
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 scenario 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 Network Banks and Italian product companies).

As part of the expansion of the Group's scope of application of internal models, permission was secured to use the IRB Foundation approach for the 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 an application was submitted 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.

With regard to 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 associated 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 roll-out 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.

	30.09.2010			31.12.2009			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	19,366	-12,732	6,634	16,459	-11,094	5,365	1,269
Substandard loans	12,222	-2,559	9,663	12,976	-2,601	10,375	-712
Restructured loans	3,637	-298	3,339	2,402	-109	2,293	1,046
Past due loans	1,326	-126	1,200	2,583	-160	2,423	-1,223
Non-performing loans	36,551	-15,715	20,836	34,420	-13,964	20,456	380
Performing loans	341,427	-2,485	338,942	338,919	-2,448	336,471	2,471
Performing loans represented by securities	19,556	-502	19,054	19,083	-556	18,527	527
Loans to customers	397,534	-18,702	378,832	392,422	-16,968	375,454	3,378

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

As at 30 September 2010, the Group's non-performing loans amounted to 36,551 million euro (up +6.2% on 31 December 2009) in gross terms and 20,836 million euro (1.9%), net of adjustments. Net non-performing loans as a proportion of total loans to customers was unchanged at 5.5%. However, the average coverage of non-performing loans increased from 40.6% in 2009 to 43% as at 30 September 2010.

Within the aggregates of non-performing loans, doubtful loans (of 6,634 million euro in net terms) grew by 1,269 million euro (around +24%) over the nine months, while substandard loans were down 712 million euro (-6.9%), mainly as a result of the transfer of a number of significant positions to restructured loans following the conclusion of restructuring agreements. The coverage of doubtful loans as at 30 September (65.7%) was slightly down on the level as at 31 December 2009 (67.4%), while that of substandard loans (20.9%) improved slightly on year-end 2009 (20%).

The 1,046 million euro increase in restructured loans is mainly due to the abovementioned transfer of some positions from substandard loans. Past due loans were down by 1,223 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 indices;
- 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 4% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are 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 commodity risk for Banca IMI, the only legal entity of the Group authorised to hold open positions in commodities.

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 third quarter of 2010, market risks generated by Intesa Sanpaolo and Banca IMI increased with respect to the averages for the second quarter of 2010. The average VaR for the period totalled 43.4 million euro.

Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI^(a)

(millions of euro)

	2010					2009				
	average 3 rd quarter	minimum 3 rd quarter	maximum 3 rd quarter	average 2 nd quarter	average 1 st quarter	average 4 th quarter	average 3 rd quarter	average 2 nd quarter	average 1 st quarter	
Intesa Sanpaolo	27.6	24.9	31.1	27.0	19.5	21.8	25.8	27.9	32.3	
Banca IMI	15.8	12.0	19.0	13.9	11.7	10.1	10.6	15.7	18.0	
Total	43.4	37.0	49.9	40.9	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 historical time-series in the first nine months 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 nine months of 2010, market risks generated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for 2009. The average VaR for the period totalled 38.5 million euro.

(millions of euro)

	2010			2009		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Intesa Sanpaolo	24.7	17.7	32.2	28.6	24.5	35.6
Banca IMI	13.8	8.9	19.5	14.8	8,5	21.7
Total	38.5	27.6	49.9	43.4	34.1	55.6

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

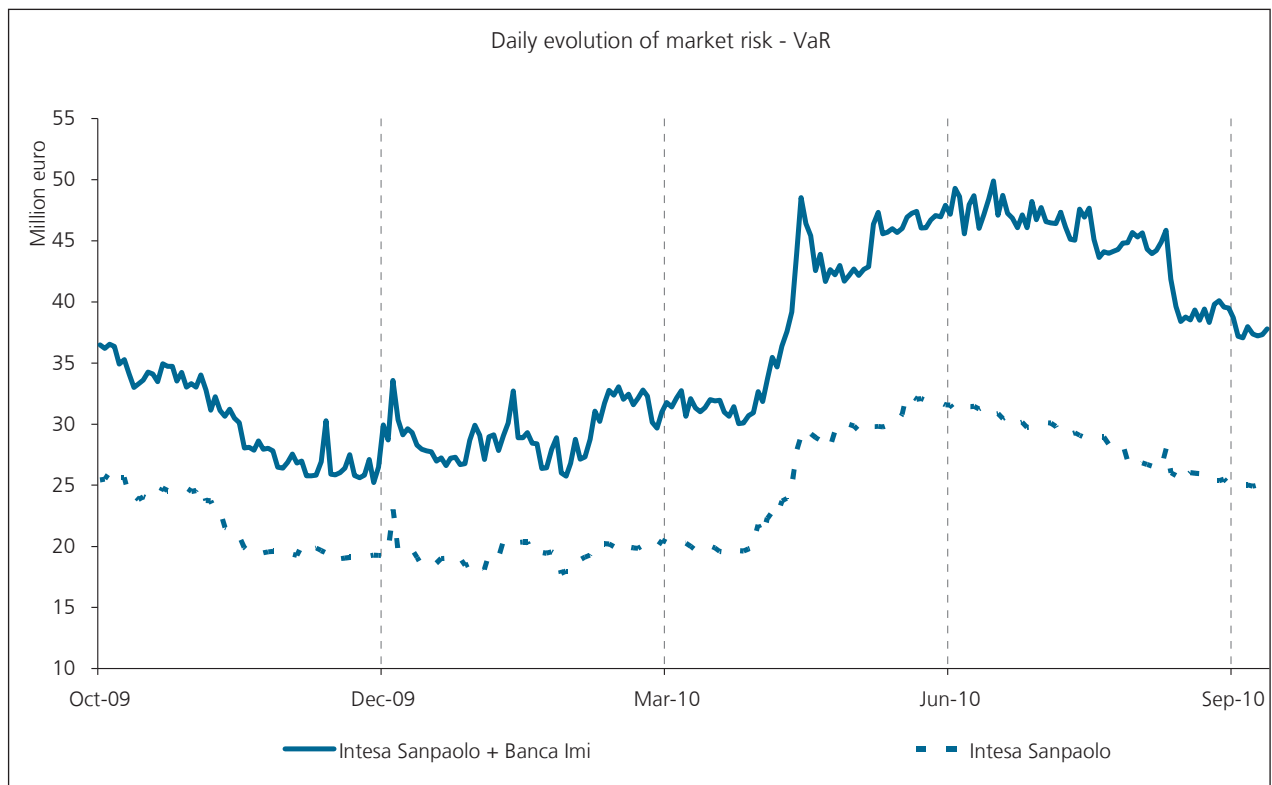
For Intesa Sanpaolo and Banca IMI, the breakdown of risk profile in the third quarter of 2010 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 48% of total VaR; for Banca IMI, credit spread risk was the most significant, representing 50% of total VaR.

Contribution of risk factors to overall VaR ^(a)

3 rd quarter 2010	Shares	Hedge funds	Rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	2%	48%	14%	29%	2%	6%	0%
Banca IMI	12%	0%	20%	50%	2%	8%	7%
Total	7%	25%	17%	39%	2%	7%	3%

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first nine months 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 set out below. The level of risk remained high in the third quarter of 2010 due to the increased volatility of the spreads in government issues, following the worsening of the Greek crisis and the related contagion effect on eurozone countries.



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

- on stock market positions, a bullish scenario, that is a 5% increase in stock prices with a simultaneous 10% decrease in volatility would have led to a 17 million euro loss;
- on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 26 million euro loss, whereas a parallel -25 basis point shift would have led to a 33 million euro gain;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to an 85 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 an 86 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 4 million euro gain in the event of exchange depreciation (-10%). The loss in the event of foreign exchange appreciation (+10%) would have been 1 million euro;
- lastly, on commodity exposures a 6 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	21	-17	33	-26	86	-85	4	-1	6	-6
<i>of which SCP</i>					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 quoted companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti and Private Equity International.

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

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

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

Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ± 100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits.

Furthermore, 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. Initially, reference is made to the fair value hedge of assets or liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to hedge against fair value changes intrinsic to the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date on which the rate is set and the interest payment date.

Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on floating rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). In other cases, cash flow hedges are applied to specific assets or liabilities.

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

In the first nine months of 2010, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, amounted to an average of 516 million euro and settled at 498 million euro at the end of September, almost entirely concentrated on the euro currency; this figure compares with an amount of 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 +151 million euro (-147 million euro in the event of reduction) at the end of September 2010; these values record a slight increase 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 98 million euro in the first three quarters of 2010 (131 million euro at the end of 2009) and reached a value of 95 million euro at the end of September, with a peak value of 116 million euro and a minimum value 82 million euro.

Price risk generated by minority stakes in listed companies, mostly held in the AFS (Available for Sale) category and measured in terms of VaR, recorded an average level of 94 million euro (126 million euro at the end of 2009) in the first nine months of 2010, with minimum and peak values of 85 million euro and 115 million euro respectively. VaR at the end of September amounted to 87 million euro.

Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to -70 million euro at the end of September 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

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

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

- reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach – level 2);
- 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 – level 3).

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

For a more detailed description of the fair value measurement methods used, see the Accounting policies section of the 2009 financial statements.

The following table shows the fair value hierarchy in relation to the measurement of the various categories of financial instruments.

Financial assets / liabilities designated at fair value	30.09.2010			31.12.2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	30,008	58,869	1,640	24,843	44,677	1,380
2. Financial assets designated at fair value through profit or loss	26,067	6,960	225	23,989	7,721	272
3. Financial assets available for sale	52,863	5,789	1,655	43,923	5,319	1,701
4. Hedging derivatives	-	9,397	4	-	7,008	-
Total	108,938	81,015	3,524	92,755	64,725	3,353
1. Financial liabilities held for trading	4,172	52,931	1,037	2,878	38,913	473
2. Financial liabilities designated at fair value through profit or loss	3,243	23,114	-	2,728	25,423	-
3. Hedging derivatives	-	7,959	4	-	5,179	-
Total	7,415	84,004	1,041	5,606	69,515	473

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

As shown in the table, level 3 instruments, which 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).

STRUCTURED CREDIT PRODUCTS

The business model: objectives, strategies and relevance

During the quarter the risk exposure of financial assets held for trading was reduced through direct sales in the market at values in line with the carrying amounts. Advanced reimbursements and the exchange-rate effect also contributed to the lower amount of this exposure compared to the previous quarter.

Market spreads in the third quarter of 2010 were essentially stable, with an improvement in certain asset classes, reflected in a positive contribution for the quarter (around 30 million euro).

In the US market, in addition to the uncertainties already mentioned, associated with the performance of the American economy, the legal problems related to the origination/structuring stage have necessitated a renewed focus on the management of the portfolio.

Highlights

The risk exposure of structured credit products amounts to 3,485 million euro as at 30 September 2010 with respect to funded and unfunded ABSs/CDOs and to 90 million euro with respect to packages. The change compared to the exposure at the end of June 2010 was mainly due to exchange rate movements.

The positions still outstanding as at 30 September 2010, which have been downgraded by approximately 12.3% (down from 27% as at 31 December 2009), remain of good quality, as shown by the following indicators:

- 79% of the exposure was Investment Grade, compared to 73% as at 31 December 2009;
- 40% had a AAA rating, with Super Senior rating positions having been cancelled;
- 21% had a BBB rating or less, compared to 27% as at 31 December 2009;
- 26% of the exposure had a vintage² prior to 2005;
- 36% has a 2005 vintage;
- only 8% of exposure refers to the US Residential segment, and 25% to the US non-residential segment;
- the remaining exposure (67% of the total) was almost entirely (62%) European.

In terms of underlying contract types, just over half the exposure consisted of CLOs (30%) and CDOs (21%); the rest was almost entirely made up of ABSs (20%) and RMBSs (23%), with CMBs 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 9% of the exposure was measured on the basis of Effective Market Quotes (Level 1 of the Fair Value hierarchy), however, in 91% of cases, valuation methods were adopted. Specifically, 54% of the exposures were measured through the Comparable Approach (Level 2) and the remaining 37% through the Mark-to-Model Approach (Level 3).

In the summary tables below, table (a) illustrates risk exposure as at 30 September 2010 and income statement captions (the sum of realised charges and profits, write-downs and write-backs) for the first nine months of the year, 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.

Values expressed in USD as at 31 December 2009 were translated to euro at an exchange rate of 1.4406 euro, and as at 30 September 2010 at an exchange rate of 1.3648 euro.

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.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABS/CDOs

(millions of euro)

Financial assets held for trading	30.09.2010		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	23	-2	28	19
Contagion area	134	5	164	-68
- Multisector CDOs	58	-6	88	-71
- Alt-A	-	-	-	-
- TruPS	76	11	76	3
- Prime CMOs	-	-	-	-
Other structured credit products	1,092	38	1,235	-27
- European/US ABS/CDOs	390	2	479	36
- Unfunded super senior CDOs	685	26	834	-51
- Other unfunded positions	17	10	-78	-12
Total	1,249	41	1,427	-76
in addition to:				
Positions of funds	-	12	-	15
Total Financial assets held for trading	1,249	53	1,427	-61
Loans	30.09.2010		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	3	-	7	-1
Contagion area	95	-	107	-
- Multisector CDOs	15	-	15	-
- Alt-A	52	-	59	-
- TruPS	-	-	-	-
- Prime CMOs	28	-	33	-
Other structured credit products	2,138	6	2,321	4
- Funded European/US ABS/CDOs	1,203	2	1,476	-11
- Funded super senior CDOs	807	4	714	15
- Other Romulus funded securities	128	-	131	-
Total	2,236	6	2,435	3
in addition to:				
Positions of funds	-	-	-	-
Total Loans	2,236	6	2,435	3
TOTAL	3,485	59	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 effective interest rate net of net value adjustments to the portfolio.

b) Exposure in packages

(millions of euro)

Detailed table	30.09.2010		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	9	10	10	31
Non monoline packages	81	1	98	4
TOTAL	90	11	108	35

The overall risk exposure of structured credit products passed from 3,862 million euro as at 31 December 2009 to 3,485 million euro as at 30 September 2010, in addition to an exposure of 90 million euro in connection with structured packages. The two periods being compared showed no substantial differences, whereas as at 30 June 2010 the risk exposure was 4,020 million euro for structured credit products and 96 million euro for structured packages. This difference was due to the revaluation of USD positions as a result of the appreciation of the US dollar against the euro as at 30 June 2010.

From an income statement perspective, structured credit products improved, reaching +70 million euro as at 30 September 2010, compared to +40 million euro as at 30 June 2010 and -23 million euro on 31 December 2009.

The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of +53 million euro. The profit on this segment was essentially a result of the effects of:

- unfunded positions included in the area "Other structured credit products" (+36 million euro as at 30 September 2010, of which +26 million euro in unfunded super senior CDOs and +10 million in Other unfunded positions);
- funded and unfunded positions associated with the "Contagion Area" (+5 million euro); this result is further improved if the positions in funds attributable to the segment are also considered (+12 million euro);
- European and U.S. funded ABSs/CDOs (+2 million euro), also included in the area "Other structured credit products";
- the US Subprime exposure (-2 million euro).

The securities reclassified to the loans portfolio and included under European ABSs/CDOs showed losses as at 30 September 2010, partly offset by net income from the sale of certain securities included in the segment, with an overall positive impact on the income statement of 6 million euro.

The "Monoline risk" and "Non-monoline packages" made a positive contribution of 11 million euro as at 30 September 2010, with 1 million euro recorded at the end of the first half of 2010. This increase was mainly due to the improvement in the monoline credit spread that the Bank is exposed to.

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 September 2010, the aggregate included bonds classified as loans for a total nominal value of 2,417 million euro and a risk exposure of 2,236 million euro (2,089 million euro was reclassified and 147 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 158 million euro for securities reclassified from available for sale to the loans portfolio. As at 30 September 2010 their fair value was 82 million euro. The positive impact of this reclassification on the Valuation reserve under Shareholders' Equity was 76 million euro. The remaining 1,931 million was reclassified from the trading book to the loans portfolio. The fair value of this aggregate was 1,733 million euro as at 30 September 2010, with a positive effect on the income statement totalling 198 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 108 million euro attributable to 2010. Had the loans portfolio not been reclassified, the positive result for structured credit products as at 30 September 2010 would have been 178 million euro.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions or managing credit risk inherent in an entity's portfolio).

The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above. There have not been any changes in the scope of consolidation beyond those reported in the 2009 financial statements.

Funding SPEs

These are entities incorporated abroad to raise funds on specific markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company.

Changes compared to the situation reported as at 31 December 2009 included the extinction of the notes issued by Sanpaolo IMI US Financial Co. in February 2010 and the increase in the funding of SPE Intesa Funding LLC from around 6 billion euro as at 31 December 2009 to around 12 billion euro as at 30 September 2010. There were no changes to report in the other names included in the aggregate.

SPEs for insurance products

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

There were no changes in this segment compared to the situation reported as at 31 December 2009.

Securitisation SPEs

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

The SPEs included in this category were unchanged with respect to 31 December 2009. Moreover, no changes took place in the first nine months of 2010 with respect to the nature of securitised assets. As regards the total assets, the changes compared to the end of the previous year were essentially linked to the amortisation of the securitised portfolios.

With regard to the vehicles used to support Covered Bond transactions, please note:

- the sale of approximately 2 billion euro of public sector loans to the vehicle ISP CB Pubblico on 30 March 2010, effective 1 April 2010;
- the completion, during the third quarter, of the sale of Adriano Finance securities to the vehicle ISP CB Ipotecario, with underlying Italian residential mortgage loans originated by Intesa Sanpaolo, for around 6 billion euro. The inaugural issue of 1 billion euro of "Obbligazioni Bancarie Garantite" (OBG) under a 20 billion euro issue programme is planned for the fourth quarter.

Intesa Sanpaolo controls, pursuant to SIC 12, the vehicles Romulus Funding Corporation and Duomo Funding Plc. Compared to the previous year there was a reduction in the total assets of the two vehicles: for Romulus, in particular, total assets fell from around 1.8 billion euro to around 1.4 billion euro, including 1.1 billion euro relating to the loans to Duomo (around 1.2 billion euro as at 31 December 2009). There was also a reduction in the liquidity lines granted to the vehicles (from 649 million euro to 358 million euro for Romulus and from 1.3 billion euro to 1.2 billion euro for Duomo) compared to the end of the previous year. An analysis of the distribution of the two vehicles' assets by geographical area shows an increase in the percentage of assets claimed from European entities and a decrease in those claimed from North American entities. An analysis of their distribution by rating indicates that there has been a rise in the percentage of unrated assets (from approximately 46% in December 2009 to 63% in September 2010).

Compared to the situation reported as at 31 December 2009 the percentage of positions backed by collateral with a vintage prior to 2005 fell from 62% as at 31 December 2009 to 36% as at 30 September 2010.

In addition, there were no significant changes in the data and information for the vehicle SPQR II S.r.l. as compared to the situation reported at the end of 2009.

Financial Engineering SPEs

These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.

The situation of the only vehicle of this kind controlled by Intesa Sanpaolo, Intesa Investimenti S.p.A., is entirely similar to that described as at 31 December 2009.

Other unconsolidated Special Purpose Entities

With regard to the other unconsolidated SPEs (Project Financing, Asset Backed, Leveraged & Acquisition Finance and Credit Derivatives), reference should be made to the Financial statements as at 31 December 2009.

LEVERAGED FINANCE TRANSACTIONS

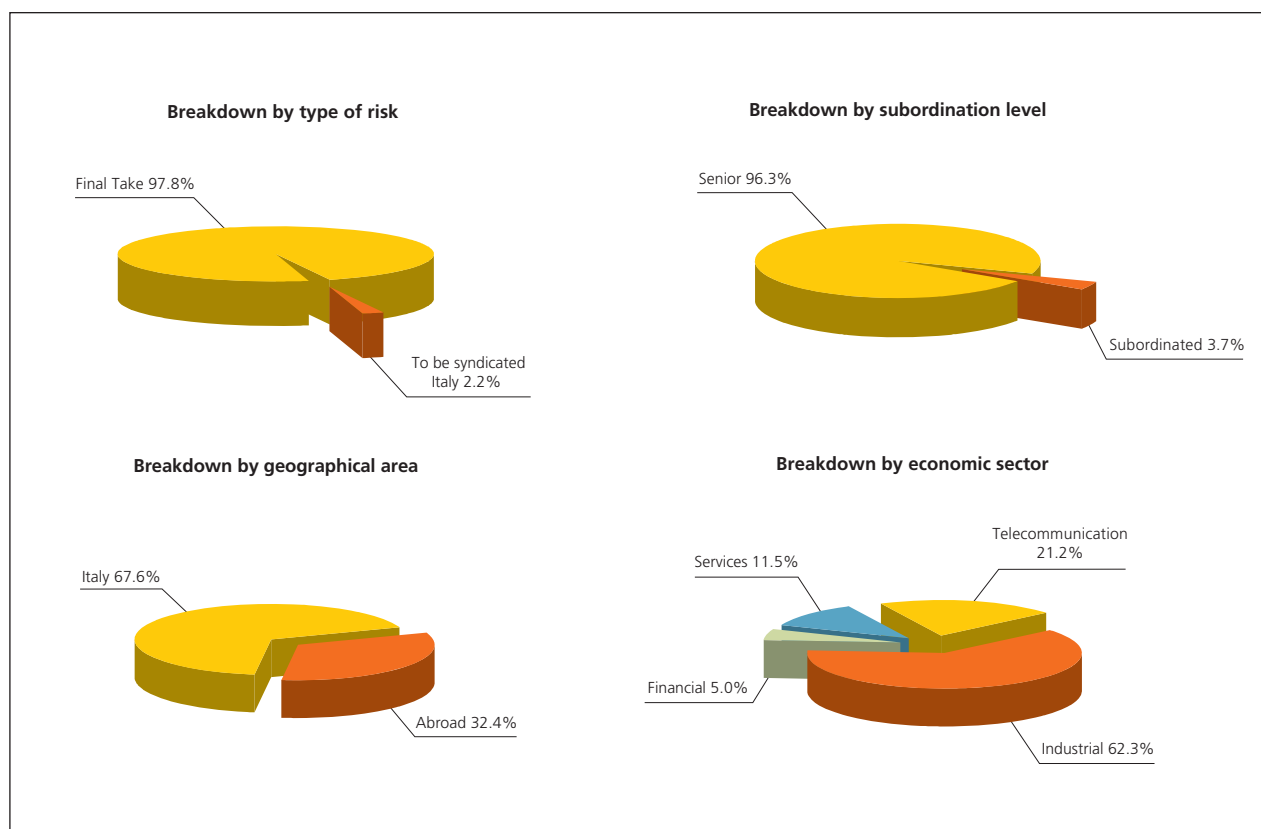
Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing, normally medium/long term) to legal entities in which the majority of 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 September 2010, just over 110 transactions, for a total amount granted of 4,650 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 September 2010 totalled 762 million euro, compared to the 740 million euro recorded at the end of 2009. The movements in the portfolio, during the third quarter, were due to both the management of outstanding positions and the acquisition of new positions.

As at 30 September 2010, the contribution of these investments to "Profits (Losses) on trading – Caption 80" was positive, with a recovery from the downturn in the second quarter, by a total of 44 million euro (including 12 million euro in the structured credit products disclosure), compared to the 112 million euro recognised in the third quarter of 2009 and the 135 million euro at the end of the previous year.

The 44 million euro of operating income recognised as at 30 September 2010 under "Profits (Losses) on trading – caption 80" included:

- 3 million euro from net profits realised during the period from fund trading;
- 39 million euro from net valuations of positions remaining at the period end (including 6 million euro in the structured credit products disclosure);
- 2 million euro from other net income.

Net capital gains/losses on the final residual amount (39 million euro) were spread across 60 positions, 25 of which with capital losses (15 million euro) and 35 with capital gains (54 million euro).

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 September 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 4,282 million euro (3,008 million euro as at 31 December 2009). The notional value of such derivatives totalled 47,985 million euro (47,107 million euro as at 31 December 2009). Note that the positive fair value of structured contracts outstanding with the 10 customers with the highest exposures was 1,877 million euro (1,117 million euro as at 31 December 2009).

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 628 million euro at 30 September 2010 (327 million at 31 December 2009). The notional value of such derivatives totalled 10,750 million euro (8,321 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"). On contracts outstanding as at 30 September 2010, this resulted in the recognition in the income statement, under profits from trading, of a net adjustment of 12 million euro, in addition to the 104 million euro recognised in previous years, bringing the total adjustment to 116 million euro.

For every single contract, adjustments are recorded at the market value determined using the risk free curves.

OPERATIONAL RISK

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

The Intesa Sanpaolo Group has 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 as 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 progressively 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 effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has 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 functions 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 units, 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 to both the quantitative data and the results of the scenario analysis over a one-year time horizon, 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 September 2010.

Legal risks

There were no significant changes in legal risks as at 30 September 2010 compared to the 2009 financial statements and the half-yearly report as at 30 June 2010, to which reference should be made for a description of the main ongoing disputes.

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 towards policyholders and in relation to free capital, the Investment Policy is the main control and monitoring instrument for market and credit risks.

The Policy defines the goals and 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, FideuramVita and Intesa Vita) are made with their free capital and to cover contractual obligations with customers. These essentially refer to with-profit life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.

The quantitative data shown below do not include Intesa Vita's portfolios, as this is a recently acquired company.

At 30 September 2010 the investment portfolios of Group companies, recorded at book value, amounted to 49,566 million euro; of these, the share regarding with-profit life policies, non-life policies and free capital (Class C portfolio or portfolio at risk) amounted to 24,187 million euro, while the other component (Class D portfolio or portfolio with total risk retained by the insured) mostly comprised investments related to pension funds, index- and unit-linked policies and totalled 25,379 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, 93.2% of assets, i.e. approximately 22,769 million euro, were bonds, while assets subject to equity risk represented 3.4% of the total and amounted to 819 million euro. The remaining part (838 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (3.4%).

The carrying value of derivatives came to approximately -239 million euro, almost entirely relating to hedging derivatives, with other derivatives only amounting to 0.3 million euro.

At the end of the third quarter of 2010, investments of EurizonVita, SudPoloVita and CentroVita free capital amounted to approximately 1,877 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 47 million euro.

The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 6.3 years. The reserves associated to with-profit life policies have an average modified duration of approximately 6.4 years. The related portfolios of assets have a modified duration of around 5.3 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 1,344 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 129 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 78.7% of total investments and A bonds approximately 9.4%. Low investment grade securities (BBB) were approximately 4.3% of the total and the portion of speculative grade or unrated was minimal (approximately 0.8%).

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks represented approximately 74.5% of the total investments, while financial companies (mostly banks) contributed almost 10.8% of exposure and industrial securities made up approximately 7.9%.

As at the end of the third quarter 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 -1,432 million euro, -1,215 million euro due to government issuers and -217 million euro to corporate issuers (financial and industrial companies).