1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or to liquidate its assets (market liquidity risk).
The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.
The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

– the existence of liquidity management guidelines approved by senior management and clearly communicated throughout the institution;
– the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
– the constant availability of an adequate amount of liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
– the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
– the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of warning indicators used to activate emergency plans.
The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department, responsible for liquidity management, and the Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.
With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.
The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to respond to periods of tension, including extended periods of tension, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Short Term Gap).
The indicator of projected cumulative wholesale exposure measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The short-term gap indicator measures, for the various short-term time brackets, the ratio between availability of liquidity reserves and expected positive cash flows to expected and potential cash outflows, with reference to both on- and off-balance sheet captions. This indicator aims to ensure that the Bank maintains an adequate level of unencumbered liquidity reserves that may be converted into cash to meet expected and potential liquidity requirements. To that end, the behavioural coefficients and assumptions underlying the valuation of expected and potential cash flows incorporate cautionary and extremely prudential assumptions (such as (i) the loss of a portion of customer demand deposits, (ii) unforeseen uses of undrawn committed credit and liquidity lines and (iii) an increase in market volatility for determining haircuts on liquidity reserves and estimating the potential future exposure associated with derivatives positions) effectively constituting an especially severe "base prudential scenario," with the adoption of run-off percentages for demand deposits more conservative than those identified by Basel 3 (LCR).
The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities and involves the adoption of internal limits on maturities' transformations aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

The Guidelines also call for the periodic estimate of the liquidity position in an acute combined stress scenario (both firm specific and market related), with the definition of a target threshold for the 3-month stressed short-term gap, aiming at establishing an overall level of reserves suitable to face greater cash outflows during a period of time (3 months) adequate to take the required operating measures to restore the Group to balanced conditions. The acute stress scenario is determined by combining:

– a "firm-specific" stress scenario, relating to a liquidity crisis specific to the Bank, reflected in an accelerated withdrawal of funds by deposit-holders, a significant reduction in the realised value of assets due to the need for immediate liquidation of assets not eligible for refinancing through repurchase agreements, the activation of downgrade triggers and the need to repurchase own debt securities or honour extra-contractual obligations in order to attenuate reputational risk;
– a "market-related" stress scenario, representing a general market crisis extending to both the financial and industrial sectors, characterised by, for example: (i) failure to repay granted facilities to corporate customers; (ii) a sudden increase in

uses of lines of credit and guarantees; and (iii) a significant increase in market volatility, with negative effects on the value of reserves or potential future exposure associated with positions in derivatives, resulting in larger haircuts and the need for additional guarantees.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The pre-warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.
In 2012, the Group's liquidity position remained largely within the risk limits provided for in the Group's Liquidity Policy both in terms of short-term and structural liquidity indicators. The stress test, applied by considering total available liquidity reserves, yielded results far in excess of the target threshold, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than three months.
The regulatory indicators envisaged by Basel 3 have also already been satisfied (LCR and NSFR > 100%), prior to the regulatory revision of early January 2013, and have further improved following the definition of the new standards. Adequate, timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.
As at 31 December 2012, the liquidity reserves eligible with the various Central Banks came to 115 billion euro (97 billion euro at the end of December 2011), of which 67 billion euro (37 billion euro at the end of 2011) was available spot (net of the haircut) and remained unused.

QUANTITATIVE INFORMATION

1. Breakdown by contractual residual maturity of financial assets and liabilities

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

Currency of denomination: Euro

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**63,836**	**18,351**	**8,488**	**15,180**	**28,728**	**24,998**	**40,717**	**129,984**	**111,663**	**5,817**
A.1 Government bonds	20	6	1,337	369	4,722	6,819	11,792	23,413	7,231	4
A.2 Other debt securities	116	20	24	315	978	839	1,697	7,107	11,093	4
A.3 Quotas of UCI	1,779	-	-	-	-	-	-	-	-	-
A.4 Loans	61,921	18,325	7,127	14,496	23,028	17,340	27,228	99,464	93,339	5,809
- Banks	*10,591*	*5,409*	*924*	*1,040*	*1,001*	*593*	*957*	*676*	*192*	*5,800*
- Customers	*51,330*	*12,916*	*6,203*	*13,456*	*22,027*	*16,747*	*26,271*	*98,788*	*93,147*	*9*
Cash liabilities	**152,502**	**16,196**	**6,047**	**12,554**	**26,169**	**19,111**	**36,241**	**131,697**	**29,364**	**2,172**
B.1 Deposits and current accounts	144,717	6,712	2,004	4,820	9,857	6,875	12,461	12,755	3,028	1
- Banks	*5,375*	*291*	*35*	*162*	*1,427*	*178*	*155*	*5,353*	*1,181*	*-*
- Customers	*139,342*	*6,421*	*1,969*	*4,658*	*8,430*	*6,697*	*12,306*	*7,402*	*1,847*	*1*
B.2 Debt securities	20	456	1,087	2,521	13,733	9,961	22,045	80,993	22,053	2,171
B.3 Other liabilities	7,765	9,028	2,956	5,213	2,579	2,275	1,735	37,949	4,283	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*8*	*6,928*	*6,268*	*11,583*	*8,026*	*5,347*	*3,434*	*51,232*	*5,255*	*5*
- Short positions	*39*	*7,486*	*2,911*	*5,185*	*7,444*	*4,553*	*3,617*	*11,707*	*5,574*	*5*
C.2 Financial derivatives without exchange of capital										
- Long positions	*47,202*	*74*	*17*	*168*	*477*	*464*	*793*	*653*	*512*	*-*
- Short positions	*46,107*	*107*	*36*	*178*	*382*	*339*	*587*	*741*	*652*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*2,962*	*73*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*10*	*3,004*	*20*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*823*	*19,409*	*366*	*61*	*945*	*2,149*	*1,073*	*10,363*	*1,492*	*32*
- Short positions	*34,377*	*1,910*	*8*	*14*	*47*	*107*	*170*	*111*	*200*	*33*
C.5 Financial guarantees given	192	11	12	8	72	77	37	219	139	2
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*50*	*3,922*	*3,717*	*4,766*	*21,184*	*3,354*	*-*
- Short positions	*-*	*-*	*-*	*50*	*3,922*	*3,717*	*4,766*	*21,184*	*3,354*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*625*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*772*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: US dollar

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**2,797**	**2,372**	**1,459**	**2,459**	**2,393**	**921**	**866**	**5,668**	**2,940**	**1**
A.1 Government bonds	-	-	3	10	19	33	60	512	101	1
A.2 Other debt securities	2	755	752	561	46	86	168	1,933	709	-
A.3 Quotas of UCI	637	-	-	-	-	-	-	-	-	-
A.4 Loans	2,158	1,617	704	1,888	2,328	802	638	3,223	2,130	-
- Banks	*1,388*	*299*	*152*	*474*	*932*	*412*	*186*	*57*	*95*	-
- Customers	*770*	*1,318*	*552*	*1,414*	*1,396*	*390*	*452*	*3,166*	*2,035*	-
Cash liabilities	**3,794**	**1,682**	**1,026**	**1,600**	**2,385**	**1,436**	**339**	**3,009**	**814**	**-**
B.1 Deposits and current accounts	3,614	1,153	842	796	437	239	235	47	19	-
- Banks	*781*	*689*	*697*	*310*	*96*	*24*	*27*	-	-	-
- Customers	*2,833*	*464*	*145*	*486*	*341*	*215*	*208*	*47*	*19*	-
B.2 Debt securities	-	32	32	36	110	58	104	2,300	795	-
B.3 Other liabilities	180	497	152	768	1,838	1,139	-	662	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*226*	*6,460*	*2,052*	*4,481*	*3,490*	*4,562*	*3,510*	*7,859*	*2,127*	*3*
- Short positions	*349*	*5,932*	*4,155*	*9,358*	*4,433*	*4,786*	*3,103*	*6,409*	*2,234*	*3*
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,285*	-	*3*	*145*	*2*	*3*	*5*	*10*	*51*	-
- Short positions	*1,198*	*1*	-	*145*	*5*	*5*	*7*	*10*	*51*	-
C.3 Deposits and loans to be settled										
- Long positions	*30*	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	*30*	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	*16*	*1*	*13*	*10*	*273*	*484*	*5,857*	*506*	*2*
- Short positions	*7,107*	*27*	-	-	-	-	*59*	*25*	-	*3*
C.5 Financial guarantees given	1	-	-	-	8	4	5	1	-	1
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	*8*	*320*	*249*	*610*	*3,852*	*885*	-
- Short positions	-	-	-	*8*	*320*	*249*	*610*	*3,852*	*885*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*336*	-	-	-	-	-	-	-	-	-
- Short positions	*311*	-	-	-	-	-	-	-	-	-

Currency of denomination: Pound sterling

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**479**	**34**	**8**	**93**	**44**	**37**	**13**	**722**	**540**	**-**
A.1 Government bonds	-	-	-	-	-	-	3	317	43	-
A.2 Other debt securities	-	-	-	-	1	1	1	50	287	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	479	34	8	93	43	36	9	355	210	-
- Banks	*31*	*22*	*2*	-	-	*1*	-	-	-	-
- Customers	*448*	*12*	*6*	*93*	*43*	*35*	*9*	*355*	*210*	-
Cash liabilities	**196**	**198**	**50**	**67**	**33**	**25**	**7**	**94**	**519**	**-**
B.1 Deposits and current accounts	181	39	13	45	22	24	7	-	-	-
- Banks	*9*	*26*	*3*	*3*	*3*	-	-	-	-	-
- Customers	*172*	*13*	*10*	*42*	*19*	*24*	*7*	-	-	-
B.2 Debt securities	-	-	-	22	11	-	-	59	519	-
B.3 Other liabilities	15	159	37	-	-	1	-	35	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*2*	*445*	*150*	*701*	*1,126*	*2,234*	*666*	*411*	*2,529*	-
- Short positions	*1*	*667*	*512*	*1,235*	*1,122*	*2,217*	*639*	*283*	*2,274*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*213*	-	-	-	-	*1*	-	-	-	-
- Short positions	*138*	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	-	*15*	*190*	*212*	-	*1*
- Short positions	*417*	-	-	-	-	-	-	-	-	*1*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Hungarian forint

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**481**	**603**	**194**	**271**	**196**	**109**	**202**	**666**	**173**	**-**
A.1 Government bonds	-	31	14	99	80	-	21	23	3	-
A.2 Other debt securities	-	445	171	-	-	-	-	-	-	-
A.3 Quotas of UCI	3	-	-	-	-	-	-	-	-	-
A.4 Loans	478	127	9	172	116	109	181	643	170	-
- Banks	*80*	*119*	*-*	*118*	*-*	*-*	*-*	*-*	*-*	*-*
- Customers	*398*	*8*	*9*	*54*	*116*	*109*	*181*	*643*	*170*	*-*
Cash liabilities	**1,113**	**291**	**112**	**251**	**716**	**250**	**284**	**300**	**301**	**-**
B.1 Deposits and current accounts	1,113	291	112	251	699	250	227	189	301	-
- Banks	*1*	*13*	*-*	*12*	*10*	*4*	*41*	*17*	*29*	*-*
- Customers	*1,112*	*278*	*112*	*239*	*689*	*246*	*186*	*172*	*272*	*-*
B.2 Debt securities	-	-	-	-	17	-	57	111	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*27*	*109*	*264*	*902*	*2*	*5*	*5*	*-*	*-*
- Short positions	*-*	*84*	*73*	*37*	*152*	*6*	*18*	*5*	*-*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*-*	*7*	*205*	*31*	*202*	*534*	*229*	*374*	*24*	*-*
- Short positions	*-*	*7*	*34*	*79*	*113*	*380*	*230*	*374*	*24*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*19*	*-*	*1*	*16*	*67*	*76*	*-*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: Swiss franc

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**356**	**85**	**65**	**82**	**101**	**71**	**126**	**678**	**1,717**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	1	8	169	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	356	85	65	82	101	71	125	670	1,548	-
- Banks	*150*	*46*	*56*	*10*	*-*	*5*	*4*	*-*	*-*	*-*
- Customers	*206*	*39*	*9*	*72*	*101*	*66*	*121*	*670*	*1,548*	*-*
Cash liabilities	**152**	**27**	**46**	**80**	**35**	**36**	**47**	**167**	**243**	**-**
B.1 Deposits and current accounts	146	27	46	80	35	33	45	167	243	-
- Banks	*22*	*1*	*4*	*6*	*13*	*8*	*7*	*158*	*243*	*-*
- Customers	*124*	*26*	*42*	*74*	*22*	*25*	*38*	*9*	*-*	*-*
B.2 Debt securities	-	-	-	-	-	3	2	-	-	-
B.3 Other liabilities	6	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*338*	*42*	*215*	*261*	*156*	*259*	*440*	*-*	*-*
- Short positions	*-*	*815*	*327*	*520*	*599*	*573*	*284*	*1,013*	*232*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*30*	*-*	*-*	*2*	*58*	*-*	*2*	*-*	*-*	*-*
- Short positions	*19*	*-*	*-*	*2*	*-*	*-*	*2*	*-*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*3*	*-*	*-*	*-*	*12*	*5*	*-*
- Short positions	*20*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: Other currencies

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**2,017**	**1,081**	**280**	**636**	**1,447**	**2,130**	**2,661**	**3,628**	**1,243**	**776**
A.1 Government bonds	16	-	31	47	575	1,017	1,529	527	99	-
A.2 Other debt securities	51	37	6	36	76	70	105	219	103	-
A.3 Quotas of UCI	68	-	-	-	-	-	-	-	-	-
A.4 Loans	1,882	1,044	243	553	796	1,043	1,027	2,882	1,041	776
- Banks	*588*	*847*	*82*	*14*	*139*	*10*	*1*	*189*	*-*	*776*
- Customers	*1,294*	*197*	*161*	*539*	*657*	*1,033*	*1,026*	*2,693*	*1,041*	*-*
Cash liabilities	**3,972**	**739**	**583**	**370**	**1,136**	**900**	**841**	**1,563**	**276**	**-**
B.1 Deposits and current accounts	3,949	647	582	360	999	593	516	254	32	-
- Banks	*192*	*90*	*221*	*70*	*29*	*8*	*14*	*33*	*19*	*-*
- Customers	*3,757*	*557*	*361*	*290*	*970*	*585*	*502*	*221*	*13*	*-*
B.2 Debt securities	6	1	1	10	137	307	325	1,256	244	-
B.3 Other liabilities	17	91	-	-	-	-	-	53	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*65*	*1,376*	*1,219*	*1,343*	*1,682*	*1,284*	*632*	*2,281*	*266*	*12*
- Short positions	*5*	*2,231*	*1,767*	*2,157*	*1,686*	*1,059*	*983*	*1,712*	*112*	*12*
C.2 Financial derivatives without exchange of capital										
- Long positions	*227*	*36*	*19*	*6*	*2*	*28*	*2*	*77*	*-*	*-*
- Short positions	*225*	*60*	*15*	*1*	*1*	*24*	*2*	*77*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*3*	*26*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*14*	*-*	*-*	*16*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*3*	*16*	*3*	*71*	*25*	*42*	*71*	*62*	*-*
- Short positions	*463*	*79*	*1*	*5*	*74*	*117*	*428*	*174*	*270*	*1*
C.5 Financial guarantees given	-	3	-	1	6	34	23	12	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.

The following should be noted in reference to the self-securitisations undertaken with the vehicles Adriano Finance S.r.l. and Adriano Finance 2 S.r.l. with respect to the situation represented in the 2011 financial statements:

– the transaction with the vehicle Adriano Finance 2 S.r.l. was redeemed in advance in June 2012;
– the Group also closed series 1 and 3 of the transactions with Adriano Finance S.r.l. in August 2012 and October 2012. Series 2 had already been closed in advance in 2011.

A brief description of the existing transactions as at 31 December 2012 is provided below.

Adriano Lease SEC S.r.l.

The transaction in question is a securitisation undertaken pursuant to Law 130/99 with the support of the vehicle Adriano Lease SEC S.r.l., which took the form of the sale by the subsidiary Leasint of a portfolio of loans selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts, for a total amount of approximately 5.8 billion euro. The purpose of the transaction is to expand the liquidity reserve that may be activated through refinancing transactions on the Eurosystem. The vehicle Adriano Lease SEC issued two series of notes:

– a senior series, with a nominal value of 2.8 billion euro, listed and assigned an AA+ rating by Standard & Poor's;
– a junior series, with a nominal value of 3 billion euro, unlisted and unrated.

All of these notes were purchased by the subsidiary Leasint. In 2012, the senior notes were used to undertake refinancing transactions with the European Central Bank through the Parent Company, Intesa Sanpaolo.

Sanvitale 1 and 2 (Banca Monte Parma)

In 2009 Banca Monte Parma completed a self-securitisation transaction designated Sanvitale 1, aimed at obtaining ABSs to be used for refinancing transactions with the European Central Bank or on the Collateralised Interbank Market.

The securitised portfolio consists of performing mortgage loans of an initial amount of 357 million euro, divided into homogenous sub-portfolios according to the mortgage return type.

The vehicle issued two series of notes:

– senior A notes with a notional value of 289 million euro, initially with a triple-A rating and a yield equal to the 3M Euribor plus 30 bps. These notes were used for refinancing transactions with the European Central Bank;
– senior B notes with a notional value of 68 million euro and a yield equal to the 3M Euribor plus 100 bps.

Both series of notes were subscribed by Banca Monte Parma upon issue.

In order to ensure that the vehicle has the liquidity needed to pay coupons on the bonds, even in the event of delays or defaults on mortgage payments, Banca Monte Parma granted a subordinated loan of 18 million euro.

In June 2010 a second self-securitisation transaction for a portfolio of performing mortgage loans of a total of 157 million euro was structured and originated. The transaction, the technical characteristics of which were similar to those of the transaction described above, took the form of the issue of two series of notes. The senior series, with a nominal value of 100 million euro, was used to secure repurchase agreements with the Parent Company, Intesa Sanpaolo.

The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2012
Adriano Lease SEC S.r.l.				**5,832**
	Senior	Loans deriving from leasing contracts	AA+	2,788
	Junior	Loans deriving from leasing contracts	no rating	3,044
Sanvitale 1 (Banca Monte Parma)				**357**
	Senior	Performing residential mortgages	A2	289
	Junior	Performing residential mortgages	A2	68
Sanvitale 2 (Banca Monte Parma)				**157**
	Senior	Performing residential mortgages	no rating	100
	Junior	Performing residential mortgages	no rating	57
TOTAL				**6,346**

INFORMATION ON SOVEREIGN RISK

The Intesa Sanpaolo Group has a total of 130 billion euro in exposure to sovereign debtors, of which 104 billion euro is represented by debt securities and 26 billion euro by other loans. In further detail, the exposure to the Italian government came to 114 billion euro as at 31 December 2012, of which 90 billion euro was represented by securities and 24 billion euro by other loans. For the details of exposures, refer to the Report on operations.

Exposure to Greece

The total residual exposure to Greece as at 31 December 2012 amounted to 3 million euro in terms of nominal value, with a book value of 1 million euro, all of which represented by new securities issued by the Greek government and received in implementation of the agreement of 21 February 2012. The agreement pertained not only to securities issued directly by the Greek government, but also the security issued by Hellenic Railways.
Implementation of the agreement also involved the allocation of warrants linked to the gross domestic product of the Greek Republic. As at 31 December 2012, the nominal value of these warrants was 81 million euro and they were recognised at a book value of 1 million euro.

For information regarding the provisions of the agreements entered into on 21 February 2012 with the Greek authorities, reference should be made to the contents of the Financial statements as at 31 December 2011 and the Quarterly report as at 31 March 2012.
On the basis of the legal and financial terms of the agreement, the Intesa Sanpaolo Group did not consider there to be continuity between the financial instruments recognised in the portfolios of the various Group entities prior to the fulfilment of the agreement and the package of financial instruments (bonds issued by the Greek government, bonds issued by the EFSF and warrants tied to Greek GDP) obtained from the exchange. Accordingly, in conjunction with the exchange the Group derecognised the former securities and replaced them with a package of financial instruments, recognised separately at their fair value, having different financial characteristics.
In the first half of 2012 the custodians holding the Intesa Sanpaolo Group securities to be exchanged were given instructions, differing according to the type of security, to deliver the original securities and register the deposit of the new securities obtained in implementation of the agreement.
In return for the securities that the Intesa Sanpaolo Group offered in exchange:

– the swap for those originally governed by Greek law was finalised on 12 March 2012;
– the swap for the securities originally under legislation other than Greek law was finalised on 11 April 2012.

On completion of the exchange transactions an active market of Greek securities was formed and prices expressed on that market are considered effective (level 1 in the fair value hierarchy). Accordingly, the Group recognised the new securities in the trading book at their fair value, measured on the date of exchange primarily using prices identified in accordance with the rules established in internal policies. With regard to the warrants linked to Greece's gross domestic product, since these are derivatives, they have been recognised in the trading book and, on initial recognition, they have been allocated a value of close to nil.

On 3 December 2012 the Greek Republic launched a new exchange offer intended for holders of Greek securities received in exchange in fulfilment of the agreement of 21 February 2012. The offer envisaged an exchange of the aforementioned Greek securities for securities set to mature in six months issued by the European Financial Stability Facility (EFSF). The Intesa Sanpaolo Group, and its insurance companies in particular, accepted the offer, and on 18 December 2012 they exchanged the Greek securities still in their portfolios, obtaining an EFSF security with a nominal value equal to a percent falling within a range of 32.2% to 40.1% of the nominal value of the Greek securities formerly held. The percentage depends on the maturity of the securities, with higher percentages for short-term securities and lower percentages for securities with longer maturities.

The following table summarises the effects of the first exchange undertaken, comparing the original position with the position created after the first exchange.

(millions of euro)

	Greek bonds exchanged Nominal value as at 31.12.2011	Greek bonds received 31.5% of nominal value (*)	EFSF bonds received 15% of nominal value (*)	Warrants linked to the Greek GDP 31.5% of nominal value (*)
New Greek bonds - Exchanged in 2012				
Government bonds	1,058	348	166	348

(*) The agreement envisages exchange percentages of 15% and 31.5% of the original nominal value for EFSF bonds and Greek bonds, respectively. Some securities in the portfolio as at 31 December 2011 provided for capital reimbursement index-linked to inflation, which was recognised on exchange. The effect of index-linking resulted in a higher nominal value of the EFSF bonds and Greek bonds received for 22 million euro.

In addition to the EFSF bonds with a nominal value of 29 million euro as consideration for interest accrued as at the date of exchange on the original Greek bonds.

The securities obtained were almost entirely sold by Banca IMI on the market. By contrast, the insurance companies reduced their positions in Greek securities to zero through sale on the market only to a minimal extent, but rather, above all, by participating in the December 2012 exchange offer. The Greek securities offered in exchange had a nominal value of 47 million euro and a book value of 12 million euro. Those securities were exchanged with six-month EFSF securities with a nominal value of 16 million, resulting in a realised gain of 4 million euro.
The following table presents the situation of securities issued by the Greek government as at 31 December 2012:

(millions of euro)

	Nominal value as at 31.12.2012	**Book value before valuation** (net of accruals)	**Profits (losses) on trading/Income from insurance business** (*)	**Book value as at 31.12.2012** (net of accruals)
New Greek bonds - Position as at 31 December 2012				
Government bonds				
Financial assets held for trading	3	1	4 [(1)]	1
Warrants linked to the Greek GDP				
Financial assets held for trading	81	-	-	1

(*) Of which -1 million euro recorded under "Profits (losses) on trading" and +5 million euro recorded under "Income from insurance business" in the reclassified income statement.

(1) Entirely comprised of gains on the exchange of securities in December 2012.

Overall, the effects on the income statement recorded in the Financial statements as at 31 December 2012 of the Greek securities are summarised in the table below:

(millions of euro)

	Profits (losses) on trading/Income from insurance business (*)	**Impairment as at 31.12.2012** (**)	**Total effect on the income statement**
Original position			
Economic effect of the exchange of securities	-3	-29	-32
Total original position	**-3**	**-29**	**-32**
Post-exchange position			
Effect of disposal of the new Greek bonds	3	-	3
Valuation effect as at 31.12.2012	1	-	1
Total post-exchange position	**4**	**-**	**4**
GRAND TOTAL	**1**	**-29**	**-28**
TOTAL (net of amounts allocated to insurance products under separate management)	**1**	**-29**	**-28**

(*) of which -1 million euro recorded under "Profits (losses) on trading" and +2 million euro recorded under "Income from insurance business" in the reclassified income statement.

(**) Economic effect of trading in L&R securities recorded among "Net impairment losses on other assets".

In addition to the exposures presented above, the Group has exposures to other public entities and private parties residing in Greece with a nominal value of 38 million euro, for which an impairment test was conducted in the 2012 Financial statements. This test showed signs of impairment in the case of an exposure to the Greek bank National Bank of Greece. ISP Bank Albania, the Group company that holds the exposure, therefore recognised an impairment loss as at 31 December 2012 of approximately 11 million euro of a nominal value of 15 million euro. Consequently, following the above impairment loss, the exposures were carried at 25 million euro (19 million euro among Loans and receivables and 6 million euro among Financial assets available for sale), with an equal fair value.
Furthermore, loans to Greek parties (banks and other customers) have been disbursed for 74 million euro, in addition to margins available on irrevocable credit lines of 33 million euro.

The overall impact recognised in the income statement on positions in relation to the Greek government and other Greek public and private parties totalled -39 million euro, of which -40 million euro under “Net adjustments to loans” and +1 million euro under “Profits (Losses) on trading” and “Income from insurance business.”

INFORMATION ON STRUCTURED CREDIT PRODUCTS

Qualitative information

During 2012 the portfolio management strategy continued to focus on gradually reducing exposure. In particular, it should be noted the Group's withdrawal both from risk positions classified as part of the trading book and from those classified as part of the loan portfolio.
The reporting year once more yielded a positive contribution to profit, up sharply compared to the previous year, of 96 million euro, of which 63 million euro derived from realised profits and 33 million euro from revaluation. This result is compared with 55 million euro as at 31 December 2011.

The risk exposure to structured credit products amounted to 2,247 million euro as at 31 December 2012 with respect to funded and unfunded ABSs/CDOs, compared to 2,772 million euro as at 31 December 2011, in addition to an exposure of 3 million euro with respect to structured packages (41 million euro as at 31 December 2011). The reduction in the exposure during 2012 was related to the termination of a funded/unfunded structure partly included within the subprime exposures and partly within the "Contagion Area", with a risk exposure of 67 million euro, and the termination of an unfunded position included within the "Other structured credit products – Super Senior CDO unfunded positions" amounting to around 40 million euro. Added to this was the strong decline both in the exposure to securities classified under the Parent Company portfolio, down by approximately 200 million euro, and in the exposure to Banca IMI trading securities which decreased by around 100 million euro.

As at 31 December 2012 the creditworthiness of around 42.4% of outstanding positions was downgraded during the year, with a strongly accentuated trend in the first quarter (+25.8% compared with the previous quarter) and a more contained trend in the second, third and fourth quarters of 2012 (respectively +3.5%, +8.9% and +4.2% compared with the previous quarter).
The situation of the structured credit product portfolio at the end of 2012 is described by the following indicators:

- 64% of exposure was Investment Grade, lower than the figure as at 31 December 2011 (70%);
- 15% had an AAA rating and 32% had an AA rating;
- 36% had a BBB rating or less, compared to 30% as at 31 December 2011;
- approximately 6% of the exposure has a pre-2005 vintage;
- 32% has a 2005 vintage;
- only 10% of exposure related to the US Residential segment, and 77% to the European segment.

In terms of underlying contract types, slightly less than half the exposure consisted of RMBSs (43%); the remainder consisted of CLOs (20%), CDOs (19%) and ABSs (12%); there were also CMBSs representing 7% of the total.
As concerns valuation methods, of "long" positions approximately 34% are measured using the mark-to-model (100% of unfunded positions, 28% of funded positions, 100% of positions in funds, 100% of the monoline risk and the non-monoline packages), 62% with the Comparable Approach (68% of funded positions) and 4% are measured using Effective Market Quotes (4% of funded positions).

In the summary tables provided below, table (a) sets out risk exposure and income statement captions (sum of realised charges and profits, write-downs and write-backs) as at 31 December 2012, compared with the corresponding values recorded as at 31 December 2011.
Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged.
Values expressed in USD as at 31 December 2011 were translated to euro at an exchange rate of 1.2939 euro per dollar, and as at 31 December 2012 at an exchange rate of 1.3194 euro per dollar.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABSs/CDOs

(millions of euro)

Financial assets held for trading	**31.12.2012**		**31.12.2011**	
	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	**9**	**-3**	**28**	**8**
Contagion area	**33**	**65**	**162**	**24**
- Multisector CDOs [(1)]	-21	18	87	11
- Alt-A	-	-	-	-
- TruPS	54	47	75	13
- Prime CMOs	-	-	-	-
Other structured credit products	**844**	**44**	**769**	**12**
- European/US ABSs/CDOs	716	31	625	1
- Unfunded super senior CDOs	128	16	155	4
- Other unfunded positions	-	-3	-11	7
Total	**886**	**106**	**959**	**44**
in addition to:				
Positions of funds	-	11	-	-5
Total Financial assets held for trading	**886**	**117**	**959**	**39**
Loans	**31.12.2012**		**31.12.2011**	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement**
US subprime exposure	**3**	**-**	**3**	**-**
Contagion area	**43**	**1**	**63**	**-1**
- Multisector CDOs	8	1	9	-1
- Alt-A	23	-	36	-
- TruPS	-	-	-	-
- Prime CMOs	12	-	18	-
Other structured credit products	**1,315**	**-1**	**1,747**	**7**
- Funded European/US ABSs/CDOs	1,017	-8	1,280	-9
- Funded super senior CDOs	298	7	467	16
- Other Romulus funded securities	-	-	-	-
Total	**1,361**	**-**	**1,813**	**6**
in addition to:				
Positions of funds	-	-	-	-
Total Loans	**1,361**	**-**	**1,813**	**6**
TOTAL	**2,247**	**117**	**2,772**	**45**

(1) The short position of the Multisector CDO segment was generated as a result of the closing of almost all the risk positions which had been included from the beginning, and the maintenance of derivatives on indices for the operational hedging of said positions. More specifically, these comprise 14 million euro in risk exposure hedged by 35 million euro in "short" operational positions.

(*) 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 amount of the security plus accrued interest calculated at the effective interest rate net of net value adjustments to the portfolio.

b) Exposure in packages

(millions of euro)

	31.12.2012		31.12.2011	
	Credit exposure to monoline insurers (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading	**Credit exposure to monoline insurers** (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading
Monoline risk	-	-21	25	9
Non monoline packages	3	-	16	1
TOTAL	**3**	**-21**	**41**	**10**

From an income statement perspective, structured credit products generated a net income of +96 million euro as at 31 December 2012 compared to +55 million euro for 2011.
The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of 96 million euro, of which 53 million euro derived from realised profits and 43 million euro from revaluation. The profit on this segment was a result of the effects of:
– unfunded Super Senior CDO positions included in "Other structured credit products" (+16 million euro as at 31 December 2012); the good performance compared to the end of 2011 (+4 million euro) is attributable to the need to adhere to the prices received from counterparties;
– European and US funded ABSs/CDOs (+31 million euro), entirely attributable to profits achieved by the subsidiary Banca IMI from partial disposal of the trading book;
– other unfunded positions (-3 million euro), also included in the area "Other structured credit products";
– the US Subprime exposure (-3 million euro), mainly attributable to funded positions included in the segment;
– instruments included in the "Contagion Area" (+65 million euro); in detail, only the Multisector CDO segment recorded a positive result of 18 million euro. This result, up by 7 million euro compared to the period ended in December 2011, was due to the improvement of counterparties' credit risk. This contribution is in addition to that of the positions of related funds (+11 million euro), of which 7 million euro consists of realised profits due to the sale on the market of quotas of funds included within the scope. Finally, Trupss generated a positive result of 47 million euro, up by 34 million euro compared with the previous year, of which 18 million euro was realised on the closure of unfunded super-senior CDO positions and 29 million euro was due to the adjustment of the valuation of a security, in line with the sale price realised in January 2013.

The securities reclassified to the loan portfolio had an overall impact on the income statement of zero as at 31 December 2012. This result is the combination of the 10 million euro in profits realised on the sale of positions and 10 million in impairment losses, of which 5 million euro on securities issued by vehicles based in Spain.
As at 31 December 2012 the loan portfolio contained ABSs issued by parties resident in EU countries in situations of financial difficulty (known as "PIGS"). In particular, these consist of:
– 170 million euro in nominal value of securities issued by parties resident in Spain; as at 31 December 2012 these securities had a book value of 152 million euro and a fair value of 108 million euro;
– 36 million euro in nominal value of securities issued by parties resident in Portugal; as at 31 December 2012 these securities had a book value of 30 million euro and a fair value of 17 million euro;
– 8 million euro in nominal value of securities issued by parties resident in Greece; as at 31 December 2012 these securities had a book value of 5 million euro and a fair value of 2 million euro;
– 3 million euro in nominal value of securities issued by parties resident in Ireland; as at 31 December 2012 these securities had a book value of 2 million euro and a fair value of 1 million euro.
The "Monoline risk" and "Non-monoline packages" made a negative contribution of 21 million euro as at 31 December 2012, down compared to the +10 million euro recorded at the end of 2011. The segment trend reflects the spread volatility for the counterparty on which this exposure is concentrated.
It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.
As at 31 December 2012, the aggregate included bonds reclassified as loans, which are summarised in the tables below.

(millions of euro)

	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Fair value as at 31.12.2012	Benefit from the reclassification as at 31.12.2012	Effect on Shareholders' Equity
Reclassified securities:					
- from financial assets available for sale to loans	178	148	61	-	87
- from financial assets held for trading to loans	1,142	1,027	880	147	-
Total Securities reclassified to loans	**1,320**	**1,175**	**941**	**147**	**87**
Securities classified under loans from inception	189	186			
Total securities classified under loans from inception	**189**	**186**			
TOTAL LOANS	**1,509**	**1,361**	**941**	**147**	**87**

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

(millions of euro)

Negative economic effect without reclassification for 2008	-299
Negative economic effect without reclassification for 2009	-7
Positive economic effect without reclassification for 2010	117
Negative economic effect without reclassification for 2011	-25
Positive economic effect without reclassification for 2012	67
BENEFIT FROM THE RECLASSIFICATION AS AT 31.12.2012	**-147**

In addition to the structured credits identified during the subprime crisis, the Group continues to invest in this type of security as part of its normal customer lending operations. In particular, securities were recorded in the loan portfolio of the conduit Duomo for a nominal value of 1,357 million euro, with underlyings originated in recent years, but not impacted by the 2007 crisis. As at 31 December 2012, there were no signs of impairment of the collateral of the structured products in question.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities:
- to raise funds on the market by issuing specific financial instruments;
- to acquire, sell, manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets and for acquiring funding through self-securitisations and issues of Covered Bonds (CB);
- to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
- to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt;

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, for funding and other purposes, or offering customers a financial service. There are no changes in the scope of consolidation with respect to those adopted in the previous year.

Funding SPEs

These are entities incorporated abroad to raise funds on specific markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company. The change in Italian law which enables the Parent Company Intesa Sanpaolo to directly issue hybrid notes eliminated the funding activities carried out through these methods. For this reason, the total of this type of funding made up a marginal amount of total direct customer deposits.
The only SPE of this type which falls within the scope of the Group's consolidated financial statements pursuant to IAS 27 is Intesa Funding LLC, with headquarters in the USA. This is a subsidiary which issues commercial paper on the US market.
The table below shows the information and figures for the vehicle as at 31 December 2012.

(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	48	-	-	-	(1)	48	48			

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of this vehicle was almost entirely made up of loans to Intesa Sanpaolo. The significant reduction in funding of the vehicle compared to the previous year (securities issued as at 31 December 2011 of approximately 300 million euro) is due to the fact that the short-term rating is unsuitable for acquiring significant funding on the US market.

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of the Group's insurance companies, which retain the majority of the risks and rewards; SPEs for insurance products are consolidated pursuant to IAS 27 / SIC 12.
In the Group there are 78 entities of this type with total net assets of approximately 22 billion euro (of which 7 billion euro relative to funds that report to Fideuram Gestions).
As at 31 December 2012, the assets of the funds in which Intesa Sanpaolo Vita/Intesa Sanpaolo Life hold the majority of the units outstanding are invested in bonds and liquidity for around 45% (except for the SPLux Sicav 2 Equity 100 fund, which has invested around 99% of the portfolio in equity funds and shares) and, for the remainder, in equity and bond mutual funds (around 18%), in corporate bonds (around 10%), and in shares and equity mutual funds (around 10%). In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.
The total assets of these SPEs made up around 3% of the Group's total consolidated assets.

Securitisation SPEs

These are SPEs that enable an entity to transfer assets from its balance sheet assets, transforming them in securities which can be placed on the market. The crisis which began in 2007 caused a sharp slowdown in this type of transactions, which were replaced by structures used for raising funds through securitisations of a portion of assets owned by the transferor. 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 (traditional securitisations) or purchased in full by the transferor (self-securitisations). In the first case, the funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash funds generated by the loans sold. This category also includes SPEs used by Intesa Sanpaolo to implement the covered bond issue programme.
SPEs of this type that were part of the scope of consolidation as at 31 December 2012 pursuant to IAS 27 or SIC 12, were: Intesa SEC S.p.a., Intesa SEC 3 S.r.l., Intesa SEC NPL S.p.a., Intesa Lease SEC S.r.l., Split 2 S.r.l., ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l., ISP OBG S.r.l. (former ISP SEC 4 S.r.l.), Adriano Finance S.r.l., Adriano Finance 2 S.r.l, Adriano Lease Sec S.r.l. and Trade Receivable Investment Vehicle S.a.r.l.
Compared to the information provided in the 2011 financial statements, note:
- the securitisations of performing mortgages carried out through the vehicle Intesa SEC 2 S.r.l. was settled with the exercise of the clean up call option in May 2012;
- In October 2012 the full repayment of the securities issued by the vehicle Intesa Lease SEC S.r.l. was carried out and all the activities required to settle the transaction were launched. The residual portfolio was sold to the originator (Leasint S.p.a.) in December 2012;
- In August and October 2012 the early unwinding of the self-securitisation performed through the vehicle Adriano Finance S.r.l. was completed (Series 1 and 3). Series 2 had been terminated in advance in 2011;
- in June 2012 the early unwinding of the self-securitisation performed through the vehicle Adriano Finance S.r.l. was completed.

These companies, incorporated under Italian law, are used to securitise the performing assets (mortgage loans, leasing contracts) or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies. Specifically, the vehicles Adriano Lease SEC S.r.l., Sanvitale 1 S.r.l. and Sanvitale 2 S.r.l. are used to implement self-securitisation. For more details on this type of transaction, see section 1.3 – Liquidity risk – in Part E of the Notes to the consolidated financial statements.
In the case of ISP CB Pubblico S.r.l., ISP CB Ipotecario S.r.l. and ISP OBG S.r.l., the sale of the assets to the vehicle is aimed at implementing covered bond issue programmes. Additional details on the operations of these vehicles are provided in Section C of Part E of the Notes to the consolidated financial statements.
The securities held by Intesa Sanpaolo or by Group companies have been measured according to the provisions for the specific IAS category for each security, as indicated in the table below, which shows the information and figures for these vehicles as at 31 December 2012.

(millions of euro)

SECURITISATION SPEs	Type of asset	Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	book value	amount	IAS classification	Valuation
INTESA SEC SPA (1)	Pperforming mortgages	2	-	-	-		-	2	-		
INTESA SEC 3 SRL (2) (6)	Performing mortgages	1,250	9	-	-		-	1,049	113	AFS - HFT - Loans	Fair value - amortised cost
INTESA SEC NPL SPA (3)	Non-performing loans	37	-	-	-		-	155	17	AFS - Loans	Fair value - amortised cost
INTESA LEASE SEC SRL (4)	Performing leasing contracts	17	-	-	-		-	-	-		
Adriano Lease SEC S.r.l.	Performing leasing contracts	5,933	-	-	-		-	5,832	-		
SanVitale 1 S.r.l.	Performing retail mortgages	253	-	19	19		-	224	-		
SanVitale 2 S.r.l.	Performing retail mortgages	137	-	-	-		-	134	-		
SPLIT 2 S.r.l.	Performing leasing contracts	85	-	-	-		-	79	29	HTM-HFT-Loans	Fair value - amortised cost
ISP CB IPOTECARIO S.r.l. (5)	Residential mortgages	15,014	14	14,066	13,767		-	-	-		
ISP CB PUBBLICO S.r.l. (5)	Other loans to the public sector	13,530	-	22,900	13,062		-	-	-		
ISP OBG S.r.l. (5)	Mmultioriginator performing mortgages	20,561	13	20,309	20,309		-	-	-		
CR Firenze Mutui S.r.l.	Performing mortgages	84	-	-	-		-	72	5	HFT-Loans	Fair value - amortised cost
Trade Receivable Investment Vehicle S.a.r.l.	Trade receivables	172	-	-	-		-	172	42	HFT	Fair value

(1) ISP is committed to supporting the vehicle through a limited recourse subordinated loan, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature other than the securities and operating costs deriving from the securitisation.

(2) ISP granted a limited recourse subordinated loan of 23 million euro used by the vehicle to set up the cash reserve which makes up the credit enhancement of the operation required by the rating agencies. Swap contracts signed with ISP are in place as interest rate risk hedge.

(3) ISP granted a guarantee and indemnity contract currently used for approximately 0.3 million euro, in case of representations or guarantees which lead to a reduction in loan value. The bank is also committed to support the vehicle through limited recourse subordinated loan, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The subordinated loan was granted for approximately 2.9 million euro. The indemnity does not cover security-related costs and securitisation operating costs. Cumulated losses shall be absorbed by tranches E (equity) and D held by ISP whose value was adjusted both in the current and in previous years. An Interest Rate Cap contract and an Interest Rate Floor contract are in place as interest rate risk hedge.

(4) In October 2012 the securities were fully reimbursed and all activities needed to close the transaction were initiated. The residual portfolio was sold to the originator Leasint S.p.A. in December 2012.

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

(6) ISP granted two subordinated loans for the vehicle Intesa Sec 3 S.r.l.. The transaction totalled 3 million euro.

The IAS rules on first time adoption (IFRS 1) and the derecognition of financial assets and liabilities have been applied in full to the securitisations.
The securitised assets of this type of vehicle are represented by performing residential mortgages, with the exception of the vehicles Intesa SEC NPL S.p.A., whose securitised assets are represented by non-performing mortgages, and the vehicles Intesa Lease SEC S.r.l., Adriano Lease SEC and Split 2 S.r.l., whose securitised assets are represented by performing loans deriving from lease contracts.
The vehicle's remaining cash commitments are in addition to the above assets.
Trade Receivable Investment Vehicle S.a.r.l. a vehicle set up in Luxembourg included in the scope of consolidation, which is used to securitise trade receivables originated by primary customers and purchased by the Intesa Sanpaolo Group without recourse to be subsequently securitised through the issue of unrated securities.

Augusto, Colombo and Diocleziano are securitisation vehicles for assets, primarily land and public works financing, of a company subject to joint control and later sold.
The total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up of land financing or receivables for public works.

For the sake of completeness, C.R. Firenze Mutui S.r.l., a securitisation vehicle with its own underlying assets (performing mortgages), from the Carifirenze sub-group, should also be mentioned. This vehicle, consolidated at equity, had total securitised assets as at 31 December 2012 of 84 million euro.
Furthermore, pursuant to SIC 12, Intesa Sanpaolo controlled:
– Romulus Funding Corporation, a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;
– Duomo Funding Plc., an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

Since 2011, the assets originated by customers have been placed in the vehicle Duomo, leaving Romulus activity of fund-raising on the U.S. market. However, it should be noted that due to the difficult liquidity situation in the U.S. commercial paper market, as at 31 December 2012 the securities issued by Romulus had been almost fully subscribed by the Parent Company Intesa Sanpaolo with a nominal value of approximately 2 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2012.

(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-backed commercial paper conduit	2,227 (1)		-	-	Letter of credit	15	2,221	2,039	Loans	Amortised cost
DUOMO FUNDING CORP.	asset-backed commercial paper conduit	2,229	-	2,598 (2)	-		-	-			

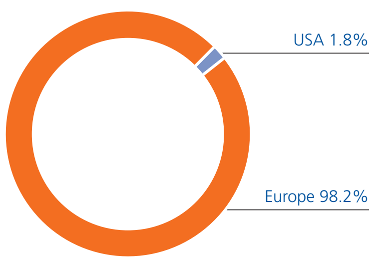
(1) of which 2,224 million euro for loans disbursed to Duomo, for transactions reported in the latter's financial statements.

(2) of which 1,101 million euro referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

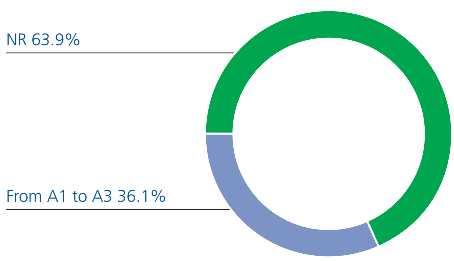
The total assets of the vehicle Romulus include receivables from Duomo for 2,224 million euro. The vehicle’s assets are completed by financial derivatives hedging against foreign exchange risk with a positive fair value of 2 million euro as at 31 December 2012, in addition to cash and other assets of 1 million euro.
With regard to the portfolio of the vehicle Duomo, at the end of 2012 – in addition to receivables from Group banks for 1,005 million euro – this portfolio includes loans to customers for 1,096 million euro. Of these, 1,357 million euro consisted of structured credit products subscribed in the context of normal customer lending activity, the collateral for which had not shown any sign of impairment as at 31 December 2012. In portfolio, the vehicle holds units of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 127 million euro as at 31 December 2012.
The total assets of the above SPEs, net of dealings between the two vehicles, made up 0.3% of the 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



The composition of the portfolio of the two vehicles changed, showing a sharp reduction in exposures to US entities (from 2.4% as at 31 December 2011 to 1.8% as at 31 December 2012). The rating of exposures was also subject to a decrease in rated entities (about 36%) and to the concentration of exposures on unrated entities. Please note that the uses in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were of sufficient quality for the commercial papers issued by Romulus to maintain the A-2/P-2 ratings.

Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the synthetic securitisation vehicle Da Vinci (to hedge and actively manage risk exposure in the aircraft and aeronautic sector).
As at 31 December 2012, the Group's exposure to vehicle Da Vinci amounted to 8 million euro in nominal value, entirely represented by securities, classified as available for sale. Their book value at the end of 2012 amounted to 7 million euro. Their fair value adjustment was recorded with an offsetting entry in the Shareholders' equity valuation reserves.

Financial Engineering SPEs

These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions, through their special structures aimed at optimising accounting, tax and/or regulatory aspects. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.
In June 2012 the Management Board of Intesa Sanpaolo resolved on the merger by incorporation of Intesa Investimenti S.p.A., as this vehicle has now completed its mission and is essentially inactive.
Lunar Funding, a vehicle set up in Ireland and used for repackaging operations by a leading bank, is still included in the scope of consolidation.

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 in order to benefit from operating and legal/bureaucratic efficiency.
The Intesa Sanpaolo Group has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since Group companies do not hold any stake or interest in the venture 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 collateral for the financing obtained from the vehicle.
The Intesa Sanpaolo Group 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. Only one entity is this type of SPE (with total assets of around 63 million euro as at 31 December 2012), whose capital is held by an international subsidiary.

Leveraged & Acquisition Finance SPEs

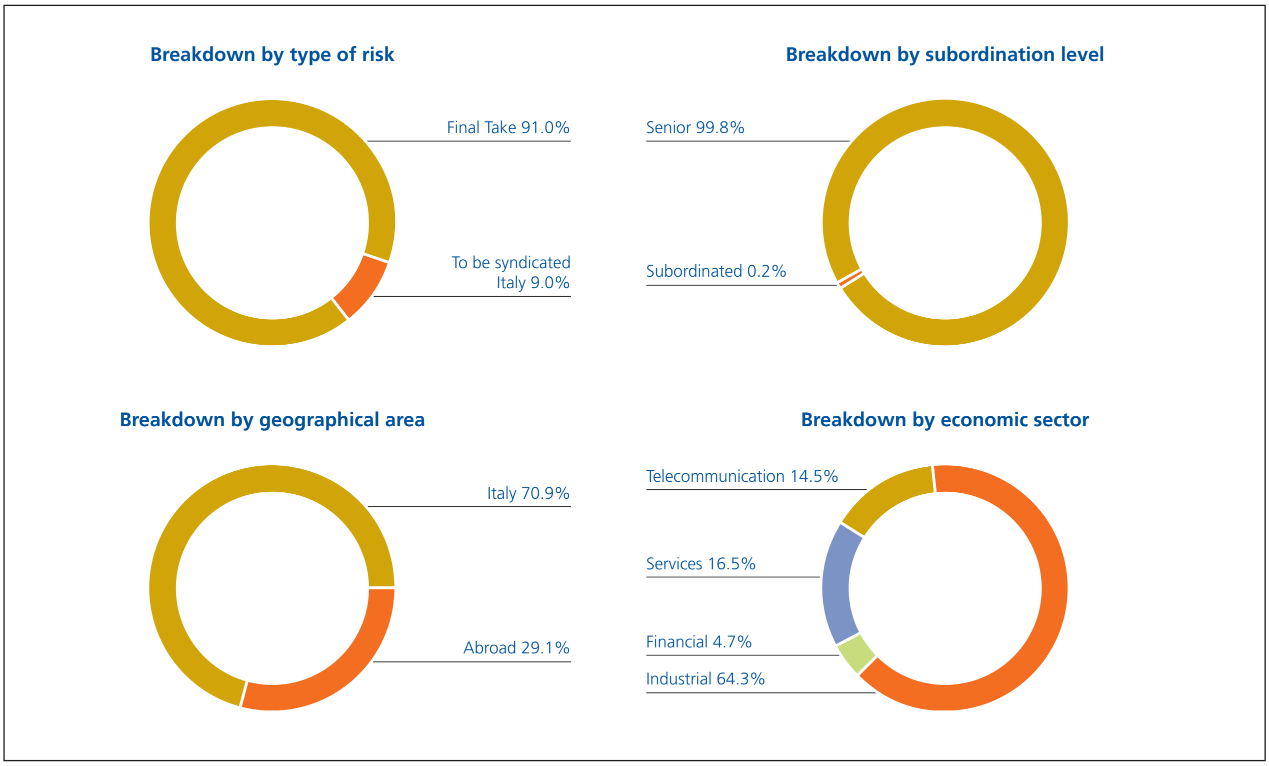
For the description of the transactions which involve these vehicles see the specific section dedicated to Leveraged Finance transactions.

Credit Derivatives SPEs

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 a credit derivative protection sold 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 no 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 rewards deriving from the activities of the vehicle.

INFORMATION ON 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 operations, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2012, 120 transactions for a total amount granted of 3,985 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge funds portfolio as at 31 December 2012 totalled 696 million euro, compared to the 665 million euro recorded at year-end 2011. The slight increase in the value of the portfolio is attributable to the capital gains deriving from outstanding positions at the end of 2012, in addition to several increases of units, only partially offset by the effect of the change in the exchange rate on positions denominated in U.S. dollars.

As at the same date, the contribution to "Profits (Losses) on trading – caption 80" of these investments was positive at +53 million euro (including +11 million euro in the structured credit products disclosure). Of these net profits:

– 30 million euro related to trading of funds for the year (including 7 million euro in the structured credit products disclosure);
– 26 million euro consisting of net valuations of positions outstanding at the period end (including 4 million euro in the structured credit products disclosure);
– -3 million of losses on foreign exchange transactions.

Taking into account the net capital losses on the final residual amount (26 million euro), these were spread across 36 positions, 20 of which recording capital gains (44 million euro) and 16 capital losses (-18 million euro).
During 2012, the portfolio's overall strategy remained prevalently geared towards benefiting from the occurrence of specific corporate events, which are generally independent from the general trend, and thus avoid spikes in volatility. The year just ended was characterised by the extreme alternation between periods of high risk and market stress (see the second and third quarters of 2012) and periods of gradual attenuation of risk (first and fourth quarters of 2012). These uneven trends were triggered by events with contrasting outcomes: on one side, the uncertain results of the fiscal cliff in the US and the recession and sovereign debt crisis in Europe, the highly accommodating monetary policy of the Fed and the ECB, keeping spreads down on peripheral European debt and the recovery in the real estate market in the US on the other.

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 two main poles (in terms of volumes traded):

– Banca dei Territori Division, for the sale of derivative products to retail and corporate 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, and to public entities, through the Public Finance and Infrastructure Department. Derivatives sold by the network are hedged back to back with Banca IMI.

Customer financial 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 the hedging of financial risks, with a few typical differences:
   i) companies enter into 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 the Public Finance and Infrastructure Department within the Corporate Division, 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 and Network Banks) 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 2012, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 7,314 million euro (3,818 million euro as at 31 December 2011). The notional value of such derivatives totalled 55,865 million euro (50,708 million euro as at 31 December 2011). Of these, the notional value of plain vanilla contracts was 50,168 million euro (44,113 million euro as at 31 December 2011), and of structured contracts was 5,697 million euro (6,595 million euro as at 31 December 2011).

The positive fair value of the structured contracts in existence with the 10 customers with the highest exposures was 516 million euro (335 million euro as at 31 December 2011). The same indicator, referred to the total contracts with a positive fair value, was 4,563 million euro.

Conversely, the negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,054 million euro as at 31 December 2012 (960 million euro as at 31 December 2011). The notional value of such derivatives totalled 15,701 million euro (14,751 million euro as at 31 December 2011). Of these, the notional value of plain vanilla contracts was 13,743 million euro (13,690 million euro as at 31 December 2011), and of structured contracts was 1,958 million euro (1,061 million euro as at 31 December 2011).

The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Credit Risk Adjustment"). With regard to contracts outstanding as at 31 December 2012, this led to a negative effect of 30 million euro being recorded under profits (losses) on trading in the income statement. Adjustments were recorded, for every single contract, on the market value determined using the risk free curves.

As regards 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 Part A of the Notes to the consolidated financial statements - Fair value measurement. 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.