1.1 CREDIT RISK

The Group's strategies, powers and rules for the credit granting and management are aimed at:
- achieving sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- given the current economic climate, privileging lending business aimed at supporting the real economy and production system;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship in a timely manner.

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

QUALITATIVE INFORMATION

Credit risk management policies

Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, each to the extent of its competence, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.

The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:
- the Chief Lending Officer;
- the Chief Risk Officer; and
- the Chief Financial Officer.

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation.

The Chief Lending Officer assesses the creditworthiness of the loan applications received and, where competent, approves them or issues a compliance opinion, manages and monitors non-performing loans and functionally coordinates the recovery of doubtful loans by Intesa Sanpaolo Group Services through the Loan Recovery Department, sets the Credit Granting and Management Rules, ensures that positions classified as non-performing, within his purview, are properly measured for financial statement purposes, and defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, on some occasions at the proposal of the Group's various functions/structures.

The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures, defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, implements credit controls, including rating controls, and constantly monitors risk and credit quality performance.

In accordance with the strategic guidelines and risk management policies set by the Management Board and approved by the Supervisory Board, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate), oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.

In addition, within the framework of the loan assessment process, the Administration and Tax Department, which reports directly to the Managing Director and CEO, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.

Intesa Sanpaolo Group Services provides specialised operating support for loan recovery activity and in defining credit processes while ensuring cost and performance synergies in the service offered.

The levels of autonomy assigned to the decision-making bodies are determined by agreement between the Bank/Banking group regarding the borrower/economic group. The rating assigned, along with any other credit-risk mitigating factors, conditions the determination of the decision-making competence of each delegated body. Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.

In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:
- the system of Credit Powers and Granting and Monitoring Rules governing the ways in which credit risk to customers is assumed;
- "Credit-granting limit", intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the "Compliance opinion" on credit-granting to large customers (single name or Economic Group) which exceeds certain thresholds.

The exchange of basic information flows between different Group entities is assured by the Group's "Centrale Rischi" (exposure monitoring and control system) and by "Posizione Complessiva di Rischio" (global risk position), that highlight and analyse credit risks for each counterparty/economic group both towards the Group as a whole and towards individual Group companies.
The activities within the Chief Risk Officer's purview are carried out directly by the Risk Management Department and the Credit Quality Monitoring Unit, for the Parent Company and the main subsidiaries, on the basis of a service contract, whereas the other control structures operating within the individual companies report regularly to the aforementioned functions of the Parent Company.

Management, measurement and control systems

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and of exposures subject to country risk.
Risk measurement is performed by means of different rating models according to borrower segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian Public sector entities, Financial institutions). These models make it possible to summarise the counterparty's credit quality in a value, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. These ratings are then made consistent with those awarded by rating agencies, by means of a uniform scale of reference.
A number of rating models are used for the Corporate segment:

- models differentiated according to the market (domestic or international) and size bracket of the company are applied to most businesses;
- specific models are in use for specialised lending, one for real-estate initiatives, one for project-finance transactions and one for LBO/acquisition-finance and asset-finance transactions.

In general terms, the structure of these models requires the integration of multiple modules:

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

Ratings are generally assigned on a decentralised basis by the Manager, who is the main figure in the process of assigning a rating to a counterparty. Any improvement override proposals are validated by a Specialist Unit allocated to the Parent Company, within the Chief Lending Officer's staff. The Specialist Unit is responsible for, among other duties, the task of assigning what are known as "centralised ratings" provided for in the rating assignment processes according to the corporate method and of intervening in the calculation of ratings with specialist models.
The models applied to the Retail portfolio are as follows:

- for the Small Business segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and historical series used in development;
- for the Retail Mortgage segment (residential mortgages for private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
- a class of models is gradually being developed for other products aimed at individuals (the Other retail segment) such as personal loans, consumer credit, credit cards, current account overdrafts, etc. These models will gradually replace the management rating or scoring systems currently in use for various products.

The rating model for the Sovereign portfolio supports the assignment of an assessment of creditworthiness for over 260 countries. The structure of the model involves:

- a quantitative module for assessing country risk, which takes account of the structural rating assigned by the major international agencies, the risk implicit in market quotations of sovereign debt, a macroeconomic assessment of countries identified as strategic and the international scenario;
- a qualitative opinion component, for which the Sovereign Rating Working Group is responsible, supplementing the qualitative opinion with elements drawn from the broader scope of publicly available information concerning the political and economic structure of individual sovereign countries.

The framework is completed by the class of regulatory exposures consisting, on the one hand, of banks (and other financial companies attributable to banking groups) and near-banking companies (companies that engage in leasing, factoring and consumer credit), and, on the other, public entities:

- in the Banks segment, from the standpoint of determining probability of default, the key decision was to differentiate the models for banks in mature economies and banks in emerging countries, the structure of which, however, is highly similar. In short, these consist of a quantitative part and a qualitative part, differentiated according to mature and emerging countries, a country rating component relating to systemic risk, a component relating to specific country risk for banks most closely correlated with country risk, and finally, a module (the "manager's opinion") that allows the rating to be modified in certain conditions;
- in the Public Entities segment, the models of reference have been differentiated according to the type of counterparty. Accordingly, default models have been developed for municipalities and provinces and shadow rating models for regions. An extensive approach has been adopted for local healthcare authorities and other sector entities, with possible notching on the basis of financial statement assessments.

Experience-based models are used for counterparties belonging to the Non-Banking Financial Institutions portfolio.

Rating models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company and adapted to the local situation and partly fully developed by the subsidiaries concerned.
The LGD model is based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly attributable to the exposure as well as the indirect management costs incurred by the Group, and consists, in brief, of the following elements:
– estimate of a Doubtful LGD Model: starting from the LGD observed on the portfolio, namely "Workout LGD", determined on the basis of the recoveries and costs, a regression econometric model of the LGD is estimated on variables considered to be significant for the determination of the loss associated to the Default event;
– application of a correction factor, known as "Danger Rate": the Danger Rate is a multiplying correction factor, used to recalibrate the Doubtful LGD with the information available on the other default events, in order to calculate an LGD representative of all the possible default events and their evolution;
– application of an additional correction factor, known as "Final Settlement Component": this component is used as an add-on to the estimate recalibrated for the Danger Rate in order to consider the loss rates associated with positions not evolved to the Doubtful status (Substandard or Past Due positions).

LGD is determined according to differentiated models, specialised by operative segment (Corporate, SME Retail, Mortgage, Factoring, Leasing and Public Entities).
The Banks LGD model partly diverges from the models developed for the other segments given the peculiarities of the segment, which has a low number of defaults ("low-default portfolios"). The estimation model is a market LGD approach, based on the market price of debt instruments observed 30 days after the official date of default for a sample of banks defaulted from all over the world. The market data are provided by an external provider. The model is completed by an econometric estimate aimed at determining the most significant drivers, in accordance with the practice in use for the other models.

The rating models (PD and LGD) for the Retail Mortgage segment received authorisation for transition to the IRB approach effective from June 2010 report, while rating models for the SME Retail received authorisation for transition to the IRB approach effective from December 2012 report. The rating models for the Corporate segment received authorisation for the use of the AIRB approach to calculate capital requirements effective from 31 December 2010 reporting date (the FIRB approach had been used since December 2008), while the LGD Corporate models for Leasing and Factoring products received authorisation for transition to the AIRB approach effective from June 2012 report.
For information on the plan to extend the IRB approach to other portfolios, refer to the paragraph concerning the Basel 2 Project.

In 2014 an internal model for determining EAD (Exposure at Default) is expected to be developed.

The rating system also includes a risk trend indicator, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the Non-performing Loan Process. This process, supported by a dedicated electronic procedure, enables constant monitoring, largely automatic, of all the phases for the management of anomalous positions. The positions which show an anomalous trend are classified into different processes based on the risk level, including the automatic classification in non-performing assets, as described in the related paragraph below.
The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.
Ratings and mitigating credit factors (guarantees, types of loan products/lending facilities and covenants) play a fundamental role in the loan granting and monitoring process and contribute to setting the Credit Powers and Granting and Monitoring Rules. The Credit Quality Monitoring Unit oversees the above aspects at the Group level, through specific, extensive control and monitoring activities. However, these activities are part of a broader system of credit controls that the Unit implements directly and coordinates with the aid of the cutting-edge information technology tools which are also made available to the business units for their respective areas of responsibility. Examples of such tools include the Ermes - Rating Controls application, a tool that allows rating control activities to be managed by computer, and the Credit Monitoring Portal.
This latter application, which has been in use since 2010 and receives input from the Credit Control Panel, is the Group's primary source in supporting the monitoring of the loan portfolio in terms of its development over time and for quantitative and qualitative composition as well as for loan-related processes aimed at identifying any areas showing potential critical weaknesses. The information available refers to all Group banks and companies that operate on the target information technology system.
In this context, the peripheral units within the Banca dei Territori and Corporate & Investment Banking Divisions down to the Area level, enjoy access to "information" dashboards that provide an organic, structured report prepared with the aim of:
– providing a structured, navigable overview of the phenomenon under review;
– reducing the time required to search for and process information;
– facilitating the identification of critical areas and defining priority actions;
– supporting the exchange of information between units on a consistent basis.

The aforementioned tools are subject to constant maintenance performed by the Credit Quality Monitoring Unit, which from a developmental standpoint aims to ensure that the set of information available is expanded through the creation of new dashboards for controlling and monitoring general phenomena and/or specific aspects of the lending process.

Country risk is an additional component of an individual borrower's insolvency risk, measured by credit risk control systems. This component is linked to losses potentially resulting from international lending operations caused by events in a country that are partly or entirely within the control of the government concerned, but not that of the individual residents of the country in question. Country risk therefore takes the form of both transfer risk for non-sovereign counterparties, due to the freezing of international payments, and sovereign risk, which is measured through an assessment of the sovereign states' creditworthiness. This definition includes all forms of cross-border lending to entities residing in a given country, whether they are the government, a bank, a private enterprise or an individual.
The country risk component is assessed in the context of the granting of credit to non-resident entities in order to arrive at a preliminary evaluation of the absorption of country risk limits set on an ex-ante basis. Such limits, expressed in terms of economic capital, identify the maximum acceptable risk for the Group, defined on an annual basis as the result of an exercise aimed at

optimising the risk implicit in the Group's cross-border lending operations.
Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).
From a regulatory standpoint, banks must meet strict capital requirements for counterparty risk, regardless of the portfolio to which the positions are allocated (for regulatory purposes, both the banking book and trading book are subject to capital requirements for counterparty risk).
In particular, the Intesa Sanpaolo Group adopts at the moment the Current Exposure Method (to both the trading book and banking book) in order to determine the loan equivalent of OTC derivatives, which is useful when computing capital requirements.
Potential exposure (estimated with the actual average PFE – potential future exposure) has been adopted by Banca IMI (effective October 2010) and the Parent Company, Intesa Sanpaolo (effective April 2012), for the purposes of operational measurement of uses.
For the rest of the Group, the definition of the use of the credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.
Add-ons indicate the maximum potential future exposure (peak measurement), regularly estimated by the Risk Management Department by macro-product type and maturity. For each contract used as a benchmark, the measure is equal to the peak in the Potential Future Exposure at the 95th percentile.
The validation process for regulatory purposes (in view of Basel 3) of the internal counterparty risks model for Intesa Sanpaolo and Banca IMI was initiated in 2012.
The advanced measurement approach for counterparty risk is in the development phase for the Network Banks, with the aim of launching the validation process for regulatory purposes in 2014.

In order for risk to be managed effectively within the Bank, the risk measurement system must be integrated into decision-making processes and the management of company operations. To that end, in accordance with the "use test" requirement of Basel 3, a specific project has been set up aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. The organisational functions involved, as described in the Bank's internal regulations, are:
– the Parent Company's Risk Management Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
– the central and divisional credit functions that use the measurements produced to monitor the positions assumed;
– the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of lines of credit.

The project yielded the following results:
– April 2010: adoption for the entire Group of a new grid of operational add-ons that is more granular than its predecessor, with a revision of estimates for each risk profile;
– October 2010: adoption for management purposes only of the new simulation method and a new statistical measurement - Potential Future Exposure (PFE) – for measuring credit lines utilisation on non-collateralised derivatives by Banca IMI;
– April 2012: adoption for management purposes only of PFE for calculating credit lines utilisation for non-collateralised derivatives by the Parent Company, Intesa Sanpaolo;
– October 2012: re-estimation of add-ons on interest-rate derivatives;
– November 2012: extension of the PFE measurement to the collateralised derivatives of Banca IMI;
– July 2013: extension of the PFE measurement to the collateralised derivatives of the Parent Company, Intesa Sanpaolo.

In addition, effective from the above date the following company processes were implemented to complete the risk analysis process for the exposure measures implemented over time following the developments discussed above:
– definition and periodic calculation of stress tests on market scenarios and joint market/credit scenarios on counterparty risk measures;
– definition and periodic analysis of Wrong-Way Risk, i.e. the risk of a positive correlation between the future exposure to a counterparty and that counterparty's probability of default;
– definition and monitoring of management limits at the portfolio level authorised by the Group Financial Risks Committee for derivatives transactions;
– contribution of collateral inflow/outflow risk measures, calculated on the basis of the internal counterparty risk model, for OTC derivatives transactions with collateral agreements (CSA);
– reporting to the management of measures calculated using the internal exposure model, capital requirement, level of use of management limits, results of stress tests and analyses of wrong-way risk.

For the rest of the Group, use is monitored through the combined use of mark-to-market and add-ons estimated by the Risk Management Department.
During the third quarter of 2013 an application for validation with the aim of obtaining authorisation to use the internal counterparty risk model for regulatory purposes was submitted to the Bank of Italy in reference to the Parent Company, Intesa Sanpaolo, and Banca IMI.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.
The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.
The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macroeconomic scenario and on stress scenarios.
The expected loss, transformed into "incurred loss" as indicated by IAS 39, is used in the collective assessment of loans, while

capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.
The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

The Group dedicates special attention to assessing concentration risk deriving from the exposure to counterparties, groups of related counterparties and counterparties in the same business segment or that engage in the same business or operate in the same geographical region. In the annual update of the Risk Appetite Framework, such counterparties are subject to stress tests aimed at identifying and assessing threats for the Group and the most appropriate mitigating actions:
- aimed at defining exposure limits for specific geographical areas and sets of counterparties (top 20);
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks" and to credit lines subject to country risk;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

The Group's lending activity is focused on Italian customers (83% of the total) and is primarily aimed at households and small and medium enterprises. In addition, it shows strong diversification, especially as regards certain business sectors and geographical areas, as well as loans to countries at risk.

Techniques for the mitigation of credit risk
Mitigation techniques are adopted in order to reduce the Loss Given Default. They include in particular guarantees and certain types of contracts that result in a reduction in credit risk.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual exposure, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present. The Loss Given Default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.
During the credit granting and managing process, the presence of mitigating factors is encouraged for counterparties with non-investment grade ratings or some types of transactions, namely medium-/long-term transactions.
The mitigating factors that have the greatest impact include pledges of financial assets and residential mortgages. Other forms of risk mitigation are pledges of non-financial assets and non-residential mortgages.
The strength of the personal guarantees issued by rated parties, typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the type of guarantee and guarantor's credit quality.
Detailed processes govern the material acquisition of individual guarantees, identifying the responsible structures as well as the methods for correct finalisation of guarantees, for filing documentation and for complete and timely reporting of the related information in the applications.
The set of internal regulations and organisational and procedural controls is aimed at ensuring that:
- all the fulfilments are planned to ensure the validity and effectiveness of the credit protection;
- for generally and normally used guarantees, standard contracts are defined, accompanied by instructions for use;
- the methods for approving guarantee documents deviating from the standard by structures other than those in charge of commercial relations with the customer are identified.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.

The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties secured by mortgages to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation Code prepared by the Bank. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods applied to prices/coefficients provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.
Asset value is constantly monitored. The experts conduct inspections and verify the work progress for properties under construction. The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.

Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.
In 2013 a series of measures were carried out with the aim of ensuring data quality and the recovery of eligibility for certain forms of protection.

To mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow for credit and debt positions to be netted against one another if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).

A project was launched for the International Subsidiary Banks with the aim of ensuring a consistent approach at the Group level, involving the extension of the use of the credit risk mitigation techniques used at the Parent Company, where possible. In further detail, the gap analysis of five international subsidiary banks was completed for the main types of guarantees. For four of these, an action plan was drawn up and is now being implemented.

Non-performing financial assets
Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.
For the classification of non-performing assets in the various risk categories (doubtful loans, substandard loans, restructured loans and exposures past due, in decreasing order of severity), the Group applies regulations issued by the Bank of Italy, consistent with the regulations envisaged by the Basel Accords and IAS/IFRS, supplemented by internal provisions that establish criteria and rules for the transfer of loans to the various risk categories, including via automatic mechanisms (with the exception of doubtful loans).
The information presented in the following chapters, in continuity with the contents of financial statements from previous years relating to financial restructuring transactions and, more generally, the renegotiation of credit exposures, also takes account of the instructions provided by the European Securities and Markets Authority (ESMA) in the document published in December 2012, "Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions."
In detail, non-performing assets not classified as doubtful loans are subject to an individual measurement process or calculation of the expected loss for homogenous categories (such categories are identified on the basis of the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position.
This measurement is performed upon classification of the assets, at the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated in Part A.2 – Accounting Policies, Main financial statement captions, Loans, to which specific reference should be made.
With reference to past due loans, restructured loans and substandard loans, the structures responsible for their management are identified, on the basis of pre-determined thresholds of increasing significance, within peripheral organisational units that perform specialist activities and within the Head Office units, which also have specialist skills and are responsible for the overall management and coordination of these matters.
On the subject of doubtful loans, it should be remarked that effective from the second half of 2010 the Group adopted an organisational model based on the specialisation of management competencies between internal and external structures, calling for the positions of greatest significance and complexity to be handled internally. In particular, this model calls for:
- the attribution to the Loan Recovery Department of Intesa Sanpaolo Group Services of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks within the Banca dei Territori Division) of customers classified as doubtful effective from July 2010 showing exposures in excess of a pre-determined threshold amount;
- the attribution to Italfondiario S.p.A. (for Intesa Sanpaolo and almost all banks within the Banca dei Territori Division) of direct management – under a specific mandate, and with pre-defined limits – of customers classified as doubtful effective from July 2010 showing exposures below the aforementioned threshold amount (the activity of Italfondiario is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondiario S.p.A. with the management of certain types of loans;
- the retention of management competency, defined according to the previous organisational model, between the Loan Recovery Department and Italfondiario for doubtful loans existing as at 30 June 2010;
- for doubtful positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as doubtful, with some specific exceptions.

The Loan Recovery Department draws on its own specialist units throughout the country to manage recovery activity for loans entrusted directly to it. As part of these activities, in order to identify the optimal strategies to be implemented for each position, judicial and non-judicial solutions have been examined in terms of costs and benefits, also considering the financial impact of the estimated recovery times.

The assessment of the loans is reviewed whenever events capable of significantly changing recovery prospects become known to the Bank. In order to identify such events rapidly, the information set relative to borrowers is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly controlled.
The activity of Italfondiario in managing the loans entrusted to it under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.
The classification of positions within non-performing financial assets and in the relative management systems was undertaken on

proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of loan monitoring and recovery. Assets are also classified as non-performing for financial reporting purposes through automatic mechanisms when given objective default thresholds are exceeded. Such mechanisms apply to past-due loans, identified at the Group level, as well as positions that have met the objective requirements for non-standard status established by the Bank of Italy.
Automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group's various intermediaries are subject to the required uniform convergence of management aims. Significance is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

The return to performing of exposures classified as substandard, restructured and doubtful, is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the aforementioned structures responsible for their management, upon ascertainment that the critical conditions or state of default no longer exist.
Exposures classified amongst "past-due loans" automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as substandard in accordance with internal instructions when automatic mechanisms detect that the conditions that triggered reclassification no longer apply.

The overall non-performing loan portfolio is continually monitored through a predetermined control system and periodic managerial reporting.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

For the purposes of quantitative information about credit quality, the term "credit exposures" is understood to exclude equities and quotas of UCI, whereas "exposures" includes these items. The only exception is table A.2.1 related to credit exposures by external rating classes, which includes quotas of UCI.

A.1. Performing and non-performing credit exposures: amounts, adjustments, changes, economic and geographical breakdown

The data shown in the following tables (A.1.1 and A.1.2) refer to all companies within the scope of consolidation for accounting purposes. In the tables, figures for the banking group are stated net of all intragroup dealings, including those with other companies within the scope of consolidation.

A.1.1. Breakdown of credit exposures by portfolio classification and credit quality (book values)

(millions of euro)

	Banking group						Other companies		Total
	Doubtful loans	Substandard loans	Restructured exposures	Non performing past due exposures	Performing past due exposures	Other Assets	Non-performing	Other	
1. Financial assets held for trading	7	120	34	10	-	46,037	-	466	46,674
2. Financial assets available for sale	3	-	-	-	-	55,377	-	51,448	106,828
3. Investments held to maturity	-	-	-	-	-	2,051	-	-	2,051
4. Due from banks	29	20	-	-	7	26,008	-	609	26,673
5. Loans to customers	12,960	13,841	2,315	1,959	12,075	299,367	-	1,474	343,991
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	870	-	16,834	17,704
7. Financial assets under disposal	-	-	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	7,534	-	-	7,534
Total 31.12.2013	**12,999**	**13,981**	**2,349**	**1,969**	**12,082**	**437,244**	**-**	**70,831**	**551,455**
Total 31.12.2012	**11,246**	**11,582**	**2,901**	**2,943**	**13,395**	**495,586**	**-**	**67,336**	**604,989**

A.1.2. Breakdown of credit exposures by portfolio classification and credit quality (gross and net values)

(millions of euro)

	Non-performing assets			Performing			Total
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	(net exposure)
A. Banking group							
1. Financial assets held for trading	246	-75	171	X	X	46,037	46,208
2. Financial assets available for sale	3	-	3	55,377	-	55,377	55,380
3. Investments held to maturity	-	-	-	2,053	-2	2,051	2,051
4. Due from banks	104	-55	49	26,039	-24	26,015	26,064
5. Loans to customers	57,575	-26,500	31,075	313,884	-2,442	311,442	342,517
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	870	870
7. Financial assets under disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	7,534	7,534
Total A	**57,928**	**-26,630**	**31,298**	**397,353**	**-2,468**	**449,326**	**480,624**
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	X	X	466	466
2. Financial assets available for sale	-	-	-	51,448	-	51,448	51,448
3. Investments held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	609	-	609	609
5. Loans to customers	-	-	-	1,474	-	1,474	1,474
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	16,834	16,834
7. Financial assets under disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	-	-
Total B	**-**	**-**	**-**	**53,531**	**-**	**70,831**	**70,831**
Total 31.12.2013	**57,928**	**-26,630**	**31,298**	**450,884**	**-2,468**	**520,157**	**551,455**
Total 31.12.2012	**50,000**	**-21,328**	**28,672**	**481,761**	**-2,611**	**576,317**	**604,989**

Partial derecognition of Loans to customers came to 1,526 million euro for doubtful loans, 703 million euro for substandard loans, 231 million euro for restructured exposures and 2 million euro for past due exposures.

In accordance with regulations, "Individual adjustments" include the impairment losses recognised to account for counterparty risk ("credit risk adjustment") on non-performing derivative contracts in the amount of 75 million euro (46 million euro as at 31 December 2012).
Within performing exposures, as at 31 December 2013, exposures renegotiated under collective agreements amounted to 3,786 million euro in gross terms and 3,750 million euro in net terms. Such renegotiations, agreed to in the cases of borrowers not classified amongst non-performing loans, entail, at least, the maintenance of the original rate of return and a maximum extension of contractual expiry of 48 months, and thus do not generate losses for the Group. Other performing exposures thus came to 447,098 million euro in gross terms and 516,407 million euro in net terms, considering the positions at fair value.
Performing exposures include 2,167 million euro in assets past due by up to three months, 462 million euro in assets past due by more than three months but less than six months and 531 million euro in assets past due by more than six months. The share of the debt associated with those assets not yet past due came to 5,944 million euro, 992 million euro and 1,988 million euro, respectively.

During 2013, the Intesa Sanpaolo Group purchased an insignificant amount of non-performing loans. Accordingly, the outstanding amounts as at 31 December 2013 were immaterial.

A.1.3. Banking group - On- and off-balance sheet credit exposures to banks: gross and net values

(millions of euro)

	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Doubtful loans	78	-49	X	29
b) Substandard loans	26	-6	X	20
c) Restructured exposures	-	-	X	-
d) Non performing past due exposures	-	-	X	-
e) Other assets	32,784	X	-25	32,759
TOTAL A	**32,888**	**-55**	**-25**	**32,808**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	-	-	X	-
b) Other	73,474	X	-60	73,414
TOTAL B	**73,474**	**-**	**-60**	**73,414**
TOTAL (A + B)	**106,362**	**-55**	**-85**	**106,222**

On-balance sheet exposures include all on-balance sheet financial assets claimed from banks, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with SFTs (securities financing transactions) defined in prudential regulations.

A.1.4. Banking group – On-balance sheet credit exposures to banks: changes in gross non-performing exposures

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial gross exposure	**120**	**-**	**-**	**9**
- of which exposures sold not derecognised	-	-	-	-
B. Increases	**-**	**29**	**-**	**-**
B.1 inflows from performing exposures	-	26	-	-
B.2 transfers from other non-performing exposure categories	-	3	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-42**	**-3**	**-**	**-9**
C.1 outflows to performing exposures	-	-	-	-
C.2 write-offs	-	-	-	-
C.3 repayments	-	-3	-	-1
C.4 credit disposals	-42	-	-	-
C.4 bis losses from disposals	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-3
C.6 other decreases	-	-	-	-5
C.7 business combinations	-	-	-	-
D. Final gross exposure	**78**	**26**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-

A.1.5. Banking group – On-balance sheet credit exposures to banks: changes in total adjustments

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**82**	**-**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-
B. Increases	**1**	**6**	**-**	**-**
B.1 impairment losses	1	6	-	-
B.1bis losses on disposal	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-34**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-	-	-	-
C.2 recoveries on repayments	-	-	-	-
C.2bis profits on disposal	-1	-	-	-
C.3 write-offs	-	-	-	-
C.4 transfers to other non-performing exposure categories	-	-	-	-
C.5 other decreases	-33	-	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	**49**	**6**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-

A.1.6. Banking group - On- and off-balance sheet credit exposures to customers: gross and net values

(millions of euro)

	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Doubtful loans	34,600	-21,635	X	12,965
b) Substandard loans	18,019	-4,178	X	13,841
c) Restructured exposures	2,728	-413	X	2,315
d) Non-performing past due exposures	2,236	-274	X	1,962
e) Other assets	385,533	X	-2,443	383,090
TOTAL A	**443,116**	**-26,500**	**-2,443**	**414,173**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	1,719	-301	X	1,418
b) Other	111,124	X	-208	110,916
TOTAL B	**112,843**	**-301**	**-208**	**112,334**
TOTAL (A + B)	**555,959**	**-26,801**	**-2,651**	**526,507**

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with SFTs (securities financing transactions) defined in prudential regulations.
Restructured exposures include 237 million euro associated with pool transactions (IBLOR structures) undertaken by the Bank as fronting bank, associated with cash collateral among deposits on the liabilities side.
Performing on-balance sheet exposures to customers include 3,823 million euro in dealings between the banking group and other companies within the scope of consolidation.
For performing off-balance sheet exposures, this amount comes to 1,341 million euro.

A.1.7. Banking group – On-balance sheet credit exposures to customers: changes in gross non-performing exposures

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial gross exposure	**28,365**	**14,486**	**3,586**	**3,249**
- of which exposures sold not derecognised	*34*	*27*	*-*	*13*
B. Increases	**9,626**	**16,219**	**1,525**	**8,459**
B.1 inflows from performing exposures	515	7,292	146	7,598
B.2 transfers from other non-performing exposure categories	7,818	7,717	1,226	349
B.3 other increases	1,293	1,210	153	512
B.4 business combinations	-	-	-	-
C. Decreases	**-3,391**	**-12,686**	**-2,383**	**-9,472**
C.1 outflows to performing exposures	-95	-1,570	-34	-2,830
C.2 write-offs	-1,032	-554	-24	-5
C.3 repayments	-1,212	-1,283	-123	-566
C.4 credit disposals	-185	-24	-	-1
C.4 bis losses from disposals	-28	-7	-	-
C.5 transfers to other non-performing exposure categories	-224	-8,780	-2,116	-5,990
C.6 other decreases	-615	-468	-86	-80
C.7 business combinations	-	-	-	-
D. Final gross exposure	**34,600**	**18,019**	**2,728**	**2,236**
- of which exposures sold not derecognised	*19*	*24*	*-*	*-*

The “other increases” mainly include the application of penalty interest, increases in balances for charges, collections of loans derecognised in full (through “Repayments”) and the revaluation of positions in foreign currency following the change in the exchange rate.
The "other decreases" mainly refer to the decrease in the balances in foreign currency due to changes in the exchange rate.

A.1.8. Banking group – On-balance sheet credit exposures to customers: changes in total adjustments

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**17,159**	**2,985**	**723**	**332**
- of which exposures sold not derecognised	*14*	*5*	-	-
B. Increases	**7,258**	**4,771**	**408**	**791**
B.1 impairment losses	4,441	3,358	135	611
B.1bis losses on disposal	28	7	-	-
B.2 transfers from other non-performing exposure categories	1,996	1,129	222	32
B.3 other increases	793	277	51	148
B.4 business combinations	-	-	-	-
C. Decreases	**-2,782**	**-3,578**	**-718**	**-849**
C.1 recoveries on impairment losses	-841	-610	-39	-151
C.2 recoveries on repayments	-216	-62	-2	-14
C.2bis profits on disposal	-13	-	-	-
C.3 write-offs	-1,032	-554	-24	-5
C.4 transfers to other non-performing exposure categories	-65	-2,130	-582	-602
C.5 other decreases	-615	-222	-71	-77
C.6 business combinations	-	-	-	-
D. Final total adjustments	**21,635**	**4,178**	**413**	**274**
- of which exposures sold not derecognised	*5*	*3*	-	-

The “other increases” mainly include the application of penalty interest, collections of loans derecognised in full (through “recoveries on repayments”) and increases in balances of funds in foreign currency following the change in the exchange rate.
The "other decreases" consist mainly of collection of overdue interest applied in previous years, losses on disposal not covered by the provision and the decrease in the balances of funds in foreign currency due to changes in the exchange rate.

Conversion of loans into equity instruments

During the year, loans were converted into equity instruments as part of restructuring agreements for non-performing positions. The gross loans converted into equity instruments came to 470 million euro and were subject to adjustments, directly attributable to the conversion process, of 461 million euro. The equity instruments obtained were recognised at their fair value of approximately 9 million euro at the execution date and classified among assets available for sale. In addition, 67 million euro of loans were converted into shares and recognised at the execution date among Equity investments at their fair value of approximately 12 million euro.

A.2. Classification of exposures based on external and internal ratings

A.2.1. Banking group - Breakdown of on- and off-balance sheet credit exposures by external rating classes

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for all portfolios subject to reporting: Standard & Poor’s Ratings Services, Moody’s Investors Service and Fitch Ratings.
These agencies are valid for all Group banks. Where two ratings are available for a single customer, the more conservative is adopted; where three ratings are available, the middle rating is adopted.
The Class 6 rating column includes non-performing loans.

(millions of euro)

	External rating classes						Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures	**8,888**	**29,157**	**83,366**	**7,701**	**11,802**	**32,353**	**276,335**	**449,602**
B. Derivatives	**365**	**2,270**	**3,471**	**453**	**325**	**189**	**3,505**	**10,578**
B.1. Financial derivatives	365	2,263	3,471	392	325	189	3,384	10,389
B.2. Credit derivatives	-	7	-	61	-	-	121	189
C. Guarantees given	**4,164**	**6,225**	**4,579**	**1,509**	**114**	**623**	**28,910**	**46,124**
D. Commitments to lend funds	**2,483**	**76,977**	**12,816**	**1,834**	**123**	**652**	**31,218**	**126,103**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**2,943**	**2,943**
Total	**15,900**	**114,629**	**104,232**	**11,497**	**12,364**	**33,817**	**342,911**	**635,350**

It should be noted that the exposures presented in the table also include quotas of UCI of 2,621 million euro.
The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

Long-term ratings for exposures to: central governments and central banks, supervised issuers, public-sector entities, local authorities, multilateral development banks, enterprises and other parties

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA to AA-
2	from A1 to A3	from A+ to A-	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-	from BB+ to BB-
5	from B1 to B3	from B+ to B-	from B+ to B-
6	Caa1 and lower	CCC+ and lower	CCC+ and lower

Short-term ratings for exposures to supervised issuers and enterprises

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F1 +, F1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
from 4 to 6	NP	lower than F3	lower than A -3

Ratings for exposures to UCI

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA m/f to AA - m/f
2	from A1 to A3	from A+ to A-	from A + m/f to A - m/f
3 and 4	from Baa1 to Ba3	from BBB+ to BB-	from BBB m/f to BB - m/f
5 and 6	B1 and lower	B+ and lower	B + m/f and lower

Standardised approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	from Aaa to Aa3	from AAA to AA-	from AAA to AA-
2	from A1 to A3	from A+ to A-	from A+ to A-
3	from Baa1 to Baa3	from BBB+ to BBB-	from BBB+ to BBB-
4	from Ba1 to Ba3	from BB+ to BB-	from BB+ to BB-
5	B1 and lower	B+ and lower	B+ and lower

Standardised approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
from 4 to 6	NP	lower than F3	lower than A -3

IRB approach - Long-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	Aaa	AAA	AAA
2	Aa	AA	AA
3	A1	A+	A+
4	A2	A	A
5	A3	A-	A-
6	Baa1	BBB+	BBB+
7	Baa2	BBB	BBB
8	Baa3	BBB-	BBB-
9	Ba1	BB+	BB+
10	Ba2	BB	BB
11	Ba3	BB-	BB-
12	Ba3 and lower	BB- and lower	BB- and lower

IRB approach - Short-term ratings for exposures to securitisations

	ECAI		
	Moody's	**Fitch**	**Standard & Poor's**
Credit quality step			
1	P -1	F 1 +, F 1	A -1 + , A -1
2	P -2	F2	A -2
3	P -3	F3	A -3
All other credit quality steps	lower than P-3	lower than F3	lower than A -3

A.2.2. Banking group - Breakdown of on- and off-balance sheet exposures by internal rating classes

As indicated above in the paragraph entitled "Basel 2 and Basel 3 regulations and the Internal Project" of Qualitative information, the Intesa Sanpaolo Group has a set of ratings that have been validated in respect of the Corporate, Retail Mortgages (residential mortgages for private individuals) and SME Retail portfolios.

The breakdown of exposures by internal rating classes shown in the following table is based on all ratings available in the credit risk management and control system, in addition to ratings for validated models. These ratings include credit ratings assigned by external agencies for counterparties in customer segments for which an internal model is not available.

Unrated exposures account for 15% of all exposures to performing counterparties and refer to customer segments for which a rating model is not yet available (primarily personal loans to private parties and consumer credit), to counterparties for which the roll-out of new internal models is still underway, to Group companies whose mission is not related to credit and loans, and to international subsidiaries, which have yet to be fully integrated into the credit risk management system.

For the purposes of calculating the risk indicators, unrated counterparties are assigned an estimated rating on the basis of the average probabilities of default, deriving from the past experience of the respective sectors.

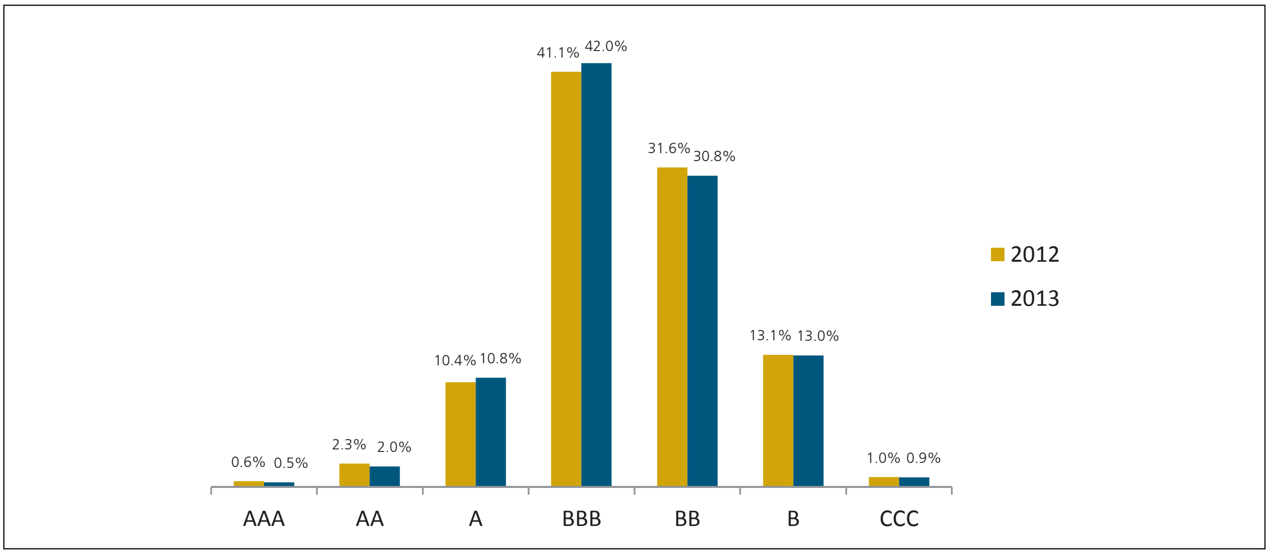
When unrated counterparties and non-performing loans are excluded, there is a high concentration of investment grade classes (classes 1, 2 and 3, representing ratings between AAA and BBB-) at 70% of the total, whilst 19% fall within the BB+/BB- range (class 4) and 11% fall under higher risk classes (of which around 1% are below B-).

(millions of euro)

	Internal rating classes							Unrated	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Non-performing exposures		
A. On-balance sheet exposures	**10,582**	**46,160**	**162,065**	**80,958**	**45,388**	**3,489**	**31,134**	**67,205**	**446,981**
B. Derivatives	**814**	**1,998**	**3,953**	**1,344**	**504**	**30**	**167**	**1,768**	**10,578**
B.1. Financial derivatives	813	1,991	3,953	1,283	504	30	167	1,648	10,389
B.2. Credit derivatives	1	7	-	61	-	-	-	120	189
C. Guarantees given	**7,724**	**11,747**	**12,936**	**7,936**	**1,715**	**172**	**602**	**3,292**	**46,124**
D. Commitments to lend funds	**3,300**	**81,094**	**17,620**	**7,068**	**2,382**	**285**	**649**	**13,705**	**126,103**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,943**	**2,943**
Total	**22,420**	**140,999**	**196,574**	**97,306**	**49,989**	**3,976**	**32,552**	**88,913**	**632,729**

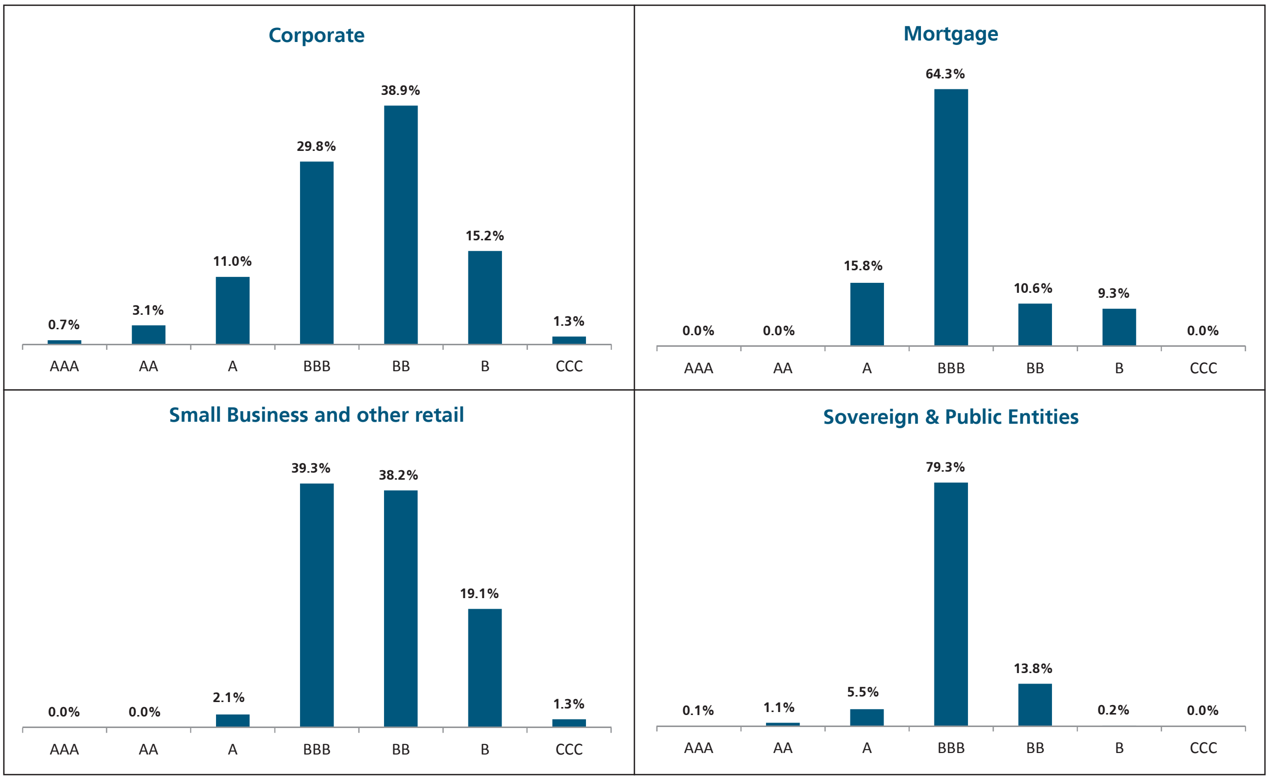
In addition to the tables required by supervisory provisions at the Group level, the following is the rating allocation for performing credit exposures to customers attributable to banks with internal models.

As at 31 December 2013, performing loans to customers assigned an individual rating internally or by an external agency accounted for 93% of the loans of banks with internal models and for 83% of the entire aggregate at the Group level.



The allocation shows a high level of investment grade exposures of 55.3%, up compared to the previous year (54.4%).

Following are the details of the rating allocations for the Corporate, Mortgage (residential mortgages for individuals), Small Business and other retail and Sovereign & Public Entities portfolios.



Investment grade positions account for 44.6%, 80.1%, 41.4% and 86.0% of the above portfolios, respectively.

A.3. Breakdown of guaranteed credit exposures by type of guarantee

A.3.1. Banking group - Guaranteed credit exposures to banks

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**4,082**	***15***	**370**	***18***	**9,347**	**-**	**2,472**	**-**	**16,271**
COLLATERAL(1)									
Real estate assets	17	-	-	-	-	-	-	-	17
Mortgages	*10*	-	-	-	-	-	-	-	*10*
Financial leases	*7*	-	-	-	-	-	-	-	*7*
Securities	3,709	-	197	-	899	-	10	-	4,815
Other	4	-	3	-	8,925	-	2,139	-	11,071
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*172*	*14*	-	-	*88*	-	-	-	*260*
Other public entities	*27*	-	-	-	-	-	-	-	*27*
Banks	*2*	-	*3*	-	*33*	-	*6*	-	*44*
Other counterparties	*152*	*1*	*5*	-	-	-	*14*	-	*171*
TOTAL	**4,083**	***15***	**208**	**-**	**9,945**	**-**	**2,169**	**-**	**16,405**

(1) Fair Value of the collateral/guarantee or, if difficult to calculate, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

A.3.2. Banking group - Guaranteed credit exposures to customers

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**194,368**	***20,192***	**15,148**	***3,231***	**20,294**	***625***	**2,844**	***75***	**232,654**
COLLATERAL(1)									
Real estate assets	356,769	***44,344***	2,246	***517***	8,310	***684***	289	***9***	367,614
Mortgages	*348,501*	***43,293***	*2,207*	***493***	*8,310*	***684***	*289*	***9***	*359,307*
Financial leases	*8,268*	***1,051***	*39*	***24***	-	-	-	-	*8,307*
Securities	20,256	*365*	2,003	*526*	2,107	*59*	357	*5*	24,723
Other	8,858	*1,189*	1,175	*288*	3,211	*15*	188	*19*	13,432
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*2,176*	*60*	*159*	*9*	*191*	-	*3*	-	*2,529*
Other public entities	*526*	*27*	*232*	*11*	*8*	-	*4*	-	*770*
Banks	*2,363*	*45*	*317*	*7*	*214*	*6*	*43*	-	*2,937*
Other counterparties	*31,465*	*4,613*	*3,490*	*634*	*10,066*	*161*	*965*	*17*	*45,986*
TOTAL	**422,413**	***50,643***	**9,622**	***1,992***	**24,107**	***925***	**1,849**	***50***	**457,991**

(1) Fair Value of the guarantee or, if difficult to be determined, contractual value, the latter stated - as required by the regulations - up to the net exposure value.

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1. Banking group - Breakdown of on- and off-balance sheet credit exposures to customers by sector (book value)

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					TOTAL ON-BALANCE SHEET EXPOSURES	OFF-BALANCE SHEET EXPOSURES				TOTAL OFF-BALANCE SHEET EXPOSURES	TOTAL 31.12.2013	TOTAL 31.12.2012
	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures	Other exposures		Doubtful loans	Substandard loans	Other non-performing assets	Other exposures			
GOVERNMENTS													
Net exposure	1	1	-	5	76,856	76,863	-	-	-	3,650	3,650	80,513	79,105
Individual adjustments	-9	-1	-	-	X	-10	-	-	-	X	-	-10	-12
Collective adjustments	X	X	X	X	-5	-5	X	X	X	-	-	-5	-13
OTHER PUBLIC ENTITIES													
Net exposure	177	94	-	66	18,876	19,213	-	11	-	1,161	1,172	20,385	23,104
Individual adjustments	-65	-23	-	-3	X	-91	-	-1	-	X	-1	-92	-69
Collective adjustments	X	X	X	X	-51	-51	X	X	X	-3	-3	-54	-47
FINANCIAL INSTITUTIONS													
Net exposure	131	562	13	27	31,279	32,012	-	29	1	32,087	32,117	64,129	67,655
Individual adjustments	-325	-197	-4	-7	X	-533	-	-	-	X	-	-533	-355
Collective adjustments	X	X	X	X	-93	-93	X	X	X	-11	-11	-104	-101
INSURANCE COMPANIES													
Net exposure	-	-	-	-	1,493	1,493	-	-	-	1,953	1,953	3,446	2,985
Individual adjustments	-	-	-	-	X	-	-	-	-	X	-	-	-
Collective adjustments	X	X	X	X	-2	-2	X	X	X	-1	-1	-3	-6
NON-FINANCIAL COMPANIES													
Net exposure	10,678	11,398	2,242	1,537	172,735	198,590	245	748	366	70,577	71,936	270,526	299,904
Individual adjustments	-18,451	-3,310	-364	-182	X	-22,307	-113	-127	-44	X	-284	-22,591	-17,453
Collective adjustments	X	X	X	X	-1,947	-1,947	X	X	X	-184	-184	-2,131	-2,366
OTHER COUNTERPARTIES													
Net exposure	1,978	1,786	60	327	81,851	86,002	6	9	3	1,381	1,399	87,401	90,441
Individual adjustments	-2,785	-647	-45	-82	X	-3,559	-15	-1	-	X	-16	-3,575	-3,504
Collective adjustments	X	X	X	X	-345	-345	X	X	X	-9	-9	-354	-331

B.2. Banking group - Breakdown of on- and off-balance sheet credit exposures to customers by geographical area (book value)

(millions of euro)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	11,605	-19,048	1,340	-2,405	6	-21	4	-25	10	-136
A.2. Substandard loans	12,512	-3,609	1,209	-519	17	-7	5	-2	98	-41
A.3. Restructured exposures	1,913	-336	200	-54	-	-	143	-9	59	-14
A.4. Past due exposures	1,769	-219	135	-48	7	-1	4	-1	47	-5
A.5. Other exposures	317,051	-1,835	51,899	-502	7,919	-29	2,643	-18	3,578	-59
Total A	**344,850**	**-25,047**	**54,783**	**-3,528**	**7,949**	**-58**	**2,799**	**-55**	**3,792**	**-255**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	226	-87	23	-27	-	-	-	-1	2	-13
B.2. Substandard loans	739	-112	44	-15	8	-1	1	-	5	-1
B.3. Other non-performing assets	365	-43	3	-1	-	-	-	-	2	-
B.4. Other exposures	50,895	-106	45,886	-78	12,660	-14	656	-3	712	-7
Total B	**52,225**	**-348**	**45,956**	**-121**	**12,668**	**-15**	**657**	**-4**	**721**	**-21**
TOTAL (A+B) 31.12.2013	**397,075**	**-25,395**	**100,739**	**-3,649**	**20,617**	**-73**	**3,456**	**-59**	**4,513**	**-276**
TOTAL 31.12.2012	**423,192**	**-20,492**	**107,789**	**-3,301**	**23,600**	**-85**	**3,523**	**-51**	**5,090**	**-328**

B.2 bis Breakdown of relations with customers resident in Italy by geographical area (book value)

(millions of euro)

	NORTH-WEST		NORTH-EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	4,015	-6,351	2,471	-4,199	2,499	-3,919	2,620	-4,579
A.2. Substandard loans	4,627	-1,341	2,518	-643	2,686	-775	2,681	-850
A.3. Restructured exposures	812	-132	635	-98	216	-43	250	-63
A.4. Past due exposures	402	-56	425	-47	483	-58	459	-58
A.5. Other exposures	101,696	-679	49,388	-392	121,870	-421	44,097	-343
Total A	**111,552**	**-8,559**	**55,437**	**-5,379**	**127,754**	**-5,216**	**50,107**	**-5,893**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	57	-33	40	-23	99	-26	30	-5
B.2. Substandard loans	281	-28	132	-8	223	-53	103	-23
B.3. Other non-performing assets	299	-15	41	-24	17	-1	8	-3
B.4. Other exposures	21,647	-65	5,793	-22	20,849	-10	2,606	-9
Total B	**22,284**	**-141**	**6,006**	**-77**	**21,188**	**-90**	**2,747**	**-40**
TOTAL (A+B) 31.12.2013	**133,836**	**-8,700**	**61,443**	**-5,456**	**148,942**	**-5,306**	**52,854**	**-5,933**
TOTALE 31.12.2012	**137,528**	**-7,090**	**71,778**	**-4,319**	**159,681**	**-4,136**	**54,205**	**-4,947**

B.3 Banking group - Breakdown of on- and off-balance sheet credit exposures to banks by geographical area (book value)

(millions of euro)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	17	-7	12	-40	-	-	-	-2	-	-
A.2. Substandard loans	-	-	1	-	-	-	19	-6	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5. Other exposures	7,710	-5	17,445	-14	2,151	-2	4,504	-4	949	-
Total A	**7,727**	**-12**	**17,458**	**-54**	**2,151**	**-2**	**4,523**	**-12**	**949**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Other exposures	2,421	-6	61,477	-28	3,921	-1	1,789	-15	970	-10
Total B	**2,421**	**-6**	**61,477**	**-28**	**3,921**	**-1**	**1,789**	**-15**	**970**	**-10**
TOTAL (A+B) 31.12.2013	**10,148**	**-18**	**78,935**	**-82**	**6,072**	**-3**	**6,312**	**-27**	**1,919**	**-10**
TOTAL 31.12.2012	**18,155**	**-11**	**103,193**	**-93**	**7,070**	**-5**	**3,107**	**-11**	**2,085**	**-2**

B.3 Bis Breakdown of relations with banks resident in Italy by geographical area (book value)

(millions of euro)

	NORTH-WEST		NORTH-EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	17	-7	-	-	-	-	-	-
A.2. Substandard loans	-	-	-	-	-	-	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	-	-	-	-	-	-
A.5. Other exposures	2,485	-4	1,345	-	3,415	-1	465	-
Total A	**2,502**	**-11**	**1,345**	**-**	**3,415**	**-1**	**465**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.4. Other exposures	250	-2	313	-4	1,851	-	7	-
Total B	**250**	**-2**	**313**	**-4**	**1,851**	**-**	**7**	**-**
TOTAL (A+B) 31.12.2013	**2,752**	**-13**	**1,658**	**-4**	**5,266**	**-1**	**472**	**-**
TOTAL 31.12.2012	**3,461**	**-9**	**2,416**	**-1**	**11,711**	**-1**	**567**	**-**

B.4 Large risks

Large risks	
a) Book value (millions of euro)	97,832
b) Weighted value (millions of euro)	11,170
b) Number	4

On the basis of regulatory provisions, the number of large risks presented in the table was determined by reference to unweighted "exposures" in excess of 10% of regulatory capital, where "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from regulatory capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large risks of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of capital valid for the purposes of large risks.
In addition, in light of regulatory clarification provided by the Supervisory Authority, exposures for transactions undertaken with central counterparties in OTC derivatives and SFTs, which under certain conditions may be set to zero when determining counterparty risk, are also to be reduced to zero for the purposes of large risks, effective from the 2012 financial statements. Accordingly, in the above table they have been excluded from both the unweighted book value and the corresponding weighted value.

C. SECURITISATIONS AND ASSET SALES

This section does not include securitisations where the originators are Intesa Sanpaolo Group banks and all the liabilities (e.g. ABS securities, loans at the warehousing stage) issued by the vehicle companies are subscribed at the time of issue by one or more Group companies. For a description of these types of transaction, see the section on liquidity risk in Part E of the Notes to the consolidated financial statements.

C.1. Securitisations

Qualitative information

An initial transaction of 50 million euro involving securitisation of commercial loans in the electrical sector (Luce 2) was completed at the beginning of 2013. This was followed by an additional transaction of 35 million euro in April, involving loans in the gas sector (Gas 2). Furthermore, the securitisation of commercial loans in the Food & Beverages sector was expanded, bringing the nominal value of securitised loans from 245 million euro to 355 million euro. The vehicles used for the three transactions were Hermes Trade Receivables S.a.r.l. and Duomo Funding Plc.

Quantitative information

C.1.1. Banking group - Breakdown of exposures deriving from securitisations by quality of underlying asset

On-balance sheet

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	exposure		exposure		exposure	
	gross	net	gross	net	gross	net
A. Originated underlying assets	**-**	**-**	**86**	**86**	**85**	**81**
a) Non-performing	-	-	-	-	13	13
b) Other	-	-	86	86	72	68
B. Third party underlying assets	**4,507**	**4,497**	**360**	**340**	**28**	**27**
a) Non-performing	-	-	-	-	-	-
b) Other	4,507	4,497	360	340	28	27
Total	**4,507**	**4,497**	**446**	**426**	**113**	**108**

Part of the exposures shown in the table above has been included within the structured credit products: 2,021 million euro of gross exposures and 2,012 million euro net, in any case almost entirely attributable to exposures not included under the US subprime category. For further information on the relative economic and risk effects, see the chapter on market risks in the Notes to the consolidated financial statements.

Off-balance sheet

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	exposure		exposure		exposure		exposure		exposure		exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**833**	**833**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	833	833 (**)	-	-	-	-
B. Third party underlying assets (*)	**-**	**-**	**-**	**-**	**-**	**-**	**1,269**	**1,269**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	1,269	1,269	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**2,102**	**2,102**	**-**	**-**	**-**	**-**

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

(**) Amount referring to liquidity lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39

C.1.2. Banking group - Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**18**	**-5**
A.1 Intesa Sec (*)						
- performing mortgages	-	-	-	-	-	-
A.2 Intesa Sec Npl						
- doubtful mortgages	-	-	-	-	*13*	*-5*
A.3 Cr Firenze Mutui						
- performing mortgages	-	-	-	-	*5*	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**-**	**-**	**86**	**1**	**63**	**-**
C.1 Intesa Sec 3						
- performing residential mortgages	-	-	*56*	-	*53*	-
C.2 Da Vinci						
- loans to the aircraft sector	-	-	*1*	*1*	-	-
C.3 Facility Services Securitisations						
- trade receivables	-	-	*1*	-	-	-
C.4 Electricity Securitisations						
- trade receivables	-	-	*24*	-	*8*	-
C.5 Gas Securitisation						
- trade receivables	-	-	*4*	-	*2*	-
TOTAL	**-**	**-**	**86**	**1**	**81**	**-5**

(*) Intesa Sec presents amounts for less than one million.

Intesa Sec 3 is not derecognised for financial statement purposes, but it is derecognised for prudential purposes. During the first half of 2013 the securitisation Split 2 was closed with the liquidation of the vehicle.
The securitisations in the above table include those for which the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time adoption by IFRS 1. Based on this exemption, assets or liabilities sold not derecognised, based on previous accounting principles and deriving from securitisations prior to 1 January 2004, have not been recorded in the financial statements, even if derecognition does not meet the requirements of IAS 39.

Off-balance sheet

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**833**	**-**	**-**	**-**	**-**	**-**
C.1 Duomo Funding Plc.												
- trade receivables	-	-	-	-	-	-	*833*	-	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**833**	**-**	**-**	**-**	**-**	**-**

C.1.3. Banking group - Breakdown of exposures deriving from the main "third party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A.1 Romulus (*)						
- *Asset backed commercial papers*	*2,118*	-	-	-	-	-
A.2 Fondo Immobili Pubblici						
- *Financial credits deriving from rental of properties to the public sector*	*242*	*7*	-	-	-	-
A.3 Posillipo Finance						
- *Loans to the Italian health system*	*157*	-	-	-	-	-
A.4 TCWGP						
- *Project Finance loans*	*147*	-	-	-	-	-
A.5 VOBA FINANCE Srl						
- *Residential mortgages*	*127*	*-3*	-	-	-	-
A.6 Berica Residential MBS S.r.l.						
- *Residential mortgages*	*119*	*3*	*7*	-	-	-
A.7 Sunrise S.r.l.						
- *Consumer credit*	*98*	*1*	*24*	*1*	-	-
A.8 Cordusio RMBS Securitisation						
- *Residential mortgages*	*54*	-	*32*	*1*	-	-
A.9 D'Annunzio						
- *Loans to the Italian health system*	*82*	-	-	-	-	-
A.10 CLARIS Finance S.r.l.						
- *Residential mortgages*	*81*	-	-	-	-	-
A.11 BESME						
- *Financing for SMEs*	*72*	-	-	-	-	-
A.12 AYT CEDULAS CAJA						
- *Residential mortgages*	*55*	-	-	-	-	-
A.13 Siena Mortgage						
- *Residential mortgages*	*55*	-	-	-	-	-
A.14 Duchess (**)						
- *CLO*	*54*	-	-	-	-	-
A.15 VELA HOME Srl						
- *Residential mortgages*	*45*	*1*	*5*	-	-	-
A.16 Mecenate						
- *Residential mortgages*	*48*	-	-	-	-	-
A.17 Residual portfolio divided in 314 securities (***)	*943*	*-4* (****)	*272*	*2*	*27*	*-1*
TOTAL	**4,497**	**5**	**340**	**4**	**27**	**-1**

(*) Romulus securities held in the Banking Group's portfolios are shown under third party securitisations, as these are ABCP issued by the vehicle partly for assets of the Banking Group and partly for risks originating from other economic operators, without distinction.

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

(***) Please note that 62 million euro included among "Residual portfolio" refers to single tranche securitisations, classified as Senior securities and not as exposures to securitisations for supervisory purposes.

(****) Of which 2 million euro related to securities included in packages.

The table below shows the breakdown of the residual portfolio divided into 314 securities by type of underlying asset.

(millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Residential mortgages (*)	363	-3	113	-	5	-1
Commercial mortgages	47	-	77	-	5	-
Loans deriving from leasing contracts	64	4	52	1	-	-
CDO Cash	108	-	1	-	-	-
Financing for SMEs	71	-	14	-	-	-
Loans to the Italian health system	71	-	-	-	-	-
Other ABS (CLO-CMO-CFO) (*)	64	-4	-	-	-	-
Consumer credit	53	-1	-	-	-	-
Electrical company loans due from the public sector	48	-	-	-	-	-
Loans to foreign public bodies	34	-	-	-	-	-
Project finance loans	-	-	-	-	17	-
Public property	4	-	8	1	-	-
WL Collateral CMO	8	-	-	-	-	-
Other assets	8	-	7	-	-	-
TOTAL	**943**	**-4**	**272**	**2**	**27**	**-1**

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

Off-balance sheet

(millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A.1 Duomo												
- ABCP Conduit transactions	-	-	-	-	-	-	*1,269*	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**1,269**	**-**	**-**	**-**	**-**	**-**

In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2013 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 86 million euro.

C.1.4. Banking group - Breakdown of exposures deriving from securitisations by portfolio and by type

(millions of euro)

	On-balance sheet exposures (*)			Off-balance sheet exposures		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,099	131	9	-	-	-
Financial assets measured at fair value	1	-	-	-	-	-
Financial assets available for sale	8	1	10	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans (**)	3,389	208	26	1,269	-	-
Total 31.12.2013	**4,497**	**340**	**45**	**1,269**	**-**	**-**
Total 31.12.2012	**4,998**	**429**	**47**	**1,573**	**-**	**-**

(*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 149 million euro. As at 31 December 2013, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 833 million euro.

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

C.1.5. Banking group - Total amount of securitised assets underlying junior securities or other forms of backing

(millions of euro)

	Traditional securitisations	Synthetic securitisations
A. Originated underlying assets	**981**	**-**
A.1 Fully derecognised	72	X
1. Doubtful loans	*19*	*X*
2. Substandard loans	*-*	*X*
3. Restructured exposures	*-*	*X*
4. Past due exposures	*1*	*X*
5. Other assets	*52*	*X*
A.2 Partly derecognised	-	X
1. Doubtful loans	*-*	*X*
2. Substandard loans	*-*	*X*
3. Restructured exposures	*-*	*X*
4. Past due exposures	*-*	*X*
5. Other assets	*-*	*X*
A.3 Not derecognised	909	-
1. Doubtful loans	*11*	*-*
2. Substandard loans	*10*	*-*
3. Restructured exposures	*-*	*-*
4. Past due exposures	*7*	*-*
5. Other assets	*881*	*-*
B. Third party underlying assets	**358**	**-**
B.1. Doubtful loans	-	-
B.2. Substandard loans	1	-
B.3. Restructured exposures	-	-
B.4. Past due exposures	-	-
B.5. Other assets	357	-

C.1.6. Banking group - Stakes in special purpose vehicles

Name	Direct ownership	Registered office	% Stake
Adriano Lease Sec S.r.l. (*)	Intesa Sanpaolo	Conegliano Veneto (TV)	5.00%
Intesa Sanpaolo SEC SA (*)	Intesa Sanpaolo	Luxembourg	100.00%
Adriano Finance 2 (**)	Intesa Sanpaolo	Milano	5.00%
Intesa Sec S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec 3 S.r.l.	Intesa Sanpaolo	Milano	60.00%
Intesa Sec NPL S.p.A.	Intesa Sanpaolo	Milano	60.00%
Intesa Lease Sec S.r.l.	Leasint	Milano	100.00%
Augusto S.r.l.	Intesa Sanpaolo	Milano	5.00%
Colombo S.r.l.	Intesa Sanpaolo	Milano	5.00%
Diocleziano S.r.l.	Intesa Sanpaolo	Milano	5.00%
CR Firenze Mutui	CR Firenze	Conegliano Veneto (TV)	10.00%
Trade Receivables Investment Vehicle S.a.r.l.	Banca IMI/Duomo Funding	Luxembourg	100.00%
ISP OBG S.r.l. (ex ISP Sec 4 S.r.l.) (***)	Intesa Sanpaolo	Milano	60.00%
ISP CB Ipotecario S.r.l. (***)	Intesa Sanpaolo	Milano	60.00%
ISP CB Pubblico S.r.l. (***)	Intesa Sanpaolo	Milano	60.00%

(*) Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 2.

(**) The vehicle was not operational at 31 December 2013.

(***) ISP CB Ipotecario, ISP CB Pubblico and ISP OBG are not traditional securitisation vehicles that issue securities, rather, they are involved in Covered Bond issues. For information, refer to Section C.3 of Part E of these Notes to the consolidated financial statements.

C.1.7. Banking group - Servicer activities – collection of securitised loans and repayment of securities issued by special purpose vehicles

Servicer	Special purpose vehicles	Securitised assets (period-end figure) (millions of euro)		Collections of loans in the year (millions of euro)		Percentage of reimbursed securities (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing
Intesa Sanpaolo	Intesa Sec	1	-	-	-	0%	100%	0%	100%	0%	81%
Intesa Sanpaolo	Intesa Sec 3	42	761	6	238	0%	100%	0%	67%	0%	0%
Italfondiario	Intesa Sec NPL	17	-	9	-	100%	0%	46%	0%	0%	0%
CR Firenze	Cr Firenze Mutui	-	54	1	17	0%	98%	0%	0%	0%	0%
Total		**60**	**815**	**16**	**255**						

C.1.8. Banking group – Subsidiary special purpose vehicles

Intesa Sec

Securitisation of performing mortgages

(millions of euro)

A. Securitised assets		**2**
A.1 Loans	1	
A.2 Securities	-	
A.3 Other assets	1	
B. Investments of the funds collected from loan management		1
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	1	
C. Securities issued		**2**
C.1 Class A1	-	
C.2 Class A2	-	
C.3 Class B	-	
C.4 Class C	2	
D. Financing received		**-**
E. Other liabilities		**1**
E.1 Amounts due for services rendered	1	
E.2 Due to customers	-	
E.3 Due to SPV	-	
E.4 Accrued expenses – interest on securities issued	-	
E.5 Other accrued expenses	-	
F. Interest expense on securities issued		**-**
G. Commissions and fees		**-**
G.1 Servicing	-	
G.2 Other services	-	
H. Other expenses		**-**
H.1 Interest expense	-	
H.2 Additional return	-	
I. Interest income on securitised assets		**-**
L. Other revenues		**-**
L.1 Interest income	-	

Intesa Sec 3
Securitisation of performing residential mortgages

(millions of euro)

A. Securitised assets		**805**
A.1 Loans	803	
A.2 Securities	-	
A.3 Other assets	2	
B. Investments of the funds collected from loan management		**225**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	225	
C. Securities issued		**822**
C.1 Class A1	-	
C.2 Class A2	-	
C.3 Class A3	676	
C.4 Class B	73	
C.5 Class C	73	
D. Financing received		**49**
E. Other liabilities		**166**
E.1 Amounts due for services rendered	-	
E.2 Due to customers	-	
E.3 Due to Parent Company	113	
E.4 Due to securitisation vehicle	-	
E.5 "Additional return" allowance	49	
E.6 Accrued expenses – interest on securities issued	1	
E.7 Accrued expenses on IRS	3	
E.8 Other accrued expenses	-	
F. Interest expense on securities issued		**4**
G. Commissions and fees		**2**
G.1 Servicing	2	
G.2 Securities placement commissions	-	
H. Other expenses		**28**
H.1 Interest expense	17	
H.2 Other expenses	1	
H.3 Forecasted losses on loans	1	
H.4 Additional return	9	
I. Interest income on securitised assets		**26**
L. Other revenues		**7**
L.1 Interest income	6	
L.2 Revenues from penalties for early termination and other	1	

Intesa Sec Npl
Securitisation of non-performing mortgages

(millions of euro)

A. Securitised assets		**21**
A.1 Loans	17	
A.2 Securities	-	
A.3 Other assets	4	
B. Investments of the funds collected from loan management		**5**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	5	
C. Securities issued		**155**
C.1 Class A	-	
C.2 Class B	-	
C.3 Class C	-	
C.4 Class D	114	
C.5 Class E	41	
D. Financing received		**4**
E. Other liabilities		**37**
E.1 Amounts due for services rendered	1	
E.2 Accrued expenses – interest on securities issued	34	
E.3 Other accrued expenses	1	
E.4 Floor option premium received	1	
F. Interest expense on securities issued		**15**
G. Commissions and fees		**1**
G.1 Servicing	1	
G.2 Other services	-	
H. Other expenses		**38**
H.1 Interest expense	5	
H.2 Other expenses	1	
H.3 Losses on penalty interest	-	
H.4 Losses on loans	31	
H.5 Forecasted losses on loans	1	
I. Interest income on securitised assets		**10**
L. Other revenues		**21**
L.1 Interest income	-	
L.2 Recovery of legal expenses	-	
L.3 Write-backs	20	
L.4 Other income	1	

CR Firenze Mutui
Securitisation of performing residential mortgages

(millions of euro)

A. Securitised assets		**54**
A.1 Loans	54	
A.2 Securities	-	
A.3 Other assets	-	
B. Investments of the funds collected from loan management		**10**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	10	
C. Securities issued		**54**
C.1 Class A	10	
C.2 Class B	28	
C.3 Class C	8	
C.4 Class D	8	
D. Financing received		3
E. Other liabilities		**7**
F. Interest expense on securities issued		**1**
G. Commissions and fees		**-**
G.1 Servicing	-	
G.2 Other services	-	
H. Other expenses		**1**
I. Interest income on securitised assets		**2**
L. Other revenues		**-**

C.2. Sales

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables C.2.1 and C.2.2 below, refer to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium-/long-term repurchase agreements, refer to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

C.2.1. Banking group - Financial assets sold not derecognised: book value and full value

(millions of euro)

	Cash assets				**Derivatives**	**31.12.2013**		**31.12.2012**	
	Debt securities	Equities	UCI	Loans		Total	*of which non-performing assets*	Total	*of which non-performing assets*
FINANCIAL ASSETS HELD FOR TRADING	**6,356**	**5**	**3**	**-**	**-**	**6,364**	**-**	**4,151**	**-**
- Financial assets sold totally recognised (book value)	6,356	5	3	-	-	6,364	-	4,151	-
- Financial assets sold partly recognised (book value)	-	-	-	-	-	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	-	-	-	-	-
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**169**	**-**
- Financial assets sold totally recognised (book value)	-	-	-	-	X	-	-	169	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	**8,226**	**-**	**-**	**-**	**X**	**8,226**	**-**	**9,734**	**-**
- Financial assets sold totally recognised (book value)	8,226	-	-	-	X	8,226	-	9,734	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
INVESTMENTS HELD TO MATURITY	**198**	**X**	**X**	**-**	**X**	**198**	**-**	**219**	**-**
- Financial assets sold totally recognised (book value)	198	X	X	-	X	198	-	219	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
DUE FROM BANKS	**724**	**X**	**X**	**-**	**X**	**724**	**-**	**1,280**	**-**
- Financial assets sold totally recognised (book value)	724	X	X	-	X	724	-	1,280	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
LOANS TO CUSTOMERS	**1,577**	**X**	**X**	**803**	**X**	**2,380**	**43**	**2,151**	***55***
- Financial assets sold totally recognised (book value)	1,577	X	X	803	X	2,380	43	2,151	55
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
Total 31.12.2013	**17,081**	**5**	**3**	**803**	**-**	**17,892**	**43**	**X**	***X***
Total 31.12.2012	**16,539**	**83**	**3**	**1,079**	**-**	**X**	**X**	**17,704**	***55***

Operations mainly refer to the use of securities held for short and medium/long-term repurchase agreements and loans to customers assigned as part of the SEC 3 securitisation.

C.2.2. Banking group - Financial liabilities corresponding to financial assets sold not derecognised: book value

(millions of euro)

	Due to customers		Due to banks		Securities issued		Total 31.12.2013	Total 31.12.2012
	Fully recognised	Partly recognised	Fully recognised	Partly recognised	Fully recognised	Partly recognised		
Financial assets held for trading	4,852	-	1,283	-	-	-	6,135	3,539
Financial assets measured at fair value	-	-	-	-	-	-	-	86
Financial assets available for sale	5,077	-	2,031	-	-	-	7,108	9,668
Investments held to maturity	-	-	-	-	-	-	-	-
Due from banks	-	-	14	-	-	-	14	163
Loans to customers	-	-	780	-	822	-	1,602	1,835
Total	**9,929**	**-**	**4,108**	**-**	**822**	**-**	**14,859**	**15,291**

The financial liabilities corresponding to financial assets sold not derecognised (shown in the columns Due to Customers and Due to Banks) mainly relate to repurchase agreements for securities recorded under assets.
On the other hand, in accordance with the regulations, the liabilities issued as part of the related securitisation by the SEC 3 vehicle (included within the scope of consolidation) are shown under securities issued.
However, they do not include the repurchase agreements relating to securities received under reverse repurchase agreements.

C.2.3. Banking group - Sales with liabilities having recourse exclusively on the assets sold: fair value

(millions of euro)

	Financial assets held for trading		Financial assets designated at fair value through profit and loss		Financial assets available for sale		Investments held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		31.12.2013 TOTAL	31.12.2012 TOTAL
	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised	Fin. Assets sold fully recognised	Fin. Assets sold partly recognised		
A. Cash assets	**6,364**	**-**	**-**	**-**	**8,226**	**-**	**196**	**-**	**713**	**-**	**2,269**	**-**	**17,768**	**17,467**
1. Debt securities	6,356	-	-	-	8,226	-	196	-	713	-	1,444	-	16,935	16,282
2. Equities	5	-	-	-	-	-	X	X	X	X	X	X	5	83
3. UCI	3	-	-	-	-	-	X	X	X	X	X	X	3	3
4. Loans	-	-	-	-	-	-	-	-	-	-	825	-	825	1,099
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total Assets	**6,364**	**-**	**-**	**-**	**8,226**	**-**	**196**	**-**	**713**	**-**	**2,269**	**-**	**17,768**	**17,467**
C. Associated liabilities	**6,042**	**-**	**-**	**-**	**7,108**	**-**	**-**	**-**	**19**	**-**	**1,549**	**-**	**X**	**X**
1. Due to customers	4,852	-	-	-	5,077	-	-	-	-	-	-	-	X	X
2. Due to banks	1,190	-	-	-	2,031	-	-	-	19	-	783	-	X	X
3. Securities issued	-	-	-	-	-	-	-	-	-	-	766	-	X	X
Total Liabilities	**6,042**	**-**	**-**	**-**	**7,108**	**-**	**-**	**-**	**19**	**-**	**1,549**	**-**	**14,718**	**15,253**
Net Value 2013	**322**	**-**	**-**	**-**	**1,118**	**-**	**196**	**-**	**694**	**-**	**720**	**-**	**3,050**	**X**
Net Value 2012	**612**	**-**	**82**	**-**	**25**	**-**	**213**	**-**	**1,095**	**-**	**187**	**-**	**X**	**2,214**

B. Financial assets sold fully derecognised with recognition of ongoing involvement

This type of exposure did not exist as at 31 December 2013.

C.3. Banking group - Covered bond transactions -

The Intesa Sanpaolo Group uses Covered Bonds (CB) to prudently establish eligible assets with Central Banks, or as a type of funding, by placing them on the market.
Transactions are structured by selling assets (loans, mortgages, securities) to a vehicle, with the simultaneous granting of a subordinated loan for payment of the sale price. In the Intesa Sanpaolo Group, in this phase the seller is always the same entity as the lender. Securities may be issued directly by the originator of the assets or by the Parent Company, relating to assets sold to the vehicle by other Group companies.
In accordance with IAS 39, these transactions do not represent sales without recourse for accounting purposes, as the Group companies involved maintained all the risks and rewards connected to the loans sold. Therefore, when recording the transactions, Bank of Italy provisions are applied, according to which, where the originator and the lender are the same entity, the separate assets of the vehicle, provided as security for the issues of Covered Bonds, are consolidated in the separate financial statements.

Over time, the Intesa Sanpaolo Group has carried out three Covered Bond issue programmes.

The first programme, launched at the end of July 2009, had an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total nominal value of around 14.4 billion euro were sold, of which around 1 billion euro in April 2013.
Against these sales, Covered Bonds were issued for a total nominal value of 13.3 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 6.8 billion euro relating to issues acquired from the former BIIS and cancelled by Intesa Sanpaolo following the merger, and 3.2 billion euro relating to an exchange offer to investors during 2012).
During 2013:

– a new series of CB was issued for a nominal value of 2 billion euro. This is a floating-rate bond with maturity of less than two years, fully subscribed by Intesa Sanpaolo. The bond is listed on the Luxembourg Stock Exchange with Moody's A3 rating, and is eligible for Eurosystem transactions;
– a new series of CB was issued for a nominal value of 2.2 billion euro. This is a floating-rate bond with maturity of less than three years, fully subscribed by Intesa Sanpaolo. The bond is listed on the Luxembourg Stock Exchange with Moody's A3 rating, and is eligible for Eurosystem transactions.

As at 31 December 2013 a total nominal amount of 4.5 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 4.2 billion repurchased and 0.3 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans originated by Intesa Sanpaolo were transferred. In detail, these are sales of Italian residential mortgages with a nominal value of 12.7 billion euro, in addition to the sale, in April 2013, of a portfolio of Italian residential mortgages originated by Intesa Sanpaolo with a nominal value of 4.1 billion euro. In January 2013, an Italian government bond with a nominal value of 900 million euro reached maturity, resulting in the exit from the cover pool.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds with a total nominal value of approximately 17.7 billion euro (of which 8.2 billion euro subject to early redemption in 2012). During 2013:
- series 14 of CB was placed with institutional investors, in the form of a fixed-rate bond (3.375%) for a nominal value of 1 billion euro, with a 12-year maturity, listed on the Luxembourg Stock Exchange with Moody’s A2 rating. The bond is eligible for Eurosystem refinancing transactions;
- series 15 of CB was placed with institutional investors, in the form of a fixed-rate bond (2.25%) for a nominal value of 750 million euro, with a 5-year maturity, listed on the Luxembourg Stock Exchange with Moody’s A2 rating. The bond is eligible for Eurosystem refinancing transactions.

As at 31 December 2013 a total nominal amount of 11.3 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, fully placed with third party investors.

In 2012 the new multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at fully retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, and, starting from the second half of 2013, Banca dell'Adriatico.
In particular:
- Intesa Sanpaolo sold mortgages to the vehicle for a total nominal value of 13.4 billion euro, of which 1.3 billion euro sold in May 2013;
- Banco di Napoli sold mortgages to the vehicle for a total nominal value of 6.8 billion euro, of which 1.1 billion euro sold in May 2013;
- Cassa di Risparmio del Veneto sold mortgages to the vehicle for a total nominal value of 2.6 billion euro;
- Banca dell’Adriatico sold mortgages to the vehicle for a total nominal value of 1.1 billion euro in May 2013.

Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds with a total nominal value of approximately 19.1 billion euro. During 2013:
- the fifth series of CB was issued with a nominal value of 1.5 billion euro, 2-year maturity and a quarterly floating-rate coupon;
- the sixth series of CB was issued with a nominal value of 800 million euro, 7-year maturity and a quarterly floating-rate coupon.

All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.
As at 31 December 2013 a total nominal amount of 21.4 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2013 are shown in the table below. For further details on the securities issued as part of the programmes described above, reference should be made to the Notes to the Parent Company’s financial statements – Part E – Section C.3 – Covered bond transactions.

(millions of euro)

COVERED BONDS		Vehicle data		Subordinated loan (1)	Covered Bonds issued	
		Total assets	Cumulated write-downs on securitised	amount	Nominal amount (2)	Book value (2)
ISP CB PUBBLICO	Performing public sector loans and securities	13,600	-	13,062	284	317
ISP CB IPOTECARIO	RMBSs (Performing residential mortgages)	17,601	35	16,344	11,326	11,931
ISP OBG	Performing mortgages	24,027	58	23,778	-	-

(1) The item includes the subordinated loan granted by the originator for the purchase of the portfolio of securitised performing loans. Such loan is subject to derecognition in the IAS-compliant financial statements of the originator and Intesa Sanpaolo Group consolidated financial statements. The figure shown above also includes the amount of subordinated loans disbursed in 2012, for which no issues have yet been made.

(2) The nominal amount and the book value shown in the table are to be considered net of securities repurchased.

D. BANKING GROUP - MODELS FOR THE MEASUREMENT OF CREDIT RISK

As at 31 December 2013, the expected loss on core banks (Basel 2 validation area) amounted to 0.64% of disbursed loans, an 11 percentage point increase on the figure as at the end of 2012. The economic capital corresponded to 4% of disbursed loans, an increase of 0.5% compared to the figure in 2012.

The increase in risk indicators derives from the worsening of ratings, primarily on customers in the Corporate and Retail SME portfolios. These ratings were also adjusted during the year to take account of the unfavourable outcomes of backtesting as a result of the difficult economic scenario. This increase was partly offset by the operational actions involving the recomposition of the portfolio towards better exposures and the transfers of loans to the non-performing loan category, which contributes to eliminating customers with worse ratings from the performing loans portfolio.

The internal rating and LGD models are subject to internal validation process and a level three control by the Internal Auditing Department. The control functions produce an annual report for the Bank of Italy on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex ante estimates and the effective ex post values. This report, approved by the Management Board and the Supervisory Board of Intesa Sanpaolo, confirms the requirements of compliance.