INTESA SANPAOLO

# Interim Statement as at 31 March 2014

*This is an English translation of the Italian language original "Resoconto intermedio al 31 marzo 2014" that has been prepared solely for the convenience of the reader. The Italian language original "Resoconto intermedio al 31 marzo 2014" was approved by the Management Board of Intesa Sanpaolo on 15 May 2014 and is available on group.intesasanpaolo.com*

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

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

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

# Interim Statement as at 31 March 2014

**Intesa Sanpaolo S.p.A.**
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8,549,266,378.64 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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# The Intesa Sanpaolo Group

# The Intesa Sanpaolo Group: presence in Italy

## Banks

INTESA SANPAOLO

BANCA CR FIRENZE | BANCA DELL'ADRIATICO | BANCA DI CREDITO SARDO | BANCA DI TRENTO E BOLZANO / BANK FÜR TRIENT UND BOZEN

Banca FIDEURAM | BANCA IMI | BANCA MONTE PARMA | BANCA PROSSIMA PER LE IMPRESE SOCIALI E LE COMUNITÀ

BANCO DI NAPOLI | CASSA DEI RISPARMI DI FORLÌ E DELLA ROMAGNA | CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA | CASSA DI RISPARMIO DEL VENETO

CASSA DI RISPARMIO DI VENEZIA | CARISBO | INTESA SANPAOLO PRIVATE BANKING | MEDIOCREDITO ITALIANO

**NORTH WEST**

| INTESA SANPAOLO | Subsidiaries | |
|---|---|---|
| Branches | Company | Branches |
| 1,405 | Intesa Sanpaolo Private Banking | 56 |
| | Banca Fideuram | 37 |
| | Banca Prossima | 20 |
| | Mediocredito Italiano | 2 |
| | Banca IMI | 1 |
| | CR del Veneto | 1 |

**NORTH EAST**

| INTESA SANPAOLO | Subsidiaries | |
|---|---|---|
| Branches | Company | Branches |
| 25 | CR del Veneto | 371 |
| | CR in Bologna | 177 |
| | CR del Friuli Venezia Giulia | 114 |
| | CR Venezia | 96 |
| | CR di Forlì e della Romagna | 93 |
| | Banca di Trento e Bolzano | 74 |
| | Banca Monte Parma | 67 |
| | Intesa Sanpaolo Private Banking | 38 |
| | Banca Fideuram | 22 |
| | Banca Prossima | 14 |
| | Mediocredito Italiano | 2 |

**CENTRE**

| INTESA SANPAOLO | Subsidiaries | |
|---|---|---|
| Branches | Company | Branches |
| 237 | Banca CR Firenze | 575 |
| | Banca dell'Adriatico | 120 |
| | Intesa Sanpaolo Private Banking | 23 |
| | Banca Fideuram | 22 |
| | Banca Prossima | 7 |
| | Banco di Napoli | 3 |
| | Mediocredito Italiano | 2 |

**SOUTH**

| INTESA SANPAOLO | Subsidiaries | |
|---|---|---|
| Branches | Company | Branches |
| 8 | Banco di Napoli | 652 |
| | Banca dell'Adriatico | 101 |
| | Intesa Sanpaolo Private Banking | 18 |
| | Banca Prossima | 15 |
| | Banca Fideuram | 11 |
| | Mediocredito Italiano | 2 |

**ISLANDS**

| INTESA SANPAOLO | Subsidiaries | |
|---|---|---|
| Branches | Company | Branches |
| 160 | Banca di Credito Sardo | 89 |
| | Banca Prossima | 9 |
| | Banca Fideuram | 5 |
| | Intesa Sanpaolo Private Banking | 5 |
| | Mediocredito Italiano | 1 |

*Figures as at 31 March 2014*

## Product Companies

INTESA SANPAOLO VITA

*Bancassurance*

INTESA SANPAOLO PREVIDENZA

*Pension Funds*

EurizonCapital

*Asset Management*

SIREFID

*Fiduciary Services*

INTESA SANPAOLO PERSONAL FINANCE

*Consumer Credit*

SETEFI

*Electronic Payments*

MEDIOFACTORING

*Factoring*

# The Intesa Sanpaolo Group: international presence

## Banks, Branches and Representative Offices

INTESA SANPAOLO

ALEXBANK بنك الإسكندرية

BANCA DI TRENTO E BOLZANO | BANK FÜR TRIENT UND BOZEN

Banca FIDEURAM

BANCA IMI

BANCA INTESA

BANCA INTESA Beograd

BANKA KOPER

CIB BANK

INTESA SANPAOLO BANK Albania

INTESA SANPAOLO BANK Romania

INTESA SANPAOLO BANKA Bosna i Hercegovina

INTESA SANPAOLO BANK IRELAND

INTESA SANPAOLO PRIVATE BANK SUISSE

PRAVEX-BANK

PRIVREDNA BANKA ZAGREB

Société Européenne de Banque

VÚB BANKA

**AMERICA**

| Direct Branches | Representative Offices |
|---|---|
| George Town | Santiago |
| New York | São Paulo |

**OCEANIA**

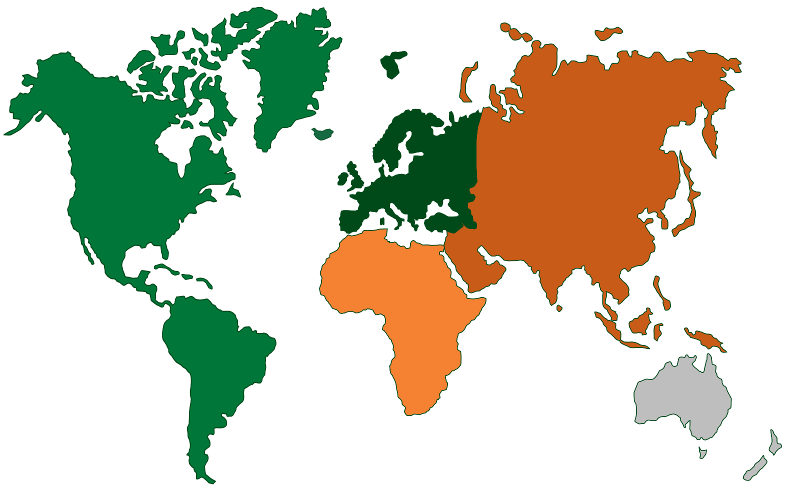
| Representative Offices |
|---|
| Sydney |

**ASIA**

| Direct Branches | Representative Offices |
|---|---|
| Dubai | Abu Dhabi |
| Hong Kong | Beijing |
| Shanghai | Beirut |
| Singapore | Ho Chi Minh City |
| Tokyo | Mumbai |
| | Seoul |

**EUROPE**

| Direct Branches | Representative Offices |
|---|---|
| Amsterdam | Athens |
| Frankfurt | Brussels(2) |
| Innsbruck(1) | Istanbul |
| London | Moscow |
| Madrid | Stockholm |
| Paris | |
| Warsaw | |



| Country | Subsidiaries | Branches |
|---|---|---|
| Albania | Intesa Sanpaolo Bank Albania | 32 |
| Bosnia and Herzegovina | Intesa Sanpaolo Banka Bosna i Hercegovina | 51 |
| Croatia | Privredna Banka Zagreb | 202 |
| Czech Republic | VUB Banka | 1 |
| Hungary | CIB Bank | 95 |
| Ireland | Intesa Sanpaolo Bank Ireland | 1 |
| Luxembourg | Banca Fideuram | 1 |
| | Société Européenne de Banque (SEB) | 1 |
| Romania | Intesa Sanpaolo Bank Romania | 76 |
| Russian Federation | Banca Intesa | 66 |
| Serbia | Banca Intesa Beograd | 192 |
| Slovakia | VUB Banka | 235 |
| Slovenia | Banka Koper | 52 |
| Switzerland | Intesa Sanpaolo Private Bank (Suisse) | 1 |
| Ukraine | Pravex-Bank(3) | 260 |
| United Kingdom | Banca IMI | 1 |

**AFRICA**

| Representative Offices | Country | Subsidiaries | Branches |
|---|---|---|---|
| Cairo | Egypt | Bank of Alexandria | 173 |
| Casablanca | | | |
| Tunis | | | |

*Figures as at 31 March 2014*

*(1) Branch of Italian subsidiary Banca di Trento e Bolzano*

*(2) International Regulatory and Antitrust Affairs and Intesa Sanpaolo Eurodesk*

*(3) In January 2014 an agreement was signed for the sale of 100% of Pravex-Bank. Finalisation of the transaction is subject to regulatory approval*

## Product Companies

CONSUMER FINANCE HOLDING — INTESA SANPAOLO CARD

*Consumer Credit, E-money and Payment Systems*

CIB INVESTMENT FUND MANAGEMENT — EurizonCapital s.a. — FIDEURAM Asset Management (Ireland) — PBZ INVEST — VÚB ASSET MANAGEMENT

*Asset Management*

CIB LEASING — INTESA LEASING Beograd — PBZ LEASING — VÚB LEASING

*Leasing*

INTESA SANPAOLO LIFE

*Insurance*

# Supervisory Board, Management Board, Manager responsible for preparing the Company's financial reports and Independent Auditors

## Supervisory Board

| | |
|---|---|
| Chairman | Giovanni BAZOLI |
| Deputy Chairpersons | Mario BERTOLISSI<br>Gianfranco CARBONATO |
| Members | Gianluigi BACCOLINI<br>Francesco BIANCHI<br>Rosalba CASIRAGHI<br>Carlo CORRADINI<br>Franco DALLA SEGA<br>Piergiuseppe DOLCINI<br>Jean-Paul FITOUSSI<br>Edoardo GAFFEO<br>Pietro GARIBALDI<br>Rossella LOCATELLI<br>Giulio Stefano LUBATTI<br>Marco MANGIAGALLI<br>Iacopo MAZZEI<br>Beatrice RAMASCO<br>Marcella SARALE<br>Monica SCHIRALDI |

## Management Board

| | |
|---|---|
| Chairman | Gian Maria GROS-PIETRO |
| Senior Deputy Chairperson | Marcello SALA |
| Deputy Chairperson | Giovanni COSTA |
| Managing Director and Chief Executive Officer | Carlo MESSINA (*) |
| Members | Carla Patrizia FERRARI<br>Piera FILIPPI<br>Gaetano MICCICHE' (*)<br>Francesco MICHELI (**)<br>Giuseppe MORBIDELLI<br>Bruno PICCA |

| | |
|---|---|
| **Manager responsible for preparing the Company's financial reports** | Ernesto RIVA |
| **Independent Auditors** | KPMG S.p.A. |

(*) General Managers
(**) Resigned from the Management Board with effect from 15 May 2014

# Overview of the first quarter 2014

# Income statement figures and alternative performance measures

**Consolidated income statement figures** (millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes amount | Changes % |
|---|---|---|---|---|
| Net interest income | 2,100 | 2,017 | 83 | 4.1 |
| Net fee and commission income | 1,584 | 1,462 | 122 | 8.3 |
| Profits (losses) on trading | 151 | 454 | -303 | -66.7 |
| Income from insurance business | 251 | 230 | 21 | 9.1 |
| Operating income | 4,108 | 4,108 | - | - |
| Operating costs | -2,086 | -2,083 | 3 | 0.1 |
| Operating margin | 2,022 | 2,025 | -3 | -0.1 |
| Net adjustments to loans | -1,077 | -1,158 | -81 | -7.0 |
| Income after tax from discontinued operations | -13 | -10 | 3 | 30.0 |
| Net income (loss) | 503 | 306 | 197 | 64.4 |

**Main income statement figures by business area** (millions of euro)

| | Operating income 31.03.2014 | Operating income 31.03.2013 | Operating costs 31.03.2014 | Operating costs 31.03.2013 |
|---|---|---|---|---|
| Banca dei Territori | 2,863 | 2,805 | 1,357 | 1,363 |
| Corporate and Invest. Banking | 886 | 992 | 213 | 203 |
| International Subsidiary Banks | 509 | 508 | 259 | 274 |
| Eurizon Capital | 95 | 74 | 28 | 26 |
| Banca Fideuram | 240 | 195 | 80 | 81 |

| | Operating margin 31.03.2014 | Operating margin 31.03.2013 | Net income (loss) 31.03.2014 | Net income (loss) 31.03.2013 |
|---|---|---|---|---|
| Banca dei Territori | 1,506 | 1,442 | 361 | 226 |
| Corporate and Invest. Banking | 673 | 789 | 413 | 454 |
| International Subsidiary Banks | 250 | 234 | 85 | 47 |
| Eurizon Capital | 67 | 48 | 42 | 28 |
| Banca Fideuram | 160 | 114 | 78 | 57 |

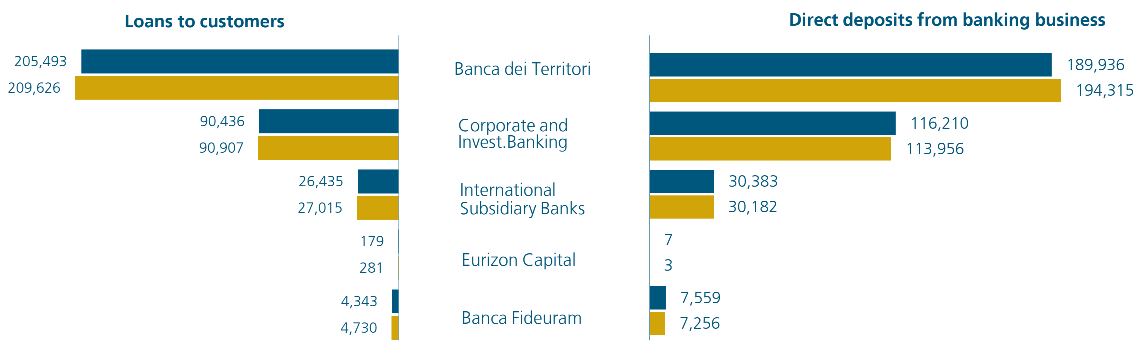
Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

31.03.2014
31.03.2013

# Balance sheet figures and alternative performance measures

| **Consolidated balance sheet figures** (millions of euro) | 31.03.2014 | 31.12.2013 | Changes amount | Changes % |
|---|---|---|---|---|
| Financial assets | 203,967 | 202,105 | 1,862 | 0.9 |
| *of which: Insurance Companies* | *93,471* | *89,905* | *3,566* | *4.0* |
| Loans to customers | 339,020 | 343,789 | -4,769 | -1.4 |
| Total assets | 625,133 | 624,179 | 954 | 0.2 |
| Direct deposits from banking business | 372,470 | 372,066 | 404 | 0.1 |
| Direct deposits from insurance business and technical reserves | 99,203 | 93,493 | 5,710 | 6.1 |
| Indirect deposits: | 442,660 | 430,287 | 12,373 | 2.9 |
| *of which: Assets under management* | *269,869* | *258,570* | *11,299* | *4.4* |
| Shareholders' equity | 45,007 | 44,520 | 487 | 1.1 |

**Main balance sheet figures by business area** (millions of euro)




| **Operating structure** | 31.03.2014 | 31.12.2013 | Changes amount |
|---|---|---|---|
| **Number of employees** | **89,989** | **90,245** | **-256** |
| Italy | 65,140 | 65,247 | -107 |
| Abroad | 24,849 | 24,998 | -149 |
| **Number of financial advisors** | **5,060** | **5,104** | **-44** |
| **Number of branches** [a] | **6,134** | **6,227** | **-93** |
| Italy | 4,680 | 4,766 | -86 |
| Abroad | 1,454 | 1,461 | -7 |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[a] Including Retail Branches, Private Banking Branches, SME Branches and Corporate Branches.

# Other alternative performance measures

**Consolidated profitability ratios** (%)


**Earnings per share** (euro)


Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

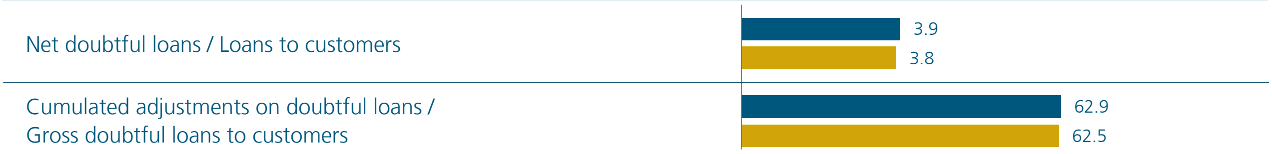
(a) Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period with the exception of non-recurring components, has been annualised.

(b) Net income (loss) attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares. The figure for comparison is not restated.

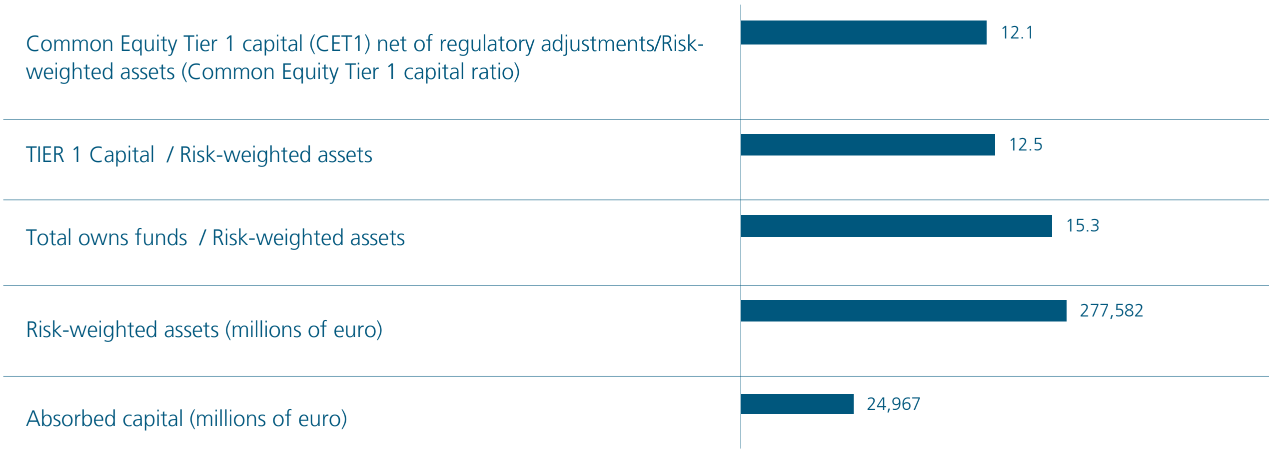
(c) The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

31.03.2014
31.03.2013

## Consolidated risk ratios (%)

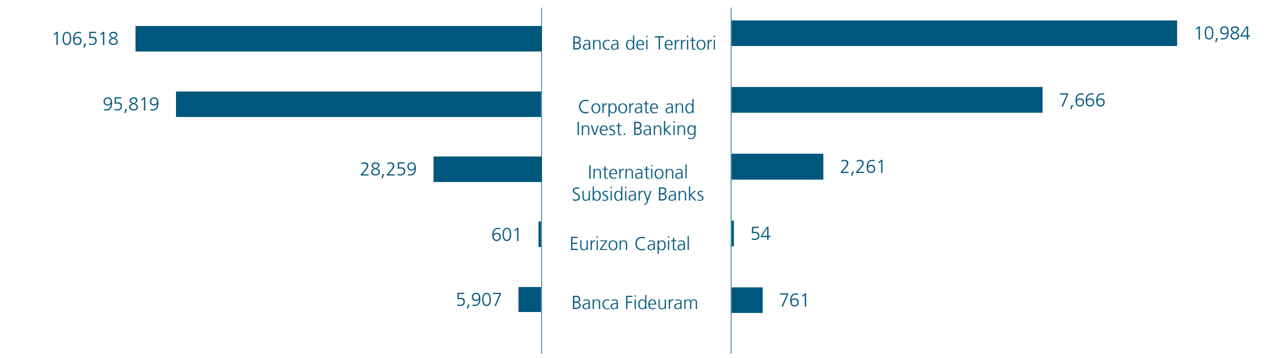



## Consolidated capital ratios (%) [d]




## Risk-weighted assets by sector [d] (millions of euro)

## Absorbed capital by sector [d] (millions of euro)




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[d] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

# Executive summary

## The macroeconomic context

### The economy and the financial and currency markets

The economic indicators suggest that the global economy continued to expand also in the first quarter of 2014. The United States maintained its driving role, even if weather conditions worse than the seasonal average led to a temporary slowdown in economic activities. Overall, growth is being recorded in the absence of inflationary pressure.
The Eurozone continued its gradual recovery from the 2012-13 recession, now also sustained by domestic demand as well as by exports. The recovery became more widespread among the various member states, but the pace has remained modest and only in certain countries has production growth translated into a rise in employment.
Italy is among the European countries in which economic recovery is slower. Industrial production, in fact, recorded annual increases of less than one percentage point. The improved cyclical scenario has only been fostered by foreign demand, in a context still characterised by weak domestic demand. Nevertheless, the climate of confidence among businesses and households has improved further in the first few months of the year across all sectors except construction, and the first signs have been seen of a strengthening of domestic orders for capital goods.

The monetary policies followed the tracks set in previous months, with no significant new developments. The Federal Reserve began its planned reduction in securities purchases, without this leading to further increases in medium/long-term rates compared to the end of 2013. Conversely, government securities yields declined in January, then on average remained stable. The European Central Bank kept official rates steady, but without excluding the possibility of new decreases over the next few months. The ECB also forecast a long period of rates equal to, or lower than, current rates, but cannot exclude the adoption of extraordinary measures (including financial asset purchases, new refinancing transactions, penalties on surplus reserves). The accommodating approach adopted by the ECB has facilitated the stability of forecasts for money market rates and, consequently, for medium/long-term rates. The Euribor and Eonia rates, on the other hand, experienced a moderate rise (+3bp on the quarterly rate). This reflects the gradual reabsorption of excess liquidity following the voluntary repayment of the two three-year refinancing transactions of December 2011 and February 2012.
The outlook for investors in countries affected by the debt crisis between 2010 and 2011 has continued to improve. Italy and Spain, but also countries that were beneficiaries of bailout programmes, have benefited from capital inflows that have placed a squeeze on risk premiums (-43 basis points for the Italian ten-year maturity). Returns have also fallen in absolute terms as a result of the decrease also seen, at the same time, in Germany's debt (-37 basis points on the ten-year maturity).

The international stock markets overall began 2014 on the same good note seen at the end of 2013, in a gradually normalising economic and financial scenario. Investors' interest has focused in particular on the Eurozone markets, anticipating a gradual strengthening of the economic recovery in this area during 2014.
"Peripheral" country indicators (Spain, and especially Italy) have performed better than the "core" countries (Germany and France) in a context of stronger risk appetite of investors and growing attention on fundamentals performance.
Stock markets in the Eurozone have also continued to draw support from the ECB's expansive monetary policy, despite the high euro/dollar exchange rate and fears associated with the risks of deflation.
New concerns by investors have emerged, however, as regards the stock markets of emerging countries, penalised by uncertainties over the intensity of economic growth and exchange rate performances. The Japanese market has also been penalised by the forecast of a tighter fiscal policy.
In February, the political crisis in Ukraine, Russia's reaction and the economic sanctions adopted by the European Union and the United States have led to profit taking on the markets and strong volatility of the international stock indices.
The S&P 500 index rose by 1.3% at the end of March. The major Asian stock markets showed negative performance levels: the Chinese benchmark SSE A-Share index closed the first quarter down -3.9%, with a slowdown of the forecast growth rate, whilst the Nikkei 225 index declined 9% at the end of March as a result of fears about the effects of the tax squeeze on consumption.
In Europe, the Euro Stoxx 50 index closed the quarter slightly up (+1.7%). The CAC 40 appreciated slightly (+2.2%), whilst the Dax 30 remained unchanged throughout the period. The Spanish stock market closed on positive ground, with the IBEX 35 recording +4.3% at the end of March. Outside the Eurozone, the Swiss market SMI index showed a recovery of 3.1% for the quarter. The British stock market was down, however, with the FTSE 100 index at -2.2% at period end.
The Italian stock market's performance was much better than those of the major European and international markets. The upturn was driven by the first signs of the country's economic recovery, the narrowing of spreads and the returns on government securities, and by developments on the political front that fostered hopes of a relaunch of the institutional reform process. The FTSE MIB index closed the quarter up 14.4%, particularly driven by the banking and utilities segments. A similar rise was recorded by the FTSE Italia All Share index, up 14.6% at the end of March. Slightly better the performance of mid caps, with the FTSE Italia STAR index up 16.3% at the end of the quarter.

In the corporate segment, European credit markets closed the first three months of the year with a positive performance in the cash segment, especially among the higher risk asset classes, whilst the derivatives segment recorded a slight widening of the spreads. As in 2013, in the first quarter of 2014 the credit market performance was sustained by expansive monetary policies of the central banks, the resulting abundance of market liquidity, investors' search for yields and by improved credit quality.

After a positive start to the quarter, towards the end of January the bond markets saw an increase in volatility and renewed risk aversion due to fears concerning emerging countries, penalised by the start of tapering by the Federal Reserve and by worries about the solidity of China's growth. These fears were later calmed, also as a result of intervention by the central banks in a number of these countries. Conversely, the effect of the recent tension between Russia and Ukraine has so far been fairly limited, without resulting in significant changes in volatility and spreads.

During the quarter, the positive performance of the investment grade segment affected both financial and industrial securities. The speculative grade segment was even more positive, benefitting from a stronger risk appetite and the constant search for yields by investors, with sharper tightening in classes with lower creditworthiness. On the other hand, the periodic rebalancing of the iTraxx indices affected the weak performance of the derivatives segment.

Note that after a more than positive 2013, the first few months of 2014 continued to see a vigorous investment grade segment on the primary market, with sustained speculative grade issues. In particular, the latter continued to benefit on the one hand from investors' search for yields, and on the other hand from issuers' need for recourse to the primary market rather than bank debt, at the same time benefiting from accommodating monetary policies of the European Central Bank and the Federal Reserve.

## The emerging economies and markets

For the emerging economies, the cyclical indicators recorded an economic activity performance in the first few months of 2014 that was essentially in line with that seen in the last quarter of 2013. Based on the most recent figures, mostly referring to events in February, the annual growth in industrial production for a sample representing 75% of GDP in emerging countries was 4.2%, the same rate recorded three months earlier. The slowdown seen in China and Russia was offset by a more sustained performance in Brazil, India and – as a result of the recovery of the manufacturing cycle in Europe – in several CEE/SEE countries.

On the whole, the pressure on prices was limited. The annual inflation rate for the same sample of countries dropped to 4.4% in March 2014 from 4.8% in December 2013. Following prompt action by the respective central banks, inflation overall declined in the main Asian markets (China, India and Indonesia) and in other areas that saw upward pressure. With reference to the countries with ISP subsidiaries, the price performance in March slowed once again in the CEE/SEE area (declining in Slovakia and Croatia) and halted again in Egypt (at 9.8%, down from 11.7% in December 2013), whereas it accelerated in Russia (to 6.9%) and Ukraine (to 3.4%).

To offset downward pressure in exchange rates and, in certain scenarios, to slow persisting price drivers, in the first few weeks of 2014 the benchmark rates were increased by the central banks of Russia (from 5.5% to 7%), Brazil (from 10% to 11%), India (+0.25% in January) and Turkey (which pushed up the maximum rate from 7.75% to 12%).

After the end of the first quarter, in mid-April Ukraine in turn increased its benchmark rate by 300 basis points to 9.5%. In CEE and SEE countries, on the other hand, the monetary easing phase continued, encouraged by confirmation of the accommodating approach of the European Central Bank, with further cuts in benchmark rates between January and March in Romania and Hungary.

On the financial markets, from January to March 2014 the MSCI (Morgan Stanley Capital International) share index for emerging countries fell by 0.9%, penalised by the weakness of the BRICs, with Shanghai at -3.9%, Moscow at -15% and Sao Paulo at -2% following the downward turn in growth prospects and the increase in benchmark interest rates in the countries concerned. Consistent increases, however, were recorded in the Gulf countries and, among the countries in which the Intesa Sanpaolo Group companies operate, in Egypt (+15%) and in Slovenia and Slovakia (both gaining by around 9%).

In the first quarter of 2014 the US dollar appreciated further compared to emerging currencies as a whole (the OITP index – Other Important Trading Partners – at +1%), with consistent gains against the Hryvnia (38%) and the Ruble (9%) (currencies affected by deterioration in the political crisis between Ukraine and Russia) but also – for the first time – against the Renmimbi (2.7%). In Central and South-Eastern European countries with ISP subsidiaries, the Hungarian forint depreciated by approximately 3% against the euro, whilst other currencies remained relatively stable.

On the bond markets, the EMBI – Emerging Market Bond Index fell slightly (-7 basis points over the quarter). In countries with ISP subsidiaries, political tension has led to a widening of spreads and sovereign debt rating downgrades for Ukraine (to CCC by S&P and Fitch) and Russia (S&P introduced a negative outlook on the BBB rating). In other CEE/SEE countries, in parallel with those of countries peripheral to the Eurozone, the spreads instead saw a general narrowing, as a result of the improvement in growth prospects and in financial vulnerability conditions.

## The banking system

### Rates and spreads

At the beginning of 2014 there was a further reduction in the overall cost of the stock of deposits, followed by relative stabilisation for the rest of the quarter, to reach the minimum levels of summer 2011. The decline in rates has affected both the current accounts and the balances of time deposits. The quarter also saw the start of a gradual decline in the average rate on the stock of bonds, after remaining particular sticky in previous months. At the same time, the marginal cost of fixed-rate bond issues remained constantly below 3%, against an average for the period of 2.7% that represents the lowest since the second quarter of 2010. Consequently, and as a result of the general drop in rates in individual elements of customer deposits and the continuous decrease in the impact of bonds, the expansive phase continued in the cost of bank funding as a whole.

By contrast, rates on loans continued to be largely unyielding due to the ongoing high credit risk. The rates on new loans to non-financial companies in the first few months of 2014 were essentially in line with the average for the last quarter of 2013. The decline in the average rate continued, however, on new mortgage loans to households, a sign of more expansive credit terms. Rates on outstanding loans also remained unyielding as already seen throughout 2013. In particular, in the first quarter of 2014 the average rate on the stock of loans to households and businesses was slightly higher than in the previous year, mostly due to the effect of the small increase at the start of the year in the average rate applied to non-financial companies.

Thanks to the drop in the cost of funding and to the stickiness of rates on loans, the overall margin on lending and deposit collection activities continued its upward trend also in the first quarter, after the progress made in 2013. The spread between average rates on loans and deposits rose above 2.2% (2.23% on average in the first quarter of 2014, +33 basis points compared to the same period of 2013 and +13 basis points on the previous quarter). The spread on deposits, measures on short-term interest rates, remained in negative territory, but also the first part of 2014 confirmed the gradual recovery (mark-down[1] of the 1-month Euribor at -0.15% in the first quarter, from -0.38% in the same period of 2013 and -0.26% in the last three months of 2013). The mark-up[2] on the 1-month Euribor has remained high, though slightly lower than the average for the previous quarter and all of 2013 (4.92% in the first quarter of 2014, from 5.01% on average in 2013 and 4.97% in the fourth quarter).

### Loans

Lending activity remained very weak. Loans to non-financial companies recorded a slightly less marked decrease than that seen in the last quarter of 2013, which had been affected, however, by the negative peak in November. The significant decline in short-term and in medium/long-term loans continued, confirming a considerable reduction that reached a new low in March. Also in the first few months of the year the decrease in loans was more marked for large corporates than for small companies, as already seen in the last four months of 2013. Loans to households continued to record a very limited decrease, the same as that seen in the mortgage loans segment which confirmed the trend of the end of 2013. Overall, private sector loans recorded a slightly slower decline than that recorded in the final part of 2013.

The decrease in loans continued to be affected by weak demand. However, according to banks' assessments the demand showed signs of improvement during the quarter, halting the decline of that from businesses and with a rise in the applications for mortgage loans from households. Nevertheless, on the supply side, perceived risk associated with the still uncertain forecasts for the economy in general and in particular sectors and businesses continued to weigh heavily. In the first few months of the year, the growth in gross doubtful loans settled at a rate of around 24% yoy as seen at the end of 2013, though it does show preliminary signs of a slowdown. As a ratio of total loans, the stock of doubtful loans has reached 8.5%. Therefore, the bank lending market has maintained a highly prudent attitude, although recording an improvement in the impressions of businesses with respect to credit access conditions.

### Direct deposits

Bank funding as a whole fell slightly during the quarter, essentially in line with the figures for the end of 2013. The trend for deposits by residents continued to record growth, though at a more modest pace that compares less well with the good trend recorded in 2013. This trend benefited from the solidity of household deposits, despite their having slowed, and the dynamic trend in deposits by non-financial companies, which during the quarter again achieved double digit growth rates before decelerating considerably in March. The moderate growth in current accounts, which continued at the slower pace recorded at the end of 2013, contributed to the steady deposits. In the meantime, time deposits confirmed a consolidation phase. Compared to the previous year, the volume of time deposits continued to slow, as expected, compared to the exceptional growth rates recorded throughout the strong development phase.

The widespread decline in the stock of bank bonds continued. The bonds trend was again affected by the portfolio reallocation processes of domestic customers. On the other hand, Italian banks continued to issue bonds on the international wholesale market.

[1] Difference between the 1-month Euribor and interest rates on household and business current accounts.

[2] Difference between the interest rates applied to households and businesses on loans with maturity under one year and the 1-month Euribor.

### Indirect deposits and asset management

With regard to assets under administration, the decline in debt securities held in custody by banks for customers continued at a pace in line with the last few months of the previous year, but slower than the rest of 2013. This performance was also impacted by the constant decline of bank bonds and the phase of considerable interest in mutual funds.
With regard to assets under management, the Italian market for open-ended mutual funds, after a record 2013, started 2014 with a highly positive inflow balance in the first quarter. Net inflows for the quarter were largely sustained by subscriptions to flexible funds and saw the return to a positive figure in bond funds after a second half of 2013 in which redemptions prevailed. The inflows also targeted equity funds and balanced funds, whilst liquidity funds once again recorded a negative net balance. Italian funds started the year still in positive territory, but international funds accounted for most of the total inflows.
As regards insurance, following on the previous year's results, the first three months of 2014 recorded a further growth of new Life business. The positive result was achieved thanks to the particularly steady performance of traditional policies whereas, as in the second half of 2013, the linked policies with a higher financial content recorded a decline in new contracts during the quarter despite a partial recovery in March.

## Intesa Sanpaolo in the first three months of 2014

### Consolidated results

As already mentioned, the macroeconomic scenario of the first quarter of 2014 in Italy was characterised by timid signs of recovery, though slower than in other Eurozone countries and driven mainly by exports, in a context in which domestic demand is still weak. In the period, the Intesa Sanpaolo Group achieved satisfactory economic results, both as a whole and in comparing its various revenue and cost components with those of the same period last year and of the fourth quarter of 2013. In fact, the income statement as at 31 March 2014 closed with a net income of 503 million euro, compared to 306 million euro in the first quarter of the previous year. In particular, operating income was the same as that of the previous year, but its quality was better in that the contribution from fee and commission income increased, whilst there was a strong decrease in trading, a component structurally subject to strong volatility and which in the previous period recorded a particularly high figure following the capital gains achieved in correspondence with the financial markets recovery. The contribution from the companies consolidated at equity and that of the insurance segment also improved.
The operating margin also remained in line with the first three months of 2013. The slight increase in personnel expenses, attributable to the adoption of innovative incentive systems as part of the Business Plan, was almost entirely absorbed by the lower administrative expenses and the decrease in adjustments. The income before tax from continuing operations benefited from the reduced requirement for adjustments. The stability of income, associated with the stability of costs and lower adjustments, allowed a pre-tax income up 22.5% on the first quarter of the previous year.

A detailed breakdown of operating income items shows that the income statement for the first quarter recorded net interest income of 2,100 million euro, up 4.1% compared to the first quarter of 2013, relating to the increase in customer dealing which more than offset the drop in volumes.
The services segment generated net fee and commission income of 1,584 million euro, up by 8.3%, mainly driven by the positive contribution from financial instrument dealing and management activities (around +23%) which also benefited from the persistently better performance of the financial markets.
Profits on trading amounted to 151 million euro, compared to 454 million euro in the first quarter of 2013, mainly attributable to the lower contribution from trading on AFS securities and financial liabilities.
Income from insurance business, which aggregates specific costs and revenues of the insurance business of the Group companies operating in the life and non-life segments, amounted to 251 million euro (approximately +9%), due to the higher net investment result.
As a result of the above trends, operating income for the first quarter of 2014 amounted to 4,108 million euro, equal to that recorded in the first three months of last year.
Operating costs on the whole remained steady (+0.1% to 2,086 million euro). Personnel expenses increased slightly (+1%) due to the Group policy which, on the one hand, facilitated the exit of personnel close to meeting retirement requirements, with the effect of a decrease in the average number of employees, and, on the other hand, promoted the adoption, in line with the Business Plan, of innovative, advanced incentive systems which are reflected in the allocations for the variable portion of remuneration. Conversely, other administrative expenses and adjustments decreased (-1.2% for both captions).
Operating margin therefore amounted to 2,022 million euro, in line with the figure for the first three months of 2013 (-0.1%).
Adjustments and provisions for risks, as a whole, were down around 8.6%, due to lower adjustments to loans (-7%) and other assets (approximately -82%).
Income before tax from continuing operations consequently came to 953 million euro, up by 22.5% on the first three months of the previous year.
After recognition of income tax for the period of 364 million euro, charges for integration and exit incentive of 7 million euro and the effects of purchase price allocation of 46 million euro, as well as losses on discontinued operations of 13 million euro and minority interests of 20 million euro, the Group's income statement for the first quarter closed, as already noted, with a net income of 503 million euro, compared to 306 million euro for the first three months of 2013, recording a growth of 64%.
Compared to the fourth quarter of 2013, the improvement refers to all revenue components, the balance of which increased from 3,931 million euro to 4,108 million euro (+4.5%), the only exception being fee and commission income which decreased slightly because at year end it had included the extraordinary component associated with the overperformance of assets under management.
The growth in revenues and the decrease in operating costs (-4.7%), structural in the first quarter, allowed an increase of 16% in the operating margin.
For the other income figures, comparison between the first quarter of 2014 and the previous quarter is of little significance, in that the last quarter of 2013 included significant extraordinary components involving adjustments to loans, the impairment of

goodwill and other intangible assets – negative components the total of which outweighed the albeit major positive effect of the benefit from the fair value recognition of the new stake in the Bank of Italy.

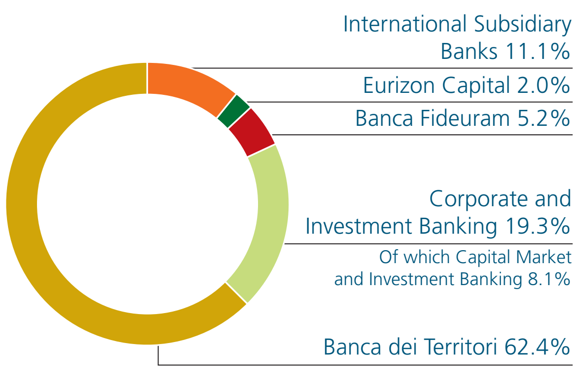
The performance of the balance sheet aggregates confirms the Group's sound financial position.
Loans to customers totalled around 339 billion euro (-1.4% over the end of 2013). The decline in commercial banking loans (current accounts, mortgages, advances and loans, down -1.2% overall), and in loans represented by securities (-4.8%) was added to by the decrease in short-term financial loans represented by repurchase agreements (-4.7%). Non-performing loans remained essentially in line with the figure at the end of 2013 (+0.6%).
With regard to funding, direct deposits from banking business proved steady at 372 billion euro. The limited decline in the demand component, consisting of current accounts and deposits (-1.8%) was in fact offset by the higher inflows from certificates of deposit (around +63%) and repurchase agreements (approximately +13%). Bond funding remained essentially stable (-0.4%).
Direct deposits from insurance business, which include technical reserves, increased (+6% approximately, to 99 billion euro).
The overall increase was attributable both to the increase in technical reserves, which represent the amount owed to customers who have taken out traditional insurance policies, and to a lesser extent the higher value of financial liabilities of the insurance segment designated at fair value, particularly unit-linked products.
The new business for the quarter of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to approximately 6.3 billion euro.

Indirect customer deposits exceeded 442 billion euro (+2.9% compared to the end of 2013). In greater detail, during the quarter customers' repositioning into forms of professional asset management continued. Assets under management increased in fact (+4.4%) as a result of the positive net inflows and the revaluation of assets under management. All main technical forms making up assets under management performed well, continuing the positive trend that had started in the first quarter of 2013: portfolio management (+5.9%), life insurance policies (+3.8%) and mutual investment funds (+3.9%). Also providing a positive contribution were the collective and individual pension forms (+4.7%), whilst relations with institutional customers remained more or less stable (-0.1%). Assets under administration increased slightly (+0.6%), mainly due to relations with institutional customers.

## Results of the Business Units

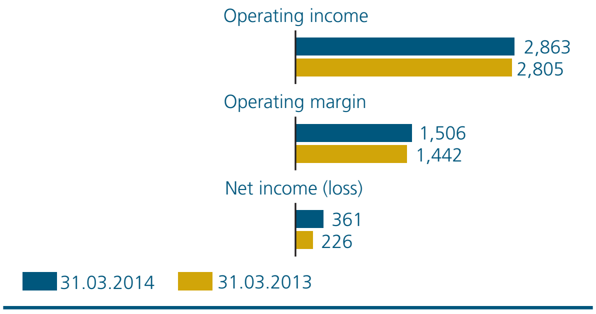
The contribution to operating income in the first quarter of 2014 of the Group's five business units confirms that the greatest contribution continues to come from retail banking activities in Italy (62% of the business units' operating income), although there was also a significant contribution from corporate and investment banking activities (approximately 19%) and international retail banking activities (around 11%).

**Operating income:**
**Breakdown by business area [1]**




[1] Excluding Corporate Centre

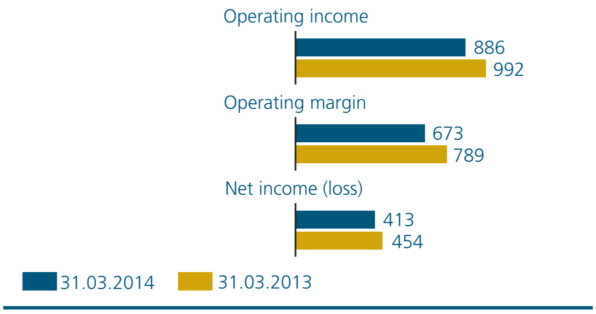
## Banca dei Territori




In the first quarter of 2014, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income higher than that recorded in the first three months of the previous year (+2.1% to 2,863 million euro). More precisely, the decrease in net interest income (-2.6%) was more than offset by the increase in net fee and commission income (+9.8%), driven by those relating to management, dealing and consultancy activities. Profits on trading decreased (from 19 million euro to 14 million euro), whilst income from insurance business recorded an increase (+7.1% to 227 million euro) attributable to the improvement in the net investment result. Operating costs decreased slightly (-0.4% to 1,357 million euro). As a consequence of the above performances, operating margin increased (+4.4%), as did income before tax from continuing operations (+25.8%) aided by the reduced need for adjustments to loans. Net income, after accounting for the Division's taxes (233 million euro), charges for integration (5 million euro) and the economic effects of purchase price allocation (16 million euro), stands at 361 million euro (+59.7%).

The Division's balance sheet figures at the end of March 2014 showed loans to customers down on the previous year-end (-2% to 205,493 million euro), essentially as a result of the decrease in loans to business customers, which reduced their use of loans due to the economic context. Direct deposits from banking business also decreased (-2.3% to 189,936 million euro) owing to the maturity of retail bonds. On the other hand, direct deposits from insurance business rose (+6.2% to 79,739 million euro), mainly as a result of the growth in technical reserves.

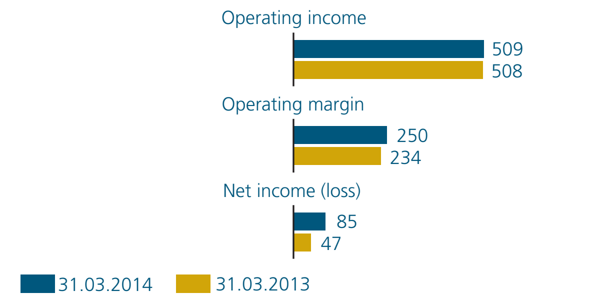
## Corporate and Investment Banking




The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – achieved operating income down on the first quarter of 2013 (-10.7% to 886 million euro). In detail, the growth of net interest income (+5.5%) was fully offset by the decline in net fee and commission income (-21%), mainly associated with the lower contribution from capital market, structured finance and commercial banking activities. Profit from trading was also down (around -25%) on the first quarter of the previous year, which had benefited from income related to merchant banking transactions. Operating costs were up (+4.9%) due to higher administrative expenses. As a result of the above revenue and cost trends, operating margin decreased (-14.7%), as did income before tax from continuing operations (-8.6%). Net income came to 413 million euro, down by 9% on the first three months of 2013.

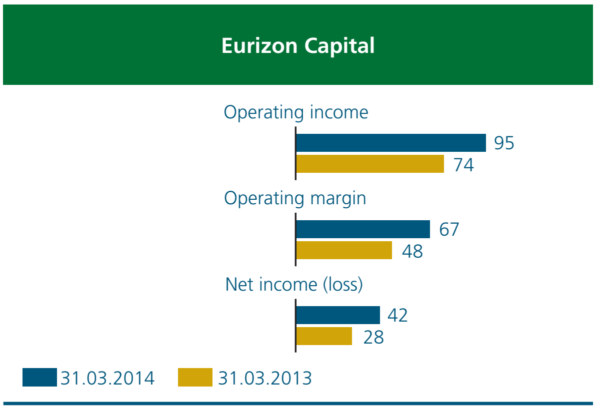
The Division's intermediated volumes increased slightly compared to the end of December 2013. Direct deposits from banking business increased (+2% to 116,210 million euro), mainly due to amounts collected on securities of the Irish subsidiary. Loans to customers recorded a slight decrease (-0.5% to 90,436 million euro), resulting from the lesser use of cash by Italian and international corporate customers, only partly offset by the development of reverse repurchase agreement transactions with institutional operators and financial intermediaries by Banca IMI.

## International Subsidiary Banks

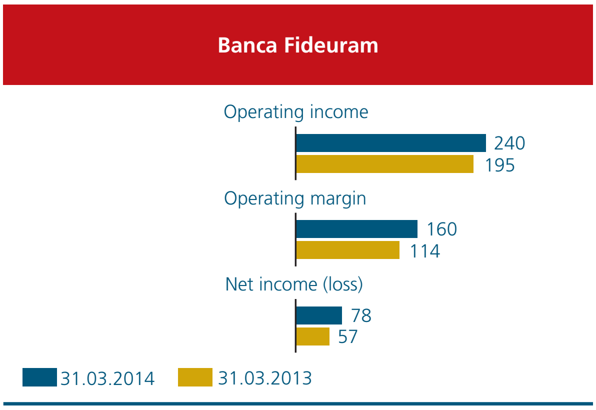



In the first quarter of 2014 the operating income of the International Subsidiary Banks Division – which oversees the Group's commercial operations on international markets through subsidiary and associated banks – remained essentially stable (+0.2% to 509 million euro). In detail, the decrease in net interest income (-2.4%) was offset by the improvement in dividends and profits on investments carried at equity (increasing from 8 to 15 million euro), net fee and commission income (+1.6%) and profits on trading (+23.5%). Operating costs were down (-5.5%). As a consequence of the above revenue and cost results, the operating margin increased (+6.8%), and so did income before tax from continuing operations (+44.2%), owing to lower adjustments to loans and other assets. The Division closed the income statement for the quarter with net income of 85 million euro (+80.9%).

The intermediated volumes decreased slightly compared to the end of December (-0.7%), owing to the decrease in loans to customers (-2.1%). Direct deposits from banking business, on the other hand, were up slightly (+0.7%), mainly due to securities funding.




The operating income of Eurizon Capital – which operates in the asset management segment – increased during the first quarter (approximately +28% to 95 million euro), due to the positive performance of net fee and commission income (approximately +27%). Operating costs were up (+7.7%) due to higher administrative expenses. As a result of the revenue and cost trends, the operating margin increased (approximately +40%). Eurizon Capital closed the first quarter of 2014 with a net income of 42 million euro (+50%).
Overall, total assets managed by Eurizon Capital as at the end of March 2014 came to approximately 174 billion euro (+6% since the end of 2013), as a result of net inflows and favourable financial market performance. As at 31 March 2014, Eurizon Capital's market share of assets under management was 14.7% (14.5% at the end of December 2013).




For Banca Fideuram – specialising in the creation, management and distribution of financial products and services to customers with medium to high savings potential – the operating margin for the first quarter of 2014 recorded a significant growth (approximately +40% to 160 million euro), attributable to the increase in operating income (around +23%) and the decline in operating costs (-1.2%). The performance of revenues is attributable in particular to net fee and commission income (approximately +21%), with a favourable performance of the interest margin (around +21%) and income from insurance business, the latter attributable to Fideuram Vita (approximately +39%).
As a result of the above trends, income before tax from continuing operations rose by around 50%. Banca Fideuram closed the first quarter of 2014 with net income of 78 million euro (approximately +37% on the first three months of 2013).
Assets under management and assets under administration of the Banca Fideuram Group at the end of March 2014 amounted to 86 billion euro (of which 67 billion euro in assets under management and 19 billion euro in assets under administration), up 2.4% since the beginning of the year. This trend is attributable to the positive performance in terms of net inflows and the positive market performance of the assets. Increases were recorded by assets under management (+1.6% compared to the end of 2013), as a result of the positive performance of the portfolio management and life insurance segments, and in assets under administration (+5.4%). Direct deposits from banking business and from insurance business grew (+4.2% to 7,559 million euro and +5.6% to 19,464 million euro, respectively).

## Main risks and uncertainties

The persisting adverse conditions in the macro-economy and the financial markets' volatility require constant control of the factors enabling the Bank to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base, prudent asset valuations.

Liquidity remains high: as at 31 March both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted from this year as the internal liquidity risk measurement metrics, were met already reaching a level above the fully phased-in requirements. As at 31 March 2014, the Central Banks eligible liquidity reserves came to 109 billion euro (124 billion euro at the end of December 2013), of which 82 billion euro, net of haircut, was unencumbered (88 billion euro at the end of December 2013).
The refinancing through the European Central Bank, resulting from participation in the two 3-year LTRO (Long-Term Refinancing Operation) auctions held by the monetary authority in December 2011 and February 2012, was repaid in full in 2013 and replaced by recourse to the weekly and 3-month auctions capable of ensuring greater flexibility in management of the liquidity position.

With regard to funding, the quarter was characterised by a drop in direct customer deposits; however, within the aggregate datum, positive performance was recorded by the demand components (current accounts and deposits). The widespread branch network continued to be a stable and reliable source of funding: 78% of direct deposits from banking business come from retail Branch Network (290 billion euro). Furthermore, as already mentioned, during the quarter funding transactions were completed on the international markets for over 5 billion euro.

The leverage of the Intesa Sanpaolo Group continues to be at lower levels than its main competitors', while the ratio of risk-weighted assets to total assets is among the highest, given the prevalence of retail banking activities within the Group.

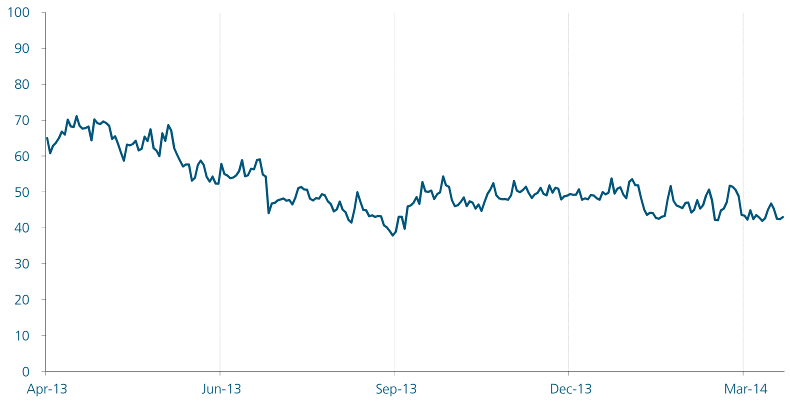
Similarly, the capital base remained high: own funds, risk weighted assets and capital ratios at 31 March 2014 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/363/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).
As at 31 March 2014, total own funds came to 42,341 million euro, against risk-weighted assets of 277,582 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The Total capital ratio stood at 15.3%, while the Group's Tier 1 ratio was 12.5%. The Common Equity Tier 1 ratio stood at 12.1%.

With regard to the insurance segment, as at 31 March 2014 the available individual solvency margin of Intesa Sanpaolo Vita, the Group's main insurance company, was 3,644 million euro, up on the 3,560 million euro of 31 December 2013 due to the profit achieved during the first quarter. The capital absorption level was 2,410 million euro, up compared to 2,290 million euro as at 31 December 2013. The margin is 1,234 million euro higher than the requirement under the supervisory provisions. The solvency ratio as at 31 March 2014 was 151%, down slightly on the figure as at 31 December 2013 due to the strong growth in premiums issued for new business recorded during the quarter.

The Group's risk profile remained at relatively low levels, consistent with the Group's intention to continue to privilege commercial banking operations. The trend in the Group's VaR over a twelve-month period, shown in the following chart, was mainly determined by Banca IMI. On average, the risk measures were down slightly in the first quarter of 2014, remaining at levels between 42 and 54 million euro. The average VaR for the quarter totalled 46.5 million euro.

**Market risks trend:**
**VaR** (millions of euro)




The ongoing difficult macroeconomic environment and high financial market volatility heighten the complexity of assessing credit risk and measuring financial assets.

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and of exposures subject to country risk.
Risk is measured by means of different rating models according to borrower segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian Public sector entities, Financial institutions). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made comparable with those awarded by rating agencies, by means of a uniform scale of reference.
Ratings and credit-risk mitigating factors (guarantees, loan types and covenants) play a key role in the loan granting and managing process.
The methods used to classify non-performing loans and to measure both non-performing and performing loans ensure that the impacts of the deteriorating economic environment on a debtor's position are promptly recognised. The alarming pace at which the crisis deepened and expanded has made it necessary to constantly review the value both of loans already showing signs of distress and of those not yet showing clear signs of impairment. All categories of non-performing loans were assessed using the usual criteria of prudence, as highlighted by the substantial average provisioning percentages for doubtful loans (62.9%) and substandard loans (23.3%). With regard to performing loans to customers, the "collective" adjustments provide a portfolio coverage ratio of 0.8%, unchanged compared to the coverage in the 2013 financial statements. The lump-sum provisions on performing loans, amounting to 2,413 million euro, fully cover the expected loss calculated by means of internal models.

Considerable attention has been paid to the valuation of financial items. The majority of financial assets (about 90%) are classified as held for trading using the fair value option, under assets available for sale, or are represented by hedging derivatives.
The fair value measurement of financial assets was carried out as follows: 75% using the effective market quotes method (level 1 inputs), 22% using the comparable approach (level 2 inputs) and only 3% using the mark-to-model approach (level 3 inputs). Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (90%) were measured using the comparable approach (level 2).

As at 31 March 2014, the Intesa Sanpaolo Group's sovereign debt exposure was represented by debt securities for 119 billion euro (of which 47 billion euro in securities held in Group insurance companies' portfolios) and by other loans for 22 billion euro. As at 31 December 2013, the securities exposure amounted to around 120 billion euro, whilst other loans totalled 22 billion euro.

The exposure to Italian Government securities is about 102 billion euro: in more detail, the Group banks' exposure (approximately 58 billion euro) is concentrated in the short-term segment (41 billion euro up to 3 years), with a duration of 2.8 years. On the other hand, the duration of the insurance portfolio is longer, at 6.8 years, consistently with that of liabilities.
Investment levels in structured credit products and hedge funds remained low. These products' fair value changes over the three months generated a positive impact of 8 million euro for the former (plus 2 million euro in profits from disposals) and 4 million euro for the latter.

In the current volatile market environments, measuring the recoverable amount of intangible assets is also particularly difficult. However, with regard to intangible assets and goodwill, no problem issues were identified during the quarter – also in consideration of the short length of time since the last impairment test – requiring the remeasurement of their recoverable values, which were subject to significant adjustments in the 2013 financial statements.

Finally, with regard to the going concern assumption, the Directors of Intesa Sanpaolo reaffirm that they have a reasonable certainty that the company will continue in operational existence in the foreseeable future and consequently have prepared the interim statement as at 31 March 2014 on a going concern basis. This is because in the asset and financial structure and in the performance of operations of the Group, no uncertainties casting doubt on the going concern assumption have been detected.

## Highlights

On 23 January 2014 Intesa Sanpaolo signed the agreement for the sale of 100% of the capital of its Ukrainian subsidiary Pravex Bank to CentraGas Holding GmbH for a consideration of 74 million euro. Based on the contractual arrangements and the timing envisaged for finalising the transaction, in this Interim Statement as at 31 March the investment in Pravex Bank was restated under discontinued operations in accordance with IFRS 5. Subject to obtaining the required authorisations, in fact, finalisation of this transaction is expected during 2014. The consolidated income statement for the first quarter includes the loss for the period of the Ukrainian bank, recognised under Income (Loss) after tax from discontinued operations for a total of 13 million euro. Note that the evidence of a transaction price lower than the carrying amount, which constitutes an impairment indicator, led to recognition of the loss already in the 2013 financial statements for a total of 38 million euro. The negative effect linked to the exchange rate reserve, for which IAS 21 requires recognition in the income statement only at the time of disposal, is currently estimated at 88 million euro.
Furthermore, the Intesa Sanpaolo Group has signed a binding memorandum of understanding concerning the sale of the stake held by subsidiary Intesa Sanpaolo Vita in the Chinese insurance company Union Life (representing 19.9% of the latter's capital) for a consideration of 146 million euro. This transaction will generate a positive contribution of approximately 30 million euro after tax to the consolidated income statement. It is subject to prior authorisation being obtained from local supervisory bodies.

From the end of January, work started on setting up the new SME Finance Hub of the Intesa Sanpaolo Group. The company chosen to act as hub is Mediocredito Italiano, a Group company specialising in medium- and long-term lending to SMEs. The Hub will focus on supporting the investments and growth strategies of SMEs and will become the point of reference for advisory services on business financing, specialised loans, leasing and factoring. The new Hub will cover more than 80,000 customers, with loans in excess of 37 billion euro, including 28 billion euro granted to SMEs. The aim of this project is to provide more effective answers to the emerging needs of SMEs: growing in size to achieve critical mass, leveraging on the strength of value chains, investing in innovation internationalisation, and optimising their financial structure. To help businesses achieve their objectives, the SME Finance Hub will be based on three pillars: comprehensive and integrated commercial offer covering strategic and growth investments, sector specialisation in the approach to customers and integration with the Group's local network. The activity of Mediocredito Italiano, which has the same service model as Banca dei Territori of Intesa Sanpaolo of which it is a part, will cover three main areas, offering targeted commercial solutions: consulting/advisory services, specialised loans & facilitated credit and leasing. Mediocredito Italiano will be in charge of managing, for the whole Intesa Sanpaolo Group, easy-term lending facilities and financing schemes for research and innovation, also through agreements with industrial associations, business associations and other partners offering consulting services to Group customers and companies.

On 6 March, Intesa Sanpaolo completed the sale of approximately 7 million ordinary shares held in Pirelli & C., corresponding to approximately 1.5% of the Company's voting share capital and representing the entire stake held. The sale was made at a price of 12.48 euro per share in an accelerated bookbuilt offering.
The total value was 89.3 million euro, representing a positive contribution to consolidated net income of 58 million euro in the income statement for the first quarter of 2014.

In the first half of March, after having obtained the necessary authorisations, Intesa Sanpaolo annulled in full its bonds guaranteed by the Republic of Italy pursuant to Article 8 of Law Decree 201 of 6 December 2011 converted with amendments by Law 214 of 22 December 2011. These bonds, whose total nominal value was 12 billion euro, had been subscribed on issue by Intesa Sanpaolo and used as guarantee on the LTRO transactions with the ECB (repaid in full in 2013) and had never been placed on the market.

On 19 March 2014 Intesa Sanpaolo and the trade unions Dircredito and Sinfub signed an agreement regarding Intesa Sanpaolo Group executives, collectively governing individual contract terminations of the executives pursuant to art. 2118. A maximum 170 executives will leave the Group by 30 June 2015. This agreement allows Intesa Sanpaolo to foster the professional development paths of all employees, adjust the organisation to the new needs of the Group and promote merit and professional skills.

With regard to subsequent events, in April Intesa Sanpaolo and NH Hoteles reached an agreement which provides for the contribution in NH of the entire shareholding held by Intesa Sanpaolo in NH Italia S.p.A., which is equal to 44.5% of its share capital. In particular, the Contribution Agreement provides for NH to resolve upon a share capital increase reserved to Intesa Sanpaolo, paid by contribution of the shareholding, involving the issue of 42 million new ordinary NH Hoteles shares at a price of 4.70 euro per share. Intesa Sanpaolo, which currently has a direct or indirect stake equal to 4.522% in NH's share capital,

will become holder of approximately 16%. The new shares would be subject to a lock-up restriction for a period of one year from the date of their admission to listing, by virtue of which Intesa Sanpaolo would not be entitled to sell on the market, on a single trading day, new shares with a value exceeding 10% of the aggregate value of NH shares traded on that same trading day. This restriction would not apply in the event of: (i) public tender offers targeting all NH shareholders; or (ii) private placements in favour of single purchasers that do not represent more than 2% of NH share capital, or, if exceeding said limit, are controlled directly by NH or target other NH shareholders; or (iii) sales which are performed outside the regulated market (including any accelerated book-building sales).
The effectiveness of the agreement is subject to the following conditions occurring by and no later than 31 July 2014: (i) the obtainment of the necessary authorisations from the competent antitrust authorities; (iii) the issuance of a report by the independent expert appointed by the Companies' Register of Madrid concerning the value of the shareholding within the framework of the share capital increase; and (iii) approval of the share capital increase by the shareholders' meeting of NH.

Again in April, Intesa Sanpaolo launched a senior unsecured benchmark Eurobond for 1 billion euro. It is a 5-year, floating-rate issue under the Euro Medium Term Notes Programme of Intesa Sanpaolo. The coupon, payable quarterly in arrears on 17 April, 17 July, 17 October and 17 January of each year from and including 17 July 2014 up to the maturity date, is equal to 3-month Euribor rate plus 105 basis points per annum.
Considering its 99.756% re-offer price, the yield to maturity for the investor is equal to 3-month Euribor rate plus 110 basis points per annum. The bond does not target the Italian retail market, but rather professional investors and international financial intermediaries and is listed on the Luxembourg Stock Exchange as well as being traded over the counter.

In relation to the new stake issued by the Bank of Italy following amendments to the Statute approved by the general meeting of 23 December 2013 and recognised in the 2013 financial statements, note that in Decree Law no. 66 of 24 April 2014 the Government changed the substitute tax rate to be applied to the difference between the nominal value of the new stake and the fiscal value of the old stakes, bringing the rate to 26% rather than 12% as established in Law 147/13. The tax payment methods were also changed, envisaging payment in one lump sum in June this year, instead of in 3 instalments as per Law 147/13.
The rate increase, if confirmed on conversion of the Decree, will result in additional tax payable by the Intesa Sanpaolo Group of 443 million euro over and above the 379 million euro already recognised as at 31 December 2013 and, as already mentioned, have to be paid by 16 June this year.

Finally, note that at the shareholders' meeting of 8 May 2014, in addition to approving integration of the Legal Reserve, coverage of the loss for 2013 and the distribution of part of the extraordinary reserve to shareholders, shareholders also approved an investment plan based on financial instruments for employees and risk takers of the Intesa Sanpaolo Group. This is an instrument of broad-based shareholding which the Intesa Sanpaolo Group, at the time that it launches the 2014-2017 Business Plan, will offer to all its employees, as key enablers in the achievement of the Business Plan's objectives. Employees, who have been assigned without charge Intesa Sanpaolo ordinary shares purchased on the market, will be offered a multi-year investment opportunity (Investment Plan) having the same time horizon as the Business Plan. Alternatively, employees may freely dispose of the assigned shares. The Investment Plan provides for the assignment to employees of new ordinary shares of Intesa Sanpaolo deriving from a free share capital increase, as well as employees' subscription to new ordinary shares of Intesa Sanpaolo deriving from a share capital increase reserved for employees, at a discounted issue price.
In this respect, the shareholders' meeting then authorised the purchase of own shares on the market for free allocation to Intesa Sanpaolo Group employees by up to a maximum of 54,097,875 ordinary shares, corresponding to approximately 0.3% of the ordinary and savings share capital of Intesa Sanpaolo. Any ordinary shares over and above those needed to serve the share ownership plan can be sold on the market or held to serve future incentive schemes.
The shareholders' meeting consequently conferred mandate upon the Management Board to increase the share capital for a maximum 53,101,088.56 euro, through the issue of a maximum 102,117,478 Intesa Sanpaolo ordinary shares and to increase the share capital – in divisible form, in one or more tranches, by 28 February 2018 – for a maximum total of 213,073,650.40 euro, without pre-emption rights, in favour of Intesa Sanpaolo Group employees, through the issue of a maximum 409,757,020 Intesa Sanpaolo ordinary shares at a discounted price compared to the market value of Intesa Sanpaolo ordinary shares, calculated as the average of prices recorded in the 30 days prior to the issue date. Assuming all Group employees adhere to the Investment Plan, the total number of ordinary shares to be issued in the free share capital increase and in the capital increase for consideration is estimated to be equal to a maximum number representing around 3.3% of the ordinary share capital and 3.1% of the total share capital of Intesa Sanpaolo.

## Forecast for the whole 2014

The moderate expansion of the global economy should also extend throughout the rest of 2014, with a greater convergence of growth rates of advanced economies and the absence of inflationary pressure. Growth is forecast to strengthen in the Eurozone. Italy will be positively affected, albeit with modest expansion rates. Monetary policies will remain highly expansionary: The United States will gradually taper off its quantitative stimulus programme, but official rates will remain close to zero. In the Eurozone, it cannot be excluded that the European Central Bank might introduce new stimulus measures during the year. In spite of this, medium/long-term interest rates are expected to continue the gradual rising trend which began in 2013.
In March, the SME indicator for manufacturing remained below 50 in Russia (48.3 in March) and fell from 50.5 in December 2013 to 48 in March 2014 in China, in both cases confirming the forecasts of a slowing economy. However, the same indicator remained above the 50 mark in Brazil and India, in this case confirming the forecasts of a recovery.
Compared to the January 2014 update, in the World Economic Outlook for April 2014 the IMF lowered the overall growth forecast for emerging economies by 0.2%, taking the forecast for the whole of 2014 to 4.9%. The less favourable financial conditions affect the economic situations in the related countries in international terms (with the gradual tightening of the Federal Reserve’s expansive monetary policy) and in domestic terms (less restrictive monetary policies in the BRICs and other major emerging countries), in addition to the persisting structural restrictions (as in the case of Brazil).
Except for Russia (forecast to slow down) and Ukraine (with a strong risk of recession), the previous IMF forecasts are essentially reconfirmed in CEE/SEE countries with ISP subsidiaries (improving in the case of Slovenia).
For the Italian banking system, it will take some time to exit the regression phase of lending and the growth of loans will occur several quarters after the economy recovers.
In terms of funding, a very moderate growth is forecast for deposits, whilst the overall performance will feel the effect of households’ portfolio reallocation process in favour of asset management. In a scenario characterised by prudent credit access conditions, improving but still characterised by a strong focus, rates on loans will remain substantially unchanged, while the slight easing of the cost of funding may continue.

In 2014, the Intesa Sanpaolo Group will continue to prioritise the delivery of sustainable results. Profitability targets will be combined with close attention to the risk and liquidity profiles, as well as with the Group's excellent capital base.
Repricing actions are also planned for 2014 and will make it possible to partially limit the impact of an expected negative environment on market rates. Efficiency, productivity and asset quality will be constantly addressed.

# Consolidated financial statements

# Consolidated balance sheet

(millions of euro)

| Assets | 31.03.2014 | 31.12.2013 | Changes amount | Changes % |
|---|---|---|---|---|
| Financial assets held for trading | 52,352 | 49,000 | 3,352 | 6.8 |
| *of which: Insurance Companies* | *834* | *851* | *-17* | *-2.0* |
| Financial assets designated at fair value through profit and loss | 36,665 | 35,761 | 904 | 2.5 |
| *of which: Insurance Companies* | *35,539* | *34,776* | *763* | *2.2* |
| Financial assets available for sale | 113,424 | 115,293 | -1,869 | -1.6 |
| *of which: Insurance Companies* | *57,098* | *54,278* | *2,820* | *5.2* |
| Investments held to maturity | 1,526 | 2,051 | -525 | -25.6 |
| Due from banks | 28,052 | 26,448 | 1,604 | 6.1 |
| Loans to customers | 339,020 | 343,789 | -4,769 | -1.4 |
| Investments in associates and companies subject to joint control | 2,033 | 1,991 | 42 | 2.1 |
| Property, equipment and intangible assets | 12,304 | 12,478 | -174 | -1.4 |
| Tax assets | 14,938 | 14,921 | 17 | 0.1 |
| Non-current assets held for sale and discontinued operations | 386 | 501 | -115 | -23.0 |
| Other assets | 24,433 | 21,946 | 2,487 | 11.3 |
| **Total Assets** | **625,133** | **624,179** | **954** | **0.2** |

| Liabilities and Shareholders' Equity | 31.03.2014 | 31.12.2013 | Changes amount | Changes % |
|---|---|---|---|---|
| Due to banks | 41,819 | 52,244 | -10,425 | -20.0 |
| Due to customers and securities issued | 366,795 | 366,974 | -179 | - |
| *of which: Insurance Companies* | *569* | *534* | *35* | *6.6* |
| Financial liabilities held for trading | 41,482 | 39,219 | 2,263 | 5.8 |
| *of which: Insurance Companies* | *369* | *299* | *70* | *23.4* |
| Financial liabilities designated at fair value through profit and loss | 31,433 | 30,733 | 700 | 2.3 |
| *of which: Insurance Companies* | *31,424* | *30,723* | *701* | *2.3* |
| Tax liabilities | 2,825 | 2,236 | 589 | 26.3 |
| Liabilities associated with non-current assets held for sale and discontinued operations | 212 | 292 | -80 | -27.4 |
| Other liabilities | 23,394 | 20,943 | 2,451 | 11.7 |
| Technical reserves | 67,210 | 62,236 | 4,974 | 8.0 |
| Allowances for specific purpose | 4,360 | 4,239 | 121 | 2.9 |
| Share capital | 8,549 | 8,546 | 3 | - |
| Reserves | 37,031 | 41,598 | -4,567 | -11.0 |
| Valuation reserves | -1,076 | -1,074 | 2 | 0.2 |
| Minority interests | 596 | 543 | 53 | 9.8 |
| Net income (loss) | 503 | -4,550 | 5,053 | |
| **Total Liabilities and Shareholders' Equity** | **625,133** | **624,179** | **954** | **0.2** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

## Quarterly development of the consolidated balance sheet

(millions of euro)

| Assets | 2014 | 2013 | | | |
|---|---|---|---|---|---|
| | 31/3 | 31/12 | 30/9 | 30/6 | 31/3 |
| Financial assets held for trading | 52,352 | 49,000 | 53,314 | 55,892 | 61,543 |
| *of which: Insurance Companies* | *834* | *851* | *731* | *993* | *940* |
| Financial assets designated at fair value through profit and loss | 36,665 | 35,761 | 35,876 | 35,370 | 34,906 |
| *of which: Insurance Companies* | *35,539* | *34,776* | *34,781* | *34,275* | *33,881* |
| Financial assets available for sale | 113,424 | 115,293 | 102,921 | 103,921 | 97,027 |
| *of which: Insurance Companies* | *57,098* | *54,278* | *46,526* | *45,097* | *42,454* |
| Investments held to maturity | 1,526 | 2,051 | 2,120 | 2,130 | 2,150 |
| Due from banks | 28,052 | 26,448 | 32,534 | 31,264 | 38,277 |
| Loans to customers | 339,020 | 343,789 | 349,440 | 358,143 | 371,270 |
| Investments in associates and companies subject to joint control | 2,033 | 1,991 | 2,606 | 2,634 | 2,629 |
| Property, equipment and intangible assets | 12,304 | 12,478 | 19,317 | 19,446 | 19,573 |
| Tax assets | 14,938 | 14,921 | 13,691 | 13,508 | 12,657 |
| Non-current assets held for sale and discontinued operations | 386 | 501 | 513 | 599 | 585 |
| Other assets | 24,433 | 21,946 | 25,278 | 22,907 | 24,349 |
| **Total Assets** | **625,133** | **624,179** | **637,610** | **645,814** | **664,966** |

| Liabilities and Shareholders' Equity | 2014 | 2013 | | | |
|---|---|---|---|---|---|
| | 31/3 | 31/12 | 30/9 | 30/6 | 31/3 |
| Due to banks | 41,819 | 52,244 | 64,993 | 67,522 | 72,775 |
| Due to customers and securities issued | 366,795 | 366,974 | 359,878 | 368,833 | 376,353 |
| *of which: Insurance Companies* | *569* | *534* | *558* | *81* | *132* |
| Financial liabilities held for trading | 41,482 | 39,219 | 40,506 | 44,318 | 49,742 |
| *of which: Insurance Companies* | *369* | *299* | *62* | *50* | *99* |
| Financial liabilities designated at fair value through profit and loss | 31,433 | 30,733 | 30,027 | 29,257 | 28,130 |
| *of which: Insurance Companies* | *31,424* | *30,723* | *30,016* | *29,246* | *28,120* |
| Tax liabilities | 2,825 | 2,236 | 3,594 | 2,983 | 3,979 |
| Liabilities associated with non-current assets held for sale and discontinued operations | 212 | 292 | 322 | 353 | 364 |
| Other liabilities | 23,394 | 20,943 | 24,812 | 21,858 | 23,297 |
| Technical reserves | 67,210 | 62,236 | 59,088 | 56,633 | 55,552 |
| Allowances for specific purpose | 4,360 | 4,239 | 4,319 | 4,404 | 4,825 |
| Share capital | 8,549 | 8,546 | 8,546 | 8,546 | 8,546 |
| Reserves | 37,031 | 41,598 | 41,604 | 41,566 | 42,421 |
| Valuation reserves | -1,076 | -1,074 | -1,305 | -1,443 | -1,894 |
| Minority interests | 596 | 543 | 586 | 562 | 570 |
| Net income (loss) | 503 | -4,550 | 640 | 422 | 306 |
| **Total Liabilities and Shareholders' Equity** | **625,133** | **624,179** | **637,610** | **645,814** | **664,966** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

## Consolidated income statement

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 2,100 | 2,017 | 83 | 4.1 |
| Dividends and profits (losses) on investments carried at equity | 30 | -43 | 73 | |
| Net fee and commission income | 1,584 | 1,462 | 122 | 8.3 |
| Profits (Losses) on trading | 151 | 454 | -303 | -66.7 |
| Income from insurance business | 251 | 230 | 21 | 9.1 |
| Other operating income (expenses) | -8 | -12 | -4 | -33.3 |
| **Operating income** | **4,108** | **4,108** | **-** | **-** |
| Personnel expenses | -1,273 | -1,260 | 13 | 1.0 |
| Other administrative expenses | -650 | -658 | -8 | -1.2 |
| Adjustments to property, equipment and intangible assets | -163 | -165 | -2 | -1.2 |
| **Operating costs** | **-2,086** | **-2,083** | **3** | **0.1** |
| **Operating margin** | **2,022** | **2,025** | **-3** | **-0.1** |
| Net provisions for risks and charges | -55 | -26 | 29 | |
| Net adjustments to loans | -1,077 | -1,158 | -81 | -7.0 |
| Net impairment losses on other assets | -12 | -68 | -56 | -82.4 |
| Profits (Losses) on investments held to maturity and on other investments | 75 | 5 | 70 | |
| **Income (Loss) before tax from continuing operations** | **953** | **778** | **175** | **22.5** |
| Taxes on income from continuing operations | -364 | -364 | - | - |
| Charges (net of tax) for integration and exit incentives | -7 | -12 | -5 | -41.7 |
| Effect of purchase price allocation (net of tax) | -46 | -74 | -28 | -37.8 |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | -13 | -10 | 3 | 30.0 |
| Minority interests | -20 | -12 | 8 | 66.7 |
| **Net income (loss)** | **503** | **306** | **197** | **64.4** |
| **Basic EPS - euro** | **0.03** | **0.02** | | |
| **Diluted EPS - euro** | **0.03** | **0.02** | | |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

## Quarterly development of the consolidated income statement

(millions of euro)

| | 2014 | 2013 | | | |
|---|---|---|---|---|---|
| | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter |
| Net interest income | 2,100 | 2,032 | 2,026 | 2,035 | 2,017 |
| Dividends and profits (losses) on investments carried at equity | 30 | -2 | -6 | 2 | -43 |
| Net fee and commission income | 1,584 | 1,620 | 1,479 | 1,571 | 1,462 |
| Profits (Losses) on trading | 151 | 69 | 400 | 236 | 454 |
| Income from insurance business | 251 | 142 | 203 | 215 | 230 |
| Other operating income (expenses) | -8 | 70 | 33 | 15 | -12 |
| **Operating income** | **4,108** | **3,931** | **4,135** | **4,074** | **4,108** |
| Personnel expenses | -1,273 | -1,194 | -1,199 | -1,149 | -1,260 |
| Other administrative expenses | -650 | -806 | -661 | -682 | -658 |
| Adjustments to property, equipment and intangible assets | -163 | -188 | -169 | -167 | -165 |
| **Operating costs** | **-2,086** | **-2,188** | **-2,029** | **-1,998** | **-2,083** |
| **Operating margin** | **2,022** | **1,743** | **2,106** | **2,076** | **2,025** |
| Net provisions for risks and charges | -55 | -249 | -1 | -38 | -26 |
| Net adjustments to loans | -1,077 | -3,098 | -1,465 | -1,390 | -1,158 |
| Net impairment losses on other assets | -12 | -170 | -32 | -147 | -68 |
| Profits (Losses) on investments held to maturity and on other investments | 75 | 2,441 | -35 | -3 | 5 |
| **Income (Loss) before tax from continuing operations** | **953** | **667** | **573** | **498** | **778** |
| Taxes on income from continuing operations | -364 | 28 | -264 | -271 | -364 |
| Charges (net of tax) for integration and exit incentives | -7 | -42 | -5 | -21 | -12 |
| Effect of purchase price allocation (net of tax) | -46 | -75 | -72 | -73 | -74 |
| Impairment (net of tax) of goodwill and other intangible assets | - | -5,797 | - | - | - |
| Income (Loss) after tax from discontinued operations | -13 | -4 | -3 | -14 | -10 |
| Minority interests | -20 | 33 | -11 | -3 | -12 |
| **Net income (loss)** | **503** | **-5,190** | **218** | **116** | **306** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

# Report on operations

# Economic results

The macroeconomic scenario of the first quarter of 2014 in Italy was characterised by timid signs of recovery, though slower than in other Eurozone countries and driven mainly by exports. In a context in which domestic demand is still weak, the income achieved by the Intesa Sanpaolo Group in the period represents a strong progress compared to the loss recorded in the final quarter of 2013, which also included significant extraordinary components.
The comparison with the first three months of the previous year shows an improvement of the main income captions, offset by lower profits on trading. The stable income, associated with the effective monitoring of operating costs and lower adjustments to loans, allowed a pre-tax income up 22.5% on the first quarter of the previous year, and a net income of 503 million euro, improving considerably compared to the 306 million euro recorded in the same period of 2013 (+64.4%).

## Operating income

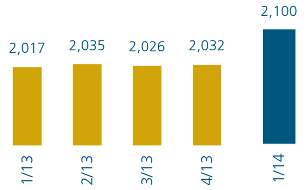
The Group reported operating income of 4,108 million euro, in line with the figure recorded for the first three months of 2013 and up 4.5% over the fourth quarter of that year. The trend that emerges from the comparison with the first quarter derives from the increased net fee and commission income as well as the net interest income on the one hand, and the decrease, in the profits on trading on the other hand.

### *Net interest income*

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Relations with customers | 2,395 | 2,394 | 1 | - |
| Securities issued | -1,217 | -1,366 | -149 | -10.9 |
| Differentials on hedging derivatives | 294 | 411 | -117 | -28.5 |
| **Customer dealing** | **1,472** | **1,439** | **33** | **2.3** |
| Financial assets held for trading | 70 | 93 | -23 | -24.7 |
| Investments held to maturity | 16 | 20 | -4 | -20.0 |
| Financial assets available for sale | 286 | 295 | -9 | -3.1 |
| **Financial assets** | **372** | **408** | **-36** | **-8.8** |
| **Relations with banks** | **-19** | **-74** | **-55** | **-74.3** |
| **Non-performing assets** | **284** | **256** | **28** | **10.9** |
| **Other net interest income** | **-9** | **-12** | **-3** | **-25.0** |
| **Net interest income** | **2,100** | **2,017** | **83** | **4.1** |

**Quarterly development**
**Net interest income**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

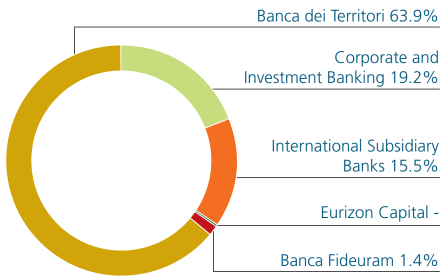
In the first quarter of 2014 the net interest income came to 2,100 million, up 4.1% compared to the same period of 2013; the improved margin on customer dealing more than offset the decreased volumes and the lesser contribution from hedges on core deposits.
Customer dealing amounted to 1,472 million euro, up 2.3% on the same period of the previous year: the decrease in differential on hedging derivatives was more than offset by the lower interest expense on securities issued. Interest on customer dealing remained stable, thanks to the widening spreads, which offset the negative trend of volumes and particularly of loans to customers.
Interest on financial assets dropped by 8.8% compared to the first quarter of 2013, mainly due to the decrease in interest on financial assets held for trading (-23 million euro); a lesser change was recorded by the interest on financial assets available for sale (-9 million euro) and investments held to maturity (-4 million euro).
Net interest on the interbank market reported a negative balance of 19 million euro, sharply down on the negative balance of 74 million euro for the first three months of the previous year. The improvement is attributable to the reduced exposure to the ECB, which in the first quarter of 2014 was lower than 10 billion euro on average, considerably lower than the 36 billion euro as at 31 March 2013. In 2013 the funds obtained through the three-year LTRO auctions in 2011-2012 were repaid in full and partially replaced with standard open market transactions with the Central Bank of one week to three months.
Compared to the fourth quarter of 2013, the net interest income grew by 3.3% as a result of the decrease in interest expense on securities issued and the reduced interbank balance, despite the lower contribution from financial assets.

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 1,521 | 1,562 | -41 | -2.6 |
| Corporate and Investment Banking | 458 | 434 | 24 | 5.5 |
| International Subsidiary Banks | 369 | 378 | -9 | -2.4 |
| Eurizon Capital | - | - | - | - |
| Banca Fideuram | 34 | 28 | 6 | 21.4 |
| **Total business areas** | **2,382** | **2,402** | **-20** | **-0.8** |
| Corporate Centre | -282 | -385 | -103 | -26.8 |
| **Intesa Sanpaolo Group** | **2,100** | **2,017** | **83** | **4.1** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**




Banca dei Territori, which accounts for 64% of business area results, recorded a 2.6% decrease in net interest income, affected by the lower contribution from hedging of demand deposits and lower volumes of loans to customers, despite higher margins on customer dealing. The International Subsidiary Banks also recorded a drop in net interest income (-2.4%) due to the lower volumes of loans, mainly for the subsidiary banks in Hungary, Croatia, Serbia and Russia, given a repricing on new loans at higher rates than the maturing loans. Corporate and Investment Banking recorded a 5.5% increase, attributable mainly to the positive development of the net investment result recorded in the capital markets segment of Banca IMI and, to a lower extent, at the banks in the International Department. Banca Fideuram's net interest income increased by 21.4%, thanks to the reinvestment of part of the liquidity in securities and the higher incidence of loans, which benefitted from the favourable performance of the interest rates in the quarter.

### *Dividends and profits on investments carried at equity*

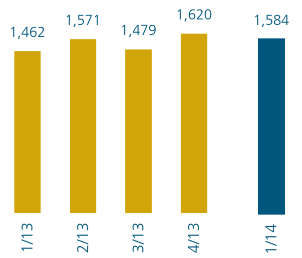
In the first quarter of 2014 the caption shows a positive balance of 30 million euro, against 43 million euro of significant losses in the same period of the previous year, essentially due to the improved contribution from the companies consolidated with the equity method. Note that this caption refers only to dividends of companies not consolidated line-by-line. Dividends on shares held for trading and securities available for sale, on the other hand, are reclassified to Profits (Losses) on trading.

### *Net fee and commission income*

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Guarantees given / received | 71 | 88 | -17 | -19.3 |
| Collection and payment services | 85 | 66 | 19 | 28.8 |
| Current accounts | 279 | 280 | -1 | -0.4 |
| Credit and debit cards | 117 | 111 | 6 | 5.4 |
| **Commercial banking activities** | **552** | **545** | **7** | **1.3** |
| Dealing and placement of securities | 152 | 137 | 15 | 10.9 |
| Currency dealing | 10 | 10 | - | - |
| Portfolio management | 391 | 301 | 90 | 29.9 |
| Distribution of insurance products | 227 | 184 | 43 | 23.4 |
| Other | 41 | 36 | 5 | 13.9 |
| **Management, dealing and consultancy activities** | **821** | **668** | **153** | **22.9** |
| **Other net fee and commission income** | **211** | **249** | **-38** | **-15.3** |
| **Net fee and commission income** | **1,584** | **1,462** | **122** | **8.3** |

**Quarterly development**
**Net fee and commission income**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

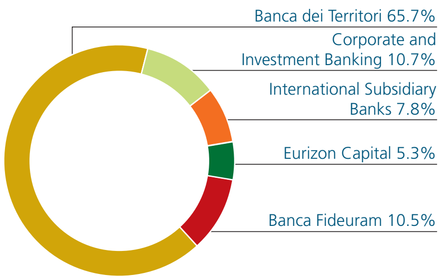
Net fee and commission income for the quarter, which makes up over one-third of operating income, came to 1,584 million euro, up 8.3% compared to the same period in 2013.
Fees and commissions on commercial banking activities recorded a moderate growth (+1,3%), thanks to the increase in those on collection and payment services (+28.8%) and on debit and credit cards (+5.4%), only partly offset by the decrease in the contribution from guarantees given (-19.3%). Contribution from the current accounts remained stable (-0.4%).
Management, dealing and consultancy activities, which benefitted from the positive performance of financial markets in the twelve months, generated fee and commission income totalling 821 million euro, expanding by 153 million euro (+22.9%) compared to the first quarter of 2013. Contributing to this trend were fee and commission income on portfolio management (+90 million euro), particularly on collective and individual portfolio management, the distribution of insurance products (+43 million euro), the commission income on securities dealing and placement (+15 million euro) and the other management and dealing commissions (+5 million euro). Other net fee and commission income recorded a drop of 38 million euro compared to the first three months of the previous year, standing at 211 million euro due to the reduction in commissions on loans issued to businesses.

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 1,089 | 992 | 97 | 9.8 |
| Corporate and Investment Banking | 177 | 224 | -47 | -21.0 |
| International Subsidiary Banks | 129 | 127 | 2 | 1.6 |
| Eurizon Capital | 88 | 69 | 19 | 27.5 |
| Banca Fideuram | 175 | 144 | 31 | 21.5 |
| **Total business areas** | **1,658** | **1,556** | **102** | **6.6** |
| Corporate Centre | -74 | -94 | -20 | -21.3 |
| **Intesa Sanpaolo Group** | **1,584** | **1,462** | **122** | **8.3** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**



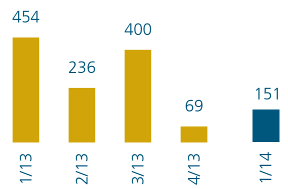

By business area, all Business Units experienced growth of net fee and commission income, except for Corporate and Investment Banking, which reported a decline. Banca dei Territori, which represents 66% of fee and commission income from the business units, recorded the most significant positive contribution in absolute terms (+9.8%, equal to 97 million euro). In particular, net fee and commission income on asset management and bancassurance products as well as fee and commission income on placements increased. Though more limited in absolute terms, the following have recorded an increase: Eurizon Capital (+27.5%), mainly attributable to entry and overperformance commissions received as well as the development of average assets under management, which considerably exceeded the level of the first three months of 2013; Banca Fideuram (+21.5%), as a result of the recurring fee and commission income from growth in the average assets under management and the advanced advisory services; and the International Subsidiary Banks (+1.6%). The decline shown by Corporate and Investment Banking (-21%) was due to the decreased contribution of fee and commission income in the investment banking and commercial banking segments.

### *Profits (Losses) on trading*

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Interest rates | 16 | 75 | -59 | -78.7 |
| Equity instruments | 99 | 108 | -9 | -8.3 |
| Currencies | 20 | 12 | 8 | 66.7 |
| Structured credit products | 10 | 30 | -20 | -66.7 |
| Credit derivatives | -5 | -4 | 1 | 25.0 |
| Commodity derivatives | 4 | 4 | - | - |
| **Trading result** | **144** | **225** | **-81** | **-36.0** |
| **Trading on AFS securities and financial liabilities** | **7** | **229** | **-222** | **-96.9** |
| **Profits (Losses) on trading** | **151** | **454** | **-303** | **-66.7** |

**Quarterly development Profits (losses) on trading**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

In the first quarter of 2014 trading activities yielded a profit of 151 million euro, down compared to the 454 million euro recorded in the same period of the previous year. The trend that emerges from the comparison is attributable to the trading on AFS securities and financial liabilities (-222 million euro) and, to a lesser extent, to the trading result (-81 million euro) affected by interest rate transactions (-59 million euro), structured credit products (-20 million euro) and capital instruments (-9 million euro). In short, there was a significant decrease in both income from operations on capital markets and financial assets and income from owned and treasury portfolio transactions.

It should be noted that the subcaption "Trading on AFS securities and financial liabilities" incorporates, in addition to dividends and proceeds on the trading of securities classified as available for sale, the effects of the measurement at fair value of financial liabilities issued associated with an assessment of creditworthiness in accordance with the fair value option.

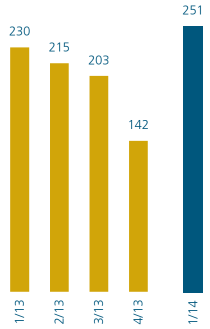
The comparison with the last quarter of the previous year, which had benefited from a capital gain of 84 million euro linked to the sale of the stake in Assicurazioni Generali, shows profits on trading that more than doubled, due to the positive trend of trading activities on interest rates, which in the last three months of 2013 had recorded a loss.

## *Income from insurance business*

(millions of euro)

| **Captions** (a) | 31.03.2014 | | | 31.03.2013 | | | Changes | |
|---|---|---|---|---|---|---|---|---|
| | Life | Non-life | **Total** | Life | Non-life | **Total** | **amount** | **%** |
| **Technical margin** | **-1** | **11** | **10** | **25** | **11** | **36** | **-26** | **-72.2** |
| Net insurance premiums (b) | 4,658 | 51 | 4,709 | 2,391 | 49 | 2,440 | 2,269 | 93.0 |
| Net charges for insurance claims and surrenders (c) | -1,864 | -24 | -1,888 | -1,587 | -20 | -1,607 | 281 | 17.5 |
| Net charges for changes in technical reserves (d) | -3,137 | - | -3,137 | -1,204 | - | -1,204 | 1,933 | |
| Gains (losses) on investments pertaining to insured parties on insurance products (e) | 423 | - | 423 | 505 | - | 505 | -82 | -16.2 |
| Net fees on investment contracts (f) | 35 | - | 35 | 34 | - | 34 | 1 | 2.9 |
| Commission expenses on insurance contracts (g) | -113 | -11 | -124 | -94 | -15 | -109 | 15 | 13.8 |
| Other technical income and expense (h) | -3 | -5 | -8 | -20 | -3 | -23 | -15 | -65.2 |
| **Net investment result** | **234** | **7** | **241** | **190** | **4** | **194** | **47** | **24.2** |
| Operating income from investments | 1,170 | 7 | 1,177 | 1,193 | 4 | 1,197 | -20 | -1.7 |
| *Net interest income* | *511* | *3* | *514* | *472* | *4* | *476* | *38* | *8.0* |
| *Dividends* | *10* | - | *10* | *8* | - | *8* | *2* | *25.0* |
| *Gains/losses on disposal* | *207* | *4* | *211* | *315* | - | *315* | *-104* | *-33.0* |
| *Valuation gains/losses* | *457* | - | *457* | *415* | - | *415* | *42* | *10.1* |
| *Portfolio management fees paid (i)* | *-15* | - | *-15* | *-17* | - | *-17* | *-2* | *-11.8* |
| *Profit/loss pertaining to third party underwriters of mutual funds (j)* | - | - | - | - | - | - | - | - |
| Gains (losses) on investments pertaining to insured parties | -936 | - | -936 | -1,003 | - | -1,003 | -67 | -6.7 |
| *Insurance products (k)* | *-427* | - | *-427* | *-449* | - | *-449* | *-22* | *-4.9* |
| *Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (l)* | *4* | - | *4* | *-56* | - | *-56* | *60* | |
| *Investment products (m)* | *-513* | - | *-513* | *-498* | - | *-498* | *15* | *3.0* |
| **Income from insurance business** | **233** | **18** | **251** | **215** | **15** | **230** | **21** | **9.1** |

**Quarterly development Income from insurance business**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

[a] The table illustrates the economic components of the insurance business broken down into those regarding:
- products considered to be insurance products according to IAS/IFRS, which include contracts where the risk insured is considered significant or in which the decision of the return on the contracts is not market-based but depends on the insurance company's choices;
- investment products, which include financial products without a significant insurance risk. The latter are accounted for in the consolidated financial statements as financial movements.

[b] The caption includes premiums issued only for products considered to be insurance products according to IAS/IFRS, net of the portions ceded to reinsurers. For the non-life insurance business, the change in the premiums reserve is also included.

[c] The caption includes the amounts paid (claims, surrenders and maturities) and the change in claims reserves and reserves for amounts to be paid, net of portions ceded to reinsurers.

[d] The caption includes the change in technical reserves, net of the portions ceded to reinsurers.

[e] The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, including the impact of shadow accounting.

[f] The caption includes net fees on investment products; specifically, charges paid by customers, management fees received by the financial units and fee expenses reversed by the insurance companies to the sales network and management companies.

[g] The caption includes commission expenses on insurance products (including unit and index-linked insurance products and pension funds) paid to the sales network.

[h] Residual caption comprising fee income on insurance product management fee income (unit and index-linked insurance products and pension funds), rebates, net interest income on current accounts of the insurance company and on subordinated loans and other income and technical charges.

[i] The caption includes fees paid to management companies for the management of traditional insurance products (separate management) portfolios and pension funds. This also includes fees from consolidated funds underlying insurance units.

[j] The caption includes profit/loss pertaining to third party underwriters of consolidated mutual funds which are not wholly-owned by the Group.

[k] The caption includes the portion of the profit/loss from investments (for insurance products) pertaining to insured parties, without the impact of shadow accounting.

[l] The caption includes the portion of unrealized capital gains/losses pertaining to insured parties on insurance products (shadow accounting).

[m] The caption refers to the valuation of financial liabilities designated at fair value which represent the amount payable to insured parties for investment products.

In the first quarter of 2014, income from insurance business, which includes the cost and revenue captions of the insurance business of the Group's life and non-life companies, was 251 million euro, up 9.1% on the same period of the previous year. The segment's positive performance is attributable to both the life and the non-life business, with an incidence that remains marginal.
The life business recorded an improved net investment result compared to the first three months of 2013. This was attributable to the decreased retrocession, and in particular the valuation component pertaining to insured parties, which follows the shadow accounting principle. This decrease more than offset the drop in the operating income from investments, which was affected by lower realised gains originating from trading activity by the insurance companies, despite the improvement in the valuation component of the portfolios and the rising net interest income. The technical margin decreased by 26 million euro, attributable to the combined effect of an expansion in net premiums and a decrease in the income from investments pertaining to insured parties, on the one hand, and to an increase in charges for insurance claims and surrenders and charges due to the change in technical insurance reserves and an increase in commission expenses on the other.
Income from non-life business grew by 3 million euro, entirely attributable to the net investment result, due to the capital gains. The technical margin was stable: the positive performance of the motor class, supported by the collected premiums associated with the ViaggiaConMe product, the technical rebalancing of the CPI – Credit Protection Insurance products, especially for the polices issued after 2010, and the lower commission expenses were offset by the greater charges for insurance claims and surrenders and the increase in technical charges.

Income from insurance business in the first quarter of 2014, including the life and non-life businesses, was 109 million euro higher than that of the final quarter of the previous year (+76.8%) as a result of the financial component.

(millions of euro)

| | 31.03.2014 | | | | 31.03.2013 |
|---|---|---|---|---|---|
| | **Periodic premiums** | **Single premiums** | **Total** | *of which new business* | |
| **Life insurance business** | **56** | **4,602** | **4,658** | ***4,602*** | **2,391** |
| Premiums issued on traditional products | 46 | 4,558 | 4,604 | *4,558* | 2,336 |
| Premiums issued on unit-linked products | 5 | 9 | 14 | *9* | 14 |
| Premiums issued on capitalisation products | - | - | - | - | - |
| Premiums issued on pension funds | 5 | 35 | 40 | *35* | 41 |
| **Non-life insurance business** | **9** | **43** | **52** | *10* | **51** |
| Premiums issued | 9 | 45 | 54 | *28* | 65 |
| Change in premium reserves | - | -2 | -2 | *-18* | -14 |
| **Premiums ceded to reinsurers** | **-** | **-1** | **-1** | - | **-2** |
| **Net premiums from insurance products** | **65** | **4,644** | **4,709** | ***4,612*** | **2,440** |
| Business on index-linked contracts | - | - | - | - | - |
| Business on unit-linked contracts | 36 | 1,735 | 1,771 | *1,738* | 2,310 |
| **Total business from investment contracts** | **36** | **1,735** | **1,771** | ***1,738*** | **2,310** |
| **Total business** | **101** | **6,379** | **6,480** | ***6,350*** | **4,750** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Business in the insurance segment reached 6,480 million euro in premiums, compared to total inflows of 4,750 million euro in the first quarter of 2013. The significant increase is largely due to premiums issued against traditional life policies, which more than offset the drop in the new unit-linked contract business. New business came to 6,350 million euro.

### *Other operating income (expenses)*

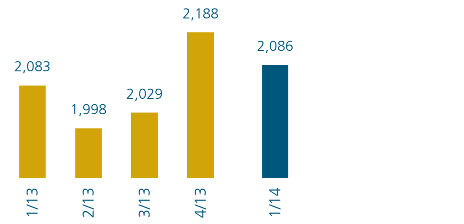
Other operating income (expenses) is a residual caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense, tax and duty recoveries that have been directly deducted from the corresponding sub-captions of administrative expenses. In the first quarter of 2014, the caption showed a loss of 8 million euro, compared to 12 million euro of losses recorded in the same period of 2013.

## Operating costs

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Wages and salaries | 900 | 892 | 8 | 0.9 |
| Social security charges | 233 | 230 | 3 | 1.3 |
| Other | 140 | 138 | 2 | 1.4 |
| **Personnel expenses** | **1,273** | **1,260** | **13** | **1.0** |
| Information technology expenses | 154 | 157 | -3 | -1.9 |
| Management of real estate assets expenses | 159 | 179 | -20 | -11.2 |
| General structure costs | 106 | 104 | 2 | 1.9 |
| Professional and legal expenses | 82 | 72 | 10 | 13.9 |
| Advertising and promotional expenses | 27 | 24 | 3 | 12.5 |
| Indirect personnel costs | 21 | 20 | 1 | 5.0 |
| Other costs | 80 | 75 | 5 | 6.7 |
| Indirect taxes and duties | 223 | 192 | 31 | 16.1 |
| Recovery of expenses and charges | -202 | -165 | 37 | 22.4 |
| **Administrative expenses** | **650** | **658** | **-8** | **-1.2** |
| Property and equipment | 86 | 91 | -5 | -5.5 |
| Intangible assets | 77 | 74 | 3 | 4.1 |
| **Adjustments** | **163** | **165** | **-2** | **-1.2** |
| **Operating costs** | **2,086** | **2,083** | **3** | **0.1** |

**Quarterly development Operating costs**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

Operating costs amounted to 2,086 million euro, in line with the figure recorded in the first three months of 2013. Personnel expenses, equal to 1,273 million euro, showed a slight increase (+1%, equal to 13 million euro) compared to the first quarter of

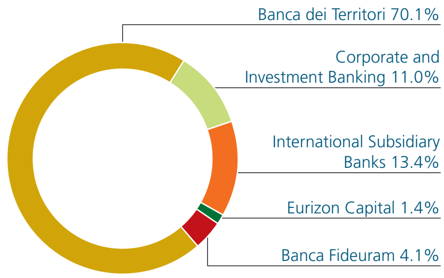
2013. The trend derives from the careful policy adopted by the Group to manage personnel expenses which, on the one hand, facilitated the exit of personnel close to pension age, resulting in a decrease in the number of staff in both year-end and average terms; on the other hand, it promoted the adoption of innovative, advanced incentive systems in line with the Business Plan which are reflected in the allocations for the variable portion of remuneration.
Administrative expenses came to 650 million euro, down 1.2% compared to the same period of the previous year; the containment of expenses is mainly attributable to real estate management (-20 million euro) and to information technology expenses (-3 million euro), only partly offset by the increase in legal and professional fees (+10 million euro), other expenses (+5 million euro), particularly for industrial association contributions, and advertising and promotional expenses (+3 million euro).
Adjustments totalled 163 million euro, down 1.2% on the same period of the previous year: the drop is attributable to lower depreciation of property and equipment, while amortisation of investments in technologies and infrastructures, which are needed for innovation, is increasing. The cost/income ratio for the period was 50.8%, essentially stable compared to 50.7% for the first quarter of 2013, but decreasing sharply compared to 55.7% for the fourth quarter of 2013.

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 1,357 | 1,363 | -6 | -0.4 |
| Corporate and Investment Banking | 213 | 203 | 10 | 4.9 |
| International Subsidiary Banks | 259 | 274 | -15 | -5.5 |
| Eurizon Capital | 28 | 26 | 2 | 7.7 |
| Banca Fideuram | 80 | 81 | -1 | -1.2 |
| **Total business areas** | **1,937** | **1,947** | **-10** | **-0.5** |
| Corporate Centre | 149 | 136 | 13 | 9.6 |
| **Intesa Sanpaolo Group** | **2,086** | **2,083** | **3** | **0.1** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**




Business Units showed a different trend for operating costs: International Subsidiary Banks recorded the sharpest drop (-5.5%, equal to 15 million euro), due to the generalised improvement of the cost captions; Banca dei Territori, which accounts for 70% of business area costs, recorded a decrease of 6 million euro, attributable to the containment of administrative expenses, which offset the increase in personnel expenses. Operating costs of Corporate and Investment Banking and of Eurizon Capital increased by 10 and 2 million euro, respectively, due to higher administrative expenses. Banca Fideuram recorded a slight decrease in operating costs, which is also attributable to the administrative component.

## Operating margin

The operating margin for the first quarter of 2014 amounted to 2,022 million euro, in line with the figure recorded in the same period of the previous year (2,025 million euro) due to the stable revenues and operating costs. Compared to the fourth quarter of 2013, operating margin was up 16%.

## Adjustments to/write-backs on assets

### *Net provisions for risks and charges*

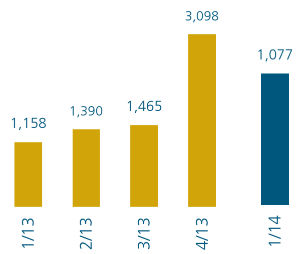
In the first quarter of 2014 net provisions for risks and charges stood at 55 million euro, most of which attributable to provisions for legal disputes by the Parent Company. This figure compares with 26 million euro recorded in the same period of 2013.

### *Net adjustments to loans*

(millions of euro)

| | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Doubtful loans | -558 | -500 | 58 | 11.6 |
| Substandard loans | -344 | -506 | -162 | -32.0 |
| Restructured loans | -19 | -4 | 15 | |
| Past due loans | -134 | -132 | 2 | 1.5 |
| Performing loans | -42 | -29 | 13 | 44.8 |
| **Net losses/recoveries on impairment of loans** | **-1,097** | **-1,171** | **-74** | **-6.3** |
| **Net adjustments to/recoveries on guarantees and commitments** | **20** | **13** | **7** | **53.8** |
| **Net adjustments to loans** | **-1,077** | **-1,158** | **-81** | **-7.0** |

**Quarterly development**
**Net adjustments to loans**




Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation.

The decrease in net adjustments to loans for the first quarter of 2014, compared to the same period of the previous year, was attributable to two reasons in particular: firstly to the more stable general economic situation and the start of a recovery, though still modest, and secondly to the extensive measures on the loan portfolio taken in the last quarter of 2013.

Nonetheless, the cost of credit remains at a high level. This confirms how, after the consolidation of the recovery, time will be needed before the loan quality can improve considerably. In the first quarter of 2014, in particular, net adjustments to loans stood at 1,077 million euro, down 7% compared to the same period of 2013, due to the lower provisions for substandard loans, and down 65.2% compared to the final quarter of the previous year. Action taken on the value of loans has allowed adequate coverage both of non-performing and performing loans to be maintained. Doubtful positions required total net adjustments of 558 million euro, an 11.6% increase compared to the first three months of 2013, with an average coverage ratio rising to 62.9% from 62.5% at the end of 2013. Net impairment losses on substandard loans of 344 million euro recorded a drop of 32% compared to the first quarter of the previous year with a coverage ratio of 23.3%. Net impairment losses on past due loans increased by 2 million euro compared to the same period of the previous year (+1.5%), and net impairment losses on restructured loans, of a limited value overall, increased by 15 million euro.
Lastly, within performing loans, the generic reserve offered a stable coverage ratio for the physiological risk inherent in the portfolio of 0.8%.

### *Net impairment losses on other assets*
In the first three months of 2014, impairment losses on assets other than loans came to 12 million euro, mainly attributable to impairment on investments. This compares to the figure of 68 million euro recorded in the corresponding period of 2013.

### *Profits (Losses) on investments held to maturity and on other investments*
Profits on investments held to maturity and other investments amounted to 75 million euro, due to the sale of the entire investment held by Intesa Sanpaolo in Pirelli & C. (59 million euro) and, to a lower extent, to the sale of real estate. This figure compares to the 5 million euro reported in the same period of 2013.

## Income before tax from continuing operations
Income before tax from continuing operations came to 953 million euro, up 22.5% compared to the first three months of 2013. When compared to the final quarter of the previous year, income before tax from continuing operations increased by 42.9%.

## Other income and expense captions

### *Taxes on income from continuing operations*
Current and deferred taxes came to 364 million euro, in line with those recorded in the same period of 2013. The tax rate was 38.2% lower than that for the first quarter of 2013 (46.8%), mainly as a consequence of the allowed deductibility of adjustments to loans to customers for IRAP purposes.

### *Charges (net of tax) for integration and exit incentives*
This caption totalled 7 million euro, down from the 12 million euro recorded in the first three months of the previous year, due to lower charges for personnel exit incentives.

### *Effect of purchase price allocation (net of tax)*
This caption comprises charges attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition transactions. In the first quarter of 2014 these charges stood at 46 million euro, down from the 74 million euro recorded in the same period of 2013, also due to the portion from the intangible "core deposits" ceasing after being entirely written down in the 2013 financial statements.

### *Income (Loss) from discontinued operations (net of tax)*
In the first quarter of 2014 losses were recorded on discontinued operations for 13 million euro, entirely attributable to the Ukrainian subsidiary Pravex-Bank, for which a sales agreement was signed. This figure is compared to the negative balances of 10 million euro, recorded in the first three months of 2013, and 4 million euro, in the final quarter of the same year, both referring to the same subsidiary.

## Net income (loss)
The Group closed the first quarter of 2014 with a net income of 503 million euro, increasing considerably (+64.4%) from the 306 million euro recorded in the same period of 2013. This result may not be compared with the figure for the fourth quarter of the previous year, which had recorded a negative balance of 5,190 million euro, heavily affected by the impairment of intangible assets and the significant impairment losses on loans.

# Balance sheet aggregates

In the first quarter of 2014, Intesa Sanpaolo's consolidated assets remained essentially in line with the levels reported at the end of 2013 (+0.2%). With regard to assets, there was a decrease in loans to customers (-4.8 billion euro) – due to the persistent difficulties of the economic cycle that has weakened lending, especially to non-financial companies – and financial assets available for sale (-1.9 billion euro), compared with an increase in financial assets held for trading (+3.4 billion euro), other assets (+2.5 billion euro) and the exposure to banking counterparties (+1.6 billion euro). Among liabilities, there was a decline in amounts due to banks (-10.4 billion euro), almost entirely offset by increases in technical reserves (+5 billion euro) and financial liabilities designated at fair value through profit or loss (+0.7 billion euro), both attributable to the Group's insurance companies, financial liabilities held for trading (+2.3 billion euro) and other liabilities (+2.5 billion euro).

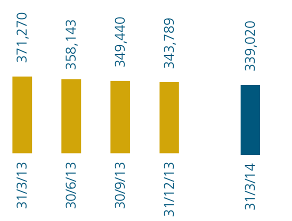
## Loans to customers

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Current accounts | 29,703 | 8.8 | 29,464 | 8.6 | 239 | 0.8 |
| Mortgages | 142,179 | 41.9 | 143,628 | 41.8 | -1,449 | -1.0 |
| Advances and other loans | 107,482 | 31.7 | 109,788 | 31.9 | -2,306 | -2.1 |
| **Commercial banking loans** | **279,364** | **82.4** | **282,880** | **82.3** | **-3,516** | **-1.2** |
| **Repurchase agreements** | **14,348** | **4.2** | **15,059** | **4.4** | **-711** | **-4.7** |
| **Loans represented by securities** | **14,148** | **4.2** | **14,863** | **4.3** | **-715** | **-4.8** |
| **Non-performing loans** | **31,160** | **9.2** | **30,987** | **9.0** | **173** | **0.6** |
| **Loans to customers** | **339,020** | **100.0** | **343,789** | **100.0** | **-4,769** | **-1.4** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

**Quarterly development Loans to customers**



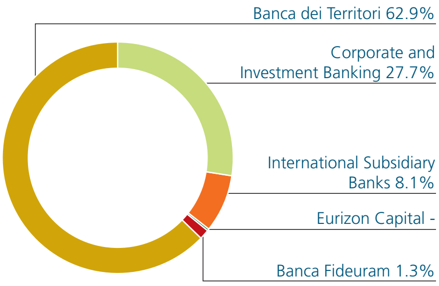

As at 31 March 2014, Intesa Sanpaolo Group loans to customers amounted to approximately 340 billion euro, down 1.4% compared to the end of the previous year.
The decrease in loans since the beginning of the year was essentially due to the 3.5 billion euro reduction in commercial banking loans. Also contributing to the overall change was the decline in loans represented by securities and reverse repurchase agreements, the balances of which decreased by 715 million euro (-4.8%) and 711 million euro (-4.7%), respectively. The decrease in commercial banking loans, conditioned by the economic cycle, translated into a decrease in advances and other loans, down 2.3 billion euro (-2.1%), and in mortgages, down 1.4 billion euro (-1%). This trend reflects, on the one hand, the weak demand for business loans and short-term loans caused by the reduced need to finance working capital, and in medium/long-term loans due to the decrease in investments made, and on the other hand the strict criteria adopted for assessment of creditworthiness applied by managers in view of the decline in borrowers' capacity to meet their commitments. Conversely, current accounts showed a slight increase (+0.8% equal to 239 million euro), reversing the downtrend that had characterised 2013.
In the domestic medium-/long-term loan market, in the first quarter of 2014 disbursements to households (including the small business and non-profit segments) amounted to 2.2 billion euro and disbursements to businesses under the Banca dei Territori scope (including Corporate segment customers with turnover of up to 350 million euro migrated to Banca dei Territori) came to approximately 1.4 billion euro. During the same period, medium-/long-term disbursements to segments in the new Corporate Division in Italy amounted to 4.6 billion euro.
As at 31 March 2014, the Group's share of the domestic market (calculated on the harmonised time-series established for countries in the Eurozone) was estimated at 15.1% for total loans.

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 205,493 | 209,626 | -4,133 | -2.0 |
| Corporate and Investment Banking | 90,436 | 90,907 | -471 | -0.5 |
| International Subsidiary Banks | 26,435 | 27,015 | -580 | -2.1 |
| Eurizon Capital | 179 | 281 | -102 | -36.3 |
| Banca Fideuram | 4,343 | 4,730 | -387 | -8.2 |
| **Total business areas** | **326,886** | **332,559** | **-5,673** | **-1.7** |
| Corporate Centre | 12,134 | 11,230 | 904 | 8.0 |
| **Intesa Sanpaolo Group** | **339,020** | **343,789** | **-4,769** | **-1.4** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

**Business areas**



In the analysis of loans by business area, Banca dei Territori, which accounts for over 60% of the aggregate of the Group's business areas, recorded a decrease of 2% compared to the end of the previous year, particularly to the business segment, including in the form of factored loans. Corporate and Investment Banking loans decreased slightly (-0.5%), resulting from the lesser use of cash by Italian and international corporate customers, particularly Corporate Italia and public finance customers, as well as global industries customers, only partly offset by the development of reverse repurchase agreement transactions with institutional operators and financial intermediaries by Banca IMI. There was also a decline in the loans of the International Subsidiary Banks (-2.1%), most markedly in the cases of the subsidiaries operating in Hungary, Serbia, Croatia and Russia, as well as in those of Banca Fideuram (-8.2%), which presented a stock of loans of modest overall amount due to fewer repurchase agreement transactions with institutional customers.

## Loans to customers: loan portfolio quality

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Change |
|---|---|---|---|---|---|
| | Net exposure | % breakdown | Net exposure | % breakdown | Net exposure |
| Doubtful loans | 13,187 | 3.9 | 12,899 | 3.8 | 288 |
| Substandard loans | 14,004 | 4.1 | 13,815 | 4.0 | 189 |
| Restructured loans | 2,439 | 0.7 | 2,315 | 0.7 | 124 |
| Past due loans | 1,530 | 0.5 | 1,958 | 0.5 | -428 |
| **Non-performing loans** | **31,160** | **9.2** | **30,987** | **9.0** | **173** |
| Performing loans | 293,712 | 86.6 | 297,939 | 86.7 | -4,227 |
| Loans represented by performing securities | 14,148 | 4.2 | 14,863 | 4.3 | -715 |
| **Loans to customers** | **339,020** | **100.0** | **343,789** | **100.0** | **-4,769** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 31 March 2014, the Group's non-performing loans, net of adjustments, remained essentially stable compared to the end of the previous year (+0.6%). With non-performing loans accounting for 9.2% of total loans to customers, the Group maintained a rigorous provisioning policy suited to covering expected losses, also considering the collateral and guarantees. Specific coverage of non-performing loans came to 46.7%, higher than the level at the end of 2013 (46%).
In further detail, doubtful loans came to 13.2 billion euro, net of adjustments, at the end of the first three months of 2014, up by 2.2% compared to the beginning of the year and represented 3.9% of total loans, with an increased coverage ratio of 62.9%. Substandard loans increased slightly (+1.4%) compared to 31 December 2013 to reach 14 billion euro with a 4.1% impact on total loans to customers: the coverage ratio rose to 23.3%. Restructured loans stood at 2.4 billion euro, recording an increase of 5.4%, with an impact on total loans of 0.7% and a coverage ratio down slightly compared to the beginning of the year. Past due loans totalled 1.5 billion euro, down 21.9% compared to the end of 2013, with an increase in the coverage ratio to 14%.
The coverage ratio for performing loans was 0.8%, essentially stable compared to the end of 2013.

## Customer financial assets

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Direct deposits from banking business | 372,470 | 45.6 | 372,066 | 46.3 | 404 | 0.1 |
| Direct deposits from insurance business and technical reserves | 99,203 | 12.2 | 93,493 | 11.6 | 5,710 | 6.1 |
| Indirect customer deposits | 442,660 | 54.2 | 430,287 | 53.6 | 12,373 | 2.9 |
| Netting [(a)] | -98,157 | -12.0 | -92,484 | -11.5 | 5,673 | 6.1 |
| **Customer financial assets** | **816,176** | **100.0** | **803,362** | **100.0** | **12,814** | **1.6** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

[(a)] Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value, life business technical reserves).

As at 31 March 2014, customer financial assets stood at 816 billion euro, up 1.6% compared to the beginning of the year, essentially attributable to direct deposits from insurance business and indirect customer deposits. The insurance segment recorded a 5.7 billion euro increase (+6.1%) as a result both of the increase in life insurance business technical reserves representing traditional policies and, to a lesser extent, the rise in financial liabilities designated at fair value associated with unit-linked products. Indirect customer deposits grew (+2.9%), driven by the assets under management component. Direct deposits from banking business did not report significant changes (+0.1%): the increase in certificates of deposit and repurchase agreements and securities lending was almost entirely offset by the decrease in current accounts and deposits, subordinated liabilities and other deposits.

### *Direct deposits from banking business*

The table below sets out amounts due to customers, securities issued, including those designated at fair value, and securitised capital-protected certificates.

(millions of euro)

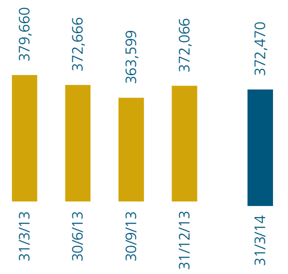
| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Current accounts and deposits | 199,573 | 53.6 | 203,319 | 54.7 | -3,746 | -1.8 |
| Repurchase agreements and securities lending | 17,618 | 4.7 | 15,633 | 4.2 | 1,985 | 12.7 |
| Bonds | 117,860 | 31.6 | 118,383 | 31.8 | -523 | -0.4 |
| *of which designated at fair value (*)* | *9* | - | *10* | - | *-1* | *-10.0* |
| Certificates of deposit | 7,269 | 2.0 | 4,453 | 1.2 | 2,816 | 63.2 |
| Subordinated liabilities | 12,687 | 3.4 | 13,080 | 3.5 | -393 | -3.0 |
| Other deposits | 17,463 | 4.7 | 17,198 | 4.6 | 265 | 1.5 |
| *of which designated at fair value (**)* | *6,235* | *1.7* | *5,616* | *1.5* | *619* | *11.0* |
| **Direct deposits from banking business** | **372,470** | **100.0** | **372,066** | **100.0** | **404** | **0.1** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) Figures included in the Balance sheet under Financial liabilities held for trading.

**Quarterly development Direct deposits from banking business**



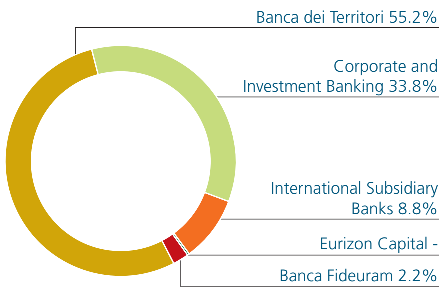

Direct deposits from banking business of 372 billion euro were essentially stable compared to the end of December 2013 (+0.1%), with performances diverging according to the main deposit types.
As indicated above, current accounts and deposits declined by 3.7 billion euro (-1.8%), influenced by the downtrend in the time deposits component. On the other hand, certificates of deposit increased sharply (+63.2%), essentially due to the increase of issues by international branches. Repurchase agreements and securities lending, which are primarily financial in nature, showed an increase of 2 billion euro (+12.7%) to be considered in conjunction with the increase in the Group's transactions with institutional counterparties. Bonds presented a marginal decline of 0.5 billion euro (-0.4%), whereas subordinated liabilities decreased 3%. Other deposits showed growth of 1.5%, primarily due to the increase in commercial papers and capital protected certificates issued by Banca IMI and designated at fair value.
At the end of March 2014, the share of the Group's direct deposits on the harmonised domestic market, consisting of deposits and bonds, according to the ECB definition, stood at 16.4%.

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 189,936 | 194,315 | -4,379 | -2.3 |
| Corporate and Investment Banking | 116,210 | 113,956 | 2,254 | 2.0 |
| International Subsidiary Banks | 30,383 | 30,182 | 201 | 0.7 |
| Eurizon Capital | 7 | 3 | 4 | |
| Banca Fideuram | 7,559 | 7,256 | 303 | 4.2 |
| **Total business areas** | **344,095** | **345,712** | **-1,617** | **-0.5** |
| Corporate Centre | 28,375 | 26,354 | 2,021 | 7.7 |
| **Intesa Sanpaolo Group** | **372,470** | **372,066** | **404** | **0.1** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

**Business areas**




The breakdown by Group business areas shows that Banca dei Territori, which accounts for over half of the aggregate attributable to the Group's total business areas, has declined by 2.3% compared to the beginning of the year: the decrease in securities issued, associated with the maturity of retail bonds, was only partly offset by the increase in amounts due to customers, especially retail and private-banking customers that subscribed to savings deposits. Corporate and Investment Banking grew by 2.3 billion euro (+2%), mainly due to the increase in securities issued by the Irish subsidiary. Banca Fideuram's funding also increased (+4.2%), primarily as a result of repurchase agreements of ordinary customers. The International Subsidiary Banks recorded a slight increase in funding (+0.7%) during the period, essentially attributable to securities issued. The increase in the Corporate Centre's funding (+7.7%) is to be viewed in the light of the expansion of repurchase agreements with Cassa di Compensazione e Garanzia and the issue of wholesale securities and commercial paper.

### *Direct deposits from insurance business and technical reserves*

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| **Financial liabilities of the insurance business designated at fair value (*)** | **31,424** | **31.7** | **30,723** | **32.9** | **701** | **2.3** |
| *Index-linked products* | *874* | *0.9* | *1,099* | 1.2 | *-225* | *-20.5* |
| *Unit-linked products* | *30,550* | *30.8* | *29,624* | 31.7 | *926* | *3.1* |
| **Technical reserves** | **67,210** | **67.7** | **62,236** | **66.5** | **4,974** | **8.0** |
| Life business | 66,733 | 67.2 | 61,761 | 66.0 | 4,972 | 8.1 |
| *Mathematical reserves* | *58,841* | *59.3* | *55,304* | *59.1* | *3,537* | *6.4* |
| *Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds* | *4,386* | *4.4* | *4,766* | *5.1* | *-380* | *-8.0* |
| *Other reserves* | *3,506* | *3.5* | *1,691* | *1.8* | *1,815* | |
| Non-life business | 477 | 0.5 | 475 | 0.5 | 2 | 0.4 |
| **Other insurance deposits (***)** | **569** | **0.6** | **534** | **0.6** | **35** | **6.6** |
| **Direct deposits from insurance business and technical reserves** | **99,203** | **100.0** | **93,493** | **100.0** | **5,710** | **6.1** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

(**) This caption includes unit- and index-linked policies with significant insurance risk.

(***) Figures included in the Balance sheet under Due to customers and securities issued.

**Quarterly development**
**Direct insurance deposits and technical reservese**


Direct deposits from insurance business came to over 99 billion euro at the end of March 2014, up 6.1% from the beginning of the year. Insurance segment financial liabilities designated at fair value were up by 0.7 billion euro (+2.3%), attributable to the contribution from unit-linked products, which more than offset the decline in index-linked products. Technical reserves, which represent the amounts owed to customers subscribing to traditional policies, recorded a net increase of 5 billion euro (+8%), attributable to the life business. This performance is due to the improvement in mathematical reserves, and, to a lesser extent, deferred liabilities to policyholders (included among other reserves), as a result of the favourable financial market performance, only partly offset by the decline in technical reserves associated with unit- and index-linked policies with significant insurance risk and with pension funds.

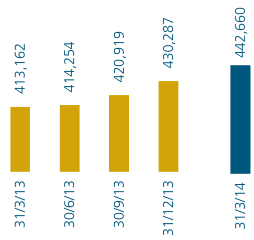
### *Indirect customer deposits*

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Mutual funds (*) | 69,518 | 15.7 | 66,899 | 15.5 | 2,619 | 3.9 |
| Open-ended pension funds and individual pension plans | 3,871 | 0.9 | 3,697 | 0.9 | 174 | 4.7 |
| Portfolio management | 90,100 | 20.4 | 85,108 | 19.8 | 4,992 | 5.9 |
| Life technical reserves and financial liabilities | 95,843 | 21.6 | 92,321 | 21.5 | 3,522 | 3.8 |
| Relations with institutional customers | 10,537 | 2.4 | 10,545 | 2.4 | -8 | -0.1 |
| **Assets under management** | **269,869** | **61.0** | **258,570** | **60.1** | **11,299** | **4.4** |
| **Assets under administration and in custody** | **172,791** | **39.0** | **171,717** | **39.9** | **1,074** | **0.6** |
| **Indirect customer deposits** | **442,660** | **100.0** | **430,287** | **100.0** | **12,373** | **2.9** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

**Quarterly development**
**Indirect deposits**




(*) The caption includes mutual funds established and managed by Eurizon Capital, Banca Fideuram and several international companies. The caption does not include funds held by Group insurance companies and managed by Eurizon Capital, whose values are included in technical reserves, or the contribution of funds established by third parties and managed by Banca Fideuram, whose value is included in assets under administration and in custody.

As at 31 March 2014, indirect customer deposits exceeded 442 billion euro, up 2.9% compared to the end of the previous year. During the quarter, customers continued to reposition into forms of professional asset management, which were the priority destination for new funding inflows. Assets under management, which account for more than half of the total aggregate, increased 11.3 billion euro compared to the beginning of the year (+4.4%), owing to net inflows and the revaluation of assets under management. All main technical forms making up assets under management performed well, continuing the positive trend that had started in the first quarter of 2013: portfolio management increased by 5 billion euro (+5.9%), life insurance policies by 3.5 billion euro (+3.8%) and mutual investment funds by 2.6 billion euro (+3.9%). Positive contributions, albeit of a lesser amount in absolute terms, were also provided by collective and individual pension forms, which showed an increase of 174 million euro (+4.7%), whereas relations with institutional customers remained essentially unchanged (-0.1%). In the insurance business, the new life business of Intesa Sanpaolo Vita (including Intesa Sanpaolo Life) and Fideuram Vita, including pension products, amounted to 6.3 billion euro in the first quarter of 2014.
Assets under administration increased slightly (+0.6%), mainly due to relations with institutional customers.

## Financial assets and liabilities

(millions of euro)

| | 31.03.2014 | | 31.12.2013 | | Changes | |
|---|---|---|---|---|---|---|
| | | *of which Insurance Companies* | | *of which Insurance Companies* | amount | % |
| Financial assets held for trading | 52,352 | *834* | 49,000 | *851* | 3,352 | 6.8 |
| *of which derivatives at fair value* | *30,690* | *4* | *29,909* | *10* | *781* | *2.6* |
| Financial assets designated at fair value through profit and loss | 36,665 | *35,539* | 35,761 | *34,776* | 904 | 2.5 |
| Financial assets available for sale | 113,424 | *57,098* | 115,293 | *54,278* | -1,869 | -1.6 |
| Investments held to maturity | 1,526 | | 2,051 | | -525 | -25.6 |
| **Total financial assets** | **203,967** | ***93,471*** | **202,105** | ***89,905*** | **1,862** | **0.9** |
| **Financial liabilities held for trading (*)** | **-35,247** | ***-369*** | **-33,603** | ***-299*** | **1,644** | **4.9** |
| *of which derivatives at fair value* | *-31,596* | *-369* | *-30,568* | *-299* | *1,028* | *3.4* |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

(*) The amount of the item does not include capital protected securitised derivatives (certificates) which are included in the direct customer deposits table.

The table above illustrates the breakdown of financial assets and the total financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business, certain bond issues designated at fair value and capital-protected certificates, are not represented as these are included in the direct deposits aggregates.
Total financial assets increased by 0.9% owing to the differentiated performance of the various components. Financial assets held for trading recorded an increase of 3.4 billion euro (+6.8%), primarily attributable to bonds and other debt securities. On the other hand, financial assets available for sale showed a decline of 1.9 billion euro (-1.6%), entirely attributable to bonds and other debt securities, with decreases reported primarily by the Parent Company. Financial assets designated at fair value through profit and loss recorded a more limited increase in absolute terms (0.9 billion euro, or an increase of 2.5%), entirely attributable to equities, whilst investments held to maturity decreased 0.5 billion euro (-25.6%).

### *Financial instrument reclassification*

The table below shows the stock of securities subject to reclassification, as permitted by the amendments to IAS 39 made in October 2008, included in the portfolio as at 31 March 2013, together with the effects on the income statement and shareholders' equity reserves of the transfer from designation at fair value to measurement at amortised cost or from designation at fair value through profit and loss to fair value through shareholders' equity.

(millions of euro)

| Type of financial instrument | Previous portfolio | New portfolio | Book value at 31.03.2014 | Fair value at 31.03.2014 | Income components in case of no transfer (before tax) | | Income components for the period (before tax) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Valuation | Other | Valuation | Other |
| Debt securities | Financial assets held for trading | Loans | 982 | 919 | 12 | 6 | -18 | 14 |
| Shares and funds | Financial assets held for trading | Financial assets available for sale | 32 | 32 | -1 | - | -1 | - |
| Debt securities | Financial assets available for sale | Loans | 5,386 | 4,270 | 96 | 41 | -69 | 32 |
| Loans | Financial assets available for sale | Loans | 81 | 82 | -4 | 1 | -5 | 1 |
| **TOTAL** | | | **6,481** | **5,303** | **103** | **48** | **-93** | **47** |

Had the Group not reclassified the above financial assets, a total of 103 million euro in greater positive mark-to-market income components and 48 million euro in other positive components would have been recognised during the quarter. No portfolio transfers were made in the first quarter of 2014.

## Net interbank position

The net interbank position as at 31 March 2014 came to a negative 13.8 billion euro, an improvement on the figure recorded at the end of 2013 (-25.8 billion euro). The reduction of net interbank debt was driven by the loans entered into with the European Central Bank, which at the end of March 2014 had decreased considerably compared to the beginning of the year. This trend may be attributed to the partial repayment of the standard open-market transactions with the Central Bank with durations of between one week and three months that at the end of 2013 had partially replaced funds with longer maturities borrowed during the previous two years with participation in the three-year LTRO auctions.

## Sovereign risk exposure

As at 31 March 2014, the Intesa Sanpaolo Group's sovereign debt exposure was represented by debt securities for 119.5 billion euro (of which 47.3 billion euro in securities held in Group insurance companies' portfolios) and by other loans for 21.6 billion euro.

Among these, the exposure to Italian government securities totalled approximately 102 billion euro, in addition to 19 billion euro represented by loans. Security exposures decreased by approximately 1.3 billion euro compared to that recorded as at 31 December 2013.

The following table illustrates the book value of the aforementioned Intesa Sanpaolo Group exposures to sovereign risk.

(millions of euro)

| | DEBT SECURITIES | | | | | | | LOANS |
|---|---|---|---|---|---|---|---|---|
| | Banking Group | | | | | Insurance companies (*) | Total | |
| | Loans and Receivables | Financial assets available for sale | Investments held to maturity | Financial assets designated at fair value through profit and loss | Financial assets held for trading | | | |
| **EU Countries** | **8,349** | **45,033** | **1,069** | **756** | **12,105** | **46,525** | **113,837** | **21,230** |
| Austria | 36 | 3 | 3 | - | 28 | 10 | 80 | - |
| Belgium | - | 121 | - | - | 84 | 20 | 225 | - |
| Bulgaria | - | - | - | - | 3 | - | 3 | - |
| Croatia | 132 | 72 | 24 | 688 | 37 | 3 | 956 | 1,057 |
| Cyprus | 10 | - | - | - | - | - | 10 | - |
| Czech Republic | - | - | - | - | - | - | - | 25 |
| Denmark | - | - | - | - | 15 | - | 15 | - |
| Estonia | - | - | - | - | - | - | - | - |
| Finland | 200 | - | - | - | 44 | 3 | 247 | 12 |
| France | 35 | 101 | - | - | 735 | 73 | 944 | 17 |
| Germany | 40 | 177 | - | 20 | 693 | 2,044 | 2,974 | - |
| Greece | - | - | - | - | 42 | - | 42 | - |
| Hungary | 1 | 728 | - | - | 166 | 24 | 919 | 261 |
| Ireland | 30 | - | - | - | 5 | 71 | 106 | - |
| Italy | 6,923 | 41,434 | 355 | 48 | 9,305 | 43,962 | 102,027 | 19,002 |
| Latvia | - | - | - | - | - | - | - | 58 |
| Lithuania | 25 | - | - | - | - | - | 25 | - |
| Luxembourg | 116 | - | - | - | 408 | - | 524 | - |
| Malta | - | - | - | - | - | - | - | - |
| Netherlands | 51 | 33 | - | - | 179 | 68 | 331 | - |
| Poland | 11 | - | - | - | 45 | - | 56 | - |
| Portugal | 145 | - | - | - | 22 | 30 | 197 | 15 |
| Romania | 145 | 144 | - | - | 1 | 6 | 296 | 15 |
| Slovakia | - | 1,338 | 687 | - | 45 | - | 2,070 | 116 |
| Slovenia | - | 153 | - | - | - | 6 | 159 | 177 |
| Spain | 370 | 705 | - | - | 10 | 184 | 1,269 | 475 |
| Sweden | 25 | - | - | - | 193 | 21 | 239 | - |
| United Kingdom | 54 | 24 | - | - | 45 | - | 123 | - |
| **North African Countries** | **-** | **1,152** | **-** | **-** | **-** | **-** | **1,152** | **-** |
| Algeria | - | - | - | - | - | - | - | - |
| Egypt | - | 1,152 | - | - | - | - | 1,152 | - |
| Libya | - | - | - | - | - | - | - | - |
| Morocco | - | - | - | - | - | - | - | - |
| Tunisia | - | - | - | - | - | - | - | - |
| **Japan** | **-** | **-** | **-** | **-** | **152** | **-** | **152** | **-** |
| **Other Countries** | **210** | **1,104** | **353** | **37** | **1,815** | **799** | **4,318** | **347** |
| **TOTAL** | **8,559** | **47,289** | **1,422** | **793** | **14,072** | **47,324** | **119,459** | **21,577** |

(*) Debt securities held by insurance companies are recognised as follows: 46,811 million euro in the available for sale portfolio, 288 million euro in the portfolio of assets designated at fair value through profit and loss and 225 million euro in the trading portfolio.

## Shareholders' equity

As at 31 March 2014, the Group's shareholders' equity, including net income for the period, came to 45,007 million euro compared to the 44,520 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves, which include the 2013 net loss as well as the net income accruing in 2014. During the quarter, share capital increased from 8,546 million euro at the end of December 2013 to 8,549 million euro at the end of March 2014 as a consequence of the finalisation of the merger of Centro Leasing into the Parent Company.

### *Valuation reserves*

(millions of euro)

| | Valuation reserves as at 31.12.2013 | Change in the period | Valuation reserves as at 31.03.2014 | |
|---|---|---|---|---|
| | | | | % breakdown |
| Financial assets available for sale | 363 | 250 | 613 | -57.0 |
| *of which: Insurance Companies* | *319* | *82* | *401* | *-37.3* |
| Property and equipment | - | - | - | - |
| Cash flow hedges | -878 | -131 | -1,009 | 93.8 |
| Legally-required revaluations | 359 | - | 359 | -33.4 |
| Other | -918 | -121 | -1,039 | 96.6 |
| **Valuation reserves** | **-1,074** | **-2** | **-1,076** | **100.0** |

As at 31 March 2014, the negative balance of the Group's valuation reserves came to -1,076 million euro, essentially stable compared to the value at the end of December 2013 (-1,074 million euro). Positive contributions to the change in the period included the improvement in reserves for financial assets available for sale (+250 million euro), particularly debt securities included in the insurance companies' portfolios, while negative factors included cash flow hedge reserves (-131 million euro) and other reserves (-121 million euro).

## Own funds and capital ratios

(millions of euro)

| **Own funds and capital ratios** | **31.03.2014** |
|---|---|
| **Own funds** | |
| Common Equity Tier 1 capital (CET1) net of regulatory adjustments | 33,557 |
| Additional Tier 1 capital (AT1) net of regulatory adjustments | 1,037 |
| **TIER 1 CAPITAL** | **34,594** |
| Tier 2 capital net of regulatory adjustments | 7,747 |
| **TOTAL OWN FUNDS** | **42,341** |
| **Risk-weighted assets** | |
| Credit and counterparty risks | 235,466 |
| Market risks | 18,792 |
| Operational risks | 22,737 |
| Other specific risks (a) | 587 |
| **RISK-WEIGHTED ASSETS** | **277,582** |
| **% Capital ratios** | |
| Common Equity Tier 1 capital ratio | 12.1% |
| Tier 1 capital ratio | 12.5% |
| Total capital ratio | 15.3% |

[a] In relation to risk-weighted assets, this caption includes further specific capital requirements as provided for by the Supervisory Authority to the various Group entities.

Own funds, risk weighted assets and the capital ratios at 31 March 2014 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).
Regulatory provisions governing own funds envisage the introduction of the new regulatory framework in a gradual manner, through a transitional period, generally through 2017, during which several elements that, when the framework is in full effect, will be eligible for full inclusion in or deduction from common equity, will only have a partial percentage effect on common equity tier 1 capital. Generally, the residual percentage, after the applicable portion, is included in/deducted from additional tier 1 capital

(AT1) or tier 2 capital (T2), or is considered among risk-weighted assets.
Specific transitional provisions have also been established for subordinated instruments that do not meet the requirements envisaged in the new regulatory provisions, aimed at the gradual exclusion of instruments no longer regarded as eligible from own funds (over a period of eight years).
Accordingly, the prudential ratios as at 31 March 2014 take account of the adjustments envisaged by the transitional provisions for 2014.
Common equity tier 1 capital does not include the net income for the period, inasmuch as the regulatory conditions for its inclusion have not been met.
If interim net income had been considered, on the basis of the provisions of Regulation 575/2013, the capital ratios would have been a CET 1 ratio of 12.2%, a tier 1 ratio of 12.6%, and a total capital ratio of 15.3%.
With respect to the prudential filter on the value of the stakes in the Bank of Italy, in the absence of regulatory provisions, the same approach as in the 2013 financial statements has been adopted with regard to 31 March 2014. Accordingly, in the calculation of capital requirements, the carrying amounts of the shares cancelled following the approval of the Central Bank's new Articles of Association by its shareholders' meeting on 23 December 2013 continue to be 50% deducted from CET1 and 50% from T2. By contrast, the greater carrying amount of the new stakes, net of the tax effect, was deducted in full from CET1. It should be noted that the application of this prudential filter had an impact on CET1 of approximately 90 basis points.
As at 31 March 2014, total own funds came to 42,341 million euro, against risk-weighted assets of 277,582 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 15.3%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 12.5%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 12.1%.
In addition, on the basis of Article 467 (2) of the CRR, adopted by the Bank of Italy in Circular 285, the Intesa Sanpaolo Group has opted to exclude unrealised gains or losses on exposures to central administrations classified among financial assets available for sale (AFS) from its own funds. The effect on common equity tier 1 capital as at 31 March 2014 was six basis points negative.

***Reconciliation of shareholders' equity and common equity tier 1 capital***

(millions of euro)

| Captions | 31.03.2014 |
|---|---|
| Shareholders' equity pertaining to the Group | 45,007 |
| Shareholders' equity pertaining to minority interests | 596 |
| **Shareholders' equity as per the Balance Sheet** | **45,603** |
| Distribution of reserves to shareholders of Intesa Sanpaolo resolved by the Shareholders' Meeting of 8.5.2014 | -822 |
| **Shareholders' equity following distribution to shareholders** | **44,781** |
| **Adjustments for instruments eligible for inclusion in AT1 or T2 and net income for the period** | |
| - Capital of savings shares eligible for inclusion in AT1 | -485 |
| - Minority interests eligible for inclusion in AT1 | -17 |
| - Minority interests eligible for inclusion in T2 | -33 |
| - Ineligible minority interests on full phase-in | -463 |
| - Ineligible net income for the period | -503 |
| - Treasury shares included under regulatory adjustments | 65 |
| - Other ineligible components on full phase-in | 1 |
| **Common Equity Tier 1 capital (CET1) before regulatory adjustments** | **43,346** |
| **Regulatory adjustments (including transitional adjustments)** | **-9,789** |
| **Common Equity Tier 1 capital (CET1) net of regulatory adjustments** | **33,557** |

# Breakdown of consolidated results by business area

The organisational model of the Intesa Sanpaolo Group is based on five Business Units. In addition there is the Corporate Centre, which is charged with providing guidance, coordination and control for the entire Group.


(*) Includes the Group's Treasury.

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
In addition to reflecting the operating responsibilities assigned according to the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first quarter of 2014.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the first quarter of 2014; it also illustrates income statement figures and the main balance sheet aggregates. For each business area, the capital absorbed based on Risk Weighted Assets (RWAs) was also calculated, determined in accordance with the instructions issued by the Bank of Italy in compliance with the regulations in force. For asset management, business risk was also taken into consideration, and for the insurance segment reference was made to the capital absorbed by insurance risk.
As part of the redefinition of the organisational structure and areas of responsibility of the Intesa Sanpaolo Group, the Banca dei Territori Division expanded its scope to companies with group turnover from 150 to 350 million euro, previously included under the Corporate and Investment Banking Division, as well as to the product companies Leasint, Centro Leasing and Mediofactoring.
Division figures for the comparative periods have been restated to reflect the changes in scope of the Business Units, where necessary.

(millions of euro)

| | Banca dei Territori | Corporate and Investment Banking | International Subsidiary Banks | Eurizon Capital | Banca Fideuram | Corporate Centre | Total |
|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | |
| 31.03.2014 | 2,863 | 886 | 509 | 95 | 240 | -485 | 4,108 |
| 31.03.2013 | 2,805 | 992 | 508 | 74 | 195 | -466 | 4,108 |
| % change [(a)] | 2.1 | -10.7 | 0.2 | 28.4 | 23.1 | 4.1 | - |
| **Operating costs** | | | | | | | |
| 31.03.2014 | -1,357 | -213 | -259 | -28 | -80 | -149 | -2,086 |
| 31.03.2013 | -1,363 | -203 | -274 | -26 | -81 | -136 | -2,083 |
| % change [(a)] | -0.4 | 4.9 | -5.5 | 7.7 | -1.2 | 9.6 | 0.1 |
| **Operating margin** | | | | | | | |
| 31.03.2014 | 1,506 | 673 | 250 | 67 | 160 | -634 | 2,022 |
| 31.03.2013 | 1,442 | 789 | 234 | 48 | 114 | -602 | 2,025 |
| % change [(a)] | 4.4 | -14.7 | 6.8 | 39.6 | 40.4 | 5.3 | -0.1 |
| **Net income (loss)** | | | | | | | |
| 31.03.2014 | 361 | 413 | 85 | 42 | 78 | -476 | 503 |
| 31.03.2013 | 226 | 454 | 47 | 28 | 57 | -506 | 306 |
| % change [(a)] | 59.7 | -9.0 | 80.9 | 50.0 | 36.8 | -5.9 | 64.4 |
| **Loans to customers** | | | | | | | |
| 31.03.2014 | 205,493 | 90,436 | 26,435 | 179 | 4,343 | 12,134 | 339,020 |
| 31.12.2013 | 209,626 | 90,907 | 27,015 | 281 | 4,730 | 11,230 | 343,789 |
| % change [(b)] | -2.0 | -0.5 | -2.1 | -36.3 | -8.2 | 8.0 | -1.4 |
| **Direct deposits from banking business** | | | | | | | |
| 31.03.2014 | 189,936 | 116,210 | 30,383 | 7 | 7,559 | 28,375 | 372,470 |
| 31.12.2013 | 194,315 | 113,956 | 30,182 | 3 | 7,256 | 26,354 | 372,066 |
| % change [(b)] | -2.3 | 2.0 | 0.7 | | 4.2 | 7.7 | 0.1 |
| **Risk-weighted assets** [(c)] | | | | | | | |
| 31.03.2014 | 106,518 | 95,819 | 28,259 | 601 | 5,907 | 40,478 | 277,582 |
| **Absorbed capital** [(c)] | | | | | | | |
| 31.03.2014 | 10,984 | 7,666 | 2,261 | 54 | 761 | 3,241 | 24,967 |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] The change expresses the ratio between 31.03.2014 and 31.03.2013.

[(b)] The change expresses the ratio between 31.03.2014 and 31.12.2013.

[(c)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

## BUSINESS AREAS

### Banca dei Territori

(millions of euro)

| Income statement | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 1,521 | 1,562 | -41 | -2.6 |
| Dividends and profits (losses) on investments carried at equity | - | 12 | -12 | |
| Net fee and commission income | 1,089 | 992 | 97 | 9.8 |
| Profits (Losses) on trading | 14 | 19 | -5 | -26.3 |
| Income from insurance business | 227 | 212 | 15 | 7.1 |
| Other operating income (expenses) | 12 | 8 | 4 | 50.0 |
| **Operating income** | **2,863** | **2,805** | **58** | **2.1** |
| Personnel expenses | -806 | -789 | 17 | 2.2 |
| Other administrative expenses | -550 | -572 | -22 | -3.8 |
| Adjustments to property, equipment and intangible assets | -1 | -2 | -1 | -50.0 |
| **Operating costs** | **-1,357** | **-1,363** | **-6** | **-0.4** |
| **Operating margin** | **1,506** | **1,442** | **64** | **4.4** |
| Net provisions for risks and charges | -9 | -13 | -4 | -30.8 |
| Net adjustments to loans | -882 | -940 | -58 | -6.2 |
| Net impairment losses on other assets | - | - | - | - |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **615** | **489** | **126** | **25.8** |
| Taxes on income from continuing operations | -233 | -212 | 21 | 9.9 |
| Charges (net of tax) for integration and exit incentives | -5 | -9 | -4 | -44.4 |
| Effect of purchase price allocation (net of tax) | -16 | -42 | -26 | -61.9 |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income (loss)** | **361** | **226** | **135** | **59.7** |

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 205,493 | 209,626 | -4,133 | -2.0 |
| Direct deposits from banking business | 189,936 | 194,315 | -4,379 | -2.3 |
| Direct deposits from insurance business and technical reserves | 79,739 | 75,062 | 4,677 | 6.2 |
| Risk-weighted assets [(a)] | 106,518 | | | |
| Absorbed capital [(a)] | 10,984 | | | |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

Banca dei Territori's operating income was 2,863 million euro in the first quarter of 2014, amounting to 70% of the Group's consolidated operating income, up 2.1% on the same period of the previous year. In further detail, there was decline in net interest income (-2.6%), the main causes of which included the lesser contribution from the hedging of demand deposits and lower volumes of loans to customers, despite higher customer dealing. By contrast, net fee and commission income increased (+9.8%), most markedly on asset management and bancassurance products and fees and commissions on placements. Other income components reported a decrease in profits on trading, dropping from 19 million euro to 14 million euro. Income from insurance business was 227 million euro, up 7.1%, attributable to the improvement in the net investment result. Operating costs, amounting to 1,357 million euro, fell (-0.4%) compared to the same period of the previous year. The operating margin amounted to 1,506 million euro, up 4.4% on the first three months of 2013. Income before tax from continuing operations also improved (+25.8%), amounting to 615 million euro, driven by the decline in adjustments to loans (-6.2%). The cost of credit of Banca dei Territori, calculated as the ratio of annualised adjustments to loans and stock of loans to customers, amounted to 1.7% during the first quarter of 2014. In greater detail, adjustments during the period by the Network Banks with respect to Banca dei Territori amounted to 681 million euro (compared to loans of 147,525 million euro), broken down as follows: Intesa Sanpaolo 326 million euro, Banco di Napoli 61 million euro, Banca dell'Adriatico 35 million euro, CR Veneto 63 million

euro, CR Venezia 10 million euro, CR Friuli Venezia Giulia 18 million euro, Banca di Trento e Bolzano 10 million euro, Carisbo 35 million euro, CR Romagna 16 million euro, the Banca CR Firenze Group 82 million euro, Banca di Credito Sardo 14 million euro, Banca Monte Parma 11 million euro.
Lastly, after allocation to the Division of charges for integration of 5 million euro and the economic effects of purchase price allocation for 16 million euro, net income amounted to 361 million euro, up 59.7%.
On a quarterly basis, the first quarter of 2014 reported an operating margin up 7% on the fourth quarter of 2013 thanks to the increase in revenues (+4.1%). Income before tax from continuing operations showed a significant improvement compared to the loss reported in the previous quarter, benefiting from lower adjustments to loans.
The balance sheet figures at the end of March 2014 showed loans to customers of 205,493 million euro, down 2% on the previous year-end essentially as a result of the decrease in loans to business customers, which reduced their use of loans due to the negative economic context, as well as to factored loans. Direct deposits from banking business, amounting to 189,936 million euro, was down 2.3%, due to the downward trend in securities issued associated with the maturity of retail bonds, which more than offset the slight increase in amounts due to customers, especially to retail and private customers that subscribed savings deposits. On the other hand, direct deposits from insurance business, which came to 79,739 million euro, were up (+6.2%), mainly as a result of the growth in technical reserves.

| | |
|---|---|
| **Business** | Traditional lending and deposit collection operations in Italy and associated financial services |
| **Mission** | To serve Households, Personal, Small Business, Private and Small and Medium Enterprise customers, creating value through:<br>– widespread local coverage<br>– a focus on the specific qualities of local markets<br>– exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, Banks and Branches as points of reference for the Group at local level<br>– exploitation of the companies specialised in medium-term lending, consumer credit and pensions and insurance, reporting to the Business Unit |
| **Organisational structure** | |
| Marketing Department | Manages the Retail market, composed of the Households (individual customers with financial assets under 100,000 euro) and Personal (individual customers with financial assets between 100,000 euro and 1 million euro) segments, the Small Business market (businesses/companies with a turnover under 2.5 million euro and group loan facilities under 1 million euro) and the SME market (companies with group turnover between 2.5 and 350 million euro) |
| Intesa Sanpaolo Private Banking | Devoted to individual customers with financial assets of over 1 million euro |
| Product companies | Specialised in medium-term credit and leasing (Mediocredito Italiano), consumer credit (Intesa Sanpaolo Personal Finance), factoring (Mediofactoring), the management of electronic payments (Setefi) and trust services (Sirefid). |
| Banca Prossima | Serves non-profit organisations |
| Insurance and Pension companies | Specialised in offering pension and personal and asset protection services |
| **Distribution structure** | Approximately 4,500 branches, including Retail and Business branches, distributed broadly throughout Italy. The territorial structure is divided into 7 Regional Governance Centres that coordinate 28 Areas/Network Banks, designed to guarantee optimum territorial coverage and standardised sizing in terms of numbers of branches and resources assigned |

Within the framework of the process of simplifying and integrating the Intesa Sanpaolo Group’s product companies, effective 1 January 2014 Mediocredito Italiano incorporated the Group's leasing companies, Leasint and Centro Leasing, and the leasing segment of Neos Finance, creating a new integrated Business Finance hub.

## Marketing Department – *Retail Market*

| | |
|---|---|
| **Investment** | In the first quarter of 2014, the diversification of customer portfolios continued according to the rationale underlying the need-based approach (Spending, Reserves, Investment and Pension) and the Recommended Portfolios.<br>Major changes in the range of investment products, constructed considering both the market scenario and the rationale behind the Recommended Portfolios, related to the launch of:<br>– an Italian registered flexible bond fund in the "Eurizon Cedola Attiva Più" line with maturity in May 2019, which aims to optimise return over a time period of five years within the risk level set for it and distribute a semi-annual coupon;<br>– three Italian registered funds in the "Eurizon Gestione Attiva" ("Classica", "Dinamica" and "Opportunità") line with maturity in May 2019, which aim to maximise the return on investment based on the time period, through flexible management within the risk level set for each fund;<br>– three new sub-funds of the Luxembourg fund "Investment Solutions By Epsilon", named "Valore Cedola x 5 02/2014", "Equity Coupon 02/2014" and "Soluzione Flessibile Protetta 02/2014", which over the recommended investment horizon of five years aim, in the case of the first, to achieve a positive expected return through flexible investment in bonds, shares and currencies and to distribute an annual coupon; in the case of the second, to achieve a positive expected return through an approach focused on the equity component and to distribute an annual coupon; and, in the case of the third, to offer a positive return with the protection of invested capital at maturity;<br>– "Epsilon Flexible Forex Coupon Aprile 2019", Italian registered fund which, through dynamic investment in bond financial instruments and, to a minimum extent, equity financial instruments denominated in currencies other than the euro, aims to optimise return over a predefined time period, observing a risk budget, and distribute a semi-annual coupon;<br>– an Italian registered fund in the "Eurizon Cedola Attiva Top" line with maturity in May 2021, which aims to optimise return over a time period of about seven years and distribute an annual coupon, through flexible investments, with equity exposure of at least 30%, in the European and US markets, hedging foreign exchange risk and selecting securities from companies generating significant, sustainable cash flows;<br>– "ISPL Prospettiva 2.0", an Intesa Sanpaolo Life unit-linked policy that offers customers with investment/insurance needs a high degree of personalisation and diversification through the choice of the investment solution best suited to their return objectives, in a manner consistent with their risk profiles, within the framework of a line of 21 different internal funds, distinguished by their quality of management, financial structure, investment styles and control of financial risks and sub-divided into four thematic areas (Delegated Management, Personalised Management, Co-Investment Management and Tactical Management);<br>– Group bonds and equity protection certificates, the offering of which is updated monthly in accordance with the context and market developments. |
| **Banca Estesa Project and Out-of-branch Offerings** | With the aim of dedicating increasingly close attention to customer service and expectations, the Intesa Sanpaolo Group continued to develop the Banca Estesa project, in order to make services and advice available to customers during longer hours, not only via direct channels, but also at branches.<br>Including the new activations during the quarter, 535 of the Group's branches were involved in the extension of operations to the evening, Saturday and lunch break time brackets, adjusting business hours to modern lifestyles. The proposed new model will revolutionise the way customers access banking services, permitting merchants, professionals and, more generally, small-business customers and salaried employees to visit the bank according to a schedule more compatible with their entrepreneurial or professional activities.<br>In parallel to the extension of branch business hours, the Bank continued to develop its Out-of-Branch Offerings. There are over 900 personal managers who, after a training process and qualification to act as financial advisors, are able to serve customers in their homes or workplaces, acting in real time. The pool is currently being expanded and will include additional managers and branch managers, until almost all advisors have been included. |

## Marketing Department – *Small Business Market*

| | |
|---|---|
| **Loans** | In response to the environmental emergencies that occurred during the quarter, the Intesa Sanpaolo Group supported again households and businesses, offering various payment suspension programmes for mortgages and other loans.<br>In support of businesses and households in the Province of Belluno damaged in late January 2014 by an additional snowstorm (following that of December 2013), through Cassa di Risparmio del Veneto, the Intesa Sanpaolo Group renewed the 10 million euro credit line available to entrepreneurs, and those operating in the sectors of tourism, hospitality and commerce in particular, in the form of loans at favourable terms of up to five years, which may benefit from a grace period of up to 18 months. These instruments are in addition to normal operations, which include rapid, simplified procedures for obtaining advances on trade receivables and any insurance reimbursements, as well as loans. Cassa di Risparmio del Veneto made available additional 15 million euro to businesses and households of Veneto damaged by the exceptional rainfall in early February. Cassa di Risparmio del Friuli Venezia Giulia and Cassa di Risparmio di Venezia also allocated 10 million and 5 million euro, respectively, as well as arranged specific financing instruments of up to five years, at favourable terms, which may involve a grace period of up to 18 months.<br>In January, measures were launched for the benefit of Tuscans who suffered damages in the October 2013 floods, for which a specific government order was issued, introducing the possibility for households and businesses affected by the floods to apply for suspension of their loans for a period of eight months. The Bank made the programme operational and informed customers of the benefits through a specific notice posted in branches located in the area affected and published on the websites of Group banks. A similar government order was issued in February for individuals and companies with their residences or registered offices/places of business in the municipalities of the Province of Matera damaged by flooding, which allows borrowers to apply to have their mortgage payments suspended for six months. |

## Marketing Department – *Business Market*

| | |
|---|---|
| **Agreements** | Intesa Sanpaolo and FIPER, Italian Federation of Producers of Renewable Energy (Federazione Italiana dei Produttori di Energia da fonti Rinnovabili) signed an agreement for the support and development of economic activities relating to the wood-energy sector (biomass and biogas district heating systems). The partnership, which for the moment only involves companies operating in the sector based in Lombardy, where a significant number of plants are located, but which is later to be extended to other regions, calls for specific financing instruments for companies that operate in the agriculture and renewable energy sector, customised to meet the needs of the various production activities of the FIPER member companies based in Lombardy, in addition to traditional products and services dedicated to businesses.<br><br>Through Banca di Trento e Bolzano, the Intesa Sanpaolo Group and Cooperativa Artigiana di Garanzia (Guarantee Craft Cooperative) of the Province of Trento signed an agreement for the development of member companies in the community that is to involve 8 million euro in new lines of credit to finance the activities and projects of local companies, under especially favourable economic conditions, thanks to the guarantee provided by the cooperative drawing on its own assets. |
| **Loans** | Through two distinct, innovative financing projects, Intesa Sanpaolo, in conjunction with the European Investment Bank (EIB), allocated 240 million euro to youth employment in SMEs, innovative start-ups and social projects.<br>The programme is to involve:<br>– a credit line of 120 million euro for the creation of new jobs for young people ages 15 to 29 in SMEs and Mid-Caps and in support of the creation and development of innovative start-ups (operating for no more than 48 months and engaging in the development, production and marketing of innovative products or services with high technological value);<br>– loans of 120 million euro to finance investments by small and medium enterprises in the social sector (healthcare, education and urban renewal).<br><br>The Intesa Sanpaolo Group signed the agreement between the Italian Banking Association, Cassa Depositi e Prestiti and Ministry for Economic Development for the implementation of the Capital Goods Plafond (the "New Sabatini Law"). The measure involves loans at favourable terms funded by Cassa Depositi e Prestiti, with a contribution from the Ministry for Economic Development to cover part of the interest, and the possibility of benefiting from a guarantee from the SME Guarantee Fund under priority access conditions. The programme is operational within the Group through Mediocredito Italiano. On the first day applications were accepted (31 March), the Group received more than 300 loan applications. |

### Intesa Sanpaolo Private Banking

In the first quarter of 2014, Intesa Sanpaolo Private Banking operations developed according to the following strategic guidelines: innovating commercial offerings, developing customers and strengthening the oversight of commercial operations. Implementation of the for-pay advisory services continued successfully, for both top-level customers (Private Advisory) as well as mid-level customers (Advisory). Approximately 300 new customers signed up for this service during the quarter, with a contribution of approximately 500 million euro in new assets, reaching 5 billion euro in assets under advisory contracts at the end of March. Measures aimed at developing asset management also continued during the period, yielding excellent results in terms of net inflows to funds and portfolio management schemes (over 1 billion euro during the quarter). Assets managed also continued to grow during the first quarter, rising to approximately 84 billion euro (from approximately 80 billion at the end of 2013), as a result of the effective commercial operations by the network, the results achieved by asset management and advisory products and the "synergy" agreements in place with the Banca dei Territori Division.
Intesa Sanpaolo Private Banking earned net income of 59 million euro in the first three months of 2014, up 44.6% compared to the same period of 2013, mainly as a result of the good performance of revenues (+26.6%), driven by interest income (+30.2%) and net fee and commission income (+25.6%).

### Product companies

In the first quarter of 2014, **Mediocredito Italiano** disbursed loans totalling 607 million euro, down 11.1% compared to the same period of the previous year. With 491 million euro of loans disbursed, Banca dei Territori accounts for 81% of total volumes, followed by the Corporate and Investment Banking Division, which represents 19% of volumes (114 million euro). Loans with dedicated funding (EIB, Abaco and Cassa Depositi e Prestiti) of 366 million euro, increased their weight to 61% from 30% in the same period of the previous year. Operations of the Specialised Desks, supported by constantly evolving analysis tools, contributed 22% (132 million euro) of total loan disbursements during the period, down compared to the same period of 2013. Loans relating to the Networks and Research area and Energy area were predominant (40% and 24%, respectively, of the total disbursed by the Specialised Desks).
Turning to the commercial performance of the leasing business, Mediocredito Italiano entered into 1,508 new contracts, for a total of 354 million euro (-22.3%), during the quarter. The contracts entered into by the Banca dei Territori Division amounted to 302 million euro, accounting for 85% of total volumes, whereas those entered into by the Corporate and Investment Banking Division came to 38 million euro, or 11% of total volumes. In the first quarter of 2014, the best-selling leasing product was instrumental, the percent weight of which rose from 33% in the first quarter of 2013 to 41%. There was also an increase in the real estate (39% compared to 31% in the first three months of 2013) and car (11% compared to 8%) segments. There was a sharp decline in the weight of Energy leases due to the decrease in government incentives for the sector (8% compared to 27% on 31 March 2013).
The continued focus of the Mediocredito Italiano network on value creation was also confirmed during the first quarter of 2014.
Mediocredito's operating margin amounted to 117 million euro, up 10.5% compared to 106 million euro in the same period of the previous year, calculated net of the dividend of 11 million euro authorised by the shareholders' meeting of Intesa Lease Sec, recognised in the first three months of 2013. This trend may be attributed to the positive performance of revenues (+7.6%) and the reduction in operating costs (-2.9%). After posting high adjustments to loans, the company reported a net loss of 23 million euro, compared to net loss of 37 million euro in the same period of the previous year (net of the aforementioned dividend).

Consumer credit activities are carried out through **Intesa Sanpaolo Personal Finance**. In the first three months of 2014, the new loans disbursed totalled 794 million euro, down 1.4% compared to the same period of the previous year (special-purpose loans +12.8%; car loans +42.5%; personal loans -2.4%; assignment of one-fifth of salary -19.3%). In terms of commercial initiatives, in the extra-captive channel the first direct marketing campaign for assignment of one-fifth of salary was launched with the aim of transferring customers with personal and special-purpose loans to this product. The prize competition, in which new subscribers are eligible to win a round-trip flight to a European destination, to be booked through Volagratis, is also related to the initiative, which generated 120,000 contacts. The prize is doubled for those who invite a friend to join the promotion. In addition, campaigns continued for special-purpose car and home improvement loans eligible for current tax relief, with the aim of acquiring private contacts, launching for them repeat-business initiatives and consolidating the strong levels of margin already achieved, in order to develop new business in the sectors indicated and increase market share. Pricing for car loans and assignment of one-fifth of salary was revised in order to rationalise and simplify offerings while guaranteeing margins and competitiveness. As regards the captive channel, in the first quarter commercial contact initiatives were planned for over one million customers, targeting the populations with the greatest propensity to take out loans and limited risk indices, through both push channels, such as calls from managers, and pull channels, such as messages on ATMs and the Group's website.
Intesa Sanpaolo Personal Finance's income before tax from continuing operations amounted to 1.1 million euro compared to 9.2 million euro in the first quarter of 2013. This performance may be attributed to the decrease in revenues (-2.3%) due to the rise in fee and commission expense, greater operating costs (+2.5%) and higher adjustments to loans (+13.5%). The company ended the quarter with a net loss of 0.4 million euro, compared to the net income of 3.1 million euro in the first three months of 2013.

**Setefi** specialises in managing electronic payment systems, and is registered in the Payment Institutes Registry kept by the Bank of Italy. The company is an independent business unit for acquiring and a hub for concentrating all activities relating to cards and POS. Setefi also carries out processing for payment cards on behalf of the banks in the Intesa Sanpaolo Group and, though total volumes are marginal, also issuing of own payment cards, typically relating to fidelity cards.
Almost all of the 13.5 million euro cards managed by Setefi as at 31 March 2014 are cards issued directly by the Parent Company and the Group banks (+7% compared to the end of March 2013). The number of POS at the end of March 2014 amounted to approximately 295,000. In the first quarter of 2014, the volume of transactions handled (transactions on Setefi POS and transactions of cards issued by Group banks on other POS) and the total amount transacted increased compared to the same period of 2013. The total number of transactions handled came to approximately 183 million euro, while the amount transacted stood at approximately 13 billion euro. Setefi's growth plans for 2014 regard the e-commerce, mobile POS and mobile payments

sectors as targets for priority action, in addition to initiatives aimed at consolidating and implementing international expansion on the most attractive European markets, as well as the offering of electronic money services on the non-captive market (banks not belonging to the Group). Setefi implements constant modulation of its commercial offerings, characterised by a range of high value added services with a strong technological component. The main initiatives undertaken during the quarter included the measures aimed at disseminating the Mobile POS product, which resulted in the installation of approximately 7,000 new Move and Pay Business devices (a Setefi solution that associates smartphones and/or tablets with a device that accepts payments by cards on both international circuits and the domestic PagoBancomat circuit via both contactless and NFC technology). In this context, the commercial agreement with Vodafone was further consolidated, along with Intesa Sanpaolo, through co-marketing initiatives. Within the framework of the implementation of integrated services for growth on the e-commerce market, mention should be made of the agreement reached with PayPal, which will foster the sale of products and services online. PayPal is in addition to the payment systems accepted by MonetaWeb, the Setefi platform that manages collections for businesses and professionals operating via the e-commerce channel. The company's other initiatives included development of its acquiring-couponing platform: Setefi provided merchants and Intesa Sanpaolo with access to a couponing platform within its MonetaWeb portal, enabling an exclusive service for coupon life cycle management through its POS network. Acquiring initiatives also continued in new countries (Setefi operates in Switzerland, Spain, France, Austria and Germany and is also authorised to operate in the United Kingdom, Greece, Portugal, the Netherlands and the Principality of Monaco), with the aim of allowing the acceptance of JCB cards. In addition, mention should be made of the offering of acquiring and card-processing outsourcing agreements to major non-captive customers. Finally, as regards activities aimed at the transfer by Intesa Sanpaolo to Setefi of the authorisation system for the acceptance of payments by Bancomat/Pagobancomat cards (via both ATMs and POS terminals), migrations to the bank's new "clone" machines were completed for the Group and are in progress for Intesa Sanpaolo.
In the first quarter of 2014, Setefi recorded a significant increase in operating margin, which rose to 57 million euro (+12.5% compared to the same period of 2013) and in net income, amounting to 38 million euro (+12.4%), as a result of the increase in operations in terms of handling of credit cards issued, volumes transacted and number of POS installed.

In the first quarter of 2014, **Mediofactoring** reported a turnover of 12.5 billion euro, a 5.1% decrease on the same period of 2013, retaining its position as the number-one domestic factoring provider by turnover, with a market share of 30.1%. Compared to 31 December 2013, outstanding receivables, equal to 13.7 billion euro, posted a decrease (-7.8%) and period-end loans amounted to 11.4 billion euro, down 10.6%. This performance is attributable to lower tensions on the financial markets in 2013, resulting in a greater opportunity to procure funding, specifically for customers of international scope. Average loan volumes came to 9.7 billion euro, down 0.7 billion euro compared to the first three months of 2013 (-7%).
In terms of income statement figures, Mediofactoring's operating margin in the first quarter of 2014 was 74 million euro, up 1.5% on the same period of the previous year. This performance is attributable to the increase in net interest income, on the one hand, only partially offset by the lower net fee and commission income associated with the decrease in turnover, and to the containment of operating costs, on the other. Income before tax from continuing operations was 66 million euro, an increase of 18.5%, primarily due to the lower adjustments to loans (-50.8%), while net income was 43 million euro (+19.6%).

## Banca Prossima

In the first quarter of 2014, **Banca Prossima**, which operates in the non-profit sector with 65 local branches and 160 specialists distributed across the country, continued to acquire new customers for the Group. As at 31 march 2014, the bank had over 28,000 customers (more than 70% of which new to the Group). Financial assets amounted to 4.8 billion euro, of which 3.4 billion euro in indirect customer deposits and 1.4 billion euro in direct customer deposits. At the same date, lending operations had achieved an approved amount of 1.8 billion euro (of which 1.2 billion euro had been used). In the first three months of 2014 the company reported revenues of 12 million euro (+15.3% compared to the same period of 2013), achieving an operating margin of 4.2 million euro and net income of 0.6 million euro.
During the quarter, to consolidate and further strengthen Banca Prossima's leading role for the non-profit sector, commercial operations increasingly concentrated on acquiring new customers as well as developing existing customers. Loan disbursement activity continued in connection with the placement of the first Intesa Sanpaolo "Serie Speciale Banca Prossima" bond, placed in late 2013 at a rate below the market rate for Group bonds of the same maturity. Through Banca Prossima, the funds raised through the placement become loans to non-profit organisations, and the lower yield on the bond corresponds to the interest savings on the loans granted. Innovative, distinctive solutions dedicated to the non-profit sector, such as the Terzo Valore crowd-lending portal, continued to be offered. Ten projects were published and completed in the first quarter.

## Insurance and Pension companies

**Intesa Sanpaolo Vita**, the Intesa Sanpaolo Group's insurance company, offers an extensive range of products and services covering insurance investment, family protection and supplementary pensions, and makes use of a widespread distribution structure based on numerous channels: branches of Group banks which offer the entire range of products, Intesa Sanpaolo Personal Finance branches for insurance products covering personal loans, consumer credit and assignment of one-fifth of salary. The Intesa Sanpaolo Vita insurance group includes: **Intesa Sanpaolo Assicura**, which operates in the non-life business, and incorporated Bentos Assicurazioni at the end of December 2013; **Intesa Sanpaolo Life**, a company incorporated under Irish law, operating under the free provision of services in the life business; EurizonVita (Beijing) Business Advisory, a company incorporated under Chinese law, which performs instrumental activities relating to the minority investment held by Intesa Sanpaolo Vita in Union Life Insurance Limited Company (which will be sold in the next few months, based on an agreement signed in January 2014); and Intesa Sanpaolo Smart Care, dedicated to the marketing and sale of hardware and software and the supply of electronic support services.
In the first quarter of 2014, Intesa Sanpaolo Vita reported income from insurance business of 227 million euro, up 7.1% compared to the same period of 2013, primarily due to the improvement in net investment result. At the end of March 2014 the portfolio of policies came to 76,374 million euro, up 4% from the beginning of the year. In the first quarter of 2014, gross life

premiums underwritten for both insurance products and policies with investment content amounted to 5,226 million euro, compared to 2,934 million euro in the same period of the previous year. New life business amounted to 5,174 million euro (2,871 million euro in the first three months of 2013).

As at 31 December 2014 the assets managed by **Intesa Sanpaolo Previdenza** came to 1,975 million euro, of which 1,675 million euro consisted of open-ended pension funds established by the company (+2.8% compared to the end of December 2013) and 300 million euro of closed-end fund management mandates (up 1.4% from the beginning of the year). Net inflows for the quarter were positive for both types of funds (amounting to a total of 28 million euro). At the end of March 2014, Intesa Sanpaolo Previdenza had about 325,000 pension positions under management, of which 139,000 attributable to administration mandates granted by third parties. The first quarter of 2014 was characterised by an increase in placements of pension funds compared to the fourth quarter of 2013, primarily due to the activity of the Group's distribution networks: in the open-ended pension fund market, Intesa Sanpaolo Previdenza remains the leading operator in terms of participants and number-two in terms of assets under management. As part of the process of streamlining supplementary pension schemes, the company completed the merger by incorporation of the "CRF Previdenza" open-ended pension fund into the "Il Mio Domani" open-ended pension fund (the Group's target fund).

## Corporate and Investment Banking

(millions of euro)

| Income statement | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 458 | 434 | 24 | 5.5 |
| Dividends and profits (losses) on investments carried at equity | 3 | 1 | 2 | |
| Net fee and commission income | 177 | 224 | -47 | -21.0 |
| Profits (Losses) on trading | 249 | 333 | -84 | -25.2 |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | -1 | - | 1 | - |
| **Operating income** | **886** | **992** | **-106** | **-10.7** |
| Personnel expenses | -81 | -81 | - | - |
| Other administrative expenses | -131 | -121 | 10 | 8.3 |
| Adjustments to property, equipment and intangible assets | -1 | -1 | - | - |
| **Operating costs** | **-213** | **-203** | **10** | **4.9** |
| **Operating margin** | **673** | **789** | **-116** | **-14.7** |
| Net provisions for risks and charges | -2 | - | 2 | - |
| Net adjustments to loans | -91 | -90 | 1 | 1.1 |
| Net impairment losses on other assets | -8 | -22 | -14 | -63.6 |
| Profits (Losses) on investments held to maturity and on other investments | 47 | - | 47 | - |
| **Income (Loss) before tax from continuing operations** | **619** | **677** | **-58** | **-8.6** |
| Taxes on income from continuing operations | -206 | -222 | -16 | -7.2 |
| Charges (net of tax) for integration and exit incentives | - | -1 | -1 | |
| Effect of purchase price allocation (net of tax) | - | - | - | - |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income (loss)** | **413** | **454** | **-41** | **-9.0** |

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 90,436 | 90,907 | -471 | -0.5 |
| Direct deposits from banking business [(a)] | 116,210 | 113,956 | 2,254 | 2.0 |
| Risk-weighted assets [(b)] | 95,819 | | | |
| Absorbed capital [(b)] | 7,666 | | | |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] The item includes capital protected securitised derivatives (certificates) classified under financial liabilities held for trading.

[(b)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

In the first quarter of 2014, the Division recorded operating income of 886 million euro (contributing 22% of the Group's consolidated operating income), down 10.7% compared to the same period of 2013.
In further detail, net interest income of 458 million euro increased (+5.5%), primarily due to the positive performance of the net investment result recorded in Banca IMI's capital markets segment and, to a lesser extent, in the banks in the International Department, in parallel to the essential stability of the contribution of business with customers as a result of rising spreads and lower average loan volumes. Net fee and commission income of 177 million euro was down 21%, chiefly due to the downtrend in fee and commission income associated with capital markets, structured finance and commercial banking activities. Profits on trading of 249 million euro declined by 25.2%, primarily due to the absence of the merchant banking transactions undertaken in the first quarter of the previous year. Operating costs amounted to 213 million euro, up 4.9% compared to the same period of 2013, due to higher administrative expenses. As a result of the trend in revenues and costs described above, the operating margin, amounting to 673 million euro, recorded a 14.7% decrease. Income before tax from continuing operations of 619 million euro declined by 8.6% despite lesser impairment on investments and profits on investments as a result of the sale of the Pirelli & C. shares. The cost of credit of Corporate and Investment Banking, calculated as the ratio of annualised adjustments to loans and stock of loans to customers, amounted to 0.4% during the first quarter of 2014. In greater detail, adjustments during the period by the Network Banks with respect to Corporate amounted to 49 million euro (compared to loans of 67,315 million euro), broken

down as follows: Intesa Sanpaolo 41 million euro, Banco di Napoli 1 million euro, Carisbo 5 million euro, CR Veneto 1 million euro and CR Romagna 1 million euro. Finally, net income came to 413 million euro, down 9% on the same period of 2013.
In quarterly terms, the first quarter of 2014 showed an increase in operating income (+19.6%) compared to the fourth quarter of 2013, primarily attributable to the positive performance of profits on trading. The increase in revenues, along with the essentially stable operating costs (+0.4%), resulted in a rise in the operating margin of 27.2%. Income before tax from continuing operations increased sharply, due to the significant decrease in net adjustments to loans (-79.4%).
The Division's intermediated volumes showed a slight increase compared to the end of December 2013 (+0.9%). In detail, direct deposits from banking business of 116,210 million euro were up 2%, mainly due to the increase in the securities issued by the Irish subsidiary. Loans to customers, amounting to 90,436 million euro, decreased slightly (-0.5%), resulting from the lesser use of cash by Corporate Italia and international customers, particularly Corporate Italia and Public Finance customers, as well as Global Industries customers, only partly offset by the development of reverse repurchase agreement transactions with institutional operators and financial intermediaries by Banca IMI.

| | |
|---|---|
| **Business** | Corporate, Investment Banking and Public Finance, in Italy and abroad |
| **Mission** | To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking operations<br><br>To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group |
| **Organisational structure** | |
| Global Industries Department | The Department is responsible for managing relations with the 200 corporates (of which 50 are Italian and 150 international) with global reach, which operate in six key industries with high growth potential (oil and gas, power and utilities, automotive, infrastructures, telecom and media and luxury and consumer goods) |
| Corporate and Public Finance Department | The Department is responsible for servicing approximately 700 Italian large and medium corporates, by means of a global and integrated offer of products and services overseen by all the Divisions and Group product companies. It also serves central governments, public entities, local authorities, universities, public utilities, general contractors and public and private healthcare providers. |
| International Department | The Department is responsible for managing relations with corporates with a foreign-based parent company that are not part of the Global Industries segment, as well as with international Public Finance customers. Through its network of international branches, representative offices and foreign subsidiaries focused on corporate banking, this Department provides specialist assistance in support of the internationalisation of Italian corporates and the development of exports, the management and development of relations with financial institution counterparties on emerging markets, the promotion and development of cash management instruments and trade services |
| Global Banking & Transaction Department | The Department is responsible for relations with Financial Institutions, management of transactional services related to payment systems, trade and export finance products and services, custody and settlement of Italian securities (local custody) |
| Merchant Banking Department | The Department operates in the private-equity segment, including through its subsidiaries by acquiring investments in the venture capital, notably medium-/long-term investments (of an institutional and development nature with a business logic), of private equity companies and specialist funds (restructuring, mezzanine, venture capital) |
| Structured Finance | The scope of the Division includes the structured finance activity carried out by Banca IMI |
| Proprietary Trading | The Service is responsible for management of the proprietary portfolio and/or risk through direct access to markets or indirect access, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives |
| Investment Banking, Capital Market and primary market | The scope of the Division also includes the M&A and advisory, capital markets and primary markets (equity and debt capital market) activities performed by Banca IMI |
| **Distribution structure** | In Italy, the Corporate and Investment Banking Division draws on a total of 49 branches dedicated to corporate customers and public customers. At the international level, it operates in 29 countries in support of the cross-border operations of its customers through a specialised network of branches, representative offices and subsidiaries that engage in corporate banking activity |

### Global Industries, Corporate and Public Finance Departments

The first quarter of 2014 saw the completion of the integration of the Corporate Italia and Public Finance and Infrastructure Departments into the single Corporate and Public Finance Department with the aim of creating potential synergies between the private sector and public counterparties. Supporting activity for customers on both the Italian and international markets also continued.

During the period, the Global Industries Department undertook specific actions in support of the internationalisation project, which in 2014 will focus on developing products at an international level in order to foster the consolidation of the Group's position vis-à-vis Italian and internationally established banks. In collaboration and synergy with the International Subsidiary Banks Division, planned visits to the corporate departments of the main international subsidiary banks and the international branches of the Parent Company also continued with the aim of disseminating the results achieved and guiding colleagues in reinforcing strategic segment-based dialogue with customers in order to extend offerings in countries in which the Group has a direct or indirect presence. This will permit further penetration of international markets, with improved interaction between the Bank's departments and a comprehensive coverage model with the aim of increasing the revenues generated in the countries concerned. Finally, promotion of the cross-selling of commercial banking products continued through commercial campaigns such as the opening of current accounts outside Italy, with a strategic focus on factoring products, trade export finance, structured export finance and transaction banking (Inbiz and Salesforce).
During the quarter the "Start-Up Initiative" continued, through which the Group supports the development of Italian and international technology companies, as a sponsor able to coordinate energies and efforts to support micro-businesses that create innovation, by encouraging investment and aggregation actions while reducing the costs and timing of research and development processes. Since its launch, 67 editions of the initiative have been held, in Italy, the United Kingdom, Germany, France and the United States, involving thousands of business owners and investors operating in various areas of technological innovation. The implementation of the Technology Opportunity Proposal (T.O.P.) project for customers (primarily Italian multinationals and international corporations) also continued by offering a dedicated service and opportunities for investment and/or industrial agreements with growing companies that meet needs for technological innovation demonstrated by customers. The operations of the Fondazione Ricerca e Imprenditorialità, established in September 2010, continued. This Foundation brings together the three main components of technological innovation: scientific research, industry and banking. In particular, the Foundation's activity is aimed at promoting small research-driven businesses, selecting innovative small businesses that deserve to be supported in their growth, so that they reach a level of development that attracts operators and investors, promoting knowledge among high-tech SMEs to favour their integration in high-innovation chains of business and developing synergies and partnerships with public entities and other Italian and foreign public or private organisations, in order to enhance and support the growth of innovative businesses. In addition, in order to promote the development of a culture of innovation and change, partnership continued with Singularity University, one of the most advanced research centres for new technologies, established in Silicon Valley with the support of NASA and Google and which, thanks to the potential offered by technologies with exponential growth, aims to solve the big challenges awaiting humanity (water, food, climate change, sustainability, etc.). The partnership consists of an exchange of knowledge via the participation of a number of the Division's top managers in the executive programmes held in Silicon Valley, along with joint events organised in Italy.

### International Department

The International Department directly covers 29 countries through 13 wholesale branches, 17 representative offices, 2 subsidiary banks and one advisory firm. In the first quarter of 2014, international development activities continued, further proof of the Group's growing commitment to supporting companies that operate, or intend to operate, on international markets. In particular, in addition to increasing the attention to and coverage of relationships with Italian and international customers and further enriching the content and qualify offered, international expansion projects continued in the form of investments in high-potential markets. Following the opening of the Warsaw branch and Sydney representative office in 2013, activities aimed at opening a new branch in Istanbul (where the Group is currently present with a representative office) reached the final stages. Contingent upon obtainment of the final authorisations, the branch is to become operational during the next quarter. Activity aimed at incorporating a subsidiary with a banco multipo license (a retail and investment bank also authorised to operate on the foreign-exchange market) in Sao Paolo, Brazil, also continued. The subsidiary is expected to commence operations by year-end, with the aim of improving local coverage, heretofore provided by a representative office. In the context of initiatives aimed at improving coverage in the Gulf area, where the Group is the sole Italian bank with a direct presence, the Group is currently in the process of opening a branch in Abu Dhabi in the United Arab Emirates, as the natural next step after the representative office opened in 2012, as well as a level-IV branch – equivalent to a representative office – in Doha, Qatar. Finally, in the APAC (Asia Pacific) area, the process of opening a representation office in Jakarta, Indonesia, was launched.
The Department is responsible for:
- **Société Européenne de Banque**, which recorded income before tax from continuing operations of 46 million euro in the first quarter of 2014, up compared to the same period of 2013 (+2.7%), thanks to the decrease in operating costs (-7.1%), which more than offset the slight decline in revenues (-0.9%) attributable to the negative performance of profit on trading and the recoveries on loans;
- **Intesa Sanpaolo Bank Ireland**, which reported income before tax from continuing operations of 27 million euro, up 30.5% compared to the first three months of the previous year, mainly due to the rise in operating income (+28.6%) and cost savings (-20.8%).

## Global Banking & Transaction Department

In the first quarter of 2014, the Foreign & Italian Banks segment maintained a highly selective approach to risk, taking on positions on highly regarded counterparties, low-risk assets or transactions backed by guarantees. This permitted assets to be reallocated to loans with strong profitability and a moderate risk profile. Initiatives aimed at marketing transaction services with banking customers in Italy and internationally continued, particularly in the cash context, as did the synergy with Banca IMI in cross-selling investment-banking products and services.
In the Asset Management & Insurance segment, activity focused on developing relationships with major institutional investors through the offering of investment opportunities and, selectively, financial assistance. This was the context for the finalisation of the AnaCap-Consum.it (MPS Group) transactions and the transaction relating to the Creval Group's doubtful loans. As regards business with Italian asset managers, the Bank remained the market leader. The period saw the finalisation of several important financing and advisory transactions, such as the IPO by Anima SGR, which will close in the second quarter, and the transactions with Hines and Sorgente SGR. The improvement in liquidity conditions also positively affected the near-banking sector, for which a selective approach is implemented in order to assess financing transactions, primarily relating to the consumer credit sector and, more specifically, the assignment of one fifth of salary.
The Trade Finance and Correspondent Banking segment showed a significant rise in profitability for base-funded transactions due to an increase in spreads on different asset categories (China, Turkey and Brazil), accompanied by improved funding conditions for the Parent Company. However, the development of political, economic and financial circumstances in countries relevant to exports by the Group's customers that present a high degree of instability or risk also continues to be constantly and attentively monitored. As regards Structured Export Finance products, commercial development action focused primarily on less mature markets (East Asia and Africa), where there is attractive new transaction origination activity, whereas business opportunities are on the decline in Russia and adjacent countries (Ukraine and Belarus in particular) due to the recent political instability in the region.
Activities in the Cash and Local Custody segment focused on transactional products and services in accordance with the guidelines for growth and the needs expressed by the markets and customers. In particular, commercial initiatives relating to Securities Services and Post-Trading services focused on acquiring two significant new customers and developing the marketing of the value proposition for Target2Securities, the Eurosystem's new securities settlement platform, with a particular focus on small and medium Italian banks. Following the introduction, effective 1 February 2014, of the SEPA credit transfer and SEPA direct debit (replacing the Italian domestic credit transfer and direct debit) in countries participating in the Single Euro Payments Area (SEPA), meetings with customers intensified with the aim of providing support for the transition to SEPA products with the offering of tools for facilitation and a thorough focus on problem resolution. In addition, project activities during the quarter were aimed at reinforcing the trade offerings on the Inbiz portal, electronic-invoicing offerings and the launch of the pilot phase of the new foreign-exchange offerings (spot, forward and swap). An innovative commercial development tool named PriceLab was created and the new billing service, which provides customers with easy, simplified management of fees and commissions for cash management products and services, was launched. The pilot phase was also launched for the new service CBILL, a multi-bank, multi-channel payment solution for online consultation and payment of bills issued by billers belonging to the CBI Consortium. Finally, for Financial Institution and Public Finance customers, commercial action continued with the aim of expanding the Bank's area of activity through dedicated offerings, subject to constant updates and improvements, that reflect customers' needs in terms of security and speed of execution. Finally, an innovative liquidity management project dedicated to business treasurers is being developed.

## Merchant Banking Department

At the end of March 2014, the portfolio held by the Merchant Banking Department, directly and through subsidiaries, amounted to 1.4 billion euro, of which 0.8 billion euro was invested in companies and 0.6 billion euro in private equity funds.
During the quarter, the Department successfully concluded the sale of approximately 7 million ordinary shares of Pirelli & C., representing the entire shareholding held by the Intesa Sanpaolo Group. This sale resulted in a capital gain of approximately 59 million euro on a consolidated basis.
Private equity fund management, carried out by the subsidiary IMI Fondi Chiusi SGR, continued during the period with new investments concluded by venture and seed capital funds.

## Structured Finance

During the first quarter of 2014, Banca IMI continued to maintain a selective approach in pursuing new business opportunities, in coordination with the competent relation business units of the Corporate and Investment Banking Division, Banca dei Territori Division and International Subsidiary Banks Division.
In the Energy & Industry Specialized Lending segment, the Bank promoted and arranged credit facilities, with finalisation expected later in 2014. Among these, mention should be made of the preparation of several financing offers, the structuring of two transactions in regulated industries and an important transaction in the renewable energy sector. In the Public & Social Infrastructure segment, Banca IMI launched, and in two cases, continued, the arranging of financing: in particular, three transactions are being structured in the urban transport and healthcare sector, and promotion and development continued in the motorway sector.
In Leveraged & Acquisition Finance activity, the volume of transaction origination activity remained high, and a financing transaction was finalised for Asset Management Holding with the aim of refinancing the company's debt in view of its initial public offering.
In the real estate segment, intense origination activity continued with the aim of structuring credit facilities according to an asset-light approach for the Bank in support of investments in the sector of reference by offering a full range of financial products dedicated to the sector and providing specialised advice for the real estate segment, both in Italy and internationally (primarily in the United States). Mention should also be made of the disbursement of the structured financing at the end of 2013 to Tribeca White Street LLC (Sorgente Group) for the acquisition and development of a property located in Manhattan.

As regards financial advisory activity, two new advisory contracts were signed: the first relates to advice for a leading international hotel operator concerning a potential industrial integration with an Italian hotel chain and the second to advice for Oceano Immobiliare, a Luxembourg company indirectly controlled by The Blackstone Group L.P., in the voluntary takeover bid for all units of the fund "Atlantlc1 – Fondo Comune di Investimento Immobiliare di Tipo Chiuso" listed on the MIV segment of Borsa Italiana. Finally, activities continued on the development of a hotel facility located in Venice, a real-estate project involving a shopping centre in Milan and the financial restructuring of a real-estate fund managed by a leading international management company, in view of the subsequent placement of part of the units of the fund with institutional investors.
In Corporate Solutions activity, the Bank structured financing transactions for Valvitalia in conjunction with the investment in the company by Fondo Strategico Italiano, a revolving credit facility in support of the ordinary financial needs of Fincantieri, a new medium-/long-term loan for Granarolo, a line of credit for new acquisitions for KOS and a medium-/long-term loan for Sonus Faber intended to support its cash needs.
In the Loan Agency segment, Banca IMI confirmed its ability to compete on the Italian market with the major international players in its impartial handling of representative tasks requested by both its financial counterparties and corporate customers. The business scope was expanded as regards coverage (Public Finance customers), systematic intervention as agent in debt-restructuring plans and assessment of especially important transactions. New contracts were signed with primary Group customers, including: Autogrill (WDFG), RCS Mediagroup, Caffita System, Pitagora, Kiko, Fassa, Farpower, Eolica Petralia, HFV Pinciana, Tigullio Shipping, Energia Alternativa, Garbagnate, Arexpo, Acquedotto Pugliese, Comifar, Edison, Salini, Re.Consult, Farma Factoring, Carlyle Cerep III, Tangenziale Esterna, Anima Holding, Granarolo, Sonus Faber, SGM, FRI, Comifin, Torre SGR Refund and Telco. During the period, debt restructuring activity continued for the groups Zucchi, Canepa, TAS, Pininfarina, Salmoiraghi and Tiscali, to which Maire Technimont and Risanamento were added.
At the international level, in the International Structured Finance sector a transaction was finalised for ATLL Concessionaria de la Generalitat de Catalunya, a company controlled by the Acciona group that distributes water in southern Catalonia and the Barcelona metropolitan area, aimed at refinancing a bridge loan used to obtain the loan.
Finally, Banca IMI was active in syndicated loans in Italy, as global coordinator, bookrunner and mandated lead arranger in the SGM Distribuzione and Valvitalia transactions, at the international level, as well as acting as bookrunner and mandated lead arranger in SES SA, Chrysler Group LLC, Telefonica SA, Heidelberg Cement, LMVH, Sociedad Minera Cerro Verde, CEPSA, Sabine Pass Liquefaction LLC and RWE transactions.

### Proprietary Trading

In the first quarter of 2014, Proprietary Trading made a positive contribution to the income statement, in terms of revenues, albeit to a lesser extent than in the same period of 2013.
In detail, structured credit products contributed positively, mainly as a result of the European and U.S. ABS/CDO positions, due to the gains realised on the partial disposal of the trading portfolio and the reassessment of the existing portfolio. At 31 March 2014, the risk exposure on structured credit products, funded and unfunded ABSs/CDOs came to approximately 2 billion euro, stable compared to 31 December 2013, due to the combined effect of a reduction of risk positions classified as part of the loan portfolio, largely as a result of sales, and the increase in the exposure associated with the trading portfolio, essentially owing to the purchase of ABSs by Banca IMI. The exposure associated with structured packages, 27 million euro, also remained at the same levels as at the beginning of the year (26 million euro).
The Hedge Fund portfolio contributed positively to trading revenues in the first quarter of 2014. The strategy primarily aimed at benefiting from the occurrence of specific corporate events largely independent of the general market trend. The positive performances with the greatest contribution to the income statement for the quarter derive from gradual repositioning towards low-volatility investments with no market correlation, whereas the first quarter of 2013 had benefited from high volatility, especially for financial and real-estate securities. The segment also benefited from the exposure to recapitalisations by European banking institutions (which continued their efforts towards de-leveraging and debt optimisation in view of the new stress tests) and positioning in Greek securities with very long maturities and covered bonds issued by the National Bank of Greece. At 31 March 2014, the exposure of the Hedge Fund portfolio came to 754 million euro, up slightly from 744 million euro at the end of 2013.

### Investment Banking, Capital Market and primary market

In the first quarter of 2014, Banca IMI acted as bookrunner for 24 transactions, 17 of which related to Italian issuers, ranking it in the top position in Italy both by value and number of transactions, with a market share by value of over 10%. The Bank also led Italy in the Corporate segment, coming in first place both by value and number of transactions (8).
In the financial institutions segment, it acted as bookrunner for 4 public transactions by Intesa Sanpaolo: a senior unsecured bond; two bonds in dollars; a bond and a covered bond in CNH (offshore Chinese yuan); and the Eurobonds issued by Société Générale, Banca Monte dei Paschi di Siena, Royal Bank of Scotland Group, BPCE, Goldman Sachs Group, Commerzbank, Crédit Agricole, Banco Espirito Santo, Banca Popolare di Vicenza and Veneto Banca. The Bank also acted as joint lead manager for the dual tranche issue by JP Morgan, served as sole manager in the placement of the senior (Class A) tranche of the Alba 5 SPV securitisation by Alba Leasing and, as regards the liability management services, acted as dealer manager in the tender offers by Barclays Bank and Crédit Suisse on senior bonds.
In business with its corporate customers, the Bank acted as bookrunner for important issuers, originating approximately 8 billion euro of medium- and long-term bonds for Fiat, Rallye, Snam, CNH Industrial, HeidelbergCement, FCE Bank, Sias, Luxottica Group, ENI, FGA Capital, Finmeccanica and Autoroutes du Sud de la France. Particularly noteworthy are the hybrid bonds issued by Enel and EDF in two tranches. Banca IMI was also in charge of the placement in two tranches of the public subscription offer for the bond issued by General Electric Capital Corporation intended for the Italian retail public.
The Bank maintained its leading position in business with issuers in the Sovereign, Supranational & Agencies sector, acting as lead manager and joint bookrunner in the placement of the BTPei of the Italian Republic indexed to inflation in the Eurozone. The Bank

also successfully placed the bond issued by Cassa Depositi e Prestiti and served as co-lead manager in two issues by the European Financial Stability Facility (EFSF).

In the equity capital market segment, in the first quarter of 2014 Banca IMI maintained its customary coverage of the Italian domestic market, acting as joint global coordinator, joint bookrunner and lead manager in the IPO by Anima, as global coordinator and joint bookrunner in the placement of bond loan convertible into newly-issued Maire Tecnimont shares and as joint bookrunner in the share capital increase offered in option by Banco Popolare. Banca IMI was also named joint global coordinator for IPOs by Fincantieri and Cerved and for the capital increase by Credito Valtellinese. In accelerated bookbuilding business, Banca IMI acted as joint bookrunner in the transaction undertaken by Intesa Sanpaolo involving the sale of approximately 1.5% of the share capital of Pirelli & C. (representing the entire shareholding held by Intesa Sanpaolo in Pirelli), with sales proceeds of 89 million euro, and in the transaction undertaken by d’Amico International S.A. aimed at the sale of 10% of d’Amico International Shipping S.A. share capital.

At an international level, it acted as co-lead manager in the share capital increase by Raiffeisen Bank International and Alpha Bank and also confirmed its leadership in the take-over bid/delisting segment, overseeing the takeover bid launched by Blackstone for shares of the closed-end listed real-estate fund Atlantic1 as the intermediary responsible for coordinating subscriptions. On the AIM market, Banca IMI acted as joint global coordinator, joint bookrunner and nomad for the IPO for the ordinary shares of Triboo Media. At the end of the quarter, Banca IMI was specialist or corporate broker for approximately 44 companies listed on the Italian market.

In M&A and Advisory business, Banca IMI achieved positive results thanks to the significant role it played in several of the main transactions of the period in Italy, assisting Versace with the sale of a 20% company interest to the Blackstone fund, the Pirelli group with the sale of its steel cord business line to Bekaert, a leader in the field of steel wire transformation and coating technologies, Italgas in the de-merger of AES Torino, a distributor of natural gas in the municipality of Torino and a distributor of heat in the municipalities of Torino and Moncalieri, and Enel in the sale of the remaining 14.8% interest in Enel Rete Gas to F2i Reti Italia (a company controlled by the funds F2i and Ardian). These activities were in addition to the advice provided to Valvitalia as regards the transaction that resulted in the acquisition by Fondo Strategico Italiano of a 49.5% interest in the company, to FIAMM in the project aimed at diversifying, expanding and extending sources of financing through debt and/or equity-like instruments by the Oaktreei Fund, and to Generale Conserve in the acquisition of its De Rica business line by Conserve Italia. In business with Financial Institutions customers, the Bank acted as financial advisor to Banco di Desio e della Brianza in the acquisition of an approximately 70% interest in Banca Popolare di Spoleto (through a reserved capital increase). Finally, in ongoing activities, Banca IMI is acting as financial advisor of Camfin in the transaction that will allow the acquisition of an interest by the Russian Rosneft group and the sale of the investment by the Clessidra fund in Pirelli, as well as of Gruppo Editoriale l’Espresso in the strategic integration of Rete A with Telecom Italia Media Broadcasting.

## International Subsidiary Banks

(millions of euro)

| Income statement | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 369 | 378 | -9 | -2.4 |
| Dividends and profits (losses) on investments carried at equity | 15 | 8 | 7 | 87.5 |
| Net fee and commission income | 129 | 127 | 2 | 1.6 |
| Profits (Losses) on trading | 21 | 17 | 4 | 23.5 |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | -25 | -22 | 3 | 13.6 |
| **Operating income** | **509** | **508** | **1** | **0.2** |
| Personnel expenses | -134 | -142 | -8 | -5.6 |
| Other administrative expenses | -99 | -103 | -4 | -3.9 |
| Adjustments to property, equipment and intangible assets | -26 | -29 | -3 | -10.3 |
| **Operating costs** | **-259** | **-274** | **-15** | **-5.5** |
| **Operating margin** | **250** | **234** | **16** | **6.8** |
| Net provisions for risks and charges | -3 | -1 | 2 | |
| Net adjustments to loans | -120 | -130 | -10 | -7.7 |
| Net impairment losses on other assets | -3 | -17 | -14 | -82.4 |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **124** | **86** | **38** | **44.2** |
| Taxes on income from continuing operations | -39 | -39 | - | - |
| Charges (net of tax) for integration and exit incentives | - | - | - | - |
| Effect of purchase price allocation (net of tax) | - | - | - | - |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income (loss)** | **85** | **47** | **38** | **80.9** |

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 26,435 | 27,015 | -580 | -2.1 |
| Direct deposits from banking business | 30,383 | 30,182 | 201 | 0.7 |
| Risk-weighted assets [(a)] | 28,259 | | | |
| Absorbed capital [(a)] | 2,261 | | | |

Figures restated, where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

The International Subsidiary Banks Division is responsible for the Group's activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking.

In January 2014 an agreement was signed for the sale of 100% of the capital of the subsidiary Pravex-Bank. The transaction will be completed in the next few months, after obtaining the required authorisations.
It bears noting that the income statement figures presented above and commented upon below do not include the results of the Ukrainian bank in the process of being sold.

In the first quarter of 2014, the Division's operating income came to 509 million euro, essentially in line with the same period of the previous year (+0.2%). A detailed analysis shows that net interest income came to 369 million euro, a decrease compared to 378 million euro in the first three months of 2013 (-2.4%), mainly due to the trends reported by Banca Intesa – Russia (-7 million euro), Bank of Alexandria (-5 million euro) and Banca Intesa Beograd (-2 million euro), only partly absorbed by the increase recorded by VUB (+4 million euro). Net fee and commission income, amounting to 129 million euro, grew slightly (+1.6%). Profits on trading, amounting to 21 million euro, increased by 23.5% due to the larger contributions from Privredna Banka Zagreb (+3 million euro), CIB Bank (+3 million euro) and Banca Intesa Beograd (+2 million euro).
Operating costs, amounting to 259 million euro, were down compared to the first quarter of 2013 (-5.5%). As a result of the above revenue and cost trends, the operating margin came to 250 million euro, up 6.8%. Income before tax from continuing

operations, amounting to 124 million euro, was up compared to 86 million euro in the same period of the previous year (+44.2%), benefiting from the lower adjustments to loans and net impairment losses on other assets. The Division closed the first quarter of 2014 with net income of 85 million euro (+80.9%).
On a quarterly basis, the first quarter of 2014 reported an operating margin down 2.3% on the fourth quarter of 2013, due to lower operating income (-5.9%), only partially offset by lower costs (-9.2%). Income before tax from continuing operations yielded a positive performance compared to the fourth quarter of the previous year, in which a loss was posted owing to significant net adjustments to loans and net impairment losses on other assets recognised during the period.
The Division's intermediated volumes decreased slightly compared to the end of December 2013 (-0.7%), owing to the decrease in loans to customers (-2.1%). By contrast, direct deposits from banking business increased slightly (+0.7%), mainly due to the securities issued component.

| | |
|---|---|
| **Business** | It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates |
| **Mission** | Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division |
| **Local presence** | |
| South-Eastern Europe | Presence in Albania, Bosnia-Hercegovina, Croatia, Romania and Serbia |
| Central-Eastern Europe | Presence in Slovakia, Slovenia and Hungary |
| Commonwealth of Independent States & South Mediterranean | Presence in Egypt, the Russian Federation and Ukraine |
| Other companies | ISP Card, which supports banks in the Division in the payment services segment |
| **Distribution structure** | 1,435 branches in 12 countries (including branches of the Ukraine subsidiary Pravex-Bank in the process of being sold) |

## South-Eastern Europe

In the first quarter of 2014, the operating income of the **Privredna Banka Zagreb Group** amounted to 104 million euro (+4.5% compared to the same period of the previous year), mainly due to the increase in net fee and commission income and profits on trading. Operating costs of 47 million euro fell slightly (-1.1%), attributable to personnel expenses and amortisation and depreciation. The operating margin came to 57 million euro, up 9.6% on the first quarter of 2013. Income before tax from continuing operations, amounting to 36 million euro, showed an increase of 3.3%. Lastly, net income came to 28 million euro (+1.9%).

**Banca Intesa Beograd**, including Intesa Leasing Beograd, posted an operating margin of 35 million euro, down 3.1% compared to the first three months of 2013. Operating income decreased by 2.8% due to the performance of net interest income and other operating expenses. Operating costs fell by 2.4%, as a result of the performance of personnel expenses. Income before tax from continuing operations amounted to 21 million euro, compared to 23 million euro in the same period of the previous year (-11.4%), while net income stood at 18 million euro (-12.9%).

**Intesa Sanpaolo Banka Bosna i Hercegovina** ended the first quarter of 2014 with an operating margin of 4 million euro, up 31.7% on the same period of 2013. This performance is attributable to the increase in net interest income as well as the savings on operating costs (-6.6%). Income before tax from continuing operations, amounting to 2.6 million euro, reported an increase of 75.7%, benefiting from the reduction in adjustments to loans, while net income amounted to 2.4 million euro (+79%).

**Intesa Sanpaolo Bank Albania** recorded an operating margin of 6.9 million euro, essentially in line with the first three months of 2013 (+0.6%). Income before tax from continuing operations amounted to 6.2 million euro, up 76.8% compared to the first quarter of the previous year, benefiting from the reduction in adjustments to loans. Net income performed similarly (+67.8%).
The companies operating in Romania (**Intesa Sanpaolo Bank Romania** and ISP Leasing Romania) recorded a total operating margin of 4.1 million euro, down 19.8% on the same period of the previous year. This performance was due to a decrease in operating income (-12.4%), primarily ascribable to lower net interest income and more modest profits on trading, only partially

offset by a decline in operating costs (-7.5%), mainly attributable to personnel expenses. The companies reported a net loss of -0.1 million euro, compared to a net income of 1 million euro in the first quarter of 2013, essentially due to greater adjustments to loans (+15.7%).

### Central-Eastern Europe

**Banka Koper**, including Finor Leasing, reported operating income of 21 million euro, up 11.8% on the first quarter of 2013 due to the favourable performance of all the main income components. Operating costs were down 2.5%. Net income amounted to 1.4 million euro, down compared to the same period of the previous year (-39.8%), primarily due to higher net impairment losses on other assets.

The **VUB Banka** Group achieved an operating margin of 67 million euro, down 2.2% compared to the same period of 2013, due to a slight decrease in operating income (-0.5%), mainly attributable to net fee and commission income and other operating expenses, as well as to an increase in operating costs (+1.6%). Income before tax from continuing operations, amounting to 47 million euro, increased 1.2% compared to the first three months of the previous year, benefiting from the reduction in adjustments to loans, while net income amounted to 37 million euro (+5.3%).

The increasing pressure on the Hungarian banking system, as a result of the serious economic difficulties of the country, heavily affected the performance of this subsidiary bank. The **CIB Bank Group** showed operating income of 65 million euro, up 10.4% on the first quarter of 2013. This performance was primarily attributable to the increase in net fee and commission income and the greater contribution from profits on trading. Operating costs decreased 8.6%, with savings spread through all items. After posting high adjustments to loans, albeit down compared to the first three months of 2013, the company achieved a net loss of 28 million euro, compared to a net loss of 65 million euro recognised in the same period of the previous year.

### Commonwealth of Independent States & South Mediterranean

**Banca Intesa - Russia** reported a net loss of 1.1 million euro, compared to a net income of 2.7 million euro in the same period of 2013. Operating income decreased (-21%), mainly due to the decline in net interest income (-24.6%). Operating costs were down 20.2%. Net adjustments to loans amounted to 7 million euro, up considerably compared to the first three months of the previous year.

**Bank of Alexandria** reported an operating margin of 31 million euro, down 12.2% on the same period of 2013. Operating income, at 65 million euro, decreased (-7.6%), mainly as a result of lower net interest income (-9.1%). Operating costs reported a decrease (-3%) especially following the decline in personnel expenses and amortisation and depreciation. Following net adjustments to loans of 7.8 million euro, down 15.6% on the first three months of the previous year, net income amounted to 15 million euro, down 18.6% on the first quarter of 2013.

### Other companies

The operating income reported by **ISP Card** came to 8.4 million euro, essentially in line with the same period of the previous year. Operating costs showed a decrease in all expense items, amounting to 7.4 million (-10.5%). This resulted in net income of 1 million euro, compared to 0.2 million euro in the first quarter of 2013.

## Eurizon Capital

(millions of euro)

| Income statement | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | - | - | - | - |
| Dividends and profits (losses) on investments carried at equity | 4 | 4 | - | - |
| Net fee and commission income | 88 | 69 | 19 | 27.5 |
| Profits (Losses) on trading | 3 | 1 | 2 | |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | - | - | - | - |
| **Operating income** | **95** | **74** | **21** | **28.4** |
| Personnel expenses | -13 | -13 | - | - |
| Other administrative expenses | -15 | -13 | 2 | 15.4 |
| Adjustments to property, equipment and intangible assets | - | - | - | - |
| **Operating costs** | **-28** | **-26** | **2** | **7.7** |
| **Operating margin** | **67** | **48** | **19** | **39.6** |
| Net provisions for risks and charges | - | - | - | - |
| Net adjustments to loans | - | - | - | - |
| Net impairment losses on other assets | - | - | - | - |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **67** | **48** | **19** | **39.6** |
| Taxes on income from continuing operations | -16 | -10 | 6 | 60.0 |
| Charges (net of tax) for integration and exit incentives | - | - | - | - |
| Effect of purchase price allocation (net of tax) | -8 | -9 | -1 | -11.1 |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | -1 | -1 | - | - |
| **Net income (loss)** | **42** | **28** | **14** | **50.0** |

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Assets under management | 173,742 | 163,838 | 9,904 | 6.0 |
| Risk-weighted assets [(a)] | 601 | | | |
| Absorbed capital [(a)] | 54 | | | |

Figures restated, where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

Overall, total assets managed by Eurizon Capital at the end of March 2014 came to 173.7 billion euro (net of duplications), up 6% since the beginning of the year as a result of net inflows and positive financial market performance. In the first quarter of 2014, net inflows came to 6.4 billion euro, due to the strong performance of mutual funds (primarily fixed-term funds established in both Luxembourg and Italy), retail portfolio management schemes (principally due to the contributions of the "Sistema Valore" and "Strategia Valore" lines) and captive insurance products, almost entirely consisting of line I insurance contracts, the category to which traditional life policies are classified. Eurizon Capital's share of assets under management was 14.7% as at 31 March 2014 (gross of duplications and including individual asset management within Intesa Sanpaolo Private Banking's portfolio), from 14.5% at the end of December 2013.
Operating income for the first quarter of 2014, amounting to 95 million euro, grew by 28.4% compared to the same period of the previous year, benefiting from the favourable performance of net fee and commission income (+27.5%). This performance is mainly attributable to entry and overperformance commissions received as well as the increase in average assets under management, which considerably exceeded the level of the first three months of 2013. Operating costs increased (+7.7%), essentially due to administrative expenses, notably the bond component associated with assets under management (fund administration, notices for customers and so forth). As a result of the above revenue and cost trends, the operating margin came to 67 million euro, up 39.6% compared to the same period of 2013. Eurizon Capital closed the first quarter of 2014 with net income of 42 million euro (+50%).

On a quarterly basis, the first quarter of 2014 showed a decrease in operating margin of 35.9% compared to the first quarter of 2014 due to operating income (-32.3%) and, significantly, net fee and commission income, which in the fourth quarter of 2013 included high overperformance commissions collected primarily in relation to mutual funds. This trend was reflected in the net income, down 22% on the previous quarter.

| | |
|---|---|
| **Business** | Asset management |
| **Mission** | To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors |
| **Organisational structure** | |
| Eurizon Capital SGR | Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers (including fund users), to which it offers a wide range of specific investment products and services. |
| Eurizon Capital SA (Luxembourg) | Specialised in managing Luxembourg mutual funds with low tracking error |
| VUB Asset Management (Slovakia) | A Slovak asset management company, 50.12% owned by Eurizon Capital SA, which heads up the Hungarian CIB IFM and the Croatian PBZ Invest (Eastern European asset management hub) |
| Epsilon Associati SGR | Specialised in managing structured credit products and mutual funds using quantitative methods and 51% owned by Eurizon Capital and the remaining 49% by Banca IMI |
| Penghua Fund Management Company Limited | Chinese fund manager 49% owned by Eurizon Capital SGR |

The key events regarding products placed and managed by Group companies in the first quarter of 2014 are outlined below.

After the end of the quarter, during the meeting of the Board of Directors of Eurizon Capital SGR of 30 April 2014, a notice was presented concerning the guidelines for the Intesa Sanpaolo 2014 – 2017 Business Plan, which calls for the set-up and development of an Asset Management Hub through the integration of Eurizon Capital and Fideuram Asset Management Ireland.

With regard to product initiatives, the period witnessed the continuation of the placement of the Italian mutual funds range with placement windows named "Eurizon Gestione Attiva", "Eurizon Cedola Attiva" and "Eurizon Guida Attiva" (distributed by third-party distributors, and in particular by the Cariparma Group), as well as the fund established by Epsilon named "Epsilon Flexible Forex Coupon".
With regard to Luxembourg mutual funds, as part of the joint venture established within Epsilon by Eurizon Capital and Banca IMI, the placement of the range of capital protected products continued within the "Investment Solution by Epsilon" umbrella fund to be managed by Epsilon. In further detail, in the first quarter of 2014 new windows were opened in the "Valore Cedola x 5", "Soluzione Flessibile Protetta" and "Equity Coupon" sub-fund families.

## Banca Fideuram

(millions of euro)

| Income statement | 31.03.2014 | 31.03.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 34 | 28 | 6 | 21.4 |
| Dividends and profits (losses) on investments carried at equity | - | - | - | - |
| Net fee and commission income | 175 | 144 | 31 | 21.5 |
| Profits (Losses) on trading | 6 | 5 | 1 | 20.0 |
| Income from insurance business | 25 | 18 | 7 | 38.9 |
| Other operating income (expenses) | - | - | - | - |
| **Operating income** | **240** | **195** | **45** | **23.1** |
| Personnel expenses | -34 | -34 | - | - |
| Other administrative expenses | -42 | -44 | -2 | -4.5 |
| Adjustments to property, equipment and intangible assets | -4 | -3 | 1 | 33.3 |
| **Operating costs** | **-80** | **-81** | **-1** | **-1.2** |
| **Operating margin** | **160** | **114** | **46** | **40.4** |
| Net provisions for risks and charges | -18 | -16 | 2 | 12.5 |
| Net adjustments to loans | - | - | - | - |
| Net impairment losses on other assets | 1 | -3 | 4 | |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **143** | **95** | **48** | **50.5** |
| Taxes on income from continuing operations | -41 | -16 | 25 | |
| Charges (net of tax) for integration and exit incentives | - | - | - | - |
| Effect of purchase price allocation (net of tax) | -24 | -22 | 2 | 9.1 |
| Impairment (net of tax) of goodwill and other intangible assets | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income (loss)** | **78** | **57** | **21** | **36.8** |

(millions of euro)

| | 31.03.2014 | 31.12.2013 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Assets under management | 67,180 | 66,096 | 1,084 | 1.6 |
| Direct deposits from banking business | 7,559 | 7,256 | 303 | 4.2 |
| Direct deposits from insurance business and technical reserves | 19,464 | 18,431 | 1,033 | 5.6 |
| Risk-weighted assets [(a)] | 5,907 | | | |
| Absorbed capital [(a)] | 761 | | | |

Figures restated, where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents and discontinued operations.

[(a)] Values as at 31 March 2014 are determined using the methodology envisaged by the Basel 3 Capital Accord. Reference should be made to the 2013 financial statements for the values as at 31 December 2013, which were determined using the methodology envisaged by the Basel 2 Capital Accord.

Assets under management and assets under administration of the Banca Fideuram Group at the end of March 2014 amounted to 85.7 billion euro (of which 67.2 billion euro in assets under management and 18.5 billion euro in assets under administration), up 2.4% since the beginning of the year. This trend is attributable to the positive performance in terms of net inflows and the strong performance of the asset market.
In detail, assets under management, which represent more than three quarters of the aggregate, were up 1.6% compared to the balance at the end of 2013, thanks to the positive development of the asset management and life insurance segment. Assets under administration also increased compared to the volume as at 31 December 2013 (+5.4%). In the first three months of 2014, the Banca Fideuram Group's distribution networks achieved net inflows of 741 million euro, marking an improvement of 96 million euro compared to the same period of the previous year (+14.9%). An analysis by aggregates shows a decrease of 1.5 billion euro in inflows to assets under management, attributable to all segments, with the exception of portfolio management. On the other hand, net inflows to assets under administration showed an increase of 1.6 billion euro compared to the first three months of 2013, almost entirely attributable to inflows in the form of securities.
Direct deposits from banking business amounted to 7,559 million euro, up 4.2% from the beginning of the year, primarily as a result of repurchase agreements of ordinary customers.

Direct deposits from insurance business, amounting to 19,464 million euro, increased 5.6%, attributable to the positive performance of financial liabilities of the insurance segment designated at fair value and, to a lesser extent, to technical reserves.
The number of private bankers came to 5,060 as at 31 March 2014, down slightly compared to the end of 2013 (5,104).
The operating margin for the first quarter of 2014 stood at 160 million euro, up 40.4% compared to the same period of 2013, driven by the development of operating income (+23.1%) and the fall in operating costs (-1.2%).
The performance of revenues is attributable to all components, and markedly to net fee and commission income of 175 million euro, up 21.5%. In particular, recurring fee and commission income, i.e. fee and commission income correlated with assets under management, which represents the most important component of fee and commission income, rose compared to the same period of the previous year, owing to the growth in average assets under management. Front-end net fee and commission income, associated with the placement of securities, funds and insurance policies and the receipt and transmission of orders, which represents more than 9% of net fee and commission income, increased primarily due to the greater volume of securities placed and orders received and transmitted. On the other hand, performance commissions, almost all of which are recognised on an annual basis, declined. Fee and commission expense, essentially related to incentives for the network for attracting new money, reported a decrease due both to lesser incentives to the network of private bankers as a consequence of a decreased contribution in terms of net inflows to assets under management and the conclusion of several commercial initiatives. Net interest income also registered a positive performance (+21.4%) due to the uptrend during the quarter in the interest rates of reference, accompanied by reinvestment of part of the Group's liquidity in bonds. Among other income components, there was an increase in income from insurance business attributable to Fideuram Vita, which rose from 18 million euro to 25 million euro (+38.9%). This performance may be attributed to the improved net investment result on the portfolio of investments underlying separate management accounts and free capital, as well as the effects of financial market performance on measurement. Net provisions for risks and charges increased 12.5% due to the contractual indemnities owed to private bankers and network retention plans. Income before tax from continuing operations amounted to 143 million euro, up 50.5%. Lastly, following the attribution of the effects of the purchase price allocation on the income statement (24 million euro), Banca Fideuram closed the first quarter of 2014 with net income of 78 million euro, up 36.8% compared to the first three months of the previous year.

| | |
|---|---|
| **Business** | Asset-gathering activity through financial advisors networks at the service of customers with medium/high savings potential |
| **Mission** | To aid customers with informed management of their assets, beginning with a thorough analysis of their true needs and risk profile. To advise on financial and pension issues with the aid of highly qualified professionals in a fully transparent manner and in full compliance with the rules |
| **Distribution structure** | 97 branches in Italy with 5,060 private bankers |

Development of new products in the first quarter of 2014 continued for the purpose of enhancing the offering in line with the background environment and the specific needs of customers, both by leveraging the Group's internal expertise, and consolidating and expanding partnerships with third-party asset managers.

## Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for Treasury and ALM.

The Corporate Centre Departments (essentially the Treasury Department) generated operating loss of 485 million euro in the first quarter of 2014, compared to operating loss of 466 million euro for the same period of the previous year. This performance was primarily due to the marked deterioration of profits on trading, which more than offset the improvement in terms of net interest income and net fee and commission income. The revenue performance was reflected in all of the main income statement items and the net loss, which came to 476 million euro, compared to 506 million euro reported in the same period of 2013.

### Treasury services

The Treasury Department includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks and settlement risks. In the first quarter of 2014 Intesa Sanpaolo's market shares in terms of payments on the Target2 platform of the Eurosystem held steady, confirming its role of “critical participant” as a system-wide bank. The terms of direct access to the Target2Securities platform, to be achieved during the first migration window planned for June 2015, were formally submitted to both the ECB and Monte Titoli. The Bank continued its activities pertaining to three project areas (Cantiere Business, IT and Operations), involving the Treasury Department in drafting a functional analysis of business requirements and identifying the best application solution for liquidity management. Regarding collateralised markets, the operating procedures for the launch of the Eurosystem project were defined, relating to the use of cross-border triparty services for management and movement of the securities used as collateral in credit transactions in the Eurosystem for holders of a pool account with the Bank of Italy.

During the quarter, money markets were affected by a gradual decline in long-term yields and the stabilisation of the short-term curves, in a context of low-volatility that was also favoured by the first signs of economic growth in Europe. The market also registered a substantial realignment of the European Central Bank’s official refinancing rate and very short-term rates, in parallel to the reduction of the surplus liquidity in the Eurosystem and the progressive, gradual repayment by banks of the three-year V-LTROs launched by the Central Bank approximately two years ago.
Intesa Sanpaolo also repaid almost all of its debt exposure to the ECB, planning to limit its recourse to the Central Bank’s auctions solely to any needs arising from the management of seasonal factors. This strategy confirms an approach to liquidity management characterised by criteria of prudence, including with regard to pricing policies for its own interbank funding instruments: on the whole, the marginal cost was lower than in the previous quarter, and the volume of short-term issues of securities funding resumed (resulting in an outstanding amount of approximately 15 billion euro at the end of March 2014).

The securities portfolio segment was favoured by a climate of strong optimism on the market concerning credit risk and spreads that permitted an overall reduction of that portfolio and yielded positive results. At the same time, the ensuing decline in yields on the outstanding amount was offset by the shift towards longer-term positions, exploiting the shape of the curve and favouring the government securities segment with the aim of keeping the overall asset risk level under control. In management of the covered bond segment, the orientation towards the purchase of securities with longer maturities and more attractive spreads, in replacement of short-term positions, was addressed to the primary market, favouring issuers from Core European countries, with the aim of allowing greater diversification of risk.

Medium/long-term funding recorded a slowdown in deposits with typical instruments of the segment compared to the fourth quarter of 2013.
In the domestic market in the first three months of 2014, the total amount of Group securities placed through its own and third-party networks came to 2.4 billion euro. Among the securities placed, there was a prevalence of structured financial instruments (primarily represented by index-linked structures) at 72.2%, while the share of plain-vanilla instruments amounted to 27.8%. A breakdown by average maturity shows that 2-, 3- and 4-year maturities are equal to 46.9%, whilst 53.1% is represented by securities with 5- and 6-year maturities.
On international markets, unsecured institutional funding transactions were completed for a total of 3.8 billion euro through the issue of senior bonds placed on the Euromarket, the US market and, for the first time, the Asian market. In particular, during the quarter the Group placed 2.5 billion dollars (equivalent to 1.8 billion euro) on the U.S. market through a double tranche of 3- and 10-year bonds, as well as 750 million euro 8-year bonds intended primarily for European investors. In addition, in February Intesa Sanpaolo Bank Ireland placed its first senior notes denominated in Renminbi, in the amount of 650 million CNY (equivalent to 78 million euro), with a maturity of five years, guaranteed by the Parent Company. As regards other unsecured institutional funding transactions, the New York branch obtained approximately 1.46 billion dollars of funding with 13-month maturity (equivalent to approximately 1.06 billion euro) through the issues of certificates of deposit.
On the institutional market, a new fixed-rate covered bond of a total of 1.25 billion euro was issued with 12-year maturity, whereas in the context of Eurosystem refinancing transactions the sixth series was partially redeemed in advance (1 billion euro), with the concurrent issue, at equal value, of the ninth floating-rate series with 2-year maturity, subscribed by the Parent Company. Both securities are listed on the Luxembourg Stock Exchange with A2 ratings from Moody’s.

In the area of medium/long-term funding, through the procedure named A.Ba.Co. (Collateralised Bank Assets), bank loans disbursed to non-financial companies can be used to secure loan transactions with the Bank of Italy. This procedure is implemented in compliance with the Bank of Italy regulations "Eurosystem Monetary Policy Instruments - Guide for Operators”. In the first three months of 2014, there was a decrease in allocated assets of approximately 1.6 billion euro. At the end of March 2014, the gross outstanding amount lodged as pledge by the Group was about 7 billion euro.

# Risk management

## BASIC PRINCIPLES

As described in greater detail in the annual financial statements, the Intesa Sanpaolo Group's risk acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board performs its activities through specific committees set up from among its members, including the Control Committee. The Management Board draws on the activities conducted by managerial committees, particularly the Group Risk Governance Committee. Both corporate bodies receive support from the Chief Risk Officer who reports directly to the Chief Executive Officer. The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management and compliance guidelines and policies in accordance with company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.

The 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. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiaries' Management Bodies.

The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group 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, risk appetite 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 ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, as part of the Group's Risks Tableau de Bord. 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 3 REGULATIONS AND THE INTERNAL PROJECT

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

Therefore, the EU implemented "Basel 3" through two legislative acts:

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

EU legislation is complemented by the provisions issued by the Bank of Italy and referring to Circular no. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to banks and Italian banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

In order to comply with the new rules envisaged by Basel 3, the Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

Additional information on own funds, which are now calculated according to the Basel 3 rules, and on capital ratios of the Group is provided in the section on balance sheet aggregates: Own funds and capital ratios, and in the document Basel 3 Pillar 3.

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

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

<table>
<tr><th rowspan="2"></th><th colspan="2">Corporate</th><th>SME Retail</th><th>Mortgage</th></tr>
<tr><th>FIRB</th><th>AIRB LGD</th><th>IRB LGD</th><th>IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="12">Dec - 2008</td><td rowspan="11">Dec - 2010</td><td rowspan="11">Dec - 2012</td><td rowspan="10">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio di Bologna</td></tr>
<tr><td>Cassa di Risparmio di Venezia</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Banca dell'Adriatico</td></tr>
<tr><td>Banca di Trento e Bolzano</td></tr>
<tr><td>Banca di Credito Sardo</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Mediofactoring</td><td>Jun - 2012</td><td>*</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Cassa di risparmio dell'Umbria</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio della Provincia di Viterbo</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio di Rieti</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Banca Monte Parma</td><td>n.a.</td><td>Dec - 2013</td><td>Mar - 2014</td><td>Dec - 2013</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>*</td><td>*</td><td>Jun - 2012</td></tr>
</table>

(*) Banks included in the roll-out plan which have not yet obtained authorisation from the Supervisory Authority.

Please note that starting from March 2014 the subsidiary Banca Monte Parma received the authorisation to extend the IRB approach to the SME Retail segment.
Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013 as part of the process leading up to the application for authorisation to be submitted in 2014.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

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

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

In April 2014 the Group presented its Annual Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available.

As mentioned, as part of its adoption of Basel 3 framework, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".
The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

## CREDIT RISK

The Group's strategies, powers and rules for the granting and managing of loans are aimed at:

- achieving the goal of sustainable growth consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing and improving the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency and mitigating potentially associated losses;
- given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
- constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

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 internal rating models which change according to the counterparty's operating segment.

### Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. They allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and for credit risk control.
Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile: doubtful loans, exposures to borrowers in default or in similar situations; substandard loans, exposures to borrowers in temporary difficulty, deemed likely to be settled in a reasonable period of time and exposures which satisfy the conditions objectively set by the Supervisory Authority ("objective substandard loans"), although they do not meet the requirements to be classified under doubtful loans; restructured loans, positions for which, due to the deterioration of the economic and financial position of the borrower, the bank (or pool of banks) agrees to modify the original contractual terms giving rise to a loss. Lastly, non-performing loans also include past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.

(millions of euro)

| | 31.03.2014 | | | 31.12.2013 | | | Changes |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Total adjustments | Net exposure | Gross exposure | Total adjustments | Net exposure | Net exposure |
| Doubtful loans | 35,504 | -22,317 | 13,187 | 34,403 | -21,504 | 12,899 | 288 |
| Substandard loans | 18,262 | -4,258 | 14,004 | 17,979 | -4,164 | 13,815 | 189 |
| Restructured loans | 2,869 | -430 | 2,439 | 2,728 | -413 | 2,315 | 124 |
| Past due loans | 1,779 | -249 | 1,530 | 2,232 | -274 | 1,958 | -428 |
| **Non-performing loans** | **58,414** | **-27,254** | **31,160** | **57,342** | **-26,355** | **30,987** | **173** |
| Performing loans | 296,125 | -2,413 | 293,712 | 300,341 | -2,402 | 297,939 | -4,227 |
| Performing loans represented by securities | 14,465 | -317 | 14,148 | 15,207 | -344 | 14,863 | -715 |
| **Loans to customers** | **369,004** | **-29,984** | **339,020** | **372,890** | **-29,101** | **343,789** | **-4,769** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

The table above shows an increase for the first quarter of 2014 of non-performing loans, net of adjustments, by 173 million euro (+0.6%), compared to the end of the previous year. This trend led to a higher incidence of non-performing loans on total loans to customers, increasing from 9% to 9.2%. Coverage of non-performing loans came to approximately 46.7%, higher than the level at the end of 2013 (46%), however deemed adequate to meet the expected losses, also considering the guarantees securing the positions.
In particular, as at 31 March 2014, doubtful loans net of adjustments reached 13.2 billion euro, up 2.2% since the beginning of the year. The incidence on total loans was 3.9%, with a coverage ratio of 62.9%.
Compared to 31 December 2013, substandard loans increased 1.4% to 14 billion euro. Substandard loans as a proportion of total loans to customers increased from 4% to 4.1% in the first three months of the year, and the coverage ratio, adequate for the risk intrinsic to this portfolio, was 23.3%, slightly above the figure at the end of the previous year.
Restructured loans stood at 2,439 million euro, up compared to the beginning of the year (+5.4%), with a coverage ratio of 15% in line with the 15.1% of the previous year.
Past due loans recorded a decrease of 428 million euro (-21.9%) to 1,530 million euro from 1,958 million euro of the previous year. The incidence of this type of non-performing loans was 0.5%, substantially in line with the figure recorded at the end of December. The coverage ratio rose to 14% from the previous figure of 12.3%.
Performing exposures decreased, from 297.9 billion euro in the previous year to 293.7 billion euro. In this context, the cumulated collective adjustments on these loans totalled 0.8% of the gross exposure to customers, a value that is unchanged compared to the figure recorded at the end of 2013.

## MARKET RISKS

### TRADING BOOK

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:
- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds and positions in interest rates and foreign exchange rates, both relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
Effective from the report as at 30 September 2012, both banks have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks.
The risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":
- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period relevant to the measurement of stressed VaR had been set as 1 January to 31 December 2011 for Intesa Sanpaolo and as 1 July 2011 to 30 June 2012 for Banca IMI.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.
In the first quarter of 2014, market risks generated by Intesa Sanpaolo and Banca IMI decreased slightly with respect to the averages for the last quarter of 2013. The average VaR for the period totalled 46.5 million euro.

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

(millions of euro)

| | 2014 | | | 2013 | | | |
|---|---|---|---|---|---|---|---|
| | average 1st quarter | minimum 1st quarter | maximum 1st quarter | average 4th quarter | average 3rd quarter | average 2nd quarter | average 1st quarter |
| Intesa Sanpaolo | 9.4 | 8.0 | 11.3 | 10.5 | 8.2 | 11.7 | 14.1 |
| Banca IMI | 37.0 | 32.6 | 43.8 | 38.6 | 39.3 | 50.8 | 59.0 |
| **Total** | **46.5** | **41.9** | **54.2** | **49.2** | **47.6** | **62.5** | **73.2** |

(a) Each line in the table sets out past estimates of daily VaR calculated on the quartely historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

During the first three months of 2014, market risks generated by Intesa Sanpaolo and Banca IMI markedly decreased with respect to the values for 2013.

(millions of euro)

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | average 1st quarter | minimum 1st quarter | maximum 1st quarter | average 1st quarter | minimum 1st quarter | maximum 1st quarter |
| Intesa Sanpaolo | 9.4 | 8.0 | 11.3 | 14.1 | 11.5 | 18.1 |
| Banca IMI | 37.0 | 32.6 | 43.8 | 59.0 | 46.0 | 74.2 |
| **Total** | **46.5** | **41.9** | **54.2** | **73.2** | **60.2** | **88.5** |

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first three months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

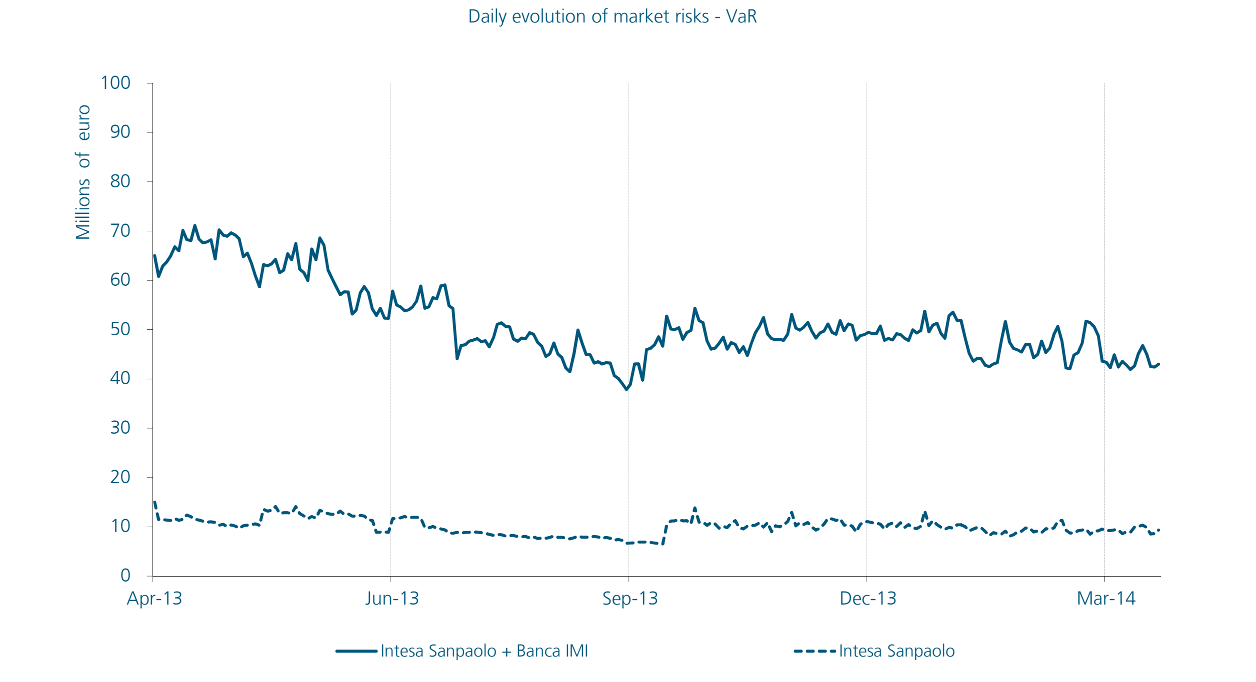
For Intesa Sanpaolo the breakdown of risk profile in the first quarter of 2014 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 35% of total VaR; for Banca IMI credit spread risk was the most significant, representing 65% of total VaR.

### Contribution of risk factors to total VaR[(a)]

| 1st quarter 2014 | Shares | Hedge funds | Rates | Credit spreads | Foreign exchange rates | Other parameters | Comodities |
|---|---|---|---|---|---|---|---|
| Intesa Sanpaolo | 28% | 35% | 8% | 21% | 7% | 1% | 0% |
| Banca IMI | 8% | 0% | 12% | 65% | 1% | 12% | 2% |
| **Total** | **14%** | **10%** | **11%** | **51%** | **3%** | **9%** | **2%** |

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first quarter of 2014, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The evolution of VaR in the last twelve months is set out below. The changes in the Group's VaR are mainly attributable to Banca IMI. The VaR peaked at the beginning of the period of observation (April 2013), following the post-elections scenario, when tensions were recorded on the Italian government spread market. The risk measures stabilised during the year. This effect is due to the departure from the calculation of the historical simulation, used to calculate VaR, of the 2012 volatility scenarios pertaining to the Italy risk. During the first quarter of 2014 the risk measures were slightly down on average; in particular, the decrease concerned the equity risk component for Banca IMI and the spread component for the Parent Company.




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

– on stock market positions, a bullish scenario, that is a 5% increase in stock prices with a simultaneous 10% decrease in volatility would have led to a 14 million euro gain; the opposite scenario would have led to a -12 million euro loss;
– on interest rate exposures, a parallel +70 basis point shift (average) would have led to a 108 million euro loss, whereas a parallel shift in the euro curve with near zero rates would have led to potential gains of 206 million euro;
– on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 166 million euro loss;
– on foreign exchange exposures, the portfolio is hedged as a consequence of the hedging transactions through options;
– finally, on commodity exposures, the portfolio is hedged through hedging transactions.

(millions of euro)

| | EQUITY | | INTEREST RATES | | CREDIT SPREADS | | FOREIGN EXCHANGE RATES | | COMMODITY | |
|---|---|---|---|---|---|---|---|---|---|---|
| | volatility +10% and prices -5% | volatility -10% and prices +5% | +70bp | lower rate | -25bp | +25bp | -10% | +10% | -50% | +50% |
| Total | -12 | 14 | -108 | 206 | 160 | -166 | 5 | 5 | 5 | 3 |

## Backtesting

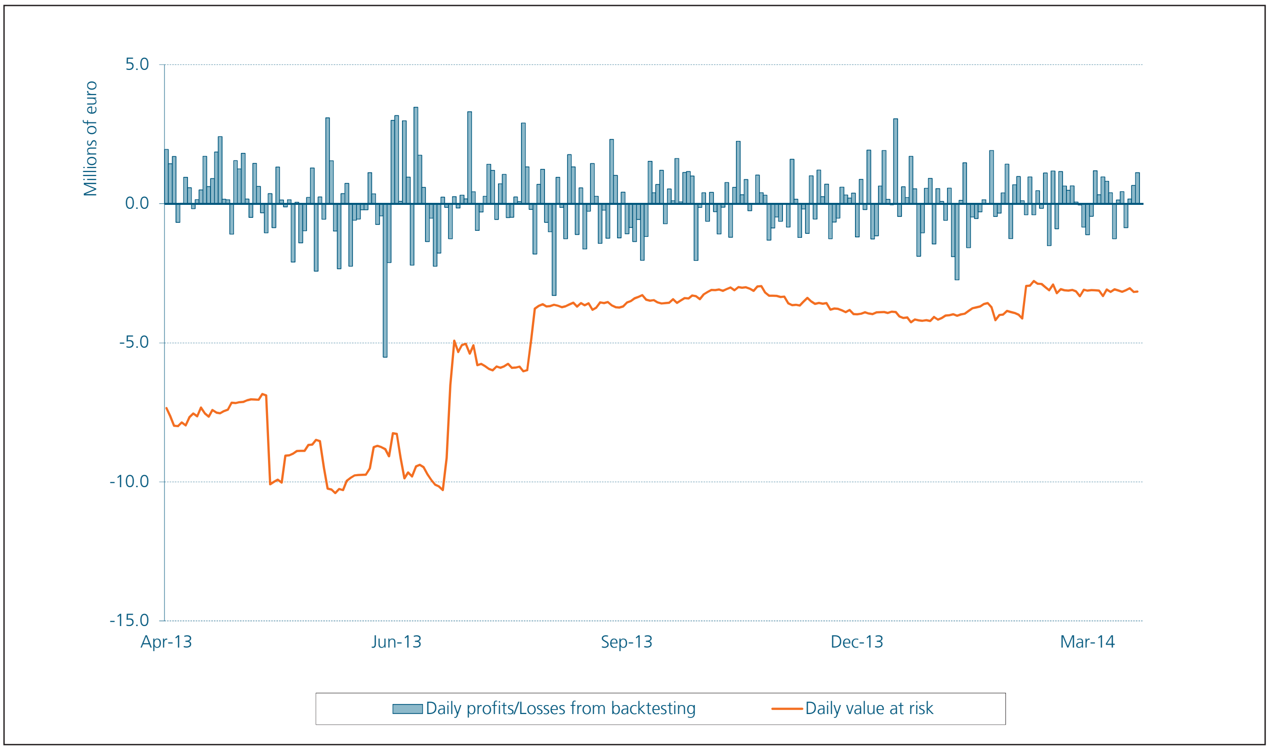
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– the daily estimates of value at risk;
– the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on valuation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

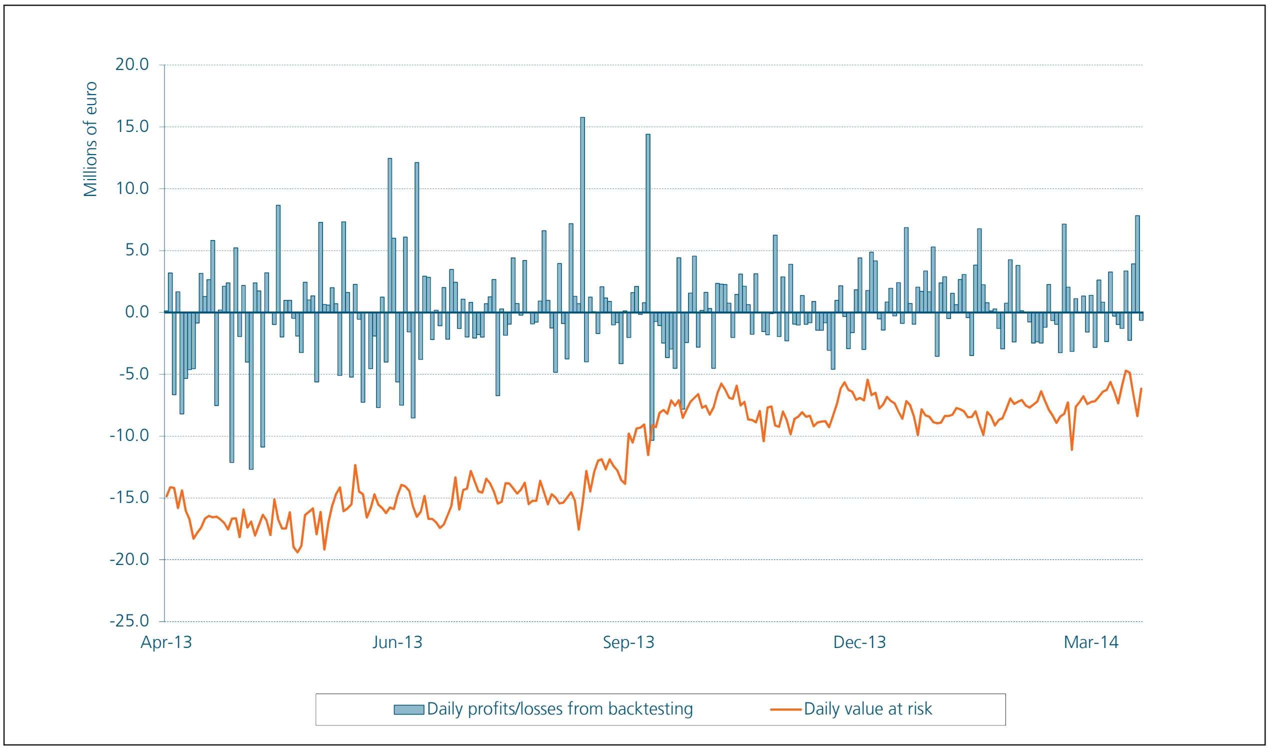
### Backtesting in Intesa Sanpaolo

During the last year there were no backtesting exceptions as regards both actual and theoretical figures of Intesa Sanpaolo.




### Backtesting in Banca IMI

Banca IMI's backtesting exception refers to the theoretical P&L figure and can be attributed to the fluctuations in financial sector spreads.



## BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in quoted companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti 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 ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits. Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio that is being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) 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 risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets or liabilities (micro-hedging), mainly consisting of bonds issued or acquired by Group companies 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 Group is exposed to this risk 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 both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).

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

In the first three months of 2014, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 134 million euro, settling at 165 million euro at the end of March, almost entirely concentrated on the euro currency; this figure compares with 206 million euro at the end of 2013.

Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 223 million euro at the end of March 2014 (264 million euro at the end of 2013).

Interest rate risk, measured in terms of VaR, averaged 26 million euro during the first three months of 2014 (40 million euro at the end of 2013), with a minimum value of 24 million euro and a maximum value of 28 million euro; the latter figure coincides with the value at the end of March. Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level of 32 million euro in the first three months of 2014 (33 million euro at the end of 2013), with a maximum value of 34 million euro and a minimum value of 30 million euro, confirmed as a final figure at the end of March.

Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to 13.9 million euro at the end of March 2014.

## LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.
To reflect the new Basel 3 liquidity requirements, which in June 2013 were adopted by the European Union with the publication of Directive 2013/36/EU and Regulation 575/2013 (known as CRD IV and CRR), in December 2013 the Corporate Bodies of Intesa Sanpaolo updated the Liquidity Policy by replacing, starting from January 2014, the previous internal indicators with the LCR (Liquidity Coverage Ratio) and the NSFR (Net Stable Funding Ratio) metrics. These Guidelines illustrate the tasks of the various company functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

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

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department and the Planning, Strategic ALM and Capital Management Department, responsible for liquidity management, and the Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.

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

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to face periods of tension, including extended ones, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Liquidity Coverage Ratio).
The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the value of the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations. The regulatory requirement of LCR will gradually come into force, starting with a percentage of 60% from January 2015.
The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio. This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term.
To this end, it sets a minimum "acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force starting from 1 January 2018.
Within the Liquidity Policy it is also envisaged the time extension of the stress scenario for LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

In the first three months of 2014 the Group's liquidity position remained largely within the limits provided for in the Group's Liquidity Policy in force: both regulatory indicators envisaged by Basel 3 (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. As at 31 March 2014, the liquidity reserves eligible with the various Central Banks came to 109 billion euro (124 billion euro at the end of December 2013), of which 82 billion euro, net of haircut, was available spot (88 billion euro at the end of December 2013) and remained unused.
Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the ISP Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months.
Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.

## INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged finance transactions, hedge fund investments and transactions in derivatives with customers.

## FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

### General principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are unchanged with respect to those adopted for the previous year financial statements, details of which can be found in the Annual Report 2013.
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single entity. Underlying the definition of fair value is the assumption that the company is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible.

The fair value of financial instruments is determined according to a hierarchy of criteria based on the origin, type and quality of the information used. In detail, this hierarchy assigns top priority to quoted prices (unadjusted) in active markets and less importance to unobservable inputs. Three different levels of input are identified:
– level 1: input represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date;
– level 2: input other than quoted prices included in level 1 that are directly or indirectly observable for the assets or liabilities to be measured;
– level 3: unobservable input for the asset or liability.

As ***level 1*** inputs are available for many financial assets and liabilities, some of which are traded in more than one active market, the company must pay particular attention to defining both of the following aspects:
– the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
– whether the company can complete a transaction involving the asset or liability at that price and in that market as at the measurement date.

The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Group generally operates.
A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.
In specific cases regulated by internal policies and despite being quoted on regulated markets, research is carried out in order to verify the significance of official market values.

In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out.

The following are considered as level 1 financial instruments: contributed equities, bonds quoted on the EuroMTS circuit, those for which it is possible to continuously derive from the main price contribution international platforms at least three bid and ask prices, and those for which prices are provided by the Markit platform, with at least three bid and ask prices for bonds and convertibles and at least five bid and ask prices for European ABSs, harmonised mutual funds contributed, spot exchange rates, and derivatives for which quotations are available on an active market (for example, futures and exchange traded options). Finally, level 1 instruments also include hedge funds for which the fund administrator provides the NAV (Net Asset Value) with the frequency established in the subscription contract, and the check list, which is the summary document of significant information on underlying assets of the fund, does not highlight any critical points in terms of liquidity risk or counterparty risk.
For level 1 financial instruments, the current bid price is used for financial assets and the current asking price for financial liabilities, struck on the principal active market at the close of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no quotation on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the

measurement date, under current market conditions.
Such techniques include:
- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2);
- valuations performed using – even partially – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3).

In the case of ***level 2*** inputs, the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final valuation.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- derivatives measured through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABSs for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows.

The calculation of the fair value of certain types of financial instruments is based on valuation models which consider parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator ***(level 3).*** In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:
- the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured under the Mark-to-Model Approach:
- debt securities and complex credit derivatives (CDOs) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- shareholding and other equities measured using models based on discounted cash flows;
- other loans, of a smaller amount, classified in the available-for-sale portfolio;
- derivative transactions relating to securitisations and equity-risk structured options.

Regarding the valuation techniques used for financial instruments (securities, derivatives, structured products, hedge funds) classified within levels 2 and 3 of the fair value hierarchy, no changes are recorded compared to the description in the Annual Report 2013.
In particular, it is specified that, in valuing the derivative contracts, the Group considers the (own and counterparty) non-performance risk which is calculated through the bilateral Credit Value Adjustment method, for a description of which reference is made to the Annual Report 2013.

With regard to the attribution of fair value hierarchy levels, it is also underlined that, for the hedge funds managed through the Managed Account Fund (MAF) platform, the platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on the prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Risk Management Department and also applied to the Parent Company and to all consolidated subsidiaries.

The valuation process of financial instruments entails the following phases:
- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means. In particular:
  - reference categories are established for the various types of market parameters;
  - the reference requirements governing the identification of official revaluation sources are set;
  - the fixing conditions of official figures are established;
  - the data certification conditions are established;

- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement. The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. All models used for the measurement must be submitted to an internal certification process which involves various competent structures or independent companies in highly complex or particularly critical cases;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

## Fair value hierarchy

The table below shows financial assets and liabilities designated at fair value through profit and loss broken down by fair value hierarchy levels.
Compared to the information provided in the 2013 financial statements, the Group did not amend the guidelines based on which level changes are carried out within the fair value hierarchy.

(millions of euro)

| Financial assets / liabilities at fair value | 31.03.2014 | | | 31.12.2013 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets held for trading | 19,814 | 31,748 | 790 | 16,938 | 31,309 | 753 |
| 2. Financial assets designated at fair value through profit or loss | 33,424 | 2,842 | 399 | 32,374 | 3,004 | 383 |
| 3. Financial assets available for sale | 103,564 | 4,728 | 5,132 | 105,489 | 4,196 | 5,608 |
| 4. Hedging derivatives | - | 7,825 | 1 | - | 7,533 | 1 |
| **Total** | **156,802** | **47,143** | **6,322** | **154,801** | **46,042** | **6,745** |
| 1. Financial liabilities held for trading | 5,992 | 35,064 | 426 | 7,063 | 31,756 | 400 |
| 2. Financial liabilities designated at fair value through profit or loss | - | 31,433 | - | - | 30,733 | - |
| 3. Hedging derivatives | - | 8,150 | 13 | - | 7,577 | 13 |
| **Total** | **5,992** | **74,647** | **439** | **7,063** | **70,066** | **413** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio, with percentages reaching approximately 3% for financial assets and 0.5% for financial liabilities, without showing any significant change compared to the percentages of December 2013.
Approximately 75% of financial assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

The sensitivity analysis of level 3 financial assets and liabilities shows a not significant decrease in fair value, relating to complex credit derivatives, when the following parameters change:
- risk-neutral probability of default derived from market spreads (10%);
- recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
- correlation between the value of collaterals present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
- expected residual life of the contract (one-year increase over the expected term).

## STRUCTURED CREDIT PRODUCTS

In the first quarter of 2014, the exposure in structured credit products was substantially stable due to the combined effect of the reduction in risk positions classified as part of the loan portfolio and the increase in the exposure associated with the trading portfolio, essentially due to the purchase of ABSs by Banca IMI.

The risk exposure to structured credit products amounted to 2,034 million euro as at 31 March 2014 with respect to funded and unfunded ABSs/CDOs, compared to 2,033 million euro as at 31 December 2013, in addition to an exposure of 27 million euro with respect to structured packages (this position was 26 million euro as at 31 December 2013).
The rise in the exposure (from 1,068 million euro in December 2013 to 1,171 million euro in March 2014) classified in the trading portfolio is largely attributable to higher investments in ABSs by the subsidiary Banca IMI.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a significant decrease was recorded (from 965 million euro in December 2013 to 863 million euro in March 2014), almost entirely attributable to the Parent Company loan portfolio and for the most part due to sales.
Lastly, with regard to exposure in packages, the figure of 27 million euro recorded as at 31 March 2014 is in line with the figure at the end of 2013.

From an income statement perspective, structured credit products generated a net income of 7 million euro as at 31 March 2014 compared to 67 million euro at the end of 2013.
The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of 10 million euro. The profit on this segment was a result of the effects of:

- unfunded Super CDO positions for +1 million euro;
- European and US funded ABSs/CDOs (+12 million euro), entirely attributable to the subsidiary Banca IMI and including 5 million euro attributable to profits realised on the partial disposal of the trading book and +7 million euro from revaluation of outstanding positions;
- the contribution of the subprime exposure for -1 million euro;
- other unfunded positions for -2 million euro.

The securities reclassified to the loan portfolio had a negative impact of 3 million euro on the income statement as at 31 March 2014. This result is the combination of the 3 million euro in profits realised on the sale of positions and 6 million euro in impairment losses on securities included in the portfolio.
The "Monoline risk" and "Non-monoline packages" made no contribution to "Profits (Losses) on trading – caption 80" as at 31 March 2014, compared to the positive result of 40 million euro recorded as at 31 December 2013. The segment trend reflects the spread volatility for the counterparty on which this exposure is concentrated.

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

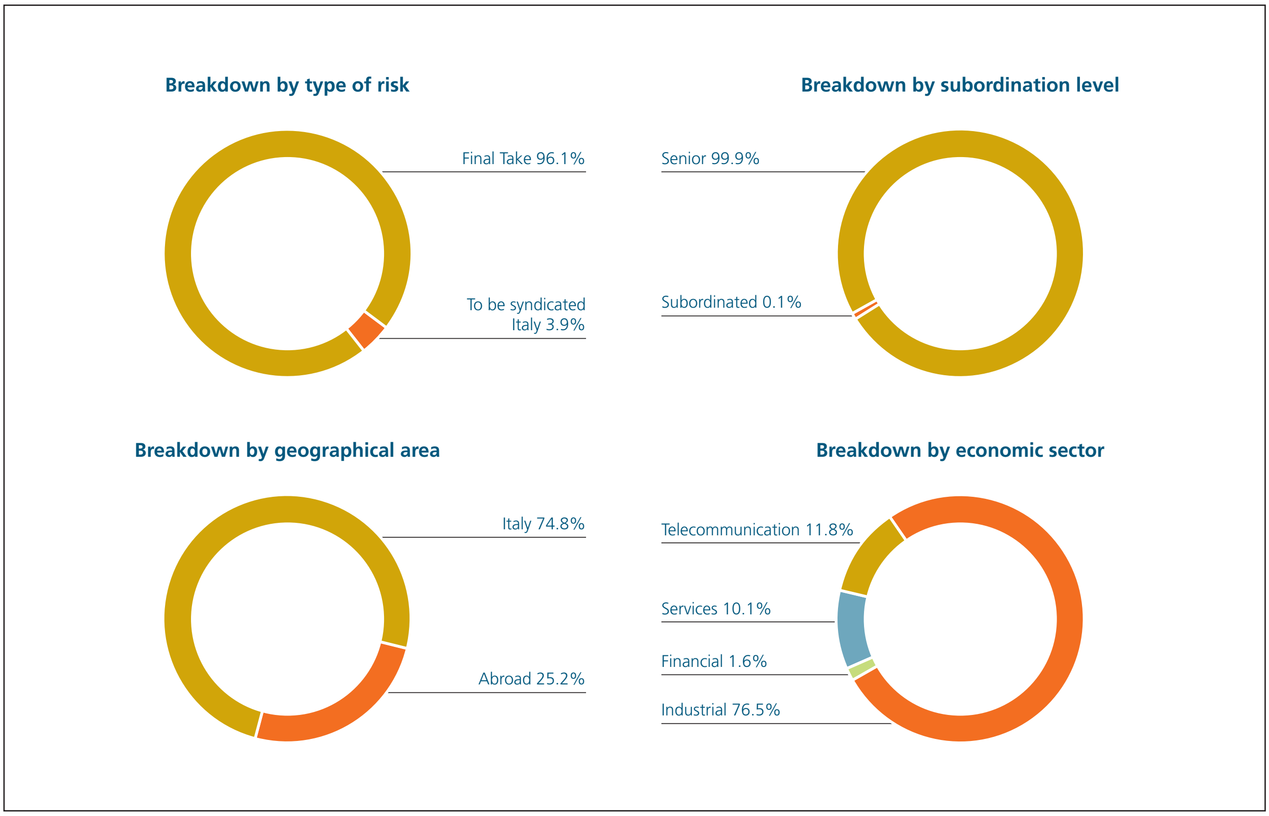
For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds (CBs), developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.
For consolidation purposes, note that the implementation of the new standard IFRS 10 caused the deconsolidation of insurance SPEs (UCIs underlying insurance policies), the risk of which is borne by the insured parties rather than by the Group company.
No amendments to the criteria are reported for the other SPE categories compared to the information already provided in the 2013 financial statements.

For information concerning the categories of SPEs subject to disclosure, reference should be made to the 2013 financial statements. Significant changes concerned the two segments below:

- a reduction of about 400 million euro in the securities issued by the funding SPE Intesa Funding LLC;
- in the insurance business, note the already mentioned deconsolidation of insurance SPEs, consequently to the new standard IFRS 10 coming into force;
- as part of the covered bonds issue programme of the vehicle ISP CB Ipotecario S.r.l., a new fixed-rate issue was placed on the institutional market for a nominal value of 1.25 billion euro with 12-year maturity;
- as part of the issue programme guaranteed by ISP CB Pubblico S.r.l., the sixth series was closed in advance for a partial amount of 1 billion euro. At the same time, Intesa Sanpaolo issued series 9 for the nominal amount of 1 billion euro with floating-rate and two-year maturity. The securities, fully subscribed by the issuer to perform Eurosystem refinancing transactions, are listed on the Luxemburg Stock Exchange and rated A2 by Moody's.

## 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 operations, 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 partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas 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 31 March 2014, 119 transactions for a total amount granted of 3,534 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.




## INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio as at 31 March 2014 totalled 752 million euro, compared to 744 million euro recorded in December 2013. The positive difference is essentially related to the movements in the portfolio that took place in the first quarter of this year and to the valuation effect on outstanding positions.
As at the same date, the overall result of the investments in this segment was positive for 5 million euro, compared to the 70 million euro of the "Profits (Losses) on trading – caption 80" as at 31 December 2013.
The 5 million euro of net profit, recognised as at 31 March 2014 under "Profits (Losses) on trading – caption 80", included:

- 4 million euro from net valuations of positions outstanding as at the end of March 2014;
- 1 million euro representing net profit realised from the trading of fund quotas.

Net capital gains on the residual amount (5 million euro) were spread across 34 positions, 22 of which with capital gains (12 million euro) and 12 with capital losses (8 million euro).

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 31 March 2014, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 6,167 million euro (5,542 million euro as at 31 December 2013). The notional value of such derivatives totalled 48,898 million euro (54,087 million euro as at 31 December 2013).
Please note that the positive fair value of contracts outstanding with the 10 customers with the highest exposures was 4,138 million euro (3,610 million euro as at 31 December 2013).
Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 586 million euro as at 31 March 2014 (606 million euro as at 31 December 2013).
The notional value of such derivatives totalled 24,464 million euro (17,627 million euro as at 31 December 2013).

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 ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 March 2014, this led to a negative effect of 4 million euro being recorded under “Profits (Losses) on trading” in the income statement.

## 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 risk includes 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 reputational risks are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
With regard to Operational Risk, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes:

- effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
- effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
- effective from 31 December 2011, for a third set including Banca Infrastrutture Innovazione e Sviluppo. The full demerger of the Bank in favour of the Parent Company Intesa Sanpaolo and Leasint was completed in December 2012;
- effective from 30 June 2013, for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding).

The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced Measurement approaches starting from the end of 2014, based on the roll-out plan presented to the Management and Supervisory Authorities.

The control of the Group's operational risks was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
The tasks of the Group Compliance and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Risk Management Department for management of the Group’s operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (structured collection of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Integrated self-assessment process, conducted on an annual basis, allows the Group to:

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

The Self-assessment process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks.
The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company’s business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment, to take account of the effectiveness of internal controls in the various organizational units.

Operational risks are monitored by an integrated reporting system, which provides Management with support information for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in this process.

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

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,819 million euro as at 31 March 2014, unchanged compared to 31 December 2013.

**Legal risks**

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions are made to the Allowances for risks and charges when there are legal obligations for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
During the first three months of 2014, no new significant legal procedures were commenced that could lead to significant risks, and there were no important developments with respect to those underway, except for the proceedings regarding the Altroconsumo class action illustrated below.
Reference should therefore be made to the Notes to the 2013 Financial Statements for a detailed description of litigation regarding anatocism, investment services and other significant proceedings and litigation.

*Altroconsumo class action* - In 2010, the association Altroconsumo, acting on behalf of three account holders, served Intesa Sanpaolo with a writ of summons for a class-action suit pursuant to art. 140-bis of Legislative Decree 206/2005 (Consumer Code).
The suit originally sought a finding that application of overdraft charges and the new fee for overdrawing accounts without credit facilities in place is unlawful. It also sought an inquiry into whether the "threshold rate" set out in Law 108/96 (usury) has been exceeded and a sentence enjoining the restitution of any amounts collected by the Bank in excess of that threshold. The claim had been quantified at a total of 456 euro in connection with the three accounts cited in the suit.
By order of 28 April 2010, the Court of Turin declared the suit inadmissible.
Following the complaint filed by the plaintiffs, the Turin Court of Appeal, by order of 16 September 2011, overturned the previous order, declaring the suit admissible as limited solely to account overdraft charges applied effective 16 August 2009. The Bank appealed against this ruling before the Court of Cassation, which is expected to pronounce upon the underlying reasons for the appeal.
In parallel, the class action was re-opened before the Court which by order filed on 15 June 2012 established the advertising terms and methods for the joinder of class action participants, setting the date of the hearing for continuation of the proceedings as of 14 March 2013.
As at 28 January 2013, the deadline for submission of applications for joinder, there were only 104 participants.
In a judgement filed on 10 April 2014, on the one hand the Court declared the invalidity of the clause regarding the account overdraft charge applied to the current accounts of the subjects who promoted the action, and, on the other hand, it declared the inadmissibility of all the participants, except for three, and consequently ordered the Bank to reimburse the plaintiffs and the three participants the total amount of 1,173.55 euro.
Although the case had a negligible impact in economic terms, Intesa Sanpaolo will appeal as it is convinced that its claims are founded.

*Tax litigation*

With regard to pending tax litigation and the related risks and provisions, detailed information is provided in the Notes to the 2013 consolidated financial statements (Part E).
Six new positions were started in the first quarter of 2014, totalling about 14.6 million euro, including sanctions, referring to loans granted abroad, for which the lack of actual economic risk is confirmed due to both the groundlessness of the relevant legal requisites and the presence of specific clauses for recourse against the funded parties.
Three new complaints were also notified in the same period, concerning the contribution of branches in Cariparma-Credit Agricole by ISP, Carifirenze and Cariveneto, with subsequent sale of the shares received, which the Agenzia delle Entrate continues to ban, according to an anti-evasion approach, and reclassify as a single trading case which gradually took shape, equivalent to the transfer of a business line. The claims of the financial authorities amount to 10.4 million euro, 1.7 million euro and 2.2 million euro, for tax and interest, without applying any sanction, with regard to which it is worth to recall the positive result obtained for a similar case with the Lombardy Regional Tax Committee, which declared as unlawful the requalification in unit terms of a variety of legal acts supported by one's own and autonomous contractual reasons, expressly denying the evasiveness of the case.

## INSURANCE RISKS

### Life business

The typical risks of the life insurance portfolio may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
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 sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are controlled by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is guarded against 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 the 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 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.

### 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 financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution 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 (VaR).

### Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 31 March 2014, the investment portfolios of Group companies, recorded at book value, amounted to 112,202 million euro. Of these, the part of 62,520 million euro relates to traditional revaluable life policies, the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined, non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 49,682 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.
In terms of breakdown by asset class, net of derivative financial instruments, 93.7% of assets, i.e. approximately 58,923 million euro, were bonds, whereas assets subject to equity risk represented 1.2% of the total and amounted to 753 million euro. The remainder (3,216 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (5.1%).
The carrying value of derivatives came to approximately -372 million euro, almost entirely relating to effective management derivatives[3]. The hedging derivatives amounted to a total of approximately -6 million euro.

At the end of the first three months of 2014, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 2,440 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 77 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 5.5 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of approximately 5.7 years. The related portfolios of assets have a modified duration of around 4.8 years.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 3,097 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 3 million euro rise which partly offsets the corresponding loss on the bonds.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.7% of total investments and A bonds approximately 3.7%. Low investment grade securities (BBB) were approximately 82.0% of the total and the portion of speculative grade or unrated was minimal (approximately 2.0%).
A considerable portion of the BBB area is made up of securities issued by the Republic of Italy.
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks approximately made up 75.6% of the total investments, while financial companies (mostly banks) contributed almost 13.9% of exposure and industrial securities made up approximately 4.2%.

[3] ISVAP Regulation 36 of 31 January 2011 on investments defines “effective management derivatives” as all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

At the end of the first quarter of 2014, 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 3,199 million euro, with 2,733 million euro due to government issuers and 466 million euro to corporate issuers (financial institutions and industrial companies).

# Accounting policies

# Criteria for the preparation of the Interim statement

## General preparation principles

The "Interim Statement as at 31 March 2014" has been prepared, in consolidated form, in compliance with art. 154-ter, Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and related International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.
The accounting principles adopted in preparation of the Consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of asset and liability captions, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2013 – to which reference should be made for further details – with the exception of the effects resulting from the introduction of new accounting standards on consolidation and amendments to IAS 32 on offsetting of financial assets and liabilities.
In particular, reference is made to the compulsory application from 1 January 2014 of Regulation 1254/2012 concerning the endorsement of accounting standards IFRS 10, IFRS 11 and IFRS 12 and the introduction of amendments to existing standards (IAS 27 and IAS 28). The provisions on consolidation introduced by Regulation 1254/2012 were integrated by subsequent Regulations (no. 313 and no. 1174 of 2013), these too effective from 1 January 2014.
In this context, IFRS 10 identifies the concept of control as the only basis for consolidation, to be applied to all types of entity regardless of their nature. An investor has control over an investment entity when it is exposed to or has the right to variable returns deriving from its personal involvement and has the capacity to influence such returns through the exercise of power over the relevant activities of that entity. This standard is therefore based on the concept of control where all of the following three elements are present:
- the power to direct the relevant activities of the investment entity;
- the exposure to variable returns deriving from the relationship with the investment entity;
- the capacity to exercise power over the investment entity in such a way as to affect the amount of such returns.

In general, under the new standard the definition of control calls for deeper analysis and a higher degree of objectivity compared to the previous regulations.
Furthermore, in relation to the accounting standards on consolidation, IFRS 11 sets out financial reporting principles for entities party to arrangements establishing "joint control", which can be in the form of a joint venture or a joint operation.
Lastly, IFRS 12 combines, strengthens and supersedes disclosure obligations for subsidiaries, joint arrangements and associates and unconsolidated structured entities.
The impact of Regulation 1254/2012 and – more specifically – of the application of IFRS 10 on the Intesa Sanpaolo Group's scope of consolidation is not significant, as it essentially concerns the deconsolidation of UCIs underlying insurance policies, the risk of which is borne by the insured parties (and not by the insurance company). Therefore the Group is not exposed to fluctuations in the returns generated by these UCIs. Restatement of the balance sheet figures as at 31 December 2013 led to a decrease of approximately 2.1 billion euro in consolidated assets, whilst there was no impact on the income statement.
Lastly, through Regulation 1256/2012, a number of amendments to IFRS 7 and IAS 32 were endorsed in relation to offsetting financial assets and liabilities. The amendments to IFRS 7, as stated in the Regulation, were already applied from 1 January 2013, whilst the amendments to IAS 32 are applicable from 1 January 2014. Through the amendments to IAS 32, the IASB aimed to improve the application guidelines in order to eliminate inconsistencies in the application of the standard and to better specify the requirements already outlined in paragraph 42 of IAS 32, to define when financial assets and liabilities are subject to netting in the Balance Sheet. In particular, the amendments clarify that the right to offset must not be subject to a future condition precedent and must be exercisable legally whether as part of normal business activities or in the event of default, bankruptcy or any other form of insolvency proceedings. Based on current operations involving financial instruments and related contractual agreements, in this interim statement there is no impact on the representation of balance sheet totals.
To conclude, a note regarding Regulation 1375/2013, applicable from 2014 amends IAS 39 with the introduction of novation of a derivative designated as a hedging instrument by an existing counterparty to a central counterparty, as a consequence of laws or regulations. The amendment does not result in the termination of the hedging relationship provided that any contractual changes to the derivative are limited to those necessary to such a counterparty replacement.

The Consolidated Interim Statement was not subject to auditor review and comprises the condensed Balance sheet and Income statement, accompanied by Explanatory notes to the report on operations. It is prepared in euro as the operating currency. The amounts indicated in the Financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.
The financial statements are presented in condensed/reclassified format, based on the most appropriate presentation criteria for the captions according to standard operating principles. For the Income statement, the content of captions refers to Bank of Italy instructions laid down in Circular 262/2005, including aggregations/reclassifications as follows:
- net interest includes: profits (losses) on trading relating to net interest; the reversal in time value on loans, based on the amortised cost criterion in the absence of changes in expected future cash flows; the time value of employee termination indemnities and provisions for risks and charges;
- profits (losses) on trading records: dividends on shares classed as financial assets available for sale and as assets held for trading; fair value adjustments in hedge accounting; profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities; profits (losses) on financial assets and liabilities designated at fair value;
- the contribution from insurance companies to net income is conventionally recorded in the specific caption "Income from insurance business" rather than line by line. For the insured parties' portion the adjustment effect of the technical reserve

associated with the impairment of securities available for sale in the portfolio of the Group's insurance companies was also attributed to this caption;
- administrative expenses are stated net of recoveries of expenses, taxes and duties from customers;
- net adjustments to loans include profits (losses) on disposal or repurchase of loans and net impairment losses on other financial activities related to guarantees, commitments and credit derivatives;
- net impairment losses on other assets include – in addition to net impairment losses on financial assets available for sale or held to maturity – any impairment of property, equipment and intangible assets, except in relation to intangible assets;
- profits (losses) on investments held to maturity and on other investments include profits (losses) on investments in associates and companies subject to joint control and profits (losses) on disposal of investments; conversely net income from investments carried at equity is recorded in a specific caption of net operating income along with dividends;
- charges for integration and exit incentives are recorded in a specific caption net of the tax effect;
- the economic effect of purchase price allocation, net of the tax effect, is indicated in a specific caption;
- goodwill impairment and impairment losses on other intangible assets are shown, net of tax, in a specific caption amongst "non-current" income components.

For the Balance sheet, with respect to the compulsory forms defined in Circular 262/2005, some aggregations have been made concerning:
- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of hedging derivatives and fair value change of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the aggregation in one single caption of Property and equipment and Intangible assets;
- the aggregation of amounts Due to customers and Securities issued into a single caption;
- the aggregation into one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as an aggregate and net of any treasury shares.

With regard to discontinued operations, in the interim statement as at 31 March 2014, the investment in the Ukrainian subsidiary, Pravex Bank, was recognised to a specific caption in the balance sheet following the agreement signed in January 2014 for the disposal of 100% of its capital to CentraGas Holding GmbH. Subject to obtaining the required authorisations, finalisation of this transaction is expected during 2014.

As customary, in the interest of a consistent basis of comparison, balance sheet and income statement figures have been restated, where necessary, to account for the changes in the scope of consolidation.

## Scope of consolidation and consolidation methods

### Scope of consolidation

The Consolidated interim statement includes Intesa Sanpaolo and the companies directly and indirectly controlled, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors dissimilar to that of the Parent Company and private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.
There have been no significant new additions to the scope of consolidation with respect to the position as at 31 December 2013. In infragroup terms, Leasint, Neos Finance and Centro Leasing have been excluded following their merger by incorporation into Mediocredito Italiano.
Companies for which the shares have been received as pledges with voting rights exceeding 20% are not consolidated, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares. In addition, following the previously mentioned application of IFRS 10 from 1 January 2014, certain UCIs underlying insurance policies, the risk of which is borne by the insured parties (and not by the insurance company) have been excluded from the scope of consolidation.

### Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2013 to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Report as at 31 March 2014 refer to the same date. In certain limited cases, for subsidiaries which are not material, the latest official figures are used.

Where necessary – and only in wholly marginal cases – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of non-eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

The Management Board

Milan, 15 May 2014

# Declaration of the Manager responsible for preparing the Company's financial reports

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Ernesto Riva, hereby declares that the accounting information contained in this Interim Statement as at 31 March 2014 corresponds to corporate records, books and accounts.

Milan, 15 May 2014

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

# Contacts

## Intesa Sanpaolo S.p.A.

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

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

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

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

Internet: group.intesasanpaolo.com

# Financial calendar

| | |
|---|---|
| Approval of the half-yearly report as at 30 June 2014: | 1 August 2014 |
| Approval of results as at 30 September 2014: | 11 November 2014 |

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GALLERIE D'ITALIA.
THREE MUSEUMS, ONE CULTURAL NETWORK FOR ITALY.

Intesa Sanpaolo's Gallerie d'Italia project enables the bank to share its artistic and architectural heritage with the wider public. With 1,000 artworks on display in historic palazzos in three cities, its museum network is truly one of a kind.

The **Gallerie di Piazza Scala**, Milano: this prestigious architectural complex houses a selection of two hundred 19th-century masterpieces by painters from Lombardy, as well as an exhibition charting the leading figures and tendencies in Italian art from the latter half of the twentieth century.
The **Gallerie di Palazzo Leoni Montanari**, Vicenza: home to the most important collection of Russian icons in the West and examples of 18th-century painting from Veneto.
The **Gallerie di Palazzo Zevallos Stigliano**, Napoli: the galleries host the *Martyrdom of Saint Ursula*, one of Caravaggio's very last paintings, in addition to southern Italian landscapes dating from the 17th to the early 20th centuries.

*On the cover*

**Alberto Burri**
(Città di Castello 1915 – Nice 1995)
*Red Black, 1953*
oil, paint, canvas and ground pumice stone on canvas,
98.8 x 85.2 cm
Intesa Sanpaolo Collection
Gallerie d'Italia-Piazza Scala, Milano

Alberto Burri is one of Italy's most important post-Second World War artists. After graduating with a degree in medicine in 1940, he joined the army as a medical officer but was taken prisoner by the British in Tunisia in 1943. The following year he was transferred by the Americans to a prison camp in Texas, where he began experimenting with art. On his return to Italy, he gave up medicine to dedicate himself exclusively to painting.

The lack of faith in art and the languages of art after the War moved Burri, like his contemporaries, to seek out new means of expressing the creative angst which radiates from his work, making it the focus of his personal vision of the individual.

*Red Black* marks a significant hiatus in the "Art Informel" period of the early 1950s, the elegance of its forms contrasting sharply with the *brutality* of the materials. In this piece, it is as though Burri wanted to return to traditional techniques and evocative gestures as opposed to direct compositions. The painting enhances the continuity of the artist's language, as reflected in the close ties between colour and matter which transcend the complexity and variety of the media.

The choice of this work highlights the value of identity, the power of design and the courage to innovate.