218</b>	<b>22,050</b>
<b>Equities</b>	<b>1,526</b>	<b>1,424</b>	<b>-</b>	<b>1,424</b>	<b>2,950</b>	<b>2,930</b>
Merchant banking investments	416	706	-	706	1,122	1,136
Other investments	1,110	718	-	718	1,828	1,794
<b>Quotas of UCI</b>	<b>54</b>	<b>445</b>	<b>445</b>	<b>-</b>	<b>499</b>	<b>523</b>
<b>TOTAL</b>	<b>26,394</b>	<b>3,273</b>	<b>1,849</b>	<b>1,424</b>	<b>29,667</b>	<b>25,503</b>

(in millions of euro)

Financial assets: derivatives	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
<b>Financial derivatives</b>	<b>722</b>	<b>35,710</b>	<b>35,710</b>	<b>-</b>	<b>36,432</b>	<b>37,805</b>
<b>Credit derivatives</b>	<b>-</b>	<b>2,502</b>	<b>2,317</b>	<b>185</b>	<b>2,502</b>	<b>4,497</b>
Structured credit products	-	591	406	185	591	533
Other credit derivatives	-	1,911	1,911	-	1,911	3,964
<b>TOTAL</b>	<b>722</b>	<b>38,212</b>	<b>38,027</b>	<b>185</b>	<b>38,934</b>	<b>42,302</b>

(in millions of euro)

Financial liabilities: short positions on securities designated at fair value	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Due to banks	1,411	10	10	-	1,421	1,754
Due to customers	98	35	35	-	133	6
<b>TOTAL</b>	<b>1,509</b>	<b>45</b>	<b>45</b>	<b>-</b>	<b>1,554</b>	<b>1,760</b>



(in millions of euro)						
Financial liabilities: issued securities - Fair value option	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
Structured securities	-	3,871	3,871	-	3,871	3,878
Other securities	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>3,871</b>	<b>3,871</b>	<b>-</b>	<b>3,871</b>	<b>3,878</b>

(in millions of euro)						
Financial liabilities: derivatives	Quoted	Unquoted	of which level 2	of which level 3	30.06.2009	31.12.2008
<b>Financial derivatives</b>	<b>776</b>	<b>35,622</b>	<b>35,622</b>	<b>-</b>	<b>36,398</b>	<b>39,010</b>
<b>Credit derivatives</b>	<b>-</b>	<b>3,375</b>	<b>2,639</b>	<b>736</b>	<b>3,375</b>	<b>5,100</b>
Structured credit products	-	1,138	402	736	1,138	1,100
Other credit derivatives	-	2,237	2,237	-	2,237	4,000
<b>TOTAL</b>	<b>776</b>	<b>38,997</b>	<b>38,261</b>	<b>736</b>	<b>39,773</b>	<b>44,110</b>

## STRUCTURED CREDIT PRODUCTS

### The business model: objectives, strategies and relevance

The strategy involving the downsizing of the existing portfolio was strengthened in the second quarter of 2009. In tandem with the general improvement of the market, marked by a contraction of spreads and the slowdown of default/downgrade rates, the Structured Credit Product portfolio was reduced through unwinding and closing of unfunded positions, while reclassifying the underlying securities under the Loan portfolio.

The latter strategy is strengthened by the further reduction in the cost of funding.

During the second quarter of the year, the portfolio was further reduced following the natural expiry of certain operations and the advanced reimbursement of existing ones.

The reference market is still substantially inactive, where only the most senior positions with the best rating have regenerated interest, particularly in relation to public programmes to support the market for some asset classes.

Given the lack of clear recovery indicators, these programmes continue to play a fundamental role in revitalising the market, bringing spreads to levels which are more in line with fundamentals.

Therefore, the Bank's strategy to progressively reduce exposure could also be affected by the extension/renewal of the above-mentioned public programmes and their effects on the market.

### Highlights

Before describing the results as at 30 June 2009, please note that the qualitative and quantitative composition of the investments in structured credit products, penalised to various extents by the events that affected financial markets from the second half of 2007, has changed little with respect to the information disclosed as at the end of last year and the last quarter. Compared to 31 December 2008, despite the downgrade of a growing portion of these investments (approximately 23%), the good quality of the portfolio is confirmed, as shown by the following indicators:

- 88% of exposure is Investment Grade;
- 50% of this exposure had a Super senior (11%) or AAA (39%) rating; these percentages decreased considerably with respect to 31 December 2008;
- 12% has a rating of BBB or lower;
- 37% of the exposure has a pre-2005 vintage<sup>3</sup>;
- 31% has a 2005 vintage;
- only 11% of exposure refers to the US Residential segment, and 30% to the US non-residential segment;
- the remaining exposure (59% of the total) is almost entirely (51%) European.

Considering underlying contract types, approximately two thirds of the exposure is represented by CLOs (33%) and CDOs (30%); the rest is almost entirely made up of ABSs (16%) and RMBSs (16%); CMBS represent 5% of the total.

<sup>3</sup>

Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgages underlying securitisations since, especially in the US, the phenomenon of mortgages granted to entities with inadequate income and with low prior assessment of documentation became significant as of 2005.

As concerns valuation methods, unfunded positions are measured using the Mark-to-Model Approach with the sole exception of positions on CMBX indexes, which have been measured on the basis of effective market quotes. For funded products, the use of valuation methods involved the Comparable Approach in 55% of cases and the Mark-to-Model Approach (45% of cases). For further details on adopted valuation methods see details on the determination of the fair value of financial assets and liabilities provided in the 2008 Annual Report.

The structured credit products affected by the financial crisis are indicated by segregating the part classified under Financial assets held for trading and available for sale from those classified as Loans<sup>4</sup>. In the summary tables are reported the profit and loss effects of both aggregates.

The information set out below refers to the entire Group; where present, any effects and positions, which are in any case immaterial, ascribable to entities other than the Parent Company, are specifically highlighted in the comments and/or in the detailed tables.

In the summary tables provided below, table (a) sets out risk exposure as at 30 June 2009 and income statement captions (sum of realised charges and profits, write-downs and write-backs) of the year, compared with the corresponding values recorded as at 31 December 2008.

Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged. For a more complete description of exposures of this type see the specific paragraphs (Monoline risk and Non monoline packages) and the relative tables.

The translation to euro of values expressed in USD as at 31 December 2008 occurred at an exchange rate of 1.3917 euro per dollar, and as at 30 June 2009 at an exchange rate of 1.4134 euro per dollar.

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<sup>4</sup>

This segregation is the result of the reclassification completed in 2008 after the IAS 39 amendments in October 2008. Added to these are the reclassifications of securities completed after the restructuring of unfunded positions in the first half of 2009.

## Structured credit products: summary tables

## a) Exposure in funded and unfunded ABS/CDOs

(in millions of euro)

Financial assets held for trading	30.06.2009		31.12.2008	
	Risk exposure (*) (including write-downs and write-backs)	Income Statement Profits (Losses) on trading	Risk exposure (*) (including write-downs and write-backs)	Income Statement Profits (Losses) on trading
<b>US subprime exposure</b>	<b>9</b>	<b>-3</b>	<b>23</b>	<b>-4</b>
<b>Contagion area</b>	<b>266</b>	<b>-38</b>	<b>207</b>	<b>-166</b>
- Multisector CDOs	194	-32	125	-103
- Alt-A	-	-	-	-
- TruPS	72	-6	82	-63
- Prime CMOs	-	-	-	-
<b>Other structured credit products</b>	<b>1,602</b>	<b>-61</b>	<b>3,056</b>	<b>-327</b>
- Funded European/US ABS/CDOs	297	25	430	-53
- Unfunded super senior CDOs	1,367	-73	3,043	-249
- Other unfunded positions	-62	-13	-417	-25
<b>Total</b>	<b>1,877</b>	<b>-102</b>	<b>3,286</b>	<b>-497</b>
in addition to:				
Positions of funds	-	8	-	41
<b>Total Financial assets held for trading</b>	<b>1,877</b>	<b>-94</b>	<b>3,286</b>	<b>-456</b>

Loans	30.06.2009		31.12.2008	
	Risk exposure (**) (including write-downs and write-backs)	Income Statement	Risk exposure (*) (including write-downs and write-backs)	Income Statement
<b>US subprime exposure</b>	<b>9</b>	<b>-1</b>	<b>6</b>	<b>-</b>
<b>Contagion area</b>	<b>125</b>	<b>-</b>	<b>138</b>	<b>-5</b>
- Multisector CDOs	16	-	12	-
- Alt-A	69	-	78	-2
- TruPS	-	-	-	-
- Prime CMOs	40	-	48	-3
<b>Other structured credit products</b>	<b>2,714</b>	<b>-1</b>	<b>1,973</b>	<b>-57</b>
- Funded European/US ABS/CDOs	1,494	-4	1,729	-57
- Funded super senior CDOs	1,026	3	-	-
- Funded ABS/CDOs ascribable to the Romulus vehicle	194	-	244	-
<b>Total</b>	<b>2,848</b>	<b>-2</b>	<b>2,117</b>	<b>-62</b>
in addition to:				
Positions of funds	-	-	-	-
<b>Total Loans</b>	<b>2,848</b>	<b>-2</b>	<b>2,117</b>	<b>-62</b>
<b>Total</b>	<b>4,725</b>	<b>-96</b>	<b>5,403</b>	<b>-518</b>

(\*) The column "Risk exposure" sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for "long" positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For "short" positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

## b) Exposure in packages

Detailed table	30.06.2009		31.12.2008	
	Credit exposure to protection seller (CDS fair value) post write-down	Income Statement Profits (Losses) on trading	Credit exposure to protection seller (CDS fair value) post write-down	Income Statement Profits (Losses) on trading
Monoline risk	12	17	-	-94
Non monoline packages	127	2	154	-
<b>Total</b>	<b>139</b>	<b>19</b>	<b>154</b>	<b>-94</b>

Referring to the following summary for a more detailed illustration of the various product performances, it should be noted that the "long" position for US Subprimes dropped compared to the previous quarter and to the end of 2008.. The reduction is due to the additional write-downs of the unfunded positions included in the segment. Moreover, restructuring of unfunded positions which had begun in the first quarter of 2009, continued in the second quarter of year, reducing the weight of these positions on funded positions, as part of "Other structured credit products", later classified under Loans, less exposed to income statement volatility but with no effect on the Intesa Sanpaolo Group risk profile. Furthermore, one position included in the first reporting boundary was moved from "Other structured credit products" to the "Contagion area" in the first quarter of the year. This proved necessary due to the increased weight of the US RMBS component on the collateral portfolio.

From an economic point of view, in the reporting period the incidence of losses, particularly attributable to US subprime exposures, was almost unchanged compared to the previous quarter in both absolute and relative terms.

More specifically, the negative result of the structured credit products in the period (-75 million euro) is mostly attributable to unfunded structured credit products (-116 million euro net of hedges). In particular, the negative contribution of the unfunded positions included in the Multisector CDOs should be noted (-32 million euro; see point i., section "Contagion" area). The improvement in the valuation of these positions in the second quarter (+8 million euro) was fully offset by the worsening of the valuations of positions on CMBX indexes and derivatives on single names (-8 million euro). The good performance of funds hedging these positions (+8 million euro, of which 7 million euro in the second quarter) reduced the negative contribution of the segment to -24 million euro at 30 June 2009. The greater contribution to the negative result is due to the "Other structured credit products" areas (-86 million euro as at 30 June 2009). The reduction is mainly due to the downgrade and default of the assets included in the collateral of positions. As at 30 June 2009, it included:

- unfunded multisector CDOs (see point iii., section "Other structured credit products") which contributed a negative result of -41 million euro;
- unfunded Super Senior Corporate Risk CDOs (see point iv., section "Other structured credit products") which contributed a negative result of -32 million euro;
- Other unfunded positions (point v., section "Other structured credit products") which contributed a negative result of -13 million euro.

Contribution to "Profits (Losses) on trading – caption 80" improved thanks to funded structured credit products which recorded a positive result of 22 million euro as at 30 June 2009, thanks to the good performance of the portfolio of the subsidiary Banca IMI (+10 million euro) and the profits arising from the sale on the market of certain positions (+9 million euro). Securities reclassified under the loan portfolio include profits on disposal of 5 million euro (caption "Profits (Losses) on disposal or repurchase of loans") and losses for impairment of securities of 7 million euro (caption "Net impairment losses on loans").

The contribution of the "Monoline risk" and "Non-monoline packages" was also good with a total positive result of 19 million euro as at 30 June 2009, thanks to the progressive reduction of the exposure to counterparties and a slight improvement in their creditworthiness.

As at 30 June 2009, this aggregate included bonds classified as loans for a total nominal value of 3,177 million euro and risk exposure of 2,848 million euro. Of this amount, 235 million euro referred to securities reclassified from available for sale to the loans portfolio. As at 30 June 2009 their fair value was 188 million euro. The positive impact of this transaction on the Valuation reserve under Shareholders' Equity was 47 million euro. The remaining 2,613 million was reclassified from the trading book to the loans portfolio. The fair value of this aggregate as at 30 June 2009 was 2,203 million euro, with a positive effect on the income statement of 410 million euro, 299 million euro of which referring to 31 December 2008. Had the loans portfolio not been reclassified, the negative result for structured products would have increased to 186 million euro in the first half of 2009.

## US subprime exposure

Please note that there is no unequivocal definition of subprime mortgages. In general, this expression indicates mortgaged lending which is riskier since it is granted to borrowers that have previously defaulted or because the debt-to-income or loan-to-value ratio is high.

As at 30 June 2009, the Intesa Sanpaolo Group:

- did not have mortgages definable as subprime in its portfolio, since the Group's policy does not envisage granting of this kind;
- did not issue guarantees connected to the aforementioned products.

That said, for US subprime exposure, Intesa Sanpaolo intends the products - cash investments (securities and funded CDOs) and derivative positions (unfunded CDOs) with collateral mainly made up of US residential mortgages other than in the "prime" sector (i.e. Home Equity Loans, residential mortgages with B&C ratings and similar) granted in the years 2005/06/07, irrespective of the FICO score<sup>5</sup> and the Loan-to-Value<sup>6</sup> (LTV) as well as those with collateral made up of US residential mortgages granted before 2005, with FICO score under 629 and Loan-to-Value exceeding 90% (the weight of this second class of products in the Intesa Sanpaolo Group's portfolio as at 30 June 2009 was again not significant, as had occurred as at 31 December 2008).

During the first half of the year, the total exposure in US Subprimes decreased, following the change in the composition of the collateral of an unfunded CDOs, which entailed the reduction of the portion of subprime mortgages included therein.

## US subprime exposure

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Profits (Losses) on trading	
					Total	of which
					1st Half 2009	2Q
Funded ABS	13	1	-	-1	-1	-1
Funded CDOs	26	2	-	-1	-1	-1
Unfunded super senior CDOs <sup>(1)</sup>	190	6	-	-1	-1	-
Position on ABX indexes	-	-	-13	13	-	-
<b>"Long" positions</b>	<b>229</b>	<b>9</b>	<b>-13</b>	<b>10</b>	<b>-3</b>	<b>-2</b>
<b>Net position</b>	<b>"long"</b>	<b>"long"</b>				
	<b>229</b>	<b>9</b>	<b>-13</b>	<b>10</b>	<b>-3</b>	<b>-2</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded ABS	-	-	-	-	-	-
Funded CDOs	8	5	-	-1	-1	-1
Romulus-funded ABS/CDOs	4	4	-	-	-	-
<b>"Long" positions</b>	<b>12</b>	<b>9</b>	<b>-</b>	<b>-1</b>	<b>-1</b>	<b>-1</b>
<b>Total</b>	<b>241</b>	<b>18</b>	<b>-13</b>	<b>9</b>	<b>-4</b>	<b>-3</b>

(\*) The column "Risk exposure" sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at period end. Such amounts correspond, for "long" positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For "short" positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

(1) With Mezzanine collateral. Including a position with underlying made up for approximately one third of subprime mortgages. This table includes the sole portion represented by subprime mortgages, whereas the residual exposure is reported in the "contagion" area.

5

Indicator of the borrower's credit quality (usually between 300 and 850) used in the United States to classify credit, based on the statistical analysis of credit archives referred to individuals.

6

The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.

The net nominal "long" position of 241 million euro as at 30 June 2009 compares with 269 million euro as at 31 December 2008. Moreover, positions on ABX indexes included in the segment were also closed. In terms of risk exposure, a "long" position of 18 million euro (29 million euro as at 31 December 2008) which also included securities reclassified under the loan portfolio for 9 million euro (12 million euro in terms of nominal value) existed as at 30 June 2009. The securities reclassified had a fair value, as at 30 June 2009, of 4 million euro<sup>7</sup>. The positive impact on the Valuation reserve under Shareholders' Equity of the reclassification, therefore, amounted to 5 million euro<sup>8</sup>.

During the first half of the year, the overall impact of these positions on the income statement totalled -3 million euro (-4 million euro as at 31 December 2008), of which -2 million euro in the second quarter. Moreover, a 1 million euro impairment loss was recognised under "Net losses/recoveries on impairment – caption 130a".

With regard to the Funded ABS component, please note that 38% has a AAA rating, 53% a B and the remaining 9% a CC rating. The original LTV equalled 91%, while average delinquency<sup>9</sup> at 30, 60 and 90 days was respectively equal to 5%, 2% and 4%. The cumulated loss<sup>10</sup> equalled 28%.

These are positions not quoted on active markets (funded and unfunded super senior ABS/CDOs) which were measured using the Comparable Approach or the Mark-to-Model Approach.

### "Contagion" area

The qualitative breakdown of this portfolio recorded no significant changes in the first half of 2009. In quantitative terms, one position already included in the segment was moved to this area and one CDOs, classified to the Romulus vehicle loans portfolio at the end of 2008, was transferred to the Parent Company loans portfolio. The segment results subject to "contagion effect", i.e. affected by the subprime mortgage crisis, can be summarised as follows:

- i. **Multisector CDOs:** such products are almost entirely represented by unfunded super senior CDOs, with collateral represented by US RMBS (42%), CMBS (4%), CDOs (11%), HY CBOs (6%), Consumer ABS (2%), European ABS (25%).  
Over 66% of the US RMBS component had a vintage prior to 2005 and an immaterial exposure to subprime risk (on average 4%).  
These were transactions with a BB- average rating and an average protection (attachment point<sup>11</sup>) of 12%.

<sup>7</sup>

Of which 2 million euro refers to securities in the portfolio of the Romulus vehicle.

<sup>8</sup>

Of which one million refers to securities included in the portfolio of the Romulus vehicle.

<sup>9</sup>

Current state of irregular payments at 30, 60 and 90 days.

<sup>10</sup>

Cumulated loss realised on the collateral of the instrument at a certain date.

<sup>11</sup>

Level over which a protection seller covers the losses of the protection buyer.

## “Contagion” area: Multisector CDOs

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Profits (Losses) on trading	
					1st Half 2009	Total of which 2Q
Unfunded super senior CDOs	505	243	-	-32	-32	8
<b>“Long” positions</b>	<b>505</b>	<b>243</b>	<b>-</b>	<b>-32</b>	<b>-32</b>	<b>8</b>
CMBX hedges and derivatives	73	49	-9	9	-	-8
<b>Positions of funds</b>	<b>-</b>	<b>57</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>7</b>
<b>Net position (1)</b>	<b>“long” 432</b>	<b>“long” 194</b>	<b>-6</b>	<b>-18</b>	<b>-24</b>	<b>7</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded CDOs	7	5	-	-	-	-
Romulus-funded ABS/CDOs	14	11	-	-	-	-
<b>“Long” positions</b>	<b>21</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>453</b>	<b>210</b>	<b>-6</b>	<b>-18</b>	<b>-24</b>	<b>7</b>

(\*) The column “Risk exposure” sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for “long” positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For “short” positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

(1) The figures relating to the nominal value and exposure to risk do not include the positions of funds.

Taking into account write-downs, write-backs, CMBX index hedges and a number of single-name credit default swap positions on associated names<sup>12</sup>, the net risk exposure was 210 million euro as at 30 June 2009 (137 million euro as at 31 December 2008). The increase on the previous year end is due to the above-mentioned transfer of an unfunded position included in the aggregate “Other structured credit products” in prior periods. The exposure also included securities of 16 million euro (21 million euro in nominal value), partly in the portfolio of the Romulus vehicle and partly in the portfolio of the Parent Company, which were reclassified to the loans category. As at 30 June 2009, the latter had a fair value of 11 million euro<sup>13</sup>, with a positive impact on the Valuation reserve under Shareholders’ Equity of the reclassification, amounting to 5 million euro<sup>14</sup>.

During the first six months of the year, the overall impact on the income statement ascribable to these positions (including those on CMBX indexes and other derivatives) was -32 million euro. In the second quarter, the positive effect of the “long” positions in CDOs, arising from the slow recovery of the Commercial Real Estate market, was fully offset by the negative results of CMBXs and existing hedging derivatives. Considering, for the sake of completeness, the Group’s investment in funds, which had a positive impact on the income statement of 8 million euro, the impact on the income statement for the first six months of the year amounted to -24 million euro, up 7 million euro in the second quarter. These figures compare with the 62 million euro loss recorded as at 31 December 2008.

With the exception of the funded positions relating to the vehicle Romulus and the “short” hedging positions, this area included unfunded instruments, 52% of which is valued using the Mark-to-Model Approach. These positions are valued entirely using the Mark-to-Model approach.

<sup>12</sup> But not in positions of Funds.

<sup>13</sup> Of which 8 million euro refers to securities in the portfolio of the Romulus vehicle.

<sup>14</sup> Of which 3 million euro refers to securities in the portfolio of the Romulus vehicle.

- ii. **Alt-A - Alternative A Loans:** ABS (securities) with underlying US residential mortgages normally of high quality, characterised however by penalising factors, mostly for incomplete documentation, which do not permit their classification in standard prime contracts.

The positions in the Group portfolio had a 2005 vintage and ratings of AAA (55%), AA (12%), A (25%), BBB (7%) and BB (1%).

**“Contagion” area: Alt-A - Alternative A Loans**

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Other securities available for sale <sup>(1)</sup>	9	-	-	-	-	-
<b>“Long” positions</b>	<b>9</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Alt-A Agency	38	38	-	-	-	-
Alt-A No Agency	38	31	-	-	-	-
<b>“Long” positions</b>	<b>76</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>85</b>	<b>69</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) The column “Risk exposure” sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for “long” positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For “short” positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

(1) Risk position classified among securities available for sale, attributed to the Parent Company and originating from the Romulus vehicle, transferred at fair value in 2008.

The risk exposure as at 30 June 2009 was 69 million euro, compared to 78 million euro as at 31 December 2008. The bonds included in this category were reclassified to the loans caption. The nominal value of the securities reclassified was 76 million euro and the risk exposure corresponded to 69 million euro. The securities had a fair value of 57 million euro and the positive impact of the reclassification as at 30 June 2009, therefore, amounted to 12 million euro.

The economic result for the segment as at 30 June 2009 was zero (-2 million as at 31 December 2008).

The Alt-A No Agency component presents an original average LTV of 70% and average delinquency at 30, 60 and 90 days equal respectively to 4.7%, 2.5% and 4.4%. Cumulated loss equalled 5%.

Valuation is carried out on the basis of the comparable approach.

- iii. **TruPS – Trust Preferred Securities of REITs (Real Estate Investment Trust):** financial instruments similar to preferred shares issued by US real estate trustees to finance residential or commercial initiatives.

The positions in the Group’s portfolio had a B+ and CCC+ rating (unfunded CDOs) and a BBB rating (funded CDOs) and an average attachment point of 41%.



**“Contagion” area: TruPS – Trust Preferred Securities of REITs**

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded CDOs	4	1	-	-1	-1	-
Unfunded super senior CDOs	225	71	-	-5	-5	-2
<b>“Long” positions</b>	<b>229</b>	<b>72</b>	<b>-</b>	<b>-6</b>	<b>-6</b>	<b>-2</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded CDOs	-	-	-	-	-	-
<b>“Long” positions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>229</b>	<b>72</b>	<b>-</b>	<b>-6</b>	<b>-6</b>	<b>-2</b>

(\*) The column “Risk exposure” sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for “long” positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For “short” positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

Taking into account the write-downs and write-backs, the risk exposure as at 30 June 2009 was 72 million euro, compared to 82 million euro at 31 December 2008.

During the period, the overall impact on the income statement ascribable to these positions was -6 million euro, of which -2 million euro in the second quarter. These figures compare to a loss of 63 million euro recognised as at 31 December 2008. Since these were mainly unfunded positions, no financial instruments included within this category were reclassified.

These products are almost entirely represented by unfunded super senior CDOs; 68% of their nominal value is measured using the so-called Mark-to-Model Approach.

- iv. **Prime CMOs:** securities issued with guarantee mostly represented by loans assisted by mortgages on US residential buildings. They have a 2005 vintage and AAA (44%), AA (26%) and A (30%) rating.

**“Contagion” area: Prime CMOs**

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
CMOs (Prime)	-	-	-	-	-	-
<b>“Long” positions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
CMOs (Prime)	43	40	-	-	-	-
<b>“Long” positions</b>	<b>43</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>43</b>	<b>40</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(\*) The column “Risk exposure” sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for “long” positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For “short” positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

The risk exposure as at 30 June 2009 was 40 million euro, slightly lower than at 31 December 2008.

The bonds included in the aggregate have been fully reclassified to the loans category. As at 30 June 2009, the fair value of these securities was 29 million euro, with a positive impact from the reclassification of 11 million euro.

The economic result for the segment as at 30 June 2009 was zero (-3 million as at 31 December 2008).

The Prime CMOs component presents an original average LTV of 65% and average delinquency at 30, 60 and 90 days equal respectively to 1%, 0.3% and 0.7%. Cumulated loss equalled 0.7%.

Valuation is carried out on the basis of the comparable approach.

**Monoline risk**

Intesa Sanpaolo presents no direct exposure to monoline insurers (insurance companies specialised in hedging the default risk of bonds issued by both public entities and the corporate sector), but only indirect positions connected to hedging derivatives purchased from monoline insurers to buy protection on the default risk of assets held by the Group, which therefore only generate counterparty risk. Such hedging derivatives are part of two types of activities performed by Intesa Sanpaolo: packages and fully hedged credit derivatives transactions.

Intesa Sanpaolo’s activities in packages are made up of the purchase of assets (typically bonds), whose credit risk is entirely hedged by a specific credit default swap (CDS). Therefore, these products only present counterparty risk referred to the entity which provided the hedge and their rationale lies in the possible existence of asymmetries between the cash and derivatives market, of the same underlying asset, which it is possible to use without direct exposure to market risks.

Both the security and the connected derivative have been valued with the Mark-to-Model methodologies also considering any available prices, if lower; such valuations did not have any impact on Profits (Losses) on trading – caption 80, with the exception of those referred to the counterparty risk component, mostly due to transactions in which the hedge was stipulated with monoline insurers for which a credit risk adjustment has been calculated, determined on the basis of the cost of a protection CDS on the default of the monoline insurer, with nominal value equal to the current and potential future exposure (so-called add-on) and expiry equal to the average residual life of the underlying assets.

The overall nominal value of the assets underlying these transactions decreased from 165 million euro to 149 million euro during the first half of 2009. Although the packages, as already mentioned above, do not entail a market risk associated with the nature of the underlying asset, for the sake of completeness please

note that the assets making up the packages include, for a nominal value of 104 million euro as at 30 June 2009, securities with US RMBS collateral with a significant subprime content<sup>15</sup>.

As at 30 June 2009, credit risk exposure on the aforesaid protection purchases from monoline insurers amounted to 76 million euro, compared to 84 million euro as at 31 December 2008. The positive impact on the income statement for the period was 14 million euro (of which 12 million euro in the second quarter), compared to a negative impact of 74 million euro as at 31 December 2008. The dramatic turnabout which marked the first half of the year is attributable to the good improvement in the credit rating of the counterparties which, in turn, led to the reduction in the corresponding write-down percentage applied.

Intesa Sanpaolo's activities in fully hedged derivatives are made up of the simultaneous purchase and sale of protection on the same reference entity (underlying asset) with two different counterparties. Also in this case, market risk generated by the underlying asset does not affect the bank which solely bears counterparty risk generated by the "short" position in the protection purchase. The rationale for these transactions lies in the possibility of exploiting certain segmentations in the international market, without incurring in directional risks. The overall exposure to monoline counterparties in this category was also reduced during the year.

As at 30 June 2009, credit risk exposure on the aforesaid protection purchases from monoline insurers amounted to 28 million euro, substantially unchanged with respect to 31 December 2008. The positive impact on the income statement was 3 million euro (of which 2 million euro in the second quarter), compared to a negative impact of 20 million euro in the previous year.

In conclusion, as at 30 June 2009, the credit risk exposure with monoline insurers due to counterparty risk amounted to 104 million euro, compared to 111 million euro as at 31 December 2008. The positive impact on the income statement for the period was 17 million euro (of which 14 million euro in the second quarter), compared to write-downs of 94 million euro as at 31 December 2008.

Please note that protection single name CDS amounting to approximately 18 million euro (32 million euro as at 31 December 2008) have also been purchased and that 69% of exposure to monoline insurers referred to MBIA, while the remaining 31% referred to other monoline insurers with ratings from BBB to AA-.

### Monoline risk

Product	Position as at 30.06.2009				Income statement as at 30.6.2009 Profits (Losses) on trading	
	Nominal value of the underlying asset	Fair value of the underlying asset (net of accruals)	Credit risk exposure to monoline insurers (fair value of the CDS) pre write-down	Credit risk exposure to monoline insurers (fair value of the CDS) post write-down	Fair value of the hedge with monoline insurers	
					1st Half 2009	of which 2Q
<b>Positions in packages:</b>						
Subprime	149	73	76	7	14	12
Other underlying assets <sup>(1)</sup>	-	-	-	-	-	-
<b>Sub-total</b>	<b>149</b>	<b>73</b>	<b>76</b>	<b>7</b>	<b>14</b>	<b>12</b>
<b>Positions in other derivatives:</b>						
Other underlying assets	137	109	28	5	3	2
<b>Total</b>	<b>286</b>	<b>182</b>	<b>104</b>	<b>12</b>	<b>17</b>	<b>14</b>

(1) Underlying other than US RMBS, both European and US.

Lastly, for the sake of completeness, please note that there is another form of exposure to monoline insurers, which, however, does not generate particular risk situations. It stems from the investment in

<sup>15</sup> The percentage in US subprime was 33.5%.

securities for which the monoline insurer provides a credit enhancement<sup>16</sup> to the issuing vehicle, for the purpose of making the issue “eligible” for certain types of investors through the achievement of a certain rating (normally AAA). The securities in question<sup>17</sup>, with a nominal value as at 30 June 2009 of 538 million euro (529 million euro as at 31 December 2008), consisted of 56.4% of ABSs with underlying Italian health receivables and the remainder of financings of infrastructures. They were all recorded in the banking book, almost entirely in the Loans & Receivables (L&R) portfolio. The positions were granted primarily on the basis of the creditworthiness of the underlying borrower and therefore, irrespective of the credit enhancement offered by the monoline insurer. Please note that, to date, there are no creditworthiness deteriorations in single issuers/borrowers which might suggest the application of particular measures such as prudential provisions. Indeed, the positions were granted primarily on the basis of the creditworthiness of the underlying borrower. For this purpose, it must be noted that all such issues have an Investment Grade rating and that ABSs with underlying Italian health receivables are also all assisted by delegated regional payment.

### Non-monoline packages

This category includes packages with assets with specific hedges stipulated with primary international banks generally with AA and A ratings (in one case B rating). Underlying assets are mostly made up of CLOs and ABS CDOs with a limited portion of US Subprime (equal to approximately 16%).

### Non-monoline packages

(in millions of euro)

Product	Position as at 30.06.2009				Income statement as at 30.06.2009	
	Nominal value of the underlying asset	Fair value of the underlying asset (net of accruals)	Credit risk exposure to protection sellers (fair value of the CDS) pre write-down	Credit risk exposure to protection sellers (fair value of the CDS) post write-down	Profits (Losses) on trading	
					Fair value write-down of the hedge	
					1st Half 2009	of which 2Q
<b>Positions in packages:</b>						
Subprime	519	388	131	127	2	4
<b>Total</b>	<b>519</b>	<b>388</b>	<b>131</b>	<b>127</b>	<b>2</b>	<b>4</b>

As at 30 June 2009, these positions amounted to 519 million euro in terms of nominal value, compared to 558 million euro as at 31 December 2008. At the same date, the credit risk exposure to counterparties of the transactions included in the aggregate amounted to 131 million euro (160 million euro as at 31 December 2008) and were written down by 4 million euro (6 million euro as at 31 December 2008) in application of systematic adjustments made on the entire universe of derivatives to incorporate the credit risk adjustment in fair value which, in this particular case, reflects a minimum counterparty risk<sup>18</sup> (so-called credit risk adjustment). The positive impact on the income statement for the period was 2 million euro, of which 4 million euro in the second quarter (compared to nil as at 31 December 2008). The improvement recorded in the period is due to the reduction in credit risk exposure to counterparties and the decrease in provision percentage applied.

These positions are valued using the mark-to-model approach.

### Other structured credit products

Starting from the end of 2008, the structured credit products segment, including underlying instruments not originating in the USA, were subject to the strongest write-downs due to expansion of the crisis. To reduce income statement volatility in connection with this segment, from the first quarter of 2009 Intesa Sanpaolo adopted a restructuring policy for unfunded positions included in the aggregate and their replacement with funded positions. These transactions resulted in no change in Intesa Sanpaolo’s exposure

<sup>16</sup> Techniques or instruments used by an issuer to improve the rating of its issues (establishment of deposits for guarantee, granting of liquidity lines, etc.).

<sup>17</sup> Wholly held by Banca Infrastrutture Innovazione e Sviluppo.

<sup>18</sup> Also due to the presence of many transactions which have a specific collateral agreement.

to risk. The funded nature of the new risk positions, also given the “rare circumstances”, allowed their reclassification to the loans portfolio, at the fair value of the security as at the time of category transfer. The various types of product attributable to this last segment are described below. In the first half they negatively affected the income statement for 61 million euro, with a -17 million euro contribution in the second quarter, compared to a 384 million euro loss recorded as at 31 December 2008.

i **ABSs/funded CDOs:** The European ABS/CDOs portfolio consists of 16% of ABSs of receivables (Credit Card, Leasing, Personal Loans, etc.), 37% RMBSs (of which around half, 40%, are Italian), 12% CMBSs, 14% CDOs and 21% CLOs (mainly of small and medium enterprises). It is a portfolio characterised by high credit quality (AAA 57%, AA/A 36%, BBB/BB 7%). The collateral of the CMBS portfolio is mostly made up of Offices (52%), Retail/Shopping Centres (21%), Mixed Use (12%), Health Care (9%), Hospitality/Multifamily (4%), Industrial (2%). The measurement of the European ABS/CDOs portfolio is based on the comparable approach in 85% of cases, and on Mark-to-Model for the remaining 15%. As for the US ABS/CDOs portfolio, on the other hand, these are securities with US underlying, with collateral represented by Credit Cards (1%), CMBSs (2%) and High Yield CLOs (97%). It is made up of 76% of AAA positions, 23% AA/A and 1% BBB/BB. The measurement of the US ABS/CDOs portfolio is based on the comparable approach in 3% of cases, and on Mark-to-Model for the remaining 97%.

- Funded European ABS/CDOs classified to the trading book.  
As at 30 June 2009 the portfolio had a total nominal value of 336 million euro<sup>19</sup> (477 million euro as at 31 December 2008), with risk exposure of 288 million euro<sup>20</sup> (424 million euro as at 31 December 2008). As at the same date, the related impact on the income statement was a positive 12 million euro, of which 7 million euro refers to realised income and 5 million euro to write-backs. This figure compares with the -35 million euro as at 31 December 2008. The positive effect is related to strategy to reduce the exposure in structured credit products by selling certain assets included in the segment and to the improvement of spreads on the market.
- Funded European ABS/CDOs classified to the loans portfolio.  
As at 30 June 2009 the portfolio had a total nominal value of 1,586 million euro<sup>21</sup> (1,840 million euro as at 31 December 2008), with risk exposure of 1,463 million euro (1,686 million euro as at 31 December 2008). As at 30 June 2009, the securities in this portfolio had a fair value of 1,064 million euro. The positive effect of reclassification in the loans portfolio was 394 million euro as at the end of the period<sup>22</sup>. During the first half of the year, part of the portfolio was disposed of. These transactions generated profits of approximately 2 million euro recognised under “Profits (Losses) on disposal or repurchase of loans – caption 100a”. Moreover, impairment losses were recognised on certain securities included in the segment. The negative impact on the income statement (6 million euro as at 30 June 2009) was recognised under “Net losses/write-backs on impairment – caption 130a”.
- Funded US ABS/CDOs classified to the trading book.  
These are securities with US underlying assets for a total nominal value of 18 million euro (same amount as at 31 December 2008). At the same date the risk exposure totalled 9 million euro (6 million euro as at 31 December 2008). The impact on the income statement was positive by 13 million euro (-18 million euro for 2008), with a +16 million euro contribution in the second quarter. Of these, 9 million euro refer to the disposal of a security following the restructuring of an unfunded position.
- Funded US ABS/CDOs classified to the loans portfolio.  
This aggregate includes securities with a total nominal value of 35 million euro (48 million euro as at 31 December 2008), with risk exposure of 31 million euro (43 million euro as at 31 December 2008). At the end of the first half of 2009 the fair value of these securities was 22

<sup>19</sup> Of which 330 million euro pertaining to Banca IMI and 1 million euro pertaining to Carifirenze (classified under securities available for sale)

<sup>20</sup> Entirely attributable to Banca IMI.

<sup>21</sup> Of which 228 million euro pertaining to Banca IMI, 8 million euro to Carifirenze (benefit of 5 million euro for the Valuation reserve under Shareholders' Equity as a result of the reclassification) and 10 million euro to Banca Fideuram (no benefit for the Valuation reserve under Shareholders' Equity as a result of the reclassification).

<sup>22</sup> In addition to a benefit of 5 million euro for the Valuation reserve under shareholders' equity as a result of the reclassification of the financial assets available for sale to the loan portfolio.

- million euro. The positive impact of their classification to the loans portfolio on the income statement was 9 million euro as at 30 June 2009.
- Funded super senior corporate risk CDOs
 

These are funded positions classified to the loans portfolio that derive from the restructuring of unfunded positions as at 31 December 2008. The securities with a nominal value as at 30 June 2009 of 1,178 million euro had a risk exposure of 1,026 million euro. The overall impact on the income statement was nil with respect to "Profits (Losses) on trading – caption 80". However, the disposal of a security following the restructuring of an unfunded position, generating a profit of 3 million euro recognised under "Profits (Losses) on disposal or repurchase of loans – caption 100a" should be noted.

As at the same date, the securities in portfolio had a fair value of 1,042 million euro. The negative impact of their classification in the loan portfolio was 16 million euro.
  - ii. Funded ABS/CDOs ascribable to the Romulus vehicle.
 

These securities were classified as loans. The underlying is mainly US: Credit Card, Leveraged Loan, Student Loan and Corporate Risk. As at 30 June 2009, they had a nominal value of 226 million euro (282 million euro as at 31 December 2008), with risk exposure of 194 million euro (244 million euro as at 31 December 2008). The securities included in this aggregate had a fair value of 162 million euro as at 30 June 2009 and the positive impact on Shareholders' Equity solely associated with the change in fair value amounted to 32 million euro. The portfolio consists of exposures with AAA (40%), AA/A(10%), BBB(30%) and BB (20%) rating.

The securities are valued on the basis of the comparable approach in 43% of cases, and on Mark-to-Model for the remaining 57%.
  - iii. Unfunded super senior multisector CDOs.
 

This component, 601 million euro of nominal value as at 30 June 2009 (790 million euro as at 31 December 2008), comprised super senior positions with High Grade, widely diversified collateral or characterised by high credit quality RMBS and therefore not included, as such, in the "contagion" area. The collateral is invested in: CMBS (39%), Consumer ABS (20%), corporate loans (25%), US RMBS (16%) and subprime (4.1%). These structures had an average attachment point of 14%, and all had a AA rating, while 71% of the vintage was prior to 2005. During the period, the related impact on the income statement amounted to -41 million euro (+1 million euro from realised net income and -42 million euro from write-downs), with a contribution of -9 million euro in the second half, compared to a loss of 65 million euro recognised as at 31 December 2008.

The deterioration seen in this category was mainly due to the downgrade and the defaults of the assets present in the collateral of a particular position. Such positions are valued on a Mark-to-Model basis.
  - iv. Unfunded super senior Corporate Risk CDOs.
 

Super senior in this residual category were mostly characterised by collateral subject to corporate risk and amounted to 936 million euro of nominal value as at 30 June 2009 (2,596 million euro as at 31 December 2008). The decrease in the exposure is due to the progressive restructuring of the unfunded positions included in the segment, turning them into funded positions, classified as loans. More in detail, the US collateral component was 25% (mainly represented by CDOs, 46%), the European component was 60% (of which 73% referred to Italian consumer credit and 27% to CDOs) and the emerging markets' component was 15% (project finance). These structures had an average attachment point of 31%. During the period, the related impact on the income statement amounted to -32 million euro (+13 million euro from realised income and -45 million euro from valuations), with a contribution of -25 million euro in the second quarter. The loss compares with the negative figure recorded as at 31 December 2008, equal to -187 million euro.

Such positions are valued on a Mark-to-Model basis.

The deterioration was due marginally to the widening in the spreads and mainly to the forecast for the performance of the US and European leveraged loan market.
  - v. Other unfunded positions.
 

These comprise net "short" positions almost entirely on mezzanine tranches of unfunded CDOs with mainly European underlying, for a total of 47 million euro of nominal value as at 30 June 2009. Exposure is considerably lower compared to 396 million euro as at 31 December 2008 following the early termination or natural expiry of the positions included in the segment. In the first six months of

the year, the relative impact on the income statement was -13 million euro (-12 million euro from net realised charges, -1 million euro from valuations), with a -4 million euro negative contribution in the second quarter. This figure compares with 25 million euro loss as at 31 December 2008. Such positions are valued on a Mark-to-Model basis.

### Other structured credit products

(in millions of euro)

Financial assets held for trading	Position as at 30.06.2009		Income statement as at 30.06.2009 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded European ABS/CDOs	336	288	7	5	12	5
Funded US ABS/CDOs	18	9	9	4	13	16
Unfunded super senior multisector CDOs	601	535	1	-42	-41	-9
Unfunded super senior corporate risk CDOs	936	832	13	-45	-32	-25
Other unfunded "short" positions	-47	-62	-12	-1	-13	-4
<b>"Long" positions</b>	<b>1,844</b>	<b>1,602</b>	<b>18</b>	<b>-79</b>	<b>-61</b>	<b>-17</b>

(in millions of euro)

Loans	Position as at 30.06.2009		Income statement as at 30.06.2009			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st Half 2009	of which 2Q
Funded European ABS/CDOs	1,586	1,463	2	-6	-4	-4
Funded US ABS/CDOs	35	31	-	-	-	-
Funded Romulus vehicle ABS/CDOs	226	194	-	-	-	-
Funded super senior corporate risk CDOs	1,178	1,026	3	-	3	3
<b>"Long" positions</b>	<b>3,025</b>	<b>2,714</b>	<b>5</b>	<b>-6</b>	<b>-1</b>	<b>-1</b>
<b>Total</b>	<b>4,869</b>	<b>4,316</b>	<b>23</b>	<b>-85</b>	<b>-62</b>	<b>-18</b>

(\*) The column "Risk exposure" sets out: for securities, fair value; for derivatives, the nominal value of the contract, net of write-downs and write-backs recorded at reference date. Such amounts correspond, for "long" positions, to the maximum potential loss (in the event of a 100% default and a recovery rate of 0). For "short" positions, vice versa, they indicate the maximum potential gain (in the same scenario in terms of default and recovery levels).

(\*\*) For assets reclassified to loans, exposure to risk is provided by the carrying value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

### INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities:

- to raise finance on the market by issuing specific financial instruments;
- to acquire, sell, manage specific assets, separating them from the financial statements of the Originator;
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt;
- to manage the credit risk connected to their portfolio of financial assets through both protection purchases and sales with counterparties represented by SPEs (used by both the American market and the European market for synthetic portfolio securitisations). In such transactions the Bank accepts credit risk or counterparty risk with the SPEs, depending on the nature of the transaction.

The sponsor of the transaction is normally an entity which requests the structuring of a transaction in a SPE for the purpose of reaching certain objectives. In some cases the Bank is the sponsor and establishes a SPE with the objective of raising finance, securitising its assets, offering customers a financial service.

There are no changes in the scope of consolidation with respect to those adopted in the previous year.

The types of transactions in SPEs related to Intesa Sanpaolo's current operations are set out below.

## Funding SPEs

Entities established abroad to raise finance on particular markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and reverse funding to the Parent Company.

These SPEs, which are controlled by Intesa Sanpaolo and are part of the Group's scope of consolidation as per IAS 27, are: Intesa Funding LLC, San Paolo IMI Financial Co., IntesaBCI Preferred Capital Company LLC III and SanPaolo IMI Capital Company LLC 1. All these SPEs are based in the USA.

The table below sets out the information requested by Consob, with reference as at 30 June 2009.

FUNDING SPEs		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA FUNDING LLC	Funding	5,335	-	-	-	(1)	5,339	5,339	-	-	-
SANPAOLO IMI US FINANCIAL CO	Funding	5,572	-	-	-	(1)	5,576	5,576	-	-	-
INTESABCI PREFERRED CAPITAL COMPANY LLC III	Funding	546	-	-	-	(1)	500	500	-	-	-
SANPAOLO IMI CAPITAL COMPANY LLC 1	Funding	1,100	-	-	-	(1)	1,000	1,000	-	-	-

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of these vehicles are almost entirely made up of loans to the Parent Company Intesa Sanpaolo.

Total funding of SPEs above had an incidence of approximately 3% on total direct customer deposits in consolidated financial statements.

## SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of Eurizon Vita and Eurizon Life who retain the majority of the risks and rewards; SPEs for insurance products are consolidated pursuant to IAS 27 / SIC 12.

In the Group there are 56 entities of this type with total assets of approximately 10 billion euro (of which 9 billion euro relative to funds which report to Fideuram Gestions).

With respect to the breakdown of assets, no significant changes should be noted compared with the figure recorded in the financial statements as at 31 December 2008. In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.

The total assets of these SPEs represented around 1.51% of the Group's total consolidated assets.

## Securitisation SPEs

These are funding SPEs that permit an entity to raise resources through the securitisation of part of its assets. In particular, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market or through a private placement. Resources raised in this way are returned to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

SPEs of this type, which are part of the scope of consolidation as at 30 June 2009 pursuant to IAS 27 or SIC 12, are: Sec S.p.A., Intesa Sec 2 S.r.l., Intesa Sec 3 S.r.l., Intesa Sec NPL S.p.A., Intesa Lease Sec S.r.l., Split 2 S.r.l., ISP CB Pubblico S.r.l., Adriano Finance S.r.l. – Series 1 and 2 – and Adriano Finance 2 S.r.l.. Moreover, ISP CB Ipotecario S.r.l. and ISP Sec 4 S.r.l., which were not operational as at 30 June 2009, are included in this category. In addition, the securitisation of Adriano Finance 3 S.r.l. is currently being set up. These companies, incorporated under Italian law, have been used to securitise the performing assets (mortgage loans, leasing contracts) or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies.

Augusto, Colombo and Diocleziano are securitisation vehicles of assets (residential mortgages), mostly to finance long-term mortgages and public works, of companies subject to joint control and later sold.

The securities held have been measured at fair value, as in previous years, except for the securities issued by the vehicles Adriano Finance S.r.l. and Adriano Finance 2 S.r.l. that are classified under the loan portfolio and have therefore been valued at amortised cost.

The table below sets out the information requested by Consob, with reference to 30 June 2009.



(in millions of euro)

SECURITISATION SPEs	Type of asset	Vehicle data		Liquidity lines		Guarantees given		Securities issued		of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation	
INTESA SEC SPA <sup>(1)</sup>	performing mortgages	21	-	-	-	Guarantee agreement (11)	13	17	7	AFS	Fair value	
INTESA SEC 2 SRL <sup>(2)</sup>	residential mortgages	477	1	-	-	-	-	420	41	HFT - Loans	Fair value/ amortised cost	
INTESA SEC 3 SRL <sup>(3)</sup>	residential mortgages	2,348	-	-	-	-	-	2,258	188	HFT - Loans	Fair value/ amortised cost	
INTESA SEC NPL SPA <sup>(4)</sup>	non-performing loans	101	-	-	-	-	-	158	53	AFS	Fair value	
INTESA LEASE SEC SRL <sup>(5)</sup>	leasing contracts	218	4	-	-	-	-	198	13	HFT	Fair value	
SPLIT 2 SRL	performing leasing contracts	578	-	-	-	-	-	556	35	Loans - HFT - HTM	Fair value/ amortised cost	
ISP CB IPOTECARIO SRL <sup>(6)</sup>	mortgage loans	(10)	-	-	-	-	-	-	-	-	-	
ISP CB PUBBLICO SRL <sup>(6)</sup>	public entities financing	3,807	-	-	-	-	-	-	-	-	-	
ISP SEC 4 SRL	performing residential mortgages	(10)	-	-	-	-	-	-	-	-	-	
ADRIANO FINANCE SRL - Series 1 <sup>(7)</sup>	performing residential mortgages	8,348	-	-	-	-	-	7,998	7,998	Loans	Amortised cost	
ADRIANO FINANCE SRL - Series 2 <sup>(8)</sup>	performing residential mortgages	6,112	1	-	-	-	-	5,679	5,679	Loans	Amortised cost	
ADRIANO FINANCE 2 SRL <sup>(9)</sup>	performing residential mortgages	13,848	3	-	-	-	-	13,050	13,050	Loans	Amortised cost	
CR Firenze Mutui S.r.l.	performing residential mortgages	210	-	-	-	-	-	198	8	AFS - Loans	Fair value/ Amortised cost	
AUGUSTO SRL <sup>(12)</sup>	land financing (100%)	38	10	-	-	-	-	46	13	AFS	Fair value	
COLOMBO SRL	public works financing	104	7	-	-	-	-	104	-	-	-	
DIOCLEZIANO SRL	Land financing (82%) Public works (12%) Indus. (6%)	134	28	-	-	-	-	147	34	AFS	Fair value	

(1) ISP made the commitment to support the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. A swap contract exists as an interest rate risk hedge.

(2) ISP made the commitment to support the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. ISP also granted a subordinated loan of 19 million euro used by the vehicle to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. A swap contract exists as an interest rate risk hedge.

(3) ISP granted limited recourse subordinated financing of 23 million euro used by Intesa SEC3 to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. A swap contract signed with ISP exists as an interest rate risk hedge.

(4) ISP granted a guarantee and indemnity contract of 0.5 million euro, in case of declarations or guarantees which lead to a reduction in loan value. The bank is also committed to supporting the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. Subordinated financing was granted for approximately 2 million euro. Cumulated losses will be absorbed by tranche E (equity) held by ISP, the value of which was adjusted in the current and previous years. An Interest Rate Cap and Interest Rate Floor also exist as interest rate risk hedges.

(5) The company has an existing swap contract as interest rate risk hedge.

(6) These vehicles were set up pursuant to art. 7-bis of Italian Law 130/99. Therefore they are not issuers of securities, but issuers of guarantees to holders of bonds (Covered Bank Bonds) issued by third parties.

(7) ISP granted limited recourse subordinated financing of 51 million euro, used by the vehicle to set up the cash reserve required by the Rating Agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (440 million euro), fully subscribed by ISP. A swap contract exists as an interest rate risk hedge.

(8) ISP granted limited recourse subordinated financing of 50 million euro, used by the vehicle to set up the cash reserve required by the Rating Agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (398 million euro), fully subscribed by ISP. A swap contract exists as an interest rate risk hedge.

(9) ISP granted limited recourse subordinated financing of 150 million euro, used by the vehicle to set up the cash reserve required by the Rating Agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (876 million euro), fully subscribed by ISP. A swap contract exists as an interest rate risk hedge.

(10) Established companies not yet operative as at 30 June 2009.

(11) Stand-by letter of credit/surety given by ISP to Calyon Milano as guarantee of a liquidity line granted in favour of the vehicle by Calyon Milano.

(12) The company issued two series of bonds with different portfolios as underlying assets. The figures indicated represent the sum of the issues.

For the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec.), the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1 and, thus, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations, have not been recorded in the financial statements. For transactions stipulated after that date, the provisions of IAS 39 on derecognition of financial assets and liabilities are applied.

The securitised assets of the vehicles in this category consist of performing mortgages for Intesa Sec Spa, of performing residential mortgages for Intesa Sec 2, Intesa Sec 3, Adriano Finance and Adriano Finance 2, of doubtful mortgages for Intesa Sec NPL, of performing leasing contracts for Intesa Lease Sec and Split 2, and of uses of liquidity. Total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up of land financing.

The total assets of the consolidated SPEs not derecognised (Intesa SEC 3 Srl, Split 2 Srl., Adriano Finance, Adriano Finance 2) represented around 5% of the Group's total consolidated assets.

Furthermore, pursuant to the above-mentioned SIC 12, Intesa Sanpaolo controls:

- i. Romulus Funding Corporation, a company based in the USA that acquires financial assets, represented by loans or securities, with eligibility criteria originated by Bank customers, financing the purchase via the issue of Asset Backed Commercial Papers;
- ii. Duomo Funding PLC, an entity which performs an activity similar to that of Romulus Funding Plc. but is limited to the European market and is financed through funding contracts with Romulus.

The table below sets out the required information, with reference as at 30 June 2009.

ROMULUS AND DUOMO		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset back commercial paper conduit	1,964	(1)	-	-	Letter of credit	124	1,937	-	-	-
DUOMO FUNDING CORP.	purchase of assets and Romolus financing	1,245	-	-	-	-	-	-	-	-	-

(in millions of euro)

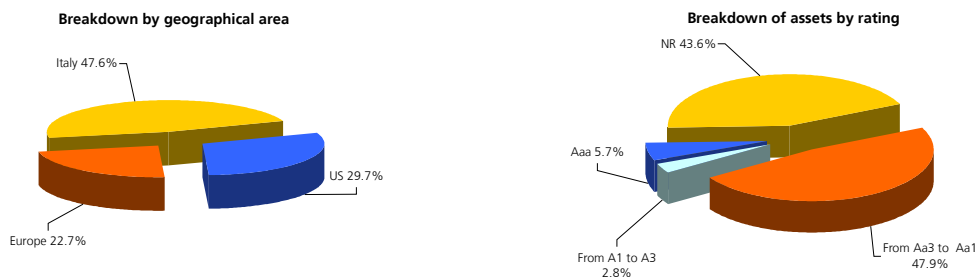
<sup>(1)</sup> of which 1,232 million euro for loans disbursed to Duomo, for transactions reported in the latter's financial statements.

The total assets of the vehicle Romulus include loans to Duomo of 1,232 million euro. The vehicle's securities portfolio is classified entirely under the loans category. As at 30 June 2009, they had a nominal value of 244 million euro, valued at amortised cost. Their carrying amount as at the same date was 209 million euro. The vehicle's assets also include liquidity and other assets amounting to 3 million euro.

Duomo's total assets are made up of loans to Intesa Sanpaolo for 498 million euro, as collateral for an intragroup protection sale on the risk of a primary insurance company, of loans to the subsidiary Intesa Sanpaolo Bank Ireland for 156 million euro, of debt securities classified under the loan portfolio for 590 million euro (fair value of the same amount as at 30 June 2009), and of loans to customers for one million euro.

The total assets of the above SPEs represented 0.5% of the Group's total consolidated assets.

The following additional information is provided concerning the portfolios of assets held by the two vehicles:



Please note that the eligible assets in the portfolios of the Romulus and Duomo vehicles, even though in part (approximately 44%) not supported by an external rating, were in any case of sufficient quality to allow the commercial paper issued by Romulus to maintain the A-1+/P-1 ratings. More specifically, the percentage of assets with rating between Aaa and Aa decreased slightly from around 55% as at 31 December 2008 to around 54% as at 30 June 2009. Even though the rating of some of the securities was downgraded, the average quality of the portfolio was maintained through the acquisition of assets with high credit quality.

The securities classified in the loan portfolio under discussion are made up as follows: 54% of 2002 vintage, 9% of 2003 vintage, and the remaining 37% of 2007 vintage.

Intesa Sanpaolo does not hold any stake in SPQR II S.r.l. but the company is consolidated since the Group has retained the majority of costs and benefits (SIC 12).

The table below sets out the information requested by Consob, with reference to 30 June 2009.

SPQR 2		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
SPQR II SRL (CBO 1)	Performing Loans & Rece	1,984	-	50	-	-	-	1,917	1,917	Loans <sup>(1)</sup>	Amortised cost
SPQR II SRL (CBO 2)	Performing Loans & Rece	1,376	-	100	-	-	-	1,330	1,330	Loans <sup>(1)</sup>	Amortised cost

(in millions of euro)

<sup>(1)</sup> BIIIS has reclassified these securities, originally classified as AFS, to the loans portfolio pursuant to paragraph 50E of the revised IAS 39. This reclassification was recorded in the Interim Statement as at 30 September 2008.

The assets of the vehicles are almost entirely made up of a portfolio of bonds issued by Italian public entities, with a nominal value of around 3 billion euro, sold to the vehicles by Banca OPI (now Banca

Infrastrutture, Innovazione e Sviluppo). The vehicles, in turn, issued senior and junior bonds; both types of securities were repurchased by BIIS, which designated the senior classes as collateral to its funding with the European Central Bank, via transactions conducted through the Parent Company Intesa Sanpaolo.

The incidence of total assets of securitisation SPEs with respect to the Group's total consolidated assets was approximately 0.5%.

Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the synthetic securitisation vehicle "Da Vinci" (to hedge and actively manage risk exposure in the aircraft and aeronautic sector).

As at 30 June 2009 the Intesa Sanpaolo Group's exposure to the vehicle Da Vinci amounted to 20 million euro (of which 2 million euro relating to debt securities and 18 million euro to guarantees issued).

### Financial Engineering SPEs

These SPEs make investments and funding which allow better risk/return combinations than those generated by standard transactions, due to their particular structure aimed at optimising accounting, tax and/or regulatory issues. These structures have been established to respond to the needs of primary customers and to provide solutions that offer financing at competitive interest rates and investments with higher returns.

Intesa Sanpaolo controls and consolidates Intesa Investimenti S.p.A., a company established to invest in quotas of Italian and international UCITS, in quotas and shares of other Italian and international entities and in Government securities of G7 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price; all assisted by swaps aimed at assuring an adequate profitability of the investment. Intesa Sanpaolo replicates every transaction, again with a repurchase agreement with Intesa Investimenti, whose shares are in turn the object of an analogous contract with investing customers. Currently the shareholders' equity of the company is entirely deposited with Intesa Sanpaolo.

The table below sets out the required information, with reference to 30 June 2009.

FINANCIAL ENGINEERING		Vehicle data		Liquidity lines		Guarantees given		Securities issued		of which: held by the Group	
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA INVESTIMENTI SPA	Financial Engineering	1,041	-	-	-	-	-	-	-	-	-

(in millions of euro)

The assets of the vehicle are almost entirely made up of term deposits with the Parent Company Intesa Sanpaolo.

Among SPEs of this type, Lunar Funding Plc, a vehicle set up in Ireland and used for repackaging operations by a leading bank, entered the scope of consolidation.

### Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.

Such vehicles are established by sponsor "entrepreneurs", mostly abroad to benefit from operating and legal/bureaucratic efficiency.

Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.

None of these SPEs is consolidated, since the Bank does not hold any stake or interest in the share capital of these companies and no presumed control assumptions apply. Where there are guarantees represented by pledges of shares of the SPE, contractual terms exclude the possibility of exercise of voting rights by the Bank.

### Asset Backed SPEs

These are transactions aimed at acquisition / construction / management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate disposal plan). Generally the assets are also the real guarantee for the financing obtained from the vehicle.

Intesa Sanpaolo has financed entities of this type, as normal borrowers, without any direct equity

investments or any other interests which might lead to presume the role of sponsor. The risk accepted is always a normal credit risk and the benefits are represented by the return on the financing granted. The Group consolidates only those entities in which it holds the majority of voting rights. The SPEs of this type are held solely by an international subsidiary (the volume of this type of assets amounted to approximately 112 million euro as at 30 June 2009).

#### **Leveraged & Acquisition Finance SPEs**

For the description of the transactions which involve these vehicles see the specific section dedicated to Leveraged Finance transactions.

#### **Credit Derivatives SPEs**

Credit derivatives are contracts which permit the synthetic transfer of credit risk of a specific borrower from the protection buyer to the protection seller. Especially in structures connected to synthetic securitisations, it is possible to achieve the transfer of credit risk of a portfolio of assets from a SPE to the Bank, both by the simple sale of protection derivatives or by the purchase of securities with embedded credit derivatives. In certain cases (e.g. monoline) the SPE is protection seller and offers the Bank the possibility of hedging risk on portfolios of assets.

There are never equity investments or other interests which might lead to the role of sponsor.

None of these SPEs is consolidated, since there are never any equity investments or forms of indirect control by the Bank. The relations with the parties are fundamentally based on the stipulation of derivative contracts or the acquisition of securities with embedded credit derivatives. This never leads to the transfer to the Bank of most of the risks and benefits deriving from the activities of the vehicle.

From the above, it is clear that the use of Special Purpose Entities is part of the ordinary operations of the Intesa Sanpaolo Group, for both funding and lending activities.

Such activities, performed both via consolidated SPEs, and with unconsolidated SPEs are qualitatively and quantitatively significant.

However, it must be underlined that this does not lead to risks which are appreciably higher than activities performed without the use of SPEs.

#### **DISCLOSURE ON INVESTMENTS IN HEDGE FUNDS**

As at 30 June 2009, the Hedge Funds portfolio totalled 658 million euro, compared to the 852 million euro recorded at year-end 2008. The decrease is due to disposals totalling 243 million euro.

As at the same date, the contribution of these investments to Profits (Losses) on trading was extremely positive: as at 30 June 2009, it was 61 million euro (including 8 million euro in the structured credit products disclosure). Of these net profits:

- 19 million euro refers to profits on trading of funds for the period (including 3 million euro in the structured credit products disclosure);
- 48 million euro arises from net valuation of positions remaining at the end of the quarter (including 5 million euro in the structured credit products disclosure);
- 6 million euro from other net charges.

Taking into account the net capital gains on the final residual amount (48 million euro), these are spread across 42 positions, 7 of which recording capital losses (-27 million euro) and 35 capital gains (75 million euro).

#### **LEVERAGED FINANCE TRANSACTIONS**

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.

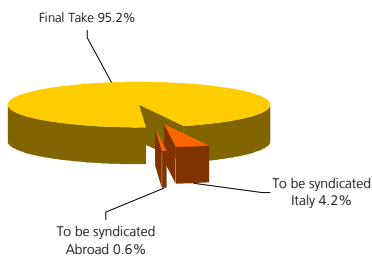
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or part acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's securities package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.

None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.

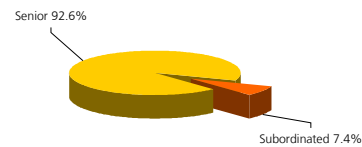
As at 30 June 2009, around 100 transactions, for a total amount granted of 5,042 million euro, met the above definition.

Such exposures are mostly classified in the loan portfolio. These also include the portions of syndicated loans underwritten or under syndication destined from the outset to be sold. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.

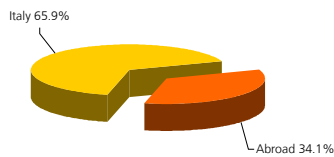
**Breakdown by type of risk**



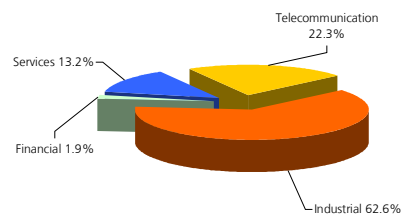
**Breakdown by subordination level**



**Breakdown by geographical area**



**Breakdown by economic sector**



### INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 June 2009, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, considering netting agreements, of 3,077 million euro (2,524 million euro as at 31 December 2008). The notional value of such derivatives totalled 49,007 million euro (47,076 million euro as at 31 December 2008). Of these, notional value of plain vanilla contracts was 35,762 million euro (32,590 million euro as at 31 December 2008), and of structured contracts was 13,245 million euro (14,486 million euro as at 31 December 2008).

Please note that the fair value of structured contracts outstanding with the 10 customers with the highest exposures was 201 million euro (221 million euro as at 31 December 2008). The same indicator, referred to the total contracts with a positive fair value, was 982 million euro.

Conversely, negative fair value determined with the same criteria, for the same types of contracts, with the same counterparties, totalled 425 million euro as at 30 June 2009 (443 million as at 31 December 2008). The notional value of such derivatives totalled 8,333 million euro (11,759 million euro as at 31 December 2008). Of these, notional value of plain vanilla contracts was 7,353 million euro (10,365 million euro as at 31 December 2008), and of structured contracts was 980 million euro (1,394 million euro as at 31 December 2008).

The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty (s.c. Credit Risk Adjustment). With regard to the contracts outstanding as at 30 June 2009, this implied the registration in the income statement, under profits (losses) on trading, of adjustments of 60 million euro, compared to the 65 million euro as at 31 December 2008, with a positive impact, during the period, of 5 million euro. Adjustments are recorded, for every single contract, on the market value determined using the risk free curves.

For the means used to calculate the aforesaid Credit Risk Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in the 2008 Annual Report.

Please note that contracts made up of combinations of more elementary derivative instruments have been considered “structured” and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

### TRADING BOOK

The activities for the quantification of trading risks are based on daily and period estimates of sensitivity 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;
- equity and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in issued bonds;
- correlation instruments;
- dividend derivatives;
- asset backed securities (ABSs);
- commodities.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 3% of the Group’s overall risk). In particular, the risk factors of the international subsidiaries’ trading portfolios were interest rates and foreign exchange rates, both relating to linear pay-offs.

For some of the abovementioned risk factors, the Supervisory authority validated the internal models for the regulatory measurement of capital absorption of both Intesa Sanpaolo (internal model extended during 2007 to the books of the former Sanpaolo IMI Finance Department) and Banca IMI (the internal model, previously validated for the former Banca Caboto component, was extended, in the first quarter of 2008, to the former Banca IMI portfolios).

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 UCITS solely with reference to the quotas in CPPI (Constant Proportion Portfolio Insurance) for Banca IMI, and (iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators, VaR being the most important one. 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 simulation of illiquid parameters.

In the second quarter of 2009, market risks generated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for the first quarter of 2009. The average VaR for the period totalled 43.6 million euro.

### Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI<sup>(a)</sup>

(in millions of euro)

	2009				2008			
	average 2 <sup>nd</sup> quarter	minimum 2 <sup>nd</sup> quarter	maximum 2 <sup>nd</sup> quarter	average 1 <sup>st</sup> quarter	average 4 <sup>th</sup> quarter	average 3 <sup>rd</sup> quarter	average 2 <sup>nd</sup> quarter	average 1 <sup>st</sup> quarter
Intesa Sanpaolo	27,9	25,5	29,5	32,3	42,1	31,5	37,9	29,4
Banca IMI	15,7	11,6	20,2	18,0	18,3	10,1	12,9	9,0
<b>Total</b>	<b>43,6</b>	<b>39,1</b>	<b>49,2</b>	<b>50,3</b>	<b>60,4</b>	<b>41,6</b>	<b>50,8</b>	<b>38,4</b>

<sup>(a)</sup> Each line in the table sets out past estimates of daily operational 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.

For Intesa Sanpaolo and Banca IMI the breakdown of risk profile in the second quarter of 2009 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 43% of total VaR; for Banca IMI interest rate risk was the most significant representing 37% of total VaR.

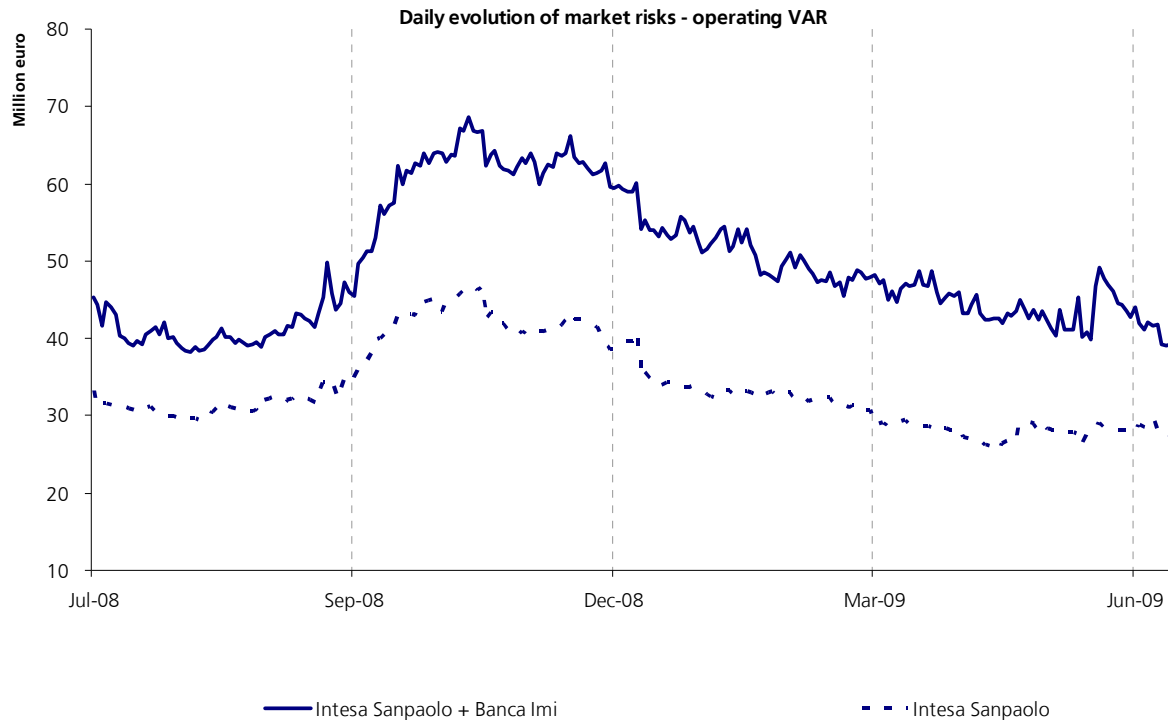
### Contribution of risk factors to operational VaR<sup>(a)</sup>

2 <sup>nd</sup> quarter 2009	Shares	Rates	Credit spread	Foreign Exchange	Hedge fund	Other parameters
Intesa Sanpaolo	7%	12%	11%	2%	43%	25%
Banca IMI	27%	37%	25%	3%	-	8%
<b>Total</b>	<b>16%</b>	<b>23%</b>	<b>18%</b>	<b>2%</b>	<b>24%</b>	<b>17%</b>

<sup>(a)</sup> 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 second quarter of 2009, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

Operational VaR in the last twelve months is set out below. The second quarter of 2009 recorded a drop in VaR, primarily from operations (a decrease in certain exposures and greater hedge effectiveness) and a different impact of volatilities on historic simulation scenarios. VaR rose at the beginning of June, specifically for Banca IMI, following the increased volatility of the interest rate market. The subsequent reduction of the risk during the month is attributable to the closing of some exposures.

As indicated in the chapter on balance sheet aggregates, a reclassification to LR (Loans & Receivables) was performed in October 2008, as permitted by IAS, on certain highly illiquid securities (mainly ABS). The average VaR in the second quarter of 2009 for this portfolio, not included in the VaR limit monitoring and the above statistics, was approximately 10.7 million euro.



Risk control with regard to the trading activities 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, foreign exchange rates and commodity prices are summarised in the following table.

In particular:

- on stock market positions, a bearish scenario, that is a 5% decrease in stock prices with a simultaneous 10% increase in volatility would have led to a 3 million euro gain; a bullish scenario, that is a 5% rise in stock prices with a simultaneous 10% decrease in volatility would have led to a 5 million euro loss;
- on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 10 million euro loss; whereas a parallel -25 basis point shift would have led to a 12 million euro gain;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 32 million euro loss, 12 million euro of which attributable to structured credit products; whereas a 25 basis point contraction of the spreads would have led to a 32 million euro gain, 12 million euro of which attributable to SCP;
- with regard to foreign exchange exposures, the portfolio would have recorded an 8 million euro gain in the event of exchange depreciation (-10%). The positive effect in case of foreign exchange appreciation (+10%) would be equal to 3 million euro;
- lastly, on commodity exposures a 2 million euro loss would have been recorded had there been a 50% increase in prices.

(in 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	3	-5	12	-10	32	-32	8	3	5	-2
of which SCP					12	-12				

In addition to ordinary stress tests, over the past few months, a series of stress tests were carried out on certain specific risk factors in order to identify potential risks in the trading portfolios which the VaR would be unable to fully identify. The results of these tests did not show any risks that may affect the Bank's capital.



## BANKING BOOK

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. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated mostly held by the Parent Company and by Equiter, IMI Investimenti, Intesa Sanpaolo Holding International and Private Equity International.

The following methods are used to measure financial risks of the Group's banking book:

- Value at Risk (VaR);
- Sensitivity analysis.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).

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, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of  $\pm 100$  basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer sight loans and 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 of  $\pm 100$  basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

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 one refers to the fair value hedge of assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to hedge against fair value changes intrinsic to 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 interest payment date.

Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on floating 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 the first half of 2009, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 470 million euro and 562 million euro at the end of June, almost entirely concentrated on the euro currency; these figures compare with 484 million euro at the end of 2008.

Sensitivity of the interest margin – in the event of a 100 basis point rise in interest rates – amounted to +120 million euro (–113 million euro in the event of reduction) at the end of June 2009; these values are in line with the 2008 year-end figures of +102 million euro and -92 million euro, respectively, in the event of an increase/decrease in interest rates.

Interest rate risk, measured in terms of VaR, averaged 155 million euro in the first half of 2009 (177 million euro at the end of 2008) and reached a value of 178 million euro at the end of June, which also was the peak value for the period (the minimum value was 86 million euro).

Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category, measured in terms of VaR, registered an average of 135 million euro (120 million euro at the end of 2008) in the first six months of 2009, with minimum and maximum value of respectively 87 million euro and 180 million euro. VaR at the end of June amounted to 157 million euro.

Lastly, a sensitivity analysis of the banking book to the price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows a sensitivity, for a negative shock of 10%, equal to -80 million euro at the end of June 2009.

## OPERATIONAL RISK

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risks include legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

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 current regulations, the Group's individual business units are involved, each assigned responsibilities for the identification, assessment, management and mitigation of its operational risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Group's Internal Model is designed to combine all the main quantitative (internal and external historical loss data) and qualitative information sources (Self-assessment: scenario analysis and operational environment assessment). The quantitative component is based on the assessment of historical data on internal and external events (including participation in consortium initiatives such as "Database Italiano Perdite Operative" – Italian Operational Loss Database – managed by the Italian Banking Association and Operational Riskdata eXchange Association).

The qualitative component focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured collection of subjective estimates with the aim of assessing relevant scenarios identified starting from the proprietary risk classification system based on the types of events provided for by Supervisory Regulations.

Capital at Risk is therefore identified as the minimum amount at Group level, net of insurance cover, required to bear the maximum potential loss (worst loss); 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 and qualitative figures with a 1-year holding period, and on a 99.96% confidence level (99.90% for the regulatory figure).

The Intesa Sanpaolo Group has activated a traditional operational risk transfer policy (insurance) with the objective of mitigating the effect of any unexpected losses, and thus contributing to the reduction of the Capital at Risk.

At the end of June the capital absorption for operational risks was determined with the Traditional Standardised Approach, with an approximate 2.3 billion euro incidence at Group level.

### Legal risks

There were no significant changes in legal risks in the first half of 2009 compared to the Intesa Sanpaolo Group Annual Report 2008, to which reference should be made for the main disputes currently in place.

As described therein, Banca Intesa Infrastrutture e Sviluppo, as the successor to Banca OPI, was involved in a case pending before the Court of Taranto brought by the Municipality of Taranto in relation to the subscription in May 2004 by Banca OPI for a 250,000,000 euro bond issued by this Municipality.

In its judgement of 27 April 2009, the Court declared the invalidity of the operation, ordering the Bank to reimburse, with interest, the partial repayments of the loan made by the Municipality of Taranto. The latter was ordered to reimburse, with interest, the loan granted. Lastly, the Court ordered compensation in favour of the Municipality, to be calculated by separate proceedings. Both parties appealed against the judgement. Moreover, the Bank requested the stay of enforcement of the judgement and brought a case for negative clearance.

According to the legal firms assisting BIIS, there are valid grounds to believe that the first level judgement will be modified.

## INSURANCE RISKS

### Life Business

The typical risks of a life insurance portfolio can be divided into three main categories: premium risk, life underwriting risk and reserve risk.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including liabilities).

Actuarial and demographic risks are guarded against by a regular statistical analysis of the evolution of liabilities, divided by type of risks and through simulations of expected profitability on the assets which cover technical reserves.

Reserve risk is managed through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.

The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

### Non-life business

The risks of non-life insurance portfolio are essentially premium risk and reserve risk.

Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including liabilities).

Reserve risk is guarded against through the exact calculation of technical reserves.

### ALM and financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling risk-based capital.

With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Policy is the control and monitoring instrument for market and credit risks.

The Policy defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk on a 1-year holding period.

In order to measure and manage all risks (underwriting and financial), a simulation tool, named Financial Analysis Program (FAP), is also used with the aim of measuring the intrinsic value, fair value of the liabilities and economic capital. The FAP is based on a dynamic Asset Liability Management (ALM) model and, through this engine, it fully recognises the sensitivity of liabilities to changes in market risk factors and permits an effective management of hedging assets.

### Investment portfolios

The investments of the Intesa Sanpaolo Group companies operating in the insurance segment are made with their free capital and to cover the contractual obligations with customers. These essentially refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

At 30 June 2009 the investment portfolios of Group companies, recorded at book value, amounted to 44,834 million euro; of these, the share regarding traditional revaluable life policies, non-life policies and free capital (Class C portfolio or portfolio at risk) amounted to 17,281 million euro, while the other component (Class D portfolio or portfolio with total risk retained by the insured) mostly comprised investments related to pension funds, index- and unit-linked policies and totalled 27,553 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets included in the "at-risk portfolio".

In terms of breakdown by asset class, net of derivative positions, 95% of assets, i.e. approximately 16,485 million euro, were bonds, while assets subject to equity risk represented 4.5% of the total and amounted to 783 million euro. The remaining part (119 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (0.5%).

The fair value of derivatives was -106 million euro, of which -95 million euro in hedging derivatives and -11 million euro in other derivatives.

At the end of the first half of 2009, investments of EurizonVita and SudPoloVita free capital amounted to approximately 1,037 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) equal to 19.2 million euro.

The Modified duration of the bond portfolio, calculated by means of the sensitivity to uniform and parallel variations of the interest rate curve of  $\pm 25$  basis points, is 4.2 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of 4 years. The related portfolios of assets have a modified duration of around 3.6 years.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 bp parallel shift in the curve leads to a decrease of approximately 734 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 117 million euro rise which partly offsets the corresponding loss on the bonds.

The investment portfolio had a high credit rating. AAA/AA bonds represented approximately 79.5% of total investments and A bonds approximately 12.5%. Low investment grade securities (BBB) accounted for approximately 2.5% of the total and the portion of speculative grade or unrated securities was minimum (approximately 0.5%).

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks represented approximately 75% of the total investments, while financial companies (mostly banks) contributed almost 15% of exposure and industrial securities made up approximately 5%.

At the end of the first half of 2009, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was -940 million euro and was due to government issuers (-676 million euro) and corporate issuers, being financial institutions and industrial companies (-264 million euro).