

# Basel 2 Pillar 3

Disclosure as at 31 December 2013





*This is an English translation of the Italian language original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2013" that has been prepared solely for the convenience of the reader. The Italian language original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2013" was approved by the Management Board of Intesa Sanpaolo on 7 April 2014 and is available on [group.intesasanpaolo.com](http://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.*

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





## Basel 2 Pillar 3 Disclosures as at 31 December 2013

**Intesa Sanpaolo S.p.A.**

Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 8.549.266.378,64 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.



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# Introduction

## Notes to the Basel 2 Pillar 3 disclosure

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

In accordance with the provisions of the abovementioned Circular, this document is divided into sections called “Tables” and has been drawn up on a consolidated basis with reference to a “prudential” scope of consolidation, essentially corresponding to the definition of Banking Group for Regulatory purposes (integrated by the proportional consolidation of the jointly controlled entities). The Tables include both a “qualitative section” and a “quantitative section”. The “Basel 2 Pillar 3” disclosure is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

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

For the sake of completeness, please note that the information regarding the regulatory capital and the capital uses is also published in Part F of the Notes to the consolidated financial statements, in the formats required by Circular 262 of 22 December 2005 of the Bank of Italy, which governs financial statement disclosure in accordance with IAS/IFRS. That section also illustrates the insurance regulatory capital and capital ratios of the insurance companies controlled by Intesa Sanpaolo, as well as the capital adequacy of the financial banking-insurance conglomerate (Part F – Information on consolidated capital: Section 3 – Insurance regulatory capital and capital ratios - page 420 / Part F – Information on consolidated capital: Section 4: The capital adequacy of the financial conglomerate - page 421).

Additional information concerning the various types of risk to which the Intesa Sanpaolo Group is exposed is presented in the consolidated financial statements based on the provisions of IFRS 7 and the related explanatory instructions issued by the Bank of Italy (Circular 262 and related updates). The information on Group risks is set forth in Part E of the Notes to the consolidated financial statements. Part E illustrates:

- the various types of risks of the insurance segment (Part E – Information on risks and relative hedging policies: Section 2 – Risks of insurance companies – page 402);
- banking group liquidity risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the banking group: 1.3 Liquidity risk – page 375);
- banking group foreign exchange risk (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the banking group: 1.2.3 Foreign exchange risk - page 362)
- exposure in structured credit products (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: Information on structured credit products - page 384);
- legal and tax disputes (Part E – Information on risks and relative hedging policies: Section 1 – Risks of the Banking Group: 1.4 Operational risk - Legal risks and tax litigation - page 395).

In order to better understand the organisation of the Group and the consequent capital absorption by Business Unit and the relevant distribution of the “Risk-weighted assets”, reference is made to the Report on operations of the consolidated financial statements (Breakdown of consolidated results by business area and geographical area – page 55).

The “Corporate Governance Report and Information on Ownership Structures - Report on Remuneration” includes all the information concerning the remuneration policies in force. The “Report” is available for consultation from the “Governance” section of the bank’s website at: [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com).

The regulations governing the drafting of the “Basel 2 Pillar 3” disclosure require credit institutions to adopt a formal policy to meet the minimum public disclosure requirements and to put instruments in place that enable them to assess its adequacy. To this end, the Management Board and the Supervisory Board of the Parent Company Intesa Sanpaolo S.p.A. have approved a specific document “Guidelines on Pillar 3 disclosure”. This document sets out the duties and responsibilities of the Corporate Bodies and the various Group departments involved in the different stages of the process governing this disclosure. Given its public importance, this document is submitted by the Manager responsible for preparing the Company’s financial reports for approval to the competent Corporate Bodies. This document is therefore subject to the related certification, pursuant to Art. 154 bis of Legislative Decree 58/1998 (Consolidated Law on Finance). As a consequence, the “Basel 2 Pillar 3” disclosure is subject to the checks and controls established in the Group’s “Guidelines for administrative and financial governance”, the document that sets out the rules for the application of art. 154 bis of the Consolidated Law on Finance in the Intesa Sanpaolo Group. In particular, the internal control system for accounting and financial information is designed to ensure the ongoing verification of the adequacy and effective implementation of the administrative and accounting procedures at Group level.

Given the importance to investors of the “Basel 2 Pillar 3” disclosure, Intesa Sanpaolo has decided that this Document should be the subject of a limited review by the Independent Auditors KPMG S.p.A. The related audit report is published together with this document.

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro. The figures shown for comparison refer to the “Pillar 3 Basel 2” disclosure published as at 31 December 2012. In this regard, the scope of consolidation of the disclosure does not essentially differ from the one used in 2012.

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

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

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

## Capital ratios as at 31 December 2013

	(millions of euro)	
Regulatory capital and capital ratios	31.12.2013	31.12.2012
<b>Regulatory capital</b>		
Tier 1 capital	33,840	36,013
<i>of which: instruments not included in Core Tier 1 ratio (*)</i>	<i>2,545</i>	<i>2,544</i>
Tier 2 capital	7,100	8,141
Minus items to be deducted (**)	-	-3,410
<b>REGULATORY CAPITAL</b>	<b>40,940</b>	<b>40,744</b>
Tier 3 subordinated loans	-	-
<b>TOTAL REGULATORY CAPITAL</b>	<b>40,940</b>	<b>40,744</b>
<b>Risk-weighted assets</b>		
Credit and counterparty risks	227,031	253,309
Market risks	17,962	18,427
Operational risks	22,737	25,745
Other risks (***)	8,561	1,138
<b>RISK-WEIGHTED ASSETS</b>	<b>276,291</b>	<b>298,619</b>
<b>Capital ratios %</b>		
Core Tier 1 ratio	11.3	11.2
Tier 1 ratio	12.2	12.1
Total capital ratio	14.8	13.6

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

(\*\*) Effective 1 January 2013, the elements of an insurance nature previously deducted from total regulatory capital have instead been deducted from tier 1 and tier 2 capital (at 50% each), on a par with the other elements deducted, according to the specific indications contained in Bank of Italy Circulars 155 and 263.

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

Regulatory capital and related capital ratios as at 31 December 2013 have been determined in accordance with Basel 2 provisions, by applying the Bank of Italy's instructions.

As at 31 December 2013, total regulatory capital came to 40,940 million euro, compared to risk-weighted assets of 276,291 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk.

The constant decrease in risk-weighted assets throughout 2013 is primarily attributable, in the case of credit risks, to ordinary operations and optimisation processes, whereas in the case of operational risks it is largely related to the contracting of an insurance policy of an innovative nature ("second layer policy") known as the Operational Risk Insurance Programme, which offers coverage greater than that of traditional ("first layer") policies and therefore significantly increases the limit of liability, in effect transferring the risk of significant operational losses to the insurance market.

With respect to regulatory capital, it should be noted that effective from 1 January 2013 the option granted by the Bank of Italy allowing for the deduction of insurance investments made prior to July 2006 from total regulatory capital is no longer in force. Accordingly, such investments are included 50% among deductions from Tier 1 capital and the remaining 50% among deductions from Tier 2 capital; the effect, on the basis of the figures as at 1 January 2013, was a negative 57 hundredths of a point on the Core Tier 1 ratio.

It should also be noted that following the notice received from the Bank of Italy on 9 May 2013, a negative prudential filter has been applied to sterilise the positive effects on Core Tier 1 associated with multiple cases of tax realignment of goodwill. The effects of this sterilisation, spread over a five-year period from report as at 31 March 2013, were calculated in reference to the associated DTAs as at 31 December 2012, net of the substitute tax paid and the total of such DTAs reversed to the income statement during the period. The application of this filter led to a negative effect on Core Tier 1 of 3 hundredths of a point.

The application effective from 1 January 2013 of the amendments to IAS 19 (an accounting standard that governs employee benefits) had a limited impact for regulatory purposes, inasmuch as the negative valuation reserve generated was essentially sterilised through the specific prudential filter envisaged by the Bank of Italy.

Finally, regulatory capital takes account of the proposal for a “dividend” that the Management Board will submit to the Shareholders’ Meeting, to be distributed in the amount of 5 euro cents per each outstanding ordinary and savings share, for a total of approximately 822 million euro.

In addition, the carrying amount of the new stakes in the Bank of Italy, recognised following the issuance of the provisions laid down in Law Decree 133/2013, converted into Law 5 of 23 January 2014, and the ensuing amendments to the Bank of Italy’s articles of association of 23 December 2013, in accordance with the indications received from the supervisory authority, continues to be deducted 50% from Tier 1 Capital and 50% from Tier 2 Capital, for the previous carrying amount of the cancelled stakes, and fully deducted from Tier 1 Capital, for the increased carrying amount of the new stakes.

The Total capital ratio stood at 14.8%, while the Group’s Tier 1 ratio was 12.2%. The ratio of Tier 1 capital net of ineligible instruments to risk-weighted assets (Core Tier 1) was 11.3%.

Lastly, in a Regulation published on 18 May 2010, the Bank of Italy provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among “Financial assets available for sale”. In particular, the Regulation allows the capital gains and losses recognised through such reserves associated with the foregoing securities to be completely neutralised effective from 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 31 December 2013 account for this measure (the effect on the Core Tier 1 ratio is -2 basis points).

### Performance of risk-weighted assets

	(millions of euro)
<b>Risk-weighted assets as at 31.12.2012</b>	<b>298,619</b>
Reduction in credit risk due to decrease in utilisations	-28,285
Supplementation of credit risk as compared to the calculation using the IRB approaches required by the A	7,973
Reduction in operational risk as a result of second level insurance coverage	-3,008
Other changes in risk-weighted assets	992
<b>Risk-weighted assets as at 31.12.2013</b>	<b>276,291</b>

Credit risk recorded a decrease due to the volume effect, relating to the performance of loans to customers, of approximately 28 billion euro, and an increase of the transitional floor effect of 8 billion euro (represented by the greater requirements resulting from the comparison with RWAs calculated according to the Basel I approach).

Operational risks showed a decrease of 3 billion euro, chiefly due to the contracting of second-layer insurance for cover of extreme events, as well as a favourable performance of operational events and the extension of the scope of application of the advanced approach.

Other minor effects primarily related to the change in the risk level of credit risks, net of the shift of the portfolio towards better exposures and transfers to the non-performing category.

Lastly, it bears remarking that total capital requirements also reflected the reduction of the net shortfall of 0.6 billion euro due to the increase in the coverage ratio for positions in default.

Market risks do not show any change at the annual level.

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# Table 1 – General requirements

## Qualitative disclosure

### Introduction

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk.

The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent, accurate representation of the risk level of the Group's portfolios.

Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Management Board and Supervisory Board. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo Group's risk position and the economic situation.

The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

- Intesa Sanpaolo is a banking group focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
- the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
- Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, liquidity and a strong reputation are the key factors to protecting its current and prospective profitability;
- Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are to be managed, with the establishment of general principles of maximum risk tolerance and the resulting structuring of the management of:

- the overall risk profile; and
- the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in conditions of severe stress. In addition, it aims to ensure the desired reputation and compliance risk profiles.

In detail, management of overall risk is aimed at maintaining adequate levels of:

- capitalisation, even under conditions of severe macroeconomic stress, with respect to both Pillar I and Pillar II. In further detail, capital adequacy is assessed by monitoring:
  - o Common Equity and the Total Ratio, for Pillar I; and
  - o the Leverage Ratio and Risk-Bearing Capacity, for Pillar II;
- liquidity, so as to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situation; the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the Funding/Lending Gap;
- earnings stability, so as to ensure profitability even in stress scenarios through an adequate mix of business;
- management of operational, compliance and reputational risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

Management of the main specific risks is aimed at determining the maximum acceptable risk that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing ad hoc limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. Such risks are assessed on the basis of stress scenarios, are subject to periodic monitoring with the framework of Risk Management systems and constitute early warning indicators, especially as regards capital adequacy.

In detail, the main specific risks monitored are:

- especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
- the individual risks that make up the Group's overall risk profile and the operating limits for which, as envisaged in specific policies, complete the Risk Appetite Framework.

The Group's Risk Appetite is also established in relation to the main subsidiaries, in terms of both the overall risk profile and the main specific risks. Overall risk management is implemented by monitoring key aspects (capital adequacy, liquidity and reputation) according to an approach similar to that followed at the Group level.

The Risk Appetite Framework informs the Budget and Business Plan and is proposed by the Chief Risk Officer, after its compatibility is assessed together with the Chief Financial Officer and the Heads of the various Business Units. The risk-acceptance strategy and policy thus fall within the context of the Plan and Budget process. In accordance with regulatory constraints and in a manner consistent with the risk profile assumed by the Group, the Chief Financial Officer area lays down the strategic profitability, capital adequacy and liquidity objectives that the Group intends to pursue. These objectives then form the basis for identifying the assets and financial resources to be allocated to the individual business units, including the insurance segment, through a process that involves an assessment of their attractiveness, financial independence, growth potential and ability to create value.

The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk and the use of capital-at-risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Supervisory Board and the Management Board along the Group's entire decision-making chain, down to the single operational units and to the single desks.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in a comprehensive framework of governance, control limits and procedures.

The assessment of the risk profile and periodic revision are conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules. Since 2013, the Group has also been completing a Recovery Plan process according to indications from the Supervisory Board.

### **A culture of risk-awareness**

The utmost attention is devoted to spreading and sharing a culture of risk-awareness through both periodic updates to the documents prepared (Tableau de Bord, ICAAP and Risk Appetite Framework) and initiatives undertaken with the aim of dealing with specific issues raised from time to time.

In addition, the Group guarantees the spread of a culture of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.

The Risk Academy initiative, addressed to the international subsidiaries, is a strategic project that pursues the goal of improving management of Risk Governance at Banking Group level.

The measures taken in pursuit of this goal are the establishment of a coordinated approach to risk management and compliance with supervisory regulations, as well as of ongoing support from the Parent Company for the local growth of risk assessment and monitoring systems within the international subsidiaries.

The risk management approach aims to achieve increasingly integrated and consistent risk management, considering both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

### Risk governance organisation

Risk-acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board carries out its activity through specific internal Committees, among which mention should be made of the Control Committee. The Management Board relies on the action of managerial committees, among which mention should be made of the Group Risk Governance Committee. Both corporate bodies receive support from the Chief Risk Officer, who is a member of the Management Board and 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 **Group Risk Governance Committee**, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the monitoring and management of risks and the safeguarding of corporate value at Group level, including internal control systems, in implementation of the strategic guidelines and management policies defined by the corporate bodies.

The Committee is also responsible for Basel 2 and 3 project governance and supervising the projects and measures necessary to guarantee compliance.

The **Group Financial Risks Committee** is a technical body with a decision-making and reporting role that focuses on proprietary financial risk of banking and trading books, as well as on Active Value Management. This Committee, which meets in two separate periodic sessions, one of which is chaired by the Chief Risk Officer and the other by the Chief Financial Officer, is responsible for assessing the following, prior to approval by the corporate bodies:

- the methodological and measurement guidelines for financial risks;
- establishment of operational limits and assessment of the risk profile of the Group and its main operational units;
- strategic decisions relating to management of the banking book, to be submitted to the competent bodies;
- guidelines concerning liquidity, interest rate and foreign exchange risk.

In addition, it periodically assesses the Group's overall financial risk profile and takes the appropriate measures to mitigate it.

The **Group Compliance and Operational Risk Committee** is a technical body with a decision-making, consultative and reporting role with the aim of stepping up co-ordination and interdepartmental co-operation mechanisms and facilitating the effective management of operational and compliance risks. The Committee operates within the scope of the guidelines set by the corporate bodies, on the basis of the operational and functional powers delegated by the Management Board.

The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries, these functions are performed, on the basis of an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.

The **Risk Management Department** performs the following functions:

- it is responsible for risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies;
- it proposes the annual update of the RAF to the Chief Risk Officer;
- it proposes operational limits for financial risks (for both the banking and trading books);
- it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process;
- it oversees the methodological and organisational framework for operational risks;
- it adopts capital-at-risk measurements for management reporting and assessment of the Group's Economic Capital adequacy;
- it ensures that statutory reports on internal models are sent to the Supervisory Authorities;
- it is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units and desks;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the corporate bodies on the

situation of the Group's overall risk profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the boards.

### Scope of risks

The risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mostly represented by interest rate and foreign exchange rate risk;
- operational risk, including legal risk;
- strategic risk;
- risk on equity investments not subject to line by line consolidation;
- risk on real estate assets owned for whichever purpose;
- insurance risk.

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.

Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.

The Group also intends to maintain adequate levels of protection against reputational risk so as to minimise the risk of negative events that might jeopardise its image. To that end, it has embarked upon an ex-ante risk management process to identify the major reputation and compliance risks for the Group, define prevention and mitigation tools and measures in advance and implement specific, dedicated reporting flows.

Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum “unexpected” loss the Group might incur over a year. This is a key measure for determining the Group’s financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario under normal and stress conditions.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

### Basel 2 and Basel 3 regulations and the Internal Project

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

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.

The scope of application has since 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 FIRB	Corporate AIRB LGD	SME Retail IRB LGD	Mortgage IRB LGD
Intesa Sanpaolo				
Banco di Napoli				
Cassa di Risparmio del Veneto				
Cassa di Risparmio di Bologna				
Cassa di Risparmio di Venezia				
Cassa di Risparmio del Friuli Venezia Giulia	Dec - 2008	Dec - 2010	Dec - 2012	Jun - 2010
Cassa dei Risparmi di Forlì e della Romagna				
Banca dell'Adriatico				
Banca di Trento e Bolzano				
Banca di Credito Sardo				
Mediocredito Italiano				n.a.
Mediofactoring		Jun - 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	**	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.
Vseobecná Uverova Banka	Dec - 2010	*	*	Jun - 2012

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

(\*\*) Bank which have received authorisation from the Supervisory Authority from March 2014.

Effective from December 2013, authorisation to extend the AIRB approach to the Corporate segment and the IRB approach to the Retail Mortgage segment was obtained for the subsidiary Banca Monte Parma. That same subsidiary also received authorisation for the extension of the IRB approach to the SME Retail segment effective from the first report in 2014. Authorisation to use the AIRB approach for the Corporate segment and the IRB approach for the SME Retail segment has been obtained for the subsidiary Banca Prossima.

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013 as part of the process leading up to the application for authorisation to be submitted in 2014.

The Group is also proceeding with development of the rating approaches for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

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

In 2013 the Group presented its Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available.

As regards developments in the set of regulations known as "Basel 3", the main changes regard the level and quality of capital of the banks, introduction of the Leverage Ratio (ratio of Core Tier 1 and Total Assets, including off balance sheet adjusted for the actual derivatives exposure), changes in the valuation of counterparty risk and the introduction of two new regulatory liquidity indicators (Liquidity Coverage Ratio and Net Stable Funding Ratio). Specifically, during the third quarter of 2013 an application for authorisation to use the internal counterparty risk model for regulatory purposes was submitted to the

Bank of Italy in reference to the Parent Company Intesa Sanpaolo and Banca IMI.

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

### The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, functions, resources procedures and organisational structures aimed at ensuring compliance with Company strategies and the achievement of the following objectives:

- the proper implementation of Company strategies and policies;
- the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
- the safeguarding of asset value and protection from losses;
- the effectiveness and efficiency of the Bank processes;
- the reliability and security of Company information and IT procedures;
- the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with especial regard to those relating to money-laundering, usury and financing for terrorism);
- the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire Company organisation (boards, units, hierarchical levels, all personnel).

The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, incorporating both the Company policies and the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls. The process of drawing up Integrated Internal Control System Regulations has begun in accordance with the New Supervisory Regulations issued by the Bank of Italy in July 2013.

More specifically, the Company rules set out organisational solutions that:

- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- allow the prompt notification to the appropriate levels within the Company and the swift handling of any anomalies found by the business units and the control functions;
- ensure adequate levels of business continuity.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.

At Corporate Governance level, Intesa Sanpaolo has adopted a dual governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company, which is exercised by the Management Board in accordance with the provisions of art. 2409-*octies* and subsequent of the Italian Civil Code and art. 147-*ter* and subsequent of the Consolidated Law on Finance.

The Supervisory Board has established an internal Control Committee that proposes, advises and enquires on matters regarding the internal control system, risk management and the accounting and IT system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative liability of companies, supervising operations and compliance with the Organisational, Management and Control Model adopted by the Bank.

From a more operational standpoint, the internal control and risk management system is divided into three levels:

- the first level consists of line controls that are conducted by operating departments (by the person performing the relevant activity plus hierarchical controls), or are incorporated into procedures or back-office activities;
- the second level falls mainly under the responsibility of the Chief Risk Officer and includes specific functions that (Risk Management Department, Credit Quality Monitoring Unit, Internal Validation Function and the Compliance Department) that involve:
  - risk management controls, which are aimed at contributing to the definition of risk measurement methodologies, at verifying compliance with the limits assigned to the various operating departments and at controlling the consistency of the operations of individual productive areas with the assigned risk-return targets;
  - compliance controls, which are aimed at preventing the risk of incurring legal and administrative penalties, significant financial loss or damage to reputation as a consequence of infringements of laws and regulations or self-regulating codes;
  - compliance controls with regard to anti-money laundering, combating the financing of terrorism and embargo management;
  - credit granting controls, including the correct process of assignment and updating of ratings, controls on the management process for non-performing and doubtful loans and monitoring of credit quality;
  - internal validation controls, in accordance with Bank of Italy Circular 263/2006;
- the third level consists of internal auditing activities run by the Internal Auditing Department, a separate, independent structure from the operating structures, whose aim is to identify anomalous operations and breaches of procedures and regulations, and to assess the overall functioning of the internal control system.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.

Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

### ***Risk Management***

The Risk Management Department is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The Risk Management Department is responsible for the risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies; it proposes the annual update of the RAF to the Chief Risk Office; it proposes operational limits for financial risks (for both the banking and trading books); it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process; it oversees the methodological and organisational framework for operational risks; it adopts capital-at-risk measurements for management reporting and assessment of the Group's internal capital adequacy; it ensures that statutory reports are sent to the Supervisory Authorities.

The Department's tasks and functions are discussed in detail in the subsequent chapters of this document.

### ***Internal Validation***

The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the New Supervisory Regulations for banks<sup>1</sup>, of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The validation process is entrusted to the Internal Validation Function, which is responsible for

<sup>1</sup> Bank of Italy Circular no. 285/2013; Bank of Italy Circular no. 263/2006 and subsequent updates (where applicable); EU Council Regulation no. 575/2013 (CRR).

the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on Internal risk measurement systems.

The Internal Validation Function reports directly to the Chief Risk officer and is independent of the functions that manage internal system development activities and the function in charge of internal auditing. It ensures that internal models, whether already operational or in the development stages, are validated with regard to all risk profiles covered by Pillars I and II of the Basel II Accord, in accordance with the independence requirements established by the Bank of Italy.

With respect to the first pillar in particular, it conducts ongoing assessments of risk management and measurement systems in terms of models, processes, IT infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference by developing adequate methodologies, tools and operating solutions.

Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Function's activities, documented in accordance with pre-determined standards, are presented to the competent functions, transmitted to the Internal Auditing Department for its related internal auditing work, as well as to the competent managerial committees and governance bodies for the resolution certifying the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.

With respect to pillar-two risks, the Internal Validation Function conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The main analyses are conducted in the context of the prudential control process and summarised in the ICAAP book<sup>2</sup>.

The unit also manages the internal validation process at the Group level, interacting with Supervisory Authorities, the company bodies of reference and the units responsible for the level-three controls provided for in regulations.

The Internal Validation Function adopts a decentralised approach for companies with local validation functions (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others.

The methodologies adopted were developed in implementation of the principles that inspire the Supervisory Regulations for banks, Community Directives, general orientations of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

The function generally provides advice and suggestions to company and Group functions on an ongoing basis with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.

In 2013, the main validation activities in the area of credit risks pertained to:

- validation activities aimed at presenting two applications: the AIRB approach (internal estimates of PD/LGD) for the Supervised Intermediaries regulatory segment (Banks and Public Entities) and the adoption of internal estimates of PD for the Banking Book Equity portfolio for the purposes of calculation of the regulatory capital requirement;
- extension of the IRB approach to the SME Retail segment for the subsidiary Banca Monte Parma;
- periodic quantitative and qualitative analyses (backtesting, performance analyses and empirical analyses of use tests) required by the Bank of Italy for the Residential Mortgages to Private Individuals, Corporate and SME Retail segments (PD and LGD models) in the context of the annual validation report;
- monitoring of the measures taken in accordance with the requirements set in the regulatory capital "floor" revision order of summer 2011.

In the cases of the international subsidiaries, the Internal Validation Function conducted its own assessments in collaboration with the local validation functions, where present, so that the relevant applications could then be submitted to the competent Supervisory Authorities. In detail, analyses of the adequacy of internal risk measurement systems for the purposes of determining capital requirements for credit risk were completed for the following subsidiaries:

- VUB (Slovakia): validation report for the application for authorisation to use the IRB approach for the SME Retail segment and the IRB method for the regulatory Corporate segment;
- PBZ (Croatia): validation report for the application for authorisation to use the FIRB approach for the

<sup>2</sup> Moreover, in line with the Supervisory Authority provisions, Internal Validation previously validates the amendments to the model of demand positions and the annual re-estimation of its parameters.

Micro Corporate segment;

- Banka Koper (Slovenia): pre-validation report for authorisation of the internal adoption of the FIRB approach for the Corporate segment.

Validation activities for operational risk conducted in 2013 took the form of:

- control of the update of the internal regulatory framework regarding operational risks launched in 2012 and completed in 2013;
- validation activities aimed at the control of the measures taken in accordance with the requirements set in the AMA authorisation orders of June 2013;
- methodological analyses with the goal of verifying the stability of the approach (LDA) in light of the changes applied (e.g., modelling of illicit acts by financial advisors and new allocation method);
- performance of annual validation analyses (process, empirical and model analyses) for the purposes of the drafting of the annual report.

For the purposes of such activities, the information drawn from documentary and empirical analyses (using Isidoro data) was supplemented by specific onsite inspections aimed at ascertaining the actual application of the monitoring and management process for operational risks and by methodological analyses. Concurrently, in the first half of 2013, the Internal Validation Function completed the Remote Verification Process for the Organisational Units/Legal Entities within the AMA scope.

The Internal Validation Function's activity relating to the market risk component focused on the following areas:

- validation activities aimed at the extension of the internal market risks model to the Parent Company's hedge funds portfolio;
- annual validation analyses (annual report) with specific follow-ups on unresolved anomalies relating to compliance with the EBA Guidelines on Stressed VaR published in 2012 and calculation of the Incremental Risk Charge (IRC);
- monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation;
- periodic analyses required by the Bank of Italy on the progress of corrective measures applied to the spread VaR and IRC models.

Bank of Italy conducted a validation inspection in October 2013 for counterparty risk, currently used for management purposes only by the Parent Company and Banca IMI. The Internal Validation Function monitored the progress of the project in terms of both the quantitative and organisational aspects (IT processes and development), suggesting configuration modifications to the system as designed, also based on independent backtesting analyses. It also monitored the corrective measures implemented over time in response to such suggestions, as well as the irregularities observed by the Bank of Italy as a result of its pre-validation inspections. The project activities were reported to the Supervisory Authority through the submission of the validation report for the internal model appended to the July 2013 application.

The main analyses conducted with regard to Pillar II risks in reference to the methods applied for the purposes of calculation of economic capital as at 31 December 2013 pertain to:

- the method for the allocation of economic capital calculated by the portfolio model;
- the method for the estimate of the economic capital for default positions;
- the update and re-estimate of the parameters of the behavioural model of demand positions for the assessment of banking book interest rate risk;
- the extension to floating-rate loans of the prepayment assessment method (CPR);
- the change in of stress-testing method;
- the changes made to the model for calculating economic capital for insurance risk.

In addition, the changes in the liquidity risk assessment policy to bring it into line with the provisions of the CRR were also validated.

Methods for equity risk, the integration of risks and reallocation to total economic capital, foreign exchange risk, interest rate risk and strategic risk, which were validated in previous years, were not subject to significant change in 2013. It was therefore not deemed necessary to update the associated validation analyses.

### ***The Compliance Department***

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

Management of non-compliance risk is entrusted to the Compliance Department, which reports to the Chief Risk Officer, from a position of autonomy with respect to operating departments, and of separation from internal auditing.

The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Management Board and Supervisory Board. These Guidelines identify the responsibilities and macro processes for compliance, aimed at mitigating the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of non-compliance risk. The Compliance Department, including through the coordination of other company functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the assessment of the company's bonus system, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, including through the use of information provided by the Internal Auditing Department, of ongoing compliance, and the promotion of a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The Compliance Department submits periodic reports to corporate bodies on the adequacy of compliance control. On an annual basis, these reports include an identification and assessment of the primary non-compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a semi-annual basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.

The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group's structure in operational and territorial terms. In particular:

- compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent Company are centralised with the Compliance Department;
- for the other Companies, specifically identified on the basis of the existence of a legal obligation or their material nature, as well as for Branches Abroad, an internal compliance function is established and a local Compliance Officer is appointed. In functional terms, the Compliance Officer reports to the Compliance Department and is assigned compliance responsibilities.

In 2013 a review of the current Compliance Model was launched with the aim of adapting to the new provisions on internal control systems issued by the Bank of Italy in July, which assign responsibility for compliance risk management for all regulatory aspects applying to corporate activities to the Compliance Department, with the option of tailoring regulatory tasks for which suitable forms of specialised monitoring are envisaged.

The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of non-compliance risk, including in light of the most significant ongoing projects, such as Out-of-branch offering and initiatives aimed at achieving compliance with new regulations enacted at an international level (e.g., EMIR, Dodd Frank Act, short-selling law). In particular:

- in the financial intermediation and investment services area, monitoring of the procedural organisational structure in support of the service model adopted by the Bank continued, also in light of the Guidelines on suitability issued by ESMA in July 2012. In this context, work was done on both the internal rules that govern the provision of investment services, adjusting those Roles to the changed economic scenario, and on the procedures that apply to operations with the aim of improving the service rendered to customers, with particular reference to the adequacy assessment model. Work also continued in the area of monitoring personal transactions, clearing new products and services and controlling customer operations in order to prevent market abuse. In the area of conflict of interest management and the circulation of insider information, work continued to be done with the aim of enhancing the model adopted by the Bank;
- legislative developments in the areas of banking products and services were monitored, with a particular focus on the issue of transparency, consumer credit and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of ensuring that customer-protection provisions are properly managed;
- in the area of insurance and pension services, business functions received constant advice, concerning in particular policies paired with mortgages and motor policies. In addition, initiatives continued with the aim of enhancing governance of non-compliance risks pertaining to the insurance and pension segment, with respect to the Group's distribution networks; in particular, work was done with the aim

of rationalising the line of pension products and adapting the associated post-sales process, and a specific project was created in order to return the residual premium for Group's policies associated with loans repaid in advance;

- the organisational, management and control Model pursuant to Italian Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations, updating it to take into account the new predicate offences, and coordinating verification of its proper implementation.

Additional activities were aimed at reinforcing management and coordination activity for international subsidiaries, with the aim of implementing a supervisory model comparable to that adopted by the Parent Company, involving the establishment of shared control guidelines and standards for the most sensitive areas.

Considerable importance was attached to personnel training programmes, involving the implementation, in collaboration with the competent company functions, of initiatives aimed at pre-defined targets in order to maximise their efficacy.

### ***The Anti-Money Laundering Function***

In August 2011, in line with the regulatory provisions issued by the Bank of Italy on 20 March 2011, responsibilities in the area of the prevention of money laundering and embargo management, previously entrusted to the Compliance Department, were reassigned to a specific Anti-Money Laundering Function reporting directly to the Chief Risk Officer. The Function is charged with monitoring compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:

- laying down the general principles to be adopted within the Group for the management of compliance risk;
- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic information for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment of reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

During 2013, the Anti-Money Laundering Function devoted the utmost attention to projects aimed at reinforcing coverage of the Group's Italian and international companies in the area of money laundering and embargoes, including in light of the new provisions of law enacted at the national and international level. In further detail, organisational, IT and training activities were performed with the aim of implementing applicable regulations in this area.

### ***The Internal Auditing Department***

Internal auditing activities are performed by the Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board. It also liaises with the Control Committee and has no direct operating responsibilities.

The Department has a structure and a control model which is organised consistently with the organisational model of Intesa Sanpaolo and, more generally, of the Group.

As part of its duties the Department also liaises with the Internal Auditing departments of the Group's Italian and international companies.

The Internal Auditing Department performs overall third-level assessment of the internal control systems, reporting possible improvements to the corporate bodies.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control systems, the risk management process and corporate processes, also with regard to their capacity to identify errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance departments, also through participation in plans designed to create value added and to improve the effectiveness of the control and corporate governance processes. The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the processing of defining the Risk Assessment Framework and related compliance of Bank operations.

The Head of the Internal Auditing Department enjoys the due autonomy and independence from operating departments. The Department has free access to the activities, data and documents of all company functions.

The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IIA). The Department has earned the maximum rating in the external Quality Assurance Review envisaged by the international standards “Generally Compliant.”

In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and corporate bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Control Committee and subsequent approval by the Management Board and the Supervisory Board, on the basis of which it conducts its activities during the year.

During 2013, auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments, second level controls were conducted (indirect surveillance).

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

Control activity was generally oriented towards the processes carried out by company functions with the aim of assessing:

- the functionality of line and second-level controls;
- the reliability of operating departments and delegation mechanisms;
- the accuracy of the information available in the various activities and the adequate use of the same.

Direct surveillance, both on-site and remote, was carried out in particular through supervision of processes relating to:

- credit granting, management and classification, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- measurement, management and control of the Group’s exposure to various market, counterparty, property, liquidity, interest rate, operational, credit and country risks. Particular attention was dedicated to the adequacy of the processes and criteria for estimating internal capital in accordance with Basel 2 and Prudential Supervision regulations;
- controls carried out by compliance risks governance functions and operating functions, in particular on provisions of law concerning money laundering, usury, investment services, transactions with related parties and the administrative liability of entities pursuant to Legislative Decree 231/01;
- IT system development and management, to ensure their reliability, security and functionality;
- management of financial operations with the aim of verifying the adequacy of related risk control systems;
- management of the operations area, with a particular focus on the proper management of deferred amounts in the accounts.

Control activity was then completed through:

- measures affecting Italian product company subsidiaries, with a priority focus on credit quality and processes, as well as on money laundering prevention and embargo processes;
- verification of the operations performed by foreign banks, companies and branches, with interventions by both local internal auditors and internal auditors from the Parent Company;
- control of the governance activity performed by the Parent Company for the International Subsidiary Banks;
- timely performance of the assessments requested by Supervisory Authorities in specific areas such as management remuneration and incentive systems, the Parent Company’s management and coordination powers over asset management companies, obligations under new authorisations, privacy, business continuity, provisioning for doubtful loans and Asset Quality Review.

Indirect audit was conducted via the steering and practical coordination of the auditing departments of Italian and international subsidiary banks and companies, to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, was also performed for those companies, as mentioned above.



Any weak points detected during control activities have been systematically notified to the company functions involved for prompt improvement actions which are monitored by follow-up activities.

Summary Internal control system assessments from the checks have been periodically submitted to the Control Committee, Management Board and Supervisory Board. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be monitored until they are resolved. The reports on the audits with a negative outcome or no irregularities observed were submitted to and illustrated for the Control Committee and corporate bodies.

Lastly, the Internal Auditing Department ensured constant assessment of its own efficacy and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice.

### ***Manager responsible for preparing the Company's financial reports: the financial reporting process***

As required by art. 154-bis of the Consolidated Law on Finance, the delegated administrative bodies and the Manager responsible for preparing the Company's financial reports are to certify the following for the separate and consolidated financial statements in specific reports:

- adequacy and actual application of administrative and accounting procedures;
- compliance with international accounting standards;
- documents matching the accounting books and records;
- suitability of the documents to provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation;
- the report on operations includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

The Manager responsible for preparing the Company's financial reports plays a steering and coordination role in Group companies with regard to administrative and accounting matters and in the supervision of internal control system functional to accounting and financial reporting. To this end, the Manager responsible for preparing the Company's financial reports plans the activities that the Group is required to perform over the year and is responsible for:

- coordinating the instructions issued to the companies for the correct and uniform application of the accounting standards, rules and measurement criteria, formalised as part of the Group accounting regulations and subject to regular periodic updates;
- preparing administrative and accounting procedures for producing the annual separate and consolidated financial statements, and coordinating process development measures to comply with financial reporting obligations to national and supranational authorities;
- verifying the adequacy and actual application of administrative and accounting procedures over the period, through a structured assessment process, the findings of which are formally included in a Report on the internal control system functional to the financial reporting process;
- monitoring the acquisition process for the information required to provide a fair view of the Group's assets, liabilities, profit or loss and financial position, especially with reference to the main risks and uncertainties to which companies are exposed;
- supervising the compliance of information contained in corporate documents disclosed to the market, such as public Pillar III disclosures and the Report on Corporate Governance and Ownership Structures subject to opinions from the independent auditors, and statements accompanying the issue and public offering of domestic and international bonds;
- providing feedback on recommendations made by the independent auditors during the auditing process for the Parent Company's financial statements and the Group consolidated financial statements for the purpose of continuous improvement of procedures affecting accounting data in the financial reporting process.

In detail, the internal control system for accounting and financial information is supervised by the Manager responsible for preparing the Company's financial reports (pursuant to the provisions of art. 154-bis of the Consolidated Law on Finance) in accordance with the Company Regulations "Guidelines for administrative and financial governance", which concern the methods of implementation for verification of the adequacy and actual application of administrative and accounting procedures at the Group level, as well as responsibilities and rules for the maintenance of an adequate system of

information flows that the company functions of the Parent Company and subsidiaries are required to transmit in order to enhance the level of monitoring of information to be used for the presentation of the Group's assets, liabilities, profit or loss and financial position of the Group and the main risks and uncertainties to which it is exposed.

Through the Administrative and Financial Governance Unit, which supports his or her coordination of the Group, the Manager responsible for preparing the Company's financial reports has identified the set of subsidiaries deemed material for financial reporting purposes with respect to given qualitative thresholds and on the basis of assessments of a qualitative nature, thus establishing the overall plan of activities to be performed during the year with regard to legal obligations.

The assessment process in support of the legally required certifications is completed with:

- the acquisition and classification of the information flows reported by the companies, which are subject to periodic condensation by the Administrative and Financial Governance Unit for use by the Manager responsible for preparing the Company's financial reports and the independent auditors, for any further enquiries of interest to each;
- the drafting of a Report on the internal control system for financial reporting by the administrative head of each company following the completion of audit work; this Report is prepared according to common principles and rules of presentation within the Group and the Report's assessment aspects are subject to further review in collaboration with the Administrative and Financial Governance Unit before it is finalised;
- the formulation of an overall opinion of the adequacy of the financial reporting control procedures and system on the basis of the findings of the audits carried out, while also taking account of any recommendations made by the independent auditors during the auditing process for the Parent Company's financial statements and the opinions expressed by the management;
- the acquisition of the internal certifications signed by the delegated body of each company within the scope of application;
- the drafting of a Group Report by the Administrative and Finance Governance Unit in order for the Manager responsible for preparing the Company's financial reports to submit the activities carried out to the Control Committee, Management Board and Supervisory Board, in accordance with the purview of each.

The work done allowed the Managing Director – CEO and Manager responsible for preparing the Company's financial reports to issue the certifications required with respect to the 2013 Annual Report, and, referring only to the Manager responsible for preparing the Company's financial reports, to the Basel 2 Pillar 3 disclosure as at 31 December 2013, in accordance with the model established by the Consob Regulation.

## CREDIT RISK

### *Risk management strategies and processes*

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

- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- given the current economic climate, privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.

The levels of autonomy assigned to the decision-making bodies are determined by agreement between the Bank/Banking group regarding the borrower/economic group. The rating assigned, along with any other credit-risk mitigating factors, conditions the determination of the decision-making competence of each delegated body. Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to

credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.

In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:

- the system of Credit Powers and Granting and Monitoring Rules governing the ways in which credit risk to customers is assumed;
- “Credit-granting limit”, intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the “Compliance opinion” on credit-granting to large customers (single name or Economic Group) which exceeds certain thresholds.

The exchange of basic information flows between different Group entities is assured by the Group’s “Centrale Rischi” (exposure monitoring and control system) and by “Posizione Complessiva di Rischio” (global risk position), that highlight and analyse credit risks for each client/economic group both towards the Group as a whole and towards individual Group companies.

The activities within the Chief Risk Officer’s purview are carried out directly by the Risk Management Department and the Credit Quality Monitoring Unit, for the Parent Company and the main subsidiaries, on the basis of a service contract, whereas the other control structures operating within the individual companies report regularly to the aforementioned functions of the Parent Company.

### **Structure and organisation of the associated risk management function**

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, each to the extent of its competence, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:

- the Chief Lending Officer;
- the Chief Risk Officer; and
- the Chief Financial Officer.

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation.

The Chief Lending Officer assesses the creditworthiness of the loan applications received and, where competent, approves them or issues a compliance opinion, manages and monitors non-performing loans and functionally coordinates the recovery of doubtful loans by Intesa Sanpaolo Group Services through the Loan Recovery Department, sets the Credit Granting and Management Rules, ensures that positions classified as non-performing, within his purview, are properly measured for financial statement purposes, and defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, on some occasions at the proposal of the Group’s various functions/structures.

The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group’s risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, implements credit controls, including rating controls, and constantly monitors risk and credit quality performance.

In accordance with the strategic guidelines and risk management policies set by the Management Board and approved by the Supervisory Board, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate), oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.

In addition, within the framework of the loan assessment process, the Administration and Tax Department, which reports directly to the Managing Director and CEO, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.

Intesa Sanpaolo Group Services provides specialised operating support for loan recovery activity and in defining credit processes while ensuring cost and performance synergies in the service offered.

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

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and 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.

A number of rating models are used for the Corporate segment:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

In general terms, the structure of these models requires the integration of multiple modules:

- a quantitative module that processes financial and behavioural data;
- a qualitative module that requires the manager to fill in a questionnaire;
- an independent assessment by the manager, organised as a structured process, which triggers the override procedure if there is a discrepancy with respect to the integrated rating.

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. Any improvement override proposals are validated by a Specialist Unit allocated to the Parent Company, within the Chief Lending Officer's staff. The Specialist Unit is responsible for, among other duties, the task of assigning what are known as "centralised ratings" provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.

The models applied to the Retail portfolio are as follows:

- for the Small Business segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and historical series used in development;
- for the Retail Mortgage segment (residential mortgages for private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the Application model is used, and the subsequent assessment during the lifetime of the mortgage (Behavioural model), which takes into account behavioural data;
- a class of models is gradually being developed for other products aimed at individuals (the Other retail segment) such as personal loans, consumer credit, credit cards, current account overdrafts, etc. These models will gradually replace the management rating or scoring systems currently in use for various products.

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

As regards the other segments, a brief summary is provided below of the current status of the models and the expected developments. The use of internal models for operational purposes also extends to the segments where the internal ratings are not intended to be used for regulatory reporting.

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries. The structure of the model involves:

- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market quotations of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly

available information concerning the political and economic structure of individual sovereign countries.

The Banks model, in use from March 2011, is a “default model” (which, with reference to the low default segment, has used both internal data and data on external defaults for its estimates).

From the standpoint of determining probability of default, the key decision was to differentiate the models for banks in mature economies and banks in emerging countries, the structure of which, however, is highly similar. In short, these consist of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the “manager’s opinion”) that allows the rating to be modified in certain conditions.

In the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An extensive approach has been adopted for local healthcare authorities and other sector entities, with possible notching on the basis of financial statement assessments.

For counterparties belonging to the Non-Banking Financial Institutions sub-segment (Insurance Companies, Credit Guarantee Consortia, etc.), for which the Permanent Partial Use has been requested, a series of exclusively operational models is already used or under development, based on a variety of statistical techniques (shadow rating, portfolio approaches) and supplemented by experience-based elements.

Rating models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and adapted to the local situation and partly fully developed by the Subsidiaries concerned.

The LGD model is based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:

- estimate of a Bad Loans LGD Model: starting from the LGD observed on the portfolio, or the “Workout LGD”, determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event;
- application of a correction factor, known as the “Danger Rate”: the Danger Rate is a multiplying correction factor, aimed at recalibrating the Bad Loans LGD with the information available on the other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;
- application of another, additional correction factor, known as the “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to take account of the loss rates associated with positions that have not become Bad Loans (Substandard or Past Due positions).

LGD is determined according to differentiated models, specialised by operating segment (Corporate, SME Retail, Mortgage, Factoring, Leasing and Public Entities).

Given the peculiarities of the segment, which has a low number of defaults (“low-default portfolios”), the Banks LGD model partly diverges from the models developed for the other segments. The estimation model used is of the market LGD type, based on the price of debt instruments observed 30 days after the official date of default for a sample of defaulted banks from throughout the world, obtained from an external source. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice for the other models.

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

In 2014 plans call for the development of an internal model for determining EAD (Exposure at Default).

The rating system also includes a risk trend indicator, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments

when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the Non-performing Loan Process. This process, supported by a dedicated electronic procedure, enables constant monitoring, largely automatic, of all the phases for the management of anomalous positions. The positions which show an anomalous trend are classified into different processes based on the risk level, including the automatic classification in non-performing assets, as described in the related paragraph below.

The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.

Ratings and mitigating credit factors (guarantees, types of loan products/lending facilities and covenants) play a fundamental role in the loan granting and monitoring process and contribute to setting the Credit Powers and Granting and Monitoring Rules. The Credit Quality Monitoring Unit oversees the above aspects at the Group level, through specific, extensive control and monitoring activities. However, these activities are part of a broader system of credit controls that the Unit implements directly and coordinates with the aid of the cutting-edge information technology tools which are also made available to the business units for their respective areas of responsibility. Examples of such tools include the Ermes - Rating Controls application, a tool that allows rating control activities to be managed by computer, and the Credit Monitoring Portal.

This latter application, which has been in use since 2010 and receives input from the Credit Control Panel, is the Group's primary source in supporting the monitoring of the loan portfolio in terms of its development over time and for quantitative and qualitative composition as well as for loan-related processes aimed at identifying any areas showing potential critical weaknesses. The information available refers to all Group banks and companies that operate on the target information technology system.

In this context, the peripheral units within the Banca dei Territori and Corporate & Investment Banking Divisions down to the Area level, enjoy access to "information" dashboards that provide an organic, structured report prepared with the aim of:

- providing a structured, navigable overview of the phenomenon under review;
- reducing the time required to search for and process information;
- facilitating the identification of critical areas and defining priority actions;
- supporting the exchange of information between units on a consistent basis.

The aforementioned tools are subject to constant maintenance performed by the Credit Quality Monitoring Unit, which from a developmental standpoint aims to ensure that the set of information available is expanded through the creation of new dashboards for controlling and monitoring general phenomena and/or specific aspects of the lending process.

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.

The country risk component is assessed in the context of the granting of credit to non-resident entities in order to arrive at a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at optimising the risk implicit in the Group's cross-border lending operations.

Counterparty risk is a particular type of credit risk associated with OTC derivatives and SFTs (Securities Financing Transactions), such as repurchase agreements, securities lending, etc. For a more detailed discussion of this topic, see Table 9 of this document.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.

The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.

The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated with reference to the current status of the portfolio and on a dynamic

basis, by determining the projected level, based on both the forecast macro economic scenario and on stress scenarios.

The expected loss, transformed into “incurred loss” as indicated by IAS 39, is used in the collective assessment of loans, while capital at risk is the fundamental element in the assessment of the Group’s capital adequacy. Both indicators are also used in the value-based management reporting system.

The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group’s loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:

- aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to “large risks” and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The Group’s lending activity is focused on Italian customers (83% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

### ***Policies for hedging and mitigating risk***

Mitigation techniques are adopted in order to reduce the Loss Given Default. They include in particular guarantees and certain types of contracts that result in a reduction in credit risk.

The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

During the credit granting and managing process, the presence of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium-/long-term transactions.

The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.

The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor’s credit quality.

Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.

The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower’s ability to meet the obligations assumed, irrespective of the associated guarantee.

The assessment of the pledged collateral is based on the actual value, namely the market value for

financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.

For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.

Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties secured by mortgages to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.

The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation Code prepared by the Bank. The content of the internal Code is consistent with the “Guidelines for the valuation of properties securing credit exposures” promoted by the Italian Banking Association.

Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

The market value of collateral property is recalculated periodically through various statistical valuation methods applied to prices/coefficients provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. The experts conduct inspections and verify the work progress for properties under construction. The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property’s value.

Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.

The support application verifies whether guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In 2013 a series of measures were carried out with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

To mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow for credit and debt positions to be netted against one another if a counterparty defaults.

This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.

The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).

A project was launched for the International Subsidiary Banks with the aim of ensuring a consistent approach at the Group level, involving the extension of the use of the credit risk mitigation techniques used at the Parent Company, where possible. In further detail, the gap analysis of five international subsidiary banks was completed for the main types of guarantees. For four of these, an action plan was drawn up and is now being implemented.



## MARKET RISKS

### MARKET RISKS/TRADING BOOK

#### *Risk management strategies and processes*

The allocation of capital for trading activities is set by the Parent Company's Management Bodies, through the attribution of operating limits in terms of VaR to the various Group units. The allocation of these limits is mainly aimed at Intesa Sanpaolo and Banca IMI as they represent the main portion of the Group's market risks. Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk.

The Group Financial Risks Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the Group Risk Governance Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

#### *Structure and organisation of the associated risk management function*

The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risks Committee, which discusses the guidelines for the management of market risks.

As part of its functions, the Risk Management Department (especially through the Market Risks and Financial Valuations Unit) is responsible for the:

- calculation, development and definition of the risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- establishment of the parameters and rules for the valuation of assets subject to mark-to-market and fair value at Group level, as well as their direct valuation when this cannot be obtained from instruments available to the business units;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).

The structure of the Risk Management Department is based on the following guidelines:

- structuring of the responsibilities according to the main risk taking centres and to "Risk Type";
- focusing and specialisation of the resources on the "Risk Owners";
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - the methodological development;
  - the collection, processing and production of data;
  - the maintenance and refinement of the instruments and application models;

the general consistency of the data produced.

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

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

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

The risk indicators used may be divided into six main types:

- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensitivity and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark to Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case);
- Incremental Risk Charge (IRC), an additional measure to VaR that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk.
- Stressed VaR (from 31 December 2011 it contributes to the determination of capital absorption), which represents the VaR associated with a market stress period, identified on the basis of the indications presented in the Basel document "Revision to the Basel II market risk framework".

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

### **Policies for hedging and mitigating risk**

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Risk Management Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).

This set of information represents an effective means for deciding policies for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.

During the weekly meetings the Risk Management Department ensures the consistency of the positions with the decisions taken in the Group Financial Risks Committee.

### **Strategies and processes for the ongoing assessment of their effectiveness**

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.

More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

## MARKET RISKS/BANKING BOOK

### ***Risk management strategies and processes***

Market risk originated by the banking book arises primarily in the Parent Company and in the main subsidiaries that carry out retail and corporate banking.

Specifically, in managing interest rate risk in the banking book, the Intesa Sanpaolo Group seeks to maximise profitability, through operating methods consistent with the general stability of the financial results over the long term. For this purpose, positions adopted are consistent with the strategic views developed during the regular meetings of the Group Financial Risks Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.

The “structural” foreign exchange risk refers to the exposures deriving from the commercial operations and strategic investment decisions of the Intesa Sanpaolo Group. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities and income of branches and banking subsidiaries abroad.

The banking book also includes the exposure to the price risk deriving from the equity investments in companies not consolidated on a line-by-line basis and to the foreign exchange risk represented by equity investments in foreign currency, including Group companies.

### ***Structure and organisation of the associated risk management function***

Within the Risk Management Department, the market risks of the Banking Book and the Liquidity risk (discussed below) are overseen by the Banking Book Financial Risks Unit, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group that perform the banking book activities;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance of the Group Companies with the limits set by the Statutory Bodies, reporting on their progress to Top Management and the Parent Company’s operational structures;
- analysing the overall financial risk profile of the Group’s banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
- supporting the AVM and Strategies Unit in relation to strategic ALM.

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

The financial risks generated by the banking book are measured monthly, using two types of measurement, namely Value at Risk (VaR) and Sensitivity analysis.

Value at Risk corresponds to the maximum loss that the book can incur in the following ten business days in 99% of cases, on the basis of the volatilities and the historical correlations (of the last 250 business days) between the individual risk factors, consisting, for each foreign currency, of the reference curves, the exchange rates and the prices of the equities<sup>3</sup>.

Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, and equity).

The measurements include an estimate of the prepayment effect and of the risk originated by on demand customer deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits. An update to the methodology aimed at sterilizing the

<sup>3</sup> Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

credit spread impact, significantly increased during the recent financial crisis, was introduced from January 2013.

Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve, over a period of 12 months.

### ***Policies for hedging and mitigating risk***

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve, or (ii) at reducing the volatility of future cash flows related to a particular asset/liability.

The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover the risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets and liabilities (micro-hedging), mainly consisting of bonds issued or acquired by the Bank and loans to customers. Moreover, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic in the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date on which the rate is set and the date of payment of the relevant interests.

Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on 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 compliance with international accounting standards.

Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the various Group companies for their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.

For equity investments in Group companies held in foreign currencies, risk hedging policies are assessed by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

### **LIQUIDITY RISK**

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to procure 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.

The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The Guidelines for the Fund Transfer Pricing System were also updated both as regards governance and the general principles to be applied to defining transfer prices.

The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of an adequate amount of liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;

- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

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

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies 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 warnings used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's corporate bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department and the Planning Department, 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.

The aforementioned Guidelines include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies. Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to respond to periods of tension, including extended periods of tension, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Short Term Gap).

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

The structural Liquidity Policy of the Intesa Sanpaolo Group incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. These limits take into account the liquidity characteristics of the assets and the behavioural representation

models used for the items characterised by a liquidity profile other than the contractual profile (e.g. demand positions and estimated prepayments on mortgages).

The Guidelines also call for the periodic preparation of an impact estimate in an acute combined stress scenario (including both stresses specific to the Group and at the level of the market), with an indication of the scenarios of reference to be used and the presentation of a target threshold for the 3-month stressed short-term gap, aimed at establishing an overall level of reserves suitable to meeting greater cash outflows during a period of time adequate to take the required operating measures to restore the Group to balanced conditions. The acute stress scenario is determined by combining:

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

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 2013, the Group’s liquidity position remained largely within the risk limits provided for in the Group’s Liquidity Policy both in terms of short-term and structural liquidity indicators. The stress test, applied by considering total available liquidity reserves, yielded results far in excess of the target threshold, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than three months.

Adequate, timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.

### **Basel 3 new metrics on the liquidity risk**

The new provisions on liquidity<sup>4</sup>, which were introduced in the European Union on 27 June 2013 with the publication of (EU) Regulation 575/2013 and Directive 2013/36/EU, incorporated the new minimum liquidity requirements by adjusting them to European specificities. At the same time the European Banking Authority (EBA) was entrusted with developing guidelines aimed at enhancing regulatory harmonization in Europe through the «Single Rulebook», which will provide a regulatory framework for the so-called Single Supervisory Mechanism (SSM) to exercise its tasks.

These measures make up the reference regulatory framework of the European Union for banks and the investment firms since 1 January 2014. Starting from March 2014, the banking Groups are also obliged to fulfil specific reporting requirements to measure their exposure to the liquidity risk.

To reflect such regulatory measures and ensure the regular use, also for management purposes, of the new regulatory metrics, the “Guidelines for Group Liquidity Risk Management” on 17 December 2013 were updated by Intesa Sanpaolo’s corporate bodies, replacing, from January 2014, the current internal indicators with the metrics defined by the Basel Committee (LCR: Liquidity Coverage Ratio; NSFR: Net Stable Funding Ratio)

<sup>4</sup>See the reform plan which the Basel Committee for Bank Supervision (BCBS) defined in December 2010 and subsequently amended and integrated in January 2013 to strengthen the regulations concerning liquidity.

The Liquidity Coverage Ratio (LCR) is aimed at strengthening the short-term liquidity risk profile, ensuring a detention of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash in 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 regulatory framework. The LCR will gradually come into force, starting with a percentage of 60% from January 2015.

The Net Stable Funding Ratio (NSFR) instead pursues the objective of making the Group more resilient over a longer time horizon by ensuring the use of more stable and longer-term funding sources to fund the existing activities in a way to guarantee a sustainable maturity structure of assets and liabilities. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force starting from 1 January 2018.

While awaiting the definitive enforcement, the Intesa Sanpaolo Group's level of adherence to the new regulatory indicators is measured by adopting the international metrics of BCBS and incorporating the regulatory amendments published by the regulators from time to time.

Intesa Sanpaolo Group's sound liquidity position, supported by suitable high quality liquid assets (HQLA) and the significant contribution from the retail stable funding, is proven by the LCR and NSFR results recorded during 2013, which always stood (LCR and NSFR >100%) well above the minimum regulatory requirement.

## OPERATIONAL RISKS

### *Operational risk management strategies and processes*

The control of the Group's operational risks was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.

The tasks of the Group Compliance and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

### *Organisational structure of the associated risk management function*

The Group has a centralised function within the Risk Management Department for 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 the prevailing regulations, the individual Organisational Units are responsible for the identification, assessment, management and mitigation of risk. Specific functions have been identified within these Organisational Units responsible for the Operational Risk Management processes of their unit (collection and structured census of information relating to operational events, scenario analyses and assessment of the level of risk associated with the business environment).

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

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

- effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Bank;
- 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 Bank;
- effective from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo. In December 2012 the full demerger of the Bank was completed in favour of the Parent Company Intesa Sanpaolo S.p.A. and Leasint S.p.A.;
- effective from 30 June 2013, for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management

Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding).

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

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

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

The Self-assessment process identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks.

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.

Operational risks are monitored by an integrated reporting system, which provides Management with support information for the management and/or mitigation of the operational risk.

In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in this process.

#### ***Policies for hedging and mitigating risk***

The Group 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, 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 known as 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.

#### **OTHER RISKS**

In addition to the risks discussed above, the following other risks have been identified and monitored by the Group.

#### ***Strategic risk***

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.

The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Management Board and the Supervisory Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated.

An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

- a component associated with the possible impact of misguided Company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which strategic decisions are reached and by their centralisation with top management, where all significant decisions are always supported by specific activities aimed at identifying and measuring the risks implicit in the initiative;



- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decline in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating Company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its Business Units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses.

### **Reputational risk**

The Intesa Sanpaolo Group attaches great importance to reputational risk, namely the current and prospective risk of a decline in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.

The Group actively manages its image in the eyes of all stakeholders and aims to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for the Bank and all of its stakeholders, while also minimising possible adverse events through rigorous, stringent governance, control and guidance of the activity performed at the various service and function levels.

The main reputational risks are generally identified according to a bottom-up approach based on an assessment of the risk perceived by internal stakeholders (annual assessment, climate surveys, etc.) and external stakeholders (focus groups, feedback initiatives, media and investor relations, etc.).

Reputational risk is managed and mitigated through:

- compliance with standards of ethics and conduct;
- involvement of the Top Management;
- constant focus on stakeholders' expectations;
- containment of exposure to primary risks (credit, operational, market, compliance risks, etc.);

and it places great emphasis on the role of organisational units that engage in relations with the various stakeholders, each within its own purview.

The Group adopts a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.

The Group aims to achieve constant improvement of reputational risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.

Particular attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.

Particular consideration has been given to financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.

Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.

This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.

More in particular, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (sustainability in terms of risk to return ratio, flexibility, concentration, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

### **Risk on owned real-estate assets**

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering

financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real-estate management is highly centralised and represents an investment that is largely intended for use in Company operations. The degree of risk in the portfolio of owned properties is represented by using a VaR-type model based on indexes of mainly Italian real estate prices, which is the main type of exposure associated with the Group's real-estate portfolio.

### ***Insurance risk***

The Intesa Sanpaolo Group operates as a financial conglomerate that engages in universal banking activity and insurance services. With regard to insurance it operates in both the life business, primarily, and in the non-life business.

The Intesa Sanpaolo Group defines insurance risk as the risk connected with the possibility of suffering economic losses on the value of the insurance assets (net of liabilities), deriving from an unfavourable variation of the market, technical and operating risk factors.

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

As also mentioned in the Introduction to this Disclosure, the insurance risk is not analysed specifically in this document. This risk is discussed in detail in the Group's consolidated financial statements in Part E – Section 2 – Risks of insurance companies.

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## Table 2 – Scope of application

### Qualitative disclosure

#### **Name of the bank to which the disclosure requirement applies**

Intesa Sanpaolo S.p.A., Parent Company of the Banking Group "Intesa Sanpaolo", included in the National Register of Banking Groups.

#### **Outline of differences in the basis of consolidation for accounting and prudential purposes**

The disclosure contained in this document refers solely to the Intesa Sanpaolo "Banking Group" as defined by the prevailing Regulatory provisions.

The "Banking Group" (or "prudential" scope of consolidation) differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

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

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

Since this disclosure only refers to the consolidated figures of the (jointly or otherwise) controlled banking, financial and instrumental companies of the "Banking Group", these figures also include the (on- and off-balance sheet) asset and liability and income and expense transactions with the other companies included in the IAS/IFRS scope of full consolidation. In the financial statements, however, these figures are netted as intragroup transactions.

Also, following the Bank of Italy's update in November 2009 of the instructions for the preparation of financial statements of banks, some of the information reported in the consolidated financial statements (Part E - Information on risks and the relative hedging policies – Section 1: Risks of the Banking group) fall within the scope of consolidation of the Banking group and, consequently, do not differ from the information contained in this document.

The "prudential" scope of consolidation as at 31 December 2013 does not differ substantially from that as at 31 December 2012.

**Basis of consolidation for accounting and prudential purposes**  
**Entities consolidated as at 31 December 2013**

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

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

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

(\*\*) A SPV for securitisation and self-securitisation transactions whose securitised assets have not been derecognised for regulatory purposes by the Group company that originated the securitisation.

**Entities deducted from capital as at 31 December 2013**

Company name	Registered office		Treatment in prudential reporting Deductions from capital	Treatment in financial statements		
	Town	Country		Consolidated line-by-line	Consolid. at equity	AFS
<b>ASSICURAZIONI</b>						
FIDEURAM VITA	Roma	ITALY	X	X		
INTESA SANPAOLO VITA	Torino	ITALY	X	X		
VUB GENERALI A.S.	Bratislava	SLOVAK REPUBLIC	X		X	
<b>BANCHE</b>						
BANCA D'ITALIA	Roma	ITALY	X	(cfr. Tavola 3)		
BANCA IMPRESA LAZIO S.p.A.	Roma	ITALY	X		X	
BANK OF QINGDAO CO. LTD.	Qingdao	PEOPLE'S REPUBLIC OF CHINA	X		X	
BANQUE ESPIRITO SANTO ET DE LA VENETIE S.A.	Paris	FRANCE	X			X
CASSA DI RISPARMIO DELLA PROVINCIA DI CHIETI S.p.A.	Chieti Scalo	ITALY	X			X
CASSA DI RISPARMIO DI FERMO S.p.A.	Fermo	ITALY	X		X	
ISTITUTO PER IL CREDITO SPORTIVO	Roma	ITALY	X			X
<b>SOCIETA' FINANZIARIE</b>						
ACCESSIBLE LUXURY HOLDINGS 1 S.A.	Luxembourg	LUXEMBOURG	X			X
AMBIENTA Società di Gestione del Risparmio S.p.A.	Milano	ITALY	X		X	
B.I. PRIVATE EQUITY Ltd - in voluntary liquidation	Dublin	IRELAND	X		X	
BAMCARD D.D.	Sarajevo	BOSNIA i HERZEGOVINA	X			X
CLASS DIGITAL SERVICE S.r.l.	Milano	ITALY	X		X	
EMERALD UK LIMITED PARTNERSHIP	St. Peter Port Guernsey	GUERNSEY	X			X
EMISYS CAPITAL S.G.R. S.p.A.	Milano	ITALY	X		X	
EQUINOX TWO SCA	Luxembourg	LUXEMBOURG	X			X
EUROTLX SOCIETA' DI INTERMEDIAZIONE MOBILIARE S.p.A.	Milano	ITALY	X		X	
EXELIA S.R.L.	Brasov	ROMANIA	X		X	
F2I - Fondi Italiani per le Infrastrutture SGR S.p.A.	Milano	ITALY	X			X
FENICE S.r.l.	Milano	ITALY	X		X	
FIDIA S.p.A. IN LIQUIDATION	Milano	ITALY	X			X
FINEUROP S.p.A.	Milano	ITALY	X			X
FONDO ITALIANO D'INVESTIMENTO SGR S.p.A.	Milano	ITALY	X			X
GCL HOLDINGS L.P. S.à.r.l.	Luxembourg	LUXEMBOURG	X		X	
GEPAFIN S.p.A.-GARANZIE PARTECIPAZIONI E FINANZIAMENTI	Perugia	ITALY	X			X
GESTIONES Y RECUPERACIONES DE ACTIVOS S.A.	Lima	PERU	X		X	
INTESA LEASE SEC S.r.l.	Milano	ITALY	X		X	
INTESA SODITIC TRADE FINANCE LIMITED	London	UNITED KINGDOM	X		X	
ITALFONDIARIO S.p.A.	Roma	ITALY	X		X	
LKS 2 S.A.	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL PARTNERS II S.C.A. SICAR	Lussemburgo	LUXEMBOURG	X		X	
MANDARIN CAPITAL PARTNERS SCA SICAR	Luxembourg	LUXEMBOURG	X			X
MARCHE CAPITAL S.R.L.	Osimo	ITALY	X			X
MENHIR L.L.P.	London	UNITED KINGDOM	X			X
MEZZANOVE CAPITAL (SCA) SICAR	Luxembourg	LUXEMBOURG	X			X
MEZZANOVE CAPITAL MANAGEMENT S.à.r.l.	Luxembourg	LUXEMBOURG	X		X	
MIR CAPITAL MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X		X	
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Cairo	EGYPT	X		X	
MISR FINANCIAL INVESTMENTS CO.	Cairo	EGYPT	X			X
PENGHUA FUND MANAGEMENT Co. Ltd.	Shenzhen	PEOPLE'S REPUBLIC OF CHINA	X		X	
SCHEMAQUATTORDICI S.p.A.	Treviso	ITALY	X			X
SIA S.p.A.	Milano	ITALY	X		X	
SLOVAK BANKING CREDIT BUREAU S.R.O.	Bratislava	SLOVAK REPUBLIC	X		X	
SOCIETA' PER LA GESTIONE DI ATTIVITA' - SGA S.p.A.	Napoli	ITALY	X			X
SVILUPPO IMPRESE CENTRO ITALIA S.G.R. S.P.A.	Firenze	ITALY	X			X
TARGETTI POULSEN	Firenze	ITALY	X			X
TOWER 2 S.à.r.l. EN LIQUIDATION VOLONTAIRE	Luxembourg	LUXEMBOURG	X			X
TRILANTIC CAPITAL PARTNERS IV (EUROPE) SCA Sicar	Luxembourg	LUXEMBOURG	X			X
VARESE INVESTIMENTI S.p.A.	Varese	ITALY	X		X	
VEI CAPITAL S.p.A.	Vicenza	ITALY	X			X
VEISPASTRUM.FINANZ	Vicenza	ITALY	X			X
VER CAPITAL S.G.R. p.A.	Milano	ITALY	X			X

### Entities added to the risk-weighted assets as at 31 December 2013

Company name	Registered office		Treatment in prudential reportina		Treatment in financial statements	
	Town	Country		RWA	AFS	Consolidat. at equity
<b>ENTITA' BANCARIE</b>						
AFRICAN EXPORT IMPORT BANK	Cairo	EGYPT		X	X	
BANCA DELLE MARCHE S.p.A. IN AMMINISTRAZIONE STRAORDINARIA	Ancona	ITALY		X	X	
BANCA DI CREDITO COOPERATIVO DI CAMBIANO S.C.P.A.	Castelfiorentino	ITALY		X	X	
BANCA ITB S.p.A.	Milano	ITALY		X	X	
BANCA MEDIOCREDITO DEL FRIULI-VENEZIA GIULIA S.p.A.	Udine	ITALY		X	X	
BANCA UBAE Società per Azioni	Roma	ITALY		X	X	
BANCO POPOLARE SOCIETA' COOPERATIVA	Verona	ITALY		X	X	
BANQUE GALLIERE S.A. in liquidation	Paris	FRANCE		X	X	
BANQUE INTERNATIONALE ARABE DE TUNISIE - B.I.A.T. Société Anonyme	Tunisi	TUNISIA		X	X	
GARANZIA DEI DEPOSITI DELLE BANCHE E BANCHIERI G.m.b.H.	Wien	AUSTRIA		X	X	
GORENJSKA BANKA d.d.	Kranj	SLOVENIA		X	X	
HRVATSKA GOSPODARSKA BANKA D.D. under bankruptcy proceedings	Zagreb	CROATIA		X	X	
ISVEIMER S.p.A. in liquidation	Roma	ITALY		X	X	
PRIVREDNA BANKA D.D.	Sarajevo	BOSNIA i HERZEGOVINA		X	X	
RAZVOJNA BANKA VOJVODINE A.D. - under bankruptcy proceedings	Novi Sad	SERBIA		X	X	
<b>ENTITA' FINANZIARIE</b>						
360 CAPITAL ONE S.C.A. (SICAR)	Luxembourg	LUXEMBOURG		X	X	
ABE CLEARING SAS	Paris	FRANCE		X	X	
ALPHA PRIVATE EQUITY FUND 6 SCA SICAR	Luxembourg	LUXEMBOURG		X	X	
APAX EUROPE VII - B L.P.	St. Peter Port - Guernsey	GUERNSEY		X	X	
ARAB TRADE FINANCING PROGRAM	Abu Dhabi	ABU DHABI		X	X	
ATHENA PRIVATE EQUITY S.A.	Munsbach	LUXEMBOURG		X	X	
AUGUSTO S.r.l.	Milano	ITALY		X		X
B.GROUP S.p.A.	Bologna	ITALY		X	X	
BANKART D.O.O. LIUBLJANA	Ljubljana	SLOVENIA		X	X	
BONAFIDE S.p.A. in voluntary liquidation	Treviso	ITALY		X	X	
BUDAPESTI ERTEKTOZSDE RESZVENYTARSASAG ZRT.	Budapest	HUNGARY		X	X	
CARLYLE EUROPE PARTNERS II, L.P.	London	UNITED KINGDOM		X	X	
CASA ROMANA DE COMPENSATIE S.A.	Sibiu	ROMANIA		X	X	
CENTROFIDI TERZIARIO S.C.P.A.	Firenze	ITALY		X	X	
CHINA INTERNATIONAL PACKAGING LEASING CO. LTD (LEASEPACK)	Beijing	PEOPLE'S REPUBLIC OF CHINA		X	X	
CLS GROUP HOLDING AG	Zurich	SWITZERLAND		X	X	
CME GROUP INC.	Chicago	UNITED STATES OF AMERICA		X	X	
COLOMBO S.r.l.	Milano	ITALY		X		X
CONFIDICOOP MARCHE Società Cooperativa	Ancona	ITALY		X	X	
CR FIRENZE MUTUI S.R.L.	Conegliano Veneto	ITALY		X		X
DIOCLEZIANO S.r.l.	Milano	ITALY		X		X
EFFEPI S.p.A. IN LIQUIDATION	Milano	ITALY		X	X	
EGYPTIAN INTERNATIONAL MUTUAL FUND CO.	Cairo	EGYPT		X	X	
e-MID Società di Intermediazione Mobiliare S.p.A.	Milano	ITALY		X	X	
EQUITYPAR-COMPANHIA DE PARTECIPACOES S.A.	Sao Paulo	BRAZIL		X	X	
EURIZONVITA (Beijing) BUSINESS ADVISORY CO. LTD. - in voluntary liquidation	Beijing	PEOPLE'S REPUBLIC OF CHINA		X		X
EUROFIDI - SOCIETA' CONSORTILE DI GARANZIA COLLETTIVA FIDI S.c. a r.l.	Torino	ITALY		X	X	
EUROPAY HRVATSKA D.O.O. in liquidation	Zagreb	CROATIA		X	X	
EUROPEAN INVESTMENT FUND - EIF	Luxembourg	LUXEMBOURG		X	X	
EUROPROGETTI E FINANZA S.p.A. in liquidation	Roma	ITALY		X		X
EUROQUBE S.A. in liquidation	Bruxelles	BELGIUM		X	X	
FAWRY FOR BANKING & PAYMENT TECHNOLOGY SERVICES CO.	Cairo	EGYPT		X	X	

**Basel 2 Pillar 3 – Table 2 – Scope of application**

Company name	Registered office		Treatment in prudential reporting		Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity	
FI.R.A. S.p.A. Finanziaria Regionale Abruzzese	Pescara	ITALY	X	X		
FI.SVI. - ISTITUTO FIN. SVIL. ECON. LOCALI S.p.A. (fallita)	Potenza	ITALY	X	X		
FIDI TOSCANA S.p.A.	Firenze	ITALY	X	X		
FINEST S.p.A. - SOC. FINANZIARIA PROMOZIONE COOPERAZ.ECONOMICA PAESI EST EUROPEO	Pordenone	ITALY	X	X		
FINRECO - Consorzio Regionale Garanzia Fidi Soc. Coop. a r.l.	Udine	ITALY	X	X		
FOURTH CINVEN FUND LIMITED PARTNERSHIP - LONDON	London	UNITED KINGDOM	X	X		
FRIULIA S.p.A.-FINANZIARIA REG. FRIULI VENEZIA GIULIA	Trieste	ITALY	X	X		
GARANTIQA HITELGARANCIA Zrt.	Budapest	HUNGARY	X	X		
GIRO Elszamolasforgalmi Rt.	Budapest	HUNGARY	X	X		
ILP III SCA SICAR	Luxembourg	LUXEMBOURG	X	X		
INVESTINDUSTRIAL V L.P.	St. Helier - Jersey	JERSEY	X	X		
INVESTINDUSTRIAL II L.P.	St. Helier - Jersey	JERSEY	X	X		
INVESTINDUSTRIAL III BUILD UP L.P.	St. Helier - Jersey	JERSEY	X	X		
INVESTINDUSTRIAL IV L.P.	St. Helier - Jersey	JERSEY	X	X		
INVESTITORI ASSOCIATI II S.A. IN LIQUIDATION	Luxembourg	LUXEMBOURG	X	X		
ITACA FINANCE S.à r.l.	Luxembourg	LUXEMBOURG	X	X		
LCH.Cleamnet Group Ltd	London	UNITED KINGDOM	X	X		
MISR FOR CLEARING, SETTLEMENT AND CENTRAL DEPOSITORY CO.	Cairo	EGYPT	X	X		
MITTEL S.p.A.	Milano	ITALY	X	X		
MTS S.p.A. - SOCIETA' PER IL MERCATO DEI TITOLI DI STATO	Roma	ITALY	X	X		
NICCO UCO ALLIANCE CREDIT LTD	Calcutta	INDIA	X	X		
OMNIA FACTOR S.p.A.	Milano	ITALY	X	X		
PALLADIO FINANZIARIA S.p.A.	Vicenza	ITALY	X	X		
PAR.FIN S.p.A. under bankruptcy proceedings	Bari	ITALY	X	X		
PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management	Zagreb	CROATIA	X			X
PENSPLAN INVEST SGR S.p.A.	Bolzano	ITALY	X	X		
PRELIOS SGR S.p.A.	Milano	ITALY	X			X
RETE FIDI LIGURIA - Società Consortile per Azioni di Garanzia Collettiva Fidi	Genova	ITALY	X	X		
SIBEX SIBIU STOCK EXCHANGE S.A.	Sibiu	ROMANIA	X	X		
SOCIETA' ITALIANA PER LE IMPRESE ALL'ESTERO - SIMEST S.p.A.	Roma	ITALY	X	X		
SOCIETA' REGIONALE DI GARANZIA MARCHE S.C.p.A.	Ancona	ITALY	X	X		
SOCIETE' DE LA BOURSE DE LUXEMBOURG S.A.	Luxembourg	LUXEMBOURG	X	X		
SREBOS INVEST D.D. in liquidation	Vitez	BOSNIA i HERZEGOVINA	X	X		
SREDISNJE KLIRINSKO DEPOZITARNO DRUSTVO D.D.	Zagreb	CROATIA	X	X		
SVILUPPO INDUSTRIALE S.P.A. in voluntary liquidation	Pistoia	ITALY	X			X
TRANSFOND S.A.	Bucarest	ROMANIA	X	X		
TRZISTE NOVCA AD	Beograd	SERBIA	X	X		
TRZISTE NOVCA I KRATKOROCNIH VRJEDNOSNICA D.D.	Zagreb	CROATIA	X	X		
UMBRIA CONFIDI SOCIETA' COOPERATIVA	Perugia	ITALY	X	X		
VALFIDI S.C. SOCIETA' COOPERATIVA DI GARANZIA COLLETTIVA DEI FIDI FRA LE IMPRESE DELLA VALLE D'AOSTA	Aosta	ITALY	X	X		
VENETO SVILUPPO S.p.A.	Venezia	ITALY	X	X		
VISA EUROPE LTD	London	UNITED KINGDOM	X	X		
ZAGREBACKA BURZA D.D.	Zagreb	CROATIA	X	X		
<b>ENTITA' NON FINANZIARIE</b>						
08 GENNAIO S.r.l.	Milano	ITALY	X			X
08 JANUARY S.r.l.	Milano	ITALY	X			X
A4 HOLDING S.P.A.	Verona	ITALY	X			X
AEROPORTI HOLDING S.r.l.	Caselle Torinese	ITALY	X			X



Company name	Registered office		Treatment in prudential reporting		Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat.	at equity
AGRICOLA INVESTIMENTI S.r.l. in liquidation	Milano	ITALY	X			X
AL.FA. - UN'ALTRA FAMIGLIA DOPO DI NOI - IMPRESA SOCIALE S.r.l. in voluntary liquidation	Milano	ITALY	X			X
ALITALIA - COMPAGNIA AEREA ITALIANA S.p.A.	Fiumicino	ITALY	X			X
AUTOSTRADA PEDEMONTANA LOMBARDA S.p.A.	Assago	ITALY	X			X
AUTOSTRADE LOMBARDE S.p.A.	Brescia	ITALY	X			X
BE THINK, SOLVE, EXECUTE S.p.A.	Roma	ITALY	X			X
CARGOITALIA S.p.A. In liquidation	Milano	ITALY	X			X
CONSORZIO BANCARIO SIR S.p.A in liquidation	Roma	ITALY	X			X
CORMANO S.r.l.	Olgiate Olona	ITALY	X			X
EMIL EUROPE '92 S.r.l. in liquidation	Bologna	ITALY	X			X
ENERPOINT ENERGY S.r.l.	Desio	ITALY	X			X
EUROMILANO S.p.A.	Milano	ITALY	X			X
FONDO DI RIGENERAZIONE URBANA SICILIA S.R.L.	Torino	ITALY	X			X
FONDO SARDEGNA ENERGIA S.r.l.	Cagliari	ITALY	X			X
GREEN INITIATIVE CARBON ASSETS (GICA) SA - in liquidation	Lugano	SWITZERLAND	X			X
I.TRE - Iniziative Immobiliari Industriali S.p.A.	Arquà Polesine	ITALY	X			X
IMMIT - IMMOBILI ITALIANI S.R.L.	Torino	ITALY	X			X
IMMOBILIARE NOVOLI S.P.A.	Firenze	ITALY	X			X
IMPIANTI S.r.l. in liquidation	Milano	ITALY	X			X
INCUBE S.r.l.	Bologna	ITALY	X			X
INTESA SANPAOLO BRASIL CONSULTORIA LTDA	Sao Paulo	BRAZIL	X			X
INTESA SANPAOLO EURODESK S.p.r.l.	Bruxelles	BELGIUM	X			X
INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni	Napoli	ITALY	X			X
INTESA SANPAOLO HOUSE IMMO S.A.	Luxembourg	LUXEMBOURG	X			X
INTESA SANPAOLO SMART CARE S.r.l.	Torino	ITALY	X			X
IREN S.P.A.	Torino	ITALY	X			X
ISM INVESTIMENTI S.p.A.	Mantova	ITALY	X			X
ITALCONSULT S.p.A.	Roma	ITALY	X			X
LAURO SESSANTUNO S.p.A.	Milano	ITALY	X			X
LEONARDO TECHNOLOGY S.p.A.	Milano	ITALY	X			X
MANUCOR S.p.A.	Milano	ITALY	X			X
MATER-BI S.p.A.	Milano	ITALY	X			X
MISR INTERNATIONAL TOWERS CO.	Cairo	EGYPT	X			X
NH HOTELES S.A.	Madrid	SPAIN	X			X
NH ITALIA S.P.A.	Milano	ITALY	X			X
NUOVO TRASPORTO VIAGGIATORI S.p.A.	Roma	ITALY	X			X
OOO INTESA REALTY RUSSIA	Moskow	RUSSIA	X			X
OTTOBRE 2008 S.r.l.	Milano	ITALY	X			X
PIETRA S.r.l.	Milano	ITALY	X			X
PIRELLI & C. S.p.A.	Milano	ITALY	X			X
PORTOCITTA' S.p.A.	Trieste	ITALY	X			X
R.C.N. FINANZIARIA S.p.A.	Mantova	ITALY	X			X
RISANAMENTO S.p.A.	Milano	ITALY	X			X
SAGAT S.p.A.	Caselle Torinese	ITALY	X			X
SHANGHAI SINO-ITALY BUSINESS ADVISORY COMPANY LIMITED - in voluntary liquidation	Shanghai	PEOPLE'S REPUBLIC OF CHINA	X			X
SIRTI S.p.A.	Milano	ITALY	X			X
SMIA S.p.A.	Roma	ITALY	X			X
SOCIETA' DI PROGETTO AUTOSTRADA DIRETTA BRESCIA MILANO S.p.A.	Brescia	ITALY	X			X
SOLAR EXPRESS S.r.l.	Firenze	ITALY	X			X
STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	ITALY	X			X
TANGENZIALE ESTERNA S.p.A.	Milano	ITALY	X			X
TANGENZIALI ESTERNE DI MILANO S.p.A.	Milano	ITALY	X			X
TELCO S.p.A.	Milano	ITALY	X			X
TERMOMECCANICA S.p.A.	La Spezia	ITALY	X			X
THEMYS INVESTIMENTI S.p.A.	Milano	ITALY	X			X
UMBRIA EXPORT SOCIETA' CONSORTILE A R.L.	Perugia	ITALY	X			X
UNIMATICA S.p.A.	Bologna	ITALY	X			X
UNITED VALVES CO. (BUTTERFLY) in liquidation	Cairo	EGYPT	X			X
UPA SERVIZI S.p.A.	Padova	ITALY	X			X

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

With its Circular 263 of 27 December 2006, the Bank of Italy established that “for Italian banks belonging to a banking group, the individual capital requirements for credit, counterparty, market and operational risks shall be reduced by 25 per cent, provided that regulatory capital at the consolidated level is at least equal to the total capital requirement”. As at 31 December 2013 the Intesa Sanpaolo Group met that requirement at consolidated level, and therefore benefited from this provision.

## Quantitative disclosure

### Name of subsidiaries not included in the consolidation

#### *Entities consolidated in the financial statements and not included in the prudential scope of consolidation as at 31 December 2013*

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
<b>INSURANCE COMPANIES (*)</b>		
Intesa Sanpaolo Assicura S.p.A. (former EurizonTutela S.p.A.)	X	
Intesa Sanpaolo Life Limited	X	
<b>OTHER</b>		
A.I.2 S.r.l.		X
Adriano Finance 2 S.r.l.	X	
Adriano Lease Sec (**)	X	
Arten Sicav	X	
BRIVON HUNGARY ZRT.	X	
Cib Car Trading Limited Liability Company	X	
Cib Insurance Broker Ltd	X	
CIF S.r.l.	X	
CIL MNM LTD.		X
Cimabue Sicav	X	
Cloverie Plc	X	
Dali Capital Plc	X	
Duomo Funding Plc	X	
Eurizon Investimenti Sicav	X	
Eurizon Multi Alpha Classe I	X	
Fideuram Fund Bond Global Emerging Markets	X	
Fideuram Fund Bond Usa	X	
Fideuram Fund Bond Yen	X	
Fideuram Fund Bond Euro High Yield	X	
Fideuram Fund Equity Euro	X	
Fideuram Fund Equity Euro Corporate Bond	X	
Fideuram Fund Equity Europe Growth	X	
Fideuram Fund Equity Europe Value	X	
Fideuram Fund Equity Global Emerging Markets	X	
Fideuram Fund Equity Italy	X	
Fideuram Fund Equity Japan	X	
Fideuram Fund Equity Pacific Ex Japan	X	
Fideuram Fund Equity Usa	X	
Fideuram Fund Equity Usa Advantage	X	
Fideuram Fund Equity Usa Value	X	
Fideuram Fund Euro Bond Long Risk	X	
Fideuram Fund Euro Bond Low Risk	X	
Fideuram Fund Euro Bond Medium Risk	X	
Fideuram Fund Euro Defensive Bond	X	
Fideuram Fund Euro Short Risk	X	
Fideuram Fund Zero Coupon 2014	X	
Fideuram Fund Zero Coupon 2015	X	
Fideuram Fund Zero Coupon 2016	X	
Fideuram Fund Zero Coupon 2017	X	
Fideuram Fund Zero Coupon 2018	X	
Fideuram Fund Zero Coupon 2019	X	
Fideuram Fund Zero Coupon 2020	X	
Fideuram Fund Zero Coupon 2021	X	
Fideuram Fund Zero Coupon 2022	X	
Fideuram Fund Zero Coupon 2023	X	

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
Fideuram Fund Zero Coupon 2024	X	
Fideuram Fund Zero Coupon 2025	X	
Fideuram Fund Zero Coupon 2026	X	
Fideuram Fund Zero Coupon 2027	X	
Fideuram Fund Zero Coupon 2028	X	
Fideuram Fund Zero Coupon 2029	X	
Fideuram Fund Zero Coupon 2030	X	
Fideuram Fund Zero Coupon 2031	X	
Fideuram Fund Zero Coupon 2032	X	
Fideuram Fund Zero Coupon 2033	X	
Fideuram Fund Zero Coupon 2034	X	
Fideuram Fund Zero Coupon 2035	X	
Fideuram Fund Zero Coupon 2036	X	
Fideuram Fund Zero Coupon 2037	X	
Fideuram Fund Zero Coupon 2038	X	
Fideuram Fund Zero Coupon 2039	X	
Fideuram Fund Zero Coupon 2040	X	
Fideuram Fund Zero Coupon 2041	X	
Fideuram Fund Zero Coupon 2042	X	
Fideuram Fund Zero Coupon 2043	X	
Fondo Bond Eur Long Term	X	
Fondo Bond Eur Medium Term	X	
Fondo Bond Eur Short Term	X	
Fondo Bond GBP	X	
Fondo Bond JPY	X	
Fondo Bond USD	X	
Fondo Caravaggio	X	
Fondo Epsilon Q-Flexible	X	
Fondo Equity Eastern Europe	X	
Fondo Equity Emerging Market	X	
Fondo Hayez	X	
IN.FRA. Investire nelle Infrastrutture S.p.A.	X	
Iniziative Logistiche	X	
International Fund Emerging Markets Local Currency Bond	X	
International Fund Euro Liquidity	X	
Levanna Sicav	X	
Lunar Funding V Plc	X	
Mercurio Sicav	X	
RE.Consult Infrastrutture	X	
Recovery Property Utilisation and Services ZRT	X	
Romulus Funding Corporation	X	
SP Lux Sicav II	X	
Starling Financial Plc	X	
Tiepolo Sicav	X	
Trade Receivables Investment Vehicle S.a.r.l. (**)	X	
TT1 Lux S.A.	X	

(\*) The carrying value of the insurance companies "Fideuram Vita", "Intesa Sanpaolo Vita" e "Vub Generali" is deducted from the regulatory capital.

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

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

As at 31 December 2013 there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

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## Table 3 – Regulatory capital structure

### Qualitative disclosure

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

Regulatory capital and capital ratios have been calculated on the basis of the provisions of Circular 263 of December 2006 and Circular 155 of December 1991 (and related updates) issued by the Bank of Italy following the implementation of the amendments of Directives 2009/27, 2009/83 and 2009/111 (known as "CRD II - Capital Requirements Directive II") and Directive 2010/76 of 24 November 2010 (amendments to "CRD III"), which govern the capital requirements for banks and banking groups introduced by the New Basel Capital Accord (known as Basel 2).

These provisions redefine, based on stricter criteria than under the previous rules, the notion of capital, that may be included in regulatory capital without limits, which is limited to ordinary shares or shares that do not grant rights to minimum return, do not call for the compulsory payment of dividends, do not enjoy preference in the coverage of losses or enjoy a right to residual assets upon liquidation that is subordinate to that of all other shareholders and creditors. For the Intesa Sanpaolo Group, application of these criteria resulted in the exclusion of the nominal value of preferred shares (including savings shares) from Tier 1 capital on the grounds that such shares do not meet the requirements (lack of advantages in liquidation and preferential remuneration mechanisms based on the nominal value of the instrument).

The rules for innovative and non-innovative capital instruments call for:

- reinforcement of their capital quality in terms of the flexibility of payments and the ability to absorb losses;
- a rise in the overall limit on inclusion from the current 20% to 50% (with a specific limit of 15% for innovative instruments with incentives for early redemption or a contractual maturity and 35% for non-innovative instruments without incentives for early redemption). A new category has also been added, i.e. instruments compulsorily convertible into ordinary shares in the event of an emergency or at the Bank of Italy's request, which may be included up to 50%. The prudential provisions call for a transitional regime set out in the Directive (known as "grandfathering") for a 30-year period, which contemplates the gradual reduction of the eligibility of instruments included in regulatory capital prior to 31 December 2010 that do not meet the new eligibility requirements.

Regulatory capital is calculated as the sum of positive and negative components, on the basis of their capital quality; positive components, in order to be eligible for the calculation of capital absorptions, must be fully available for the Bank.

Regulatory capital is made up of Tier 1 capital and Tier 2 capital, adjusted by the "prudential filters" and net of certain deductions. In particular:

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

- Tier 2 capital is made up of the difference between “Tier 2 capital before items to be deducted” and 50% of “items to be deducted”.

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

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

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

Deductions are made, in the manner described above, 50% from “Tier 1 capital before items to be deducted” and 50% from “Tier 2 capital before items to be deducted” on equity investments and – if eligible for inclusion in the issuers’ regulatory capital – on innovative and non-innovative capital instruments, hybrid capital instruments and subordinated instruments in banks, financial companies and insurance companies. From 1 January 2013 the option that allowed the deduction of insurance investments made prior to 20 July 2006 from the total regulatory capital was eliminated. These forms of investment are now included in the ordinary rule, which provides that they are to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital.

With regard to the recognition of the new stake in the Bank of Italy, note that its carrying value, in accordance with the guidance provided by the Supervisory Authority, is subject to the following treatment:

- for the amount corresponding to the carrying value of the cancelled shares, equal to 624 million euro, it continues to be deducted as to 50% from Tier 1 and as to 50% from Tier 2;
- it is fully deducted from Tier 1 as to the amount corresponding to the greater carrying value of the new stake recorded in the income statement, equal to 2,187 million euro (net of the substitute tax). The deduction takes place through the recognition of the abovementioned amount among the “Other negative prudential filters” of Tier 1.

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

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

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

Moreover, please note that during 2013 on the basis of specific instructions concerning regulatory capital issued by the Bank of Italy on 9 May 2013:

- the impact of the introduction of the new version of IAS 19 – *Employee Benefits* has been sterilised for regulatory purposes. In particular, “Regulatory capital before the application of prudential filters” includes -383 million euro attributable to the valuation reserve on actuarial losses (including the share attributable to minority shareholders) introduced effective 1 January 2013. The update to the Standard eliminated the option of using the previous “corridor method,” according to which the aforementioned valuation effects passed through the income statement over multiple years, provided that the loss exceeded certain thresholds. This valuation component was sterilised by recognising among “Positive IAS/IFRS prudential filters” an amount equal to the share of the actuarial loss that would not have been recognised in the income statement according to the abovementioned “corridor method” (373 million euro, including the share attributable to minority shareholders);
- effective 31 March 2013, the benefits to the balance sheet from deferred tax assets (DTAs) associated with multiple cases of tax realignment of a single amount of goodwill are excluded from the

calculation of regulatory capital, through inclusion among “Negative IAS/IFRS prudential filters”. The exclusion is progressive over a period of five years. The amount of the filter as at 31 December 2013 is 92 million euro and, based on the Supervisory Provisions, includes the first year and the amount attributable to the half year. The remaining amounts will gradually be eliminated from the calculation of Regulatory Capital by 31 December 2016.

The table below details the captions of the consolidated shareholders’ equity that together with the capital components pertaining to third party shareholders contribute to the determination of the regulatory capital.

### Group and third party consolidated shareholders’ equity

(millions of euro)

	31.12.2013			31.12.2012		
	Group	Third parties	Total	Group	Third parties	Total
<b>Share capital</b>	<b>8,546</b>	<b>369</b>	<b>8,915</b>	<b>8,546</b>	<b>317</b>	<b>8,863</b>
Ordinary shares	8,061	366	8,427	8,061	314	8,375
Savings shares	485	3	488	485	3	488
<b>Share premium reserve</b>	<b>30,934</b>	<b>55</b>	<b>30,989</b>	<b>30,934</b>	<b>55</b>	<b>30,989</b>
<b>Reserves</b>	<b>10,721</b>	<b>146</b>	<b>10,867</b>	<b>9,941</b>	<b>168</b>	<b>10,109</b>
Legal reserve	1,709	-	1,709	1,709	-	1,709
Extraordinary reserve	1,519	-	1,519	1,326	-	1,326
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	232	232	-	232
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	302	302	-	302
Consolidation reserve	6,690	133	6,823	6,016	168	6,184
Other reserves	269	13	282	356	-	356
<b>Equity instruments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>(Treasury shares)</b>	<b>-62</b>	<b>-3</b>	<b>-65</b>	<b>-14</b>	<b>-</b>	<b>-14</b>
<b>Valuation reserves:</b>	<b>-1,074</b>	<b>-17</b>	<b>-1,091</b>	<b>-1,399</b>	<b>-3</b>	<b>-1,402</b>
Financial assets available for sale	363	7	370	-58	4	-54
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-	-
Cash flow hedges	-873	-1	-874	-1,291	-2	-1,293
Foreign exchange differences	-566	-19	-585	-418	-7	-425
Non current assets held for sale	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-371	-5	-376	-	-	-
Share of valuation reserves connected with investments carried at equity	13	-	13	17	1	18
Legally-required revaluations	360	1	361	351	1	352
<b>Parent Company's net income (loss) and minority interest</b>	<b>-4,550</b>	<b>-7</b>	<b>-4,557</b>	<b>1,605</b>	<b>49</b>	<b>1,654</b>
<b>Shareholders' equity</b>	<b>44,515</b>	<b>543</b>	<b>45,058</b>	<b>49,613</b>	<b>586</b>	<b>50,199</b>

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

The share capital of the Bank as at 31 December 2013 amounted to 8,546 million euro, divided into 15,501,622,147 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro each. Each ordinary share gives the right to one vote in the Shareholders’ Meeting. Savings shares, which may be in bearer form, entitle the holder to attend and vote at the Special Meeting of savings shareholders. Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in a financial year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference shall be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders’ Meeting, net of the above dividend, will be allocated to all shares so that the total dividend per savings share will be 2% of nominal value higher than for ordinary shares. In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

As at 31 December 2013, Intesa Sanpaolo had 62 million euro in treasury shares.

At the date of this document the share capital was fully paid-in and liberated.

The share premium reserve essentially includes the same balance sheet item as the Parent Company, primarily generated by the entries made in accordance with IFRS 3 for the merger between Banca Intesa

and Sanpaolo IMI, as well as recognition of a portion of the capital increase completed in June 2011 as share premium.

Reserves amounted to 10,721 million euro and included: legal reserve, statutory or extraordinary reserve, concentration reserves (Law 218 of 30/7/1990, Art. 7, par. 3, and Law 218 of 30/7/1990, Art. 7), consolidation reserve and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year. The statutory or extraordinary reserve was set up as provided for by the Articles of Association by the allocation of residual net income after dividend distribution to ordinary and savings shares. Such reserve also includes unclaimed and forfeited dividends, as provided for by the Articles of Association. Concentration reserves ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law. Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

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

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

	(millions of euro)				
	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	Total as at 31.12.2013
<b>Share capital</b>	<b>8,915</b>	-	<b>192</b>	<b>-192</b>	<b>8,915</b>
Ordinary shares	8,427	-	192	-192	8,427
Savings shares	488	-	-	-	488
<b>Share premium reserve</b>	<b>30,989</b>	-	<b>4</b>	<b>-4</b>	<b>30,989</b>
<b>Reserves</b>	<b>10,867</b>	<b>188</b>	<b>-202</b>	<b>14</b>	<b>10,867</b>
<b>Equity instruments (Treasury shares)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Valuation reserves:</b>	<b>-1,090</b>	<b>317</b>	<b>-7</b>	<b>-311</b>	<b>-1,091</b>
Financial assets available for sale	51	319	-	-	370
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-873	-	-4	3	-874
Foreign exchange differences	-585	-	-3	3	-585
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-376	-	-	-	-376
Share of valuation reserves connected with investments carried at equity	332	-2	-	-317	13
Legally-required revaluations	361	-	-	-	361
<b>Parent Company's net income (loss) and minority interest</b>	<b>-4,557</b>	<b>-300</b>	<b>-153</b>	<b>453</b>	<b>-4,557</b>
<b>Shareholders' equity</b>	<b>45,065</b>	<b>199</b>	<b>-166</b>	<b>-40</b>	<b>45,058</b>

The table above indicates the components of net book value, adding those of the Group to those of third parties, broken down by the type of consolidated company. In further detail, the column for the Banking group indicates the amount resulting from the consolidation of the companies belonging to the Banking group, gross of the effects on the income statement of transactions with other companies within the scope of consolidation. Subsidiaries other than those belonging to the Banking group and consolidated on a line-by-line basis are stated here at equity. The columns Insurance companies and Other companies contain the amounts resulting from consolidation, gross of the effects on the income statement of transactions with companies belonging to the banking group. The columns Netting and adjustments on consolidation show the adjustments required to obtain the figure represented in the financial statements.

As well as due to the distribution of the dividend for 2013 (to be paid on 2012 net income) to Intesa Sanpaolo S.p.A. shareholders for a total of 832 million euro, consolidated shareholders' equity (Group and third parties) essentially changed over the two periods under review due to the net income for 2013, the improvement in valuation reserves and the acquisition of several minority interests. The breakdown of the different types of valuation reserves and their movements during the year are shown in the tables below.



### Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2013		
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Net reserve
1. Debt securities	541	-474	286	-14	-	-	-286	14	541	-474	67
2. Equities	299	-19	41	-	-	-	-41	-	299	-19	280
3. Quotas of UCI	58	-32	14	-8	-	-	-14	8	58	-32	26
4. Loans	15	-17	-	-	-	-	-	-	15	-17	-2
<b>Total as at 31.12.2013</b>	<b>913</b>	<b>-542</b>	<b>341</b>	<b>-22</b>	<b>-</b>	<b>-</b>	<b>-341</b>	<b>22</b>	<b>913</b>	<b>-542</b>	<b>371</b>
of which: Financial assets available for sale											370
of which: Share of valuation reserves connected with investments carried at equity											1
<b>Total as at 31.12.2012</b>	<b>1,182</b>	<b>-1,236</b>	<b>374</b>	<b>-152</b>	<b>-</b>	<b>-</b>	<b>-374</b>	<b>152</b>	<b>1,182</b>	<b>-1,236</b>	<b>-54</b>

### Valuation reserves of financial assets available for sale and of (the portion of) the investments carried at equity: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans	TOTAL as at 31.12.2013
<b>1. Initial amount</b>	<b>-371</b>	<b>290</b>	<b>33</b>	<b>-6</b>	<b>-54</b>
<b>2. Positive fair value differences</b>	<b>1,152</b>	<b>306</b>	<b>53</b>	<b>4</b>	<b>1,515</b>
2.1 Fair value increases	944	237	42	1	1,224
2.2 Reversal to the income statement of negative reserves	98	65	8	-	171
- impairment	-	62	5	-	67
- disposal	98	3	3	-	104
2.3 Other changes	110	4	3	3	120
<b>3. Negative fair value differences</b>	<b>-714</b>	<b>-316</b>	<b>-60</b>	<b>-</b>	<b>-1,090</b>
3.1 Fair value decreases	-384	-100	-38	-	-522
3.2 Impairment losses	-	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	-212	-201	-7	-	-420
3.4 Other changes	-118	-15	-15	-	-148
<b>4. Closing amount</b>	<b>67</b>	<b>280</b>	<b>26</b>	<b>-2</b>	<b>371</b>

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

Before illustrating the various financial instruments which contribute to the Group's regulatory capital, it is noted that during the third quarter of 2013 the Group implemented a specific exchange of existing subordinated notes (Exchange Offer) with newly issued Tier 2 subordinated notes in euro, having a maturity of 13 September 2023, to be issued by Intesa Sanpaolo. This transaction was announced on 28 August 2013 and was finalised on 13 September 2013.

At the end of the Exchange Offer, the aggregate nominal value of the notes offered by the holders and accepted for the exchange by Intesa Sanpaolo was 1,427,721,853 euro. Consequently, as at the settlement date, Intesa Sanpaolo issued an aggregate nominal value of new notes amounting to 1,444,789,000 euro in exchange for existing notes. Intesa Sanpaolo also issued an aggregate nominal value of new notes amounting to 867,000 euro.

The aggregate nominal value of existing notes in each series offered in exchange by holders – accepted by Intesa Sanpaolo – and the exchange ratio applicable to each series of existing notes are indicated in the following table:

Description of Existing Notes	Type	Maturity date	Nominal value outstanding at the start of the Exchange	Exchange price (%)	Aggregate nominal value of Existing Notes accepted for exchange	Exchange ratio
6,625% Upper Tier II Subordinated Notes 2018	Upper Tier 2	08-May-18	€ 1,127,100,000	107.75%	€ 286,500,000	108.7077%
Lower Tier II Subordinated Fixed to Floating Rate Notes November 2017	Upper Tier 2	12-Nov-17	£5.350.000	94.00%	£550.000	94.8355%
Floating Rate Subordinated Notes 2018	Upper Tier 2	20-Feb-18	€ 220,200,000	92.50%	€ 72,140,000	93.3222%
Lower Tier II Subordinated Fixed to Floating Rate Notes 2018	Upper Tier 2	28-May-18	€ 362,050,000	95.50%	€ 110,900,000	96.3488%
Fixed/Floating Rate Callable Lower Tier II Subordinated Notes 2018	Upper Tier 2	26-Jun-18	€ 167,750,000	91.25%	€ 58,850,000	92.0611%
Fixed/Floating Rate Callable Subordinated Notes 2020	Upper Tier 2	02-Mar-20	€ 478,000,000	91.25%	€ 206,000,000	92.0611%
Lower Tier II Fix Floater Callable Subordinated Notes 2024	Upper Tier 2	18-Mar-24	£24.901.000	88.75%	£12.879.000	89.5388%
5,00% Lower Tier II Subordinated Notes 2019	Upper Tier 2	23-Sep-19	€ 1,447,100,000	102.50%	€ 395,950,000	103.4111%
5,15% Lower Tier II Subordinated Notes 16 July 2020	Upper Tier 2	16-Jul-20	€ 1,203,150,000	103.00%	€ 281,400,000	103.9155%

Summary details of the new notes issued are as follows:

Type	Currency	Aggregate nominal value of new notes	Aggregate nominal value	Price of the new issue	Spread applicable to new notes	Yield rate of new notes
Tier 2	Euro	€ 1,445,656,000	13-Sep-23	99.12%	10-year Euro Mid-Swap rate + 4.50%	6.749%

As a consequence of the exchange finalisation, the Intesa Sanpaolo Group recorded a positive contribution, including the positive impact of the unwinding of interest rate derivatives, of 87 million euro for profit before tax, approximately 60 million euro for net income and 2 basis points for the Core Tier 1 ratio.

The main contractual characteristics of innovative and non-innovative instruments which, together with share capital and reserves, are included in the calculation of Tier 1 and Tier 2 capital, are summarised below.

### Tier 1 capital

Issuer	Interest rate	St e p - u p	Issue date	Expiry date	Early redemption as of	C u r r e n c y	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	9.5% fixed rate	NO	01-Oct-2010	perpetual	01-Jun-2016	Eur	1,000,000,000	478
Intesa Sanpaolo (*)	up to 20/6/2018 (excluded): 8.047%; thereafter 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Eur	1,250,000,000	580
Intesa Sanpaolo (*)	up to 24/9/2018 (excluded): 8.698%; thereafter 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Eur	250,000,000	250
Intesa Sanpaolo (*)	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 6.87%	YES	14-Oct-2009	perpetual	14-Oct-2019	Eur	1,500,000,000	742
<b>Total preference shares and innovative and non-innovative equity instruments (Tier I)</b>								<b>2,050</b>

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

**Tier 2 capital**

Issuer	Interest rate	Structure	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Intesa Sanpaolo	6,625% fixed rate	NO	08-May-2008	08-May-2018	NO	Eur	1,250,000,000	809
Intesa Sanpaolo	6,16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Eur	120,000,000	120
Centro Leasing Banca	3-month Euribor + 0,85%	NO	17-Jul-2007	17-Jul-2017	NO	Eur	30,000,000	25
<b>Total hybrid instruments (Upper Tier II)</b>								<b>954</b>
Intesa Sanpaolo	1st coupon: 8%, 2nd coupon: 5%, 3rd coupon: 4%, thereafter: 70% of 10-year swap rate	NO	09-Mar-1999	09-Mar-2014	NO	Lit	480,000,000,000	42
Intesa Sanpaolo	1st coupon.: 8%, 2nd coupon: 5,5%, 3rd coupon: 4%, therefore 65% of 10-year Euro Swap rate with minimum 4%	NO	15-Jul-1999	15-Jul-2014	NO	Eur	250,000,000	44
Intesa Sanpaolo	6,11% fixed rate; from 23 February 2005 97% 30-year Euro Mid-Swap rate	NO	23-Feb-2000	23-Feb-2015	NO	Eur	65,000,000	26
Intesa Sanpaolo	6,625% fixed rate	NO	13-Sep-2013	13-Sep-2023	NO	Eur	1,445,656,000	1,408
Intesa Sanpaolo	5% fixed rate	NO	17-Oct-2013	17-Oct-2023	NO	Eur	1,576,000,000	1,576
Intesa Sanpaolo	92%30-year Euro Mid-Swap rate; never less than that of previous coupon.	NO	12-Mar-2001	23-Feb-2015	NO	Eur	50,000,000	20
Intesa Sanpaolo	6,375% fixed rate from 12 November 2012 3-month Sterling LIBOR	SI	12-Oct-2007	12-Nov-2017	NO	Gpb	250,000,000	5
Intesa Sanpaolo	up to 20/2/2013 (excluded): 3-month Euribor + 0,25% p.a.; therefore 3-month Euribor + 0,85% p.a.	SI	20-Feb-2006	20-Feb-2018	NO	Eur	750,000,000	130
Intesa Sanpaolo	up to 18/03/2019 (excluded): 5,625% p.a.; therefore 3-month Sterling LIBOR + 1,125% p.a.	SI	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gpb	165,000,000	14
Intesa Sanpaolo	up to 2/3/2015 (excluded): 3,75% p.a.; therefore 3-month Euribor + 0,89% p.a.	SI	02-Mar-2005	02-Mar-2020	02-Mar-2015	Eur	500,000,000	258
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4,375% p.a.; therefore 3-month Euribor + 1,00% p.a.	SI	26-Jun-2006	26-Jun-2018	NO	Eur	500,000,000	105
Intesa Sanpaolo	5,87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Eur	415,156,000	161
Intesa Sanpaolo	6,25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Eur	544,546,000	213
Intesa Sanpaolo	6,16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Eur	382,401,000	148
Intesa Sanpaolo	4,80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Eur	800,000,000	313
Intesa Sanpaolo	4,00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Eur	1,096,979	431
Intesa Sanpaolo	5,75% fixed rate; from 28/5/2013 3-month Euribor + 1,98%	SI	28-May-2008	28-May-2018	NO	Eur	1,000,000,000	249
Intesa Sanpaolo	(3-month Euribor+4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Eur	635,350,000	374
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Eur	165,050,000	92
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Eur	1,500,000,000	1,025
Intesa Sanpaolo	(3-month Euribor + 1,6%)/4	NO	30-Sep-2010	30-Sep-2017	NO	Eur	805,400,000	624
Intesa Sanpaolo	5,15% fixed rate	NO	16-Jul-2010	16-Jul-2020	NO	Eur	1,250,000,000	912
Intesa Sanpaolo	(3-month Euribor +1,60%)/4	NO	10-Nov-2010	10-Nov-2017	NO	Eur	479,050,000	373
Intesa Sanpaolo	(3-month Euribor +2%)/4	NO	31-Mar-2011	31-Mar-2018	NO	Eur	373,400,000	368
Pravex Bank	5,5831% (Libor + 5%)	NO	other issues placed as of 12/09/2000	other issues with final expiry at 31/07/2016	NO	Usd	14,100,000	5

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
Banca Monte Parma	3,25% fixed rate	NO	04-Feb-2009	04-Feb-2014	NO	Eur	11,500,000	2
Banca Monte Parma	4,50% fixed rate	NO	05-Feb-2009	05-Feb-2014	NO	Eur	5,000,000	1
Banca Monte Parma	2,80% fixed rate	NO	22-Apr-2009	22-Apr-2014	NO	Eur	10,000,000	2
Banca Monte Parma	3,10% fixed rate	NO	09-Jul-2009	09-Jul-2014	NO	Eur	9,000,000	2
Banca Monte Parma	3,50% fixed rate	NO	11-Aug-2009	11-Aug-2016	NO	Eur	5,000,000	3
Banca Monte Parma	3,20% fixed rate	NO	25-Sep-2009	25-Sep-2016	NO	Eur	5,000,000	3
Banca Monte Parma	3,00% fixed rate	NO	30-Jul-2010	30-Oct-2015	NO	Eur	20,000,000	8
<b>Total eligible subordinated liabilities (Lower Tier II)</b>								<b>8,937</b>
<b>TOTAL</b>								<b>9,891</b>

### Tier 3 capital

As at 31 December 2013 and 31 December 2012 no subordinated debts were issued which are eligible to be considered in Tier 3 Capital, net of intragroup operations, to “cover” market risks.

### Reconciliation of Net book value and Tier 1 Regulatory Capital

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

Information	(millions of euro)	
	31.12.2013	31.12.2012
Shareholders' equity pertaining to the Group	44,515	49,613
Shareholders' equity pertaining to minority interests	543	586
<b>SHAREHOLDERS' EQUITY</b>	<b>45,058</b>	<b>50,199</b>
Components of shareholders' equity not pertaining to the Banking group	7	2
Dividend or distribution of reserves to shareholders of Intesa Sanpaolo S.p.A. (*)	-822	-832
Dividend or distribution of reserves to minority shareholders	-35	-45
<b>SHAREHOLDERS' EQUITY OF THE BANKING GROUP POST-DISTRIBUTION TO SHAREHOLDERS</b>	<b>44,208</b>	<b>49,324</b>
<b>OTHER COMPONENTS OF TIER 1 CAPITAL</b>	<b>-7,049</b>	<b>-11,369</b>
- Innovative and non-innovative capital instruments included in Tier 1 capital	2,057	2,056
- Deduction of goodwill	-4,396	-9,125
- Deduction of other intangible assets pertaining to the Banking Group	-3,071	-5,186
- Zeroing of Valuation Reserves pertaining to the Banking Group	1,091	1,402
- Prudential filter for negative AFS securities Valuation Reserves on debt securities not issued by EU countries	-254	-353
- Prudential filter for sterilisation of the higher value of the new stake in the Bank of Italy for regulatory purposes	-2,187	-
- Prudential filter to sterilise DTAs connected with multiple cases of tax realignment of goodwill	-92	-
- Other negative prudential filters	-33	-34
- Other regulatory adjustments	-164	-129
<b>TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED</b>	<b>37,159</b>	<b>37,955</b>
<b>TOTAL ITEMS TO BE DEDUCTED FROM TIER 1 CAPITAL (**)</b>	<b>-3,319</b>	<b>-1,942</b>
- Value of the stake in the Bank of Italy (50% of the carrying amount of the cancelled stakes)	-312	-312
- Investments in insurance entities	-2,096	-604
- Other investments in banks and financial companies equal to or greater than 20% of the investee's capital	-295	-270
- Expected losses in excess of impairment losses (IRB approaches)	-439	-600
- Other deductions	-177	-156
<b>TOTAL TIER 1 CAPITAL (AFTER ITEMS TO BE DEDUCTED)</b>	<b>33,840</b>	<b>36,013</b>

(\*) As proposed by the Management Board to the Shareholders' Meeting.

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

## Quantitative disclosure

### Regulatory capital structure

The structure of the regulatory capital of the Intesa Sanpaolo Group as at 31 December 2013 is summarised in the table below

(millions of euro)

Information	31.12.2013	31.12.2012
<b>A. Tier 1 capital before the application of prudential filters</b>	<b>39,352</b>	<b>38,342</b>
<b>B. Tier 1 capital prudential filters</b>	<b>-2,193</b>	<b>-387</b>
B.1 Positive IAS/IFRS prudential filters (+)	373	-
B.2 Negative IAS/IFRS prudential filters (-)	-2,566	-387
<b>C. Tier 1 capital before items to be deducted (A+B)</b>	<b>37,159</b>	<b>37,955</b>
<b>D. Items to be deducted from Tier 1 capital</b>	<b>3,319</b>	<b>1,942</b>
<b>E. Total Tier 1 capital (C-D)</b>	<b>33,840</b>	<b>36,013</b>
<b>F. Tier 2 capital before the application of prudential filters</b>	<b>10,504</b>	<b>10,175</b>
<b>G. Tier 2 capital prudential filters</b>	<b>-85</b>	<b>-92</b>
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-85	-92
<b>H. Tier 2 capital before items to be deducted (F+G)</b>	<b>10,419</b>	<b>10,083</b>
<b>I. Items to be deducted from Tier 2 capital</b>	<b>3,319</b>	<b>1,942</b>
<b>L. Total Tier 2 capital (H-I)</b>	<b>7,100</b>	<b>8,141</b>
<b>M. Items to be deducted from total Tier 1 and Tier 2 capital</b>	<b>-</b>	<b>3,410</b>
<b>N. Regulatory capital (E+L-M)</b>	<b>40,940</b>	<b>40,744</b>
<b>O. Tier 3 capital</b>	<b>-</b>	<b>-</b>
<b>P. Regulatory capital including Tier 3 (N+O)</b>	<b>40,940</b>	<b>40,744</b>

Regulatory capital takes into account the distribution of the extraordinary reserve that the Management Board will propose to the Shareholders' Meeting, i.e. 0.05 euro per ordinary or non-convertible savings share, for a total disbursement of 822 million euro.

As previously indicated, the caption "Items to be deducted from total regulatory capital" has a zero balance as at 31 December 2013, since the option that allowed the deduction of insurance investments made prior to 20 July 2006 from total regulatory capital (the only contribution to this item) was eliminated. These forms of investment are now included in the ordinary rule, which provides that they are to be deducted 50% from Tier 1 capital and 50% from Tier 2 capital.

More details of the breakdown of the Tier 1 and Tier 2 capital are provided below.

## Tier 1 capital

	(millions of euro)	
Information	31.12.2013	31.12.2012
<b>TOTAL TIER 1 CAPITAL<sup>(a)</sup></b>		
- Share capital - ordinary shares (b)	8,227	8,236
- Share capital - preference savings shares (c)	488	488
- Share premium reserve	30,985	30,989
- Reserves and net income	10,061	10,896
- Non-innovative equity instruments	478	478
- Innovative equity instruments with final expiry	-	-
- Innovative equity instruments subject to transition requirements (grandfathering) (c)	1,579	1,578
- Positive IAS / IFRS prudential filters (+)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-	-
<i>Redeemable shares</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 1 capital</i>	-	-
<i>Other positive prudential filters (d)</i>	373	-
<b>TOTAL POSITIVE ITEMS</b>	<b>52,191</b>	<b>52,665</b>
- Treasury shares or quotas (e)	-59	-12
- Goodwill	-4,396	-9,125
- Other intangible assets	-3,071	-5,186
- Loss for the period	-4,557	-
- Adjustments to loans	-	-
- Adjustments calculated on the regulatory trading and banking books	-	-
- Other (d)	-383	-
- Negative IAS / IFRS prudential filters (-)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-	-
<i>Negative reserves on equities and quotas of UCI available for sale</i>	-	-
<i>Negative reserves on debt securities available for sale (f)</i>	-254	-353
<i>Net accumulated capital gain on property and equipment</i>	-	-
<i>Capital resources forming the object of forward purchase commitments not included in tier 1 capital</i>	-	-
<i>Other negative prudential filters (g)</i>	-2,312	-34
<b>TOTAL NEGATIVE ITEMS</b>	<b>-15,032</b>	<b>-14,710</b>
<b>TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED</b>	<b>37,159</b>	<b>37,955</b>
<b>TOTAL ITEMS TO BE DEDUCTED</b>	<b>-3,319</b>	<b>-1,942</b>
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries	-2,096	-604
- Other banking and financial investments higher than 20% of the investee's capital	-295	-270
- Excess expected losses with respect to adjustments (IRB approaches)	-439	-600
- Other deductions	-177	-156
<b>TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED</b>	<b>33,840</b>	<b>36,013</b>

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

(b) It does not include 9 millions euro of preference shares subject to grandfathering, calculated in Tier I capital in application of the transitional arrangements envisaged by Title I, Chapter 2, Section II, paragraph 1.4.1 of Circular No. 263 of 27 December 2006 – 5th update of 22 December 2010, "New regulations for the prudential supervision of banks".

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

(d) The "Other negative items" of Tier 1 capital include the valuation reserve for actuarial losses introduced on a compulsory basis effective 1 January 2013 by IAS 19 – Employee Benefits in replacement of the previous "corridor method." This method called for the above valuation effects to pass through the income statement over multiple years, provided that those effects exceeded given thresholds. The "Other positive prudential filters" include the reversal of this valuation component, but only with respect to the share that would not have been recognised in the income statement according to the previous "corridor method."

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

(f) The caption does not include the negative reserves on government bonds of EU countries, for which the supervisory regulations provided for the option – exercised by the Group – to exclude these from the negative Tier 1 capital filters, with an effect on the Core Tier 1 ratio of 2 basis points.

(g) "Other negative prudential filters" include the sterilisation of the higher carrying amount of the new stake in the Bank of Italy for regulatory purposes for 2,187 million euro, including minority interests of 16 million euro. The item also includes 92 million in deferred tax assets (DTAs) associated with multiple cases of tax realignment of a single amount of goodwill.

The “Total items to be deducted” amounted to half the overall deductions, 50% of which were allocated as a reduction to the “Tier 1 capital” and the remaining 50% as a reduction to the “Tier 2 capital”. Effective 1 January 2013 this aggregate also includes insurance investments associated with relationships that arose prior to 20 July 2006, which previously were deducted from total regulatory capital.

## Tier 2 capital

	(millions of euro)	
Information	31.12.2013	31.12.2012
<b>TIER 2 CAPITAL <sup>(a)</sup></b>		
- Valuation reserves - Property and equipment		
<i>Legally-required revaluations</i>	360	352
<i>Property and equipment used in operations</i>	-	-
- Valuation reserve - Securities available for sale		
<i>Equities and quotas of UCI</i>	170	184
<i>Debt securities</i>	1	-
- Non-innovative equity instruments not included in tier 1 capital	-	-
- Innovative equity instruments not included in tier 1 capital	-	-
- Hybrid capital instruments	954	1,389
- Tier 2 subordinated liabilities	8,937	8,328
- Excess total adjustments with respect to expected losses	528	237
- Net capital gains on equity investments	41	3
- Other positive items	-	-
- Positive IAS / IFRS prudential filters (+)		
<i>Net accumulated capital gain on property and equipment</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 2 capital</i>	-	-
<i>Other positive items</i>	-	-
<b>TOTAL POSITIVE ITEMS</b>	<b>10,991</b>	<b>10,493</b>
- Net capital losses on equity investments	-	-
- Loans	-	-
- Other negative items	-487	-318
- Negative IAS / IFRS prudential filters (-)		
<i>Portion not included of the valuation reserve on property and equipment used in operations</i>	-	-
<i>Portion not included of positive reserves on securities available for sale - Equities</i>	-85	-92
<i>Portion not included of positive reserves on securities available for sale - Debt securities</i>	-	-
<i>Tier 2 subordinated liabilities and hybrid capital instruments forming the object of forward purchase commitments not included in tier 2 capital</i>	-	-
<i>Other negative filters</i>	-	-
<b>TOTAL NEGATIVE ITEMS</b>	<b>-572</b>	<b>-410</b>
<b>TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED</b>	<b>10,419</b>	<b>10,083</b>
<b>TOTAL ITEMS TO BE DEDUCTED</b>	<b>-3,319</b>	<b>-1,942</b>
- Investment in the Bank of Italy	-312	-312
- Insurance subsidiaries	-2,096	-604
- Other banking and financial investments higher than 20% of the investee's capital	-295	-270
- Excess expected losses with respect to adjustments (IRB approaches)	-439	-600
- Other deductions	-177	-156
<b>TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED</b>	<b>7,100</b>	<b>8,141</b>

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





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## Table 4 – Capital adequacy

### Qualitative disclosure

#### Assessment of the adequacy of the Bank's internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.

The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:

- Regulatory Capital for Pillar 1 risks;
- overall Economic Capital for Pillar 2 risks, for the ICAAP process.

The Regulatory Capital and the overall Economic Capital differ in terms of their definition and the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent use of internal models for the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints (Basel 2 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The processes of assessment of capital adequacy are therefore based on a “twin track” approach: Regulatory Capital for the purposes of compliance with the Pillar 1 requirements and overall Economic Capital for the purposes of the ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also to run its operations. In this regard, the allocation of capital to the Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the Regulatory Capital and the Economic Capital, in accordance with the criteria of the “use test” established by the supervisory provisions.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.

The first verification occurs in the process of assignment of budget objectives: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are quantified and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.

Compliance with capital adequacy is obtained via various levers, such as pay-out policy, definition of strategic finance operations (capital increases, issue of convertible loans and subordinated bonds, disposal of non-core assets, etc.) and the management of loan policy on the basis of counterparty risk.

This dynamic management approach is aimed at identifying the risk capital raising instruments and hybrid capital instruments most suitable to the achievement of the objectives.

Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.

A further step in the preventive analysis and control of the Group's capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

As emphasised above, the Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk,

where capital adequacy, earnings stability, liquidity and a strong reputation are key to protecting current and prospective profitability.

The policies relating to the acceptance of risks are defined by the Supervisory Board and the Management Board of the Parent Company with support from specific operating Committees, the most important of which is the Control Committee, and from the Group Risk Governance Committee and Chief Risk Officer reporting directly to the Chief Executive Officer. The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management, compliance and legal guidelines and policies in accordance with company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures oversight of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk.

The Economic Capital, defined as the maximum "unexpected" loss that the Group may incur over a period of one year, is a key measure for determining the Group's financial structure and guiding its operations, ensuring the balance between risks assumed and shareholder return.

Consequently, when determining the risk tolerance considered to be acceptable, the Group's objective is to ensure that its liabilities are covered over a period of 12 months with a 99.93% confidence level (in line with the solvency targets for entities with an agency rating of A).

With regard to the objectives of financial stability, the Group's aim is to ensure that risk is covered with a 99.9% confidence level, even under conditions of stress.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in an intricate framework of governance, control limits and procedures.

As presented above in Table 1, the risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- financial risk of the trading book, including issuer, position, settlement and concentration risk on the trading book;
- financial risk of the banking book, mainly represented by:
  - interest rate and foreign exchange rate risk;
  - risk on equity investments not subject to line by line consolidation;
  - risk on real estate assets owned for whichever purpose;
- operational risk, including legal risk;
- insurance risk;
- strategic risk.

The level of absorption of Economic Capital is estimated on the basis of the current situation and also at a forecast level, on the definition of Risk Appetite approved by the Group, based on the Budget assumptions and the projected economic scenario under ordinary and stress conditions.

The Group's overall risk position as of December 2013 and based on the 2014 budget in terms of overall Economic Capital is defined according to an approach that envisages assessment with a confidence interval of 99.93%, which is consistent with the solvency of parties with A rating, and consideration of the benefits of diversification among the various risk factors.

The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.

The following graphs illustrate the breakdown of the Group's Economic Capital by Business Unit and by type of risk.

**Overall Economic Capital – breakdown by type of risk and by Business Unit**



The absorption of Economic Capital by Business Unit reflects the distribution of the Group’s various activities and the specialisations of the business areas.

The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (38.6% of the total Economic Capital): this is due to the type of customers served (Corporate and Financial Institutions) and to the main activities (Investment Banking and Capital Market). In fact, a significant portion of credit risk and trading book risk is attributable to this Business Unit, as well as a significant portion of the Banking Book financial risk (mainly equity).

The "Banca dei Territori" Business Unit (36.1% of the total Economic Capital) is the second source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of the credit risk component, as well as operational risk and insurance risk.

The "International Subsidiary Banks" and "Banca Fideuram" Business Units are respectively assigned 7.7% and 1.4% of the total risk, predominantly credit risk.

In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, as well as the Banking Book interest rate risk, specifically in the management of demand positions.

Absorption of Economic Capital by Eurizon Capital is marginal (0.2%) due to the nature of its business, which is predominantly aimed at asset management activities.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the requirements laid down by the Second Pillar of Circular 263, by preparing and sending the ICAAP Reports to the Supervisory Authority - on approval by the corporate bodies – with the figures of the previous years on a consolidated basis. The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2013 and the forecasts as at 31 December 2014, and the final document is due to be sent to the Bank of Italy by 30 April 2014. The results of the ICAAP process have confirmed the soundness of the Group’s capital base and that the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also in stress conditions.

During 2013, Intesa Sanpaolo also met the Core Tier 1 requirement of 9%, calculated by considering a capital buffer for exposures to sovereign issuers, as required by the EBA.

## Quantitative disclosure

According to the “New regulations for the prudential supervision of banks” (Bank of Italy Circular 263 of 27 December 2006 and subsequent amendments), which adopt the provisions on the International convergence of capital measurement and capital standards (Basel 2), the banking Group’s capital must amount to at least 8% of total risk-weighted assets (total capital ratio) arising from the risks typically associated with banking and financial activity (credit, counterparty, market, and operational risk), weighted according to the regulatory segmentation of borrowers and considering credit risk mitigation techniques and the decrease in operational risk following insurance coverage.

In general terms, the group-level capital requirement is calculated as the sum of the individual requirements of the individual companies that make up the Banking group, net of exposures arising from intragroup relations included in the calculation of credit, counterparty and settlement risk.

Moreover, the Intesa Sanpaolo Group was subject to a capital requirement restriction, consisting in a floor of 90% of the sum of the requirements for credit, market and counterparty risk, calculated based on the Basel 1 rules. This penalty was prudently introduced by the Bank of Italy on authorising the use of Internal Methods for the calculation of requirements for credit risk in relation to several aspects deemed worthy of implementing. Taking account of the measures implemented by the Intesa Sanpaolo Group in relation to the problems detected, the Bank of Italy authorised the reduction of said floor from 90% to 85% starting from 30 June 2011.

In addition to the Total capital ratio referred to above, other more rigorous ratios are also used to assess capital soundness: the Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets, and the Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of preferred shares and savings shares and preference ordinary shares) and risk-weighted assets.

In addition, it is noted that the Intesa Sanpaolo Group, following the recommendation of the EBA of 22 July 2013 on the minimum capital requirement level for EU banks, is obliged to maintain a nominal value of Core Tier 1 capital not lower than the one required as at 30 June 2012 to comply with the prudential requirements set by the recommendation of the EBA of December 2011.

The minimum capital requirements requested from the Intesa Sanpaolo Group as at 1 January 2014 will be equal to 7% of the Common Equity Tier 1, including the capital retention reserve equal to 2.5%, 8% of Tier 1 and 10.5% of Tier Total. The Common Equity Tier 1 ratio requirements set by the ECB as part of the Comprehensive Assessment equals 8%.

## Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

Information	31.12.2013			31.12.2012		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
<b>A. CAPITAL REQUIREMENTS</b>						
<b>A.1 Credit and counterparty risks</b>	<b>537,558</b>	<b>227,031</b>	<b>18,162</b>	<b>569,162</b>	<b>253,309</b>	<b>20,265</b>
1. Standardised approach	242,763	93,281	7,463	256,202	105,908	8,473
2. Internal models (IRB)	4,389	5,229	418	4,254	4,308	345
3. Internal models - Advanced approach and retail exposures	286,748	123,203	9,856	305,171	136,848	10,947
4. Securitisations - banking book	3,658	5,318	425	3,535	6,245	500
<b>A.2 Market risk</b>		<b>17,962</b>	<b>1,437</b>		<b>18,427</b>	<b>1,474</b>
1. Standardised approach		6,353	508		6,294	504
2. Internal models		11,343	908		11,927	954
3. Concentration risk		266	21		206	16
<b>A.3 Operational risk</b>		<b>22,737</b>	<b>1,819</b>		<b>25,745</b>	<b>2,059</b>
1. Basic indicator approach		742	59		1,038	83
2. Standardised approach		3,314	265		4,339	347
3. Advanced measurement approach		18,681	1,495		20,368	1,629
<b>A.4 Other capital requirements</b>		-	-		-	-
<b>A.5 Other calculation elements <sup>(a)</sup></b>		<b>8,561</b>	<b>685</b>		<b>1,138</b>	<b>91</b>
<b>A6 Total capital requirements</b>		<b>276,291</b>	<b>22,103</b>		<b>298,619</b>	<b>23,889</b>
<b>B. CAPITAL RATIOS (%)</b>						
<b>B.1 Core Tier 1</b>			<b>11.3%</b>			<b>11.2%</b>
<b>B.2 Tier 1 ratio</b>			<b>12.2%</b>			<b>12.1%</b>
<b>B.3 Total capital ratio</b>			<b>14.8%</b>			<b>13.6%</b>

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

In the case of the standardised approach, “unweighted amounts” correspond – in accordance with regulatory provisions – to the exposure value, which takes into account prudential filters, risk mitigation techniques and credit conversion factors. In the case of the internal rating based approach, “unweighted

amounts” correspond to “exposure at default” (EAD). For guarantees given and commitments to disburse funds, credit conversion factors are also included when determining EAD.

As always (see also the “Introduction” of this document), the comparative figures presented refer to the Pillar 3 Report of the prior year. During 2013 the scope of companies authorised to use internal models for credit risk has not changed significantly compared to 31 December 2012.

For the sake of completeness note that, referring to the requirements of December 2013, the authorisation of the Bank of Italy was obtained for:

- Banca Monte Parma: extension of the IRB and AIRB approach for the Residential mortgage for Private Individuals and Corporate segments, respectively;
- Banca Prossima: extension of the AIRB approach for the Corporate segment and of the IRB approach for the SME Retail segment.

The tables below provide details of the Group’s different capital requirements as at 31 December 2013. Additional details, for the “unweighted” amounts, are also shown:

- for the standardised approach and the securitisations subject to the standardised approach in Table 6 (which also shows the amounts of the off-balance sheet transactions before weighting for the credit conversion factors – CCF);
- for the internal models approach (including securitisations) in Table 7 and the part of Table 6 relating to the specialised lending and equity exposures subject to the IRB approaches.

With regard to the “weighted” amounts, on the other hand, additional information is provided:

- for the securitisations in Table 10;
- for the equities (IRB and standardised approach) in Table 13.

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

### Capital requirement for Credit and Counterparty Risk

Information	(millions of euro)	
	Capital requirement	
	31.12.2013	31.12.2012
Credit risk	17,448	19,424
Counterparty risk	714	841
<b>Total capital requirement for credit risk and counterparty risk</b>	<b>18,162</b>	<b>20,265</b>

Counterparty risk is calculated on both the trading book and the banking book. The relative requirements are presented, for each regulatory portfolio, in the following tables illustrating capital requirements for credit and counterparty risk.

**Capital requirement for Credit and Counterparty Risk (Standardised Approach)**

(millions of euro)

Regulatory portfolio (a)	Capital requirement	
	31.12.2013	31.12.2012
Exposures to or secured by governments and central banks	81	123
Exposures to or secured by local authorities	267	284
Exposures to or secured by not for profit and public sector organisations	436	566
Exposures to or secured by multilateral development banks	1	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,528	1,531
Exposures to or secured by corporates	1,828	2,259
Retail exposures	1,714	1,842
Exposures secured by real estate property	218	296
Past due exposures	469	503
High-risk exposures	61	105
Exposures in the form of covered bonds	35	53
Short-term exposures to corporates	61	65
Exposures to UCI	122	117
Other exposures	642	729
<b>Total capital requirement for credit risk and counterparty risk (Standardised Approach)</b>	<b>7,463</b>	<b>8,473</b>

(a) The equity exposures for the companies that have adopted the IRB approach for the corporate regulatory portfolio, subject to grandfathering provisions regarding capital requirements, have a capital requirement of 90 million euro (155 million euro as at 31 December 2012).

**Capital requirement for Credit and Counterparty Risk (IRB Approach)**

(millions of euro)

Regulatory portfolio	Capital requirement	
	31.12.2013	31.12.2012
<b>A. Exposures to or secured by corporates (FIRB &amp; AIRB Approach)</b>	<b>8,901</b>	<b>9,803</b>
A.1) Specialised lending	1,095	1,291
A.2) Specialised lending - slotting criteria	71	8
A.3) SMEs	2,910	3,143
A.4) Other corporates	4,825	5,361
<b>B. Retail exposures</b>	<b>1,204</b>	<b>1,403</b>
B.1) Exposures secured by residential property: SMEs	52	50
B.2) Exposures secured by residential property: natural persons	768	926
B.3) Other retail exposures: SMEs	384	427
<b>C. Equity exposures (simple risk weight approach)</b>	<b>167</b>	<b>86</b>
C.1) Private equity exposures in sufficiently diversified portfolios	12	21
C.2) Exchange-traded equity exposures	4	3
C.3) Other equity exposures	151	62
<b>D. Other assets</b>	<b>2</b>	<b>-</b>
<b>E. Exposures subject to supervisory transition regarding capital requirements</b>	<b>-</b>	<b>-</b>
<b>Total capital requirement for credit risk and counterparty risk (IRB Approach)</b>	<b>10,274</b>	<b>11,292</b>

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

Information	(millions of euro)	
	Capital requirement	
	31.12.2013	31.12.2012
Originated securitisations	35	35
Third-party securitisations	233	274
<b>Total capital requirement for credit risk and counterparty risk on securitisations (Standardised approach)</b>	<b>268</b>	<b>309</b>

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

Information	(millions of euro)	
	Capital requirement	
	31.12.2013	31.12.2012
Originated securitisations	1	1
Third-party securitisations	156	190
<b>Total capital requirement for credit risk and counterparty risk on securitisations (IRB - Rating Based Approach)</b>	<b>157</b>	<b>191</b>

## Capital requirement for Market Risk

Information	(millions of euro)	
	Capital requirement	
	31.12.2013	31.12.2012
<b>Assets included in the regulatory trading book</b>	<b>1,310</b>	<b>1,396</b>
Position risk <sup>(a)</sup>	1,289	1,380
Concentration risk	21	16
<b>Other assets</b>	<b>127</b>	<b>78</b>
Foreign exchange risk	107	48
Settlement risk for DVP (Delivery Versus Payment) transactions	-	-
Commodity risk	20	30
<b>Total capital requirement for market risk</b>	<b>1,437</b>	<b>1,474</b>

(a) The caption includes capital requirements for exposures to securitisations for 126 million euro.

## Capital requirement for Operational Risk

Information	(millions of euro)	
	Capital requirement	
	31.12.2013	31.12.2012
Basic indicator approach	59	83
Standardised approach	265	347
Advanced measurement approach	1,495	1,629
<b>Total capital requirement for operational risk</b>	<b>1,819</b>	<b>2,059</b>

As already noted, almost all the Group companies used the Advanced Measurement Approach (AMA) and the Standardised Approach to determine capital requirements for operational risk. A small remaining number of companies use the Basic Indicator Approach (BIA). For the AMA Approach the requirement is recalculated on a half yearly basis, whereas for the Standardised and the BIA Approaches the requirement is only calculated annually, unless one or more Group companies change approach during the year, by migrating towards more evolved models.

As already mentioned, as of the first half of 2013 Banca Fideuram, with four of its subsidiaries and two subsidiaries of the Slovak VUB Banka, migrated from the Standardised Approach to the Advanced

Measurement Approach (AMA), while Banca Monte Parma migrated from the BIA Approach to the Standardised Approach starting from 1 January 2013.

As at 31 December 2013, the capital absorption resulting from this process amounts to 1,819 million euro, down compared to 31 December 2012 (2,059 million euro). Contributing to this decrease were: the benefit from the introduction of the Operational Risk Insurance Programme, the change in the AMA scope and ongoing developments in the historical series of loss data, both within the Group and in the ORX (Operational Riskdata eXchange Association) Consortium, which form part of the AMA models in relation to the LDA (Loss Distribution Approach) component.



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## Table 5 – Credit risk: general disclosures for all banks

### Qualitative disclosure

#### Definitions of “non-performing” loans and “past due” loans

Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.

For the classification of non-performing assets in the various risk categories (doubtful loans, substandard loans, restructured loans and exposures past due, in decreasing order of severity), the Group applies regulations issued by the Bank of Italy, consistent with the regulations envisaged by the Basel Accords and IAS/IFRS, supplemented by internal provisions that establish criteria and rules for the transfer of loans to the various risk categories, including via automatic mechanisms (with the exception of doubtful loans).

The information presented below, in continuity with the previous years with regard to financial restructuring transactions and, more generally, the renegotiation of credit exposures, also takes account of the instructions provided by the European Securities and Markets Authority (ESMA) in the document published in December 2012, “Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions.”

In detail, non-performing assets not classified as doubtful loans are subject to an individual measurement process or calculation of the expected loss for homogenous categories (such categories are identified on the basis of the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position.

This measurement is performed upon classification of the assets and the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated below in this Table.

With reference to past due loans, restructured loans and substandard loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, within peripheral organisational units that perform specialist activities and within the Head Office units, which also have specialist skills and are responsible for the overall management and coordination of these matters.

On the subject of doubtful loans, it should be remarked that effective the second half of 2010 the Group adopted an organisational model based on the specialisation of management competencies between internal and external structures, calling for the positions of greatest significance and complexity to be handled internally. In particular, this model calls for:

- the attribution to the Loan Recovery Department of Intesa Sanpaolo Group Service of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks within the Banca dei Territori Division) of customers classified as doubtful effective July 2010 showing exposures in excess of a pre-determined threshold amount;
- the attribution to Italfondionario S.p.A. (for Intesa Sanpaolo and almost all banks within the Banca dei Territori Division) of direct management – under a specific mandate, and with pre-defined limits – of customers classified as doubtful effective July 2010 showing exposures below the aforementioned threshold amount (the activity of Italfondionario is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondionario S.p.A. with the management of certain types of loans;
- the retention of management competency, defined according to the previous organisational model, between the Loan Recovery Department and Italfondionario for doubtful loans existing as at 30 June 2010;
- for doubtful positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as doubtful, with some specific exceptions.

The Loan Recovery Department draws on its own specialist units throughout the country to manage recovery activity for loans entrusted directly to it. As part of these activities, in order to identify the optimal

strategies to be implemented for each position, judicial and non-judicial solutions have been examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. In order to identify such events rapidly, the information set relative to borrowers is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly controlled.

The activity of Italfondario in managing the loans entrusted to it under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.

The classification of positions within non-performing financial assets and in the relative management systems was undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of loan monitoring and recovery. Assets are also classified as non-performing for financial reporting purposes through automatic mechanisms when given objective default thresholds are exceeded. Such mechanisms apply to past-due loans, identified at the Group level, as well as positions that have met the objective requirements for non-standard status established by the Bank of Italy.

Automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management aims. Significance is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

The return to performing of exposures classified as substandard, restructured and doubtful, is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the aforementioned structures responsible for their management, upon ascertainment that the critical conditions or state of default no longer exist.

Exposures classified amongst "past-due loans" are restored to performing status automatically when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as substandard in accordance with internal instructions when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

The overall non-performing loan portfolio is continually monitored through a predetermined control system and periodic managerial reporting.

The definitions of the various categories of "non-performing" loans are set forth below:

#### ***Doubtful loans***

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank; irrespective, therefore, of whether any (secured or personal) guarantees have been established to cover the exposures. Also included are exposures to Italian local authorities (municipal and provincial) in a state of financial distress for the amount subject to the associated liquidation procedure. Contrary to the Supervisory Authority's instructions, which envisage their classification under substandard loans, these prudentially also include loans to natural persons fully backed by related mortgages for the purpose of purchasing residential properties where such persons reside, where they will reside or which will be leased by the borrower, when the debtor has been notified of encumbrance.

#### ***Substandard loans***

On- and off-balance sheet exposures to borrowers in a temporary situation of objective difficulty, which may be expected to be remedied within a reasonable period of time. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures. Substandard loans should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to quoted debt securities, unless they meet the conditions for classification as doubtful loans. To this end the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security. Substandard captions include, in any event ("objective substandard exposures") exposures other than: a) exposures classified as doubtful; b) exposures included in the "Central Governments and Central Banks", "Local authorities" and "Public-

sector entities” portfolios for the purpose of calculating capital requirements for credit and counterparty risk) which meet both of the following conditions:

- i. they are past due on an ongoing basis:
  - 1) by over 150 days, in the case of exposures related to consumer credit with an original duration of less than 36 months;
  - 2) by over 180 days, in the case of exposures related to consumer credit with an original duration equal to or more than 36 months;
  - 3) by over 270 days, for exposures other than those mentioned in the previous points 1) and 2);
- ii. the total amount of exposures pursuant to the previous line i. and the other portions past due by less than 150, 180 or 270 days (excluding any overdue interest requested from the customer), if the type of exposure past due, from the same borrower, is equal to at least 10 per cent of the entire exposure to said borrower (excluding overdue interest). In order to calculate the denominator, the book value is considered for securities, and the cash exposure for other credit positions; moreover, mortgage loans are not considered in calculating either the numerator or the denominator.

### **Restructured exposures**

On- and off-balance sheet exposures for which a bank (or a pool of banks), as a result of the deterioration of the borrower’s financial situation, agrees to amendments to the original terms and conditions (for example, rescheduling of deadlines, reduction of the debt and/or the interest) that give rise to a loss. These do not include exposures to corporates where the termination of the business is expected (for example in cases of voluntary liquidation or similar situations). The requirements relating to the “deterioration in the borrower’s financial situation” and the presence of a “loss” are assumed to be met when the restructuring involves exposures already classified under the classes of substandard positions or past due exposures. If the restructuring relates to exposures to borrowers classified as “performing” or to unimpaired past due exposures, the requirement relating to the “deterioration in the borrower’s financial situation” is assumed to be met when the restructuring involves a pool of banks. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

### **Past due exposures**

On- and off-balance sheet exposures, other than those classified as doubtful, substandard or restructured exposures that, as at the reporting date, are past due by more than 90 days on a continuous basis. This irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

### **Description of the methods adopted to calculate the adjustments**

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

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

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

Specifically, loans are reassessed for the purpose of identifying those which, due to events occurred after initial recognition, show objective evidence of possible impairment. These include doubtful loans, substandard, restructured or past due loans according to the rules issued by the Bank of Italy, consistent with IAS/IFRS regulations.

Three different cases of restructuring of credit exposures may be identified:

- proper restructurings (as defined in Bank of Italy Circular 272);
- renegotiations;
- the discharge of debt through substitution of the debtor or debt-for-equity swap.

In accordance with the Bank of Italy regulations, debt (credit exposure) restructuring is defined as a transaction whereby the bank, for economic reasons, makes a concession to the debtor, in consideration

of the financial difficulties experienced by the debtor, which concession the bank otherwise would not have made and which results in a loss for the creditor. The bank's concession essentially consists of a waiver of certain of its contractually defined rights, which translates into an immediate or deferred benefit for the debtor, which derives an advantage from such waiver, and in a corresponding loss for the bank. The effects of such waiver are measured by the decrease (increase) in the economic value of the loan (debt) compared to the carrying amount of the loan (debt) prior to restructuring.

Relationships that fall into this category are classified among non-performing loans.

The renegotiation of credit exposures granted by the Bank with respect to performing loans to customers is substantially similar to the opening of a new position, when it is due to commercial reasons other than the deterioration in the borrower's financial situation, provided that the interest rate applied is a market rate at the renegotiation date.

As an alternative to the scenarios outlined above (restructurings and renegotiations), the bank and debtor may agree on the discharge of the original debt through:

- novation or assumption by another debtor (assignment with release);
- substantial modification of the nature of the contract involving a debt-equity swap.

Such events, since they entail a substantial modification of the contractual terms, from an accounting standpoint result in the extinguishment of the previous relationship and the ensuing recognition of the new relationship at fair value, with the recognition in the income statement of a gain or loss equal to the difference between the book value of the former loan and the fair value of the assets received.

Non-performing loans undergo an individual measurement process, or the calculation of the expected loss for homogeneous categories and analytical allocation to each position, and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider forecast recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows relative to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.

The original effective rate of each loan remains unchanged over time even though the relationship has been restructured with a variation of the contractual interest rate and even though the relationship, in practice, no longer bears contractual interest.

The adjustment is recorded in the income statement.

The original value of loans is reinstated in subsequent periods to the extent that the reasons which had led to the impairment cease to exist, provided that such valuation is objectively attributed to an event which occurred subsequent to the impairment. The recovery is recorded in the income statement and must not lead the carrying amount of the loan to exceed the amortised cost had no impairment losses been recognised in previous periods.

Recoveries on impairment include time value effects.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series and other objective elements observable at measurement date, which enable the latent loss to be estimated for each loan category. Measurement also considers the risk connected to the borrower's country of residence.

Collective adjustments are recorded in the income statement.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the "New capital accord" generally known as Basel 2. In particular, the parameters of the calculation model set out in the supervisory provisions, namely, Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months solely for counterparties that are natural persons for whom the recognition of a worsening credit situation and the consequent transfer among the non-performing loans generally take place following unpaid instalments or continuous defaults for more than 90 days; conversely, for counterparties of the Corporate and SME Retail segments, the time period of one year is increased by 10%.

The allocation also takes into account corrective factors such as the state of the economic cycle and the

concentration of credit risks towards persons who have a significant exposure to the Group.

As required under IFRS, financial assets available for sale are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The Intesa Sanpaolo Group's policy for managing impairment testing calls for the verification of the presence of impairment indicators and the determination of any losses.

The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and - for equities - external quantitative indicators deriving from the market values of the company.

Within the first category, the following indicators are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company. With respect to the second category, a significant or prolonged reduction in fair value below the initial recognition value is particularly important. Specifically, in relation to the initial recognition value, a fair value reduction of over 30% is considered "significant", and a continuous reduction of over 24 months is considered a "prolonged" reduction. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

The amount of the impairment is calculated with reference to the fair value of the financial asset.

For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Table 11).

Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, determined applying the same criteria set out above with respect to loans, are recorded under Other liabilities, as set out by Bank of Italy instructions.

## Quantitative disclosure

As required by the regulations, the information in this Table is furnished solely with respect to the banking group, as defined in the Supervisory Instructions.

The tables that refer to the banking group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes. The values of transactions with entities not included in the banking group, recorded in the consolidated financial statements alone pursuant to IAS/IFRS, were not netted.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

Assets	31.12.2013 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group	31.12.2013 Regulatory- scope balance sheet
10. Cash and cash equivalents	6,525	-	6,525
20. Financial assets held for trading	49,013	-854	48,159
30. Financial assets designated at fair value through profit and loss	37,655	-36,463	1,192
40. Financial assets available for sale	115,302	-54,279	61,023
50. Investments held to maturity	2,051	-	2,051
60. Due from banks	26,673	-442	26,231
70. Loans to customers	343,991	2,001	345,992
80. Hedging derivatives	7,534	-	7,534
90. Fair value change of financial assets in hedged portfolios (+/-)	69	-	69
100. Investments in associates and companies subject to joint control	1,991	5,138	7,129
110. Technical insurance reserves reassured with third parties	14	-14	-
120. Property and equipment	5,056	-59	4,997
130. Intangible assets	7,471	-793	6,678
<i>of which: goodwill</i>	3,899	-472	3,427
140. Tax assets	14,921	-394	14,527
150. Non-current assets held for sale and discontinued operations	108	-	108
160. Other assets	7,909	-2,302	5,607
<b>Total Assets</b>	<b>626,283</b>	<b>-88,461</b>	<b>537,822</b>

Liabilities and Shareholders' Equity	31.12.2013 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group	31.12.2013 Regulatory- scope balance sheet
10. Due to banks	52,244	-14	52,230
20. Due to customers	228,890	4,575	233,465
30. Securities issued	138,051	4,104	142,155
40. Financial liabilities held for trading	39,268	-163	39,105
50. Financial liabilities designated at fair value through profit and loss	30,733	-30,723	10
60. Hedging derivatives	7,590	-6	7,584
70. Fair value change of financial liabilities in hedged portfolios (+/-)	1,048	-	1,048
80. Tax liabilities	2,236	-584	1,652
<i>a) current</i>	897	-59	838
<i>b) deferred</i>	1,339	-525	814
90. Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-
100. Other liabilities	14,690	-3,397	11,293
110. Employee termination indemnities	1,341	-5	1,336
120. Allowances for risks and charges	2,898	-13	2,885
<i>a) post employment benefits</i>	738	-	738
<i>b) other allowances</i>	2,160	-13	2,147
130. Technical reserves	62,236	-62,236	-
140. Valuation reserves	-1,074	1	-1,073
150. Redeemable shares	-	-	-
160. Equity instruments	-	-	-
170. Reserves	10,721	-	10,721
180. Share premium reserve	30,934	-	30,934
190. Share capital	8,546	-	8,546
200. Treasury shares (-)	-62	-	-62
210. Minority interests (+/-)	543	-	543
220. Net income (loss)	-4,550	-	-4,550
<b>Total Liabilities and Shareholders' Equity</b>	<b>626,283</b>	<b>-88,461</b>	<b>537,822</b>

The tables below show the Gross credit exposures - total and average - and the related adjustments broken down by risk class, geographical area, counterparty category and residual maturity, together with the adjustments made during the period. The figures represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

“On-balance sheet exposures” include all on-balance sheet financial assets claimed from banks and customers, irrespective of their portfolio of IAS/IFRS allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal. An exception is represented by equity exposures which, consistently with the Annual Report (Part E of the Notes to the financial statements – Credit risk) regulated by Circular 262 of the Bank of Italy, are excluded from Table 5. Equity exposures included in the banking book are detailed in Table 13 hereof. In compliance with the provisions already referred to, the units of UCI are included in Table 5 only under the Residual maturity table.

“Off-balance sheet exposures” include all financial activities that are not on the balance sheet (guarantees given, Irrevocable commitments to lend funds, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with SFTs (securities financing transactions) defined in prudential regulations.

The following table presents such exposures by risk class and IAS/IFRS portfolio, also including in the “Financial assets held for trading” portfolio derivatives positions not already classified to the Hedging derivatives portfolio.

### Overall credit exposure by risk class <sup>(\*)</sup>

Portfolios/category	(millions of euro)								
	Doubtful loans			Substandard loans			Restructured exposures		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
1. Financial assets held for trading	12	7	9	179	120	134	43	34	41
2. Financial assets available for sale	3	3	2	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-	-	-	-
4. Due from banks	78	29	103	26	20	9	-	-	-
5. Loans to customers	34,595	12,960	31,309	18,019	13,841	16,533	2,728	2,315	2,862
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	4	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
<b>TOTAL - 31.12.2013</b>	<b>34,688</b>	<b>12,999</b>	<b>31,423</b>	<b>18,224</b>	<b>13,981</b>	<b>16,680</b>	<b>2,771</b>	<b>2,349</b>	<b>2,903</b>
<b>TOTAL - 31.12.2012</b>	<b>28,489</b>	<b>11,246</b>	<b>26,411</b>	<b>14,602</b>	<b>11,582</b>	<b>13,130</b>	<b>3,633</b>	<b>2,901</b>	<b>3,897</b>

Portfolios/category	Past due exposures			Other exposures			Total		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
	1. Financial assets held for trading	11	10	16	46,047	46,047	53,296	46,292	46,218
2. Financial assets available for sale	-	-	1	55,377	55,377	53,984	55,380	55,380	53,987
3. Investments held to maturity	-	-	-	2,053	2,051	2,121	2,053	2,051	2,121
4. Due from banks	-	-	1	26,211	26,186	31,114	26,315	26,235	31,227
5. Loans to customers	2,233	1,959	2,756	317,358	314,916	334,462	374,933	345,991	387,922
6. Financial assets designated at fair value through profit and loss	-	-	-	1,014	1,014	1,103	1,014	1,014	1,107
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	7,534	7,534	9,363	7,534	7,534	9,363
<b>TOTAL - 31.12.2013</b>	<b>2,244</b>	<b>1,969</b>	<b>2,774</b>	<b>455,594</b>	<b>453,125</b>	<b>485,443</b>	<b>513,521</b>	<b>484,423</b>	<b>539,223</b>
<b>TOTAL - 31.12.2012</b>	<b>3,277</b>	<b>2,943</b>	<b>2,542</b>	<b>515,264</b>	<b>512,654</b>	<b>505,782</b>	<b>565,265</b>	<b>541,326</b>	<b>551,762</b>

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

(\*\*) Half-yearly average.

Within performing exposures, as at 31 December 2013, exposures renegotiated under collective agreements amounted to 3,786 million euro in gross terms and 3,750 million euro in net terms. Such renegotiations, agreed to in the cases of borrowers not classified amongst non-performing loans, entail, at least, the maintenance of the original rate of return and a maximum extension of contractual expiry of 48 months, and thus do not generate losses for the Group.

Other performing exposures thus came to 447,098 million euro in gross terms and 516,407 million euro in net terms, considering the positions at fair value.

Performing exposures include 2,167 million euro in assets past due by up to three months, 462 million euro in assets past due by more than three months but less than six months and 531 million euro in assets past due by more than six months. The share of the debt associated with those assets not yet past due came to 5,944 million euro, 992 million euro and 1,988 million euro, respectively.



## Credit exposures by geographical area to customers and banks

### Credit exposures by geographical area – customers <sup>(\*)</sup>

Exposures/Geographical areas	(millions of euro)									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. ON-BALANCE SHEET EXPOSURES</b>										
A.1. Doubtful loans	11,605	-19,048	1,340	-2,405	6	-21	4	-25	10	-136
A.2. Substandard loans	12,512	-3,609	1,209	-519	17	-7	5	-2	98	-41
A.3. Restructured exposures	1,913	-336	200	-54	-	-	143	-9	59	-14
A.4. Past due exposures	1,769	-219	135	-48	7	-1	4	-1	47	-5
A.5. Other exposures	317,051	-1,835	51,899	-502	7,919	-29	2,643	-18	3,578	-59
<b>Total A</b>	<b>344,850</b>	<b>-25,047</b>	<b>54,783</b>	<b>-3,528</b>	<b>7,949</b>	<b>-58</b>	<b>2,799</b>	<b>-55</b>	<b>3,792</b>	<b>-255</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>										
B.1. Doubtful loans	226	-87	23	-27	-	-	-	-1	2	-13
B.2. Substandard loans	739	-112	44	-15	8	-1	1	-	5	-1
B.3. Other non-performing assets	365	-43	3	-1	-	-	-	-	2	-
B.4. Other exposures	50,895	-106	45,886	-78	12,660	-14	656	-3	712	-7
<b>Total B</b>	<b>52,225</b>	<b>-348</b>	<b>45,956</b>	<b>-121</b>	<b>12,668</b>	<b>-15</b>	<b>657</b>	<b>-4</b>	<b>721</b>	<b>-21</b>
<b>TOTAL (A+B) 31.12.2013</b>	<b>397,075</b>	<b>-25,395</b>	<b>100,739</b>	<b>-3,649</b>	<b>20,617</b>	<b>-73</b>	<b>3,456</b>	<b>-59</b>	<b>4,513</b>	<b>-276</b>
<b>TOTAL 31.12.2012</b>	<b>423,192</b>	<b>-20,492</b>	<b>107,789</b>	<b>-3,301</b>	<b>23,600</b>	<b>-85</b>	<b>3,523</b>	<b>-51</b>	<b>5,090</b>	<b>-328</b>

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

### Credit exposures by geographical area – banks <sup>(\*)</sup>

Exposures/Geographical areas	(millions of euro)									
	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
<b>A. ON-BALANCE SHEET EXPOSURES</b>										
A.1. Doubtful loans	17	-7	12	-40	-	-	-	-2	-	-
A.2. Substandard loans	-	-	1	-	-	-	19	-6	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5. Other exposures	7,710	-5	17,445	-14	2,151	-2	4,504	-4	949	-
<b>Total A</b>	<b>7,727</b>	<b>-12</b>	<b>17,458</b>	<b>-54</b>	<b>2,151</b>	<b>-2</b>	<b>4,523</b>	<b>-12</b>	<b>949</b>	<b>-</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>										
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Other exposures	2,421	-6	61,477	-28	3,921	-1	1,789	-15	970	-10
<b>Total B</b>	<b>2,421</b>	<b>-6</b>	<b>61,477</b>	<b>-28</b>	<b>3,921</b>	<b>-1</b>	<b>1,789</b>	<b>-15</b>	<b>970</b>	<b>-10</b>
<b>TOTAL (A+B) 31.12.2013</b>	<b>10,148</b>	<b>-18</b>	<b>78,935</b>	<b>-82</b>	<b>6,072</b>	<b>-3</b>	<b>6,312</b>	<b>-27</b>	<b>1,919</b>	<b>-10</b>
<b>TOTAL 31.12.2012</b>	<b>18,155</b>	<b>-11</b>	<b>103,193</b>	<b>-93</b>	<b>7,070</b>	<b>-5</b>	<b>3,107</b>	<b>-11</b>	<b>2,085</b>	<b>-2</b>

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

Credit exposures and adjustments to customers by counterparty <sup>(\*)</sup>

(millions of euro)

	GOVERNMENTS			OTHER PUBLIC ENTITIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
<b>A. ON-BALANCE SHEET EXPOSURES</b>						
A.1. Doubtful loans	1	-9	X	177	-65	X
A.2. Substandard loans	1	-1	X	94	-23	X
A.3. Restructured exposures	-	-	X	-	-	X
A.4. Past due exposures	5	-	X	66	-3	X
A.5. Other exposures	76,856	X	-5	18,876	X	-51
<b>Total A</b>	<b>76,863</b>	<b>-10</b>	<b>-5</b>	<b>19,213</b>	<b>-91</b>	<b>-51</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>						
B.1. Doubtful loans	-	-	X	-	-	X
B.2. Substandard loans	-	-	X	11	-1	X
B.3. Other non-performing assets	-	-	X	-	-	X
B.4. Other exposures	3,650	X	-	1,161	X	-3
<b>Total B</b>	<b>3,650</b>	<b>-</b>	<b>-</b>	<b>1,172</b>	<b>-1</b>	<b>-3</b>
<b>TOTAL - 31.12.2013</b>	<b>80,513</b>	<b>-10</b>	<b>-5</b>	<b>20,385</b>	<b>-92</b>	<b>-54</b>
<b>TOTAL - 31.12.2012</b>	<b>79,105</b>	<b>-12</b>	<b>-13</b>	<b>23,104</b>	<b>-69</b>	<b>-47</b>

	FINANCIAL INSTITUTIONS			INSURANCE COMPANIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
<b>A. ON-BALANCE SHEET EXPOSURES</b>						
A.1. Doubtful loans	131	-325	X	-	-	X
A.2. Substandard loans	562	-197	X	-	-	X
A.3. Restructured exposures	13	-4	X	-	-	X
A.4. Past due exposures	27	-7	X	-	-	X
A.5. Other exposures	31,279	X	-93	1,493	X	-2
<b>Total A</b>	<b>32,012</b>	<b>-533</b>	<b>-93</b>	<b>1,493</b>	<b>-</b>	<b>-2</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>						
B.1. Doubtful loans	-	-	X	-	-	X
B.2. Substandard loans	29	-	X	-	-	X
B.3. Other non-performing assets	1	-	X	-	-	X
B.4. Other exposures	32,087	X	-11	1,953	X	-1
<b>Total B</b>	<b>32,117</b>	<b>-</b>	<b>-11</b>	<b>1,953</b>	<b>-</b>	<b>-1</b>
<b>TOTAL - 31.12.2013</b>	<b>64,129</b>	<b>-533</b>	<b>-104</b>	<b>3,446</b>	<b>-</b>	<b>-3</b>
<b>TOTAL - 31.12.2012</b>	<b>67,655</b>	<b>-355</b>	<b>-101</b>	<b>2,985</b>	<b>-</b>	<b>-6</b>

	NON-FINANCIAL COMPANIES			OTHER COUNTERPARTIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
<b>A. ON-BALANCE SHEET EXPOSURES</b>						
A.1. Doubtful loans	10,678	-18,451	X	1,978	-2,785	X
A.2. Substandard loans	11,398	-3,310	X	1,786	-647	X
A.3. Restructured exposures	2,242	-364	X	60	-45	X
A.4. Past due exposures	1,537	-182	X	327	-82	X
A.5. Other exposures	172,735	X	-1,947	81,851	X	-345
<b>Total A</b>	<b>198,590</b>	<b>-22,307</b>	<b>-1,947</b>	<b>86,002</b>	<b>-3,559</b>	<b>-345</b>
<b>B. OFF-BALANCE SHEET EXPOSURES</b>						
B.1. Doubtful loans	245	-113	X	6	-15	X
B.2. Substandard loans	748	-127	X	9	-1	X
B.3. Other non-performing assets	366	-44	X	3	-	X
B.4. Other exposures	70,577	X	-184	1,381	X	-9
<b>Total B</b>	<b>71,936</b>	<b>-284</b>	<b>-184</b>	<b>1,399</b>	<b>-16</b>	<b>-9</b>
<b>TOTAL - 31.12.2013</b>	<b>270,526</b>	<b>-22,591</b>	<b>-2,131</b>	<b>87,401</b>	<b>-3,575</b>	<b>-354</b>
<b>TOTAL - 31.12.2012</b>	<b>299,904</b>	<b>-17,453</b>	<b>-2,366</b>	<b>90,441</b>	<b>-3,504</b>	<b>-331</b>

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

The breakdown by maturity of financial assets is shown in the table below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity. Therefore, no operational data was used that would require, for example, the representation of cash items according to their level of liquidability.

### Credit exposures by residual contractual maturity (\*)

	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
<b>ON-BALANCE SHEET EXPOSURES</b>										
A.1 Government bonds	20	120	2,134	3,387	7,723	11,993	14,595	19,893	6,876	3
A.2 Other debt securities	69	365	812	1,870	1,062	1,142	1,335	9,077	8,037	5
A.3 Quotas of UCI	2,624	-	-	-	-	-	-	-	-	-
A.4 Loans	59,287	13,051	9,958	14,161	26,037	19,918	26,886	99,398	90,733	2,888
- Banks	8,926	2,185	2,040	2,281	2,151	2,347	1,024	1,201	108	2,819
- Customers	50,361	10,866	7,918	11,880	23,886	17,571	25,862	98,197	90,625	69
<b>OFF-BALANCE SHEET EXPOSURES</b>	<b>100,314</b>	<b>51,523</b>	<b>21,346</b>	<b>26,573</b>	<b>49,269</b>	<b>23,735</b>	<b>30,622</b>	<b>121,557</b>	<b>33,097</b>	<b>20</b>
B.1 Financial derivatives with exchange of capital										
- Long positions	284	17,718	10,576	13,209	21,736	8,962	11,678	27,586	12,377	9
- Short positions	280	16,982	10,568	13,139	23,381	8,605	11,123	22,892	12,646	9
B.2 Financial derivatives without exchange of capital										
- Long positions	31,148	31	44	53	602	571	754	1,140	261	-
- Short positions	30,667	37	44	68	398	449	618	1,150	254	-
B.3 Irrevocable commitments to lend funds										
- Long positions	847	14,617	102	84	592	1,435	1,607	16,031	2,287	-
- Short positions	34,590	2,104	10	9	57	71	77	97	80	-
B.4 Financial guarantees given	109	34	2	11	53	52	53	147	274	2
B.5 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	1,225	1,795	2,356	26,257	2,459	-
- Short positions	-	-	-	-	1,225	1,795	2,356	26,257	2,459	-
B.6 Credit derivatives without exchange of capital										
- Long positions	1,154	-	-	-	-	-	-	-	-	-
- Short positions	1,235	-	-	-	-	-	-	-	-	-
<b>TOTAL AS AT 31.12.2013</b>	<b>162,314</b>	<b>65,059</b>	<b>34,250</b>	<b>45,991</b>	<b>84,091</b>	<b>56,788</b>	<b>73,438</b>	<b>249,925</b>	<b>138,743</b>	<b>2,916</b>
<b>TOTAL AS AT 31.12.2012</b>	<b>212,749</b>	<b>77,084</b>	<b>30,812</b>	<b>56,782</b>	<b>74,807</b>	<b>67,623</b>	<b>76,933</b>	<b>294,148</b>	<b>151,345</b>	<b>6,710</b>

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

The following tables present value adjustments recognised in the income statement and include both specific adjustments to non-performing positions and collective adjustments to performing positions.

**Net adjustments for on-balance sheet exposures: breakdown**
**Due from banks and Loans to customers <sup>(\*)</sup>**

	Impairment losses	Recoveries	31.12.2013	31.12.2012
(millions of euro)				
<b>A. Due from banks</b>	<b>-15</b>	<b>4</b>	<b>-11</b>	<b>8</b>
- Loans	-14	3	-11	8
- Debt securities	-1	1	-	-
<b>B. Loans to customers</b>	<b>-9,172</b>	<b>2,586</b>	<b>-6,586</b>	<b>-4,316</b>
Non-performing loans purchased	-17	-	-17	-4
- Loans	-17	-	-17	-4
- Debt securities	-	-	-	-
Other	-9,155	2,586	-6,569	-4,312
- Loans	-9,114	2,569	-6,545	-4,251
- Debt securities	-41	17	-24	-61
<b>C. Total</b>	<b>-9,187</b>	<b>2,590</b>	<b>-6,597</b>	<b>-4,308</b>

<sup>(\*)</sup> This table provides figures pertaining exclusively to the Banking Group.

**Financial assets available for sale <sup>(\*)</sup>**

	Impairment losses	Recoveries	2013	2012
(millions of euro)				
A. Debt securities	-3	1	-2	-24
B. Due from banks	-	-	-	-
C. Loans to customers	-	-	-	-
<b>F. Total</b>	<b>-3</b>	<b>1</b>	<b>-2</b>	<b>-24</b>

<sup>(\*)</sup> This table provides figures pertaining exclusively to the Banking Group.

**Net adjustments for off-balance sheet exposures: breakdown <sup>(\*)</sup>**

	Impairment losses	Recoveries	31.12.2013	31.12.2012
(millions of euro)				
A. Guarantees given	-163	55	-108	-31
B. Credit derivatives	-	-	-	-
C. Commitments to lend funds	-27	26	-1	-21
D. Other operations	-10	7	-3	-1
<b>E. Total</b>	<b>-200</b>	<b>88</b>	<b>-112</b>	<b>-53</b>

<sup>(\*)</sup> This table provides figures pertaining exclusively to the Banking Group.

## Changes in adjustments relating to non-performing on-balance sheet exposures to customers and banks

### Changes in adjustments relating to non-performing on-balance sheet exposures to customers as at 31.December 2013 <sup>(\*)</sup>

Information	(millions of euro)			
	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
<b>A. Initial total adjustments</b>	<b>17,159</b>	<b>2,985</b>	<b>723</b>	<b>332</b>
<b>B. Increases</b>	<b>7,258</b>	<b>4,771</b>	<b>408</b>	<b>791</b>
B.1 impairment losses	4,441	3,358	135	611
B.1bis losses on disposal	28	7	-	-
B.2 transfers from other non-performing exposure categories	1,996	1,129	222	32
B.3 other increases	793	277	51	148
B.4 business combinations	-	-	-	-
<b>C. Decreases</b>	<b>-2,782</b>	<b>-3,578</b>	<b>-718</b>	<b>-849</b>
C.1 recoveries on impairment losses	-841	-610	-39	-151
C.2 recoveries on repayments	-216	-62	-2	-14
C.2bis profits on disposal	-13	-	-	-
C.3 write-offs	-1,032	-554	-24	-5
C.4 transfers to other non-performing exposure categories	-65	-2,130	-582	-602
C.5 other decreases	-615	-222	-71	-77
C.6 business combinations	-	-	-	-
<b>D. Final total adjustments</b>	<b>21,635</b>	<b>4,178</b>	<b>413</b>	<b>274</b>

<sup>(\*)</sup> This table provides figures pertaining exclusively to the Banking Group.

### Changes in adjustments relating to non-performing on-balance sheet exposures to banks as at 31.December 2013 <sup>(\*)</sup>

Information	(millions of euro)			
	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
<b>A. Initial total adjustments</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>B. Increases</b>	<b>1</b>	<b>6</b>	<b>-</b>	<b>-</b>
B.1 impairment losses	1	6	-	-
B.1bis losses on disposal	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
<b>C. Decreases</b>	<b>-34</b>	<b>-</b>	<b>-</b>	<b>-</b>
C.1 recoveries on impairment losses	-	-	-	-
C.2 recoveries on repayments	-	-	-	-
C.2bis profits on disposal	-1	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other non-performing exposure categories	-	-	-	-
C.5 other decreases	-33	-	-	-
C.6 business combinations	-	-	-	-
<b>D. Final total adjustments</b>	<b>49</b>	<b>6</b>	<b>-</b>	<b>-</b>

<sup>(\*)</sup> This table provides figures pertaining exclusively to the Banking Group.



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

## Qualitative disclosure

### External agencies used

For the determination of the risk weightings under the standardised approach, the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting: Standard & Poor's ratings Services, Moody's Investors Service, and Fitch Ratings. These agencies are valid for all Group banks.

When determining the capital requirements, if there are two ratings for the same customer, the most prudential of the two is used, and when three ratings are available the middle rating is adopted.

### List of the external Rating Agencies

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

<sup>(\*)</sup> Ratings characteristics: solicited/unsolicited.

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

In compliance with the Bank of Italy Circular 263, the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation. The risk weighting assigned to the exposures has been determined, in general for the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Circular are met, through the use of the issuer rating. The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

## Quantitative disclosure

The quantitative disclosures in this Table complement those provided in Table 8 – Risk mitigation techniques. In fact, each regulatory portfolio provided for by regulations under the standardised approach is broken down as follows:

- amount of on- and off-balance exposures, “without” the risk mitigation, which does not take into account the decrease in exposure arising from application of collateral and guarantees; in the case of guarantees, which transfer risk in respect of the guaranteed portion, reference is made to the guarantor’s regulatory portfolios and weightings, while as to the residual exposure, reference is made to the guaranteed party’s information;
- amount of the same exposures “with” the risk mitigation effect, i.e. net of the guarantees mentioned in the previous point. the difference between exposures “with” and “without” credit risk mitigation thus represents the amount of approved guarantees, disclosed in Table 8 - Risk mitigation techniques.

The above information is listed in the “with” and “without” credit risk mitigation columns and associated with the risk weightings defined by the current Prudential Supervisory regulations.

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

Please note that exposures backed by collateral - whose exposure level is reduced due to application of the comprehensive method as provided for by applicable regulations - are conventionally represented side by side with 0% weighting in the table “Exposures without credit risk mitigation”.

The column “Exposures deducted from regulatory capital” reports all the exposures not considered for the purposes of determining the weighted assets, as they are directly deducted from the regulatory capital (see Table 3). For information on prudential treatment of the stake in the Bank of Italy, see Table 3 of this document.

Exposures include both exposures deducted at 50% from the Tier 1 capital and 50% from the Tier 2 capital (net of expected losses in excess of impairment losses – IRB models) and, until 31 December 2012, exposures deducted from the total of the Tier 1 and Tier 2 capital.



**Breakdown of exposures: standardised approach**

(millions of euro)

Regulatory portfolio	31.12.2013			31.12.2012		
	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by governments and central banks	96,385	103,705	624	96,117	100,950	624
Exposures to or secured by local authorities	16,427	16,833	-	21,058	21,535	-
Exposures to or secured by not for profit and public sector organisations	8,420	8,595	-	9,973	10,157	-
Exposures to or secured by multilateral development banks	3,070	3,073	-	1,032	1,036	-
Exposures to or secured by international organisations	90	90	-	41	41	-
Exposures to or secured by supervised institutions	81,189	92,839	354	89,603	101,414	336
Exposures to or secured by corporates	32,236	37,137	-	37,962	43,824	-
Retail exposures	35,360	36,405	-	38,560	40,675	-
Exposures secured by real estate property	6,388	6,388	-	8,670	8,670	-
Past due exposures	5,444	5,598	-	5,522	5,598	-
High-risk exposures	526	526	-	926	926	-
Exposures in the form of covered bonds	1,089	1,089	-	1,632	1,632	-
Short-term exposures to corporates	1,178	1,216	-	1,256	1,305	-
Exposures to UCI	1,905	2,031	-	1,767	1,862	-
Other exposures	14,379	14,379	4,782	14,839	14,839	5,136
Securitisations (*)	2,767	2,767	-	2,445	2,445	-
<b>Total credit risk</b>	<b>306,853</b>	<b>332,671</b>	<b>5,760</b>	<b>331,403</b>	<b>356,909</b>	<b>6,096</b>

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

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

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

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

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

(millions of euro)

Regulatory portfolio	31.12.2013										TOTAL
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	
Exposures to or secured by governments and central banks	94,838	X	30	X	843	X	638	36	X	-	96,385
Exposures to or secured by local authorities	59	X	15,496	X	107	X	765	-	X	X	16,427
Exposures to or secured by not for profit and public sector organisations	22	X	24	X	11	X	8,363	-	X	X	8,420
Exposures to or secured by multilateral development banks	2,996	X	67	X	5	X	2	-	X	X	3,070
Exposures to or secured by international organisations	90	X	X	X	X	X	X	X	X	X	90
Exposures to or secured by supervised institutions	-	X	47,698	X	770	X	32,401	320	X	X	81,189
Exposures to or secured by corporates	-	X	422	X	1,740	X	29,824	250	X	X	32,236
Retail exposures	-	X	X	X	X	35,360	X	X	X	X	35,360
Exposures secured by real estate property	X	X	X	3,044	3,344	X	X	X	X	X	6,388
Past due exposures	-	X	X	X	122	X	3,447	1,875	X	X	5,444
High-risk exposures	X	X	X	X	X	X	279	24	223	X	526
Exposures in the form of covered bonds	X	208	150	X	695	X	36	X	X	X	1,089
Short-term exposures to corporates	-	X	-	X	-	X	1,178	-	X	X	1,178
Exposures to UCI	-	X	1	X	-	X	1,641	52	X	211	1,905
Other exposures	4,169	X	2,385	X	X	X	7,825	X	X	X	14,379
Securitisations	X	X	X	X	X	X	X	X	X	X	2,767
<b>Total credit risk 31.12.2013 (*)</b>	<b>102,174</b>	<b>208</b>	<b>66,273</b>	<b>3,044</b>	<b>7,637</b>	<b>35,360</b>	<b>86,399</b>	<b>2,557</b>	<b>223</b>	<b>211</b>	<b>306,853</b>
<b>Total credit risk 31.12.2012 (*)</b>	<b>99,209</b>	<b>225</b>	<b>84,468</b>	<b>4,129</b>	<b>10,302</b>	<b>38,560</b>	<b>88,576</b>	<b>2,932</b>	<b>368</b>	<b>189</b>	<b>331,403</b>

(\*) Total credit risk includes Securitisations (2.445 million as of 31 december 2012).

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

(millions of euro)

Regulatory portfolio	31.12.2013										TOTAL
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	
Exposures to or secured by governments and central banks	102,066	X	38	X	907	X	658	36	X	-	103,705
Exposures to or secured by local authorities	60	X	15,865	X	107	X	801	-	X	X	16,833
Exposures to or secured by not for profit and public sector organisations	170	X	24	X	11	X	8,390	-	X	X	8,595
Exposures to or secured by multilateral development banks	2,999	X	67	X	5	X	2	-	X	X	3,073
Exposures to or secured by international organisations	90	X	X	X	X	X	X	X	X	X	90
Exposures to or secured by supervised institutions	10,737	X	48,104	X	781	X	32,897	320	X	X	92,839
Exposures to or secured by corporates	4,841	X	438	X	1,784	X	29,824	250	X	X	37,137
Retail exposures	1,045	X	X	X	X	35,360	X	X	X	X	36,405
Exposures secured by real estate property	X	X	X	3,044	3,344	X	X	X	X	X	6,388
Past due exposures	154	X	X	X	122	X	3,447	1,875	X	X	5,598
High-risk exposures	X	X	X	X	X	X	279	24	223	X	526
Exposures in the form of covered bonds	X	208	150	X	695	X	36	X	X	X	1,089
Short-term exposures to corporates	38	X	-	X	-	X	1,178	-	X	X	1,216
Exposures to UCI	126	X	1	X	-	X	1,641	52	X	211	2,031
Other exposures	4,169	X	2,385	X	X	X	7,825	X	X	X	14,379
Securitisations	X	X	X	X	X	X	X	X	X	X	2,767
<b>Total credit risk 31.12.2013 (*)</b>	<b>126,495</b>	<b>208</b>	<b>67,072</b>	<b>3,044</b>	<b>7,756</b>	<b>35,360</b>	<b>86,978</b>	<b>2,557</b>	<b>223</b>	<b>211</b>	<b>332,671</b>
<b>Total credit risk 31.12.2012 (*)</b>	<b>122,187</b>	<b>225</b>	<b>85,461</b>	<b>4,129</b>	<b>11,214</b>	<b>38,560</b>	<b>89,198</b>	<b>2,933</b>	<b>368</b>	<b>189</b>	<b>356,909</b>

(\*) Total credit risk includes Securitisations (2.445 million as of 31 december 2012).

**Specialised lending and equity exposures subject to the IRB approaches**

(millions of euro)

Regulatory portfolio (*)	Exposure value	
	31.12.2013	31.12.2012
<b>A) Exposures to or secured by corporates:</b>		
<b>Specialised lending - slotting criteria</b>	<b>853</b>	<b>94</b>
A.1) Regulatory assessment - weak	120	-
A.2) Regulatory assessment - sufficient	271	43
A.3) Regulatory assessment - good	131	51
A.4) Regulatory assessment - strong	284	-
A.5) Default	47	-
<b>B. Equity exposures: Simple risk weight approach</b>	<b>608</b>	<b>362</b>
B.1) Private equity exposures in sufficiently diversified portfolios - 190%	79	139
B.2) Exchange-traded equity exposures - 290%	19	12
B.3) Other equity exposures - 370%	510	211
<b>Total Specialised lending and equity exposures subject to the IRB approaches</b>	<b>1,461</b>	<b>456</b>

(\*) In addition to the figures in this table, 21 million euro refers to other exposures subject to the AIRB approaches and related regulatory risk weightings as at 31 December 2013.

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



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## Table 7 – Credit risk: disclosures for portfolios subject to IRB approaches

### Qualitative disclosure

#### Credit risk – disclosures for portfolios treated under IRB approaches

##### *The rollout plan for the internal models*

The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn divided into a Foundation Internal Rating Based (FIRB) approach and an Advanced Internal Rating Based (AIRB) approach that differ in the risk parameters that banks are required to estimate. Under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach the latter are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As already outlined in Table 1 (paragraph "Basel 2 and Basel 3 regulations and the Internal Project"), effective from the report as at 31 December 2013 the scope of application of internal systems for credit risk underwent the following changes:

- authorisation to extend the AIRB approach to the Corporate segment and the IRB approach to the Retail Mortgage segment was obtained for the subsidiary Banca Monte Parma. That same subsidiary also received authorisation for the extension of the IRB approach to the SME Retail segment effective from the first report in 2014;
- authorisation to use the AIRB approach for the Corporate segment and the IRB approach for the SME Retail segment has been obtained for the subsidiary Banca Prossima.

The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application in accordance with the gradual rollout plan for the advanced approaches presented to the Supervisory Authority.

However, the rollout plan does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular:

- exposures to central governments and banks;
- exposures to the banking group;
- exposures to minor operational units;
- non-significant exposure classes in terms of size and level of risk (this category includes loans to non-banking financial institutions).

#### **Description of the structure, use, management processes and control mechanisms of the internal rating systems of the Corporate segment and the Residential Mortgages segment**

##### *Structure of the internal rating systems (PD)*

The main features of the rating systems used are as follows:

- the rating is determined at counterparty level;
- the rating is based at Group level, and is the same for each counterparty, even when it is shared by several entities of the Group;

- the definition of default used corresponds to substandard, doubtful and past due loans (see Table 5), also taking into account the cure rate (return to performing) for the technical substandard loans, and is the same across the Group and within its various uses (development, backtesting, disclosure, etc.);
- the data used for the estimate relate as far as possible to the entire Group; where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
- the length of the historical series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the Group for the future;
- the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. revenue, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
- the models incorporate financial, behavioural and qualitative components. With regard to the Corporate segment, the manager must also provide an independent assessment of the counterparty's creditworthiness and if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;
- the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

The output PD of the models is mapped on the internal Master Scale, which is broken down into a different number of classes depending on the model type.

The table below illustrates the correspondence between the (n) internal rating classes and the ratings by the major agencies: Standard & Poor's ratings Services, Moody's Investors Service, and Fitch Ratings. As indicated in the table, compared to the counterparties rated with Large Corporate Italia and International Corporate models where there is full correspondence with the classes of Rating Agencies, the counterparties rated with other models have a cap on Rating and, therefore, on their reported PD.

**Correspondence between internal rating classes and ratings by the major agencies**

External Agency Rating			Corporate International and Italian rated	Corporate Italia	Specialised Lending	Sme Retail	Mortgages
S&P's	Moody's	Fitch	Internal class				
AAA	Aaa	AAA	I.1.A	-	-	-	-
AA+	Aa1	AA+	I.1.B	-	-	-	-
AA	Aa2	AA	I.1.C	-	-	-	-
AA-	Aa3	AA-	I.1.D	-	-	-	-
A+	A1	A+	I.1.E	-	-	-	-
A	A2	A	I.1.F	I1	-	-	MT1
A-	A3	A-	I2	I2	-	-	-
BBB+	Baa1	BBB+	I3	I3	-	I3	MT2
			I4	I4	I4	I4	MT3
BBB	Baa2	BBB	I5	I5	I5	I5	-
BBB-	Baa3	BBB-	I6	I6	I6	I6	MT4
BB+	Ba1	BB+	M1	M1	M1	M1	MT5
			M2	M2	M2	M2	-
BB	Ba2	BB	M3	M3	M3	M3	MT6
BB-	Ba3	BB-	M4	M4	M4	M4	MT7
B+	B1	B+	R1	R1	R1	R1	MT8
			R2	R2	R2	R2	-
B	B2	B	R3	R3	R3	R3	-
B-	B3	B-	R4	R4	R4	R4	-
CCC	Caa1	CCC	R5	R5	R5	R5	MT9

**Structure of the internal rating systems (LGD)**

The main features of the LGD models are as follows:

- the LGD is calculated by analysing losses suffered by the Group on historical defaults (“LGD workout”);
- the definition of default used is the same as that applied in the PD estimation models;
- the LGD is based at Group level, and is the same for each counterparty/relationship shared by several entities of the Group, and characterised by the same discriminating variables;
- the data used for the estimate relate to the Parent Company, to the main Network Banks and to the product companies Leasint and Mediofactoring;
- the segmentation of the LGD models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used, suitably differentiated on the basis of analytical criteria considered to be relevant;
- the LGD model is based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group;
- the approach used involves the econometric estimation of an LGD model observed starting from the classification of the loan as Bad Loans, and the subsequent recalibration of said estimate on definition of default using the Danger Rate model;
- for the Bad Loans model, the length of the historical series used, although impacted by the unique company characteristics, meets the need to cover a broad timescale and is based on an extensive historical series, while the Danger Rate model meets the need to represent the structure of the Group on a forward looking perspective and is based on observation of defaults in the most recent periods;
- the organisational process set up requires a yearly update of estimates.

### ***Use of the rating systems (PD and LGD)***

The ratings are decisive in the process of granting credit and its monitoring and management, and also in pricing, the financial statement processes, the calculation of economic capital, value governance, and reporting, as described below.

#### ***Credit granting***

The granting of credit involves the use of the rating as an essential reference for the various phases of the process of approving a line of credit for a counterparty. In particular, the rating determines:

- the assignment of the Credit Strategies and Rules for the granting and managing of loans, which govern the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing, and regulating the issue of credit to customers with lower credit quality, also directing them towards lines of credit with higher levels of guarantees;

the exercise of the powers assigned, where the PD and LGD are among the main drivers. The method adopted allows the approval limits to be tailored to the customer's level of risk, permitting their extension for low risk customers and progressively transferring the decision concerning the higher risk customers to the senior decision-making bodies.

#### ***Credit monitoring and management***

Customer credit risk is continuously monitored. In particular, the Non-performing Loan Process is aimed at intercepting and promptly managing customers who show more or less severe signs of difficulty with the possible impairment of the quality of the risk assumed. The positions are intercepted monthly on the basis of several indicators, and are managed according to the risk level established within a structured process with preset rules. The activities involve the re-examination of the positions intercepted via the updating of the rating, the adjustment, if necessary, of the credit policies, and the establishment of operational procedures aimed at minimising the risk.

The monitored PD is calculated centrally on a monthly basis, using the same engine as the online PD, and is therefore capable of capturing the changes in the counterparty's credit rating because it is able to make use of both the updated financial and behavioural information. The comparison between the online PD and the monitored PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the online rating becomes "non-performing" and must be re-assigned.

#### ***Pricing***

The Group has a model to calculate the correct pricing of credit risk, able to quantify the minimum spread with respect to the internal rate of transfer of funds that the business must implement in order to ensure the coverage of the expected loss, the cost of capital and all the items that enable the generation of value.

#### ***Financial Statement Processes***

The ratings (PD and LGD) contribute to the preparation of the Financial Statements and the drafting of the Notes to the financial statements through: the collective valuation of performing loans, transforming the expected loss into incurred loss in accordance with the IAS/IFRS; the fair value measurement of derivatives and financial assets available for sale; and the drawing up of tables of distribution of assets by rating class and the presentation of the banking book at fair value in the Notes to the financial statements.

The LGD is also used in preparing the Financial Statements through the lump-sum valuation of Past Due Loans by over 90 days, irrespective of the amount of the exposure, and of Substandard and Doubtful loans, up to cash exposure of one million euro (the previous threshold of 250,000 euro was raised at the end of 2013 for substandard loans; for doubtful loans it started on 1 January 2014, only for the positions entering this risk status).

#### ***Calculation of economic capital and value governance***

In accordance with the provisions of the Second pillar, the methods used to estimate the Economic Capital are based on internal rating models (for both the PD and the LGD component). Through the regulatory and economic capital, the internal ratings contribute to the determination of the Group's value creation during both the assignment of targets to the Business Units and the operational performance measurement.



### Reporting

The rating and the LGD form the basis of the management reporting and are spread across the risks of the loan portfolio.

For the management reporting, the Risk Management Department produces the Risks Tableau de Bord on a quarterly basis that provides an overall view of the Group's risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 2 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and the specific measurement criteria for each individual risk (e.g. sensitivity, expected loss).

### The process for managing and recognising credit risk mitigation techniques

The proper monitoring of credit risk mitigation instruments is ensured by a detailed management system which identifies roles, responsibilities, rules, processes and support instruments, in charge of verifying compliance with general and specific requirements set forth by regulatory provisions for the various approaches. The general and specific requirements may be summarised as:

- technical and legal requirements: aimed at ensuring the legal certainty and the effectiveness of the guarantees, and specific to the characteristics of the individual types of guarantee;
- specific requirements: established for each type of guarantee in relation to its specific features, they are aimed at ensuring that the credit protection is highly effective;
- organisational requirements: general requirements aimed at ensuring an efficient system for the management of credit risk mitigation techniques that oversees the entire process of acquisition, valuation, control and implementation of the CRM instruments.

For each type of guarantee, analyses are carried out to verify the admissibility of the protection instrument in the various regulatory approaches. Through these analyses, each type of guarantee can be classified, ex ante, into one of the following categories:

- admissible types: these are types of guarantees which, in general, comply with the generic and specific requirements detailed by regulations;
- non-admissible types: these are types of guarantees which do not meet the generic and/or specific requirements set forth by regulations.

As already highlighted in Table 1 of this document, detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications. The set of internal regulations and organisational and procedural controls is aimed at ensuring that:

- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

If the individual guarantees acquired are an admissible type, they are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements. The support application verifies whether guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

In 2013 a series of measures continued with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

A project was started for International Subsidiary Banks with the aim of guaranteeing consistent approaches at group level to the use of the credit risk mitigation techniques. In further detail, the gap analysis of five international subsidiary banks was completed. For four of these, an action plan was drawn up and is now being implemented.

### **Control and auditing of the rating systems**

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.

The function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation office, which operates independently from the functions that manage the development activities and from the function responsible for the internal audit. Specifically, this department is responsible for continuously and interactively validating risk measurement and management systems in order to assess their compliance with regulatory provisions, operational company demands and the reference market.

Therefore, with regard to the macro processes of adoption, extension, management and control of the internal measurement systems for credit risk, the following activities are assigned exclusively to the Internal Validation office:

- validation aimed at assessing the adequacy of the system with respect to the regulatory requirements and to the operational demands of the business and the target market, and formulation of an opinion on the overall performance of the systems, their proper functioning and effective use within the various areas of business management, also identifying any problems and necessary improvements;
- preparation of the validation report to be presented to the Management Board and the Supervisory Board to accompany the resolution for the certification of compliance of the internal system with the regulatory requirements and the application for authorisation to the Bank of Italy;
- regular issue of recommendations to the development functions in relation to the performance, operation and use of the internal systems;
- periodic analyses of the consistency of the corrective measures in case of critical issues/areas of improvement of the system highlighted by the same Internal Validation function and the Supervisory Authority, based on the progress report periodically provided by the Risk Management Department;
- regular analyses aimed at assessing the performance, proper functioning of the internal system and the provision of the related information to the internal auditing function and the competent managerial Committee;
- preparation of the annual validation report highlighting any problems/areas for improvement of the system to be submitted to the attention of the development functions, the internal auditing function and the Corporate Bodies;
- supervision and coordination of the local validation activities carried out by the corresponding functions of the Group companies, when existing, both in the first adoption/extension phase and in the annual validation phase.

The internal auditing function for the Intesa Sanpaolo Group is assigned to the Internal Auditing Department. This department conducts assessments of the entire process of adoption, extension, management and control of the internal measurement systems for credit risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.

Specifically, this department is responsible for assessing the effectiveness of the overall structure of the control system overseeing the process of measurement, management and control of the Group's exposure to credit risk also through the regular audit of the internal validation process for the related models developed in accordance with Basel 2 and the Prudential Supervisory regulations.

The Internal Auditing Department is therefore responsible for the activities of:

- internal audit aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- assessment of the effectiveness of the overall structure of internal controls:
  - o audit of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency of the results);
  - o audit of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- verifications of the completeness and reliability of the IT system;
- drafting of the relevant report accompanying the application for authorisation to the Bank of Italy;
- self-assessment of the Group's ICAAP process;
- periodic review of the disclosure process pursuant to Pillar 3;

- drafting of the annual internal auditing report with presentation to the competent Corporate Bodies, also in relation to the corrective action plan in case of critical issues/areas of improvement highlighted by the same Internal Auditing, Internal Validation function and the Supervisory Authority, based on the progress report periodically provided by the Risk Management department;
- steering and practical coordination of Auditing departments in the subsidiaries, to guarantee control consistency with the actions of the Parent Company.

The macro process of adoption, extension, management and control of the Internal Systems involves a series of structured phases shared within the Group and arranged as follows:

- definition of the Internal System and activation of the strategic management for the adoption of the Internal Systems;
- development and adoption of the Internal System;
- extension of the Internal System;
- management, maintenance and updating of the Internal System, including the significant amendments to the Internal System already authorised;
- internal verifications, consisting of periodic validation and internal auditing.

### **Description of the regulatory Corporate segment internal rating systems (PD)**

The regulatory Corporate segment consists of companies or groups of companies with exposure of the Banking group of over 1 million euro or with consolidated revenue of over 2.5 million euro.

Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial institutions. The second refers to “specialised lending” and in particular to project finance, asset finance and, more generally, real estate development initiatives.

Specific models for the Slovak market are in use at the subsidiary VUB.

#### ***The Corporate Italia and Large Corporate Italia models***

The Corporate Italia rating model applies to the Italian unrated Corporate customers (i.e. not assigned an agency rating) belonging to the manufacturing, commercial, services, long-term production and real estate sectors, and it can be used for both standalone and consolidated financial statements.

The definition of default (impairment) used comprises Past Due, Substandard and Doubtful loans, net of “technical defaults” (see Table 5).

The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.

Each customer's initial score is calculated by means of a linear combination of appropriately converted indicators originating from two quantitative areas (a finance area - whereby the main financial statement indicators are used to assess profitability and debt servicing, the capital structure and management of working capital - and a behavioral area). The model is optimised per revenue band and is called “Financial” when only the financial statement information is available, and “Financial-Behavioural” when the set of information also includes the data from “Centrale dei Rischi”. The historical data used for the estimate cover the period from 1999 to 2006.

The score is converted into a probability of default (PD) via the calibration on the long-term default rates of the portfolio (“central tendency”) referring to the 2005-2009 period, differentiated according to revenue band and macro geographical area. The PD is then turned via the master scale into classes of credit rating, obtaining the rating statistic.

In between the quantitative and the qualitative module there is a comparison with an internal behavioural indicator of the counterparty's level of risk, which considers various behavioural aspects of the customer (trend in relationship with the Bank, with the System, regular transactions, etc.), which in certain cases can worsen the risk class.

The qualitative module consists of a questionnaire through which the manager provides a structured assessment of the company, broken down into several areas of analysis (economic and financial, business risks, sector and position, strategies and company plans, ownership structure, management and Group influence). For the Large Corporate counterparties (domestic counterparties with an annual counterparty revenue of over 500 million euro that have not been assigned a rating by one of the main agencies) a specific qualitative questionnaire is used, adapted with suitable adjustments from the questionnaire used for the assessment of the international counterparties (see below).

The model's output is broken down into several areas of analysis, with respect to which the manager is required to provide an independent assessment that interacts with the model's output as part of the abovementioned override procedure, determining the final rating.

The backtesting analyses conducted by the Internal Validation Office on the performance of 2012 confirmed for the Domestic Corporate rating model an high discriminating power, which is its ability to correctly rank the counterparties based on an increasing risk scale.

Nevertheless, a phenomenon emerged of underestimation of the default rates in the worse rating classes: internal rating models are calibrated on long-term past experience to reflect the customer's structural characteristics while limiting the influence of economic fluctuations on the risk. The underestimation of DR (default rate) in periods of recession, like the year 2012, is thus physiological.

The relative stability of the average PD, in a very negative economic cycle, is explained by the fact that rating is aimed at providing a structural assessment of the risk associated with the performing portfolio based on an average level of the economic cycle.

Having stated the above, the need to recalibrate the model was assessed considering that an increase in the portfolio risk observed could have assumed structural connotations; in collaboration with the control functions, the PD values regarding the last classes of the Master Scale (macro class R) were changed.

### *The International Corporate models*

The International Corporate segment is assessed on the basis of two different models, both developed on the basis of a shadow rating approach, namely using the agency rating as a target estimation variable instead of the performing/default status. This set up was required because of the small number of defaults recorded in this segment in the Bank's historical databases.

The International Large Corporate rating model applies to non-resident customers with a revenue of over 500 million euro and to Italian corporate customers with an agency rating (rated)<sup>1</sup>, whereas the International Middle Market model is used to assess non-resident customers with a revenue of less than 500 million euro. For the international models the override procedure is activated by a comparison with the agency rating, if available, or by providing an assessment over several areas of analysis, in the same way as the Corporate Italia segment, for unrated counterparties.

#### *a) The International Large Corporate model*

Like the Domestic Corporate segment, this model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to rules established in the override process.

The quantitative module is estimated on a sample of international businesses with an agency rating, and generates a score that is the linear combination of financial statement indicators.

The qualitative model consists of a questionnaire divided into two areas of analysis (sector and competitive position and the specific features of the counterparty). The two parts of the qualitative module generate scores that are integrated with the quantitative score on a statistical basis, producing an overall score that is then calibrated on a central tendency representing the long-term default rate of the portfolio concerned.

#### *b) The International Middle Market model*

Unlike the models described above, this model only has one module containing both quantitative indicators, automatically updated from the financial statement figures, and qualitative indicators, integrated into a linear combination.

The score is calibrated in the same way as in the International Large Corporate segment, also in terms of the benchmark PD.

<sup>1</sup> Those assigned a rating by at least one of the main Agencies (Standard & Poor's, Moody's and Fitch).

### *The Specialised Lending models*

The Specialised Lending segment is covered by various models for the different exposure categories, in particular Project Finance, Real Estate and Asset Finance.

#### *a) The Project Finance model*

The model is used to assess the exposures of vehicle companies whose sole purpose is to implement and manage a specific project (large infrastructures, systems, etc.). The model consists of a quantitative model, which unlike the standard econometric models, is based on a Monte Carlo simulation of the future cash flows, using the project's prospective economic and financial information. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

#### *b) Commercial Real Estate*

This model assesses the medium and large-sized real estate projects designated for sale and/or letting, carried out by special purpose vehicles as well as by property funds. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from rent and/or sales are impacted by the trends in historical market data. The model includes a qualitative questionnaire used to complete the analysis of the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

#### *c) The Real Estate Development (RED) model<sup>2</sup>*

This model is used to assess smaller real estate transactions, aimed exclusively at the sale by special purpose vehicles. The model is the result of a series of statistical developments of the instrument, originally created by experts and supported by the available quantitative data.

It consists of a quantitative module containing the figures of the initiative and a qualitative module used to complete the analysis of the main project risks.

#### *d) Asset Finance*

This model is used to assess transactions involving the purchase of ships, with a mortgage-type interest over the asset financed, to be leased to a third party that does not belong to the Borrower's group. The model consists of a quantitative module based on a Monte Carlo simulation on the main risk drivers in these types of transactions, where cash flows mainly originating from leasing are impacted by the trends in market data. The model includes a qualitative questionnaire used to analyse the main project risks. The model's outputs are the PD and LGD parameters, used for reporting purposes.

#### *e) Leveraged & Acquisition Finance*

This model is used to assess extraordinary finance transactions aimed at corporate acquisitions carried out predominantly with debt capital (high financial leverage); although it does not fall under the regulatory categories of Specialised Lending, it shares the key characteristics of these models. The model consists of a quantitative modules based on a Monte Carlo simulation of the future cash flows using the prospective economic and financial information following the acquisition. The model includes a qualitative questionnaire deriving from the corporate models, in which the analyst adds additional information in a structured manner. The model's outputs are the PD and LGD parameters, used for reporting purposes.

### *The Corporate models used by VUB*

#### *a) The Internationally Active Large Corporate (IALC) model*

The Internationally Active Large Corporate model coincides with the International Large Corporate Model used by the Parent Company, except for a different calibration due to the scope of application of the model, which refers to counterparties with turnover under 40 million euro.

The model consists of a quantitative and a qualitative section, both of which are statistically estimated and integrated according to a matrix-based approach. The integrated rating may be modified by the proposing manager according to the override process.

<sup>2</sup> The RED model has already been approved with the advanced approaches for calculation of the capital requirements since 31 December 2008.

#### *b) The Small and Medium Enterprises (SME) model*

VUB's SME model, internally estimated by the Slovak subsidiary, is divided into two modules. The first module, statistical, consists of a component relating to the characteristics of the counterparty, such as geographical location, number of employees, age and legal nature, as well as a financial component, differentiated according to the accounting structure (ordinary or simplified accounting schemes). The second model, which considers behavioural variables, is statistically integrated with the first. The model rating is calibrated according to the Parent Company's Master Scale.

#### *c) The Specialised Lending models*

The models adopted for Specialised Lending are partly derived from the Parent Company, adapting them to the local situation, and produce a slotting class as the output (with the exception of real estate initiatives designated for sale).

### **Description of the regulatory Mortgage segment internal rating systems (PD)**

The internal mortgage rating system is divided into an Application Model, used for new loans request, and a Behavioural Model, used for subsequent assessment during the lifetime of the mortgage.

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

In the first half of 2013, the Behavioural model was updated in order to incorporate the latest historical series and the changes to the internal risk performance of the counterparty. Reference is made in particular to the activities of:

- updating of the historical series;
- calculation of new Central Tendency (with long-term default rates of the portfolio referring to the period 2008-2012) and consequent recalibration of the models.

#### *VUB Retail Mortgage PD Model*

The PD and LGD models for the Slovak residential mortgage market have been developed by the company VUB, in collaboration with the Parent Company as part of the Basel 2 Project.

The PD model consists of two statistical modules. The acceptance module processes the socio-demographic characteristics of customers, such as educational qualification, marital status and home address. The behavioural module integrates, for each of the four retail products (mortgages, personal loans, credit cards and credit facilities), behavioural information regarding operations, non-payment, use of credit lines, duration of relationship with the Bank, etc.

Both of these modules are subsequently integrated statistically with additional information on the customer's risk status. Finally, the model assigns a rating based on an internal scale related to that of the Parent Company.

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

The new Small Business rating models are applied to the entire Small Business Retail population, identified on the basis of two criteria defined at the regulatory level (exposure of the banking group under 1 million euro) and at the Intesa Sanpaolo Group level (with individual or consolidated revenue of under 2.5 million euro).

The counterparties are subdivided into Micro Business and Core Business, based on objective criteria defined by the process; the definition of default (impairment) used comprises Past Due, Substandard and Doubtful loans, net of technical defaults (see Table 5).

Both models consist of two modules: a quantitative module and a qualitative module.

The Quantitative module is differentiated based on the variables “existing customer/new customer” (according to the presence of the internal behavioural indicator on counterparty risk) and legal form (sole proprietorships or partnership/joint-stock company). In fact, the information used to assess creditworthiness varies depending on the type of customer, and it is therefore a combination of the different basic calculation modules that provides the quantitative score.

These basic modules consider personal details, financial statement data for joint-stock companies, the tax report for sole proprietorships and partnerships, risks to the Group and to the credit system and, finally, data on the asset under management of the customer and of joint and related parties, which allow significant refinement in the treatment of new customers and borrowers.

The qualitative module, on the other hand, consists of a Qualitative Questionnaire whose weights have been statistically estimated and also differs in terms of number of questions and weight between the Micro and Core rating model.

Furthermore, a specific set of questions has been drawn up for new customers and newly-formed counterparties, with the objective of enhancing the specific soft information known by the manager and their contribution, in terms of experience, to the assessment for this type of counterparty.

A statistically estimated matrix integrates the quantitative rating and the qualitative score.

The process for Small Business Core counterparties requires that, after calculation of the integrated rating, the Manager express an overall assessment of the customer risk under the override procedure, determining the final rating.

The rating assignment process for Micro counterparties, on the other hand, ends by answering an additional question of the Qualitative Questionnaire regarding the presence of any negative information identified at the granting process level, which applies a cap to the final rating in the event of higher risk.

- In the first half of 2013, some changes were implemented for Small Business (Micro and Core) rating models<sup>3</sup> in order to incorporate the most recent historical series. The main adjustments, already applied for the June 2013 report, mainly involved the following:
  - updating of the historical series;
  - calculation of new Central Tendency (with long-term default rates of the portfolio referring to the period 2006-2012) and consequent recalibration of the models;
  - revision of the internal Master Scale by updating the PD class.

### Description of the LGD model for the Corporate, SME Retail and Mortgage segments

The model for the estimation of the LGD is made up of the following elements:

- estimate of a Bad Loans LGD Model: starting from the LGD observed on the portfolio (10-year historical series), or the “workout LGD”, determined on the basis of the recoveries and costs, an econometric model of regression of the LGD is estimated on variables considered to be significant for the determination of the loss associated with the Default event; the procedure allows avoidance of the instability of estimates that would result from the use of the cell averages, despite the presence of consistent historical series data, on the relatively unpopulated individual subsets;
- application of a correction factor, known as the “Danger Rate”: the Danger Rate is a multiplying correction factor (estimated on a historical series starting from 2008), aimed at recalibrating the Bad Loans LGD with the information available on the other default events, in order to produce an LGD that is representative of all the possible default events and their evolution;
- application of other correction factors, known as the “Final Settlement Component”: this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to take account of the loss rates associated with positions that have not become Non-Performing.

The data from the estimation sample has been subject to normalization: censoring of LGD values that are negative or higher than 100%, filtering of exposures of small amounts and the exclusion of positions with information gaps.

The Incomplete Workout phenomenon is then considered in the estimation model. This phenomenon regards default positions still active at the observation date, but with an age of more than 10 years. For

<sup>3</sup> The Small Business (Micro and Core) rating models are applied to the entire Small Business Retail population, segmented based on two criteria defined at the regulatory level (exposure of the Banking Group of under 1 million euro) and with respect to the Intesa Sanpaolo Group (with individual or Group turnover of less than 2.5 million euro).

these positions, the residual exposure at the observation date is considered to be completely unrecoverable.

The time factor is taken into consideration by discounting at a risk-free rate all cash movements, recoveries and charges occurring from the time of default to the time of closure (or return to performing status) of the position. The rates are then increased by a spread determined according to the segment, in order to include a premium that takes account of the risk implicit in the volatility of recoveries.

In order to comply with regulatory prescriptions which require the adjustment of LGD estimates for an economic downturn, and in the absence of a direct relationship between the economic cycle and the LGD, it was decided to incorporate this element within the discounting process, by using a suitably stressed risk premium.

As regards the econometric estimation of the Bad Loans Model, starting with a long list of variables, the short list was defined through univariate statistical analyses, based on the contribution of the single variables in the evaluation of the loss rate. For the Corporate segment, the following axes of analysis were significant: geographical area, presence/absence of personal guarantee, presence/absence of real estate guarantee, facility type, and legal form. For the SME Retail segment, the following were significant: geographical area, facility type, presence/absence of personal guarantee, presence/absence of real estate guarantee, value to loan (amount of real estate coverage) and exposure level. For the Residential Mortgages segment, the geographical area and the value to loan were significant. The model applied to the small set of variables involves the use of a multivariate regression, in order to capture the joint capacity of the explanatory variables in the valuation of the loss rate. The outcome of the multivariate model is the estimate of the Bad Loans LGD, determined according to the significant risk drivers. The Danger Rate model and the Final Settlement Corrections are then applied to these results.

Bankruptcy revocatory actions for transactions implemented prior to the bankruptcy date, indicated as “pursuant to Art. 67 of the Bankruptcy Law” and similar articles, are included in the “boundary” category between credit risk and operational risk. Considering the significant dependence on operations of credit risk, as well as the consolidated orientation deriving from comparison with other Italian Groups and Banks, Intesa Sanpaolo decided to include Bankruptcy Revocatory Actions within the area of credit risk. Revocatory actions which are not attributable to credit risk are managed within the area of operational risk.

#### *The LGD models for the Corporate segment of the Leasing and Factoring products*

The LGD Corporate models developed for Leasing and Factoring products have the same methodological layout used in the LGD Corporate model of Intesa Sanpaolo's banking products, duly customised in order to take into account the specific characteristics of the two products. The main differences are highlighted below.

For the “Bad Loans” model, the length of the historical series used is impacted by restrictions related to the actual availability of data and is based on a 9-year historical series, while the “Danger Rate” model, which meets the need to represent a forward looking perspective of the Group, is based on observation of defaults in the most recent periods (observations since 2009 for Leasing and 2010 for Mediofactoring), also due to changes in the non-performing loan management processes of the two product companies.

Management of the Incomplete Workout differs from the Parent Company's model in the choice of maximum duration of the non-performing status, due to the specific nature of the products, and is 6 years for Leasing and 8 years for Mediofactoring. The particularly rigorous approach used for leasing has reduced the need to introduce precautionary margins, especially for the real estate sector, characterised by few defaults and limited losses.

The statistical analyses carried out indicate that the bases of analysis that are significant for Leasing are product type (real estate, instrumental, naval-aviation and railway, and motor vehicles) and the regulatory segment (Corporate and SME Corporate). The following were significant for Factoring: product type (with recourse, without recourse), geographical area (Italy, Foreign) and regulatory segment (Corporate, SME Corporate).

#### *LGD model for the VUB mortgage segment*

The LGD model was developed based on a “workout” approach, analysing the losses sustained by the Bank on the historical defaults. LGD is therefore determined based on the recovery rates achieved during the default period, taking into consideration direct and indirect costs and recovery times. Assessment of the loss rates was carried out for each individual transaction. The model classifies the data into two



groups, according to two risk drivers: LTV (residual debt at default over the value of the guarantee provided) and PPI (purchasing power index of the geographical area in which the collateral is situated).

## Quantitative disclosure

The table below shows the scope of companies for which the Group, as at 31 December 2013, uses the IRB approaches in calculating the capital requirements for credit and counterparty risk for the “Corporate” (Foundation and Advanced IRB), “Residential mortgages to private individuals” (IRB<sup>4</sup>) and “SME retail” (IRB) regulatory segments.

### Scope of companies for application of the IRB approaches

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

The exposure values as at 31 December 2013 for the various IRB approaches (IRB, Foundation IRB and Advanced IRB) are shown in the tables below.

<sup>4</sup> Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the Foundation and the Advanced IRB approach.

**Exposure values by regulatory portfolio (Foundation IRB Approach)**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2013	31.12.2012
Exposures to or secured by corporates:		
- <i>Specialised lending</i>	-	817
- <i>SMEs (Small and Medium Enterprises)</i>	1,079	1,004
- <i>Other corporates</i>	1,848	1,968
<b>Total credit risk (IRB)</b>	<b>2,927</b>	<b>3,789</b>

**Exposure values by regulatory portfolio (Advanced IRB Approach)**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2013	31.12.2012
Exposures to or secured by corporates:		
- <i>Specialised lending</i>	18,030	19,294
- <i>SMEs (Small and Medium Enterprises)</i>	72,547	75,618
- <i>Other corporates</i>	110,239	123,808
<b>Total credit risk (Advanced IRB approach)</b>	<b>200,816</b>	<b>218,720</b>

**Exposure values by regulatory portfolio (IRB Approach)**

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2013	31.12.2012
Retail exposures:		
- <i>Exposures secured by residential property: SMEs</i>	3,129	2,981
- <i>Exposures secured by residential property: private individuals</i>	64,002	63,918
- <i>Other retail exposures: SMEs</i>	18,780	19,366
<b>Total credit risk (IRB)</b>	<b>85,911</b>	<b>86,265</b>

**Values of exposures to securitisations (IRB – RBA Approach)**

(millions of euro)

Securitized	Exposure value	
	31.12.2013	31.12.2012
<i>Exposures to securitisations (RBA)</i>	891	1,231
<b>Total credit risk (IRB)</b>	<b>891</b>	<b>1,231</b>

For detailed information on exposures to securitisations, see Table 10.

The exposure value shown in the tables set forth in this Table is expressed gross of adjustments and takes into account (for guarantees given and commitments to disburse funds) credit conversion factors. Conversely, the exposure value does not consider the techniques for mitigation of risk which – for exposures assessed using internal models – are directly incorporated in the weightings applied to said exposure.

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

Regulatory portfolio	Rating class	31.12.2013						31.12.2012	
		Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%) (*)	Revocable and irrevocable margins (*)	Weighted average EAD (*)	Exposure value	
<b>Exposures to or secured by corporates</b>									
- Specialised lending			<b>18,030</b>			<b>2,586</b>		<b>20,111</b>	
	-class from								
	1 to 3	-	-	-	-	-	-	-	
	-class 4	-	-	-	-	-	-	4	
	-class 5	-	-	-	-	-	-	28	
	-class 6	0.07	1	15%	34.6	1	6%	52	
	-class 7	0.10	3	24%	28.2	-	-	2	
	-class 8	0.15	1	30%	34.2	-	-	-	
	-class 9	0.24	290	59%	38.8	189	85%	1,360	
	-class 10	0.34	831	42%	25.5	88	35%	624	
	-class 11	0.49	1,121	56%	25.6	214	52%	1,646	
	-class 12	0.83	1,951	68%	29.1	364	43%	1,942	
	-class 13	1.24	1,803	77%	30.8	184	36%	1,870	
	-class 14	1.83	2,402	93%	31.2	198	46%	2,249	
	-class 15	2.87	3,106	99%	31.3	420	46%	3,490	
	-class 16	4.97	1,220	90%	26.7	163	46%	2,068	
	-class 17	8.35	843	94%	25.5	187	49%	1,032	
	-class 18	12.62	818	128%	28.2	108	47%	1,394	
	-class 19	17.62	600	144%	26.6	26	26%	492	
	-class 20	25.87	464	156%	27.9	52	46%	795	
	-class 21 (default)	100.00	2,576	-	37.1	392	70%	1,063	
- SMEs (Small and Medium Enterprises)			<b>73,626</b>			<b>2,842</b>		<b>76,622</b>	
	-class from								
	1 to 3	-	-	-	-	-	-	-	
	-class 4	0.04	2	7%	34.5	2	38%	2	
	-class 5	0.05	5	23%	40.7	-	-	1	
	-class 6	0.07	1,157	14%	33.0	110	5%	1,299	
	-class 7	0.10	1,237	18%	33.1	139	9%	1,467	
	-class 8	0.15	2,105	22%	32.8	198	8%	2,616	
	-class 9	0.24	2,628	29%	33.4	164	7%	3,262	
	-class 10	0.34	2,343	35%	32.6	126	7%	2,822	
	-class 11	0.49	4,712	45%	32.6	332	11%	5,470	
	-class 12	0.83	4,507	53%	32.1	157	7%	5,435	
	-class 13	1.24	5,710	62%	31.9	229	9%	6,753	
	-class 14	1.83	6,230	69%	31.5	243	11%	7,231	
	-class 15	2.87	7,629	76%	31.2	291	13%	8,430	
	-class 16	4.97	5,989	87%	30.3	262	19%	6,054	
	-class 17	8.35	2,908	102%	29.5	120	19%	3,312	
	-class 18	12.62	3,020	123%	29.7	82	16%	3,368	
	-class 19	17.62	104	179%	37.8	10	16%	1,050	
	-class 20	25.87	2,501	150%	30.3	113	28%	1,197	
	-class 21 (default)	100.00	20,839	-	49.0	264	23%	16,853	
- Other corporates			<b>112,087</b>			<b>37,841</b>		<b>125,776</b>	
	-class 1	-	-	-	-	-	-	-	
	-class 2	-	-	-	-	-	-	-	
	-class 3	0.03	4,016	11%	37.5	3,900	39%	4,155	
	-class 4	0.04	1,862	14%	38.2	1,552	39%	1,995	
	-class 5	0.05	5,232	15%	36.8	4,249	40%	5,991	
	-class 6	0.07	5,194	19%	37.0	2,837	26%	8,914	
	-class 7	0.10	6,249	27%	38.6	2,891	32%	6,663	
	-class 8	0.15	11,330	35%	37.7	5,224	32%	13,483	
	-class 9	0.24	4,564	34%	33.0	1,387	19%	4,735	
	-class 10	0.34	10,988	48%	37.1	3,842	31%	14,257	
	-class 11	0.49	9,583	57%	35.5	3,371	28%	13,206	
	-class 12	0.83	9,646	67%	35.8	3,120	31%	10,503	
	-class 13	1.24	8,208	77%	34.4	1,016	21%	8,154	
	-class 14	1.83	6,697	89%	35.7	1,351	26%	8,623	
	-class 15	2.87	8,262	103%	35.8	1,393	37%	7,071	
	-class 16	4.97	2,826	125%	35.1	388	33%	2,115	
	-class 17	8.35	1,354	142%	33.3	140	29%	1,966	
	-class 18	12.62	2,866	174%	35.4	525	51%	2,020	
	-class 19	17.62	230	242%	43.4	26	40%	1,054	
	-class 20	25.87	748	200%	35.0	66	29%	625	
	-class 21 (default)	100.00	12,232	-	44.3	563	27%	10,246	

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

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

Regulatory portfolio	Rating class	31.12.2013					31.12.2012	
		Central PD (%)	Exposure value	Average risk weight	Weighted average LGD (%)	Revocable and irrevocable margins	Weighted average EAD	Exposure value
<b>Retail exposures</b>								
- Exposures secured by residential property: SMEs			<b>3,129</b>			<b>56</b>		<b>2,981</b>
-class from 1 to 5		-	-	-	-	-	-	-
-class 6		-	-	-	-	-	-	-
-class 7		-	-	-	-	-	-	-
-class 8	0.15		361	7%	22.2	11	50%	362
-class 9	-		-	-	-	-	-	122
-class 10	0.34		216	11%	22.0	5	50%	96
-class 11	0.49		170	15%	21.9	5	50%	132
-class 12	0.83		168	20%	22.1	3	50%	146
-class 13	1.24		228	25%	22.1	4	50%	198
-class 14	1.83		316	30%	22.1	5	50%	272
-class 15	2.87		282	33%	22.1	6	50%	297
-class 16	4.97		213	35%	22.3	4	50%	224
-class 17	8.35		141	40%	22.6	3	50%	149
-class 18	12.62		1	42%	21.8	-	-	201
-class 19	17.62		189	52%	22.3	5	50%	61
-class 20	25.87		105	60%	22.3	2	50%	75
-class 21 (default)	100.00		739	-	32.3	3	50%	646
- Exposures secured by residential property: private individuals			<b>64,002</b>			<b>186</b>		<b>63,918</b>
-class from 1 to 5		-	-	-	-	-	-	-
-class 6	0.07		7,666	3%	14.6	24	69%	2,679
-class 7	-		-	-	-	-	-	-
-class 8	0.15		3,195	4%	13.3	14	64%	2,227
-class 9	0.24		9,144	6%	13.1	36	72%	6,130
-class 10	-		-	-	-	-	-	-
-class 11	0.49		19,043	10%	12.9	35	71%	13,881
-class 12	0.83		9,326	16%	13.7	25	75%	14,255
-class 13	-		-	-	-	-	-	-
-class 14	1.83		3,710	24%	13.7	17	63%	10,939
-class 15	2.87		2,577	31%	13.6	18	59%	4,903
-class 16	4.97		2,993	49%	13.7	13	58%	3,908
-class 17	-		-	-	-	-	-	-
-class 18	-		-	-	-	-	-	7
-class 19	17.62		1	1	12.1	-	-	-
-class 20	25.87		2,577	83%	13.9	3	57%	1,620
-class 21 (default)	100.00		3,770	-	23.2	1	50%	3,369
- Other retail exposures: SMEs			<b>18,780</b>			<b>397</b>		<b>19,366</b>
-class from 1 to 5		-	-	-	-	-	-	-
-class 6	-		-	-	-	-	-	-
-class 7	-		-	-	-	-	-	-
-class 8	0.15		2,470	10%	30.9	156	7%	2,711
-class 9	-		-	-	-	-	-	738
-class 10	0.34		1,499	16%	31.6	48	4%	704
-class 11	0.49		1,009	22%	32.1	30	4%	921
-class 12	0.83		1,058	29%	32.3	25	5%	1,020
-class 13	1.24		1,342	37%	32.9	27	5%	1,301
-class 14	1.83		1,584	45%	33.4	29	5%	1,537
-class 15	2.87		1,453	50%	33.5	23	5%	1,671
-class 16	4.97		994	53%	33.8	13	5%	1,178
-class 17	8.35		618	62%	34.5	9	6%	860
-class 18	12.62		7	64%	32.5	-	-	911
-class 19	17.62		760	79%	34.0	14	9%	311
-class 20	25.87		368	93%	34.5	6	6%	278
-class 21 (default)	100.00		5,618	-	60.2	17	11%	5,225

### Actual losses and comparison with expected losses

The table below shows the actual losses recognised in the income statement during the last three years on the counterparties in default belonging to the regulatory portfolios for which the Group applies internal methods to calculate the capital requirements for credit risk. For the SME Retail segment, validated from 2012, only the figures from that year are provided.

#### Actual losses by regulatory portfolio

(millions of euro)

Regulatory portfolio	Actual losses		
	2013	2012	2011
Exposures to or secured by corporates (Corporate)	-4,881	-2,546	-2,023
Exposures secured by residential property (Retail mortgages)	-176	-166	-100
Exposures to SMEs (SME retail)	-410	-359	X

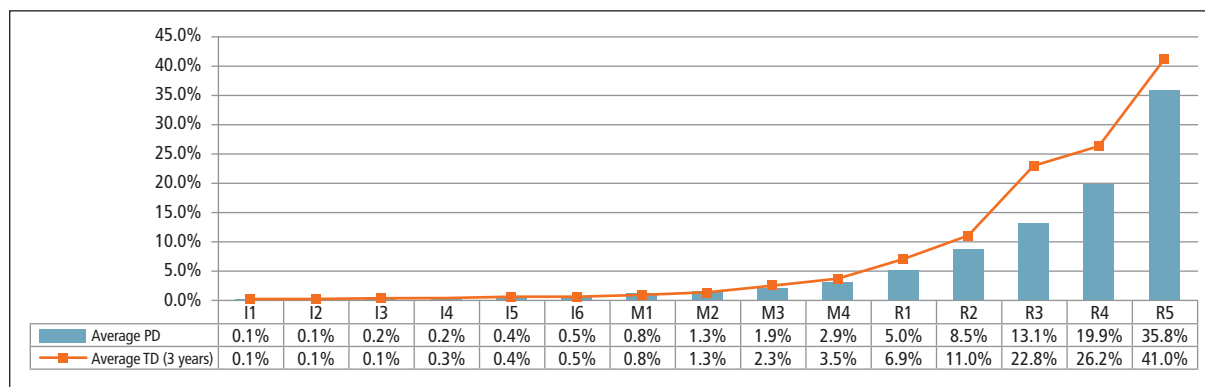
During the 2011-2013 period, expected losses for performing Corporate counterparties (determined based on prior year-end data) amounted to a total of 4,129 million euro. The actual losses recorded during the same period, presented in the foregoing table, significantly exceeded the expected losses, due to deterioration of the economic context in the final part of 2011, which resulted in both a transfer to non-performing loans greater than the ex-ante PD, as presented in the paragraph below concerning backtesting of ratings, and a deterioration in prospects for the recovery of non-performing loans. In this respect, it should be noted that in the last three years, there was an increase in negative trends within the non-performing loans category: transfers into the non-performing category increased, while those in the performing category decreased. It was also necessary to make significant adjustments to existing non-performing positions that worsened following the crisis in the financial markets and in the real estate sector. The total amount of actual losses over the last three years, therefore, was significantly impacted by the losses sustained on non-performing loans in prior periods, not included in the expected losses calculated for the performing portfolio at the beginning of the year.

Expected losses in 2011-2013 for residential mortgages amounted to a total of 406 million euro, slightly below the actual loss figure indicated above.

Finally, a comparison of the PMI Retail asset class is only possible for the last year, as the internal systems were recognised at the end of 2012; it shows an expected loss of 179 million euro which, as already recorded for the Corporate area, is significantly below the actual losses.

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

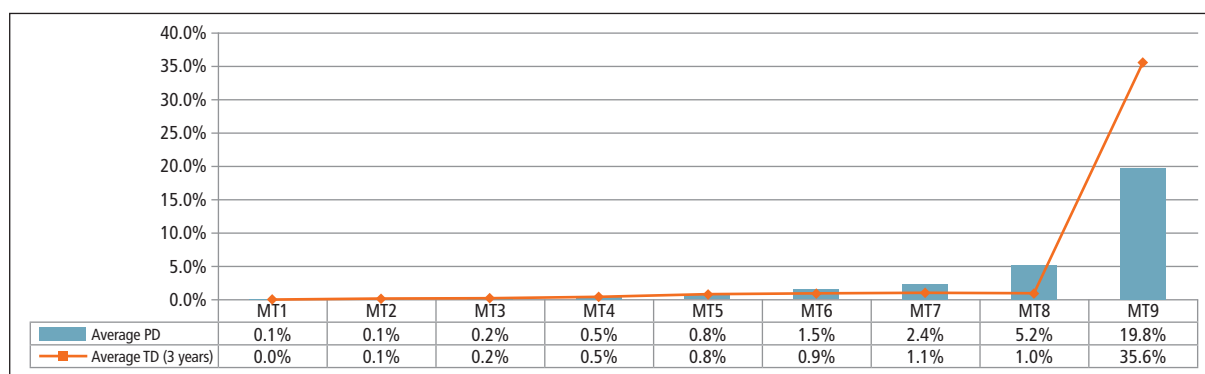
As part of its ongoing validation work, Internal Validation periodically (on a quarterly and/or half-yearly basis) compared the default rates recorded on the models validated for IRB purposes with the average PDs by individual rating class. The following table presents a breakdown of PD and default figures for the Domestic corporate regulatory segment by rating class.



The default rate, calculated as an average for the years 2011-2012-2013, shows a monotonic increase as the rating class worsens. The riskier classes show an increase in DR and consequent exceeding of the relative PD. The model’s performance was found to be fully satisfactory in terms of discriminating power. Accuracy ratio levels fall between 68% and 80% by turnover bracket and combination of turnover bracket/geographical area. It is specified that, during 2013, in order to pass the test on the average default rates calculated for three years according to the indications of the EBA, the central PDs of the Risk grade classes were prudentially adjusted. The average PDs in the graph already reflect this adjustment.

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

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

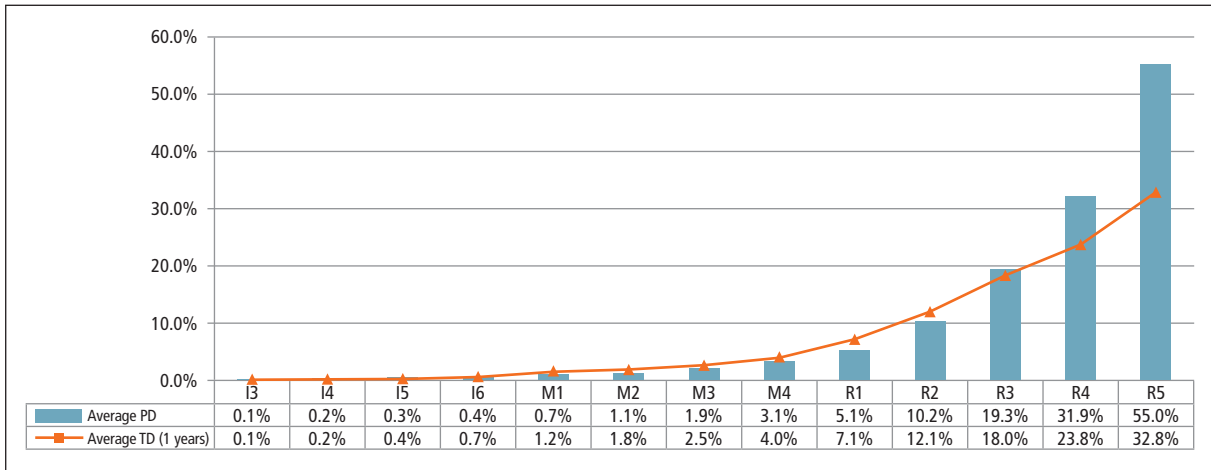


There is a monotonic increase in the default rate as the rating class worsens, except for classes MT7 and MT8. The class PDs are in line with the default rates observed for the classes from MT1 to MT6, higher for classes MT7 and MT8 and significantly lower for MT9.

At 66.89%, the discriminating power of the Residential Mortgages for Private Individuals model is also above the acceptance threshold.

### Comparison of PD and DR figures by rating class for the SME Retail regulatory segment

For the assessment of the counterparties in the SME Retail segment, the same distribution of PD and default rate is reported by rating class referred to the IRB validated portfolio.



The recent authorisation of the model allows the comparison with one single observation window of the default, which thus fully absorbs the impact of the recession phase in progress. The default rates appear to be generally in line with the theoretical PDs and feature a substantially monotonic trend that increases along the rating classes. The performance of the models in terms of discriminating power is satisfactory. Accuracy ratio levels fall between 54% and 69% by customer type and the duration of the relationship with the Bank.





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## Table 8 – Risk mitigation techniques

### Qualitative disclosure

#### **Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.**

The Group entered into (bilateral) netting agreements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).

This takes place through the signature of ISDA agreements (for transactions in derivatives) and GMRA/OSLA agreements (repurchase agreements and securities lending). Both of these protocols enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.

The Group also establishes collateral agreements to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement). Another mitigation technique used within the Group is the subscription to the SwapClear service. This is a clearing service (provided by LCH Clearent Ltd for the professional interbank market) for the most standard types of over the counter derivative contracts (plain vanilla IRS). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties. SwapClear provides for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.

In addition to the reduction of operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), SwapClear offers the typical advantages of centralised netting and collateralisation agreements. Also, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.

For more detailed information, reference should be made to the quantitative disclosure indicated in Table 9 of this document.

#### **Policies and processes for collateral evaluation and management**

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value – differentiated according to pledged and mortgage collateral. The enforcement of the guarantee is handled by specialist departments responsible for credit recovery. In any case, the presence of collateral does not grant exemption from a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee. Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. Mitigating factors are defined based on elements that contribute to reducing the potential losses for the Bank in the case of default of the counterparty. For operational purposes, the extent of the mitigating factors is determined based on a series of factors. Among these, the Loss Given Default (LGD) is of major importance. This is expressed by a percentage, which is higher in the case of non-guaranteed interventions and lower, on the contrary, in the presence of elements mitigating credit risk.

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

The guarantees received with the highest impact include:

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

- mortgages on real estate, separated based on the use of the asset (residential, industrial property, agricultural funds/properties, commercial, industrial properties, etc.); provided that:
  - they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
  - they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.

In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to real estate collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.

Assets are evaluated, prior to the decision to grant the credit, using both internal and external technicians. The external technicians are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The valuation of residential properties secured by mortgages to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.

The experts' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.

The technicians are required to produce estimates on the basis of standardised expert technical reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.

In order to ensure that the valuation criteria and approaches are uniform, a "Property Valuation Code" is in force, which ensures the comparability of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis. The content of the internal code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association.

Property valuations are managed through a specific integrated platform (the Appraisals Portal) covering the entire technical analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.

During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.

The value of the real estate collateral is updated on a monthly basis by using the prices/coefficients acquired from an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

The revaluation takes place by adopting four main methods:

- Survey value index method  
The method uses indexes of revaluation of the prices of the real estate to be applied to the survey value of the property in question. It is the main revaluation method, adopted when the survey value is considered reliable through specific tests.
- Comparables method  
The method assumes market values per square metre and applies them on the basis of the size (in square meters) of the property. The method is used when the survey value is not considered to be reliable. It is also used as "backtesting" implied in the survey value.
- Financing value index method  
The method applies the price revaluation indexes to 125% of the original value of the financing (thus it is prudentially assumed that the financing was originally disbursed with the maximum LtV of 80%).

The method is applied in the presence of subdivisions or if the survey value is not reliable and it is impossible to apply the comparables.

– Cost method

In case of properties under construction, market practices suggest a valuation based on the estimate of the overall costs incurred in correspondence with the work progress made on the property in question.

The real estate collateral connected to exposures above 3 million is subject, every three years, to the regular update of the valuation made by an internal expert (so-called “re-appraisal”).

During 2013 a “re-appraisal” was carried out on about 6,000 residential properties which, based on the fair value update on statistical bases, showed significant depreciation.

The valuation was entrusted to two providers and was conducted after an external examination validated by photographic documents.

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement.

The valuation is updated in case of restriction or subdivision of the mortgage and of damages to the property that imply the payment of an insurance indemnity.

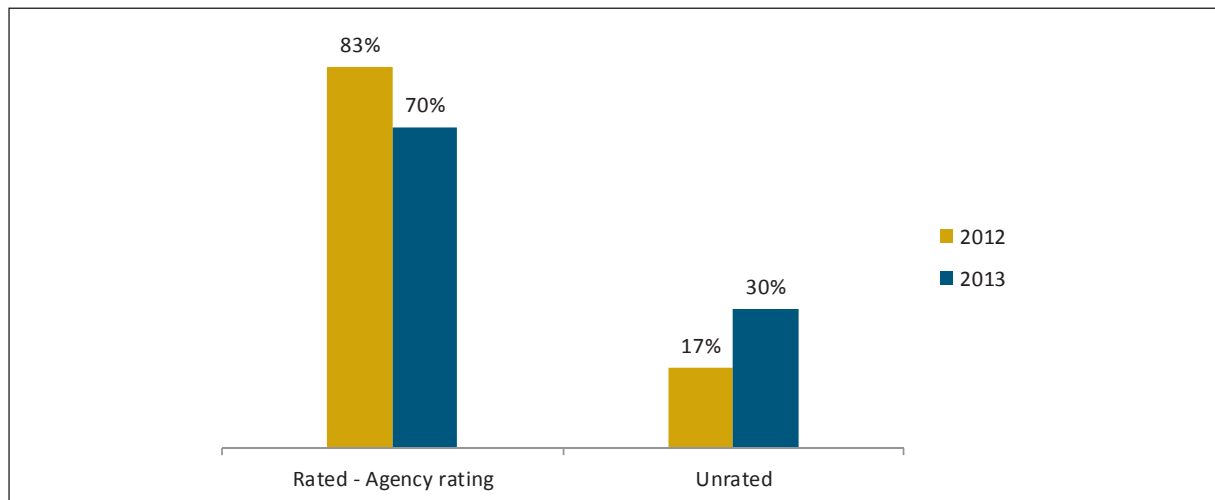
To cover the residual risks, the borrower is required to provide an insurance policy against damage. The insurable value is determined by a survey, on the basis of the property’s reconstruction cost new.

**The main types of guarantor and credit derivative counterparty and their creditworthiness**

The credit derivative transactions have banks and local authorities as counterparties, half of which have an agency rating with a high investment grade.

Regarding the portion of credit derivative transactions without rating, an increase was recorded compared to the previous year (from 17% to 30%), which is mainly attributable to the considerable rise in the exposure to a Corporate counterparty already present in the recognition of 2012.

**Creditworthiness of the counterparties in credit derivative transactions**



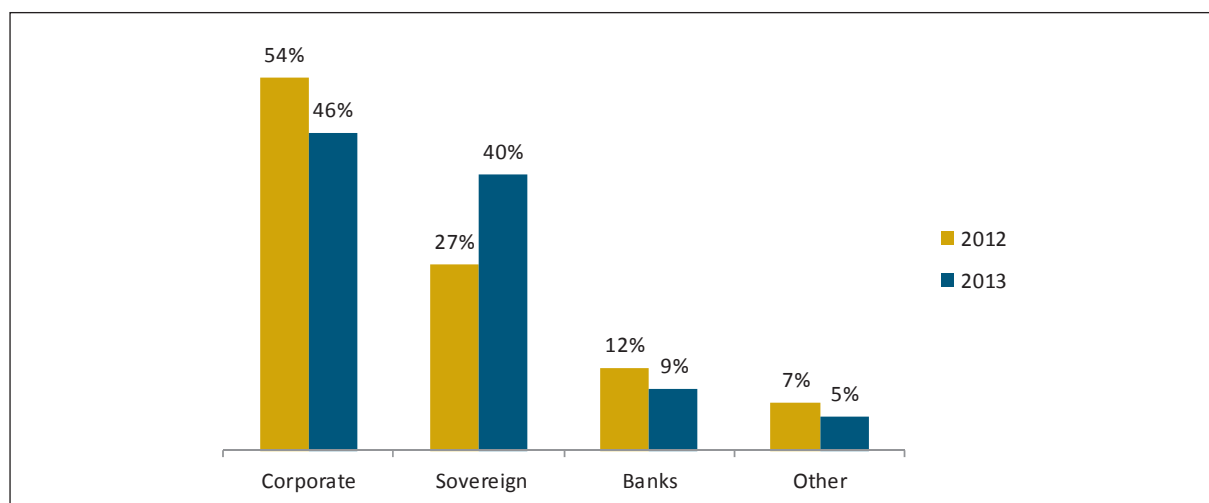
## Information about market or credit risk concentrations under the credit risk mitigation instruments used

### Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.

The share associated with Corporate guarantors accounts for 46% of the total amount. Sovereign guarantors (primarily the Italian and German governments) and banks (such as Credit Agricole SA) account for 40% and 9%, respectively. In particular, the increased weight of Sovereign guarantors compared to the previous recording (from 27% to 40%) is mainly attributable to the rising exposure covered by a guarantee from the Italian government. There were other no material concentrations of guarantors.

### Personal guarantees by type of guarantor



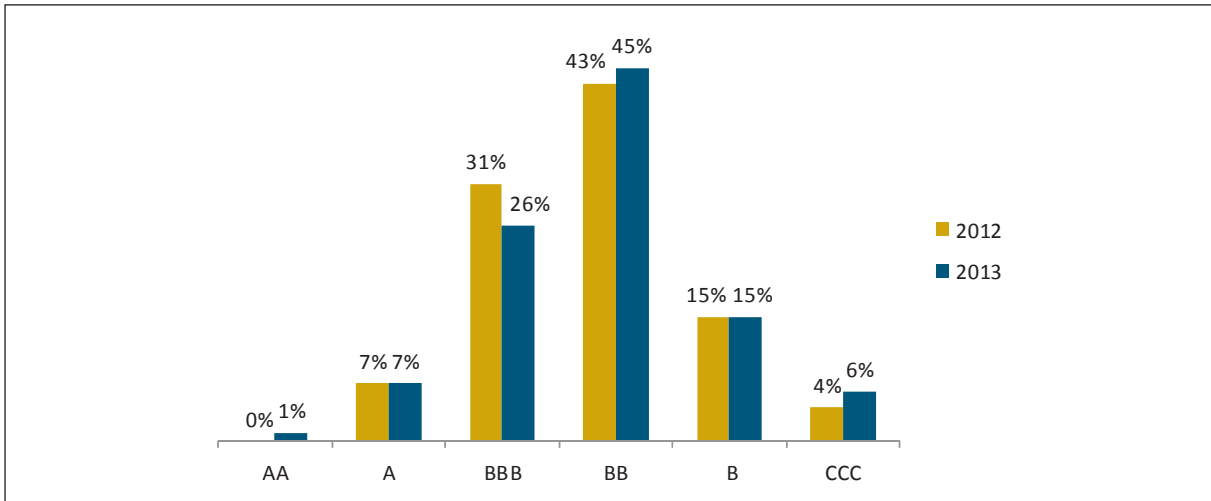
### Personal guarantees by guarantor rating classes

By type of personal guarantee, guarantors show a high credit quality, with 66% investment grade (65% in December 2012)

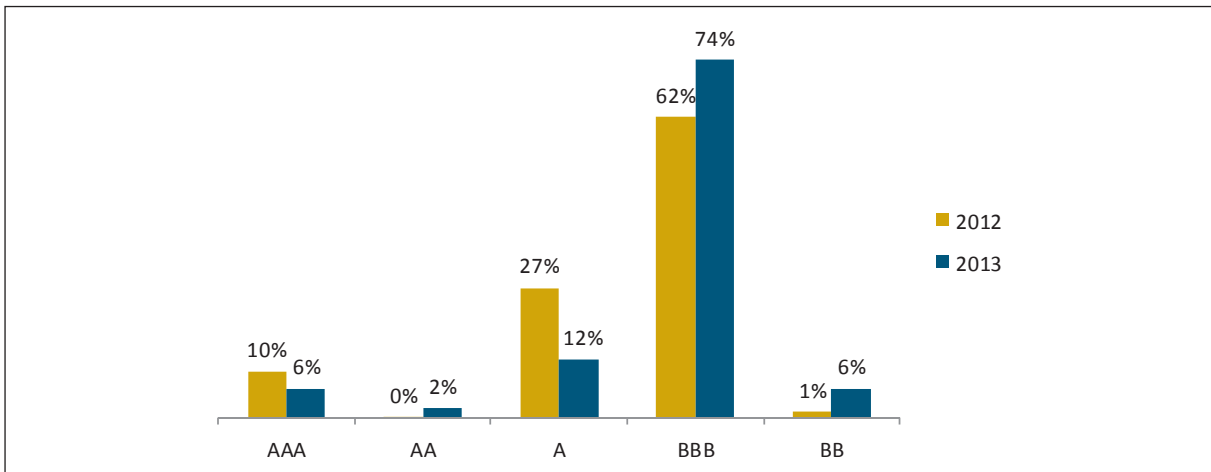
The distribution by rating classes shows that Corporate guarantors and guarantors belonging to other segments classified as investment grade have shares of approximately 35% and 94%, respectively (38% and 99% in December 2012). The former are assigned ratings using the internal model, and the latter are assigned ratings by Agencies.

With regard to other non-corporate segment personal guarantees, there was a drop of the A rating class (27% in December 2012), attributable to the decrease in the exposure guaranteed by Credit Agricole and Deutsche Bank and the increase of the BBB class (62% in December 2012), ascribable to the already mentioned increase in the guarantees issued by the Italian government.

**Corporate personal guarantees by guarantor rating classes**



**Other non-corporate segment personal guarantees by guarantor rating classes**



**Financial collateral**

The majority (around 70%) of the financial collateral eligible for risk mitigation relates to repurchase agreements. The securities are almost all issued by the Italian government and other sovereign issuers with high investment grade ratings. As regards the potential exposure to market risk, it should be noted that 53% of these securities have a maturity of less than 5 years.

The remaining 30% of financial collateral relates to cash deposits and pledges on bonds.

**Other collateral**

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank’s exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is quantified by means of appropriate scenario and stress analyses within the ICAAP process.

## Quantitative disclosure

As required by the specific regulations, this table lists only the portions of exposures secured by financial collateral and personal guarantees subject to the calculation of capital requirements using the standard and foundation IRB approaches. The column “Personal guarantees or credit derivatives” consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives represent an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.

### Breakdown of exposures secured by collateral, guarantees or credit derivatives by exposure class

#### Secured exposures subject to the Standardised approach

(millions of euro)

Regulatory portfolio	31.12.2013		Personal guarantees or credit derivatives	31.12.2012		Personal guarantees or credit derivatives
	Collateral	of which: Simple approach		Collateral	of which: Simple approach	
Exposures to or secured by governments and central banks	2,117	532	5,203	984	452	3,849
Exposures to or secured by local authorities	1	-	405	1	-	476
Exposures to or secured by not for profit and public sector organisations	146	-	29	155	-	29
Exposures to or secured by multilateral development banks	-	-	3	3	3	1
Exposures to or secured by international organisations	-	-	-	-	-	-
Exposures to or secured by supervised institutions	10,748	11	902	10,705	20	1,106
Exposures to or secured by corporates	4,841	7	60	5,628	-	234
Retail exposures	1,045	2	-	2,115	-	-
Past due exposures	154	-	-	76	-	-
High-risk exposures	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Short-term exposures to corporates	38	-	-	49	-	-
Exposures to UCI	126	-	-	95	-	-
Other exposures	-	-	-	-	-	-
Securitisations	-	-	-	-	-	-
<b>Total</b>	<b>19,216</b>	<b>552</b>	<b>6,602</b>	<b>19,811</b>	<b>475</b>	<b>5,695</b>

The Table above complements the disclosures in Table 6, in the sub-table “exposures with credit risk mitigation”, which shows the residual exposure not covered by these guarantees. Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor’s regulatory portfolio; consequently, the representation of personal guarantees included in this Table is the guarantor’s responsibility.

Exposures secured by mortgage collateral, for which the regulations require the assignment of preferential weightings, are not shown in this Table, as they are already included in Table 6 under “exposures secured by real estate property”.

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

(millions of euro)

Regulatory portfolio	Guarantor's weights										Total as at 31.12.2013
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	
Exposures to or secured by governments and central banks	5,643	X	8	X	64	X	20	-	X	-	5,735
Exposures to or secured by local authorities	-	X	369	X	-	X	36	-	X	X	405
Exposures to or secured by not for profit and public sector organisations	2	X	-	X	-	X	27	-	X	X	29
Exposures to or secured by multilateral development banks	3	X	-	X	-	X	-	-	X	X	3
Exposures to or secured by international organisations	-	X	X	X	X	X	X	X	X	X	-
Exposures to or secured by supervised institutions	-	X	406	X	11	X	496	-	X	X	913
Exposures to or secured by corporates	7	X	16	X	44	X	-	-	X	X	67
Retail exposures	2	X	X	X	X	-	X	X	X	X	2
Exposures secured by real estate property	X	X	X	-	-	X	X	X	X	X	-
Past due exposures	-	X	X	X	-	X	-	-	X	X	-
High-risk exposures	X	X	X	X	X	X	-	-	-	X	-
Exposures in the form of covered bonds	X	-	-	X	-	X	-	X	X	X	-
Short-term exposures to corporates	-	X	-	X	-	X	-	-	X	X	-
Exposures to UCI	-	X	-	X	-	X	-	-	X	-	-
Other exposures	-	X	-	X	X	X	-	X	X	X	-
Securitisations	X	X	X	X	X	X	X	X	X	X	-
<b>Total 31.12.2013</b>	<b>5,657</b>	<b>-</b>	<b>799</b>	<b>-</b>	<b>119</b>	<b>-</b>	<b>579</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,154</b>
<b>Total 31.12.2012</b>	<b>3,642</b>	<b>-</b>	<b>993</b>	<b>-</b>	<b>912</b>	<b>-</b>	<b>622</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>6,170</b>

**Secured exposures subject to the foundation IRB approach**

(millions of euro)

Regulatory portfolio	31.12.2013		31.12.2012	
	Collateral	Personal guarantees or credit derivatives	Collateral	Personal guarantees or credit derivatives
Exposures to or secured by corporates				
Specialised lending	-	-	17	-
SMEs	84	-	69	-
Other corporates	12	-	4	-
Specialised lending - slotting criteria	-	-	-	-
<b>Total</b>	<b>96</b>	<b>-</b>	<b>90</b>	<b>-</b>

The secured exposures subject to the foundation IRB approach solely regard VUB Banka, the only company of the Group that still uses the foundation IRB approach after migration by the Group's other companies to the advanced approaches (AIRB).

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





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## Table 9 – Counterparty risk

### Qualitative disclosure

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

In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

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

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

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

Potential exposure (estimated with the actual average PFE) has been adopted by Banca IMI (effective October 2010) and the Parent Company (effective April 2012), for the purposes of operational measurement of uses.

For the rest of the Group, the definition of the use of the credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.

Add-ons indicate the maximum potential future exposure (peak measurement), regularly estimated by the Risk Management Department by macro-product type and maturity. For each contract used as a benchmark, the measure is equal to the peak in the Potential Future Exposure at the 95th percentile. The loan facility for OTC transactions is defined on the same basis as the on-balance sheet exposures, in consideration of the specific elements of the OTC derivative transactions, and transactions for which the exposure may change over time as the underlying risk factors change. PFE measurements are calculated daily by the Risk Management Department, analysed and sent to the monitoring systems for the lines of credit for OTC derivatives. The Risk Management Department (DRM) also provides a daily report on the positions with a use above 70%, to support the facility monitoring activities, with indication of the financial analysis underlying the change of the PFE measurement over time. For entities or instruments outside the scope of application of PFE, the grid for the operational add-ons forms part of the monitoring systems for the lines of credit for OTC derivatives that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty. The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions.

In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the “use test” requirement of Basel 3, a specific project has been set up aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. The organisational functions involved, as described in the Bank’s internal regulations, are:

- the Parent Company’s Risk Management Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;

- the central and divisional credit functions that use the measurements produced to monitor the positions assumed;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of lines of credit.

During the third quarter of 2013 an application for validation with the aim of obtaining authorisation to use the internal counterparty risk model for regulatory purposes was submitted to the Bank of Italy in reference to the Parent Company Intesa Sanpaolo and Banca IMI.

The advanced measurement approach for counterparty risk is in the development phase for the network banks, with the aim of launching the validation process for regulatory purposes by the end of 2014.

The project yielded the following results:

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

For the rest of the Group, use is monitored through the combined use of mark-to-market and add-ons estimated by the Risk Management Department.

In addition, effective from July 2013 the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above, for the Parent Company and Banca IMI:

- definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
- definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
- definition and monitoring of management limits at the portfolio level authorised by the Group Financial Risks Committee for OTC derivatives transactions;
- contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives transactions with collateral agreements (CSA);
- reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

The Parent Company Intesa Sanpaolo and Banca IMI have adopted a programme of stress tests on the counterparty risk with the objective of assessing the effects connected with the occurrence of extreme scenarios relating to market and credit factors that influence counterparty risk exposures.

The stress tests allow the estimate of potential sudden liquidity needs of the Bank with regard to the collateralised exposures, due to extreme movements of the risk factors underlying transactions in OTC derivatives.

The stress test programme allows the identification of market scenarios the Bank is mostly exposed to and represents a risk analysis tool that complements the management and regulatory metrics.

The stress test programme is based on the application of mono-factor and multi-factor scenarios to the "reference set", which is the set of market data used for the pricing of the financial instruments present within the scope of the internal model. Analysed in addition to the stress on the market risk factors is the effect of the deterioration of the creditworthiness of the counterparty through the joint stress on market and credit variables (PD, LGD).

The generic wrong way risk arises when there is positive correlation between the probability of default of a counterparty and the general market risk factors.

A methodology is followed to identify the generic WWR, which uses the results from the stress tests conducted as part of the stress testing programme for the counterparty risk, focusing on the counterparties whose credit spread is more historically correlated to the risk factors identified by the stress tests.

The reports and the analysis of the results are aimed at highlighting the most significant effects at portfolio level, of segments of counterparties or individual counterparties.

The specific Wrong Way Risk arises in case of positive correlation between the future exposure towards a counterparty and the probability of its default due to the nature of the transactions with this counterparty, or in case of a legal connection between the counterparty and the issuer of the derivative's underlying.

A methodology is followed to identify the specific WWR without legal connection, which is based on the analysis of the relation between the Mark To Market forecasts of the portfolio of a counterparty and the credit spread forecasts of the same counterparty, in the various scenarios of the EPE model, at a certain future time-step.

As part of the specific WWR with legal connection, an organisation process has been defined in order to identify, report, authorise, and monitor in a specific manner the transactions with such risk, also for the purposes of the depreciative treatment established by the regulations in terms of capital requirement.

In order to consistently represent and monitor the overall risk profile in terms of counterparty risk generated by transactions in OTC derivative instruments, the Group Financial Risks Committee has resolved a system of specific limits defined at Legal Entity level, monitored by the Risk Management Department, for the Intesa Sanpaolo Parent Company and Banca IMI, comprising:

- a regulatory capital limit, calculated with the internal model on the counterparty risk, with the formulas set by the Basel 3 requirements;
- a CP VaR limit that measures the exposure to the default risk of the counterparties of OTC derivative transactions, calculated with internal metrics in terms of unexpected loss over a time period of one year.
- a CVA VaR limit that measures the exposure to the risk of increase in the credit spreads of the counterparties of the OTC derivative transactions, calculated in terms of daily VaR.

These limits allow a synthetic and homogenous control of the levels of risk exposure for transactions in OTC derivatives of the portfolios of Intesa Sanpaolo and Banca IMI. Adopting such indicators also results in the consolidation, through a process of subsequent aggregations, of the exposure to different types of risk in the individual activity segments (for both collateralised and non-collateralised counterparties) to obtain the measurement of the overall exposure at Legal Entity, Region, Industry and counterparty level.

The internal counterparty risk model allows the estimate of the liquidity requirement deriving from collateralised OTC derivative instruments (in terms of inflow and outflow of collateral), by predicting the expected variation of the Mark To Market. These measures are aimed at feeding the system of the Risk Management Department that measures the liquidity risk (Liquidity Risk System), while guaranteeing the information details needed to develop the various measurement metrics currently set for internal purposes (Liquidity Policy) and for the weekly liquidity report to the Surveillance Body, and are also the subject of the programme of stress tests on the counterparty risk.

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also own credit quality and that of the counterparty in relation to the current and potential exposure. Compared to the adjustment of the mark to market through the calculation of the Credit Risk Adjustment (CRA) already in use, the introduction of the new accounting standards IFRS13 included the calculation of the own credit risk in valuing the Fair Value, to include the non-performance risk inclusive of the issuer's risk in the valuation of OTC derivatives.

In order to comply with the new standard, a new calculation model was developed – the Bilateral Credit Value Adjustment (bCVA) – which in addition to the effects of changes in the counterparty credit rating (the first subject of the credit risk adjustment methodology) also takes fully into account the changes in own credit rating (Debt Value Adjustment - DVA) and identifies a series of refinements to the previous methodology. The bCVA has two addends, calculated by considering the possibility that both counterparties go bankrupt, known as the Credit Value Adjustment (CVA) and Debt Value Adjustment (DVA):

- the CVA (negative) takes into account scenarios whereby the Counterparty fails before the Bank and the Bank has a positive exposure to the Counterparty. In these scenarios the Bank suffers a loss equal

- to the cost of replacing the derivative;
- the DVA (positive) takes into account scenarios whereby the Bank fails before the Counterparty and has a negative exposure to the Counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

Compared to the calculation of the CRA, the new bCVA model identifies a series of refinements of the pre-existing CRA methodology, including the calculation of the risk exposure valued by incorporating the average of the future exposures (positive/negative Expected Positive/Negative Exposure).

The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

## Quantitative disclosure

### Counterparty risk

Transaction categories	(millions of euro)	
	Mark-to-market method - Exposure	
	31.12.2013	31.12.2012
Derivative contracts	17,420	21,481
SFT transactions (Securities Financing Transaction) and long settlement transactions	20,363	17,736
Cross product netting	-	-

The figures in the table above – in accordance with the prudential regulations - are presented net of exposures to central counterparties for an amount of 2,856 million euro for derivative contracts and 20,406 million euro for SFTs (2,396 million euro and 32,739 million euro respectively as at 31 December 2012). The amounts in the other tables below include said exposures (unless otherwise specified), in line with the financial statement regulations envisaged for Italian banks.

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

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

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

The exposures in the table above benefited from risk mitigation (collateral) for a total of 16,845 million euro, mainly referring to SFTs (17,273 as at 31 December 2012). More details on the guarantees, also with reference to the derivative contracts, are reported in the quantitative section of this Table.

The capital requirement for “counterparty risk”, for both the regulatory trading book and the *banking book*, is shown - for the individual regulatory portfolios - in the tables of the capital requirements for credit risk treated under the standardised approach and the IRB approach.

The tables below show the information on financial and credit derivatives required by the regulations. In particular, the fair value of OTC derivative financial instruments was determined considering the creditworthiness of the single counterparties (“Bilateral Credit Risk Adjustment” see Table 11). With regard to contracts outstanding as at 31 December 2013, this led to a net positive impact of 22 million euro being recorded in the income statement (of which 5 million euro referring to contracts negotiated with customers). Adjustments, which were recorded, for every single contract, on the market value determined using the risk free curves, amounted to 296 million euro as at 31 December 2013, of which 70 million euro relating to non-performing positions.

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

(millions of euro)

	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>2,168,308</b>	<b>131,615</b>	<b>2,641,115</b>	<b>119,053</b>
a) Options	195,842	52,892	264,213	35,847
b) Swaps	1,970,987	-	2,376,024	-
c) Forwards	24	-	55	-
d) Futures	1,455	78,723	823	83,206
e) Others	-	-	-	-
<b>2. Equities and stock indices</b>	<b>31,672</b>	<b>26,962</b>	<b>22,432</b>	<b>19,721</b>
a) Options	31,242	25,510	21,492	18,474
b) Swaps	370	-	568	-
c) Forwards	60	-	372	-
d) Futures	-	1,452	-	1,247
e) Others	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	<b>113,895</b>	<b>175</b>	<b>106,769</b>	<b>270</b>
a) Options	14,788	-	12,982	-
b) Swaps	32,153	-	24,906	-
c) Forwards	64,816	-	68,389	2
d) Futures	-	175	-	268
e) Others	2,138	-	492	-
<b>4. Commodities</b>	<b>7,677</b>	<b>1,612</b>	<b>7,714</b>	<b>2,009</b>
<b>5. Other underlying assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>2,321,552</b>	<b>160,364</b>	<b>2,778,030</b>	<b>141,053</b>
<b>AVERAGE VALUES</b>	<b>2,554,287</b>	<b>148,530</b>	<b>2,942,130</b>	<b>170,625</b>

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

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 1,163,518 million euro as at 31 December 2013 (928,321 million euro as at 31 December 2012).

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

**Hedging**

(millions of euro)

	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>237,254</b>	-	<b>279,361</b>	-
a) Options	5,384	-	8,982	-
b) Swaps	231,870	-	270,379	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>2. Equities and stock indices</b>	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	<b>3,363</b>	-	<b>4,027</b>	-
a) Options	-	-	-	-
b) Swaps	3,363	-	4,027	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>TOTAL</b>	<b>240,617</b>	-	<b>283,388</b>	-
<b>AVERAGE VALUES</b>	<b>260,363</b>	-	<b>257,416</b>	-

**Other derivatives**

	(millions of euro)			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>1. Debt securities and interest rates</b>	<b>10,430</b>	-	<b>12,931</b>	-
a) Options	5,256	-	8,022	-
b) Swaps	5,174	-	4,909	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>2. Equities and stock indices</b>	<b>5,255</b>	-	<b>4,174</b>	-
a) Options	5,255	-	4,174	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>3. Foreign exchange rates and gold</b>	<b>952</b>	-	<b>3,255</b>	-
a) Options	43	-	80	-
b) Swaps	780	-	1,388	-
c) Forwards	129	-	1,787	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
<b>4. Commodities</b>	-	-	-	-
<b>5. Other underlying assets</b>	-	-	-	-
<b>TOTAL</b>	<b>16,637</b>	-	<b>20,360</b>	-
<b>AVERAGE VALUES</b>	<b>18,193</b>	-	<b>22,192</b>	-

The table above shows the financial derivatives recognised in the financial statements in the trading book, but not forming part of the regulatory trading book. In particular, the table shows the derivatives recorded separately from the combined financial instruments, the derivatives used to hedge debt securities measured at fair value through profit and loss, operational foreign exchange risk hedging derivatives correlated to specific foreign-currency funding and the put and call options relating to commitments on equity investments.



## Financial derivatives - gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Regulatory trading book</b>	<b>27,044</b>	<b>790</b>	<b>42,092</b>	<b>451</b>
a) Options	4,728	693	6,175	361
b) Interest rate swaps	20,164	-	34,071	-
c) Cross currency swaps	1,331	-	825	-
d) Equity swaps	6	-	30	-
e) Forwards	646	-	826	-
f) Futures	-	97	-	90
g) Others	169	-	165	-
<b>B. Banking book - hedging</b>	<b>7,535</b>	<b>-</b>	<b>11,651</b>	<b>-</b>
a) Options	303	-	314	-
b) Interest rate swaps	6,992	-	10,732	-
c) Cross currency swaps	240	-	605	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>C. Banking book - other derivatives</b>	<b>689</b>	<b>-</b>	<b>746</b>	<b>-</b>
a) Options	289	-	212	-
b) Interest rate swaps	396	-	519	-
c) Cross currency swaps	3	-	13	-
d) Equity swaps	-	-	-	-
e) Forwards	1	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>TOTAL</b>	<b>35,268</b>	<b>790</b>	<b>54,489</b>	<b>451</b>

**Financial derivatives - gross negative fair value: breakdown by product**

(millions of euro)

	Negative fair value			
	31.12.2013		31.12.2012	
	Over the counter	Central counterparties	Over the counter	Central counterparties
<b>A. Regulatory trading book</b>	<b>33,034</b>	<b>550</b>	<b>45,922</b>	<b>506</b>
a) Options	9,476	488	8,162	433
b) Interest rate swaps	21,262	-	35,224	-
c) Cross currency swaps	1,465	-	1,593	-
d) Equity swaps	2	-	23	-
e) Forwards	645	-	725	-
f) Futures	-	62	-	73
g) Others	184	-	195	-
<b>B. Banking book - hedging</b>	<b>7,584</b>	<b>-</b>	<b>10,460</b>	<b>-</b>
a) Options	-	-	82	-
b) Interest rate swaps	7,383	-	10,145	-
c) Cross currency swaps	201	-	233	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>C. Banking book - other derivatives</b>	<b>856</b>	<b>-</b>	<b>874</b>	<b>-</b>
a) Options	726	-	634	-
b) Interest rate swaps	120	-	184	-
c) Cross currency swaps	10	-	54	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	2	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
<b>TOTAL</b>	<b>41,474</b>	<b>550</b>	<b>57,256</b>	<b>506</b>

By convention, the column "Over the counter" includes transactions in OTC derivatives transferred to the Swapclear circuit (LCH group) of 2,749 million euro (768 million euro as at 31 December 2012).

## Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2013

### Contracts not included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>1. Debt securities and interest rates</b>							
- notional amount	-	2,843	17,574	8,279	1,326	30,620	230
- positive fair value	-	451	395	227	2	1,329	11
- negative fair value	-	-12	-744	-142	-8	-72	-1
- future exposure	-	19	139	37	4	176	1
<b>2. Equities and stock indices</b>							
- notional amount	3	-	5,240	362	3,108	4	14
- positive fair value	-	-	1	1	-	-	-
- negative fair value	-	-	-4,985	-23	-203	-	-4
- future exposure	-	-	402	6	2	-	-
<b>3. Foreign exchange rates and gold</b>							
- notional amount	290	150	4,676	9,125	501	13,855	121
- positive fair value	23	-	20	104	1	382	2
- negative fair value	-	-17	-787	-96	-3	-130	-2
- future exposure	22	11	73	171	5	224	1
<b>4. Other values</b>							
- notional amount	-	-	29	43	-	3,665	-
- positive fair value	-	-	5	1	-	50	-
- negative fair value	-	-	-13	-1	-	-52	-
- future exposure	-	-	1	4	-	394	-

## Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2013

### Contracts included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>1. Debt securities and interest rates</b>							
- notional amount	7,225	-	846,958	1,249,225	954	3,074	-
- positive fair value	2,579	-	16,115	2,778	15	166	-
- negative fair value	-10	-	-18,046	-5,395	-13	-127	-
<b>2. Equities and stock indices</b>							
- notional amount	-	-	19,210	3,571	160	-	-
- positive fair value	-	-	518	166	-	-	-
- negative fair value	-	-	-259	-144	-20	-	-
<b>3. Foreign exchange rates and gold</b>							
- notional amount	-	-	66,486	12,029	512	6,150	-
- positive fair value	-	-	573	468	154	422	-
- negative fair value	-	-	-1,388	-135	-8	-72	-
<b>4. Other values</b>							
- notional amount	-	-	529	93	-	3,318	-
- positive fair value	-	-	20	2	-	64	-
- negative fair value	-	-	-13	-2	-	-107	-

## Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2013

### Contracts not included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>1. Debt securities and interest rates</b>							
- notional amount	-	442	2,928	304	-	156	5,275
- positive fair value	-	9	-	-	-	5	3
- negative fair value	-	-	-132	-1	-	-	-269
- future exposure	-	7	4	2	-	-	2
<b>2. Equities and stock indices</b>							
- notional amount	-	-	3,843	34	-	619	510
- positive fair value	-	-	100	-	-	-	-
- negative fair value	-	-	-342	-	-	-96	-57
- future exposure	-	-	44	-	-	-	-
<b>3. Foreign exchange rates and gold</b>							
- notional amount	-	-	395	15	-	1	24
- positive fair value	-	-	32	-	-	-	-
- negative fair value	-	-	-4	-	-	-	-
- future exposure	-	-	-	-	-	-	-
<b>4. Other values</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

## Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2013

### Contracts included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>1. Debt securities and interest rates</b>							
- notional amount	-	-	232,858	5,721	-	-	-
- positive fair value	-	-	7,607	186	-	-	-
- negative fair value	-	-	-6,810	-518	-	-	-
<b>2. Equities and stock indices</b>							
- notional amount	-	-	230	19	-	-	-
- positive fair value	-	-	57	9	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>3. Foreign exchange rates and gold</b>							
- notional amount	-	-	3,651	229	-	-	-
- positive fair value	-	-	214	-	-	-	-
- negative fair value	-	-	-143	-68	-	-	-
<b>4. Other values</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

**Credit derivatives – period-end and average notional amounts**

(millions of euro)

	Regulatory trading book		Banking book	
	single counterparty	more counterparties (basket)	single counterparty	more counterparties (basket)
<b>1. Protection purchases</b>				
- Credit default products	18,565	46,994	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	-	-	-	-
- Other	-	-	-	-
<b>Total 31.12.2013</b>	<b>18,565</b>	<b>46,994</b>	-	-
<b>Average values</b>	<b>22,870</b>	<b>49,571</b>	-	-
<b>Total 31.12.2012</b>	<b>25,745</b>	<b>52,159</b>	-	-
<b>2. Protection sales</b>				
- Credit default products	18,004	46,690	-	-
- Credit spread products	-	-	-	-
- Total rate of return swap	67	-	-	-
- Other	-	-	-	-
<b>Total 31.12.2013</b>	<b>18,071</b>	<b>46,690</b>	-	-
<b>Average values</b>	<b>31,400</b>	<b>49,600</b>	-	-
<b>Total 31.12.2012</b>	<b>24,993</b>	<b>52,520</b>	-	-

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

(millions of euro)

	Positive fair value	
	31.12.2013	31.12.2012
<b>A. Regulatory trading book</b>	<b>1,497</b>	<b>1,544</b>
a) Credit default products	1,402	1,394
b) Credit spread products	-	-
c) Total rate of return swap	95	150
d) Other	-	-
<b>B. Banking book</b>	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>TOTAL</b>	<b>1,497</b>	<b>1,544</b>

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

	(millions of euro)	
	Negative fair value	
	31.12.2013	31.12.2012
<b>A. Regulatory trading book</b>	<b>1,734</b>	<b>1,879</b>
a) Credit default products	1,636	1,737
b) Credit spread products	-	-
c) Total rate of return swap	98	142
d) Other	-	-
<b>B. Banking book</b>	<b>-</b>	<b>-</b>
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
<b>TOTAL</b>	<b>1,734</b>	<b>1,879</b>

**Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts not included under netting arrangements as at 31 December 2013**

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>REGULATORY TRADING BOOK</b>							
<b>1. Protection purchases</b>							
- notional amount	-	88	290	577	-	-	-
- positive fair value	-	61	-	26	-	-	-
- negative fair value	-	-	-2	-3	-	-	-
- future exposure	-	4	21	38	-	-	-
<b>2. Protection sales</b>							
- notional amount	-	-	421	762	-	-	-
- positive fair value	-	-	3	97	-	-	-
- negative fair value	-	-	-1	-317	-	-	-
- future exposure	-	-	7	23	-	-	-
<b>BANKING BOOK</b>							
<b>1. Protection purchases</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>2. Protection sales</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

**Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts included under netting arrangements as at 31 December 2013**

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>REGULATORY TRADING BOOK</b>							
<b>1. Protection purchases</b>							
- notional amount	-	-	44,743	19,861	-	-	-
- positive fair value	-	-	126	80	-	-	-
- negative fair value	-	-	-806	-323	-	-	-
<b>2. Protection sales</b>							
- notional amount	-	-	46,318	17,260	-	-	-
- positive fair value	-	-	813	291	-	-	-
- negative fair value	-	-	-129	-153	-	-	-
<b>BANKING BOOK</b>							
<b>1. Protection purchases</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
<b>2. Protection sales</b>							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

**Over the counter credit and financial derivatives – net fair values and future exposure by counterparty as at 31 December 2013**

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
<b>1. Financial derivatives - bilateral agreements</b>							
- positive fair value	2,570	-	1,660	208	158	416	-
- negative fair value	-	-	-1,382	-2,859	-29	-69	-
- future exposure	106	-	799	2,933	40	335	-
- net counterparty risk	2,676	-	887	241	193	723	-
<b>2. Credit derivatives - bilateral agreements</b>							
- positive fair value	-	-	-	1	-	-	-
- negative fair value	-	-	-3	-2	-	-	-
- future exposure	-	-	1	3	-	-	-
- net counterparty risk	-	-	1	3	-	-	-
<b>3. "Cross product" agreements</b>							
- positive fair value	-	-	1,042	464	-	-	-
- negative fair value	-	-	-2,896	-571	-	-	-
- future exposure	-	-	2,974	797	-	-	-
- net counterparty risk	-	-	3,166	807	-	-	-

In the above table, the net amount of counterparty risk has been decreased, in accordance with regulatory provisions governing counterparty risk, to account for the transactions in OTC derivatives transferred to the Swapclear circuit (LCH group), amounting to 2,856 million euro (2,396 million euro as at 31 December 2012).

Application of the amendments to IFRS 7 regarding the disclosure of netting arrangements became mandatory starting from 1 January 2013.

According to these amendments, IFRS 7 requires specific disclosure for financial instruments that have been offset in the Balance Sheet pursuant to IAS 32 or that may be potentially offset, upon occurrence of specific conditions, but are recognised in the Balance Sheet without any netting since they are regulated by "netting framework arrangements or similar" that do not respect all of the criteria set forth by IAS 32, paragraph 42.

In this respect, the Intesa Sanpaolo Group has netting arrangements that meet the requirements envisaged by IAS 32.42 for offsetting in the financial statements. In particular, these are arrangements that regulate the clearing of Over the Counter derivatives through subscription to the SwapClear service (LCH Group). This circuit, replacing the original counterparties of the OTC derivatives, mitigates credit risk by calling daily margins on all positions transferred, so that the mutual credit and debt positions are

automatically offset. In the table below, therefore, the column regarding the amount of financial assets/liabilities offset in the balance sheet represents the negative fair values on interest rate derivatives offset with the positive fair values for representation in the financial statements. The information is mirrored in the following table.

In terms of instruments that may be potentially offset upon occurrence of such events, it is noted that the Group uses bilateral netting arrangements that allow, in the event of counterparty default, the netting of claims and obligations in relation to financial and credit derivatives, as well as securities financing transactions (SFTs). In particular, there are ISDA agreements (for transactions in derivatives) and GMRA (for repurchase agreements).

For the purposes of preparing the tables and in line with the provisions of IFRS 7 and the new provisions that govern the financial statements of banks, the following are noted:

- the effects of the potential offsetting of the balance sheet values of financial assets and liabilities are indicated under column (d) "Financial instruments", together with the fair value of financial collateral consisting of securities;
- the effects of the potential offsetting of the exposure with the relative cash collateral are included under column (e) "Cash deposits received/provided as collateral";
- repurchase agreement transactions are recognised in the tables based on the amortised cost measurement criterion, while the relative collateral is measured at fair value. Derivatives transactions are recognised at fair value.

These effects are calculated for each individual counterparty included in a netting framework arrangement, to the extent of the exposure indicated in column (c).

Based on the preparation methods indicated above, the netting arrangements between financial instruments and the relative collateral permit a significant reduction in credit/debt exposure to the counterparty, as indicated under column (f) "Net amount".

### Financial assets subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

Types	Gross amount of financial assets (a)	Amount of financial liabilities offset in statement of financial position (b)	Net amount of financial assets presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		(millions of euro)	
				Financial instruments (d)	Cash collateral (e)	Net amount	Net amount
						31.12.2013 (f = c-d-e)	31.12.2012
1. Derivatives	57,902	24,456	33,446	27,389	2,336	3,721	-
2. Repurchase agreements	16,299	-	16,299	16,023	-	276	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31.12.2013</b>	<b>74,201</b>	<b>24,456</b>	<b>49,745</b>	<b>43,412</b>	<b>2,336</b>	<b>3,997</b>	<b>X</b>
<b>TOTAL 31.12.2012</b>	<b>107,595</b>	<b>35,863</b>	<b>71,732</b>	<b>62,969</b>	<b>3,680</b>	<b>X</b>	<b>5,083</b>

### Financial liabilities subject to offsetting in the financial statements or subject to netting framework arrangements or similar agreements

Types	Gross amount of financial liabilities (a)	Amount of financial assets offset in statement of financial position (b)	Net amount of financial liabilities presented in statement of financial position (c = a-b)	Amounts available to be offset but not offset in the statement of financial position		(millions of euro)	
				Financial instruments (d)	Cash deposits pledged as collateral (e)	Net amount	Net amount
						31.12.2013 (f = c-d-e)	31.12.2012
1. Derivatives	59,199	24,456	34,743	27,257	7,105	381	-
2. Repurchase agreements	19,565	-	19,565	18,804	1	760	-
3. Securities lending	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-
<b>TOTAL 31.12.2013</b>	<b>78,764</b>	<b>24,456</b>	<b>54,308</b>	<b>46,061</b>	<b>7,106</b>	<b>1,141</b>	<b>X</b>
<b>TOTAL 31.12.2012</b>	<b>107,654</b>	<b>35,863</b>	<b>71,791</b>	<b>61,969</b>	<b>2,667</b>	<b>X</b>	<b>7,155</b>



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# Table 10 – Securitisations

## Qualitative disclosure

### Securitisations: objectives and the roles undertaken by the Bank

#### *Own securitisations*

The own securitisations of the Intesa Sanpaolo Group may be differentiated into:

- securitisations that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position (see section "self-securitisations and eligibility") and are not standard securitisations as they do not transfer the risk outside the Group;
- securitisations structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("originated securitisations" and Asset Backed Commercial Paper programmes) or in order to provide service to customers.

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

#### *Self-securitisations and eligibility*

In the years prior to the financial crisis, Intesa Sanpaolo's cash securitisations (non-synthetic) were mainly a medium-long term funding instrument, structured with the aim of reducing the liquidity gap between medium-term loans and short-term deposits, of diversifying the sources of financing and the investor base, and of obtaining funding at a competitive rate, through the issue of securities with a AAA rating or in any case with a rating higher than the Group's rating.

In view of the critical condition of the financial markets, the Group has considered it prudent to enhance its portfolio of eligible assets to establish a liquidity reserve activated through ECB financing operations or by means of the instruments established as part of the emergency measures adopted by the Italian Government and the Bank of Italy to guarantee the stability of the credit system.

This has mainly taken place through "self-securitisations" of Group assets, also through the analysis of particular types of assets (such as certain loans to the public sector and large corporates). Despite the fact that it has an excellent liquidity profile, Intesa Sanpaolo has considered it appropriate to expand its options for access to the short-term funding market.

Nevertheless, a prudential decision has been made, given the current market environment, to maintain an adequate and equivalent level of eligible assets in relation to its interbank funding (also in the form of CDs and CPs).

The issue of RMBS in relation to Italian residential mortgages also helps in creating the cover pool supporting the issues of medium and long term covered bonds to be placed in the institutional market.

A large part of the RMBS notes originating from self-securitisations are therefore designated for use for ECB eligibility, but may also be subsequently used as the cover pool for the programme of Covered Bonds. In any event, the securities will initially form part of the portfolio of eligible assets, however, they may be placed in the market in the future if the conditions of the markets improve.

From this perspective, the structure of the "self-securitisations" is usually fully equivalent to the transactions carried out previously and placed in the market.

These consist of a sale by Intesa Sanpaolo of a portfolio of assets to an SPV established pursuant to Law 130/99 that issues two tranches of notes (one senior and one subordinate constituting the credit enhancement). The Group then subscribes in full for the notes issued by the SPV to fund the purchase of

the loans. The senior notes (rated and quoted) are eligible and may be used for the purposes described above.

With regard to the assets to be securitised, on the basis of the assessment conducted by the Group for this purpose, priority is generally given to assets equivalent (or similar) to those already securitised in the past, such as, for example:

- real estate mortgages and mortgage loans of the Group's Network banks;
- ineligible fixed-income securities of the Parent Company and of Banca IMI;
- ineligible loans to the public sector;
- leasing rentals of Leasint;
- mortgage loans of Mediocredito Italiano.

The assets underlying the self-securitisations are generally included in the Group's IAS Loans & Receivables portfolio and, thus, in the banking book. The measurement criteria are the same as those for the other assets in that portfolio.

The self-securitisations do not contribute to the figures included in the tables, because – as already mentioned – they do not constitute standard securitisations.

### **Standard securitisations**

The securitisations in this category are as follows:

– **Da Vinci:**

A synthetic securitisation concluded in 2006 by Banca Intesa aimed at covering and actively managing its risk exposure in the aircraft and aeronautic sector (nominal amount of around 650 million dollars). The guarantees supporting the Da Vinci portfolio consisted of 128 aircraft belonging to 22 airline companies from 14 countries. With this transaction, Banca Intesa acquired protection through a credit default swap utilising:

- o for the unfunded portion (84%), a Senior Swap contract underwritten by a leading financier, covering the risk of the Da Vinci risk portfolio with a rating higher than or equivalent to AA;
- o for the funded portion (12%), the Special Purpose Vehicle Da Vinci Synthetic Plc, which issued notes for an overall value of 78.2 million dollars, consisting of three tranches (the first with an A rating for 32.5 million dollars, the second with a BBB rating for 26.1 million dollars and the third with a BB+ rating for 19.6 million dollars) placed with international institutional investors only.

The structure of this transaction also allowed for the sale at any time of the remaining 4% of the risk, corresponding to around 26 million dollars. The rating agencies used were S&P, Fitch and Moody's.

– **Intesa Sec 3:**

Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 "performing" residential mortgages, issued predominantly in Northern Italy, to private individuals, and guaranteed by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.

– **Intesa Sec 2:**

In 2002, Banca Intesa structured a securitisation on a portfolio consisting of 67,000 "performing" residential mortgages, issued predominantly in Northern Italy to private individuals, and guaranteed by first lien mortgages, for 2,026 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the special purpose vehicle IntesaBci Sec 2 S.r.l., which issued mortgage-backed securities placed with institutional investors in four tranches: class A1 of 405.5 million euro with a AAA rating; class A2 of 1,519.6 million euro with a AAA rating; class B of 40.6 with a AA rating; and class C of 61 million euro with a BBB rating. The rating agencies used were S&P, Fitch and Moody's. During 2013 the vehicle was merged with the Parent Company.

– **Cr Firenze Mutui:**

At the year end Banca CR Firenze had an outstanding securitisation relating to "performing" mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle had issued securities for 521 million euro. The rating agencies used were S&P, Fitch and Moody's.

- **Intesa Sec Npl:**  
This transaction, completed in 2001, involved the securitisation of doubtful loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to families and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred “without recourse” to the special purpose vehicle IntesaBci Sec NPL, for a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto and they subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro, both unrated) on the other hand were subscribed by IntesaBci. The rating agencies used were Fitch and Moody’s.
- **Intesa Sec:**  
During 2000 Banca Intesa carried out a securitisation of mortgages of the Group. The portfolio, placed in the market through the special purpose vehicle Intesa Sec, consisted of over 20,000 performing mortgages granted to private individuals. Against loans with a residual capital of around 993 billion Italian lira purchased at nominal value, the vehicle issued three tranches of rated securities for a value of 977 billion that were placed with institutional investors. The fourth unrated tranche of around 16 billion was subscribed for directly by the Group. This transaction was part of an operational strategy aimed at improving the return on capital by reinvesting the liquidity generated and using the regulatory capital made available. The rating agencies used were Fitch and Moody’s.
- **Light Securitisation, Gas Securitisation and Facility Services Securitisation:**  
These transactions were conducted in 2011 on portfolios of trade receivables purchased by the Intesa Sanpaolo Group from third parties. Risks of the portfolio of receivables, originated by primary customers and purchased by the Group without recourse, were subsequently securitised. Against receivables with a nominal value of approximately 746 million euro, numerous tranches of unrated securities were issued. To close the transactions, the Group used the vehicles Trade Investment Receivable Vehicle S.a.r.l., Natitri S.a.r.l. and Duomo Funding Plc..
- **Conan Securitisation and Food & Beverages Securitisation:**  
In 2012 the Group carried out two new securitisations with similar characteristics (Conan Securitisation and Food & Beverages Securitisation). These transactions were conducted on portfolios of trade receivables purchased by the Intesa Sanpaolo Group from third parties. Risks of the portfolio of receivables, originated by primary customers and purchased by the Group without recourse, were subsequently securitised. Against receivables with a nominal value of approximately 295 million euro on the new transactions, numerous tranches of unrated securities were issued. For these transactions, the Group used the vehicles Trade Investment Receivable S.a.r.l., CorpEquity Capital S.a.r.l., Hermes Trade Receivables S.a.r.l. and the vehicle Duomo Funding Plc..
- **Light Securitisation 2 and Gas Securitisation 2:**  
In 2013 the Group carried out two new securitisations whose characteristics are described in the quantitative section of this Table.

#### **Asset-Backed Commercial Paper (ABCP) programmes**

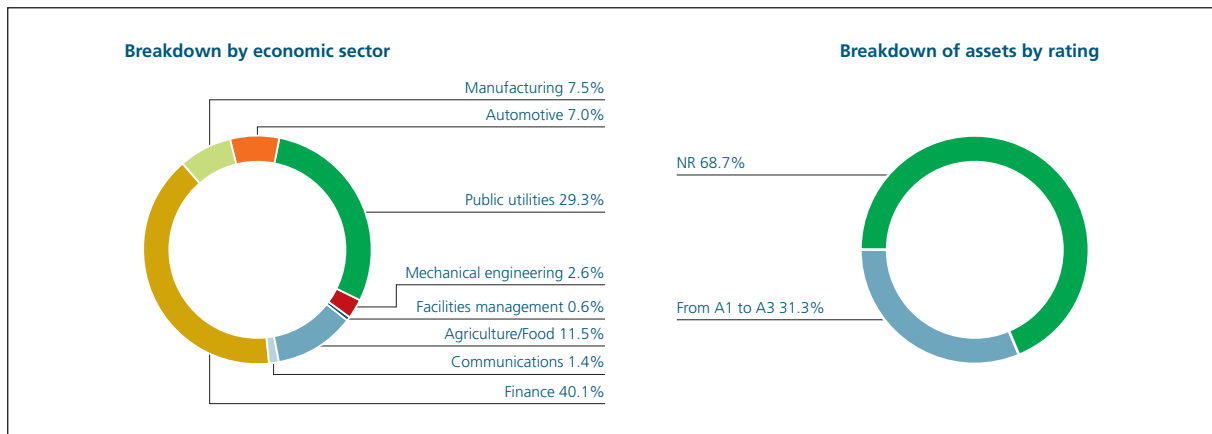
In accordance with IAS/IFRS (SIC 12), Intesa Sanpaolo controls and fully consolidates:

- **Romulus Funding Corporation:**  
a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;
- **Duomo Funding PLC:**  
an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

The assets originated by customers have been placed in the vehicle Duomo, leaving Romulus activity of fund-raising on the U.S. market. Nonetheless, due to an unsuitable rating, the vehicle had difficulties in obtaining funding on the US market through commercial papers. As at 31 December 2013, 2.1 billion euro of the around 2.6 billion euro in securities issued by Romulus had been repurchased by the Parent Company Intesa Sanpaolo.

The total assets of the vehicle Romulus include receivables from Duomo for 2,650 million euro. With regard to the portfolio of the vehicle Duomo, at the end of 2013 – in addition to receivables from Group banks for 1,154 million euro – this portfolio includes loans to customers for 1,467 million euro. Of these, 1,237 million euro consisted of structured credit products subscribed in the context of normal customer lending activity, the collateral for which had not shown any sign of impairment as at 31 December 2013. In portfolio, the vehicle also holds quotas of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 44 million euro as at 31 December 2013. The total assets of the above SPEs, net of dealings between the two vehicles, made up 0.4% of the total consolidated assets.

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



With reference to the geographical distribution of the assets held by the two vehicles, please note that more than 97% of the debtors of the total assets are located in Italy. Please note that the uses in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were of sufficient quality for the commercial papers issued by Romulus to maintain the A-2/P-2 ratings.

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

Name	Direct ownership	Registered office	% Stake
Adriano Lease Sec S.r.l. (*)	Intesa Sanpaolo	Conegliano Veneto (TV)	5.00%
Intesa Sanpaolo SEC SA (*)	Intesa Sanpaolo	Luxembourg	100.00%
Adriano Finance 2 (**)	Intesa Sanpaolo	Milano	5.00%
Intesa Sec S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec 3 S.r.l.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec NPL S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Lease Sec S.r.l.	Leasint	Milano	100.00%
Augusto S.r.l. (***)	Intesa Sanpaolo	Milano	5.00%
Colombo S.r.l. (***)	Intesa Sanpaolo	Milano	5.00%
Diocleziano S.r.l. (***)	Intesa Sanpaolo	Milano	5.00%
CR Firenze Mutui	CR Firenze	Conegliano Veneto (TV)	10.00%
ISP CB Pubblico S.r.l. (***)	Banca IMI/Duomo Funding	Luxembourg	100.00%
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (****)	Intesa Sanpaolo	Milano	60.00%
ISP CB Ipotecario S.r.l. (****)	Intesa Sanpaolo	Milano	60.00%
ISP CB Pubblico S.r.l. (****)	Intesa Sanpaolo	Milano	60.00%

(\*) Self-securitisation vehicle.

(\*\*) The vehicle was not operational at 31 December 2013.

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

(\*\*\*\*) ISP CB Ipotecario, ISP CB Pubblico and ISP OBG are not traditional securitisation vehicles that issue securities, rather, they are involved in Covered Bond issues.

**“Third party” securitisations**

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by Group structures specialised in Public Finance.

**Nature of the risks, including liquidity risk, relating to the securitised assets**

In addition to credit risk, the securitised assets are subject to other types of risk. These include:

- liquidity risk;
- interest rate risk;
- foreign exchange risk.

The nature and scope of the different risks vary based on the type of transaction executed. All securitised assets are also subject to different degrees of operational risk associated with the documentation and the collection of cash flows. In particular, the representation of third party securitisations held in the Group securities portfolio for the purposes of liquidity risk considers the classifications and assessments made based on the fair value policy (see Table 11) for financial statement purposes, as well as their eligibility for refinancing with Central Banks and liquidity, in the absence of which the securities are classified by residual maturity, based on their repayment plans and weighted average life.

**Exposures to own and third party re-securitisations: type of risk**

The Group has exposures to re-securitisations only as products issued by third parties (“Third party re-securitisations”). The exposures included in the trading book mainly comprise credit derivatives (essentially cash CDOs) with underlying ABSs. The Group's re-securitisations portfolio shows, in general, immaterial amounts in terms of value of the exposures, progressively declining as weighted amounts and as requirements (see Quantitative Disclosure of this Table).

### Procedures for monitoring changes in credit and market risk of the securitisations

For ABS positions in the trading book, the Risk Management Department calculates the VaR within the infrastructure of the Internal Model to calculate market risk. Specifically, the method used relates to the treatment of illiquid parameters. The absorption and use are calculated on ABS exposure, in terms of VaR and issuer risk. The ABS risk factor is not included in the Internal Model, as the product is securitised; therefore, neither the regulatory VaR nor the IRC is included.

### Risk hedging policies for exposures to securitisations and re-securitisations

Currently, no strategies to purchase protection are in place. In the past, hedging strategies relied on listed indices (such as LCDX) or Credit Default Swaps.

### Securitisations: methods for calculating the risk weighted exposures

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

### Securitisations: accounting standards

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

#### *In the event of derecognition*

When all the risks and benefits from the ownership are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.

If the consideration received is not made up entirely of an amount of available cash, but consists partly of financial assets, these are initially recognised at fair value. Their fair value is also used in the calculation of the profit or loss from the sale.

Should derecognition be permitted, if only a part of the cash flows that derive from a loan is sold, the carrying value of the part maintained is recognised at fair value as at the date of the sale. Any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.

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

#### *In the event of no derecognition*

If the requirements established by IAS 39 are not met and the securitisation does not therefore qualify for derecognition, the originator records the loan as an offsetting entry for the consideration received.

A common example is when the originator sells a loan portfolio to the special purpose vehicle, but subscribes for the junior class in full (and therefore for the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.

In this case, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained. If there is no derecognition, the loans securitised continue to be recorded in the originator's financial statements.

Subsequently, the originator must recognise any income from the asset transferred and any charges incurred on the liability recorded without offsetting any of the costs and revenues.

The loan portfolio transferred continues to be classified in the loan category that it originally formed part of and, consequently, is measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.

It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec), the Group made use of the exemption from compliance with the IAS/IFRS requirements permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recorded in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

### **Provisions for guarantees and commitments**

Provisions made on an individual and collective basis, relative to estimated possible disbursements connected to credit risk relative to guarantees and commitments, possibly included in the securitisation transactions, determined applying the same criteria set out with respect to other types of loans and receivables, are recorded under Other liabilities, as set out by Bank of Italy instructions.

**Assessment of exposures to securitisations - banking book** For securities deriving from securitisations, the need to record impairment is assessed if the fair value is lower than the carrying value by a percentage set a priori, or if there is evidence of potential impairment. This process has not changed with respect to the previous year.

If one of these conditions is in place and, as a result of an analysis of the type of securitisation, it is found that the reduction in fair value is due to impairment of the collateral and not to a generic increase in the spread on the secondary market, for bonds issued mainly by vehicles - as the overall structures refer to bankruptcy-remote entities, the analysis concentrates on the performance of the underlyings, which constitute the vehicle's assets, and how this reflects on the notes subordination in the portfolio.

Specifically, the procedure involves the following steps:

- monitoring the parameters/triggers/covenants envisaged at issue, which is the basis of the regulation of the payment waterfall or, in extreme cases, the advance termination of the deal. The analysis is based on the periodic reports from the administrators and rating agencies;
- specifically for junior tranches of securitisations originated by Intesa Sanpaolo which have reliable business plans, the analysis is conducted on available cash flows. For non-performing products, reference is made to adjustments to loans and the features of the payment waterfall.

If, as a result of said analysis, there is no evidence of breaches which could compromise payments of principal and interest, it is not necessary to record impairment of the security. Otherwise, if there is the possibility of (full or partial) non-payment of the principal or interest, due to a change in the payment priority and/or impairment of the collateral, it must be verified that the note's credit enhancement can still sufficiently absorb the actual losses. In the event of negative results of this verification, the security must necessarily be impaired.

Impairment is assessed:

- by comparing the residual market value of the collateral and the outstanding amounts of the notes based on the attachment and detachment points, in the event of credit events that result in advance termination of the transaction;
- the fair value is recalculated based on the new rules and the new available cash flows are compared with the credit enhancement of the tranche in the portfolio, in the event of trigger covenants resulting in new payment priorities.

### **Assessment of exposures to securitisations - trading book**

Exposures included in the trading book are measured at fair value. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter (see Table 11).

### **Synthetic securitisations**

Synthetic securitisations are usually recognised on the basis of the following rules.

The loans subject to synthetic securitisation continue to be recorded in the assets of the bank (protection buyer) that has retained full ownership of them. The premium paid by the bank to the protection seller for the purchase of the protection Credit Default Swap is recorded under commission expense in the income statement, where the premiums relating to the credit derivatives associated with the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market, are recorded under payables in the balance sheet liabilities.

### **Securitisations: recognition criteria for prudential purposes**

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

- (i) traditional securitisation, whereby a party transfers a specific portfolio of assets to a vehicle company, which finances the purchase through the issue of securities (asset-backed securities, ABSs);
- (ii) synthetic securitisation, in which the transfer of risk takes place without transferring the asset, but typically through the use of credit derivatives. The synthetic securitisations category includes transactions backed by credit protection (collateral or personal guarantee) that envisage forms of risk segmentation (“tranching”).

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

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

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

### **Traditional securitisations**

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

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

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



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

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

### **Synthetic securitisations**

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

- a) the credit protection instruments with which the credit risk is transferred are compliant with the provisions of the prudential regulations; to this end, special purpose vehicles are not considered to be appropriate in providing personal credit protection;
- b) the instruments used to transfer the credit risk do not contain terms or conditions that:
  - o impose significance thresholds below which the credit protection is deemed inactive, despite the occurrence of a credit event;
  - o allow transfer of the protection, following impairment of the credit quality of the underlying exposures;
  - o require the transferor bank to improve exposures to the securitisation;
  - o raise the cost of credit protection borne by the bank or raise the yield payable to holders of exposures to the securitisation, upon impairment of the credit quality of the underlying aggregate;
- c) an opinion by qualified legal consultants confirms the enforceability of the credit protection in all relevant jurisdictions.

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

Although the prudential regulations indicated above present clear analogies with the IAS/IFRS measurement criteria, the accounting treatment of securitisations is not material for the purposes of recognition for prudential purposes. Therefore, intermediaries may see situations where the accounting figures and the reports for prudential purposes are different. In the case of the Intesa Sanpaolo Group, this possibility is not significant, as there is only one transaction – Intesa Sec 3 – where the financial statement criteria and prudential reporting criteria are different (see Quantitative Disclosure below). In fact, Intesa Sec 3 is:

- not de-recognised for financial statement purposes, due to the credit enhancement granted in the form of subordinated coverage of the first loss, based on which the Group – in accordance with the accounting principles – has essentially maintained the risks and benefits of the portfolio transferred;
- de-recognised for prudential supervision purposes, following – based on the prudential rules in effect upon creation of the securitisation – a significant transfer of risk, as the prudential requirement of exposures to the securitisation in the portfolio (“post-securitisation” requirement) was lower – upon structuring of the transaction – than the amount calculated on the securitised assets (“ante-securitisation” requirement) (the “static test”).

## Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The figures in the tables represent the exposures shown in the financial statements, and include both the positions relating to the banking book and the regulatory trading book.

### Securitisations: amount of the securitisation positions originated and third party

	On-balance sheet exposures						Guarantees given					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
<b>A. Originated underlying assets</b>	-	-	86	86	85	81	-	-	-	-	-	-
a) Non-performing	-	-	-	-	13	13	-	-	-	-	-	-
b) Other	-	-	86	86	72	68	-	-	-	-	-	-
<b>B. Third party underlying assets (*)</b>	4,507	4,497	360	340	28	27	-	-	-	-	-	-
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	4,507	4,497	360	340	28	27	-	-	-	-	-	-
<b>TOTAL 31.12.2012</b>	<b>4,507</b>	<b>4,497</b>	<b>446</b>	<b>426</b>	<b>113</b>	<b>108</b>	-	-	-	-	-	-
<b>TOTAL 31.12.2011</b>	<b>5,011</b>	<b>5,004</b>	<b>586</b>	<b>581</b>	<b>108</b>	<b>104</b>	<b>15</b>	<b>15</b>	-	-	-	-

	Credit lines						Total					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
<b>A. Originated underlying assets</b>	833	833	-	-	-	-	833	833	86	86	85	81
a) Non-performing	-	-	-	-	-	-	-	-	-	-	13	13
b) Other	833	833	(**)	-	-	-	833	833	86	86	72	68
<b>B. Third party underlying assets (*)</b>	1,269	1,269	-	-	-	-	5,776	5,766	360	340	28	27
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	1,269	1,269	-	-	-	-	5,776	5,766	360	340	28	27
<b>TOTAL 31.12.2012</b>	<b>2,102</b>	<b>2,102</b>	-	-	-	-	<b>6,609</b>	<b>6,599</b>	<b>446</b>	<b>426</b>	<b>113</b>	<b>108</b>
<b>TOTAL 31.12.2011</b>	<b>2,659</b>	<b>2,659</b>	-	-	-	-	<b>7,685</b>	<b>7,678</b>	<b>586</b>	<b>581</b>	<b>108</b>	<b>104</b>

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

(\*\*) Amounts referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

With the exception of the Da Vinci securitisation (synthetic securitisation), the Group's originated securitisations include only traditional transactions and ABCP (Asset Backed Commercial Paper) programmes.

### Total amount of assets awaiting securitisation

At the end of December 2013, the Group had no specific significant securitisation transactions pending in the short term. Furthermore, for the sake of completeness, note that in 2011, Mediocredito Italiano entered into two agreements with the Ministry of Economic Development, which provide subsidies in the form of cash collateral provided as pledge to the bank for two portfolios of credit exposures to be disbursed to SMEs for purposes envisaged by the Italian National Innovation Fund (FNI).

For each of the agreements stipulated, the loan portfolio will be divided into two separate tranches: a junior tranche, exposed to initial losses, and a senior tranche, with a rating equivalent to A-. The tranching of the portfolio is to be determined by the bank by applying the Supervisory Approach Formula. As a guarantee for the two potential portfolios, the Bank has received a total cash collateral amount of 16.4 million euro, into a interest-bearing deposit account, provisionally calculated based on the estimate of available portfolios.

During 2012 and 2013 the construction was started of portfolios regarding the first and second agreement, which will be developed during 2014.

Given the ongoing difficult economic conditions and the specific investment objectives indicated by the aforementioned agreements, a limited number of transactions were carried out in 2012 and 2013, for a value of 10.8 million euro at year end which, considering their limited representativeness with respect to the overall portfolio, were prudentially considered as senior unsecured loans.

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

	(millions of euro)					
	On-balance sheet exposures <sup>(*)</sup>			Off-balance sheet exposures		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,099	131	9	-	-	-
Financial assets measured at fair value	1	-	-	-	-	-
Financial assets available for sale	8	1	10	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans <sup>(**)</sup>	3,389	208	26	1,269	-	-
<b>Total 31.12.2013</b>	<b>4,497</b>	<b>340</b>	<b>45</b>	<b>1,269</b>	-	-
<b>Total 31.12.2012</b>	<b>4,998</b>	<b>429</b>	<b>47</b>	<b>1,573</b>	-	-

(\*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 149 million euro. As at 31 December 2013, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 833 million euro.

(\*\*) This caption includes off-balance sheet exposures referred to "Guarantees given" and "Credit lines".

## Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

	(millions of euro)					
	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
<b>A. Fully derecognised</b>	-	-	-	-	<b>18</b>	<b>-5</b>
A.1 Intesa Sec (*)	-	-	-	-	-	-
- performing mortgages	-	-	-	-	-	-
A.2 Intesa Sec Npl	-	-	-	-	13	-5
- mutui in sofferenza	-	-	-	-	-	-
A.3 Cr Firenze Mutui	-	-	-	-	5	-
- mutui performing	-	-	-	-	-	-
<b>B. Partly derecognised</b>	-	-	-	-	-	-
<b>C. Not derecognised</b>	-	-	<b>86</b>	<b>1</b>	<b>63</b>	-
C.1 Intesa Sec 3	-	-	56	-	53	-
- performing residential mortgages	-	-	-	-	-	-
C.2 Da Vinci	-	-	1	1	-	-
- loans to the aircraft sector	-	-	-	-	-	-
C.3 Facility Services Securitisation	-	-	1	-	-	-
- trade receivables	-	-	-	-	-	-
C.4 Electricity Securitisation	-	-	24	-	8	-
- trade receivables	-	-	-	-	-	-
C.5 Gas Securitisation	-	-	4	-	2	-
- trade receivables	-	-	-	-	-	-
<b>TOTAL 31.12.2013</b>	-	-	<b>86</b>	<b>1</b>	<b>81</b>	<b>-5</b>
<b>TOTAL 31.12.2012</b>	<b>7</b>	<b>2</b>	<b>152</b>	<b>-1</b>	<b>79</b>	<b>-8</b>

(\*) Intesa Sec presents amounts for less than one million.

Intesa Sec 3 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes.

**Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure**

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes	-	-	-	-	-	-	833	-	-	-	-	-
C.1 Duomo Funding Plc. - trade receivables	-	-	-	-	-	-	833	-	-	-	-	-
<b>TOTAL 31.12.2013</b>	-	-	-	-	-	-	<b>833</b>	-	-	-	-	-
<b>TOTAL 31.12.2012</b>	-	-	-	-	-	-	<b>1,101</b>	-	-	-	-	-

## Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

	On-balance sheet exposures								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing
A.1 Romulus (*)									
- Asset backed commercial papers									
of which: Banking book	2,118	-	-	-	-	-	-	-	-
A.2 Fondo Immobili Pubblici									
- financial credits deriving from rental of properties to the public sector									
of which: Banking book	177	-	-	-	-	-	-	-	-
of which: Trading book	65	7	-	-	-	-	-	-	-
A.3 Posillipo Finance									
- loans to the Italian health system									
of which: Banking book	157	-	-	-	-	-	-	-	-
A.4 TCWGP									
- project finance loans									
of which: Banking book	147	-	-	-	-	-	-	-	-
A.5 VOBA FINANCE Srl									
- residential mortgages									
of which: Banking book	48	-	-	-	-	-	-	-	-
of which: Trading book	79	-3	-	-	-	-	-	-	-
A.6 Berica Residential MBS S.r.l.									
- residential mortgages									
of which: Banking book	47	-	-	7	-	-	-	-	-
of which: Trading book	72	3	-	-	-	-	-	-	-
A.7 Sunrise S.r.l.									
- consumer credit									
of which: Banking book	2	-	-	5	-	-	-	-	-
of which: Trading book	96	1	-	19	1	-	-	-	-
A.8 Cordusio RMBS Securitisation									
- residential mortgages									
of which: Banking book	32	-	-	19	-	-	-	-	-
of which: Trading book	22	-	-	13	1	-	-	-	-
A.9 D'Annunzio									
- loans to the Italian health system									
of which: Banking book	82	-	-	-	-	-	-	-	-
A.10 CLARIS Finance S.r.l.									
- Residential mortgages									
of which: Banking book	17	-	-	-	-	-	-	-	-
of which: Trading book	64	-	-	-	-	-	-	-	-
A.11 BESME									
- financing for SMEs									
of which: Trading book	72	-	-	-	-	-	-	-	-
A.12 AYT CEDULAS CAJA									
- residential mortgages									
of which: Trading book	55	-	-	-	-	-	-	-	-
A.13 Siena Mortgage									
- residential mortgages									
of which: Banking book	34	-	-	-	-	-	-	-	-
of which: Trading book	21	-	-	-	-	-	-	-	-
A.14 Duchess (**)									
- CLOS									
of which: Trading book	54	-	-	-	-	-	-	-	-
A.15 VELA HOME Srl									
- residential mortgages									
of which: Banking book	25	-	-	4	-	-	-	-	-
of which: Trading book	20	1	-	1	-	-	-	-	-
A.16 Mecenate									
- residential mortgages									
of which: Trading book	48	-	-	-	-	-	-	-	-
A.17 Residual portfolio divided into 314 securities (***)	943	-4	-	272	2	-	27	-1	-
of which: Banking book	512	-2	-	174	-	-	18	-1	-
of which: Trading book	431	-2	-	98	2	-	9	-	-
<b>TOTAL 31.12.2013</b>	<b>4,497</b>	<b>5</b>	<b>-</b>	<b>340</b>	<b>4</b>	<b>-</b>	<b>27</b>	<b>-1</b>	<b>-</b>
<b>of which: Banking book</b>	<b>3,398</b>	<b>-2</b>	<b>-</b>	<b>209</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>-1</b>	<b>-</b>
<b>of which: Trading book</b>	<b>1,099</b>	<b>7</b>	<b>-</b>	<b>131</b>	<b>4</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>-</b>
<b>TOTAL 31.12.2012</b>	<b>4,997</b>	<b>45</b>	<b>-</b>	<b>429</b>	<b>-2</b>	<b>-</b>	<b>25</b>	<b>-1</b>	<b>-</b>
<b>of which: Banking book</b>	<b>3,747</b>	<b>-8</b>	<b>-</b>	<b>298</b>	<b>-7</b>	<b>-</b>	<b>23</b>	<b>-1</b>	<b>-</b>
<b>of which: Trading book</b>	<b>1,250</b>	<b>53</b>	<b>-</b>	<b>131</b>	<b>5</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>-</b>

(\*) Romulus securities held in the Banking Group's portfolio are conventionally recognised under third party securitisations, as the ABCPs are issued by this vehicle partly for assets of the Banking Group and partly for risks originating from other economic operators, without distinction.

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

(\*\*\*) Please note that 62 million euro included among "Residual portfolio divided into 314 securities" refers to single tranche securitisations, classified as Senior securities and not as exposures to securitisations for regulatory purposes.

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

### Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure: composition of the residual banking book as at 31 December 2013

(millions of euro)

Residual portfolio divided by type of underlying asset - banking book	On-balance sheet exposures 31.12.2013								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing
Mutui residenziali ipotecari	160	-2	-	98	-	-	1	-1	-
CDO cash	108	-	-	1	-	-	-	-	-
Mutui commerciali ipotecari	38	-	-	62	-	-	-	-	-
Crediti di fornitori verso il settore sanitario pubblico Italia	71	-	-	-	-	-	-	-	-
Crediti di società appartenenti al settore elettrico nei confronti di enti del settore pubblico	40	-	-	-	-	-	-	-	-
Altri ABS (CLO-CMO-CFO)	36	-	-	-	-	-	-	-	-
Crediti verso organismi pubblici esteri	34	-	-	-	-	-	-	-	-
Finanziamenti piccole-medie imprese	12	-	-	9	-	-	-	-	-
Finanziamenti Project Finance	-	-	-	-	-	-	17	-	-
WL Collateral CMO	8	-	-	-	-	-	-	-	-
Crediti derivanti da operazioni di leasing	2	-	-	3	-	-	-	-	-
Patrimonio Immobiliare Pubblico	3	-	-	1	-	-	-	-	-
<b>TOTAL</b>	<b>512</b>	<b>-2</b>	<b>-</b>	<b>174</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>-1</b>	<b>-</b>

### Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure: composition of the residual trading book as at 31 December 2013

(millions of euro)

Residual portfolio divided by type of underlying asset - trading book	On-balance sheet exposures - 31.12.2013								
	Senior			Mezzanine			Junior		
	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing	Book value	Adjust./ recoveries	of which: non performing
Residential mortgages	203	-1	-	15	-	-	4	-	-
Loans deriving from leasing contracts	62	4	-	49	1	-	-	-	-
Financing for SMEs	59	-	-	5	-	-	-	-	-
Other ABS (CLO-CMO-CFO) (*)	53	-1	-	-	-	-	-	-	-
Trade receivables	9	-	-	15	-	-	5	-	-
Consumer credit	28	-4	-	-	-	-	-	-	-
Public property	8	-	-	-	-	-	-	-	-
Car loans	1	-	-	7	1	-	-	-	-
Other assets	8	-	-	7	-	-	-	-	-
<b>TOTAL</b>	<b>431</b>	<b>-2</b>	<b>-</b>	<b>98</b>	<b>2</b>	<b>-</b>	<b>9</b>	<b>-</b>	<b>-</b>

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

### Securitisations: breakdown of off-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(millions of euro)

Type of securitised asset/Exposure (*)	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A.1 Duomo - ABCP Conduit transactions	-	-	-	-	-	-	1,269	-	-	-	-	-
<b>Total 31.12.2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,269</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total 31.12.2012</b>	<b>15</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,558</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2013 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 86 million euro.

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

(millions of euro)

Risk weight bands	31.12.2013		31.12.2012	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	-	13	-	5
Risk weight 35% (*)	261	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	68	-	148
Risk weight 100%	1	358	7	416
Risk weight 150% (*)	112	-	46	-
Risk weight 225%	-	126	-	-
Risk weight 350%	-	675	-	742
Risk weight 650%	-	152	-	292
Risk weight 1250% - with rating	-	707	-	1,990
Risk weight 1250% - without rating	57	275	377	490
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	1,103	-	754
Deducted from regulatory capital	-	-	-	-
<b>Total</b>	<b>431</b>	<b>3,477</b>	<b>430</b>	<b>4,837</b>

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

## Securitisations: weighted amounts of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach)

(millions of euro)

Risk weight bands	31.12.2013		31.12.2012	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 7 - 10%	-	37	-	36
Risk weight 12 - 18%	-	75	-	64
Risk weight 20 - 35%	12	48	27	68
Risk weight 40 - 75%	-	104	-	99
Risk weight 100%	4	37	4	59
Risk weight 150%	-	78	-	60
Risk weight 200%	-	72	-	91
Risk weight 225%	-	-	-	-
Risk weight 250%	-	42	-	79
Risk weight 300%	-	7	-	211
Risk weight 350%	-	-	-	-
Risk weight 425%	-	155	-	220
Risk weight 500%	-	71	-	66
Risk weight 650%	-	108	-	218
Risk weight 750%	-	348	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	1,691	-	1,783
Risk weight 1250% - without rating	-	88	-	-
Deducted from regulatory capital	-	-	-	-
<b>Total</b>	<b>16</b>	<b>2,961</b>	<b>31</b>	<b>3,054</b>

The tables above detail the exposures to securitisations by weight band. Details of the exposures included in the banking book and the regulatory trading book are shown in the following tables, including information on the re-securitisations and the type of exposure underlying transactions with weightings of 1250%.

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

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

(millions of euro)

Risk weight bands	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
<b>Weighted amounts (RWA)</b>				
Risk weight 20%	-	-	-	-
Risk weight 35% (*)	261	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	47	-
Risk weight 100%	1	-	233	16
Risk weight 150% (*)	112	-	-	-
Risk weight 225%	-	-	126	126
Risk weight 350%	-	-	605	-
Risk weight 650%	-	-	152	152
Risk weight 1250% - with rating	-	-	370	291
Risk weight 1250% - without rating	57	-	275	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	1,103	-
Deducted from regulatory capital	-	-	-	-
<b>Total RWA Banking book as at 31.12.2013</b>	<b>431</b>	<b>-</b>	<b>2,911</b>	<b>585</b>
<b>Total RWA Banking book as at 31.12.2012</b>	<b>430</b>	<b>-</b>	<b>3,430</b>	<b>1,449</b>
<b>Capital requirements</b>				
Risk weight 20%	-	-	-	-
Risk weight 35% (*)	21	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	4	-
Risk weight 100%	-	-	19	1
Risk weight 150% (*)	9	-	-	-
Risk weight 225%	-	-	10	10
Risk weight 350%	-	-	48	-
Risk weight 650%	-	-	12	12
Risk weight 1250% - with rating	-	-	30	23
Risk weight 1250% - without rating	5	-	22	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	88	-
Deducted from regulatory capital	-	-	-	-
<b>Total Requirements Banking book as at 31.12.2013</b>	<b>35</b>	<b>-</b>	<b>233</b>	<b>46</b>
<b>Total Requirements Banking book as at 31.12.2012</b>	<b>35</b>	<b>-</b>	<b>274</b>	<b>115</b>

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



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

(millions of euro)

Risk weight bands	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
<b>Weighted amounts (RWA)</b>				
Risk weight 20%	-	-	13	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	21	-
Risk weight 100%	-	-	125	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	70	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	337	-
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
<b>Total RWA Trading book as at 31.12.2013</b>	-	-	<b>566</b>	-
<b>Total RWA Trading book as at 31.12.2012</b>	-	-	<b>1,407</b>	<b>672</b>
<b>Capital requirements</b>				
Risk weight 20%	-	-	1	-
Risk weight 35% (*)	-	-	-	-
Risk weight 40%	-	-	-	-
Risk weight 50%	-	-	2	-
Risk weight 100%	-	-	10	-
Risk weight 150% (*)	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 350%	-	-	6	-
Risk weight 650%	-	-	-	-
Risk weight 1250% - with rating	-	-	27	-
Risk weight 1250% - without rating	-	-	-	-
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
<b>Total Requirements Trading book as at 31.12.2013</b>	-	-	<b>46</b>	-
<b>Total Requirements Trading book as at 31.12.2012</b>	-	-	<b>113</b>	<b>54</b>

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

### Banking Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach)

Risk weight bands	(millions of euro)			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
<b>Weighted amounts (RWA)</b>				
Risk weight 7 - 10%	-	-	16	-
Risk weight 12 - 18%	-	-	29	-
Risk weight 20 - 35%	8	-	24	2
Risk weight 40 - 75%	-	-	53	6
Risk weight 100%	4	-	26	1
Risk weight 150%	-	-	30	30
Risk weight 200%	-	-	67	67
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	41	-
Risk weight 300%	-	-	7	7
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	154	-
Risk weight 500%	-	-	43	43
Risk weight 650%	-	-	53	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	1,421	6
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
<b>Total RWA Banking book 31.12.2013</b>	<b>12</b>	<b>-</b>	<b>1,964</b>	<b>162</b>
<b>Total RWA Banking book 31.12.2012</b>	<b>14</b>	<b>-</b>	<b>2,371</b>	<b>313</b>
<b>Capital requirements</b>				
Risk weight 7 - 10%	-	-	1	-
Risk weight 12 - 18%	-	-	2	-
Risk weight 20 - 35%	1	-	2	-
Risk weight 40 - 75%	-	-	4	-
Risk weight 100%	-	-	2	-
Risk weight 150%	-	-	2	2
Risk weight 200%	-	-	5	5
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	3	-
Risk weight 300%	-	-	1	1
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	12	-
Risk weight 500%	-	-	3	3
Risk weight 650%	-	-	4	-
Risk weight 750%	-	-	-	-
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	115	-
Risk weight 1250% - without rating	-	-	-	-
Deducted from regulatory capital	-	-	-	-
<b>Total Requirements Banking book as at 31.12.2013</b>	<b>1</b>	<b>-</b>	<b>156</b>	<b>11</b>
<b>Total Requirements Banking book as at 31.12.2012</b>	<b>1</b>	<b>-</b>	<b>188</b>	<b>25</b>

### Trading Book securitisation transactions: weighted amounts and requirements of securitisation positions based on risk weight bands - IRB approach (Rating Based Approach)

Risk weight bands	(millions of euro)			
	Originated securitisations	of which: Re-securitisations	Third-party securitisations	of which: Re-securitisations
<b>Weighted amounts (RWA)</b>				
Risk weight 7 - 10%	-	-	21	-
Risk weight 12 - 18%	-	-	46	-
Risk weight 20 - 35%	4	-	24	-
Risk weight 40 - 75%	-	-	51	-
Risk weight 100%	-	-	11	-
Risk weight 150%	-	-	48	48
Risk weight 200%	-	-	5	5
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	1	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	1	-
Risk weight 500%	-	-	28	28
Risk weight 650%	-	-	55	-
Risk weight 750%	-	-	348	348
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	270	104
Risk weight 1250% - without rating	-	-	88	-
Deducted from regulatory capital	-	-	-	-
<b>Total RWA Trading book 31.12.2013</b>	<b>4</b>	<b>-</b>	<b>997</b>	<b>533</b>
<b>Total RWA Trading book 31.12.2012</b>	<b>17</b>	<b>-</b>	<b>683</b>	<b>517</b>
<b>Capital requirements</b>				
Risk weight 7 - 10%	-	-	2	-
Risk weight 12 - 18%	-	-	4	-
Risk weight 20 - 35%	-	-	2	-
Risk weight 40 - 75%	-	-	4	-
Risk weight 100%	-	-	1	-
Risk weight 150%	-	-	4	4
Risk weight 200%	-	-	-	-
Risk weight 225%	-	-	-	-
Risk weight 250%	-	-	-	-
Risk weight 300%	-	-	-	-
Risk weight 350%	-	-	-	-
Risk weight 425%	-	-	-	-
Risk weight 500%	-	-	2	2
Risk weight 650%	-	-	4	-
Risk weight 750%	-	-	28	28
Risk weight 850%	-	-	-	-
Risk weight 1250% - with rating	-	-	22	8
Risk weight 1250% - without rating	-	-	7	-
Deducted from regulatory capital	-	-	-	-
<b>Total Requirements Trading book as at 31.12.2013</b>	<b>-</b>	<b>-</b>	<b>80</b>	<b>42</b>
<b>Total Requirements Trading book as at 31.12.2012</b>	<b>1</b>	<b>-</b>	<b>55</b>	<b>42</b>

### Exposures to own and third party re-securitisations – exposures covered by credit risk mitigation techniques

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

**Breakdown of exposures for positions weighted at 1250% - Standardised and IRB Approaches**

(millions of euro)

	Banking book		Trading book	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
CDO cash	-	296	-	83
RMBSs	57	746	-	38
CMBSs	-	363	-	88
Other ABS (CLO/CMO/CFO)	-	221	-	-
Credit derivatives	-	-	-	313
Project Finance loans	-	216	-	-
Financing for SMEs	-	152	-	29
Loans deriving from leasing contracts	-	-	-	123
WL Collateral CMO	-	72	-	-
Other assets	-	-	-	21
<b>Total weighted exposure at 1250% 31.12.2013</b>	<b>57</b>	<b>2,066</b>	<b>-</b>	<b>695</b>
<b>Total weighted exposure at 1250% 31.12.2012</b>	<b>377</b>	<b>2,976</b>	<b>-</b>	<b>1,287</b>

**Securitisations carried out during the period**

An initial transaction of 50 million euro involving securitisation of commercial loans in the electrical sector (Light 2) was completed at the beginning of 2013. This was followed by an additional transaction of 35 million euro in April, involving loans in the gas sector (Gas 2). Furthermore, the securitisation of commercial loans in the Food & Beverages sector was expanded, bringing the nominal value of securitised loans from 245 million euro to 355 million euro. The vehicles used for the three transactions were Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.

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

### Qualitative and quantitative disclosure

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

Risk factors	
Interest rates	Spreads in credit default swaps (CDS)
Equity and market indexes	Spreads in bond issues
Investment funds	Correlation instruments
Foreign exchange rates	Dividend derivatives
Implied volatilities	Asset Backed Securities (ABS)
	Commodities

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 1% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

The table below shows the items of the consolidated Balance Sheet that are subject to market risks, showing the positions for which VaR is the main risk measurement metrics and those for which the risks are monitored with other metrics. The latter mostly include the sensitivity analysis to the different risk factors (interest rate, credit spread, etc.).

(millions of euro)

	Book value (supervisory scope)	Main risk measurement metrics		
		VaR	Other	Risk factors measured using metrics included under Other
<b>Assets subject to market risk</b>	<b>499,311</b>	<b>102,383</b>	<b>396,928</b>	
Financial assets held for trading	48,159	47,190	969	Interest rate risk, credit spread, equity
Financial assets designated at fair value through profit and loss	1,192	842	350	Interest rate risk, credit spread
Financial assets available for sale	61,023	54,333	6,690	Interest rate risk, rischio equity
Financial assets held to maturity	2,051	-	2,051	Interest rate risk
Due from banks	26,231	-	26,231	Interest rate risk
Loans to customers	345,992	-	345,992	Interest rate risk
Hedging derivatives	7,534	18	7,516	Interest rate risk
Investments in associates and companies subject to joint control	7,129	-	7,129	Equity risk
<b>Liabilities subject to market risk</b>	<b>474,549</b>	<b>39,812</b>	<b>434,737</b>	
Due to banks	52,230	-	52,230	Interest rate risk
Due to customers	233,465	-	233,465	Interest rate risk
Securities issued	142,155	-	142,155	Interest rate risk
Financial liabilities held for trading	39,105	38,726	379	Interest rate risk
Financial liabilities designated at fair value through profit and loss	10	10	-	
Hedging derivatives	7,584	1,076	6,508	Interest rate risk

### Internal model validation

For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.

In particular, the validated risk profiles for market risks are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The Supervisory Authority authorised the Group to extend the internal model to specific risk on debt securities from the third quarter of 2012.

### Breakdown of capital requirements by Calculation approach

Information	Approach (millions of euro)		
	Standardised approach	Internal models	Concentration risk
<b>Assets included in the regulatory trading book</b>	<b>401</b>	<b>888</b>	<b>21</b>
Position risk	401	888	-
Concentration risk	-	-	21
<b>Other assets</b>	<b>107</b>	<b>20</b>	<b>-</b>
Foreign exchange risk	107	-	-
Settlement risk for DVP transactions (Delivery Versus Payment)	-	20	-
Commodity risk	-	20	-
<b>Total capital requirement for market risk as at 31.12.2013</b>	<b>508</b>	<b>908</b>	<b>21</b>
<b>Total capital requirement for market risk as at 31.12.2012</b>	<b>504</b>	<b>954</b>	<b>16</b>

Under position risk, the requirements relating to exposures to securitisations in the trading book are presented separately, amounting to 126 million euro, including 25 million euro referring to Credit Default Swaps with underlying exposures to securitisations included in the correlation portfolio.

### Stressed VaR

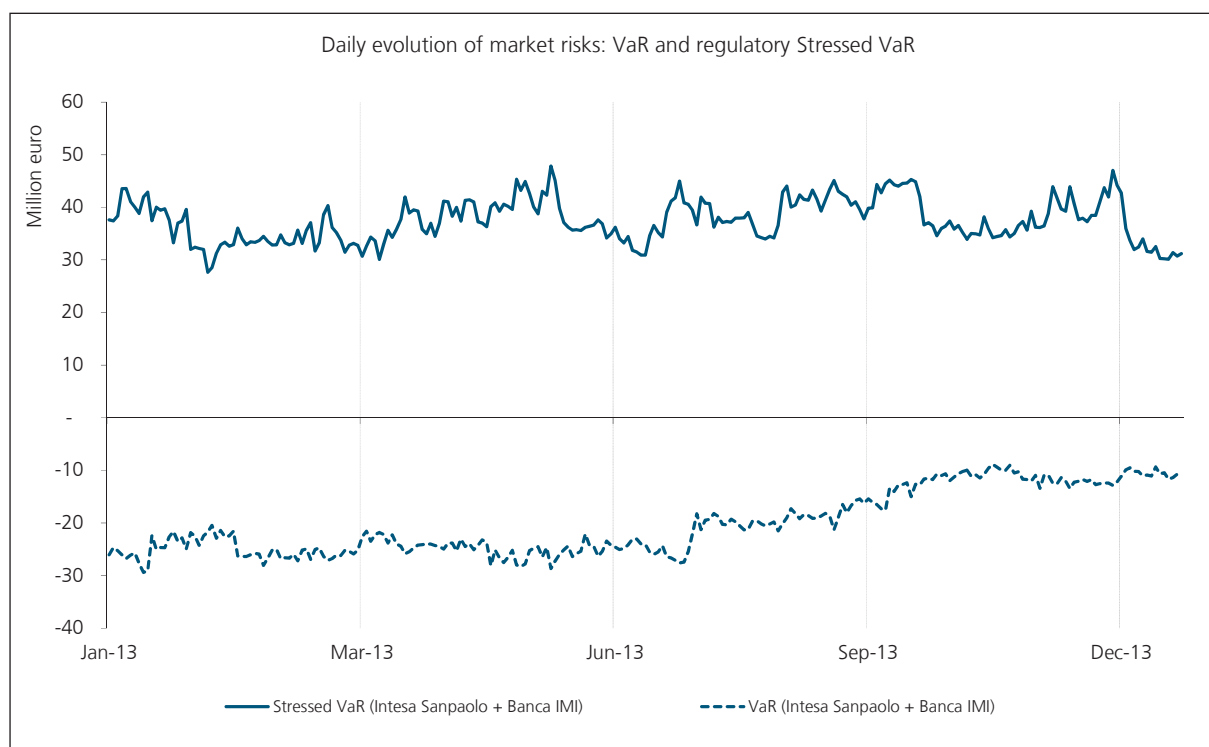
The requirement for stressed VaR is included when determining capital absorption effective 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.

As at the date of preparation of the document, the period relevant to the measurement of stressed VaR is considered set as 1 January to 30 December 2011 for both Banca IMI and Intesa Sanpaolo.

The graph below shows the trend of the measures.



## VaR

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

The section “Quantitative information” presents the estimates and development of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

## Incremental Risk Charge (IRC)

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

## Stress tests

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

## Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters including a one basis point increase in interest rates.

### Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

### Daily VaR evolution

During the fourth quarter of 2013, the market risks originated by Intesa Sanpaolo and Banca IMI were essentially stable compared to the previous periods: the average daily VaR for the fourth quarter of 2013 was 49.2 million euro, up by 4% on the third quarter.

With regard to the whole of 2013, the Group's average risk profile (57.9 million euro) decreased compared to the average values in 2012 (82.1 million euro).

### Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between the 4<sup>th</sup> and 3<sup>rd</sup> quarter of 2013 <sup>(a)</sup>

	(millions of euro)					
	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	10,5	8,9	13,8	8,2	11,7	14,1
Banca IMI	38,6	34,6	42,5	39,3	50,8	59,0
<b>Total</b>	<b>49,2</b>	<b>44,7</b>	<b>54,4</b>	<b>47,6</b>	<b>62,5</b>	<b>73,2</b>

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

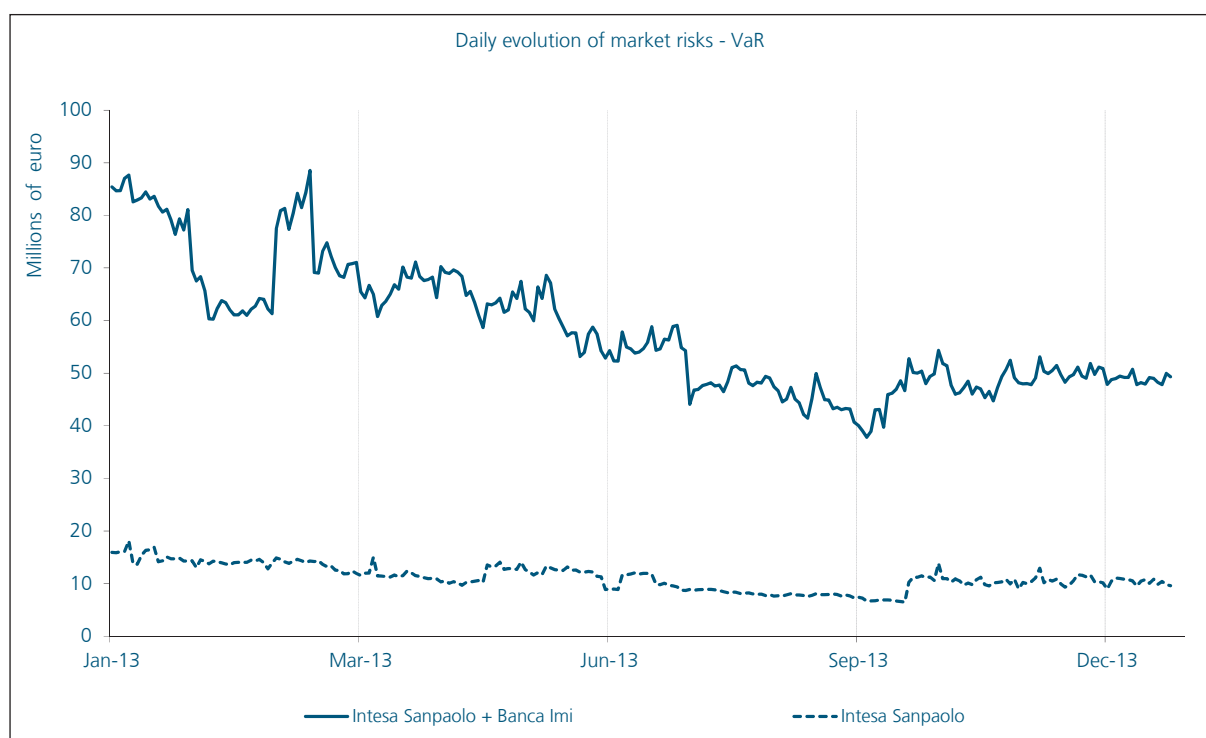
### Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between 2012 - 2013 <sup>(a)</sup>

	2013				2012		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	11,1	6,4	18,1	9,6	21,3	15,5	27,5
Banca IMI	46,9	31,1	74,2	39,6	60,8	41,7	92,1
<b>Total</b>	<b>57,9</b>	<b>37,8</b>	<b>88,5</b>	<b>49,3</b>	<b>82,1</b>	<b>63,5</b>	<b>115,4</b>

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

The trend in the Group's VaR, shown in the following chart, was mainly determined by Banca IMI; VaR peaked at the start of the year in particular, following the post-elections scenario, when tensions were recorded on the Italian government spread market. The risk measures stabilised during the year. This effect is due to the departure from the calculation of the historical simulation, used to calculate VaR, of the 2012 volatility scenarios pertaining to the Italy risk.





For Intesa Sanpaolo, the breakdown of the risk profile in the fourth quarter of 2013 with regard to the various factors shows the prevalence of the hedge fund risk, which represented 33% of total VaR. Credit spread risk, which includes the risk associated with sovereign government bonds, was the most significant component for Banca IMI, representing 63% of the total.

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

4th quarter 2013	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	20%	33%	12%	25%	9%	1%	0%
Banca IMI	10%	0%	12%	63%	1%	10%	4%
<b>Total</b>	<b>13%</b>	<b>9%</b>	<b>12%</b>	<b>53%</b>	<b>3%</b>	<b>8%</b>	<b>2%</b>

<sup>(a)</sup> Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the fourth quarter of 2013, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

With regard to the hedge fund portfolio, the table below shows the exposures broken down by type of strategy adopted.

#### Contribution of strategies to portfolio breakdown<sup>(a)</sup>

	31.12.2013	31.12.2012
- Credit	47.1%	68.4%
- Catalyst Driven	19.0%	0.0%
- Equity hedged	16.0%	18.2%
- Directional trading	13.7%	13.2%
- Equity Long Only	4.0%	0.0%
- Multi-strategy	0.2%	0.2%
<b>Total hedge funds</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(a)</sup> The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In 2013 the hedge fund portfolio maintained an asset allocation with a focus on strategies relating to distressed credit (47% of the total in terms of portfolio value); in addition the new "Catalist Driven" strategy was introduced, with a weight of 19% on the total portfolio amount. Risk control with regard to

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

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	-20	24	-122	201	124	-124	1	-5	20	-1
<i>of which SCP</i>					5	-5				

In particular:

- on stock market positions, a 5% decrease in stock prices with a resulting 10% increase in volatility would have led to a loss of approximately 20 million euro;
- for exposures to interest rates, a rise of the curves of +70 basis points would have had a negative impact of a 122 million euro loss, while potential gains would be recorded in a scenario with rates close to zero;
- for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would have led to a 124 million euro loss, of which about 5 million euro attributable to structured credit products (SCP);
- on foreign exchange exposures, a 10% increase of the euro would have resulted in a loss of approximately 5 million euro;
- lastly, for commodity exposures, gains would be recorded in case of a 50% decrease in prices; conversely, in case of an increase, the potential losses would be equal to -1 million euro.

### Backtesting

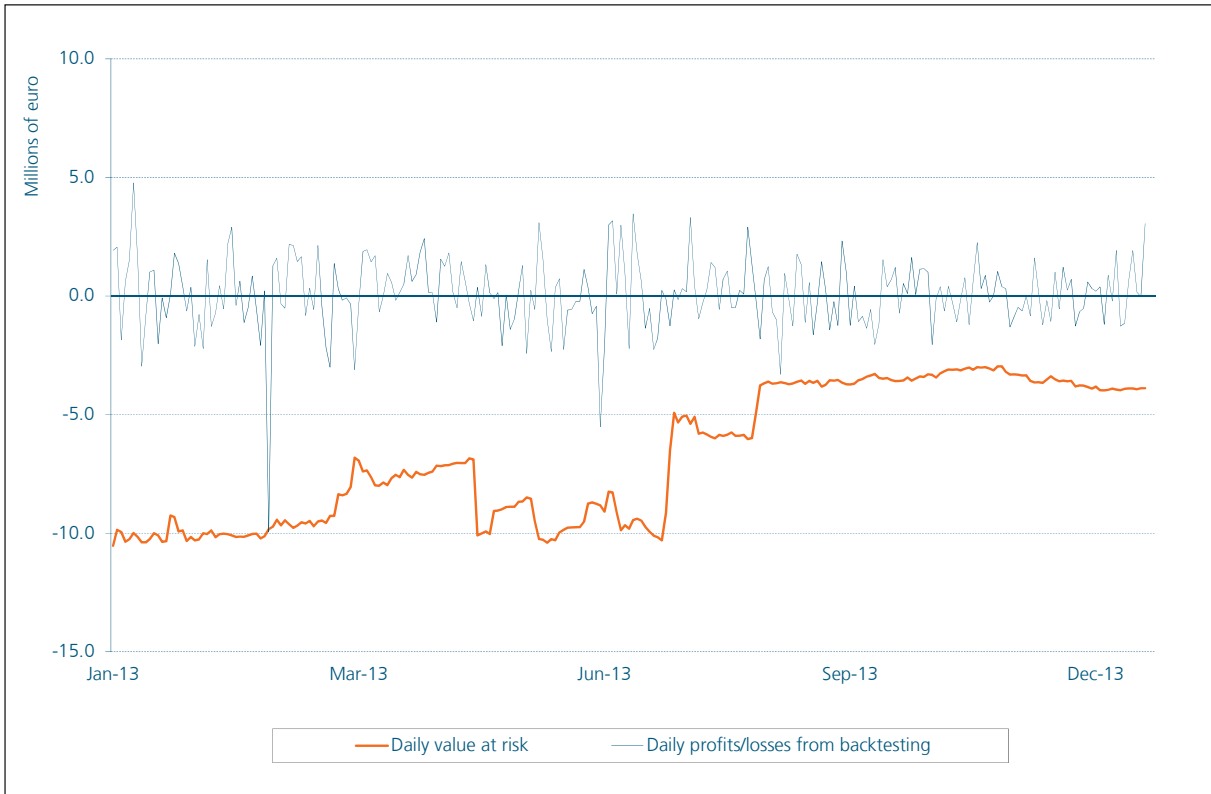
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

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

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

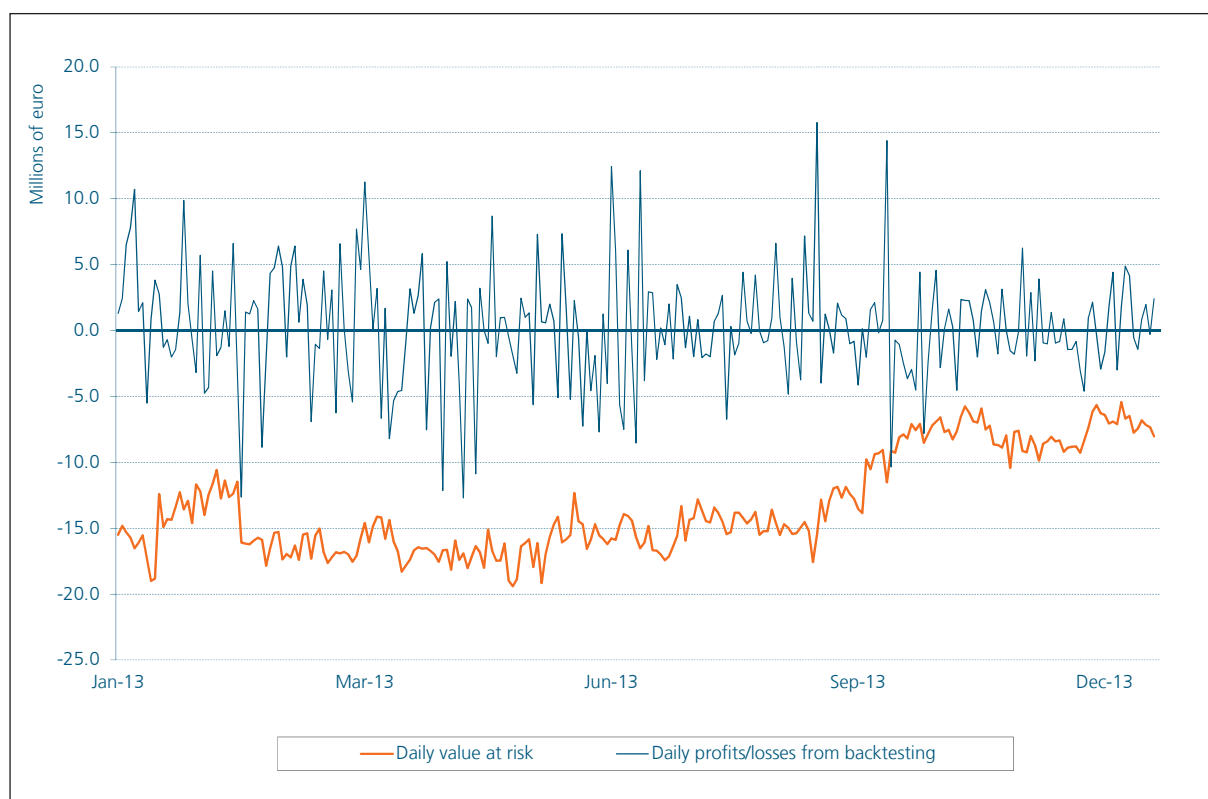
**Backtesting in Intesa Sanpaolo**

Intesa Sanpaolo’s regulatory backtesting shows only one exception occurred in the days that immediately followed the political elections of February.



### Backtesting in Banca IMI

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



### Issuer risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it is monitored through a system of operating limits based on both rating classes and concentration indexes.

### Breakdown of exposures by type of issuer for Intesa Sanpaolo and Banca IMI <sup>(a)</sup>

	Total	of which				
		Corporate	Financial	Emerging	Covered	Securitis.
Intesa Sanpaolo	38%	17%	1%	5%	77%	0%
Banca IMI	62%	3%	27%	1%	19%	50%
<b>Total</b>	<b>100%</b>	<b>8%</b>	<b>18%</b>	<b>3%</b>	<b>39%</b>	<b>32%</b>

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to issuer risk exposures. The other columns indicate percentage breakdown by type of issuer. Period-end percentage on area total, excluding Government bonds, own bonds and including CDS.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities of the covered bond segment for Intesa Sanpaolo and the securitisation segment for Banca IMI.

### Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction described below.

The application of such principles led to the definition of a structure of limits in which the distinction

between first level and second level limits is particularly important:

- first level limits: are approved by the Management Board, after the opinion of the Group Financial Risks Committee. Limit variations are proposed by the Risk Management Department, after the opinion of the Heads of Operating Departments. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risks Committee;
- second level limits: have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

In the second half of 2013 the Management Board resolved to decrease the VaR limit for the Group from 130 to 110 million. This decision was made to account for the changed volatility regime on the Italian government risk and in light of the average uses of the VaR for the period.

With respect to the component sub-allocated to the organisational units, it may be noted that the use of the VaR limit (held for trading component) for Intesa Sanpaolo averaged 43% in 2013, with a maximum use of 64%. For Banca IMI, the average VaR limit came to 51%, with a maximum use of 78%. It should be specified that for Banca IMI the VaR limit also includes the AFS component, inasmuch as these assets are managed in close synergy with HFT assets.

The use of the IRC limits at year end amounted to 54% for Intesa Sanpaolo (limit of 220 million euro) and 57% for Banca IMI (limit of 330 million euro).

The use of VaR operating limits on the AFS component (excluding Banca IMI) at year end was 33%. The limit for the AFS component was revised in the third quarter of 2011, decreasing it from 200 million euro to 150 million euro. This decision was made to account for the changed volatility regime on the Italian government risk and in light of the average uses of the VaR for the period.

### **Description of the level of conformity with the rules governing the systems and controls aimed at ensuring prudent and reliable valuations of the positions included in the regulatory trading book**

#### ***The Fair Value Policy***

The Intesa Sanpaolo Group's Fair Value Policy governs the measurement of financial instruments after initial recognition with reference to the Group's portfolios measured at Fair Value.

The Fair Value Policy, in all of its constituent documents, is governed and formalised by the Risk Management Department, applies to the Parent Company and all consolidated subsidiaries, is integrated into the risk measurement and management processes, is subject to regular review and updating and approval by the relevant functions, and is used for the preparation of the financial statement documents. The related accounting policies are detailed below. A summary is also provided below of the various stages of the process of measurement of financial instruments together with details of the valuation models used to measure the financial instruments.

#### ***Accounting policies: Fair value measurement methods (Fair value hierarchy)***

The application of IFRS 13 governing fair value measurement and related disclosure became mandatory from 1 January 2013.

The new standard does not extend the scope of application of measurement at fair value, but rather provides a guide as to how to measure the fair value of financial instruments and non-financial assets and liabilities where already required or permitted by other accounting standards. The aim was to concentrate into a single standard the rules for measurement at fair value, previously contained in various standards, in some cases with prescriptions in conflict with one another.

The fair value is the price receivable for the sale of an asset or which would be paid to transfer a liability in a normal transaction between market operators (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 the individual company. 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.

A business has to measure the fair value of an asset or liability by adopting the assumptions that would be

used by market operators to determine the price of an asset or liability, presuming that the market operators act with a view to satisfying their own economic interest in the best way possible.

### *Financial instruments*

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 business 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: input unobservable 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 main market for the asset or liability or, in the absence of a main 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 main 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, research is carried out in order to verify the significance of official market values, despite being quoted on regulated markets.

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 quotes 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 main 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 quote on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an ordinary transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.

Such techniques include:

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

In the case of *level 2* inputs, the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation.

The calculation of the fair value of certain types of financial instruments is based on valuation models which consider parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator (level 3). In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:

the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;

- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured under the Mark-to-Model Approach:

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

The valuation process of financial instruments entails the following phases:

- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means. In particular:
  - o reference categories are established for the various types of market parameters;
  - o the reference requirements governing the identification of official revaluation sources are set;
  - o the fixing conditions of official figures are established;
  - o the data certification conditions are established;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement. The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. All models used for the measurement must be submitted to an internal certification process which involves various competent structures or independent companies in highly complex or particularly critical cases;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

A more detailed description of the fair value measurement models can be found below in the section on “Information on valuation models used to measure the financial instruments”.

### ***Certification and monitoring of the market parameters and the model risk***

As part of its overall monitoring of the controls on the individual transactions dealt with by the ICT Systems Department (IT modules) and the Operations Department (back office controls), the Risk Management Department monitors and certifies the models used for the valuation processes and the market parameters identified to feed them. If the valuation systems are found to be incapable of providing reliable valuations, the Risk Management Department values the financial instrument directly using specially developed internal instruments. These activities are broken down into various stages, which are described briefly below.

### ***Identification, certification and treatment of market data and the sources for measurements***

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end the Market Data Reference Guide – a document prepared and updated by the Risk Management Department on the basis of the Group’s Internal Regulations approved by the Management bodies of the Parent Company and Group Companies – has established the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the assessment of financial instruments held for any purpose in the proprietary portfolios of the Bank and its subsidiaries. These same sources are used in valuations carried out for third parties under Service Level Agreements, reached in advance. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price. The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Risk Management Department (RMD), in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

### ***Model Risk Management***

In general, Model Risk is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The model risk is monitored through a diverse series of analyses and checks carried out at various stages, aimed at certifying the various pricing methods used by the Bank (“Model Validation”), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market (“Model Risk Monitoring”) and at identifying any adjustments to be made to the valuations (“Model Risk Adjustment”, see the section below “Adjustments adopted to reflect model risk and other uncertainties related to the valuation”).

#### ***Model Validation***

In general, all the pricing models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). The internal certification process is activated when a new financial instrument that requires an adjustment to the existing pricing methods or the development of new methods starts to be used, or when the existing methods need to be adjusted for the



valuation of existing contracts. The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- contextualisation of the problem within the current market practice and the relevant available literature;
- analysis of the financial aspects and the types of significant payoff;
- formalisation and independent derivation of the mathematical aspects;
- analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- analysis of the calibration methods, in other words the model's ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Risk Management Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official valuations. If the analysis identifies a significant "Model Risk", which, however, is within the limits of the approach's ability to correctly manage the related contracts, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

#### *Model Risk Monitoring*

The performance of the valuation models in operation is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of contributed elementary instruments: verifying the model's ability to replicate the market prices of all the quoted instruments considered to be relevant and sufficiently liquid. For interest rate derivatives, an automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (swaps, basis swaps, cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equity instruments (options on indexes and on single stocks), credit instruments (CDS) and commodity instruments (options on commodity indexes). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gap between the model and benchmark data is quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the previous case. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against prices provided by counterparties via Collateral Management, indicative listed prices provided by brokers, intrinsic parameters identified from these indicative listed prices, checks of the most recent revaluation price in relation to the price of the financial instrument deriving from unwinding, sales, and new similar or comparable transactions.

#### **Adjustments adopted to reflect model risk and other uncertainties related to the valuation**

If problems are found by the Model Validation process or the Model Risk Monitoring process in the calculation of the fair value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also considering market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the abovementioned factors, the Mark-to-Market Adjustment Policy also provides for other types of adjustments relating to other factors capable of influencing the valuation. These factors essentially involve:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration) and
- valuation difficulties due to the lack of liquid and observable market parameters.

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the valuation is supplied directly by an active market (level 1). Specifically, highly liquid quoted securities are valued directly at mid price, whereas for quoted securities with low liquidity and unquoted securities the bid price is used for long positions and the ask price for short positions. Bonds that are not quoted are valued according to credit spreads that differ based on the position of the security (long or short).

Conversely, for derivatives for which fair value is determined with a valuation technique (levels 2 and 3), the adjustment may be calculated with different means according to the availability on the market of bid and ask prices and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, to be discussed in further detail below) and for which the respective adjustments have been calculated, are represented in this market context, are connected to risks on Commodities, on Dividends and Variance Swaps, FOI (Consumer price index for blue and white-collar worker households) inflation and options on inflation, on specific indexes such as Rendistato, volatility of 12-month cap indexes, correlations between swap rates and “quanto” correlation (connected to pay offs and index-linking expressed in different currencies).

The management of the Mark-to-Market Adjustment process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. Calculation of the adjustments depends on the dynamics of the factors indicated above and is disciplined by the Risk Management Department. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements, valued based on the different configuration over time of the risk factors which generated the adjustments. Thus, the estimates subsequent to initial recognition are always guided by the mitigation or elimination of said risks.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken by the New Product Committee upon the proposal of the Risk Management Department.

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

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products), on the valuation models used for the various financial instruments.

### *1. Pricing model for non-contributed securities*

The pricing of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test, which is estimated starting from contributed and liquid financial instruments with similar characteristics. The sources used to estimate the level of the credit spread are the following:

- contributed and liquid securities of the same issuer;
- credit default swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security to be priced is considered relatively to the issuer's debt structure.

In the case of Italian public issuers, a rating/maturity matrix is defined on the basis of the spread levels on government issues, to which the spreads among the various rating/maturity classes with respect to public issues (regions, provinces, municipalities, government entities) are applied.

Similarly, with respect to financial liabilities designated at fair value through profit and loss, the credit spread of the Intesa Sanpaolo Group is determined and measured based on the bonds issued by the Parent Company, with regular, periodic coupons, maturity beyond one year and quoted on an active market in compliance with IAS/IFRS. The implicit credit rating is determined on the basis of market quotes and subsequently adjusted through interpolation models which generate credit spread curves by type of coupon, maturity and subordination level.

Also, for bonds that are not quoted on active markets, an extra spread, estimated based on the bid/ask spread recorded on the market, is added to the “fair” credit spread component, to take account of the higher premium demanded by the market compared to similar quoted securities.

If there is also an embedded option a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlyings. This component is calculated on the basis of the type of option and its maturity.

## II. Models for pricing interest rate, foreign exchange, equity, inflation and commodity derivatives

For derivatives, in consideration of their number and complexity, a systematic reference framework has been developed which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.

Interest rate, foreign exchange, equity, inflation and commodity derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are measured through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above.

The table below illustrates the main models used to price OTC derivatives on the basis of the category of underlying asset.

Underlying class	Valuation models	Market data and input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White at 1 and 2 factors, Mixture of Hull-White at 1 and 2 factors, Bivariate lognormal, Rendistato	Interest rate curves (deposits, FRA, Futures, OIS, swap, basis swap, Rendistato basket), cap/floor/swaption option volatility, correlation between interest rates
Foreign exchange rate	Net present Value FX, Garman-Kohlhagen, Lognormal with Uncertain Volatility (LMUV)	Interest rate curves, spot and forward FX, FX volatility
Equity	Net present Value Equity, Black-Scholes Generalised, Heston, Jump Diffusion	Interest rate curves, underlying asset spot rate, interest rate curves, expected dividends, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations
Inflation	Bifactorial Inflation	Nominal and inflation interest rate curves, interest and inflation rate volatility, seasonality ratios of consumer price index, correlation between inflation rates
Commodity	Net present Value Commodity, Generalised Black-Scholes, Independent Forward	Interest rate curves, spot rate, forwards and futures of underlying assets, underlying asset volatility and correlation between underlying assets, "quanto" volatility and correlations

As envisaged by IFRS 13, in determining fair value, the Intesa Sanpaolo Group also takes into account the effect of non-performance risk. This risk includes changes in the counterparty credit rating and changes in the issuer’s own credit risk.

For derivatives in particular, the Bilateral Credit Value Adjustment (bCVA) model fully takes into account the effects of changes in the counterparty credit rating, as well as changes in its own credit rating. In fact, the bCVA consists of the sum of two addends, calculated by considering the possibility that both counterparties go bankrupt:

- the CVA (Credit Value Adjustment) is a negative measure that takes into account scenarios whereby the counterparty fails before the bank and the bank has a positive exposure to the counterparty. In these scenarios the bank suffers a loss equal to the cost of replacing the derivative;

- the DVA (Debt Value Adjustment) is a positive measure that takes into account scenarios whereby the bank fails before the counterparty and has a negative exposure to the counterparty. In these scenarios the Bank achieves a gain equal to the cost of replacing the derivative.

The bCVA depends on the exposure, probability of default and the Loss Given Default of the counterparties. Lastly, the bCVA must be calculated taking into account any counterparty risk mitigation agreements, particularly collateral and netting agreements for each individual counterparty. In the event of netting agreements with a specific counterparty, the bCVA is calculated with regard to the portfolio including all transactions subject to netting with that counterparty.

The measurement of creditworthiness use various sources. Specifically:

- in the case of counterparties with CDS spread quoted on the market (including Intesa Sanpaolo), calculation of the bCVA is carried out by considering the neutral probability of default towards risk (namely estimated based on the prices of bonds and not on historical figures) quoted on the market and regarding both the counterparty and the investor, measured on the basis of the listed CDS spread credit curve;
- for Large Corporate counterparties without CDS quoted on the market with significant turnover, the bCVA is calculated by considering the neutral probability of default towards risk of a counterparty associated to the counterparty of the contract (comparable approach). Creditworthiness is measured:
  - o for Project Finance counterparties, using the comparable Industrial CDS spread credit curve;
  - o for other counterparties, using the comparable CDS spread credit curve for the counterparty;
- for illiquid counterparties not included in the above categories, the bCVA is calculated by considering the probability of default of the counterparty and of the Intesa Sanpaolo Group, determined by using the credit curve obtained by the default probability matrices.

On the other hand, for counterparties in default, an estimate of the counterparty risk consistent with the provisioning percentage applied to on-balance sheet exposures is carried out.

The prior Credit Risk Adjustment (CRA) calculation model is still valid for a number of products for which the bCVA model is still under development.

### III. Model for pricing structured credit products

Regarding ABSs, if significant prices are not available, valuation techniques are used that take into account parameters that can be gathered from an active market (level 2 inputs).

In this case, the cash flows are obtained from info providers or specialised platforms; the spreads are gathered from the new issues and/or from the major investment banks, further strengthened by a qualitative analysis relative to the performance of the underlying assets presumed from periodic investor reports and aimed at highlighting structural aspects that are not (or not fully) encompassed by the analyses described above, relating to the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures. The results of these analyses are subject to backtesting with actual sales prices.

With regard to debt securities and complex credit derivatives (funded and unfunded CDOs) the fair value is determined based on a quantitative model which estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.

The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collaterals present in the structure and the expected residual life of the contract.

For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indexes such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multicontribution platforms and market spread estimates made available by major dealers are used.

The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.

For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (50% for underlying REITS);
- stress of asset value correlation: inter and intra correlations have been increased by 15% or 25%

- depending on the type of product;
  - stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 10%;
  - stress of expected residual lives: the latter have been increased by 1 year.
- Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

The valuation framework used for the CDO Cash Flows also manages the Waterfall effects. The latter entails the correct definition of the payment priorities according to the seniority of the various tranches and the contractual clauses. In general these provide for the diversion of the capital and interest payments from the lower tranches of the Capital Structure to the higher tranches, upon the occurrence of Trigger Events, such as the failure of the Overcollateralisation and Interest Coverage tests.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weaknesses which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so to proceed to a consistent adjustment in the valuation. Lastly, for this class of products, an additional adjustment may be applied, subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

With respect to credit derivatives on index tranches, off-the-run series are valued at level 3 when no reliable and verifiable quotes are available from the Risk Management Department. Fair value is determined based on the quotes of series being issued, adjusted to reflect the different underlying.

#### **IV. Valuation of equities with relative and absolute models**

Financial instruments for which fair value is determined using level 2 inputs also include equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers. Multipliers are used under the comparable companies' or comparable transactions' approach. In the former case, reference is made to a sample of comparable listed companies, therefore the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions.

Equities to which the above "relative" models are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the measurement of the security value by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, equity models or equity-income models.

#### **V. The pricing model for hedge funds**

The determination of the fair value of a hedge fund is the result of an analytical process that involves two distinct approaches applied respectively to funds managed through the use of a Management Account Fund infrastructure and funds not managed according to such a platform.

For the funds managed in the Managed Account platform, which ensures full daily transparency of the assets underlying the funds, the NAV provided by the Fund Administrator is considered as fair value of the fund. It is not deemed necessary to apply the two prudential adjustments described above to the NAV, since:

the adjustment for counterparty risk is not necessary because the Managed Account platform is subject to limited recourse clauses and non-petition provisions, through which each Managed Account Fund achieves contractual separation/segregation of assets and manager. Intesa Sanpaolo effectively holds 100% of the quotas of the MAF;

the adjustment for illiquidity risk is not necessary because there is a delivery in kind clause, according to which the fund's assets may be transferred to Intesa Sanpaolo's books and liquidated, where necessary.

Moreover, a due diligence confirmed that the pricing model used by the Fund Administrator is consistent with the Intesa Sanpaolo's Fair Value Policy.

If the daily full transparency analysis were to bring to light additional elements of risk, mark-to-market adjustments would be applied in accordance with Intesa Sanpaolo's Fair Value Policy.

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 prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

For funds not managed in the Managed Account platform, the operating NAV (Net Asset Value) provided by the Fund Administrator is used. However, this value may be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of an individual valuation process aimed at verifying specific idiosyncratic risks, mainly identified as follows:

- counterparty risk;
- illiquidity risk.

Specifically, the first risk driver – counterparty risk - relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custodian activities, which is a potential source of risk in the case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

With regard to the illiquidity drivers, these relate to the risk intrinsic to the pricing of the fund assets, therefore, the prudential adjustment is applied based on the availability of prices or certain weaknesses in the pricing policies used by the fund.

The application of the foregoing prudential adjustments (counterparty risk and illiquidity risk) is subject to an authorisation procedure that, above a certain warning threshold, involves both the area of the Chief Risk Officer and the Manager responsible for preparing the Company's financial reports.

#### **vi. Other level 2 and 3 valuation models**

Loans are included among financial instruments whose fair value is determined on a recurring basis through level 2 inputs. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach, in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

As required by IFRS 13, the table below highlights, for financial assets and liabilities measured at level 3 fair value, quantitative information on the significant, unobservable inputs used in the fair value measurement.

(thousands of euro)							
Financial assets/ liabilities	Valuation technique	Main non-observable input	Minimum value of range of changes	Maximum value of range of changes	Unit	Favourable changes in FV	Unfavourable changes in FV
Securities	Discounting Cash Flows	Credit Spread	-27	70	%	2,149	-5,572
Structured securities	Black model	Volatility	13	28	%	8	-78
Structured securities	Two-factor model	Correlation	-11	24	%	31	-228
ABSs	Discounting Cash Flows	Credit Spread	-45	111	%	1,832	-4,525
ABSs	Discounting Cash Flows	Recovery rate	-8	0	%	-	-1,022
CDO / CLOs	Gaussian copula	Credit Spread	-27	70	%	3,667	-9,507
CDO / CLOs	Gaussian copula	Joint default correlation	-5	10	%	59	-118
CDO / CLOs	Gaussian copula	Recovery rate	-25	10	%	794	-1,985
OTC derivatives subject to FV adjustment for CVA/DVA	bCVA	Loss Given Default Rate (LGD)	0	100	%	15,003	-39,654
OTC derivatives subject to FV adjustment for CVA/DVA	bCVA	Probability of default (PD) based on counterparty's internal rating	CCC	AA	Internal Rating	100	-168
OTC Derivatives - Interest Rate Cap/Floor	Black model with volatility of the SABR model	Cap-floor volatility on 12-month Euribor	21.70	54.60	%	1,483	-2,680
OTC Derivatives - Interest Rate Cap/Floor on CMS Spread	Bivariate log-normal model	Correlation between underlying options on 15Y - 7Y CMS	91.61	97.78	%	88	-37
OTC Derivatives - Equity basket option	Black - Scholes model	Correlation between underlying equity baskets	43.90	79.65	%	226	-5
OTC Derivatives - Equity option	Black - Scholes model	Underlying volatility	28.88	60.27	%	391	-3,400
OTC Derivatives - Equity Basket Option	Black - Scholes model	Correlation between underlying equity baskets	-47.70	79.65	%	992	-539
OTC Derivatives - Commodity Asian Options	Independent Forward model	Volatility for the underlying Power Italia (PW IT TERNA)	9.50	44.00	%	68	1,546





## Table 12 – Operational risk

### Qualitative disclosure

#### Methods for calculating Operational Risk

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

- effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Bank;
- 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 Bank;
- effective from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo. In December 2012 the full demerger of the Bank was completed in favour of the Parent Company Intesa Sanpaolo S.p.A. and Leasint S.p.A.;
- 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 Bank (VUB Leasing and Consumer Finance Holding).

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

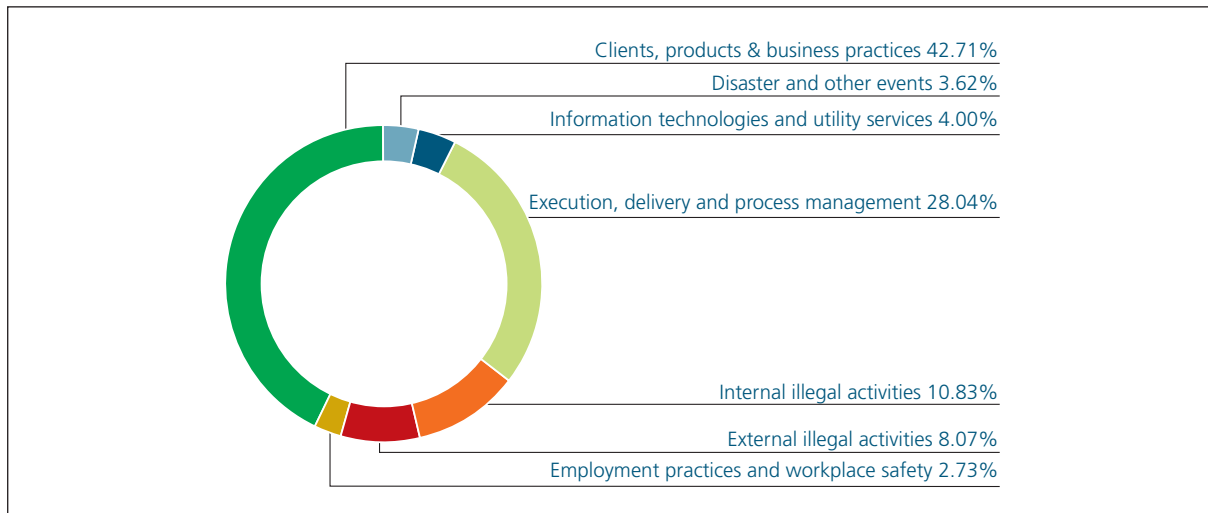
#### Breakdown of capital requirements by Calculation approach

(millions of euro)

Approach	Capital requirement
<b>Advanced Measurement Approach (AMA)</b>	<b>1,495</b>
<b>Traditional Standardised Approach (TSA)</b>	<b>265</b>
Corporate Finance	3
Trading & Sales	17
Retail Banking	125
Commercial Banking	96
Payment & Settlement	16
Agency Services	2
Asset Management	4
Retail Brokerage	2
<b>Basic Indicator Approach (BIA)</b>	<b>59</b>
<b>Total as at 31.12.2013</b>	<b>1,819</b>
<b>Total as at 31.12.2012</b>	<b>2,059</b>

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

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



The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (self-assessment).

The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (the Operational Riskdata eXchange Association).

The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company’s business areas and the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment, to take account of the effectiveness of internal controls in the various organisational units.

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, 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 known as 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.

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## Table 13 – Equity exposures: disclosures for banking book positions

### Qualitative disclosure

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

The investments in equities present in the Banking Group have a variety of functions:

- strategic: companies subject to significant influence, joint ventures with industry partners and institutional investments;
- instrumental to the Bank's business and the development of commercial operations;
- systemic institutional: investments in public finance, consortium companies, and local bodies and institutions;
- financial investment: especially private equity investments.

#### Recognition and valuation of the equity instruments included in the banking book

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

#### Financial assets available for sale – accounting policies

##### 1. Classification criteria

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

##### 2. Recognition criteria

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

##### 3. Measurement criteria

After initial recognition, the Financial assets available for sale are measured at fair value, the gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.

For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, recent comparable transactions, etc..

The equities included in this category for which the fair value cannot be reliably determined are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured by means of specific valuation methods (see item 5 below).

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

#### **4. Derecognition criteria**

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay such cash flows, and only such cash flows, to third parties.

#### **5. Impairment tests for financial assets available for sale**

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

### **Equity investments – accounting policies**

#### **1. Classification criteria**

This caption includes investments in companies subject to joint control (other than the entities conducting banking or insurance business, which are consolidated in this document according to the proportional consolidation method – see Table 2) and associates.

Companies are considered as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by Intesa Sanpaolo, directly or indirectly, and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.

Companies are considered associates, that is subject to significant influence, when Intesa Sanpaolo, directly or indirectly, holds at least 20% of voting rights (including "potential" voting rights as described above) or when the Parent Company – despite a lower percentage of voting rights due to specific legal agreements such as the participation of voting syndicates – has the power of participating in the determination of the financial and operating policies of the company.

Certain companies in which Intesa Sanpaolo holds a stake exceeding 20% are not considered subject to significant influence since Intesa Sanpaolo, directly or indirectly, exclusively has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the protection of its economic interests.

#### **2. Recognition criteria**

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

### 3. Measurement criteria

The investments are valued by consolidation at equity. Intesa Sanpaolo has also opted to use this consolidation method for companies subject to joint control instead of proportional consolidation, as permitted by IAS 31.

The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the company's shareholders' equity. Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company. The valuation of the portion of shareholders' equity does not consider any potential voting rights.

The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value. If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement. If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

For consolidation of companies subject to joint control and investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.

Certain investments in marginal companies i) in liquidation and/or terminating activities and ii) at the start-up phase with no balance sheet are maintained at cost.

### 4. Derecognition criteria

Equity investments are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

### 5. Impairment tests of equity investments

As required under IFRS, equity investments are subjected to impairment testing to assess whether there is objective evidence to consider that the carrying value of the assets is not fully recoverable.

With reference to investments in associates and companies subject to joint control, the process of detection of any impairment involves verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company; quantitative indicators, represented by a reduction in fair value of over 30% below the carrying value or for a period of over 24 months, by market capitalisation lower than the company's net book value, in the case of securities listed on active markets, or by a carrying value of the investment in the separate financial statements higher than the carrying value in the consolidated financial statements of the investee's net assets and goodwill or by distribution by the latter of a dividend that is higher than its total income. If impairment indicators are detected the recoverable amount, represented by the higher of the fair value less costs to sell and the value in use, is calculated and if it proves lower than the carrying value, impairment is recognised.

In particular, given that impairment indicators were recorded with respect to certain investments, "fundamental" analyses were carried out based on an estimation of expected discounted cash flows. The results of these assessments led to the recognition of impairment losses. In particular, the most significant impairment loss referred to the investment in Telco S.p.A. for 92 million euro.

## Quantitative disclosure

The tables below show the breakdown of the equity exposures according to their book classification. The figures represent the exposures shown in the Group consolidated financial statements and exclude the values of all investments in fully consolidated companies. The value of investments in insurance companies deducted from the regulatory capital is shown in Table 3.

### Banking book: on-balance sheet equity exposures <sup>(\*)</sup>

(millions of euro)

Exposure type/values	31.12.2013									
	Book value		Fair value		Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet		
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)	
A. Investments in associates and companies subject to joint control (**)	144	1,925	261	X	261	2,701	-382	X	X	
B. Financial assets available for sale (AFS)	115	4,446	115	4,446	115	240	-239	253	-19	
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X	

Exposure type/values	31.12.2012									
	Book value		Fair value		Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet		
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)	
A. Investments in associates and companies subject to joint control (**)	205	2,487	215	X	215	79	-209	X	X	
B. Financial assets available for sale (AFS)	539	1,489	539	1,489	539	177	-91	329	-57	
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X	

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

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

As at 31 December 2013 and 31 December 2012 there were no net capital losses on equity investments to be included under the negative elements of the Tier 2 capital.

Price risk generated by minority stakes in quoted companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level during 2013 of 68 million euro (81 million euro at the end of 2012), with peak and minimum peak values of 80 million euro and 33 million euro respectively (this figure coincides with the value at the end of 2013).

Lastly, the table below shows a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of  $\pm 10\%$  for the abovementioned quoted assets recorded in the AFS category.

### Banking book: impact on shareholders' equity of price risk as at 31 December 2013

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

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

(millions of euro)

	<b>Weighted exposure</b>	
	<b>31.12.2013</b>	<b>31.12.2012</b>
<b>IRB approach</b>	<b>2,093</b>	<b>1,082</b>
Private equity exposures in sufficiently diversified portfolios	151	265
Exchange-traded equity exposures	56	36
Other equity exposures	1,886	781
<b>Standardised approach</b>	<b>1,780</b>	<b>2,753</b>





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

### Qualitative disclosure

#### Interest rate risk

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

As already mentioned in Table 1 of this disclosure, two types of measurement have been adopted for the consolidated measurement of the financial risks generated by the banking book, at least monthly, namely Value at Risk (VaR) and Sensitivity analysis.

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

The shift sensitivity analysis, with reference to the interest rate risk, defines the movement as a parallel and uniform shift of  $\pm 100$  basis points of the rate curve.

In measurements, capital items are represented as “to maturity” or “repricing” depending on whether they involve a fixed or variable rate, except for categories of instruments whose risk profiles are different from those contractually envisaged. In this respect, therefore, the choice was made to use a behavioural representation to calculate the risk measures. More specifically:

- for mortgages, statistical techniques are used to determine the probability of prepayment, in order to reduce the Group's exposure to interest rate risk (overhedging) and to liquidity risk (overfunding);
- for core deposits, a financial representation model is adopted aimed at reflecting the behavioural features of stability of deposits and partial and delayed reaction to market interest rate fluctuations, in order to stabilise the interest margin both in absolute terms and in terms of variability over time;
- for the expected loss on loans, which represents the average cost of long-term loans, a shift in the discounting curve is envisaged, according to the aggregate credit risk levels by economic segment, in order to reduce this component in the cash flows.

An update to the methodology aimed at sterilizing the credit spread impact, significantly increased during the recent financial crisis, was introduced from January 2013.

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

The Group's overall financial risk profile and the appropriate interventions aimed at changing it are examined periodically by the Group Financial Risks Committee.

## Quantitative disclosure

### Interest rate risk

Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 264 million euro at the end of 2013, in line with the 270 million euro at the end of 2012.

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

In 2013, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, averaged 85 million euro, with a year-end figure of 206 million euro compared to the 386 million euro at the end of 2012. The change was mainly attributable to the aforementioned update to the methodology.

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

		(millions of euro)
		<b>31.12.2013</b>
EUR	Euro	160
USD	US dollar	17
HRK	Croatian kuna	8
EGP	Egyptian pound	6
RSD	Serbian dinar	5
CHF	Swiss Franc	5
	Other currencies	5
<b>TOTAL</b>		<b>206</b>

Interest rate risk, measured in terms of VaR, averaged 39 million euro in 2013, with a minimum value of 27 million euro and a maximum value of 56 million euro. At the end of December 2013 VaR totalled 40 million euro (83 million euro at the end of 2012).

The reduction in the economic value in the event of a 200 bp change in interest rates stayed within the limits of the alert threshold set by the prevailing Regulatory provisions (20% of the Regulatory Capital).

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## Table 15 - Remuneration and incentive systems and practices

### Qualitative disclosure

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

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

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

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

Moreover, ISVAP (now IVASS), with regulation no. 39 of 9 June 2011, dictated the principles regarding the decision-making processes, structure and disclosure obligations of the remuneration policies of insurance companies.

In its resolution no. 18049 of 23 December 2011, Consob regulated implementation of the provisions contained in Article 123-ter of the Consolidated Law on Finance, which require issuers to draw up and publicly disclose a report on remuneration.

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

In fact, the Bank of Italy subsequently revisited the topic of remuneration policies with two communications dated 2 March 2012 and 13 March 2013, highlighting in general the opportunity for banks to define a strategy that is consistent with the objective of preserving, with a view to the future, the equilibrium of the company's position, as well as maintaining the conditions of capital adequacy and prudent management of liquidity risk.

In December 2013 the Supervisory Authority launched a consultation on the amendments it intends to make to the aforementioned Provisions issued on 30 March 2011, with a view to implementing the provisions of the CRD IV Directive.

At the time of preparation of this Report, the consultation has ended and the issue of new provisions, which the system shall comply with as prescribed, is pending, without prejudice to the fact that the policies currently in force anticipate, and already implement, part of the recommendations indicated in the consultation paper (the introduction of a cap on variable remuneration equal to 100% of fixed remuneration, with the only exception being for control functions and the manager responsible for preparing the company's financial reports, the cap for which remains 33%).

## **Procedures for adoption and implementation of the remuneration policies**

### **The role of Corporate bodies**

For companies adopting the dual management and control system, the remuneration policies are partly resolved by the Shareholders' Meeting and partly by the Supervisory Board.

The relative procedure is complex and includes, as regards the remuneration policies for employees and other staff, involvement of the Management Board.

#### **a. The Shareholders' Meeting**

In accordance with Article 2364-bis, paragraph 1, no. 2) of the Italian Civil Code and pursuant to the provisions of the Articles of Association, the Shareholders' Meeting of Intesa Sanpaolo is responsible for determining the remuneration amount for Supervisory Board Members appointed by the same and for Members appointed to special offices.

The Shareholders' Meeting is also responsible for approving the remuneration policy for Management Board Members and the financial-instrument based remuneration schemes.

Pursuant to the aforementioned Supervisory Provisions, the Shareholders' Meeting receives a report (at least yearly) on the implementation methods for the remuneration policies resolved by the Meeting for Management Board Members, as well as those subject to resolution by the Supervisory Board, which regard employees and other staff.

Furthermore, based on the provisions of Article 123-ter of the Consolidated Law on Finance, the Shareholders' Meeting resolves, in favour or opposed, on Section I of this Report, limited to the remuneration policies adopted by the Bank for Management Board Members, General Managers and Key Managers, as well as the relative procedures for adoption and implementation of these policies.

The resolution is not binding and its outcome must be disclosed within 5 days from the Meeting date, in accordance with Article 125-quarter, paragraph 2 of the Consolidated Law on Finance. In this respect, the Shareholders' Meeting held on 22 April 2013 agreed on the remuneration policies for the Management Board Members, General Managers and Key Managers, as well as on the procedures used to adopt and implement said policies.

#### **b. The Supervisory Board**

In accordance with the remuneration policies resolved by the Shareholders' Meeting, the Supervisory Board is responsible for determining the remuneration for Management Board Members, including in relation to the offices and duties attributed to them (Chairman, Deputy Chairman, Managing Director, Executive Board Member).

The Supervisory Board is also responsible for approving - upon proposal by the Management Board - the remuneration policies for employees (including General Managers and Key Managers) and other staff not bound to the company by an employment agreement.

The Remuneration Committee is called upon to support the Supervisory Board in all activities concerning remuneration, assisting it in the preparatory activity by formulating specific opinions. The Committee has advisory duties and makes proposals in terms of compensation for Bank Managers.

The Supervisory Board is also required to verify achievement of the parameters of the variable component of remuneration for the Managing Director and Executive Board Members. As regards the executive Management Board members selected from Group Managers, it is important to note the regulatory provision of the Supervisory Authority on the subject, with reference to the corporate function covered by each of those concerned.

Information on the composition and mandate of the "Remuneration Committee" is specifically illustrated, for the purpose of homogeneous treatment, along with the activities of the other Committees in the Supervisory Board, in the same Chapter of the "Report on Corporate Governance and Ownership Structures". Said Chapter also summarises the activities carried out by the Committee in 2013. The Report on Corporate Governance and Ownership Structures is available on the website [www.group.intesasanpaolo.com](http://www.group.intesasanpaolo.com) (Governance section).

#### **c. The Management Board**

In terms of remuneration, the Management Board, in accordance with the Articles of Association, has the exclusive responsibility for making decisions regarding:

- determination of the compensation for General Managers, further to the mandatory opinion of the Supervisory Board;
- determination, further to the mandatory opinion of the Supervisory Board, of the compensation for the Manager responsible for preparing the Company's financial reports;

- the definition, further to the opinion of Supervisory Board, of the remuneration for the managers of company control functions, including internal audit, compliance to regulations and risk management, pursuant to the applicable laws or regulations.

### ***The Human Resources Department and the Company Control Functions***

As mentioned above, the Supervisory Board is responsible for approving the policies on remuneration of employees and other staff not bound to the company by an employment agreement, upon proposal of the Management Board and with the involvement of the Remuneration Committee.

These Bodies also have the option of resolving on updates, amendments and/or derogations to the policy.

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

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

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

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

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

The process used to identify these parameters also involves the corporate control functions (risk management, compliance) and the Human Resources department, in order to ensure their full compliance with the Group's RAF and the regulatory provisions in effect at the time in question.

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

### ***Remuneration of the Supervisory Board Members***

#### ***General criteria***

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

The Supervisory Board Members appointed for 2013, 2014 and 2015 receive a gross, fixed annual remuneration of 100,000 euro as established by the Shareholders' Meeting held on 22 April 2013, which appointed them. This remuneration, reduced by one third compared to that decided for the previous office, reflects the initiative implemented by the Board Members in office at that time who – as stated in

the Report on Remuneration last year – had waived 1/3 of the remuneration due for their office with effect from 1 July 2012.

The characteristics of the remuneration system for members of the body also responsible for control - predetermined and invariable - are a guarantee of the independence of their activity, whose diligence must never be based on expectations of an increase in remuneration depending on the results achieved by the Bank. The Supervisory Provisions on remuneration confirm that members of the control body may not receive any variable remuneration.

The insurance policy (“D&O policy”) has been renewed in favour of the Supervisory Board Members.

### **Conduct of special offices**

The Articles of Association envisage that some Members be invested with special offices and that, as a consequence, the Shareholders' Meeting determine their relative remuneration.

The Shareholders' Meeting has therefore established the following additional annual remuneration: 800,000 euro gross to the Chairman (in line with the reduction accepted by the officer concerned with effect from 1 May 2012); 100,000 euro gross to each Deputy Chairman; 100,000 euro gross to the Secretary.

### **Membership of Committees**

In terms of the activities that the Members are called upon to carry out as members of the Committees established within the Supervisory Board also pursuant to the Articles of Association, the Shareholders' Meeting has envisaged recognition of the following additional remuneration: 30,000 euro gross, annual pay to the Chairmen of the Committees; 1,800 euro gross, as an attendance allowance, to each Supervisory Board Member designated to participate in the Committees and based on actual attendance at each meeting.

Pursuant to the Articles of Association, the members of the Control Committee are required to participate in meetings of the Management Board. The Shareholders' Meeting has envisaged that this task be remunerated and, in this respect, has recognised a gross, unit attendance allowance of 1,800 euro to each member of the Control Committee, based on actual attendance at each meeting of the Management Board.

The Chairmen of the Nomination Committee, Strategy Committee and Remuneration Committee have, as is customary, waived the annual remuneration envisaged for this office. On renewal of the offices, the Chairmen of the Control Committee, Financial Statements Committee and Related Party Transactions Committee made similar waivers.

### **Termination of office; employee termination indemnities**

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

### **Remuneration policy for Management Board Members**

#### **Objectives and structure**

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

On renewal of the Corporate Bodies, as proposed by the outgoing Supervisory Board (which had made use of the Remuneration Committee), the Shareholders' Meeting of 22 April 2013 approved the remuneration policies for the Management Board Members appointed for 2013/2014/2015.

This policy combines the following objectives:

- aligning the interests of Management Board members with pursuit of medium-/long-term value creation for shareholders, as part of the set of rules aimed at accurate monitoring of current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
- boosting the Bank's and Group's competitiveness in the domestic and international context in which they operate;

- attracting qualified resources, having the appropriate professional skills and qualities necessary to successfully manage the Bank and steer and coordinate the Group it heads;
- promoting the sustainability of the remuneration policy over time, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
  - o mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved, while also taking account of the reference peers;
  - o the use of objective parameters when reviewing pay;
  - o the determination of appropriate caps on both total incentives and the amount of individual bonuses;
- guaranteeing compliance with international, European and national legal and regulatory provisions.

The remuneration policies for Management Board Members as resolved by the Shareholders' Meeting are based on assessment of individual positions (Non-Executive Management Board Member; Management Board Member holding special offices; Executive Management Board Member selected from Managers in the Intesa Sanpaolo Group; Executive Management Board Member not selected from the management; Managing Director), the extent of which must be based on a careful assessment of the following elements:

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

In line with the above criteria and with the reference regulatory framework, the remuneration policy for Management Board members includes a fixed part for each Board Member, the amount of which will match the importance of the position and the time required to correctly perform the tasks assigned, and a variable part, to be exclusively reserved for executive members of the Board.

The fixed components are determined by the Supervisory Board so that:

- all Management Board Members, being members of the Bank's management body, shall receive a fixed, annual remuneration for each year of their term of office;
- Management Board Members holding special offices (Chairman, Deputy Chairman, Managing Director, Executive Board Member) shall receive an additional remuneration consisting of a fixed annual amount for each year of their term of office. If more than one office is held, only the higher remuneration is allocated.

The incentive system for executive members shall apply to the Managing Director, Executive Management Board Members selected from the management and Executive Management Board Members not selected from the management.

In addition to the above fixed remuneration in relation to the position held on the Management Board, the Managing Director shall receive an additional remuneration, specifically connected with the management functions of the Chief Executive Officer. This annual remuneration shall consist of a fixed portion and a variable portion, based on the provisions set forth in the Remuneration Policy of the Intesa Sanpaolo Group approved by the Supervisory Board and reported in the Report on Remuneration presented at today's Meeting.

The remuneration for Executive Management Board Members selected from Group Managers shall be composed of the above fixed remuneration in relation to the position of Board member in addition to the remuneration for the management role held. This remuneration shall be structured on an annual basis, consisting of a fixed portion and a variable portion, based on the provisions set forth in the Remuneration Policy of the Intesa Sanpaolo Group approved by the Supervisory Board and reported in the Report on Remuneration presented at today's Meeting.

Lastly, the Executive Deputy Chairpersons of the Management Board and any additional non-managerial Executive Board Members shall receive a pre-established variable remuneration equal to a maximum of 20% of the fixed component. This remuneration is linked to the objectives and measured according to the parameters included in those established for the Managing Director and CEO, as established as part of the Remuneration Policies of the Intesa Sanpaolo Group approved by the Supervisory Board and resulting from the Report on Remuneration submitted in today's Meeting.

The Supervisory Board must ensure that the variable components:

- are indexed to indicators that are quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects) performance drivers;
- are subject, in the amount of no less than 60%, to a deferred payment system for a period of time of no less than 3 years, so that the remuneration takes into account the trend over time of the risks taken by the bank ("malus mechanisms");
- are paid - for a substantial amount of at least 50% of the upfront as well as the deferred component - via financial instruments of the Intesa Sanpaolo Group and there is a specific retention mechanism in place (of at least two years for the upfront component, shorter for the deferred component) for the same financial instruments, unless the relevance threshold of 80,000 euro has not been exceeded (under which the variable components may be paid in cash);
- are subject to the appropriate ex post (malus or clawback) adjustment mechanisms to reflect, among other things, the levels of performance net of the risks actually taken or ensuing, up to significant reduction or elimination in the event of results that are substantially lower than forecasts or negative.

Identification of the parameters and their relative values for awarding variable components shall be carried out by the Supervisory Board which – in line with the remuneration policies adopted to date for the Management Board – takes into consideration pre-established quantitative and qualitative indicators which can be objectively measured and capable of ensuring there is a link between the level of risk taken and the achievement of stable, effective results.

The insurance policy ("D&O policy") has also been renewed in favour of the Management Board Members.

The following paragraphs describe the Supervisory Board's decisions, as proposed by the Remuneration Committee and in implementation of the policies approved by the Shareholders' Meeting, in favour of the Management Board in office.

#### **Fixed remuneration for Management Board Members**

Management Board Members shall receive a fixed gross annual remuneration of 100,000 euro.

Executive Management Board Members appointed from among Group Managers have waived this remuneration.

#### **Fixed remuneration for special offices**

The Supervisory Board has established the following additional annual remuneration: 800,000 euro gross to the Chairman; 150,000 euro gross to each Executive Deputy Chairman.

For the Chairman of the Management Board, the amount is in line with the outgoing Chairman's decision waiving one third of remuneration due for this office with effect from 1 May 2012.

The Senior Deputy Chairman also continues to receive the additional fixed, gross amount of 150,000 euro, due to a special task assigned previously by the Management Board, in agreement with the Managing Director and in coordination with the Chairman of the Management Board, to handle development of the Bank's and the Group's international relations and internationalisation projects.

For the [REDACTED], the Supervisory Board had established a fixed annual remuneration of 350,000 euro, in addition to that as member of the Management Board, confirming the additional remuneration associated with the office of Managing Director and CEO as the fixed gross annual amount of 1,800,000 euro, and the current contractual terms that characterised the employment relations with the person concerned and the existing insurance and welfare benefits.



Following [REDACTED] from his office as Management Board member, [REDACTED] the Management Board decided to exercise its option of unilateral termination of his managerial employment contract, which envisaged the title of General Manager, [REDACTED]. With regard to this decision, the economic terms established at the time of recruitment were applied, particularly those established in the signed “Stability Agreement” which envisaged the payment of 3.6 million euro gross.

At the time of appointment of [REDACTED] as the new Managing Director [REDACTED], the Supervisory Board decided to establish the gross annual remuneration payable to him as General Manager and CEO of Intesa Sanpaolo as 1,300,000 euro, on the one hand confirming the additional remuneration components already recognised to [REDACTED] as supplementary pension scheme, insurance coverage and accident insurance together with further contractual benefits, and on the other hand the gross annual remuneration associated with the office of Managing Director (350,000 euro) as resolved by the Board [REDACTED].

As mentioned previously, the remuneration of Management Board Members selected from Group Managers does not envisage additional fixed remuneration for this office.

### **Variable remuneration for the Managing Director and Executive Management Board Members**

The Supervisory Board decisions regarding the 2013 incentive system reserved for the Managing Director and CEO and the Executive Management Board Members takes into account the changes to the 2013 incentive system for Top Managers and Risk Takers (details of which can be found in the specific section) and specifically:

- the provision for individual bonus cap equal to 100% of gross annual remuneration, thereby adopting the CRD IV Directive regime in advance; and
- the introduction of an indicator (the “Q Factor”) regarding the measurement of the residual risk level; without prejudice to payment of the bonus 50% in cash and 50% in shares, referring to both the upfront and deferred portions.

Consequently, and in compliance with the principle that activation of the incentive system must be consistent and compatible with the distribution of dividends, the Supervisory Board established the variable component of remuneration for the [REDACTED], as follows, also in relation to the office of Chief Executive Officer:

- the amount of the variable component of remuneration is indexed on the fixed portion, i.e. 1,800,000 euro, with a maximum multiple of 1;
- verification of compliance with the regulatory requirement in terms of Core Tier 1 ratio and achievement of income before tax from continuing operations of 2,319 million euro in order to activate the system;
- verification of the absence of individual compliance breach;
- verification of the achievement of the assigned targets, sub-divided into the Group targets (the KPIs identified for the implementation of strategic drivers Productivity, Profitability and Cost of Risk/Sustainability, accounting for 70%) and those relating to qualitative evaluation (accounting for 30% of the total), the latter referring to actions taken, against which to measure managerial qualities, and to particularly key projects.

Comparison between the results obtained and targets, weighted according to pre-established weights, indicates the Target Bonus percentage achieved: the variable remuneration is then obtained by multiplying that percentage by the base amount of variable remuneration (1,800,000 euro). The “Q Factor” is then verified, calculated in reference to the entire Intesa Sanpaolo Group.

After calculating the variable remuneration as above, 60% is subject to deferral in equal parts over the next three years, with payment (in 2015, 2016 and 2017) subject to the following Malus conditions: a Core Tier 1 ratio exceeding the regulatory threshold; AV2 consistent with the Group’s Risk Appetite Framework; income before tax from continuing operations, net of any contribution from the profits of repurchasing the Bank’s own liabilities, of the fair value measurement of the Bank’s liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

Moreover, the variable component of the remuneration is payable, as provided for by the applicable regulations, in financial instruments, equal to 50% of the portion paid up front and to 100% and 50% of

the second and third deferred portion, respectively. Each payment of these components is subject to a holding period.

Taking into consideration all of the above with regard to [REDACTED] resignation and to the related recognition to him of the amount established under the signed "Stability Agreement", the incentive system to the benefit of the person concerned has lapsed.

With reference instead to [REDACTED] – and likewise the three Executive Management Board Members appointed from among Group Managers – the Supervisory Board has confirmed the bonus system reserved for Key Personnel of the Intesa Sanpaolo Group, under the terms of the board resolution of 16 July 2013, again referring to the dedicated section on this matter for further details.

Lastly, in relation to the two Deputy Chairmen, without prejudice to the aforementioned need for consistency between activation of the incentive system and the remuneration of shareholders, the Supervisory Board has decided that the variable component should be established as follows:

- base amount equal to 20% of the fixed component for the office, as determined by the Supervisory Board in its resolution of 9 May 2013;
- cash payment only, by the extent to which the amount (50,000 euro) does not exceed the materiality threshold;
- verification of compliance with the regulatory requirement in terms of Core Tier 1 ratio and achievement of income before tax from continuing operations of 2,319 million euro in order to activate the system;
- verification of the achievement of the targets assigned to [REDACTED] at the time, [REDACTED], in relation to the Group, namely the KPIs identified for the implementation of the strategic drivers Productivity, Profitability and Cost of Risk/Sustainability.

The comparison between results achieved and the above targets, with the related weighting, determines the Target Bonus percentage achieved, and multiplying this by the base amount gives the variable remuneration due for 2013.

60% will be subject to deferral in equal parts over the next three years, with payment in 2015, 2016 and 2017 subject to verification of the following Malus conditions: a Core Tier 1 ratio exceeding the regulatory threshold; AV2 consistent with the Group's Risk Appetite Framework; income before tax from continuing operations, net of any contribution from the profits of repurchasing the Bank's own liabilities, the fair value measurement of the Bank's liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

Having said this, regarding the activation of the Incentive System 2013, the minimum conditions set by the Regulations mentioned above are met<sup>1</sup> exclusively as a consequence of the economic effects deriving from the recognition of the new stakes in the Bank of Italy replacing the previous stakes already held and cancelled by the Bank of Italy consequently to Law Decree no. 133/2013 converted into Law no. 5/2014 and the consequent amendments to the Statute approved by the Bank of Italy's general meeting on 23 December 2013.

On the indication of the Managing Director and CEO, supported by the positive opinion of the Remuneration Committee, the Corporate Bodies have shared the need to sterilise this effect from the Income before tax from continuing operations as a gate to the 2013 Incentive System, also in line with the spirit of the current regulations (in the results considered for variable incentive purposes, the contribution from non-recurring or merely measuring components that may not be considered as an expression of the "effective and lasting" results is not to be considered, pursuant to the Provisions of March 2011 – see Communication of 13 March 2013 – Financial Statements 2012: assessments of loans, remunerations, distribution of Bank of Italy's dividends).

As a consequence, the 2013 Incentive System is not activated and the Bonus Pool is not financed, implying the non payment of any variable remuneration component.

No stock option plan is currently in place for the Managing Director or other Management Board Members.

<sup>1</sup> Special reference is made to the condition that requires for the income before tax from continuing operations to be positive, net of any contributions from the profits of repurchasing own liabilities, net of fair value measurement of the own liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits

**Termination of office; employee termination indemnities**

The Management Board Members, with the exception of the Managing Director who is also General Manager and the three Managers, are not in the regular employ of the Bank.

No agreements exist that envisage payment of an indemnity in the event of resignation or termination of employment following a public takeover bid.

**Remuneration policy for the corporate bodies of subsidiaries**

Remuneration for members of the corporate bodies of Group companies is defined by Intesa Sanpaolo in its capacity as majority shareholder and entity responsible for management and coordination activities, pursuant to the relative statutory and banking regulations.

The remuneration policy for corporate bodies, therefore, complies with the following principles, applied uniformly at Group level, in accordance with the regulatory context of the various countries in which Intesa Sanpaolo operates through its subsidiaries.

Members of the management and supervisory boards of companies of the Intesa Sanpaolo Group receive compensation commensurate to their assigned duties and responsibilities.

To ensure uniformity in accordance with Group standards, specific determination of the compensation of directors is carried out by considering parameters such as the capital and economic size and organisational complexity of the company in question, as well as other objective and qualitative elements, such as the nature of the business carried out by the subsidiary and its operating risk profile.

Similar criteria apply in determining the compensation for directors appointed to special offices, pursuant to Article 2389 of the Italian Civil Code and similar provisions in effect in foreign countries.

Variable compensation amounts, bonuses linked to results, profit-sharing clauses or options to buy shares at predetermined prices are not normally envisaged. Exemptions from this principle are envisaged only on an exceptional and justified basis, in accordance with the Group remuneration policies and the relative supervisory regulations in force.

In general, there are no differences in the remuneration of directors who are Group employees, professionals, independent, etc. The remuneration of Group employees who are appointed as directors in subsidiaries is paid through the company with which an employment agreement is in place.

Remuneration of members of the board of statutory auditors of Italian subsidiaries is determined upon appointment for the entire term of office, pursuant to Article 2402 of the Italian Civil Code, with a fixed yearly amount.

The amount paid to statutory auditors is determined through a uniform calculation method at Group level that takes into account objective parameters, namely capital and revenues of the company, in order to identify a specific compensation amount.

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

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

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

This chapter deals with the remuneration policy for all personnel, as approved by the Bodies for 2014, including within its scope, for the purposes of the vote by the Shareholders' Meeting as envisaged by Article 123-ter of the Consolidated Law on Finance, the General Managers and Key Managers. In the current organisational structure of Intesa Sanpaolo and in line with the provisions of the Group Regulations for the management of the transactions with related parties, these include, the Members of the Supervisory Board and Management Board, the General Managers and, if not included in the above mentioned categories:

- the Manager responsible for preparing the financial reports;
- the Heads of the Divisions and Business Units;

- the Chief Operating Officer, the Chief Financial Officer, the Chief Risk Officer, the Chief Lending Officer, the Chief Governance Officer and the Chief Wealth Management Officer;
- the Heads of Head Office Departments that report directly to the Managing Director, the Chairman of the Management Board and the Chairman of the Supervisory Board;
- the Heads of the General Secretariat of the Supervisory Board and of the Corporate Affairs Department;
- the Head of Strategic Operations and Special Projects.

### **Objectives of the remuneration policy**

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

- a) alignment of the conduct of management and employees to the interests of shareholders, to the medium and long-term strategies and to company objectives, as part of the set of rules aimed at accurate monitoring of the current and future corporate risks and maintenance of an adequate level of liquidity and capitalisation;
- b) merit, to guarantee better matching with actual performance and the quality of management identified, through:
  - remunerative flexibility via the variable remuneration component linked to results achieved;
  - a focus on key staff members demonstrating high management quality, to whom competitive salary brackets, aligned to the market of reference, are reserved;
  - differentiation of the best performances to which variable bonus levels significantly in excess of the average are to be assigned;
- c) equality, in order to promote proper conduct and standardise treatment in terms of remuneration, through:
  - the correlation of a person's fixed salary to the weight of the role held;
  - the differentiation of salary brackets and the proportion of variable pay components on global remuneration, on the basis of professional categories;
- d) external competitiveness of overall annual remuneration with respect to the levels in the large European banking groups, obtained through periodic specialist surveys, in order to attract and retain the best management and professional resources on the market;
- e) sustainability, to limit expense deriving from application of the policy to values compatible with medium- and long-term strategies and annual targets, by means of:
  - mechanisms to adjust allocations to the overall incentive provisions according to the company's profitability and the results achieved, while also taking account of the reference peer group;
  - selective reviews of fixed pay;
  - the use of objective parameters when reviewing pay;
  - alignment of costs to company performance, by varying the amount of remuneration paid to management;
  - the determination of appropriate caps on both total incentives and the amount of individual bonuses;
- f) compliance with the international, European and national legal and regulatory provisions and the consequent focus on Key Managers, Risk Takers and Company Control Functions.

### **Segmentation of personnel**

The remuneration policy guidelines of the Intesa Sanpaolo Group have always been based on the principle of segmentation, according to the role and contribution provided, with respect to the corporate governance processes as well as the systems and tools adopted.

The rationale underlying the segmentation principle is also used by the Regulator with reference to the type and content of operational risk assumed by personnel. At the time when this document is prepared, the principles to identify the personnel whose activity has a significant impact on the risk profiles of the Bank are reviewed in the so-called Regulatory Technical Standards - RTS, developed by the EBA, but not adopted by Parliament and the European Council yet.

The Intesa Sanpaolo Group adapts its segmentation principles to those requested by the Provisions in force from time to time. Therefore, while waiting for the RTSs to become effective, the Group maintains the existing segmentation in line with the previous Provisions of the Bank of Italy on 30 March 2011, based on which the following population segments are identified:

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

The first segment (“Key Personnel”) is identified as:

- i) executive directors;
- ii) the general manager and heads of the main business lines, corporate functions or geographical areas, as well as those who report directly to bodies with strategic, management and control duties;
- iii) heads and higher-level personnel of the Company Control Functions<sup>2</sup>; other individuals who, individually or collectively, take on significant risk;
- iv) any employee whose total remuneration falls within the same range as categories ii) and iv).

Intesa Sanpaolo Group “Key Personnel” are identified through the application of organisational criteria, considering:

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

“Key Personnel” include the following categories:

- Category 1: Chief Executive Officer;
- Category 2: General Managers and the remaining Key Managers (excluding those with “Company Control Functions<sup>3</sup>), the Managing Directors and General Managers of Banca Fideuram, Eurizon Capital, Intesa Sanpaolo Vita and Banca IMI; Categoria 3: i Responsabili delle “Funzioni Aziendali di Controllo” di Gruppo (Chief Risk Officer, Direzione Centrale Internal Auditing, Dirigente Preposto, Direzione Centrale Compliance, Direzione Centrale Risk Management e Servizio Antiriciclaggio);
- Category 4: other individuals taking on significant risk include:
  - o the heads of the remaining Head Office Departments;
  - o the heads of the Business Departments in the Corporate and Investment Banking Division, Banca dei Territori Division and International Subsidiary Banks Division of Banca Fideuram and Eurizon Capital;
  - o the Managing Directors / General Managers of large banks and subsidiaries;
  - o the key roles of responsibility in terms of finance/investment banking, with particular reference to Banca IMI, where not already included in the personnel outlined in the previous point;
  - o the CEOs of the international subsidiary banks.

Any individuals whose variable remuneration is equal to or greater than 500,000 euro (category 5) are also subject to the same treatment, as outlined below, for “Key Personnel” belonging to the categories 1 and 2.

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

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

<sup>2</sup> As per Circular 263 - New regulations for the prudential supervision of banks, i.e. functions of internal audit, compliance, risk management, anti-money laundering and those with direct responsibility for the truthfulness and accuracy of the bank’s accounting and financial data.

<sup>3</sup> Although the Chief Risk Officer, Head of the Internal Auditing Department and Manager responsible for preparing the Company’s financial reports are all Key Managers, they are considered to carry out “Control Functions” for the purposes of application of the specific regulations on incentives envisaged by the new Supervisory Provisions.

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

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

### **The correlation between remuneration, risk and performance**

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

- use of a balanced pay mix, as the fixed component is sufficiently high to allow the variable portion, which is never guaranteed, to decline significantly, even down to zero, upon occurrence of the conditions specified below;
- the application of the principle of selectivity, which differentiates the best performances and, in return, assigns significantly higher-than-average bonuses;
- the introduction, on the basis of the “financial sustainability principle”, of a structured mechanism for funding the variable component (bonus pool), which correlates the amount to be allocated to incentives for all company segments to the performance of a Group parameter, currently identified as income before tax from continuing operations;
- use of a solidarity mechanism between Group and Division/Business Unit results, according to which the amount of total bonuses paid to the employees of each Business Unit depends in part on the Group’s overall performance (reflected in the size of the bonus pool) and in part on the performance of the specific Organisational Unit, measured in terms of the degree of expected contribution to the Group’s income before tax from continuing operations;
- the introduction of the “guided discretion principle”, which translates into the assignment to the CEO of a limited part of the Group’s bonus pool (10%), eligible for allocation once the threshold has been reached, to departments that have exceeded their access thresholds, as further recognition for the quality and level of performance achieved;
- compliance with the access conditions envisaged in international and national regulations, i.e.:
  - o at Group level, the achievement of capital adequacy and liquidity levels, and in more general terms compliance with the limits envisaged in its own Risk Appetite Framework (RAF);
  - o at individual level, the propriety of conduct (absence of disciplinary measures resulting in one or more days of suspension);
- measurement of performance from multiple perspectives, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects and managerial qualities), as well as extending to different perimeters (Group/Department/Individual). The following are some examples of indicators for performance drivers:
  - o profitability: Operating income / Risk Weighted Assets, Income before tax from continuing operations/Tangible Equity vs. Peers, Portfolio mix (assets under management vs. assets under administration) and Combined ratio (non-life business).
  - o Growth: operating income, revenues / total assets (asset management);
  - o Productivity: Cost/Income, Recovery on directly managed problem portfolios (top level doubtful and non-performing loans) and Operating Income/Full Time Equivalent;
  - o Cost of risk/sustainability: Adjustments to loans/period-end loans, Concentration risk, balance sheet quality and active risks profile;
- the use of an additional mechanism that measures the residual risk level of each Business Unit (Q-Factor) and that acts as a possible de-multiplier of the bonus achieved in the event of failure to reach the target.

For the Manager responsible for preparing the Company’s financial reports and the Heads and higher-level personnel of the Company Control Functions, assuming application of conditions set out above and the “malus condition” described below, determination of the incentive accrued is strictly defined with reference to the specific qualitative and quantitative indicators of the respective functions, in accordance with the Supervisory Provisions. In the particular case of the Manager responsible for preparing the Company’s financial reports, such indicators allow assessment of:

- i) the quality of administrative and financial reporting disclosures to the market;
- ii) accuracy in the preparation of the consolidated financial statements;
- iii) the effectiveness of guidelines and policies governing financial reporting and tax obligations; and
- iv) the effective, timely fulfilment of accounting and supervisory obligations.

With regard to the Chief Risk Officer, the Heads of the Risk Management, Compliance and Internal Auditing Departments, the Head of the Anti-Money Laundering Service and the higher-level personnel of these areas, these indicators measure their performance in accomplishing their respective control activities with regard to the various types of risk (market, credit, interest rate, liquidity, operational, country, and non-compliance, as well as money laundering and terrorism financing). Performance is measured both in quantitative terms (e.g. percentage of assets on which the advanced models validated by the regulator are used, maximum duration of the suspected reports, ...) and qualitative terms (e.g. creation of an Action Plan relating to the adoption of the new provisions of the Bank of Italy - Circular 263 - on Internal Control System, quality of cooperation with the business in improving the management of risk and compliance, reinforcement of the culture/skills of risk and compliance by means of effective risk management guidelines, ...).

### **Remuneration components**

Employee remuneration is broken down into the following:

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

### **The remunerative pay mix**

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

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

- allow flexible management of labour costs, as the variable portion may significantly decline, even down to zero, depending on the performance actually achieved during the year in question;
- discourage behaviours focused on the achievement of short-term results, particularly if these involve taking on greater risk.

In order to achieve the above objectives, it is standard Group practice to establish ex ante limitations in terms of balanced maximums for variable remuneration, through the definition of specific caps on the increase of bonuses in relation to any over-performance.

From 1 January 2013 this cap on variable remuneration was set at 100% of the fixed remuneration, adopting the requirements of Directive 2013/36/EU ("CRD 4") in advance of a year.

However, in terms of cap compliance between fixed and variable remuneration (1:1), the pay mix was differentiated with respect to the following:

- the various categories of personnel, with particular focus on "Key Personnel" and the "Extended Scope", in order to adequately reflect the level of impact on risk and performance, limiting the weight of the variable component for personnel of the Company Control Functions;
- professional categories, i.e. by business unit, consistently with the results obtained from specific benchmark analysis of the leading European banking groups that also guarantee observance of the internal equality principle, given the use of common benchmarks for each statistical population;
- key staff members demonstrating high management quality, in order to support meritocracy and retention of these resources.

The adequacy of the amounts is further verified in comparison to market practices, with ongoing participation in national and international remuneration surveys; for management roles and other

particular business positions, the comparison is based on specific peer groups, in order to evaluate the competitive alignment with the most appropriate reference market.

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

In terms of guidelines, the incidence of the variable component with respect to the fixed component is periodically revised for the various categories of personnel according to the performance of the business, human resources management and development strategies and the law in force at the time.

In general, remuneration of personnel is subject to periodic review, in order to verify constant alignment to developments in the internal situation and in the market, also taking into account the results of performance evaluations. In these cases, under the annual budget allocations (based on the overall economic compatibility), measures aimed at adjusting the total pay of personnel, through tools defined by the Group management policies and in accordance with the powers in terms of personnel effective from time to time, may be envisaged.

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

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

### ***Incentive systems for Group personnel***

#### ***a. Conditions to activate the incentive systems***

All the incentive systems for the Group personnel are subordinated to three types of conditions:

1. minimum activation conditions requested by the Regulator at Group level;
2. financing conditions foreseen by the bonus funding mechanism at Group and structure level;
3. condition of individual access.

#### ***b. Minimum conditions of activation requested by the Regulator***

The minimum conditions requested by the Regulator are inspired by the principles of financial sustainability of the variable component of the remuneration and therefore represented by the check of the "quality" of the income results achieved and the consistency with the limits set as part of its "reference framework for determining the risk appetite" (RAF). In the Intesa Sanpaolo Group these conditions imply the following:

1. Common Equity Tier Ratio at least equal to the limit set in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit set in the RAF;
3. Absence of loss or Income before tax from continuing operations, net of any contributions from the profits of repurchasing own liabilities, of fair value measurement of the own liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

The failed achievement of even just one of the conditions described above implies the non activation of the incentive systems for the personnel of the Group.

#### ***c. Group's bonus funding mechanism and configuration by department***

All of the Group's human resources incentive systems are funded by a structured bonus pool mechanism. The correlation between remuneration, risks and performance) which requires the implementation of the financing conditions at both Group and structure level.

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



In the particular case when the income before tax from continuing operations does not exceed the access threshold but the conditions under the previous point have occurred, a minimum amount of the Group bonus pool – so-called “buffer” – is in any case available and may be allocated to the incentive of any performing units. The purpose of the buffer is to govern, in a regulated and ex ante manner, the possible performance of units with a positive trend, in contrast to the trend of the Group; the scenario is plausible as a consequence of the numerous businesses and countries in which Intesa Sanpaolo operates.

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

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

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

#### **d. Condition of individual access**

As part of each structure, upon the occurrence of the conditions under the two paragraphs above, the payment of the individual bonus is based on the level of achievement of the performance objectives assigned and, in any case, subordinated to the absence of disciplinary measures that result in at least 1 day of suspension (so-called individual compliance breach).

#### **e. “Key Personnel” and “Extended Scope”**

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

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

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

The Intesa Sanpaolo Group has defined the following in application of the foregoing:

#### *Deferred disbursement of variable remuneration*

The deferral percentages required by law are applied to “Key Personnel”:

- 60% for categories 1 and 2 (and, if existing, 5);
- 40% for the remaining categories.

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

Payment of variable remuneration through financial instruments:

The assignment of financial instruments of the Intesa Sanpaolo Group is envisaged for “Key Personnel” with respect to:

- 50% of the upfront remuneration
- 50% of the deferred remuneration.

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

*Deferral period:*

For “Key Personnel”, the deferral period is equal to 3 years, with payment of three equal instalments at the three annual deadlines following the year of accrual of the upfront component. Considering the retention period specified below for the portion paid in shares to “Key Personnel”, payment of the incentive is complete after five years from the reference year.

A simpler deferral method (with a single solution after two years) is envisaged for the “Extended Scope”.

*Breakdown of deferred portions:*

The composition of the deferred portions for “Key Personnel” is as follows:

- 1<sup>st</sup> deferred portion: 100% cash;
- 2<sup>nd</sup> deferred portion: 100% financial instruments;
- 3<sup>rd</sup> deferred portion: 50% financial instruments, 50% cash.

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

*Retention period:*

The following holding period is envisaged for the assigned financial instruments:

- 2 years for those assigned as the upfront portion;
- 1 year for those assigned as the deferred portion.

*Relevant Bonus*

The threshold for identification of a “Relevant Bonus” is set at 80,000 euro.

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

*Variable remuneration payment conditions:*

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

*Calculating the total incentive payable:*

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

Such rankings are obtained by ordering the scores of the results of the individual performance sheets, constructed according to the criteria illustrated above (see The correlation between remuneration, risk and performance), attributed to each manager.

Those who place above the third quartile in the rankings (equivalent to 25% of managers) receive the maximum bonus. This bonus may reach up to 100% of GAP, with the exception of the heads and higher-

level personnel of Corporate Control Functions and the Manager responsible for preparing the Company's financial reports, for whom it comes to approximately 33% of GAP (net of any role indemnities).

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

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

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

*Malus condition on the deferred portion of variable remuneration:*

The liquidation of the deferred portions of variable remuneration is subordinated to:

- occurrence of the condition of individual access;
- application of the ex post correction mechanism.

The occurrence of the condition of individual access, i.e. the absence of the disciplinary measures implying at least 1 day of suspension (so-called individual compliance breach), is a necessary, though not sufficient, condition for the liquidation of the deferred portion.

Indeed, each deferred portion is subject to an ex post adjustment mechanism - the so-called malus condition - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced up to zero, in the year the deferred portion refers to, in relation to the level of achievement of the minimum conditions set by the Regulator (see Conditions to activate the incentive systems) i.e.:

1. Common Equity Tier Ratio at least equal to the limit set in the RAF;
2. Net Stable Funding Ratio (NSFR) at least equal to the limit set in the RAF;
3. Absence of loss or Income before tax from continuing operations, net of any contributions from the profits of repurchasing own liabilities, of fair value measurement of the own liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

In particular, in case these do not occur singularly or for condition 1 or 2, the deferred portion is reduced by 50%; in case condition 3 is not satisfied, the deferred portion is zeroed.

**f. Other Managers**

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

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

Any “Relevant Bonuses” awarded to this segment, in excess of the threshold of 80,000 euro (see “Key Personnel” and “Extended Scope”) are subject to the deferral mechanisms envisaged for the “Extended Scope”.

**g. Remaining personnel**

Specific incentive systems are in place for all Group employees, drawn up in accordance with the above-described principles, guidelines and rules envisaged for management.

In an effort to build fair and motivating incentive systems, studies were conducted on internal practices and their alignment with specific market benchmarks.

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

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

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

- Retail & Private Business (Banca dei Territori Division): bonuses are awarded to reward team work, duly adjusted to take into account individual performance. The objective parameters used for determining incentives refer to the typical revenues of the business area, appropriately adjusted for risk (e.g. net revenues per employee) and aspects of a business nature (taking into consideration the compliance guidelines), duly combined with customer satisfaction and service quality indicators. In accordance with the principles of financial sustainability, merit and differentiation of performance, the system also calls for pre-determined selectivity criteria;
- Corporate & Finance Business (Corporate and Investment Banking Division) and Asset Management Business (Eurizon Capital, some Banca Fideuram subsidiaries): bonuses are awarded primarily to reward individual merit, also considering qualitative and behavioural elements, within the limits of team spirit, rewarding outstanding performance with incentives comparable to the target levels of markets of reference;
- Financial Advisors: without prejudice to the specific characteristics of the agency mandate (remuneration through commissions) in dealings with Banca Fideuram and Sanpaolo Invest, financial advisors, in accordance with the legislative provisions in effect from time to time, benefit from annual incentive schemes that, given suitable qualitative indicators, are connected with the level of achievement of the business objectives defined to support the company's growth, sustainability and profitability target;
- Governance Functions (Head Office Departments and Division Staff): incentives are awarded on the basis of overall Group/Division results. The system also uses, in a manner consistent with the principles of financial sustainability, merit and differentiation of performance, a series of selectivity criteria (in terms of a maximum number of staff members that may be rewarded) so as to ensure that bonuses are awarded exclusively for outstanding service and excellent conduct;
- International Subsidiary Banks: without prejudice to the use of adequate qualitative-quantitative indicators and compliance with the general Group policy, incentives are awarded on the basis of the procedures and local regulations in force from time to time in each Country.

Any "Relevant Bonuses" awarded to Remaining personnel, in excess of the threshold of 80,000 euro (see "Key Personnel" and "Extended Scope") are subject to the deferral mechanisms envisaged for the "Extended Scope".

#### ***h. Guaranteed bonuses***

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

#### ***i. Clawback mechanisms***

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

#### ***l. Prohibition of hedging strategies***

It is expressly prohibited for individual employees to undertake personal hedging or insurance strategies on the remuneration or other aspects that may alter or undermine the effects of the alignment with company risk inherent in the remuneration mechanisms described. Remuneration may not be paid in forms, instruments or methods aimed at avoiding provisions of law.

### **Employee share ownership**

The Intesa Sanpaolo Group is always seeking innovative ways to motivate and retain its resources, the involvement and development of which constitute key and enabling factors in the achievement of results at all levels of the organisation.

The Group believes that share ownership encourages identification and alignment to the medium/long-term objectives and constitutes a desirable form of sharing the value created over time.

This takes on particular importance during the launch of the 2014-2017 Business Plan, whose implementation requires the commitment and activation of the energy of all individuals working in the Intesa Sanpaolo Group.

### **Employee investment plan – LECOIP (Leveraged Employee Co-Investment Plan)**

The Bank's desire to offer all of its employees an investment meeting such characteristics (the Investment Plan or LECOIP) falls under this scope.

#### **a. The principles**

- Strengthening of the sense of belonging (ownership);
- Alignment with a medium/long-term timeframe which is consistent with that of the Business Plan;
- Express sharing of the “challenge” offered by the Business Plan: participation in the LECOIP assumes an individual investment choice that is both voluntary and informed;
- Protezione e promozione del risparmio dei dipendenti attraverso l'offerta di uno strumento di investimento efficiente;
- Inclusion and cohesion: the Investment Plan targets all employees;
- Fairness: the Investment Plan is offered through a uniform structure to all employees.

#### **b. The characteristics**

The share ownership proposal is subdivided into two phases:

1. launch by the Bank of an Employee Share Ownership Plan that allows each employee to share equally in the value of Intesa Sanpaolo through ownership and, therefore, to increase their sense of belonging;
2. the possibility for each employee to dispose of the shares received and:
  - a. maintain them in their securities account, in order to sell them subsequently or transfer them immediately;
  - b. invest them in a long-term financial instrument, the LECOIP Certificate, with term aligned to the Business Plan, which upon maturity:
    - i. guarantees a “certain” capital (higher than the value corresponding to the amount of shares invested);
    - ii. participates in the share value increase over a larger number of shares.

With regard to the Employee Share Ownership Plan, the amounts assigned free of charge in shares to all employees are differentiated by population groups and, in any case, represent a limited significance value compared to GAP (up to 80,000 euro to Key Managers). In any case, the methods for implementation of the Employee Share Ownership Plan will be discussed with company members, in accordance with the provisions of the relative collective labour and company agreement in force from time to time.

With regard to the LECOIP Certificate, the guaranteed capital amount that the employee receives upon maturity after having invested in the Plan may reach a maximum of 1 GAP (over 4 years). The extent of participation in the share value increase will be defined upon subscription to the Plan, within a range of between 60% and 75%.

#### **c. Diversification in relation to Key Personnel**

Key Personnel, as defined above, are offered an investment opportunity with differentiated features compared to those envisaged for employees in general, given their specific impact on company results and in accordance with EU Regulations on remuneration.

The differentiating factor for Key Personnel is the definition of trigger events that may decrease the guaranteed portion as well as the equity portion.

These trigger events – which will be identified in detail in the Risk Taker LECOIP Certificate conditions – include the value distribution or non-distribution to shareholders (this meaning the distribution of dividends and/or reserves and/or the buyback of treasury shares), during the Investment Plan's term of one year or longer.

In fact, the occurrence of said trigger event (namely the non-distribution of dividends to shareholders) may be due to limited profitability, as well as, according to what is expressly stated in Circular no. 285, Title II, Chapter 1, Section V "Capital Preservation Measures", situations of weakening in the capital adequacy conditions, thereby requiring the application of prudent risk management measures.

If said trigger event occurs, the rights that would have been recognised to the Risk Takers pursuant to the Risk Takers LECOIP Certificate shall be transferred to Intesa Sanpaolo according to the methods described in the terms and conditions of said Certificates.

#### ***c.i. Consistency with the Provisions on remuneration***

Even though the LECOIP is technically a Co-Investment Plan, it is consistent with the CRD IV Directive in terms of its key elements.

In fact, the characteristics of the LECOIP implement the requirements of the international Regulator in terms of remuneration of Key Personnel:

- the "guaranteed capital" is limited to a maximum of 1 RAL (in 4 years);
- availability of the benefit is subject to a vesting period (cliff) of over 3 years;
- the LECOIP is paid fully in shares;
- the adoption of trigger events that reduce the amount of guaranteed capital and of the investment portion to the share value increase constitutes an intrinsic element of prudent risk management.

#### ***d. Conditions governing participation in the Investment Plan***

Participation in the Investment Plan is subject to verification of the existence of an employment relationship with Intesa Sanpaolo, or with one of the Group companies at the moment of effective participation in the Investment Plan.

In fact, any rights arising from the Certificate, including the right to protection with regard to the shares assigned free of charge, shall lapse in the event of resignation, termination for just cause or justified reason of the Employees involved, mutual termination of the employment relationship and similar situations. However, at the end of the Investment Plan and based on the actual period of office, amounts/shares accrued may be in any case recognised in the case of termination of the employment relationship due to achievement of the direct pension requirements or through access to the Solidarity Fund or participation in the Emergency Fund. In all of the above cases, the rights that would have been recognised to Employees under the Certificates shall be transferred to Intesa Sanpaolo according to the methods described in the terms and conditions of said Certificates.

#### ***e. Change of control***

In the event of a "change of control" impacting the Intesa Sanpaolo Group<sup>4</sup>, the employee receives, on a pro rata basis, the value of guaranteed capital (in any case equal to at least the value of the shares invested by the employee from the Employee Share Ownership *Plan*), plus what has been accrued up to that moment in terms of participation in any share value increase.

#### ***f. Expected benefits***

- Support of motivation;
- Increase in attraction levels and personnel retention;
- Efficient use of the economic resources available to the Bank (the cost of the Investment Plan is largely lower than traditional forms of remuneration, with equal net benefit for the employee);
- Distribution of the Plan's costs over a multi-year timeframe;
- Tax advantage, in favour of employees, compared to traditional forms of remuneration, as participation in any appreciation of the share value compared to its original market value is subject to taxation on financial income;
- Higher returns for the investor compared to traditional forms of remuneration, as the Investment Plan involves an average increase in EPS of around +1%, with equal net benefit for the employee.

<sup>4</sup> A change of control is considered to have occurred in the event of acquisition of control of the Intesa Sanpaolo Group by third parties (other than the current shareholders) through public takeover bid, private agreements or any other method (e.g., mergers, acquisitions, spin-offs, extraordinary transactions), where "control" generally refers to: (a) possession of over half of the voting capital or (b) the possibility to exercise substantial control over the company, such as by determining or removing all or part of the management bodies, or (c) the possibility to guide the financial policies or, in general, management of the company.

### **Termination of the employment agreement**

The termination of service of personnel with state pension or seniority pension rights and/or A.G.O. pension treatment does not result in loss of the right to payment of the entitled amounts, even deferred. In all other cases, the company has the right to award any amounts, depending on the specific situations, on termination of the employment contract, also through consensual retrenchment agreements providing termination indemnities.

In any event, compliance with the principles of the Group Code of Ethics excludes the option of offering “golden parachutes” to its managers and employees, meaning individual agreements signed ex ante (i.e. prior to termination of the employment contract) that govern remuneration agreed in the event of early termination of employment.

In recent years, the Bank has signed specific agreements with the trade unions with regard to the “solidarity fund”, applied to employees of all grades, including executives, which also governs the treatment of sums payable to personnel on termination of service in the event of extraordinary transactions and/or company reorganisations.

### **Discretionary pension benefits**

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

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

### **Description of remuneration items and consistency with the relevant policy**

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

- a) a **fixed component** including, for:
  1. Supervisory Board Members, the remuneration resolved by the Shareholders’ Meeting, including compensation for the performance of special offices and attendance fees;
  2. Management Board Members, the remuneration resolved by the Supervisory Board in accordance with the specific remuneration policies approved by the Shareholders’ Meeting, including compensation for the performance of special offices;
  3. General Managers and other Key Managers, the gross remuneration amount defined individually based on the contractual agreement, the role held, the responsibilities assigned, and the specific experience and expertise acquired by the manager, including any indemnity;
- b) a **variable component** (to which Supervisory Board Members or non-executive Management Board Members are not entitled), linked to performance and aligned to the short and long-term results actually achieved by the Bank and by the Group overall, resulting from application of the incentive systems approved by the relative corporate bodies in accordance with the remuneration policies in force. The variable component includes the financial instrument-based incentive plan targeted to the Top Management and Risk Takers, approved in line with the remuneration policies, by the Management Board and the Supervisory Board, each within the scope of its remit;
- c) a component resulting from valuation of the **benefits** assigned to the General Managers and other Key Managers and including the amount paid by the company into the manager’s supplementary pension fund and the premiums (taxable) paid by the Company for the relative insurance coverage; the statements do not include any other benefits granted to said personnel (for example, a company car) that are not taxable, also due to specific conditions under company policy (for example, if a monetary contribution by the manager is required).

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

## Quantitative disclosure

### *The 2013 incentive system for Top Management and Risk Takers*

#### **Introduction**

Intesa Sanpaolo's remuneration and incentive policies were approved by the Supervisory Board based on a proposal of the Management Board of 12 March 2013 and subjected, limited to the scope of its responsibilities, to an advisory vote by the Shareholders' Meeting of 22 April 2013, which was favourable. The Management Board and Supervisory Board approved, each within the scope of its remit, the incentive system for Top Management and Risk Takers (subsequently also referred to as the "System"), as implementation of said policies, on 16 July 2013.

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

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

#### **Recipients**

The System is addressed to "Key personnel", as defined by the Supervisory Provisions, identified by the Management Board and the Supervisory Board, each acting under its remit, as the Chief Executive Officer, the General Managers, the other Key Managers, the heads of the Company Control Functions at Group level, including the main hierarchical and functional reports, the heads of the main corporate functions and business areas and the persons defined by the regulations as "risk takers", who may take on significant risks for the Group, such as, merely by way of example, the heads of the main business units of Banca IMI, for a total of about 110 resources.

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

#### **Plan objectives**

Incentive plans are designed, in general terms, to retain managers and support their motivation to achieve the company's goals. Where they include financial instrument-based compensation, they also reinforce alignment of Management conduct, interests of shareholders and medium-/long-term results, in addition to managers' direct participation in corporate risk.

Under this approach, the plans are an integral component of the Intesa Sanpaolo Group compensation system addressed to executive officers and remaining personnel, fully in line with its investment in human capital development, in the framework of a policy targeting sustainable long-term development and accountability vis-à-vis all stakeholders, by incentivising the achievement of goals identified by the competent corporate functions from among the indicators that best reflect Group profitability over time, also taking account of risks assumed, the cost of capital, liquidity and the level of capitalisation required to handle the activities implemented.

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



### **Characteristics of the financial instruments to be awarded**

The System provides for the assignment to the recipients identified above of a bonus comprised of 50% cash and 50% ordinary Intesa Sanpaolo shares, which will be purchased on the MTA market (mercato telematico azionario) in compliance with the mandates specifically granted by the Shareholders' Meeting.

60% of the entire bonus (reduced to 40% for the Chief Executive Officer, Key Managers and other specific positions) will be paid to the recipients in the year following the year the bonus refers to (upfront portion) according to the same cash/shares ratio as above.

The remaining portion will, instead, be assigned proportionally in the three further following years, broken down as follows: the first third is paid entirely in cash, the second third exclusively through shares and the last third equally divided into cash and shares.

As per the Supervisory Provisions, each portion of the bonus assigned in shares shall be subject to a retention period of 2 years for the upfront portion and 1 year for the deferred portions. The retention period starts from the accrual date of the bonus.

The shares accrued in each case shall be delivered to the recipients only at the end of the retention period described above and, save for the cases described hereunder, shall be subject to the employee remaining in service with any Group company.

In light of the above, the shares to be purchased on the basis of the Shareholders' Meeting mandate may be delivered to the recipients starting from 2016 (the upfront portion referring to the net income for 2013) and up to 2018 (for the last deferred tranche).

Incentives below or equal to 80,000 euro gross are in any case paid entirely in cash and upfront, inasmuch as the amounts that would result from the application of the deferral, payment in shares and holding period mechanisms would be quite insignificant in both absolute and relative terms with respect to total remuneration collected, to such an extent as to result in effective invalidation of the principle that inspires the mechanism (correlation between the amount of the incentive and assumption of risks).

As has become traditional practice in the Group, and in line with regulators' indications, based on which the ratio of the fixed component of remuneration to the variable component "must be suitably balanced, exactly determined and carefully assessed in relation to the characteristics of the intermediary and the various categories of personnel", the theoretical bonus which could be distributed is correlated to the level of each recipient's fixed component of remuneration.

More specifically, beneficiaries may at most receive a yearly bonus, including the deferred portion and the portion assigned in shares, of approximately 50% of the remunerative pay mix, down compared to the previous 60% and anticipating, in the facts of a year, the alignment to the new provisions in Directive 2013/35/EU (so-called CRD 4) regarding the relation between the fixed and variable components of remuneration. In light of regulators' indications, the Heads of the Company Control Functions, even if they are included under Key Managers, may benefit from a variable portion of compensation, with the same characteristics as that for "Key personnel", though smaller – amounting at the most to approximately 40% of the remunerative pay mix (net of any role indemnities).

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

The opening of the bonus pool both at Group and structure level is governed by exceeding the so-called "access threshold", expressed ex ante as the minimum value of the related income before tax from continuing operations.

The principle of financial sustainability is ensured, in compliance with the requests of the Regulator, by two preliminary conditions:

4. Core Tier 1 in line with the regulatory threshold;

5. Absence of loss or Income before tax from continuing operations, net of any contributions from the profits of repurchasing own liabilities, of fair value measurement of the own liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

The failed achievement of even just one of the conditions described above implies the non activation of the incentive systems for the personnel of the Group.

Once the aforementioned access thresholds are exceeded, the total amount due to beneficiaries is defined, in respect of the Group and Division/Business Unit bonus pool, according to the position achieved by each Manager in the internal ranking of their Division/Business Unit. These rankings are obtained by ordering the scores of individual performance sheets that measure performance based on a number of aspects, both quantitative (profitability, growth, productivity, cost of risk/sustainability) and qualitative (strategic actions or projects and managerial qualities).

In addition, each deferred portion is subject to ex post adjustment mechanisms - the so-called malus condition - according to which the relative amount recognised and the number of financial instruments assigned, if any, may be reduced up to zero, in the year to which the deferred portion refers, in relation to the level achievement of the minimum conditions set by the Regulator, i.e.:

1. Core Tier 1 in line with the regulatory threshold;
2. AV2 consistent with the limits set by the Group RAF;
3. Absence of loss or Income before tax from continuing operations, net of any contributions from the profits of repurchasing own liabilities, of fair value measurement of the own liabilities and income components deriving from accounting policies that are consequent to the changes made to the internal model of the core deposits.

In particular, in case these do not occur singularly or for condition 1 or 2, the deferred portion is reduced by 50%; in case condition 3 is not satisfied, the deferred portion is zeroed.

In any case, even if the malus conditions are met, the absence of disciplinary measures is requested as an individual access condition to the deferred portions, which include at least 1 day of suspension (so-called individual compliance breach).

On the indication of the Managing Director and CEO, supported by the positive opinion of the Remuneration Committee, the Corporate Bodies have shared the need to sterilise the economic effects deriving from the recognition of the new stakes in the Bank of Italy, replacing the previous stakes already held and cancelled by the Bank of Italy consequently to Law Decree no. 133/2013 converted into Law no. 5/2014 and the consequent amendments to the Statute approved by the Bank of Italy's general meeting on 23 December 2013, the Income before tax from continuing operations as a gate to the 2013 Incentive System, also in line with the spirit of the current regulations (in the results considered for variable incentive purposes, the contribution from non-recurring or merely measuring components that may be considered as an expression of the "effective and lasting" results is not to be considered, pursuant to the Provisions of March 2011 – see Communication of 13 March 2013 – Financial Statements 2012: assessments of loans, remunerations, distribution of Bank of Italy dividends).

As a consequence, the 2013 Incentive System is not activated and the Bonus Pool is not financed, implying the non payment of any variable remuneration component.

**Quantitative information subdivided by business area**

As shown in the previous paragraph, the failed activation of the 2013 Incentive System means zeroing the variable portion in the pay mix of each area of activity.

**Comparison of percent distribution of staff, fixed cost and the variable component 2013 and 2012**

	Staff 2013	Fixed Cost 2013	Variable Component 2013
Central Structures (including Top Management)	12%	16%	0%
Banca dei Territori	52%	62%	0%
Corporate & Investment Banking	3%	6%	0%
Banca Fideuram	2%	3%	0%
Eurizon Capital	1%	1%	0%
International Subsidiary Banks	30%	12%	0%

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

The table below provides additional information to that published in the same table 2012, due to the desire to advance the imminent disclosure requirements of the Supervisory Authority<sup>5</sup>, and in order to represent, in a more detailed and transparent manner, the elements which constitute the deferred variable remuneration referring to previous years.

In particular, a distinction is made between the variable components “accrued after the performance of the reference year (or, in the version 2012, the so-called “deferred payable”) and those actually paid in cash during the year and consisting of both deferred components and upfront share components, subject to a holding period (in the table 2012, the so-called “disbursed variable”).

### Quantitative information subdivided among the various categories of “key personnel” 2013 and 2012<sup>(\*)</sup>

(thousands of euro)												
Population (as at 31.12.2013)	No.	Percent ratio of the Fixed Component to the Variable Component of Remuneration		Remuneration 2013		Detail of Variable Component 2013				Variable deferred amount from prior years <sup>2</sup>		Variable deferred amount and upfront shares from prior years paid in 2013:
		Theoretical	Actual	Fixed Remuneration	Variable Remuneration	Upfront Cash	Upfront Shares	Deferred Cash	Deferred Shares	Accrued following 2013 performance	Not accrued	
		██████████ <sup>1</sup>	1	Max 100%	-	2,153	-	-	-	-	-	
██████████ <sup>1</sup>	1	Max 100%	-	1,180	-	-	-	-	-	333	67	413
GM, Other Key Managers <sup>2</sup> and MD/GM of the main Business Units/Companies	13	Max 100%	-	8,525	-	-	-	-	-	2,264	217	2,236
Heads of Internal Control Functions <sup>3</sup>	6	Max 67%	-	3,172	-	-	-	-	-	367	74	709
Other individuals who individually or collectively take on significant risks	89	Max 100%	-	22,661	-	-	-	-	-	3,402	762	2,803

<sup>1</sup> The amount indicated under the column “Fixed Remuneration” also includes remuneration received as member of ██████████

<sup>2</sup> Excluding 3 Key Managers who are included under Heads of Internal Control Functions.

<sup>3</sup> The amount indicated under the column “Fixed Remuneration” also includes any amounts paid as role indemnity.

<sup>4</sup> The amounts indicated include the value, upon definition of the incentives, of the shares assigned to Management in prior years under the incentive plans, even though these shares can be effectively assigned only in upcoming years, given the retention period and in any case subject to remaining in office with the exception of specific cases.

(thousands of euro)												
Population (as at 31.12.2012)	No.	Remuneration 2012		Detail of Variable Component 2012				Variable deferred amount from prior years:		Variable deferred amount and upfront shares from prior years paid in 2012:		
		Fixed Remuneration	Variable Remuneration	Upfront Cash	Upfront Shares	Deferred Cash	Deferred Shares	Accrued following 2012 performance	Not accrued			
		██████████ <sup>1</sup>	1	2,300	1,800	360	360	540	540		-	-
GM, Other Key Managers <sup>2</sup> and MD/GM of the main Business Units/Companies	13	9,225	10,536	2,107	2,107	3,161	3,161	621	310	400		
Heads of the Internal Control Functions <sup>3</sup>	6	3,279	1,340	312	312	358	358	155	78	-		
Other individuals who individually or collectively take on significant risks <sup>4</sup>	102	26,525	23,196	7,446	6,750	4,500	4,500	1,071	535	2,295		

<sup>1</sup> The amount indicated under the column “Fixed Remuneration” also includes remuneration received as member of ██████████

<sup>2</sup> Excluding 3 Key Managers who are included under Heads of Internal Control Functions.

<sup>3</sup> The amount indicated under the column “Fixed Remuneration” also includes any amounts paid as role indemnity.

<sup>4</sup> It also includes any other manager with variable remuneration exceeding 500.000 euro.

(\*) I dati riportati nella presente tabella includono anche il personale assicurativo.

As illustrated in the table above, amounts were liquidated during 2013 that derive from both the deferred bonus amounts accrued during the year but assigned in previous years (2010 Incentive System) and the upfront bonus amount in cash relating to the 2012 Incentive System.

In consideration of this, and taking into account the known fixed remuneration levels, there are 8 Managers in total – in service as at 31 December 2013 – whose global remuneration for 2013 equals at least 1 million euro. In particular:

- 1 Manager with a global remuneration between 2 and 2.5 million euro;

<sup>5</sup> In December 2013 the Supervisory Authority launched a consultation on the amendments it intends to make to its Provisions issued on 30 March 2011, with a view to implementing the provisions of the CRD IV Directive. These include the greater disclosure of retributive information relating to the different categories which make up the Key Personnel, in particular the relationships between the variable and fixed remuneration, determined both in the ex ante approval phase of the remuneration policies and in the disbursement phase.

- 2 Managers with a global remuneration between 1.5 and 2 million euro;
- 5 Managers with a global remuneration between 1 and 1.5 million euro.

In terms of the information required on employee termination indemnities defined during the year, it is specified that, apart from [REDACTED] – [REDACTED] [REDACTED] [REDACTED] – and [REDACTED] [REDACTED], in 2013 the termination of 1 Key Manager and 4 additional Managers included among “Key Personnel” is recorded.

The total amount of termination indemnities due to these 7 Managers amounted to 7,381 thousand euro, the highest of which was 3,600 thousand euro, which will be paid during 2014 [REDACTED] [REDACTED] [REDACTED], as a penalty for the early unilateral termination of his contract in application of the stability agreement signed upon his acceptance.

During 2013 no Managers included among the “Key Personnel” were hired from the market.

\*\*\*

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



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

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 2 - Pillar 3 as at 31 December 2013" corresponds to the corporate records, books and accounts.

April 7 2014

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





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## **Independent Auditors' Report on Basel 2 Pillar 3**



**KPMG S.p.A.**  
**Revisione e organizzazione contabile**  
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**(Translation from the Italian original which remains the definitive version)**

## **Limited assurance report on the Basel 2 Pillar 3 - Disclosure**

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

- 1 We have reviewed the Basel 2 Pillar 3 - Disclosure (the "Pillar 3") of the Intesa Sanpaolo Group at 31 December 2013. The parent's management board is responsible for the preparation of the Pillar 3 in accordance with the provisions of Banca d'Italia Circular no. 263 of 27 December 2006 and subsequent amendments. It is also responsible for establishing and maintaining appropriate performance management and internal control processes for the preparation of the data and information contained in the Pillar 3. Our responsibility is to issue this report based on our review.
- 2 We carried out our review in accordance with International Standard on Assurance Engagements 3000 - Assurance Engagements other than Audits or Reviews of Historical Financial Information (ISAE 3000), issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we comply with applicable ethical requirements (the "Code of Ethics for Professional Accountants" issued by the International Federation of Accountants, IFAC), including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the Pillar 3 is free from material misstatement.

Specifically, we carried out the following procedures:

- comparing the information and data presented in the Pillar 3 to the corresponding information and data included in the Intesa Sanpaolo Group's consolidated financial statements as at and for the year ended 31 December 2013, on which we issued our report dated 3 April 2014 pursuant to articles 14 and 16 of Legislative decree no. 39 of 27 January 2010;
- interviews and discussions with the management of Intesa Sanpaolo S.p.A. and the main banks included in the "Banking Group" as defined in Table 2 of the Pillar 3, to gather information on the IT, accounting and reporting systems used in preparing the Pillar 3, and on the processes and internal control procedures used to gather, combine, process and transmit data and information to the manager in charge of financial reporting for the preparation of the Pillar 3;

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- sample-based analyses of documentation supporting the preparation of the Pillar 3 to obtain evidence of the processes put in place to prepare the data and information presented therein;
- reading correspondence with Banca d'Italia in relation to the authorisation process related to using internal systems in calculating capital requirements;
- reading the reports issued by the Internal Auditing and Internal Validation departments on the management and internal control processes relevant for the preparation of the data and information presented in the Pillar 3;
- obtaining the representation letter on the compliance of the Pillar 3 with Banca d'Italia Circular no. 263 of 27 December 2006 and subsequent amendments and on the reliability and completeness of the information and data contained therein.

A review is less in scope than an audit carried out in accordance with ISAE 3000 and, therefore, it offers a lower level of assurance that we have become aware of all significant matters and events that would be identified during an audit.

The Pillar 3 includes the corresponding information and data of the prior year Pillar 3 for comparative purposes, with respect to which reference should be made to our report dated 21 March 2013.

- 3 Based on our review, nothing has come to our attention that causes us to believe that the Pillar 3 of the Intesa Sanpaolo Group at 31 December 2013 is not prepared, in all material respects, in accordance with the provisions of Banca d'Italia Circular no. 263 of 27 December 2006 and subsequent amendments.
- 4 This report has been prepared for the management board of Intesa Sanpaolo S.p.A. in compliance with our engagement. We carried out our work for the purposes of informing Intesa Sanpaolo S.p.A. of the matters contained herein. Therefore, we have no responsibility to any party other than Intesa Sanpaolo S.p.A. in relation to the work performed, this report or the conclusions expressed herein.

Milan, 8 April 2014

KPMG S.p.A.

(signed on the original)

Domenico Fumagalli  
Director



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# Glossary



## GLOSSARY

The definition of certain technical terms is provided below, in the meaning adopted in the "Pillar 3 Basel 2 disclosure" and excluding the terms today widely used in the Italian language or which are used in a context that already clarifies their meaning

### **AIRB (Advanced Internal Rating Based)**

Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only for certain regulatory segments by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

### **ABS – Asset-Backed Securities**

Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.

Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

### **ABS (receivables)**

ABS whose collateral is made up of receivables.

### **AMA**

(Advanced Measurement Approach) - A method for determining the operational risk capital requirements using calculation models based on operational loss data and other assessment elements collected and processed by the bank. Specific access thresholds and eligibility requirements are defined for adoption of the Standardised and Advanced approaches. For AMA systems, the requirements concern not only the management system but also the measurement system.

### **Backtesting**

Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

### **Banking book**

Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

### **Capital structure**

It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:

Equity (or Junior) Tranche: The riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche: The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels,

subordinated to one another. They are usually rated in the range between BBB and AAA.

Senior/Supersenior Tranche: The tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

### **Cap test**

A test performed in respect of the originator or the promoter to establish capital requirements in securitisation transactions. Under the regulations, the risk-weighted value of all exposures in respect of a single securitisation cannot exceed the weighted value of the securitised assets, calculated as if said assets had not been securitised (cap). The capital requirement in respect of all exposures to the same securitisation is equal to 8% of the cap.

### **Categories of financial instruments provided for by IAS 39**

*Financial assets "held-for-trading"*, which include: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking; assets designated at fair value, under the IAS, this category may include the assets that the entity decides in any case to measure at fair value with value changes recognized through profit and loss, in the cases provided for by IAS 39; *financial assets "held-to-maturity"*, non-derivative assets with fixed-term and fixed or determinable payments, that an entity intends and is able to hold to maturity; *"Loans and receivables"*, non-derivative financial assets with fixed or determinable payments not quoted in an active market; *financial assets "available-for-sale"*, specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

### **CCF – Credit Conversion Factor**

For banks that use the Standardised Approach and the FIRB, the Credit Conversion Factor is the weighting - provided for by the applicable regulations - applied to off-balance sheet exposures to determine their EAD:

- 100% to full-risk guarantees and commitments;
- 50% to medium-risk guarantees and commitments (e.g. margins available on irrevocable credit lines with an original maturity of more than one year);
- 20% to medium-low risk guarantees and commitments (import-export documentary credits);
- 0% to low-risk guarantees and commitments (e.g. undrawn revocable credit facilities);

### **Collective assessment of performing loans**

With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

**Core Tier 1 ratio**

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

**Corporate**

Customer segment consisting of medium- and large-sized companies (*mid-corporate and large corporate*).

**Covered bond**

Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

**Credit default swap/option**

Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

**Credit derivatives**

Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

**Credit risk**

The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

**CRM**

Credit Risk Mitigation.

**Cumulative loss**

Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

**Default**

Declared inability to honour one's debts and/or make the relevant interest payments.

**Delinquency**

Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

**EAD – Exposure At Default**

Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

**EDF – Expected Default Frequency**

Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

**Exotics (derivatives)**

Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

**Expected loss**

Amount of losses on loans or receivables that an entity could sustain over a holding period of one year. Given a portfolio of loans and receivables, the expected loss represents the average value of the distribution of losses.

**Fair value**

The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

**FIRB**

See "IRB"

**Floor**

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

**Goodwill**

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

**Grandfathering**

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

**Hybrid instruments included in Tier 1 capital**

Financial instruments that may be included in Tier 1 capital up to specific limits when the funding raised is available on an ongoing basis and there is an ability to absorb losses that fully guarantees the bank's capital stability. Such instruments may be classified as innovative or non-innovative depending on whether there are incentives for early redemption by the issuer (e.g., step-up clauses).

**IAS/IFRS**

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

**IASB (International Accounting Standard Board)**

The IASB (previously known as the IASC) is the entity responsible for issuing international accounting standards (IAS/IFRS).



**ICAAP**

Under the "Second Pillar" (Title III) banks are required to adopt processes and instruments for implementing the Internal

Capital Adequacy Assessment Process, (ICAAP) to determine the amount of capital needed to cover all risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

**IFRIC (International Financial Reporting Interpretations Committee)**

A committee within the IASB that establishes official interpretations of international accounting standards (IAS/IFRS).

**IMA**

Internal Models Approach: it can be used to calculate market risks.

**Impairment**

When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

**Incurred loss**

Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss." Loss already inherent in a portfolio, but not yet identifiable at the level of an individual loan or receivable, also known as an "incurred but not reported loss."

**Intangible asset**

An identifiable, non-monetary asset lacking physical substance.

**IRB (Internal Rating Based)**

Approach based on internal ratings within the framework of the New Basel Accord. In the internal ratings approach the expected loss on a loan portfolio is estimated through three parameters (PD, LGD and EAD). In the foundation approach only the PD is estimated by the Bank, for the other parameters reference is made to the indications from the supervisory authorities.

**Junior**

In a securitisation transaction it is the lowest-ranking tranche of the securities issued (Equity tranche), being the first to bear losses that may occur in the course of the recovery of the underlying assets.

**LDA - Loss Distribution Approach**

It is a model used to assess exposure to operational risk. It makes it possible to estimate the amount of expected and unexpected loss for any event/loss combination and any *business line*.

**Liquidity risk**

The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly

affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

**Loss Given Default (LGD)**

It indicates the estimated loss rate in the event of borrower default.

**Lower Tier 2**

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

**Macro-hedging**

Use of macro-hedging. Hedging procedure involving a single derivative product for various positions.

**Market risk**

Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

**M-Maturity**

The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

**Mezzanine**

In a securitisation transaction it is the tranche ranking between junior and senior tranche.

**Non performing**

Term generally referring to loans for which payments are overdue.

**Operational risk**

The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is the risk of losses deriving from breach of laws or regulations, contractual or non-contractual liability or other disputes; it does not include strategic risk (losses due to wrong management strategies) or reputational risk (loss of market shares as a consequence of negative publicity regarding the bank).

**Past due loans**

"Past due loans" are non-performing loans on which payments are past due on a continuing basis for over 90/180 days, in accordance with the definition set forth in current supervisory reporting rules.

**Performing**

Term generally referring to loans characterised by regular performance.

**Pool (transactions)**

See "Syndicated lending".

**Preferred shares**

See "Core Tier 1".

**Private equity**

Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

**Probability of Default (PD)**

The likelihood that a debtor will default within the space of 1 year.

**Prudential filters**

In schemes for calculating regulatory capital, corrections made to line items with the aim of safeguarding the quality of regulatory capital and reducing its potential volatility as a result of the application of international accounting standards (IAS/IFRS).

**Ratings**

An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

**Retail**

Customer segment mainly including households, professionals, retailers and artisans.

**Risk Management**

Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

**Risk Weighted Assets (RWA)**

On- and off-balance sheet assets (derivatives and guarantees) that are classified and weighted by means of several risk ratios, in accordance with the rules issued by regulatory authorities on the calculation of capital ratios.

**Scoring**

System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

**Securitisation**

A transaction in which the risk associated with financial or real assets is transferred to a special-purpose vehicle by selling the underlying assets or using derivative contracts. In Italy the primary applicable statute is Law 130 of 30 April 1999.

**Senior/Super senior tranche**

In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

**Sensitivity**

It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

**Servicer**

In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets

after they have been transferred to the special purpose vehicle tasked with issuing the securities.

**Syndicated lending**

Loans arranged and guaranteed by a pool of banks and other financial institutions.

**Slotting**

A system for calculating capital requirements, based on regulatory classification criteria, applicable to the exposures relating to Specialised Lending by banks authorised to use the internal credit risk rating system (for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section V).

**SPE/SPV**

Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

**Spread**

This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

**Stress tests**

A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

**Tier 1**

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

**Tier 2**

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

**Total capital ratio**

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

**Trading book**

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

**Upper Tier 2**

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

**VaR - Value at Risk**

The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.



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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.



