INTESA SANPAOLO

Interim Statement as at 30 September 2014

This is an English translation of the Italian language original "Resoconto intermedio al 30 settembre 2014" that has been prepared solely for the convenience of the reader. The Italian language original "Resoconto intermedio al 30 settembre 2014" was approved by the Management Board of Intesa Sanpaolo on 11 November 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 30 September 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 8,553,821,316.56 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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BANCA DI TRENTO E BOLZANO | BANK FÜR TRIENT UND BOZEN
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BANCA IMI
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CASSA DI RISPARMIO DI VENEZIA
CARISBO
INTESA SANPAOLO PRIVATE BANKING
MEDIOCREDITO ITALIANO

NORTH WEST

INTESA SANPAOLO Branches	Subsidiaries Company	Branches
1,370	Intesa Sanpaolo Private Banking	55
	Banca Fideuram	37
	Banca Prossima	20
	Mediocredito Italiano	3
	Banca IMI	1

NORTH EAST

INTESA SANPAOLO Branches	Subsidiaries Company	Branches
24	CR del Veneto	347
	CR in Bologna	174
	CR del Friuli Venezia Giulia	107
	CR Venezia	91
	CR di Forlì e della Romagna	90
	Banca di Trento e Bolzano	73
	Banca Monte Parma	67
	Intesa Sanpaolo Private Banking	37
	Banca Fideuram	22
	Banca Prossima	14
	Mediocredito Italiano	2

CENTRE

INTESA SANPAOLO Branches	Subsidiaries Company	Branches
233	Banca CR Firenze	562
	Banca dell'Adriatico	114
	Intesa Sanpaolo Private Banking	23
	Banca Fideuram	21
	Banca Prossima	7
	Banco di Napoli	3
	Mediocredito Italiano	3

SOUTH

INTESA SANPAOLO Branches	Subsidiaries Company	Branches
8	Banco di Napoli	618
	Banca dell'Adriatico	96
	Intesa Sanpaolo Private Banking	18
	Banca Prossima	15
	Banca Fideuram	11
	Mediocredito Italiano	2

ISLANDS

INTESA SANPAOLO Branches	Subsidiaries Company	Branches
156	Banca di Credito Sardo	88
	Banca Prossima	9
	Banca Fideuram	5
	Intesa Sanpaolo Private Banking	5
	Mediocredito Italiano	2

Figures as at 30 September 2014

Product Companies

INTESA SANPAOLO VITA

Bancassurance

INTESA SANPAOLO PREVIDENZA

Pension Funds

EurizonCapital

Asset Management

SIREFID

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Consumer Credit

SETEFI

Electronic Payments

MEDIOCREDITO ITALIANO

Industrial credit, Factoring and Leasing

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

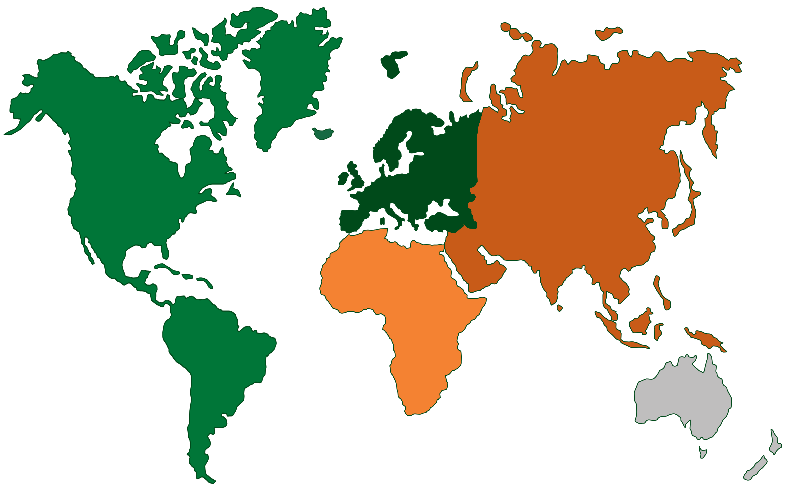
Representative Offices
Sydney

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
Istanbul	Moscow
London	Stockholm
Madrid	
Paris	
Warsaw	



Country	Subsidiaries	Branches
Albania	Intesa Sanpaolo Bank Albania	31
Bosnia and Herzegovina	Intesa Sanpaolo Banka Bosna i Hercegovina	51
Croatia	Privredna Banka Zagreb	199
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	71
Russian Federation	Banca Intesa	62
Serbia	Banca Intesa Beograd	191
Slovakia	VUB Banka	232
Slovenia	Banka Koper	52
Switzerland	Intesa Sanpaolo Private Bank (Suisse)	1
Ukraine	Pravex-Bank(3)	234
United Kingdom	Banca IMI	1

AFRICA

Representative Offices	Country	Subsidiaries	Branches
Cairo	Egypt	Bank of Alexandria	170
Casablanca			
Tunis			

Figures as at 30 September 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
Eurizon Capital 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 Gianfranco CARBONATO
Members	Gianluigi BACCOLINI Francesco BIANCHI Rosalba CASIRAGHI Carlo CORRADINI Franco DALLA SEGA Piergiuseppe DOLCINI Jean-Paul FITOUSSI Edoardo GAFFEO Pietro GARIBALDI Rossella LOCATELLI Giulio Stefano LUBATTI Marco MANGIAGALLI Iacopo MAZZEI Beatrice RAMASCO Marcella SARALE 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	Stefano DEL PUNTA Carla Patrizia FERRARI Piera FILIPPI Gaetano MICCICHE' (*) Giuseppe MORBIDELLI Bruno PICCA

Manager responsible for preparing the Company's financial reports

Ernesto RIVA

Independent Auditors

KPMG S.p.A.

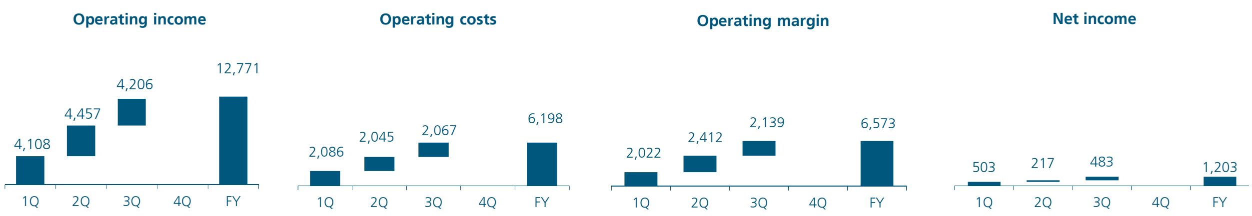
(*) General Managers

Overview of the nine months of 2014

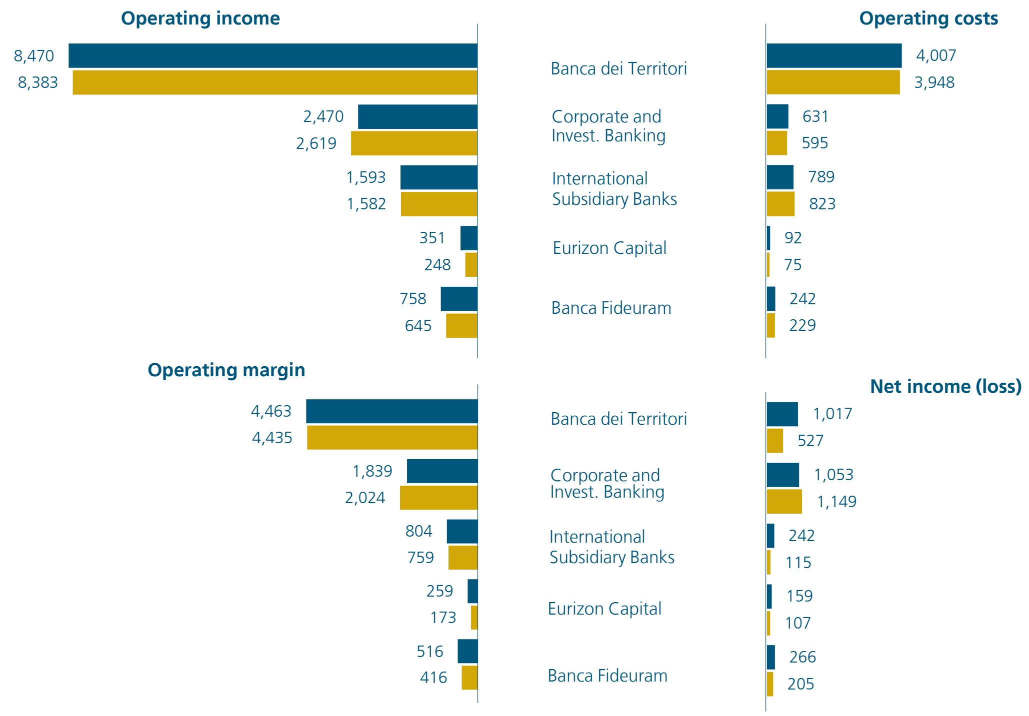
Income statement figures and alternative performance measures

Consolidated income statement figures (millions of euro)	30.09.2014	30.09.2013	Changes amount	Changes %
Net interest income	6,314	6,078	236	3.9
Net fee and commission income	4,960	4,512	448	9.9
Profits (losses) on trading	696	1,090	-394	-36.1
Income from insurance business	736	648	88	13.6
Operating income	12,771	12,317	454	3.7
Operating costs	-6,198	-6,110	88	1.4
Operating margin	6,573	6,207	366	5.9
Net adjustments to loans	-3,504	-4,013	-509	-12.7
Income / Loss from discontinued operations	-33	-27	6	22.2
Net income (loss)	1,203	640	563	88.0

Quarterly development of main consolidated income statement figures (millions of euro)



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



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

30.09.2014
30.09.2013

Balance sheet figures and alternative performance measures

Consolidated balance sheet figures (millions of euro)	30.09.2014	31.12.2013	Changes amount	Changes %
Financial assets	212,498	202,105	10,393	5.1
of which: Insurance Companies	*103,397*	*89,905*	*13,492*	*15.0*
Loans to customers	337,265	343,789	-6,524	-1.9
Total assets	633,704	624,179	9,525	1.5
Direct deposits from banking business	373,019	372,066	953	0.3
Direct deposits from insurance business and technical reserves	110,756	93,493	17,263	18.5
Indirect deposits:	457,497	430,287	27,210	6.3
of which: Assets under management	*290,945*	*258,570*	*32,375*	*12.5*
Shareholders' equity	44,615	44,520	95	0.2

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

	Loans to customers 30.09.2014	Loans to customers 31.12.2013	Direct deposits from banking business 30.09.2014	Direct deposits from banking business 31.12.2013
Banca dei Territori	200,983	209,556	178,974	193,799
Corporate and Invest.Banking	90,204	90,907	106,225	113,956
International Subsidiary Banks	26,482	27,015	30,934	30,182
Eurizon Capital	240	281	8	3
Banca Fideuram	4,963	4,730	8,196	7,256

Operating structure	**30.09.2014**	**31.12.2013**	**Changes amount**
Number of employees	**89,588**	**90,245**	**-657**
Italy	64,890	65,247	-357
Abroad	24,698	24,998	-300
Number of financial advisors	**5,061**	**5,104**	**-43**
Number of branches [(a)]	**5,942**	**6,227**	**-285**
Italy	4,533	4,766	-233
Abroad	1,409	1,461	-52

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.

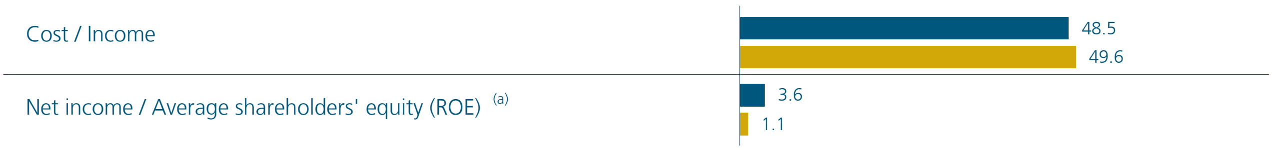
[(a)] Including Retail Branches, SME Branches and Corporate Branches.

30.09.2014

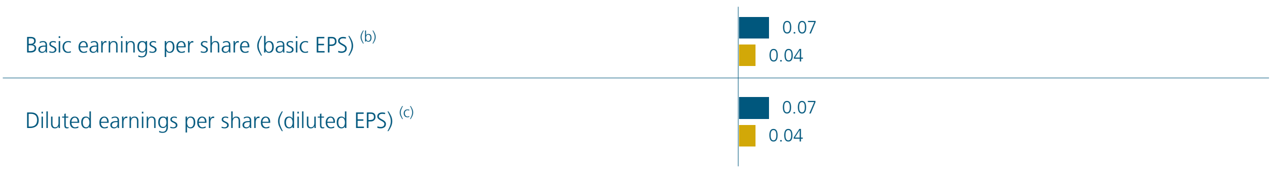
31.12.2013

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.

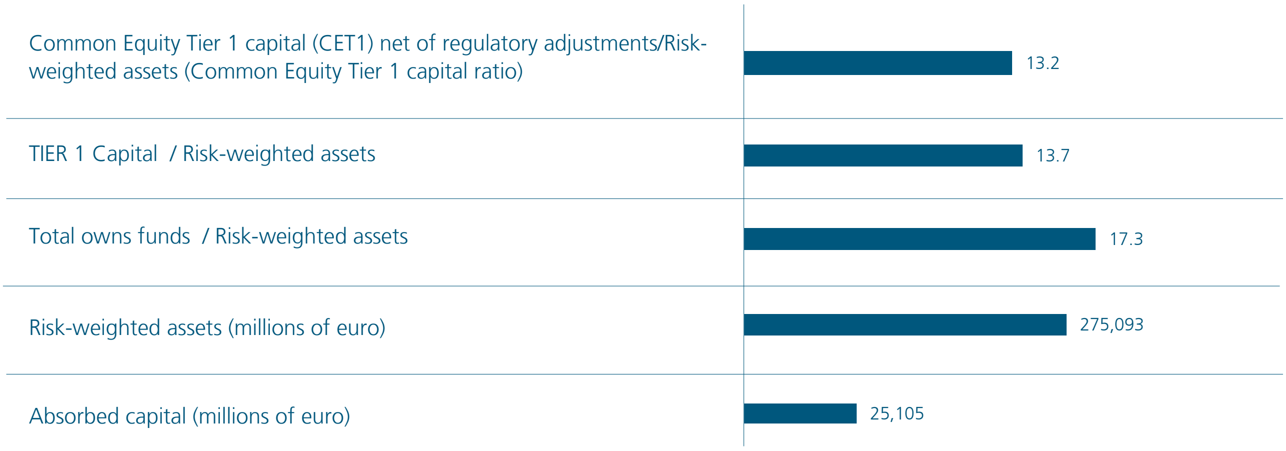
[a] Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period with the exception of non-recurring components, has been annualised.

[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.

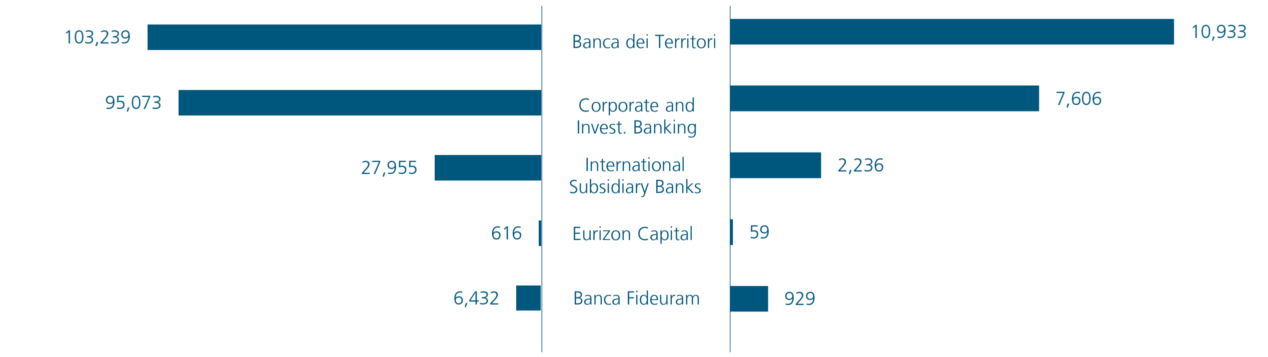
Consolidated risk ratios (%)

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 in business unit constituents and discontinued operations.

[d] Values as at 30 September 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 third quarter of 2014 saw moderate growth in economic activity and international trade. In the United States the robust return to growth that began in the second quarter was consolidated in the summer months. The rapid job creation further reduced the unemployment rate. In Japan, after the sudden halt in the second quarter triggered by the increase in indirect taxes, economic activity is recovering. The inflation trend has become more differentiated, in line with the different stage of recovery in the various countries. Oil prices recorded major decreases despite the many hotbeds of geopolitical crisis.

The Eurozone recovered from the 2012/2013 recession, also sustained by final domestic demand. The recovery that was spreading across the various member states between the second and third quarters, however, has begun to weaken. The deterioration in the figures extended throughout the third quarter and even affected the sounder economies, such as Germany. This triggered significant downgradings of growth forecasts and the postponement of budget corrections originally planned for 2014 and 2015. The inflation trend was widely below forecasts throughout the Eurozone, approaching zero. Apart from the weakness in internal demand, inflation trends also reflect the high level in the past of the exchange rate, trends in energy and food prices and the drop in prices in the communications sector.

Italy is among the European countries where the economic recovery is struggling the most to regain momentum. Industrial production recorded a gradual deterioration in the first nine months of the year. From the second quarter onwards, many of the signs of recovery seen in previous months have vanished: the confidence of businesses and households is again diminishing, whilst exports have slowed and the investment trend has proved much weaker than forecast. In a scenario still marked by weak internal demand, the support from foreign demand has declined due to the slowdown seen in Germany and certain emerging countries, further aggravated by the sanctions on trading with Russia. The further decrease in GDP in the second quarter and the worrying signs of a new decline in the third quarter mean that the annual average GDP is again forecast to drop in 2014. Despite the disappointing macroeconomic scenario, the deficit has remained below the 3% limit; however, the progress that should have led to stabilisation of the debt has come to a halt. Implementation of the ambitious reform programme announced at the beginning of the year has been tough, and it was only in September that an appreciable acceleration on the labour market front could be seen.

Monetary policies are starting to move in opposite directions. The Federal Reserve began its planned reduction in securities acquisitions and initiated the internal discussion on the programme that will lead to an increase in official rates in 2015. Yields on government bonds dropped significantly compared to the beginning of the year, dampened by disappointing performance of the first quarter figures, as well as by the caution with which the Central Bank is managing the shift in the monetary policy cycle. The Central Bank in the United Kingdom has also begun to prepare the markets for the future shift in the rates cycle.

Going in the opposite direction, the European Central Bank cut official interest rates in September, bringing the rate on main refinancing operations to 0.05% and the rate on the deposit facility to -0.20%. At the same time, the targeted longer-term refinancing operation (TLTRO) programme and a new purchase programme of covered bonds and securitisations was launched. The accommodating approach adopted by the ECB has facilitated the drop in expectations for money market rates and, consequently, for all interest rates of the curve. The Eonia dropped to marginally negative levels after the announcement of the measures. The Euribor quarterly rate dropped by a further 0.21% at the end of June to 0.08%. The medium-term IRS rates also underwent a significant decline: the five-year maturity fell from 0.67% at the end of June to 0.44% at the end of September.

The divergent approach of the monetary policies and economic cycles has increased the volatility of the currency markets, allowing room for a considerable appreciation of the US dollar. The USD-EUR exchange rate, which at the end of June was still close to 1.37, had dropped to 1.27 by the end of September.

The outlook by investors on countries affected by the debt crisis between 2010 and 2011 stabilised during the third quarter, after the gradual but conspicuous improvement recorded in the first half of the year. The ten-year yield spreads between Italy and Germany fluctuated between 130 and 180 basis points, with the lowest figure for the year reached at the beginning of September. Returns have also fallen in absolute terms as a result of the decrease seen, at the same time, in German rates (-69 basis points on the ten-year maturity). Absorption of supply on the primary market continued smoothly.

As for the stock markets, the first nine months of 2014 recorded positive trends and performances overall as the economies and markets gradually returned to normal after years of financial crisis. However, after a first half-year driven in particular by hopes for an economic recovery in the Eurozone and by expansive monetary policies, the third quarter was then characterised by a net rise in geopolitical risk and a new slowing in the European economic cycle.

In the third quarter, in fact, the heightening of the Ukraine-Russia crisis, and resulting economic sanctions, had wide repercussions on the areas affected by the conflict and on the flows of exports to these areas. The discouraging figures on industrial production and economic growth in the Eurozone, along with growing fears of a deflationary trend for consumer prices, dampened investor confidence and helped to increase risk aversion on the stock markets, with index drops seen until the beginning of August.

Nevertheless, the expectation of further action from the ECB, including the possible direct purchase of sovereign debt securities, triggered an upturn for the stock markets in the second part of the quarter, taking the indexes back almost to the levels seen at the end of June.

The S&P 500 index rose by 6.7% at the end of September. The performance of the major Asian stock markets was divergent during the period: the Chinese SSE A-Share benchmark closed the first 9 months up by 11.8%, a clear recovery compared to the

first half of the year (3.2%), whilst the Nikkei 225 index dropped 0.7% (this too improving compared to the -6.7% at the end of June), after feeling the effects of the tax squeeze on consumption.
In the Eurozone, the peripheral markets achieved higher performance than the core markets. The Euro Stoxx 50 index closed the first nine months of the year up slightly (+3.8%) and the CAC 40 appreciated to a marginal extent (+2.8%), whilst the Dax 30 dropped fractionally at the end of September (-0.8%). The Spanish stock market instead consolidated its increases of the first half of the year with a performance of +9.2% as at 30 September. Outside of the Eurozone, the SMI Swiss market index gained 7.7% during the first nine months, while the FTSE 100 index closed the period down slightly (-1.9%).
The Italian stock market performance in general was better than that of the major European and international markets. Whilst the upturn in the first half of the year was driven by the first weak signs of the country's economic recovery, greater stability on the political front, the lower returns and the narrowing of the BTP Bund spread, macroeconomic data later showed a new slowdown in the cycle, triggering a downward review of the growth estimates both for 2014 and 2015.
The FTSE MIB index ended the period up 10.2% (it had been +12.2% at the end of June, after a peak of +18.6% on 10 June), with a particularly good performance by banking sector securities. The performance recorded by the FTSE Italia All Share index (+9.0%) was similar to that of the benchmark. The performance levels of mid-cap securities were lower, with the FTSE Italia STAR index up 5.7% at the end of September.

On the European bond markets, the first nine months of 2014 closed with differing performances, with the investment grade segment still positive whilst the more speculative securities recorded a widening of spreads.
The central banks' monetary policies were confirmed once again as the main drivers in support of the credit markets. At the same time, in the third quarter the heightening of geopolitical tension associated with the crisis between Russia and Ukraine, plus renewed doubts about the solidity of the Eurozone's recovery, helped to increase spread volatility.
The strongest repercussions were seen in the non-investment grade segment, made worse by the fears that the Federal Reserve's launch of the monetary policy normalisation process could lead to a rise in market rates, penalising the companies most in debt.
In detail, the investment grade segment closed with a positive result and a performance slightly better for financial bonds over industrial bonds. In the more speculative segment, on the other hand, the correction seen in the last quarter has cancelled out the gains achieved in the first half of the year and has taken the segment into negative territory.
At the same time, the derivatives segment showed an overall reduction in insolvency risk hedging costs, especially in the synthetic crossover and financial indices, particularly subordinated.
In terms of new issues, the first nine months of 2014 recorded steady volumes, stronger than in the same period of 2013, both in the investment and speculative grade segments. The willingness of issuers to profit from the still historically low market rates and investors' search for returns once again proved to be strong supporting elements for the primary market.

The emerging economies and markets

The cyclical indicators show a slowdown in the economies of the emerging markets in the third quarter. The trend growth rate in industrial production for a sample representing 75% of the GDP of emerging countries decreased from 4.6% in the second quarter to 3.4% in July-August 2014. Production in China has slowed (from +8.9% to +8%, partly due to the temporary closure of certain heavy industries in overcapacity), and likewise in India (from +4.4% to +0.4% following the decline in production of durable consumer goods and the slowing of production of capital goods). The decline in Latin America (Brazil and Argentina) is confirmed, whilst a considerable acceleration was seen in Egypt as a result of stabilisation of the political framework. In Central Eastern Europe, the production trend for August was still on the downturn in Bosnia, Croatia and Serbia, slowed in Slovakia and Hungary (though after considerable growth in the first part of the year) but accelerated in Slovenia. Slowing of industrial production was recorded in Russia, along with a strong decline in Ukraine, because of the geopolitical crisis affecting the area. For the services sector, the PMI indicator average for BRIC countries dropped slightly in September compared to June (to 52.5 from 52.8), though continuing to indicate growth in all four countries, including Russia where the indicator rose to 50.5 in September from 49.8 in June.
The drop in prices of hydrocarbons and food products aided a further deceleration in price trends. The annual inflation rate for the sample representing 75% of GDP of emerging countries was 4.2% in September 2014, down compared both to June 2014 (4.6%) and September 2013 (5.1%). For countries with ISP subsidiaries in particular, in August the CEE and SEE countries recorded a drop in prices, in inflation rates from -0.1% in Slovenia and Slovakia to -0.5% and -0.6%, respectively, in Hungary and Bosnia. Exceptions to this were Romania and Serbia, which saw price increases – albeit very limited – of 1.5% and 2.1%, respectively, in the same month. Inflation accelerated, however, in Russia (8.3%) given the considerable depreciation of the ruble, in Ukraine (17.5%) due to the tariff review and the decline of the currency, and in Egypt (11.1%) following the subsidy review process adopted by the authorities.

The economic slowdown, falling inflation and lower pressure on currencies all led in the third quarter to expansive monetary policy action by the major central banks in the emerging countries. In particular, rates were cut by Chile and Peru in Latin America, by Romania and Turkey in Europe, whilst in India the mandatory reserve ratio was reduced. An increase in money market rates was seen, on the other hand, in Russia and Ukraine as a result of pressure on inflation and on currency. In Egypt the Central Bank raised interest rates in July to curb inflationary pressure.

As regards the financial markets in emerging countries, from July to September the stock markets saw a limited downward correction which then heightened in the first few weeks of the fourth quarter. The MSCI - Morgan Stanley Capital International index for emerging countries fell by 0.3%, following the downturn of the Eurostoxx index (-1.3% in the same period). The good performance of the Asian markets (Shanghai +15.4%) was balanced by the weakness of the European markets (Moscow -17.7%, Budapest -3.4%, Istanbul -4.5%) and Middle Eastern markets, where Egypt in any event recorded a consistent increase (+20%) sustained by the economic recovery.

On the currency markets in the third quarter, the US dollar appreciated against all the emerging countries' currencies (OITP – Other Important Trading Partners +2.1%), though to a lesser extent than against the currencies of the mature economies (Major

index +7.1%). The US dollar gained particularly strong ground against Latin American currencies (Brazil +11.3%), and Russian (+17.1%) and Ukrainian (+10.2%) currencies. Limited were the fluctuations in currencies of the CEE and SEE countries against the Euro, which in turn depreciated (-7.7%) against the US dollar. The Egyptian pound has remained essentially unchanged against the US dollar, after the limited depreciation seen in the second quarter.
The stronger uncertainty about economic prospects, geopolitical tension in Eastern Europe and the Middle East, and the strength of the US dollar have facilitated a widening of the EMBI - Emerging Markets Bond Index spread: more so in Latin America and the CIS countries, less so in the CEE/SEE area. At the same time, the spread has narrowed in Egypt (40 basis points) as a result of progress on the path to stabilisation. With regard to countries with ISP subsidiaries, S&P has changed Ukraine's CCC+ rating from negative to stable outlook, following support given by the IMF. Though they have left the rating unchanged, the major rating agencies have emphasised the risk of downgrades for Russia.

The banking system

Rates and spreads

The third quarter of 2014 saw further progress in the reduction of the overall cost of deposits, which touched the lowest levels for three years. The decline primarily affected time deposits and those paid on balances held by non-financial companies. During the quarter, the average rate on bond stock also continued the decline that began at the start of the year, while the marginal cost of fixed-rate bond issues fell significantly to below 2.2% in August, a new low according to available historical data going back to March 2004. Consequently, as a result of the general drop in rates in individual elements of funding and the continuous decrease in the impact of bonds, the decline continued in the cost of customer funding as a whole.
In the summer months the drop in rates also spread to those for loans which had essentially proved resistant up to that point. In the third quarter the average rate on new loans to non-financial companies recorded a significant decrease, after that already seen in June, dropping to below 3%, the lowest since the start of 2011. The decline in the rate on new mortgage loans to households for house purchases also continued, a sign of more expansive credit terms.
Rates on outstanding loans also began a reduction process, after the stickiness seen throughout the first half of the year. Consequently, during the third quarter the overall margin on lending and deposit collection activities saw a halt to the progress made in the first half of the year and in 2013. The spread between average rates on loans and deposits in any event remained close to the 2.3% reached in the second quarter (2.31% the average estimated for the third quarter, in line with the second quarter, and 2.28% the average estimated for the first nine months of 2014, +32 bps compared to the same period of 2013). The contribution from deposits, measured on short-term interest rates, remained in negative territory, and as a result of the downturn in monetary rates inverted the recovery trend seen until May (mark-down[1] on the 1-month Euribor of -0.25% in the third quarter, from -0.15% in the second quarter, and -0.18% in the first nine months of 2014 from -0.36% in the same period of 2013). The mark-up[2] on the 1-month Euribor continued its gradual decline recorded in the first half of the year, though remaining at high levels (4.70% in the third quarter from 4.85% in the first half of 2014, compared to 4.99% in the second half of 2013).

Loans

Lending activity remained very weak. However, the decline in the stock of loans to non-financial companies eased again during the quarter, continuing to head towards an exit from the negative cycle after the minimum reached in the last quarter of 2013. The decrease in short-term loans continued at a clearly slower pace from June onwards, while medium-/long-term loans confirmed a considerable reduction. The drop in loans remained stronger for large companies than for small companies, as already seen in the previous twelve months. Loans to households continued to record a very limited decrease, easing slightly compared to the previous half year and to the second half of 2013.
Overall, private sector loans recorded a slower decline than that recorded over the twelve months from the middle of 2013 onwards. The decrease in loans continued to be affected by weak demand. However, signs of improvement were confirmed, with a slower decline in loans to businesses and a rise in the applications for mortgage loans from households. On the supply side, the restrictive impact of the perceived risk associated with the expectations for the economy in general and for particular sectors and businesses eased. The growth in gross doubtful loans slowed further, though confirming a growth rate of around 20% per year. As a ratio of total loans, the stock of gross doubtful loans has now exceeded 9%. Therefore, the bank lending market has maintained a prudent attitude, although recording a clear improvement in the impressions of businesses with respect to credit access conditions.

Direct deposits

The trend for deposits from customers grew stronger in the third quarter, driven by the demand component. The overall positive performance was driven by the solidity of household deposits, characterised by a moderate year-on-year change and the lively trend in deposits by non-financial companies. The new spurt in the deposits trend aided the growth in current accounts which, after proceeding in the first four months of 2014 at the slow pace recorded at the end of 2013, accelerated in May. At the same time, as forecast, time deposits continued the decline that followed the strong development phase of previous years.
The growth in deposits continued to be offset by the significant drop in the stock of bank bonds, the trend for which was still affected by the portfolio reallocation processes of domestic customers.
Overall, customer funding therefore declined only slightly, with an easing of the trend also seen in the demand component.

[1] Difference between the 1-month Euribor and interest rates on household and business overnight deposits.
2 Difference between the interest rate applied to households and businesses on loans with maturity up to one year and the 1-month Euribor.

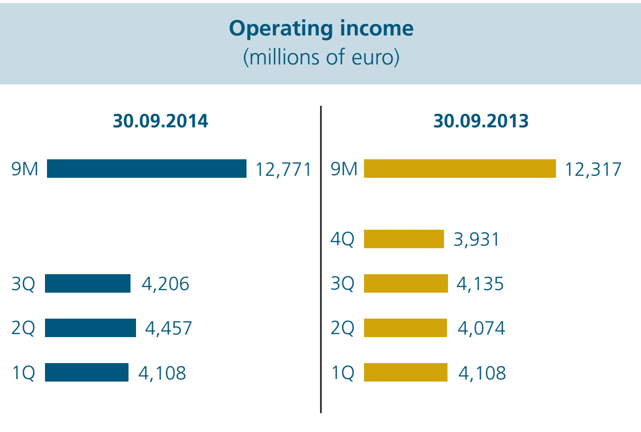
Indirect deposits and asset management

With regard to assets under administration, the decline in debt securities held in custody by banks for customers continued in the third quarter at an average 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.
As to assets under management, the Italian market for open-ended mutual funds achieved strong net inflows during the first nine months of the year, steering 2014 towards a record result for the sector. The balance between subscriptions and redemptions was mainly sustained by flexible funds, then, to a lesser extent, by bond funds. Only liquidity funds recorded a negative inflow balance since the start of the year. Most of the inflows were again into foreign funds, but Italian funds continued to record highly positive inflow balances.
As to insurance, the new life insurance business in the first nine months of the year recorded a strong increase in premiums collected, further consolidating the positive trend of the last two years. The increase in subscriptions of life policies was driven mainly by the traditional ones, which account for 79% of total production. After a start of the year characterised by conflicting results, linked policies with a higher financial content recorded a strong acceleration in subscriptions from June onwards.

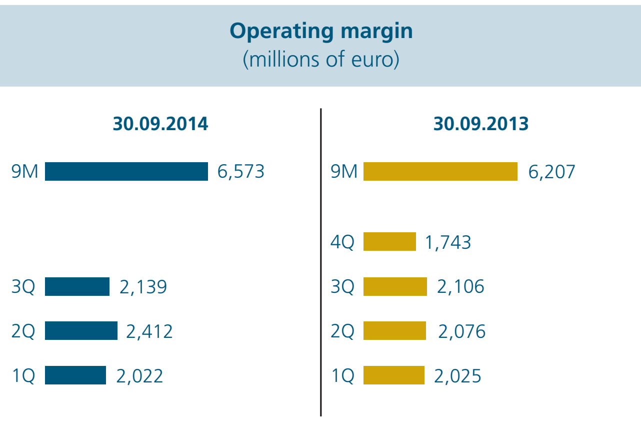
Intesa Sanpaolo in the nine months of 2014

Consolidated results

In the macroeconomic context described, the Intesa Sanpaolo Group achieved positive economic results during the first nine months of 2014, both as a whole and in relation to its various revenue and cost components compared to those of the same period of 2013. The income statement closed with a net income of 1,203 million euro, compared to 640 million euro for the first nine months of 2013. In particular, operating income was up and of better quality. In fact, the contribution from interest and fee and commission income increased, added to which are the positive contributions from the companies consolidated at equity and that from the insurance segment. These positive trends have completely offset the lower contribution from trading, a component structurally subject to volatility. The operating margin increased compared to the figures for the corresponding period of 2013. The slight increase in personnel expenses, entirely attributable to the variable component, was in fact partly offset by the lower administrative expenses and by the decrease in adjustments. Income before tax from continuing operations benefited from the reduced need for adjustments and from profits on investments held to maturity and other investments. Growth in income, associated with cost control and lower adjustments, allowed a pre-tax income up by over 65%.

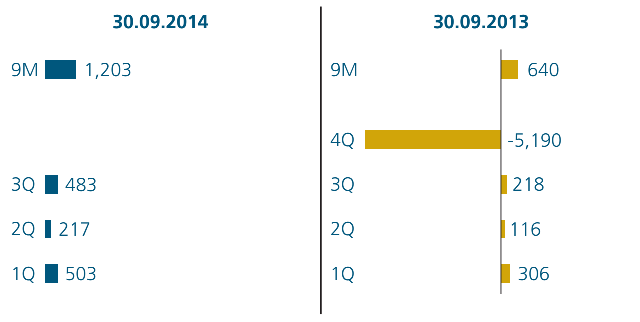


A detailed breakdown of the various operating income items shows that the income statement for the period recorded net interest income of 6,314 million euro, up 3.9% compared to the first nine months of 2013, relating to the decrease in interest expense on bank funding and the improved customer spread, which more than offset the drop in related volumes.
The services segment generated net fee and commission income of 4,960 million euro, up by 9.9%, mainly driven by the positive contribution from financial instrument dealing and management activities (around +21%) which also benefited from the better performance of the financial markets.
In the first nine months the profits on trading were 696 million euro, a strong decrease compared to the 1,090 million euro in the same period of 2013, essentially relating to the lower trading result, especially in the interest rate segment.
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 736 million euro (+13.6%), due to the positive performance of deposits and the higher net investment result.



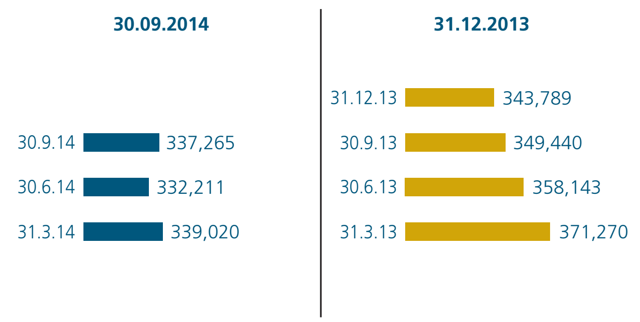
As a result of the above trends, operating income in the period amounted to 12,771 million euro, up approximately 3.7% on the comparative figure.
Operating costs grew slightly (+1.4% to 6,198 million euro). In detail, personnel expenses recorded an increase (+3.6%) attributable exclusively to the variable component. In fact, while in 2013 – in relation to the failure to achieve the income targets – this component was absent, the positive business performance for this year and activation of the innovative bonus system envisaged in the new Business Plan resulted in suitable provisions for this purpose. Conversely, other administrative expenses and adjustments decreased (-1.8% and -1.2% respectively).

Net income (loss)
(millions of euro)



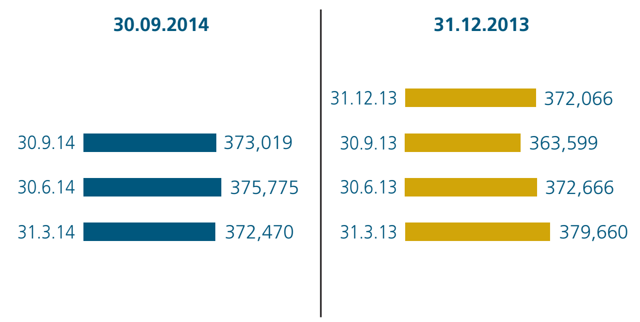
Adjustments and provisions for risks, as a whole, were down around 10%, due to lower adjustments to loans (-12.7%) and other assets (approximately -42%). Conversely, provisions for risks increased (+183 million euro), contributing to which was the allocation (65 million euro) by the Hungarian subsidiary in relation to new regulatory provisions impacting the country. Profits on investments held to maturity and on other investments benefited from the effects of the valuation of non-core investments held by Intesa Sanpaolo in non-financial companies, consistent with the guidelines of the Business Plan: SIA (173 million euro), Pirelli (59 million euro), Lauro 61 (59 million euro), NH Italia (47 million euro).
Income before tax from continuing operations consequently came to 3,061 million euro, up – as already mentioned – by 65% on the first nine months of the previous year.
Taxes recorded a high balance (1,598 million euro) due to the extraordinary tax established by Law Decree 66/14, converted into Law 89/14, on the substitute tax on capital gains determined through recognition in the 2013 financial statements of the new stake in the Bank of Italy. In the accounts as at 30 September, the caption was also impacted by the impairment of deferred tax assets following reduction of the IRAP tax rate envisaged by the same provision. Overall, these non-recurring tax charges weighed on the income statement for approximately 520 million euro.
After recognition of charges for integration and exit incentives of 29 million euro, the effect of purchase price allocation of 148 million euro, loss from discontinued operations of 33 million euro, as well as minority interests of 50 million euro, the income statement for the period closed, as already noted, with a net income of 1,203 million euro, compared to 640 million euro for the first nine months of 2013, up by 88%.

Loans to customers
(millions of euro)



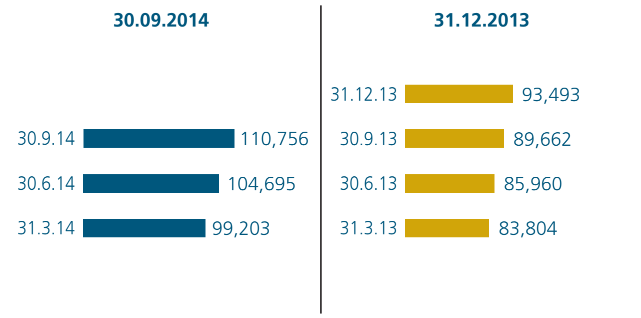
As to balance sheet aggregates, loans to customers totalled around 337 billion euro (-1.9% compared to the end of 2013). The decline in commercial banking loans (current accounts, mortgages, advances and loans, down -3.3% overall), and in loans represented by securities (-6%) was counterbalanced by the increase in short-term financial loans represented by repurchase agreements (approximately +13%). The trends illustrated were also influenced by the growth of the non-performing loans category (+5.3%), to which positions showing objective signs of impairment are transferred from the various types of loans.

Direct deposits from banking business
(millions of euro)



Direct deposits from banking business recorded a slight growth to 373 billion euro (+0.3% compared to the end of 2013). More specifically, current accounts and deposits saw a decline (-1.5%, mostly attributable to time deposits), while the decline in bond funding (-9.2%) was only partly offset by higher inflows from certificates of deposit (approximately +75%, largely due to increased issues by the international branches), subordinated liabilities (approximately +13%) and other funding (approximately +15%, mainly from commercial papers and capital protected certificates). Repurchase agreements recorded a strong increase (approximately +45%).

Direct deposits from insurance business and technical reserves
(millions of euro)



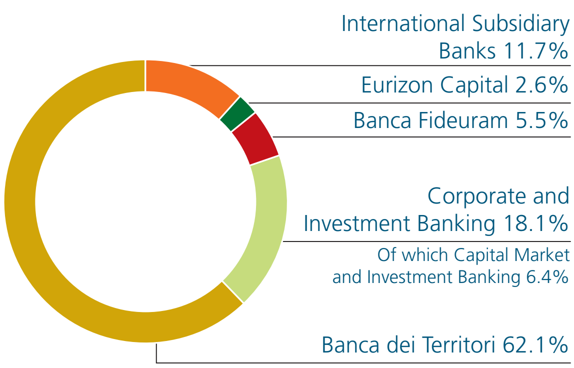
Direct deposits from insurance business, which include technical reserves, increased significantly (+18.5% to 111 billion euro). The overall increase was attributable both to the technical reserves, which represent the amount owed to customers who have taken out traditional insurance policies, and to 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 period of Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita, including pension products, amounted to approximately 19.4 billion euro.

As at 30 September 2014, indirect customer deposits exceeded 457 billion euro, up 6.3% compared to the end of the previous year. During the period, customers continued to reposition into forms of professional asset management, which were the priority destination for new funding inflows. Assets under management increased as a result of net inflows and the revaluation of assets under management, with a positive performance recorded for all the main technical forms managed: portfolio management, life policies and mutual funds. Conversely, assets under administration decreased by 5.2 billion euro (-3%), due to retail customers, also as a result of the aforementioned repositioning into assets under management.

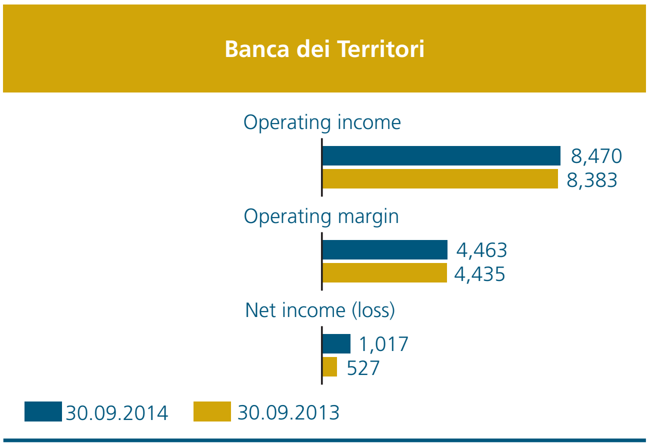
Results of the Business Units

The contribution to operating income in the first nine months of 2014 of the Group's five business units confirms that the greatest contribution continues to come from retail banking activities in Italy (around 62% of the business units' operating income), although there was also a significant contribution from corporate and investment banking activities (approximately 18%) and international retail banking activities (around 12%).

Operating income:
Breakdown by business area [1]

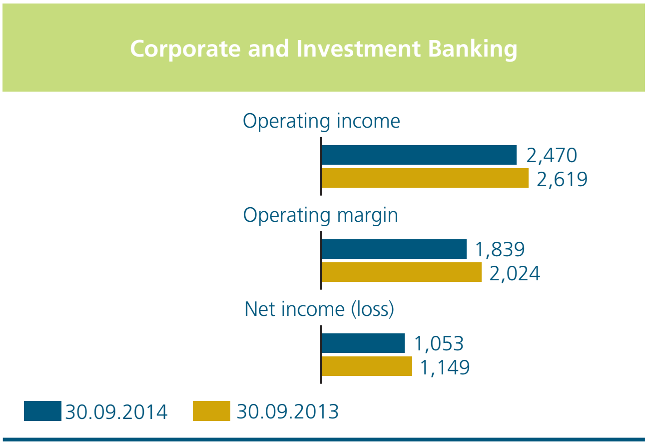


[1] Excluding Corporate Centre



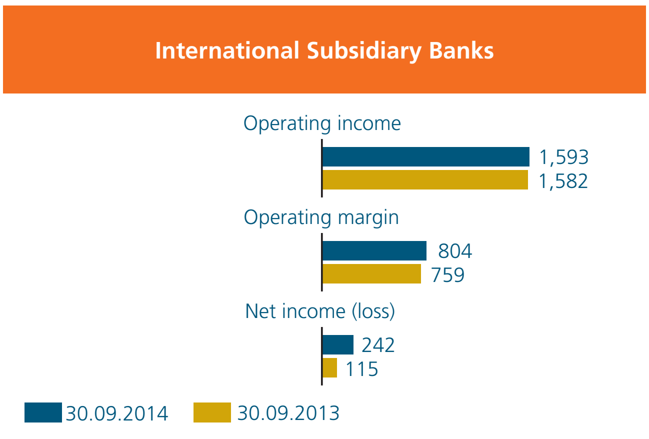
In the first nine months of 2014, Banca dei Territori – which oversees the traditional lending and deposit collecting activities in Italy and related financial services – reported operating income higher than that recorded in the same period of the previous year (+1% to 8,470 million euro). More precisely, the decrease in net interest income (-5%) was widely offset by the increase in net fee and commission income (+9%), driven by those relating to asset management products, bancassurance products and placements. Profits on trading decreased (by approximately 27%), whilst income from insurance business recorded an increase (approximately +13%) attributable to the improvement in the net investment result. Operating costs recorded a limited growth (+1.5%). As a consequence of the performance outlined above, the operating margin was up (+0.6%). The income before tax from continuing operations (approximately +57%) was aided by the reduced requirement for adjustments. After accounting for the Division's taxes (621 million euro), charges for integration (24 million euro) and the economic effect of purchase price allocation (51 million euro), net income stood at 1,017 million euro, almost double the figure of the first nine months of 2013.

Balance sheet figures at the end of September 2014 showed loans to customers down compared to the end of the previous year (200,983 million euro, -4.1%) mainly as a result of the decrease in loans to business and small business customers. Direct deposits from banking business also decreased (178,974 million euro, -7.6%), owing to the downward trend in securities issued and related to the maturity of retail bonds. Direct deposits from insurance business, on the other hand, recorded an increase (88,541 million euro, +18%), primarily due to growth in technical reserves, and, to a lesser extent, to the liabilities of the insurance segment designated at fair value.



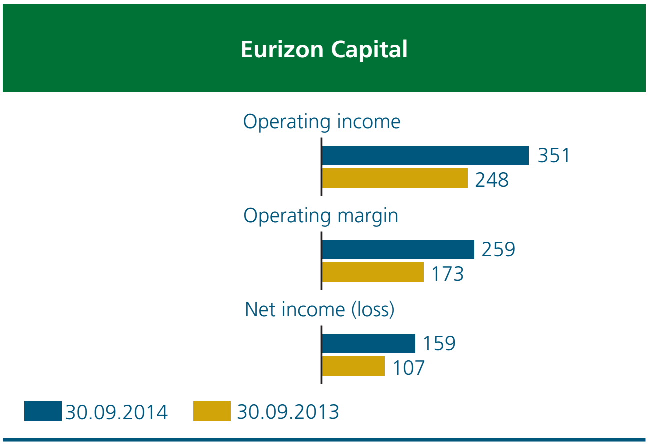
The Corporate and Investment Banking Division – which deals with corporate banking, investment banking and public finance in Italy and abroad – recorded declining operating income (2,470 million euro, -5.7%) compared to the first nine months of 2013. More specifically, the essentially stable net interest income (-0.5%) was accompanied by the decrease in net fee and commission income (-9.4%), mainly associated with the lower contribution from investment banking activities. Profits on trading also fell (-17%) due to the absence of the merchant banking transactions performed in the first nine months of last year and to the lower contribution from proprietary trading. Operating costs were up (+6.1%) due to higher personnel and administrative expenses. As a result of the above revenue and cost trends, the operating margin decreased (approximately -9%), as did income before tax from continuing operations (-11.7%), which was impacted by higher adjustments to loans. Net income amounted to 1,053 million euro, down 8.4%.

As to intermediated volumes, direct deposits from banking business declined (-6.8% to 106,225 million euro), mostly due to lower Banca IMI securities transactions and, to a lesser extent, the decrease in deposits from Italian corporate customers. Loans to customers decreased slightly (-0.8% to 90,204 million euro) as a result of less use of cash by Italian and international corporate customers and by the Irish subsidiary bank.

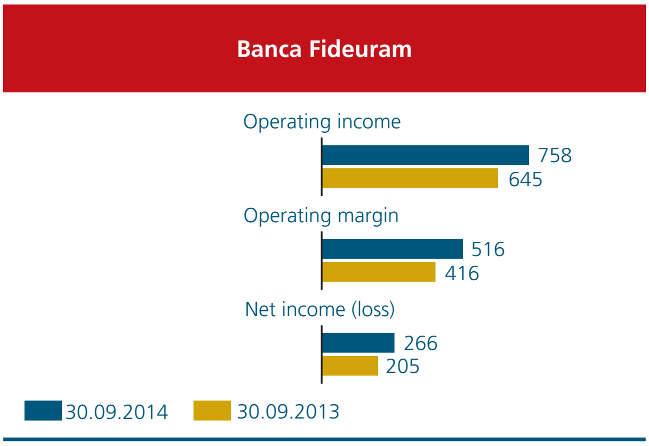


The operating income of the International Subsidiary Banks Division – which oversees the Group's commercial operations on foreign markets through subsidiary and associated banks – recorded a slight increase (+0.7% to 1,593 million euro). In detail, the decrease in net interest income (-2%) was partly offset by the improvement in dividends and profits on investments carried at equity (increasing from 26 to 39 million euro), net fee and commission income (+1.8%) and, above all, profits on trading (approximately +44%). Operating costs were down (-4.1%). As a consequence of the above results, the operating margin increased (+5.9%), and so did income before tax from continuing operations (approximately +60%), benefiting from lower adjustments to loans and other assets. The Division closed the income statement for the period with a net income of 242 million euro, compared to 115 million in the first nine months of 2013.

The Division's intermediated volumes increased slightly compared to the end of December 2013 (+0.4%) due to the positive performance of direct deposits from banking business (+2.5%), mainly in amounts due to customers. Conversely, loans to customers recorded a downward trend (-2%).



The operating income of Eurizon Capital – operating in the asset management segment – increased during the first nine months of the year (approximately +42% to 351 million euro), due to the positive performance of net fee and commission income (approximately +43%), mainly attributable to the positive trend in average volumes under management. Operating costs increased (approximately +23%) due to administrative and personnel expenses. As a result of the revenue and cost trends, the operating margin increased (approximately +50%). Eurizon Capital closed its income statement for the period with a net income of 159 million euro (approximately +49%).
Overall, total assets managed by Eurizon Capital as at the end of September 2014 came to approximately 194 billion euro (roughly +18% since the end of 2013), as a result of net inflows and the favourable financial market performance. As at 30 September 2014, Eurizon Capital's market share of assets under management was 15% (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 period recorded a significant growth (516 million euro, approximately +24%), attributable to the increase in operating income (around +18%) despite the increase in operating costs (+5.7%). The performance of revenues is attributable in particular to net fee and commission income (approximately +19%), with a favourable performance of net interest income (around +7%), profits on trading (approximately +13%) and income from insurance business (approximately +23%), the latter attributable to Fideuram Vita.
As a result of the above trends, income before tax from continuing operations rose by around 27%. Banca Fideuram closed its income statement for the period with a net income of 266 million euro (approximately +30%).
Assets under management and assets under administration of the Banca Fideuram Group at the end of September 2014 amounted to 89 billion euro (of which approximately 72 billion euro in assets under management and around 17 billion euro in assets under administration), up 6.4% 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. An increase was recorded by assets under management (+8.4% compared to the end of 2013), as a result of the positive performance of the portfolio management and life insurance segments, whilst assets under administration decreased (-1.1%). Direct deposits from the banking business grew from the beginning of the year (+13% to 8,196 million euro), mainly as a result of repurchase agreements and time deposits of ordinary customers. Direct deposits from insurance business also increased (+20.5% to 22,215 million euro), attributable to the positive trend in financial liabilities of the insurance segment designated at fair value and, to a lesser extent, to technical reserves.

Main risks and uncertainties

The persisting headwinds in the macroeconomic environment and the financial markets' volatility require constant control of the factors enabling the Group to pursue sustainable profitability: high liquidity, funding capability, low leverage, adequate capital base, prudent asset valuations.

Group liquidity remains high: as at 30 September 2014 both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted from this year also as the internal liquidity risk measurement metrics, reached a level above fully phased-in requirements. As at 30 September 2014, the Central Banks eligible liquidity reserves came to 102 billion euro (124 billion euro at the end of December 2013), of which 81 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 during the first half of 2014 by the temporary recourse to the weekly and 3-month auctions capable of ensuring greater flexibility in management of the liquidity position. In September recourse was then made to the ECB's TLTRO programme for a total of 4 billion euro.

In terms of funding, the widespread branch network remains a stable, reliable source: 74% of direct deposits from banking business come from retail operations (274 billion euro). Furthermore, approximately 18 billion euro in bonds were placed during the first nine months of the year, of which approximately 11 on the wholesale market.

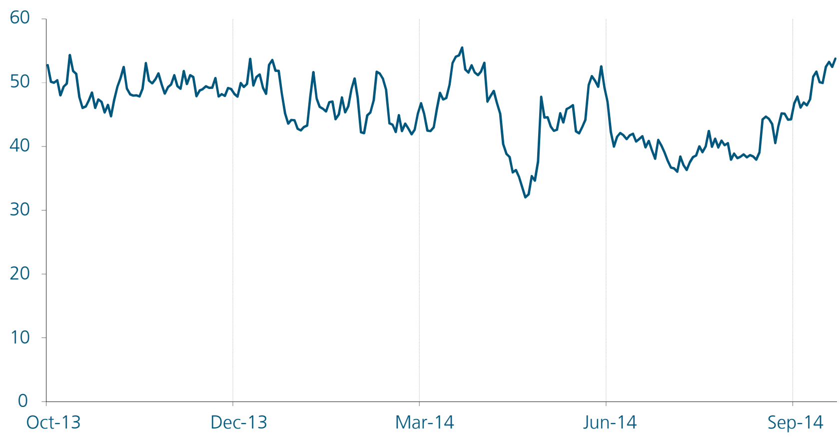
The leverage of the Intesa Sanpaolo Group continues to be at lower levels than its main competitors', while the ratio of risk-weighted assets to total assets is among the highest, given the prevalence of retail banking activities within the Group.

The capital base remains high and growing. Own funds, risk-weighted assets and the capital ratios at 30 September 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 no. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).
As at 30 September 2014, total own funds came to 47,639 million euro, against risk-weighted assets of 275,093 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 17.3%, while the ratio of the Group's tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 13.7%. The Common Equity Tier 1 ratio stood at 13.2%.

With regard to the insurance segment, as at 30 September 2014 the available individual solvency margin of Intesa Sanpaolo Vita, the Group's main insurance company, was 3,950 million euro, up on the 3,560 million euro of 31 December 2013 due to the net income for the period. The capital absorption level was 2,609 million euro, up compared to 2,290 million euro as at 31 December 2013. The margin exceeded the level required by supervisory rules by 1,341 million euro. The solvency ratio as at 30 September 2014 was 151%, down slightly on the figure as at 31 December 2013 due to the strong growth in premiums issued for new business.

The Group's risk profile remained at relatively low and declining 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. Risk measures in the first nine months of 2014 were down slightly on average (the VaR for the period was 44.4 million euro compared to 61 million euro in the first nine months of 2013), with levels roughly between 32 and 55 million euro.

Market risks trend:
VaR (millions of euro)



The difficult macroeconomic environment and related 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 measurement is performed 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 economic crisis has called for constant review of the values of loans that had already shown problematic symptoms and of loans with no obvious signs of impairment. All categories of non-performing loans were assessed using the usual criteria of prudence, as highlighted by the substantial average coverage percentages for doubtful loans (63.3%) and substandard loans (24.3%). With regard to performing loans to customers, the "collective" adjustments provide a portfolio coverage ratio of 0.8%, stable compared to the coverage in the 2013 financial statements. The lump-sum provisions on performing loans, amounting to 2,459 million euro, fully cover the expected loss calculated by means of Basel 3 rules.

Constant 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: approximately 74% using level 1 inputs, around 23% using level 2 inputs and only close to 3% using level 3 inputs. Among the financial liabilities designated at fair value through profit and loss, most of the financial instruments (over 90%) were measured using the level 2 approach.

As at 30 September 2014 the Intesa Sanpaolo Group's sovereign debt exposure was represented by debt securities for 117 billion euro (of which 66 billion euro relating to the banking book and 51 billion euro in securities held in Group insurance companies' portfolios) and by other loans for 21 billion euro. Within the limited overall decrease recorded compared to the end of 2013 (the securities exposure amounted to approximately 120 billion euro, whilst other loans totalled 22 billion euro), note the significant reduction in the banking book exposure to the Italian government (around 44 billion euro, approximately 17 billion euro lower than 31 December last), only partly offset by a corresponding growth (of 48 billion euro, approximately +6 billion euro) in relation to insurance portfolio investments. The exposure to the Italian government securities is still concentrated in the short-term segment (25 billion euro up to 3 years, equal to 59%), with a duration of 3.5 years. On the other hand, the duration of the insurance portfolio is longer, at 6.3 years, consistently with that of liabilities.

Investment levels in structured credit products and hedge funds remained low. These products' fair value changes during the nine months generated a positive impact of 21 million euro for the former (plus 13 million euro in profits from disposals) and 6 million euro for the latter.

In the current volatile market environments, measuring the recoverable amount of intangible assets is also particularly difficult.
In terms of intangible assets with indefinite useful life, consisting of the goodwill and brand name, recognised under balance sheet assets at a residual total value of 5,781 million euro (of which 3,899 million referring to goodwill), no indicators that could negatively impact the results achieved in the 2013 financial statements were identified during the first nine months of 2014, despite a macroeconomic scenario that shows persistent fragility in the recovery trend. It is noted that, in said financial statements, the impairment tests conducted on intangible assets with indefinite useful life highlighted the necessity to recognise impairment of the goodwill and brand name for a total of 5,178 million euro.
The analyses carried out for the Interim Report as at 30 September 2014 showed only slight changes in the forecasts for some macroeconomic parameters. However, these changes have a negligible impact on the Group's expected cash flows and no significant impact on the mentioned indicator and on the valuation of intangible assets.
Updating of the discounting rates, on the other hand, showed a decrease in the cost of capital for all CGUs, mainly due to the sharp decline in the risk-free rate, accompanied by a slight increase in beta coefficient for Banca dei Territori and a decline for Eurizon Capital and Banca Fideuram.
In conclusion, in the light of the above, no critical elements have been identified, compared to the indicators already considered in the 2013 impairment test, such as to require recalculation of value in use in the interim financial statements.
In terms of market values, Intesa Sanpaolo's ordinary stock performance grew during the nine-month period (up 34.1%), considerably higher than the increase recorded by the FTSE MIB index for the same period and in any event higher than the Italian bank stock index. On the other hand, the Eurozone banking sector index at the end of September 2014 reached levels only marginally higher than those of the end of 2013. Even the analysis of financial analysts' assessments and "target prices" of Intesa Sanpaolo stock, gradually disclosed over the first nine months of the year, showed no new critical factors compared to those already noted at the beginning of the year and included in the impairment test for the 2013 financial statements.
The parameters and information used to test the recoverability of intangible assets with indefinite useful life are significantly influenced by the macroeconomic environment and financial market trends, which might undergo changes that cannot be predicted at the present time. In the last quarter of 2014 all indicators will continue to be carefully monitored in order to immediately identify any factors that might modify the positive conclusions outlined in this Interim Report.
The other intangible assets recorded under assets in the balance sheet for a total value of 609 million euro, composed by the asset management and insurance portfolios (both with defined useful life), were amortised (approximately 212 million euro before tax). Analyses were carried out for these assets as well, to identify any impairment indicators. These analyses identified no critical aspects with respect to the situation at the end of 2013.

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 30 September 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 have been detected that would cast doubt on the going concern assumption.

The 2014-2017 Business Plan

With the new Business Plan approved last March, the Intesa Sanpaolo Group has introduced the 2014-2017 objective to pursue a new growth phase based on an innovative strategy which, focusing on the individuals and adopting a clear and effective business model, aims at increasing profitability in a sustainable manner, optimising capital and liquidity.
The new strategy hinges on a number of priorities that are now part of the genetic inheritance of Intesa Sanpaolo, which aims to become:
- A real-economy bank, which supports households and businesses and, leveraging a strong balance sheet and leadership, matches healthy credit demand and manages the financial wealth of customers with care;
- a Bank with sustainable profitability, in which operational performance, productivity, risk profile, liquidity and solidity/leverage are carefully balanced;
- a leader in retail and corporate banking in Italy and a few other key countries;
- a European leader Bank in a number of high growth/high value businesses (Private banking, Asset management, Insurance);
- a Bank structured according to a divisional model and engaged in strengthening and further simplifying the current business model of Banca dei Territori, taking into account the evolution in customers' demands;
- an international Bank that carries out the role of "Local bank abroad" for Italian companies;
- a simple yet innovative Bank, acting with a truly multi-channel model.

The Plan envisages measures in the following areas:
- "New Growth Bank", to develop revenues with innovative growth engines capable of identifying new market opportunities;
- "Core Growth Bank", to capture untapped revenue potential of existing business, in terms of revenue development, reduction in operating costs, and credit and risk governance;
- "Capital-Light Bank", to optimise the use of capital and liquidity, de-leveraging the bank's "non-core" assets;
- People and investments as key enablers to maximise the contribution of each of the three "Banks" to the Group's result.

A number of initiatives were implemented from both the organisational standpoint as well as with regard to product innovation, improvement of customer service and development of Intesa Sanpaolo's human capital.

a) New Growth Bank
As part of the "New Growth Bank" initiative, the Banca 5® project was launched, relying on an *ad hoc* offer and on a dedicated commercial value chain of approximately 3,000 people to revamp approximately 5 million Retail customers currently marked by low profitability but with good loyalty potential. A "specialised" commercial model was introduced during the first nine months of the year in approximately 1,400 branches (with around 2,000 dedicated managers) and a "mixed" model in about 2,100 other branches. Particular attention was also paid to the process of sharing objectives with the network structures and preparing the monitoring instruments for the initiative. The sale of Banca 5® products has been supported through dedicated commercial initiatives. In addition, a specific training programme on the specialised model for the Base Managers of branches was also launched. Lastly, particular focus was placed on the constant improvement of all organisational aspects that allow effective supervision of the entire chain of the Banca 5® project.
Numerous activities were launched to develop the multi-channel approach, which will enable customers to purchase products and services from all channels through consistent, integrated paths. The guidelines for the new Digital Customer Experience were defined within this scenario and, in accordance with them, measures to activate multi-channel processes for payment cards, investments and personal loans, mortgages and non-life insurance products were launched and/or planned. With regard to multi-channel relations management, the first block of Prossimità Project functions has been released offering communications and the setting of appointments at the branch with the manager through Home Banking, and the pilot project for the new integrated telephone contact model has been launched. Organisational solutions that will permit the Contact Unit to perform commercial activities were also defined.
Numerous organisational measures were implemented, with works beginning for the establishment of the Private Banking, Asset Management, Insurance and SME Finance Hubs. These projects will receive a particular boost from the recent establishment of the Private Banking, Asset Management and Insurance Divisions. As regards the Private Banking Hub, all works that will manage the organisational, legal and administrative aspects of the Intesa Sanpaolo Private Banking and Banca Fideuram combination were launched, with particular emphasis on identifying priority action to quickly enhance the synergies between the two entities. The development guidelines were also defined and the main works for the Asset Management Hub were set up. As far as the SME Finance Hub is concerned, following incorporation of the Leasing companies into Mediocredito Italiano, the integration of Mediofactoring and Agriventure into Mediocredito Italiano became effective from 1 July 2014, consistently with the overall simplification envisaged by the Business Plan. This strengthens the SME Finance Hub as the Group's reference for specialised credit and business advisory services. Apart from the many activities necessary to manage the corporate integration, the new commercial model, products catalogue and credit model were defined. In addition, work has begun on the valuation of assets underlying the leasing portfolio and on the sale of doubtful loans in the leasing and medium-/long-term segments to Capital Light Bank.
As regards the "Transaction Banking" project, the strategic guidelines and initiatives to strengthen domestic and international coverage were defined. The target service model guidelines have been identified and the setup of a factory dedicated to product development and the distribution network service is currently being studied. In addition, ad hoc reporting tools have been prepared to guarantee adequate focus on the project and more effective monitoring of the business performance and the impact of initiatives eventually implemented.
On the international front, a further boost has been given to the Foreign Network expansion project in economically emerging areas, with the opening of a branch in Istanbul and the launch of operations in the new subsidiary in Brazil.

b) Core Growth Bank

With regard to the "Core Growth Bank" initiatives, Banca dei Territori launched three projects aimed at optimising the service model for Retail customers ("Full Potential"), Personal customers ("Investment House") and Business customers ("Business-Entrepreneur"). In detail, for the "Full Potential" project, activities are focused on launch of a new model to oversee Households customers, activation of pilot projects for local simplification, and reduction of branch hours and roll-out of the new Banca Estesa model. The "Investment House" project focuses on innovation of the product range, development of IT tools to support managers, training and expansion of the Offsite Offering. The initial activities under the "Business-Entrepreneur" project regarded customer segmentation, reorganisation of the territorial network and training of human resources. The "Commercial Excellence" project was also launched, aimed at increasing the level of service provided to high value customers, also through different organisation of the work and leveraging of leads generated by the multi-channel platform and the use of technologies capable of increasing the effectiveness and efficiency of commercial processes.

The service model improvement projects for the various customer segments are supported by the new organisational model of Banca dei Territori: in fact, in each of the seven existing regional governance centres, three specialised "commercial areas" have been identified – Retail, Personal and Business – to maximise the specific skills of personnel.

Activities linked to development of an Asset Light model continued at full pace, aiming to make loans more marketable, in addition to other planned initiatives designed to increase synergies among the Division's Relationship areas and Banca IMI's product specialisations.

The International Subsidiary Banks Division launched a major project to revise the operational model which, by redefining the functional relationships between Governance structures and local banks and unifying the commercial and marketing organisation, will enable better coordination and greater efficiency of the commercial initiatives. In detail, at Governance level the activities envisaged in the Basel II-III project have been completed and FATCA (Foreign Account Tax Compliance) has been extended to the International Subsidiaries. As regards the commercial strategy, the adoption of the new segmentation model for customers has commenced and the service model for Affluent customers has been defined, with testing launched in certain pilot banks.

In terms of strategic and active management of loans and risks, two important projects aimed at increasing connection speed and proactive credit management were finalised.

The Business Plan envisages an important simplification in the corporate breakdown of Banca dei Territori. The objective is to achieve a gradual and significant reduction in the number of legal entities, from 17 banks at the end of 2013 to 6 banks by 2015.

The first corporate transaction will involve the merger of Banca di Credito Sardo and CR Venezia, 100%-owned, into Intesa Sanpaolo (effective for legal purposes from 10 November 2014). Other corporate transactions are currently being examined, but with longer completion times.

Finally, the rationalisation of local presence has resulted in the closure of approximately 220 branches during the first nine months of the year.

c) Capital Light Bank

In addition to growth in revenues, reduction in operating costs and optimisation of credit and risk management, the Business Plan is also based on a clear strategy for optimisation of capital and liquidity, as well as deleveraging of the Group's non-core assets. This through the creation of a Business Unit ("Capital Light Bank") that focuses on management of a closed portfolio that includes: (i) doubtful loans, (ii) repossessed assets, (iii) equity stakes and (iv) other non-strategic assets. The unit will have dedicated reporting and incentive systems, with the objective of maximising portfolio optimisation.

Preliminary activities to roll out the initiative were carried out during the first part of the year: i) definition of the scope of Capital Light Bank assets; ii) definition of the proposed deleveraging plan with asset owner involvement; iii) identification of organisational options; and iv) creation of the Capital Light Bank book.

The activities of Intesa Sanpaolo REOCO were also launched. This new company aims to enhance the assets that are repossessed and protect the bank's assets. Intesa Sanpaolo REOCO is the focal point of numerous company areas, ranging from lending to property management, and aims to become a specialised centre serving the entire Group. In this respect, REOCO is collaborating with Mediocredito Italiano to define the best strategy to enhance the value of the "repossessed" assets portfolio.

Furthermore, in the first nine months of the year REOCO participated in the first foreclosure auctions, took over management of a number of priority dossiers and is focusing on the analysis of a further 700 disputed accounts for an overall credit value of approximately 1.8 billion euro.

d) People and investments as key enablers

Following development of technology and customer trends, the bank has excess capacity of about 4,500 people, equal to about 5% of the total employees of the Group. However, there has been a strong desire to involve all colleagues in the new Business Plan right from the beginning, fostering the sense of belonging to the Bank. In line with these values, as opposed to the measures of its main competitors, the Bank decided to maintain the current employment levels, preserving know-how and the professional expertise within the company. To this end, a major project for professional re-allocation has been initiated in order to support development of the new business initiatives under the Plan. This set-up has permitted the implementation of key initiatives like Banca 5® which, as stated above, already counts some 1,800 managers (approximately 2,000 by the end of November) dedicated to developing the relationship with Retail customers.

The Plan also addresses the delicate issue of management turnover. The new executives' agreement signed with the Trade Unions on 19 March 2014 will permit the Intesa Sanpaolo Group to develop a new generation of managers, simultaneously enhancing the experience gained throughout years of work by the managers who are among the best ones on the market.

The Chief Innovation Officer Governance Area was also established, with the task of identifying, analysing and developing innovation activities, guaranteeing monitoring, coordination and coherence at Group level.

The Bank has also proposed two important initiatives to all Employees in support of the 2014-2017 Business Plan: i) a broad-based shareholding plan, defined through trade union agreements signed in May 2014 for the various Group companies and consisting in the assignment of free shares; ii) the LECOIPs ("Leveraged Employee Co-Investment Plans"), which offer investment opportunities for the shares received under the broad-based shareholding plan in LECOIP Certificates, an innovative instrument in terms of remuneration and involvement that allows everyone to participate in the growth of corporate value at the end of the four-year Business Plan. Through these initiatives, the Bank aims to emphasise, through concrete actions, that involvement and development – at every level of the organisation – constitute key and enabling factors in the achievement of corporate results.

Highlights

Herein are reported the main events experienced by the Group in the first nine months of 2014, with particular emphasis on those of the third quarter of the year.

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 agreements, the assets and liabilities in Pravex-Bank were reclassified under discontinued operations in accordance with IFRS 5. The consolidated income statement includes the loss for the period of the Ukrainian bank, recognised under Income (Loss) from discontinued operations for a total of 33 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. Finalisation of the transaction is subject to the receipt of authorisation from the Ukrainian central bank, to date not yet received.

Furthermore, in January the Intesa Sanpaolo Group also 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 28 million euro after tax to the consolidated income statement. The transaction will be finalised in the fourth quarter of 2014, subject to all necessary authorisations being received.

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 is focused 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 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 and internationalisation, and optimising their financial structure. To help businesses achieve their objectives, the SME Finance Hub is 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. Following the integration of Mediofactoring and Agriventure as at 1 July, the activities of Mediocredito Italiano, which is part of the Banca dei Territori Division of Intesa Sanpaolo, cover four main areas of business offering targeted commercial solutions:
- consulting/advisory services: consulting for entrepreneurs on corporate finance, extraordinary finance transactions; optimisation of liabilities; internationalisation; aggregation in Business Networks; sector approach;
- specialised loans and subsidised credit: sector loans and loans for research and innovation, with specific financial funding, subsidised loans, co-lending with Local Public Entities and subsidised European instruments;
- leasing: real estate, instrumental, automotive, naval-aviation, energy production plants, trademarks and works of art;
- factoring: complete product range serving domestic and international customers.

Therefore, for the whole Intesa Sanpaolo Group, Mediocredito Italiano is in charge of managing subsidised finance 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 approximately 59 million euro in the income statement for the first half 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 pursuant to art. 2118: a maximum of 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 to promote merit and professional skills.

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, Law Decree 66 of 24 April 2014, converted into Law 89 of 23 June 2014, replaced article 1, paragraph 148 of Law 147 of 27 December 2013 (Stability Law 2014) regarding taxation of the new stake in the Bank of Italy, changing 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 stake, bringing it to 26% rather than 12% as established by Law 147/13. The tax payment methods were also changed, envisaging payment in one lump sum in June 2014, instead of in 3 instalments as per Law 147/13.
The rate increase resulted in an additional payable of 443 million euro for the Intesa Sanpaolo Group in the second quarter income statement and, added to the 379 million euro in taxes already recognised as at 31 December 2013, was paid on 16 June.

In April 2014, Intesa Sanpaolo and NH Hotel Group S.A., a Spanish company whose shares are listed on the Madrid, Barcelona, Bilbao, Valencia and New York Stock Exchanges, executed an agreement regarding the contribution of ISP entire shareholding owned in NH Italia S.p.A., representing 44.5% of the latter's share capital, to NH Hotel Group. Specifically, the Contribution Agreement provides for the NH Hotel Group to resolve upon a share capital increase reserved for ISP, which should be paid by means of the contribution of the shareholding and ISP should receive no. 42,000,000 new NH ordinary shares at a price of 4.70 euro per share.

The transaction was finalised following the approval obtained at the shareholders' meeting of NH Hotel Group S.A. on 26 June 2014 regarding the capital increase reserved for ISP. As a result of the execution of the capital increase, ISP now holds, directly and indirectly, a shareholding equal to approximately 16% of NH Hotel Group's share capital (compared to the previous 4.52% shareholding), classified among investments subject to significant influence.
The new NH shares assigned to ISP were recognised at their fair value, equal to the price as at 26 June 2014, namely 4.3750 euro, for a total value of 184 million euro which, compared to the carrying amount of the NH Italia shares contributed (128 million), resulted in a net capital gain in the consolidated financial statements, limited to the minority investment in the NH Hotel Group, equal to 47 million euro.

The Intesa Sanpaolo shareholders' meeting of 8 May 2014 amongst other things approved an investment plan based on financial instruments (LECOIP – Leveraged Employee Co-Investment Plan) for employees, executives 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, has offered to all its employees, as key enablers in the achievement of the Business Plan's objectives. Employees, who have been assigned free Intesa Sanpaolo ordinary shares purchased on the market, have been offered a multi-year investment opportunity having the same time horizon as the Business Plan. Alternatively, employees are at liberty to dispose of the assigned free shares. The Investment Plan provides for the assignment to employees of new ordinary shares of Intesa Sanpaolo (matching shares) 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 share capital and the total share capital (comprising ordinary and savings shares) 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.
The ordinary share buy-back programme to serve the free assignment plan reserved for employees concluded on 14 October. In the two-day execution period of the programme, the Intesa Sanpaolo Group totally purchased - through Banca IMI, in charge of the programme execution - 49,476,201 Intesa Sanpaolo ordinary shares representing approximately 0.3% of the total Intesa Sanpaolo share capital (ordinary plus savings shares) at an average purchase price of 2.233 euro per share, for a total value of 110,469,112 euro. The Parent Company alone purchased 21,921,796 shares at an average purchase price of 2.234 euro per share for a total of 48,974,197 euro.
Overall, as at 31 October 2014, the end date of the investment plan subscription period, 50,298 Group employees (79% of those entitled) had subscribed a total value of shares corresponding to the Free Shares and Matching Shares of 150,112,726 euro. These figures could change as a result of exercise of the right of withdrawal by Group employees on the basis of relevant contractual documentation. The number of Free Shares, Matching Shares and Discounted Shares and the impacts on the income statement and balance sheet of the Group will be determined according to the arithmetic mean of the VWAP (Volume Weighted Average Price) of Intesa Sanpaolo ordinary shares recorded on each business day in the 30 calendar days prior to 1 December 2014 and, for the aforementioned discounted shares, the discount applied on that average, which will be disclosed on 1 December 2014.

On 28 May 2014, the ISP Group completed the sale of 28.9% of SIA's share capital, classified among investments in associates, retaining a 4% stake, reclassified under AFS securities. The Intesa Sanpaolo Group's consolidated net income has recorded a positive contribution of 173 million euro from the transaction (including the fair value measurement of the stake retained, in accordance with IAS 28). In this respect, it should be noted that on 29 November 2013, the ISP Group, Unicredit, BNL and MPS had entered into a sale-and-purchase agreement with several investment funds concerning the sale of 59.3% of the share capital of SIA; the price was determined on the basis of a valuation of 100% of the SIA capital equal to 765 million euro, of which approximately 100 million to be paid as dividends prior to completion of the transaction. The completion of the transaction was subject to regulatory approval, which in the meantime was obtained.

On 16 June 2014, Assicurazioni Generali, Intesa Sanpaolo and Mediobanca exercised the right to request the split off of Telco, under the terms of its shareholders' agreement. On 26 June 2014, the Board of Directors of Telco and, subsequently, on 9 July, the shareholders' meeting of Telco approved the proposed partial non-pro rata demerger of the company as a result of which four newly-incorporated beneficiary companies – 100%-owned by each shareholder – will be allocated the respective shareholder's stake in Telecom Italia (overall equal to approximately 22.39% of Telecom Italia's ordinary share capital) and, specifically: 14.77% to the Newco owned by Telefonica, 4.32% to the Newco owned by Generali Group, and 1.64% to each of the newcos owned respectively by Intesa Sanpaolo and Mediobanca. Completion of the demerger is subject to the requisite clearances from the Brazilian antitrust authority (CADE), the Brazilian regulatory authority (ANATEL) and the Argentinian antitrust authority (CNDC, Defensa de la Competencia) and, for those matters which fall within its scope of responsibility, by the Italian insurance regulatory authority (IVASS).
As part of the demerger, Telco will also repay all its bank debt outstanding (660 million euro as at 30 April 2014) and the bond issue subscribed to by its shareholders (1,750 million euro nominal value, plus 70 million euro in interest accrued at 30 April 2014), plus the interest that will accrue until the repayment date, via funds to derive from a shareholders' loan to Telco, which will be disbursed pro rata to the shareholders' stake in the company immediately prior to the execution of the demerger. With the demerger, then, each newco will be allocated the respective share of the shareholders' loan as well as the relevant Telecom Italia stake.
Telco will continue to exist with a minimal share capital and with no Telecom Italia shares held, in order to deal with the remaining assets and liabilities on the balance sheet. The company will then be placed in liquidation once this phase is complete. In this

context, also in occasion of the Interim Report as at 30 September 2014, as in the 2014 Half-yearly Report, the investment was valued by considering the Telecom shares at their market price as at 30 September 2014, equal to 0.9050 euro. This valuation resulted in a value adjustment to the investment in the income statement for the third quarter of 6 million euro, which combined with the value recovery of 25 million euro recorded in the half-yearly report and the pro rata amount of losses recorded by the company, equal to 4 million, brings the new carrying amount of the investment to 15 million euro.

In line with arrangements established in the agreement signed by Intesa Sanpaolo and Rosneft Oil Company, 10 July 2014 saw the finalisation of the disposal transaction of part (1,056,846 shares) of the Intesa Sanpaolo investment in Lauro 61 (the corporate vehicle that holds 100% of Camfin Spa) to Long Term Investments SA, a company based in Luxembourg and indicated for this transaction by Rosneft Oil Company. As a result of the transaction, Intesa Sanpaolo's residual investment in Lauro 61 is 5.46% (18.43% prior to the transaction). The amount collected by ISP was approximately 140 million euro, with a net capital gain of around 49 million euro.

On 14 October Intesa Sanpaolo signed an agreement to transfer a portfolio of non-core real estate assets, comprising 113 properties for a total surface area of around 115 thousand square metres, to a newly-constituted Italian real estate fund managed by IDeA FIMIT SGR, the quotas of which will be purchased by funds managed by Colony Capital LLC for a price of approximately 175 million euro. For the Intesa Sanpaolo Group, this transaction – finalisation of which is expected by the end of the year – translates into a positive contribution in terms of net consolidated income for the fourth quarter of approximately 40 million euro.

At the end of October the Private Banking, Asset Management and Insurance divisions were created within the Group, thereby enhancing the Group’s growth drivers as envisaged in the Business Plan. A significant investment was also made in the “Innovation Center”, enhanced through the creation of the Chief Innovation Officer governance area and therefore able to offer a stronger contribution to all the Group’s innovation activities.
In greater detail, the new *Private Banking Division* is assigned the mission of serving the top customers segment (Private and High Net Worth Individuals), strengthening the creation of value for the Group by increasing the profitability of assets managed through development of the range of products and offer terms - with a particular focus on high service-content products and the introduction of innovative remuneration formats. The Head of the Private Banking Division supervises operations of the subsidiaries Banca Fideuram, Fideuram Investimenti, Intesa Sanpaolo Private Banking, Sirefid, Fideuram Fiduciaria and Intesa Sanpaolo Private Banking Suisse, ensuring overall coordination with a view to optimising the organisation of the Group’s activities in achieving results.
The mission assigned to the *Asset Management Division* is that of developing the best asset management solutions for Group customers. The Head of the Asset Management Division supervises operations of the subsidiaries Eurizon Capital and Fideuram Asset Management Ireland, ensuring overall coordination with particular reference to the objective of further improving results.
The *Insurance Division* is assigned the mission of further developing the insurance product mix targeting Group customers. The Head of the Insurance Division supervises operations of the subsidiaries Intesa Sanpaolo Vita, Fideuram Vita, Intesa Sanpaolo Previdenza and Intesa Sanpaolo Assicura, ensuring overall coordination with particular reference to the objective of further improving results.
The Innovation Center is renamed the Chief Innovation Officer Governance Area and has the objective of identifying, analysing and developing innovation activities at national and international level, guaranteeing coordination and coherence at Group level. A new structure has been defined to strengthen the entire range of activities performed by this area: Innovation Planning; Innovation Research and Acceleration; Innovation Culture and Development; Innovation and Business Growth.

Again as part of the actions stated in the Business Plan, in the first few days of November a business unit, Capital Light Bank (CLB) was set up with the aim of extracting value from non-core activities and freeing up resources to foster growth. This unit will manage the reduction of a significant stock of the Bank's non- core assets, specifically: non-performing loans, repossessed assets, discontinued business units, investments managed with a view to disposal and asset portfolio types that do not respond to the lines of development specified in the Business Plan. The specialist skills concentrated in the new business unit will also allow Capital Light Bank to service the other Group structures, particularly specific business areas such as loan workout and collateral management.

The results of the ECB Comprehensive Assessment

As it is known, in 2014 the European Central Bank and the European Banking Authority performed an Asset Quality Review on 2013 financial statements of the EU's leading banks, representing approximately 80% of Eurozone bank assets, and carried out a Stress Test on the banks' capital of possible adverse macroeconomic scenarios. The results were published on 26 October.
As disclosed to the market that same day, for the Intesa Sanpaolo Group the Common Equity Tier 1 ratio (CET1) that emerged was well above the minimum threshold set by the Comprehensive Assessment.
Compared to the starting-point figure of 11.95%, taking into account the capital gain deriving from the stake in the Bank of Italy (approximately 1.8 billion euro) and the other capital measures carried out in 2014 (around 0.4 billion euro), the CET1 ratio was:
– 12.47% in the AQR, with excess capital of around 12.7 billion euro compared to the minimum requirement of 8%;
– 11.97% in the baseline Stress Test scenario, with excess capital of around 11.6 billion euro compared to the minimum requirement of 8%;
– 9.02% in the adverse Stress Test scenario, with excess capital of around 10.9 billion euro compared to the minimum requirement of 5.5%.

Without considering the capital gain from the stake in the Bank of Italy and the other capital measures carried out in 2014, the CET1 ratio was:
– 11.70% in the AQR, with excess capital of around 10.5 billion euro compared to the minimum requirement of 8%;
– 11.23% in the baseline Stress Test scenario, with excess capital of around 9.4 billion euro compared to the minimum requirement of 8%;
– 8.31% in the adverse Stress Test scenario, with excess capital of around 8.7 billion euro compared to the minimum requirement of 5.5%.

With reference to Consob's request, issued to the banks concerned on 7 November, to provide additional information on specific issues in the Interim Statement as at 30 September 2014, the following is specified.

a) *Remarks on the existence of any impact on accounts from the AQR results, with specific reference to the following aspects: (i) adjustment to provisions emerging from the Credit File Review (CFR), from the Projection of findings and from the review of Collective provisioning; (ii) adjustments associated with the Fair Value Review*

In the first nine months of 2014 Intesa Sanpaolo made net adjustments to loans in the income statement for 3,504 million euro, down 12.7% compared to the 4,013 million euro for the first nine months of 2013. These adjustments include the aspects emerged from the AQR. Adjustment to provisions under the AQR on non-performing exposures related to the credit sample selected as at 31 December 2013 amounted to 466 million euro: approximately 200 million euro of these had already been included in the provisions for the first half of 2014 and approximately 190 million euro have been included in those for the third quarter of 2014. On a number of exposures subject to potential adjustments (details of which were obtained in the last few days) no additional provisions are due since they relate to loans which have in the meantime returned to performing status or have been repaid or sold, or have anyway registered proved improvement. Consequently, though an analysis of exposures with potential adjustments of less than 1 million euro is still in progress, no material impact is forecast on the fourth quarter of the year in addition to the approximate 390 million euro included in net adjustments for the first nine months of 2014.
With regard to the Projection of findings to the sample of the entire portfolios selected for the AQR, the resulting amount is immaterial (8 million euro) and is in any event of a prudential, non-accounting nature.
With regard to the results of the Collective provisioning to performing loans, the AQR shows a theoretical deficit of 498 million euro. It should be mentioned, however, that the prudential method adopted in the Comprehensive Assessment differs from the accounting rules and, therefore, the aforementioned theoretical deficit has no impact on the income statement and balance sheet results. Specifically, the review was performed on portfolios selected in accordance with the criteria specific to the Assessment and did not allow offsetting between excess and shortfall of coverage among the various portfolio categories within the total performing loans, which is instead permitted under the current regulatory provisions. Based on the AQR findings, an evaluation will be performed to consider the opportunity of partly reallocating the collective provisioning among the various portfolios and various exposures. Note that in the accounts as at 30 September the collective provisioning totalled 2,459 million euro, up 57 million euro on the figure as at 31 December 2013 and the coverage in the nine-month period increased from 0.80% to 0.84%.
Lastly, for the Credit Value Adjustment of financial derivatives the AQR showed the absence of additional adjustments and, for the fair value of financial assets recognised as Level 3, including derivatives, the additional adjustments were immaterial (650 thousand euro).

b) *With reference to the adjustments indicated by the ECB for the exposures covered by the CFR, please state: (i) the total amount of provisions recognised in the interim statement for the third quarter of 2014, specifying whether adjustments have been made to opening balance sheet totals as at 1 January 2014; (ii) any initiatives planned to assess further provisions to be recognised in the financial statements as at 31 December 2014*

In the third quarter of 2014 the Intesa Sanpaolo Group made adjustments totalling approximately 190 million euro attributable to findings emerging from the AQR. No adjustment has been made to the balance sheet totals of 31 December 2013. No further adjustments of material amounts are expected on figures for the fourth quarter of 2014 as a result of the AQR.

c) *Remarks on any impact of the classification and measurement criteria adopted in the AQR on provisioning of loans recognised in the financial statements of the Bank, in particular indicating initiatives undertaken or planned for any review (i) of accounting policies or parameters used in the internal models for measuring loans and (ii) of classification procedures, criteria and practices that the Bank intends to adopt to take into account the new definitions for non-performing exposures (NPEs) and forbearance included in the Implementing Technical Standards (ITS) published by the EBA on 21 October 2013 and the measurement policies for the loans held*

With regard to point (i), Intesa Sanpaolo does not plan to review the measurement policies and/or parameters of its internal models. In reference to the new definitions for non-performing exposures and forbearance, note that these are basically in line with the definitions adopted until now in application of the technical instructions defined by the Bank of Italy, and, therefore, no material impact is expected from the first-time application of the new ITS. However, the implementing methods for financial statements disclosures resulting from the entry into force of the new definitions are currently being elaborated with the Bank of Italy.

d) *Indication of any additional initiatives undertaken or planned for the review of accounting policies relating to areas of the financial statements not related to loans, as a result of the Processes, Policies and Accounting Review (PP&A review) conducted in the AQR*

No elements emerged from the AQR that might lead to a review or even a mere adjustment to the accounting rules adopted by the Intesa Sanpaolo Group, as, for the Credit Value Adjustment of financial derivatives, the Assessment showed that no adjustments were required while, for the fair value of financial assets recognised as Level 3, including derivatives, adjustments were immaterial (650 thousand euro).

Forecast for the whole 2014

The moderate expansion of the global economy should also extend to the rest of 2014, but there is some doubt that in the Eurozone growth will strengthen significantly before 2015. In Italy it is uncertain whether the economy will see a return to growth in the fourth quarter, given the negative performance of the economic surveys.
Monetary policies will remain highly expansionary. No change is expected in official rates in the United States, where the quantitative stimulus programme will be suspended. However, the European Central Bank may decide to introduce new stimulus measures during the final months of the year if performance of the economy is disappointing and if inflation continues to show negative trends. The long-term interest rates could begin to feel the upcoming hike in official US rates, rising marginally from their current depressed levels. The growing strength of the US dollar is expected to slow in the final quarter, taking into account the extensive movements already seen in 2014.
The weaker-than-forecast growth in GDP in the first half of 2014 and the downturn in the trend of certain cyclical indicators in the third quarter of 2014 led to the IMF cutting the overall growth forecasts for emerging economies, in its October edition of the World Economic Outlook, to 4.4% in 2014 and to 5.0% in 2015 (-0.1% and -0.2%, respectively, compared to the July forecast). The downward review applied in particular to CIS and MENA countries, the hardest hit by geopolitical tension, but also to Latin American countries where the slowdown in Brazil has had a heavy impact. The forecasts for the Central Eastern Europe countries, however, remain largely confirmed.

As regards the Italian banking system, the final part of 2014 could see a continuation of the gradual emergence from the negative cycle for loans, also due to the conclusion of the in-depth assessment of banks performed by the ECB prior to launch of the single supervision mechanism. In addition, the new targeted monetary measures in support of the credit market could help to further improve supply conditions. However, the persisting lack of demand and the high percentage of non-performing loans continue to justify the forecast of a weak credit market. Fundamental factors indicate that the growth of lending will occur several quarters after the economy recovers.
In terms of funding, a 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 improved credit access conditions and a lower cost of funding, also due to banks' recourse to targeted long-term refinancing operations (TLTROs), the downtrend in rates on loans seen in the summer months is likely to be confirmed.

In 2014, the Intesa Sanpaolo Group will continue to prioritise the delivery of sustainable results, remaining focused on profitability targets, as well as the profile of risk and liquidity, and the solidity of its capital position.
Efficiency, productivity and asset quality will be constantly addressed. 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.

Consolidated financial statements

Consolidated balance sheet

(millions of euro)

Assets	30.09.2014	31.12.2013	Changes	
			amount	%
Financial assets held for trading	55,445	49,000	6,445	13.2
of which: Insurance Companies	*745*	*851*	*-106*	*-12.5*
Financial assets designated at fair value through profit and loss	40,197	35,761	4,436	12.4
of which: Insurance Companies	*39,024*	*34,776*	*4,248*	*12.2*
Financial assets available for sale	115,391	115,293	98	0.1
of which: Insurance Companies	*63,628*	*54,278*	*9,350*	*17.2*
Investments held to maturity	1,465	2,051	-586	-28.6
Due from banks	29,437	26,448	2,989	11.3
Loans to customers	337,265	343,789	-6,524	-1.9
Investments in associates and companies subject to joint control	2,170	1,909	261	13.7
Property, equipment and intangible assets	12,104	12,478	-374	-3.0
Tax assets	15,109	14,921	188	1.3
Non-current assets held for sale and discontinued operations	277	583	-306	-52.5
Other assets	24,844	21,946	2,898	13.2
Total Assets	**633,704**	**624,179**	**9,525**	**1.5**

Liabilities and Shareholders' Equity	30.09.2014	31.12.2013	Changes	
			amount	%
Due to banks	34,495	52,244	-17,749	-34.0
Due to customers and securities issued	367,118	366,974	144	-
of which: Insurance Companies	*544*	*534*	*10*	*1.9*
Financial liabilities held for trading	44,573	39,219	5,354	13.7
of which: Insurance Companies	*416*	*299*	*117*	*39.1*
Financial liabilities designated at fair value through profit and loss	35,461	30,733	4,728	15.4
of which: Insurance Companies	*35,453*	*30,723*	*4,730*	*15.4*
Tax liabilities	3,091	2,236	855	38.2
Liabilities associated with non-current assets held for sale and discontinued operations	211	292	-81	-27.7
Other liabilities	24,194	20,943	3,251	15.5
Technical reserves	74,759	62,236	12,523	20.1
Allowances for specific purpose	4,675	4,239	436	10.3
Share capital	8,554	8,546	8	0.1
Reserves	36,166	41,598	-5,432	-13.1
Valuation reserves	-1,308	-1,074	234	21.8
Minority interests	512	543	-31	-5.7
Net income (loss)	1,203	-4,550	5,753	
Total Liabilities and Shareholders' Equity	**633,704**	**624,179**	**9,525**	**1.5**

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			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Financial assets held for trading	55,445	52,071	52,352	49,000	53,314	55,892	61,543
of which: Insurance Companies	*745*	*763*	*834*	*851*	*731*	*993*	*940*
Financial assets designated at fair value through profit and loss	40,197	38,459	36,665	35,761	35,876	35,370	34,906
of which: Insurance Companies	*39,024*	*37,303*	*35,539*	*34,776*	*34,781*	*34,275*	*33,881*
Financial assets available for sale	115,391	118,350	113,424	115,293	102,921	103,921	97,027
of which: Insurance Companies	*63,628*	*61,395*	*57,098*	*54,278*	*46,526*	*45,097*	*42,454*
Investments held to maturity	1,465	1,455	1,526	2,051	2,120	2,130	2,150
Due from banks	29,437	30,882	28,052	26,448	32,534	31,264	38,277
Loans to customers	337,265	332,211	339,020	343,789	349,440	358,143	371,270
Investments in associates and companies subject to joint control	2,170	2,128	1,951	1,909	2,586	2,614	2,629
Property, equipment and intangible assets	12,104	12,200	12,304	12,478	19,317	19,446	19,573
Tax assets	15,109	14,973	14,938	14,921	13,691	13,508	12,657
Non-current assets held for sale and discontinued operations	277	369	468	583	533	619	585
Other assets	24,844	25,207	24,433	21,946	25,278	22,907	24,349
Total Assets	**633,704**	**628,305**	**625,133**	**624,179**	**637,610**	**645,814**	**664,966**

Liabilities and Shareholders' Equity	2014			2013			
	30/9	30/6	31/3	31/12	30/9	30/6	31/3
Due to banks	34,495	34,557	41,819	52,244	64,993	67,522	72,775
Due to customers and securities issued	367,118	370,175	366,795	366,974	359,878	368,833	376,353
of which: Insurance Companies	*544*	*568*	*569*	*534*	*558*	*81*	*132*
Financial liabilities held for trading	44,573	41,183	41,482	39,219	40,506	44,318	49,742
of which: Insurance Companies	*416*	*411*	*369*	*299*	*62*	*50*	*99*
Financial liabilities designated at fair value through profit and loss	35,461	33,441	31,433	30,733	30,027	29,257	28,130
of which: Insurance Companies	*35,453*	*33,433*	*31,424*	*30,723*	*30,016*	*29,246*	*28,120*
Tax liabilities	3,091	2,593	2,825	2,236	3,594	2,983	3,979
Liabilities associated with non-current assets held for sale and discontinued operations	211	203	212	292	322	353	364
Other liabilities	24,194	25,992	23,394	20,943	24,812	21,858	23,297
Technical reserves	74,759	70,694	67,210	62,236	59,088	56,633	55,552
Allowances for specific purpose	4,675	4,694	4,360	4,239	4,319	4,404	4,825
Share capital	8,554	8,549	8,549	8,546	8,546	8,546	8,546
Reserves	36,166	36,230	37,031	41,598	41,604	41,566	42,421
Valuation reserves	-1,308	-1,241	-1,076	-1,074	-1,305	-1,443	-1,894
Minority interests	512	515	596	543	586	562	570
Net income (loss)	1,203	720	503	-4,550	640	422	306
Total Liabilities and Shareholders' Equity	**633,704**	**628,305**	**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)

	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	6,314	6,078	236	3.9
Dividends and profits (losses) on investments carried at equity	64	-47	111	
Net fee and commission income	4,960	4,512	448	9.9
Profits (Losses) on trading	696	1,090	-394	-36.1
Income from insurance business	736	648	88	13.6
Other operating income (expenses)	1	36	-35	-97.2
Operating income	**12,771**	**12,317**	**454**	**3.7**
Personnel expenses	-3,739	-3,608	131	3.6
Other administrative expenses	-1,964	-2,001	-37	-1.8
Adjustments to property, equipment and intangible assets	-495	-501	-6	-1.2
Operating costs	**-6,198**	**-6,110**	**88**	**1.4**
Operating margin	**6,573**	**6,207**	**366**	**5.9**
Net provisions for risks and charges	-248	-65	183	
Net adjustments to loans	-3,504	-4,013	-509	-12.7
Net impairment losses on other assets	-143	-247	-104	-42.1
Profits (Losses) on investments held to maturity and on other investments	383	-33	416	
Income (Loss) before tax from continuing operations	**3,061**	**1,849**	**1,212**	**65.5**
Taxes on income from continuing operations	-1,598	-899	699	77.8
Charges (net of tax) for integration and exit incentives	-29	-38	-9	-23.7
Effect of purchase price allocation (net of tax)	-148	-219	-71	-32.4
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-33	-27	6	22.2
Minority interests	-50	-26	24	92.3
Net income (loss)	**1,203**	**640**	**563**	**88.0**
Basic EPS - euro	**0.07**	**0.04**		
Diluted EPS - euro	**0.07**	**0.04**		

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			
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Net interest income	2,110	2,104	2,100	2,032	2,026	2,035	2,017
Dividends and profits (losses) on investments carried at equity	53	-19	30	-2	-6	2	-43
Net fee and commission income	1,649	1,727	1,584	1,620	1,479	1,571	1,462
Profits (Losses) on trading	136	409	151	69	400	236	454
Income from insurance business	237	248	251	142	203	215	230
Other operating income (expenses)	21	-12	-8	70	33	15	-12
Operating income	**4,206**	**4,457**	**4,108**	**3,931**	**4,135**	**4,074**	**4,108**
Personnel expenses	-1,251	-1,215	-1,273	-1,194	-1,199	-1,149	-1,260
Other administrative expenses	-648	-666	-650	-806	-661	-682	-658
Adjustments to property, equipment and intangible assets	-168	-164	-163	-188	-169	-167	-165
Operating costs	**-2,067**	**-2,045**	**-2,086**	**-2,188**	**-2,029**	**-1,998**	**-2,083**
Operating margin	**2,139**	**2,412**	**2,022**	**1,743**	**2,106**	**2,076**	**2,025**
Net provisions for risks and charges	-12	-181	-55	-249	-1	-38	-26
Net adjustments to loans	-1,248	-1,179	-1,077	-3,098	-1,465	-1,390	-1,158
Net impairment losses on other assets	-64	-67	-12	-170	-32	-147	-68
Profits (Losses) on investments held to maturity and on other investments	73	235	75	2,441	-35	-3	5
Income (Loss) before tax from continuing operations	**888**	**1,220**	**953**	**667**	**573**	**498**	**778**
Taxes on income from continuing operations	-322	-912	-364	28	-264	-271	-364
Charges (net of tax) for integration and exit incentives	-9	-13	-7	-42	-5	-21	-12
Effect of purchase price allocation (net of tax)	-49	-53	-46	-75	-72	-73	-74
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-5,797	-	-	-
Income (Loss) after tax from discontinued operations	-11	-9	-13	-4	-3	-14	-10
Minority interests	-14	-16	-20	33	-11	-3	-12
Net income (loss)	**483**	**217**	**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 Group achieved highly positive results in the first nine months of 2014: the good performance of fee and commission income and net interest income, accompanied by attentive cost monitoring, have led to an increase in the operating margin compared to the corresponding period of 2013 (+5.9%). Thanks to the decrease in net adjustments to loans (-12.7%) and extraordinary income from the enhancement of non-core assets, income before tax from continuing operations grew 65.5% compared to the first nine months of last year. Net income, despite being impacted by the increased taxation on the higher value of the stake in the Bank of Italy, also grew to 1,203 million euro, compared to 640 million euro during the corresponding period in 2013.

Operating income

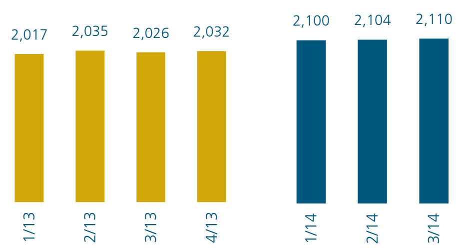
Operating income amounted to 12,771 million euro, up 3.7% compared to 12,317 million in the first nine months of 2013. The increases in net fee and commission income (+9.9%), net interest income (+3.9%) and income from insurance business (+13.6%) more than offset the decline in profits on trading (-36.1%). Excluding the effects of financial trading, operating income is up 7.6%. Third quarter revenues were down compared to the second quarter, essentially owing to the lower contribution from profits on trading.

Net interest income

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Relations with customers	7,060	7,165	-105	-1.5
Securities issued	-3,517	-3,997	-480	-12.0
Differentials on hedging derivatives	822	1,111	-289	-26.0
Customer dealing	**4,365**	**4,279**	**86**	**2.0**
Financial assets held for trading	228	271	-43	-15.9
Investments held to maturity	43	60	-17	-28.3
Financial assets available for sale	837	879	-42	-4.8
Financial assets	**1,108**	**1,210**	**-102**	**-8.4**
Relations with banks	**-9**	**-195**	**-186**	**-95.4**
Non-performing assets	**882**	**817**	**65**	**8.0**
Other net interest income	**-32**	**-33**	**-1**	**-3.0**
Net interest income	**6,314**	**6,078**	**236**	**3.9**

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 nine months of 2014, net interest income came to 6,314 million euro, up 3.9% compared to the same period of 2013, as a result of the reduction in interest expense on the interbank market and the improved margin on customer dealing which more than offset the impact of the decrease in average volumes. The margin also benefited from a lower cost of funding.
Customer dealing amounted to 4,365 million euro, up 2% on the same period of the previous year: the decrease in differentials on hedging derivatives was more than offset by the lower interest expense on securities issued. In a context of annual reduction in rates, relations with customers benefited from widening spreads, which offset the negative trend in volumes, particularly of loans to customers. Interest on financial assets, in line with the market trend, dropped by 8.4% compared to the first nine months of 2013: there was a decrease in interest on financial assets held for trading (-43 million euro), interest on financial assets available for sale (-42 million) and investments held to maturity (-17 million). Net interest on the interbank market reported a negative balance of 9 million euro, sharply down on the negative balance of 195 million euro for the corresponding period of the previous year. The improvement is attributable to the reduced exposure to the ECB, which in the first nine months of 2014 was equal to approximately 6 billion euro on average, and made up of standard transactions of one week to three months, as well as funds acquired through participation in the first TLTRO auction in September, compared to the outstanding 24 billion euro three-year LTROs as at 30 September 2013.

(millions of euro)

	2014 Third quarter (A)	2014 Second quarter (B)	2014 First quarter (C)	Changes % (A/B)	Changes % (B/C)
Relations with customers	2,310	2,355	2,395	-1.9	-1.7
Securities issued	-1,117	-1,183	-1,217	-5.6	-2.8
Differentials on hedging derivatives	259	269	294	-3.7	-8.5
Customer dealing	**1,452**	**1,441**	**1,472**	**0.8**	**-2.1**
Financial assets held for trading	75	83	70	-9.6	18.6
Investments held to maturity	13	14	16	-7.1	-12.5
Financial assets available for sale	265	286	286	-7.3	-
Financial assets	**353**	**383**	**372**	**-7.8**	**3.0**
Relations with banks	**9**	**1**	**-19**		
Non-performing assets	**310**	**288**	**284**	**7.6**	**1.4**
Other net interest income	**-14**	**-9**	**-9**	**55.6**	**-**
Net interest income	**2,110**	**2,104**	**2,100**	**0.3**	**0.2**

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

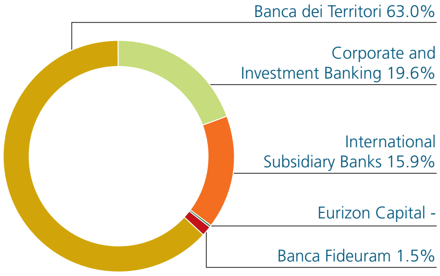
The interest margin for the third quarter remained essentially in line with that of the second quarter: the decline in interest on financial assets was offset by the increase in interest on customer dealing and improvement in the interbank margin.

(millions of euro)

	30.09.2014	30.09.2013	Changes amount	Changes %
Banca dei Territori	4,453	4,685	-232	-5.0
Corporate and Investment Banking	1,390	1,397	-7	-0.5
International Subsidiary Banks	1,122	1,145	-23	-2.0
Eurizon Capital	1	1	-	-
Banca Fideuram	106	99	7	7.1
Total business areas	**7,072**	**7,327**	**-255**	**-3.5**
Corporate Centre	-758	-1,249	-491	-39.3
Intesa Sanpaolo Group	**6,314**	**6,078**	**236**	**3.9**

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 63% of business area results, recorded a 5% 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. Interest pertaining to Corporate and Investment Banking was essentially stable (-0.5%): the lower contribution resulting from the decline in average volumes of loans to customers was offset by positive performance of the net investment result observed in the capital markets segment of Banca IMI. The International Subsidiary Banks recorded a drop in net interest income (-2%), impacted by the exchange rate effect and by lower loan volumes, predominantly for the subsidiary banks in Hungary, Serbia, Croatia and Russia. Banca Fideuram's net interest income increased by 7.1%, thanks to the contribution from higher volumes of collateralised loans to customers, in addition to a higher average return on assets compared to the same period of 2013, also because of the reinvestment of part of group's liquidity in bonds.

Dividends and profits on investments carried at equity

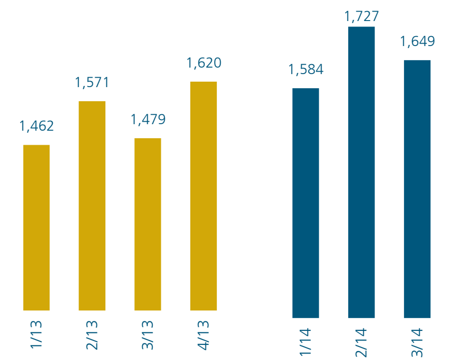
In the first nine months of 2014, the caption shows a positive balance of 64 million euro, against 47 million euro of losses in the same period of the previous year, essentially due to the improved contribution from the companies consolidated with the equity method, which more than offset the negative contributions from other companies. Dividends on shares held for trading and securities available for sale were reclassified to Profits (Losses) on trading.

Net fee and commission income

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Guarantees given / received	251	218	33	15.1
Collection and payment services	269	231	38	16.5
Current accounts	834	853	-19	-2.2
Credit and debit cards	382	358	24	6.7
Commercial banking activities	**1,736**	**1,660**	**76**	**4.6**
Dealing and placement of securities	398	353	45	12.7
Currency dealing	31	32	-1	-3.1
Portfolio management	1,339	1,041	298	28.6
Distribution of insurance products	703	597	106	17.8
Other	127	121	6	5.0
Management, dealing and consultancy activities	**2,598**	**2,144**	**454**	**21.2**
Other net fee and commission income	**626**	**708**	**-82**	**-11.6**
Net fee and commission income	**4,960**	**4,512**	**448**	**9.9**

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, which makes up over one-third of operating income, came to 4,960 million euro, up 9.9% compared to the same period in 2013 and benefiting from the positive trend in the main components. Fees and commissions on commercial banking activities recorded growth of 4.6%, thanks to the increase in those on collection and payment services (+16.5%), on guarantees given (+15.1%) and on credit and debit cards (+6.7%). The contribution from current accounts recorded a slight drop (-2.2%). Management, dealing and consultancy activities, which benefited from the positive performance of financial markets and the considerable boost from assets under management, on the whole generated fee and commission income totalling 2,598 million euro, expanding by 454 million euro (+21.2%) compared to the first nine months of 2013. Contributing to this trend were portfolio management (+298 million euro), particularly on own collective and individual portfolio management, the distribution of insurance products (+106 million euro), the commission income on dealing and placement of securities (+45 million euro) and the other management and dealing commissions (+6 million euro). Other net fee and commission income recorded a drop of 82 million euro compared to the corresponding period of the previous year, standing at 626 million euro due to the reduction in commissions on loans issued.

(millions of euro)

	2014			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Guarantees given / received	93	87	71	6.9	22.5
Collection and payment services	85	99	85	-14.1	16.5
Current accounts	277	278	279	-0.4	-0.4
Credit and debit cards	135	130	117	3.8	11.1
Commercial banking activities	**590**	**594**	**552**	**-0.7**	**7.6**
Dealing and placement of securities	87	159	152	-45.3	4.6
Currency dealing	11	10	10	10.0	-
Portfolio management	481	467	391	3.0	19.4
Distribution of insurance products	234	242	227	-3.3	6.6
Other	43	43	41	-	4.9
Management, dealing and consultancy activities	**856**	**921**	**821**	**-7.1**	**12.2**
Other net fee and commission income	**203**	**212**	**211**	**-4.2**	**0.5**
Net fee and commission income	**1,649**	**1,727**	**1,584**	**-4.5**	**9.0**

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

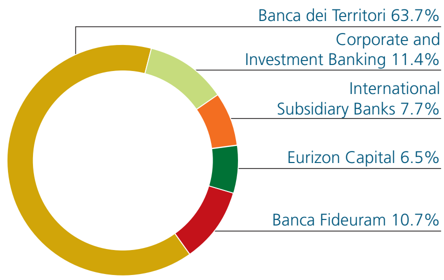
Compared to that of the second quarter of 2014, net fee and commission income in the third quarter reported a decline of 4.5%, also due to the usual slowdown in operations that marks the summer season. Indeed, the negative change is mainly due to dealing and placement of securities and, to a lesser extent, to other net fee and commission income.

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Banca dei Territori	3,289	3,017	272	9.0
Corporate and Investment Banking	588	649	-61	-9.4
International Subsidiary Banks	399	392	7	1.8
Eurizon Capital	334	233	101	43.3
Banca Fideuram	556	469	87	18.6
Total business areas	**5,166**	**4,760**	**406**	**8.5**
Corporate Centre	-206	-248	-42	-16.9
Intesa Sanpaolo Group	**4,960**	**4,512**	**448**	**9.9**

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



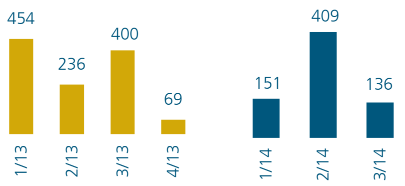
By business area, all Business Units experienced growth of net fee and commission income, except for Corporate and Investment Banking. Banca dei Territori, which represents 64% of fee and commission income from the business units, recorded the most significant positive contribution in absolute terms (+9%, equal to 272 million euro). In particular, net fee and commission income on asset management and bancassurance products as well as on placements increased. Though more limited in absolute terms, the following have recorded an increase: Eurizon Capital (+43.3%), through the development of average assets under management, which considerably exceeded the level of the first nine months of 2013, Banca Fideuram (+18.6%), as a result of higher recurring fee and commission income from growth in the average assets under management, and the International Subsidiary Banks (+1.8%). The decrease in Corporate and Investment Banking (-9.4%) is mainly attributable to the downward trend in the investment banking segment, particularly structured finance and capital markets and, to a lesser extent, fee and commission income from commercial banking and transaction banking activities.

Profits (Losses) on trading

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Interest rates	-37	304	-341	
Equity instruments	150	110	40	36.4
Currencies	75	112	-37	-33.0
Structured credit products	34	76	-42	-55.3
Credit derivatives	-31	-9	22	
Commodity derivatives	16	20	-4	-20.0
Trading result	**207**	**613**	**-406**	**-66.2**
Trading on AFS securities and financial liabilities	**489**	**477**	**12**	**2.5**
Profits (Losses) on trading	**696**	**1,090**	**-394**	**-36.1**

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 nine months of 2014 trading activities yielded a profit of 696 million euro, down compared to the 1,090 million euro recorded in the same period of the previous year. This performance is attributed to the trading result (-406 million euro), with essential stability in trading on AFS securities and financial liabilities (+12 million). Profits on trading were heavily affected by the decline in interest rate transactions (down 341 million euro to become negative) and credit derivative transactions, which should be considered jointly as they mainly involve transactions undertaken to hedge credit risk on investments in debt securities. Negative changes were also recorded for structured credit products (-42 million euro), currencies (-37 million euro) and commodity derivatives (-4 million euro). Positive results were seen from the higher profits on equity instruments (+40 million euro), although insufficient in offsetting the above-mentioned decreases.
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. In the first nine months of 2014 this subcaption included Bank of Italy dividends (+161 million euro), previously recognised among the dividends and profits on investments carried at equity (+29 million euro in the corresponding period of 2013). This shift is the result of reclassification of the investment to the AFS portfolio due to changes in the Bank of Italy's Statute.

(millions of euro)

	2014			Changes %	
	Third quarter (A)	**Second quarter** (B)	**First quarter** (C)	(A/B)	(B/C)
Interest rates	39	-92	16		
Equity instruments	-74	125	99		26.3
Currencies	18	37	20	-51.4	85.0
Structured credit products	9	15	10	-40.0	50.0
Credit derivatives	-5	-21	-5	-76.2	
Commodity derivatives	3	9	4	-66.7	
Trading result	**-10**	**73**	**144**		**-49.3**
Trading on AFS securities and financial liabilities	**146**	**336**	**7**	**-56.5**	
Profits (Losses) on trading	**136**	**409**	**151**	**-66.7**	

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

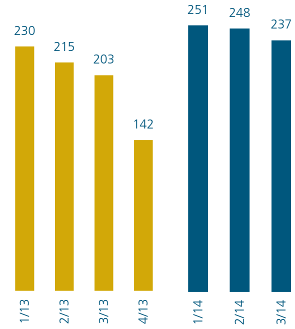
The quarterly analysis shows a weaker trading result in the third quarter of 2014 than in the second, which benefited from the aforementioned Bank of Italy dividends. The trading result was negatively impacted by the performance of equity instruments.

Income from insurance business

(millions of euro)

Captions (a)	**30.09.2014**			**30.09.2013**			**Changes**	
	Life	Non-life	**Total**	Life	Non-life	**Total**	**amount**	**%**
Technical margin	**22**	**35**	**57**	**37**	**30**	**67**	**-10**	**-14.9**
Net insurance premiums (b)	12,538	153	12,691	8,243	153	8,396	4,295	51.2
Net charges for insurance claims and surrenders (c)	-5,311	-69	-5,380	-4,915	-70	-4,985	395	7.9
Net charges for changes in technical reserves (d)	-8,477	-	-8,477	-4,321	-	-4,321	4,156	96.2
Gains (losses) on investments pertaining to insured parties on insurance products (e)	1,469	-	1,469	1,236	-	1,236	233	18.9
Net fees on investment contracts (f)	109	-	109	101	-	101	8	7.9
Commission expenses on insurance contracts (g)	-317	-33	-350	-299	-42	-341	9	2.6
Other technical income and expense (h)	11	-16	-5	-8	-11	-19	-14	-73.7
Net investment result	**664**	**15**	**679**	**566**	**15**	**581**	**98**	**16.9**
Operating income from investments	4,117	15	4,132	2,514	15	2,529	1,603	63.4
Net interest income	*1,572*	*10*	*1,582*	*1,461*	*12*	*1,473*	*109*	*7.4*
Dividends	*62*	*1*	*63*	*51*	*1*	*52*	*11*	*21.2*
Gains/losses on disposal	*752*	*4*	*756*	*649*	*2*	*651*	*105*	*16.1*
Valuation gains/losses	*1,782*	-	*1,782*	*398*	-	*398*	*1,384*	
Portfolio management fees paid (i)	*-51*	-	*-51*	*-45*	-	*-45*	*6*	*13.3*
Profit/loss pertaining to third party underwriters of mutual funds (j)	-	-	-	-	-	-	-	-
Gains (losses) on investments pertaining to insured parties	-3,453	-	-3,453	-1,948	-	-1,948	1,505	77.3
Insurance products (k)	*-1,351*	-	*-1,351*	*-1,181*	-	*-1,181*	*170*	*14.4*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (l)	*-118*	-	*-118*	*-55*	-	*-55*	*63*	
Investment products (m)	*-1,984*	-	*-1,984*	*-712*	-	*-712*	*1,272*	
Income from insurance business	**686**	**50**	**736**	**603**	**45**	**648**	**88**	**13.6**

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 nine months 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 736 million euro, up 13.6% 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.
Net investment result in life business recorded an improvement compared to the first nine months of 2013: increased retrocession to policyholders, almost all attributable to investment products measured at fair value, was more than offset by the increase in the valuation component of the portfolios, by net interest income and by trading activity by the insurance companies, which recorded higher realised gains of 103 million euro. The technical margin, on the other hand, decreased by 15 million euro: the increase in net premiums was more than offset by the increase in charges relating to the change in technical reserves and those relating to insurance claims and surrenders, in addition to the increase in income from investments pertaining to insured parties.
Income from non-life business grew by 5 million euro, entirely attributable to the technical margin. The improvement is due to lower commission expenses charged to the sales network, which benefited from the higher impact, on total premium inflows, of the motor class, sustained by the ViaggiaConMe product. The net investment result was stable: higher capital gains offset the lower net interest income.

(millions of euro)

Captions (a)	**2014** Third quarter (A)	Second quarter (B)	First quarter (C)	**Changes** (A/B)	(B/C)
Technical margin	**28**	**19**	**10**	**47.4**	**90.0**
Net insurance premiums (b)	4,204	3,778	4,709	11.3	-19.8
Net charges for insurance claims and surrenders (c)	-1,580	-1,912	-1,888	-17.4	1.3
Net charges for changes in technical reserves (d)	-3,086	-2,254	-3,137	36.9	-28.1
Gains (losses) on investments pertaining to insured parties on insurance products (e)	552	494	423	11.7	16.8
Net fees on investment contracts (f)	38	36	35	5.6	2.9
Commission expenses on insurance contracts (g)	-103	-123	-124	-16.3	-0.8
Other technical income and expense (h)	3	-	-8	-	
Net investment result	**209**	**229**	**241**	**-8.7**	**-5.0**
Operating income from investments	1,346	1,609	1,177	-16.3	36.7
Net interest income	*528*	*540*	*514*	*-2.2*	*5.1*
Dividends	*22*	*31*	*10*	*-29.0*	
Gains/losses on disposal	*277*	*268*	*211*	*3.4*	*27.0*
Valuation gains/losses	*537*	*788*	*457*	*-31.9*	*72.4*
Portfolio management fees paid (i)	*-18*	*-18*	*-15*	*-*	*20.0*
Profit/loss pertaining to third party underwriters of mutual funds (j)	*-*	*-*	*-*	*-*	*-*
Gains (losses) on investments pertaining to insured parties	-1,137	-1,380	-936	-17.6	47.4
Insurance products (k)	*-443*	*-481*	*-427*	*-7.9*	*12.6*
Investment's unrealized capital gains/losses pertaining to insured parties on insurance products (l)	*-109*	*-13*	*4*		
Investment products (m)	*-585*	*-886*	*-513*	*-34.0*	*72.7*
Income from insurance business	**237**	**248**	**251**	**-4.4**	**-1.2**

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

For notes, see the previous table.

Income from insurance business in the third quarter of 2014, including the life and non-life business, showed a slight decline (-11 million euro) compared to the second quarter. The decrease in the net investment result, linked to the valuation component of the portfolios, was only partly offset by the increase in the technical margin.

(millions of euro)

	30.09.2014 Periodic premiums	Single premiums	Total	*of which new business*	**30.09.2013**
Life insurance business	**160**	**12,379**	**12,539**	***12,379***	**8,244**
Premiums issued on traditional products	133	12,260	12,393	*12,260*	8,092
Premiums issued on unit-linked products	12	21	33	*21*	39
Premiums issued on capitalisation products	-	1	1	*1*	2
Premiums issued on pension funds	15	97	112	*97*	111
Non-life insurance business	**31**	**128**	**159**	***35***	**158**
Premiums issued	30	127	157	*83*	181
Change in premium reserves	1	1	2	*-48*	-23
Premiums ceded to reinsurers	**-2**	**-5**	**-7**	***-2***	**-6**
Net premiums from insurance products	**189**	**12,502**	**12,691**	***12,412***	**8,396**
Business on index-linked contracts	-	-	-	*-*	-
Business on unit-linked contracts	97	6,962	7,059	*6,968*	6,224
Total business from investment contracts	**97**	**6,962**	**7,059**	***6,968***	**6,224**
Total business	**286**	**19,464**	**19,750**	***19,380***	**14,620**

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 19,750 million euro in premiums, compared to total inflows of 14,620 million euro in the first nine months of 2013. The significant increase is due to premiums issued against traditional life policies and, to a lesser extent, unit-linked contract business. New business represents almost all of the total premium inflows.

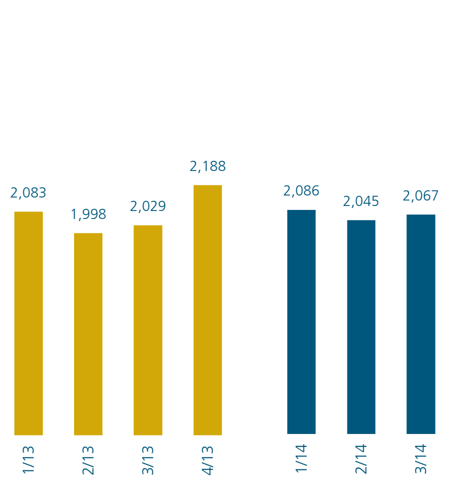
Other operating income (expenses)
Other operating income (expenses) is a residual caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense, tax and duty recoveries that have been directly deducted from the corresponding sub-captions of administrative expenses. In the first nine months of 2014, other operating income and expenses recorded a positive balance of 1 million euro, down compared to 36 million euro recorded in the same period of 2013.

Operating costs

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Wages and salaries	2,651	2,559	92	3.6
Social security charges	684	651	33	5.1
Other	404	398	6	1.5
Personnel expenses	**3,739**	**3,608**	**131**	**3.6**
Information technology expenses	461	474	-13	-2.7
Management of real estate assets expenses	472	509	-37	-7.3
General structure costs	308	310	-2	-0.6
Professional and legal expenses	250	238	12	5.0
Advertising and promotional expenses	94	78	16	20.5
Indirect personnel costs	65	61	4	6.6
Other costs	240	234	6	2.6
Indirect taxes and duties	668	636	32	5.0
Recovery of expenses and charges	-594	-539	55	10.2
Administrative expenses	**1,964**	**2,001**	**-37**	**-1.8**
Property and equipment	255	270	-15	-5.6
Intangible assets	240	231	9	3.9
Adjustments	**495**	**501**	**-6**	**-1.2**
Operating costs	**6,198**	**6,110**	**88**	**1.4**

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 in the first nine months of 2014 amounted to 6,198 million euro, up slightly (+1.4%) on the corresponding period of 2013.
Personnel expenses, equal to 3,739 million, showed an increase (+3.6%, equal to 131 million euro) due to the variable component. In fact, while in the corresponding period of 2013 – in relation to the failure to achieve the income targets – this component was absent, the positive business performance for the first part of this year and activation of the innovative bonus system envisaged in the new Business Plan resulted in suitable provisions for this purpose.
Administrative expenses came to 1,964 million euro, down 1.8% on the same period last year; the containment of expenses is mainly attributable to real estate management (-37 million euro) and to information technology expenses (-13 million euro). However, increases were seen in advertising and promotional expenses (+16 million euro), professional and legal expenses (+12 million euro) and other costs (+6 million euro, due to services provided by third parties).
Adjustments totalled 495 million euro, down 1.2% on the corresponding 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 48.5%, an improvement compared to 49.6% in the first nine months of 2013.

(millions of euro)

	2014			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Wages and salaries	891	860	900	3.6	-4.4
Social security charges	224	227	233	-1.3	-2.6
Other	136	128	140	6.3	-8.6
Personnel expenses	**1,251**	**1,215**	**1,273**	**3.0**	**-4.6**
Information technology expenses	155	152	154	2.0	-1.3
Management of real estate assets expenses	157	156	159	0.6	-1.9
General structure costs	100	102	106	-2.0	-3.8
Professional and legal expenses	82	86	82	-4.7	4.9
Advertising and promotional expenses	32	35	27	-8.6	29.6
Indirect personnel costs	19	25	21	-24.0	19.0
Other costs	79	81	80	-2.5	1.3
Indirect taxes and duties	217	228	223	-4.8	2.2
Recovery of expenses and charges	-193	-199	-202	-3.0	-1.5
Administrative expenses	**648**	**666**	**650**	**-2.7**	**2.5**
Property and equipment	84	85	86	-1.2	-1.2
Intangible assets	84	79	77	6.3	2.6
Adjustments	**168**	**164**	**163**	**2.4**	**0.6**
Operating costs	**2,067**	**2,045**	**2,086**	**1.1**	**-2.0**

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

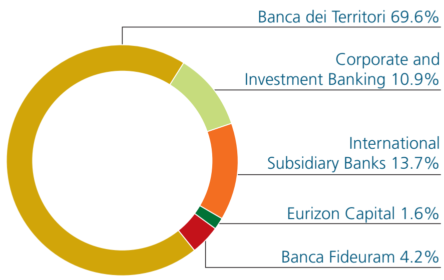
At the quarterly level, operating costs showed a slight increase in the third quarter compared to the previous quarter (+1.1%), reaching 2,067 million euro. The change is due to growth in personnel expenses (+3%).

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Banca dei Territori	4,007	3,948	59	1.5
Corporate and Investment Banking	631	595	36	6.1
International Subsidiary Banks	789	823	-34	-4.1
Eurizon Capital	92	75	17	22.7
Banca Fideuram	242	229	13	5.7
Total business areas	**5,761**	**5,670**	**91**	**1.6**
Corporate Centre	437	440	-3	-0.7
Intesa Sanpaolo Group	**6,198**	**6,110**	**88**	**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.

Business areas



Business Units showed a different trend for operating costs: International Subsidiary Banks recorded a decrease (-4.1%, equal to -34 million euro) across all cost captions, impacted by the exchange rate effect. Banca dei Territori, which accounts for almost 70% of business area costs, was up by 1.5%: the increase in personnel expenses was only partially offset by the containment of administrative expenses. The operating costs of Corporate and Investment Banking (+6.1%), Eurizon Capital (+22.7%) and Banca Fideuram (+5.7%) rose as a result of higher personnel and administrative expenses.

Operating margin

The operating margin for the first nine months of 2014 was 6,573 million euro, up compared to 6,207 million euro recorded in the same period last year (+5.9%), due to the increase in revenues (+3.7%) which more than offset the moderate increase in operating costs (+1.4%). Comparing the third quarter and second quarter figures, the operating margin dropped by 11.3%, due to lower profits on trading than those of the second quarter, which included the dividend on stakes in the Bank of Italy.

Adjustments to/write-backs on assets

Net provisions for risks and charges

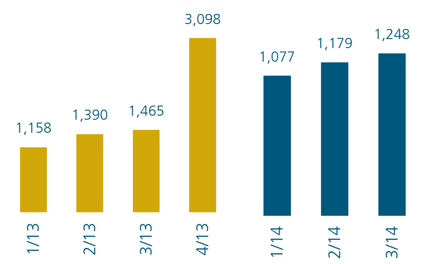
In the first nine months of 2014, net provisions for risks and charges stood at 248 million euro. Of these, 181 million euro were recognised during the second quarter, comprising 65 million euro in provisions of the Hungarian subsidiary CIB Bank and 30 million euro to charges relating to Alitalia. The total for this caption compares with 65 million euro recorded in the same period of 2013.

Net adjustments to loans

(millions of euro)

	30.09.2014	30.09.2013	Changes	
			amount	%
Doubtful loans	-1,597	-2,040	-443	-21.7
Substandard loans	-1,460	-1,501	-41	-2.7
Restructured loans	-66	-47	19	40.4
Past due loans	-284	-379	-95	-25.1
Performing loans	-77	-34	43	
Net losses/recoveries on impairment of loans	**-3,484**	**-4,001**	**-517**	**-12.9**
Net adjustments to/recoveries on guarantees and commitments	**-20**	**-12**	**8**	**66.7**
Net adjustments to loans	**-3,504**	**-4,013**	**-509**	**-12.7**

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 in the first nine months of 2014, which also take into account – as mentioned above – the items identified in the Asset Quality Review, benefits from improvement in the new NPL inflow compared to the same period of the previous year. More specifically, in the first nine months of 2014, net adjustments to loans amounted to 3,504 million euro, down 12.7% compared to the same period in 2013, due to lower provisions for doubtful loans. 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 1,597 million euro, down 21.7% compared to the first nine months of 2013, with an average coverage ratio rising to 63.3% from 62.5% at the end of 2013. Net impairment losses on substandard loans of 1,460 million euro recorded a drop of 2.7% compared to the corresponding period of the previous year, with a coverage ratio of 24.3%. Net impairment losses on past due loans were down as well (-95 million euro or -25.1%) compared to the first nine months of 2013; conversely, impairment losses on restructured loans, of a limited overall value, recorded an increase of 19 million euro.
Last, the common reserve is 0.8% higher than the performing loans to cover the physiological risk inherent in this portfolio.

(millions of euro)

	2014			Changes %	
	Third quarter (A)	Second quarter (B)	First quarter (C)	(A/B)	(B/C)
Doubtful loans	-478	-561	-558	-14.8	0.5
Substandard loans	-618	-498	-344	24.1	44.8
Restructured loans	-32	-15	-19		-21.1
Past due loans	-87	-63	-134	38.1	-53.0
Performing loans	-21	-14	-42	50.0	-66.7
Net losses/recoveries on impairment of loans	**-1,236**	**-1,151**	**-1,097**	**7.4**	**4.9**
Net adjustments to/recoveries on guarantees and commitments	**-12**	**-28**	**20**	**-57.1**	
Net adjustments to loans	**-1,248**	**-1,179**	**-1,077**	**5.9**	**9.5**

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

At the quarterly level, 1,248 million euro in adjustments in the third quarter compare with 1,179 million euro of the second quarter, up 5.9% as a result of the increase in provisions relating to the impairment of substandard loans, which more than offset the reduction in adjustments to doubtful loans.

Net impairment losses on other assets

In the first nine months of 2014, net impairment losses on other assets amounted to 143 million euro, largely attributable to impairment on Parent Company investments (Istituto di Credito Sportivo, Cassa di Risparmio della Provincia di Chieti, Giochi Preziosi and RCS MediaGroup). This value is significantly lower than the figure of 247 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 on other investments totalled 383 million euro, mainly due to the valuation of non-core investments held by Intesa Sanpaolo in non-financial companies, consistent with the guidelines of the Business Plan. The capital gains can be attributed to the disposals of SIA (173 million euro) and Pirelli & C. (59 million euro), to the corporate transactions concerning Lauro 61 (59 million euro) and NH Italia (47 million euro) and, to a lesser extent, to the sale of properties. During the same period of 2013, this item had a negative balance of 33 million euro.

Income before tax from continuing operations
Income before tax from continuing operations came to 3,061 million euro, up 65.5% compared to the first nine months of 2013. When compared to the second quarter, income before tax from continuing operations decreased by 27.2%.

Other income and expense captions

Taxes on income from continuing operations
Current and deferred taxes totalled 1,598 million euro, nearly double the figure recorded in the corresponding period of 2013 and with a tax rate that increased from 48.6% to 52.2%. This trend may be attributed to the retroactive increase in substitute tax applied to the higher value of the stake in the Bank of Italy recorded in the 2013 financial statements, the rate on which increased from 12% to 26%, with a tax effect of 443 million euro in the second quarter.

Charges (net of tax) for integration and exit incentives
This caption totalled 29 million euro, down from the 38 million euro recorded in the first nine months of the previous year, due to lower charges for personnel exit incentives charged to accounts in 2014.

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 nine months of 2014 these charges stood at 148 million euro, down from the 219 million euro recorded in the same period of 2013, 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 nine months of 2014 losses were recorded on discontinued operations for 33 million euro, entirely attributable to Pravex-Bank, for which a preliminary sales agreement was signed at the beginning of the year. This figure is compared to the negative balance of 27 million euro recorded in the corresponding period of 2013 and referring to the same company.

Net income (loss)
The Group closed the first nine months of 2014 with a net income of 1,203 million euro, up on the figure reported in the same period of 2013 (+88%). This result was attributable to the positive performance of the main captions representing the bank's core business (on the one hand an increase in net fee and commission income and in the interest margin, and a decrease in adjustments on the other) and to the contribution from non-recurring components, despite the presence of significant negative, extraordinary tax items.
Net income for the third quarter, at 483 million euro, is more than double the 217 million euro of the second quarter, due to the lower impact of tax charges for the reasons outlined above.

Balance sheet aggregates

In the first nine months of 2014, Intesa Sanpaolo's consolidated assets slightly increased compared to the end of 2013 (+1.5%). With regard to assets, there was a decrease in loans to customers (-6.5 billion euro) – due to the persistent difficulties of the economic cycle that has weakened lending, especially to non-financial companies – compared with an increase in financial assets held for trading (+6.4 billion euro), financial assets designated at fair value through profit or loss (+4.4 billion euro), exposure to banking counterparties (+3 billion euro) and other assets (+2.9 billion euro). Among liabilities, there was a decline in amounts due to banks (-17.7 billion euro), particularly the exposure to the ECB, which was more than offset by increases in technical reserves (+12.5 billion euro) and financial liabilities designated at fair value through profit or loss (+4.7 billion euro), both attributable to the Group's insurance companies, financial liabilities held for trading (+5.4 billion euro) and other liabilities (+3.3 billion euro).

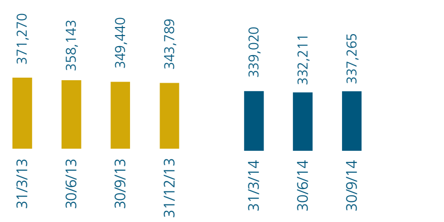
Loans to customers

(millions of euro)

	30.09.2014		31.12.2013		Changes	
		% breakdown		% breakdown	amount	%
Current accounts	27,926	8.3	29,464	8.6	-1,538	-5.2
Mortgages	137,453	40.8	143,628	41.8	-6,175	-4.3
Advances and other loans	108,280	32.1	109,788	31.9	-1,508	-1.4
Commercial banking loans	**273,659**	**81.2**	**282,880**	**82.3**	**-9,221**	**-3.3**
Repurchase agreements	**17,013**	**5.0**	**15,059**	**4.4**	**1,954**	**13.0**
Loans represented by securities	**13,976**	**4.1**	**14,863**	**4.3**	**-887**	**-6.0**
Non-performing loans	**32,617**	**9.7**	**30,987**	**9.0**	**1,630**	**5.3**
Loans to customers	**337,265**	**100.0**	**343,789**	**100.0**	**-6,524**	**-1.9**

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

Quarterly development Loans to customers



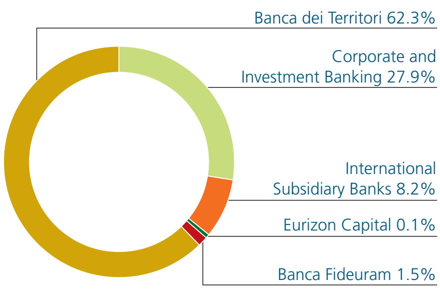
As at 30 September 2014, Intesa Sanpaolo Group loans to customers exceeded 337 billion euro, down 1.9% compared to the end of the previous year.
The decrease in loans since the beginning of the year was essentially due to the 9.2 billion euro reduction in commercial banking loans (-3.3%). Also contributing to the overall change was the decline in loans represented by securities, the balance of which decreased by 887 million euro (-6%) and, on the positive side, the increase in reverse repurchase agreements (+13%). The decrease in commercial banking loans, conditioned by the economic cycle, translated into a decrease in mortgages of 6.2 billion euro (-4.3%) and a decrease in advances and other loans of 1.5 billion euro (-1.4%). This trend reflects, on the one hand, the weak demand for business loans both short-term loans, due to the reduced need to finance working capital, and medium-/long-term loans, due to the decrease in investments made, and on the other hand the strict criteria adopted for the assessment of creditworthiness applied by managers in view of the decline in borrowers' capacity to meet their commitments. Current accounts also decreased (-5.2%), resuming the downward trend that characterised 2013.
In the domestic medium-/long-term loan market, in the first nine months of 2014 disbursements to households (including the small business and non-profit segments) amounted to 6.7 billion euro and disbursements to businesses under the Banca dei Territori (including Corporate segment customers with turnover of up to 350 million euro migrated to Banca dei Territori) came to approximately 4.9 billion euro. During the same period, medium-/long-term disbursements to segments included in the new scope of the Corporate Division in Italy amounted to 6.1 billion euro.
As at 30 September 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% for total loans. The estimate was based on the sample deriving from the ten-day report of the Bank of Italy as the global system figure for the end of September is not yet available.

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Banca dei Territori	200,983	209,556	-8,573	-4.1
Corporate and Investment Banking	90,204	90,907	-703	-0.8
International Subsidiary Banks	26,482	27,015	-533	-2.0
Eurizon Capital	240	281	-41	-14.6
Banca Fideuram	4,963	4,730	233	4.9
Total business areas	**322,872**	**332,489**	**-9,617**	**-2.9**
Corporate Centre	14,393	11,300	3,093	27.4
Intesa Sanpaolo Group	**337,265**	**343,789**	**-6,524**	**-1.9**

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 4.1% compared to the end of the previous year, particularly to businesses and small businesses. Corporate and Investment Banking loans decreased slightly (-0.8%), resulting from the lesser use of cash by Italian and international corporate customers as well as by those of the Irish subsidiary, almost entirely offset by the development of reverse repurchase agreement transactions with institutional operators and financial intermediaries by Banca IMI, and from greater activity with regard to Trade Finance and Correspondent Banking customers. There was also a decline in loans of the International Subsidiary Banks (-2%), particularly those of the subsidiaries operating in Hungary, Serbia and Croatia. Conversely, Banca Fideuram, which presented a stock of loans of modest overall amount, showed an increase (+4.9%), largely attributable to the increase in current account facilities and debt securities. The positive trend in Corporate Centre loans (+27.4%) is largely attributable to increased reverse repurchase agreement transactions with Cassa di Compensazione e Garanzia.

Loans to customers: loan portfolio quality

(millions of euro)

	30.09.2014		31.12.2013		Change
	Net exposure	% breakdown	Net exposure	% breakdown	Net exposure
Doubtful loans	13,644	4.0	12,899	3.8	745
Substandard loans	15,014	4.5	13,815	3.9	1,199
Restructured loans	2,321	0.7	2,315	0.7	6
Past due loans	1,638	0.5	1,958	0.6	-320
Non-performing loans	**32,617**	**9.7**	**30,987**	**9.0**	**1,630**
Performing loans	290,672	86.2	297,939	86.7	-7,267
Loans represented by performing securities	13,976	4.1	14,863	4.3	-887
Loans to customers	**337,265**	**100.0**	**343,789**	**100.0**	**-6,524**

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

As at 30 September 2014, the Group's non-performing loans, net of adjustments, increased compared to the end of the previous year (+5.3%). With non-performing loans increasing to 9.7% 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 47.2%, higher than the level at the end of 2013 (46%).
In further detail, doubtful loans came to 13.6 billion euro, net of adjustments, at the end of the first nine months of 2014, up by 5.8% compared to the beginning of the year and represented 4% of total loans, with an increased coverage ratio of 63.3%. Substandard loans increased (+8.7%) compared to 31 December 2013 to reach 15 billion euro with a 4.5% impact on total loans to customers: the coverage ratio rose to 24.3%. Restructured loans, at 2.3 billion euro, were essentially stable (+0.3%), with an impact on total loans of 0.7% and a coverage ratio of 17.7%. Past due loans totalled 1.6 billion euro, down 16.3% compared to the end of 2013, with a coverage ratio of 13.4%.The coverage ratio for performing loans is over 0.8%, up slightly compared to the end of 2013.

Customer financial assets

(millions of euro)

	30.09.2014		31.12.2013		Changes	
		% breakdown		% breakdown	amount	%
Direct deposits from banking business	373,019	44.9	372,066	46.3	953	0.3
Direct deposits from insurance business and technical reserves	110,756	13.3	93,493	11.6	17,263	18.5
Indirect customer deposits	457,497	55.0	430,287	53.6	27,210	6.3
Netting [(a)]	-109,731	-13.2	-92,484	-11.5	17,247	18.6
Customer financial assets	**831,541**	**100.0**	**803,362**	**100.0**	**28,179**	**3.5**

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 30 September 2014, customer financial assets exceeded 831 billion euro, up 3.5% compared to the beginning of the year, essentially attributable to direct deposits from insurance business and indirect customer deposits. The insurance segment recorded an 17.3 billion euro increase (+18.5%) 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 (+6.3%), driven by the assets under management component. Direct deposits from banking business recorded a slight increase (+0.3%) attributable to almost all the contract types except bonds and current accounts and deposits.

Direct deposits from banking business

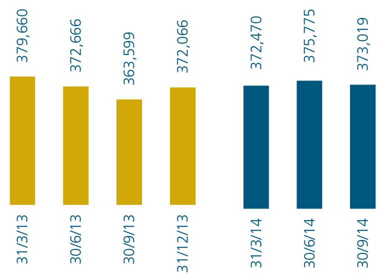
The table below sets out amounts due to customers, securities issued, including those designated at fair value, and capital-protected certificates (securitised derivatives).

(millions of euro)

	30.09.2014		31.12.2013		Changes	
		% breakdown		% breakdown	amount	%
Current accounts and deposits	200,314	53.7	203,319	54.7	-3,005	-1.5
Repurchase agreements and securities lending	22,745	6.1	15,633	4.2	7,112	45.5
Bonds	107,544	28.8	118,383	31.8	-10,839	-9.2
of which designated at fair value (*)	*8*	*-*	*10*	*-*	*-2*	*-20.0*
Certificates of deposit	7,806	2.1	4,453	1.2	3,353	75.3
Subordinated liabilities	14,757	4.0	13,080	3.5	1,677	12.8
Other deposits	19,853	5.3	17,198	4.6	2,655	15.4
of which designated at fair value (**)	*6,437*	*1.7*	*5,616*	*1.5*	*821*	*14.6*
Direct deposits from banking business	**373,019**	**100.0**	**372,066**	**100.0**	**953**	**0.3**

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

Quarterly development
Direct deposits from banking business



(*) 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.

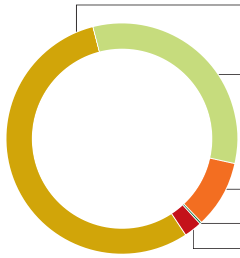
Direct deposits from banking business of 373 billion euro were up slightly on the end of December 2013 (+0.3%), with positive performances in almost all the deposit types.
Certificates of deposit increased sharply (+75.3%), essentially due to the increase of issues by international branches. Repurchase agreements and securities lending, which are primarily financial in nature, showed an increase of 7.1 billion euro (+45.5%), partly attributable to the increase in the Group's transactions with institutional counterparties. Also recording increases were other deposits (+15.4%), mainly due to commercial papers and capital protected certificates issued by Banca IMI and designated at fair value, and subordinated liabilities (+12.8%). Current accounts and deposits were down by 3 billion euro (-1.5%) and bonds declined by 10.8 billion euro (-9.2%), due to the slowdown in renewal of maturing securities.
At the end of September 2014, the share of the Group's direct deposits on the harmonised domestic market, consisting of deposits and bonds, according to the ECB definition, was estimated at 15.8%. As already described above in reference to loans, this estimate is based on figures from the sample deriving from the ten-day report produced by the Bank of Italy.

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Banca dei Territori	178,974	193,799	-14,825	-7.6
Corporate and Investment Banking	106,225	113,956	-7,731	-6.8
International Subsidiary Banks	30,934	30,182	752	2.5
Eurizon Capital	8	3	5	
Banca Fideuram	8,196	7,256	940	13.0
Total business areas	**324,337**	**345,196**	**-20,859**	**-6.0**
Corporate Centre	48,682	26,870	21,812	81.2
Intesa Sanpaolo Group	**373,019**	**372,066**	**953**	**0.3**

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

Business areas



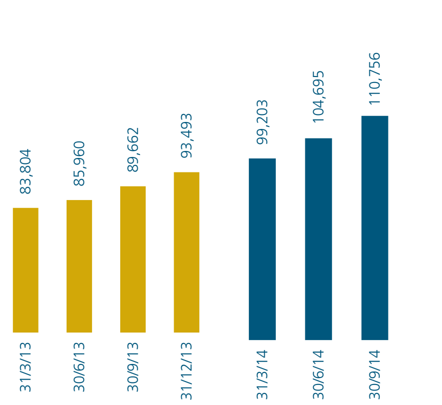
The breakdown by Group business areas shows that Banca dei Territori, which accounts for over half of the aggregate attributable to the Group's total business areas, has declined by 7.6% compared to the beginning of the year, due to the downtrend in securities issued, associated with the maturity of retail bonds. Even Corporate and Investment Banking recorded a decrease (-6.8%), mainly attributable to the decline in securities by Banca IMI and, to a lesser extent, the decrease in Italian corporate customer deposits. Vice versa, Banca Fideuram's funding increased (+13%), primarily as a result of repurchase agreements and time deposits of ordinary customers, as well as that of the International Subsidiary Banks (+2.5%), essentially in the amounts due to customers segment. The increase in the Corporate Centre's funding (+81.2%) 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, certificates and commercial paper.

Direct deposits from insurance business and technical reserves

(millions of euro)

	30.09.2014		31.12.2013		Changes	
		% breakdown		% breakdown	amount	%
Financial liabilities of the insurance business designated at fair value (*)	**35,453**	**32.0**	**30,723**	**32.9**	**4,730**	**15.4**
Index-linked products	*459*	*0.4*	*1,099*	1.2	*-640*	*-58.2*
Unit-linked products	*34,994*	*31.6*	*29,624*	31.7	*5,370*	*18.1*
Technical reserves	**74,759**	**67.5**	**62,236**	**66.5**	**12,523**	**20.1**
Life business	74,278	67.1	61,761	66.0	12,517	20.3
Mathematical reserves	*64,811*	*58.5*	*55,304*	*59.1*	*9,507*	*17.2*
Technical reserves where the investment risk is borne by the policyholders (**) and reserves related to pension funds	*3,717*	*3.4*	*4,766*	*5.1*	*-1,049*	*-22.0*
Other reserves	*5,750*	*5.2*	*1,691*	*1.8*	*4,059*	
Non-life business	*481*	0.4	*475*	0.5	6	1.3
Other insurance deposits (***)	**544**	**0.5**	**534**	**0.6**	**10**	**1.9**
Direct deposits from insurance business and technical reserves	**110,756**	**100.0**	**93,493**	**100.0**	**17,263**	**18.5**

Quarterly development
Direct insurance deposits and technical reserves



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.

Direct deposits from insurance business came to nearly 111 billion euro at the end of September 2014, up by 18.5% from the beginning of the year. Technical reserves, which represent the amounts owed to customers subscribing to traditional policies, recorded a net increase of 12.5 billion euro (+20.1%), 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. Financial liabilities of the insurance business designated at fair value grew by 4.7 billion euro (+15.4%), attributable to the contribution from unit-linked products, which more than offset the decline in index-linked products.

Indirect customer deposits

(millions of euro)

	30.09.2014		31.12.2013		Changes	
		% breakdown		% breakdown	amount	%
Mutual funds (*)	75,285	16.5	66,899	15.5	8,386	12.5
Open-ended pension funds and individual pension plans	3,733	0.8	3,697	0.9	36	1.0
Portfolio management	97,383	21.3	85,108	19.8	12,275	14.4
Life technical reserves and financial liabilities	105,197	23.0	92,321	21.5	12,876	13.9
Relations with institutional customers	9,347	2.0	10,545	2.4	-1,198	-11.4
Assets under management	**290,945**	**63.6**	**258,570**	**60.1**	**32,375**	**12.5**
Assets under administration and in custody	**166,552**	**36.4**	**171,717**	**39.9**	**-5,165**	**-3.0**
Indirect customer deposits	**457,497**	**100.0**	**430,287**	**100.0**	**27,210**	**6.3**

Quarterly development
Indirect customer deposits

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

(*) 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 30 September 2014, indirect customer deposits exceeded 457 billion euro, up 6.3% 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 60% of the total aggregate, increased 32.4 billion euro compared to the beginning of the year (+12.5%), 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 12.3 billion euro (+14.4%), life insurance policies by 12.9 billion euro (+13.9%) and mutual funds by 8.4 billion euro (+12.5%). Contributions by collective and individual pension forms showed slight growth (+1%), whereas relations with institutional customers were down (-11.4%).
Conversely, assets under administration decreased by 5.2 billion euro (-3%), due to retail customers, also as a result of the aforementioned repositioning into assets under management.

Financial assets and liabilities

(millions of euro)

	30.09.2014	*of which Insurance Companies*	31.12.2013	*of which Insurance Companies*	Changes amount	Changes %
Financial assets held for trading	55,445	*745*	49,000	*851*	6,445	13.2
of which derivatives at fair value	*34,174*	*6*	*29,909*	*10*	*4,265*	*14.3*
Financial assets designated at fair value through profit and loss	40,197	*39,024*	35,761	*34,776*	4,436	12.4
Financial assets available for sale	115,391	*63,628*	115,293	*54,278*	98	0.1
Investments held to maturity	1,465		2,051		-586	-28.6
Total financial assets	**212,498**	***103,397***	**202,105**	***89,905***	**10,393**	**5.1**
Financial liabilities held for trading (*)	**-38,136**	***-416***	**-33,603**	***-299***	**4,533**	**13.5**
of which derivatives at fair value	*-35,630*	*-416*	*-30,568*	*-299*	*5,062*	*16.6*

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 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 rose by 5.1% as a result of upturns in all components except investments held to maturity. In particular, financial assets held for trading recorded an increase of 6.4 billion euro (+13.2%), primarily attributable to trading derivatives, while financial assets designated at fair value through profit or loss increased by 4.4 billion euro (+12.4%), entirely attributable to equities and UCI quotas. Financial assets available for sale were essentially stable (+0.1%), while investments held to maturity decreased by 0.6 billion euro (-28.6%).

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 30 September 2014, 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 30.09.2014	Fair value at 30.09.2014	Income components in case of no transfer (before tax) Valuation	Income components in case of no transfer (before tax) Other	Income components for the period (before tax) Valuation	Income components for the period (before tax) Other
Debt securities	Financial assets held for trading	Loans	825	805	77	9	4	28
Equities and quotas of UCI	Financial assets held for trading	Financial assets available for sale	2	2	-1	-	-1	-
Debt securities	Financial assets available for sale	Loans	5,626	4,573	965	110	737	98
Loans	Financial assets available for sale	Loans	66	67	-19	2	-20	2
TOTAL			**6,519**	**5,447**	**1,022**	**121**	**720**	**128**

If the Group had not elected to reclassify the foregoing financial assets, a total of 302 million euro in income and 7 million euro in other negative components would have been recognised for the first nine months of the year. No portfolio transfers were made in 2014.

Net interbank position

The net interbank position as at 30 September 2014 came to a negative 5.1 billion euro, an improvement on the figure recorded at the end of 2013 (-25.8 billion euro). A contributing factor in the decrease in the negative imbalance between interbank amounts receivable and payable was the reduction in exposures to the European Central Bank.

Sovereign risk exposure

As at 30 September 2014 the Intesa Sanpaolo Group's sovereign debt exposure was represented by debt securities for 117 billion euro (of which 51 billion euro in securities held in Group insurance companies' portfolios) and by other loans for 21 billion euro. Among these, the exposure to Italian government securities totalled approximately 92 billion euro (down 11 billion euro compared to the end of 2013), in addition to 19 billion euro represented by loans. Security exposures decreased slightly compared to the 31 December 2013 figures of 103 billion euro. The following table illustrates the book value of the aforementioned 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	**7,756**	**40,353**	**1,028**	**784**	**10,567**	**50,612**	**111,100**	**21,157**
Austria	-	312	3	-	91	7	413	-
Belgium	-	805	-	-	62	10	877	-
Bulgaria	-	-	-	-	-	-	-	-
Croatia	134	49	24	719	3	3	932	814
Cyprus	3	-	-	-	-	-	3	-
Czech Republic	-	25	-	-	1	-	26	-
Denmark	-	-	-	-	16	-	16	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	-	-	-	131	8	139	11
France	109	1,982	-	-	542	80	2,713	17
Germany	39	3,642	-	10	1,115	2,160	6,966	-
Greece	-	-	-	-	75	-	75	-
Hungary	30	198	-	-	71	27	326	252
Ireland	-	-	-	-	33	90	123	-
Italy	7,000	30,215	382	55	6,982	47,692	92,326	19,233
Latvia	-	-	-	-	-	-	-	58
Lithuania	-	20	-	-	-	-	20	-
Luxembourg	50	-	-	-	406	102	558	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	44	-	-	397	133	574	-
Poland	26	-	-	-	49	-	75	-
Portugal	-	-	-	-	17	25	42	15
Romania	10	144	-	-	8	7	169	11
Slovakia	-	1,331	619	-	75	-	2,025	115
Slovenia	-	177	-	-	5	7	189	177
Spain	355	1,404	-	-	111	261	2,131	454
Sweden	-	-	-	-	335	-	335	-
United Kingdom	-	5	-	-	42	-	47	-
North African Countries	**-**	**1,392**	**-**	**-**	**-**	**-**	**1,392**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	1,392	-	-	-	-	1,392	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**703**	**-**	**703**	**-**
Other Countries	**145**	**1,238**	**388**	**41**	**1,233**	**756**	**3,801**	**199**
TOTAL	**7,901**	**42,983**	**1,416**	**825**	**12,503**	**51,368**	**116,996**	**21,356**

(*) Debt securities held by Insurance companies are classified as follows: 50.880 millions of euro as available for sale, 254 millions of euro among securities designated at fair value through profit and loss and 234 million of euro as held for trading.

Shareholders' equity

As at 30 September 2014, the Group's shareholders' equity, including net income for the period, came to 44,615 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 change in reserves, which include the 2013 net loss, as well as the net income accruing in 2014. During the first nine months of the year, share capital increased from 8,546 million euro at the end of December 2013 to 8,554 million euro at the end of September 2014, as a consequence of the finalisation of the mergers of Centro Leasing and Mediofactoring by incorporation into the Parent Company.

Valuation reserves

(millions of euro)

	Valuation reserves as at 31.12.2013	Change in the period	Valuation reserves as at 30.09.2014	
				% breakdown
Financial assets available for sale	363	413	776	-59.3
of which: Insurance Companies	*319*	*289*	*608*	*-46.5*
Property and equipment	-	-	-	-
Cash flow hedges	-878	-365	-1,243	95.0
Legally-required revaluations	359	-	359	-27.4
Other	-918	-282	-1,200	91.7
Valuation reserves	**-1,074**	**-234**	**-1,308**	**100.0**

As at 30 September 2014, the negative balance of the Group's valuation reserves came to -1,308 million euro, increasing compared to the value at the end of December 2013 (-1,074 million euro). Negative contributions to the change in the period included cash flow hedge reserves (-365 million euro) and other reserves (-282 million euro), while positive contributions included reserves for financial assets available for sale (+413 million euro), particularly debt securities in the insurance companies' portfolios.

Own funds and capital ratios

(millions of euro)

Own funds and capital ratios	**30.09.2014**
Own funds	
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	36,387
Additional Tier 1 capital (AT1) net of regulatory adjustments	1,169
TIER 1 CAPITAL	**37,556**
Tier 2 capital net of regulatory adjustments	10,083
TOTAL OWN FUNDS	**47,639**
Risk-weighted assets	
Credit and counterparty risks	235,770
Market and settlement risk	16,525
Operational risks	22,123
Other specific risks (a)	675
RISK-WEIGHTED ASSETS	**275,093**
% Capital ratios	
Common Equity Tier 1 capital ratio	13.2%
Tier 1 capital ratio	13.7%
Total capital ratio	17.3%

(a) In relation to risk-weighted assets, this caption includes all other elements not considered in previous captions used to calculate total capital requirements, including any specific capital requirements as provided for by the Supervisory Authority to the individual Group entities.

Own funds, risk weighted assets and the capital ratios at 30 September 2014 were calculated according to the new harmonised rules and regulations for banks and investment companies contained in Directive 2013/36/EU (CRD IV) and in (EU) Regulation no. 575/2013 (CRR) of 26 June 2013, which transpose the banking supervision standards defined by the Basel Committee (the Basel 3 Framework) to European Union laws, and on the basis of Bank of Italy Circulars 285 and 286 (issued in 2013) and Circular 154 (updated during 2013).
Regulatory provisions governing own funds envisage the gradual introduction of the new regulatory framework, through a transitional period generally lasting until 2017, during which several elements that will be eligible for full inclusion in or deduction from common equity when the framework is fully effective, will only have a partial percentage effect on common equity tier 1 capital. 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 30 September 2014 take account of the adjustments envisaged by the transitional provisions for 2014.
As the regulatory conditions (assessment by the independent auditors) for its inclusion (Art. 26, paragraph 2 of the CRR) have not been met, common equity tier 1 capital does not include net income for the third quarter or, for consistency, the related pro-rata dividend under distribution in 2015; therefore, own funds as at 30 September 2014 take into account income as at 30 June 2014 and, consequently, the estimate of dividends to be paid on the 2014 result, determined on a conventional basis as half of the dividends indicated in the 2014-2017 Business Plan as distributable in 2015 (totalling 1 billion euro).
If interim net income had been considered, on the basis of the provisions of Regulation 575/2013, the capital ratios would have been as follows: a CET 1 ratio of 13.3%, a tier 1 ratio of 13.8%, and a total capital ratio of 17.5%.
With regard to the stake in the Bank of Italy, the prudential approach adopted involves the weighting among RWA as equity exposure, in addition to full recognition in CET1 capital of the capital gain resulting from cancellation of the old stake and subsequent recognition of the new stake, following the amendments to the articles of association by the Bank of Italy at the end of 2013.
As at 30 September 2014, total own funds came to 47,639 million euro, against risk-weighted assets of 275,093 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.
The total capital ratio stood at 17.3%, while the ratio of the Group’s tier 1 capital to its total risk-weighted assets (its tier 1 ratio) was 13.7%. The ratio of common equity tier 1 capital (CET1) to risk-weighted assets (the common equity ratio) was 13.2 %.
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 30 September 2014 was five basis point negative.

Reconciliation of shareholders’ equity and common equity tier 1 capital

(millions of euro)

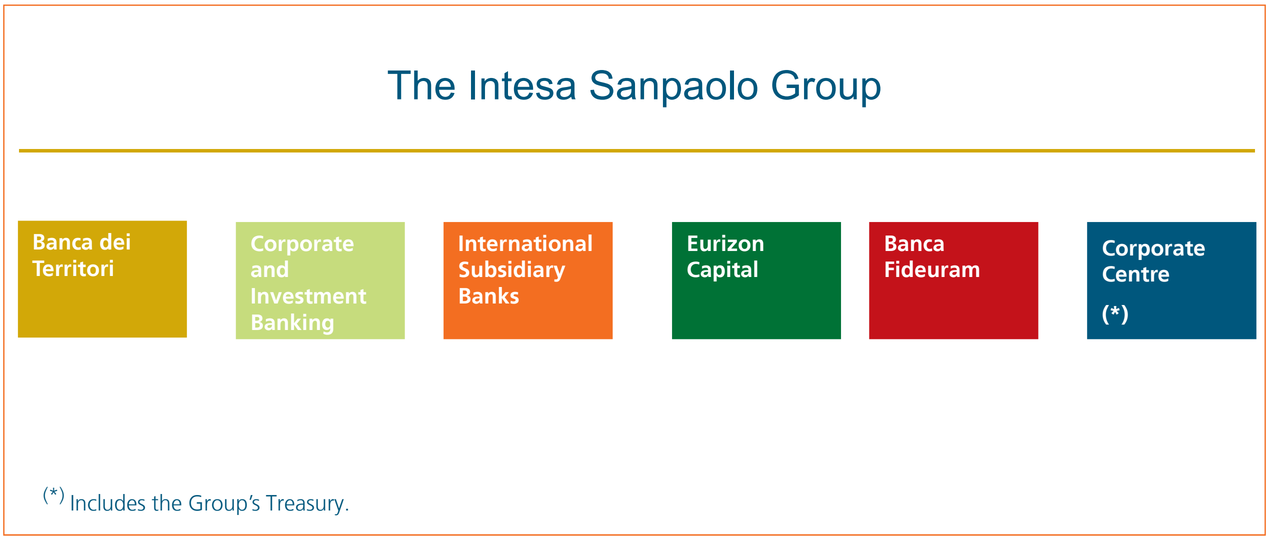
Captions	**30.09.2014**
Group Shareholders' equity	44,615
Minority interests	512
Shareholders' equity as per the Balance Sheet	**45,127**
Pro-rata dividend to Intesa Sanpaolo shareholders in accordance with the Business Plan	-500
Shareholders' equity following distribution to shareholders	**44,627**
Adjustments for instruments eligible for inclusion in AT1 or T2	
- Capital of savings shares eligible for inclusion in AT1	-485
- Minority interests eligible for inclusion in AT1	-7
- Minority interests eligible for inclusion in T2	-8
- Ineligible minority interests on full phase-in	-407
- Ineligible net income for the period	-483
- Treasury shares included under regulatory adjustments	51
- Other ineligible components on full phase-in	1
Common Equity Tier 1 capital (CET1) before regulatory adjustments	**43,289**
Regulatory adjustments (including transitional adjustments)	**-6,902**
Common Equity Tier 1 capital (CET1) net of regulatory adjustments	**36,387**

[a] This represents the amount of the pro-quota dividend for the first half of 2014 to be deducted as only the net income as at 30 June 2014 is eligible for inclusion.

[b] This represents the net income for the third quarter of 2014 only, which is ineligible for inclusion as the interim report as at 30 September 2014 is not subject to audit.

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.



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 nine months 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 third quarter; 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.
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							
30.09.2014	8,470	2,470	1,593	351	758	-871	12,771
30.09.2013	8,383	2,619	1,582	248	645	-1,160	12,317
% change [(a)]	1.0	-5.7	0.7	41.5	17.5	-24.9	3.7
Operating costs							
30.09.2014	-4,007	-631	-789	-92	-242	-437	-6,198
30.09.2013	-3,948	-595	-823	-75	-229	-440	-6,110
% change [(a)]	1.5	6.1	-4.1	22.7	5.7	-0.7	1.4
Operating margin							
30.09.2014	4,463	1,839	804	259	516	-1,308	6,573
30.09.2013	4,435	2,024	759	173	416	-1,600	6,207
% change [(a)]	0.6	-9.1	5.9	49.7	24.0	-18.3	5.9
Net income (loss)							
30.09.2014	1,017	1,053	242	159	266	-1,534	1,203
30.09.2013	527	1,149	115	107	205	-1,463	640
% change [(a)]	93.0	-8.4		48.6	29.8	4.9	88.0
Loans to customers							
30.09.2014	200,983	90,204	26,482	240	4,963	14,393	337,265
31.12.2013	209,556	90,907	27,015	281	4,730	11,300	343,789
% change [(b)]	-4.1	-0.8	-2.0	-14.6	4.9	27.4	-1.9
Direct deposits from banking business							
30.09.2014	178,974	106,225	30,934	8	8,196	48,682	373,019
31.12.2013	193,799	113,956	30,182	3	7,256	26,870	372,066
% change [(b)]	-7.6	-6.8	2.5		13.0	81.2	0.3
Risk-weighted assets [(c)]							
30.09.2014	103,239	95,073	27,955	616	6,432	41,778	275,093
Absorbed capital [(c)]							
30.09.2014	10,933	7,606	2,236	59	929	3,342	25,105

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 30.09.2014 and 30.09.2013.

[(b)] The change expresses the ratio between 30.09.2014 and 31.12.2013.

[(c)] Values as at 30 September 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	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	4,453	4,685	-232	-5.0
Dividends and profits (losses) on investments carried at equity	-	12	-12	
Net fee and commission income	3,289	3,017	272	9.0
Profits (Losses) on trading	40	55	-15	-27.3
Income from insurance business	656	581	75	12.9
Other operating income (expenses)	32	33	-1	-3.0
Operating income	**8,470**	**8,383**	**87**	**1.0**
Personnel expenses	-2,373	-2,272	101	4.4
Other administrative expenses	-1,630	-1,670	-40	-2.4
Adjustments to property, equipment and intangible assets	-4	-6	-2	-33.3
Operating costs	**-4,007**	**-3,948**	**59**	**1.5**
Operating margin	**4,463**	**4,435**	**28**	**0.6**
Net provisions for risks and charges	-36	-28	8	28.6
Net adjustments to loans	-2,713	-3,311	-598	-18.1
Net impairment losses on other assets	-1	-2	-1	-50.0
Profits (Losses) on investments held to maturity and on other investments	-	-	-	-
Income (Loss) before tax from continuing operations	**1,713**	**1,094**	**619**	**56.6**
Taxes on income from continuing operations	-621	-413	208	50.4
Charges (net of tax) for integration and exit incentives	-24	-30	-6	-20.0
Effect of purchase price allocation (net of tax)	-51	-124	-73	-58.9
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**1,017**	**527**	**490**	**93.0**

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Loans to customers	200,983	209,556	-8,573	-4.1
Direct deposits from banking business	178,974	193,799	-14,825	-7.6
Direct deposits from insurance business and technical reserves	88,541	75,062	13,479	18.0
Risk-weighted assets [(a)]	103,239			
Absorbed capital [(a)]	10,933			

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 30 September 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 8,470 million euro in the first nine months of 2014, amounting to 66% of the Group's consolidated operating income, up slightly (+1%) on the same period of the previous year. In further detail, there was decline in net interest income (-5%), 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%), 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 55 million euro to 40 million euro. Income from insurance business was 656 million euro, up 12.9%, attributable to the improvement in the net investment result. Operating costs, amounting to 4,007 million euro, increased slightly (+1.5%) compared to the same period of the previous year. The operating margin amounted to 4,463 million euro, essentially in line (+0.6%) with the first nine months of 2013. Income before tax from continuing operations increased (+56.6%), amounting to 1,713 million euro, driven by the reduction in net adjustments to loans (-18.1%). The cost of credit of Banca dei Territori, calculated as the ratio of annualised net adjustments to loans and stock of loans to customers, amounted to 1.8% during the first nine months of 2014. In greater detail, adjustments during the period by the Network Banks with respect to Banca dei Territori amounted to 2,104 million euro (compared to loans of 143,970 million euro), broken down as follows: Intesa Sanpaolo 903 million euro, Banco di Napoli 233 million euro,

Banca dell'Adriatico 108 million euro, CR Veneto 227 million euro, CR Venezia 44 million euro, CR Friuli Venezia Giulia 45 million euro, Banca di Trento e Bolzano 25 million euro, Carisbo 115 million euro, CR Romagna 60 million euro, the Banca CR Firenze Group 255 million euro, Banca di Credito Sardo 59 million euro, Banca Monte Parma 30 million euro.
Lastly, after allocation to the Division of charges for integration of 24 million euro and the economic effects of purchase price allocation for 51 million euro, net income amounted to 1,017 million euro, up 93%.
On a quarterly basis, the third quarter of 2014 reported an operating margin down 8.3% on the second quarter, due to a decrease in revenues (-4.3%) and essentially stable operating costs (+0.5%). Income before tax from continuing operations declined (-35.6%) compared to the previous quarter, due to increased net adjustments to loans (+14.2%). Net income performed similarly (-30.9%).
The balance sheet figures at the end of September 2014 showed loans to customers of 200,983 million euro, down 4.1% on the previous year-end essentially as a result of the decrease in loans to business and small business customers, which reduced their use of loans due to the negative economic context. Direct deposits from banking business of 178,974 million euro were down by 7.6% owing to the downward trend in securities issued and related to the maturity of retail bonds. Direct deposits from insurance business, amounting to 88,541 million euro, recorded an increase (+18%), primarily due to growth in technical reserves, and, to a lesser extent, in the liabilities of the insurance segment designated at fair value.

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: – widespread local coverage – a focus on the specific qualities of local markets – 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 – 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 private customers whose financial assets exceed 1 million euro.
Product companies	Specialised in medium-term credit, leasing, factoring and agribusiness (Mediocredito Italiano), consumer credit (Intesa Sanpaolo Personal Finance), 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 4,400 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

As part of the process of simplifying and integrating the Intesa Sanpaolo Group's product companies, on 1 July 2014 the factoring and agribusiness operations previously attributable to Mediofactoring and Agriventure were integrated into Mediocredito Italiano, thereby expanding the SME Finance Hub, a key component of the Group's efforts in support of enterprises.

Marketing Department – *Retail Market*

Investment

In the third 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.

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:

– four Italian registered flexible bond funds in the "Eurizon Cedola Attiva" and "Eurizon Cedola Attiva Più" lines with maturity in October and December 2019, which aim to optimise return over a time period of five years within the risk level set for each line and distribute a semi-annual coupon;
– four Italian registered funds in the "Eurizon Gestione Attiva" ("Classica" and "Dinamica") line with maturity in October and December 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;
– two new Italian registered funds in the "Epsilon Flexible Forex Coupon" line with maturity in September and November 2019, which, through dynamic investment in bond financial instruments and, to a minimum extent, equity financial instruments denominated in currencies other than the euro, aim to optimise return over a time period of slightly more than five years, while observing a risk budget, and to distribute a semi-annual coupon;
– two Italian registered flexible funds in the new "Epsilon Allocazione Tattica" line with maturity in September and November 2019, which, through the performances of the major equity indices and the dynamic variation of the weight of the equity component, aim to optimise return over a period of five years within the risk level set for them;
– two Italian registered flexible funds in the new "Eurizon Multiasset Reddito" line with maturity in October and December 2019, which, through an active multiasset approach, aim to optimise return over a time period of slightly more than five years within the risk level set for them, and to distribute an annual coupon;
– two new Italian registered funds in the "Eurizon Cedola Attiva Top" line with maturity in October and December 2021, which aim to optimise return over a time period of about seven years and to 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;
– "GP Unica", a new portfolio management line, which allows active participation in the portfolio creation, while delegating major investment decisions to the manager, through a combination of four macro-components (Main, Elite, Markets and Selection) differentiated by financial asset class, market of reference, management style and type of instruments;
– "ISV Tu dopo di noi", a single-premium class I life policy issued by Intesa Sanpaolo Vita, aimed at households who intend to take out insurance for a disabled relative in order to cover care and assistance costs after the family members have passed away;
– Group bonds (in euro, US dollars and pound sterling), equity protection certificates (on equity indices, foreign exchange rates and commodities) and bonus certificates (on individual equity securities), 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.

Including the new activations during the quarter, 539 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.

In parallel to the extension of branch business hours, the Bank continued to develop its Out-of-Branch Offerings. At the end of September, there were over 1,680 personal managers and retail branch 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.

Remote and Internet-banking Offerings

As part of a strategy which aims to gradually enhance the integration of the physical and digital channels, starting from the third quarter of 2014 customers of all Group banks may autonomously purchase debit and prepaid cards through Internet banking services, choosing whether to receive and sign their agreements through the new branch or Contact Unit remote offering system. In addition, among the features available in the post-sales phase, customers who have signed multi-channel agreements may use Internet banking services to activate or freeze their cards, obtain a new PIN or print another copy of their current PIN, change permanent and temporary limits for Bancomat and Nextcard and change temporary limits for their credit cards.

Il Mio Gestore	Thanks to the new section of the Internet banking site named "Il Mio Gestore" ("My Manager"), customers with multi-channel agreements may communicate with their branches and managers easily and quickly. In particular, customers can schedule appointments with their managers by choosing a date in the Agenda section and then receiving an e-mail or free text message confirming their appointments, or by contacting their managers directly by writing them messages from the website.
Loans	To aid households in difficulty, customers who have taken out mortgage loans for which the repayment period has begun at least 12 months before and who are at least 3 months behind with their payments can elect to have their principal payments suspended for a maximum period of 12 months.

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. For the businesses and households of Veneto damaged by the exceptional August rainfall, Cassa di Risparmio del Veneto and Cassa di Risparmio del Friuli Venezia Giulia (the former with a particular focus on the Treviso area and the latter on the Province of Pordenone) allocated 20 and 10 million euro, respectively, as well as arranged special financing instruments of up to six years and at subsidised rates. In support of retail customers, customers who hold mortgages and suffered damages were also allowed to apply for a 12-month moratorium on payments. In addition, Cassa di Risparmio del Veneto opened a solidarity current account with the Province of Treviso in support of the Treviso area population affected by the severe rainfall that resulted in flooding of the river Lierza, and directly contributed to this initiative. In July, a specific government Order was issued concerning the flood events that affected the Marche Region in early May 2014. That Order allowed households and businesses damaged by the flood to apply for the suspension of their loans until 31 December 2014, opting to suspend their entire payments or principal payments only. The Bank implemented the planned measure and informed customers of the relief programme through a specific notice posted in branches located in the affected area, as well as published on the websites of Group banks.
Agreements	Intesa Sanpaolo and the Agency for a Digital Italy – Prime Minister's office signed an agreement aimed at allowing households and businesses to streamline their relations with the Public Administration by enjoying access to new electronic payment channels and services offering higher security and consistency standards. By signing the agreement developed under the "Pago la PA" project, an initiative offering citizens and companies the opportunity to make electronic payments to the Public Administration and public service providers, the Group adhered to the "Payments Hubs – Public Connectivity System," a technological platform for interconnection and interoperability between public administrations and providers of payment services, thereby qualifying as a "provider of payment services" with its range of innovative payment services. In response to requests from the foremost industrial associations, the Italian Banking Association 2013 Credit Agreement signed on 1 July 2013, which originally established the deadline of 30 June 2014 for the submission of applications, was extended by the Italian Banking Association until 31 December 2014. The Agreement allows for access to various benefits, most important of which are the suspension of principal payments on loans for a maximum of 12 months, the extension of the repayment period for medium-/long-term loans and the extension of due dates for short-term loans. The following measures were also extended until 31 December 2014: – the "Italy Investment Projects" line which is dedicated to SMEs that, despite the economic crisis, have continued to undertake new investments. To that end, participating banks committed to make specific financial lines available at subsidised rates, as they are indexed on the cost of ECB funding (for maturities of up to 3 years) and the cost of Cassa dei Prestiti funding (for maturities of over 3 years); – the "Public Administration Receivables" line, whereby participating banks made specific financial lines available for the provision of advance or discounting transactions at financial conditions indexed on the cost of ECB funding.
Debit cards	"Carta Debit," a debit card associated with a bank account, aimed at freelance professionals, merchants and craftsmen (including those with mid-size businesses), entrepreneurs, partners, and employees of small, medium and large enterprises who wish to make payments while reducing their use of cash and cheques and who need to withdraw and deposit cash using ATMs, has been available at Cassa di Risparmio del Veneto since the beginning of September and at the branches of all Group banks since the beginning of October. "Carta Debit" allows cash to be deposited in Italy and withdrawn in Italy and abroad, transactions to be undertaken using the payment systems indicated on the card, PINs to be changed and purchases to be made over the Internet.

Marketing Department – *Business Market*

Agreements	In July a new agreement was signed with Confindustria Piccola Industria. This agreement, the fifth since 2009, is aimed at investing in the growth potential of Italian entrepreneurs and encouraging the dynamic approach of small and medium Italian enterprises, which are offered a wide range of solutions in keeping with the idea of an increasingly strategic approach to finance, thus supporting the growth and competitiveness of the country's entrepreneurial system. The partnership envisages the allocation of a new 10 billion euro line, in addition to the 35 billion euro allocated under the previous agreements, as well as a programme focusing on growth, innovation and start-ups, exports and internationalisation, supported by the services and business opportunities that Intesa Sanpaolo, as Official Global Banking Partner of Expo 2015, can offer participating enterprises for the entire duration of the event. In September, Banco di Napoli and Intesa Sanpaolo joined the agreement between the Italian Banking Association and the Ministry of Economic Development for the management of the subsidies under the "Bando Efficienza Energetica" (Energy Efficiency Programme), agreeing to open the required term deposits or dedicated accounts. The measure is aimed at enterprises from the Convergence Regions (Calabria, Campania, Puglia and Sicily) and finances investment programmes intended to reduce and rationalise the use of primary energy consumed in work cycles and/or the provision of services performed within an existing production facility.
Expo Milano 2015	As part of the initiatives relating to Expo Milano 2015, where Intesa Sanpaolo will participate as Official Global Banking Partner, in mid-September ticket sales were opened for Expo Milano 2015 through branch, Internet banking and ATM channels, and the new "Created in Italy" e-commerce portal was launched. Through this portal, the Group will support Italian SMEs who wish to grow in the digital world and international markets.

Intesa Sanpaolo Private Banking

In the third quarter of 2014, **Intesa Sanpaolo Private Banking's** commercial operations developed according to the following consolidated guidelines. Implementation of the for-pay advisory services continued successfully, for both top-level customers (Private Advisory) as well as mid-level customers (Advisory). Over 2,200 new customers activated the service, bringing the assets under paid advisory contracts up to 5 billion euro at the end of September. Measures aimed at developing asset management also continued, yielding excellent results in terms of net inflows to funds and portfolio management schemes (2.4 billion euro in the first nine months of the year). The product range was also expanded through enhancement of the partnership with Eurizon and the launch of the marketing of a new line of portfolio management services dedicated to private customers ("GP Obiettivo Private"). There was also a significant increase in the placement of policies (net inflows of approximately 1.5 billion euro since the beginning of the year), as well as of certificates and bonds (a total of 1.7 billion euro since the beginning of the year). Assets managed showed consolidated growth during the third quarter, rising to 86 billion euro (+6 billion euro since the beginning of the year), as a result of the effective development by the network, the positive market effect and the "synergy" agreements in place with the Banca dei Territori Division. The commercial results and increase in assets, especially assets under management and advisory, allowed positive results to be achieved in terms of revenues, net income and ROE, marking the continuation of the growth trend witnessed in recent years. According to GFK Eurisko studies, Intesa Sanpaolo Private Banking is number-one amongst market operators in Italy by appeal. In addition, according to the Doxa surveys, customers assign it a high average satisfaction rating (8.5 on a scale of 0 to 10), representing an improvement on the previous year.
Intesa Sanpaolo Private Banking earned net income of 151 million euro in the first nine months of 2014, up 12.6% compared to the same period of 2013, mainly as a result of the good performance of revenues (+16.5%), driven by interest income (+12.8%) and net fee and commission income (+18.2%).

Product companies

The third quarter saw the conclusion of the project to integrate factoring and agribusiness consulting activities, consisting of the following corporate transactions:
- the merger by incorporation of Mediofactoring into Intesa Sanpaolo;
- the contribution to Mediocredito Italiano by Intesa Sanpaolo of its factoring business unit, with a capital increase by the beneficiary of 250 million euro, in addition to a share premium of 450 million euro;
- the merger by incorporation of Agriventure into Mediocredito Italiano.

At the end of the process, the shareholding structure was simplified, leaving just Mediocredito Italiano fully owned by the Parent Company, Intesa Sanpaolo. The transaction was finalised in June 2014 upon the signature of the contribution deeds, which, for Mediocredito Italiano, entered into effect for income statement and accounting purposes from 1 July 2014.

In the first nine months of 2014, **Mediocredito Italiano** disbursed loans totalling 1,747 million euro, down 10.9% compared to the same period of the previous year. With 1,431 million euro of loans disbursed, Banca dei Territori accounts for 82% of total volumes, followed by the Corporate and Investment Banking Division, which represents 17% of volumes (295 million euro). Loans with dedicated funding (EIB, Abaco and Cassa Depositi e Prestiti) of 964 million euro, increased their weight to 50% from 39% in the same period of the previous year. Operations of the Specialised Desks, supported by constantly evolving analysis tools, contributed 19% (331 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 (22% and 17%, respectively, of the total disbursed by the Specialised Desks).

Turning to the commercial performance of the leasing business, Mediocredito Italiano entered into 4,276 new contracts, for a total of 1,253 million euro (+3.2%), during the first nine months of the year. The contracts entered into by the Banca dei Territori Division amounted to 975 million euro, accounting for 78% of total volumes, whereas those entered into by the Corporate and Investment Banking Division came to 244 million euro, or 19% of total volumes. In the first nine months of 2014, the best-selling leasing product was the real-estate product, the percent weight of which rose from 39% in the first nine months of 2013 to 54%. The weight of the instrumental leasing product was substantially stable (33% compared to 35% in the first nine months of 2013), whereas the car leasing product remained unchanged (8%). There was a sharp decline in the weight of Energy leases due to the decrease in government incentives for the sector (6% compared to 18% on 30 September 2013).
Turning to the commercial performance of the factoring business, in the first nine months of 2014 Mediocredito reported a turnover of 39 billion euro, a 2.6% decrease on the same period of 2013, retaining its position as the number-one domestic factoring provider by turnover, with a market share of 30.7%. Compared to 30 September 2013, outstanding receivables, equal to 13.6 billion euro, posted an increase (+5.2%) and period-end loans amounted to 11.3 billion euro, up 5%. Average loan volumes came to 9.4 billion euro, down 0.5 billion euro compared to the first nine months of 2013 (-5.2%).

The following are comments on the management financial performance results of the SME Finance Hub, which include the contribution in the first nine months of 2014 and - for a consistent comparison - of 2013, of the leasing and factoring lines and of Agriventure (consolidated line-by-line).
Operating margin amounted to 565 million euro, up 1.5% compared to 557 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 nine months of 2013. This trend may be attributed to the essential stable performance of revenues (+0.2%) and the decrease in operating costs (-5.8%). After posting high net adjustments to loans, the Hub reported a net income of 18 million euro, compared to net loss of 6 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 nine months of 2014, the new loans disbursed totalled 2,434 million euro, down 2.9% compared to the same period of the previous year (special-purpose loans -0.7%; car loans +52%; personal loans +0.8%; assignment of one-fifth of salary -26.7%). In terms of commercial initiatives, in the extra-captive channel the direct marketing campaign for assignment of one-fifth of salary continued with the aim of guiding customers with personal and special-purpose loans towards this product, and the initiative was also extended to individual customers, in addition to the pensioners and public employees who had previously been contacted. 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 related to the initiative. The prize is doubled for those who invite a friend to join the promotion. The quarter saw the end of the campaigns for special-purpose car and home improvement loans eligible for current tax relief. In replacement of periodic campaigns, two new consumer credit offerings were prepared. These are stable and feature monthly updates on the conditions applied to customers and dealers in the furnishings and energy savings sectors (products intended for energy savings eligible for "tax relief"). In Web-marketing activities, the Google keywords campaign focused on the assignment of one-fifth of salary, with the aim of contacting interested customers by phone. Special prize drawings continued for customers who updated their personal details. As regards the captive channel, in the third quarter of the year commercial contact initiatives continued 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. Finally, in cooperation with the Banca dei Territori Division, initiatives continued for specific groups of target customers, such as seniors, pensioners and customers with rejected personal loans, so as to test performances and optimise contact and offering processes.
Intesa Sanpaolo Personal Finance's income before tax from continuing operations amounted to 64 million euro compared to 54 million euro in the first nine months of 2013 (+19.1%). This performance was due to a decline in revenues (-5.5%), largely as a result of lower fee and commission income on insurance brokerage by the extra-captive network, as well as to the lesser contribution of fee and commission income charged to customers during the account closure process, increased operating costs (+1.4%) and lower net adjustments to loans (-23.9%). The company ended the first nine months with a net income of 41 million euro, compared to the net income of 24 million euro in the same period 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 14 million euro cards managed by Setefi as at 30 September 2014 are cards issued directly by the Parent Company and the Group banks (+8.4% compared to end of September 2013). The number of POS at the end of September 2014 amounted to approximately 322,500. In the first nine months 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 598 million euro, while the amount transacted stood at approximately 44 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 high value added services with a strong technological component. The main initiatives during the third quarter included the continuation of the measures aimed at disseminating the Mobile POS product, which resulted in the installation of approximately 26,000 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, commercial offerings were developed that consider the services offered by Setefi together with those of the Parent Company and other Group companies. Within the framework of the implementation of integrated services for growth on the e-commerce market, mention should be made of the agreement 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. 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 Intesa Sanpaolo. Setefi has managed an additional 83 million transactions (authorisation) since 1 July 2014. The bank also obtained PCI DSS certification (Payment Card Industry Data Security Standard, a standard aimed at protecting cardholders' data) for acquiring processes. It also complied with the provisions of Decree No. 51/2014, "Regulation concerning the fees applied to payment card transactions," which establishes new restrictions on the management of the conditions applicable to merchants for the acceptance of card payments. The third quarter saw the continuation of work on implementation of the third Disaster Recovery site (in accordance with the rules adopted at Group level, the indications of the Parent Company's Audit Department and Bank of Italy regulations). Finally, the infrastructure required to support Intesa Sanpaolo's Multichannel Project was implemented. The Project calls for the release of various products, including credit, debit and prepaid cards, with new features activated on various bank channels and new processes.
In the first nine months of 2014, Setefi recorded an increase in operating margin, which rose to 175 million euro (+2.1% compared to the same period of 2013) and in net income, amounting to 117 million euro (+2.2%), as a result of the increase in operations in terms of handling of credit cards issued, volumes transacted and number of POS installed.

Banca Prossima

In the third quarter of 2014, **Banca Prossima**, which operates in the non-profit sector with 65 local branches and 165 specialists distributed across the country, continued to acquire new customers for the Group. As at September 2014, the bank had over 30,000 customers (more than 71% of which new to the Group). Financial assets amounted to 5.1 billion euro, of which 3.6 billion euro in indirect customer deposits and 1.5 billion euro in direct customer deposits. At the same date, lending operations had achieved an approved amount of 2 billion euro (of which 1.3 billion euro had been used). In the first nine months of 2014 the company reported revenues of 38 million euro (+13.5% compared to the same period of 2013), achieving an operating margin of 13 million euro and net income of 2.7 million euro.
During the third quarter of 2014, 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. The disbursement of loans linked to the placement of the second Intesa Sanpaolo "Serie Speciale Banca Prossima" bond also began. 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. The second "Serie Speciale Banca Prossima" bond was placed by the network banks of the Banca dei Territori Division, Banca Prossima and Intesa Sanpaolo Private Banking under conditions similar to those of the first issue. The lower yield received by investors is passed on in full to the non-profit organisations funded by Banca Prossima with the "Serie Speciale Banca Prossima" medium to long-term loans.

In early November, an agreement was signed for the contribution to Banca Prossima of the non-profit business unit of Intesa Sanpaolo and Banco di Napoli. Under this agreement, approximately 23,000 customers and 150 individuals currently on secondment by individual assignment of their contracts will be transferred to the specialist hub with legal effect from 24 November.

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 also 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 (the sale of which is currently being finalised); 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 nine months of 2014, Intesa Sanpaolo Vita reported income from insurance business of 656 million euro, up 12.9% compared to the same period of 2013, due to the improvement in net investment result. At the end of September 2014 the portfolio of life policies came to 83,111 million euro, up 13.1% from the beginning of the year. In the first nine months of 2014, gross life premiums underwritten for both insurance products and policies with investment content amounted to 15,494 million euro, compared to 10,052 million euro in the same period of the previous year. New life business amounted to 15,344 million euro (9,869 million euro in the first nine months of 2013).

As at 30 September 2014 the assets managed by **Intesa Sanpaolo Previdenza** came to 2,092 million euro, of which 1,780 million euro consisted of open-ended pension funds established by the company (+9% compared to the end of December 2013) and 312 million euro of closed-end fund management mandates (up 5% from the beginning of the year). Net inflows for the first nine months were positive for both types of funds (amounting to a total of 79 million euro). At the end of September 2014, Intesa Sanpaolo Previdenza had about 337,000 pension positions under management, of which 146,000 attributable to administration mandates granted by third parties. In the first nine months of 2014 the placement of open-ended pension funds remained high, 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.

Corporate and Investment Banking

(millions of euro)

Income statement	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	1,390	1,397	-7	-0.5
Dividends and profits (losses) on investments carried at equity	21	4	17	
Net fee and commission income	588	649	-61	-9.4
Profits (Losses) on trading	473	570	-97	-17.0
Income from insurance business	-	-	-	-
Other operating income (expenses)	-2	-1	1	
Operating income	**2,470**	**2,619**	**-149**	**-5.7**
Personnel expenses	-248	-226	22	9.7
Other administrative expenses	-382	-367	15	4.1
Adjustments to property, equipment and intangible assets	-1	-2	-1	-50.0
Operating costs	**-631**	**-595**	**36**	**6.1**
Operating margin	**1,839**	**2,024**	**-185**	**-9.1**
Net provisions for risks and charges	-3	-5	-2	-40.0
Net adjustments to loans	-404	-273	131	48.0
Net impairment losses on other assets	-36	-53	-17	-32.1
Profits (Losses) on investments held to maturity and on other investments	112	14	98	
Income (Loss) before tax from continuing operations	**1,508**	**1,707**	**-199**	**-11.7**
Taxes on income from continuing operations	-455	-556	-101	-18.2
Charges (net of tax) for integration and exit incentives	-	-2	-2	
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)	**1,053**	**1,149**	**-96**	**-8.4**

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Loans to customers	90,204	90,907	-703	-0.8
Direct deposits from banking business [a]	106,225	113,956	-7,731	-6.8
Risk-weighted assets [b]	95,073			
Absorbed capital [b]	7,606			

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 30 September 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 nine months of 2014, the Division recorded operating income of 2,470 million euro (representing 19% of the Group's consolidated total), down 5.7% compared to the same period of 2013.
In detail, net interest income, amounting to 1,390 million euro, was essentially stable (-0.5%): the lesser contribution due to the decrease in average volumes of loans to customers was offset by the positive performance of the net investment result recorded in Banca IMI's capital markets segment. Net fee and commission income of 588 million euro was down 9.4%, chiefly due to the downtrend in investment banking, most markedly structured finance and capital markets and, to a lesser extent, fee and commission income associated with commercial banking and transaction banking activities. Profits on trading of 473 million euro declined (-17%) due to the absence of the merchant banking transactions undertaken in the first nine months of the previous year and the lesser contribution of proprietary trading activity, only partly offset by the positive performance of capital markets activity. Operating costs amounted to 631 million euro, up 6.1% compared to the same period of 2013, due to higher administrative and personnel expenses. As a result of the trend in revenues and costs described above, the operating margin, amounting to 1,839 million euro, recorded a 9.1% decrease. Income before tax from continuing operations of 1,508 million euro declined by 11.7% due to increased adjustments to loans, despite lesser impairment on investments and profits on investments as a result of the sale of the Pirelli & C. shares and the stake in Camfin. The cost of credit of Corporate and Investment Banking, calculated as the ratio of annualised net adjustments to loans and stock of loans to customers, amounted to 0.6% during the first nine months of 2014.

In greater detail, adjustments during the year by the Network Banks with respect to Corporate amounted to 279 million euro (compared to loans of 65,404 million euro), broken down as follows: Intesa Sanpaolo 231 million euro, Banco di Napoli 13 million euro, Carisbo 14 million euro, CR Veneto 8 million euro, CR Venezia 12 million euro and CR Romagna 1 million euro. Finally, net income came to 1,053 million euro, down 8.4% on the same period of 2013.

In quarterly terms, the third quarter of 2014 showed a decrease in operating income (-26.6%) compared to the second quarter, primarily attributable to the negative performance of profits on trading and the downtrend in net fee and commission income. The revenue performance, along with higher operating costs (+6.7%), resulted in a decrease in operating margin of 36.1%. Net income, which benefited from lower net adjustments to loans, declined by 25.8%.

The Division's intermediated volumes decreased compared to the end of December 2013 (-4.1%). In detail, direct deposits from banking business, amounting to 106,225 million euro, decreased by 6.8%, mainly due to the decrease in securities transactions by Banca IMI and, to a lesser extent, the decline in Italian corporate customers' deposits. Loans to customers, amounting to 90,204 million euro, decreased slightly (-0.8%), resulting from the lesser use of cash by Italian and international corporate customers as well as by those of the Irish subsidiary, partly offset by the development of reverse repurchase agreement transactions with institutional operators and financial intermediaries by Banca IMI, as well as increased business with customers in the Trade Finance and Correspondent Banking segment.

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 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	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 47 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

In the third quarter of 2014, the Corporate and Public Finance Department, formed through the integration of the Corporate Italia Department and Public Finance and Infrastructure Department with the aim of creating potential synergies between the private sector and public counterparties, continued its activity in support of Italian enterprises. In detail, during the period the Department identified a pool of companies to which financial support can be provided, including through the use of the T-LTRO programme. Leveraging its international network, the Department also ensured its support for Italian companies by assisting them during the internationalisation process. Finally, support continued to be provided for companies' current commercial banking activity through the development of transaction banking systems, the promotion of cross-selling of specific products and dedicated marketing campaigns. At the same time, in collaboration with Banca IMI, the Department assisted customers with extraordinary investment-banking and structured finance transactions.

In the third quarter, the Global Industries Department continued to act as key partner to its customers, successfully building relationships with major Italian and international multinational groups. Worthy of note was the Department's participation in loan pools for Finmeccanica, Piaggio, Beni Stabili, 2i Rete Gas, SNAM, Barilla, and Cam Finanziaria. The Department acted as mandated arranger for Safilo and participated in the bridge loan to finance the acquisition of IGT by Gtech, as well as in the consortium formed by Enagas and Odebrecht in support of the project aiming to build a new gas pipeline in Peru. Significant results were also achieved through collaboration with Banca IMI in the bond segment: bonds were issued by 2i Rete Gas, Acea, and Iren during the quarter. These were in addition to the private placements of bonds by Coesia and Saras.

The period saw the continuation of innovation initiatives and projects with a transversal impact on the Global Industries Department and the Corporate and Public Finance Department, such as the Intesa Sanpaolo Start-Up Initiative, the Technology Opportunity Proposal (T.O.P.) and collaboration with Singularity University. Through the Start-Up Initiative, the Group supports the development of Italian and international technology companies and coordinates the energies and efforts of the parties involved in order 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, 73 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 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. Lastly, 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 14 wholesale branches, 17 representative offices and two subsidiary banks.
In the third 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 Istanbul branch in June 2014, activity aimed at incorporating a subsidiary with a B*anco Multiplo* license (a retail and investment bank also authorised to operate on the foreign-exchange market) in Sao Paolo, Brazil, also continued, 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 operational 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. The processes aimed at opening representation offices in Washington, USA, and Jakarta, Indonesia, have recently been started.
Structured finance activities targeting international customers were also intensified in the period. In further detail, mention should be made of efforts in the large-scale retail sector in order to meet the need for increased efficiency of working capital and the supply value chain, as well as efforts in the pharmaceutical sector in support of industry consolidation and reorganisation transactions at a global level. In addition to its intermediated finance solutions, the Group also offered standard and hybrid bond instruments, made available by Banca IMI, which acted as bookrunner and co-manager. In the petrochemical industry, the International Department and Banca IMI are also taking up significant project finance positions. In the M&A market, Banca IMI also participated in recent cross-border acquisitions of listed groups as advisor and tender agent.
The Department is responsible for:

- **Société Européenne de Banque**, which recorded net income of 114 million euro in the first nine months of 2014, down (-11.9%) on the same period of 2013, primarily attributable to the decrease in revenues (-9.8%), due to the negative performance of net fee and commission income, accompanied by declining operating costs (-2.1%);
- **Intesa Sanpaolo Bank Ireland**, which reported net income of 62 million euro, essentially in line with the first nine months of the previous year (-0.6%), penalised by lower recoveries on loans, which more than offset the rise in operating income (+6.9%) and cost savings (-18.6%).

Global Banking & Transaction Department

In the third quarter of 2014, the flow of transactions undertaken on financial markets by the Global Banking & Transactions Department was especially intense. In further detail, the Foreign & Italian Banks segment continued to play an important role in support of the Italian and international financial system, while maintaining strong profitability and a low risk profile in the transactions undertaken on capital markets for the benefit of Italian and international financial institutions, thanks to its positioning on quality counterparties, low-risk assets and collateralised transactions. 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, the third quarter was characterised by a general decline in activities, with volumes below the average. Primary equity and bond market activity also slowed down due to market uncertainty, yet the Group maintained its position of leadership by announcing the Cattolica Assicurazioni capital increase. On the other hand, foreign exchange flows improved, driven by the heightened volatility of the dollar. International investors continued to show interest in ABSs and collateralised assets on the Italian market, where the Group is well positioned as both arranger and intermediary of such

risks. In the real estate segment, outstanding positions continued to be consolidated, contracts were signed for the disposal of core assets to leading operators in order to facilitate the customary fund operations process, and new transactions in the residential and commercial sectors also began to be structured. As regards transactional business, joint meetings were held with Banca IMI in order to seize the opportunities offered by Target 2 Securities.
The Trade Finance and Correspondent Banking segment showed essentially stable trade flows in the various areas. As regards commercial operations, particular attention continued to be paid to Sub-Saharan Africa. During the period, interesting investment opportunities were seized in Ethiopia, where commercial agreements are in the process of being reached. In Nigeria, Ghana, Ethiopia, Kenya, Mozambique and Angola, following previously undertaken initiatives, an attempt was made to increase the number of transactions and establish new correspondence business. In Brazil, transactions declined due to the decrease in the spreads paid by the country's major banks, but a marketing plan is ongoing with the aim of increasing risk underwriting in support of the exports of goods and services by important US corporates. In the Structured Export Finance segment, two export finance transactions were finalised, one for Angola (aircraft bridge financing) and the other for Panama (a project aimed at expanding the canal, in which Impregilo is participating). A financing contract was also concluded in favour of the Mexican airline Interjet, with the purpose of purchasing eleven aircraft manufactured by the firm Superjet International (Finmeccanica Group), and a contract was signed to organise two additional transactions: the first, in the aircraft financing sector, is for Zambia (the borrower is Zambia's Ministry of Finance), in the amount of approximately 90 million euro, split evenly with another Italian institution; the second is for Belarus (the borrower is Belarusbank) for the construction by the Italian firm Marangoni of a plant for the manufacture of heavy vehicle tyres.
Against the backdrop of the current suspension of non-ECA-backed structured export transactions of the pre-export financing activity with Russian counterparties, the structuring phase was successfully completed for the first financing transaction regarding China-on-China trade receivables covered by receivables insurance, thanks to the presence of the Group's operating structures in the world's number-one economy.
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. Securities Services and Post-Trading services initiatives showed an increase in transaction volumes and assets in custody, extending to both Italian and international securities, compared to the same period of the previous year. Commercial initiatives were concentrated in the acquisition of two new customers – an Italian investment firm and an international broker-dealer – and resulted in the activation of the onboarding process for a new international customer, which will migrate its business to Intesa Sanpaolo by the end of the year. New business origination takes place within the context of the cross-selling activity with Banca IMI. Commercial operations involving Financial Institution and Public Finance customers resumed after the conclusion of migration to SEPA in August 2014.
With respect to new products in the Cash Management area, the following commercial initiatives are still in progress: electronic invoicing, CBill, Inbiz Forex and My Bank. Project activities in support of business functions also continued, including the activation of the SEDA remuneration service and expansion of the Inbiz portal to include features of the Setweb portal for Financial Institution and Securities Services customers. Liquidity Dashboard, the pilot phase of the liquidity portal, continued. Its goal is to create a single dashboard providing managers and customers with real-time display of the customer's cash movements, and one of its main features is the ability to create treasury forecasts. Work continues on the "Bolero" platform, for the implementation of a new bank-customer dialogue channel for integrated management of trade transactions; management of approval rules on the CBI passive channel for authorisations by digital signature; integration of the Billing service product catalogue; and the test phases for Financial Institution customers regarding the new tool for determining the prices of PriceLab cash management products.

Merchant Banking Department

As at 30 September 2014, the portfolio held by the Merchant Banking Department, directly and through subsidiaries, amounted to 1.3 billion euro, of which 0.8 billion euro was invested in companies and 0.5 billion euro in private equity funds.
In the third quarter, there were no new investment transactions or disposal transactions, with the exception of the launch of the implementation of the joint venture agreements with Rosneft Oil Company.
Under these agreements, which also call for the restructuring and corporate simplification of Camfin, in July a portion of the stake held in Lauro 61 was sold, resulting in a net capital gain for Intesa Sanpaolo of 49 million euro.

Structured Finance

During the third quarter of 2014, Banca IMI continued to maintain a selective approach in pursuing new business opportunities, focusing its activities on its main customers and relevant industrial sectors, while opening up to international markets.
In the Project & Industry Specialized Lending segment, a revolving line was underwritten in the telecommunications sector for a leading Italian telephone service provider, while in the Energy segment two important financing transactions were finalised, one in the regulated activities sector and the other in the renewable energy sector, with disbursement scheduled by year-end. In the Public & Social Infrastructure segment, promotion and development in the motorway sector continued to play an important role. In the healthcare sector, transactions of 80 million euro are in the process of being structured, in addition to the already approved financing for the construction of the new building and auxiliary works at Ospedale SS. Giovanni e Paolo in Venice for a total of 29 million euro.
In the Leveraged & Acquisition Finance segment, a financing transaction was finalised for Asset Management Holding with the aim of refinancing the company's debt in conjunction with its stock market listing. In addition, origination activity continued with the relationship units of the Corporate and Investment Banking Division and Banca dei Territori Division, scheduled to be finalised by the end of 2014. In the real estate segment, origination activity was aimed at structuring credit facilities according to an asset-light, geographically diversified approach for the Bank in support of investments in the sector of reference by offering a full range of dedicated financial products and providing specialised advice for the real estate segment, both in Italy and internationally. In particular, attention should be drawn to the structuring and disbursement of financial facilities for refinancing and specific cash requirements relating to a package of income-generating properties owned by Beni Stabili SIIQ; the line of credit intended to refinance the Porta Nuova Garibaldi Fund, managed by Hines Italia SGR; the credit facilities for TEA in support of the construction

of a shopping centre located in Lainate/Arese (MI); financing in support of a residential project in Brooklyn (New York); and financing for the real-estate company Patrimonio Real Estate (Zuncheddu Group).
As regards Corporate Loan Structuring activity, financing was approved for Kuwait Petroleum Italia for the acquisition of Shell's Italian network, as well as for Massimo Zanetti Beverage Group for the acquisition of the Boncafe group operating in South East Asia.
In the Loan Agency segment, Banca IMI confirmed its ability to compete against leading international players on the domestic market carrying out the duties of an impartial player, protecting the numerous parties to deals, in compliance with Italian, Bank of Italy and ECB regulations in domestic and cross-border transactions. The main transactions in which the Syndication desk acted in Italy included Italcementi Finance, Prysmian, Finmeccanica, Piaggio, SNAM, Kuwait Petroleum, Esprinet, Barilla, Camfin, Megadyne, and Intercos. At the international level, mention should be made of Starwood Hotel & Resorts Worldwide, Techgen, Transitgas, Gasoducto Sur Peruano, Imperial Tobacco, KGHM, Heineken, Kering, Groupe Auchan, and Numericable.
In the International Structured Finance sector, the net decline in the cost of funding at the international level fostered access to international markets in which the Group's structured finance was less competitive, markedly in the USA and Australia. In the Asia Pacific region, at the Hong Kong Hub, the following transactions in particular were supported: Infrastructure PPP Financing (Australia), as part of a selected consortium that includes Bouygues and Acciona; the refinancing of a multi-fuel power station that provides power to an aluminium refining plant (GE Group) and the restructuring of PT Bukit Mukmur Mandiri Utama, an Indonesian company operating in the mining services sector (coal). Negotiations are also in progress for financing for a leading mining company (Rio Tinto) for the development on a global scale of a mining project in Mongolia.
In the Americas, the most significant transactions related to the Latin American area, where the bank acted as mandated lead arranger, along with four other international banks, for a bridge loan with a term of 18 months for a gas pipeline in Peru developed by Odebrecht and Enagas. The disbursement will be followed by medium-/long-term financing for the energy infrastructure.
Finally, a bridge loan was disbursed for a solar energy plant in Uruguay in favour of Fotowatio Renewable Ventures, a company specialised in the development of renewable power plants on a global scale. The long-term financial structure that is to follow will involve the participation of the Inter-American Development Bank.

Proprietary Trading

In the first nine months 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 US ABS/CDO positions, due to the gains realised on the partial disposal of the trading portfolio and the reassessment of the existing portfolio. At 30 September 2014, the risk exposure on structured credit products, funded and unfunded ABSs/CDOs came to 2.3 billion euro, up slightly from 2 billion at 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, totalling 26 million euro, was stable compared to the beginning of the year.
The Hedge Fund portfolio contributed positively to trading revenues in the first nine months of 2014. The strategy primarily aimed at benefiting from the occurrence of specific corporate events largely independent of the general market trend. At 30 September 2014, the Hedge Fund portfolio came to 772 million euro, up from 744 million euro at the end of 2013. An analysis of changes in the portfolio shows an increase in the value in euro of positions expressed in US dollars due to the sharp appreciation of the dollar.

Investment Banking, Capital Market and primary market

In the first nine months of 2014, Banca IMI acted as bookrunner for 57 transactions, 36 of which related to Italian issuers, ranking it in the top position in Italy by value and in second place by number of transactions, with a market share by value of 17.7%. The Bank also led Italy in the Corporate and High Yield segments, coming in first place both by value and number of transactions (19 and 9, respectively).
In the financial institutions segment, it acted as bookrunner for the following public transactions by Intesa Sanpaolo: two subordinated bonds in dollars and one subordinated bond issued by Poste Vita. For its corporate customers, the bank acted as bookrunner for important issuers, originating medium- and long-term bonds for Deutsche Bahn, 2i Rete Gas, Acea, and Iren.
In the high-yield segment, Banca IMI acted as bookrunner in two issues for Wind, the eurobonds issued by CMC Ravenna and Maccaferri, and the private placements by Saras, Twin Set-Simona Barbieri, and Coesia.
In the equity capital market segment, the third quarter of the year confirmed the continuing positive performance of the Italian market, which outperformed the European index due to a renewed interest by international investors, as well as the continuing positive performance of the U.S. market and the substantial stability of Japan.
Primary market activities continued in the EMEA region, broken down into ABB (Accelerated Book-Building), follow-ons, IPOs, capital increases and equity-linked. As regards capital increases by Italian companies, Banca IMI, acting as joint bookrunner, oversaw the capital increase of Beni Stabili and Immobiliare Grande Distribuzione, and also undertook the pre-underwriting commitment in relation to the capital increase of Trevi Finanziaria and Cattolica Assicurazioni.
In the M&A market, noteworthy transactions in Italy included: in the energy & utility sector, advisory activity for Snam on the acquisition of 84.45% of Trans Austria Gasleitung (stretch of the gas pipelines on the borders between Slovakia and Austria and Austria and Italy), as well as for F2i on the acquisition of 70% of a portfolio of renewable energy power plants from Edison; in the industrial sector, advisory activity for the Came group on the acquisition of 100% of Parkare.
For its Financial Institutions customers, the bank acted as financial advisor of Fondazione Cassa di Risparmio di Teramo as part of the sale of the beneficiary Banca Tercas to Banca Popolare di Bari.

International Subsidiary Banks

(millions of euro)

Income statement	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	1,122	1,145	-23	-2.0
Dividends and profits (losses) on investments carried at equity	39	26	13	50.0
Net fee and commission income	399	392	7	1.8
Profits (Losses) on trading	111	77	34	44.2
Income from insurance business	-	-	-	-
Other operating income (expenses)	-78	-58	20	34.5
Operating income	**1,593**	**1,582**	**11**	**0.7**
Personnel expenses	-406	-415	-9	-2.2
Other administrative expenses	-303	-325	-22	-6.8
Adjustments to property, equipment and intangible assets	-80	-83	-3	-3.6
Operating costs	**-789**	**-823**	**-34**	**-4.1**
Operating margin	**804**	**759**	**45**	**5.9**
Net provisions for risks and charges	-68	-3	65	
Net adjustments to loans	-362	-451	-89	-19.7
Net impairment losses on other assets	-1	-60	-59	-98.3
Profits (Losses) on investments held to maturity and on other investments	2	-10	12	
Income (Loss) before tax from continuing operations	**375**	**235**	**140**	**59.6**
Taxes on income from continuing operations	-131	-120	11	9.2
Charges (net of tax) for integration and exit incentives	-2	-	2	-
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)	**242**	**115**	**127**	

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Loans to customers	26,482	27,015	-533	-2.0
Direct deposits from banking business	30,934	30,182	752	2.5
Risk-weighted assets [(a)]	27,955			
Absorbed capital [(a)]	2,236			

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 30 September 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.

It bears noting that the income statement figures presented above and commented upon below do not include the results of the Ukrainian Pravex Bank, for which a sales agreement was signed at the beginning of the year.

In the first nine months of 2014, the Division's operating income came to 1,593 million euro, up slightly compared to the same period of the previous year (+0.7%). A detailed analysis shows that net interest income came to 1,122 million euro, a decrease compared to 1,145 million euro in the first nine months of 2013 (-2%), mainly due to the trends reported by Banca Intesa – Russia (-16 million euro), CIB Bank (-7 million euro) and Banca Intesa Beograd (-5 million euro), only partly absorbed by the increase recorded by VUB Banka (+12 million euro). Net fee and commission income, amounting to 399 million euro, grew slightly (+1.8%). Profits on trading, amounting to 111 million euro, increased by 44.2% due to contributions from CIB Bank (+19 million euro), Privredna Banka Zagreb (+8 million euro) and Bank of Alexandria (+7 million euro), only partly offset by those of Intesa Sanpaolo Bank Romania (-3 million euro) and Intesa Sanpaolo Bank Albania (-1 million euro).
Operating costs, amounting to 789 million euro, were down compared to the first nine months of 2013 (-4.1%). As a result of the above revenue and cost trends, the operating margin came to 804 million euro, up 5.9%. Income before tax from continuing

operations, amounting to 375 million euro, was up from 235 million euro in the same period of the previous year (+59.6%), benefiting from the lower net adjustments to loans and net impairment losses on other assets, which more than offset the significant increase in provisions for risks and charges recognised during the period by the CIB Bank Group in accordance with provisions governing loans in foreign currencies approved by the Hungarian Parliament. The Division ended the first nine months of 2014 with a net income of 242 million euro, compared to 115 million euro in the same period of the previous year.
On a quarterly basis, the third quarter yielded an operating margin up 5.2% on the second quarter, due to higher operating income (+2.4%), accompanied by essentially stable operating costs (-0.4%). Income before tax from continuing operations was up on the previous quarter, when higher provisions for risks and charges were recognised in connection with the CIB Bank Group in accordance with provisions governing loans in foreign currencies approved by the Hungarian Parliament. Net income came to 113 million euro for the quarter.
The Division's intermediated volumes increased slightly compared to the end of December 2013 (+0.4%) due to the growth in direct deposits from banking business (+2.5%), primarily in amounts due to customers. Conversely, loans to customers recorded a decrease (-2%).

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-Herzegovina, 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	1,389 branches in 12 countries (including branches of the Ukrainian subsidiary Pravex Bank, reclassified under discontinued operations in accordance with IFRS 5)

South-Eastern Europe

In the first nine months of 2014, the operating income of the **Privredna Banka Zagreb Group** amounted to 322 million euro (+2.8% compared to the same period of the previous year), due to the increase in net fee and commission income and profits on trading. Operating costs, amounting to 144 million euro, were essentially stable (+0.6%) compared to the same period of 2013. The operating margin came to 178 million euro, up 4.6% on the first nine months of 2013. Income before tax from continuing operations, amounting to 117 million euro, showed an increase of 8.6%. Lastly, net income came to 93 million euro (+10.2%).

Banca Intesa Beograd, including Intesa Leasing Beograd, posted an operating margin of 107 million euro, down 5.6% compared to the first nine months of 2013. Operating income decreased by 3.6%, mainly due to the performance of net interest income. Operating costs largely remained stable (-0.4%). Income before tax from continuing operations amounted to 59 million euro, compared to 71 million euro in the same period of the previous year (-16.8%), primarily as a result of increased adjustments to loans, while net income stood at 50 million euro (-15.9%).

Intesa Sanpaolo Banka Bosna i Hercegovina ended the first nine months of 2014 with an operating margin of 13 million euro, up 15.6% on the same period of 2013. This performance is attributable to the increase in net interest income and net fee and commission income, on the one hand, and the reduction of operating costs, on the other. Income before tax from continuing operations, amounting to 8.5 million euro, increased by 28.7%, while net income amounted to 7.6 million euro (+29.1%).

Intesa Sanpaolo Bank Albania reported an operating margin of 19 million euro, down on the first nine months of 2013 (-16.7%), due to a decline in revenues, while operating costs remained essentially stable. Income before tax from continuing operations amounted to 17 million euro, up 57.3% compared to the first nine months of the previous year, benefiting from the reduction in net adjustments to loans. Net income performed similarly (+49.8%).

The companies operating in Romania (**Intesa Sanpaolo Bank Romania** and ISP Leasing Romania) recorded a total operating margin of 11 million euro, down 20.1% on the same period of the previous year. This performance was due to a decrease in operating income (-10.9%), primarily ascribable to profits on trading, only partially offset by a decline in operating costs (-5.1%). The companies reported a net income of 2.6 million euro, compared to a net loss of 3.1 million euro in the first nine months of 2013, essentially due to lower net adjustments to loans (-49.7%).

Central-Eastern Europe

Banka Koper, including Finor Leasing, reported operating income of 67 million euro, up 11.7% on the first nine months of 2013 due to the favourable performance of all the main income components. Operating costs largely remained stable. Net income amounted to 5.9 million euro, down compared to the same period of the previous year (-33.2%), primarily due to higher net adjustments to loans and net impairment losses on other assets.

The **VUB Banka** Group achieved an operating margin of 208 million euro, up compared to the same period of 2013, due to an increase in operating income (+2.5%), mainly attributable to net interest income, which more than offset the increase in operating costs (+3.5%). Income before tax from continuing operations, amounting to 146 million euro, increased 4.4% compared to the first nine months of the previous year, benefiting from the reduction in provisions for risks and charges, while net income amounted to 115 million euro (+4.9%).

The increasing pressure on the Hungarian banking system, as a result of the serious economic difficulties experienced by the country, as well as of the recent provisions governing loans in foreign currencies approved by the Hungarian Parliament, severely affected the performance of this subsidiary bank. The **CIB Bank** Group reported operating income of 212 million euro, essentially stable compared to the first nine months of 2013. Operating costs decreased 16.1%, with savings spread through all items. After posting high net adjustments to loans, albeit down compared to the first nine months of 2013, as well as the aforementioned provisions for risks and charges, the company achieved a net loss of 125 million euro, compared to a net loss of 231 million euro recognised in the same period of the previous year.

Commonwealth of Independent States & South Mediterranean

Banca Intesa - Russia reported net income of 2.1 million euro, compared to 6.5 million euro in the same period of 2013. Operating income decreased (-17.5%), mainly due to the decline in net interest income (-19.4%). Operating costs were down 13.5%. Net adjustments to loans amounted to 17 million euro, down compared to the first nine months of the previous year (-15.3%).

Bank of Alexandria reported an operating margin of 111 million euro, up 6% compared to the same period of 2013. Operating income, amounting to 217 million euro, increased 2.8%, due to the greater contribution of net fee and commission income and profits on trading. Operating costs largely remained stable. Following net adjustments to loans of 23 million euro, down 13.5% on the first nine months of the previous year, net income amounted to 54 million euro, down 2.7% on the same period of 2013.

Other companies

The operating income reported by **ISP Card** came to 27 million euro, essentially in line with the same period of the previous year (-0.8%). Operating costs fell to 23 million euro (-7.4%). This resulted in net income of 3.2 million euro, compared to 2.1 million euro in the first nine months of 2013 (+47.9%).

Eurizon Capital

(millions of euro)

Income statement	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	1	1	-	-
Dividends and profits (losses) on investments carried at equity	9	12	-3	-25.0
Net fee and commission income	334	233	101	43.3
Profits (Losses) on trading	6	2	4	
Income from insurance business	-	-	-	-
Other operating income (expenses)	1	-	1	-
Operating income	**351**	**248**	**103**	**41.5**
Personnel expenses	-42	-32	10	31.3
Other administrative expenses	-50	-43	7	16.3
Adjustments to property, equipment and intangible assets	-	-	-	-
Operating costs	**-92**	**-75**	**17**	**22.7**
Operating margin	**259**	**173**	**86**	**49.7**
Net provisions for risks and charges	2	3	-1	-33.3
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	**261**	**176**	**85**	**48.3**
Taxes on income from continuing operations	-68	-40	28	70.0
Charges (net of tax) for integration and exit incentives	-1	-	1	-
Effect of purchase price allocation (net of tax)	-28	-26	2	7.7
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-5	-3	2	67
Net income (loss)	**159**	**107**	**52**	**48.6**

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Assets under management	193,605	163,838	29,767	18.2
Risk-weighted assets [(a)]	616			
Absorbed capital [(a)]	59			

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 30 September 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 September 2014 came to 193.6 billion euro (net of duplications), up 18.2% since the beginning of the year as a result of net inflows and positive financial market performance. In the first nine months of 2014, net inflows came to 19.7 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 new "GP Unica" and the "Sistema Valore" and "Strategia Valore" lines) and captive insurance products, consisting of line I insurance contracts, the category to which traditional life policies are classified, as well as of unit-linked policies. Eurizon Capital's share of assets under management was 15% as at 30 September 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 nine months of 2014, amounting to 351 million euro, grew by 41.5% compared to the same period of the previous year, benefiting from the favourable performance of net fee and commission income (+43.3%). This performance is largely attributable to the increase in average assets under management, which considerably exceeded the level of the first nine months of 2013. Operating costs increased (+22.7%) due to administrative and personnel expenses. As a result of the above revenue and cost trends, the operating margin came to 259 million euro, up 49.7% compared to the same period of 2013. Eurizon Capital closed the first nine months of 2014 with a net income of 159 million euro (+48.6%).

On a quarterly basis, the third quarter of 2014 showed a decrease of 19.4% in operating margin compared to the second quarter, due to a drop in operating income (-17.7%) and, particularly, in net fee and commission income. This trend was reflected in the net income, down 25.1% 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 third quarter of 2014 saw the continuation of the placement of new editions 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 funds established by Epsilon named "Epsilon Flexible Forex Coupon" and "Epsilon allocazione tattica". July saw the launch of the new product "Eurizon Multiasset Reddito", which aims to optimise the fund's return over a period of five years, in accordance with a set risk budget, with annual income distribution.
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 third quarter of 2014 new windows were opened in the "Valore Cedola x 5", "Soluzione Flessibile Protetta", "Global Coupon" and "Equity Coupon" sub-fund families.

Banca Fideuram

(millions of euro)

Income statement	30.09.2014	30.09.2013	Changes	
			amount	%
Net interest income	106	99	7	7.1
Dividends and profits (losses) on investments carried at equity	1	-	1	-
Net fee and commission income	556	469	87	18.6
Profits (Losses) on trading	17	15	2	13.3
Income from insurance business	80	65	15	23.1
Other operating income (expenses)	-2	-3	-1	-33.3
Operating income	**758**	**645**	**113**	**17.5**
Personnel expenses	-103	-91	12	13.2
Other administrative expenses	-127	-127	-	-
Adjustments to property, equipment and intangible assets	-12	-11	1	9.1
Operating costs	**-242**	**-229**	**13**	**5.7**
Operating margin	**516**	**416**	**100**	**24.0**
Net provisions for risks and charges	-52	-49	3	6.1
Net adjustments to loans	-	3	-3	
Net impairment losses on other assets	-	-6	-6	
Profits (Losses) on investments held to maturity and on other investments	-	1	-1	
Income (Loss) before tax from continuing operations	**464**	**365**	**99**	**27.1**
Taxes on income from continuing operations	-129	-93	36	38.7
Charges (net of tax) for integration and exit incentives	-1	-1	-	-
Effect of purchase price allocation (net of tax)	-68	-66	2	3.0
Impairment (net of tax) of goodwill and other intangible assets	-	-	-	-
Income (Loss) after tax from discontinued operations	-	-	-	-
Minority interests	-	-	-	-
Net income (loss)	**266**	**205**	**61**	**29.8**

(millions of euro)

	30.09.2014	31.12.2013	Changes	
			amount	%
Assets under management	71,632	66,096	5,536	8.4
Direct deposits from banking business	8,196	7,256	940	13.0
Direct deposits from insurance business and technical reserves	22,215	18,431	3,784	20.5
Risk-weighted assets [(a)]	6,432			
Absorbed capital [(a)]	929			

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 30 September 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 September 2014 amounted to 89 billion euro (of which 71.6 billion euro in assets under management and 17.4 billion euro in assets under administration), up 6.4% since the beginning of the year. This trend is attributable to the positive market performance of assets and the positive net inflow performance.
In detail, assets under management, which represent more than three quarters of the aggregate, were up 8.4% compared to the balance at the end of 2013, thanks to the positive development of the life insurance and asset management segment. Conversely, assets under administration showed a decrease of 1.1% on the volume as at 31 December 2013. In the first nine months of 2014, the Banca Fideuram Group's distribution networks achieved net inflows of 1.9 billion euro, a decline of 209 million euro compared to the same period of the previous year (-10.1%). An analysis by aggregates shows that inflows to assets under management, amounting to 2.7 billion euro, were down by 1.5 billion euro compared to the same period of the previous year, attributable to all segments, with the exception of portfolio management. On the other hand, net outflows from assets under administration, amounting to 852 million euro, showed a corresponding improvement of 1.3 billion euro on the net outflows of 2.1 billion euro reported in the first nine months of 2013, almost entirely attributable to securities.
Direct deposits from banking business amounted to 8,196 million euro, up 13% compared to the beginning of the year, primarily as a result of repurchase agreements and term deposits of ordinary customers.

Direct deposits from insurance business, amounting to 22,215 million euro, increased 20.5%, 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 5,061 as at 30 September 2014, down slightly compared to the end of 2013 (5,104).
The operating margin for the first nine months of 2014 stood at 516 million euro, up 24% compared to the same period of 2013, driven by the development of operating income (+17.5%), along with a modest rise in operating costs (+5.7%).
The performance of revenues is attributable to all major components, and markedly to net fee and commission income of 556 million euro, up 18.6%. 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 7% of net fee and commission income, increased primarily due to the greater volume of orders received and transmitted. On the other hand, performance commissions, almost all of which are recognised on an annual basis, were essentially stable. Fee and commission expense, essentially related to incentives for the network for attracting new money, reported a decrease due 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. Net interest income also increased (+7.1%), benefiting from the contribution from higher volumes of collateralised loans to customers as well as a higher average return on assets than in the same period of 2013, also because of the reinvestment of part of 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 65 million euro to 80 million euro (+23.1%). 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 6.1% due to the contractual indemnities owed to private bankers. Income before tax from continuing operations amounted to 464 million euro, up 27.1%. Lastly, following the attribution of the effects of purchase price allocation on the income statement (68 million euro), Banca Fideuram closed the first nine months of 2014 with net income of 266 million euro, up 29.8% compared to the same period 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	96 branches in Italy with 5,061 private bankers

In the third quarter of 2014, product development measures were implemented with the aim of meeting customers' medium- and long-term needs through solutions that may be adapted to suit the constantly changing market scenario and are consistent with the Banca Fideuram Group's business model, which has always focused on advice.

During the period, the Group has continued to focus on its Sei advanced advisory service as a distinctive factor of its service model, with the particular aim of improving the analysis of private customers' needs in areas such as asset protection and generational transfer. At the end of September 2014, more than 58,000 customers were receiving the Sei advanced advisory service, for approximately 24.3 billion euro in assets under administration (+2.6 billion euro compared to the end of 2013).

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 generated operating loss of 871 million euro in the first nine months of 2014, compared to operating loss of 1,160 million euro for the same period of the previous year. This performance was mainly due to the improvement in terms of net interest, which, though still negative, benefited from a gradual reduction in the cost of liquidity. This phenomenon was partly mitigated by the significant deterioration of profits on trading. The revenue performance was reflected in all of the main income statement items and the net loss, which came to 1,534 million euro (compared to 1,463 million euro reported in the same period of 2013), impacted by greater income taxes due to the increased taxation on the higher value of the stake in the Bank of Italy.

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 third quarter of 2014, Intesa Sanpaolo confirmed its role of "critical participant" as a system-wide bank, keeping its payment volumes on the Eurosystem Target2 platform steady. The implementation phase continued for the "Target2 Securities" project. The migration of this project to the new platform, in direct access mode (cash and securities), is set to take place in June 2015.

In the third quarter, money market was characterised by the stimulus measures implemented by the European Central Bank with the aim of combating the deterioration of indicators and the falling inflation level. In further detail, in September the ECB reduced its refinancing rate to 0.05% and its last-resort deposit facility rate to -0.20%, while also announcing an ABS purchase programme intended to further boost credit for the economy. Consequently, negative rates were seen on the short-term money market for Eonia fixings and very short-term Euribor maturities. In the second half of September, participation in the first T-LTRO tender was concluded, with demand falling short of forecasts, thus shifting operators' expectations to the second auction scheduled for December. Intesa Sanpaolo participated for 4 billion euro, considering that the allowance limit was of approximately 12.5 billion euro. In this context, the Group was able to further improve its short-term cost of funding, while maintaining substantial stability of the outstanding amount of its securities funding programmes. The increase in short-term transactions on the interbank market, fostered by the negative level of the deposit facility, resulted in an increase in the Group's transactions and allowed seasonal requirements and market conditions to be managed while limiting the use of weekly refinancing with the Central Bank solely in relation to payments of significant flows and participation in Targeted LTRO tenders.
As regards the Government Bonds Portfolio, the third quarter continued to record a favourable performance of peripheral securities markets, allowing the overall reduction of the portfolio and the realisation of accumulated capital gains: Italian government bonds with shorter maturities were replaced with slightly longer positions, with the aim of balancing out falling yields, while investments were diversified into core and semi-core European government bonds. Overall, the portfolio's global risk level was reduced.
The announcement by the ECB of the inclusion of Covered Bonds in its purchase programme resulted in a decline in spreads. In order to benefit from the positive climate, the portfolio was managed dynamically, with preference given to semi-core and peripheral issuers, especially those from Italy and Spain. In the third quarter, there was a slight decline in the volume of repurchase agreement transactions, the underlying collateral of which continued to consist largely of Italian government bonds, followed by the government bonds of core European countries.

Medium-/long-term funding recorded a slowdown in funding through the instruments typical of the segment compared to the same period of 2013.
In the domestic market in the third quarter of 2014, the total amount of Group securities placed through its own and third-party networks came to approximately 1.7 billion euro (6.5 billion euro in the first nine months of 2014). Among the securities placed, there was a prevalence of structured financial instruments (primarily represented by index-linked structures) at 67%, while the share of plain-vanilla instruments amounted to 33%. Breaking securities down by average life, two-, three- and four-year maturities account for 74.5%.
On international markets, unsecured institutional funding transactions were completed for a total of approximately 1.3 billion euro. The total amount placed by the Group in the first nine months of the year came to 10.3 billion euro, of which 7.8 billion euro consisted of unsecured senior institutional funding (bonds placed on the Euromarket and US and Asian markets, as well as certificates of deposit with maturities of up to two years issued by the New York branch), and subordinated instruments of 2 billion dollars (amounting to 1.47 billion euro) with a maturity of 10 years and of 1 billion euro, placed on the Euromarket, with a maturity of 12 years.

As regards medium/long-term finance operations, 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 third quarter of 2014, the gross outstanding amount lodged as pledge by the Group remained essentially in line with the amount recorded at the end of June, coming to approximately 6.1 billion euro at the end of September.

Active Value Management (AVM)

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group's banking book – in the segment over 18 months – is handled by the ALM structures under the supervision of the Risk Management Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group's Financial Risks Committee, within limits established by the Management Board. The ALM structure actively supports the Committee's decision-making activity by formulating analyses and proposals. The structural component of liquidity risk is managed by identifying expected liquidity mismatches by maturity bands, on the basis of liquidity policies defined by the Group internally. Mismatch analysis on medium-/long-term maturities provides input for planning bond funding, in order to anticipate possible pressures on short-term funding.

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

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.

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

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 the first half of 2015.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

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

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

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

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

As mentioned, as part of its adoption of Basel 3, 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)

	30.09.2014			31.12.2013			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	37,193	-23,549	13,644	34,403	-21,504	12,899	745
Substandard loans	19,846	-4,832	15,014	17,979	-4,164	13,815	1,199
Restructured loans	2,819	-498	2,321	2,728	-413	2,315	6
Past due loans	1,892	-254	1,638	2,232	-274	1,958	-320
Non-performing loans	**61,750**	**-29,133**	**32,617**	**57,342**	**-26,355**	**30,987**	**1,630**
Performing loans	293,131	-2,459	290,672	300,341	-2,402	297,939	-7,267
Performing loans represented by securities	14,271	-295	13,976	15,207	-344	14,863	-887
Loans to customers	**369,152**	**-31,887**	**337,265**	**372,890**	**-29,101**	**343,789**	**-6,524**

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 nine months of 2014 of non-performing loans, net of adjustments, by 1,630 million euro (+5.3%), 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 9.7%. Coverage of non-performing loans came to approximately 47.2%, higher than the level at the end of 2013 (46%), and is deemed adequate to meet the expected losses, also considering the guarantees securing the positions.

In particular, as at 30 September 2014, doubtful loans, net of adjustments, reached 13.6 billion euro, up 5.8% since the beginning of the year. The incidence on total loans was 4%, with a coverage ratio of 63.3%.

Compared to 31 December 2013, substandard loans increased 8.7% to 15 billion euro. Substandard loans as a proportion of total loans to customers increased from 4% to 4.5% in the first nine months of the year, and the coverage ratio, adequate for the risk intrinsic to this portfolio, was 24.3%, slightly above the figure at the end of the prior year.

Restructured loans stood at 2,321 million euro, essentially unchanged compared to the beginning of the year, with a coverage ratio of 17.7%, up from 15.1% in the previous year.

Past due loans recorded a decrease of 320 million euro (-16.3%) to 1,638 million euro from 1,958 million euro for the previous year. This type of non-performing loans accounted for 0.5% of the total. The coverage ratio came to 13.4%, compared with 12.3% as at the end of 2013.

Performing exposures decreased, from 297.9 billion euro in the previous year to 290.7 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 essentially in line with the figure recorded at the end of the previous year.

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.

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, positions in interest rates, and foreign exchange rates 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.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios (the full look-through approach).
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 at 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, with 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 third quarter of 2014, market risks generated by Intesa Sanpaolo and Banca IMI decreased slightly with respect to the averages for the second quarter of 2014. The average VaR for the period totalled 42.2 million euro.

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI

(millions of euro)

Var (a)	2014					2013			
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	9.3	7.4	11.9	9.6	9.4	10.5	8.2	11.7	14.1
Banca IMI	32.9	26.9	45.4	35.0	37.0	38.6	39.3	50.8	59.0
Total	**42.2**	**36.0**	**53.7**	**44.7**	**46.5**	**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 nine months of 2014, market risks generated by Intesa Sanpaolo and Banca IMI decreased significantly with respect to the values for 2013.

(millions of euro)

Var (a)	2014			2013		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Intesa Sanpaolo	9.4	7.3	12.0	11.3	6.4	18.1
Banca IMI	35.0	23.8	45.7	49.6	31.1	74.2
Total	**44.4**	**32.0**	**55.5**	**61.0**	**37.8**	**88.5**

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first nine 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.

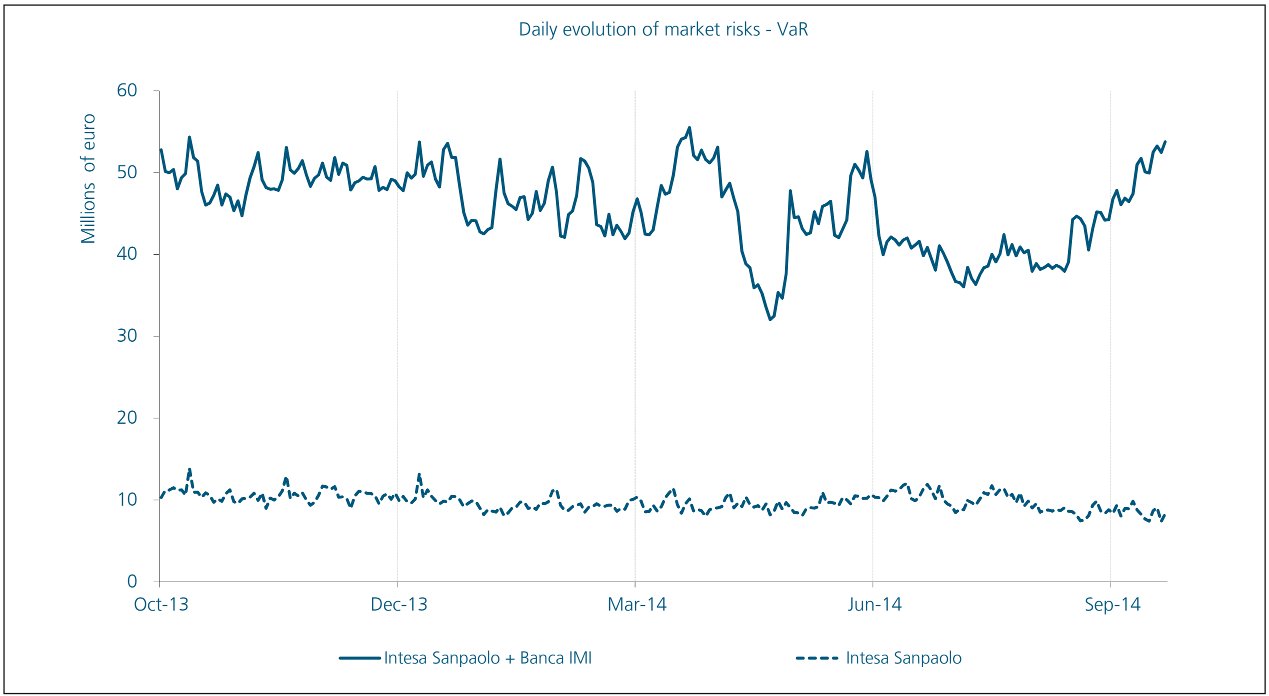
For Intesa Sanpaolo, the breakdown of risk profile in the third quarter of 2014, with regard to the various factors, shows a general prevalence of the risk generated by the equity component (invested through hedge funds), which accounted for 46% of total VaR. The percentage presented under "Hedge funds" refers solely to quotas for which full transparency is not available and whose risk is calculated according to the "illiquid parameters" method. In the case of Banca IMI, credit spread risk was predominant, at 60% of total VaR.

Contribution of risk factors to total VaR(a)

3rd quarter 2014	Shares	Hedge funds	Rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	46%	9%	11%	25%	8%	1%	0%
Banca IMI	7%	0%	7%	60%	1%	21%	4%
Total	**16%**	**2%**	**8%**	**52%**	**3%**	**16%**	**3%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2013, 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. Risk measures declined slightly on average in the first nine months of 2014. In September 2014 there was an increase in risk for Banca IMI due to the greater exposures to Italian and Spanish government bonds (assumed within the context of the limits approved by the Risk Appetite Framework).



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 September 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 20 million euro gain or to a -20 million euro loss in the opposite scenario;
– on interest rate exposures, a parallel +70 basis point shift (average) would have led to a 123 million euro loss, whereas a parallel shift in the euro curve with near zero rates would have led to potential gains of 270 million euro;
– on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 226 million euro loss;
– on foreign exchange exposures, a decrease of the euro against the other currencies would have led to a loss of approximately 4 million euro;
– finally, on commodities exposures, a 50% increase in the prices of the underlying would have led to a 47 million euro loss.

(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	-20	20	-123	270	228	-226	-4	-9	64	-47

Backtesting

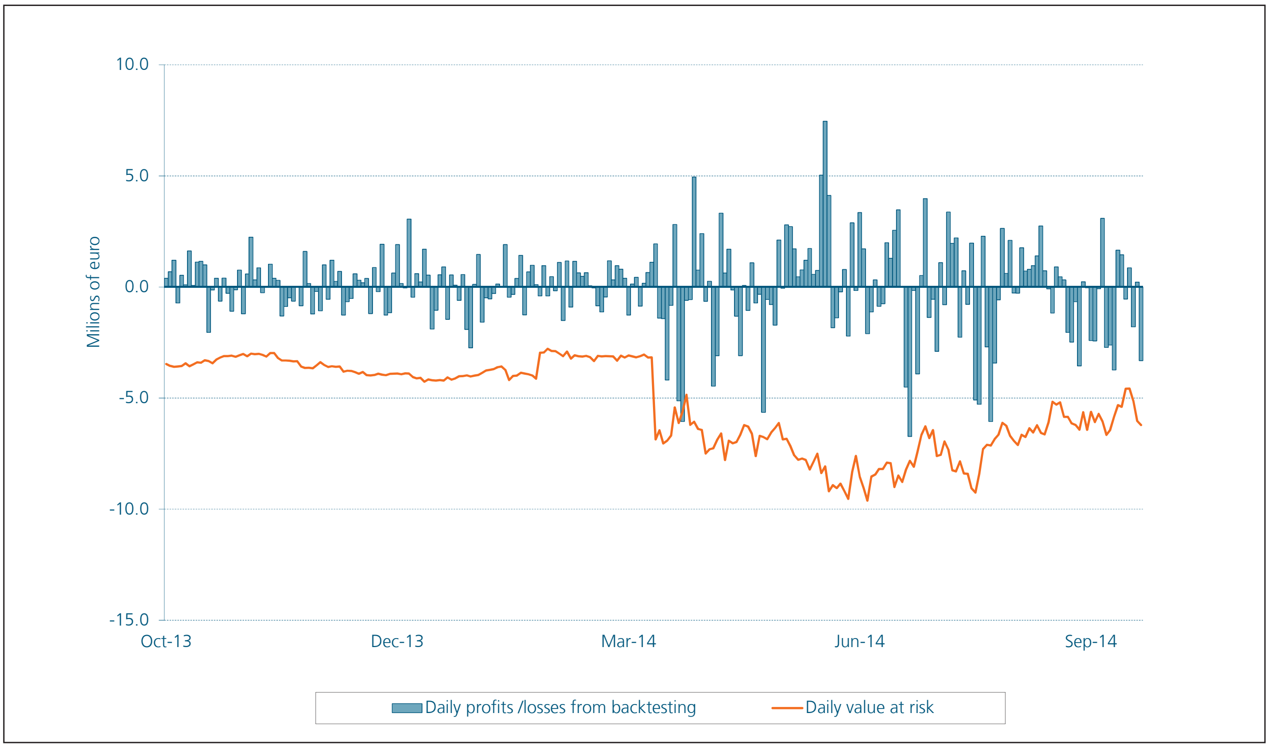
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– 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.

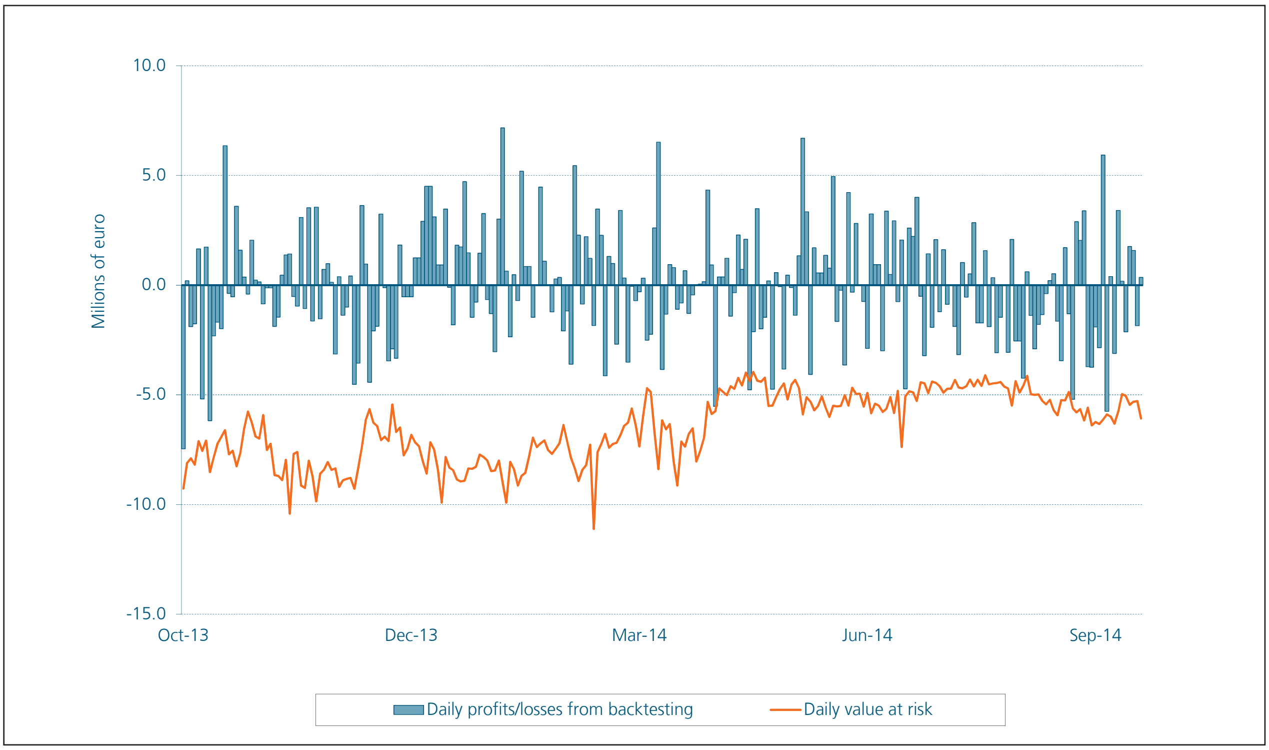
Backtesting in Intesa Sanpaolo

There was a single exception to theoretical backtesting during the last year. The loss is to be attributed to the performance of stock prices in April 2014.



Backtesting in Banca IMI

Banca IMI's backtesting exception refers to the actual P&L data. The loss is to be attributed to the fluctuation of Italian stock prices since early May 2014.



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 nine 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 123 million euro settling at 109 million euro at the end of September, 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 257 million euro at the end of September 2014 (264 million euro at the end of 2013).
Interest rate risk, measured in terms of VaR, averaged 19 million euro during the first nine months of 2014 (40 million euro at the end of 2013), with a maximum value of 28 million euro and a minimum value of 9 million euro; the latter figure coincides with the value at the end of September. 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 42 million euro in the first nine months of 2014 (33 million euro at the end of 2013), with a minimum value of 30 million euro and a maximum value of 60 million euro. The VaR at the end of September amounted to 41 million euro.
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 9 million euro at the end of September 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 adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

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 to 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 stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations. The LCR requirement will gradually come into force, starting with a percentage of 60% from 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 nine 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 30 September 2014, the liquidity reserves eligible with the various Central Banks came to 102 billion euro (124 billion euro at the end of December 2013), of which 81 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 main 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-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the

price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2);
- valuations performed using – in whole or in part but primarily – 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 quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation.
The 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 for which at least one significant input for the purposes of calculating fair value is not observable on the market;
- debt securities and complex credit derivatives (CDOs and some ABSs) 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;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- derivative transactions relating to securitisations and equity-risk structured options;
- some OTC interest-rate derivatives relating to correlations between CMS (Constant Maturity Swap) rates;
- some commodities options;
- derivatives with counterparties in default;
- some derivatives for which the bCVA is calculated through the use of historical PD with a significant impact on the transaction's total fair value.

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, 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. Valuation of the "credit risk free" component of OTC derivatives determines the initial choice of the level of the fair value hierarchy, according to the level of observability of market parameters. Calculation of the component linked to the insolvency risk of the counterparty/issuer, with unobservable parameters such as historical PD, may involve reclassification to level 3 of the fair value hierarchy.

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 first part of the document, "General principles", once a favourable opinion has been given by the Group Financial Risks Committee and the Managing Director and CEO, is approved and revised at least on an annual basis by the Management Board, and specific notice thereof is given to the Control Committee and the Financial Statements Committee. The second part, "Detailed methods", is reviewed, approved and revised at least on an annual basis by the Group Financial

Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposal of which falls to the Risk Management Department.

The valuation process for financial instruments (as described in the "Fair Value Policy") entails the following phases:
– identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
– certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
– 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;
– 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)

Assets / liabilities at fair value	30.09.2014			31.12.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	19,198	35,474	773	16,938	31,309	753
2. Financial assets designated at fair value through profit or loss	37,739	2,024	434	32,374	3,004	383
3. Financial assets available for sale	104,980	5,299	5,112	105,489	4,196	5,608
4. Hedging derivatives	-	8,997	-	-	7,533	1
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**161,917**	**51,794**	**6,319**	**154,801**	**46,042**	**6,745**
1. Financial liabilities held for trading	4,815	39,673	85	7,063	31,756	400
2. Financial liabilities designated at fair value through profit or loss	-	35,461	-	-	30,733	-
3. Hedging derivatives	-	9,374	10	-	7,577	13
Total	**4,815**	**84,508**	**95**	**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 2.9% for financial assets and 0.1% for financial liabilities, down compared to the percentages of December 2013.
Approximately 74% of financial assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

The sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, for an amount not material[3] 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).

[3] This amount is shown net of the adjustments to valuations relating to the main input parameters which were already considered to determine the fair value of financial instruments (see paragraph "Fair value measurement of financial assets and liabilities" above).

STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,272 million euro as at 30 September 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 26 million euro with respect to structured packages, in line with the exposure as at 31 December 2013.
The rise in the exposure (from 1,068 million euro in December 2013 to 1,562 million euro in September 2014) classified in the trading portfolio is largely attributable to higher investments in ABSs by the subsidiary Banca IMI, part of which was classified to the available-for-sale portfolio.
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 710 million euro in September 2014), almost entirely attributable to the Parent Company loan portfolio and for the most part due to sales. In detail, an early payment of approximately 78 million euro was recorded for one of securities classified in the funded super-senior CDO segment in the third quarter.

From an income statement perspective, structured credit products generated a net income of 35 million euro as at 30 September 2014 compared to 67 million euro at the end of 2013 and 76 million euro as at 30 September 2013.
The exposure to funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of 35 million euro. The profit on this segment was a result of the effects of:

- unfunded Super CDO positions for +3 million euro;
- European and US funded ABSs/CDOs (+33 million euro), entirely attributable to the subsidiary Banca IMI. The impact was the result of the profits realised on the partial disposal of the trading book (16 million euro) and of the revaluation of outstanding positions (17 million euro);
- the negative contribution of the subprime exposure for 2 million euro;
- unfunded Multisector CDO positions for 3 million euro;
- other unfunded positions for -2 million euro.

As regards the exposure to funded and unfunded ABSs/CDOs, it should be noted that the securities classified by the subsidiary Banca IMI to the available-for-sale portfolio recorded an increase in fair value of 4 million euro, accounted for in the specific shareholders' equity reserve.
The securities reclassified to the loan portfolio had a positive impact of 1 million euro on the income statement as at 30 September 2014. This result is the combination of the 7 million euro in profits realised on the sale of positions and 6 million euro in impairment losses on a number of securities included in the portfolio.
The "Monoline risk" and "Non-monoline packages" made a contribution of -1 million euro to "Profits (Losses) on trading – caption 80" as at 30 September 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 consolidation criteria applied in the 2013 Financial Statements are reported for the other SPE categories.

With regard to funding SPEs, used by the Intesa Sanpaolo Group to raise funds on certain markets through the issue of financial instruments, typically guaranteed by Intesa Sanpaolo, there was an increase in the funding of the US vehicle company Intesa Funding LLC, which came to over 600 million euro at the end of September 2014 (value of funding of 300 million euro as at 31 December 2013).
This increase was tied to heightened interest by US institutional investors in securities issued by Intesa Sanpaolo, in line with a greater appetite for Italy risk on financial markets. The average duration of the securities remains very short.

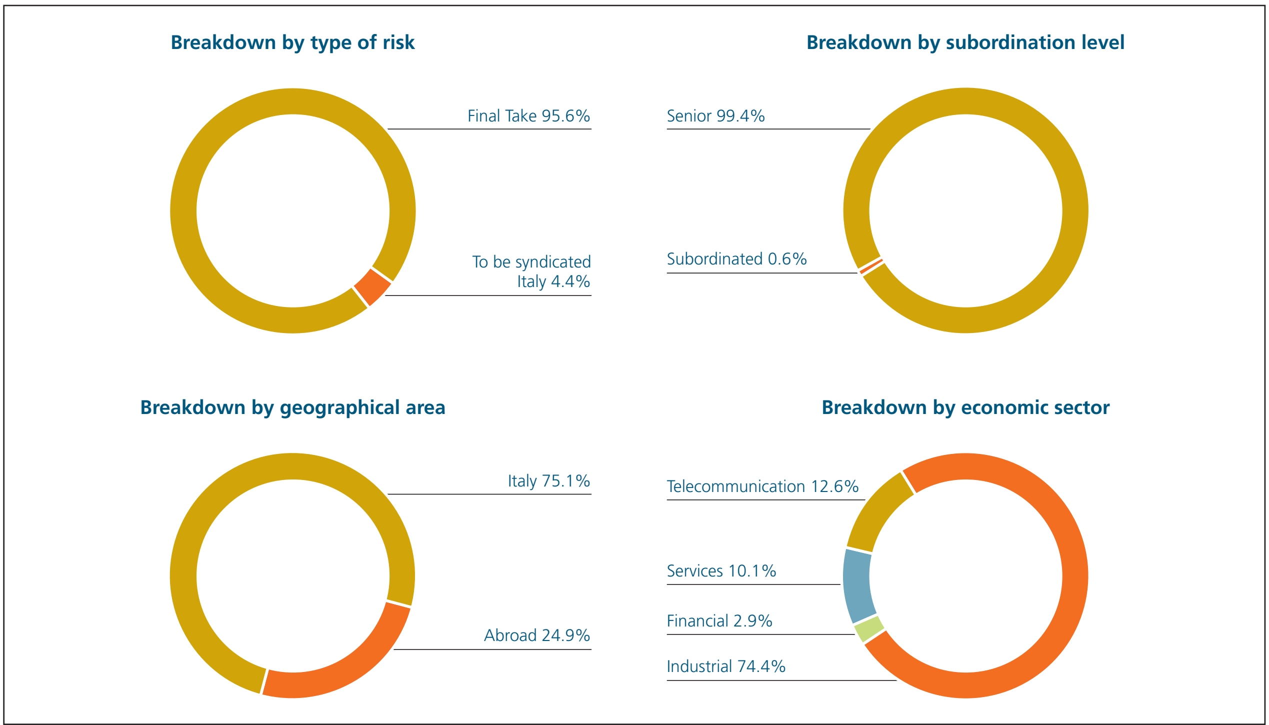
There were no issues of Covered Bonds in the third quarter of 2014. For the details of transactions in the first half of 2014, reference should be made to the Half-Yearly Report.

There were no significant changes to the other categories of SPEs subject to disclosure. Accordingly, reference should be made to the 2013 Financial Statements.

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 30 September 2014, 111 transactions for a total amount granted of 3,027 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 30 September 2014 totalled 772 million euro, compared to 744 million euro recorded in December 2013. An analysis of changes in the portfolio shows distributions and redemptions during the period, which, however, were more than offset by the increase in the value in euro of the positions in US dollars due to the sharp appreciation of the foreign currency.
As at the same date, the overall result of the investments in this segment was positive for 15 million euro, compared to 35 million euro of the “Profits (Losses) on trading – caption 80” as at 30 September 2013.
The 15 million euro of net profit, recognised as at 30 September 2014 under “Profits (Losses) on trading – caption 80”, included:

– 6 million euro from net valuations of positions outstanding as at the end of September 2014;
– 2 million euro representing net profit realised from the trading of fund quotas;
– 7 million euro consisting of other income attributable to profits on foreign exchange transactions.

Net capital gains on the final residual amount (6 million euro) were spread across 27 positions, 14 of which with capital gains (26 million euro) and 13 with capital losses (20 million euro).
During the third quarter of 2014, there were no noteworthy changes in the portfolio’s overall strategy, which still remains prevalently directed towards benefiting from the implementation of specific corporate events, typically independent from the general market trend.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 September 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 7,360 million euro (5,542 million euro as at 31 December 2013). The notional value of such derivatives totalled 52,950 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 4,983 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 1,015 million euro as at 30 September 2014 (606 million euro as at 31 December 2013).
The notional value of such derivatives totalled 18,054 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 30 September 2014, this led to a negative effect of 49 million euro being recorded under “Profits (Losses) on trading” in the income statement.
As regards the means of calculation of the aforesaid Bilateral Credit Risk Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in this chapter.

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 reputation 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 scope 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 (merged into Mediocredito, a company belonging to the Banca dei Territori Division, in 2014), 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 scope 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 approaches starting from the first half of 2015, 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.
Moreover, the tasks of Intesa Sanpaolo Group Internal Control Coordination 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-diagnosis process, conducted on an annual basis, allows the Group to:

- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- create significant synergies with the specialised functions of the Personnel and Organisation Department that supervise the planning of operational processes and business continuity issues 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-diagnosis process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of 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-diagnosis).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (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 organisational 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, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, 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 1,770 million euro as at 30 September 2014, unchanged compared to 30 June 2014 and down compared to 31 December 2013 (1,819 million euro).

Legal risks

Legal risks are thoroughly 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.
Reference should be made to the Notes to the 2013 Financial Statements for a detailed description of disputes regarding anatocism, investment services and other significant proceedings and litigation, as well as to the Half-Yearly Report as at 30 June 2014. The following is a description of the most significant developments in ongoing proceedings and new disputes initiated during the quarter.

Intesa Sanpaolo (formerly Banca OPI, then Banca Infrastrutture Innovazione e Sviluppo) and Municipality of Taranto litigation - Banca Infrastrutture Innovazione e Sviluppo (BIIS), as the successor to Banca OPI, was involved in a case pending before the Court of Taranto brought by the Municipality of Taranto in relation to the subscription in 2004 by Banca OPI of a 250 million euro bond issued by the Municipality.
In its judgement of 27 April 2009, the Court declared the invalidity of the operation, ordering the Bank to reimburse, with interest, the partial repayments of the loan made by the Municipality of Taranto. The latter was ordered to reimburse, with interest, the loan granted. The Court also ordered compensation for damages in favour of the Municipality, to be calculated by separate proceedings. The Municipality and the Bank jointly agreed not to enforce the judgement.
On 20 April 2012 the Court of Appeal, without prejudice to the findings of the separate proceedings regarding the alleged damages, partially reformulated the first instance ruling by ordering that:
- BIIS reimburse the sums paid by the Municipality of Taranto, plus legal interest;
- the Municipality of Taranto reimburse BIIS for the sums disbursed in execution of the bond loan, less amounts already paid, plus legal interest and currency appreciation;
- BIIS reimburse the Municipality for first instance legal costs, compensated against those for the appeal.

Intesa Sanpaolo, which succeeded BIIS in the proceedings following the well-known corporate operations, filed an appeal against this judgement before the Court of Cassation. The date of the hearing has not been set.
In the meantime, the insolvency procedure entity for the Municipality of Taranto informed BIIS that the Municipality's debt to the Bank for the repayment of the 250 million euro bond had been added to "the insolvency procedures' list of debts". The Bank nonetheless appealed the judgment before the Regional Administrative Court of Puglia, which found the appeal inadmissible, ruling that the dispute fell within the jurisdiction of the civil courts and – albeit on an incidental basis – the appealed judgment was devoid of dispositional content and was thus incapable of undermining the Banks' credit claims.
The Bank and the Municipality met repeatedly to assess the possibility of an amicable settlement to the pending litigation, however, such settlement could not be reached due to the intervention of the insolvency procedure entity, which claimed its own jurisdiction over managing the debt in question. In order to ascertain the illegitimacy of including the Bank's receivable in the insolvency procedures' list of debts and the lack of jurisdiction of the Extraordinary Liquidator, BIIS thus filed an extraordinary appeal to the President of the Republic, which is still pending.
The Bank has also initiated additional civil proceedings before the Court of Rome, for a ruling on its lack of liability for damages to the Municipality of Taranto.
By way of non-final ruling, the Court of Rome rejected the claims of lack of interest to sue, demurrer and estoppel, and ordered the continuation of the proceedings for the purpose of drawing up a court-appointed expert's report, not only on amount but also on the cause of the alleged damages. Moreover, the court-appointed expert's report must be limited to the documents already filed in the records, as all the preclusions pertaining to the preliminary investigation have been applied, and should be confirmed by the Bank's stance that the Municipality of Taranto suffered no damages as a result of the loan from BIIS.
These events are also connected to criminal proceedings before the Court of Taranto, against several Executives of Banca OPI and Sanpaolo IMI, among others, in which the preliminary hearing judge has ruled that the Municipality of Taranto may file an appearance as civil claimant in the criminal proceedings. The defendants are charged with indirect abuse of office, a crime which is not significant for the purposes of Legislative Decree 231/2001. In these proceedings, BIIS (now Intesa Sanpaolo) has been charged with civil liability for an amount of no less than 1 billion euro. In its ruling of 6 October 2014, the Court sentenced two Banca OPI Executives, while acquitting all of Bank's other defendants, in addition to jointly and severally sentencing the Bank and the two aforementioned Executives, to pay compensation for damages in favour of the Municipality, to be settled in separate proceedings, as well as to pay an immediately enforceable provisional award of 26,167,175 euro, almost entirely represented by the interest portion of the repayments made by the Municipality. Both the former employees found to be liable and the Bank will appeal this judgment, applying for a stay of the provisional enforcement of the civil remedies. The assessment of the compensation risk indicated that there was no need to recognise a specific provision as at 30 September 2014.

Arbitration proceedings initiated by Acotel Group S.p.A.- In its document initiating arbitration proceedings served on 4 November 2013, Acotel Group seeks an award ordering ISP to provide compensation for damages, quantified at a total of 150 million euro, caused by alleged breach of a complex cooperation agreement, which took the concrete form of various contracts aimed at developing and selling an innovative telephone SIM card known as "SIM Noverca" to bank customers. Acotel assumes that the failure of the commercial initiative and the resulting damages were the result solely of breach of contract by ISP due to the lack of interest shown in the promotion and distribution of the product amongst its customers, which culminated in the cancellation and termination of the commercial agreements. The Bank conducted its defence by raising a number of exceptions of a procedural nature. On the merits, it argued that the reasons for the transaction's lack of success may be found to lie in the technological inadequacy of the SIM card, which was rapidly rendered obsolete by the development of other, more attractive propositions on the market and the low level of competitiveness of the rate scheme, both of which were problems that Noverca was unable to overcome. Due to the lack of interest in proceeding with the arbitration shown by Acotel (which reserved the right to take action in the ordinary courts) and its consequent inactivity, the Chamber of Arbitration of Milan declared the proceedings closed by decision of 10 June 2014. By writ of summons served on 2 October 2014, Acotel Group S.p.A. and Noverca Italia S.r.l. resubmitted the same arguments to the Court of Turin, presenting, in the case of Acotel Group, a compensation claim of similar amount to that previously entered in the arbitration proceedings and, in the case of Noverca, a request for damages of the lesser amount of approximately 11.5 million euro by way of contractual penalties.
Given the status of the proceedings, a specific provision has not been deemed necessary.

POTROŠAČ litigation against PBZ relating to loans denominated in CHF - In the context of historically low interest rates on assets denominated in Swiss francs (CHF), in 2004 numerous Croatian banks began to disburse retail loans in Swiss francs. This practice was immediately appreciated by customers. Therefore, in order to avoid erosion of market share, PBZ also began to offer similar products in February 2005.
Though it was following market trends, PBZ implemented procedures significantly different than those of other banks. In particular, in informing its customers of exchange rate risk, PBZ included specific clauses in its loan contracts which notified customers of the possibility that the amount of their instalments could change due to the volatility of exchange rates.
In addition to foreign currency, a fundamental characteristic of this loan portfolio is the presence of so-called "administered interest rate", which means that interest rates could be changed at the discretion of the Bank, without a clearly identified underlying index. This type of interest rate was the most common type in the Croatian banking sector along with fixed interest rates. Only with the introduction of the new law on consumer credit were administered interest rates banned for all new loans starting from January 2013. PBZ correctly complied with these law provisions by introducing index-linked interest rates.
By writ of summons served on 23 April 2012, PBZ was sued, along with seven major Croatian banks (subsidiaries of non-Croatian groups) by a consumer association (Potroša□). Extremely in brief, the association called for the banks to be sentenced for:

- not having appropriately informed customers of the risks of an exposure in a foreign currency such as the Swiss franc;
- not having clearly set out in the contracts the rules for determining the interest rate, which the bank could unilaterally change.

On 4 July 2013, in the first instance, the Commercial Court of Zagreb had substantially accepted the requests of the consumers association, ordering the banks to transform their receivables into Kuna at the exchange rate at the disbursement date and to a fixed interest rate equal to the interest rate applicable to loan contracts on the date of their subscription.
The execution of the first instance ruling had been suspended pending the judgment on the appeal.
On 16 July 2014, the High Commercial Court of the Republic of Croatia rendered its second instance ruling. The resulting situation appears more favourable than the first instance ruling. In particular:

- the part of the first instance ruling, which established that the banks were to denominate in HRK the principal originally lent to the borrowers of loans granted in Swiss francs, was overturned. This finding was in keeping with the expectations of PBZ, which in 2013 had not provisioned for potential extraordinary charges deriving from the recalculation of the principal;
- the first instance ruling was also overturned in the part referring to the loans granted in Swiss francs to be converted, establishing that the banks were to apply a fixed interest rate equal to that applicable to the loan agreement when granted. In this case as well, the outcome of the ruling confirmed PBZ's expectations;
- on the other hand, the court upheld the unlawful nature of the unilateral changes to interest rates on the loans by the banks. In 2013, PBZ provisioned amounts equal to approximately 10% of the maximum potential loss, calculated in the non-optimistic scenario, thereby adopting an approach that, according to the appeal ruling, may be regarded as extremely prudential.

In relation to the foregoing, it is necessary to consider that, in order to secure recognition of their right to reimbursement of the unduly paid sums, individual customers will be required to take action against their banks separately. This should be a benefit for PBZ, since it has adopted policies focusing on customer relations, for example by offering the possibility to convert principal from CHF into HRK given the strong appreciation of the Swiss currency in recent years. Moreover, PBZ discontinued the offering of loans in CHF in 2008.
The appeal ruling found PBZ partially liable, as well as the other appellant banks, with the exception of Sberbank, whose appeal was granted in full.
In light of the above, PBZ did not recognise any additional provisions, postponing any adjustments until other elements arise, such as the number of individual proceedings, if any, that are brought against PBZ.
The banks (with the exception of Sberbank) appealed to the Croatian Supreme Court, in order to obtain the review of the part of the appeal ruling in which they are found liable. The appeal to the Supreme Court does not provide a stay of the enforcement of the appeal ruling.
Finally, it should be added that Potrošač also submitted an extraordinary appeal to the Supreme Court to have the appeal ruling overturned in its favour. Furthermore, pending the extraordinary appeal, Potrošač allegedly recommended that customers of the banks refrain from bringing individual proceedings against the banks, advising them to wait for the ruling in question to become final (and thus no longer subject to appeal).
From August to the end of September 2014, PBZ received 486 reimbursement applications, 4 of which resulted in litigation before the competent authorities.

Lawsuit brought by Fondazione Monte Paschi di Siena - By writ served on 11 July 2014, Fondazione MPS brought a lawsuit before the Court of Siena against former members of the Foundation's administrative body, as well as all of the banks, including Intesa Sanpaolo and Banca IMI, that had participated in 2011 in a pool loan to the Foundation intended to provide the Foundation with the resources required to subscribe for a capital increase undertaken by its subsidiary, Banca Monte Paschi di Siena.
In support of its compensation claim of approximately 286 million euro, the Foundation argued that the former directors and advisor bore contractual liability for having breached the limit on the debt-to-equity ratio imposed by the articles of association, as well as that the lending banks bore tortious liability for having knowingly been complicit in the alleged breach by the directors. Even though, as regards internal dealings between the defendants, alleged liability for compensation may be allocated proportionally, the Foundation sought a finding of joint and several liability of all the defendants in the proceedings.
The compensation claim, as presented, against the banks is deemed to be unfounded on a variety of grounds that relate not only to the possibility of attributing tortious liability to the banks, but also to the existence of a causal relationship between the objectionable conduct and the harmful event, as well as to the determination of the amount of the items of the damages into which the compensation claim is divided. The first hearing has been scheduled for 14 May 2015.

Lawsuit brought by Novembre RSA S.r.l. impresa sociale, Segno Unico S.r.l. and Novembre SGI S.r.l..- By writ of summons served on 5 August 2014, Novembre RSA S.r.l. impresa sociale, Segno Unico S.r.l. and Novembre SGI S.r.l., which have common owners, brought a compensation claim before the Court of Turin seeking a finding of joint and several liability against Intesa Sanpaolo and Mediocredito Italiano for the payment of damages of approximately 63 million euro, for which the two banks are claimed to be liable for having failed to disburse a loan intended to finance a home for the elderly.
This litigation follows other disputes regarding allegations pertaining to anatocism and the economic conditions applied to bank accounts involving sums that have yet to be determined, but that on the basis of the accounting situations of the accounts concerned, appear far smaller than the most recent compensation claim.
The compensation claim is deemed to be unfounded in that the grounds of the failure to approve the loan are to be sought in delays in obtaining the required administrative permits and deficiencies relating to financial requirements attributable solely to the members of the companies applying for the loan.
The first hearing has been scheduled for 12 January 2015.

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). Further information regarding developments in the first six months of the year is presented in the Half-yearly Report as at 30 June 2014.
There were no new, noteworthy tax disputes or outcomes of proceedings in the third quarter of 2014.

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 30 September 2014, the investment portfolios of Group companies, recorded at book value, amounted to 108,839 million euro. Of these, the part of 69,451 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 39,387 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, 92.0% of assets, i.e. approximately 64,286 million euro, were bonds, whereas assets subject to equity risk represented 1.6% of the total and amounted to 1,132 million euro. The remainder (4,452 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (6.4%).
The carrying value of derivatives came to approximately -418 million euro, almost entirely relating to effective management derivatives[4]. The hedging derivatives amounted to a total of approximately -8 million euro.

At the end of the first nine months of 2014, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 2,190 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 70 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 5.7 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 3,447 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 5.4% of total investments and A bonds approximately 3.7%. Low investment grade securities (BBB) were approximately 80.4% of the total and the portion of speculative grade or unrated was minimal (approximately 2.5%).
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 73.4% of the total investments, while financial companies (mostly banks) contributed almost 13.7% of exposure and industrial securities made up approximately 4.9%.

At the end of the third 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 3,560 million euro, with 3,014 million euro due to government issuers and 546 million euro to corporate issuers (financial institutions and industrial companies).

[4] 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.

Accounting policies

Criteria for the preparation of the Interim statement

General preparation principles

The "Interim Statement as at 30 September 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) interpretation, as determined by the European Commission as provided for by EC Regulation 1606 of 19 July 2002.
In preparing the Consolidated interim report on operations, the accounting standards adopted for 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 2013 Intesa Sanpaolo Group Annual Report – to which reference should be made for further details – with the exception of the effects resulting primarily from the application, compulsory from 1 January 2014, of the accounting standards referring to consolidation (IFRS 10, IFRS 11 and IFRS 12, together with resulting amendments to IAS 27 and IAS 28), and then from the amendments to IAS 32 on the offsetting of financial assets and liabilities and the amendments to IAS 39 on hedging.
In particular, the objective of IFRS 10 is to provide a single consolidation model that identifies control or "de facto control" as the basis for consolidation for all types of entities. The standard provides a precise definition of the case in which an investor controls an entity. IFRS 10 essentially establishes that in order to have control of an entity, an investor must have the ability, deriving from a legal right or even from a mere de facto situation, to have a significant influence on the type of management strategies to be assumed with regard to the entity's relevant activities and to be exposed to the variability of the entity's returns.
Then, in relation to the accounting standards on consolidation, IFRS 11 defines the financial reporting standards by entities that are parties to arrangements that establish "joint control". Finally, IFRS 12 combines, strengthens and supersedes disclosure obligations for subsidiaries, joint arrangements and associates and unconsolidated structured entities.
The new provisions on consolidation were introduced by Regulation 1254/2012, subsequently integrated by later Regulations (no. 313 and no. 1174 of 2013), these too effective from 1 January 2014.
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 Group's 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 overall impact on the income statement.
Through the amendments made to IAS 32 by Regulation 1256/2012, the IASB instead 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. 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, also applicable from 1 January 2014 and amending IAS 39 on hedging. In particular, the amendment introduced envisages that the novation of a derivative designated as a hedging instrument by an existing counterparty to a central counterparty does not result in termination of the hedging relationship, provided that 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, investments held to maturity and other financial activities – any impairment of property, equipment and intangible assets. In addition, impairment losses on Greek government and other public entities bonds were recognised to this caption, regardless of their balance sheet classification (Financial assets available for sale or loans);

- profits (losses) on investments held to maturity and on other investments include profits (losses) on disposal of 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;
- for a more accurate representation of ordinary operations, goodwill impairment (net of tax) is shown among "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.

As regards discontinued operations, the Income statement as at 30 September 2014 shows profits and losses on discontinued operations relating to the investment in the Ukrainian subsidiary Pravex-Bank, following the agreement signed in January 2014 for the sale of 100% of its capital to CentraGas Holding Gmbh. The related assets and liabilities are recognised in the Balance sheet among disposal groups and associated liabilities.

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 stake in the company.

There have been no significant changes to the scope of consolidation with respect to the position as at 31 December 2013. In infragroup terms, Leasint, Neos Finance, Centro Leasing and Mediofactoring 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 Group's 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 2013 Intesa Sanpaolo Group Annual Report 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 30 September 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, 11 November 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 30 September 2014 corresponds to corporate records, books and accounts.

Milano, 11 November 2014

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

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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.