

Basel 2 Pillar 3

Disclosure as at 31 December 2009



This is an English translation of the Italian original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2009" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A. This document contains certain forward-looking statements and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate. The Intesa Sanpaolo Group's ability to achieve its projected results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions. The following important factors could cause the Group's actual results to differ materially from those projected or implied in any forward-looking statements:

- *the Group's ability to successfully integrate the employees, products, services and systems of mergers and acquisitions;*
- *the impact of regulatory decisions and changes in the regulatory environment;*
- *the impact of political and economic developments in Italy and other countries in which the Group operates;*
- *the impact of fluctuations in currency exchange and interest rates;*
- *the Group's ability to achieve the expected return on the investments and capital expenditures it has made in Italy and in foreign countries; and*
- *the Group's ability to finalise capital management actions on its non-core assets (including disposals, either full or partial, partnerships, listings, etc.).*

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.

Basel 2 Pillar 3 – Disclosure as at 31 December 2009

Intesa Sanpaolo S.p.A.

Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 6,646,547,922.56 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

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Introduction

Notes to the Basel 2 Pillar 3 disclosure

The purpose of the disclosure defined as “Third pillar of Basel 2” is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), by encouraging market efficiency through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on regulatory capital, risk exposures, risk assessment processes, and therefore the capital adequacy of the institution. This has particular relevance under the framework introduced by Basel 2, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.

The procedures to be adopted by Italian banks or banking groups when disclosing information (referred to in brief as Pillar 3) to the public have been laid down by Bank of Italy Circular 263 of 27 December 2006: “New regulations for the prudential supervision of banks” (Attachment A, Title IV). This disclosure has been prepared in compliance with these provisions, which incorporate the provisions of Annex XII to EU Directive 2006/48 and the subsequent changes made to the regulatory framework.

In accordance with the provisions of the Circular, this document is divided into sections called “Tables” and has been drawn up on a consolidated basis with reference to a “prudential” scope of consolidation (see “Table 2 – Scope of application”). The Tables include both a “qualitative section” and a “quantitative section”. The “Pillar 3 Basel 2” disclosure is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

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

For the sake of completeness, please note that the information relating to the regulatory capital and to the capital uses are also published in Part F of the Notes to the consolidated financial statements, in the formats required by Bank of Italy Circular 262 of 22 December 2005, that governs financial statement disclosure in accordance with IAS/IFRS. Additional information concerning the various types of risk to which the Intesa Sanpaolo Group is exposed, including in relation to the operations of the insurance segment, is presented in Part E of the Notes to the consolidated financial statements.

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

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

The regulatory provisions governing the publication of the “Basel 2 Pillar 3” disclosure establish exemptions to the disclosure requirements that allow the omission, in exceptional cases, of the publication of proprietary or confidential information, provided that the information that is not disclosed and the reasons for non-disclosure are specified and more general information is published on the matter involved. The Intesa Sanpaolo Group has not made use of this option in the drafting of this document as at 31 December 2009.

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

All the amounts reported in this disclosure, unless otherwise specified, are stated in millions of euro. The figures shown for comparison refer to the “Basel 2 Pillar 3” disclosure published as at 31 December 2008. In this regard, the scope of consolidation for the disclosure does not differ significantly from the one used in 2008. The main difference is the removal from the scope of proportional consolidation of Findomestic Banca, which was sold in the fourth quarter of 2009.

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

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

Table 1 – General requirements

Qualitative disclosure

Introduction

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk, protect the Group's financial strength and reputation, and permit a transparent representation of the risk profile of its portfolios.

The risk management strategy aims to achieve an increasingly complete and consistent overview of risks, analyzing both the macroeconomic scenario and the Group's risk profile, as well as to foster a culture of risk awareness.

This is the context in which the efforts of recent years to secure the Supervisory Authority's validation of internal models for credit, operational, market and credit derivative risk should be seen.

The definition of operating limits related to market risk indicators, the use of risk measurement instruments in granting and monitoring loans and controlling operational risk and the use of capital at risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the strategic and management guidelines defined by the Supervisory Board and the Management Board along the Bank's entire decision-making chain, down to the single operating units and to the single desk.

The main principles in risk management and control are:

- clear identification of responsibility for acceptance of risk;
- measurement and control systems in line with international best practices;
- organisational separation between the functions that carry out day-to-day operations and those that carry out controls.

The policies relating to the acceptance of risks are defined by the Supervisory Board and the Management Board of the Parent company with support from specific operating Committees, the most important of which are the Internal Audit Committee and the Group Risk Governance Committee, and from the Chief Risk Officer reporting directly to the Chief Executive Officer.

Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum "unexpected" loss the Group might incur over a year. This a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return.

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

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

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

Risk coverage, in consideration of the nature, frequency and potential impact of the risk, is based on the constant balance between mitigation/hedging actions, control procedures/processes and capital protection. The Parent company is in charge of overall direction, management and control of risks. Group companies

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

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

Basel 2 Project

In 2007 Intesa Sanpaolo launched the "Basel 2 Project" to prepare the Group for the adoption of advanced approaches, building on the pre-merger experience of Intesa and Sanpaolo IMI. In 2008, the Intesa Sanpaolo Group began the approval process for their adoption.

With regard to credit risks, a "first scope" of Group entities that use approaches based on internal models was identified. For these companies, the Group was authorised to use the IRB Foundation approach for the Corporate segment, starting from the report as at 31 December 2008. During 2009, the Group began extending the scope of implementation of its internal models, with the recognition of the IRB Foundation approach for the network banks of the former Cassa di Risparmio di Firenze Group (from the 31 December 2009 report) and of Intesa Sanpaolo Bank Ireland (from the 31 March 2010 report) and an application was sent to start this process for the foreign subsidiaries CIB Bank and VUB Banka and the Italian Banca IMI. In 2008, the Group 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, which will allow for the adoption in the first half of 2010 of the IRB approach for the Retail Mortgage segment, followed by the adoption of the IRB approach for the SME Retail segment and the advanced IRB approach for the Corporate segment.

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.

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 gradually migrate to the Advanced approach beginning in 2010.

Furthermore, in 2009 the Group presented its second 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.

The internal control system

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

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

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

- the effectiveness and efficiency of Company processes;
- the safeguard of asset value and protection from losses;
- reliability and integrity of accounting and management information;
- transaction compliance with the law, supervisory regulations as well as policies, plans, procedures and internal regulations.

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

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank

(Articles of Association, Code of Ethics, Group Regulations, Authorities and Powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.

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

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

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

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

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

From a more strictly operational perspective the Bank has identified the following macro types of control:

- line controls, aimed at ensuring the correct application of day-to-day activities and single transactions. Normally, these controls are carried out by the productive structures (business or support) or incorporated in IT procedures or executed as part of back office activities;
- risk management controls, which are aimed at contributing to the definition of risk management methodologies, at verifying the respect of limits assigned to the various operating functions and at controlling the consistency of operations of single productive structures with assigned risk-return targets. These are not normally carried out by the productive structures;
- compliance controls, made up of policies and procedures which identify, assess, check and manage the risk of non-compliance with laws, Supervisory Authority measures or self-regulating codes, as well as any other rule which may apply to the Bank;
- internal auditing, aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the overall functioning of the internal control system. It is performed by different structures which are independent from productive structures.

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

As a consequence, Intesa Sanpaolo's control structure is in compliance with the instructions issued by the Supervisory Authorities. Indeed, alongside an intricate system of line controls involving all the function heads and personnel, a Chief Risk Officer area has been established specifically dedicated to second level controls that incorporates both units responsible for the control of risk management (in particular, the Risk Management Department, Credit Quality Monitoring, and Internal Validation in accordance with Basel 2), and the management of compliance controls (Compliance Department). Also reporting to the Chief Risk Officer is the Legal Affairs Department, which monitors and controls the legal risk of Intesa Sanpaolo and its Group.

There is also a dedicated Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board, and is also functionally linked to the Control Committee.

The Compliance Department

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

The management of compliance risk is assigned to the Compliance Department, established in June 2008,

in accordance with the supervisory regulations issued by the Bank of Italy on 10 July 2007 and the rules contained in the Joint Regulation issued by Consob and the Bank of Italy on 29 October 2007. The Compliance Department reports to the Chief Risk Officer.

In the first few months of 2009, Intesa Sanpaolo's Management Committee and Supervisory Committee approved the Compliance Guidelines, which incorporate the Group's Compliance Model. These Guidelines identify the responsibilities and macro processes for compliance, aimed at mitigating the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. The Compliance Department, also through the coordination of other corporate functions, is responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the assessment of the company's bonus system, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, including through the use of information provided by the Internal Auditing Department, of ongoing compliance, and the promotion of a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.

The Compliance Department submits periodic reports to Corporate Bodies on the adequacy of compliance oversight. On an annual basis, these reports include an identification and assessment of the primary non-compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a semi-annual basis they include a description of the activities performed, critical issues noted, and remedies identified. Specific notice is given when events of particular significance occur. A supplemented report is also periodically presented to the competent corporate bodies. This support is drafted by units charged with second-tier controls and aims to provide a comprehensive overview of the Group's supervision of operational and reputation risk. The document, the preparation of which also involves the use of information provided by the Internal Auditing Department, draws attention to the most highly critical areas and the state of progress of activities aimed at mitigating the risks identified.

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

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

The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of compliance risk. In particular:

- the process of bringing the financial intermediation and investment services area into compliance with the MiFID Directive continued to be supervised. As required by the implementing regulations issued by Supervisory Authorities and on the basis of specific requests from Authorities, this process involved changes to governance and organisational systems consisting of drafting policies, processes and procedures, with a particular focus on supervision of conflicts of interest and personal transactions; compliance activities also involved launching the required training initiatives, clearing new products and services and monitoring customer transactions in order to prevent market abuse;
- further effort was dedicated to projects aimed at enhancing the supervision of the Group's Italian and foreign companies in the area of embargoes and the prevention of money laundering. In detail, these involved coordinating organisational, IT and training activities aimed at implementing the Third European Directive. Proper maintenance of the Single Electronic Archive also continued to be monitored and suspicious transactions analysed and assessed for reporting to the competent Authorities;
- legislative developments in banking products and services were monitored, with a particular focus on the issue of transparency and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of ensuring that consumer-protection provisions are properly managed;
- a specific project was launched to enhance supervision of compliance risks affecting the insurance segment in terms of both the Group's product companies and distribution networks;

- the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 was overseen by verifying its compliance with Company regulations, updating it to take into account the new offences, and coordinating the training activities and the verification of its proper implementation;
- controls of company processes functional to certification by the Manager responsible for preparing the Company's financial reports in accordance with art. 154-bis of the Consolidated Law on Finance continued and assurance activities were enhanced according to a risk-based approach.

The Internal Auditing Department

The Internal Auditing Department is responsible for ensuring the ongoing and independent surveillance of the regular progress of the Bank's operations and processes for the purpose of preventing or identifying any anomalous or risky behaviour or situation, assessing the functionality of the overall internal control system and its adequacy in ensuring the effectiveness and efficiency of company processes, the safeguarding of asset value and loss protection, the reliability and completeness of accounting and management information, and the compliance of transactions with the policies set out by the Company's administrative bodies and internal and external regulations.

Furthermore, it provides consulting to the Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving effectiveness of control, risk management and organisation governance processes.

The Internal Auditing Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practice and standards for internal auditing established by the Institute of Internal Auditors (IIA).

The Internal Auditing Department has a structure and a control model which is organised consistently with the divisional model of Intesa Sanpaolo and the Group.

During the year, the auditing was performed directly for the Parent company Intesa Sanpaolo and for Banche dei Territori, and also for a limited number of other subsidiaries with an outsourcing contract. For the other Group companies second level controls were conducted (indirect surveillance).

Supervision was conditioned to an especially significant degree by the delicate economic scenario. Consequently, also in accordance with instructions issued by the Control Committee and the Top Management, verifications were aimed at monitoring the evolution of the risks associated with credit quality, financial operations, the Group's investment banking and other international activities.

Direct surveillance was carried out in particular through:

- control of the operational processes of network and central structures, with verifications, also through on-site interventions, on the functionality of line controls in place, of the respect of internal and external regulations, of the reliability of operational structures and delegation mechanisms, of correctness of available information in the various activities and of their adequate use with free and independent access to functions data and documentation and application of adequate tools and methodologies;
- surveillance, via distance monitoring integrated by on-site visits, of the credit origination and management process, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- surveillance of process for the measurement, management and control of the Group's exposure to market, counterparty, operational and credit risks, periodically reviewing the internal validation of the models and the ICAAP process developed for Basel 2 and the Prudential Supervisory regulations;
- valuation of adequacy and effectiveness of information technology system development and management processes, to ensure their reliability, security and functionality;
- surveillance, also using on-site visits, of the processes related to financial operations and the adequacy of related risks control systems;
- control of compliance with the behavioural rules and of the correctness of procedures adopted on investment services as well as compliance with regulations in force with respect to the separation of the assets of customers;
- verification of the operations of foreign branches, with interventions by internal auditors both local and from the Head Office.

During the year the Internal Auditing Department also ensured the supervision of all the main development projects paying particular attention to control mechanisms in the new Bank's models and processes and, in general, to the efficiency and the effectiveness of the control system established within the Group.

Indirect surveillance was conducted through direction and functional coordination of the Auditing structures in subsidiaries, for the purpose of ensuring control consistency and adequate attention to the different types of risks, also verifying the structural and operational effectiveness and efficiency levels.

Direct reviews and verification were also conducted.

In conducting its duties, the Internal Auditing Department used methodologies for the preliminary analysis of risks in the various areas. Based on the assessments made and on the consequent priorities, the Internal Auditing Department prepared and submitted an Annual Intervention Plan for prior examination to the Control Committee, the Management Board and the Supervisory Board, on the basis of which it conducted its activities during the year, completing the scheduled audits.

Any weak points have been systematically notified to the Departments involved for prompt improvement actions which are monitored by follow-up activities.

The valuations of the internal control system deriving from the checks have been periodically transmitted to the Control Committee, to the Management Board and to the Supervisory Board which request detailed updates also on the state of solutions under way to mitigate weak points; furthermore, the most significant events have been promptly signalled to the Control Committee.

A similar approach is used with respect to the responsibilities of administrative bodies pursuant to Legislative Decree 231/01 for the Control Committee, as Surveillance body.

Lastly, the Internal Audit Department has ensured the ongoing self-assessment of its efficiency and effectiveness, according to the internal “quality assurance and improvement” plan drawn up in accordance with the recommendations of the international standards of professional practice.

Manager responsible for preparing the Company’s financial reports: the financial reporting process

As required by Art. 154-bis of the Consolidated Law on Finance, the delegated management bodies and the Manager responsible for preparing the Company’s financial reports must issue a specific report attached to the financial statements in which it is certified that the administrative and accounting procedures were adequate and effectively applied during the period, the Company’s accounting documents match the contents of accounting books and records, the documents are suitable to providing a true and accurate representation of the assets, liabilities, profit or loss and financial position of the Company and the set of companies included in the scope of consolidation, and the analysis of the Group’s performance and results presented in the Report on operations is reliable, along with a description of the main risks and uncertainties to which the Group is exposed.

The internal control system for accounting and financial information is supervised by the Manager responsible for preparing the Company’s financial reports, in accordance with the Company Regulations, “Guidelines for administrative and financial governance”.

The monitoring of the quality of accounting and financial information is based on a joint review of:

- the organisational and control arrangements, conducted according to a review plan aimed at providing an ongoing assessment of the adequacy and effective application of the administrative and accounting procedures for managing the data required for a truthful and accurate representation of the Group’s assets, liabilities, profit or loss and financial position in financial statement documents and all other financial disclosures, including, in particular, this document; to the extent functional to documenting the quality of accounting data streams, monitoring extends not only to administrative and accounting processes, narrowly defined, but also to steering and control processes (planning, management control, risk control), business processes (credit, finance, etc.), support processes (operations) and governance rules for the technological infrastructure and applications that support the management of administrative and accounting procedures;
- the completeness and consistency of information disclosed to the market by enhancing ordinary internal communications processes through the regular acquisition of a structured, organised system of information streams by the Manager responsible for preparing the Company’s financial reports; the functions of the Parent company and its subsidiaries regularly give notice of events material to accounting and financial information, particularly as regards the primary risks and uncertainties to which they are exposed, while also facilitating ongoing relations with the units that the Manager responsible for preparing the Company’s financial reports asks to conduct any further inquiries in a timely manner.

The Manager responsible for preparing the Company’s financial reports, aided by the Administrative and Financial Governance Unit, has identified the scope of the subsidiaries viewed as material to financial information on the basis of their respective contributions to captions of the consolidated income statement and balance sheet and assessments of business complexity and underlying risk types. The Manager then

defined the schedule of the work to be done on the Group in connection with legal obligations – the preparation of procedures and management of review activities – taking care to ensure that development was oriented in accordance with the principles enunciated in the Regulations entitled “Guidelines for administrative and financial governance” and that the application of control approaches was fully consistent with the reference methods used, which reflect international standards derived from the COSO and COBIT Framework¹, to ensure that the review process and assessment criteria were applied homogeneously to Group companies.

In particular, evidence provided by Internal Auditing Departments is used to determine whether there is an adequate internal control system at corporate level to reduce the risk of errors or incorrect conduct. This is achieved through the verification of elements such as adequate governance systems, conduct standards based on ethics and integrity, effective organisational structures, clear attribution of powers and responsibilities, adequate risk policies, personnel disciplinary systems, effective codes of conduct and fraud prevention systems.

Verification of the adequacy and actual application of administration and accounting procedures and of governance rules for the IT infrastructure and applications is partly carried out according to specific methodologies derived from auditing standards supervised by the Manager responsible for preparing the Company’s financial reports and dedicated departments, and partly based on evidence provided by the Internal Auditing Department and other control departments, with a view to maximising organisational synergies.

After completing this process, each Company then produced a Report on the internal control system functional to financial reporting, which was enhanced and completed in concert with the Parent company’s Administrative and Financial Governance Unit before being formally sent to the Manager responsible for preparing the Company’s financial reports. These Reports, presented as part of the periodic information provided to each company’s supervisory bodies, were drafted to include:

- the outcome of reviews of processes sensitive to financial information by the control functions that support the review plan set by the Manager responsible for preparing the Company’s financial reports (local Administrative and Financial Governance, Internal Audit and Compliance Units);
- material information included in the data streams transmitted by the companies, remarks formulated by the management for the Manager responsible for preparing the Company’s financial reports and any suggestions made by the independent auditors in the conduct of their engagements.

The Report on the internal control system functional to financial reporting includes:

- information concerning the company’s overall situation and financial information control system;
- the scope of the audit plan carried out in the performance of administrative and accounting procedures and the governance rules for the technology and applications that support it;
- a summary and detailed breakdown of the reviews conducted and the anomalies detected, with a precise indication of measures aimed at restoring the full functionality of controls.

Once the evaluation process for administrative and accounting procedures at the level of the Parent company and subsidiaries has been completed, the Administrative and Financial Governance Unit drafts a Group report that contains:

- an account of the status of application of the administrative and financial governance model adopted by the group and the primary initiatives promoted by the Manager responsible for preparing the Company’s financial reports during the year aimed at constantly enhancing the administrative and accounting system;
- further information on the anomalies detected, including an indication of risk, the affected captions of the income statement and balance sheet, the accounts that could be effected, and compensatory controls with a mitigating effect with the aim of filling gaps in terms of the values and information represented at the consolidated level;
- an overarching judgment, considering both the information provided during the period by the Parent company’s functions and the subsidiaries and the opinions stated by management of any suggestions made by the independent auditors.

¹ The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and organisation. The COBIT Framework - Control OBJECTives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

Following the completion of the reviews conducted during the year to express an opinion of the adequacy and effective application of controls of administrative and accounting procedures and technology and application governance rules, the reliability of the internal control system for accounting and financial information is confirmed.

However, the fact that administrative and accounting procedures are suitable to provide an accurate representation of the assets, liabilities, profit or loss and financial position of the Bank and Group in the financial statements does not mean that there is not room for improvement, which is then the object of measures taken by the interested units and the supervision provided by the Manager responsible for preparing the Company's financial reports without any interruption of the working process.

The information was presented to the Control Committee, Management Board and Supervisory Board to the extent of their respective spheres of competence.

The work done provided the basis for the Manager responsible for preparing the Company's financial reports to issue the certifications required by art. 154-bis of Legislative Decree 58/98 with respect to the 2009 Annual Report and the Basel 2 Pillar 3 Disclosure as at 31 December 2009.

CREDIT RISK

Risk management strategies and processes

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

- coordinating actions 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 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.

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

The areas of competence for lending activities are determined according to a strict segregation of functions and responsibilities. In the specific area of Group credit management, the Chief Financial Officer – in accordance with the strategic guidelines and risk management policies set out by the Management Board and approved by the Supervisory Board – coordinates the process of setting credit strategies (in which the other Chiefs and Business Units also participate) and updating them as required over time, the Chief Lending Officer is responsible for material credit decisions, supervises doubtful positions and the recovery of non-performing positions and sets credit granting and monitoring rules, the Chief Risk Officer ensures that the Group's risk exposures are measured and monitored, formulates proposals for assigning the authority to grant and monitor loans and constantly monitors risk and credit quality performance, and the Chief Operating Officer provides specialist support for defining credit processes to ensure cost synergies are achieved and the service offered is of excellent quality.

Approval limits attributed to the credit approval functions of the Parent company and of subsidiaries are defined in terms of total Bank/Banking Group exposure to each counterparty/economic group, with a case-by-case approach and require the attribution of an internal rating to each counterparty at the time of granting and monitoring and the periodic update of the rating at least once a year. The rating and any credit risk mitigation factors, influences the determination of the credit approval competence of each delegated body, which is formulated to ensure its credit risk equivalence in terms of capital absorbed. Intesa Sanpaolo, as the Parent company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.

In early 2009, as part of the ongoing redefinition of the areas of competence for credit activities, the Group introduced regulations concerning the "Group's loan granting and monitoring process".

The principles that guide this process are:

- an adversarial approach between the functions involved aimed at ensuring that risk is prudentially assessed and managed; in this regard, decision-making bodies are ensured an “independent” contribution for assessing risk provided by specific technical units to support them as they formulate analyses and assessments of creditworthiness;
- simplicity and efficiency; the formulation of loan granting and monitoring processes ensures promptness in responding to customers, while at the same time ensuring that risk assessment is effective by modulating it according to the scope and complexity of the risk in question and assessing it on the basis of predetermined parameters;
- the various levels of monitoring of compliance of applicable rules;
- the measurement of the efficiency and efficacy of the process.

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

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

Structure and organisation of the associated risk management function

The Chief Risk Officer sets risk management guidelines and policies in accordance with the Company’s strategies and objectives. This Officer’s responsibilities include contributing to the setting out of the credit strategies by providing guidelines in relation to Expected Loss, Economic Capital (ECAP) and the acceptance thresholds; the measurement and control of the Group’s exposure to the various types of risk and related reporting to Top Management; ensuring the monitoring of credit quality and the observance of credit-related guidelines and strategies through the continuous monitoring of risk and credit quality and the implementation of corrective actions by the Business Units; and establishing the powers in relation to the granting and management of loans and the criteria for classification as non-performing loans.

The Chief Risk Officer is also responsible, at Group level, for the definition and development of credit risk measurement methods, in order to ensure alignment with best practice.

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

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

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

Risk measurement uses rating models that are differentiated according to the borrower’s segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian Public Sector Entities, Financial institutions). These models make it possible to summarise the credit quality of the counterparty in a measurement, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. Statistical calibrations have rendered these ratings fully consistent with those awarded by rating agencies, forming a single scale of reference.

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

- models differentiated according to the market in question (domestic or international) and size bracket of the company are applied to most businesses;
- there are two specific models for specialised lending, one for real-estate development initiatives and the other for project-finance transactions.

In general terms, the structure of the models integrates several modules:

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

The assignment of the rating is generally decentralised to the branches, except for certain types of counterparty (mainly large groups and complex conglomerates), which are centralised in specialist units of the Parent company Head Office Department and require expert assessments.

The Corporate rating models, for which a validation application was submitted in November 2008, are described in more detail in Table 7.

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

The Sovereign internal model (a segment for which authorisation for Permanent Partial Use has been requested) involves the incorporation, with expert - based weightings, of several components (in particular: agency ratings and scoring by specialist institutions, credit spread, and an internal model based on macroeconomic factors).

The following models are being studied for Public Entities: a Regions model and a Large Municipalities model based on a “shadow model” approach (estimated using the agency rating as a target variable) and a Municipalities model based on a “default model”, where the default is defined as a state of financial distress, estimated using a sample of Italian municipalities.

The Banks model, due to be implemented in the near future, is a “default model” (which, with reference to the low default segment, has used both internal data and data on external defaults for its estimates) that differentiates between banks from developed countries and banks from emerging countries.

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

The models applied to the Retail portfolio are as follows:

- for the Small Business segment, a new Group counterparty rating model was adopted effective late 2008, based on similar criteria to the Corporate model, namely highly decentralised and where the quantitative-objective elements are supplemented by qualitative-subjective elements;
- for the Mortgage segment, the Group’s new model, also adopted in late 2008, processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
- as regards the other products aimed at private individuals (Other Retail segment), such as personal loans, consumer credit, credit cards, current account overdrafts, etc., a class of models is being developed that will gradually replace the operational rating or scoring systems currently used for various products.

The next generation LGD model was released on an integrated basis in 2009. The approach adopted for determining LGD is based on the concept of “Economic LGD”, namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group. The LGD is estimated based on the losses measured for a population of closed defaults over a particular period of observation based on nine years of experience using econometric multivariate analysis models. Plans call for the development of an internal model for determining EAD (Exposure at Default).

The rating models for the Corporate segment were approved for use for the calculation of the capital requirement through the IRB Foundation approach with effect from the reporting date of 31 December 2008. For details of the plan for the rollout of the IRB approach to the other rating models and the LGD model, see the section on the Basel 2 Project.

As mentioned above, ratings and mitigating credit factors (guarantees, technical forms and covenants) play a fundamental role in the entire loan granting and monitoring process: they are used to set Credit Strategies and Loan granting and monitoring rules as well as to determine decision-making powers.

Furthermore, the rating system includes a behavioural score available on a monthly basis, which is the main element used for monitoring credit. It interacts with processes and procedures for loan management and

credit risk control and allows timely assessments to be formulated when any anomalies arise or persist. The positions to which the synthetic risk index mentioned above attributes a high risk valuation, which is confirmed over time, are intercepted by the Non-performing Loan Process. This process, supported by a dedicated electronic procedure, allows constant monitoring, largely automatic, of all the phases for the management of anomalous positions. The positions which show an anomalous trend are classified into different processes based on the risk level, including the automatic classification in non-performing assets, as described in the related paragraph (see Table 5).

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

The input of information provided by all Group banks and companies that operate on the target IT system into the Credit Control Panel was completed in 2009. The information content stored in this instrument represents the primary source employed to control and monitor the loan portfolio in terms of its development over time and quantitative and qualitative composition and to carry out loan-related processes aimed at identifying any areas showing potential critical weaknesses.

The project to revamp the contents and layout of the Credit Information Portal was also completed. This application, which draws data from the Credit Control Panel, allows the peripheral units of the Banca dei Territori and Corporate and Investment Banking Divisions access via the Company intranet through to the Area level to a wide range of standard reports on the loan portfolio and the loan processes within their respective spheres of competence, updated on a monthly basis. This instrument is scheduled for gradual release in early 2010.

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

Counterparty risk is a specific type of credit risk, associated with OTC derivative contracts, relating to the potential default by the counterparty prior to the expiry of the contract. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.

Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).

Counterparty risk is bilateral in nature inasmuch as the mark-to-market of the transaction may be either positive or negative depending on the performance of the market factors that underlie the financial instrument.

The Group uses risk mitigation techniques for counterparty risk, which are also recognised for regulatory purposes and are discussed in this document in the section on risk mitigation techniques (see Table 8).

From a regulatory standpoint, banks must meet strict capital requirements for counterparty risk, regardless of the portfolio to which the positions are allocated (for regulatory purposes, both the banking book and trading book are subject to capital requirements for counterparty risk).

In particular, the Intesa Sanpaolo Group applies the mark-to-market approach (to both the trading book and banking book) in order to determine the credit exposure of OTC derivatives, which is useful when computing capital requirements.

This approach estimates the credit exposure as the sum of the positive mark-to-market and potential future exposure, where the latter is calculated by applying certain percent rates to the notional amounts of the transactions.

In the Group, from a management standpoint, counterparty risk, defined as the maximum acceptable loss on a certain counterparty, is quantified by determining lines of credit to account for replacement risk associated with OTC derivatives and SFT transactions. Capital use is monitored through the joint application of mark-to-market and add-on values (internally prepared estimates of the maximum potential exposure on the transactions in question).

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

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

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

the projected level, based on both the forecast macro economic scenario and on stress scenarios. The expected loss, transformed into incurred loss as indicated by IAS 39, is used in the collective assessment of loans, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system. The credit portfolio model also allows identification of the undesired concentration effects and extent and content of actions:

- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to “large risks”, to loans subject to country risk and to loans to financial institutions;
- aimed at ex post correction of the profile, through the secondary loan market and through specific judgement metrics based on the maximisation of overall portfolio value.

Policies for hedging and mitigating risk

The techniques for the mitigation of credit risk are the elements that contribute to reducing the loss given default. They include guarantees, facility types and covenants.

The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual loan, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present.

The loss given default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.

The credit granting and management process favours the presence of mitigating factors for counterparties with a non-investment grade rating and medium-long term loans.

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

Conversely, the strength of the personal guarantees issued by rated parties, typically banks/insurance companies, credit guarantee consortia and corporations, is assessed on the basis of the type of guarantee and guarantor's credit quality.

For all other guarantees, processes and procedures are in place to allow a frequent review of compliance with Basel 2 regulations in order to be able to benefit from recognition of guarantees when computing regulatory capital.

Performance in terms of the amounts and/or absolute numbers of adequate guarantees is reviewed and monitored on a monthly basis.

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

This is achieved through ISDA and ISMA/PSA agreements that, in compliance with the Supervisory regulations, also enable the reduction of the absorption of regulatory capital.

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

With reference to concentration risk, limits are periodically defined for single counterparties and for significant industrial and geographical aggregates. Post loan origination interventions are aimed at acting on the risk profile of the entire portfolio, using all the opportunities present on the secondary loan market, in view of an active management of business assets.

MARKET RISKS

MARKET RISKS/TRADING BOOK

Risk management strategies and processes

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

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

Structure and organisation of the associated risk management function

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

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

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

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

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

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

The activities for the quantification of trading risks are based on daily and period estimates of sensitivity 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 (CDS);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABS);
- commodities.

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

- Value at Risk (VaR), that represents the backbone of the whole risk management system due to its uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, that are the essential accompaniment to the VaR indicators due to their ability to capture the sensibility and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark to Market), that are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case).

- Incremental Risk Charge (IRC), an additional measure to VaR that enables the correct representation of the specific risk on debt securities and credit derivatives because it also captures event and default risk, in addition to idiosyncratic risk.

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

Policies for hedging and mitigating risk

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

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

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

Strategies and processes for the ongoing assessment of their effectiveness

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

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

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

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

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

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

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

Structure and organisation of the associated risk management function

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

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the

- information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Statutory Bodies, reporting on their progress to Top Management and the Parent company's operational structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
 - managing the assessment and measurement, for the Parent company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process. For the other subsidiaries, it provides direction and guidance);
 - supporting the AVM and Strategies Unit in relation to strategic ALM.

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

Two types of measurement have been adopted for the measurement of the financial risks generated by the banking book, namely Value at Risk (VaR) and Sensitivity analysis.

Value at Risk corresponds to the maximum loss that the book can incur in the following ten business days in 99% of cases, on the basis of the volatilities and the historical correlations (of the last 250 business days) between the individual risk factors, consisting, for each foreign currency, of the short-term and long-term interest rates, the exchange rates and the prices of the equities².

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

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

Policies for hedging and mitigating risk

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

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

Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first one refers to the fair value hedge of specifically identified assets and liabilities (micro-hedging), mainly consisting of bonds issued or acquired by the Bank and loans to customers. 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 variable 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 compliance with international accounting standards.

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

As concerns equity shareholdings in Group companies held in foreign currencies, risk hedging policies are assessed for each position by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

² Value at Risk calculation models have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, VaR results cannot guarantee that the possible future losses will not exceed the statistically calculated estimates.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the bank's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).

The Guidelines for Liquidity Risk Management adopted by the Intesa Sanpaolo Group outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Group to develop prudential approaches to liquidity management, making it possible to maintain the overall risk profile at extremely low levels.

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

- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- a prudential approach to the estimation of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- the maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Group's liquidity or system liquidity.

Intesa Sanpaolo directly manages its own liquidity, coordinates its management at Group level in all currencies, ensures the adoption of adequate control techniques and procedures, and provides complete and accurate information to the Operational Committees (Group Risk Governance Committee and Group Financial Risks Committee) and the Statutory Bodies.

The departments of the Parent company that are in charge of ensuring the correct application of the Guidelines are the Treasury Department, responsible for liquidity management, and the Risk Management Department, responsible for monitoring indicators and verifying the observation of limits.

These Guidelines are broken down into three macro areas: "Short term Liquidity Policy", "Structural Liquidity Policy" and "Contingency Liquidity Plan".

The short term Liquidity Policy includes the set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of the liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management.

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

Together with the short term and structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.

The Contingency Liquidity Plan, by setting itself the objectives of safeguarding the Group's capital and, at the same time, guaranteeing the continuity of operations under conditions of extreme liquidity emergency, ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The pre-warning indices, aimed at spotting the signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.

The liquidity position of the Parent company and the Group Companies is regularly presented by the Risk Management Department and discussed during the Group Financial Risks Committee meetings.

OPERATIONAL RISK

Operational risk management strategies and processes

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.

Organisational structure of the associated risk management function

The Group has a centralised function within the Risk Management Department for the management of the Group's operational risks. 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 activities and reporting to Top Management.

In compliance with the prevailing regulations, the individual Organisational Units are responsible for the identification, assessment, management and mitigation of risk. Specific functions have been identified within these organisational units responsible for the Operational Risk Management processes of their unit (collection and structured census of information relating to operational events, scenario analysis and assessment of the level of risk associated with the business environment).

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

The Group uses the internal model based Advanced Measurement Approach (AMA) to determine the related capital requirements for an initial scope of companies including the banks and companies of the Banca dei Territori Division (except for the former Gruppo CR Firenze, but including Casse del Centro banks), Leasint, Eurizon Capital and VUB Banka. The remaining companies, that currently use the Standardised approach, will gradually migrate to the Advanced approaches beginning in 2010.

The Integrated Self-assessment process, which has been conducted on an annual basis since 2008, 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 Auditing) 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.

Monitoring of operational risk 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 provide continuous support the operational risk management, during the year a structured training programme was fully implemented for employees actively involved in the management and mitigation of operational risk.

Policies for hedging and mitigating risk

The Intesa Sanpaolo Group has set up a traditional operational risk transfer (insurance) policy aimed at mitigating the impact of unexpected losses. The AMA calculation model does not currently include the benefit from this transfer of operational risk through insurance policies. However, it is due to be included in the future, after its validation by the Supervisory authority, so that it can contribute to reducing the risk capital calculated through the internal models.

OTHER RISKS

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

Strategic risk

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

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

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

- a component associated with the possible impact of misguided company decisions and an inability to react sufficiently to changes in the competitive scenario. This component does not require capital, but is one of the risks mitigated by the ways in which, and the levels at which, strategic decisions are reached, where all significant decisions are always supported by ad hoc activities aimed at identifying and measuring the risks implicit in the initiative;
- the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decrease in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its business units.

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

Reputation risk

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

The Group has adopted and published a Code of Ethics that sets out the basic values to which it intends to commit itself and sets forth the principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with more ambitious objectives than those required just to comply with the law. On the subject of customer relations, the Group has set up a systematic dialogue process. It has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.

The Group also provides effective governance for compliance risk as a prerequisite for mitigating reputation risk.

There has been a particular focus on financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.

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

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

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

Risk on owned real-estate assets

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

Insurance risk

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

The Intesa Sanpaolo Group defines insurance risk as the risk associated with unfavourable changes in the insurance Embedded Value (comparison between technical reserves and hedging investments). In other words, it reflects the risk of the deterioration of the value of the insurance business. This allows the Group to assess the adequacy of the whole of the financial conglomerate, by incorporating the Embedded Value as a measure of the value of the insurance business.

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

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

Table 2 – Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

Intesa Sanpaolo S.p.A., Parent company of the Banking Group “Intesa Sanpaolo”, included in the National Register of Banking Groups.

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

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

The “Banking Group” differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The differences essentially relate to:

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

Taking into account the sale of Findomestic Banca in December 2009, the proportional consolidation of subsidiaries subject to joint control does not generate any significant differences. Please also note that companies are defined as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by the Intesa Sanpaolo Group and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.

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

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

Basis of consolidation for accounting and prudential purposes

Entities consolidated as at 31 December 2009

Company name	Registered office		Treatment in prudential reporting			Treatment in financial statements	
	Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity (RWA)	Consolid. line-by-line	Consolid. at equity
BANKS							
INTESA SANPAOLO S.p.A.	Torino	ITALY	X			X	
ALLFUNDS BANK S.A.	Madrid	SPAIN		X			X
BANCA C.R. FIRENZE ROMANIA S.A.	Bucarest	ROMANIA	X			X	
BANCA DELL'ADRIATICO S.p.A.	Pesaro	ITALY	X			X	
BANCA DI CREDITO SARDO S.p.A.	Cagliari	ITALY	X			X	
BANCA DI TRENTO E BOLZANO S.p.A.	Trento	ITALY	X			X	
BANCA FIDEURAM S.p.A.	Roma	ITALY	X			X	
BANCA IMI S.p.A.	Milano	ITALY	X			X	
BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO S.p.A.	Roma	ITALY	X			X	
BANCA INTESA A.D. - BEOGRAD	Novi Beograd	REPUBLIC OF SERBIA	X			X	
BANCA PROSSIMA S.p.A.	Milano	ITALY	X			X	
BANCO DI NAPOLI S.p.A.	Napoli	ITALY	X			X	
BANK OF ALEXANDRIA S.A.E.	Cairo	EGYPT	X			X	
BANKA KOPER D.D.	Koper	SLOVENIA	X			X	
CARIROMAGNA S.p.A.	Forlì	ITALY	X			X	
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.p.A.	Gorizia	ITALY	X			X	
CASSA DI RISPARMIO DEL VENETO S.p.A.	Padova	ITALY	X			X	
CASSA DI RISPARMIO DELLA PROVINCIA DI VITERBO S.p.A.	Viterbo	ITALY	X			X	
CASSA DI RISPARMIO DELLA SPEZIA S.p.A.	La Spezia	ITALY	X			X	
CASSA DI RISPARMIO DI ASCOLI PICENO S.p.A.	Ascoli Piceno	ITALY	X			X	
CASSA DI RISPARMIO DI CITTA' DI CASTELLO S.p.A.	Città Di Castello	ITALY	X			X	
CASSA DI RISPARMIO DI CIVITAVECCHIA S.P.A.	Civitavecchia	ITALY	X			X	
CASSA DI RISPARMIO DI FIRENZE S.p.A.	Firenze	ITALY	X			X	
CASSA DI RISPARMIO DI FOLIGNO S.p.A.	Foligno	ITALY	X			X	
CASSA DI RISPARMIO DI PISTOIA E PESCIA S.P.A.	Pistoia	ITALY	X			X	
CASSA DI RISPARMIO DI RIETI S.p.A.	Rieti	ITALY	X			X	
CASSA DI RISPARMIO DI SPOLETO S.p.A.	Spoleto	ITALY	X			X	
CASSA DI RISPARMIO DI TERNI E NARNI S.p.A.	Terni	ITALY	X			X	
CASSA DI RISPARMIO DI VENEZIA S.p.A.	Venezia	ITALY	X			X	
CASSA DI RISPARMIO IN BOLOGNA S.p.A.	Bologna	ITALY	X			X	
CENTRAL-EUROPEAN INTERNATIONAL BANK Ltd	Budapest	HUNGARY	X			X	
CENTRO LEASING BANCA S.p.A.	Firenze	ITALY	X			X	
FIDEURAM BANK (MONACO) S.A.M.	Monaco	PRINCIPALITY OF MONACO	X			X	
FIDEURAM BANK (Suisse) S.A.	Zurich	SWITZERLAND	X			X	
FIDEURAM BANK LUXEMBOURG S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA SANPAOLO BANK ALBANIA SH.A.	Tirana	ALBANIA	X			X	
INTESA SANPAOLO BANK IRELAND PLC	Dublin	IRELAND	X			X	
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	Sarajevo	BOSNIA AND HERZEGOVINA	X			X	
INTESA SANPAOLO PRIVATE BANK (SUISSE) S.A.	Lugano	SWITZERLAND	X			X	
INTESA SANPAOLO PRIVATE BANKING S.p.A.	Milano	ITALY	X			X	
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	Arad	ROMANIA	X			X	
INTESA SANPAOLO SERVIZI TRANSAZIONALI S.p.A.	Milano	ITALY	X			X	
KMB BANK (Closed Joint-Stock Company)	Moskow	RUSSIA	X			X	
MEDIMURSKA BANKA D.D.	Cakovec	CROATIA	X			X	
MEDIOCREBITO ITALIANO S.p.A.	Milano	ITALY	X			X	
PBZ STAMBENA STEDIONICA D.D.	Zagreb	CROATIA	X			X	
PRAVEX BANK Public Joint-Stock Company Commercial Bank	Kiev	UKRAINE	X			X	
PRIVREDNA BANKA ZAGREB D.D.	Zagreb	CROATIA	X			X	
SANPAOLO BANK S.A.	Luxembourg	LUXEMBOURG	X			X	
SANPAOLO IMI BANK (INTERNATIONAL) S.A.	Funchal - Madeira	PORTUGAL	X			X	
SOCIETE' EUROPEENNE DE BANQUE S.A.	Luxembourg	LUXEMBOURG	X			X	
VSEOBECNA UVEROVA BANKA A.S.	Bratislava	SLOVAKIA	X			X	
ZAO BANCA INTESA Closed Joint-stock Company	Moskow	RUSSIA	X			X	

Company name	Registered office		Treatment in prudential reporting			Treatment in financial statements	
	Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity (RWA)	Consolid. line-by-line	Consolid. at equity
FINANCIAL COMPANIES							
B.I. PRIVATE EQUITY Ltd	Dublin	IRELAND	X			X	
BANCA IMI SECURITIES CORP.	New York	USA	X			X	
BN FINRETE S.p.A. in liquidation	Napoli	ITALY			X		X
CASSE DEL CENTRO S.p.A.	Spoletto	ITALY	X			X	
CENTRO FACTORING S.p.A.	Firenze	ITALY	X			X	
CENTRO LEASING RETE S.p.A.	Firenze	ITALY	X			X	
		BOSNIA AND HERZEGOVINA					
CENTURION FINANCIAL SERVICES Ltd	Sarajevo	HERZEGOVINA	X			X	
CIB Credit LTD	Budapest	HUNGARY	X			X	
CIB FACTOR FINANCIAL SERVICE LTD.	Budapest	HUNGARY	X			X	
CIB INVESTMENT FUND MANAGEMENT LTD.	Budapest	HUNGARY	X			X	
CIB LEASING LTD.	Budapest	HUNGARY	X			X	
CIB NEW YORK BROKER Zrt.	Budapest	HUNGARY	X			X	
CIB PROPERTY LTD	Budapest	HUNGARY	X			X	
CIB REAL ESTATE LTD.	Budapest	HUNGARY	X			X	
CIB RESIDENTIAL PROPERTY LEASING LTD.	Budapest	HUNGARY	X			X	
CONSUL SERVICE S.r.l. in liquidation ⁽¹⁾	Cagliari	ITALY			X		X
CONSUMER FINANCE HOLDING A.S.	Kezmarok	SLOVAKIA	X			X	
EPSILON ASSOCIATI SGR S.p.A.	Milano	ITALY	X			X	
EQUITER S.p.A.	Torino	ITALY	X			X	
EURIZON A.I. SGR S.p.A.	Milano	ITALY	X			X	
EURIZON CAPITAL S.A.	Luxembourg	LUXEMBOURG	X			X	
EURIZON CAPITAL SGR S.p.A.	Milano	ITALY	X			X	
EURO-TRESORERIE S.A.	Paris	FRANCE	X			X	
FIDEURAM ASSET MANAGEMENT (IRELAND) LTD.	Dublin	IRELAND	X			X	
FIDEURAM FIDUCIARIA S.p.A.	Roma	ITALY	X			X	
FIDEURAM GESTIONS S.A.	Luxembourg	LUXEMBOURG	X			X	
FIDEURAM INVESTIMENTI - Società di Gestione del Risparmio S.p.A.	Roma	ITALY	X			X	
FINANCIERE FIDEURAM S.A.	Paris	FRANCE	X			X	
FINANZIARIA B.T.B S.p.A.	Trento	ITALY	X			X	
IMI CAPITAL MARKETS USA CORP.	New York	USA	X			X	
IMI Finance Luxembourg S.A.	Luxembourg	LUXEMBOURG	X			X	
IMI Fondi Chiusi SGR S.p.A.	Bologna	ITALY	X			X	
IMI INVESTIMENTI S.p.A.	Bologna	ITALY	X			X	
IMI INVESTMENTS S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA FUNDING LLC	Wilmington	USA	X			X	
INTESA GLOBAL FINANCE COMPANY LTD	Dublin	IRELAND	X			X	
INTESA INVESTIMENTI S.p.A.	Milano	ITALY	X			X	
INTESA LEASE SEC S.r.l.	Milano	ITALY	X			X	
		REPUBLIC OF SERBIA					
INTESA LEASING D.O.O. BEOGRAD	Beograd	OF SERBIA	X			X	
INTESA PREFERRED CAPITAL COMPANY LLC	Dover	USA	X			X	
INTESA PREVIDENZA - SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.p.A.	Milano	ITALY	X			X	
INTESA SANPAOLO CARD D.O.O. - LJUBLJANA	Ljubljana	SLOVENIA	X			X	
INTESA SANPAOLO CARD D.O.O. - ZAGREB	Zagreb	CROATIA	X			X	
INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	Luxembourg	LUXEMBOURG	X			X	
INTESA SANPAOLO LEASING ROMANIA IFN S.A. *	Bucarest	ROMANIA			X		X
INTESA SANPAOLO TRUST COMPANY FIDUCIARIA S.p.A.	Milano	ITALY	X			X	
INTESA SEC. 2 S.r.l.	Milano	ITALY	X			X	
INTESA SEC. 3 S.r.l.	Milano	ITALY	X			X	
INTESA SEC. NPL S.p.A.	Milano	ITALY	X			X	
INTESA SEC. S.p.A.	Milano	ITALY	X			X	
INTESABCI PREFERRED CAPITAL COMPANY LLC III DELAWARE	Wilmington	USA	X			X	
INTESABCI PREFERRED SECURITIES INVESTOR TRUST	Newark	USA	X			X	
INVERSIONES MOBILIARIAS S.A. "IMSA"	Lima	PERU	X			X	
KMB-LEASING (CLOSED JOINT STOCK COMPANY)	Moskow	RUSSIA	X			X	
LEASINT S.p.A.	Milano	ITALY	X			X	
LIMA SUDAMERIS HOLDING S.A. in liquidation	Lima	PERU	X			X	

Company name	Registered office		Treatment in prudential reporting			Treatment in financial statements	
	Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity (RWA)	Consolid. line-by-line	Consolid. at equity
LUX GEST ASSET MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X			X	
MEDIOFACTORING S.p.A.	Milano	ITALY	X			X	
MONETA S.p.A.	Bologna	ITALY	X			X	
NEOS FINANCE S.p.A.	Bologna	ITALY	X			X	
PBZ Card D.O.O.	Zagreb	CROATIA	X			X	
PBZ Invest D.O.O.	Zagreb	CROATIA	X			X	
PBZ Leasing D.O.O. za poslove leasinga	Zagreb	CROATIA	X			X	
PRIVATE EQUITY INTERNATIONAL S.A.	Luxembourg	LUXEMBOURG	X			X	
RECOVERY A.S.	Bratislava	SLOVAKIA	X			X	
SANPAOLO IMI Capital Company I, L.L.C.	Wilmington	USA	X			X	
SANPAOLO IMI U.S. FINANCIAL CO.	Wilmington	USA	X			X	
SANPAOLO INVEST IRELAND LIMITED	Dublin	IRELAND	X			X	
SANPAOLO INVEST Società di Intermediazione Mobiliare S.p.A.	Roma	ITALY	X			X	
SETEFI - SERVIZI TELEMATICI FINANZIARI PER IL TERZIARIO S.p.A.	Milano	ITALY	X			X	
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.R.E.F. S.p.A.	Milano	ITALY	X			X	
SUDAMERIS S.A.	Paris	FRANCE	X			X	
TOBUK LIMITED ^(*)	Dublin	IRELAND			X		X
VUB ASSET MANAGEMENT SPRAVCOVSKA SPOLOCNOST A.S.	Bratislava	SLOVAKIA	X			X	
VUB FACTORING A.S.	Bratislava	SLOVAKIA	X			X	
VUB LEASING a.s.	Bratislava	SLOVAKIA	X			X	
INSTRUMENTAL COMPANIES							
AGRIVENTURE S.p.A. ^(*)	Firenze	ITALY			X		X
CIB REAL PROPERTY UTILISATION AND SERVICES LTD.	Budapest	HUNGARY	X			X	
CIB RENT OPERATIVE LEASING LTD.	Budapest	HUNGARY	X			X	
CIB SUPPORT LTD.	Budapest	HUNGARY	X			X	
CONSORZIO STUDI E RICERCHE FISCALI - GRUPPO INTESA SANPAOLO ^(*)	Roma	ITALY			X		X
EXELIA S.R.L. ^(*)	Brasov	ROMANIA			X		X
IMMOBILIARE NUOVA SEDE S.R.L.	Firenze	ITALY	X			X	
INFOGROUP S.c.p.A.	Firenze	ITALY	X			X	
INTESA REAL ESTATE S.r.l.	Milano	ITALY	X			X	
INTESA SANPAOLO GROUP SERVICES S.c.p.A.	Torino	ITALY	X			X	
INTESA SANPAOLO REAL ESTATE ROMANIA S.A. ^(*)	Arad	ROMANIA			X		X
INTESA SANPAOLO SERVICOS E EMPREENDIMENTOS Ltda ^(*)	Sao Paulo	BRAZIL			X		X
PBZ NEKRETNINE D.O.O.	Zagreb	CROATIA	X			X	
SANPAOLO IMMOBILIERE S.A.	Luxembourg	LUXEMBOURG	X			X	
SANPAOLO REAL ESTATE S.A.	Luxembourg	LUXEMBOURG	X			X	
SEP - Servizi e Progetti S.c.p.A.	Torino	ITALY	X			X	
SERVITIA S.A.	Luxembourg	LUXEMBOURG	X			X	
TEBE TOURS S.P.A. ^(*)	Mirandola	ITALY			X		X

^(*) Banking Group's subsidiary.

Entities deducted from capital as at 31 December 2009

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements		
	Town	Country	Deductions from capital	Consolidated line-by-line	Consolid. at equity	AFS
INSURANCE COMPANIES						
Centro Vita S.p.A.	Firenze	ITALY	X	X		
Eurizon Vita S.p.A.	Torino	ITALY	X	X		
Intesa Vita S.p.A.	Milano	ITALY	X		X	
PBZ Croatia Osiguranje D.D.	Zagreb	CROATIA	X		X	
Sud Polo Vita S.p.A.	Torino	ITALY	X	X		
VUB GENERALI A.S.	Bratislava	SLOVAKIA	X		X	
VUB POISTOVACI A.S.	Bratislava	SLOVAKIA	X	X		
BANKS						
BANCA D'ITALIA	Roma	ITALY	X		at cost	
BANCA IMPRESA LAZIO S.p.A.	Roma	ITALY	X		X	
BANK OF QINGDAO CO. LTD.	Qingdao	PEOPLE'S REPUBLIC OF CHINA	X		X	
BANQUE ESPIRITO SANTO ET DE LA VENETIE S.A.	Paris	FRANCE	X			X
CASSA DI RISPARMIO DELLA PROVINCIA DI CHIETI S.p.A.	Chieti Scalo	ITALY	X			X
CASSA DI RISPARMIO DI FERMO S.p.A.	Fermo	ITALY	X		X	
FINDOMESTIC BANCA S.P.A.	Firenze	ITALY	X			X
ISTITUTO PER IL CREDITO SPORTIVO	Roma	ITALY	X			X

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements		
	Town	Country	Deductions from capital	Consolidated line-by-line	Consolid. at equity	AFS
FINANCIAL COMPANIES						
AMBIENTA Società di Gestione del Risparmio S.p.A.	Milano	ITALY	X		X	
ATLANTIS S.A.	Buenos Aires	ARGENTINA	X		X	
		BOSNIA AND HERZEGOVINA				
BAMCARD D.D.	Sarajevo	HERZEGOVINA	X			X
BLUE GEM LUXEMBOURG 1 S.A.R.L.	Luxembourg	LUXEMBOURG	X			X
CEDAR STREET SECURITIES CORP.	New York	USA	X		X	
EQUINOX INVESTMENT COMPANY S.c.p.a.	Luxembourg	LUXEMBOURG	X			X
EQUINOX TWO SCA	Luxembourg	LUXEMBOURG	X			X
		PEOPLE'S REPUBLIC OF CHINA				
EURIZONVITA (Beijing) BUSINESS ADVISORY CO. LTD.	Beijing	OF CHINA	X		X	
F2I - Fondi Italiani per le Infrastrutture SGR S.p.A.	Milano	ITALY	X			X
FIDI TOSCANA S.p.A.	Firenze	ITALY	X			X
FIDIA-FONDO INTERBANCARIO D'INVESTIMENTO AZIONARIO SGR S.p.A.	Milano	ITALY	X			X
FINEUROPE S.p.A.	Milano	ITALY	X			X
GCL HOLDINGS L.P. S.à.r.l.	Luxembourg	LUXEMBOURG	X		X	
GE.F.I.L. - GESTIONE FISCALITA' LOCALE S.P.A.	La Spezia	ITALY	X		X	
GEPAFIN S.p.A.-GARANZIE PARTECIPAZIONI E FINANZIAMENTI	Perugia	ITALY	X			X
GESTIONES Y RECUPERACIONES DE ACTIVOS S.A.	Lima	PERU	X		X	
		REPUBLIC OF SERBIA				
INTESA EURIZON ASSET MANAGEMENT BEOGRAD A.D.	Beograd	OF SERBIA	X		X	
INTESA SODITIC TRADE FINANCE LIMITED	London	UNITED KINGDOM	X		X	
IPEF PARTNERS LTD in liquidation	London	UNITED KINGDOM	X			X
ISP CB IPOTECARIO S.r.l.	Milano	ITALY	X		X	
ISP CB PUBBLICO S.r.l.	Milano	ITALY	X		X	
ISP SEC. 4 S.r.l.	Milano	ITALY	X		X	
ITALFONDIARIO S.p.A.	Roma	ITALY	X		X	
LA COMPAGNIA FINANZIARIA S.p.A.	Milano	ITALY	X			X
LDV HOLDING B.V. IN LIQUIDATION	Amsterdam	THE NETHERLANDS	X		X	
MANDARIN CAPITAL MANAGEMENT S.A.	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL PARTNERS SCA SICAR	Luxembourg	LUXEMBOURG	X			X
MARCHE CAPITAL S.p.A.	Osimo	ITALY	X			X
MENHIR L.L.P.	London	UNITED KINGDOM	X			X
MEZZANOVE CAPITAL (SCA) SICAR	Luxembourg	LUXEMBOURG	X			X
MEZZANOVE CAPITAL MANAGEMENT S.à.r.l.	Luxembourg	LUXEMBOURG	X			X
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	Cairo	EGYPT	X		X	
MISR FINANCIAL INVESTMENTS CO.	Giza	EGYPT	X			X
OBBIETTIVO NORDEST SICAV - SOCIETA' DI INVESTIMENTO PER AZIONI A CAPITALE VARIABILE	Venezia Marghera	ITALY	X		X	
		PEOPLE'S REPUBLIC OF CHINA				
PENGHUA FUND MANAGEMENT Co. Ltd.	Shenzhen	OF CHINA	X		X	
S.A.F.I. S.R.L.	Spinea	ITALY	X		X	
SANPAOLO IMI Equity Management S.A.	Luxembourg	LUXEMBOURG	X		X	
SANPAOLO IMI PRIVATE EQUITY SCHEME B.V. IN LIQUIDATION	Amsterdam	THE NETHERLANDS	X			X
SCHEMAQUATTORDICI S.p.A.	Treviso	ITALY	X			X
SLOVAK BANKING CREDIT BUREAU S.R.O.	Bratislava	SLOVAKIA	X		X	
SOCIETA' PER LA GESTIONE DI ATTIVITA' - SGA S.p.A.	Napoli	ITALY	X			X
SVILUPPO IMPRESE CENTRO ITALIA S.G.R. S.P.A.	Firenze	ITALY	X			X
SVILUPPO INDUSTRIALE S.P.A.	Pistoia	ITALY	X		X	
VARESE INVESTIMENTI S.p.A.	Varese	ITALY	X		X	
VER CAPITAL S.G.R. p.A.	Milano	ITALY	X			X
VUB LEASINGOVA A.S. IN LIQUIDATION	Bratislava	SLOVAKIA	X		X	

Please also note that, with effect from 31 December 2009, the investment in the Bank of Italy is deducted in full from the Regulatory Capital (50% from Tier 1 capital and 50% from Tier 2 capital).

Entities added to the risk-weighted assets as at 31 December 2009

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country		RWA	AFS
BANKS					
A BANKA VIPA LJUBLJANA D.D.	Ljubljana	SLOVENIA	X	X	
AFRICAN EXPORT IMPORT BANK	Cairo	EGYPT	X	X	
BANCA DELLE MARCHE S.p.A.	Ancona	ITALY	X	X	
BANCA DI CREDITO COOPERATIVO DI CAMBIANO S.C.P.A.	Castelfiorentino	ITALY	X	X	
BANCA ITB S.p.A.	Milano	ITALY	X	X	
BANCA UBAE Società per Azioni	Roma	ITALY	X	X	
BANCO PATAGONIA S.A.	Buenos Aires	ARGENTINA	X	X	
BANCO POPOLARE SOCIETA' COOPERATIVA	Verona	ITALY	X	X	
BANKA POSTANSKA STEDIONICA A.D.	Beograd	REPUBLIC OF SERBIA	X	X	
BANQUE GALLIERE S.A. in liquidation	Paris	FRANCE	X	X	
BANQUE INTERNATIONALE ARABE DE TUNISIE - B.I.A.T.	Tunis	TUNISIA	X	X	
CASSA DI RISPARMIO DI RAVENNA S.p.A.	Ravenna	ITALY	X	X	
HRVATSKA GOSPODARSKA BANKA D.D. under bankruptcy procedures	Zagreb	CROATIA	X	X	
ISVEIMER S.p.A. in liquidation	Roma	ITALY	X	X	
MB BANKA AKCIONARSKO DRUSTVO NIS - IN LIQUIDATION	Nis	REPUBLIC OF SERBIA	X	X	
MEDIOCREDDITO DEL FRIULI-VENEZIA GIULIA S.p.A.	Udine	ITALY	X	X	
METALS BANKA A.D.	Novi Sad	REPUBLIC OF SERBIA	X	X	
OSEO FINANCEMENT S.A.	Maisons-Alfort	FRANCE	X	X	
PRIVREDNA BANKA D.D. IN LIQUIDATION	Sarajevo	BOSNIA AND HERZEGOVINA	X	X	
FINANCIAL COMPANIES					
21 CENTRALE PARTNERS III FCPR	Paris	FRANCE	X	X	
360 CAPITAL ONE S.C.A. (SICAR) - Luxembourg	Luxembourg	LUXEMBOURG	X	X	
ABE CLEARING SAS	Paris	FRANCE	X	X	
ANGELVENTURES SERVICOS DE CONSULTORIA S.A.	Funchal Madeira	PORTUGAL	X	X	
APAX EUROPE VII - B L.P.	St. Peter Port	GUERNSEY	X	X	
ARAB TRADE FINANCING PROGRAM	Abu Dhabi	ABU DHABI	X	X	
ASSOCIAZIONE IN PARTECIPAZIONI RETEX	Venezia	ITALY	X	X	
ATHENA PRIVATE EQUITY S.A.	Luxembourg	LUXEMBOURG	X	X	
AUGUSTO S.r.l.	Milano	ITALY	X		X
B.GROUP S.p.A.	Bologna	ITALY	X	X	
BANCA DELLE MARCHE GESTIONE INTERNAZIONALE S.A.	Luxembourg	LUXEMBOURG	X	X	
BANKART D.O.O. LJUBLJANA	Ljubljana	SLOVENIA	X	X	
BURSA MONETAR FINANCIARA SI DE MARFURI S.A.	Sibiu	ROMANIA	X	X	
CARLYLE EUROPE PARTNERS II, L.P.	London	UNITED KINGDOM	X	X	
CASA ROMANA DE COMPENSATIE S.A.	Sibiu	ROMANIA	X	X	
CENTRADA GROUP LIMITED (in liquidation)	London	UNITED KINGDOM	X		X
CENTRALNA KLIRINSKO DEPOTNA DRUZBA D.D.	Ljubljana	SLOVENIA	X	X	
CENTROFIDI TERZIARIO S.C.P.A.	Firenze	ITALY	X	X	
CHINA INTERNATIONAL PACKAGING LEASING CO. LTD (LEASEPACK)	Beijing	PEOPLE'S REPUBLIC OF CHINA	X	X	
COLOMBO S.r.l.	Milano	ITALY	X		X
CONFIDICOOP MARCHE S.c.a.r.l.	Ancona	ITALY	X	X	
CONSORZIO BANCARIO SIR S.p.A in liquidation	Roma	ITALY	X		X
CR FIRENZE MUTUI S.R.L.	Conegliano Veneto	ITALY	X		X
DIOCLEZIANO S.r.l.	Milano	ITALY	X		X
EGYPTIAN INTERNATIONAL MUTUAL FUND CO.	Cairo	EGYPT	X	X	
e-MID Società di Intermediazione Mobiliare S.p.A.	Milano	ITALY	X	X	
EQUITYPAR-COMPANHIA DE PARTECIPACOES S.A.	Sao Paulo	BRAZIL	X	X	
EUROCASSE SIM S.p.A. in liquidation	Milano	ITALY	X	X	
EUROCLEAR CLEARANCE SYSTEM PUBLIC LIMITED COMPANY	London	UNITED KINGDOM	X	X	
EUROFIDI - SOCIETA' CONSORTILE DI GARANZIA COLLETTIVA FIDI S.c.p.A.	Torino	ITALY	X	X	
EUROPROGETTI E FINANZA In Liquidation S.p.A.	Roma	ITALY	X		X
EUROQUBE S.A. in liquidation	Brussels	BELGIUM	X	X	
FAWRY FOR BANKING & PAYMENT TECHNOLOGY SERVICES CO.	Cairo	EGYPT	X	X	
FI.R.A. S.p.A. Finanziaria Regionale Abruzzese	Pescara	ITALY	X	X	
FI.SVI. - ISTITUTO FIN. SVIL. ECON. LOCALI S.p.A. (bankrupt)	Potenza	ITALY	X	X	

Basel 2 Pillar 3 – Table 2 – Scope of application

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity
FIDIMPRESA LIGURIA - Società Consortile per azioni di garanzia collettiva fidi	Genova	ITALY	X	X	
FIME LEASING S.p.A. in liquidation	Napoli	ITALY	X	X	
FINEST S.p.A. - SOC. FINANZIARIA PROMOZIONE					
COOPERAZ.ECONOMICA PAESI EST EUROPEO	Pordenone	ITALY	X	X	
FINMOLISE S.p.A.	Campobasso	ITALY	X	X	
FINPROGETTI-FINANZIARIA PRIVATA DI PARTECIPAZIONI S.p.A.	Milano	ITALY	X	X	
FINRECO - Consorzio Regionale Garanzia Fidi Soc. Coop. a r.l.	Udine	ITALY	X	X	
FORNARA - Società Finanziaria e di Partecipazioni S.p.A.	Torino	ITALY	X	X	
FOURTH CINVEN FUND LIMITED PARTNERSHIP - LONDON	London	UNITED KINGDOM	X	X	
FRIULIA S.p.A.-FINANZIARIA REG. FRIULI VENEZIA GIULIA	Trieste	ITALY	X	X	
GARANTIQA HITELGARANCIA Zrt.	Budapest	HUNGARY	X	X	
GIRO Elszamolasforgalmi Rt.	Budapest	HUNGARY	X	X	
GPA ATR LTD	Shannon	IRELAND	X	X	
HOPA S.p.A.-HOLDING DI PARTECIPAZIONI AZIENDALI	Brescia	ITALY	X	X	
IFAS GRUPPO S.p.A. in liquidation	Torino	ITALY	X		X
ILP III SCA SICAR	Luxembourg	LUXEMBOURG	X	X	
INTESA BRASIL EMPREENDIMENTOS S.A.	Sao Paulo	BRAZIL	X	X	
INVESTINDUSTRIAL III BUILD UP L.P.	St. Helier	JERSEY	X	X	
INVESTINDUSTRIAL IV L.P.	St. Helier	JERSEY	X	X	
INVESTINDUSTRIAL L.P.	St. Helier	JERSEY	X	X	
INVESTITORI ASSOCIATI II S.A. IN LIQUIDATION	Luxembourg	LUXEMBOURG	X	X	
INVESTITORI ASSOCIATI S.A. IN LIQUIDATION	Luxembourg	LUXEMBOURG	X	X	
ISTITUTO ATESINO DI SVILUPPO S.p.A.	Trento	ITALY	X	X	
L - CAPITAL	Paris	FRANCE	X	X	
LCH.Clearnet Group Ltd	London	UNITED KINGDOM	X	X	
LIGURCAPITAL S.P.A.	Genova	ITALY	X	X	
MASTERCARD Inc.	Wilmington	USA	X	X	
MISR FOR CLEARING, SETTLEMENT AND CENTRAL DEPOSITORY CO.	Cairo	EGYPT	X	X	
MTS S.p.A.	Roma	ITALY	X	X	
NEW YORK STOCK EXCHANGE	New York	USA	X	X	
NFD INVESTICJSKI SKLAD	Ljubljana	SLOVENIA	X	X	
NICCO UCO ALLIANCE CREDIT LTD	Calcutta	INDIA	X	X	
OMNIA FACTOR S.p.A.	Milano	ITALY	X	X	
OSEO GARANTIE S.A.	Maisons - Alfort	FRANCE	X	X	
PAR.FIN S.p.A. under bankruptcy procedures	Bari	ITALY	X	X	
PENSPLAN INVEST SGR S.p.A.	Bolzano	ITALY	X	X	
PIRELLI & C. REAL ESTATE SGR S.p.A.	Milano	ITALY	X		X
PRESAFIN S.p.A.	Torino	ITALY	X	X	
SERENISSIMA S.G.R. S.p.A.	Verona	ITALY	X	X	
SOCIETA' ITALIANA PER LE IMPRESE ALL'ESTERO - SIMEST S.p.A.	Roma	ITALY	X	X	
SOCIETA' REGIONALE DI GARANZIA MARCHE S.C.p.A.	Ancona	ITALY	X	X	
SOCIETE' DE LA BOURSE DE LUXEMBOURG S.A.	Luxembourg	LUXEMBOURG	X	X	
SOCIETE' D'ETUDE PRIVEE SARL	Paris	FRANCE	X	X	
SREDISNJE KLIRINSKO DEPOZITARNO DRUSTVO D.D.	Zagreb	CROATIA	X	X	
SVILUPPO TM S.p.A.	Milano	ITALY	X	X	
TRANSFOND S.A.	Bucarest	ROMANIA	X	X	
TRILANTIC Partners IV SCA Sicar	Luxembourg	LUXEMBOURG	X	X	
		REPUBLIC			
TRZISTE NOVCA AD	Beograd	OF SERBIA	X	X	
TRZISTE NOVCA I KRATKOROČNIH VRIJEDNOSNICA D.D.	Zagreb	CROATIA	X	X	
UMBRIA CONFIDI SOCIETA' COOPERATIVA	Perugia	ITALY	X	X	
VALDIVIA LBO FUND LIMITED	St. Peter Port	GUERNSEY	X	X	
VENETO SVILUPPO S.p.A.	Venezia Marghera	ITALY	X	X	
VISA EUROPE LTD	London	UNITED KINGDOM	X	X	
ZAGREBACKA BURZA D.D.	Zagreb	CROATIA	X	X	

Company name	Registered office		Treatment in prudential reporting	Treatment in financial statements	
	Town	Country	RWA	AFS	Consolidat. at equity
NON-FINANCIAL COMPANIES					
AEROPORTI HOLDING S.r.l.	Torino	ITALY	X		X
AGRICOLA INVESTIMENTI S.r.l. in liquidation	Milano	ITALY	X		X
AL.FA. - UN'ALTRA FAMIGLIA DOPO DI NOI - IMPRESA SOCIALE S.r.l.	Milano	ITALY	X		X
ALITALIA - COMPAGNIA AEREA ITALIANA S.p.A.	Fiumicino	ITALY	X		X
AUTOSTRADA PEDEMONTANA LOMBARDA S.p.A.	Milano	ITALY	X		X
AUTOSTRADE LOMBARDE S.p.A.	Bergamo	ITALY	X		X
B.E.E. TEAM S.p.A.	Roma	ITALY	X		X
CARGOITALIA S.p.A.	Milano	ITALY	X		X
CE.SPE.VI S.R.L. CENTRO SPERIMENTALE PER IL VIVAISMO	Pistoia	ITALY	X		X
	Bad Homburg				
CENTRO LEASING GMBH	V.D. Hoehe	GERMANY	X		X
COLLEGAMENTO FERROVIARIO GENOVA-MILANO S.p.A.	Genova	ITALY	X		X
CORMANO S.r.l.	Olgiate Olona	ITALY	X		X
COTONIFICIO BRESCIANO OTTOLINI - C.B.O. S.r.l. in liquidation	Salo'	ITALY	X		X
EMIL EUROPE '92 S.r.l. in liquidation	Bologna	ITALY	X		X
ENERPOINT ENERGY S.r.l.	Desio	ITALY	X		X
EUROMILANO S.p.A.	Milano	ITALY	X		X
F.I.L.A. FABBRICA ITALIANA LAPIS ED AFFINI S.p.A.	Milano	ITALY	X		X
GRANDE JOLLY S.p.A.	Milano	ITALY	X		X
GREEN INITIATIVE CARBON ASSETS (GICA) SA	Lugano	SWITZERLAND	X		X
I.TRE - Iniziative Immobiliari Industriali S.p.A.	Rovigo	ITALY	X		X
IDRA PARTECIPAZIONI S.r.l. in liquidation	Milano	ITALY	X		X
IMMIT - NUOVA IMMOBILI ITALIANI S.R.L.	Torino	ITALY	X		X
IMPIANTI S.r.l. in liquidation	Milano	ITALY	X		X
INFRAGRUPPO S.p.A.	Bergamo	ITALY	X		X
INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni	Napoli	ITALY	X		X
INTESASANPAOLO EURODESK S.p.r.l.	Brussels	BELGIUM	X		X
ISM INVESTIMENTI S.p.A.	Mantova	ITALY	X		X
LEONARDO TECHNOLOGY S.p.A.	Milano	ITALY	X		X
LUXIPRIVILEGE CONSEIL S.A.	Luxembourg	LUXEMBOURG	X		X
MANUCOR S.p.A.	Milano	ITALY	X		X
MATER-BI S.p.A.	Milano	ITALY	X		X
MEGA INTERNATIONAL S.p.A.	Faenza	ITALY	X		X
MF HONYVEM S.p.A.	Milano	ITALY	X		X
MISR INTERNATIONAL TOWERS CO.	Cairo	EGYPT	X		X
MONTE MARIO 2000 S.r.l.	Roma	ITALY	X		X
NEWCOCOT S.p.A.	Cologno Monzese	ITALY	X		X
NH HOTELES S.A.	Madrid	SPAIN	X		X
NH ITALIA S.r.l.	Milano	ITALY	X		X
NOVERCA ITALIA S.R.L.	Roma	ITALY	X		X
NOVERCA S.r.l.	Roma	ITALY	X		X
NUOVO TRASPORTO VIAGGIATORI S.p.A.	Roma	ITALY	X		X
OOO INTESA REALTY RUSSIA	Moscow	RUSSIA	X		X
OTTOBRE 2008 S.r.l.	Milano	ITALY	X		X
P.B. S.r.l. in liquidation	Milano	ITALY	X		X
PIETRA S.r.l.	Milano	ITALY	X		X
PIRELLI & C. S.p.A.	Milano	ITALY	X		X
PROGEMA - PROMOZIONE GESTIONE MANAGEMENT s.r.l. in liquidation	Torino	ITALY	X		X
R.C.N. FINANZIARIA S.p.A.	Mantova	ITALY	X		X
RIZZOLI CORRIERE DELLA SERA MEDIAGROUP S.p.A.	Milano	ITALY	X		X
SAGAT S.p.A.	Caselle Torinese	ITALY	X		X
		PEOPLE'S REPUBLIC OF CHINA			
SHANGHAI SINO-ITALY BUSINESS ADVISORY COMPANY LIMITED	Shanghai	PEOPLE'S REPUBLIC OF CHINA	X		X
SIA - SSB S.p.A.	Milano	ITALY	X		X
SOCIETA' GESTIONE PER IL REALIZZO In liquidation S.p.A.	Roma	ITALY	X		X
SOLAR EXPRESS S.r.l.	Firenze	ITALY	X		X
STUDI E RICERCHE PER IL MEZZOGIORNO	Napoli	ITALY	X		X
TANGENZIALI ESTERNE DI MILANO S.p.A.	Milano	ITALY	X		X
TELCO S.p.A.	Milano	ITALY	X		X
TERMOMECCANICA S.p.A.	La Spezia	ITALY	X		X
TLX S.p.A.	Milano	ITALY	X		X
UNIMATICA S.p.A.	Bologna	ITALY	X		X
UNITED VALVES CO. (BUTTERFLY) in liquidation	Cairo	EGYPT	X		X
UNO A ERRE ITALIA S.p.A.	Arezzo	ITALY	X		X
UPA SERVIZI S.p.A.	Padova	ITALY	X		X
ZACCHERINI ALVISI S.r.l.	Milano	ITALY	X		X

Reduction in individual capital requirements applied to the Parent company and the Italian subsidiaries

With its Circular 263 of 27 December 2006, the Bank of Italy established that “for Italian banks belonging to a banking group, the individual capital requirements for credit, counterparty, market and operational risks shall be reduced by 25 per cent, provided that regulatory capital at the consolidated level is at least equal to the total capital requirement”. As at 31 December 2009 the Intesa Sanpaolo Group met that requirement at consolidated level, and therefore benefited from this provision.

Quantitative disclosure

Name of subsidiaries not included in the consolidation

Entities consolidated in the financial statements and not included in the prudential scope of consolidation as at 31 December 2009

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
INSURANCE COMPANIES (*)		
EURIZONLIFE LTD	X	
EURIZONTUTELA S.P.A.	X	
OTHER		
ADRIANO FINANCE II S.R.L. (**)	X	
ADRIANO FINANCE III S.R.L.	X	
ADRIANO FINANCE S.R.L. (**)	X	
BRIVON HUNGARY ZRT.	X	
CIB CAR TRADING LIMITED LIABILITY COMPANY	X	
CIB INSURANCE BROKER LTD	X	
CIL BUDA SQUARE LTD.	X	
CIL MNM LTD.		X
CIL-FOOD 2006 LTD	X	
CSB PLAZA INGATLANHASZNOSITO KFT.	X	
FINOR LEASING D.O.O.	X	
HOTEL WIEN KERESKEDELMI KFT.		X
LANCHID PALOTA INGATLANFEJLESZTO ES UZEMELETETO KFT.	X	
LELLE SPC - REAL ESTATE INVESTMENT AND TRADING CO.	X	
OBUDA DUNAPART LTD	X	
RECOVERY REAL ESTATE MANAGEMENT LTD	X	

(*) Centrovita, Sud polo Vita, Eurizon Vita and Vub Poistovaci have already been included in the table " Entities deducted from capital".

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

Name of banking subsidiary not included in the consolidation	Consolidation method	
	Consolidated line-by-line	Consolidated at equity
ARTEN SICAV	X	
CANOVA SICAV	X	
CIMABUE SICAV	X	
DUOMO FUNDING PLC	X	
FIDEURAM FUND BOND USD	X	
FIDEURAM FUND BOND GLOBAL HIGH YIELD	X	
FIDEURAM FUND EQUITY EUROPE	X	
FIDEURAM FUND EQUITY GLOBAL EMERGING MARKETS	X	
FIDEURAM FUND EQUITY ITALY	X	
FIDEURAM FUND EQUITY JAPAN	X	
FIDEURAM FUND EQUITY PACIFIC EX JAPAN	X	
FIDEURAM FUND EQUITY USA	X	
FIDEURAM FUND EQUITY USA GROWTH	X	
FIDEURAM FUND EQUITY USA VALUE	X	
FIDEURAM FUND EURO BOND LONG RISK	X	
FIDEURAM FUND EURO BOND LOW RISK	X	
FIDEURAM FUND EURO BOND MEDIUM RISK	X	
FIDEURAM FUND EURO DEFENSIVE BOND	X	
FIDEURAM FUND EURO SHORT TERM	X	
FIDEURAM FUND EUROPE LISTED ENERGY-MAT-UTILITIES EQ.	X	
FIDEURAM FUND EUROPE LISTED FINANCIALS EQUITY	X	
FIDEURAM FUND ZERO COUPON 2010	X	
FIDEURAM FUND ZERO COUPON 2011	X	
FIDEURAM FUND ZERO COUPON 2012	X	
FIDEURAM FUND ZERO COUPON 2013	X	
FIDEURAM FUND ZERO COUPON 2014	X	
FIDEURAM FUND ZERO COUPON 2015	X	
FIDEURAM FUND ZERO COUPON 2016	X	
FIDEURAM FUND ZERO COUPON 2017	X	
FIDEURAM FUND ZERO COUPON 2018	X	
FIDEURAM FUND ZERO COUPON 2019	X	
FIDEURAM FUND ZERO COUPON 2020	X	
FIDEURAM FUND ZERO COUPON 2021	X	
FIDEURAM FUND ZERO COUPON 2022	X	
FIDEURAM FUND ZERO COUPON 2023	X	
FIDEURAM FUND ZERO COUPON 2024	X	
FIDEURAM FUND ZERO COUPON 2025	X	
FIDEURAM FUND ZERO COUPON 2026	X	
FIDEURAM FUND ZERO COUPON 2027	X	
FIDEURAM FUND ZERO COUPON 2028	X	
FIDEURAM FUND ZERO COUPON 2029	X	
FIDEURAM FUND ZERO COUPON 2030	X	
FIDEURAM FUND ZERO COUPON 2031	X	
FIDEURAM FUND ZERO COUPON 2032	X	
FIDEURAM FUND ZERO COUPON 2033	X	
FIDEURAM FUND ZERO COUPON 2034	X	
FIDEURAM FUND ZERO COUPON 2035	X	
FIDEURAM FUND ZERO COUPON 2036	X	
FIDEURAM FUND ZERO COUPON 2037	X	
FIDEURAM FUND ZERO COUPON 2038	X	
FIDEURAM FUND ZERO COUPON 2039	X	
FOCUS RENDIMENTO ASSOLUTO 5 ANNI	X	
FONDO CARAVAGGIO	X	
LEVANNA SICAV	X	
LUNAR FUNDING V PLC	X	
ROMULUS FUNDING CORPORATION	X	
SANPAOLO INTERNATIONAL FORMULAS FUND	X	
SP LUX SICAV II	X	
SPLIT 2 (**)	X	
SPQR S.R.L. (**)	X	
TIEPOLO SICAV	X	

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

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

As at 31 December 2009 there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Table 3 – Regulatory capital structure

Qualitative disclosure

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

Regulatory capital has been calculated on the basis of the instructions (Circular 263 of December 2006 and 12th update of Circular 155 of February 2008) issued by the Bank of Italy following the new prudential provisions for banks and banking groups introduced by the New Basel Capital Accord - Basel 2.

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

Regulatory capital is made up of Tier 1 capital and Tier 2 capital, net of certain deductions. In particular:

- Tier 1 capital includes paid-in share capital, reserves, innovative and non-innovative capital instruments, retained net income for the period; plus positive “prudential filters” of Tier 1 capital; the total of these elements, net of treasury shares or quotas, intangible assets, losses recorded in previous years and in the current year, “other negative components”, as well as negative Tier 1 “prudential filters”, make up “Tier 1 capital before items to be deducted”. The negative “prudential filters” include 50 per cent of the residual net income tax benefit, relating to the detaxation of goodwill pursuant to Legislative Decree 185/2008 converted by Law 2/2009. The Tier 1 capital consists of the difference between the “Tier 1 capital before items to be deducted” and 50% of the “items to be deducted”;
- Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses, and the other positive elements that constitute capital items of a secondary nature. The positive “prudential filters” of Tier 2 capital are also included. The total of these elements, less net unrealised capital losses on equity investments, negative elements related to loans, other negative components, and negative Tier 2 “prudential filters”, makes up “Tier 2 capital before items to be deducted”. Tier 2 capital is made up of the difference between “Tier 2 capital before items to be deducted” and 50% “items to be deducted”.

Each caption of Tier 1 and Tier 2 capital includes both the amounts attributable to the Banking group and minority-interest shareholders.

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

- for financial assets available for sale, the unrealised profits and losses of the equities, quotas of UCI and debt securities are offset against each other; if the balance is negative, it reduces Tier 1 capital, if it is positive, 50% of it contributes to Tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded;
- for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised.

Deductions of 50% each are made from “Tier 1 capital before items to be deducted” and from “Tier 2 capital before items to be deducted” for equity investments in banks, and financial and insurance companies, for the expected losses in excess of impairment provisions made on the portfolio subject to the IRB or the AIRB approach, for the expected losses on capital instruments, and – if eligible for inclusion in the issuer’s regulatory capital – for the innovative and non-innovative capital instruments, the hybrid capital instruments and the subordinated instruments in banks, financial companies and insurance companies.

Equity investments and subordinated instruments held in insurance companies until 31 December 2012 are entirely deducted from Total capital, instead of 50% each from Tier 1 and Tier 2, if acquired before 20 July 2006.

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

	(millions of euro)					
	31.12.2009			31.12.2008		
	Banking Group	Third parties	Total	Banking Group	Third parties	Total
Share capital	6,647	415	7,062	6,647	463	7,110
Share premium reserve	33,102	133	33,235	33,102	128	33,230
Reserves	10,565	398	10,963	8,075	386	8,461
Legal reserve	1,329	-	1,329	1,329	-	1,329
Extraordinary reserve	2,914	-	2,914	1,901	-	1,901
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	232	-	232	232	-	232
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	302	-	302	302	-	302
Consolidation reserve	5,527	398	5,925	3,991	386	4,377
Other reserves	261	-	261	320	-	320
Equity instruments	-	-	-	-	-	-
(Treasury shares)	-8	-	-8	-11	-	-11
Valuation reserves:	-430	11	-419	-1,412	-6	-1,418
Financial assets available for sale	-142	3	-139	-1,287	-7	-1,294
Property and equipment	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Foreign investment hedges	-	-	-	-	-	-
Cash flow hedges	-451	-3	-454	-404	-3	-407
Foreign exchange differences	-171	2	-169	-40	-6	-46
Non-current assets held for sale and discontinued operations	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit pension plans	-	-	-	-	-	-
Valuation reserves of investments carried at equity	-9	-	-9	-24	-	-24
Legally-required revaluations	343	9	352	343	10	353
Net income (loss) pertaining to the Group and minority interests	2,805	133	2,938	2,553	129	2,682
Shareholders' equity	52,681	1,090	53,771	48,954	1,100	50,054

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

The share capital of the Bank as at 31 December 2009 amounted to 6,647 million euro, divided into 11,849,332,367 ordinary shares and 932,490,561 non-convertible savings shares, with a nominal value of 0.52 euro each. Each ordinary share gives the right to one vote in the Shareholders' Meeting. Savings shares, which may be in bearer form, give the power to intervene and vote in the Special Meeting of savings shares holders. Savings shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in a financial year the dividend is less than 5% of the nominal value of the non-convertible savings shares, the difference shall be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the total dividend per savings share will be 2% of nominal value higher than for ordinary shares. In case of distribution of reserves the savings shares have the same rights as other shares. In the case of liquidation of the Company, savings shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.

As at 31 December 2009, Intesa Sanpaolo had 8 million euro of treasury shares, essentially held by Banca IMI in relation to its institutional trading activities and by collective investment entities owned by the Group's insurance companies and consolidated in accordance with IAS/IFRS.

At the date of these financial statements the share capital was fully paid-in and liberated.

The share premium reserve mainly includes the same balance sheet item as the Parent company, generated by the entries made in accordance with IFRS 3 for the merger between Banca Intesa and Sanpaolo IMI. This reserve, of 31,093 million euro, is the difference between the acquisition cost of the Sanpaolo IMI Group and the nominal value of the shares issued for the exchange.

Reserves amounted to 10,565 million euro and included: legal reserve, statutory or extraordinary reserve, concentration reserves (Law 218 of 30/7/1990, art. 7, para. 3, and Law 218 of 30/7/1990, art. 7), consolidation reserve and other reserves. The legal reserve, set up as provided for by law, must be at least one fifth of share capital; in the past it was set up by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year. The statutory or extraordinary reserve was set up as provided for by the Articles of Association by the allocation of residual net income after dividend distribution to ordinary and savings shares. Such reserve also includes unclaimed and forfeited dividends, as provided for by the Articles of Association. Concentration reserves pursuant to ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law. Consolidation

reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

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

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

	Banking group	Insurance companies	Other companies	Netting and adjustments on consolidation	(millions of euro) Total as at 31.12.2009
Share capital	7,036	26	-	-	7,062
Share premium reserve	33,235	-	-	-	33,235
Reserves	10,939	95	14	-85	10,963
Equity instruments (Treasury shares)	-	-	-	-	-
Valuation reserves	-423	-19	-37	60	-419
Financial assets available for sale	-104	-29	-30	24	-139
Property and equipment	-	-	-	-	-
Intangible assets	-	-	-	-	-
Hedges of foreign investments	-	-	-	-	-
Cash flow hedges	-454	-	-8	8	-454
Foreign exchange differences	-169	-	1	-1	-169
Non current assets held for sale	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans	-	-	-	-	-
Share of valuation reserves connected with investments carried at equity	-48	10	-	29	-9
Legally-required revaluations	352	-	-	-	352
Net income (loss) pertaining to the Group and minority interests	2,931	114	-5	-102	2,938
Shareholders' equity as at 31.12.2009	53,716	210	-28	-127	53,771

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

Given that Intesa Sanpaolo S.p.A. did not distribute a dividend on the ordinary shares from the 2008 net income, the changes in the Group's shareholders' equity over the two periods under review were essentially due, in addition to the earned net income, to the movements in the valuation reserves. The breakdown of the different types of valuation reserves and their movements during the year are shown in the tables below.

Valuation reserves of financial assets available for sale: breakdown

(millions of euro)

	Banking group		Insurance companies		Other companies		Netting and adjustments on consolidation		Total as at 31.12.2009	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	256	-729	197	-228	-	-30	-149	215	304	-772
2. Equities	381	-63	38	-25	-	-	-38	25	381	-63
3. Quotas of UCI	26	-6	5	-6	-	-	-4	5	27	-7
4. Loans	13	-14	-	-	-	-	-	-1	13	-15
Total as at 31.12.2009^(*)	676	-812	240	-259	-	-30	-191	244	725	-857
Total as at 31.12.2008	648	-2,303	160	-528	-	-43	-256	1,028	552	-1,846

(*) This amount includes 7 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

Valuation reserves of financial assets available for sale: annual changes

(millions of euro)

	Debt securities	Equities	Quotas of UCI	Loans
1. Initial amount	-1,108	-141	-18	-27
2. Positive fair value differences	856	598	50	28
2.1 Fair value increases	681	319	35	1
2.2 Reversal to the income statement of negative reserves	141	246	11	-
- impairment	3	175	10	-
- disposal	138	71	1	-
2.3 Other changes	34	33	4	27
3. Negative fair value differences	-216	-139	-12	-3
3.1 Fair value decreases	-143	-91	-11	-1
3.2 Impairment losses	-	-	-	-
3.3 Reversal to the income statement of positive reserves: disposal	-64	-19	-1	-
3.4 Other changes	-9	-29	-	-2
4. Closing amount^(*)	-468	318	20	-2

(*) This amount includes 7 million euro of net positive valuation reserves of financial assets available for sale attributable to investments carried at equity.

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

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

Tier 1 capital

Issuer	Interest rate	Subordinated	Issue date	Expiry date	Early redemption as of	Currency	Original amount in currency	Contribution to regulatory capital (millions of euro)
SANPAOLO IMI Capital Company I	8.126%; from 10/11/2010 1-year Euribor + 3.5% p.a.	YES	10-Nov-2000	perpetual	10-Nov-2010	Euro	1,000,000,000	1,000
Intesa Preferred LLC III	6.988% fixed rate; from 12/07/2011 3-month Euribor +2.60%	YES	12-Jul-2001	perpetual	12-Jul-2011	Euro	500,000,000	499
Intesa Sanpaolo	8.047% up to 20/06/2018 (excluded); thereafter at 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Euro	1,250,000,000	1,250
Intesa Sanpaolo	8.698% up to 24/9/2018 (excluded); thereafter at 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Euro	250,000,000	250
Intesa Sanpaolo	8.375% fixed rate up to 14/10/2019; thereafter 3-month Euribor + 687 bp p.a.	YES	14-Oct-2009	perpetual	14-Oct-2019	Euro	1,500,000,000	1,500
Total preference shares and innovative equity instruments (Tier I) as at 31.12.2009								4,499
Total preference shares and innovative equity instruments (Tier I) as at 31.12.2008								2,998

Tier 2 capital

Issuer	Interest rate	Subordinated	Issue date	Expiry date	Early reimbursement as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	8-May-2008	8-May-2018	NO	Euro	1,250,000,000	1,240
Intesa Sanpaolo	6.16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Euro	120,000,000	120
Banca CR Firenze	6-month Euribor + 1.40%	NO	19-Jun-2002	21-Jun-2012	NO	Euro	200,000,000	200
Banca CR Firenze	6-month Euribor + 0.95%	NO	5-Dec-2003	5-Dec-2013	NO	Euro	200,000,000	147
Centro Leasing Banca	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Euro	30,000,000	30
Total hybrid instruments (Upper Tier II) as at 31.12.2009								1,737
Total hybrid instruments (Upper Tier II) as at 31.12.2008								1,734
Banca di Trento e di Bolzano	1st year: 4%; 2nd year: 4.10%; thereafter 71% 10-year swap rate with minimum 3%	NO	4-Apr-2003	4-Apr-2010	NO	Euro	9,000,000	2
Banca di Trento e di Bolzano	1st year: 3.00%; 2nd year: 3.30%; 3rd year: 3.70%; 4th year: 4.10%; 5th year: 4.50%; 6th year: 5.10%; 7th year: 5.70%	NO	4-Apr-2003	4-Apr-2010	NO	Euro	16,000,000	3
Centro Leasing Banca	up to 27/9/2011 (excluded): 3-month Euribor + 0.65% p.a.; thereafter 3-month Euribor + 1.25% p.a.	YES	27-Sep-2006	27-Sep-2016	27-Sep-2011	Euro	90,000,000	90
Cassa di Risparmio della Spezia	for the first 5 years: 3-month Euribor + 0.10%; for the following 5 years: 3-month Euribor + 0.30%	YES	14-Dec-2007	14-Dec-2017	14-Dec-2012	Euro	30,000,000	30
Banca CR Firenze	6-month Euribor	NO	7-Jan-2003	3-Feb-2010	NO	Euro	30,000,000	6
Banca CR Firenze	3-month Euribor	NO	19-Jan-2004	18-Feb-2011	NO	Euro	23,000,000	9
Banca CR Firenze	6-month Euribor	NO	21-Jun-2004	28-Jul-2011	NO	Euro	40,000,000	16
Banca CR Firenze	3-month Euribor + 0.45%; as of 30/5/2010 3-month Euribor + 0.70%	YES	30-May-2005	30-May-2015	30-May-2010	Euro	16,200,000	16
Banca CR Firenze	6-month Euribor + 0.15%	NO	10-Apr-2006	22-May-2013	NO	Euro	85,000,000	68
Banca Intesa Beograd	6-month Euribor + 2.25%	NO	15-Jun-2006	15-Dec-2012	15-Jun-2011	Euro	60,000,000	36
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	16-Jun-1998	17-Jun-2013	NO	Lit	500,000,000,000	142
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	30-Jun-1998	1-Jul-2013	NO	Lit	200,000,000,000	58
Intesa Sanpaolo	8% 1st coupon, 5% 2nd coupon, 4% 3rd coupon, thereafter 70% of 10-year swap rate	NO	9-Mar-1999	9-Mar-2014	NO	Lit	480,000,000,000	209
Intesa Sanpaolo	8% 1st coupon, 5.5% 2nd coupon, 4% 3rd coupon, thereafter 65% of 10-year swap rate with minimum 4%	NO	15-Jul-1999	15-Jul-2014	NO	Euro	250,000,000	218

Issuer	Interest rate	S t e p - u p	Issue date	Expiry date	Early reimbursement as of	C u r r e n c y	Original amount in currency	Contribution to capital for supervisory purposes (millions of euro)
Intesa Sanpaolo	5.30% fixed rate	NO	22-Oct-1999	1-Jan-2010	NO	Euro	150,000,000	30
Intesa Sanpaolo	5.20% fixed rate	NO	7-Dec-1999	1-Jan-2010	NO	Euro	90,000,000	18
Intesa Sanpaolo	5.30% fixed rate	NO	21-Jan-2000	1-Jan-2010	NO	Euro	100,000,000	20
Intesa Sanpaolo	5.50% fixed rate	NO	16-Feb-2000	1-Jan-2010	NO	Euro	41,000,000	8
Intesa Sanpaolo	6.11% fixed rate; as of 23/2/2005 97% of 30-year euro swap mid rate	NO	23-Feb-2000	23-Feb-2015	NO	Euro	65,000,000	65
Intesa Sanpaolo	92% of 30-year Euro Swap mid rate: never less than that of previous coupon	NO	12-Mar-2001	23-Feb-2015	NO	Euro	50,000,000	50
Intesa Sanpaolo	5.35% fixed rate	NO	9-Apr-2001	9-Apr-2011	NO	Euro	125,478,000	50
Intesa Sanpaolo	5.20% fixed rate	NO	15-Jan-2002	15-Jan-2012	NO	Euro	265,771,000	159
Intesa Sanpaolo	5.50% fixed rate	NO	12-Apr-2002	12-Apr-2012	NO	Euro	126,413,000	74
Intesa Sanpaolo	3-month Euribor + 0.25%	YES	8-Feb-2006	8-Feb-2016	8-Feb-2011	Euro	1,500,000,000	1,459
Intesa Sanpaolo	5.50% fixed rate; as of 19/12/2011 3-month GBP Libor + 0.99%	YES	19-Jul-2006	19-Dec-2016	19-Dec-2011	Gbp	1,000,000,000	1,123
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Oct-2017	12-Oct-2012	Gbp	250,000,000	281
Intesa Sanpaolo	6.375% fixed rate	NO	6-Apr-2000	6-Apr-2010	NO	Euro	500,000,000	100
Intesa Sanpaolo	2.90% fixed rate, as of 1/8/2010 6-month Euribor + 0.74% p.a.	YES	1-Aug-2005	1-Aug-2015	1-Aug-2010	Euro	20,000,000	19
Intesa Sanpaolo	5.375% fixed rate	NO	13-Dec-2002	13-Dec-2012	NO	Euro	30,000,000	180
Intesa Sanpaolo	up to 20/02/2013 (excluded): 3-month Euribor + 0.25% p.a.; thereafter 3-month Euribor +0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	20-Feb-2013	Euro	750,000,000	712
Intesa Sanpaolo	up to 9/6/2010 (excluded): 3.75% p.a. thereafter: 3-month Euribor + 1.05% p.a.	YES	9-Jun-2003	9-Jun-2015	9-Jun-2010	Euro	350,000,000	342
Intesa Sanpaolo	up to 18/03/2019 (excluded): 5.625% p.a.; thereafter: 3-month Sterling LIBOR + 1.125% p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Gbp	165,000,000	185
Intesa Sanpaolo	up to 28/06/2011 (excluded): 3-month Euribor + 0.30% p.a.; thereafter 3-month Euribor + 0.90% p.a.	YES	28-Jun-2004	28-Jun-2016	28-Jun-2011	Euro	700,000,000	684
Intesa Sanpaolo	up to 02/03/2015 (excluded): 3.75% p.a.; thereafter: 3-month Euribor +0.89% p.a.	YES	2-Mar-2005	2-Mar-2020	2-Mar-2015	Euro	500,000,000	496
Intesa Sanpaolo	up to 19/04/2011 (excluded): 3-month Euribor +0.20% p.a.; thereafter: 3-month Euribor +0.80% p.a.	YES	29-Apr-2006	19-Apr-2016	19-Apr-2011	Euro	500,000,000	492
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4.375% p.a., thereafter: 3-month Euribor +1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	26-Jun-2013	Euro	500,000,000	492
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Euro	415,000,000	415
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Euro	545,000,000	545
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Euro	382,401,000	382
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Euro	800,000,000	800
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Euro	1,097,000,000	1,038
Intesa Sanpaolo	5.75% fixed rate; as of 28/05/2013 3-month Euribor +1.98%	YES	28-May-2008	28-May-2018	28-May-2013	Euro	1,000,000,000	979
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	24-Feb-2009	24-Feb-2016	NO	Euro	635,500,000	633
Intesa Sanpaolo	(3-month Euribor +4%)/4	NO	12-Mar-2009	12-Mar-2016	NO	Euro	165,000,000	162
Intesa Sanpaolo	5% fixed rate	NO	23-Sep-2009	23-Sep-2019	NO	Euro	1,500,000,000	1,491

Issuer	Interest rate	S t e p - u p	Issue date	Expiry date	Early reimbursement as of	C u r r e n c y	Original amount in currency	Contribution to capital for supervisory purposes (millions of euro)
Cassa dei Risparmi di Forlì e della Romagna	up to 10/6/2005 (included): 3-month Euribor + 0.40% p.a.; thereafter 3-month Euribor +1.00% p.a.	YES	10-Jun-2005	10-Jun-2015	10-giu-2010	Euro	70,000,000	54
Pravex Bank	7.025% (Libor + 5%)	NO	other issues placed as of 12/09/2000	other issues with final expiry at 31/07/2016	NO	Usd	14,100,000	11
Total eligible subordinated liabilities (Lower Tier II) as at 31.12.2009								14,452
Total eligible subordinated liabilities (Lower Tier II) as at 31.12.2008								13,415
TOTAL AS AT 31.12.2009								20,688
TOTAL AS AT 31.12.2008 (*)								18,177

(*) Including 30 million eligible subordinated loans (Tier III).

Tier 3 capital

As at 31 December 2008 the subordinated debts eligible for inclusion under Tier 3 Capital, and - net of intragroup operations – for the hedging of market risk, amounted to 30 million euro. As at 31 December 2009 there were no subordinated debts eligible for inclusion under Tier 3 Capital.

Quantitative disclosure

Regulatory capital structure

The structure of the regulatory capital of the Intesa Sanpaolo Group as at 31 December 2009 is summarised in the table below:

	(millions of euro)	
Information	31.12.2009	31.12.2008
A. Tier 1 capital before the application of prudential filters	32,170	29,352
B. Tier 1 capital prudential filters	-932	-1,639
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	-932	-1,639
C. Tier 1 capital before items to be deducted (A+B)	31,238	27,713
D. Items to be deducted from Tier 1 capital	1,033	639
E. Total Tier 1 capital (C-D)	30,205	27,074
F. Tier 2 capital before the application of prudential filters	16,599	15,387
G. Tier 2 capital prudential filters	-94	-
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-94	-
H. Tier 2 capital before items to be deducted (F+G)	16,505	15,387
I. Items to be deducted from Tier 2 capital	1,033	639
L. Total Tier 2 capital (H-I)	15,472	14,748
M. Items to be deducted from total Tier 1 and Tier 2 capital	2,923	2,774
N. Regulatory capital (E+L-M)	42,754	39,048
O. Tier 3 capital	-	30
P. Regulatory capital including Tier 3 (N+O)	42,754	39,078

As at 31 December 2009, regulatory capital amounted to 42,754 million euro. Regulatory capital takes account of the dividend distribution on Intesa Sanpaolo's net income for 2009 that the Management Board will propose to the Shareholders' Meeting, i.e. 0.091 euro per savings share and 0.080 euro per ordinary share, for a total dividend disbursement of 1,033 million euro.

Against risk-weighted assets of 361,648 million euro, mostly deriving from credit and counterparty risks and, to a lesser extent, from market and operational risks (see Table 4 below) the total capital ratio stood at 11.8%, whereas the Group's Tier 1 ratio amounted to 8.4%. The ratio of Tier 1 capital net of preferred shares to risk-weighted assets (Core Tier 1) was 7.1%.

The breakdown of Tier 1, Tier 2 and Tier 3 capitals is provided below.

Tier 1 capital

	(millions of euro)	
Information	31.12.2009	31.12.2008
TOTAL TIER 1 CAPITAL (*)		
- Share capital	7,036	7,091
- Share premium reserve	33,235	33,229
- Reserves and net income	12,766	10,997
- Non-innovative equity instruments	-	-
- Innovative equity instruments	4,499	2,998
- Positive IAS / IFRS prudential filters (+)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-	-
<i>Redeemable shares</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 1 capital</i>	-	-
<i>Other positive prudential filters</i>	-	-
TOTAL POSITIVE ITEMS	57,536	54,315
- Own shares or quotas	-2	-2
- Goodwill	-19,731	-20,027
- Other intangible assets	-5,633	-4,934
- Loss for the period	-	-
- Adjustments to loans	-	-
- Adjustments calculated on the regulatory trading book	-	-
- Other	-	-
- Negative IAS / IFRS prudential filters (-)		
<i>Fair value option: changes in bank's own creditworthiness</i>	-11	-110
<i>Negative reserves on equities and quotas of UCI available for sale</i>	-	-120
<i>Negative reserves on debt securities available for sale</i>	-437	-855
<i>Net accumulated capital gain on tangible assets</i>	-	-
<i>Capital resources forming the object of forward purchase commitments included in tier 1 capital</i>	-	-
<i>Other negative prudential filters</i>	-484	-554
TOTAL NEGATIVE ITEMS	-26,298	-26,602
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	31,238	27,713
TOTAL ITEMS TO BE DEDUCTED	-1,033	-639
- Investment in the Bank of Italy	-314	-251
- Insurance subsidiaries purchased after 20 July 2006	-29	-17
- Other banking and financial investments higher than 20% of the investee's capital	-442	-165
- Excess expected losses with respect to adjustments (IRB-AIRB models)	-176	-126
- Other deductions	-72	-80
TOTAL TIER 1 CAPITAL NET OF ITEMS TO BE DEDUCTED	30,205	27,074

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

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

Tier 2 capital

	(millions of euro)	
Information	31.12.2009	31.12.2008
TIER 2 CAPITAL (*)		
- Valuation reserves - Tangible assets		
<i>Legally-required revaluations</i>	352	352
<i>Property and equipment used in operations</i>	-	-
- Valuation reserve - Securities available for sale		
<i>Equities and quotas of UCI</i>	189	-
<i>Debt securities</i>	-	-
- Non-innovative equity instruments not included in tier 1 capital	-	-
- Innovative equity instruments not included in tier 1 capital	-	-
- Hybrid capital instruments	1,737	1,734
- Tier 2 subordinated liabilities	14,452	13,415
- Other positive items	1	-
- Positive IAS / IFRS prudential filters (+)		
<i>Excess total adjustments with respect to expected losses</i>	-	-
<i>Net capital gains on equity investments</i>	-	-
<i>Other positive items</i>	-	-
TOTAL POSITIVE ITEMS	16,731	15,501
- Net capital losses on equity investments	-25	-45
- Loans	-	-
- Other negative items	-107	-69
- Negative IAS / IFRS prudential filters (-)		
<i>Portion not included of the valuation reserve on property and equipment used in operations</i>	-	-
<i>Portion not included of positive reserves on securities available for sale - Equities</i>	-94	-
<i>Portion not included of positive reserves on securities available for sale - Debt securities</i>	-	-
<i>Tier 2 subordinated liabilities and hybrid capital instruments forming the object of forward purchase commitments not included in tier 2 capital</i>	-	-
<i>Other negative filters</i>	-	-
TOTAL NEGATIVE ITEMS	-226	-114
TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED	16,505	15,387
TOTAL ITEMS TO BE DEDUCTED	-1,033	-639
- Investment in the Bank of Italy	-314	-251
- Insurance subsidiaries purchased after 20 July 2006	-29	-17
- Other banking and financial investments higher than 20% of the investee's capital	-442	-165
- Excess expected losses with respect to adjustments (IRB-AIRB models)	-176	-126
- Other deductions	-72	-80
TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED	15,472	14,748

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

Tier 3 capital

Information	(millions of euro)	
	31.12.2009	31.12.2008
TIER 3 CAPITAL	-	30
TOTAL POSITIVE ITEMS	-	30
- Tier 2 subordinated liabilities not included in tier 2 capital	-	-
- Tier 3 subordinated liabilities	-	30
TOTAL NEGATIVE ITEMS	-	-
- Prudential filters: deductions from tier 3 capital		
<i>Tier 2 and 3 subordinated liabilities forming the object of forward purchase commitments not included in tier 3 capital</i>	-	-
- Other deductions	-	-

Table 4 – Capital adequacy

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

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

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

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

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

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

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

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

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

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

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

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

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

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

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions for:

- guaranteeing that the Group structure is consistent with the risk tolerances of the various stakeholders, by combining sustainable value creation with a level of risk considered to be acceptable;
- ensuring the Group's capital and financial adequacy, to effectively safeguard business continuity and the public and social objectives of financial stability of intermediaries;
- enabling the transparent representation of the risk profile of its portfolios.

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

Consequently, when determining the risk tolerance considered to be acceptable, the Group's objective is to ensure that its liabilities are covered over a period of 12 months with a 99.96% confidence level (in line with the solvency targets for entities with an agency rating of AA-).

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

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

The risks identified, covered and incorporated within the economic capital, taking into account the benefits of diversification, are:

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

The level of absorption of Economic Capital is estimated on the basis of the current situation and also at a forecast level, based on the Budget assumptions and the 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.

In accordance with the provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the requirements laid down by the Second Pillar of Circular 263, by preparing and sending the ICAAP Reports to the Supervisory Authority – after approval by the Corporate Bodies – with the consolidated figures for the previous years.

The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2009 and the forecasts for the end of 2010, and the final document is due to be sent to the Bank of Italy by 30 April 2010. The results of the ICAAP process have confirmed the soundness of the Group's capital base and that the financial resources available ensure, with adequate margins, coverage of all current and prospective risks, also under stress conditions.

Quantitative disclosure

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

Banks must comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities, settlement risk, and concentration risk. Moreover, with reference to the overall financial statements, foreign exchange risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo and Banca IMI apply the internal model to calculate general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and general position risk (rate fluctuation risk) for debt securities. Intesa Sanpaolo’s internal model also includes the calculation of the specific risk for certain types of credit derivatives in the trading book, whereas Banca IMI’s model includes the position risk on quotas of UCI (for the CPPI component). From the first quarter of 2009 the scope of validated risks was extended to dividend derivatives. Standardised approaches are used for the other types of risk. Counterparty risk is calculated independently of the portfolio of allocation (see Table 11).

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

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

As already mentioned in the introduction to this document, the Intesa Sanpaolo Group, having obtained authorisation from the Supervisory Authority, has adopted the Foundation Internal Rating Based (FIRB) approach to calculate its credit and counterparty risk capital requirements in relation to the regulatory trading book “Exposures to corporates”, with effect from 31 December 2008. The initial scope of application of the FIRB approach includes the Parent company, the network banks (with the exception of Casse del Centro) and the main specialised lending companies. The complete list of the companies included in the initial scope is provided in Table 7.

With regard to 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 gradually migrate to the Advanced approach beginning in 2010. (see Table 12).

Capital requirements and capital ratios of the Intesa Sanpaolo Group

(millions of euro)

Information	31.12.2009			31.12.2008		
	Unweighted amounts	Weighted amounts	Requirements	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS						
A.1 Credit and counterparty risks	540,605	316,258	25,301	582,919	335,556	26,844
1. Standardised approach	344,625	165,206	13,217	387,507	194,458	15,557
2. Internal models (IRB)	191,735	148,331	11,866	187,208	138,199	11,055
3. Securitisations	4,245	2,721	218	8,204	2,899	232
A.2 Market risk		16,804	1,344		18,046	1,444
1. Standardised approach		14,889	1,191		15,534	1,243
2. Internal models		1,202	96		2,475	198
3. Concentration risk		713	57		38	3
A.3 Operational risk		28,113	2,249		29,080	2,327
1. Basic indicator approach		1,363	109		875	70
2. Standardised approach		9,925	794		28,205	2,257
3. Advanced measurement approach		16,825	1,346		-	-
A.4 Other capital requirements		-	-		-	-
A.5 Other calculation elements		473	38		390	31
A6 Total capital requirements		361,648	28,932		383,072	30,646
B. CAPITAL RATIOS (%)						
B.1 Core Tier 1			7.1%			6.3%
B.2 Tier 1 ratio			8.4%			7.1%
B.3 Total capital ratio			11.8%			10.2%

The tables below provide details of the Group's different capital requirements as at 31 December 2009. Additional details, for the "non weighted" amounts, are also shown:

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

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

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

The (proportional) deconsolidation of Findomestic, following its sale, resulted in a reduction in the assets at risk - weighted amounts – of around 4 billion euro (essentially credit and counterparty risk – standardised approach).

Capital requirement for Credit and Counterparty Risk (Standardised Approach)

Regulatory portfolio	(millions of euro) Capital requirement	
	31.12.2009	31.12.2008
Exposures to or secured by governments and central banks	101	77
Exposures to or secured by local authorities	275	246
Exposures to or secured by not for profit and public sector organisations	155	201
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	1,093	1,465
Exposures to or secured by corporates	4,424	5,795
Retail exposures	3,130	3,581
Exposures secured by real estate property	2,106	2,355
Past due exposures	878	577
High-risk exposures	89	71
Exposures in the form of covered bonds	-	-
Short-term exposures to corporates	120	133
Exposures to UCI	70	94
Other exposures	776	962
Total capital requirement for credit risk and counterparty risk (Standardised Approach)	13,217	15,557

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

Regulatory portfolio	(millions of euro) Capital requirement	
	31.12.2009	31.12.2008
A. Exposures to or secured by corporates	11,815	11,003
A.1) Specialised lending	372	253
A.2) Specialised lending - slotting criteria	97	120
A.3) SMEs	3,974	3,457
A.4) Other corporates	7,372	7,173
B. Equity exposures: simple risk weight approach	51	52
B.1) Private equity exposures in sufficiently diversified portfolios	21	14
B.2) Exchange-traded equity exposures	10	7
B.3) Other equity exposures	20	31
C. Equity instruments: Other assets - Ancillary investments	-	-
D. Exposures subject to supervisory transition regarding capital requirements	-	-
Total capital requirement for credit risk and counterparty risk (Foundation IRB Approach)	11,866	11,055

The equity exposures, for the companies that have adopted the IRB approach for the corporate regulatory portfolio, subject to grandfathering provisions regarding capital requirements, have a capital requirement of 179 million euro (181 million euro as at 31 December 2008).

Capital requirement for Credit and Counterparty Risk on securitisations (Standardised Approach)

Information	(millions of euro)	
	Capital requirement	
	31.12.2009	31.12.2008
Originated securitisations	48	91
Third-party securitisations	170	141
Total capital requirement for credit risk and counterparty risk on securitisations (Standardised approach)	218	232

Capital requirement for Market Risk

Information	(millions of euro)	
	Capital requirement	
	31.12.2009	31.12.2008
Assets included in the regulatory trading book	1,246	1,350
Position risk	1,189	1,347
Settlement risk for DVP transactions (Delivery Versus Payment)	-	-
Concentration risk	57	3
Other assets	98	94
Foreign exchange risk	70	48
Commodity risk	28	46
Total capital requirement for market risk	1,344	1,444

The capital requirement for “counterparty risk” for the regulatory trading book is 557 million euro (535 million euro as at 31 December 2008). This requirement is shown - for the individual regulatory portfolios - in the tables of capital requirements for credit risk under the standardised approach and the IRB approach.

Capital requirement for Operational Risk

Information	(millions of euro)	
	Capital requirement	
	31.12.2009	31.12.2008
Basic indicator approach	109	70
Standardised approach	794	2,257
Advanced measurement approach	1,346	-
Total capital requirement for operational risk	2,249	2,327

Table 5 – Credit risk: general disclosures for all banks

Qualitative disclosure

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

For the Intesa Sanpaolo Group the definitions of the various categories of “non-performing” loans (past due, substandard, restructured and doubtful exposures) correspond to the Regulatory definitions adopted by the Bank of Italy in accordance with IAS / IFRS. The Regulatory instructions are supplemented by internal provisions that establish the criteria and automatic rules for the transfer of loans between the different risk categories. A brief summary follows:

Doubtful loans

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank; irrespective, therefore, of whether any (secured or personal) guarantees have been established to cover the exposures.

Also included are exposures to Italian local authorities (municipal and provincial) in a state of financial distress for the amount subject to the associated liquidation procedure.

Substandard loans

On- and off-balance sheet exposures to borrowers in a temporary situation of objective difficulty, which may be expected to be remedied within a reasonable period of time. This is irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

Substandard loans shall include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to quoted debt securities, unless they meet the conditions for classification as doubtful loans. To this end the “grace period” established by the contract is recognised or, in its absence, the period recognised by the market listing the security.

Restructured exposures

On- and off-balance sheet exposures for which a bank (or a pool of banks), as a result of the deterioration of the borrower’s financial situation, agrees to amendments to the original terms and conditions (for example, rescheduling of deadlines, reduction of the debt and/or the interest) that give rise to a loss. These do not include exposures to corporates where the termination of the business is expected (for example in cases of voluntary liquidation or similar situations).

The requirements relating to the “deterioration in the borrower’s financial situation” and the presence of a “loss” are assumed to be met when the restructuring involves exposures already classified under the classes of substandard positions or due/past due exposures.

If the restructuring relates to exposures to borrowers classified as “performing” or to unimpaired due/past due exposures, the requirement relating to the “deterioration in the borrower’s financial situation” is assumed to be met when the restructuring involves a pool of banks. This is irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

Past due exposures

On- and off-balance sheet exposures, other than those classified as doubtful, substandard or restructured exposures that, as at the reporting date, are due or past due by more than 180 days on a continuous basis. For certain types of exposure (essentially banks and central governments and non-resident customers, as well as exposures secured by real estate property) the Regulatory provisions have set a period of 90 days instead of 180 days. This is irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.

In addition to the types of non-performing exposures referred to above, the Intesa Sanpaolo Group also monitors and periodically reports its past due loans over 90 days to the Bank of Italy (still included under

performing loans), defined as due and/or past due exposures over 90 days not already classified under one of the classes of non-performing loans.

Description of the methods adopted to calculate the adjustments

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

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

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

With reference to loans to customers and due from banks, positions attributed the status of doubtful, substandard, restructured or past due according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.

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

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

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

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the "New capital accord" generally known as Basel 2. In particular, the parameters of the calculation model set out in the new supervisory provisions, namely, Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation. The relationship between the two aforementioned parameters represents the starting point for loan segmentation, since they summarise the relevant factors considered by IAS/IFRS for the determination of the homogeneous categories and for the calculation of provisions. The time period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting standards. This time period is reduced to six months solely for counterparties that are natural persons for whom the recognition of a worsening credit situation and the consequent transfer among the non-performing loans generally take place following unpaid instalments or continuous defaults for more than 90/180 days.

The allocation also takes into account corrective factors such as the state of the economic cycle and the concentration of credit risks towards persons who have a significant exposure to the Group.

With reference to assets available for sale, the process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.

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

Within the first category, the following indicators are considered significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company. With respect to the second category, a substantial or prolonged reduction in fair value below

the initial recognition value is considered significant; more specifically, a reduction in fair value of over 30% is considered substantial, and a continuous reduction for a period of over 24 months is considered prolonged. If one of these thresholds is exceeded, impairment of the security is carried out. If these thresholds are not exceeded but other impairment indicators are present, recognition of the impairment must also be corroborated by the result of specific analyses of the security and the investment.

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

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

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

Quantitative disclosure

The tables below show the Gross credit exposures - total and average - and the related adjustments broken down by risk class, geographical area, counterparty category and residual maturity, together with the adjustments made during the period. The figures shown in the tables consist of the gross and net exposures in the financial statements, as also reported in Part E –: Information on Risks and relative hedging policies, of the consolidated financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Overall credit exposure by risk class (*)

Portfolios/category	(millions of euro)								
	Doubtful loans			Substandard loans			Restructured exposures		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
A. ON-BALANCE SHEET EXPOSURES									
1. Financial assets held for trading	2	2	1	57	57	39	2	2	1
2. Financial assets available for sale	5	5	5	1	1	1	-	-	-
3. Investments held to maturity	-	-	0	2	2	1	-	-	-
4. Due from banks	104	27	72	4	1	31	-	-	-
5. Loans to customers	16,452	5,358	14,763	12,972	10,371	10,273	2,402	2,293	1,631
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-	-	-
7. Financial assets under disposal	-	-	5	-	-	7	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
Total A	16,563	5,392	14,847	13,036	10,432	10,352	2,404	2,295	1,631
B. OFF-BALANCE SHEET EXPOSURES	219	142	206	709	652	611	-	-	-
Total B	219	142	206	709	652	611	-	-	-
TOTAL - 31.12.2009	16,782	5,534	15,053	13,745	11,084	10,962	2,404	2,295	1,631
TOTAL - 31.12.2008	13,439	4,116	12,278	7,590	5,726	6,679	534	399	407

Portfolios/category	Past due exposures			Other exposures			Total		
	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)	Gross	Net	Gross Average (**)
	A. ON-BALANCE SHEET EXPOSURES								
1. Financial assets held for trading	14	14	12	68,007	68,007	67,802	68,082	68,082	67,855
2. Financial assets available for sale	-	-	-	13,196	13,196	14,509	13,202	13,202	14,514
3. Investments held to maturity	-	-	-	4,578	4,578	5,142	4,580	4,580	5,143
4. Due from banks	2	2	7	43,168	43,134	49,187	43,278	43,164	49,297
5. Loans to customers	2,576	2,418	2,212	355,064	352,606	374,533	389,466	373,046	403,411
6. Financial assets designated at fair value through profit and loss	-	-	-	937	937	1,154	937	937	1,154
7. Financial assets under disposal	10	9	5	5,809	5,790	2,249	5,819	5,799	2,267
8. Hedging derivatives	-	-	-	6,994	6,994	6,371	6,994	6,994	6,371
Total A	2,602	2,443	2,236	497,753	495,242	520,945	532,358	515,804	550,011
B. OFF-BALANCE SHEET EXPOSURES	213	202	150	208,353	208,080	206,341	209,494	209,076	207,308
Total B	213	202	150	208,353	208,080	206,341	209,494	209,076	207,308
TOTAL - 31.12.2009	2,815	2,645	2,387	706,106	703,322	727,286	741,852	724,880	757,320
TOTAL - 31.12.2008	2,170	1,985	1,843	719,142	716,252	688,388	742,875	728,478	709,595

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

(**) Half-yearly average

Credit exposures by geographical area to customers and banks

Credit exposures by geographical area – customers ^(*)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	4,900	-9,364	400	-1,386	20	-79	10	-43	33	-222
A.2. Substandard loans	8,977	-2,197	1,297	-354	89	-38	3	-10	7	-1
A.3. Restructured exposures	2,039	-86	231	-13	23	-10	-	-	-	-
A.4. Past due exposures	2,237	-158	182	-2	10	-	-	-	-	-
A.5. Other exposures	321,336	-1,847	58,645	-503	7,008	-34	3,986	-17	3,680	-58
Total A	339,489	-13,652	60,755	-2,258	7,150	-161	3,999	-70	3,720	-281
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	121	-44	5	-6	-	-	-	-2	13	-24
B.2. Substandard loans	519	-52	34	-4	99	-1	-	-	-	-
B.3. Other non-performing assets	212	-11	-	-	1	-	-	-	-	-
B.5. Other exposures	61,790	-170	55,414	-71	16,973	-6	817	-2	728	-4
Total B	62,642	-277	55,453	-81	17,073	-7	817	-4	741	-28
TOTAL (A+B) 31.12.2009	402,131	-13,929	116,208	-2,339	24,223	-168	4,816	-74	4,461	-309
TOTAL 31.12.2008	412,995	-11,987	108,440	-1,710	31,154	-139	5,681	-57	6,968	-374

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

Credit exposures by geographical area – banks ^(*)

(millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	-	-	23	-71	1	-3	3	-3	-	-
A.2. Substandard loans	-	-	1	-1	1	-1	-	-	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	2	-	2	-	-	-	-	-	-	-
A.5. Other exposures	25,342	-4	22,798	-28	3,077	-9	3,052	-10	1,565	-
Total A	25,344	-4	22,824	-100	3,079	-13	3,055	-13	1,565	-
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	-	-	-	-	3	-1	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.5. Other exposures	15,324	-	49,990	-7	4,979	-1	1,765	-10	300	-2
Total B	15,324	-	49,990	-7	4,979	-1	1,768	-11	300	-2
TOTAL (A+B) 31.12.2009	40,668	-4	72,814	-107	8,058	-14	4,823	-24	1,865	-2
TOTAL 31.12.2008	29,897	-4	68,405	-52	4,676	-9	4,706	-11	2,819	-59

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

Credit exposures and adjustments to customers by counterparty ^(*)

(millions of euro)

	GOVERNMENTS			OTHER PUBLIC ENTITIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	-	-1	X	3	-2	X
A.2. Substandard loans	5	-5	X	188	-40	-
A.3. Restructured exposures	-	-	X	-	-	X
A.4. Past due exposures	6	-	X	66	-	X
A.5. Other exposures	41,420	X	-4	23,503	X	-36
Total A	41,431	-6	-4	23,760	-42	-36
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	-	-	X	-	-	X
B.2. Substandard loans	-	-	X	-	-	X
B.3. Other non-performing assets	-	-	X	-	-	-
B.4. Other exposures	1,184	X	-	2,735	X	-3
Total B	1,184	-	-	2,735	-	-3
TOTAL - 31.12.2009	42,615	-6	-4	26,495	-42	-39
TOTAL - 31.12.2008	26,134	-2	-7	26,448	-19	-52

	FINANCIAL INSTITUTIONS			INSURANCE COMPANIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	96	-493	X	21	-16	X
A.2. Substandard loans	317	-35	X	32	-10	X
A.3. Restructured exposures	7	-1	X	-	-	X
A.4. Past due exposures	30	-3	X	-	-	X
A.5. Other exposures	33,591	X	-110	3,207	X	-2
Total A	34,041	-532	-110	3,260	-26	-2
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	1	-	X	-	-	X
B.2. Substandard loans	14	-	X	-	-	X
B.3. Other non-performing assets	2	-	X	-	-	X
B.4. Other exposures	38,493	X	-14	1,848	X	-4
Total B	38,510	-	-14	1,848	-	-4
TOTAL - 31.12.2009	72,551	-532	-124	5,108	-26	-6
TOTAL - 31.12.2008	58,165	-514	-144	5,241	-	-5

	NON-FINANCIAL COMPANIES			OTHER COUNTERPARTIES		
	Net exposure	Individual adjustments	Collective adjustments	Net exposure	Individual adjustments	Collective adjustments
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	4,165	-8,853	X	1,078	-1,729	X
A.2. Substandard loans	8,152	-2,068	X	1,679	-442	X
A.3. Restructured exposures	2,163	-107	X	123	-1	X
A.4. Past due exposures	1,490	-128	X	837	-29	X
A.5. Other exposures	212,338	X	-2,023	80,596	X	-284
Total A	228,308	-11,156	-2,023	84,313	-2,201	-284
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	124	-51	X	14	-24	X
B.2. Substandard loans	627	-57	X	11	-1	X
B.3. Other non-performing assets	210	-11	X	1	-	X
B.4. Other exposures	88,210	X	-213	3,252	X	-19
Total B	89,171	-119	-213	3,278	-25	-19
TOTAL - 31.12.2009	317,479	-11,275	-2,236	87,591	-2,226	-303
TOTAL - 31.12.2008	337,882	-8,213	-2,101	111,368	-2,675	-524

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

Credit exposures by residual contractual maturity as at 31 December 2009 ^(*)

	(millions of euro)									
	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
A. ON-BALANCE SHEET EXPOSURES										
A.1 Government bonds	506	267	416	315	3,758	6,560	6,873	12,210	7,248	-
A.2 Other debt securities	482	295	86	372	917	1,298	2,334	13,983	13,737	-
A.3 Quotas of UCI	1,752	18	-	-	-	-	-	-	-	-
A.4 Loans	50,800	16,762	8,092	17,719	39,536	19,126	24,423	118,816	106,986	237
- Banks	5,034	4,404	2,538	5,436	16,312	3,977	2,019	3,131	465	-
- Customers	45,766	12,358	5,554	12,283	23,224	15,149	22,404	115,685	106,521	237
B. OFF-BALANCE SHEET EXPOSURES	97,557	34,135	12,341	24,505	40,792	26,362	27,273	122,321	32,183	952
B.1 Financial derivatives with exchange of capital										
- Long positions	2,219	14,309	6,012	11,907	17,577	9,359	8,451	15,942	10,237	12
- Short positions	2,650	15,147	6,224	12,203	17,282	8,878	9,202	16,589	9,552	12
B.2 Financial derivatives without exchange of capital										
- Long positions	45,765	1	30	93	1,110	298	557	1,312	189	-
- Short positions	46,407	102	64	51	802	509	1,279	1,483	275	-
B.3 Irrevocable commitments to lend funds										
- Long positions	133	234	8	166	1,938	3,317	4,442	20,035	5,453	378
- Short positions	286	4,335	2	70	2,072	3,953	3,289	66,086	6,262	235
B.4 Financial guarantees given	97	7	1	15	11	48	53	874	215	315
TOTAL	151,097	51,477	20,935	42,911	85,003	53,346	60,903	267,330	160,154	1,189

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

Net adjustments for on-balance sheet exposures: breakdown ^(*)

	Impairment losses	Recoveries	(millions of euro)	
			2009	2008
A. Due from banks	-24	5	-19	-64
- Loans	-21	5	-16	-64
- Debt securities	-3	-	-3	-
B. Loans to customers	-5,224	1,802	-3,422	-2,333
- Loans	-5,211	1,799	-3,412	-2,332
- Debt securities	-13	3	-10	-1
C. Total	-5,248	1,807	-3,441	-2,397

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

Net adjustments for off-balance sheet exposures: breakdown ^(*)

	Impairment losses	Recoveries	(millions of euro)	
			2009	2008
A. Guarantees given	-80	74	-6	117
B. Credit derivatives	-	-	-	-
C. Commitments to lend funds	-38	43	5	1
D. Other operations	-11	5	-6	-6
E. Total	-129	122	-7	112

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

Changes in adjustments relating to non-performing exposures to customers and banks
Changes in adjustments relating to non-performing exposures to customers as at 31 December 2009 ^(*)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	9,225	1,745	135	165
B. Increases	3,697	2,652	211	293
B.1 impairment losses	2,287	2,130	89	263
B.2 transfers from other non-performing exposure categories	826	341	119	6
B.3 other increases	584	181	3	24
B.4 business combinations	-	-	-	-
C. Decreases	-1,828	-1,797	-237	-298
C.1 recoveries on impairment losses	-420	-444	-27	-50
C.2 recoveries on repayments	-318	-129	-2	-10
C.3 write-offs	-712	-165	-92	-11
C.4 transfers to other non-performing exposure categories	-57	-933	-99	-203
C.5 other decreases	-321	-126	-17	-24
C.6 business combinations	-	-	-	-
D. Final total adjustments	11,094	2,600	109	160

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

**Changes in adjustments relating to non-performing exposures to banks
as at 31 December 2009 ^(*)**

(millions of euro)

Information	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	13	63	-	-
B. Increases	77	5	-	-
B.1 impairment losses	11	-	-	-
B.2 transfers from other non-performing exposure categories	63	5	-	-
B.3 other increases	3	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	-13	-66	-	-
C.1 recoveries on impairment losses	-	-1	-	-
C.2 recoveries on repayments	-	-	-	-
C.3 write-offs	-1	-	-	-
C.4 transfers to other non-performing exposure categories	-5	-63	-	-
C.5 other decreases	-7	-2	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	77	2	-	-

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

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

Qualitative disclosure

External agencies used

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

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

List of the external Rating Agencies

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

(*) Ratings characteristics: solicited/unsolicited.

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

In compliance with the Bank of Italy Circular 263, the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation.

The risk weighting assigned to the exposures has been determined, in general for the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Circular are met, through the use of the issuer rating.

The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

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

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

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

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

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

Breakdown of exposures: standardised approach

(millions of euro)

Regulatory portfolio	31.12.2009			31.12.2008		
	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital	Exposure with credit risk mitigation	Exposure without credit risk mitigation	Exposures deducted from regulatory capital
Exposures to or secured by governments and central banks	65,225	67,372	627	50,547	52,147	503
Exposures to or secured by local authorities	19,226	19,540	-	20,167	20,434	-
Exposures to or secured by not for profit and public sector organisations	10,294	10,458	-	11,652	11,683	-
Exposures to or secured by multilateral development banks	230	230	-	277	277	-
Exposures to or secured by international organisations	38	38	-	-	-	-
Exposures to or secured by supervised institutions	59,577	89,535	719	87,616	113,467	169
Exposures to or secured by corporates	80,764	84,988	-	120,103	123,093	-
Retail exposures	75,152	78,901	-	83,952	84,597	-
Exposures secured by real estate property	71,663	71,663	-	79,450	79,450	-
Past due exposures	10,296	10,349	-	6,811	6,831	-
High-risk exposures	834	834	-	825	824	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Short-term exposures to corporates	2,392	2,491	-	1,665	1,774	-
Exposures to UCI	969	974	-	1,577	1,578	-
Other exposures	17,451	17,451	3,290	22,460	22,459	3,130
Securitisations (*)	4,245	4,245	-	8,204	8,204	-
Total credit risk	418,356	459,069	4,636	495,306	526,818	3,802

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

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

The exposures deducted from the Regulatory Capital include both the exposures deducted at 50% from Tier 1 capital and 50% from Tier 2 capital (net of expected losses in excess of impairment losses – IRB models) and the exposures deducted from the total of Tier 1 and Tier 2 capital (see Table 3).

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

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

(millions of euro)

Regulatory portfolio	31.12.2009										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	63,639	X	78	X	920	X	588	-	X	-	65,225
Exposures to or secured by local authorities	109	X	18,303	X	167	X	647	-	X	X	19,226
Exposures to or secured by not for profit and public sector organisations	94	X	8,834	X	59	X	1,307	-	X	X	10,294
Exposures to or secured by multilateral development banks	218	X	12	X	-	X	-	-	X	X	230
Exposures to or secured by international organisations	38	X	X	X	X	X	X	X	X	X	38
Exposures to or secured by supervised institutions	-	X	48,222	X	3,689	X	7,649	17	X	X	59,577
Exposures to or secured by corporates	13	X	2,629	X	7,462	X	70,055	605	X	X	80,764
Retail exposures	-	X	X	X	X	75,152	X	X	X	X	75,152
Exposures secured by real estate property	X	X	X	61,879	9,784	X	X	X	X	X	71,663
Past due exposures	-	X	X	X	768	X	5,952	3,576	X	X	10,296
High-risk exposures	X	X	X	X	X	X	564	51	219	X	834
Exposures in the form of covered bonds	X	-	-	X	-	X	-	X	X	X	-
Short-term exposures to corporates	X	X	-	X	-	X	2,392	-	X	X	2,392
Exposures to UCI	-	X	10	X	-	X	949	10	X	-	969
Other exposures	3,552	X	5,239	X	X	X	8,660	X	X	X	17,451
Securitisations	X	X	X	X	X	X	X	X	X	X	4,245
Total credit risk	67,663	-	83,327	61,879	22,849	75,152	98,763	4,259	219	-	418,356

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

(in millions of euro)

Regulatory portfolio	31.12.2009										
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL
Exposures to or secured by governments and central banks	65,274	X	82	X	1,428	X	588	-	X	-	67,372
Exposures to or secured by local authorities	158	X	18,568	X	167	X	647	-	X	X	19,540
Exposures to or secured by not for profit and public sector organisations	237	X	8,855	X	59	X	1,307	-	X	X	10,458
Exposures to or secured by multilateral development banks	218	X	12	X	-	X	-	-	X	X	230
Exposures to or secured by international organisations	38	X	X	X	X	X	X	X	X	X	38
Exposures to or secured by supervised institutions	28,200	X	49,922	X	3,745	X	7,651	17	X	X	89,535
Exposures to or secured by corporates	3,553	X	3,228	X	7,503	X	70,099	605	X	X	84,988
Retail exposures	3,747	X	X	X	X	75,154	X	X	X	X	78,901
Exposures secured by real estate property	X	X	X	61,879	9,784	X	X	X	X	X	71,663
Past due exposures	53	X	X	X	768	X	5,952	3,576	X	X	10,349
High-risk exposures	X	X	X	X	X	X	564	51	219	X	834
Exposures in the form of covered bonds	X	-	-	X	-	X	-	X	X	X	-
Short-term exposures to corporates	99	X	-	X	-	X	2,392	-	X	X	2,491
Exposures to UCI	5	X	10	X	-	X	949	10	X	-	974
Other exposures	3,552	X	5,239	X	X	X	8,660	X	X	X	17,451
Securitisations	X	X	X	X	X	X	X	X	X	X	4,245
Total credit risk	105,134	-	85,916	61,879	23,454	75,154	98,809	4,259	219	-	459,069

Specialised lending and equity exposures subject to the IRB approaches

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2009	31.12.2008
A) Exposures to or secured by corporates:		
Specialised lending - slotting criteria		
A.1) Regulatory assessment - sufficient	88	121
A.2) Regulatory assessment - good	1,035	1,323
A.3) Regulatory assessment - strong	270	254
A.4) Default	6	-
B. Equity exposures: Simple risk weight approach		
B.1) Private equity exposures in sufficiently diversified portfolios - 190%	135	92
B.2) Exchange-traded equity exposures - 290%	43	33
B.3) Other equity exposures - 370%	68	105
C. Equity instruments: Other assets - Ancillary investments - (100%)	3	-
Total	1,648	1,928

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

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

Qualitative disclosure

Credit risk – disclosures for portfolios treated under IRB approaches

The roll-out plan for the internal models

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

As has already been mentioned, Intesa Sanpaolo has been authorised to use the FIRB approach to determine the capital requirements of the Corporate portfolios, with effect from the report as at December 2008.

The application for validation approved by the Bank of Italy involves a plan for the progressive rollout of the internal ratings based approach, over a period of 6 years (2009-2014). The plan distinguishes between the Italian companies belonging to the "initial scope" and the companies for which models will be adopted at a later date.

For the companies within the "initial scope" that constitute the scope of application of the first report using the FIRB approach, the plan provides for the following steps:

- the application for validation of the transition to the IRB approach for the exposures secured by residential property (Mortgages) from the first half of 2010, to the AIRB approach for the Corporate portfolio and to the IRB approach for the small and medium enterprises (SME Retail) from the second half of 2010, initially using the internal estimates of LGD and then (from 2011) also the internal estimates of EAD;
- the sending in the second half of 2012 of the application for the transition to the IRB approach for the Other retail exposures;
- the sending in the first half of 2012 of the application for the transition to the AIRB approach for Banks and Public Entities.

In addition to the Parent company the "initial scope" includes: Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio di Venezia, Cassa di Risparmio in Bologna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa dei Risparmi di Forlì e della Romagna, Banca di Trento e Bolzano, Banca dell'Adriatico, BIIS – Banca Infrastrutture Innovazione e Sviluppo, Mediocredito Italiano, Banca di Credito Sardo, Leasint and Mediofactoring.

In 2009, the Group initiated a process of expanding 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.

For the Italian companies not included within the initial scope the plan is more intricate and in some cases involves the direct transition to the AIRB approach. The foreign companies are differentiated on the basis of their size and the level of development of the internal risk management systems.

However, the rollout plan described above does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular: exposures to central governments and central banks; exposures to own banking

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

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the regulatory Corporate segment

Structure of the internal rating systems

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

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

Use of the rating systems

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

Credit granting

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

In particular, the rating determines:

- the assignment of the Credit strategies and Loan granting and monitoring rules that, govern the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing, and regulating the issue of credit to customers with lower credit quality, also directing them towards lines of credit with higher levels of guarantees;
- the exercise of the powers assigned, where the rating is one of the two main drivers, together with the features of the line of credit concerned. The method adopted allows the approval limits to be tailored to the customer's level of risk, permitting their extension for low risk customers and progressively transferring the decision concerning the higher risk customers to the senior decision-making bodies.

Credit monitoring and management

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

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

Pricing

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

Financial Statement Processes

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

Calculation of economic capital and value governance

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

The Group also has a Value Governance Model aimed at directing customer business development decisions during the origination phase, in accordance with the objectives of achieving "healthy" and "sustainable" growth of the Group.

Reporting

The rating forms the basis of the management reporting and is spread across the risks of the loan portfolio.

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

The process for managing and recognising credit risk mitigation techniques

The process of acquisition, valuation, and control of guarantees at Banking Group level consists of:

- instruments and applications; and
- policies, processes and procedures

capable of verifying compliance with the regulatory provisions in order to benefit from the recognition of the guarantees in the calculation of the regulatory capital.

The applications include software for the assessment of the eligibility of the individual personal, mortgage and financial guarantees, that enable the verification of compliance with the general and specific eligibility requirements.

The general and specific requirements may be summarised as:

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

With regard to the policies and processes, the compliance of the management processes for the already existing guarantees has been verified and the new internal regulations/processes required to meet the regulatory requirements of Circular 263/2006 have been established.

Control and auditing of the rating systems

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

The function responsible for the internal validation process for the Intesa Sanpaolo Group is the Internal Validation office, which operates independently from the functions that manage the development activities described above and from the function responsible for the internal audit. Therefore, with regard to the macro processes of adoption and management of the internal measurement systems for credit and operational risk, the following activities are assigned exclusively to the Internal Validation office:

- validation aimed at assessing the adequacy of the system with respect to the regulatory requirements and to the operational demands of the business and the target market, and formulation of an opinion on the overall performance of the systems, their proper functioning and effective use within the various areas of business management, also identifying any problems and necessary improvements;
- preparation of the validation report to be presented to the Management Board and the Supervisory Board to accompany the resolution for the certification of compliance of the internal system with the regulatory requirements and the application for authorisation from the Bank of Italy;
- regular issue of recommendations to the development functions in relation to the performance, operation and use of the internal systems;
- regular analyses aimed at assessing the performance and proper functioning of the internal system and the provision of the related information to the internal auditing function and the Group Risk Governance Committee;
- preparation of the annual validation report highlighting any problems/areas for improvement in the system to be submitted to the attention of the development functions, the internal auditing function and the Corporate Bodies.

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

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

The Internal Auditing Head Office Department is therefore exclusively responsible for:

- internal auditing aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- assessment of the effectiveness of the overall structure of internal controls:
 - auditing of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency/soundness of the results);
 - auditing of the first and second level controls;
- assessments of the effective operational use of the internal risk measurement systems;
- verifications of the completeness and reliability of the IT system;

- regular issue of recommendations to the development functions and internal validation of the performance, operation and use of the internal systems;
- drafting of the report accompanying the application for authorisation from the Bank of Italy;
- drafting of the annual internal auditing report with presentation to the Group Risk Governance Committee, the Control Committee, the Management Board and the Supervisory Board.

The macro process of management, maintenance and updating of the internal rating system involves the following activities that represent the system's normal "life cycle":

- activation of the management, maintenance and updating process;
- amendments to the system;
- internal verifications, consisting of periodic validation and internal auditing.

Description of the regulatory Corporate segment internal rating systems

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

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

The Corporate Italy and Large Corporate Italy models

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

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

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

Each customer's initial score is calculated by means of a linear combination of appropriately converted indicators originating from two quantitative areas (finance and performance). The model is optimised according to the revenue band and is called "Financial" when only the financial statement information is available, and "Financial-Performance" when the set of information also includes the data from the Group's "Centrale Rischi" (exposure monitoring and control system). The historical data used for the estimate and the calibration cover the period from 1999.

The score is converted into a probability of default (PD) via the calibration of the long-term default rates of the portfolio ("central tendency") differentiated according to revenue band and macro geographical area. The PD is then translated via the master scale into 2 classes of credit rating, obtaining the rating statistic.

Between the quantitative and the qualitative module there is a comparison with an internal performance indicator of the counterparty's level of risk that in certain cases can worsen the risk class.

The qualitative module consists of a questionnaire through which the manager provides a structured assessment of the company, broken down into several areas of analysis. For the Large Corporate counterparties (domestic counterparties with an annual counterparty revenue of over 500 million euro that have not been assigned a rating by one of the main agencies) a specific qualitative questionnaire is used, adapted with suitable adjustments from the questionnaire used for the assessment of the international counterparties.

The model's output is broken down into several areas of analysis: economic and financial - which are in turn broken down into profitability and debt servicing, management of current assets and capital structure -, qualitative - also divided into various areas - and performance. The manager is required to provide an independent assessment for each area, which interacts with the model's output as part of the abovementioned override procedure, determining the final rating.

The International Corporate models

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

The International Large Corporate rating model applies to non-resident customers with a revenue of over 500 million euro and to Italian corporate customers with an agency rating (rated)¹, whereas the International Middle Market model is used to assess non-resident customers with a revenue of less than 500 million euro.

The override procedure for the international models is activated by a comparison with the agency rating, if available, or by providing an assessment over several areas of analysis, in the same way as the Corporate Italy segment, for unrated counterparties.

a) The International Large Corporate Model

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

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

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

b) The International Middle Market model

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

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

The Specialised Lending models

The Specialised Lending segment is covered by the model for Project Finance and the RED (Real Estate Development) model for the real estate development initiatives.

a) The Project Finance model

The Project Finance model consists of a statistical module, which unlike the standard models is based on a Monte Carlo simulation of the future cash flows, and therefore looks at prospective information as opposed to historical data, generating a value of expected loss (PDxLGD) as an output, and of a qualitative model, which determines the classification of the project based on the slotting approach.

The Expected Loss resulting from the statistical module is supplemented by a slotting assessment by means of a coherency matrix, with the support of an opinion provided by the analyst.

Given that the recognition of the rating model for the calculation of the capital requirement would also entail the validation of the LGD component, ahead of the projected time scales set out in the roll-out plan, the slotting approach (see Table 6) is currently being used for regulatory reporting purposes and the request for validation of the complete model has been postponed in conjunction with the LGD models for the Corporate segment.

b) The Real Estate Development (RED) model

The RED model is an expert based model, developed on the basis of the experience of credit analysts and calibrated taking into account the quantitative information available. There are currently not enough defaults or other target variables for this segment to allow a fully statistical approach.

It consists of a questionnaire compiled by the manager, partly through answers to qualitative questions and partly by entering numeric data, and is split into:

- a quantitative section, which provides a quantitative rating;
- a qualitative section, which produces a notching of the quantitative rating (overall rating);
- a section relating to the guarantees, which allows the calculation of the project LGD and consequently also of the expected loss.

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

Quantitative disclosure

Exposure values by regulatory portfolio (Foundation IRB Approach)

(millions of euro)

Regulatory portfolio	Exposure value	
	31.12.2009	31.12.2008
Exposures to or secured by corporates:		
- Specialised lending	5,625	4,007
- SMEs (Small and Medium Enterprises)	64,671	59,809
- Other corporates	119,798	121,471
Total credit risk (IRB)	190,094	185,287

Breakdown of exposures by exposure class and PD class

(millions of euro)

Regulatory portfolio	Rating class	31.12.2009			31.12.2008	
		Central PD (%)	Exposure value	Average risk weight	Exposure value	
Exposures to or secured by corporates						
Specialised lending			5,625			4,007
	-class from 1 to 8	-	-	-		-
	-class 9	0.29	46	30%		56
	-class 10	0.44	92	38%		73
	-class 11	0.67	289	47%		225
	-class 12	1.00	484	56%		406
	-class 13	1.48	778	66%		486
	-class 14	2.22	961	76%		531
	-class 15	3.29	841	81%		656
	-class 16	4.97	549	96%		505
	-class 17	7.37	410	108%		434
	-class 18	10.91	464	124%		367
	-class 19	16.41	193	172%		88
	-class 20	24.31	204	190%		27
	-class 21 (default)	100.00	314	-		153

Regulatory portfolio	Rating class	31.12.2009			(millions of euro)
		Central PD (%)	Exposure value	Average risk weight	31.12.2008 Exposure value
Exposures to or secured by corporates					
SMEs (Small and Medium Enterprises)			64,671		59,809
	-class from 1 to 3	-	-	-	-
	-class 4	0.05	1	17%	-
	-class 5	-	-	-	-
	-class 6	0.09	2,650	24%	3,270
	-class 7	0.13	1,404	30%	1,620
	-class 8	0.20	1,570	36%	2,152
	-class 9	0.29	2,132	45%	3,070
	-class 10	0.44	3,135	56%	4,749
	-class 11	0.67	4,206	65%	5,858
	-class 12	1.00	5,499	74%	6,444
	-class 13	1.48	7,155	85%	6,731
	-class 14	2.22	6,625	92%	5,533
	-class 15	3.29	8,157	101%	5,240
	-class 16	4.97	5,287	112%	3,385
	-class 17	7.37	3,233	130%	2,539
	-class 18	10.91	2,400	153%	1,550
	-class 19	16.41	1,196	174%	933
	-class 20	24.31	1,177	193%	727
	-class 21 (default)	100.00	8,844	-	6,008
Other corporates			119,798		121,471
	-class 1	-	-	-	-
	-class 2	0.03	1,097	15%	1,314
	-class 3	0.04	843	18%	260
	-class 4	0.05	5,409	21%	7,464
	-class 5	0.06	1,654	23%	779
	-class 6	0.09	7,471	29%	9,201
	-class 7	0.13	5,937	35%	11,896
	-class 8	0.20	9,457	45%	8,437
	-class 9	0.29	8,623	55%	7,331
	-class 10	0.44	9,959	68%	15,984
	-class 11	0.67	12,819	80%	13,311
	-class 12	1.00	11,631	93%	10,464
	-class 13	1.48	10,331	106%	8,561
	-class 14	2.22	6,114	119%	6,609
	-class 15	3.29	10,485	119%	6,988
	-class 16	4.97	3,385	148%	3,370
	-class 17	7.37	2,192	171%	1,380
	-class 18	10.91	2,156	197%	796
	-class 19	16.41	1,133	230%	3,103
	-class 20	24.31	1,249	244%	850
	-class 21 (default)	100.00	7,853	-	3,373

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

Actual adjustments

The actual adjustments made from January to December 2009 on the counterparties in default belonging to the Corporate regulatory portfolio amounted to 2,016 million euro.

Comparison between estimated and actual results

The Intesa Sanpaolo Group reports its capital requirements on the basis of the FIRB approach, and therefore only using the (corporate) PD and not the LGD. Consequently, comparisons are not currently being made between expected loss and actual (accounting) loss, but solely between a priori probability of default and ex post default rate.

This comparison is made by the Validation Unit, which carries out regular backtesting. Specifically, the default rates over a one-year period are compared with the ex ante estimated PDs, using measures of the performance of the model's discriminating power, in other words its ability to correctly rank the counterparties according to creditworthiness, and statistical tests to assess its calibration, namely the ability to correctly predict the default rates.

As regards 2009, the results of the analysis conducted on the ratings in June 2008, observing the defaults over a 12 month period, confirmed the high discriminating power of the model, which improved compared with previous results.

With regard to calibration, the speed and intensity of the current crisis generated a rise in default rates, only partly reflected by the corresponding increase in the PDs given by the rating models. The latter are in fact designed to measure the creditworthiness of the counterparties over the long-term rather than reflecting short-term changes. Moreover, the correctness of the calibration used was confirmed by the calibration tests, which incorporate the level of cyclicity.

Table 8 – Risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting.

The Intesa Sanpaolo Group does not use on-balance sheet offsetting techniques for mutual items between the Bank and the counterparty.

The Group uses (bilateral) netting agreements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).

This takes place through the signature of ISDA agreements (for transactions in derivatives) and ISMA/PSA agreements (for transactions involving securities). Both of these protocols enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.

The Group also establishes collateral agreements to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement). Another mitigation technique used within the Group is the subscription to the SwapClear service. This is a clearing service (provided by LCH Clearnet Ltd for the professional interbank market) for the most standard types of over the counter derivative contracts (plain vanilla IRS). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties via a legal novation mechanism. SwapClear provides for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.

In addition to the reduction of operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), SwapClear offers the typical advantages of centralised netting and collateralisation agreements. Also, the Group's subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.

Policies and processes for collateral evaluation and management

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

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

Under certain conditions (type of counterparty, rating assigned and type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. For this purpose the eligible collateral is formally grouped into two separate classes:

- strong collateral;
- medium collateral.

The following are considered to be strong collateral:

- cash pledge (currencies of the OECD countries);
- pledge on OECD government securities;
- pledge on financial instruments issued by the Bank;
- pledge on listed bonds;
- pledge on shares listed in regulated markets;
- pledge on investment fund quotas (pledges on quotas of investment funds whose valuation may be obtained from major financial national daily newspapers are considered as valid);

- pledge on managed portfolios of the Banking Group;
- pledge on life insurance policies;
- pledge on repurchase agreements;
- mortgages on residential property;
- mortgages on commercial/service sector property;
- mortgages on industrial property;
- mortgages on agricultural land/property;
- mortgages on property under construction/building areas (“building areas” mean those identified by the urban planning instrument) provided that:
 - the value of the collateral, net of the haircut, generally defined on the basis of the characteristics of the asset, covers at least 100% of the specific line of credit proposed;
 - they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
 - they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

The following are considered to be medium collateral:

- the strong collateral, when its value covers between 99% and 50% of the amount of the line of credit, net of the haircut;
- pledge on listed or surveyed goods/items of value;
- subordinate mortgage after the second mortgage;
- mortgage on a non-building area.

The collateral, formally defined as medium, is considered valid when the conditions established for strong collateral are met in relation to temporal validity and legal certainty.

During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.

In order to limit the risks of the absence or termination of the protection, specific safeguards are in place, including the restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to mortgage collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.

Assets are evaluated, prior to the decision to grant the credit, using both internal and external technicians. The external technicians are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.

The experts’ duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.

The technicians are required to produce estimates on the basis of standardised expert technical reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.

In order to ensure that the standards and valuation criteria are uniform, a “Property Valuation Code” is in force, which ensures the compatibility of the estimates, and guarantees that the value of the property is calculated clearly and transparently on a prudential basis.

During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property’s designated use.

The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement for transactions on a work progress basis.

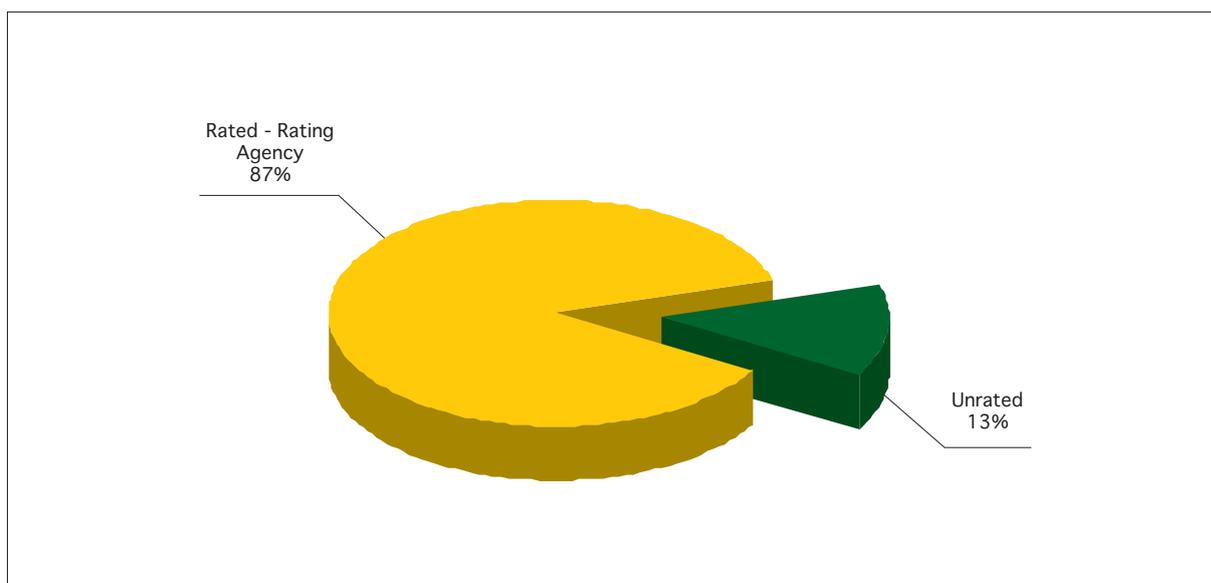
The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property and, in any case, every three years for major exposures.

To cover the residual risks, the borrower is required to provide an insurance policy against fire damage, issued by companies that have an agreement with or are approved by the Bank. The insurable value is determined by a survey, on the basis of the property's reconstruction cost new.

The main types of guarantor and credit derivative counterparty and their creditworthiness

The credit derivative transactions have banks and international financial and insurance institutions as counterparties, almost all of which have an agency rating with a high investment grade.

Creditworthiness of the counterparties in credit derivative transactions



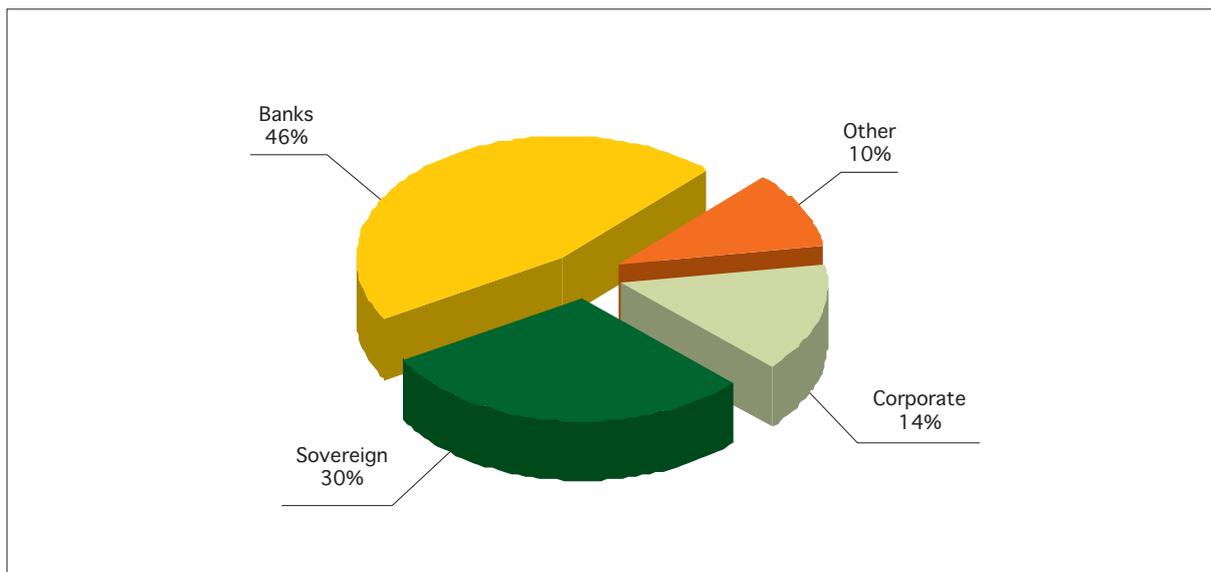
Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.

The main guarantor is the Italian government, representing around 15% of the guarantees received. As a whole, the first ten guarantors, almost exclusively consisting of sovereign states of the European Union and Italian and European banking institutions, represent the majority of the overall amount of the guarantees. The other types of guarantor, namely public entities, businesses, and trade associations and consortia, do not have any significant concentrations.

Personal guarantees by type of counterparty



Financial collateral

The majority (around 90%) of the financial collateral eligible for risk mitigation relates to repurchase agreements. The securities are almost all issued by the Italian government and other sovereign issuers belonging to the euro area. As regards the potential exposure to market risk, it should be noted that two thirds of these securities have a maturity of less than 5 years. Almost all of the remaining approximately 10% of financial collateral relates to cash deposits.

Other collateral

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the largest amount of mortgage lending is in the Bank’s exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is quantified by means of appropriate scenario and stress analyses within the ICAAP process.

Quantitative disclosure

This Table lists the portions of exposures secured by financial collateral and personal guarantees. The column “Personal guarantees or credit derivatives” consists almost exclusively of guarantees received in the form of personal guarantees, as credit derivatives make up an insignificant proportion of the total guarantees of the Intesa Sanpaolo Group.

Breakdown of exposures secured by collateral, guarantees or credit derivatives by exposure class

Secured exposures subject to the Standardised approach

(millions of euro)

Regulatory portfolio	31.12.2009			31.12.2008	
	Collateral	Guarantees or credit derivatives	Collateral	Guarantees or credit derivatives	
	<i>of which: Simple approach</i>				
Exposures to or secured by governments and central banks	133	64	2,014	52	1,549
Exposures to or secured by local authorities	49	-	265	4	263
Exposures to or secured by not for profit and public sector organisations	142	-	22	9	24
Exposures to or secured by multilateral development banks	-	-	-	-	-
Exposures to or secured by international organisations	-	-	-	-	-
Exposures to or secured by supervised institutions	28,221	21	1,737	23,809	2,042
Exposures to or secured by corporates	3,661	141	563	1,830	1,153
Retail exposures	3,749	24	-	647	-
Past due exposures	53	-	-	20	-
High-risk exposures	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-
Short-term exposures to corporates	99	-	-	110	-
Exposures to UCI	5	-	-	-	-
Other exposures	-	-	-	-	-
Securitisations	-	-	-	-	-
Total	36,112	250	4,601	26,481	5,031

The Table above complements the disclosures in Table 6, in the sub-table “exposures with credit risk mitigation”, which shows the residual exposure not covered by these guarantees. Under the current regulations, when the comprehensive method is adopted (as Intesa Sanpaolo does in the majority of cases), collateral (e.g. cash collateral or securities received as pledges) reduces risk exposure, whereas personal guarantees (and the remaining collateral - simplified method) transfer the related risk to the guarantor’s regulatory portfolio; consequently, the representation of personal guarantees included in this Table is the guarantor’s responsibility.

Exposures secured by mortgage collateral, for which the regulations require the assignment of preferential weightings, are not shown in this Table, as they are already included in Table 6 under “exposures secured by real estate property”.

Exposures secured by guarantees or credit derivatives and collateral – simplified method: guarantor weighting factors (Standardised approach)

(millions of euro)

Regulatory portfolio	Guarantor's weights										TOTAL AS AT 31.12.2009
	0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	
Exposures to or secured by governments and central banks	1,566	X	4	X	508	X	-	-	X	-	2,078
Exposures to or secured by local authorities	-	X	265	X	-	X	-	-	X	X	265
Exposures to or secured by not for profit and public sector organisations	1	X	21	X	-	X	-	-	X	X	22
Exposures to or secured by multilateral development banks	-	X	-	X	-	X	-	-	X	X	-
Exposures to or secured by international organisations	-	X	X	X	X	X	X	X	X	X	-
Exposures to or secured by supervised institutions	-	X	1,700	X	56	X	2	-	X	X	1,758
Exposures to or secured by corporates	20	X	599	X	41	X	44	-	X	X	704
Retail exposures	22	X	X	X	X	2	X	X	X	X	24
Exposures secured by real estate property	X	X	X	-	-	X	X	X	X	X	-
Past due exposures	-	X	X	X	-	X	-	-	X	X	-
High-risk exposures	X	X	X	X	X	X	-	-	-	X	-
Exposures in the form of covered bonds	X	-	-	X	-	X	-	X	X	X	-
Short-term exposures to corporates	-	X	-	X	-	X	-	-	X	X	-
Exposures to UCI	-	X	-	X	-	X	-	-	X	-	-
Other exposures	-	X	-	X	X	X	-	X	X	X	-
Securitisations	X	X	X	X	X	X	X	X	X	X	-
Total	1,609	-	2,589	-	605	2	46	-	-	-	4,851

Secured exposures subject to the foundation IRB approach

(millions of euro)

Regulatory portfolio	31.12.2009		31.12.2008	
	Collateral	Guarantees or credit derivatives	Collateral	Guarantees or credit derivatives
Exposures to or secured by corporates				
<i>Specialised lending</i>	4,121	-	3,267	-
<i>SMEs</i>	18,217	262	16,854	160
<i>Other corporates</i>	11,316	167	12,213	248
Specialised lending - slotting criteria	-	-	-	-
Total	33,654	429	32,334	408

Table 9 – Counterparty risk

Qualitative disclosure

In accordance with Bank of Italy Circular 263 – “New regulations for the prudential supervision of banks”, counterparty risk is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations set out specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.

In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- Securities Financial Transactions – SFTs (e.g. repurchase agreements);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements (“Master netting agreements”) is permitted, subject to compliance with statutory requirements.

For regulatory reporting purposes the Group currently uses the “mark-to-market” approach for the calculation of the exposures subject to counterparty risk for OTC financial and credit derivatives, whereas for repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure (“comprehensive” method).

The counterparty risk that affects the types of transactions referred to above generates an exposure corresponding to their positive fair value plus the future credit exposure (add-ons, namely the percentage value applied to the notional amount of the derivative). These add-ons differ depending on the residual maturity of the transaction and the type of underlying risk (interest rate, equity, exchange, etc.).

In order to improve the capacity for the analysis and control of counterparty risk, a specific project has been set up aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. In particular, the following have been defined:

- PFE (potential future exposure): evolution over time of the credit exposure (i.e. positive mark-to-market) with a 95% confidence level;
- EPE (expected positive exposure): weighted average of the credit exposure, where the weightings are the portions that each time step represents of the entire time period.

For the scope of the above transactions, the project involves the calculation of the EPE using the Monte Carlo multistep simulation during the life of the deal, the related reporting, the revision of the procedures for the determination of the lines in accordance with the new method to be applied to the monitoring, and the contribution of the EPE/PFE measures to the monitoring systems for the lines of credit. The development activities carried out by the company provide for the possibility of using the new measure for operational purposes during 2010 for Banca IMI, and the subsequent submission of the request to the Supervisory Authority for approval for the use of the model for regulatory purposes subject to internal validation by the relevant company departments (Internal Validation and Internal Auditing Department).

Operationally, Intesa Sanpaolo currently uses an internal method, established by the Risk Management Department, to estimate the add-ons and to define the use of the approved lines. This is a more granular grid than the one used for regulatory purposes, established using statistical simulations enabling the measurement of the potential future risk of a derivative.

In general, the definition of credit lines involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.

The credit line for OTC transactions is defined on precisely the same basis as the on-balance sheet exposures, as the transactions in derivatives represent a particular form of use by the customers. The grid for the operational add-ons is part of the monitoring systems for the lines of credit for OTC derivatives that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty.

The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, particularly towards banks and financial institutions (see Table 8 for further details).

For the purposes of the balance sheet measurements, the counterparty risk represents a measurement element (fair value) used to adjust the positive mark-to-market of the OTC derivatives through a process of Credit Risk Adjustment (CRA).

The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also the credit quality of the counterparty in relation to the current and potential exposure.

CRA is determined with reference to the cost of a protection CDS on the default of the counterparty on the basis of the average residual maturity of the contract or, if not present, to the expected loss and the capital absorption resulting from the internal rating assigned to the counterparty. These costs are applied to the current exposure, if positive, or, if not, to the potential future exposure (add-on).

With reference to the impact in terms of guarantees that the Bank would have to provide in the event of the downgrading of its credit rating, some of the collateral agreements signed by the Group provide for the reduction of the minimum transfer amount and of the thresholds in the event of the Group's downgrading.

Quantitative disclosure

Counterparty risk

Transaction categories	(millions of euro)	
	Mark-to-market method - Exposure	
	31.12.2009	31.12.2008
Derivative contracts	16,615	23,016
SFT transactions and long settlement transactions	33,270	32,106
Cross product netting	-	-

The capital requirement for "counterparty risk", for both the regulatory trading book and the banking book, is shown - for the individual regulatory portfolios - in the tables of the capital requirements for credit risk treated under the standardised approach and the IRB approach. The tables below show the information on financial and credit derivatives required by the regulations.

Financial derivatives - Regulatory trading book: period-end and average notional amounts

	(millions of euro)			
	31.12.2009		31.12.2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	2,546,798	354,565	2,560,452	491,222
a) Options	440,872	204,509	510,159	374,906
b) Swaps	2,105,572	-	2,045,629	-
c) Forwards	328	144	2,656	7,382
d) Futures	-	149,912	-	108,934
e) Others	26	-	2,008	-
2. Equities and stock indices	52,243	12,640	32,383	19,297
a) Options	51,776	11,966	32,086	18,677
b) Swaps	359	-	297	-
c) Forwards	108	-	-	-
d) Futures	-	674	-	620
e) Others	-	-	-	-
3. Foreign exchange rates and gold	79,229	13	111,867	3
a) Options	6,580	-	8,759	-
b) Swaps	24,735	-	27,481	-
c) Forwards	47,646	-	74,317	-
d) Futures	-	13	-	3
e) Others	268	-	1,310	-
4. Commodities	1,163	821	607	199
5. Other underlying assets	-	-	-	-
TOTAL	2,679,433	368,039	2,705,309	510,721
AVERAGE VALUES	2,692,371	439,380	2,321,704	347,537

Financial derivatives - Banking book: period-end and average notional amounts
Hedging

(millions of euro)

	31.12.2009		31.12.2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	243,294	-	89,662	149
a) Options	4,017	-	7,478	-
b) Swaps	239,277	-	82,184	-
c) Forwards	-	-	-	149
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	-	-	553	-
a) Options	-	-	553	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	4,314	-	3,481	-
a) Options	-	-	-	-
b) Swaps	4,277	-	3,378	-
c) Forwards	37	-	103	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	247,608	-	93,696	149
AVERAGE VALUES	170,652	75	147,379	-

Other derivatives

	(millions of euro)			
	31.12.2009		31.12.2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt securities and interest rates	4,284	-	12,322	-
a) Options	2,296	-	11,935	-
b) Swaps	1,988	-	387	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
2. Equities and stock indices	4,196	-	7,238	-
a) Options	4,196	-	7,238	-
b) Swaps	-	-	-	-
c) Forwards	-	-	-	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
3. Foreign exchange rates and gold	3,127	-	73	-
a) Options	-	-	6	-
b) Swaps	280	-	14	-
c) Forwards	2,847	-	53	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Commodities	-	-	-	-
5. Other underlying assets	-	-	-	-
TOTAL	11,607	-	19,633	-
AVERAGE VALUES	15,620	-	16,066	-

Financial derivatives - gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value			
	31.12.2009		31.12.2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	34,351	581	39,387	718
a) Options	5,295	581	4,948	716
b) Interest rate swaps	26,345	-	29,833	-
c) Cross currency swaps	1,874	-	1,776	-
d) Equity swaps	39	-	203	-
e) Forwards	687	-	198	-
f) Futures	-	-	-	-
g) Others	111	-	2,429	2
B. Banking book - hedging	6,991	-	2,183	-
a) Options	239	-	511	-
b) Interest rate swaps	6,586	-	1,162	-
c) Cross currency swaps	165	-	161	-
d) Equity swaps	-	-	74	-
e) Forwards	1	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	275	-
C. Banking book - other derivatives	551	-	619	-
a) Options	209	-	6	-
b) Interest rate swaps	316	-	613	-
c) Cross currency swaps	3	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	23	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	41,893	581	42,189	718

Financial derivatives - gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value			
	31.12.2009		31.12.2008	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Regulatory trading book	36,272	481	38,956	825
a) Options	6,126	481	5,257	819
b) Interest rate swaps	27,124	-	27,844	-
c) Cross currency swaps	2,297	-	1,720	-
d) Equity swaps	38	-	220	-
e) Forwards	567	-	60	-
f) Futures	-	-	-	-
g) Others	120	-	3,855	6
B. Banking book - hedging	5,054	-	1,970	-
a) Options	199	-	4	-
b) Interest rate swaps	4,340	-	1,466	-
c) Cross currency swaps	515	-	26	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	3	-
f) Futures	-	-	-	-
g) Others	-	-	471	-
C. Banking book - other derivatives	518	-	1,343	-
a) Options	459	-	687	-
b) Interest rate swaps	33	-	526	-
c) Cross currency swaps	1	-	-	-
d) Equity swaps	-	-	130	-
e) Forwards	25	-	-	-
f) Futures	-	-	-	-
g) Others	-	-	-	-
TOTAL	41,844	481	42,269	825

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2009
Contracts not included under netting arrangements

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	200	4,436	43,752	23,754	9,482	40,323	13,298
- positive fair value	5	342	384	444	52	1,610	26
- negative fair value	-	40	714	258	130	99	606
- future exposure	-	40	310	154	3	178	8
2. Equities and stock indices							
- notional amount	-	-	12,582	1,806	8,006	94	2,394
- positive fair value	-	-	39	37	4	13	1
- negative fair value	-	-	8	73	106	50	160
- future exposure	-	-	31	36	3	6	1
3. Foreign exchange rates and gold							
- notional amount	-	143	9,926	7,896	231	5,972	1,107
- positive fair value	-	-	85	136	4	289	9
- negative fair value	-	39	365	90	-	73	9
- future exposure	-	11	105	85	2	134	1
4. Other values							
- notional amount	-	-	5	1	-	697	3
- positive fair value	-	-	-	-	-	20	-
- negative fair value	-	-	-	-	-	52	-
- future exposure	-	-	-	-	-	19	-

Over the counter financial derivatives – regulatory trading book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2009

Contracts included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	150	-	1,868,912	541,475	102	914	-
- positive fair value	-	-	25,900	1,569	-	27	-
- negative fair value	7	-	27,606	2,502	10	3	-
2. Equities and stock indices							
- notional amount	-	-	21,196	6,074	74	17	-
- positive fair value	-	-	751	280	4	7	-
- negative fair value	-	-	579	239	4	-	-
3. Foreign exchange rates and gold							
- notional amount	694	8	47,555	3,915	404	1,373	5
- positive fair value	447	-	1,342	57	155	228	-
- negative fair value	-	-	1,913	499	-	10	-
4. Other values							
- notional amount	-	-	381	50	-	26	-
- positive fair value	-	-	78	5	-	-	-
- negative fair value	-	-	27	-	-	1	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2009

Contracts not included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	-	68,532	361	-	33	1,974
- positive fair value	-	-	751	3	-	-	-
- negative fair value	-	-	1,901	112	-	2	25
- future exposure	-	-	22	1	-	-	-
2. Equities and stock indices							
- notional amount	-	-	3,364	88	-	13	79
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	437	-	-	-	1
- future exposure	-	-	2	4	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	3,703	113	-	8	-
- positive fair value	-	-	91	1	-	-	-
- negative fair value	-	-	60	-	-	-	-
- future exposure	-	-	53	9	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

Over the counter financial derivatives – banking book: notional amounts, gross positive and negative fair values by counterparty as at 31 December 2009

Contracts included under netting arrangements

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Debt securities and interest rates							
- notional amount	-	-	167,286	9,392	-	-	-
- positive fair value	-	-	6,227	250	-	-	-
- negative fair value	-	-	2,221	332	-	-	-
2. Equities and stock indices							
- notional amount	-	-	441	211	-	-	-
- positive fair value	-	-	53	66	-	-	-
- negative fair value	-	-	1	-	-	-	-
3. Foreign exchange rates and gold							
- notional amount	-	-	3,590	27	-	-	-
- positive fair value	-	-	96	3	-	-	-
- negative fair value	-	-	481	-	-	-	-
4. Other values							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Credit derivatives – period-end and average notional amounts

	(millions of euro)			
	Regulatory trading book		Banking book	
	single counterparty	more counterparties (basket)	single counterparty	more counterparties (basket)
1. Protection purchases				
- Credit default products		29,162		54,809
- Credit spread products		-		-
- Total rate of return swap		194		-
- Other		-		-
Total 31.12.2009	29,356	54,809	-	-
Average values	31,778	46,661	-	-
Total 31.12.2008	34,199	38,513	573	-
2. Protection sales				
- Credit default products		25,914		55,725
- Credit spread products		-		-
- Total rate of return swap		287		-
- Other		15		54
Total 31.12.2009	26,216	55,779	-	-
Average values	30,035	48,305	-	39
Total 31.12.2008	33,853	40,830	-	78

Over the counter credit derivatives – gross positive fair value: breakdown by product

(millions of euro)

	Positive fair value	
	31.12.2009	31.12.2008
A. Regulatory trading book	2,386	4,504
a) Credit default products	2,084	4,504
b) Credit spread products	-	-
c) Total rate of return swap	302	-
d) Other	-	-
B. Banking book	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	2,386	4,504

Over the counter credit derivatives – gross negative fair value: breakdown by product

(millions of euro)

	Negative fair value	
	31.12.2009	31.12.2008
A. Regulatory trading book	2,722	1,894
a) Credit default products	2,426	1,894
b) Credit spread products	-	-
c) Total rate of return swap	296	-
d) Other	-	-
B. Banking book	-	-
a) Credit default products	-	-
b) Credit spread products	-	-
c) Total rate of return swap	-	-
d) Other	-	-
TOTAL	2,722	1,894

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts not included under netting arrangements as at 31 December 2009

(millions of euro)

	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	39	3,482	3,194	-	-	-
- positive fair value	-	37	93	64	-	-	-
- negative fair value	-	-	9	18	-	-	-
- future exposure	-	4	276	225	-	-	-
2. Protection sales							
- notional amount	-	-	3,630	3,354	-	-	-
- positive fair value	-	-	10	310	-	-	-
- negative fair value	-	-	118	274	-	-	-
- future exposure	-	-	739	554	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Over the counter credit derivatives – gross (positive and negative) fair values by counterparty: contracts included under netting arrangements as at 31 December 2009

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
REGULATORY TRADING BOOK							
1. Protection purchases							
- notional amount	-	-	53,430	24,020	-	-	-
- positive fair value	-	-	423	132	-	-	-
- negative fair value	-	-	1,021	631	-	-	-
2. Protection sales							
- notional amount	-	-	53,109	21,902	-	-	-
- positive fair value	-	-	770	547	-	-	-
- negative fair value	-	-	484	167	-	-	-
BANKING BOOK							
1. Protection purchases							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
2. Protection sales							
- notional amount	-	-	-	-	-	-	-
- positive fair value	-	-	-	-	-	-	-
- negative fair value	-	-	-	-	-	-	-

Over the counter credit and financial derivatives – net fair values and future exposure by counterparty as at 31 December 2009

	(millions of euro)						
	Governments and Central Banks	Public entities	Banks	Financial institutions	Insurance companies	Non- financial companies	Other counterparties
1. Financial derivatives - bilateral agreements							
- positive fair value	440	-	2,175	251	154	342	9
- negative fair value	-	-	2,000	663	15	13	-
- future exposure	35	-	3,857	377	30	88	1
- net counterparty risk	-	-	45	-	-	3	-
2. Credit derivatives - bilateral agreements							
- positive fair value	-	-	1	-	-	-	-
- negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
- net counterparty risk	-	-	-	-	-	-	-
3. "Cross product" agreements							
- positive fair value	-	-	624	111	-	-	-
- negative fair value	-	-	407	-	-	-	-
- future exposure	-	-	419	63	-	-	-
- net counterparty risk	-	-	-	-	-	-	-

Table 10 – Securitisations

Qualitative disclosure

Securitisations: objectives and the roles undertaken by the Bank

Self securitisations

The self securitisations of the Intesa Sanpaolo Group may be divided into:

- securitisations that, through the conversion of the loans sold into securities that can be refinanced, form part of the overall general policy of strengthening of the Group's liquidity position (see section "self-securitisations and eligibility") and are not standard securitisations as they do not transfer the risk outside the Group;
- securitisations structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("originated securitisations").

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that enable an entity to raise resources through the securitisation of part of its assets. In general this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Resources raised in this way are returned to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Self-securitisations and eligibility

In previous years, Intesa Sanpaolo's cash securitisations (non-synthetic) were mainly a medium-long term funding instrument, structured with the aim of reducing the liquidity gap between medium-term loans and short-term deposits, of diversifying the sources of financing and the investor base, and of obtaining funding at a competitive rate, through the issue of securities with a AAA rating or in any case with a rating higher than the Bank's rating.

In view of the critical condition of the financial markets, the Group has considered it prudent to enhance its portfolio of eligible assets to establish a liquidity reserve activated through ECB financing operations or by means of the instruments established as part of the emergency measures adopted by the Italian government and the Bank of Italy to guarantee the stability of the credit system.

This has mainly taken place through "self-securitisations" of Group assets, also through the analysis of particular types of assets (such as certain loans to the public sector and large corporates). Despite the fact that it has an excellent liquidity profile, Intesa Sanpaolo has considered it appropriate to expand its options for access to the short-term funding market.

Nevertheless, a prudential decision has been made, given the current market environment, to maintain an adequate and equivalent level of eligible assets in relation to its interbank funding (also in the form of CDs and CPs).

The issue of RMBS in relation to Italian residential mortgages (such as Adriano Finance and Adriano Finance 2, described in detail below) also helps in creating the cover pool supporting the issues of medium- and long-term covered bonds to be placed in the institutional market.

A large part of the RMBS notes originating from self-securitisations are therefore initially designated for use for ECB eligibility, but may also be subsequently used as the cover pool for the programme of Covered Bonds.

In any event, the securities will initially form part of the portfolio of eligible assets, however, they may be placed in the market in the future if the conditions of the markets improve.

From this perspective, the structure of the "self-securitisations" is usually fully equivalent to the transactions carried out previously and placed in the market.

These consist of a sale by Intesa Sanpaolo of a portfolio of assets to an SPV established pursuant to Law 130/99 that issues two tranches of notes (one senior and one subordinate constituting the credit enhancement). The Group then subscribes in full for the notes issued by the SPV to fund the purchase of the loans. The senior notes (rated and quoted) are eligible and may be used for the purposes described above.

With regard to the assets to be securitised, on the basis of the assessment conducted by the Group for this purpose, priority is generally given to assets equivalent (or similar) to those already securitised in the past, such as, for example:

- real estate mortgages and mortgage loans of the Group's Network banks;
- ineligible fixed-income securities of Banca Infrastrutture Innovazione e Sviluppo ("BIIS") and Banca IMI;
- ineligible BIIS loans;
- leasing rentals of Leasint;
- mortgage loans of Mediocredito Italiano.

The self-securitisations do not contribute to the figures included in the tables, because – as already mentioned – they do not constitute standard securitisations.

Standard securitisations

The securitisations in this category are as follows:

– **Da Vinci:**

A synthetic securitisation concluded in 2006 by Banca Intesa aimed at covering and actively managing its risk exposure in the aircraft and aeronautics sector (nominal amount of around 650 million dollars). The guarantees supporting the Da Vinci portfolio consisted of 128 aircraft belonging to 22 airline companies from 14 countries. With this transaction, Banca Intesa acquired protection through a credit default swap utilising:

- for the unfunded portion (84%), a Senior Swap contract underwritten by a leading financier, covering the risk of the Da Vinci risk portfolio with a rating higher than or equivalent to AA;
- for the funded portion (12%), the Special Purpose Vehicle Da Vinci Synthetic Plc, which issued notes for an overall value of 78.2 million dollars, consisting of three tranches (the first with an A rating for 32.5 million dollars, the second with a BBB rating for 26.1 million dollars and the third with a BB+ rating for 19.6 million dollars) placed with international institutional investors only.

The structure of this transaction also allowed for the sale at any time of the remaining 4% of the risk, corresponding to around 26 million dollars. The rating agencies used were S&P, Fitch and Moody's.

– **Intesa Sec 3:**

Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 "performing" residential mortgages, issued predominantly in Northern Italy, to private individuals, and guaranteed by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.

– **Split 2:**

In 2004, Sanpaolo Leasint sold to the vehicle Split 2 Srl, without recourse, the loans deriving from performing leasing contracts covering real estate, motor vehicles and capital goods for a total amount of 1,805 million euro. To raise the funds needed to purchase the loans, Split 2 issued three classes of securities with ratings assigned by all three agencies (Moody's, S&P and Fitch) that were placed on the market, and a Junior class of 18.1 million euro entirely subscribed by Sanpaolo Leasint. The transaction was aimed at diversifying the company's funding sources, temporally matching the underlying funding and loans and freeing up economic and regulatory capital.

– **Intesa Lease Sec:**

In 2003, Intesa Leasing sold, to SPV Intesa Lease Sec S.r.l., without recourse, a portfolio of loans and associated rights deriving from payments due in relation to a portfolio of financial lease contracts originated by Intesa Leasing for around 1.5 billion euro. The purchase of the loans by Intesa Lease Sec Srl was financed through the issue of securities. The transaction was broken down into the following tranches: three Senior classes A1, A2, A3 (amounting respectively to 374, 350 and 665 million euro) with a AAA rating; a Mezzanine class B (84 million euro) with an EIF guarantee and a AAA rating; and an unrated subordinate class C (22.4 million euro). All of the Senior and Mezzanine tranches were

offered to institutional investors and the subordinated security was fully subscribed by Intesa Leasing. In 2004, Intesa Leasing sold the C security to Crèdit Suisse First Boston (Europe) Limited. The securitisation was essentially aimed at freeing up regulatory capital at consolidated level and obtaining medium-term funding at a competitive rate, through the issue of securities with a AAA rating. The rating agencies used were S&P, Fitch and Moody's.

– **Intesa Sec 2:**

In 2002, Banca Intesa structured a securitisation on a portfolio consisting of 67,000 "performing" residential mortgages, issued predominantly in Northern Italy to private individuals, and guaranteed by first lien mortgages, for 2,026 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the special purpose vehicle IntesaBci Sec 2 S.r.l., which issued mortgage-backed securities placed with institutional investors in four tranches: class A1 of 405.5 million euro with a AAA rating; class A2 of 1,519.6 million euro with a AAA rating; class B of 40.6 with a AA rating; and class C of 61 million euro with a BBB rating. The rating agencies used were S&P, Fitch and Moody's.

– **Cr Firenze Mutui:**

At the year end Banca CR Firenze had an outstanding securitisation relating to "performing" mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle had issued securities for 521 million euro. The rating agencies used were S&P, Fitch and Moody's.

– **Intesa Sec Npl:**

This transaction, completed in 2001, involved the securitisation of doubtful loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to families and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred "without recourse" to the special purpose vehicle IntesaBci Sec NPL, for a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crèdit Agricole-Indosuez and Caboto and they subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro, both unrated) on the other hand were subscribed by IntesaBci. The rating agencies used were Fitch and Moody's.

– **Intesa Sec:**

During 2000 Banca Intesa carried out a securitisation of mortgages of the Group. The portfolio, placed in the market through the special purpose vehicle Intesa Sec, consisted of over 20,000 performing mortgages granted to private individuals. Against loans with a residual capital of around 993 billion Italian lira purchased at nominal value, the vehicle issued three tranches of rated securities for a value of 977 billion that were placed with institutional investors. The fourth unrated tranche of around 16 billion was subscribed for directly by the Group. This transaction was part of an operational strategy aimed at improving the return on capital by reinvesting the liquidity generated and using the regulatory capital made available. The rating agencies used were Fitch and Moody's.

Asset-Backed Commercial Paper (ABCP) programmes

In accordance with IAS/IFRS (SIC 12), Intesa Sanpaolo controls and fully consolidates:

– **Romulus Funding Corporation:**

a company based in the USA that purchases financial assets, represented by loans or securities, with predefined characteristics (eligibility criteria), originated by the Bank's customers, and finances the purchases by issuing Asset-Backed Commercial Paper;

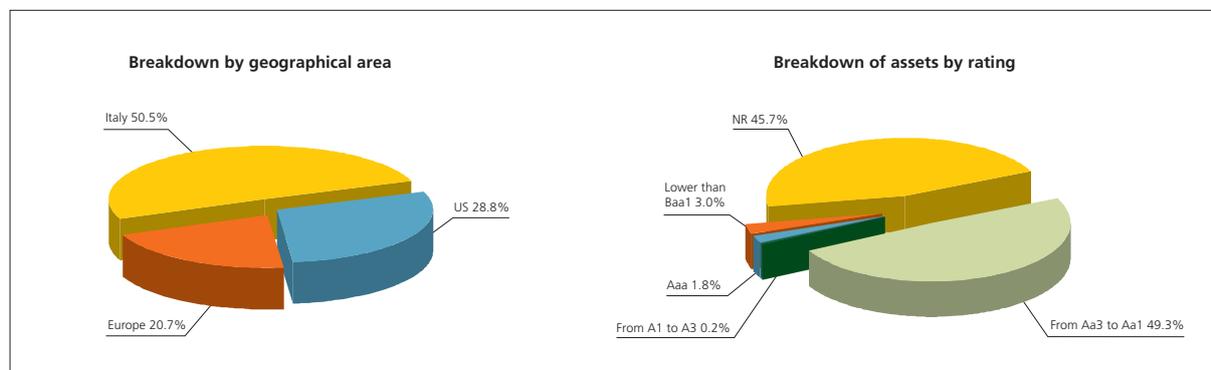
– **Duomo Funding PLC:**

an entity that operates in a similar manner to Romulus Funding, but is limited to the European market, and is financed through funding agreements with Romulus.

The total assets of the vehicle Romulus included loans to Duomo of 1,192 million euro. The vehicle's securities portfolio is classified entirely under the loans category. As at 31 December 2009, these securities had a nominal value of 174 million euro, measured at amortised cost. Their carrying amount as at the same date was 145 million euro. This vehicle's assets also contributed 1 million euro to liquidity and other assets, in addition to the 12 million euro from the positive fair value of hedging derivatives.

The total assets of Duomo were made up of 489 million euro of loans to Intesa Sanpaolo, as collateral for an intragroup protection sale on the risk of a leading insurance company, 124 million euro of loans to Intesa Sanpaolo Bank Ireland, 587 million euro of loans to customers, and 3 million euro of other assets.

The following additional information is provided concerning the portfolios held by the two vehicles:



Please note that, although part of the uses (approximately 49%) 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 decreased slightly from around 55% as at 31 December 2008 to 48% as at 31 December 2009. Despite the fact that the rating of some of the securities was downgraded, the average quality of the portfolio was maintained through the acquisition of high credit quality assets.

The securities classified in the loan portfolio under discussion were made up as follows: 24% of 2002 vintage, 14% of 2003 vintage, and the remaining 62% of 2007 vintage.

“Third party” securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, in both banking and trading books, represents a very small part of the Bank’s assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by BII.S, a division of the Intesa Sanpaolo Group, specialising in Public Finance.

With reference to the first category, the positions currently held derive from the investments made in the early part of the current decade on the basis of a typical carry-trade approach aimed at generating appreciable returns on the investment of excess capital in assets deemed to have good credit quality. These positions, represented by investments in CDOs, have in any case been significantly and continuously reduced since 2003. Conversely, the Group has never applied the Originate-to-Distribute model with reference to these products.

The second category concerns purchases of portfolios of receivables due to third parties from public authorities, primarily loans to the national health system. These portfolios are purchased by vehicles whose securities are subscribed by BII.S. For the health receivables, the completion of the securitisation is however subject to the issue of a guarantee by the competent regional authority (delegated payment), thanks to which the risk relating to the portfolio is transformed into a transaction with recourse against the regional authority, which usually has a high credit rating.

The Group also has a presence in the Italian market as an arranger, thanks to the specific expertise of the banking subsidiary Banca IMI. These operations usually only involve advisory services for the structuring of the transaction and the placement of the securities in the market. In certain circumstances, however, the originator may also request bridge financing for the vehicle, during the formation of the portfolio and/or in view of the market placement. These exposures assumed in the form of term loans are however characterised by a "recourse" against the originator, for example through the conclusion of total return swap agreements under which the performances of the portfolio and the portfolio itself revert back to the originator if the planned securitisation has not been completed by the time the loan has expired. Consequently, these transactions essentially constitute loans to individual counterparties that are, however, mitigated by the guarantee represented by the portfolio being placed.

Securitisations: methods for calculating the risk weighted exposures

Intesa Sanpaolo applies the standardised approach for the calculation of the capital requirement to cover the credit risk relating to the securitisations.

Securitisations: accounting standards

The rules for the recognition of securitisations, governed by the IAS/IFRS in the IAS 39 document (paragraphs relating to derecognition), are divided according to whether or not the underlying assets must be derecognised.

In the event of derecognition

When all the risks and benefits from the ownership are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit or loss from the sale.

If the consideration received is not made up entirely of an amount of available cash, but consists partly of financial assets, these are initially recognised at fair value. Their fair value is also used in the calculation of the profit or loss from the sale.

Should derecognition be permitted, if only a part of the cash flows that derive from a loan is sold, the carrying value of the part maintained is recognised at fair value as at the date of the sale. Any arrangement costs incurred by the originator are recorded in the income statement when incurred as they are not attributable to any financial assets appearing in the financial statements.

The assets sold are derecognised and the profit or loss from the sale, together with any receivable relating to the sale consideration, are recorded in the financial statements as at the date of the completion of the sale. More generally, the entry date for the transaction in the financial statements depends on the contractual clauses. If the cash flows from the assets sold are transferred after the execution of the agreement, for example when there are suspending clauses, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows.

In the event of no derecognition

If the requirements established by IAS 39 are not met and the securitisation does not therefore qualify for derecognition, the originator records the loan as an offsetting entry for the consideration received.

A common example is when the originator sells a loan portfolio to the special purpose vehicle, but subscribes for the junior class in full (and therefore for the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.

In this case, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained. If there is no derecognition, the loans securitised continue to be recorded in the originator's financial statements.

Subsequently, the originator must recognise any income from the asset transferred and any charges incurred on the liability recorded without offsetting any of the costs and revenues.

The loan portfolio transferred continues to be classified in the loan category that it originally formed part of and, consequently, is measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.

It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec), the Group made use of the exemption from compliance with the IAS/IFRS requirements permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recorded in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

Synthetic securitisations

Synthetic securitisations are usually recognised on the basis of the following rules.

The loans subject to synthetic securitisation continue to be recorded in the assets of the bank (protection buyer) that has retained full ownership of them. The premium paid by the bank to the protection seller for the purchase of the protection Credit Default Swap is recorded under commission expense in the income statement, where the premiums relating to the credit derivatives associated with the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market through the issue of notes, are recorded under payables in the balance sheet liabilities.

Quantitative disclosure

The tables below detail the net exposures and adjustments for the securitisations. The amounts shown in the tables represent the exposures in the financial statements, as also reported in Part E: Information on Risks and relative hedging policies, of the consolidated financial statements, and include both the positions relating to the banking book and the regulatory trading book.

Securitisations: amount of originated and third party securitisation positions

(millions of euro)

	On-balance sheet exposures						Guarantees given					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	176	176	27	27	119	116	13	13	-	-	-	-
a) Non-performing	-	-	17	17	33	33	-	-	-	-	-	-
b) Other	176	176	10	10	86	83	13	13	-	-	-	-
B. Third party underlying assets (*)	4,383	4,382	445	439	45	45	122	122	-	-	2	2
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	4,383	4,382	445	439	45	45	122	122	-	-	2	2
TOTAL 31.12.2009	4,559	4,558	472	466	164	161	135	135	-	-	2	2
TOTAL 31.12.2008	5,716	5,635	895	797	183	172	13	13	70	70	21	21

	Credit lines						Total					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure		Exposure		Exposure		Exposure		Exposure		Exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	-	-	-	-	-	-	189	189	27	27	119	116
a) Non-performing	-	-	-	-	-	-	-	17	17	33	33	
b) Other	-	-	-	-	-	-	189	189	10	10	86	83
B. Third party underlying assets (*)	1,766	1,766 (**)	-	-	-	-	6,271	6,270	445	439	47	47
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	1,766	1,766	-	-	-	-	6,271	6,270	445	439	47	47
TOTAL 31.12.2009	1,766	1,766	-	-	-	-	6,460	6,459	472	466	166	163
TOTAL 31.12.2008	-	-	774	774	-	-	5,729	5,648	1,739	1,641	204	193

(*) Including Romulus and Duomo Asset Backed Commercial Paper (ABCP) programmes as detailed in the tables relating to third party securitisations.

(**) The remaining 135 million euro of unused margins represent the difference between the total credit line granted of 1,901 million euro and the credit line used to issue securities of 1,766 million euro.

Breakdown of net exposures to securitisations by financial assets portfolio and by type

(millions of euro)

	On-balance sheet exposures (*)			Off-balance sheet exposures		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	905	62	10	-	-	-
Financial assets measured at fair value	-	-	-	-	-	-
Financial assets available for sale	87	19	45	-	-	-
Investments held to maturity	117	-	-	-	-	-
Loans (**)	3,283	379	62	1,901	-	2
Total 31.12.2009	4,392	460	117	1,901	-	2
Total 31.12.2008	5,177	723	127	13	844	2

(*) Excluding on- and off-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 216 million euro. No off-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised are recorded as at 31 December 2009.

(**) This caption includes off-balance sheet exposures referred to "Guarantees given" and "Credit lines".

Securitisations: breakdown of on-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes	10	-	21	-26	72	12
A.1 Intesa Lease Sec - performing leasing contracts	2	-	-	-	-	-
A.2 Intesa Sec 2 - performing residential mortgages	7	-	4	-	27	-
A.3 Intesa Sec - performing mortgages	-	-	-	-	7	-
A.4 Intesa Sec Npl - doubtful mortgages	-	-	17	-26	33	14
A.5 Cr Firenze Mutui - performing mortgages	1	-	-	-	5	-2
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes	166	7	6	-	44	-
C.1 Intesa Sec 3 ^(*) - performing residential mortgages	149	7	-	-	26	-
C.2 Da Vinci - loans to the aircraft sector	1	-	-	-	-	-
C.3 Split 2 - performing leasing contracts	16	-	6	-	18	-
TOTAL 31.12.2009	176	7	27	-26	116	12
TOTAL 31.12.2008	230	-11	133	-13	107	-9

(*) Derecognised for prudential purposes, not for accounting purposes.

Securitisations: breakdown of off-balance sheet exposures deriving from main originated securitisations by type of securitised asset and by type of exposure

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised for accounting and prudential purposes	13	-	-	-								
A.1 Intesa Sec - performing mortgages	13	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised for accounting and prudential purposes	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL 31.12.2009	13	-	-	-								
TOTAL 31.12.2008	13	-	-	-	19	-	-	-	-	-	-	-

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A.1 AYT Cedulas						
- Residential mortgages	263	-	-	-	-	-
A.2 Cartesio						
- Loans to the health system	101	-	-	-	-	-
A.3 Cordusio RMBS Securitisation						
- Residential mortgages	73	-	17	-	-	-
A.4 D'Annunzio						
- Loans to the health system	168	-	-	-	-	-
A.5 Duchess (*)						
- CLOs	159	42	-	-	-	-
A.6 Euterpe (**)						
- Amounts due from tax authorities	145	-	-	-	-	-
A.7 Fondo Immobili Pubblici						
- Public property	300	1	-	-	-	-
A.8 Geldilux						
- Loans	204	-	2	-	-	-
A.9 Posillipo Finance						
- Loans to the health system	188	-	-	-	-	-
A.10 Rhodium (*)						
- Structure Finance CDOs	50	-2	-	-	-	-
A.11 Soc. Cart. Crediti INPS						
- Social security benefits	279	-	-	-	-	-
A.12 SUMMER STREET 2004-1 LTD (*)						
- Structure Finance CDOs	56	-1	-	-	-	-
A.13 Stone tower						
- CLOs (*)	46	-9	-	-	-	-
- CLOs	10	-	-	-	-	-
A.14 LOCAT SECURITISATION VEHICLE						
- Loans deriving from leasing contracts	60	-	3	-	1	-
A.15 TCW GLOBAL PROJECT FUND III						
- Project Finance loans	571	-	-	-	-	-
A.16 GSC PARTNERS CDO FUND LTD						
- Corporate loans	143	-	-	-	-	-
A.17 Portfolio of investment grade ABS securities subject to unitary management	85	-	-	-	-	-
A.18 Residual portfolio divided in 412 securities	1,481	1 (***)	417	-12 (****)	44	-1
TOTAL 31.12.2009	4,382	32	439	-12	45	-1
TOTAL 31.12.2008	5,135	-340	664	-85	65	-2

(*) Position included in packages, whose credit risk is entirely hedged by a specific credit default swap (CDS). The adjustment highlighted was, therefore, practically identical to the positive fair value of the derivative. For further information on the relevant economic and risk impacts, see the paragraph on structured credit products in Part E of the Notes to the consolidated financial statements.

(**) Exposure to Euterpe (with 102 million euro included in the "residual portfolio") refers to single tranche securitisations, not classified as Exposures to securitisations for prudential supervision purposes.

(***) Of which -6 million euro related to securities included in packages.

(****) Of which -3 million euro related to securities included in packages.

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure: composition of the residual portfolio as at 31 December 2009

(millions of euro)

Residual portfolio divided by type of underlying asset	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Credit cards	3	-	-	-	-	-
Consumer credit	81	1	7	-	-	-
Car loans	37	-	4	-	2	-
WL Collateral CMO	61	-	-	-	-	-
Loans to research	37	-	-	-	-	-
Project Finance loans	22	-	-	-	-	-
Financing for SMEs	201	-	28	-	2	-
Residential mortgages	518	5	188	-3	35	-1
Loans deriving from leasing contracts	70	2	7	-	-	-
Public property	8	-	4	-	-	-
Commercial mortgages	126	-	109	-5	5	-
Other assets	28	-	-	-	-	-
Long-term mortgages to public entities and industries	87	-	-	-	-	-
Other ABS (CLO-CMO-CFO)	39	-	55	-4	-	-
CDO cash	57	-1	12	-	-	-
Financial derivatives (foreign exchange rates/interest rate/index)	106	-6	3	-	-	-
TOTAL	1.481	1	417	-12	44	-1

Securitisations: breakdown of off-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A.1 Duomo												
- Asset Backed Securities and Collateralised debt obligations	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Romulus												
- Asset Backed Securities and Collateralised debt obligations	122	-	-	-	-	-	1.766	- (*)	-	-	-	-
A.3 Other minor												
- Asset Backed Securities	-	-	-	-	2	-	-	-	-	-	-	-
Total 31.12.2009	122	-	-	-	2	-	1.766	-	-	-	-	-
Total 31.12.2008	-	-	70	-	2	-	-	-	774	-	-	-

(*) The remaining 135 million euro of unused margins represent the difference between the total credit line granted of 1,901 million euro and the credit line used to issue securities of 1,766 million euro.

Securitisations: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(millions of euro)

Risk weight bands	31.12.2009		31.12.2008	
	Originated securitisations	Third-party securitisations	Originated securitisations	Third-party securitisations
Risk weight 20%	15	536	193	515
Risk weight 35% (*)	110	-	165	-
Risk weight 50%	-	342	-	433
Risk weight 100%	11	243	1	564
Risk weight 150% (*)	115	-	168	-
Risk weight 350%	-	254	-	133
Risk weight 1250% - with rating	-	480	85	-
Risk weight 1250% - without rating	341	274	522	120
Look-through - second loss in ABCP	-	-	-	-
Look-through - other	-	-	-	-
Deducted from regulatory capital	-	-	-	-
Total	592	2,129	1,134	1,765

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

The table above details the exposures to securitisations by weight band. The amounts shown relate solely to the exposures included in the banking book and, therefore, do not include the exposures to securitisations included in the regulatory trading book.

Securitisations carried out during the period

In 2009, the Group did not carry out any new securitisations.

Table 11 – Market risks: disclosures for banks using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk

Qualitative disclosure

The activities for the quantification of trading risks are based on daily and period estimates of sensitivity of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

	Risk factors
Interest rates	Spreads in credit default swaps (CDS)
Equity and market indexes	Spreads in bond issues
Investment funds	Correlation instruments
Foreign exchange rates	Dividend derivatives
Implied volatilities	Asset Backed Securities (ABS)
	Commodities

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 5% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios are interest rates and foreign exchange rates, both relating to linear pay-offs.

Internal Model validation

For some of the abovementioned risk factors, the Supervisory authority validated the internal models for the regulatory measurement of capital absorption of both Intesa Sanpaolo (internal model extended during 2007 to the books of the former Sanpaolo IMI Finance Department) and Banca IMI (the internal model, previously validated for the former Banca Caboto component, was extended, in the first quarter of 2008, to the former Banca IMI portfolios). 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 UCITS solely with reference to the quotas in CPPI (Constant Proportion Portfolio Insurance) for Banca IMI, and iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo. From the third quarter of 2009 the scope of the validated risk profiles was extended to dividend derivatives for Intesa Sanpaolo and Banca IMI.

Breakdown of capital requirements by Calculation method

Information	Approach		
	Standardised approach	Internal models	Concentration risk
(millions of euro)			
Assets included in the regulatory trading book	1,093	96	57
Position risk	1,093	96	-
Settlement risk for DVP transactions (Delivery Versus Payment)	-	-	-
Concentration risk	-	-	57
Other assets	98	-	-
Foreign exchange risk	70	-	-
Commodity risk	28	-	-
Total capital requirement for market risk as at 31.12.2009	1,191	96	57
Total capital requirement for market risk as at 31.12.2008	1,243	198	3

VaR

The analysis of market risk profiles relative to the trading book uses various quantitative indicators, VaR being the most important one. 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 and 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.

Incremental Risk Charge (IRC)

The Incremental Risk Charge (IRC) is the maximum potential loss in the credit trading portfolio resulting from an upgrade/downgrade or bankruptcy of the issuers, over a 1-year period, with a 99.9% confidence level. This measure is additional to VaR and enables the correct representation of the specific risk on debt securities and credit derivatives because, in addition to idiosyncratic risk, it also captures event and default risk.

Stress tests

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests are applied weekly to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

Sensitivity and greeks

Sensitivity measures make risk profiling more accurate, especially in the presence of option components. These measure the risk attributable to a change in the value of a financial position to predefined changes in valuation parameters such as a one basis point increase in interest rates.

Level measures

Level measures are risk indicators which are based on the assumption of a direct relationship between the size of a financial position and the risk profile. These are used to monitor issuer/sector/country risk exposures for concentration analysis, through the identification of notional value, market value or conversion of the position in one or more benchmark instruments (so-called equivalent position).

Daily VaR evolution

During the fourth quarter of 2009 market risks originated by Intesa Sanpaolo and Banca IMI decreased compared to the previous periods. The average daily VaR for the fourth quarter of 2009 was

31.9 million euro, down 12% on the third quarter.

With regard to the whole of 2009, the average risk profile (40.6 million euro) decreased compared to the average values in 2008 (47.8 million euro).

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between the 4th and 3rd quarter of 2009^(a)

	(millions of euro)					
	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	21.8	18.8	26.2	25.8	27.9	32.3
Banca IMI	10.1	7.2	12.7	10.6	15.7	18.0
Total	31.9	27.1	38.1	36.4	43.6	50.3

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

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison 2009-2008^(a)

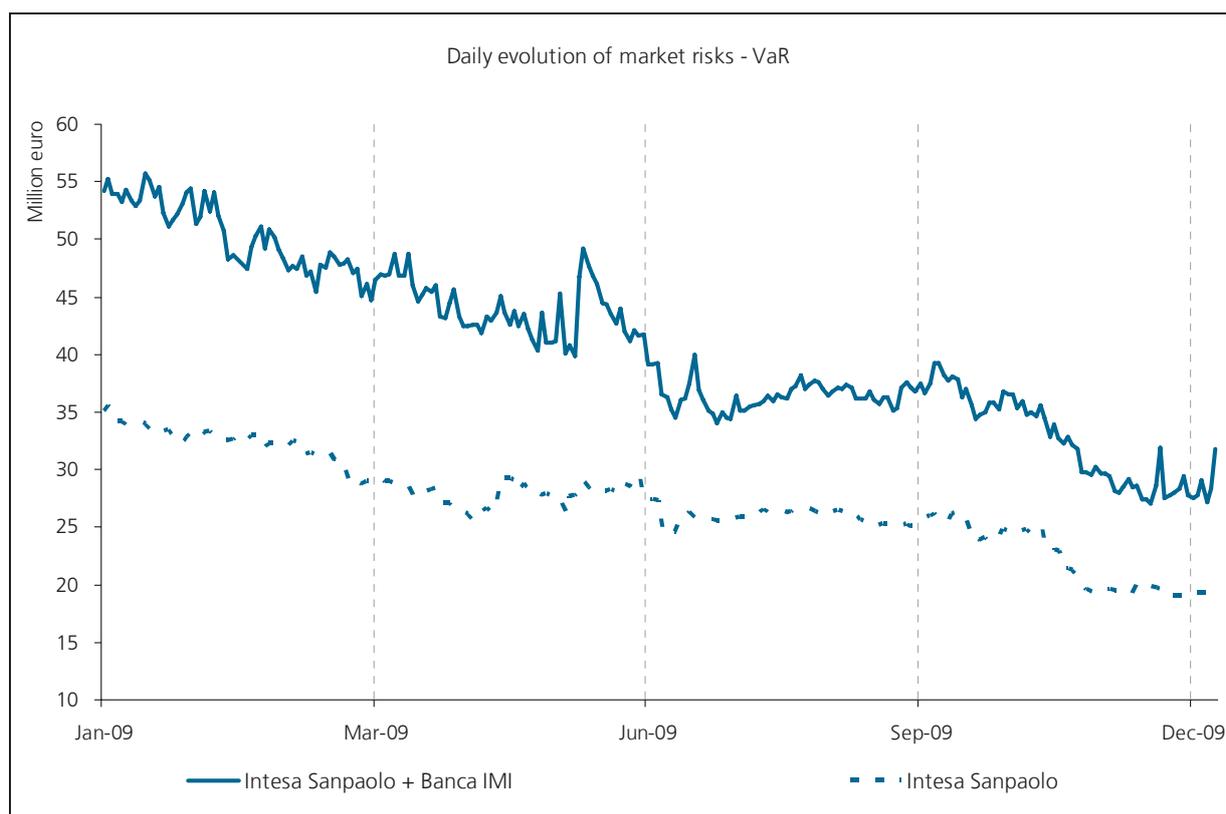
	2009				2008		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	26.9	18.8	35.6	19.2	35.2	25.7	46.8
Banca IMI	13.7	7.2	21.7	12.6	12.5	6.4	21.2
Total	40.6	27.1	55.6	31.8	47.8	33.1	67.4

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

Both Intesa Sanpaolo and Banca IMI saw a drop in VaR, primarily from operations (a decrease in certain exposures and greater hedge effectiveness) and a different impact on volatilities on historic simulation scenarios.

Please also note that in October 2008 and during 2009, a reclassification to LR (Loans & Receivables) was performed, as permitted by IAS, on certain highly illiquid securities (mainly ABS) and positions resulting from restructuring of unfunded structures.

The average VaR in the fourth quarter of 2009 for this portfolio, not included in the VaR limit monitoring and the above statistics, was approximately 9.2 million euro.



For Intesa Sanpaolo and Banca IMI, the breakdown of the risk profile in the fourth quarter of 2009 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 67% of total VaR. Interest rate risk was the most significant component for Banca IMI, representing 37% of the total.

Contribution of risk factors to overall VaR ^(a)

4th quarter 2009	Shares	Hedge fund	Rates	Credit spread	Foreign exchange rates	Other parameters
Intesa Sanpaolo	10%	67%	6%	4%	1%	12%
Banca IMI	18%	0%	37%	18%	5%	22%
Total	13%	40%	18%	10%	3%	16%

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

With regard to the hedge fund portfolio, the table below shows the exposures broken down by type of strategy adopted.

Contribution of strategies to portfolio breakdown ^(a)

	31.12.2009	31.12.2008
- Catalyst Driven	1%	2%
- Credit	72%	44%
- Directional trading	4%	6%
- Equity hedged	9%	22%
- Fixed Income Arbitrage	12%	16%
- Multi-strategy	1%	5%
- Volatility	1%	5%
Total hedge funds	100%	100%

^(a) The table sets out on every line the percentage of total cash exposures calculated on amounts at period-end.

In order to optimise the risk/return profile, a new asset allocation was adopted in 2009, which led to the abandonment of certain strategies with greater links to the markets and the increase in strategies linked to distressed credit.

Risk control with regard to the trading activities of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December are summarised in the following table.

(millions of euro)

	Equity		Interest rates		Credit spreads		Foreign Exchange rates		Commodity	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%	-50%	+50%
Total	0	0	14	-13	21	-22	2	1	5	-2
of which SCP					6	-6				

In particular:

- on stock market positions both scenarios have insignificant impacts;
- on interest rates exposures, a parallel +25 basis point shift in the yield curve would have led to a 13 million euro loss, whereas a parallel -25 basis point shift would have led to a 14 million euro gain;
- on exposures sensitive to credit spreads fluctuations, a 25 basis point widening in spreads would have led to a 22 million euro loss, of which 6 million euro attributable to structured credit products;
- with reference to exposures on foreign exchange markets, the portfolio’s position was essentially protected from both devaluation and revaluation of the euro;
- lastly, on commodity exposures a 2 million euro loss would have been recorded had there been a 50% increase in prices.

Backtesting

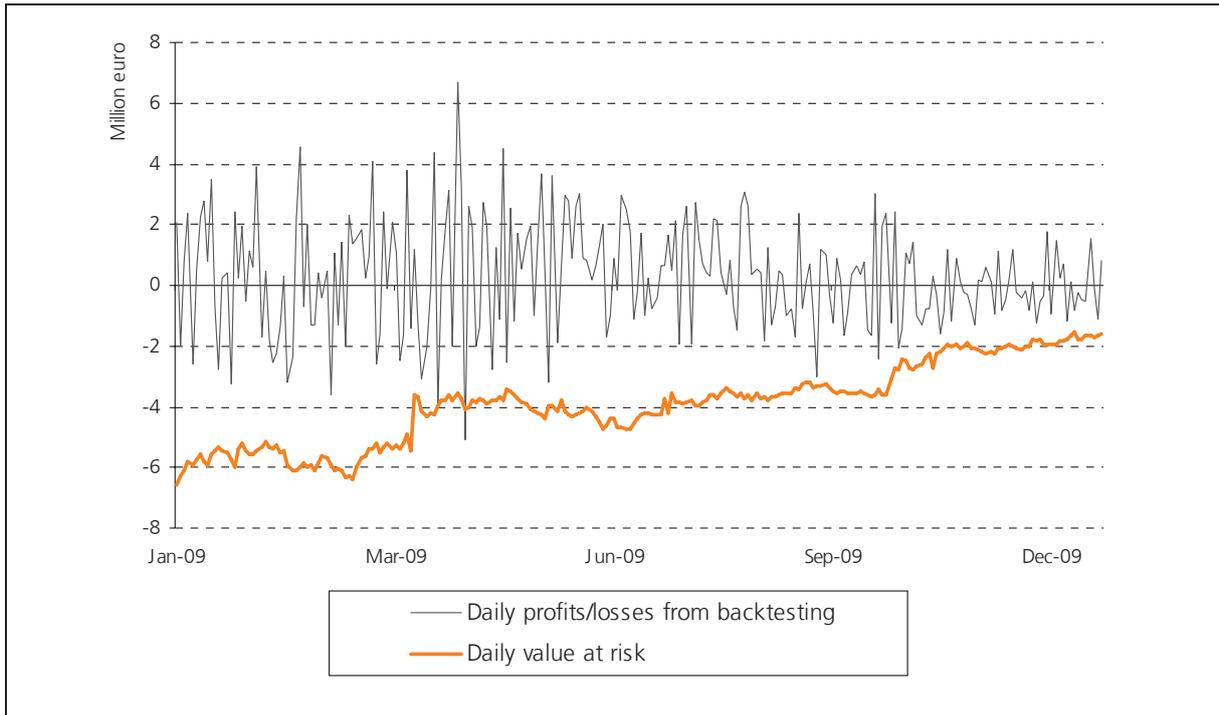
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

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

Backtesting allows verification of the model’s capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on back-testing highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate.

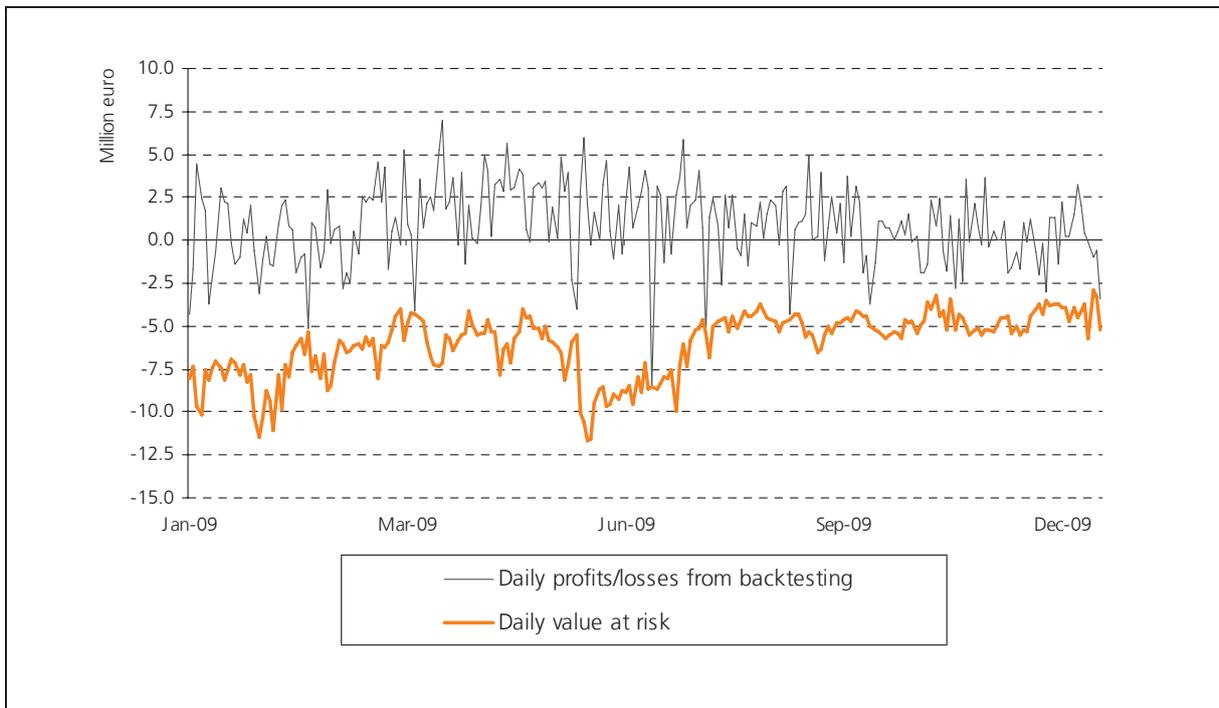
Backtesting in Intesa Sanpaolo

Intesa Sanpaolo’s regulatory backtesting, shown in the following graph, found two cases where the daily losses from backtesting were higher than the VaR estimate. These excesses, which occurred in April 2009, were due to the volatility of the spreads in credit default swaps.



Backtesting in Banca IMI

Banca IMI's regulatory backtesting, shown in the following graph, did not reveal any critical situations.



Issuer risk

Issuer risk in the trading portfolio is analysed in terms of mark to market, with exposures aggregated by rating class, and it is monitored through a system of operating limits based on both rating classes and concentration indices.

Breakdown of exposures by type of issuer/rating class for Intesa Sanpaolo and Banca IMI ^{(a) (b)}

	Total	of which				
		Corporate	Financial	Emerging	Covered	Securitis.
Intesa Sanpaolo	44%	-36%	84%	15%	34%	3%
Banca IMI	56%	-14%	67%	-3%	12%	38%
Total	100%	-24%	74%	5%	22%	23%

(a) The table sets out in the Total column the contribution of Intesa Sanpaolo and Banca IMI to issuer risk exposures. The other columns indicate percentage breakdown by type of issuer.

(b) Period-end percentage on area total, excluding Government bonds, own bonds and including cds.

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities of the financial segment.

Operating limits

The structure of limits reflects the risk level deemed to be acceptable with reference to single business areas, consistent with operating and strategic guidelines defined by top management. The attribution and control of limits at the various hierarchical levels implies the assignment of delegated powers to the heads of business areas, aimed at achieving the best trade-off between a controlled risk environment and the need for operating flexibility. The functioning of the system of limits and delegated powers is underpinned by the basic concepts of hierarchy and interaction described below.

The application of such principles led to the definition of a structure of limits in which the distinction between first level and second level limits is particularly important:

- first level limits: are approved by the Management Board, after the opinion of the Group Financial Risks Committee. Limit variations are proposed by the Risk Management Department, after the opinion of the Heads of Operating Departments. Limit absorption trends and the relative congruity analysis are periodically assessed by the Group Financial Risks Committee.
- second level limits: have the objective of controlling operations of the various desks on the basis of differentiated measures based on the specific characteristics of traded instruments and operating strategies, such as sensitivity, greeks and equivalent exposures.

In the fourth quarter of 2009, the Management Board resolved a new VaR limit for the Group of 63 million euro, a decrease compared to the previous 75 million euro.

In a very turbulent financial environment, which reached its peak with the Lehman Brothers bankruptcy, the increase in the VaR limit resolved in 2008 achieved the primary goal of ensuring the continued efficiency of operations and the business without generating the need for forced sales resulting from automatic compliance with the set limits.

In view of the change in the economic situation, in 2009 the Group decided to reset its limits, with a reduction in the VaR limit for trading as mentioned above.

A new overall VaR limit for the Group of 40 million euro was also introduced for assets classed as AFS.

The introduction of this new limit is aimed at monitoring the volatility of shareholders' equity and will therefore lead to the adoption of risk based views for the size and quality of this portfolio for Group companies.

The use of VaR limits in Intesa Sanpaolo (held for trading component), in the component sub-allocated to the organisational units, averaged 62% in 2009, with a maximum use of 79%. In Banca IMI, VaR operating limits averaged 62%, with a maximum use of 98%.

In the light of these new limits, the use of VaR operating limits on the AFS component at year end was 58%.

At the end of 2009, the Group Financial Risks Committee also introduced limits for the Incremental Risk Charge, set at 220 million euro for Intesa Sanpaolo and 150 million euro for Banca IMI. The use of the IRC limits at year end amounted to 17% for Intesa Sanpaolo and 10% for Banca IMI.

Description of the level of conformity with the rules governing the systems and controls aimed at ensuring prudent and reliable valuations of the positions included in the regulatory trading book

The Fair Value Policy

The Intesa Sanpaolo Group's Fair Value Policy governs the measurement of financial instruments after initial recognition with reference to the Group's portfolios measured at Fair Value.

The Fair Value Policy, in all of its constituent documents, is governed and formalised by the Risk Management Department, is integrated into the risk measurement and management processes and is used for the preparation of the financial statement documents. The related accounting policies are detailed below. A summary is also provided below of the various stages of the process of measurement of financial instruments together with details of the valuation models used to measure the financial instruments.

Accounting policies: Fair value measurement methods (Fair value hierarchy)

Fair value is the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing counterparties in an arm's length transaction. Underlying the definition of fair value is an assumption that an entity is a going concern without any need to liquidate or curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value reflects the credit quality of the instrument since it incorporates counterparty risk.

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 quote on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price 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 presumed 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 valuation of assets and liabilities or for similar assets and liabilities measured using valuation techniques based on market-observable parameters other than financial instruments quotes (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 discretionary 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 into the categories described above, are not considered quoted on an active market.

For financial instruments quoted on active markets the current bid price is used for financial assets and the current asking price for financial liabilities, struck on the most advantageous active market at the close of the reference period.

For financial instruments for which the bid-ask spread is scarcely significant or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.

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 discretionary parameters – parameters for which values may not be inferred from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation.

A detailed description of the fair value measurement methods used under the “comparable approach” for bonds without official quotes on an active market, for derivative contracts not traded on regulated markets and for structured credit products, such as ABS, can be found in the section on “valuation models used for measurement of the financial instruments”.

Derivatives for which fair value is determined using the comparable approach also include equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, or using the so-called “relative” valuation models based on multipliers. Multipliers are used under the comparable companies’ or comparable transactions’ approach. In the former case, reference is made to a sample of comparable listed companies, hence the stock prices from which the multiples to measure the investment are deducted. In the latter case, reference is made to the trading prices of the market related to comparable companies registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions.

Lastly, loans also fall under the financial instruments whose fair value is determined using the comparable approach. In particular, for medium- and long-term assets and liabilities measurement is carried out by discounting future cash flows. This is based on the discount rate adjustment approach in which the risk factors connected to the granting of loans are taken into consideration in the rate used to discount future cash flows.

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.

A detailed description of the fair value measurement methods used under the “Mark-to-Model Approach” for debt securities, for complex credit derivatives (funded and unfunded CDOs) and for hedge funds can be found in the section on “valuation models used to measure the financial instruments”.

For the credit derivatives on index tranches, the off-the-run series are measured at Level 3 when reliable and confirmable quotes are not available from the Risk Management Department. The fair value is calculated on the basis of the quotes for the on-the-run series adjusted to take into account the different underlyings.

Equities to which the "relative" models indicated with respect to Level 2 are not applied are valued using "absolute" valuation models. In particular, these models are based on flows which substantially anticipate the carrying amount of the security by estimating the cash flows it can generate over time, discounted using a rate that is in line with the risk level of the instrument, balance sheet models or balance sheet-income statement mixed models.

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.

Certification and monitoring of the market parameters and the model risk

As part of its overall monitoring of the controls on the individual transactions dealt with by the IT Systems Department (IT modules) and the Operating Systems Department (back office controls), the Risk Management Department monitors and certifies the models used for the valuation processes and the market parameters identified to feed them. If the valuation systems are found to be incapable of providing reliable valuations, the Risk Management Department values the financial instrument directly using specially developed internal instruments.

These activities are broken down into various stages, which are described briefly below.

Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end the Market Data Reference Guide – a document prepared and updated by the Risk Management Department on the basis of the Group's Internal Regulations approved by the Management bodies of the Parent company and Group Companies – establishes the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. This market data may be both elementary and derived data. In detail, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the assessment of financial instruments. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of the definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price. The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Risk Management Department (RMD), in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Risk Management Model

In general, the Risk Model is represented by the possibility that the price of a financial instrument is materially influenced by the valuation approach chosen. In the case of complex financial instruments, for which there is no standard valuation method in the market, or during periods when new valuation methods are being established in the market, it is possible that different methods may consistently value the elementary instruments of reference, but provide differing valuations for exotic instruments. The risk model is monitored through a diverse series of analyses and checks carried out at various stages, aimed at certifying the various pricing methods used by the Bank ("Model Validation"), at regularly monitoring the performance of the models in operation to promptly identify any deviation from the market ("Risk Model Monitoring") and at identifying any adjustments to be made to the valuations ("Risk Model Adjustment", see the section below "Adjustments adopted to reflect the risk model and other uncertainties related to the valuation").

Model Validation

In general, all the pricing models used by the Bank must undergo an internal certification process by the various structures involved. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation)¹. The internal certification process is activated when a new financial instrument starts to be used that requires an adjustment to the existing pricing methods or the development of new methods, or when the existing methods need to be adjusted for the valuation of existing contracts. The validation of the methods involves a series of operational steps, which are adopted where necessary, including the:

- i) contextualisation of the problem within the current market practice and the relevant available literature;
- ii) analysis of the financial aspects and the types of significant payoff;
- iii) formalisation and independent derivation of the mathematical aspects;
- iv) analysis of the numerical/implementation aspects and tests through the replication, where necessary, of the pricing libraries of the Front Office systems through an independent prototype;
- v) analysis of the relevant market data, verifying the presence, liquidity and frequency of update of the contributions;
- vi) analysis of the calibration methods, in other words the model's ability to optimise its internal parameters (or meta-data) to best replicate the information provided by the quoted instruments;
- vii) stress tests of the parameters of the model that are not observable in the market and analysis of the impact on the valuation of the complex instruments;
- viii) market tests comparing, where possible, the prices obtained from the model with the quotes available from the counterparties.

If no problems are identified by the above analysis, the Risk Management Department validates the method, which becomes part of the Group Fair Value Policy and can be used for the official valuations. If the analysis identifies a significant "Risk Model", in other words within the limits of the approach's ability to manage the related contracts correctly, the Risk Management Department selects a supplementary approach to determine the appropriate adjustments to be made to the mark to market, and validates the supplemented approach.

Risk Model Monitoring

The performance of the models in operation is monitored continuously to promptly identify any deviations from the market and implement the necessary assessments and measures. This monitoring is performed in various ways, including:

- repricing of quoted elementary instruments: this involves verifying the model's ability to reduce the market prices of all the quoted instruments considered to be relevant and sufficiently liquid. For interest rate derivatives, an automatic repricing system for elementary financial instruments is used in the Bank's Front Office systems, which enables the systematic verification of any deviations between the model and the market. Where significant deviations are found, especially outside the market bid-ask quotes, the impact on the respective trading portfolios is analysed and any adjustments to be made to the corresponding valuations are quantified;
- comparison with benchmarks: the monitoring method described above is further enhanced by the extensive use of data supplied by qualified external providers (e.g. Markit), which provide consensus valuations from leading market counterparties for interest rate instruments (cap/floor, European and Bermuda swaptions, CMS, CMS spread options), equities (options on indices and on single stocks) and credit (CDS). Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. If there are significant differences between the model and the benchmark, their impact is analysed and, as in the case above, any mark-to-market adjustments are quantified. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored;
- comparison with market prices: verification against prices provided by counterparties, amounts actually realised in the case of unwinding, sales and new similar or comparable transactions.

¹ For example, Intesa Sanpaolo used a similar validation for CDO exposures.

Adjustments adopted to reflect the risk model and other uncertainties related to the valuation

If problems are found by the initial Model Validation process or the Risk Model Monitoring process in the calculation of the Fair Value of particular financial instruments, the appropriate Mark-to-Market Adjustments to be made to the valuations are identified. These adjustments are regularly reviewed, also in the light of market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to significant changes in selected models and their implementation.

In addition to the adjustments relating to the abovementioned factors, the Mark-to-Market Adjustment Policy also provides for other types of adjustments relating to other factors capable of influencing the valuation. These factors essentially involve:

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

For illiquid products an adjustment is made to the fair value. This adjustment is generally not very relevant for instruments for which the valuation is supplied directly by the market. Specifically, highly liquid quoted securities are valued directly at mid price, whereas for quoted securities with low liquidity and unquoted securities the bid price is used for long positions and the ask price for short positions.

Conversely, for derivatives for which fair value is determined with a valuation technique, the adjustment may be calculated with different means according to the availability on the market of bid and ask quotes and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model. The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, illustrated above) and for which the respective adjustments have been calculated, are represented by: correlation of CMS spread options, certain inflation rates, Rendistato as well as volatility of Caps/Floors on 1-month and 12-month Euribor.

The management of the Mark-to-Market Adjustment process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above. The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department. Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements which must necessarily derive from management assessments.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken by the New Product Committee on the proposal of the Risk Management Department.

Information on valuation models which are concretely used for measurement of financial instruments

The sections below provide a summary of the information, by type of financial instrument (securities, derivatives, structured products), on the valuation models used to measure the various instruments referred to above (see the section “Accounting policies: Fair value measurement methods - Fair value hierarchy”).

I. Pricing model for non-contributed securities

Pricing of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test (in application of the comparable approach): given a non-contributed security, the level of the credit spread is estimated starting from contributed and liquid financial instruments with similar characteristics. The hierarchy of sources which are used to estimate the level of the credit spread are the following:

1. contributed and liquid securities (benchmark) of the same issuer;
2. Credit Default Swaps on the same reference entity;
3. contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security is considered to be priced relatively to the issuer’s debt structure.

Also, for bonds that are not quoted on active markets, an extra spread, based on their rating, sector and maturity, is added to the “fair” credit spread component, to take account of the higher premium demanded by the market compared to similar quoted securities.

If there is an option embedded in the security a further adjustment is made to the spread by adding a component designed to capture the hedging costs of the structure and the illiquidity of the underlyings. This component is calculated on the basis of the type of option and its maturity.

II. Pricing model for interest rate, foreign exchange, equity and inflation derivatives

Interest rate, foreign exchange, equity and inflation derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are valued through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above. In terms of fair value hierarchy, prices determined in this way fall within the Comparable Approach category.

The table below illustrates the main models used to price OTC derivatives on the basis of the category of underlying asset.

Category of Underlying Asset	Pricing Model Used	Main Models Input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White at 1 and 2 factors, Mixture of Hull-White at 1 and 2 factors, Bivariate lognormal, Rendistato	Interest rate curves (considering: deposits, FRA, Futures, OIS and swap), cap/floor and swaption volatility, correlation between interest rates
Foreign exchange rate	Garman-Kohlhagen, Lognormal with Uncertain Volatility	Interest rate curves, spot and forward FX, FX volatility
Equity	Net present Value, Black-Scholes Generalised, Heston	Underlying asset spot rate, interest rate curves, expected dividends, underlying asset volatility, correlation between underlying assets
Inflation	Bifactorial	Nominal interest rate curves, inflation rate curves, interest rate volatility, inflation rate volatility, seasonality ratios of consumer price index

Moreover, the determination of fair value must consider not only market factors and the nature of the contract (maturity, type of contract, etc.), but also the credit quality of the counterparty. In particular:

- mark-to-market, namely the pricing using risk free (particularly interest rate curve) market data;
- fair value, which considers counterparty credit risk and future exposures of the contract.

The difference between fair value and mark-to-market – Credit Risk Adjustment (CRA) – is the discounted value of the expected future loss, considering that the future exposure has a volatility related to that of the markets. The application of this methodology occurs as follows:

- in the case of positive net current exposure, the CRA is calculated starting from the latter, from market spreads and in function of the average residual life of the contract;
- in the case of net present exposure close to zero or negative, CRA is determined assuming that the future exposure may be estimated through Basel 2 add-on factors.

III. Pricing model for structured credit products

Regarding ABS, if significant prices are not available from consensus platforms/info providers (level 1, effective market quotes), valuation techniques are used that take into account parameters that can be gathered from an active market (Level 2, comparable approach).

In this case, the cash flows are obtained from info providers, whereas the spreads are gathered from new issues, from consensus platforms and from market research produced by major investment banks, verifying the consistency and coherence of these valuations with the prices gathered from the market (Level 1).

Lastly, the valuation based on quantitative models and parameters is accompanied by a qualitative analysis aimed at highlighting structural aspects that are (or not fully) encompassed by the analyses described above, relating the actual future ability to pay the expected cash flows and analyses of relative value with respect to other similar structures.

With reference to complex credit derivatives (CDO), in view of the market dislocations between the financial and credit markets, Intesa Sanpaolo has paid particular attention to pricing methodologies, and prepared a new Fair Value Policy that has been applied since the 2007 financial statements. No material changes were made to the Policy, although the ongoing improvement of input treatment continued, in order to ensure consistent adherence to the market figures. At the same time the Waterfall assessment was refined. The Fair Value Policy also sets out specific procedures on the inputs necessary for valuations.

Regarding CDO pricing, Intesa Sanpaolo uses a quantitative model that estimates joint losses on collateral with a simulation of the relevant cash flows which uses copula functions.

The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collaterals present in the structure and the expected residual life of the contract.

For spreads, the valuation process incorporates, as promptly as possible, all the market inputs (including synthetic indices such as LCDX, Levx and CMBX) considered to be significant: consensus parameters calculated by multi-contribution platforms and market spread estimates made available by major dealers are used.

The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.

For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections has been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (75% for underlying REITS);
- stress of asset value correlation: inter and intra correlations have been increased by 15% or 25% depending on the type of product;
- stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 10%;
- stress of expected residual lives that have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

The valuation framework used for the CDO Cash Flows also manages the Waterfall effects. The latter entails the correct definition of the payment priorities according to the seniority of the various tranches and the contractual clauses. In general, these provide for the diversion of the capital and interest payments from the lower tranches of the Capital Structure to the higher tranches, upon the occurrence of Trigger Events, such as the failure of the Over-collateralisation and Interest Coverage tests.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weak points which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a

number of downgrades, so as to proceed to a consistent adjustment in the valuation. Finally, for this class of products, Top Management has the possibility to decide a further adjustment which must be based on prices observed from counterparties and on expert opinions.

IV. Pricing model for hedge funds

The main parameter used for the valuation of hedge funds is the NAV (Net Asset Value), which however may be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of certain indicators, circumstances or events, including the following in particular:

- the emergence of management irregularities and consequent controlled liquidation of the fund;
- the suspension of the issue of the NAV;
- the occurrence of delays or suspensions in redemptions;
- the existence of illiquid positions in the fund;
- the establishment of side-pockets.

The deepening of the crisis in 2008 and its significant impacts on banks, prompted a review of the fair value policy to fully incorporate the changes in the operating environment and the risks associated with hedge funds in particular following the Lehman collapse. This policy was introduced during 2009 after a backtesting stage that endorsed the choices made before and around the time of the preparation of the 2008 financial statements.

The adjustments resulting from this review particularly involved the funds affected by the problems listed above, whose operating NAVs have been prudentially adjusted on the basis of the detailed valuation process, aimed at assessing specific idiosyncratic risks identified mainly as counterparty risk and illiquidity risk.

The first risk driver relates to the risk that the assets of the fund are exposed to when a single service provider is entrusted with prime brokerage or custody activities, which is a potential source of concern in the case of default. The resulting prudential adjustment to the operational NAV differs according to whether this activity is concentrated in a single name or is diversified across several service providers.

Illiquidity driver relate to the risk intrinsic to the pricing of the fund assets due to the availability of prices or certain weaknesses in the pricing policies used by the fund.

Fair value hierarchy resulted, for a part of the portfolio positions, in the transition from valuations performed on the basis of “Effective market quotes” to valuations performed using the “Mark-to-Model Approach”.

Table 12 – Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

The Group uses the internal model based on the Advanced Measurement Approach (AMA) to calculate the capital requirements for operational risk for an initial scope of companies including the banks and companies of the Banca dei Territori Division (except for the former Gruppo CR Firenze, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently use the Standardised approach, will gradually migrate to the Advanced approach beginning in 2010. A residual number of companies use the Basic Indicator Approach (BIA).

The table below shows the capital requirements, calculated using the three different Approaches.

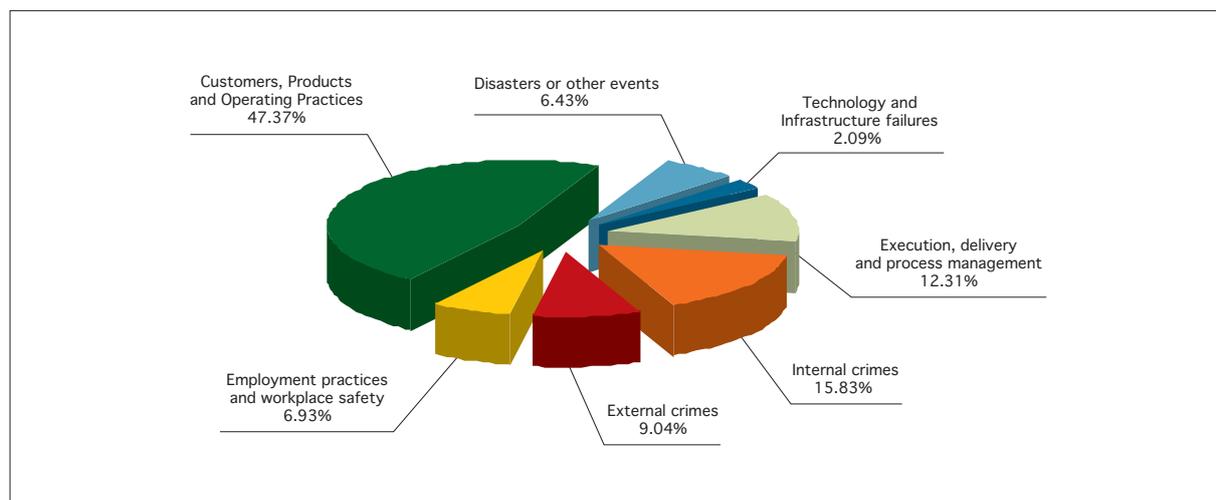
Breakdown of capital requirements by Calculation approach

(millions of euro)

Approach	Capital requirement
Advanced Measurement Approach (AMA)	1,346
Traditional Standardised Approach (TSA)	794
Corporate Finance	60
Trading & Sales	30
Retail Banking	194
Commercial Banking	404
Payment & Settlement	14
Agency Services	17
Asset Management	72
Retail Brokerage	3
Basic Indicator Approach (BIA)	109
Total as at 31.12.2009	2,249
Total as at 31.12.2008	2,327

The following shows the breakdown of capital requirement by type of operational event.

Breakdown of Capital Requirement by type of operational event



The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative 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 (from the Operational Riskdata eXchange Association).

The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent company’s business areas and the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events.

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst 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 holding period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analysis of the risk level of the evaluation of the business environment and internal control factors, to take account of the effectiveness of internal controls in the various organisational units.

The Group has activated a traditional operational risk transfer policy (BBB, D&O, capital policies), which contributes to mitigating exposure to operational risk, although it does not have an impact in terms of capital requirements as the insurance mitigation component of the internal model has not yet been submitted for regulatory approval.

Table 13 – Equity exposures: disclosures for banking book positions

Qualitative disclosure

Equity exposures included in the banking book: differentiation between exposures according to the objectives pursued

The investments in equities present in the Banking Group have a variety of functions:

- strategic - companies subject to significant influence and joint ventures with industry partners;
- instrumental to the Bank's business and the development of commercial operations;
- institutional - investments in trade associations, consortium companies, and local bodies and institutions;
- financial investment: especially private equity investments.

Recognition and valuation of the equity instruments included in the banking book

The equity exposures included in the banking book are classified under the balance sheet items Investments and Assets available for sale. They are not, however, included in the Financial assets designated at fair value through profit and loss, because the Intesa Sanpaolo Group usually classifies investments in relation to insurance policies in this category (not included in the scope of this disclosure, see Table 2) and certain debt securities with embedded derivatives or debt securities subject to financial hedging.

Financial assets available for sale – accounting policies

1. Classification criteria

This category includes equities that are not classified as Financial assets held for trading, Financial assets designated at fair value through profit and loss or Investments. Specifically, this item includes equity investments that are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds.

2. Recognition criteria

Financial assets are initially recognised at settlement date and are recorded at fair value, including transaction costs and revenues directly attributable to the instrument. For a description of the valuation techniques used to calculate fair value, see the discussion of this subject in Table 11 of this document.

3. Measurement criteria

After initial recognition, the Financial assets available for sale are measured at fair value, the gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used that consider all the risk factors correlated to the instruments and are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, recent comparable transactions, etc..

The equities included in this category for which the fair value cannot be reliably determined are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.

If such evidence exists, the loss is measured by means of specific valuation methods (see item 5 below).

If the reasons for impairment are no longer valid following an event subsequent to the registration of impairment, recoveries are posted through shareholders' equity.

4. Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.

When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.

Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay those cash flows, and only those cash flows, to third parties.

5. Impairment tests for financial assets available for sale

The impairment of financial assets available for sale and other financial assets is described in Table 5 under the item "Description of the methods adopted to calculate the adjustments".

Equity investments – accounting policies

1. Classification criteria

This caption includes investments in companies subject to joint control (other than the entities conducting banking or insurance business, which are consolidated in this document according to the proportional consolidation method – see Table 2) and associates.

Companies are considered as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by Intesa Sanpaolo, directly or indirectly, and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.

Companies are considered associates, that is subject to significant influence, when the Parent company, directly or indirectly, holds at least 20% of voting rights or if the Parent company – with a lower equity stake – has the power of participating in the determination of the financial and management policies of the company based on specific juridical relations, such as the participation in voting syndicates.

Certain companies in which Intesa Sanpaolo holds a direct or indirect stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the protection of its economic interests.

The caption also includes the equity stake in Bank of Italy.

2. Recognition criteria

Initial recognition occurs at settlement date, after which the investments are recorded at cost, including transaction costs and revenues directly attributable to the instrument.

3. Measurement criteria

The investments are valued by consolidation at equity. Intesa Sanpaolo has also opted to use this consolidation method for companies subject to joint control instead of proportional consolidation, as permitted by IAS 31.

The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the company's shareholders' equity.

Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company.

The valuation of the portion of shareholders' equity does not consider any potential voting rights.

The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.

If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows which may be generated by the investment, including the final disposal value.

If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.

If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.

The financial statements as at 31 December 2009 have been used for consolidation of companies subject to joint control.

The most recent approved (annual or interim) figures have been used for consolidation of investments in associates. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.

The investment in the Bank of Italy and certain investments in marginal companies i) in liquidation and/or terminating activities and ii) at the start-up phase with no balance sheet are maintained at cost.

4. Derecognition criteria

Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

5. Impairment tests of equity investments

At each balance sheet date the equity investments in associates or companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.

The detection of any impairment involves the verification of the presence of indicators of possible impairment and the determination of any write-down. The impairment indicators are essentially divided into two categories: qualitative indicators, such as the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of insolvency proceedings or restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company; and quantitative indicators consisting of a reduction in the fair value below the carrying amount of over 30% or a market capitalisation lower than the company's net book value for more than 24 months, for securities quoted on active markets, or a book value of the equity investment in the separate financial statements greater than the book value of the asset in the consolidated financial statements net of the goodwill of the company or the distribution by the company of a dividend greater than its total income.

The presence of impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.

The recoverable amount consists of the higher of the fair value net of sales costs and the value in use.

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

Value in use is the present value of expected future cash flows from the asset; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in the amount and/or timing of cash flows, the time value of money, the price able to repay the risk of the asset and other factors, which may affect the appreciation by market participants of expected future cash flows from the asset.

Value in use is determined by discounting future cash flows.

Quantitative disclosure

The tables below show the breakdown of the Equity exposures according to their book classification. The figures represent the exposures shown in the financial statements.

Banking book: on-balance sheet equity exposures ^(*)

Exposure type/values	31.12.2009									
	Book value		Fair value		Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet		
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)	
A. Investments in associates and companies subject to joint control	191	2,868	142	X	142	643	-82	X	X	
B. Financial assets available for sale (AFS)	848	1,938	848	1,938	848	159	-149	339	-34	
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X	

Exposure type/values	31.12.2008									
	Book value		Fair value		Market value	Realised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet		
	Level 1	Level 2/3	Level 1	Level 2/3	Level 1	Gains	Losses	Plus (+)	Minus (-)	
A. Investments in associates and companies subject to joint control	182	3,048	88	X	88	534	-358	X	X	
B. Financial assets available for sale (AFS)	789	1,438	789	1,438	789	163	-787	215	-223	
C. Financial assets designated at fair value through profit and loss (DAAFV)	-	-	-	-	-	-	-	X	X	

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

The net capital losses on equity investments included under the negative elements of the Tier 2 capital amount to 22 million euro (45 million euro as at 31 December 2008).

Banking book: on-balance sheet equity exposures - weighted values

	Weighted exposure	
	31.12.2009	31.12.2008
IRB approach	637	657
Private equity exposures in sufficiently diversified portfolios	257	175
Exchange-traded equity exposures	124	96
Other equity exposures	253	386
Other assets: instrumental investments	3	-
Standardised approach	2,905	2,925

Table 14 – Interest rate risk on positions in the banking book

Qualitative disclosure

Interest rate risk

Interest rate risk originated by the banking book arises primarily in the Parent company and in the main Group companies that carry out retail and corporate banking and represents the risk that potential variations in the rates will have an impact on the interest margin and on the net present value of the assets and liabilities included in the banking book.

In the banking book, the capital items are represented as “to maturity” or “repricing” depending on whether they involve a fixed or variable rate with the exception of customer sight deposits and loans for which the choice has been made to use a behavioural as opposed to contractual representation for the calculation of the risk measures.

As already mentioned in Table 1 of this disclosure, two types of measurement have been adopted for the measurement of the financial risks generated by the banking book, namely Value at Risk (VaR) and Sensitivity analysis.

In addition to being used to measure the price and exchange risks generated by the equity investments, VaR is also used to consolidate exposure to financial risks of the various Group companies that perform banking book activities, thereby taking into account diversification benefits.

The shift sensitivity analysis, with reference to the interest rate risk, defines the movement as a parallel and uniform shift of ± 100 basis points of the rate curve. The measurements include an estimate of the prepayment and the risk originated by customer sight loans and deposits, whose features of stability and partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits.

The sensitivity of the interest margin is also measured on the basis of a parallel and instantaneous shock in the interest rate curve of ± 100 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of variations in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of the interest margin.

The Group’s overall financial risk profile and the appropriate interventions aimed at changing it are examined periodically by the Group Financial Risks Committee.

Quantitative disclosure

Interest rate risk

Interest Margin Sensitivity – in the event of a 100 basis point rise in interest rates – amounted to 119 million euro (-120 million euro in the event of a reduction) at the end of 2009; these values were in line with the 2008 year-end figures (+102 million euro and -92 million euro, respectively, in the event of an increase/decrease in interest rates).

In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group's year-end net income and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2009, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, averaged 485 million euro, with a year end figure of 560 million euro compared to the 484 million euro at the end of 2008.

The table below shows the effect on the banking book of the ± 100 bp shock, broken down into the main currencies that the Intesa Sanpaolo Group is exposed to.

		(millions of euro)
		31.12.2009
EUR	Euro	502
USD	US dollar	18
CHF	Swiss franc	3
HUF	Hungarian florin	15
HRK	Croatian kuna	9
RUB	Russian rouble	3
	Other currencies	10
TOTAL		560

Interest rate risk, measured in terms of VaR, averaged 148 million euro in 2009 (177 million euro at the end of 2008), with a minimum value of 86 million euro and a maximum value of 178 million euro. At the end of December 2009, VaR totalled 131 million euro.

The reduction in the economic value in the event of a 200 bp change in interest rates stayed within the limits of the alert threshold set by the prevailing Regulatory provisions (20% of the Regulatory Capital).

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

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to para. 2 of Art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document "Basel 2 - Pillar 3 as at 31 December 2009" corresponds to the corporate records, books and accounts.

19 March 2010

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

Independent Auditors' Report on the Basel 2 Pillar 3

Independent auditors' report
(translation from the original Italian text)

To the Management Board of Intesa Sanpaolo S.p.A.

1. We have reviewed the "Basel 2 Pillar 3 - Disclosure" (the "Pillar 3") of Intesa Sanpaolo S.p.A. and its subsidiaries (the "Intesa Sanpaolo Group") as of and for the year ended December 31, 2009. As described in the section "Notes to the Basel 2 Pillar 3 disclosure", the preparation of Pillar 3 in conformity with the Circular n. 263 of December 27, 2006 issued by the Bank of Italy, Title IV "Disclosure" is the responsibility of the Intesa Sanpaolo S.p.A.'s Management Board. The implementation and maintenance of adequate management and internal control processes for the preparation of data and information contained in Pillar 3 is the responsibility of the Intesa Sanpaolo S.p.A.'s Management Board. Our responsibility is to issue this report based on our review.
2. We conducted our work in accordance with International Standard on Assurance Engagements 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. We planned and performed our work to obtain reasonable assurance, less in scope than an audit, that the financial information reported in Pillar 3 is not materially misstated.

In detail, we performed the following procedures:

- comparison of data and financial information reported in Pillar 3 and data and information included in the consolidated financial statements of Intesa Sanpaolo Group as of and for the year ended December 31, 2009 on which we issued our audit report dated March 26, 2010;
- interview and discussion with the management of Intesa Sanpaolo S.p.A. and of its main subsidiaries, included in the "Banking Group", as defined in Table 2 of Pillar 3, to obtain information about information technology, accounting and reporting systems used in preparing Pillar 3, as well as about processes and internal control procedures that support the data collection, aggregation, processing and transmission of such data and information to the manager responsible for preparing the company's financial reports in order to prepare Pillar 3;
- sample-based analyses of supporting documentation used in preparing Pillar 3, in order to obtain evidence of the processes implemented for the preparation of data and information disclosed in Pillar 3;
- reading of the communications with Bank of Italy in connection with the authorization process to use the internal systems to determine capital requirements;

- reading of the reports prepared by the Internal Audit Department and Internal Validation Function, regarding the management and internal control processes relating to the preparation of data and information reported in Pillar 3;
- obtaining the representation letter on the compliance of Pillar 3 with Circular n. 263 of December 27, 2006 issued by the Bank of Italy and on the reliability and completeness of the information and data contained in Pillar 3.

Our work has been performed to achieve the scope of our engagement. We did not perform audit procedures such as tests of compliance or other substantive procedures, and our work was substantially less in scope than an audit conducted in accordance with ISAE 3000. Accordingly, the work performed does not give us assurance to be aware of all relevant fact and circumstances that could have been identified by performing an audit.

Pillar 3 presents comparative data for the preceding year; we did not examine these data.

3. Based on our review, nothing has come to our attention that causes us to believe that Pillar 3 of Intesa Sanpaolo Group as of December 31, 2009, prepared on the basis of the methodologies and processes described in the same document, is not consistent with the data and information included in the consolidated financial statements of Intesa Sanpaolo Group as of and for the year ended December 31, 2009 and consequently, that it has not been prepared, in all significant respects, in conformity with the criteria established by Circular n. 263 of December 27, 2006 issued by the Bank of Italy, Title IV "Public Disclosures".
4. This report was prepared for the Management Board in accordance with our engagement. Our work has been conducted to report to Intesa Sanpaolo S.p.A. only the matters presented in this report. Therefore, we have no responsibility to any party other than Intesa Sanpaolo S.p.A., regarding the work performed, this report or the conclusions reported herein.

Turin, March 26, 2010

Reconta Ernst & Young S.p.A.
Signed by: Massimo Testa, partner

Glossary

GLOSSARY OF TERMS PERTAINING TO DISCLOSURE REQUIREMENTS UNDER THE THIRD PILLAR OF BASEL 2

(with the meaning adopted in this document and excluding terms widely used in the Italian language or which are used in a context that already clarifies their meaning)

AIRB (Advanced Internal Rating Based)

Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD) used for credit risk assessment, whereas for Foundation IRB they only estimate PD.

ABS – Asset-Backed Securities

Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.

Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)

ABS whose collateral is made up of receivables.

AMA

(Advanced Measurement Approach) - A method for determining the operational risk capital requirements using calculation models based on operational loss data and other assessment elements collected and processed by the bank. Specific access thresholds and eligibility requirements are defined for adoption of the Standardised and Advanced approaches. For AMA systems, the requirements concern not only the management system but also the measurement system.

Backtesting

Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book

Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to “proprietary” trading.

Capital structure

It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:

Equity (or Junior) Tranche: The riskiest portion of the portfolio, it is also known as “first loss” and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.

Mezzanine Tranche: The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.

Senior/Supersenior Tranche: The tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Cap test

A test performed in respect of the originator or the promoter to establish capital requirements in securitisation transactions. Under the regulations, the risk-weighted value of all exposures in respect of a single securitisation cannot exceed the weighted value of the securitised assets, calculated as if said assets had not been securitised (cap). The capital requirement in respect of all exposures to the same securitisation is equal to 8% of the cap.

Categories of financial instruments provided for by IAS 39

Financial assets “held-for-trading”, which include: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking; assets designated at fair value, under the IAS, this category may include the assets that the entity decides in any case to measure at fair value with value changes recognized through profit and loss, in the cases provided for by IAS 39; *financial assets “held-to-maturity”*, non-derivative assets with fixed-term and fixed or determinable payments, that an entity intends and is able to hold to maturity; *“Loans and receivables”*, non-derivative financial assets with fixed or determinable payments not quoted in an active market; *financial assets “available-for-sale”*, specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

CCF – Credit Conversion Factor

For banks that use the Standardised Approach and the FIRB, the Credit Conversion Factor is the weighting - provided for by the applicable regulations - applied to off-balance sheet exposures to determine their EAD:

- 100% to full-risk guarantees and commitments;
- 50% to medium-risk guarantees and commitments (e.g. margins available on irrevocable credit lines with an original maturity of more than one year);
- 20% to medium-low risk guarantees and commitments (import-export documentary credits);
- 0% to low-risk guarantees and commitments (e.g. undrawn revocable credit facilities);

Collective assessment of performing loans

With reference to a homogeneous group of regularly performing financial assets, collective assessment

defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Core Tier 1 ratio

The ratio of *Tier 1 capital*, net of preferred shares, to total risk-weighted assets. *Preferred shares* are innovative capital instruments, usually issued by foreign subsidiaries, and included in the tier 1 capital if their characteristics ensure the banks' asset stability. The Tier 1 ratio is the same ratio inclusive of the preferred shares in the numerator.

Corporate

Customer segment consisting of medium- and large-sized companies (*mid-corporate and large corporate*).

Covered bond

Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

Credit default swap/option

Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives

Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit risk

The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

CRM

Credit Risk Mitigation.

Cumulative loss

Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Default

Declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency

Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

EAD – Exposure At Default

Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

EDF – Expected Default Frequency

Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

Exotics (derivatives)

Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

Fair value

The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

FiRB

See "IRB"

Goodwill

The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Grandfathering

Grandfathering clause regarding capital requirements, exempting from IRB treatment equity exposures acquired prior to 31 December 2007 (for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section VI).

IAS/IFRS

The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

ICAAP

Under the "Second Pillar" (Title III) banks are required to adopt processes and instruments for implementing the Internal Capital Adequacy Assessment Process, (ICAAP) to determine the amount of capital they need to cover all the risks, including risks different from those covered by the total capital requirement ("First Pillar"), when assessing their current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IMA

Internal Models Approach: it can be used to calculate market risks.

Impairment

When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Intangible asset

An identifiable, non-monetary asset lacking physical substance.

IRB (Internal Rating Based)

Approach based on internal ratings within the framework of the New Basel Accord. In the internal ratings approach the expected loss on a loan portfolio is estimated through three parameters (PD, LGD and EAD). In the foundation approach only the PD is estimated by the Bank, for the other parameters

reference is made to the indications from the supervisory authorities.

Junior

In a securitisation transaction it is the lowest-ranking tranche of the securities issued (Equity tranche), being the first to bear losses that may occur in the course of the recovery of the underlying assets.

LDA - Loss Distribution Approach

It is a model used to assess exposure to operational risk. It makes it possible to estimate the amount of expected and unexpected loss for any event/loss combination and any *business line*.

Liquidity risk

The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Loss Given Default (LGD)

It indicates the estimated loss rate in the event of borrower default.

Lower Tier 2

It designates subordinated liabilities that meet the eligibility criteria for inclusion in supplementary (Tier 2) capital.

M-Maturity

The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Market risk

Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Mezzanine

In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Non-performing

Term generally referring to loans for which payments are overdue.

Operational risk

The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is the risk of losses deriving from breach of laws or regulations, contractual or non-contractual liability or other disputes; it does not include strategic risk (losses due to wrong management strategies) or reputational risk (loss of market shares as a consequence of negative publicity regarding the bank).

Past due loans

"Past due loans" are non-performing loans on which payments are past due and/or overdue on a continuing basis for over 90/180 days, in accordance with the definition set forth in current supervisory reporting rules.

Performing

Term generally referring to loans characterised by regular performance.

Pool (transactions)

See "*Syndicated lending*".

Preferred shares

See "*Core Tier 1*".

Private equity

Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

Probability of Default (PD)

The likelihood that a debtor will default within the space of 1 year.

Ratings

An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies or by the Bank based on internal models.

Retail

Customer segment mainly including households, professionals, retailers and artisans.

Risk Management

Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

Scoring

System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche

In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity

It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer

In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

Slotting

A system for calculating capital requirements, based on regulatory classification criteria, applicable to the exposures relating to Specialised Lending by banks authorised to use the internal credit risk rating system

(for more details, see Bank of Italy Circular 263/2006, Title II, Chapter 1, Part II, Section V).

SPE/SPV

Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Spread

This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

Stress tests

A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Syndicated lending

Loans arranged and guaranteed by a pool of banks and other financial institutions.

Tier 1

Core capital (Tier 1) includes the paid-in capital, the share premium reserve, reserves from retained earnings (including IAS/IFRS first-time-adoption reserve other than those included under valuation reserves), and excludes treasury shares and intangible assets. Consolidated Tier 1 capital also includes minority interest.

Tier 2

Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses, and the other positive elements that constitute capital items of a secondary nature; the positive "prudential filters" of Tier 2 capital are also included. The total of these elements, less net

unrealised capital losses on equity investments, negative items related to loans, other negative elements, and negative Tier 2 "prudential filters", makes up "Tier 2 capital before elements to be deducted". Tier 2 capital is made up of the difference between "Tier 2 capital before items to be deducted" and 50% "items to be deducted".

Total capital ratio

Capital ratio referred to regulatory capital components (Tier 1 plus Tier 2).

Trading book

The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Upper Tier 2

Hybrid capital instruments (e.g., perpetual loans) that make up the highest quality elements of Tier 2 capital.

VaR - Value at Risk

The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Contacts

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Intesa Sanpaolo is the most widespread bank in Italy. Its leadership stems not only from its size but also thanks to its ability to interpret and respond to the needs of the areas in which it is present.

This commitment can be seen in the choice of maintaining and enhancing all the banks in the group, since it is they that allow Intesa Sanpaolo to present itself to the market as a fully-fledged citizen of every place in which it operates. This is the reason the illustrations chosen for this report have been inspired by the rich cultural heritage of Italian cities. They show the steeples of greatest importance to the cities where our registered offices are located and which appear in the names of our local Banche dei Territori. It is a tribute to Italian tradition and history. But it is also emblematic of the willingness to communicate and establish relationships that distinguishes the people at Intesa Sanpaolo and the banks in the Group.



1. Milano
Steeple, Basilica of Sant' Ambrogio



2. Torino
Steeple, San Carlo Church



3. Napoli
Steeple, Santa Chiara Monastery



4. Trento
Steeple, Duomo of Trento



5. Forlì
Steeple, Piazza Vittorio Emanuele



6. Bologna
Steeple, San Francesco Church



7. Venezia
Steeple, Piazza San Marco



8. Padova
Steeple, Basilica of Sant' Antonio



9. Narni
Steeple of San Giovenale



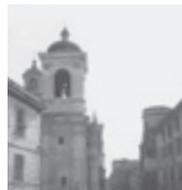
10. Rieti
Steeple, Duomo dell'Assunta



11. Spoleto
Steeple, Palazzo Montevecchio



12. Bolzano
Steeple, San Giovanni in Villa Church



13. Civitavecchia
Steeple, Chiesa dell'Orazione e Morte



14. Foligno
Steeple, Cathedral



15. Pistoia
Steeple, Piazza del Duomo



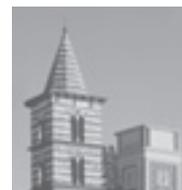
16. Terni
Steeple, San Francesco Church



17. Firenze
Giotto's Bell Tower, Piazza del Duomo



18. Ascoli Piceno
Steeple, Santi Vincenzo e Anastasio Church



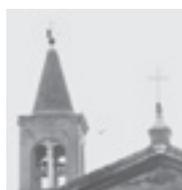
19. Viterbo
Steeple, Ex Chiesa degli Almadiani



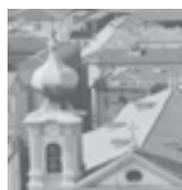
20. Pescaia
Steeple, Santa Maria Assunta Cathedral



21. Città di Castello
Steeple, Duomo



22. Pesaro
Steeple, San Giacomo Church



23. Gorizia
Steeple, Sant'Ignazio Church



24. Cagliari
Steeple, Sant'Anna Church



25. La Spezia
Steeple, Chiesa di Nostra Signora della Neve

Credits

1-7-8-17 Raccolte Museali Fratelli Alinari (RMFA), Firenze
 2-4-5-6-10-18 Archivi Alinari - Alinari Archive, Firenze
 3-11-14 Archivi Alinari - Anderson archive, Firenze
 9-16 Photo by Sergio Pagliaricci, Terni
 12 Photo by Michele Bernardinatti - KLR foto - Trento
 13 Photo by Fotoarte Mazzoldi Gabriella, Civitavecchia
 15 Archivi Alinari - Brogi Archive, Firenze
 19 Photo by Francesco Biganzoli, Viterbo
 20 Photo by Aurelio Amendola, Pistoia
 21 Photo by Enrico Milanese, Città di Castello
 22 Photo by Luciano Dolcini, Pesaro
 23 Photo by Franco Debernardi, Trieste
 24 Photo by Elisabetta Messina, Cagliari
 25 Photo by Maurizio Baldi, La Spezia

