1.2. MARKET RISKS

The Intesa Sanpaolo Group policies relating to financial risk acceptance are defined by the Parent Company's Statutory Bodies, supported by specific Committees, among which the Group Risk Governance Committee and Group Financial Risks Committee.
The Group Risk Governance Committee is in charge, among other things, of proposing to the Statutory bodies Group risk management strategies and policies to ensure compliance with the guidelines and indications of Supervisory authorities concerning risk governance and for assessing the adequacy of the Group's economic and regulatory capital. The Committee coordinates the activities of specific Technical Committees, to monitor financial and operational risks, and of the Group Compliance Committee, and is chaired by the Managing Director and CEO.
The Group Financial Risks Committee, chaired by the Chief Risk Officer and the Chief Financial Officer, is responsible for setting out the methodological and measurement guidelines for financial risks, establishing the operational limits and assessing the risk profile of the Group and its main operational units. The Committee also sets out the strategies for the management of the banking book to be submitted to the competent Bodies and establishes the guidelines on liquidity, interest rate and exchange risk. The Committee operates on the basis of the operating and functional powers delegated by the Statutory bodies and on the basis of the coordination action of the Group Risk Governance Committee.
The Group's overall financial risk profile and the opportune interventions aimed at changing it are examined periodically by the Group Financial Risks Committee.
The Parent Company's Risk Management Department is responsible for the development of corporate risk measurement and monitoring methodologies as well as for the proposals on the Bank's and the Group's system of operating limits. Risk Management is also responsible in outsourcing for the risk measurement for certain operating units on the basis of specific service contracts.

INFORMATION ON FINANCIAL PRODUCTS

The negative phase of the financial markets and the difficulties faced by certain financial institutions, including major players, led supranational and national Supervisory authorities to recommend the utmost transparency in the disclosure to shareholders and investors of credit and market risk exposure accepted in the various forms, directly or through vehicles.
The information below is required by the Bank of Italy (communication of 18 June 2008), and by Consob (letter of 23 July 2008), and also considers the recommendations contained in the Report of the Financial Stability Forum of April 2008, referred to by both Supervisory Authorities.

DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Information in this chapter integrates the accounting principles adopted by the Intesa Sanpaolo Group, and explicitly explains valuation concepts and parameters.
In the preparation of information, a clear and simple approach is adopted, avoiding where possible excessive technicalities.
Since these are, in any case, complex disclosures, it was decided to facilitate the reader by adding new terms (mainly mathematical and English terms normally used by practitioners) to the Glossary attached to the Annual report 2008.
The production of a Glossary illustrating the technical terms and the acronyms used is required by Consob in the mentioned communication.

General Principles

IAS/IFRS prescribe that products in the trading portfolio must be recorded at fair value through profit and loss.

The existence of official prices in an active market[1] represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities in the trading portfolio. If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date, in an arm-length exchange, motivated by normal business considerations. Such

[1] A financial instrument is considered as quoted on an active market if the quotations, reflecting normal market transactions, are promptly and regularly available through organised markets (exchanges), brokers, intermediaries, companies operating in the sector, quotation services or authorised bodies, and such prices represent effective and regular market transactions taking place over a normal period of reference. The criteria to determine price reliability are described in the paragraph on identification, certification and treatment of market data.

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 partly – 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: if a published price quotation in an active market is available then the other valuation approaches may not be used.

Hierarchy of fair value

As described above, the hierarchy of measurement models, i.e. of the approaches adopted for fair value measurement attributes absolute priority to effective market quotes for valuation of assets and liabilities or for similar assets and liabilities (comparable approach) and a lower priority to non-observable and, therefore, more discretional inputs (mark-to-model approach).
Consequently, fair value is determined using one of the following approaches with a clear order of preference.

i. Effective market quotes

In this case the valuation is the price of the same financial instrument to be measured on the basis of prices quoted on an active market.
The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:
– cash 73.9%
– derivatives 1.7%

Financial liabilities:
– cash 31.1%
– derivatives 2.8%

ii. Valuation Techniques: Comparable Approach

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 quotes 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.
Calculation methodologies (pricing models) used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be presumed from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – which significantly influence the final valuation.
The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:
– cash 22.3%
– derivatives 97.8%

Passività finanziarie:
– per cassa 68.9%
– strumenti derivati 95.4%

iii. Valuation Techniques: Mark-to-Model Approach

In this case valuations are based on various inputs, which are not presumed directly from parameters which may be observed on the market and therefore imply estimates and assumptions on the part of the valuator.
In particular, with this approach the valuation of the financial instrument uses a calculation

methodology (pricing model) which is based on specific assumptions on:
- 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 these are 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 percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:	
– cash	3.8%
– derivatives	0.5%
Financial liabilities:	
– cash	---
– derivatives	1.8%

The valuation process of financial instruments

The valuation process of financial instruments entails various phases which are summarised below.

1. 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 Administrative 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. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means.

The document defines the collection of the contribution sources deemed adequate for the assessment of financial instruments. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources.

For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price.

The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Risk Management Department (RMD), in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

2. Certification of pricing models and Model Risk Assessment

This phase is principally aimed at verifying the consistency and the adherence of the various measurement techniques used by the Bank with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for valuation.

The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. In general, all models used by the Bank for the assessment must be submitted to an internal certification process which involves various competent structures. 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). For example, Intesa Sanpaolo used a similar validation for CDO exposures.
The new measurement models entail not only an in-depth analysis of financial aspects but also a full understanding of numerical aspects, replicating, where deemed necessary, the pricing libraries of Front Office systems, after the analysis of available literature and the independent derivation of the necessary analytical results, considering also numerical-implementation aspects. Moreover, the types of payoff connected to the model are analysed in detail together with the pertinent figures (verifying presence, liquidity and frequency of update of contributions), as well as the means of calibration chosen. In fact, one of the fundamental requirements for the certification of a pricing model is its capability of replicating available market prices, optimising its internal parameters (or meta-data) to capture to the best information provided by quoted instruments (calibration procedure). Once the quality of repricing of the elementary instruments selected for calibration is certified, the influence of the model's parameters (parameters which are not quoted or observable on the markets) on the pricing of complex instruments is analysed. Lastly, where possible, market tests are performed comparing the prices of complex financial instruments obtained from the model with the available quotes.
If the analysis described above does not identify any evident criticalities, the model is deemed to be validated and may be used for official measurements.
Instead, if the analysis highlights limits or alerts for a specific pricing model which are not so severe as to deem analytical tools used inadequate, the Risk Management Department performs further analyses to determine adjustments due to the so-called "model risk". For a more detailed description see the specific paragraph below.

3. Monitoring consistency of pricing models over time

Once a pricing model for complex financial instruments is certified and operational, it is necessary to periodically monitor its adherence to the market in order to highlight any gaps promptly and start the necessary verifications and interventions.

– *Repricing of elementary instruments contributed*

Adherence to the market of a calibrated pricing model is controlled by verifying that the model effectively reproduces all market prices deemed to be relevant and sufficiently liquid. With particular reference to interest rate derivatives, an automatic repricing system for elementary financial instruments is also operational in the Bank's Front Office systems, which allows the systematic verification of any gaps between the models and the market and their possible impact on the risk positions in the books.
Where significant gaps arise and the price of a given elementary instrument falls outside the market's bid-ask quotes, the analysis of the impact on the risk positions of the respective trading portfolios is performed and the adjustment to be applied to the valuations of the respective portfolios is quantified.

– *Comparison with benchmarks*

The monitoring methodology described above is further strengthened by extensive benchmarking of data used. In particular, access to the services of a qualified outside provider (Markit) enable to obtain detailed information on the parameters contributed by primary market counterparties and referred to interest rate instruments (cap/floor, European and Bermuda swaption, CMS), equities (options on indices and on single stocks) and for CDS. Such information are far richer than those normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gaps are quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the case of repricing of elementary instruments contributed. The possibility of extending the comparison with benchmarks also to other instruments or underlying assets is constantly monitored.

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

1. Pricing model for non-contributed securities

Pricing of non-contributed securities (that is, securities without official quotes expressed by an active market) occurs through the use of an appropriate credit spread test (in application of the so-called

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.

2. Models for pricing 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 in 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, i.e. pricing using risk-free curves;
– fair value, which considers counterparty credit risk and future exposures of the contract.

The difference between fair value and mark-to-market – so-called 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 case of positive net present exposure, the CRA is calculated starting from the latter, from market spreads and in function of the average residual life of the contract;
– in 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.

3. Model for pricing structured credit products

Regarding ABS, if significant prices are not available (level 1, effective market quotes), valuation techniques consider parameters which may be presumed from the market (level 2, comparable approach).
Spreads are presumed from new issuers and/or collected from the major investment banks, verifying the consistency of such valuations with the prices presumed from the market (level 1).
In addition to these quantitative controls, the definition of the price and its verification is further strengthened by a qualitative analysis relative to the performance of the underlying asset presumed from periodic investor reports.
Lastly, prices calculated in this way are subject to backtesting with actual sale prices to verify their consistency with the levels expressed by the market.

With reference to complex credit derivatives (CDOs), in the light of the phenomena of market dislocation of financial and credit markets, Intesa Sanpaolo recently dedicated particular attention to pricing methodologies, and prepared a new Fair Value Policy that was applied starting from the 2007 financial statements. In 2008, 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 added to the valuation framework. This determines the handling of the priorities for payments and its main impact involves the establishment of the priority for the repayment of the various tranches (Notes) starting from the Supersenior (paydown), if the structures involved (Cashflow CDOs) fail the Overcollateralisation and Interest Coverage Tests.
The Fair Value Policy also defined specific policies relative to inputs necessary for valuations.

Regarding CDO pricing, Intesa Sanpaolo uses a quantitative model which estimates 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 market inputs: synthetic indices are used such as ABX, consensus parameters calculated by multicontribution platforms, market spread estimates made available by primary dealers.
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.

For the purpose of incorporating high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (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: the latter have been increased by 1 year.

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

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

4. The pricing model for hedge funds

The main parameter used for the valuation of hedge funds is the operating NAV (Net Asset Value)[2].
The operating NAV does not always coincide with the NAV used for accounting purposes (so-called accounting NAV) as the former can 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 average volatility of the NAV;
- the time period within which the position may be reasonably considered to be settled;
- the presence of hard[3] or soft lock-up clauses[4];
- the presence of fees to be paid upon exit from the fund;
- the occurrence of delays or suspensions in redemptions;
- the existence of illiquid positions in the fund (with the consequent establishment of side-pockets).

For the financial statements as at 31 December 2008, it was considered appropriate to review the fair value policy, mainly as a result of the significant use by the Funds of instruments and devices aimed at slowing down cash outflows, to the final investors, and therefore capable of severely conditioning the level of liquidity of these Funds. The adjustments arising from this review involved in particular the prudential adjustments associated with the terms of liquidity of the fund and the establishment of an analytical valuation approach for the most critical positions. In terms of the fair value hierarchy, this 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 "Comparable approach" or the "Mark-to-Model Approach".

For the Funds with a liquidity window of between 30 to 120 days, the operating NAV was prudentially adjusted by a "reduction percentage" corresponding to the volatility of the Fund reduced by a "threshold value" of 15%.
More specifically, the situation of liquidity of the Fund had the following repercussions on the type of NAV used for the valuation for accounting purposes.

Fund liquidability terms	Accounting class
<= 30 days	Operating NAV
30 days < x <= 120 days	Operating NAV - % reduction based on NAV volatility
Soft lock-up	Operating NAV - % reduction based on any early exit fee due
> 120 days or Hard lock-up (including any funds on which the lock-up proves lower, but for which the Bank does not have an updated NAV)	The value attributed to the quota is equal to the lower of its average recognition cost and the operating NAV

The need for the valuation to incorporate the particular situations of volatility and illiquidity arising in the last quarter of 2008 led to the establishment of an analytical valuation approach designed to capture these exceptional conditions in a timely manner and to quantify the effects in terms of fair value.
For Funds whose redemptions were not suspended, which created side pockets and that held assets considered to be "at risk", the accounting NAV was reduced by a percentage equal to the related amount in portfolio.
For Funds whose redemptions were suspended, first of all the changed terms of liquidity of the

[2] The value of the individual quotas of the fund provided regularly by the fund itself or by the administrator of the fund, gross of any exit fees.

[3] Hard lock-up: a strong constraint to liquidity, in other words during the hard lock-up period it is not possible to exit from the fund.

[4] Soft lock-up: a weaker constraint against liquidity; during the soft lock-up period it is possible to exit from the investment earlier than recommended, subject to the payment of a "penalty" (early exit fee).

investment were verified with the operators and the Funds themselves. Once the estimated date for the release of the suspensions had been confirmed, the criteria established for the corresponding accounting class were applied, with the following precautions:

- if the Fund had declared a part of its portfolio to be illiquid, the accounting NAV was further reduced by a percentage corresponding to the related amount;
- if the Fund had not declared a percentage of illiquid assets and it was one of the Funds valued at the lower of Cost and NAV, when the operating NAV was used (because it was lower than cost) it was also prudentially accompanied by a reduction percentage obtained by considering the volatility of the available price quotations.

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

In general, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. In fact, since there are often alternative models which may be used for pricing the same instrument and since there is no standard practice on the market for measuring complex financial instruments, it is possible that models which price elementary instruments the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments. Such adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shift), are periodically 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 considerable changes in selected models and in their implementation.

These fair value adjustments, due to model risks, are part of a Mark to Market Adjustment Policy adopted for the purpose of considering, in addition to model risk described above, also other factors eligible to influence valuation and essentially attributable to:

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

In particular, in the presence of product illiquidity, the fair value is adjusted.

This adjustment is generally not very relevant for instruments for which the valuation is supplied directly by the market. For this purpose quoted securities with a high liquidity 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 adjustment management 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 is 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 upon the proposal of the Risk Management Department.

QUANTITATIVE INFORMATION ON THE FINANCIAL ASSETS AND LIABILITIES

The tables below detail the book values of the:

a) financial assets represented by securities measured at amortised cost and fair value; the latter have been broken down between quoted and unquoted instruments with an indication of the level of hierarchy for the determination of fair value applied;

b) financial liabilities represented by securities and subject to measurement at fair value, broken down between quoted and unquoted instruments and with an indication of the level of hierarchy of fair value applied;

c) financial and credit derivative instruments, broken down between quoted and unquoted instruments and with an indication of the level of hierarchy of fair value applied.

(in millions of euro)

Financial assets represented by securities/ Derivatives	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Securities held to maturity	4,975	-	*X*	*X*	4,975	4,233
Securities classified under loans to customers	-	13,138	*X*	*X*	13,138	6,372
Securities classified under loans to banks	-	1,459	*X*	*X*	1,459	929
Securities held for trading	10,903	4,833	*4,082*	*751*	15,736	25,980
Securities on which the fair value option has been exercised	13,333	6,355	*6,355*	-	19,688	19,964
Securities available for sale	20,815	4,688	*3,115*	*1,573*	25,503	33,515
Total Financial assets represented by securities	**50,026**	**30,473**	***13,552***	***2,324***	**80,499**	**90,993**
Derivatives held for trading	733	41,569	*41,351*	*218*	42,302	19,993
Total	**50,759**	**72,042**	***54,903***	***2,542***	**122,801**	**110,986**

(in millions of euro)

Financial liabilities represented by securities issued and designated at fair value / Derivatives	Unquoted	unquoted	*of which level 2*	*of which level 3*	2008	2007
Short positions on securities designated at fair value	1,755	5	*5*	-	1,760	3,251
Issued securities on which the fair value option has been exercised	-	3,878	*3,878*	-	3,878	4,214
Total Financial liabilities represented by securities issued and designated at fair value	**1,755**	**3,883**	***3,883***	**-**	**5,638**	**7,465**
Derivatives held for trading	1,219	42,891	*42,102*	*789*	44,110	21,357
Total	**2,974**	**46,774**	***45,985***	***789***	**49,748**	**28,822**

The tables below provide an overview of the financial instruments represented by securities and derivatives that are subject to measurement at fair value and that contribute to different items in the financial statements, with a separate indication of the values associated with certain areas (structured credit products, hedge funds, and merchant banking investments). For the sake of completeness, tables have also been included with a breakdown of the securities valued at amortised cost, with a separated indication of the abovementioned areas.

(in millions of euro)

Financial assets: securities classified under loans to customers	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Structured credit products	-	2,102	*X*	*X*	2,102	2,198
Other debt securities	-	11,036	*X*	*X*	11,036	4,174
TOTAL	**-**	**13,138**	**-**	**-**	**13,138**	**6,372**

(in millions of euro)

Financial assets: securities classified under loans to banks	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Structured credit products	-	15	*X*	*X*	15	21
Other debt securities	-	1,444	*X*	*X*	1,444	908
TOTAL	**-**	**1,459**	**-**	**-**	**1,459**	**929**

(in millions of euro)

Financial assets: securities held for trading	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Debt securities	**9,160**	**4,346**	**3,668**	**678**	**13,506**	**17,400**
Structured credit products	-	921	246	675	921	2,822
Other securitisations	31	352	349	3	383	1,644
Other debt securities	9,129	3,073	3,073	-	12,202	12,934
Equities	229	47	*47*	-	276	1,407
Quotas of UCITS	**1,514**	**440**	**367**	**73**	**1,954**	**7,173**
Hedge Funds	643	209	*136*	*73*	*852*	792
Other UCITS quotas	871	231	*231*	-	*1,102*	6,381
TOTAL	**10,903**	**4,833**	***4,082***	***751***	**15,736**	**25,980**

(in millions of euro)

Financial assets: securities on which the fair value option has been exercised	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Debt securities	11,578	524	*524*	-	*12,102*	11,054
Equities	1,688	-	-	-	*1,688*	3,531
Quotas of UCITS	67	5,831	*5,831*	-	*5,898*	5,379
TOTAL	**13,333**	**6,355**	***6,355***	**-**	**19,688**	**19,964**

(in millions of euro)

Financial assets: securities available for sale	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Debt securities	**19,239**	**2,811**	**2,676**	**135**	**22,050**	**28,388**
Equities	**1,492**	**1,438**	**-**	**1,438**	**2,930**	**4,581**
Merchant banking investments	485	651	-	651	1,136	-
Other investments	1,007	787	-	787	1,794	4,581
Quotas of UCITS	**84**	**439**	**439**	**-**	**523**	**546**
TOTAL	**20,815**	**4,688**	**3,115**	**1,573**	**25,503**	**33,515**

(in millions of euro)

Financial assets: derivatives	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Financial derivatives	**733**	**37,072**	**37,072**	**-**	**37,805**	**18,533**
Credit derivatives	**-**	**4,497**	**4,279**	**218**	**4,497**	**1,460**
Structured credit products	-	533	315	218	533	614
Other credit derivatives	-	3,964	3,964	-	3,964	846
TOTAL	**733**	**41,569**	***41,351***	***218***	**42,302**	**19,993**

(in millions of euro)

Financial liabilities: short positions on securities designated at fair value	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Due to banks	1,749	5	*5*	-	1,754	3,217
Due to customers	6	-	-	-	6	34
TOTAL	**1,755**	**5**	***5***	**-**	**1,760**	**3,251**

(in millions of euro)

Financial liabilities: issued securities - Fair value option	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Structured securities	-	3,878	*3,878*	-	3,878	4,214
Other securities	-	-	-	-	-	-
TOTAL	**-**	**3,878**	***3,878***	**-**	3,878	**4,214**

(in millions of euro)

Financial liabilities: derivatives	Quoted	Unquoted	*of which level 2*	*of which level 3*	2008	2007
Financial derivatives	**1,219**	**37,791**	*37,791*	-	**39,010**	**20,103**
Credit derivatives	**-**	**5,100**	*4,311*	*789*	**5,100**	**1,254**
Structured credit products	-	1,100	*311*	*789*	1,100	402
Other credit derivatives	-	4,000	*4,000*	-	4,000	852
TOTAL	**1,219**	**42,891**	***42,102***	***789***	**44,110**	**21,357**

STRUCTURED CREDIT PRODUCTS

The business model: objectives, strategies and relevance

Intesa Sanpaolo has not carried out any new structured credit transactions since the first signs of the crisis in the markets. The positions currently held therefore derive from transactions carried out in the first half of this decade that were characterised by their instrumentality for proprietary trading activities. More specifically, in the past the structured credit transactions formed part 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. This activity was performed within operating limits that guaranteed the consistency of outstanding volumes with the Group's overall risk propensity. Such limits have been progressively tightened so that in particular the component represented by investments in CDOs is insignificant and has been constantly decreasing since 2003. Conversely, the Group never applied the Originate-to-Distribute model with reference to these products. Consequently, also in 2008, the strategies regarding structured credit products focused on the management of existing investments and did not involve a review of a reference business model.

In 2008, the success of the approach, already applied with good results in the second half of 2007, was confirmed. Its guidelines consist of:

– gradual portfolio reduction, through a systematic process of sales and unwinding which exploits the prepayments and instalments of structures in the portfolio;
– risk profile management achieved via "short" positions on derivative markets with reference to the indexes representative of the US real estate market (ABX and CMBX), to the market of US leveraged loans (LCDX) and to certain selected single-names whose performance is considered to be particularly affected by the dynamics of the structured credit market.

It must be noted that a systematic process of sales and unwinding is possible because of the limited volume of the structured credit portfolio on total Group assets and of the high incidence of unfunded structures in the portfolio. This last characteristic does not generate pressures on the liquidity position.

In 2008, specific strategies were also developed to ensure that each individual transaction was accompanied by the most appropriate choices in terms of the treatment of risks and disposal or at least partial hedging. The analysis of seniority rights in case of early reimbursement played a fundamental role in this valuation. In addition, as a result of the amendments introduced by IAS 39, some of these positions were reclassified, in order to apply an accounting treatment consistent with the strategic guidelines set out in this chapter and with the levels of liquidity of the individual instruments indicated by the market.

Highlights

Before describing the results as at 31 December 2008 in detail, please note that the qualitative and quantitative composition of the investments in structured credit products, penalised to various extents by the events that affected financial markets from the second half of 2007, has changed little with respect to the information disclosed as at the end of last year and the last quarter. Compared to 30 September, despite the fact that an increasing amount of these investments (around 20%) were downgraded, the overall high quality of the portfolio was confirmed, as demonstrated by the following indicators:

– around 96% of the exposure was Investment Grade, compared to 98% as at 30 September 2008;
– around 66% of this exposure had a Super senior (31%) or AAA (35%) rating;
– only 4% had a rating equal to or lower than BBB;
– 40% of the exposure had a vintage[5] prior to 2005;
– 30% of the exposure had a 2005 vintage;
– only 10% of exposure referred to the US Residential area, and 29% referred to the US non residential area;
– the remaining exposure (61% of the total) mainly related to the European area[6] (52%).

Considering underlying contract types, approximately one third of the exposure is represented by ABS (16%) and RMBS (18%); the rest is almost entirely made up of CDOs (28%) and CLOs (34%); CMBS represent 4% of the total.

As concerns valuation methods, unfunded positions are measured using the Mark-to-Model Approach with the sole exception of "short" positions on ABX and CMBX indices, which have been measured on the

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

[6] With particular reference to RMBS pertaining to the European area, please note that 20% referred to Spain and 12% to the United Kingdom.

basis of effective market quotes. For funded products, the use of valuation methods involved the Comparable Approach in 82% of cases and the Mark-to-Model Approach (18% of cases). For further details on adopted valuation methods see details on the determination of the fair value of financial assets and liabilities provided in the previous pages.
The structured credit products affected by the financial crisis that, up until 30 June 2008 were almost entirely classified under the trading book[7], were partly reclassified following the amendments made to IAS 39 last October. The tables below therefore show the aggregate of the structured credit products, split between the part remaining in the trading book and the part reclassified under loans. The income statement effects reported show the impact on the "Profits (Losses) on trading – Caption 80" of both the aggregates. For the part reclassified, the income statement effect represents the impact on the "Profits (Losses) on trading – Caption 80" up to 1 July 2008, in accordance with the provisions of the amendments to the accounting standards.
The information set out below refers to the entire Group; where present, any effects and positions, which are in any case immaterial, ascribable to entities other than the Parent Company, are specifically highlighted in the comments and/or in the detailed tables.
In the summary tables provided below, table (a) sets out risk exposure as at 31.12.08 and income statement captions (sum of realised charges and profits, write-downs and write-backs) of the year, compared with the corresponding values recorded as at 31 December 2007.
Table (b) sets out figures related to s.c. structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged. For a more complete description of exposures of this type see the specific paragraphs (Monoline risk and Non monoline packages) and the relative tables.
The conversion into euro of values expressed in USD as at 31 December 2007 occurred at an exchange rate of 1.4721 euro per dollar and as at 31 December 2008 at an exchange rate of 1.3917 euro per dollar.

[7] The following exceptions were presented in the Half-yearly report as at 30 June 2008:
certain securities classified as available for sale relating to the Romulus vehicle, a position of the Parent Company, moreover originating from the aforementioned vehicle, and a limited number of securities ascribable to Carifirenze; as at 31 December 2008 all these positions, except the one relating to the Parent Company, were classified under the loan portfolio;
a credit line of 63 million euro not included in the summary table, granted to a bank involved in the origination of subprime and Alt-A mortgages. Given that the related drawdown was fully repaid on 1 July 2008, this credit line has no longer been considered for the purposes of this disclosure.
a portion of securities held by Banca Intesa Infrastrutture Innovazione e Sviluppo, not included in the summary table, classified almost fully under Loans & Receivables not implying any particular risks (see para. Monoline risk).

Structured credit products: summary tables

a) Exposure in funded and unfunded ABS/CDOs

(in millions of euro)

Financial assets held for trading	**31.12.2008**		**31.12.2007**	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**
US subprime exposure	**23**	**-4**	**-40**	**-163**
Contagion area	**207**	**-166**	**521**	**-142**
- Multisector CDOs	125	-103	375	-57
- Alt-A	-	-	-	-
- TruPS	82	-63	146	-85
- Prime CMOs	-	-	-	-
Other structured credit products	**3,056**	**-327**	**3,333**	**-108**
- Funded European/US ABS/CDOs	430	-53	582	-23
- Unfunded super senior CDOs	3,043	-249	3,173	-87
- Other unfunded positions	-417	-25	-422	2
Total	**3,286**	**-497**	**3,814**	**-413**
in addition to:				
"Short" positions of funds	-	41	-	40
Total Financial assets held for trading	**3,286**	**-456**	**3,814**	**-373**

(in millions of euro)

Loans (reclassification following amendments to IAS 39 of 15 October 2008)	**31.12.2008**		**31.12.2007**	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement Profits (Losses) on trading**
US subprime exposure	**6**	**-**	**-9**	**-**
Contagion area	**138**	**-5**	**166**	**-21**
- Multisector CDOs	12	-	18	-
- Alt-A	78	-2	93	-20
- TruPS	-	-	-	-
- Prime CMOs	48	-3	55	-1
Other structured credit products	**1,973**	**-57**	**2,062**	**-70**
- Funded European/US ABS/CDOs	1,729	-57	1,781	-70
- Unfunded super senior CDOs	-	-	-	-
- Other Romulus-funded securities	244	-	281	-
Total	**2,117**	**-62**	**2,219**	**-91**
in addition to:				
"Short" positions of funds	-	-	-	-
Total Loans	**2,117**	**-62**	**2,219**	**-91**
Total	**5,403**	**-518**	**6,033**	**-464**

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

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

b) Exposure in packages

(in millions of euro)

Detailed table	31.12.2008		31.12.2007	
	Credit exposure to protection seller (CDS fair value) post write-down	**Income Statement Profits (Losses) on trading**	**Credit exposure to protection seller** (CDS fair value) post write-down	**Income Statement Profits (Losses) on trading**
Monoline risk	-	-94	61	-25
Non monoline packages	154	-	454	-5
Total	**154**	**-94**	**515**	**-30**

A more detailed explanation of the performances of the various products included within the scope of this disclosure is provided below, however, please note that the increase in the "long" position in the US Subprime is due to the strategy implemented for the positions in ABX indexes. As concerns the income statement, during the period under consideration, the effect of the loss attributable in particular to US Subprime exposures fell drastically compared to the previous quarter, in absolute and relative terms, due to the valuations adopted at the end of 2007 and the effectiveness of the hedges during the year.
More specifically, the negative result of the structured credit products during the period (-612 million euro) was mostly attributable to the following three areas:

– unfunded CDOs (-392 million euro net of hedges) with a significant presence of US RMBS not classified as subprime (see item i. of paragraph "Contagion" area) and TRUPS in collateral (see item iii. of the paragraph "Contagion" area), as well as transactions classified as unfunded super senior CDOs (see items iii. and iv. of the paragraph "Other structured credit products"); the profit and loss for this category (-470 million euro) only partially benefited from the positive contribution from the index hedges and the short positions in funds. The latter, in particular, generated an overall effect of 78 million euro that enabled the reduction of the net negative impact of the unfunded instruments to -392 million euro, with a contribution in the fourth quarter of -285 million euro;
– European and US ABSs (-126 million euro) for which the income statement effects of the securities reclassified in accordance with the amendments made to IAS 39 remained unchanged, whereas there was a deterioration in the funded positions that were not reclassified held in the ABS portfolio of the Parent Company and Banca IMI;
– exposure in packages (-94 million euro), arising from the decision to fully write-down the Group's gross exposure to monoline counterparties.

The impact on the "Profits (Losses) on trading – Caption 80" of the structured credit products reclassified under the Loans category did not change compared to the impact noted as at 30 September 2008. The securities reclassified from the trading book to the loan portfolio had a total nominal value, as at 31 December 2008, of 2,028 million euro, corresponding to a risk exposure of 1,855 million euro, whereas the portion of the portfolio reclassified from financial assets available for sale to the loan portfolio amounted to a nominal value, as at 31 December 2008, of 307 million euro, corresponding to a risk exposure of 262 million euro. The negative result of the structured credit products, without taking into account the effects of the abovementioned reclassifications, would have increased to 911 million euro; the positive effect on the income statement from the reclassification amounted to 299 million euro[8].

US subprime exposure

Please note that a universally agreed-upon definition of subprime mortgages does not exist. In general, this expression indicates mortgaged lending which is riskier since it is granted to borrowers that have previously defaulted or because the debt-to-income or loan-to-value ratio is high.
As at 31 December 2008, the Intesa Sanpaolo Group:

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

That said, for US subprime exposure, Intesa Sanpaolo intends the products - cash investments (securities and funded CDOs) and derivative positions (unfunded CDOs) with collateral mainly made up of US

[8] In addition to a benefit of 36 million euro for the Valuation reserve under shareholders' equity as a result of the reclassification of the financial assets available for sale to the loan portfolio.

residential mortgages other than in the "prime" sector (i.e. Home Equity Loans, residential mortgages with B&C ratings and similar) granted in the years 2005/06/07, irrespective of the FICO score[9] and the Loan-to-Value10 (LTV) as well as those with collateral made up of US residential mortgages granted before 2005, with FICO score under 629 and Loan-to-Value exceeding 90% (the weight of this second class of products in the Intesa Sanpaolo Group's portfolio as at 31 December 2008 was again not significant, as had occurred as at 31 December 2007).
The risk on these investments was managed and reduced via short positions on ABX indexes. These positions were actively managed on the basis of the market movements and write-downs of the portfolio investments. The write-down made in this category was partially offset by the profits from the realisation of the short positions taken up initially on ABX indexes.

US subprime exposure

(in millions of euro)

Financial assets held for trading	**Position as at 31.12.2008**		**2008 income statement Profits (Losses) on trading**			
	Nominal value	**Risk exposure** (*) (including write-downs and write-backs)	**Realised gains/losses**	**Write-downs and write-backs**	**Total**	
					whole year	*of which 4Q*
Funded ABS	15	1	-2	-4	-6	*-1*
Funded CDO	27	2	-	-4	-4	*1*
Unfunded super senior CDOs [(1)]	204	19	-	-20	-20	*-2*
Position on ABX indexes	14	1	144	-118	26	*3*
"Long" positions	**260**	**23**	**142**	**-146**	**-4**	***1***
	"long"	**"long"**				
Net position	**260**	**23**	**142**	**-146**	**-4**	***1***

(in millions of euro)

Loans	**Position as at 31.12.2008**		**2008 income statement Profits (Losses) on trading**			
	Nominal value	**Risk exposure** (**) (including write-downs and write-backs)	**Realised gains/losses**	**Write-downs and write-backs**	**Total**	
					whole year	*of which 4Q*
Funded ABS	-	-	-	-	-	-
Funded CDO	-	-	-	-	-	-
Romulus-funded ABS/CDOs	9	6	-	-	-	-
"Long" positions	**9**	**6**	**-**	**-**	**-**	**-**
Total	**269**	**29**	**142**	**-146**	**-4**	***1***

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

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

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

The net nominal "long" position of 269 million euro as at 31 December 2008 compares with 49 million euro as at 31 December 2007. The increase was mainly attributable to the close of "short" positions on ABX indexes during the second half of the year. In terms of risk exposure, as at 31 December 2008 there was a gross "long" position of 22 million euro, increasing to 23 million euro taking into account the outstanding remaining "long" positions on ABX indexes, amounting to 1 million euro. Also to be noted is the position originating from the Romulus vehicle and reclassified to the loans category as a result of the amendments to IAS 39 with a nominal value of 9 million euro and a value of 6 million euro in terms of risk exposure. The overall "long" position in US Subprime rose as a whole to 29 million euro as at

[9] Indicator of the borrower's credit quality (usually between 300 and 850) used in the United States to classify credit, based on the statistical analysis of credit archives referred to individuals.
[10] The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.

31 December 2008, an increase on the 12 million euro as at 30 September 2008 (-49 million euro as at 31 December 2007). The securities reclassified had a fair value, as at 31 December 2008, of 4 million euro. The positive impact on the Valuation reserve under Shareholders' Equity of the reclassification, therefore, amounted to 2 million euro.
During the year, these positions had an overall negative impact on the income statement of 4 million euro (-5 million euro as at 30 September 2008), an improvement of 1 million euro in the fourth quarter. These figures compare with the 163 million euro loss recorded as at 31 December 2007. With regard to the Funded ABS component, please note that 28% had a AAA rating, 53% a B rating and the remaining 19% a CCC rating. The original LTV equalled 91%, while average delinquency [fn] at 30, 60 and 90 days was respectively equal to 6%, 4% and 9%. The cumulated loss[11] equalled 28%.
Some positions are partly quoted on active markets (ABX indexes), and as such are measured on the basis of prices issued by these markets, and partly not quoted on an active market (funded and unfunded super senior ABSs-CDOs) that are therefore measured using the Comparable Approach or the Mark-to-Model Approach.

"Contagion" area

As described above, the subprime mortgage crisis led to a sort of "contagion effect" which affected first of all products with underlying US residential mortgages present in the Intesa Sanpaolo Group's portfolio described below:

i. ***Multisector CDOs***: such products are almost entirely represented by unfunded super senior CDOs, with collateral represented by US RMBS (44%), CMBS (5%), HY CBOs (5%), Consumer ABS (1.7%), European ABS (26.4%).
   Over 59% of the US RMBS component had a vintage prior to 2005 and an immaterial exposure to subprime risk (on average 4.3%).
   These were transactions with a AA/A (64%) and B (36%) rating and an average protection (attachment point[12]) of 21%.

[11] Cumulated loss realised on the collateral of the instrument at a certain date.
[12] Level over which a protection seller covers the losses of the protection buyer.

"Contagion" area: Multisector CDOs

(in millions of euro)

Financial assets held for trading	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Unfunded super senior CDOs	343	169	1	-115	-114	*-65*
"Long" positions	**343**	**169**	**1**	**-115**	**-114**	***-65***
CMBX hedges and derivatives	61	44	-3	14	11	*3*
"Short" positions of funds	**-**	**65**	**-**	**41**	**41**	**2**
Net position (1)	**"long" 282**	**"long" 125**	**-2**	**-60**	**-62**	**-60**

(in millions of euro)

Loans	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Romulus-funded ABS/CDOs	16	12	-	-	-	-
"Long" positions	**16**	**12**	**-**	**-**	**-**	**-**
Total	**298**	**137**	**-2**	**-60**	**-62**	***-60***

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

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

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

Taking into account the write-downs and write-backs, together with the hedges on CMBX indexes and certain positions in single name credit default swaps on associated names taken during the year[13], the net risk exposure as at 31 December 2008 was 137 million euro, a significant reduction compared to both the 210 million euro as at 30 September 2008 and the 393 million euro as at 31 December 2007, due to the heavy write-downs made to the unfunded positions included in this category. The changes in the conditions of the residential market have shifted the risk towards the Commercial Real Estate segment. To address this situation the Group heavily wrote down the positions involved (-115 million euro in 2008, including -65 million euro in the fourth quarter alone) and implemented suitable cover, via CMBX indexes, to minimise the negative impact on the income statement. The exposure in question also included 12 million euro (nominal value of 16 million euro) of securities of the vehicle Romulus that were reclassified to the loans category. As at 31 December 2008 the securities reclassified had a fair value of 9 million euro, with a positive impact of the reclassification on the Valuation reserve under Shareholders' Equity amounting to 3 million euro.

During the year, the overall impact on the income statement ascribable to these positions (including those on CMBX indexes and other derivatives) was -103 million euro, of which -62 million euro in the fourth quarter. Considering, for the sake of completeness, the Group's investment in funds, which had taken "short" positions on the US credit market, and which had a positive impact on the income statement of 41 million euro, the impact on the income statement for the entire year amounted to -62 million euro, of which -60 million euro in the fourth quarter. These figures compare with a loss of 2 million euro as at 30 September 2008 and a loss of 17 million euro as at 31 December 2007. With the exception of the funded positions relating to the vehicle Romulus and the "short" hedging positions, all valued using effective market quotes, this area included unfunded instruments valued using the Mark-to-Model Approach. Of the short positions in funds, 55% were valued on the basis of effective

[13] But not in "short" positions of Funds.

market quotes and 45% on the basis of the comparable approach.

ii. ***Alt-A - Alternative A Loans***: ABS (securities) with underlying US residential mortgages normally of high quality, characterised however by penalising factors, mostly for incomplete documentation, which do not permit their classification in standard prime contracts.
All the positions in the Group portfolio had a 2005 vintage and ratings of AAA (66%), AA (26%), A (7%) and BB (1%).

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

(in millions of euro)

Financial assets held for trading	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Other securities available for sale[1]	9	-	-	-	-	-
"Long" positions	**9**	**-**	**-**	**-**	**-**	**-**

(in millions of euro)

Loans	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Alt-A Agency	45	44	-	-1	-1	-
Alt-A No Agency	42	34	-	-1	-1	-
"Long" positions	**87**	**78**	**-**	**-2**	**-2**	**-**
Total	**96**	**78**	**-**	**-2**	**-2**	**-**

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

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

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

Taking into account the write-downs and write-backs, the risk exposure as at 31 December 2008 was 78 million euro, compared to 80 million euro as at 30 September 2008 and 93 million euro as at 31 December 2007. The bonds included in this category were reclassified to the loans caption. The nominal value of the securities reclassified was 87 million euro and the risk exposure corresponded to 78 million euro. The securities had a fair value of 62 million euro and the positive impact of the reclassification as at 31 December 2008, therefore, amounted to 16 million euro.
During the year the impact on the "Profits (Losses) on trading – Caption 80" attributable to these positions was -2 million euro, unchanged compared to 30 September 2008, as a result of the reclassifications following the amendments to IAS 39. These figures compare with a loss of 20 million euro recorded as at 31 December 2007.
The Alt-A No Agency component presents an original average LTV of 70% and average delinquency at 30, 60 and 90 days equal respectively to 4.4%, 2.7% and 3.5%. Cumulated loss equalled 3.9%.

iii. ***TruPS – Trust Preferred Securities of REITs (Real Estate Investment Trust):*** financial instruments similar to preferred shares issued by US real estate trustees to finance residential or commercial initiatives.
The positions in the Group's portfolio had an A- and BBB+ rating (unfunded CDOs) and a AAA rating (funded CDOs) and an average attachment point of 38%.

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

(in millions of euro)

Financial assets held for trading	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Funded CDOs	4	2	-	-1	-1	*1*
Unfunded super senior CDOs	231	80	-	-62	-62	*-17*
"Long" positions	**235**	**82**	**-**	**-63**	**-63**	***-16***

(in millions of euro)

Loans	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Funded CDOs	-	-	-	-	-	-
"Long" positions	**-**	**-**	**-**	**-**	**-**	**-**
Total	**235**	**82**	**-**	**-63**	**-63**	***-16***

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

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

Taking into account the write-downs and write-backs, the risk exposure as at 31 December 2008 amounted to 82 million euro, compared to 97 million euro recognised as at 30 September 2008 and 146 million euro as at 31 December 2007.
In the year, the overall impact on the income statement ascribable to these positions was -63 million euro, of which -16 million euro in the fourth quarter. These figures compare to a loss of 85 million euro recognised as at 31 December 2007. Since these were mainly unfunded positions, none of the financial instruments included within this category were reclassified.
The significant loss attributable to the instruments in this area mostly derived from the widening in the spreads used for the calculation of marginal probability distributions and from the defaults which in particular affected two positions.
Such products are almost entirely represented by unfunded super senior CDOs measured using the so-called Mark-to-Model Approach.

iv. ***Prime CMOs***: securities issued with guarantee mostly represented by loans assisted by mortgages on US residential buildings.
They have a 2005 vintage and AAA rating.

"Contagion" area: Prime CMOs

(in millions of euro)

Financial assets held for trading	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
CMOs (Prime)	-	-	-	-	-	-
"Long" positions	**-**	**-**	**-**	**-**	**-**	**-**

(in millions of euro)

Loans	Position as at 31.12.2008		2008 income statement Profits (Losses) on trading			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
CMOs (Prime)	53	48	-	-3	-3	-
"Long" positions	**53**	**48**	**-**	**-3**	**-3**	**-**
Total	**53**	**48**	**-**	**-3**	**-3**	**-**

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

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

Taking into account the write-downs and write-backs, the risk exposure as at 31 December 2008 was 48 million euro, the same as that recognised as at 30 September 2008. This figure compares to the risk exposure of 55 million euro recognised as at 31 December 2007.
The bonds included in this aggregate possessed the features for reclassification to the loans category. As at 31 December 2008, the fair value of these securities was 35 million euro, with a positive impact from the reclassification of 13 million euro.
During the year, the impact on the "Profits (Losses) on trading – Caption 80" attributable to these positions was -3 million euro, unchanged compared to the amount recognised as at 30 September 2008. This figure compares with the loss of 1 million euro recognised as at 31 December 2007.
The Prime CMOs component presents an original average LTV of 65% and average delinquency at 30, 60 and 90 days equal respectively to 0.6%, 0.4% and 0.6%. Cumulated loss equalled 0.7%.

Monoline risk

Intesa Sanpaolo presents no direct exposure to monoline insurers (insurance companies specialised in the coverage of default risk of bonds issued by both public entities and corporates), but only indirect positions connected to hedging derivatives purchased from monoline insurers to buy protection on the default risk of assets held by the Group, which therefore only generate counterparty risk. Such hedging derivatives are part of two types of activities performed by Intesa Sanpaolo: packages and fully hedged credit derivatives transactions.
Intesa Sanpaolo's activities in packages are made up of the purchase of assets (typically bonds), whose credit risk is entirely hedged by a specific credit default swap (CDS). Therefore, these products only present counterparty risk referred to the entity which provided the hedge and their rationale lies in the eventual existence of asymmetries between the cash and derivatives market, of the same underlying asset, which it is possible to use without direct exposure to market risks.
Both the security and the connected derivative have been valued with the Mark-to-Model methodologies also considering any available prices, if lower; such valuations did not have any impact on Profits (Losses) on trading, with the exception of those referred to the counterparty risk component, mostly due to transactions in which the hedge was stipulated with monoline insurers for which a credit risk adjustment has been calculated, determined on the basis of the cost of a protection CDS on the default of the monoline insurer, with nominal value equal to the current and potential future exposure (so-called add-on) and expiry equal to the average residual life of the underlying assets.
During 2008, the Intesa SanPaolo Group reduced its exposure to monoline counterparties deriving from

transactions in structured packages, by closing certain transactions. The overall nominal value of the assets underlying these transactions was in fact reduced from 266 million euro as at 31 December 2007 to 165 million euro as at 31 December 2008. Although the packages, as already mentioned above, do not entail a market risk associated with the nature of the underlying asset, for the sake of completeness please note that the assets making up the package include, for a nominal value of 116 million euro as at 31 December 2008, securities with US RMBS collateral with a significant subprime content[14].

As at 31 December 2008, the credit risk exposure on the aforesaid protection purchases from monoline insurers amounted to 84 million euro, compared to 60 million euro as at 30 September 2008 and 54 million euro as at 31 December 2007. This was fully written down (the write-down amounted to 35 million euro as at 30 September 2008 and 14 million euro as at 31 December 2007), with a negative impact on the income statement for the year of 74 million euro (-51 million euro in the fourth quarter).

Intesa Sanpaolo's activities in fully hedged derivatives are made up of the simultaneous purchase and sale of protection on the same reference entity (underlying asset) with two different counterparties. Also in this case, market risk generated by the underlying asset does not affect the bank which solely bears counterparty risk generated by the "short" position in the protection purchase. The rationale for these transactions lies in the possibility of exploiting certain segmentations in the international market, without incurring in directional risks. The overall exposure to monoline counterparties in this category was also reduced during the year.

As at 31 December 2008, the credit risk exposure on the aforesaid protection purchases from monoline insurers amounted to 27 million euro, compared to 16 million euro as at 30 September 2008 and 32 million euro as at 31 December 2007. This exposure was also fully written down. The write-down amounted to 14 million euro as at 30 September 2008 and 11 million euro as at 31 December 2007. The negative impact on the income statement for the year was 20 million euro (-13 million euro in the fourth quarter).

In conclusion, as at 31 December 2008, the credit risk exposure with monoline insurers due to counterparty risk amounted to 111 million euro, compared to 76 million euro as at 30 September 2008 and 86 million euro as at 31 December 2007. The deterioration of the credit rating of the counterparties led to a full write-down of the positions held with them, compared to a write-down of 25 million euro as at 31 December 2007, with a negative impact on the 2008 income statement of 94 million euro, (-64 million euro in the fourth quarter).

Please note that protection single name CDS amounting to approximately 32 million euro (13 million euro as at 31 December 2007) have also been purchased and that 69% of exposure to monoline insurers referred to MBIA, while the remaining 31% referred to other monoline insurers with ratings from BBB to AAA.

[14] The percentage in US subprime was 37.5%.

Monoline risk

(in millions of euro)

Product	Position as at 31.12.2008				2008 income statement Profits (Losses) on trading	
					Fair value write-down of the hedge from Monoline insurers	
	Nominal value of the underlying asset	Fair value of the underlying asset (net of accruals)	Credit risk exposure to monoline insurers (fair value of the CDS) pre write-down	Credit risk exposure to monoline insurers (fair value of the CDS) post write-down	whole year	*of which 4Q*
Positions in packages:						
Subprime	165	81	84	-	-72	*-50*
Other underlying assets (1)	-	-	-	-	-2	*-1*
Sub-total	**165**	**81**	**84**	**-**	**-74**	***-51***
Positions in other derivatives:						
Other underlying assets	209	182	27	-	-20	*-13*
Total	**374**	**263**	**111**	**-**	**-94**	***-64***

(1) Underlying other than US RMBS, both European and US.

Lastly, for the sake of completeness, please note that there is another form of exposure to monoline insurers, which, however, does not generate particular risk situations. It stems from the investment in securities for which the monoline insurer provides a credit enhancement[15] to the issuing vehicle, for the purpose of making the issue "eligible" for certain types of investors through the achievement of a certain rating (normally AAA). The securities in question[16], with a nominal value as at 31 December 2008 of 529 million euro (1,273 million euro as at 31 December 2007[17]), consisted of 26% of ABSs with underlying Italian health receivables and the remainder of financings of infrastructures. They were all recorded in the banking book, 96.6% in the Loans & Receivables (L&R) portfolio and the remainder as securities available for sale. The positions were granted primarily on the basis of the creditworthiness of the underlying borrower and therefore, irrespective of the credit enhancement offered by the monoline insurer. Please note that, to date, there are no creditworthiness deteriorations in single issuers/borrowers which might suggest the application of particular measures such as prudential provisions. For this purpose, it must be noted that all such issues have an Investment Grade rating and that ABS with underlying Italian health receivables are also all assisted by delegated regional payment.

Non-monoline packages

This category includes packages with assets with specific hedges stipulated with primary international banks generally with a AA rating (in one case AAA and in one case A rating). Underlying assets are mostly made up of CLOs and ABS CDOs with a limited portion of US Subprime (equal to approximately 16%). Please note that the aggregate was significantly reduced during 2008 as a result, among other things, of the exercise by Intesa SanPaolo of an early termination option for a structure with a nominal value of around 700 million euro.

[15] Techniques or instruments used by an issuer to improve the rating of its issues (establishment of deposits for guarantee, granting of liquidity lines, etc.).

[16] Wholly held by Banca Infrastrutture Innovazione e Sviluppo.

[17] The considerable decrease is attributable to the entire reimbursement of two securitisations of health receivables from regions during the year.

Non monoline packages

(in millions of euro)

Product	Position as at 31.12.2008				Income statement as at 31.12.2008 Profits (Losses) on trading	
					Fair value write-down of the hedge	
	Nominal value of the underlying asset	**Fair value of the underlying asset** (net of accruals)	**Credit risk exposure to protection sellers** (fair value of the CDS) pre write-down	**Credit risk exposure to protection sellers** (fair value of the CDS) post write-down	**whole year**	*of which 4Q*
Positions in packages:						
Subprime	558	398	160	154	-	*12*
Total	**558**	**398**	**160**	**154**	**-**	***12***

These positions, as at 31 December 2008, amounted to 558 million euro in terms of nominal value, compared to 1,547 million euro as at 30 September 2008 and 2,487 million euro as at 31 December 2007. As at the same date, the credit risk exposure to counterparties of the transactions included in the aggregate amounted to 160 million euro (257 million euro as at 30 September 2008 and 459 million euro as at 31 December 2007) and were written down by 6 million euro (18 million euro as at 30 September 2008 and 5 million euro as at 31 December 2007) in application of systematic adjustments made on the entire universe of derivatives to incorporate the credit risk adjustment in fair value which, in this particular case, reflects a minimum[18] counterparty risk (so-called credit risk adjustment). The negative impact on the income statement for the year was nil, with a positive contribution of 12 million euro in the fourth quarter (compared to a loss of 12 million euro recognised as at 30 September 2008 and of 5 million euro recognised as at 31 December 2007). The improvement at the end of the year was mainly linked to the revision of the collateralisation agreements with one of the counterparties of one of these transactions that enabled the mitigation of the counterparty risk.
These positions are valued using the mark-to-model approach.

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

Other structured credit products

As mentioned in the introduction, the effects of the crisis that hit the US financial markets progressively spread first to products with collateral represented by non subprime US residential mortgages and then to the entire sector of structured credit products, including instruments with underlying assets not originated in the US.

Details are provided below of the different types of products relating to this last category that during the year 2008 had a negative impact on the income statement of 384 million euro, with a contribution of -249 million euro in the fourth quarter. The year-end figures compare with a loss of 135 million euro recognised as at 30 September 2008 and the loss of 178 million euro as at 31 December 2007. This aggregate includes both financial instruments classified in the trading book and financial instruments reclassified to the loan portfolio following the amendments to the IAS 39.

i. ***ABSs/funded CDOs:*** The European ABS/CDO portfolio consists of 16% of ABSs of receivables (Credit Card, Leasing, Personal Loans, etc.), 39% RMBSs (of which around half, 51%, are Italian), 10% CMBSs, 14% CDOs and 21% CLOs (mainly of small and medium enterprises). It is a portfolio characterised by high credit quality (AAA 76%, AA/A 22%, BBB/BB 2%). The collateral of the CMBS portfolio is mostly made up of Offices (44%), Retail/Shopping Centres (27%), Mixed Use (10%), Nursing Homes (8%), Residential (6%), Industrial (4%). The measurement of the European ABS/CDO portfolio is based on the comparable approach in 86% of cases, and on Mark-to-Model for the remaining 14%. As for the US ABS/CDO portfolio, on the other hand, these are securities with US underlying, with collateral represented by Credit Cards (47%), CMBSs (41%) and High Yield CLOs (12%). It is made up of 20% of AAA positions, 67% AA/A and 13% BBB/BB. The collateral of the CMBS portfolio is entirely made up of Small Commercial Loans, with a AA rating. The valuation of the US ABS/CDO portfolio is based on the comparable approach in 88% of cases, and on Mark-to-Model for the remaining 12%.
   - European ABSs/CDOs classified in the trading book.
     The portfolio as at 31 December 2008 amounted to 477 million euro[19] of nominal value (416 million euro as at 30 September 2008 and 517 million euro as at 31 December 2007) corresponding to a risk exposure of 424 million euro (391 million euro as at 30 September 2008 and 510 million euro as at 31 December 2007). As at 31 December 2008 the negative impact on this portfolio was 35 million euro (-3 million euro as at 30 September 2008 and -4 million euro as at 31 December 2007) with a negative contribution in the fourth quarter of 32 million euro, mainly attributable to the banking subsidiary Banca IMI.
   - European ABSs/CDOs classified under loans.
     During the year, these securities, with a nominal value of 1,840 million euro[20] (1,821 million euro as at 30 September 2008 and 1,781 million euro as at 31 December 2007), were reclassified to the loans caption following the amendments to IAS 39. As at 31 December 2008 the risk exposure for this category amounted to 1,686 million euro compared to 1,700 million euro as at 30 September 2008 and 1,713 million euro as at 31 December 2007. The securities included in the reclassified portfolio had a fair value, as at 31 December 2008, of 1,420 million euro. The positive impact of the reclassification was 266 million euro as at the year-end.
     During the year, the overall impact on the income statement of this aggregate amounted to -57 million euro[21], unchanged with respect to 30 September 2008 as a result of the reclassification. This figure compares with the loss of 70 million euro recognised as at 31 December 2007.
   - US ABSs/CDOs classified in the trading book.
     The portfolio as at 31 December 2008 amounted to 18 million euro of nominal value (20 million euro as at 30 September 2008 and 75 million euro as at 31 December 2007) and 6 million euro of risk exposure (14 million euro as at 30 September 2008 and 72 million euro as at 31 December 2007). The overall impact on the income statement, as at 31 December 2008, was -18 million euro (-10 million euro as at 30 September 2008 and -15 million euro as at 31 December 2007), with a contribution of -8 million euro in the fourth quarter. This aggregate fell considerably during the year as a result of realisations that generated losses totalling 7 million euro.
   - US ABSs/CDOs classified under loans.

[19] Of which 399 million euro pertaining to Banca IMI and 1 million euro pertaining to Carifirenze (classified under securities available for sale)

[20] Of which 308 million euro relating to Banca IMI, 8 million euro to Carifirenze (benefit from the reclassification to the Valuation reserve under Shareholders' Equity of 6 million euro) and 64 million euro attributable to Banca Fideuram (benefit from the reclassification to the Valuation reserve under Shareholders' Equity of 1 million euro).

[21] Of which -6 million euro ascribable to Banca IMI.

The features of the securities included in this portfolio permitted their reclassification to the loans caption. This involved securities with a nominal value of 48 million euro (71 million euro as at 30 September 2008 and 73 million euro as at 31 December 2007) corresponding to a risk exposure of 43 million euro (66 million euro as at 30 September 2008 and 68 million euro as at 31 December 2007). Their fair value as at 31 December 2008 was 39 million euro. The income statement received a benefit from the reclassification of 4 million euro as at 31 December 2008. During the fourth quarter there were redemptions of the securities belonging to this category. These securities did not generate any impact on the "Profits (Losses) on trading – Caption 80".

ii. Funded ABS/CDOs ascribable to the Romulus vehicle

These are securities that were classified, until 30 June 2008, as available for sale and were reclassified to loans following the amendments to IAS 39. The underlying is mainly US: Credit Card, Leveraged Loan, Student Loan and Corporate Risk. As at 31 December 2008, these amounted to 282 million euro of nominal value (278 million euro as at 30 September 2008 and 279 million euro as at 31 December 2007) and were written down overall by 38 million euro (16 million euro as at the end of last year). The write-down was recorded as an offsetting entry to the specific Shareholders' Equity Reserve up to the time of the reclassification. The securities included in this aggregate had a fair value of 220 million euro as at 31 December 2008 and the positive impact on Shareholders' Equity solely associated with the change in fair value amounted to 25 million euro. The portfolio consists of 55% of exposures with a AAA rating and 45% with a AA/A rating.
The securities are valued on the basis of the comparable approach in 58% of cases, and on Mark-to-Model for the remaining 42%.

iii. Unfunded super senior Multisector CDOs

This component, 790 million euro of nominal value as at 31 December 2008 (772 million euro as at 30 September 2008 and 760 million euro as at 31 December 2007), comprised super senior positions with High Grade well diversified collateral, or characterised by high credit quality RMBSs and therefore not included, as such, in the "contagion" area. The collateral is mostly invested in CMBSs and corporate loans representing 74%; the average collateral represented by US RMBSs totalled only 25%, whereas the subprime component was 2.7%. These structures had an average attachment point of 16.1%, and all had a AA rating, whilst 81% of the vintage was prior to 2005. During the year, the related impact on the income statement amounted to -65 million euro (+2 million euro from realised net income and -67 million euro from valuations), with a contribution of -51 million euro in the fourth quarter, compared to a loss of 14 million euro recognised as at 30 September 2008 and 16 million euro recognised as at 31 December 2007.
The deterioration seen in this category was mainly due to the downgrade and the defaults of the assets present in the collateral of a particular position.
Such positions are valued on a Mark-to-Model basis.

iv. Unfunded super senior Corporate Risk CDOs

Super senior in this residual category were mostly characterised by collateral subject to corporate risk and amounted to 2,596 million euro of nominal value as at 31 December 2008 (2,556 million euro as at 30 September 2008 and 2,488 million euro as at 31 December 2007). More in detail, the US collateral component was 35.1% (mainly represented by CLOs, 74%), the European component was 34.9% (of which 44% referred to Italian consumer credit and 38.6% to CLOs) and the emerging markets' component was 29.9% (bonds and project finance). These structures had an average attachment point of 31%. During the year, the related impact on the income statement amounted to -184 million euro (+3 million euro from realised income and -187 million euro from valuations), with a contribution of -152 million euro in the fourth quarter. The loss for the year 2008 compares with the negative figure recorded as at 30 September 2008 of 32 million euro and the loss of 71 million euro recorded as at 31 December 2007.
The deterioration was due marginally to the widening in the spreads and mainly to the forecast for the performance of the US and European leveraged loan market.
Such positions are valued on a Mark-to-Model basis.

v. Other unfunded positions

These comprise net "short" positions almost entirely on mezzanine tranches of unfunded CDOs with mainly European underlying, for a total of 396 million euro of nominal value as at 31 December 2008 (383 million euro as at 30 September 2008 and 396 million euro as at 31 December 2007). During

the year, the related impact on the income statement amounted to -25 million euro (-2 million euro from realised net charges and -23 million euro from valuations, attributable to the general deterioration of the "long" positions included in this group), with a contribution of 6 million euro in the fourth quarter. This figure compares to a loss of 19 million euro recorded as at 30 September 2008 and to a profit of 2 million euro recorded as at 31 December 2007.
Such positions are valued on a Mark-to-Model basis.

Other structured credit products

(in millions of euro)

Financial assets held for trading	Position as at 31.12.2008		Income statement as at 31.12.2008 Profits (Losses) on trading			
	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Funded European ABS/CDOs	477	424	3	-38	-35	*-32*
Funded US ABS/CDOs	18	6	-7	-11	-18	*-8*
Unfunded super senior multisector CDOs	790	707	2	-67	-65	*-51*
Unfunded super senior corporate risk CDOs	2,596	2,336	3	-187	-184	*-152*
Other unfunded "short" positions	-396	-417	-2	-23	-25	*-6*
"Long" positions	**3,485**	**3,056**	**-1**	**-326**	**-327**	**-249**

(in millions of euro)

Loans	Position as at 31.12.2008		Income statement as at 31.12.2008 Profits (Losses) on trading			
	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Realised gains/losses	Write-downs and write-backs	Total	
					whole year	*of which 4Q*
Funded European ABS/CDOs	1,840	1,686	-	-57	-57	-
Funded US ABS/CDOs	48	43	-	-	-	-
Funded Romulus vehicle ABS/CDOs	282	244	-	-	-	-
"Long" positions	**2,170**	**1,973**	**-**	**-57**	**-57**	**-**
Total	**5,655**	**5,029**	**-1**	**-383**	**-384**	**-249**

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

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

Outlook for the whole year

The financial situation with particular reference to activities connected with structured credit products is also set to remain difficult in 2009 in view of the trends in the European and US economies and the continuing difficulties in the US residential mortgage sector. On other side, the aggressive monetary and fiscal policies put into action at global level are not expected to have significant effects on growth and financial stabilisation until the beginning of 2010.

Against this background it seems unlikely that Intesa Sanpaolo Group will be able to count on a recovery in the value of the structured credit products still held in the books.

At the same time, it is not expected that there will be material impacts on the income statement. This expectation is supported by the following considerations:

- the already-high levels of write-downs to structures connected to US residential mortgages;
- the exposure in CMBS is limited, concentrated on higher creditworthiness classes and is currently valued on a stringent basis; moreover, hedging strategies, based on the use of derivatives on representative market indices have been devised for exposures in US CMBS;
- structured credit with collateral represented by US corporate loans are almost all of the highest credit quality (super senior), and they were also written-down at the end of 2008 in line with the spreads quoted by the market;

– the good credit quality of the European ABS portfolio and, within it, the marginal exposure to mortgages disbursed in countries which in the last few years experienced the highest price rises accompanied by a somewhat less rigorous control in disbursement quality (Spain, UK and Ireland). Furthermore, these positions have largely been classified to the banking book and therefore effects will only be generated in the income statement in the event of actual impairment of credit quality and there will be no impact from further negative movements in the market due to illiquidity or contagion.

In terms of quantitative scenario analysis, as already described in the paragraph dedicated to management of market risks originated from the trading book, the negative impact, solely for the component still classified as trading, on the fair value of the structured credit book deriving from a 25 basis points widening in credit spreads[22] is estimated at 12 million euro.

[22] This impact would have been 27 million euro if the Structured Credit Products had not been reclassified to the loan portfolio.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

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

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

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

The types of transactions in SPEs related to Intesa Sanpaolo's current operations are set out below.

Funding SPEs

Entities established abroad to raise finance on particular markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and reverse funding to the Parent Company.
These SPEs, which are controlled by Intesa Sanpaolo and are part of the Group's scope of consolidation *ex* IAS 27, are: Intesa Funding LLC, San Paolo IMI US Financial CO., IntesaBCI Preferred Capital Company LLC III and SanPaolo IMI Capital Company LLC 1. All these SPEs are based in the USA.
Compared to 31 December 2007 please note the extinguishment of liabilities of the vehicles Intesa Bank Overseas and Intesa Preferred Capital Company LLC., companies for which the closure process has commenced. The funding SPEs, BCI US Funding LLC I, BCI US Funding LLC II and BCI US Funding LLC III were also liquidated in 2008.
The table below shows the required figures and information as at 31 December 2008.

(in millions of euro)

FUNDING SPEs		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA FUNDING LLC	Funding	6,966	-	-	-	(1)	6,982	6,966			
SANPAOLO IMI US FINANCIAL CO	Funding	5,667	-	-	-	(1)	5,676	5,667			
INTESABCI PREFERRED CAPITAL COMPANY LLC III	Funding	517	-	-	-	(1)	500	517			
SANPAOLO IMI CAPITAL COMPANY LLC1	Funding	1,060	-	-	-	(1)	1,000	1,000			

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of these vehicles are almost entirely made up of loans to the Parent Company Intesa Sanpaolo.
Total funding of SPEs above had a 3.3% incidence on total direct customer deposits in consolidated financial statements.

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit linked and index linked products of Eurizon Vita and Eurizon Life. The latter retain the majority of the risk and rewards; SPEs for insurance products are consolidated pursuant to IAS27 / SIC 12.
In the Group there are 64 entities of this type with total assets of approximately 10 billion euro (of which 9 billion euro relative to funds which report to Fideuram Gestions).
The assets of the Fideuram Gestions funds consist of bonds and equities. The assets of the other funds in which Eurizon Vita/Eurizon Life hold the majority of the quotas in circulation are invested in bonds and liquidity for around 70% (except for the SPLux Sicav 2 Equity 100 fund, which has invested around 70% of the portfolio in equity funds and shares) and, for the remainder, in corporate bonds (around 12%) and equity and bond mutual funds (around 9%).
In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.
The total assets of these SPEs represented around 2% of the Group's total consolidated assets.

Securitisation SPEs

These are funding SPEs which permit an entity to raise resources with the securitisation of part of its assets. In particular, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market or through a private placement. Resources raised in this way are reversed to the seller while commitments with underwriters, are met using the cash flows generated by the loans sold.
SPEs of this type, which are part of the scope of consolidation as at 31 December 2008 pursuant to IAS 27 or SIC 12, are: Intesa Sec S.p.A., Intesa Sec 2 S.r.l., Intesa Sec 3 S.r.l., Intesa Sec NPL S.p.A., Intesa Lease Sec S.r.l., Split 2 S.r.l.; also, please note that the companies ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l. and ISP Sec 4 S.r.l. were not operational as at 31 December 2008. During the year 2008, the SPEs Adriano Finance S.r.l. – Series 1 and 2 – and Adriano Finance 2 S.r.l. were added to those already reported as at 31 December 2007. Please also note that the securitisation of Adriano Finance 3 S.r.l. is currently being set up.
The company Sec NPL 2 S.r.l., now Calit S.r.l., following the resolution of the Shareholders' Meeting of 7 May 2008, modified its corporate purpose, which is now financial and operating leasing of equipment and real estate assets. During the fourth quarter the company Calit S.r.l. was sold and, consequently, left the scope of consolidation.
These companies, incorporated under Italian law, have been used to securitise the performing assets (mortgage loans, leasing contracts) or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies.
Augusto, Colombo and Diocleziano are securitisation vehicles of assets (residential mortgages), mostly to finance of long-term mortgages and public works, of companies subject to joint control and later sold.
The securities held have been measured at fair value, as in previous years, except for the securities issued by the vehicles Adriano Finance S.r.l. and Adriano Finance 2 S.r.l. that are classified under the loan portfolio and have therefore been valued at amortised cost.
The table below shows the required figures and information as at 31 December 2008.

(in millions of euro)

SECURITISATION SPEs		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
	Type of asset	Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA SEC SPA [1]	performing mortgages	30	-	-	-	Guarantee agreement (11)	13	25	8	AFS	Fair value
INTESA SEC 2 SRL [2]	residential mortgages	569	1	-	-	-	-	504	51	HFT - Loans	Fair value/ amortised cost
INTESA SEC 3 SRL [3]	residential mortgages	2,672	-	-	-	-	-	2,551	192	HFT - Loans	Fair value/ amortised cost
INTESA SEC NPL SPA [4]	non-performing loans	122	-	-	-	-	-	159	70	AFS	Fair value
INTESA LEASE SEC SRL [5]	leasing contracts	296	4	-	-	-	-	275	25	HFT	Fair value
SPLIT 2 SRL	performing leasing contracts	730 (10)	-	-	-	-	-	705	43	Loans - HFT - HTM	Fair value/ amortised cost
ISP CB IPOTECARIO SRL [6]	mortgaged loans										
ISP CB PUBBLICO SRL [6]	public entities financing	(10)									
ISP SEC 4 SRL	performing residential mortgages	(10)									
ADRIANO FINANCE SRL - Series 1 [7]	performing residential mortgages	8,622	-	-	-	-	-	7,998	7,998	Loans	Amortised cost
ADRIANO FINANCE SRL - Series 2 [8]	performing residential mortgages	5,837	-	-	-	-	-	5,679	5,679	Loans	Amortised cost
ADRIANO FINANCE 2 SRL [9]	performing residential mortgages	13,291	-	-	-	-	-	13,050	13,050	Loans	Amortised cost
CR Firenze Mutui S.r.l.	performing residential mortgages	210	-	-	-	-	-	198	9	Loans	Amortised cost
AUGUSTO SRL [12]	land financing (100%)	38	10			-		46	16	AFS	Fair value
COLOMBO SRL	public works financing	104	7			-		104	-		
DIOCLEZIANO SRL	Land loans (82%) Public works (12%) Indus. (6%)	134	28			-		147	41	AFS	Fair value

(1) ISP made the commitment to support the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. A swap contract exists as an interest rate risk hedge.

(2) ISP made the commitment to support the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. ISP also granted a subordinated loan of 19 million euro used by the vehicle to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. A swap contract exists as an interest rate risk hedge.

(3) ISP granted limited recourse subordinated financing of 23 million euro used by Intesa SEC3 to set up the cash reserve for credit enhancement of the operation as required by the rating agencies. A swap contract signed with ISP exists as an interest rate risk hedge.

(4) ISP granted a guarantee and indemnity contract of 0.5 million euro, in case of declarations or guarantees which lead to a reduction in loan value. The bank is also committed to supporting the vehicle, through limited recourse subordinated financing, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The indemnity does not cover security-related costs and securitisation operating costs. Subordinated financing was granted for approximately 2 million euro. Cumulated losses will be absorbed by tranche E (equity) held by ISP, the value of which was adjusted in the current and previous years. An Interest Rate Cap and Interest Rate Floor also exist as interest rate risk hedges.

(5) The company has an existing swap contract as interest rate risk hedge..

(6) These vehicles were set up pursuant to art. 7-bis of Italian Law 130/99. Therefore they are not issuers of securities, instead issuing guarantees to holders of bonds (Guaranteed Bank Bonds) issued by third parties.

(7) ISP granted limited recourse subordinated financing of 51 million euro, used by the vehicle to set up the cash reserve required by the Rating Agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (440 million euro), fully subscribed by ISP. A swap contract exists as an interest rate risk hedge.

(8) ISP granted limited recourse subordinated financing of 50 million euro, used by the vehicle to set up the cash reserve required by the Rating Agencies in support of vehicle liquidity. Credit enhancement is instead made up of Class B securities (398 million euro), fully subscribed by ISP. A swap contract exists as an interest rate risk hedge.

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

(10) Established companies not yet operative as at 31 December 2008.

(11) Stand-by letter of credit/surety given by ISP to Calyon Milano as guarantee of a liquidity line granted in favour of the vehicle by Calyon Milano.

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

For the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec.), the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1 and, thus, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations, have not been recorded in the financial statements. For transactions stipulated after that date provisions of IAS 39 on derecognition of financial assets and liabilities are applied.

The securitised assets of the vehicles in this category consist of performing mortgages for Intesa Sec Spa, of performing residential mortgages for Intesa Sec 2, Intesa Sec 3, Adriano Finance and Adriano Finance 2, of doubtful mortgages for Intesa Sec NPL, of performing leasing contracts for Intesa Lease Sec and Split 2, and of uses of liquidity. Total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up by long-term mortgages.
The total assets of the consolidated SPEs not derecognised (Intesa SEC3 Srl., Split 2 Srl., Adriano Finance, Adriano Finance 2) represented around 5% of the Group's total consolidated assets.
For the sake of completeness, please note the presence of C.R. Firenze Mutui S.r.l., a securitisation vehicle with own underlying assets (performing mortgages) belonging to the Carifirenze Group, acquired in the first half of 2008. This vehicle, consolidated at equity, had total securitised assets of 188 million euro.
Furthermore, Intesa Sanpaolo controls pursuant to the aforesaid SIC 12:

i. Romulus Funding Corporation, a company based in the USA that acquires financial assets, represented by loans or securities, with eligibility criteria originated by Bank customers, financing the purchase via the issue of Asset Backed Commercial Papers;
ii. Duomo Funding PLC, an entity which performs an activity similar to that of Romulus Funding Plc. but is limited to the European market and is financed through Funding contracts with Romulus.

Intesa Sanpaolo, for the guarantee given to Romulus, set up in the Annual report 2007 an allowance for risks and charges of 8 million euro. In the first half of 2008, an AFS security of the vehicle was transferred to the Parent Company, which impaired it for approximately 7.5 million euro; an amount equal to the allowance for risks and charges set up at the end of 2007 was reversed to the income statement.
The table below sets out the information requested by Consob, with reference to 31 December 2008.

(in millions of euro)

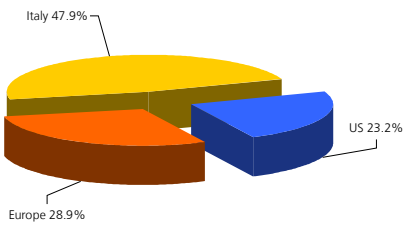
ROMULUS AND DUOMO		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset back commercial paper conduit	1,628 (1)		576	447		70	1,670	895	Loans	Amortised cost
DUOMO FUNDING CORP.	purchase of assets and Romolus financing	1,090		1,188	1,184		-	-	-		

(1) of which 1,090 million euro for loans disbursed to Duomo, for transactions reported in the latter's financial statements.

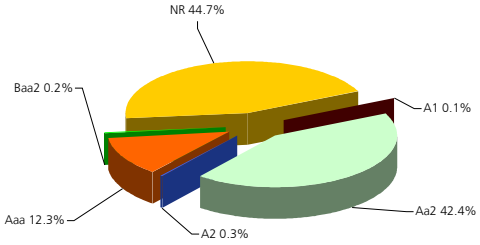
The total assets of the vehicle Romulus include loans to Duomo of 1,090 million euro. The vehicle's securities portfolio, which as at 30 June 2008 consisted of securities available for sale and securities classified under the loans category, was reclassified, for the securities available for sale portion, in accordance with the amendments introduced by IAS 39. As at 31 December 2008 these securities were reclassified to the loan securities category for a value of 534 million euro, valued at amortised cost. The fair value of the securities as at the same date was 505 million euro. The accumulated write-down of the securities at the time of the reclassification was 45 million euro (19 million euro as at 31 December 2007) and was allocated to a specific Shareholders' Equity Reserve. The vehicle's assets also include liquidity and other assets for 4 million euro.
Duomo's total assets are made up of loans to Intesa Sanpaolo for 529 million euro, as collateral for an intragroup protection sale on the risk of a primary insurance company, of loans to the subsidiary Intesa Sanpaolo Bank Ireland for 150 million euro, of debt securities classified under the loan portfolio for 381 million euro (fair value of the same amount as at 31 December), of loans to customers for 29 million euro and of liquidity and other assets for one million euro.
The total assets of the above SPEs represented 0.4% of the Group's total consolidated assets.

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

Breakdown by geographical area



Breakdown of assets by rating



Please note that the eligible assets in the portfolios of the Romulus and Duomo vehicles, even though in part (approximately 45%) not supported by an external rating, were in any case of sufficient quality to allow the commercial paper issued by Romulus to maintain the A-1+/P-1 ratings. More specifically, the percentage of assets with a Aaa and Aa rating increased from around 46% in June 2008 to around 55% at the end of December 2008. Even though the rating of some of the securities was downgraded, the average quality of the portfolio was maintained through the acquisition of assets with high credit quality.
Of the securities classified in the loan portfolios of these vehicles, 46% had a 2002 vintage, 8% a 2003 vintage and the remaining 46% a 2007 vintage.
Intesa Sanpaolo does not hold any stake in SPQR II S.r.l. but the company is consolidated since the Group has retained the majority of costs and benefits (SIC 12).
The table below sets out the information requested by Consob, with reference to 31 December 2008.

(in millions of euro)

SPQR 2		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
SPQR II SRL (CBO 1)	Performing Loans & Rece	2,014	-	50	-	-	-	1,917	1,917	Loans [1]	Amortised cost
SPQR II SRL (CBO 2)	Performing Loans & Rece	1,362	-	100	-	-	-	1,330	1,330	Loans [1]	Amortised cost

[1] BIIS has reclassified these securities, originally classified as AFS, to the loans portfolio pursuant to paragraph 50E of the revised IAS 39. This reclassification was recorded in the Interim Statement as at 30 September 2008.

The assets of the vehicles are almost entirely made up of a portfolio of debentures issued by Italian public entities, with a nominal value of around 3 billion euro, sold to the vehicles by Banca OPI (now Banca Intesa Infrastrutture, Innovazione e Sviluppo). The vehicles, in turn, issued senior and junior bonds; both types of securities were repurchased by BIIS, which designated the senior classes as collateral to its funding with the European Central Bank, via transactions conducted through the Parent Company Intesa Sanpaolo.
The incidence of total assets of securitisation SPEs with respect to the Group's total consolidated assets was approximately 0.5%.
Lastly, Intesa Sanpaolo acquired protection on its credit exposures from the vehicles:

- "Da Vinci", synthetic securitisation aimed at covering and actively managing its risk exposure in the aircraft and aeronautic sector;
- Vespucci, a synthetic securitisation on an asset backed-securities portfolio and collateralised debt obligations (CDOs) aimed at managing trading activity in structured credit products.

As at 31 December 2008 the Intesa SanPaolo Group's exposure to the vehicle Da Vinci amounted to 26 million euro (of which 8 million euro relating to debt securities and 19 million euro to guarantees issued). The exposure to the vehicle Vespucci, entirely represented by debt securities classified under the trading book, amounted to 72 million euro in nominal value, corresponding to a risk exposure of 68 million euro. These securities form part of the structured credit products affected by the financial crisis.

Financial Engineering SPEs

These SPEs undertake investments and funding which allow better risk/return combinations than those generated by standard transactions, due to their particular structure aimed at optimising accounting, tax and/or regulatory issues. These structures have been established to respond to the needs of primary customers and to provide solutions that offer financing at competitive interest rates and investments with higher returns.
Intesa Sanpaolo controls and consolidates Intesa Investimenti S.p.A., a company established to invest in quotas of Italian and international UCITS, in quotas and shares of other Italian and international entities and in Government securities of G7 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price; all assisted by swaps aimed at assuring an adequate profitability of the investment. Intesa Sanpaolo replicates every transaction, again with a repurchase agreement with Intesa Investimenti, whose shares are in turn the object of an analogous contract with investing customers. Currently the shareholders' equity of the company is entirely deposited with Intesa Sanpaolo.
The table below sets out the information requested by Consob, with reference to 31 December 2008, which did not present changes compared to the situation at the end of 2007.

(in millions of euro)

FINANCIAL ENGINEERING		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA INVESTIMENTI SPA	Financial Engineering	1,071	-	-	-	-	-	-	-		

The assets of the vehicle are almost entirely made up of term deposits with the Parent Company Intesa Sanpaolo.

Project Financing SPEs

These are financing instruments for "capital intensive" projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.

Such vehicles are established by sponsor "entrepreneurs", mostly abroad to benefit from operating and legal/bureaucratic efficiency.
Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the Bank does not hold any stake or interest in the share capital of these companies and no presumed control assumptions apply. Where there are guarantees represented by pledges of shares of the SPE, contractual terms exclude the possibility of exercise of voting rights by the Bank.

Asset Backed SPEs

These are transactions aimed at acquisition / construction / management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate disposal plan). Generally the assets are also the real guarantee for the financing obtained from the vehicle.
Intesa Sanpaolo has financed entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk accepted is always a normal credit risk and the benefits are represented by the return on the financing granted.
The Group consolidates only those entities in which it holds the majority of voting rights. The SPEs of this type are held solely by an international subsidiary (the volume of this type of assets amounted to approximately 110 million euro as at 31 December 2008).

Leveraged & Acquisition Finance SPEs

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

Credit Derivative SPEs

Credit derivatives are contracts which permit the synthetic transfer of credit risk of a specific borrower from the protection buyer to the protection seller. Especially in structures connected to synthetic securitisations, it is possible to achieve the transfer of credit risk of a portfolio of assets from a SPE to the Bank, both by the simple sale of protection derivatives or by the purchase of securities with embedded credit derivatives. In certain cases (e.g. monoline) the SPE is protection seller and offers the Bank the possibility of hedging risk on portfolios of assets.
There are never equity investments or other interests which might lead to the role of sponsor.
None of these SPEs is consolidated, since there are never any equity investments or forms of indirect control by the Bank. The relations with the parties are fundamentally based on the stipulation of derivative contracts or the acquisition of securities with embedded credit derivatives. This never leads to the transfer to the Bank of most of the risks and benefits deriving from the activities of the vehicle.

From the above, it is clear that the use of Special Purpose Entities is part of the ordinary operations of the Intesa Sanpaolo Group, for both funding and lending activities.
Such activities, performed both via consolidated SPEs, and with unconsolidated SPEs are qualitatively and quantitatively significant.
However, it must be underlined that this does not lead to risks which are appreciably higher than activities performed without the use of SPEs.

DISCLOSURE ON INVESTMENTS IN HEDGE FUNDS

The Bank has long operated in the Hedge Fund market for proprietary trading purposes, through a specific specialist desk. The average size of the portfolio has risen from 398 million euro in 2002 to 888 million euro in 2008.

Until 31 December 2007, the portfolio's annual performance had always been positive, particularly significant in some cases. As at 31 December 2008, however, the contribution to the Profits (Losses) on trading attributable to these investments was negative at 145 million euro (compared to the 100 million euro of net income recorded as at 31 December 2007), with a negative contribution of 74 million euro in the final quarter of 2008.

The 145 million euro loss recognised as at 31 December 2008 within the Profits (Losses) on trading included:

- 16 million euro of net realised losses during the year relating to the trading of funds;
- 122 million euro of net write-downs of the outstanding positions as at the end of December;
- 7 million euro mainly from foreign exchange losses.

With regard to the net capital losses on the year-end positions (-122 million euro), these were spread across 47 positions, with a book value of 852 million euro, of which 38 with losses (of -205 million euro) and 9 with gains (of 83 million euro). The positions with gains are partly represented by funds that have seen their value increase following the negative performance of the US credit market. The related performance (corresponding to 41 million euro) has also been included in the disclosure relating to structured credit products.

The main reason underlying the negative results relates to the events that took place from last September, which were capable of generating waves of redemptions in the asset management industry also as a result of the deleveraging of their balance sheets by the financial and banking institutions.

The extent of these phenomena rendered the strategies for the diversification of the portfolio completely ineffective, especially in the months of September and October, together with the tactical movements made previously that, in theory, should have countered the explosion of systemic risk.

In 2009, the intention is to focus the portfolio more on strategies linked to credit, which are considered to have high potential returns, as these are assets at extremely distressed prices, whereas the timescale for the investments will tend to be extended up to 3-5 years.

LEVERAGED FINANCE TRANSACTIONS

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

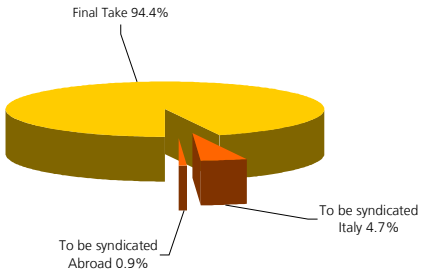
These positions are mostly aimed at supporting Leveraged Buy Out projects (therefore with high leverage), connected with the acquisition of companies or business lines also through special purpose entities (SPEs), which, after the acquisition of the equity stake in the target company, are normally merged by incorporation into the latter. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.

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

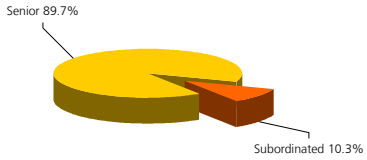
As at 31 December 2008, around 100 transactions, for a total amount granted of 4,790 million euro, met the above definition.

Such exposures are mostly classified in the loan portfolio. These also include the portions of syndicated loans underwritten or under syndication destined from the outset to be sold. In line with information requests, breakdown of exposures by geographic area, economic sector and by level of subordination is set out below.

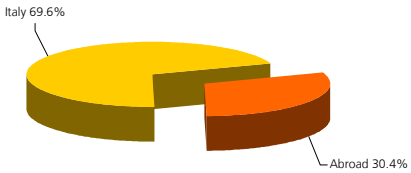
Breakdown by type of risk



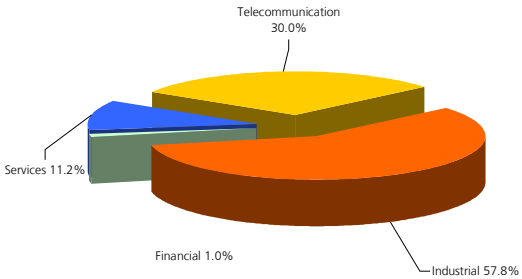
Breakdown by subordination level



Breakdown by geographical area



Breakdown by economic sector



INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

The Intesa Sanpaolo Group is active in the sale of "over the counter" (OTC) derivatives to various customer segments, through three main poles (in terms of volumes traded):

- Banca dei Territori Division, for the sale of derivative products to retail and business customers with consolidated turnover under 150 million euro, through the branch network of Intesa Sanpaolo and of the Group's Italian banks. Derivatives sold by the network are hedged back to back with a swap house which, in most cases, is Banca IMI;
- Corporate Division, for the sale of derivative products to corporate customers with consolidated turnover over 150 million euro, through the branch network of Intesa Sanpaolo and the Group's Italian banks. Derivatives sold by the network are hedged back to back with Banca IMI;
- Public Finance Business Unit, for the sale of derivative products to public entities, through Banca Infrastrutture Innovazione e Sviluppo. Derivatives sold are hedged back to back with Banca IMI.

Customer needs that the Intesa Sanpaolo Group aims to satisfy through derivative instruments are diverse and depend on customer segment. In short, the following picture emerges:

1) retail and business customers served by Banca dei Territori acquire derivative instruments for investment or to hedge financial risks, with a few typical differences:
   i) companies stipulate derivative contracts to hedge risks, mostly interest rate and foreign exchange risk;
   ii) individuals normally do not stipulate derivatives explicitly with the Intesa Sanpaolo Group as counterparty, with the exception of contracts aimed at hedging interest rate risk on retail mortgages;
2) customers of the Corporate Division (mostly large businesses, mainly qualified operators) sign derivative contracts for hedging/managing risks, mostly interest rate and foreign exchange risk;
3) entities of the Public Administration, served by Banca Infrastrutture Innovazione e Sviluppo, sign derivative contracts to manage their liquidity and modify/hedge their debt positions.

The centres of responsibility which sign contracts with customers (essentially, Intesa Sanpaolo, network banks, as well as Banca Infrastrutture Innovazione e Sviluppo) do not take market risks, since these are systematically hedged back to back, in most cases with the Group's securities house, Banca IMI. The latter hedges the risks transferred to it dynamically and collectively, in respect of assigned limits, for the purpose of maximising financial effectiveness. Counterparty risk is not transferred.

Considering only relations with customers, as at 31 December 2008, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, considering netting agreements, of 2,524 million euro (1,364 million euro as at 31 December 2007). The notional value of such derivatives totalled 47,076 million euro (40,131 million euro as at 31 December 2007). Of these, notional value of plain vanilla contracts was 32,590 million euro (25,715 million euro as at 31 December 2007), and of structured contracts was 14,486 million euro (14,416 million euro as at 31 December 2007).
Please note that the fair value of structured contracts outstanding with the 10 customers with the highest exposures was 221 million euro (213 million euro as at 31 December 2007). The same indicator, referred to the total contracts with a positive fair value, was 688 million euro.
Conversely, negative fair value determined with the same criteria, for the same types of contracts, with the same counterparties, totalled 443 million euro at 31 December 2008 (883 million at 31 December 2007). The notional value of such derivatives totalled 11,759 million euro (30,057 million euro as at 31 December 2007). Of these, notional value of plain vanilla contracts was 10,365 million euro (25,123 million euro as at 31 December 2007), and of structured contracts was 1,394 million euro (4,934 million euro as at 31 December 2007).
The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty (s.c. Credit Risk Adjustment). On contracts outstanding as at 31 December 2008, this implied the registration in the income statement, under profits from trading, of adjustments of 65 million euro, compared to the 33 million euro as at 31 December 2007, with a negative impact, during the year, of 32 million euro. Adjustments are recorded, for every single contract, on the market value determined using the risk free curves.
As concerns the means of calculation of the aforesaid Credit Risk Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in this chapter.

Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues as well as the relative hedges with banks and financial companies.

REGULATORY TRADING BOOK
1.2.1. INTEREST RATE RISK – REGULATORY TRADING BOOK
1.2.3. PRICE RISK – REGULATORY TRADING BOOK

Consistent with the use of internal risk measurement models, the sections relative to interest rate and price risk have been grouped within the relevant portfolio.

QUALITATIVE INFORMATION

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 indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDS);
- spreads in issued bonds;
- correlation instruments;
- dividend derivatives;
- asset backed securities (ABS);
- commodities.

Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 8% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios were interest rates and foreign exchange rates, both relating to linear pay-offs.

Internal Model validation

For certain 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.

Operating VaR

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).

VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

The following paragraphs provide the estimates and evolution of operating VaR, defined as the sum of VaR, and of simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI (also comprehensive of items available for sale which are not attributable to equity investments).

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).

QUANTITATIVE INFORMATION

Daily operating VaR evolution

During the fourth quarter of 2008 market risks originated by Intesa Sanpaolo and Banca IMI increased compared to the previous periods. The average daily operating VaR for the fourth quarter of 2008 was 60.4 million euro, a 45% increase on the third quarter.
With regard to the whole of 2008, the average risk profile (47.8 million euro) increased compared to the average values in 2007 (26.5 million euro).

Daily Operating VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison between the 4th and the 3rd quarter of 2008 [(a)]

(millions of euro)

	average 4th quarter	minimum 4th quarter	maximum 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	42,1	36,9	46,8	31,5	37,9	29,4
Banca IMI	18,3	11,9	21,2	10,1	12,9	9.0
Total	**60,4**	**49,8**	**67,4**	**41,6**	**50,8**	**38,4**

(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.

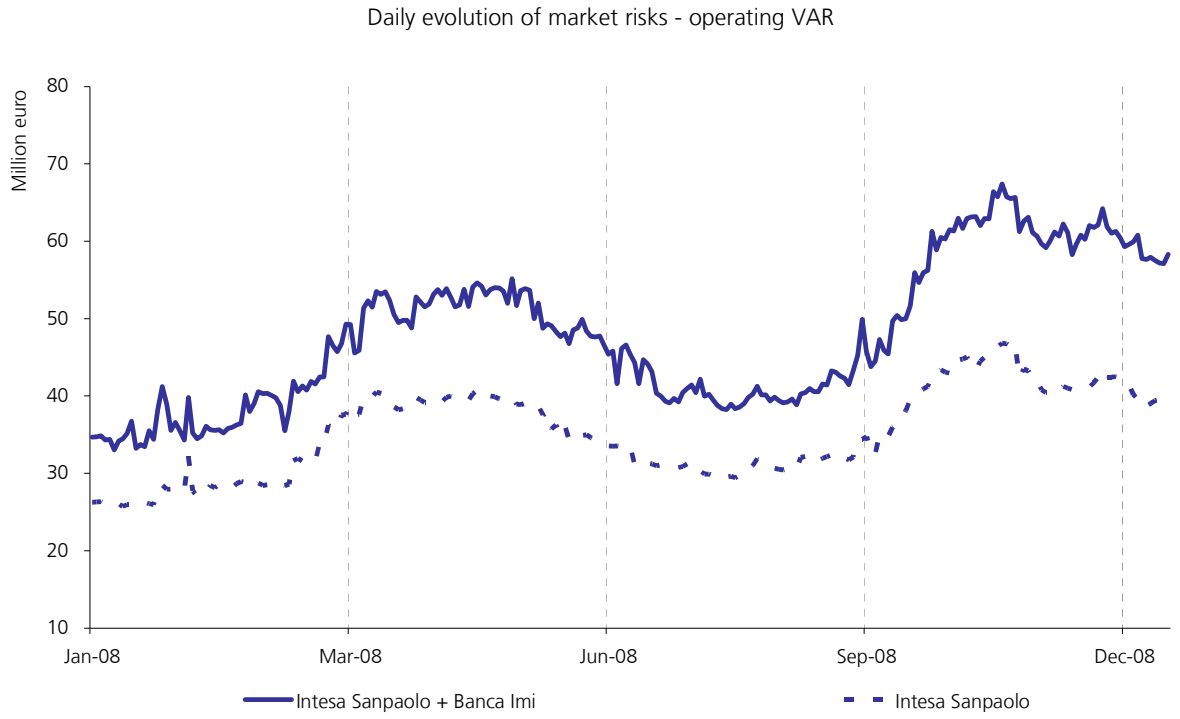
Daily Operating VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI – Comparison 2008-2007 [(a)]

(in millions of euro)

	2008				2007		
	average	minimum	maximum	last day	average	minimum	maximum
Intesa Sanpaolo	35,2	25,7	46,8	40,8	19.6	14.8	25.3
Banca IMI	12,5	6,4	21,2	17,4	6.9	4.3	11.1
Total	**47,8**	**33,1**	**67,4**	**58,2**	**26.5**	**21.2**	**35.2**

[(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.

These trends, for both Intesa Sanpaolo and Banca IMI, are attributable in particular to the increase in volatility during 2008 that raised further as a result of the crisis in the markets following the Lehman Brothers bankruptcy.
In October, as permitted by the IFRS regulations, certain highly illiquid securities were reclassified to LR (mainly ABS). The average VaR in the fourth quarter of 2008 in this segment, not included in the monitoring of VaR limits and statistics referred to above, was around 10 million euro.



For Intesa Sanpaolo the breakdown of the risk profile in the fourth quarter of 2008 with regard to the various factors shows the prevalence of the hedge fund risk, which represented 38% of total operating VaR. Credit spread risk was the most significant component for Banca IMI, representing 40% of the total.

Contribution of risk factors to overall operating VaR [(a)]

4th quarter 2008	Shares	Hedge fund	Rates	Credit spread	Foreign exchange	Other parameters
Intesa Sanpaolo	9%	38%	16%	14%	1%	22%
Banca IMI	27%	-	21%	40%	5%	7%
Total	**16%**	**23%**	**18%**	**24%**	**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)]

	31.12.2008	31.12.2007
- Relative Value / Arbitrage	20%	19%
- Event Driven	37%	26%
- Multistrategy, Funds of Funds	5%	10%
- Credit / Emerging	8%	2%
- Directional	6%	11%
- Equity Hedge / long-short	24%	32%
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.

The concentration limits assigned to hedge fund activity in terms of maximum percentage investment in the portfolio and maximum percentage with respect to the AUM (Assets Under Management) were particularly effective in containing the effects generated within the hedge fund industry in the fourth quarter of 2008.
Risk control relative 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.

(in millions of euro)

	Equity		Interest rates		Credit spreads		Foreign Exchange rates	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%
Total	-5	2	10	-12	43	-43	2	1
of which SCP					*12*	*-12*		

In particular:
- for positions on stock markets, a "bearish" scenario, that is, a 5% decrease in stock prices with a simultaneous 10% increase in volatility would have led to a 5 million euro loss; a "bullish" scenario, that is, a 5% rise in stock prices with a simultaneous 10% decrease in volatility, would have led to a 2 million euro gain;
- for exposures to interest rates, a parallel +25 basis point shift in the yield curve would have led to a 12 million euro loss whereas a parallel -25 basis point shift would have led to a 10 million euro gain;
- for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would have led to a 43 million euro loss, of which 12 million euro attributable to structured credit products (SCP);
- lastly, with reference to exposures on the EUR/USD market, the portfolio's position was basically protected from both devaluation and revaluation of the US Dollar due to the effect of option structures aimed at protecting from directional movements.

Backtesting

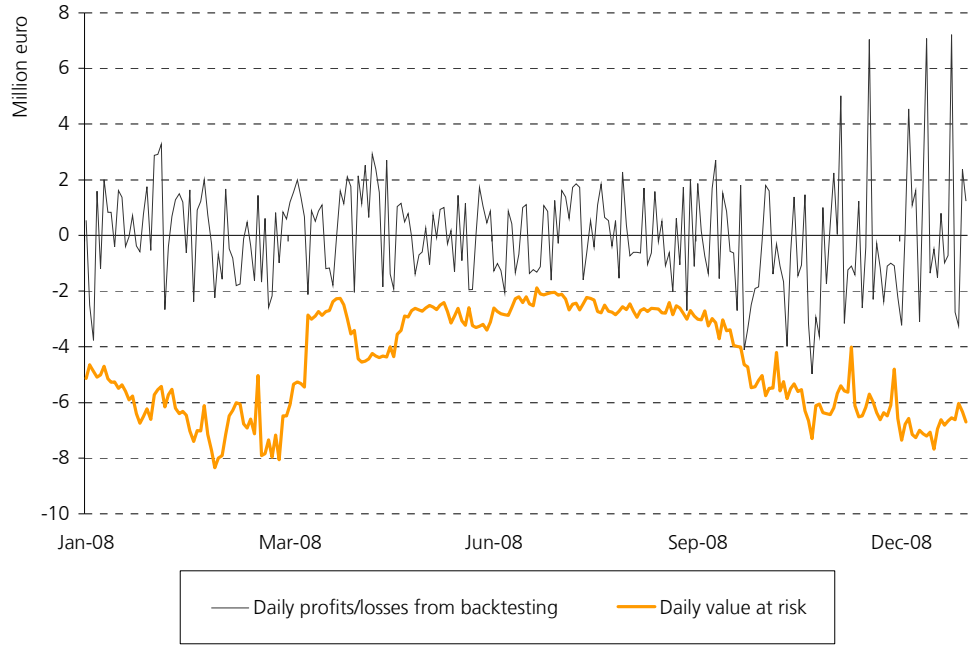
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

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

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

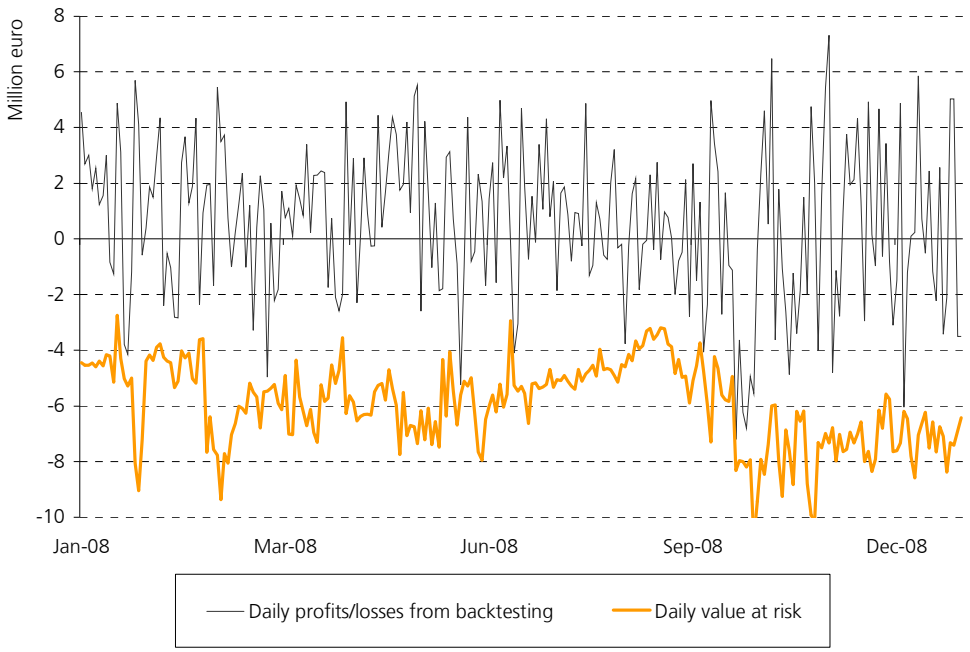
Backtesting in Intesa Sanpaolo

Intesa Sanpaolo's regulatory backtesting, set out in the following graph, does not present any critical situation. Critical situations occur if daily profits and losses from backtesting prove to be higher than the VaR estimate in more than three occasions in the observation period.



Backtesting in Banca IMI

Banca IMI's regulatory backtesting, set out in the following graph, does not present any critical situation. Critical situations occur if daily profits and losses from backtesting prove to be higher than the VaR estimate in more than three occasions in the observation period.



Regulatory trading book: on-balance sheet exposures to equities and UCITS

(in millions of euro)

	Book values	
	Listed	**Unlisted**
A. Equities	**229**	**47**
A.1. Shares	229	47
A.2. Innovative equity instruments	-	-
A.3. Other equities	-	-
B. UCITS	**1,441**	**440**
B.1. Italian	49	231
- harmonised open-end	35	231
- not harmonised open-end	-	-
- closed-end	14	-
- reserved	-	-
- speculative	-	-
B.2. Other EU Countries	744	29
- harmonised open-end	742	29
- not harmonised open-end	2	-
- not harmonised closed-end	-	-
B.3. Non-EU Countries	648	180
- open-end	648	177
- closed-end	-	3
Total	**1,670**	**487**

Issuer risk

Issuer risk in the trading portfolio is analysed in terms of marking to market, by aggregating exposures by rating classes and it is monitored using a system of operating limits based on both rating classes and concentration indexes.

Breakdown of exposures by type of issuer/rating class for Intesa Sanpaolo and Banca IMI [(a)]

	Total	of which				
		Corporate	Financial	Emerging	Covered	Securitis.
Intesa Sanpaolo	52%	-8%	57%	10%	38%	2%
Banca IMI	48%	9%	64%	1%	-	26%
Total	**100%**	**-**	**60%**	**6%**	**20%**	**14%**

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

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

The breakdown of the portfolio subject to issuer risk shows the prevalence of securities of the financial and securitisation segments.

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 actual functioning of the limit system and of delegated powers is based on 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.

During the Management Board meeting held on 11 November last, a new VaR limit for the Group was resolved of 75 million euro (previously 60 million euro).
Given the trend in the volatility of the risk factors used for the calculation of the historical VaR that reached unprecedented record levels, the increase in the limit was resolved in order to guarantee sufficient operational flexibility to the risk-taking centres to enable the active management of the business risks in support of the commercial and investment banking operations. Please note that this increase in the limits was smaller in size than the increase in volatility in the market.

In the light of these new limits, the use of operating VaR autonomy limits in Intesa Sanpaolo, in the component sub-allocated to organisational units, was on average 77% in 2008, with a maximum use of 104%; VaR operating limits in Banca IMI equalled on average 58%, with a maximum use of 96%.

BANKING BOOK
1.2.2 INTEREST RATE RISK – BANKING BOOK

QUALITATIVE INFORMATION

A. Banking book: general aspects, interest rate risk management processes and measurement methods

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. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated held by the Parent Company and other Group companies.
The following methods are used to measure financial risks of the Group's banking book:
– Value at Risk (VaR);
– Sensitivity analysis.
Value at Risk is calculated as the maximum "unexpected" potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR). Besides measuring the equity portfolio, VaR is also used to consolidate exposure to financial risks of the various Group companies which perform banking book activities, thereby taking into account diversification benefits. 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 can not guarantee that the possible future losses will not exceed the statistically calculated estimates.
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer sight loans and deposits, whose features of stability and of partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits.
Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in market interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

B. Fair value hedging
C. Cash flow hedging

Hedging activity 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 assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. Moreover, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic in the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date in which the rate is set and the date of payment of the relevant interests.
Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on 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.

QUANTITATIVE INFORMATION

Banking book: internal models and other sensitivity analysis methodologies

Interest margin sensitivity – in the event of a 100 basis points rise in interest rates – amounted to +102 million euro at the end of 2008 (-92 million euro in case of reduction), lower than at the end of 2007 (+204 million euro and -205 million euro, respectively in the case of increase/decrease of interest rates), mostly as a result of fixed rate investments in order to hedge the risk of sight deposits.
The aforesaid potential impact would be reflected, in case of invariance of the other income components and net of fiscal effects, also in the Bank's year-end profit/loss, taking into account the abovementioned assumptions concerning the measurement procedures.
In 2008, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 376 million euro and 484 million euro at year end, almost entirely concentrated on the euro currency; these figures compare with a figure of 369 million euro at the end of 2007.
Interest rate risk, measured in terms of VaR, averaged 134 million euro in 2008 (104 million euro at the end of 2007), with a minimum value of 92 million euro and a maximum value of 218 million euro. At the end of December 2008 VaR totalled 177 million euro.

1.2.4 PRICE RISK – BANKING BOOK

A. General aspects, price risk management processes and measurement methods

As indicated in paragraph 1.2.2, the banking book includes exposures to market risks deriving from equity investments in listed companies not subject to full consolidation which are mostly held by the Parent Company and the companies Equiter, Imi Investimenti, Intesa Sanpaolo Holding International and Private Equity International.
The measurement of price risk generated by the portfolio of minority stakes in listed companies, mostly accounted for under the AFS (Available For Sale) principle, occurs through the VaR method (99% confidence level, 10-day holding period).

B. Price risk hedging

Hedging activities were not performed during the year to cover the price risk of the banking book.

QUANTITATIVE INFORMATION

The table below provides a sensitivity analysis of the banking book to price risk, measuring the impact on Shareholders' Equity of a price shock of ±10% for the listed assets recorded in the AFS category.

Impact on Shareholders' Equity

		Impact on shareholders' equity (in millions of euro)
Price shock	-10%	-75
Price shock	10%	75

1. Banking book: on-balance sheet exposure

(in millions of euro)

Exposure types	Book values	
	Listed	Unlisted
A. Equities	**789**	**1,438**
A.1. Shares	788	1,221
A.2. Innovative equity instruments	-	-
A.3. Other equities	1	217
B. UCITS	**61**	**463**
B.1. Italian	39	359
- harmonised open-end	*38*	*140*
- not harmonised open-end	-	-
- closed-end	*1*	*166*
- reserved	-	*48*
- speculative	-	*5*
B.2. Other EU Countries	22	39
- harmonised open-end	*22*	*16*
- not harmonised open-end	-	-
- not harmonised closed-end	-	*23*
B.3. Non-EU Countries	-	65
- open-end	-	*26*
- closed-end	-	*39*
Total	**850**	**1,901**

The table does not include the equity investments in companies recorded under caption 100 of Assets, as detailed in table 10.2 in Part B of this Annual Report and exclusively referred to the Banking Group.

2. Banking book: internal models and other sensitivity analysis methodologies

The price risk generated by minority stakes in listed companies, measured in terms of VaR, registered an average level in 2008 of 126 million euro (113 million euro at the end of 2007) with minimum and maximum values of 104 million euro and 156 million euro respectively. The VaR at the end of 2008 amounted to 120 million euro.

1.2.5. FOREIGN EXCHANGE RISK

QUALITATIVE INFORMATION

A. General aspects, foreign exchange risk management processes and measurement methods

"Foreign exchange risk" is defined as the possibility that foreign exchange rate fluctuations produce significant changes, both positive and negative, in the Group's balance sheet aggregates. The key sources of exchange rate risk lie in:

- foreign currency loans and deposits held by corporate and retail customers;
- purchases of securities, equity investments and other financial instruments in foreign currencies;
- conversion into domestic currency of assets, liabilities and income of branches and subsidiaries abroad;
- trading of foreign currencies and banknotes;
- collection and/or payment of interests, commissions, dividends, administrative costs, etc. in foreign currencies.

More specifically, "structural" foreign exchange risk refers to the exposures deriving from the commercial operations and the strategic investment decisions of the Intesa Sanpaolo Group.

Foreign exchange transactions, spot and forward, are carried out mostly by Banca IMI which operates also in the name and on behalf of the Parent Company with the task of guaranteeing pricing throughout the Bank and the Group while optimizing the proprietary risk profile deriving from brokerage of foreign

currencies traded by customers.
The main types of financial instruments traded include: spot and forward foreign exchange transactions in foreign currencies, forex swaps, domestic currency swaps, and foreign exchange options.

B. Foreign exchange risk hedging activities

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, with the purpose of ensuring the elimination of such a risk. Similar risk containment is performed by the Group's various companies as concerns their banking book. Substantially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.
Held for trading exposures are included in the trading book where foreign exchange risk is measured and subjected to daily VaR limits.
As concerns equity shareholdings in Group companies held in foreign currencies, risk hedging policies are assessed by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.
The foreign exchange hedges implemented during the year are related to both the disposal of equity investments and the net income in foreign currency generated by the Parent Company's branches abroad.

QUANTITATIVE INFORMATION

1. Breakdown by currency of assets and liabilities and derivatives

(in millions of euro)

	Currencies					
	US dollar	**GB pound**	**Swiss franc**	**Yen**	**Egyptian pound**	**Other currencies**
A. FINANCIAL ASSETS	**39,619**	**2,451**	**8,933**	**2,868**	**3,043**	**20,905**
A.1 Debt securities	2,701	284	258	904	841	4,894
A.2 Equities	783	88	4	5	15	152
A.3 Loans to banks	7,279	771	405	744	980	2,881
A.4 Loans to customers	28,854	1,308	8,266	1,215	1,161	12,968
A.5 Other financial assets	2	-	-	-	46	10
B. OTHER ASSETS	**4,679**	**43**	**31**	**34**	**-**	**300**
C. FINANCIAL LIABILITIES	**69,753**	**7,599**	**3,093**	**2,065**	**2,750**	**18,832**
C.1 Due to banks	12,534	488	2,140	173	19	2,614
C.2 Due to customers	22,015	849	413	202	2,374	14,064
C.3 Debt securities	35,204	6,262	540	1,690	357	2,154
C.4 Other financial liabilities	-	-	-	-	-	-
D. OTHER LIABILITIES	**2,562**	**40**	**8**	**64**	**-**	**239**
E. FINANCIAL DERIVATIVES	**83,674**	**11,565**	**8,603**	**7,266**	**-**	**17,903**
- Options	3,643	396	135	905	-	881
long positions	*2,221*	*215*	*80*	*709*	-	*414*
short positions	*1,422*	*181*	*55*	*196*	-	*467*
- Other derivatives	80,031	11,169	8,468	6,361	-	17,022
long positions	*53,443*	*8,024*	*1,309*	*2,604*	-	*9,350*
short positions	*26,588*	*3,145*	*7,159*	*3,757*	-	*7,672*
TOTAL ASSETS	**99,962**	**10,733**	**10,353**	**6,215**	**3,043**	**30,969**
TOTAL LIABILITIES	**100,325**	**10,965**	**10,315**	**6,082**	**2,750**	**27,210**
IMBALANCE (+/-)	**-363**	**-232**	**38**	**133**	**293**	**3,759**

The 3,759 million euro imbalance in "Other currencies" is affected by net assets of subsidiaries abroad denominated in local currency, whose changes, until disposal, impact solely on the Group's Shareholders' equity.

2. Internal models and other sensitivity analysis methodologies

Management of foreign exchange risk relative to trading activities is inserted in the operating procedures and in the estimation methodologies of the internal model based on VaR calculations, as already illustrated.
Foreign exchange risk expressed by equity investments in foreign currency (banking book), including Group companies, originated a VaR (99% confidence level, 10-day holding period) amounting to 177 million euro as at 31 December 2008. This potential impact would only be reflected in the Shareholders' equity, as specified above.

1.2.6. FINANCIAL DERIVATIVES

A. FINANCIAL DERIVATIVES

A.1. Regulatory trading book: period-end and average notional amounts

(in millions of euro)

	Debt securities and interest rates		Equities and stock indexes		Foreign exchange rates and gold		Other values		Total 31.12.2008		Total 31.12.2007	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
1. Forward rate agreements	**-**	**595,213**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**595,213**	**-**	**115,611**
2. Interest rate swaps	**-**	**1,114,361**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,114,361**	**-**	**1,250,221**
3. Domestic currency swaps	**-**	**-**	**-**	**-**	**-**	**652**	**-**	**-**	**-**	**652**	**-**	**1,258**
4. Currency interest rate swaps	**-**	**-**	**-**	**-**	**-**	**26,829**	**-**	**-**	**-**	**26,829**	**-**	**13,194**
5. Basis swaps	**-**	**320,653**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**320,653**	**-**	**55,512**
6. Exchange of stock indexes	**-**	**-**	**-**	**297**	**-**	**-**	**-**	**-**	**-**	**297**	**-**	**1,392**
7. Exchange of real indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8. Futures	**108,934**	**-**	**620**	**-**	**3**	**-**	**195**	**-**	**109,752**	**-**	**135,771**	**-**
9. Caps	**-**	**211,048**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**211,048**	**-**	**251,407**
- Bought	-	98,316	-	-	-	-	-	-	-	98,316	-	104,574
- Issued	-	112,732	-	-	-	-	-	-	-	112,732	-	146,833
10. Floors	**-**	**178,491**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**178,491**	**-**	**147,939**
- Bought	-	92,333	-	-	-	-	-	-	-	92,333	-	74,842
- Issued	-	86,158	-	-	-	-	-	-	-	86,158	-	73,097
11. Other options	**374,906**	**119,964**	**18,676**	**27,436**	**-**	**8,295**	**4**	**461**	**393,586**	**156,156**	**95,820**	**107,594**
- Bought	213,618	60,486	5,536	11,899	-	4,400	4	219	219,158	77,004	59,371	54,223
Plain vanilla	*213,618*	*59,567*	*5,536*	*11,555*	-	*4,032*	*4*	*219*	*219,158*	*75,373*	*59,371*	*51,744*
Exotic	-	*919*	-	*344*	-	*368*	-	-	-	*1,631*	-	*2,479*
- Issued	161,288	59,478	13,140	15,537	-	3,895	-	242	174,428	79,152	36,449	53,371
Plain vanilla	*161,288*	*58,489*	*13,140*	*15,490*	-	*3,351*	-	*238*	*174,428*	*77,568*	*36,449*	*49,924*
Exotic	-	*989*	-	*47*	-	*544*	-	*4*	-	*1,584*	-	*3,447*
12. Forward contracts	**7,382**	**2,656**	**-**	**-**	**-**	**73,782**	**-**	**7**	**7,382**	**76,445**	**1,391**	**73,677**
- Purchases	4,207	891	-	-	-	37,902	-	7	4,207	38,800	664	36,472
- Sales	3,175	1,765	-	-	-	21,478	-	-	3,175	23,243	727	20,294
- Currency against currency	-	-	-	-	-	14,402	-	-	-	14,402	-	16,911
13. Other derivatives	**-**	**2,008**	**-**	**-**	**-**	**1,310**	**-**	**138**	**-**	**3,456**	**-**	**4,654**
TOTAL	**491,222**	**2,544,394**	**19,296**	**27,733**	**3**	**110,868**	**199**	**606**	**510,720**	**2,683,601**	**232,982**	**2,022,459**
AVERAGE VALUES	**327,023**	**2,181,473**	**20,384**	**30,077**	**4**	**108,910**	**126**	**600**	**347,537**	**2,321,060**	**170,778**	**1,574,835**

A.2. Banking book: period-end and average notional amounts

A.2.1. Hedging

(in millions of euro)

	Debt securities and interest rates		Equities and stock indexes		Foreign exchange rates and gold		Other values		Total 31.12.2008		Total 31.12.2007	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
1. Forward rate agreements	**-**	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**-**
2. Interest rate swaps	**-**	**76,503**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**76,503**	**-**	**94,431**
3. Domestic currency swaps	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. Currency interest rate swaps	**-**	**-**	**-**	**-**	**-**	**3,378**	**-**	**-**	**-**	**3,378**	**-**	**3,660**
5. Basis swaps	**-**	**4,309**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,309**	**-**	**3,030**
6. Exchange of stock indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
7. Exchange of real indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8. Futures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Caps	**-**	**633**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**633**	**-**	**482**
- Bought	-	621	-	-	-	-	-	-	-	621	-	482
- Issued	-	12	-	-	-	-	-	-	-	12	-	-
10. Floors	**-**	**6,256**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,256**	**-**	**361**
- Bought	-	6,254	-	-	-	-	-	-	-	6,254	-	269
- Issued	-	2	-	-	-	-	-	-	-	2	-	92
11. Other options	**-**	**589**	**-**	**553**	**-**	**-**	**-**	**-**	**-**	**1,142**	**-**	**223**
- Bought	-	489	-	553	-	-	-	-	-	1,042	-	148
Plain vanilla	-	*489*	-	*528*	-	-	-	-	-	*1,017*	-	*108*
Exotic	-	-	-	*25*	-	-	-	-	-	*25*	-	*40*
- Issued	-	100	-	-	-	-	-	-	-	100	-	75
Plain vanilla	-	*100*	-	-	-	-	-	-	-	*100*	-	*75*
Exotic	-	-	-	-	-	-	-	-	-	-	-	-
12. Forward contracts	**150**	**-**	**-**	**-**	**-**	**104**	**-**	**-**	**150**	**104**	**-**	**8**
- Purchases	79	-	-	-	-	21	-	-	79	21	-	6
- Sales	71	-	-	-	-	1	-	-	71	1	-	2
- Currency against currency	-	-	-	-	-	82	-	-	-	82	-	-
13. Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**217**
TOTAL	**150**	**88,300**	**-**	**553**	**-**	**3,482**	**-**	**-**	**150**	**92,335**	**-**	**102,412**
AVERAGE VALUES	**-**	**143,088**	**-**	**345**	**-**	**3,946**	**-**	**-**	**-**	**147,379**	**-**	**141,361**

A.2.2. Other derivatives

(in millions of euro)

	Debt securities and interest rates		Equities and stock indexes		Foreign exchange rates and gold		Other values		Total 31.12.2008		Total 31.12.2007	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
1. Forward rate agreements	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2. Interest rate swaps	**-**	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**-**	**889**
3. Domestic currency swaps	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. Currency interest rate swaps	**-**	**-**	**-**	**-**	**-**	**14**	**-**	**-**	**-**	**14**	**-**	**14**
5. Basis swaps	**-**	**350**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**350**	**-**	**-**
6. Exchange of stock indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
7. Exchange of real indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8. Futures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9. Caps	**-**	**2,432**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,432**	**-**	**594**
- Bought	-	12	-	-	-	-	-	-	-	12	-	64
- Issued	-	2,420	-	-	-	-	-	-	-	2,420	-	530
10. Floors	**-**	**4,569**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,569**	**-**	**6,937**
- Bought	-	19	-	-	-	-	-	-	-	19	-	7
- Issued	-	4,550	-	-	-	-	-	-	-	4,550	-	6,930
11. Other options	**-**	**4,933**	**-**	**7,239**	**-**	**6**	**-**	**-**	**-**	**12,178**	**-**	**7,568**
- Bought	-	30	-	407	-	-	-	-	-	437	-	743
Plain vanilla	-	*20*	-	*389*	-	-	-	-	-	*409*	-	*710*
Exotic	-	*10*	-	*18*	-	-	-	-	-	*28*	-	*33*
- Issued	-	4,903	-	6,832	-	6	-	-	-	11,741	-	6,825
Plain vanilla	-	*1,621*	-	*6,429*	-	-	-	-	-	*8,050*	-	*5,078*
Exotic	-	*3,282*	-	*403*	-	*6*	-	-		*3,691*	-	*1,747*
12. Forward contracts	**-**	**-**	**-**	**-**	**-**	**53**	**-**	**-**	**-**	**53**	**-**	**2**
- Purchases	-	-	-	-	-	36	-	-	-	36	-	2
- Sales	-	-	-	-	-	17	-	-	-	17	-	-
- Currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
13. Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL	**-**	**12,321**	**-**	**7,239**	**-**	**73**	**-**	**-**	**-**	**19,633**	**-**	**16,004**
AVERAGE VALUES	**-**	**11,149**	**-**	**4,624**	**-**	**292**	**-**	**2**	**-**	**16,067**	**-**	**18,334**

The tables above show nominal amounts of derivatives recorded separately from the combined financial instruments. These derivatives are classified in the financial statements under assets/liabilities held for trading.

A.3. Financial derivatives: purchase and sale of underlying assets

(in millions of euro)

	Debt securities and interest rates		Equities and stock indexes		Foreign exchange rates and gold		Other values		Total 31.12.2008		Total 31.12.2007	
	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted	Quoted	Unquoted
A. Regulatory trading book	**491,223**	**2,223,742**	**19,296**	**27,437**	**2**	**110,869**	**200**	**607**	**510,721**	**2,362,655**	**230,913**	**1,969,193**
1. Operations with exchange of underlying asset	8,404	44,212	1,159	2,117	2	108,832	196	7	9,761	155,168	24,679	106,621
- Purchases	*4,665*	*22,515*	*608*	*1,123*	-	*54,834*	*189*	*7*	*5,462*	*78,479*	*7,520*	*56,358*
- Sales	*3,739*	*21,697*	*551*	*994*	*2*	*29,182*	*7*	-	*4,299*	*51,873*	*17,076*	*29,421*
- Currency against currency	-	-	-	-	-	*24,816*	-	-	-	*24,816*	*83*	*20,842*
2. Operations without exchange of underlying asset	482,819	2,179,530	18,137	25,320	-	2,037	4	600	500,960	2,207,487	206,234	1,862,572
- Purchases	*268,411*	*1,138,426*	*5,496*	*12,674*	-	*1,177*	*4*	*261*	*273,911*	*1,152,538*	*129,404*	*1,001,798*
- Sales	*214,408*	*1,041,104*	*12,641*	*12,646*	-	*793*	-	*339*	*227,049*	*1,054,882*	*76,830*	*860,761*
- Currency against currency	-	-	-	-	-	*67*	-	-	-	*67*	-	*13*
B. Banking book	**150**	**95,963**	**-**	**7,791**	**-**	**3,556**	**-**	**-**	**150**	**107,310**	**-**	**115,295**
B.1 Hedging	150	83,991	-	553	-	3,482	-	-	150	88,026	-	99,382
1. Operations with exchange of underlying asset	150	-	-	-	-	3,461	-	-	150	3,461	-	3,668
- Purchases	*79*	-	-	-	-	*3,083*	-	-	*79*	*3,083*	-	*3,032*
- Sales	*71*	-	-	-	-	*233*	-	-	*71*	*233*	-	*468*
- Currency against currency	-	-	-	-	-	*145*	-	-	-	*145*	-	*168*
2. Operations without exchange of underlying asset	-	83,991	-	553	-	21	-	-	-	84,565	-	95,714
- Purchases	-	*35,963*	-	*553*	-	*20*	-	-	-	*36,536*	-	*57,689*
- Sales	-	*48,028*	-	-	-	*1*	-	-	-	*48,029*	-	*38,025*
- Currency against currency	-	-	-	-	-	-	-	-	-	-	-	-
B.2 Other derivatives	-	11,972	-	7,238	-	74	-	-	-	19,284	-	15,913
1. Operations with exchange of underlying asset	-	-	-	1,979	-	14	-	-	-	1,993	-	1,028
- Purchases	-	-	-	*1,414*	-	-	-	-	-	*1,414*	-	*219*
- Sales	-	-	-	*565*	-	-	-	-	-	*565*	-	*795*
- Currency against currency	-	-	-	-	-	*14*	-	-	-	*14*	-	*14*
2. Operations without exchange of underlying asset	-	11,972	-	5,259	-	60	-	-	-	17,291	-	14,885
- Purchases	-	*5,645*	-	*257*	-	*36*	-	-	-	*5,938*	-	*1,262*
- Sales	-	*6,327*	-	*5,002*	-	*24*	-	-	-	*11,353*	-	*13,623*
- Currency against currency	-	-	-	-	-	-	-	-	-	-	-	-

A.4. Over the counter financial derivatives: positive fair value - counterparty risk

(in millions of euro)

	Debt securities and interest rates			Equities and stock indexes			Foreign exchange rates and gold			Other values			Diverse underlying assets	
	Gross	Net	Future exposure	Gross	Net	Future exposure	Gross	Net	Future exposure	Gross	Net	Future exposure	Net	Future exposure
A. Regulatory trading book														
A.1 Governments and Central Banks	304	-	-	-	-	-	-	413	36	-	-	-	412	36
A.2 public entities	480	-	38	1	-	2	-	-	-	-	-	-	-	-
A.3 banks	1,716	23,635	5,001	63	776	631	538	2,357	372	-	70	3	1,731	1,160
A.4 financial institutions	408	7,542	1,219	15	258	220	204	277	104	-	4	1	516	319
A.5 insurance companies	1	-	-	-	3	9	13	2	31	-	-	-	163	27
A.6 non-financial companies	1,349	16	195	88	6	19	362	290	81	50	-	10	256	66
A.7 other counterparties	11	-	2	-	-	-	14	-	10	13	-	2	-	-
Total 31.12.2008	**4,269**	**31,193**	**6,455**	**167**	**1,043**	**881**	**1,131**	**3,339**	**634**	**63**	**74**	**16**	**3,078**	**1,608**
Total 31.12.2007	**2,665**	**11,841**	**651**	**159**	**1,981**	**73**	**539**	**1,206**	**230**	**11**	**-**	**13**	**3,120**	**3,260**
B. Banking book														
B.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 public entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 banks	162	1,138	21	-	67	1	41	264	5	-	-	-	100	71
B.4 financial institutions	-	259	1	-	7	4	124	6	11	-	-	-	29	4
B.5 insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 non-financial companies	115	-	2	-	-	-	3	-	-	-	-	-	-	-
B.7 other counterparties	4	-	1	-	-	5	-	-	-	-	-	-	-	-
Total 31.12.2008	**281**	**1,397**	**25**	**-**	**74**	**10**	**168**	**270**	**16**	**-**	**-**	**-**	**129**	**75**
Total 31.12.2007	**359**	**1,024**	**42**	**-**	**7**	**37**	**157**	**19**	**23**	**-**	**-**	**-**	**96**	**41**

A.5. Over the counter financial derivatives: negative fair value - financial risk

(in millions of euro)

	Debt securities and interest rates			Equities and stock indexes			Foreign exchange rates and gold			Other values			Diverse underlying assets	
	Gross	Net	Future exposure	Gross	Net	Future exposure	Gross	Net	Future exposure	Gross	Net	Future exposure	Net	Future exposure
A. Regulatory trading book														
A.1 Governments and Central Banks	3	1	-	-	-	-	-	-	-	-	-	-	-	-
A.2 public entities	45	-	2	17	-	-	100	-	12	-	-	-	-	-
A.3 banks	1,914	26,581	3,012	29	864	1	992	3,836	365	-	42	1	7,313	1,872
A.4 financial institutions	827	7,635	1,204	11	161	-	232	466	91	-	2	1	823	877
A.5 insurance companies	40	10	3	27	6	-	2	-	-	-	-	-	13	1
A.6 non-financial companies	41	2	8	-	-	-	173	74	42	1	-	1	2	2
A.7 other counterparties	98	-	-	-	-	-	14	-	1	2,867	-	-	-	-
Total 31.12.2008	**2,968**	**34,229**	**4,229**	**84**	**1,031**	**1**	**1,513**	**4,376**	**511**	**2,868**	**44**	**3**	**8,151**	**2,752**
Total 31.12.2007	**3,733**	**8,976**	**516**	**607**	**2,411**	**34**	**649**	**2,105**	**192**	**1**	**-**	**1**	**2,393**	**2,171**
B. Banking book														
B.1 Governments and Central Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.2 public entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.3 banks	392	908	57	112	-	-	27	473	4	-	-	-	19	6
B.4 financial institutions	11	250	2	-	-	-	-	-	-	-	-	-	14	7
B.5 insurance companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B.6 non-financial companies	4	-	-	-	-	-	3	-	-	-	-	-	-	-
B.7 other counterparties	567	-	-	143	-	-	1	-	-	-	-	-	-	-
Total 31.12.2008	**974**	**1,158**	**59**	**255**	**-**	**-**	**31**	**473**	**4**	**-**	**-**	**-**	**33**	**13**
Total 31.12.2007	**741**	**1,163**	**24**	**341**	**-**	**-**	**11**	**98**	**3**	**-**	**-**	**-**	**92**	**58**

A.6. Residual maturity of over the counter financial derivatives: notional amounts

(in millions of euro)

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book	**1,170,664**	**876,502**	**634,871**	**2,682,037**
A.1 Financial derivatives on debt securities and interest rates	1,078,306	842,320	623,615	2,544,241
A.2 Financial derivatives on equities and stock indexes	5,164	16,474	6,095	27,733
A.3 Financial derivatives on foreign exchange rates and gold	87,112	17,187	5,158	109,457
A.4 Financial derivatives - other	82	521	3	606
B. Banking book	**67,717**	**20,076**	**24,055**	**111,848**
B.1 Financial derivatives on debt securities and interest rates	64,601	14,351	21,552	100,504
B.2 Financial derivatives on equities and stock indexes	2,308	3,740	1,742	7,790
B.3 Financial derivatives on foreign exchange rates and gold	808	1,985	761	3,554
B.4 Financial derivatives - other	-	-	-	-
Total 31.12.2008	**1,238,381**	**896,578**	**658,926**	**2,793,885**
Total 31.12.2007	**893,498**	**722,742**	**524,818**	**2,141,058**

B. CREDIT DERIVATIVES

B.1. Credit derivatives: period-end and average notional amounts

(in millions of euro)

	Regulatory trading book		Other operations	
	single counterparty	more counterparties (*basket*)	single counterparty	more counterparties (*basket*)
1. Protection purchases				
1.1 Physical settlement	33,568	36,999	66	-
Credit default swap	*33,568*	*36,999*	*66*	-
Credit default option	-	-	-	-
Credit linked notes	-	-	-	-
1.2 Cash settlement	211	1,515	413	-
Credit default swap	*195*	*1,515*	*413*	-
Total rate of return swap	*16*	-	-	-
Credit linked notes	-	-	-	-
Total 31.12.2008	**33,779**	**38,514**	**479**	**-**
Total 31.12.2007	**31,043**	**31,376**	**488**	**-**
Average values	**16,855**	**25,178**	**402**	**-**
2. Protection sales				
2.1 Physical settlement	32,827	38,959	-	-
Credit default swap	*32,827*	*38,887*	-	-
Credit linked notes	-	*72*	-	-
2.2 Cash settlement	1,026	1,871	-	-
Credit default swap	*886*	*1,871*	-	-
Credit linked notes	-	-	-	-
Total rate of return swap	*140*	-	-	-
Total 31.12.2008	**33,853**	**40,830**	**-**	**-**
Total 31.12.2007	**29,097**	**34,530**	**-**	**105**
Average values	**16,598**	**26,679**	**-**	**92**

Part of the contracts in force as at 31 December 2008, set out in the table above, is included in structured credit products which were affected to different extents by the financial market crisis: 2,415 million euro of protection purchases and 5,155 million euro of protection sales, in any case almost entirely attributable to exposures not included in US subprime exposures.
For further information on the relative economic and risk effects, see the chapter on market risks in this Part of the Notes to the consolidated financial statements.

B.2. Credit derivatives: positive fair value - counterparty risk

(in millions of euro)

	Notional amount	Positive fair value	Future exposure
A. Regulatory trading book	**71,714**	**4,497**	**1,562**
A.1 Protection purchases with	65,143	4,371	1,562
1. Governments and Central Banks	-	-	-
2. Other public entities	*23*	*49*	*2*
3. Banks	*48,897*	*3,255*	*1,120*
4. Financial institutions	*16,223*	*1,067*	*440*
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
A.2 Protection sales with	6,571	126	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	*5,313*	*102*	-
4. Financial institutions	*1,258*	*24*	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
B. Banking book	**573**	**-**	**-**
B.1 Protection purchases with	573	-	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	*51*	-	-
4. Financial institutions	*522*	-	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
B.2 Protection sales with	-	-	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	-	-	-
4. Financial institutions	-	-	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
Total 31.12.2008	**72,287**	**4,497**	**1,562**
Total 31.12.2007	**50,270**	**1,330**	**990**

B.3. Credit derivatives: negative fair value - financial risk

(in millions of euro)

	Notional amount	Negative fair value
Regulatory trading book		
1. Protection purchases with		
1.1 Governments and Central Banks	-	-
1.2 Other public entities	-	-
1.3 Banks	5,188	102
1.4 Financial institutions	1,962	31
1.5 Insurance companies	-	-
1.6 Non-financial companies	-	-
1.7 Other counterparties	-	-
Total 31.12.2008	**7,150**	**133**
Total 31.12.2007	**17,153**	**178**

B.4. Residual maturity of credit derivatives contracts: notional amounts

(in millions of euro)

	Up to 1 year	Between 1 and 5 years	Over 5 years	Total
A. Regulatory trading book	**17,848**	**109,873**	**19,255**	**146,976**
A.1 Credit derivatives with "qualified reference obligation"	13,676	99,350	15,634	128,660
A.2 Credit derivatives with "unqualified reference obligation"	4,172	10,523	3,621	18,316
B. Banking book	**11**	**28**	**440**	**479**
B.1 Credit derivatives with "qualified reference obligation"	-	-	-	-
B.2 Credit derivatives with "unqualified reference obligation"	11	28	440	479
Total 31.12.2008	**17,859**	**109,901**	**19,695**	**147,455**
Total 31.12.2007	**12,230**	**56,739**	**15,501**	**84,470**