Risk management

BASIC PRINCIPLES

Intesa Sanpaolo Group policies relating to risk acceptance are defined by the Parent Company's Management Bodies, Supervisory Board and Management Board, with support from specific Committees (particularly, the Group Risk Governance Committee), and the Chief Risk Officer, who reports directly to the Chief Executive Officer.
The Parent Company is in charge of overall direction, management and control of risks, whereas Group companies that generate credit and/or financial risks operate within the assigned autonomy limits and have their own control structures. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiary's Management Bodies.
The risk measurement and management tools together define a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum unexpected loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic situation under ordinary and stress conditions. The capital position forms the basis for the business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, as part of the Group's Risks Tableau de Bord.
Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

BASEL 2 REGULATIONS AND THE INTERNAL PROJECT

Within the Basel 2 Project, the purpose of which is to prepare the Group for the adoption of advanced approaches, and with regard to credit risks, the Group was authorised by the Supervisory Authority to use the IRB Foundation approach for the Corporate segment, effective from the report as at 31 December 2008, on an initial scope of Group companies (comprised of the Parent Company and most of the network banks and Italian product companies).
In 2009, the Group began to expand the scope of application of internal models by securing permission for the use of the IRB Foundation approach by network banks belonging to the former Cassa di Risparmio di Firenze Group (effective from the report as at 31 December 2009) and by Intesa Sanpaolo Bank Ireland (effective from the report as at 31 March 2010) and also submitted an application to start the procedure for the international subsidiaries CIB Bank and VUB Banka and the Italian Banca IMI.
In 2008, the Group had implemented rating models and credit processes for the SME Retail and Retail segments (residential mortgages), and in 2009 it completed development of the LGD (Loss Given Default) model. The Bank of Italy authorised the Intesa Sanpaolo Group to adopt the IRB approach for the Retail Mortgage segment starting from the report as at 30 June 2010. Moreover, the application for the validation of the advanced IRB approach for the Corporate segment and the IRB approach for the SME Retail segment is set to be submitted by year end and during 2011, respectively.
The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application in accordance with the gradual roll-out plan for the advanced approaches presented to the Supervisory Authority.
On the subject of operational risk, it should be noted that the Group was authorised, effective from 31 December 2009, to use the Advanced AMA Approach (internal model) to determine the capital requirement on an initial scope that includes the Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently employ the Standardised approach, will migrate progressively to the Advanced approaches starting from the end of 2010, based on the rollout plan presented to the Management and Supervisory Authorities.
In 2010 the Group presented its Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for the measurement of risk, internal capital and total capital available.
As part of its adoption of Basel 2, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 2 - Pillar 3" or simply "Pillar 3".
The document is published on the website (group.intesasanpaolo.com) each quarter, inasmuch as Intesa Sanpaolo is among the groups that have adopted validated internal approaches for credit, market and operational risk.

CREDIT RISK

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

- achieving the goal of 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;
- privileging lending of a commercial nature or intended for new investments in production, provided that they are sustainable, over those of a merely financial nature;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of performance deterioration in a timely manner.

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the segment to which the counterparty belongs.

Credit quality

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

(millions of euro)

	30.06.2010			31.12.2009			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	18,535	-12,260	6,275	16,459	-11,094	5,365	910
Substandard loans	12,243	-2,557	9,686	12,976	-2,601	10,375	-689
Restructured loans	3,866	-289	3,577	2,402	-109	2,293	1,284
Past due loans	1,407	-123	1,284	2,583	-160	2,423	-1,139
Non-performing loans	**36,051**	**-15,229**	**20,822**	**34,420**	**-13,964**	**20,456**	**366**
Performing loans	336,603	-2,458	334,145	338,902	-2,448	336,454	-2,309
Performing loans represented by securities	20,371	-537	19,834	19,083	-556	18,527	1,307
Loans to customers	**393,025**	**-18,224**	**374,801**	**392,405**	**-16,968**	**375,437**	**-636**

Figures restated where necessary, considering the changes in the scope of consolidation and discontinued operations.

As at 30 June 2010, the Group's non-performing loans amounted to 36,051 million euro (up 4.7% on 31 December 2009) in gross terms and 20,822 million euro (+1.8%), net of adjustments.
This trend led to a slightly higher incidence of net non-performing loans on total loans to customers, increasing from 5.5% to 5.6%. The average hedging of non-performing loans increased from 40.6% in 2009 to 42.2% as at 30 June 2010.

Within the aggregates of non-performing loans, doubtful loans (of 6,275 million euro in net terms) grew by 910 million euro (+ 17%) over the period, while substandard loans are down 689 million euro (- 6.6%), mainly as a result of the transfer of some significant positions to restructured loans following the reaching of restructuring agreements. The hedging of doubtful loans as at 30 June (66.1%) is slightly down on that as at 31 December 2009 (67.4%), while that of substandard loans (20.9%) improved slightly on year-end 2009 (20%).
The 1,284 million euro increase in restructured loans is mainly due to the abovementioned transfer of some positions from substandard loans. Past due loans are down by 1,139 million euro also as a result of the change in the residential mortgages classification. Having obtained the Bank of Italy's authorisation to use the internal model for the purposes of determining the capital requirements of this customer segment, they are now classified under past due loans only when they are past due by more than 180 days (instead of over 90 days), using an approach “by customer” instead of the previous approach “by transactions”).

Cumulated collective adjustments on performing loans came to 0.73% of overall gross exposure relating to loans to customers, up slightly compared to the 0.72% at the end of 2009. The risk associated with the performing loan portfolio is calculated collectively on the basis of the risk configuration of the entire portfolio analysed by means of models that consider the Probability of Default (PD) and Loss Given Default (LGD) for each loan.

MARKET RISKS

TRADING BOOK

The quantification of trading risks is based on daily 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;
- equity 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.

Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 2% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books were interest rates and foreign exchange rates, both relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
In particular, the validated risk profiles for market risks are: (i) generic on debt securities and generic/specific on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of funds underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo, (iv) position risk on dividend derivatives.
From the second quarter of 2010 the validated risk profiles were extended to the commodity risk for Banca IMI.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.
In the second quarter of 2010, market risks generated by Intesa Sanpaolo and Banca IMI increased with respect to the averages for the first quarter of 2010. The average VaR for the period totalled 40.9 million euro.

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

(millions of euro)

	2010				2009			
	average 2nd quarter	minimum 2nd quarter	maximum 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	27,0	19,4	32,4	19,5	21,8	25,8	27,9	32,3
Banca IMI	13,9	10,4	19,5	11,7	10,1	10,6	15,7	18,0
Total	**40,9**	**30,0**	**49,2**	**31,3**	**31,9**	**36,4**	**43,6**	**50,3**

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

For Intesa Sanpaolo and Banca IMI, the breakdown of risk profile in the second quarter of 2010 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 45% of total VaR; for Banca IMI, credit spread risk was the most significant, representing 51% of total VaR.

(millions of euro)

	2010			2009		
	average 1st half	**minimum 1st half**	**maximum 1st half**	**average 1st half**	**minimum 1st half**	**maximum 1st half**
Intesa Sanpaolo	23,3	17,7	32,4	30,1	25,5	35,6
Banca IMI	12,8	8,9	19,5	16,9	11,7	21,7
Total	**36,0**	**27,6**	**49,3**	**47,0**	**39,1**	**55,7**

(a) Each line in the table sets out past estimates of daily VaR calculated on the half-yearly 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.

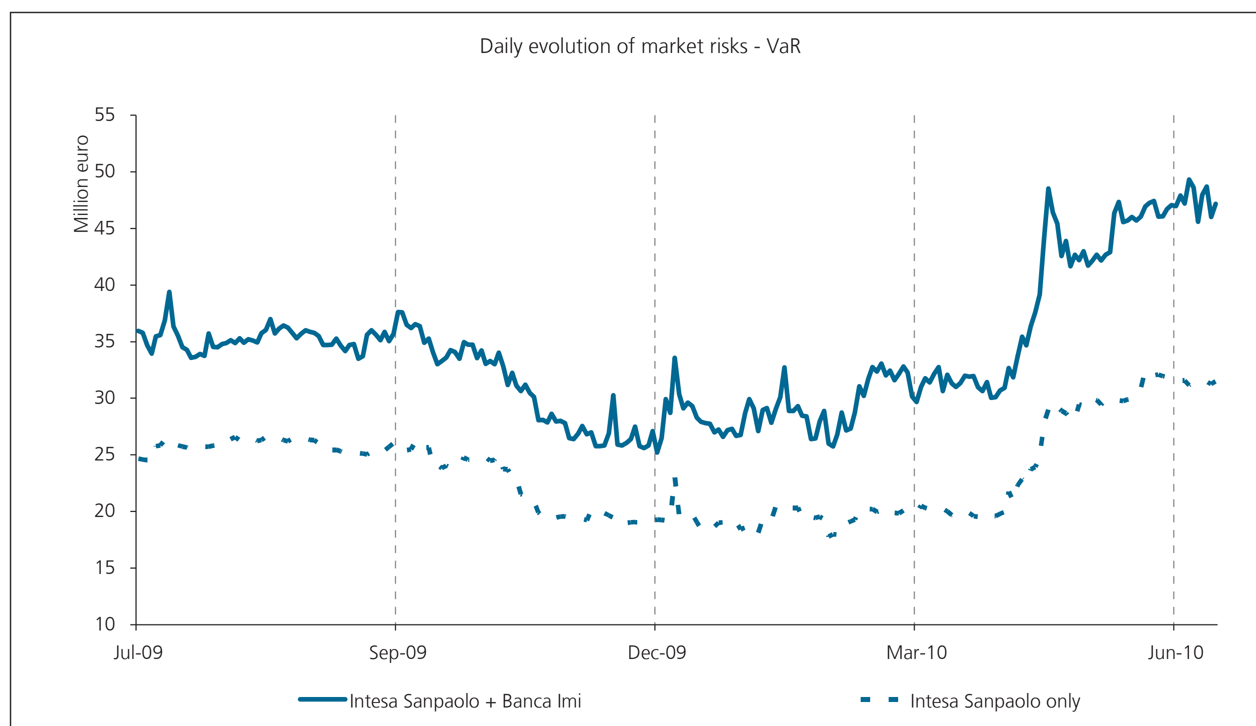
In the first half of 2010, market risks generated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for the first half of 2009. The average VaR for the period totalled 36 million euro.

Contribution of risk factors to overall VaR (a)

1st half 2010	**Shares**	**Hedge funds**	**Rates**	**Credit spreads**	**Foreign exchange rates**	**Other parameters**	**Commodities**
Intesa Sanpaolo	3%	45%	9%	33%	1%	8%	-
Banca IMI	11%	-	16%	51%	3%	11%	8%
Total	**7%**	**24%**	**12%**	**42%**	**2%**	**9%**	**4%**

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first half of 2010, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

VaR in the last twelve months is illustrated below. The increase in the second quarter of 2010 is due to the increased volatility of the spreads in government issues, following to the Greek crisis and the related contagion effect on peripheral countries of the Eurozone.



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

– on stock market positions, a bullish scenario, that is a 5% increase in stock prices with a simultaneous 10% decrease in volatility would have led to a 10 million euro loss;
– on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 18 million euro loss,

whereas a parallel -25 basis point shift would have led to a 22 million euro gain;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 99 million euro loss, 6 million euro of which due to structured credit products (SCP), whereas a 25 basis point tightening of the spreads would have led to a 101 million euro gain, 6 million euro of which due to SCPs;
- on foreign exchange exposures (main position on Euro/USD), the portfolio would have recorded a 21 million euro gain in the event of exchange depreciation (-10%). The positive effect in the case of foreign exchange appreciation (+10%) would be equal to 9 million euro;
- lastly, on commodity exposures a 8 million euro loss would have been recorded had there been a 50% increase in prices.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITIES	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	12	-10	22	-18	101	-99	21	9	8	-8
of which SCP					*6*	*-6*				

BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies that carry out retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti and Private Equity International.
The following methods are used to measure financial risks of the Group's banking book:
- Value at Risk (VaR);
- Sensitivity analysis.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits.
Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) at reducing the volatility of future cash flows related to a particular asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover 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 assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to hedge against fair value changes intrinsic to the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date on which the rate is set and the interest payment date.
Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on floating rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). In other cases, cash flow hedges are applied to specific assets or liabilities.
The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

The interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, stood at 603 million euro at the end of June 2010, almost entirely concentrated on the euro currency; this figure compares with the 560 million euro at the end of 2009.
Sensitivity of the interest margin – in the event of a 100 basis point rise in interest rates – amounted to +113 million euro (-115 million euro in the event of reduction) at the end of June 2010; these values record a slight decrease compared to the 2009 year-end figures of +119 million euro and -120 million euro, respectively, in the event of an increase/decrease in interest rates.

Interest rate risk, measured in terms of VaR, averaged 94 million euro in the first half of 2010 (131 million euro at the end of 2009) and reached a value of 106 million euro at the end of June, which also was the peak value for the period (the minimum value was 82 million euro).

Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category, measured in terms of VaR, registered an average of 97 million euro (126 million euro at the end of 2009) in the first six months of 2010, with minimum and maximum value of respectively 85 million euro and 115 million euro. VaR at the end of June amounted to 85 million euro.
Lastly, a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows a sensitivity, for a negative shock of 10%, equal to -72 million euro at the end of June 2010.

INFORMATION ON FINANCIAL PRODUCTS

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

DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

General Principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are unchanged with respect to those adopted for the prior year financial statements. For more details, reference should be made to the description included in the 2009 Annual report.
The fair value of financial instruments is determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets or via internal valuation techniques for other financial instruments.
A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.
When no quotation on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical arm's length transaction, motivated by normal business considerations, as at the measurement date. Such techniques include:
– reference to market values indirectly connected to the instrument to be valued and deduced from products with the same risk profile (comparable approach);
– valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: absolute priority is attributed to effective market quotes (level 1) for the valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotations (comparable approach - level 2) and a lower priority to assets and liabilities whose fair value is determined using valuation techniques based on non-observable and, therefore, more discretional inputs (Mark-to-Model Approach - level 3).
The following instruments are considered quoted on an active market (level 1): equities quoted on a regulated market, bonds quoted on the EuroMTS circuit and those for which it is possible to continuously derive from the main price contribution international platforms at least three prices with a bid-ask spread under an interval deemed to be congruous, mutual funds, spot exchange rates, derivatives for which quotes are available on an active market (for example, futures and exchanged traded options). Lastly, hedge funds for which the fund administrator provides the NAV (Net Asset Value) with the frequency established in the subscription contract, are considered as quoted on an active market, provided that no adjustments are required for the valuation of the liquidity or counterparty risks of the underlying assets. Conversely, all other financial instruments, which do not fall in the categories described above, are not considered quoted on an active market.
When no prices can be derived on active markets, the fair value of financial instruments is determined using the comparable approach (level 2) which uses measurement models based on market parameters. In this case the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads 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 search for transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. The calculation methodologies used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – i.e. 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 which are 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 included among structured credit products;
- complex credit derivatives (CDO) 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.

The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.

The valuation process of financial instruments ("Fair Value Policy") entails the following phases:

- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means. In particular:
  - reference categories are established for the various types of market parameters;
  - the reference requirements governing the identification of official revaluation sources are set;
  - the fixing conditions of official figures are established;
  - the data certification conditions are established;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used to current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement. The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. All models used for the measurement must be submitted to an internal certification process which involves various competent structures or independent companies in highly complex or particularly critical cases;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

The Fair Value Policy also provides for adjustments to reflect the model risk and other uncertainties relating to valuation. In particular, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. Indeed, it is possible that models which price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shift), and periodically reviewed. These fair value adjustments, due to model risks, are part of a Mark to Market Adjustment Policy adopted for the purpose of considering, in addition to model risk described above, also other factors eligible to influence valuation and essentially attributable to:

- high and/or complex risk profile;
- position illiquidity determined by temporary or structural market conditions or in relation to the entity of exchange values held (in case of excessive concentration) and
- valuation difficulties due to the lack of liquid and observable market parameters.

Fair value hierarchy

The table below shows financial assets and liabilities designated at fair value through profit and loss broken down by fair value levels.

(millions of euro)

Financial assets / liabilities designated at fair value	30.06.2010			31.12.2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	37,674	57,646	1,918	24,777	43,683	1,380
2. Financial assets designated at fair value through profit or loss	21,713	1,397	207	20,345	1,408	212
3. Financial assets available for sale	32,665	4,249	1,853	30,359	3,841	1,695
4. Hedging derivatives	-	9,315	5	-	7,008	-
Total	**92,052**	**72,607**	**3,983**	**75,481**	**55,940**	**3,287**
1. Financial liabilities held for trading	5,256	50,024	1,133	2,878	38,913	473
2. Financial liabilities designated at fair value through profit or loss	398	23,358	-	464	25,423	-
3. Hedging derivatives	-	6,988	6	-	5,179	-
Total	**5,654**	**80,370**	**1,139**	**3,342**	**69,515**	**473**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As shown in the table, level 3 instruments, which have more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio and the relevant balances are substantially unchanged from those at 2009 year end. Conversely, over one third of the items measured at fair value (more than one-half considering only financial assets) are determined based on market prices (no discretion).

The increase in level 3 financial assets and liabilities is mainly due to a number of interest rate and credit derivative transactions for which market parameters can no longer be observed.

The sensitivity analysis of level 3 financial assets and liabilities shows a 19 million euro[1] decrease in fair value due to complex credit derivatives, when the following parameters change:

- risk-neutral probability of default derived from market spreads (10%);
- recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
- correlation between the value of collaterals present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
- expected residual life of the contract (one-year increase over the expected term).

For more exhaustive information on the sensitivity of financial instruments to changes in the main input parameters, reference should be made to the analyses of the trading book.

[1] This amount is shown net of adjustments to valuations relating to the main input parameters which were already considered to determine the fair value of financial instruments.

STRUCTURED CREDIT PRODUCTS

The business model: objectives, strategies and relevance

During the quarter, the portfolio of structured credit products was substantially unchanged; the slight increase on the previous quarter is due to the exchange-rate effect which has more than offset the decrease following the expiry of some transactions.

The quarter was characterised by the marked volatility of market spreads, mainly due to the crisis of sovereign debts, ending however with the same or lower levels compared with the previous quarter and with a positive impact on the valuation of the portfolio (positive impact of 12 million euro on the income statement).

The strategy focusing on the reduction of exposure to this asset class continues to be pursued, in tandem with the opportunities offered by the reference market which remains quite uncertain as confirmed by the macroeconomic figures which indicate, in the best-case scenario, a weak recovery which is not sufficient to absorb unemployment and bring disposable income levels back to pre-crisis levels.

Highlights

The risk exposure of structured credit products amounts to 4,020 million euro as at 30 June 2010 with respect to funded and unfunded ABSs/CDOs and to 96 million euro with respect to packages.

The positions outstanding as at 30 June 2010, which have been downgraded by approximately 9% (down from 27% as at 31 December 2009), remain of good quality, as shown by the following indicators:

- 78% of the exposure was Investment Grade, compared to 73% as at 31 December 2009;
- 37% of the exposure had a Super senior (2%) or AAA (35%) rating. The percentage of Super senior fell slightly compared to 31 December 2009;
- 22% had a BBB rating or less, compared to 27% as at 31 December 2009;
- 25% of the exposure had a pre-2005 vintage[2];
- 39% has a 2005 vintage;
- only 9% of the exposure related to the US Residential segment, and 22% to the US non-residential segment;
- the remaining exposure (69% of the total) was almost entirely (57%) european.

In terms of underlying contract types, just over half the exposure consisted of CLOs (33%) and CDOs (24%); the rest was made up of ABSs (17%) and RMBSs (20%), with CMBSs representing 6% of the total.

With regard to valuation methods, unfunded positions were measured using the Mark-to-Model Approach (Level 3 of the Fair Value hierarchy) with the sole exception of positions on CMBX and LCDX indices, which were measured on the basis of Effective Market Quotes (Level 1 of the Fair Value hierarchy). As for funded products, around 8% of the exposure was measured on the basis of Effective Market Quotes (Level 1 of the Fair Value hierarchy), while, in 92% of cases, valuation techniques were adopted. Specifically, 53% of the exposures were measured through the Comparable Approach (Level 2) and the remaining 39% through the Mark-to-Model Approach (Level 3).

Structured credit products are indicated by separating the part classified under financial assets held for trading and available for sale from those classified as Loans[3]. The tables illustrate the impact on the income statement of both aggregates.

The information set out below refers to the entire Group. Any effects and positions ascribable to entities other than the Parent Company are specifically highlighted in the comments and/or in the detailed tables.

In the summary tables provided below, table (a) sets out risk exposure as at 30 June 2010 and income statement captions (sum of realised charges and profits, write-downs and write-backs) in the first half of 2010, compared with the corresponding values recorded as at 31 December 2009.

Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged.

The conversion into euro of values expressed in USD as at 30 June 2010 occurred at an exchange rate of 1.2271 euro per dollar and as at 31 December 2009 at an exchange rate of 1.4406 euro per dollar.

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

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

Structured credit products: summary tables

a) Exposure in funded and unfunded ABS/CDOs

(millions of euro)

Financial assets held for trading	30.06.2010		31.12.2009	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading
US subprime exposure	**29**	**-1**	**28**	**19**
Contagion area	**197**	**8**	**164**	**-68**
- Multisector CDOs	93	-8	88	-71
- Alt-A	-	-	-	-
- TruPS	104	16	76	3
- Prime CMOs	-	-	-	-
Other structured credit products	**1,285**	**23**	**1,235**	**-27**
- European/US ABS/CDOs	446	-2	479	36
- Unfunded super senior CDOs	823	16	834	-51
- Other unfunded positions	16	9	-78	-12
Total	**1,511**	**30**	**1,427**	**-76**
in addition to:				
Positions of funds	-	6	-	15
Total Financial assets held for trading	**1,511**	**36**	**1,427**	**-61**

Loans	30.06.2010		31.12.2009	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement**
US subprime exposure	**7**	**-**	**7**	**-1**
Contagion area	**111**	**-**	**107**	**-**
- Multisector CDOs	16	-	15	-
- Alt-A	62	-	59	-
- TruPS	-	-	-	-
- Prime CMOs	33	-	33	-
Other structured credit products	**2,391**	**3**	**2,321**	**4**
- Funded European/US ABS/CDOs	1,344	1	1,476	-11
- Funded super senior CDOs	904	2	714	15
- Other Romulus funded securities	143	-	131	-
Total	**2,509**	**3**	**2,435**	**3**
in addition to:				
Positions of funds	-	-	-	-
Total Loans	**2,509**	**3**	**2,435**	**3**
TOTAL	**4,020**	**39**	**3,862**	**-58**

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

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

b) Exposure in packages

(millions of euro)

Detailed table	30.06.2010		31.12.2009	
	Credit exposure to protection seller (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading	**Credit exposure to protection seller** (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading
Monoline risk	4	-	10	31
Non monoline packages	92	1	98	4
TOTAL	**96**	**1**	**108**	**35**

The overall risk exposure of structured credit products rose from 3,862 million euro as at 31 December 2009 to 4,020 million euro as at 30 June 2010, in addition to an exposure of 96 million euro in connection with structured packages. The increase is mainly attributable to the revaluation of USD positions following the appreciation of the US currency on the Euro.
From an income statement perspective, structured credit products improved, reaching +40 million euro as at 30 June 2010 compared to a loss of 23 million euro as at 31 December 2009.
The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of +36 million euro. The profit on this segment was essentially a result of the effects of:
– the unfunded positions included in the area "Other structured credit products" (+25 million euro as at 30 June 2010, of which +16 million euro in unfunded super senior CDOs and +9 million in Other unfunded positions);
– funded and unfunded positions associated with the "Contagion Area" (+8 million euro); this result is further improved if the positions in funds attributable to the segment are also considered (+6 million euro);
– European and U.S. funded ABSs/CDOs (-2 million euro), also included in the area "Other structured credit products", which, however, suffered a fall as a consequence of the worsening of certain securities included in the portfolio of the subsidiary Banca IMI;
– the US Subprime exposure (-1 million euro).

The securities reclassified to the loans portfolio and included among European ABSs/CDOs showed impairment losses as at 30 June 2010 that resulted in adjustments of 5 million euro, recognised under caption 130 "Net impairment losses on loans", partly offset by the net income from the sale of certain securities included in the segment (8 million euro), recognised under "Profits (Losses) on disposal or repurchase of loans – caption 100a". The overall impact of the securities included in this segment was +3 million euro as at 30 June 2010.
The contribution of the Monoline risk and Non-monoline packages was also positive with a total result of 1 million euro in the first half of 2010.
It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.
As at 30 June 2010, the aggregate included bonds classified as loans for a total nominal value of 2,717 million euro and a risk exposure of 2,509 million euro (2,357 million euro was reclassified and 152 million euro was classified in the loans portfolio since its initial recognition and included in the portfolios of the Parent Company and its subsidiaries Banca Fideuram and Eurizon Vita). This amount included 178 million euro for securities reclassified from available for sale to the loans portfolio. As at 30 June 2010 their fair value was 96 million euro. The positive impact of this reclassification on the Valuation reserve under Shareholders' Equity was 82 million euro. The remaining 2,179 million was reclassified from the trading book to the loans portfolio. The fair value of this aggregate was 1,945 million euro as at 30 June 2010, with a positive effect on the income statement of a total of 234 million euro, of which 299 million euro in benefits attributable to 2008, 7 million euro in benefits attributable to 2009 and a lesser benefit of 72 million euro attributable to 2010. Had the loans portfolio not been reclassified, the positive result for structured credit products in the first half of 2010 would have been 112 million euro.

US subprime exposure

Reference should be made to the financial statements as at 31 December 2009 for the definition of US subprime exposure adopted by the Intesa Sanpaolo Group. As at 30 June 2010, the Group:

– did not have mortgages definable as subprime in its portfolio, as it is not the Group's policy to issue loans of this kind;
– did not issue guarantees connected to the aforementioned products.

During the first half of 2010, the US subprime exposure remained constant with that as at 31 December 2009.

US subprime exposure

(millions of euro)

Financial assets held for trading	Position as at 30.06.2010		Income statement as at 30.06.2010 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded ABS	15	1	-	-	-	-
Funded CDOs	30	2	-	-1	-1	*-1*
Unfunded super senior CDOs (1)	214	26	-	1	1	-
Position on ABX indexes	-	-	-1	-	-1	-
"Long" positions	**259**	**29**	**-1**	**-**	**-1**	***-1***
Net position	**"long" 259**	**"long" 29**	**-1**	**-**	**-1**	***-1***

Loans	Position as at 30.06.2010		Income statement as at 30.06.2010			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded ABS	-	-	-	-	-	-
Funded CDOs	8	4	-	-	-	-
Romulus funded ABS/CDOs	4	3	-	-	-	-
"Long" positions	**12**	**7**	**-**	**-**	**-**	**-**
TOTAL	**271**	**36**	**-1**	**-**	**-1**	***-1***

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

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

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

The net nominal long position of 271 million euro as at 30 June 2010 compares with 236 million euro as at 31 December 2009. In terms of risk exposure, a long position of 36 million euro (35 million euro as at 31 December 2009) which also included securities reclassified under the loans portfolio for 7 million euro (12 million euro in terms of nominal value) existed as at 30 June 2010. At 30 June 2010, the fair value of reclassified securities was 5 million euro[4]. The positive impact of the reclassification on the Valuation reserve under Shareholders' Equity was therefore 2 million euro[5].
As at 30 June 2010, the overall impact on the income statement ascribable to these positions was -1 million euro (+19 million euro as at 31 December 2009). It was recognised entirely under "Profits (Losses) on trading – Caption 80".
With regard to the Funded ABS component, 60% had a AAA, 15% a AA, 3% a BB and the remaining 22% a CCC/C rating. The original Loan-To-Value [6] (LTV) was 91%, while average delinquency [7] at 30, 60 and 90 days amounted to 4%, 3% and 7%, respectively. Cumulated loss equalled 40%.
These positions were not quoted on active markets and were measured using the Comparable Approach (Level 2) for the funded ABS component or the Mark-to-Model Approach (Level 3) for the funded and unfunded CDOs.

[4] Of which 3 million euro refers to securities in the portfolio of the Romulus vehicle.

[5] Entirely attributable to the Parent Company.

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

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

"Contagion" area

As at 30 June 2010, the segment results subject to "contagion effect", i.e. affected by the subprime mortgage crisis, can be summarised as follows:

i. *Multisector CDOs*: products almost entirely represented by unfunded super senior CDOs, with collateral consisting of US RMBSs (76%), CMBSs (5%), CDOs (5%), HY CBOs (12%) and Consumer ABSs (2%). Over 67% of the US RMBS component had a vintage prior to 2005 and an immaterial exposure to subprime risk (on average 1%).
These were transactions with a CC+ average rating and an average protection (attachment point[8]) of 3%.

"Contagion" area: Multisector CDOs

(millions of euro)

Financial assets held for trading	Position as at 30.06.2010		Income statement as at 30.06.2010 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded CDOs	44	25	1	5	6	7
Unfunded super senior CDOs	374	129	-	-13	-13	-12
"Long" positions	**418**	**154**	**1**	**-8**	**-7**	**-5**
CMBX hedges and derivatives	61	61	3	-4	-1	-
Positions of funds		61	-	6	6	*1*
Net position (***)	**"long" 357**	**"long" 93**	**4**	**-6**	**-2**	**-4**

Loans	Position as at 30.06.2010		Income statement as at 30.06.2010			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded CDOs	6	5	-	-	-	-
Romulus funded ABS/CDOs	13	11	-	-	-	-
"Long" positions	**19**	**16**	**-**	**-**	**-**	**-**
TOTAL	**376**	**109**	**4**	**-6**	**-2**	**-4**

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

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

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

Taking into account write-downs, write-backs, CMBX and LCDX index hedges and a number of single-name credit default swap positions on associated names[9], the net risk exposure as at 30 June 2010 was 109 million euro, stable on the 103 million euro as at 31 December 2009. The exposure also included securities of 16 million euro (19 million euro in nominal value), partly in the Romulus vehicle portfolio and partly in the Parent Company portfolio, which were reclassified to the Loans category. As at 30 June 2010, the latter had a fair value of 10 million euro, with a positive impact of the reclassification on the Valuation reserve under Shareholders' Equity of 6 million euro[10].
As at 30 June 2010, the overall impact on the income statement ascribable to these positions (including those on CMBX and LCDX indices and other derivatives) was -8 million euro. Considering, for the sake of completeness, the Group's investment in funds, which had a positive impact on the income statement of 6 million euro, the impact on the income statement as at 30 June 2010 amounted to -2 million euro, with a reduction of 4 million euro in the second quarter. These figures compare with the 56 million euro loss recorded as at 31 December 2009.
With the exception of short hedging positions (measured at level 1), this segment included the funded and unfunded instruments that were measured using the Mark-to-Model Approach (Level 3). This approach is also applied to positions in funds.

[8] Level over which a protection seller covers the losses of the protection buyer.
[9] But not in positions of Funds.
[10] Of which 3 million euro refers to securities in the portfolio of the Romulus vehicle.

ii. ***Alt-A - Alternative A Loans***: ABS (securities) with underlying US residential mortgages normally of high quality, but characterised by penalising factors, mostly relating to incomplete documentation that do not permit their classification under standard prime contracts.
The positions in the Group portfolio had a 2005 vintage and ratings of AAA (48%), A (11%), BBB (18%), BB/B (2%) and CCC (21%).

"Contagion" area: Alt-A - Alternative A Loans

(millions of euro)

Financial assets held for trading	**Position as at 30.06.2010**		**Income statement as at 30.06.2010 Profits (Losses) on trading**			
	Nominal value	**Risk exposure** (*) (including write-downs and write-backs)	**Realised gains/losses**	**Write-downs and write-backs**	**Total**	
					1st half 2010	*of which 2Q*
Other securities available for sale(1)	10	-	-	-	-	-
"Long" positions	**10**	**-**	**-**	**-**	**-**	**-**

Loans	**Position as at 30.06.2010**		**Income statement as at 30.06.2010**			
	Nominal value	**Risk exposure** (**) (including write-downs and write-backs)	**Realised gains/losses**	**Write-downs and write-backs**	**Total**	
					1st half 2010	*of which 2Q*
Alt-A Agency	31	31	-	-	-	-
Alt-A No Agency	38	31	-	-	-	-
"Long" positions	**69**	**62**	**-**	**-**	**-**	**-**
TOTAL	**79**	**62**	**-**	**-**	**-**	**-**

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

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

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

The risk exposure as at 30 June 2010 was 62 million euro, compared to the 59 million euro of 31 December 2009. The bonds included in this category were almost entirely reclassified to the Loans caption. The nominal value of the securities reclassified was 69 million euro and the risk exposure amounted to 62 million euro. The securities had a fair value of 48 million euro and the positive impact of the reclassification as at 30 June 2010 was therefore 14 million euro.
The economic result for the segment as at 30 June 2010 was zero as at 31 December 2009.
The Alt-A No Agency component had an original average LTV of 74% and average delinquency at 30, 60 and 90 days of 2%, 1% and 9% respectively. Cumulated loss equalled 7%.
They were measured on the basis of the Comparable Approach (Level 2).

iii. ***TruPS – Trust Preferred Securities of REITs (Real Estate Investment Trust):*** financial instruments similar to preferred shares issued by US real estate trustees to finance residential or commercial initiatives.
The positions in the Group's portfolio had a CCC+ rating (unfunded CDOs) and a B/C rating (funded CDOs) and an average attachment point of 44%.

"Contagion" area: TruPS – Trust Preferred Securities of REITs

(millions of euro)

Financial assets held for trading	Position as at 30.06.2010		Income statement as at 30.06.2010 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded CDOs	114	33	-	-	-	*1*
Unfunded super senior CDOs	146	71	-	16	16	*11*
"Long" positions	**260**	**104**	**-**	**16**	**16**	***12***

Loans	Position as at 30.06.2010		Income statement as at 30.06.2010			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded CDOs	-	-	-	-	-	-
"Long" positions	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**260**	**104**	**-**	**16**	**16**	***12***

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

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

Taking into account the write-downs and write-backs, the risk exposure as at 30 June 2010 was 104 million euro, compared to 76 million euro as at 31 December 2009.
During the period, the overall impact on the income statement ascribable to these positions was 16 million euro, of which 12 million euro in the second quarter. These figures compared to a profit of 3 million euro recognised as at 31 December 2009. Since these were mainly unfunded positions, no financial instruments included within this category were reclassified.
The products in this segment were partly made up of unfunded super senior CDOs and partly of funded CDOs, written down by 51% of their nominal value on the basis of the Mark-to-Model Approach (Level 3).

iv. ***Prime CMOs***: securities issued with guarantee mostly represented by loans assisted by mortgages on US residential buildings.
They had a 2005 vintage and a AA (15%), A (59%) and BBB (26%) rating.

"Contagion" area: Prime CMOs

(millions of euro)

Financial assets held for trading	Position as at 30.06.2010		Income statement as at 30.06.2010 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
CMOs (Prime)	-	-	-	-	-	-
"Long" positions	**-**	**-**	**-**	**-**	**-**	**-**

Loans	Position as at 30.06.2010		Income statement as at 30.06.2010			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
CMOs (Prime)	36	33	-	-	-	-
"Long" positions	**36**	**33**	**-**	**-**	**-**	**-**
TOTAL	**36**	**33**	**-**	**-**	**-**	**-**

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

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

The risk exposure as at 30 June 2010 was 33 million euro, in line with that as at 31 December 2009.
The bonds included in this aggregate were fully reclassified to the Loans category. As at 30 June 2010, their fair value was 25 million euro, with a positive impact from the reclassification of 8 million euro.
The economic result for the segment as at 30 June 2010 was zero as at 31 December 2009.
The Prime CMOs component had an original average LTV of 64% and average delinquency at 30, 60 and 90 days of 1%, 2% and 1% respectively. Cumulated loss equalled 0.4%.
They were measured on the basis of the Comparable Approach (Level 2).

Monoline risk

Intesa Sanpaolo does not have any direct exposure to monoline insurers (insurance companies specialised in hedging the default risk of bonds issued by both public entities and the corporate sector) and only has indirect positions connected to hedging derivatives purchased from monoline insurers to buy protection on the default risk of assets held by the Group, which therefore only generate counterparty risk. Such hedging derivatives are part of two types of activities performed by Intesa Sanpaolo: packages and fully hedged credit derivatives transactions. For a description of the characteristics of these types of activities reference should be made to the financial statements as at 31 December 2009.
The overall nominal value of the assets underlying these transactions in packages increased from 96 million euro to 108 million euro during the first half of 2010. The collateral of assets making up the packages as at 30 June 2010, consists of US RMBSs with a significant subprime content[11].
As at 30 June 2010, credit risk exposure on the aforesaid protection purchases from monoline insurers linked to transactions in packages amounted to 42 million euro, compared to 40 million euro as at 31 December 2009. The negative impact on the income statement for the first half of the year was 2 million euro and is due, in part, to the decrease following amortisation of the notional of structures and, in part, to the narrowing of spreads on monoline insurers in the first half of 2010. As at 31 December 2009, the impact was a positive by 28 million euro.
As at 30 June 2010, credit risk exposure on the protection purchases from monoline insurers linked to transactions in fully hedged derivatives amounted to 26 million euro, in line with that as at 31 December 2009 (24 million euro). The positive impact on the income statement was 2 million euro, compared to 3 million euro at the end of the previous year.
In conclusion, as at 30 June 2010, the credit risk exposure with monoline insurers due to counterparty risk amounted to 68 million euro, compared to 64 million euro as at 31 December 2009. The impact on the income statement for the period was zero, compared to 31 million euro write-backs recognised year end 2009.
With respect to transactions in packages, both the security and the connected derivative have been measured using the Mark-to-Model approaches (level 3) also taking into account any available prices, if lower.
Please note that protection purchases amounting to approximately 20 million euro (17 million euro as at 31 December 2009) were carried out and that 99% of the exposure to monoline insurers referrs to MBIA, while the remaining 1% referrs to other monoline insurers with a AA- rating.

[11] The percentage in US subprime was 25.8%.

Monoline risk

(millions of euro)

Product	Position as at 30.06.2010				Income statement as at 30.06.2010 Profits (Losses) on trading	
					Fair value of the hedge with monoline insurers	
	Nominal value of the underlying asset	**Fair value of the underlying asset** (net of accruals)	**Credit risk exposure to monoline insurers** (fair value of the CDS pre write-down for CRA)	**Credit risk exposure to monoline insurers** (fair value of the CDS post write-down for CRA)	**1st half 2010**	*of which 2Q*
Positions in packages:						
Subprime	108	66	42	3	-2	*-6*
Other underlying assets	-	-	-	-	-	-
Sub-total	**108**	**66**	**42**	**3**	**-2**	***-6***
Positions in other derivatives:						
Other underlying assets	112	86	26	1	2	*1*
TOTAL	**220**	**152**	**68**	**4**	**-**	***-5***

Last, please note that there is another form of exposure to monoline insurers, which, however, does not generate particular risk situations. It stems from the investment in securities for which the monoline insurer provides a credit enhancement to the issuing vehicle, for the purpose of making the issue "eligible" for certain types of investors through the achievement of a certain rating (normally AAA). The securities in question, with a nominal value as at 30 June 2010 of 531 million euro (534 million euro as at 31 December 2009), consisted of ABSs with underlying Italian health receivables, also supported by delegated regional payments, and financings of infrastructures. They were all recorded in the banking book, in the Loans & Receivables (L&R) portfolio. Despite the downgrading of many of the monolines and the withdrawals of ratings in some cases, there were no deteriorations in the creditworthiness of single issuers/borrowers sufficient to warrant the application of particular measures such as prudential provisions. This was because the positions were granted primarily on the basis of the creditworthiness of the underlying borrower and therefore, irrespective of the credit enhancement offered by the monoline insurer.

Non-monoline packages

This category includes packages with assets covered by specific hedges entered into with leading international banks with AA, A, BBB, BB and B ratings, the majority of which are the subject of specific collateral agreements. The underlying assets are mostly made up of CLOs and ABS CDOs with a limited portion of US Subprime (approximately 10%).

Non-monoline packages

(millions of euro)

Product	Position as at 30.06.2010				Income statement as at 30.06.2010 Profits (Losses) on trading	
					Fair value write-down of the hedge	
	Nominal value of the underlying asset	**Fair value of the underlying asset** (net of accruals)	**Credit risk exposure to monoline insurers** (fair value of the CDS pre write-down for CRA)	**Credit risk exposure to monoline insurers** (fair value of the CDS post write-down for CRA)	**1st half 2010**	*of which 2Q*
Positions in packages:						
Subprime	383	290	93	92	1	*1*
TOTAL	**383**	**290**	**93**	**92**	**1**	***1***

As at 30 June 2010, these positions amounted to 383 million euro in terms of nominal value, compared to 460 million euro as at 31 December 2009. At the same date, the credit risk exposure to counterparties of the transactions included in the aggregate amounted to 93 million euro (100 million euro as at 31 December 2009) and was written down by 1 million euro (2 million euro as at 31 December 2009) in application of systematic adjustments made on the entire universe of derivatives to incorporate the credit risk adjustment in fair value which, in this particular case, reflects a minimum

counterparty risk[12]. The positive impact on the income statement for the period was 1 million euro (compared to a positive impact of 4 million as at 31 December 2009).
These positions were measured using the Mark-to-Model Approach (Level 3).

Other structured credit products

Starting from the end of 2008, the structured credit products segment with underlying instruments not originating in the USA, have been subject to the heaviest write-downs due to the spread of the crisis. To reduce income statement volatility in connection with this segment, from 2009, Intesa Sanpaolo adopted a restructuring policy for unfunded positions included in the aggregate and their replacement with funded positions. These transactions did not result in any change to Intesa Sanpaolo's exposure to risk. The funded nature of the new risk positions, also given the "rare circumstances", allowed their reclassification to the loans portfolio, at the fair value of the security as at the time of category transfer.
The various types of product attributable to this last segment are described below. In the first half of 2010, they had a positive impact on the income statement of 26 million euro, with a 15 million euro contribution in the second quarter, compared to a 23 million euro loss recorded as at 31 December 2009.

i. ***Funded/Unfunded ABSs/CDOs:*** The European ABS/CDOs portfolio consists of 16% of ABSs of receivables (Credit Card, Leasing, Personal Loans, etc.), 40% RMBSs (of which 40% are Italian), 12% CMBSs, 13% CDOs and 19% CLOs (mainly of small and medium enterprises). This portfolio was characterised by high credit quality (AAA 39%, AA/A 49%, BBB 7%, BB/B 5%). The collateral of the CMBS portfolio is mostly made up of Offices (51%), Retail/Shopping Centres (20%), Mixed Use (16%), Health Care (8%), Hospitality/Multifamily (4%) and Industrial (1%). The measurement of the European ABS/CDOs portfolio was based on Effective Market Quotes (Level 1) in 13% of cases, the Comparable Approach (Level 2) in 74% of cases, and the Mark-to-Model (Level 3) for the remaining 13%. As regards the US ABS/CDO portfolio, on the other hand, these were securities with US underlying, with collateral represented by Credit Cards (1%) and CLOs (99%). It was made up of 82% of AAA positions and 18% AA. The measurement of the US ABS/CDOs portfolio was based on the Comparable Approach (Level 2) in 19% of cases and the Mark-to-Model (Level 3) for the remaining 81%.
   - European ABSs/CDOs classified in the trading book.
     As at 30 June 2010 this portfolio had a total nominal value of 532 million euro[13] (575 million euro as at 31 December 2009), with risk exposure of 446 million euro[14] (479 million euro as at 31 December 2009). As at the same date, the related impact on the income statement was a negative 2 million euro, of which 10 million euro refers to realised income and 12 million euro to write-downs. This figure compared with the 24 million euro as at 31 December 2009. The deterioration is mainly due to the significant write-down of certain funded positions in the portfolio of the subsidiary Banca IMI.
   - European ABSs/CDOs classified under loans.
     The nominal value of the portfolio as at 30 June 2010 was 1,443 million euro[15] (1,583 million euro as at 31 December 2009), with a risk exposure of 1,335 million euro[16] (1,468 million euro as at 31 December 2009). As at 30 June 2010, the securities in this portfolio had a fair value of 1,058 million euro. The positive effect of reclassification in the loans portfolio was 205 million euro as at the end of the period[17]. During the year 2010, part of the portfolio was disposed of. These transactions generated profits of approximately 6 million euro [18] recognised under "Profits (Losses) on disposal or repurchase of loans – caption 100a". Moreover, impairment losses were recognised on certain securities included in the segment. The negative impact on the income statement (5 million euro as at 30 June 2010) was recognised under "Net losses/write-backs on impairment – caption 130a".
     The overall impact of this aggregate on the income statement was positive by 1 million euro as at 30 June 2010. However, it did not affect "Profits (Losses) on trading – caption 80". The figure should be compared with write-downs of -6 million euro recognised at the end of 2009.
   - US ABSs/CDOs classified under loans.
     This aggregate included securities with a nominal value of 9 million euro (8 million euro as at 31 December 2008) and a risk exposure for the same amount. As at 30 June 2010, the fair value of these securities was 8 million euro. The positive impact of their reclassification to the loans portfolio was 1 million euro.
   - Funded super senior corporate risk CDOs.
     These are funded positions classified to the loans portfolio that derive from the restructuring of unfunded positions.

[12] Also due to the presence of many transactions which have a specific collateral agreement.

[13] Of which 466 million euro pertaining to Banca IMI, 1 million euro to Carifirenze (classified under assets available for sale), 6 million euro to Sud Polo Vita (classified under assets available for sale) and 42 million euro to Eurizon Vita (classified under assets available for sale).

[14] Of which 411 million euro of funded positions pertaining to Banca IMI, 2 million euro to Sud Polo Vita (classified under assets available for sale) and 23 million to Eurizon Vita (classified under assets available for sale).

[15] Of which 137 million euro pertaining to Banca Imi, 8 million euro to Carifirenze (benefit from the reclassification to the Valuation reserve under Shareholders' Equity of 3 million euro), 81 million euro attributable to Banca Fideuram and Eurotresorerie (benefit from the reclassification to the Valuation reserve under Shareholders' Equity of 2 million euro) and 1 million euro attributable to Eurizon Vita (no benefit from the reclassification to the Valuation reserve under Shareholders' Equity).

[16] Of which 1,265 million euro resulting from reclassification and 70 million euro classified under the loans portfolio since initial recognition.

[17] In addition to a benefit of 2 million euro for the Valuation reserve under Shareholders' equity as a result of the reclassification of the financial assets available for sale to the loans portfolio.

[18] Of which 2 million euro pertaining to a security in Banca IMI's portfolio.

The total nominal value of the securities as at 30 June 2010 was 957 million euro[19] (769 million euro as at 31 December 2009), with a risk exposure of 904 million euro[20] (714 million euro as at 31 December 2009). With respect to the impact of these positions, the sale of part thereof generated a profit of 2 million euro as at 30 June 2010 recognised in "Profits (Losses) on disposal or repurchase of loans – caption 100".
As at the same date, reclassified securities in portfolio, equal to 822 million euro in terms of risk exposure, had a fair value of 816 million euro. The positive impact of their reclassification in the loans portfolio was therefore equal to 6 million euro.

ii. *Funded ABS/CDOs ascribable to the Romulus vehicle.*
These securities were classified as loans. The underlying is mainly US: Credit Card, Leveraged Loan, Student Loan and Corporate Risk. As at 30 June 2010, they had a nominal value of 172 million euro (158 million euro as at 31 December 2009). The securities included in this aggregate had a carrying value of 143 million euro as at 30 June 2010. A comparison with the fair value of such securities as at the same date (71 million euro) generates a positive impact on the Valuation reserve under Shareholders' Equity of 72 million euro. The portfolio consists of exposures with AAA (5%), AA (10%), A (5%), BBB (14%) and B (66%) rating.
The securities were measured on the basis of the Comparable Approach (Level 2) in 10% of cases and the Mark-to-Model (Level 3) for the remaining 90%.

iii. *Unfunded super senior Corporate Risk CDOs.*
Super senior in this residual category were mostly characterised by collateral subject to corporate risk and amounted to 898 million euro of nominal value as at 30 June 2010 (924 million euro as at 31 December 2009). More specifically, the US collateral component was 29% (mainly represented by CDOs, 54%), the European component was 60% (of which 75% referred to Italian consumer credit and 25% to CDOs) and the emerging markets' component was 11% (project finance). These structures had an average attachment point of 35%. During the first half of 2010, the related impact on the income statement amounted to +16 million euro (-1 million euro from net realised charges and +17 million euro from write-backs), with a contribution of 6 million euro in the second quarter. The profit compares with the negative figure recorded as at 31 December 2009, equal to -17 million euro.
These positions were measured on a Mark-to-Model (Level 3) basis.

iv. *Other unfunded positions.*
This is a residual portfolio of unfunded CDOs, almost entirely in mezzanine tranches with mainly European underlying, with a total nominal value of 26 million euro as at 30 June 2010. The change in the sign of the exposure ("short" for 78 million euro as at 31 December 2009 and "long" for 16 million euro as at 30 June 2010) is due to the natural expiry of a protection purchase structure on a security portfolio originated by a leading European bank.
In the first half of 2010, the related impact on the income statement was +9 million euro (+4 million euro from realised income and +5 million euro from write-backs), with a 7 million euro positive contribution in the second quarter. This figure compared with the loss recorded as at 31 December 2009 of -12 million euro.
These positions were measured on a Mark-to-Model (Level 3) basis.

[19] Including 182 million euro relating to a security transferred from the Parent Company's portfolio to Banca IMI's portfolio with no effects on the consolidated income statement. This amount also includes 86 million euro relating to securities purchased by the Parent Company subsequent to reclassification and originally recognised in the Loans portfolio.

[20] Including 160 million euro relating to a security transferred from the Parent Company's portfolio to Banca IMI's portfolio with no effects on the consolidated income statement. This amount also includes 82 million euro relating to securities purchased by the Parent Company subsequent to reclassification and originally recognised in the Loans portfolio.

Other structured credit products

(millions of euro)

Financial assets held for trading	Position as at 30.06.2010		Income statement as at 30.06.2010 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
European ABS/CDOs	532	446	10	-12	-2	*-6*
Funded US ABS/CDOs	-	-	-	-	-	-
Unfunded super senior multisector CDOs	-	-	-	-	-	-
Unfunded super senior corporate risk CDOs	898	823	-1	17	16	*6*
Other unfunded positions	26	16	4	5	9	*7*
"Long" positions	**1,456**	**1,285**	**13**	**10**	**23**	**7**

Loans	Position as at 30.06.2010		Income statement as at 30.06.2010			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					1st half 2010	*of which 2Q*
Funded European ABS/CDOs	1,443	1,335	6	-5	1	*6*
Funded US ABS/CDOs	9	9	-	-	-	-
Funded Romulus vehicle ABS/CDOs	172	143	-	-	-	-
Funded super senior corporate risk CDOs	957	904	2	-	2	*2*
"Long" positions	**2,581**	**2,391**	**8**	**-5**	**3**	**8**
TOTAL	**4,037**	**3,676**	**21**	**5**	**26**	**15**

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

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

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

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

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

The sponsor of the transaction is normally an entity which requests the structuring of a transaction in a SPE for the purpose of reaching certain objectives. In some cases the Bank is the sponsor and establishes a SPE with the objective of raising, securitising its assets or offering customers a financial service. There are no changes in the scope of consolidation with respect to those adopted in the previous year.

Funding SPEs

For a description of funding operations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009.
With respect to the SPEs included in this category, Sanpaolo IMI US Financial Co. ceased to exist in February 2010.
The table below shows the information and figures for these vehicles as at 30 June 2010.

(millions of euro)

FUNDING SPEs		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA FUNDING LLC	Funding	8,391	-	-	-	(1)	8,393	8,391	-		
INTESABCI PREFERRED CAPITAL CO. LLC	Funding	547	-	-	-	(1)	500	527	-		
SANPAOLO IMI CAPITAL CO. LLC 1	Funding	1,099	-	-	-	(1)	1,000	1,000	-		

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of these vehicles were almost entirely made up of loans to Intesa Sanpaolo. As at 30 June 2010, total funding of SPEs above had an incidence of approximately 2% on total direct customer deposits.

SPEs for insurance products

For a description of insurance operations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009.
In the Group there are 62 entities of this type with total assets of approximately 10 billion euro (of which 8 billion euro relative to funds which report to Fideuram Gestions).
As at 30 June 2010, the assets of the funds in which Eurizon Vita/Eurizon Life hold the majority of the quotas in circulation are invested in bonds and liquidity for around 69% (except for the SPLux Sicav 2 Equity 100 fund, which has invested around 80% of the portfolio in equity funds and shares) and, for the remainder, in equity and bond mutual funds (around 14%) and in corporate bonds (around 13%).
In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.
The total assets of these SPEs made up approximately 2% of the Group's total consolidated assets.

Securitisation SPEs

For a description of securitisations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009.
The SPEs included in this category are unchanged with respect to 31 December 2009. Moreover, no changes took place in the first half of 2010 with respect to the nature of securitised assets.
The table below shows the information and figures for these vehicles as at 30 June 2010.

(millions of euro)

SECURITISATION SPEs	Type of asset	Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA SEC SPA [1]	performing mortgages	8	-	-	-		-	7	5	AFS	Fair value
INTESA SEC 2 SRL [2] [14]	performing mortgages	336	1	-	-		-	287	30	HFT - Loans	Fair value/ amortised cost
INTESA SEC 3 SRL [3] [14]	performing mortgages	1,903	1	-	-		-	1,824	168	HFT - Loans	Fair value/ amortised cost
INTESA SEC NPL SPA [4]	non-performing loans	70	-	-	-		-	157	44	AFS - Loans	Fair value/ amortised cost
INTESA LEASE SEC SRL [5]	performing leasing contracts	96	3	-	-		-	77	-		
SPLIT 2 SRL	performing leasing contracts	332	-	-	-		-	316	31	Loans - HFT - HTM	Fair value/ amortised cost
ISP CB IPOTECARIO SRL [6]		[11]	-	-	-		-	-	-		
ISP CB PUBBLICO SRL [6]	public entities financing	6,432	-	6,281	6,281		-	5,000	3,000	Loans	Amortised cost
ISP SEC 4 SRL	performing mortgages	[11]	-	-	-		-	-	-		
ADRIANO FINANCE SRL - Series 1 [7] [14]	performing mortgages	6,481	4	-	-		-	6,213	-		
ADRIANO FINANCE SRL - Series 2 [8] [14]	performing mortgages	5,945	8	-	-		-	5,679	-		
ADRIANO FINANCE SRL - Series 3 [9] [14]	performing mortgages	6,042	8	-	-		-	5,860	-		
ADRIANO FINANCE 2 SRL [10] [14]	performing mortgages	13,655	21	-	-		-	13,050	-		
CR Firenze Mutui S.r.l.	performing mortgages	136	-	-	-		-	128	6	Loans	Amortised cost
AUGUSTO SRL [12]	long-term mortgages (100%)	26	10	-	-		-	36	9	AFS	Fair value
COLOMBO SRL [13]	public works financing	97	8	-	-		5	89	3	HFT - Loans	Fair value/ amortised cost
DIOCLEZIANO SRL	long-term mortgages(82%) Public works (12%) Indus. (6%)	78	38	-	-		-	114	17	AFS	Fair value

[1] ISP is committed to support the vehicle through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs.

[2] ISP is committed to support the vehicle through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. ISP also granted a subordinated loan of 19 million euro used by the vehicle to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. The residual of the deferred fixed price amounts to 3 million euro at 30 June 2010. Swap contracts exist as interest rate risk hedge.

[3] ISP granted limited recourse subordinated financing of 23 million euro used by the vehicle to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. Swap contracts signed with ISP exist as interest rate risk hedge.

[4] ISP granted a guarantee and indemnity contract currently used for approximately 1 million euro, in case of declarations or guarantees which lead to a reduction in loan value. In addition, the bank is committed to support the vehicle through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The subordinated financing amounts to 2 million euro. The indemnity does not cover security-related costs and securitisation operating costs. Cumulated losses shall be absorbed by tranches E (equity) and D held by ISP whose value was adjusted both in the current and in previous years. An Interest Rate Cap contract and Interest Rate Floor contract exist as interest rate risk hedge.

[5] The company has entered into swap contracts as interest rate risk hedge.

[6] These vehicles were set up pursuant to art. 7-bis of Italian Law 130/99. Therefore they do not issue securities, but guarantees to bondholders (Covered Bonds) issued by Intesa Sanpaolo.

[7] ISP granted limited recourse subordinated financing of 50 million euro, used by the vehicle to set up the cash reserve as required by the rating agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (440 million euro), fully subscribed by ISP. Swap contracts exist as interest rate risk hedge.

[8] ISP granted limited recourse subordinated financing of 50 million euro, used by the vehicle to set up the cash reserve required by the rating agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (398 million euro), fully subscribed by ISP. Swap contracts exist as interest rate risk hedge.

[9] ISP granted limited recourse subordinated financing of 75 million euro, used by the vehicle to set up the cash reserve required by the rating agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (563 million euro), fully subscribed by ISP. A swap contract exists as interest rate risk hedge.

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

[11] Established companies not yet operative as at 30 June 2010.

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

[13] ISP granted the vehicle a subordinated financing of 1 million euro.

[14] In the first half of 2010 ISP granted two subordinated financings for each of the following vehicles: Intesa Sec. 2 S.r.l., Intesa Sec. 3 S.r.l., Adriano Finance S.r.l. (Series 1, 2 and 3) and Adriano Finance 2 S.r.l. The transaction totalled 11 million euro.

As at 30 June 2010, the total assets of the consolidated SPEs not derecognised (Intesa SEC 3 S.r.l., Split 2 S.r.l., Adriano Finance S.r.l. Adriano Finance 2 S.r.l., and ISP CB Pubblico S.r.l.) represented around 6% of the total consolidated assets.
Furthermore, pursuant to SIC 12, Intesa Sanpaolo controlled:

– Romulus Funding Corporation, a company based in the USA that purchases financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and finances 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 table below shows the information and figures for the above two vehicles as at 30 June 2010.

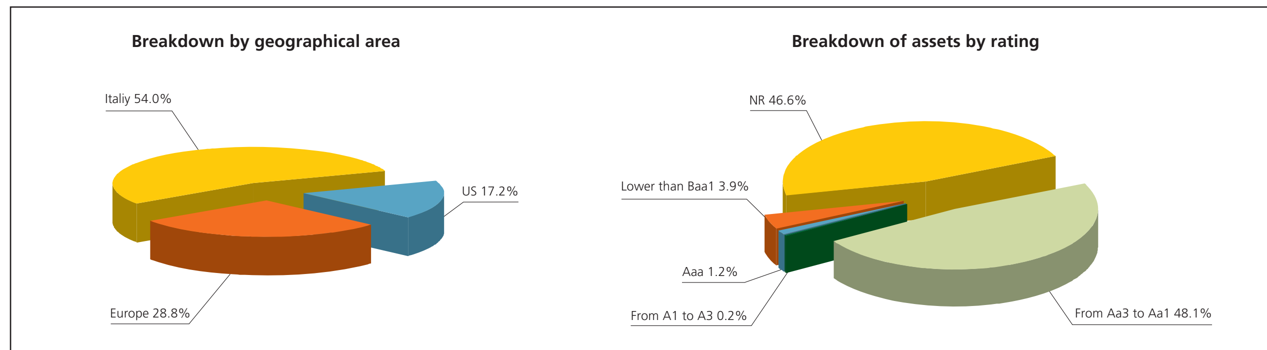
(millions of euro)

ROMULUS AND DUOMO		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset back commercial paper conduit	1,607 [(1)]		425	89	Letter of credit	135	1,542	-	-	-
DUOMO FUNDING CORP.	purchase of assets and Romulus financing	1,234		1,310	-		-	-	-	-	-

(1) of which 1,225 million euro for loans disbursed to Duomo, for transactions reported in the latter's financial statements.

In addition to loans to Duomo, the total assets of the vehicle Romulus also included other loans of 224 million euro. The vehicle's securities portfolio was classified entirely under the Loans category. As at 30 June 2010, these securities had a nominal value of 189 million euro, measured at amortised cost. Their carrying amount as at the same date was 158 million euro. The vehicle's assets also include liquidity and other assets amounting to 1 million euro. Moreover, the vehicle entered into derivatives hedging the foreign exchange risk related to outstanding positions.
The total assets of Duomo were made up of 474 million euro of loans to Intesa Sanpaolo, as collateral for an intragroup protection sale on the risk of a leading insurance company, 119 million euro of loans to the banking subsidiary Intesa Sanpaolo Bank Ireland, 639 million euro of loans to customers, and 2 million euro of liquidity and other assets.
The total assets of the above SPEs represented around 0.2% of the total consolidated assets.

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



Please note that, although part of the uses (approximately 47%) in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were not supported by an external rating, they were nevertheless of sufficient quality for the commercial papers issued by Romulus to maintain the A-1/P-1 ratings. More specifically, the percentage of assets with a rating between Aaa and Aa remained stable with respect to 31 December 2009 (approximately 48%). This witnesses the success of the policy to maintain a high level of the average quality of the portfolio.
The securities classified in the loans portfolio under discussion were made up as follows: 24% of 2002 vintage, 5% of 2003 vintage, and the remaining 71% of 2007 vintage.
Intesa Sanpaolo did not hold any stake in SPQR II S.r.l., a company that was consolidated because the Group had retained the majority of costs and benefits (SIC 12).
The table below shows the information and figures for these vehicles as at 30 June 2010.

(millions of euro)

SPQR II S.r.l.		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
SPQR II SRL (BIIS - CBO 1)	Performing Loans & Receivables	1,791	-	50	-	-	-	1,743	-		
SPQR II SRL (BIIS - CBO 2)	Performing Loans & Receivables	1,353	-	100	-	-	-	1,330	-		
SPQR II SRL (Banca IMI)	Securities issued by banks and SPVs	771	-	100	-	-	-	788	-		

The assets of the vehicle were almost entirely made up of a portfolio of bonds issued by Italian public entities, banks and SPVs, with a nominal value of around 4 billion euro, sold to the vehicle by Banca Infrastrutture, Innovazione e Sviluppo and Banca IMI. The vehicle issued senior and junior securities; both securities were repurchased by abovementioned company, which allocated the senior classes as collateral to its funding with the European Central Bank, via transactions closed through the Parent Company Intesa Sanpaolo.
Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the synthetic securitisation vehicle "Da Vinci" (used to hedge and actively manage risk exposure in the aircraft and aeronautic sector).
As at 30 June 2010 the Group's exposure to the vehicle Da Vinci was 4 million euro, consisting entirely of securities.

Financial Engineering SPEs

For a description of financial engineering operations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual Report 2009. Also as at 30 June 2010, Intesa Sanpaolo controls and consolidates Intesa Investimenti S.p.A., a company established to invest in quotas of Italian and international UCITS, in quotas and shares of other Italian and international entities and in Government securities of G8 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price. This company is still on stand-by.
The shareholders' equity of the company is entirely deposited with Intesa Sanpaolo.
The table below reports the figures relating to the special purpose vehicle as at 30 June 2010.

(millions of euro)

FINANCIAL ENGINEERING		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA INVESTIMENTI SPA	Financial Engineering	1,032	-	-	-	-	-	-	-		

Lunar Funding, a vehicle set up in Ireland and used for repackaging operations by a leading bank, is also included in the scope of consolidation.

Project Financing SPEs

For a description of project finance operations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009.

Asset Backed SPEs

For a description of operations of this kind involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009. However, Intesa Sanpaolo consolidates some entities which belong to this type of special purpose vehicles as it holds the majority of their voting rights. The SPEs of this type are held solely by a foreign subsidiary (the volume of this type of assets amounted to approximately 96 million euro as at 30 June 2010).

Leveraged & Acquisition Finance SPEs

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

Credit Derivatives SPEs

For a description of credit derivative operations involving special purpose vehicles and the criteria adopted by the Intesa Sanpaolo Group for their consolidation, reference should be made to the Annual report 2009.

LEVERAGED FINANCE TRANSACTIONS

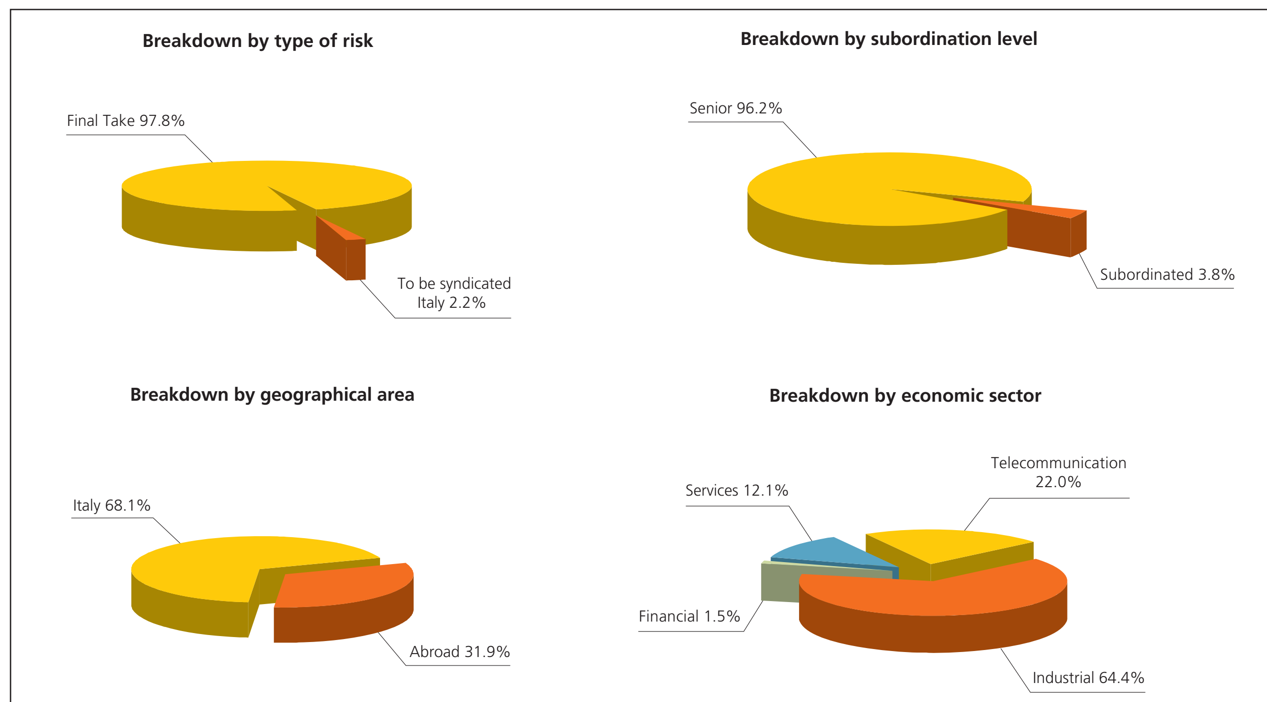
Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing, normally medium/long term) to legal entities in which the majority of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

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

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

As at 30 June 2010, slightly fewer than 110 transactions, for a total amount granted of 4,534 million euro, met the above definition.

These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



DISCLOSURE ON INVESTMENTS IN HEDGE FUNDS

The hedge funds portfolio as at 30 June 2010 totalled 800 million euro, compared to the 740 million euro recorded at the end of 2009. The increase is due to both the management of outstanding positions and the acquisition of new positions during the first half of 2010.

As at 30 June 2010, the contribution to "Profits (Losses) on trading – Caption 80" of these investments was further confirmed to be positive, although slightly down on that recognised in the first quarter of 2010, coming to 26 million euro (including 6 million euro in the structured credit products disclosure) compared to the 33 million euro recognised in the first quarter of 2010 and the 135 million euro at the end of 2009. Of these net profits:

- 3 million euro are net profits realised during the first half of the year from fund trading;
- 17 million euro related to net valuations of positions remaining at 30 June 2010 (including 6 million euro in the structured credit products disclosure);
- 6 million euro from other net income.

Taking into account the net capital gains on the final residual amount (17 million euro), these were spread across 58 positions, 22 of which recording capital losses (-43 million euro) and 36 capital gains (60 million euro).

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 June 2010, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, considering netting agreements, of 3,382 million euro (3,008 million euro as at 31 December 2009). The notional value of such derivatives totalled 47,997 million euro (47,107 million euro as at 31 December 2009). Of these, notional value of plain vanilla contracts was 35,973 million euro (32,925 million euro as at 31 December 2009), and of structured contracts was 12,024 million euro (14,182 million euro as at 31 December 2009).
Please note that the fair value of structured contracts outstanding with the 10 customers with the highest exposures was 318 million euro (253 million euro as at 31 December 2009). The same indicator, referred to the total contracts with a positive fair value, was 935 million euro.
Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 850 million euro at 30 June 2010 (327 million at 31 December 2009). The notional value of such derivatives totalled 10,585 million euro (8,321 million euro as at 31 December 2009). Of these, notional value of plain vanilla contracts was 9,472 million euro (7,057 million euro as at 31 December 2009), and of structured contracts was 1,112 million euro (1,263 million euro as at 31 December 2009).
The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Credit Risk Adjustment"). With regard to the contracts outstanding as at 30 June 2010, this implied the registration in the income statement, under profits (losses) on trading, of adjustments of 110 million euro, compared to the 104 million euro as at 31 December 2009, with a negative impact, during the period, of 6 million euro. Adjustments are recorded, for every single contract, at the market value determined using the risk free curves.
As concerns the means of calculation of the aforesaid Credit Risk Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in this chapter.
Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges agreed by the Group.

OPERATIONAL RISK

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.
The Intesa Sanpaolo Group has long defined the overall operational risk management framework by setting up a Group policy and organisational process for measuring, managing and controlling operational risk.
Effective from the report at 31 December 2009, the Group was authorised by the Supervisory Authority to use the Advanced Measurement Approach (AMA) to determine capital requirements for operational risk on an initial scope that includes the Banks and Companies of the Banca dei Territori Division (with the exception of Banca CR Firenze but including Cassa del Centro banks), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently employ the Standardised approach, will migrate in groups to the Advanced approaches starting from the end of 2010, based on the rollout plan presented to the Management and Supervisory Authorities.
The control of operational risk 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 with which the Group Compliance and Operational Risk Committee is charged include periodically reviewing the Group's overall operational risk profile, authorising any corrective measures, coordinating and monitoring the efficacy of the main mitigation activities and approving operational risk transfer strategies.

The Group will have a centralised function within the Risk Management Department for the management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).
The Integrated self-assessment process, which has been conducted on an annual basis, has allowed the Group to:
- identify, measure, monitor and mitigate operational risk; and
- create significant synergies with the specialised functions of the Organisation and Security Department that supervise the planning of operational processes and business continuity issues and with control functions (Compliance and Audit) that supervise specific regulations and issues (Legislative Decree 231/05, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-assessment process identified a good overall level of control of operational risks and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative and qualitative information (self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (the Operational Riskdata eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events. Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst loss); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative 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 of the evaluation of the business environment, to take account of the effectiveness of internal controls in the various organisational units.
Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in the process of managing and mitigating operational risk.
To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to approximately 2,281 million euro as at 30 June 2010.

Legal risks

During the period, no new significant legal procedures were initiated nor where there important developments with respect to those underway. Reference should be made to the Notes to the Parent Company's 2009 financial statements for a detailed description of litigation regarding anatocism and bonds in default, the insolvency of the Cirio Group, the tax-collection litigation with former Gest Line, the litigation between Banca Infrastrutture Innovazione e Sviluppo/Municipality of Taranto, the Class action by Codacons, the Angelo Rizzoli litigation, other judicial and administrative proceedings, tax litigation and labour litigation.

Specifically, with respect to the tax-collection litigation relating to Gest Line's (which performed tax-collection in Sanpaolo IMI Group) alleged irregularities in performing tax-collection activities in the period from the late 80s and the early 90s, the two following significant events should be noted.
First, at the beginning of June, the Regional Section of the Court of Auditors – Emilia Romagna Section, notified a writ of summons asking that the Bank be ordered to pay the alleged lost tax revenue caused by the non-collection of taxes during the above period, in addition to other reputational and disruption damage. Intesa Sanpaolo will oppose this claim as it believes that the damage compensation is unfounded and is mainly a duplicate of the claim submitted by the Agenzia delle Entrate as part of parallel judgements denying the release or repayment of uncollectible taxes.
Second, the Ministry of the Economy and Finance (MEF), in its decree of 3 August 2010 implementing the primary legislation (L.D. 40 of 25 March 2010 enacted into Law 73 of 22 May 2010) which gave the possibility of adhering to a settlement concession, set at 10.91 the percentage to be paid on the disputed amounts in order to adhere to this settlement option.
However, both the risks related to these judgements and the resources to adhere to a settlement concession, were adequately provided for.
With respect to the class action by Codacons aimed at confirming that the new fees introduced by the Bank starting from the second half of 2009 to replace overdraft charges are unlawful, thereby obtaining reimbursement of the amounts paid in application of the above new commissions, the Court of Turin filed an order stating the inadmissibility of such class action on 4 June 2010, at the end of a critical stage during which the admissibility of the class action was preliminarily assessed. Although an appeal against the order was filed with the Turin Court of Appeal, to date no risks of an unfavourable outcome are expected. Therefore, no provisions were accrued in this respect.
Last, with respect to labour litigation, the dispute with the INPS of Turin relating to the failure by Sanpaolo IMI to pay contributions to finance the involuntary unemployment for the period 1 November 2002 - 31 December 2006 was settled through a conciliation procedure, using the specific risk provision.

INSURANCE RISKS

Life business
The typical risks of a life insurance portfolio can be divided into three main categories: premium risk, actuarial and demographic risks and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are guarded against by a regular statistical analysis of the evolution of liabilities, divided by type of risks and through simulations of expected profitability on the assets which cover technical reserves.
Reserve risk is managed through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Non-life business
The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is guarded against through the exact calculation of technical reserves.

Financial risks
In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Policy is the control and monitoring instrument for market and credit risks.
The Policy defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk on a 1-year holding period.

Investment portfolios
The investments of the insurance companies of Intesa Sanpaolo Group (EurizonVita, EurizonTutela, EurizonLife, SudPoloVita, CentroVita and FideuramVita) are made with their free capital and to cover contractual obligations with customers. These essentially refer to life insurance policies with profit participation, Index- and Unit-linked policies, pension funds and non-life insurance policies.
At 30 June 2010 the investment portfolios of Group companies, recorded at book value, amounted to 49,002 million euro; of these, the share regarding life policies with profit participation, non-life policies and free capital (“Class C” portfolio or portfolio at risk) amounted to 22,083 million euro, while the other component (“Class D” portfolio or portfolio where the investment risk is borne by policyholders) mostly comprised investments related to pension funds, index- and unit-linked policies and totalled 26,919 million euro.
Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets included in the "at-risk portfolio".
In terms of breakdown by asset class, net of derivative positions, 93.5% of assets, i.e. approximately 20,839 million euro, were bonds, while assets subject to equity risk represented 3.4% of the total and amounted to 751 million euro. The remaining part (705 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (3.1%).
The carrying value of derivatives came to approximately -212 million euro, around -197 million of which in hedging derivatives and close to -15 million in other derivatives.
At the end of the first half of 2010, investments of EurizonVita, SudPoloVita and CentroVita free capital amounted to approximately 1,218 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) equal to approximately 37 million euro.
The modified duration of the bond portfolio, i.e. the synthetic financial term of assets, is approximately 6 years. The reserves relating to the life insurance policies with profit participation under segregated fund have an average modified duration of approximately 6.4 years. The related portfolios of assets have a modified duration of around 5.2 years.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 bp parallel shift in the curve leads to a decrease of approximately 1,170 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 135 million euro rise which partly offsets the corresponding loss on the bonds.
The investment portfolio had a high credit rating. AAA/AA bonds represented approximately 78.3% of total investments and A bonds approximately 9.6%. Low investment grade securities (BBB) were approximately 4.2% of the total and the portion of speculative grade or unrated was minimal (approximately 1.4%).
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by

Governments and Central banks represented approximately 72.7% of the total investments, while financial companies (mostly banks) contributed almost 12.9% of exposure and industrial securities made up approximately 7.9%.
At the end of the first half of 2010, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was -1,254 million euro and was due to government issuers (-1,052 million euro) and corporate issuers, being financial institutions and industrial companies (-202 million euro).