Part E – Information on risks and relative hedging policies

INTRODUCTION

Basic principles

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk.
The risk management strategy aims to achieve a complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness and enhancing the transparent and accurate representation of the risk level of the Group's portfolios.
Risk-acceptance strategies are summarised in the Group's Risk Appetite Framework (RAF), approved by the Management Board and Supervisory Board. The RAF, introduced in 2011 to ensure that risk-acceptance activities remain in line with shareholders' expectations, is established by taking account of the Intesa Sanpaolo Group's risk position and the economic situation.
The general principles that govern the Group's risk-acceptance strategy may be summarised as follows:

– Intesa Sanpaolo is a banking group focused on a commercial business model in which domestic retail activity remains the Group's structural strength;
– the Group does not aim to eliminate risks, but rather attempts to understand and manage them so as to ensure an adequate return for the risks taken, while guaranteeing the Company's solidity and business continuity in the long term;
– Intesa Sanpaolo has a moderate risk profile in which capital adequacy, earnings stability, liquidity and a strong reputation are the key factors to protecting its current and prospective profitability;
– Intesa Sanpaolo intends to maintain strong management of the main specific risks (not necessarily associated with macroeconomic shocks) to which the Group may be exposed.

The Risk Appetite Framework thus represents the overall framework in which the risks assumed by the Group are to be managed, with the establishment of general principles of maximum risk tolerance and the resulting structuring of the management of:

– the overall risk profile; and
– the Group's main specific risks.

Management of the overall risk profile is based on the general principles laid down in the form of a framework of limits aimed at ensuring that the Group complies with minimum solvency, liquidity and profitability levels even in conditions of severe stress. In addition, it aims to ensure the desired reputation and compliance risk profiles.
In detail, management of overall risk is aimed at maintaining adequate levels of:

– capitalisation, even under conditions of severe macroeconomic stress, with respect to both Pillar I and Pillar II. In further detail, capital adequacy is assessed by monitoring:
  o Common Equity and the Total Ratio, for Pillar I; and
  o the Leverage Ratio and Risk-Bearing Capacity, for Pillar II;
– liquidity, so as to respond to periods of tension, including extended periods of tension, on the various funding sourcing markets, with regard to both the short-term and structural situation; the Liquidity Coverage Ratio, the Net Stable Funding Ratio and the Funding/Lending Gap;
– earnings stability, so as to ensure profitability even in stress scenarios through an adequate mix of business;
– management of operational, compliance and reputation risk so as to minimise the risk of negative events that jeopardise the Group's economic stability and image.

Management of the main specific risks is aimed at determining the maximum acceptable risk that the Group intends to assume with regard to exposures that may represent especially significant concentrations. Such management is implemented by establishing ad hoc limits, management processes and mitigation measures to be taken in order to limit the impact of especially severe scenarios on the Group. Such risks are assessed on the basis of stress scenarios, are subject to periodic monitoring with the framework of Risk Management systems and constitute early warning indicators, especially as regards capital adequacy.
In detail, the main specific risks monitored are:

– especially significant risk concentrations (e.g., concentration on individual counterparties, sovereign risk or commercial real estate);
– the individual risks that make up the Group's overall risk profile and whose operating limits, as envisaged in specific policies, complete the Risk Appetite Framework.

The Group's Risk Appetite is also established in relation to the main subsidiaries, in terms of both the overall risk profile and the main specific risks. Overall risk management is implemented by monitoring key aspects (capital adequacy, liquidity and reputation) according to an approach similar to that followed at the Group level.
The Risk Appetite Framework informs the Budget and Business Plan and is proposed by the Chief Risk Officer, after its compatibility is assessed together with the Chief Financial Officer and the Heads of the various Business Units. The risk-acceptance strategy and policy thus fall within the context of the Plan and Budget process. In accordance with regulatory constraints and in a manner consistent with the risk profile assumed by the Group, the Chief Financial Officer area lays down the strategic profitability, capital adequacy and liquidity objectives that the Group intends to pursue. These objectives then form the basis for identifying the assets and financial resources to be allocated to the individual business units, including the insurance segment, through a process that involves an assessment of their attractiveness, financial independence, growth potential and ability to create value.
The definition of the Risk Appetite Framework and the resulting operating limits for the main specific risks, the use of risk measurement instruments in loan management processes and controlling operational risk and the use of capital-at-risk measures

for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the risk strategy defined by the Supervisory Board and the Management Board along the Group's entire decision-making chain, down to the single operational unit and to the single desk.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in a comprehensive framework of governance, control limits and procedures.
The assessment of the risk profile and periodic revision are conducted annually with the ICAAP, which represents the capital adequacy self-assessment process according to the Group's internal rules. Since 2013, the Group has also been completing a Recovery Plan process according to indications from the Supervisory Authority.

A culture of risk-awareness

The utmost attention is devoted to spreading and sharing a culture of risk-awareness through both periodic updates to the documents prepared (Tableau de Bord, ICAAP and Risk Appetite Framework) and initiatives undertaken with the aim of dealing with specific issues raised from time to time.
In addition, the Group guarantees the spread of a culture of risk-awareness through extensive training efforts aimed at ensuring the proper application of the internal risk management models.
The Risk Academy initiative, addressed to the international subsidiaries, is a strategic project that pursues the goal of improving management of Risk Governance at Banking Group level.
The measures taken in pursuit of this goal are the establishment of a coordinated approach to risk management and compliance with supervisory regulations, as well as of ongoing support from the Parent Company for the local growth of risk assessment and monitoring systems within the international subsidiaries.
The risk management approach aims to achieve increasingly integrated and consistent risk management, considering both the macroeconomic scenario and the Group's risk profile, by fostering a culture of risk-awareness through a transparent, thorough representation of the risk level of portfolios. The efforts made in recent years with the Basel 2 Project in order to obtain authorisation from the Supervisory Authorities for the use of internal ratings to calculate credit risk requirements and in order to secure validation of internal models for operational and market risks should be seen in this context.

Risk governance organisation

Risk-acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board carries out its activity through specific internal Committees, among which mention should be made of the Control Committee. The Management Board relies on the action of managerial committees, among which mention should be made of the Group Risk Governance Committee. Both corporate bodies receive support from the Chief Risk Officer, who is a member of the Management Board and reports directly to the Chief Executive Officer.

The **Chief Risk Officer** is responsible for proposing the Risk Appetite Framework, setting the Group's risk management and compliance guidelines and policies in accordance with Company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.
The **Group Risk Governance Committee**, chaired by the Managing Director and CEO, is a body with decision-making, consultative and reporting powers. It was established with the aim of ensuring the monitoring and management of risks and the safeguarding of corporate value at Group level, including internal control systems, in implementation of the strategic guidelines and management policies defined by the corporate bodies.
The Committee is also responsible for Basel 2 and 3 project governance and supervising the projects and measures necessary to guarantee compliance.
The **Group Financial Risks Committee** is a technical body with a decision-making and reporting role that focuses on proprietary financial risk of banking and trading books, as well as on Active Value Management. This Committee, which meets in two separate periodic sessions, one of which is chaired by the Chief Risk Officer and the other by the Chief Financial Officer, is responsible for assessing the following, prior to approval by the corporate bodies:
– the methodological and measurement guidelines for financial risks;
– establishment of operational limits and assessment of the risk profile of the Group and its main operational units;
– strategic decisions relating to management of the banking book, to be submitted to the competent bodies;
– guidelines concerning liquidity, interest rate and foreign exchange risk.

In addition, it periodically assesses the Group's overall financial risk profile and takes the appropriate measures to mitigate it.
The **Group Compliance and Operational Risk Committee** is a technical body with a decision-making, consultative and reporting role with the aim of stepping up co-ordination and interdepartmental co-operation mechanisms and facilitating the effective management of operational and compliance risks. The Committee operates within the scope of the guidelines set by the corporate bodies, on the basis of the operational and functional powers delegated by the Management Board.
The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries, these functions are performed, on the basis of an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.
The **Risk Management Department** performs the following functions:
– it is responsible for risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies;
– it proposes the annual update of the RAF to the Chief Risk Officer;
– it proposes operational limits for financial risks (for both the banking and trading books);
– it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process;
– it oversees the methodological and organisational framework for operational risks;

- it adopts capital-at-risk measurements for management reporting and assessment of the Group's Economic Capital adequacy;
- it ensures that statutory reports on internal models are sent to the Supervisory Authorities;
- it is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units and desks;
- as part of the Tableau de Bord and on a quarterly basis, it reports to the corporate bodies on the situation of the Group's overall risk profile; it compares that situation with the Risk Appetite Framework, highlighting any situations that require action by the boards.

Scope of risks

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

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

Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures, including in the form of stress tests.
Particular attention is dedicated to managing the short-term and structural liquidity position by following specific policies and procedures to ensure full compliance with the limits set at the Group level and operating sub-areas in accordance with international regulations and the risk appetite approved at the Group level.
The Group also intends to maintain adequate levels of protection against reputation risk so as to minimise the risk of negative events that might jeopardise its image. To that end, it has embarked upon an ex-ante risk management process to identify the major reputation and compliance risks for the Group, define prevention and mitigation tools and measures in advance and implement specific, dedicated reporting flows.
Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum "unexpected" loss the Group might incur over a year. This is a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return. It is estimated on the basis of the current situation and also as a forecast, based on the budget assumptions and projected economic scenario under normal and stress conditions.

For the purposes described above, the Intesa Sanpaolo Group uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part E of the Notes to the consolidated financial statements.
The information provided in this part of the document is based on internal management data and does not necessarily coincide with that contained in Parts B and C. Tables and information for which the indication of "book values" is specifically required represent an exception.

Other risks

In addition to credit, market, operational and insurance risks, discussed in detail in the following paragraphs, the Group has also identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Management Board and the Supervisory Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

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

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

Reputation risk

The Intesa Sanpaolo Group attaches great importance to reputation risk, namely the current and prospective risk of a decline in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and Supervisory Authorities.
The Group actively manages its image in the eyes of all stakeholders and aims to prevent and contain any negative effects on its image, including through robust, sustainable growth capable of creating value for the Bank and all of its stakeholders, while also minimising possible adverse events through rigorous, stringent governance, control and guidance of the activity performed at the various service and function levels.
The main reputation risks are generally identified according to a bottom-up approach based on an assessment of the risk perceived by internal stakeholders (annual assessment, climate surveys, etc.) and external stakeholders (focus groups, feedback initiatives, media and investor relations, etc.).
Reputation risk is managed and mitigated through:

– compliance with standards of ethics and conduct;
– involvement of the Top Management;
– constant focus on stakeholders' expectations;
– containment of exposure to primary risks (credit, operational, market, compliance risks, etc.)

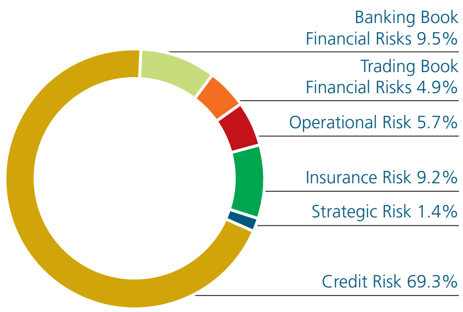
and it places great emphasis on the role of organisational units that engage in relations with the various stakeholders, each within its own purview.
The Group adopts a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the voluntary principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with broader objectives than those required by mere compliance with the law. The Group has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.
The Group aims to achieve constant improvement of reputation risk governance also through an integrated compliance risk management system, as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
Particular attention is also devoted to establishing and managing customers' risk tolerance, through the identification of their various risk tolerance profiles according to subjective and objective traits of each customer.
Particular consideration has been given to financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.
Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.
This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or make financial investments.
More in particular, the marketing of financial products is also governed by specific advance risk assessment from the standpoint of both the Bank (along with risks, such as credit, financial and operational risks, that directly affect the owner) and the customer (sustainability in terms of risk to return ratio, flexibility, concentration, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

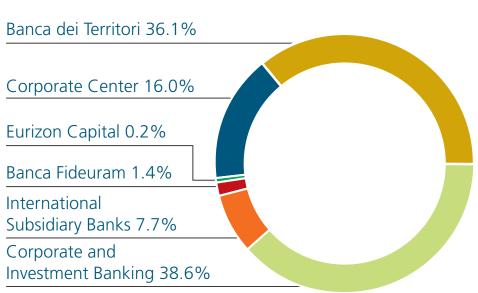
Risk on owned real-estate assets

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

Absorption of Economic Capital by Business Unit

The following is an illustration of the breakdown of the Group's Economic Capital by Business Unit and by type of risk.





The absorption of Economic Capital by Business Unit reflects the distribution of the Group's various activities and the specialisations of the business areas.
The majority of risk is concentrated in the "Corporate & Investment Banking" Business Unit (38.6% of the total Economic Capital): this is due to the type of customers served (Corporate and Financial Institutions) and to the main activities (Investment Banking and Capital Market). In fact, a significant portion of credit risk and trading book risk is attributable to this Business Unit, as well as a significant portion of the Banking Book financial risk (mainly equity).

The "Banca dei Territori" Business Unit (36.1% of the total Economic Capital) is the second source of absorption of Internal Capital, in line with its role as core business of the Group, serving Retail, Private and Small/Middle Corporate customers. It is assigned a sizeable portion of the credit risk component, as well as operational risk and insurance risk.
The "International Subsidiary Banks" and "Banca Fideuram" Business Units are respectively assigned 7.7% and 1.4% of the total risk, predominantly credit risk.
In addition to credit risk, the "Corporate Centre" is attributed with the risks typical of this Business Unit, namely those resulting from investments, as well as the Banking Book interest rate risk, specifically in the management of core deposits.
Absorption of Economic Capital by Eurizon Capital is marginal (0.2%) due to the nature of its business, which is predominantly aimed at asset management activities.

Basel 2 and Basel 3 regulations and the Internal Project

The goal of the Basel 2 Project is the adoption of advanced approaches for credit and operational risks by the main Group companies.

With respect to credit risks, the Group received authorisation to use internal ratings-based approaches effective from the report as at 31 December 2008 on the Corporate portfolio for a scope extending to the Parent Company, network banks in the Banca dei Territori Division and the main Italian product companies.
The scope of application has since been gradually extended to include the SME Retail and Mortgage portfolios, as well as other Italian and international Group companies, as shown in the following table.

<table>
<tr><th></th><th>Corporate FIRB</th><th>Corporate AIRB LGD</th><th>SME Retail IRB LGD</th><th>Mortgage IRB LGD</th></tr>
<tr><td>Intesa Sanpaolo</td><td rowspan="12">Dec - 2008</td><td rowspan="11">Dec - 2010</td><td rowspan="11">Dec - 2012</td><td rowspan="10">Jun - 2010</td></tr>
<tr><td>Banco di Napoli</td></tr>
<tr><td>Cassa di Risparmio del Veneto</td></tr>
<tr><td>Cassa di Risparmio di Bologna</td></tr>
<tr><td>Cassa di Risparmio di Venezia</td></tr>
<tr><td>Cassa di Risparmio del Friuli Venezia Giulia</td></tr>
<tr><td>Cassa dei Risparmi di Forlì e della Romagna</td></tr>
<tr><td>Banca dell'Adriatico</td></tr>
<tr><td>Banca di Trento e Bolzano</td></tr>
<tr><td>Banca di Credito Sardo</td></tr>
<tr><td>Mediocredito Italiano</td><td>n.a.</td></tr>
<tr><td>Mediofactoring</td><td>Jun - 2012</td><td>*</td><td>n.a.</td></tr>
<tr><td>Gruppo Cassa di Risparmio di Firenze</td><td>Dec - 2009</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Jun - 2010</td></tr>
<tr><td>Cassa di risparmio dell'Umbria</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio della Provincia di Viterbo</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Cassa di Risparmio di Rieti</td><td>n.a.</td><td>Dec - 2010</td><td>Dec - 2012</td><td>Dec - 2011</td></tr>
<tr><td>Banca Monte Parma</td><td>n.a.</td><td>Dec - 2013</td><td>**</td><td>Dec - 2013</td></tr>
<tr><td>Banca Prossima</td><td>n.a.</td><td>Dec - 2013</td><td>Dec - 2013</td><td>n.a.</td></tr>
<tr><td>Banca IMI</td><td>n.a.</td><td>Jun - 2012</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Intesa Sanpaolo Bank Ireland</td><td>Mar - 2010</td><td>Dec - 2011</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Vseobecna Uverova Banka</td><td>Dec - 2010</td><td>*</td><td>*</td><td>Jun - 2012</td></tr>
</table>

(*) Banks included in the roll-out plan which have not yet obtained authorisation from the Supervisory Authority.

(**) Bank which have received authorisation from the Supervisory Authority from March 2014.

Effective from December 2013, authorisation to extend the AIRB approach to the Corporate segment and the IRB approach to the Retail Mortgage segment was obtained for the subsidiary Banca Monte Parma. That same subsidiary also received authorisation for the extension of the IRB approach to the SME Retail segment effective from the first report in 2014. Authorisation to use the AIRB approach for the Corporate segment and the IRB approach for the SME Retail segment has been obtained for the subsidiary Banca Prossima.
Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013 as part of the process leading up to the application for authorisation to be submitted in 2014.
The Group is also proceeding with development of the rating approaches for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.
With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approach (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009. The scope of application of the advanced approaches is being progressively expanded in accordance with the roll out plan presented to the Management and to the Supervisory Authorities. For additional details see the section on operational risks.

In 2013 the Group presented its Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal approaches for the measurement of risk, internal capital and total capital available.

As part of its adoption of Basel 2, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 2 - Pillar 3" or simply "Pillar 3".
The document is published on the website (www.group.intesasanpaolo.com) each quarter, inasmuch as Intesa Sanpaolo is among the groups that have adopted validated internal approaches for credit, market and operational risks.

As regards developments in the set of regulations known as "Basel 3", the main changes regard the level and quality of capital of the banks, introduction of the Leverage Ratio (ratio of Core Tier I and Total Assets, including off balance sheet adjusted for the actual derivatives exposure), changes in the valuation of counterparty risk and the introduction of two new regulatory liquidity indicators (Liquidity Coverage Ratio and Net Stable Funding Ratio). Specifically, during the third quarter of 2013 an application for 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.
In preparing to adopt the new rules envisaged by Basel 3, the Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the measurement systems and the related risk management systems.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Corporate Governance Code for listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, functions, resources procedures and organisational structures aimed at ensuring compliance with Company strategies and the achievement of the following objectives:
– the proper implementation of Company strategies and policies;
– the containment of risk within the limits indicated in the reference framework for determining the Bank's risk appetite (Risk Appetite Framework – RAF);
– the safeguarding of asset value and protection from losses;
– the effectiveness and efficiency of the Bank processes;
– the reliability and security of Company information and IT procedures;
– the prevention of the risk that the Bank may be involved, including involuntarily involved, in illegal activities (with especial regard to those relating to money-laundering, usury and financing for terrorism);
– the compliance of transactions with the law and supervisory regulations, as well as internal policies, procedures and regulations.

The internal control system plays a crucial role and involves the entire Company organisation (boards, units, hierarchical levels, all personnel).
The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, incorporating both the Company policies and the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.
The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls. The process of drawing up Integrated Internal Control System Regulations has begun in accordance with the New Supervisory Regulations issued by the Bank of Italy in July 2013.
More specifically, the Company rules set out organisational solutions that:
– ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
– are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
– enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
– guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
– allow the prompt notification to the appropriate levels within the Company and the swift handling of any anomalies found by the business units and the control functions;
– ensure adequate levels of business continuity.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
At Corporate Governance level, Intesa Sanpaolo has adopted a dual governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company, which is exercised by the Management Board in accordance with the provisions of art. 2409-octies and subsequent of the Italian Civil Code and art. 147-ter and subsequent of the Consolidated Law on Finance.
The Supervisory Board has established an internal Control Committee that proposes, advises and enquires on matters regarding the internal control system, risk management and the accounting and IT system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative liability of companies, supervising operations and compliance with the Organisational, Management and Control Model adopted by the Bank.
From a more operational standpoint, the internal control and risk management system is divided into three levels:

- the first level consists of line controls that are conducted by operating departments (by the person performing the relevant activity plus hierarchical controls), or are incorporated into procedures or back-office activities;
- the second level falls mainly under the responsibility of the Chief Risk Officer and includes specific functions (Risk Management Department, Credit Quality Monitoring Unit, Internal Validation Function and the Compliance Department) that involve:
  - risk management controls, which are aimed at contributing to the definition of risk measurement methodologies, at verifying compliance with the limits assigned to the various operating departments and at controlling the consistency of the operations of individual productive areas with the assigned risk-return targets;
  - compliance controls, which are aimed at preventing the risk of incurring legal and administrative penalties, significant financial loss or damage to reputation as a consequence of infringements of laws and regulations or self-regulating codes;
  - compliance controls with regard to anti-money laundering, combating the financing of terrorism and embargo management;
  - credit granting controls, including the correct process of assignment and updating of ratings, controls on the management process for non-performing and doubtful loans and monitoring of credit quality;
  - internal validation controls, in accordance with Bank of Italy Circular 263/2006;
- the third level consists of internal auditing activities run by the Internal Auditing Department, a separate, independent structure from the operating structures, whose aim is to identify anomalous operations and breaches of procedures and regulations, and to assess the overall functioning of the internal control system.

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

Intesa Sanpaolo has an internal control structure consistent with the indications provided by the Supervisory Authorities.

Risk Management
The Risk Management Department is responsible for operational implementation of the management strategies and guidelines for risk along the Bank's entire decision-making chain, down to individual operational units. The Risk Management Department is responsible for the risk exposure methods and controls implemented in each business unit, reporting on the overall situation to the corporate governance bodies; it proposes the annual update of the RAF to the Chief Risk Office; it proposes operational limits for financial risks (for both the banking and trading books); it promotes the use of risk measurement tools during the credit granting and managing process and the concentration process; it oversees the methodological and organisational framework for operational risks; it adopts capital-at-risk measurements for management reporting and assessment of the Group's internal capital adequacy; it ensures that statutory reports are sent to the Supervisory Authorities.
The Department's tasks and functions are discussed in detail in the subsequent chapters of Part E.

Internal Validation
The internal control system implemented by the Bank includes the validation function, the purpose of which is ongoing evaluation, in accordance with the New Supervisory Regulations for banks[3], of the compliance of internal risk measurement and management systems over time as regards determination of the capital requirements with regulatory provisions, Company needs and changes in the market of reference. The validation process is entrusted to the Internal Validation Function, which is responsible for the activity at the Group level in accordance with the requirements of supervisory regulations governing uniform management of the control process on Internal risk measurement systems.
The Internal Validation Function reports directly to the Chief Risk officer and is independent of the functions that manage internal system development activities and the function in charge of internal auditing. It ensures that internal models, whether already operational or in the development stages, are validated with regard to all risk profiles covered by Pillars I and II of the Basel II Accord, in accordance with the independence requirements established by the Bank of Italy.
With respect to the first pillar in particular, it conducts ongoing assessments of risk management and measurement systems in terms of models, processes, IT infrastructure and their compliance over time with regulatory provisions, company needs and changes in the market of reference by developing adequate methodologies, tools and operating solutions.
Both during the initial application phase and on an ongoing basis (at least annually), the results of the Internal Validation Function's activities, documented in accordance with pre-determined standards, are presented to the competent functions, transmitted to the Internal Auditing Department for its related internal auditing work, as well as to the competent managerial committees and governance bodies for the resolution certifying the compliance of internal systems with regulatory requirements, and forwarded to the Supervisory Authorities.
With respect to pillar-two risks, the Internal Validation Function conducts analyses of methodologies, verifying in particular that the measurement or assessment metrics adopted in quantifying significant risks are economically and statistically consistent, the methodologies adopted and estimates produced to measure and assess significant risks are robust and comparing alternative methodologies for measuring and aggregating individual risks. The main analyses are conducted in the context of the prudential control process and summarised in the ICAAP book[4].
The function also manages the internal validation process at the Group level, interacting with Supervisory Authorities, the company bodies of reference and the functions responsible for the level-three controls provided for in regulations.
The Internal Validation Function adopts a decentralised approach for companies with local validation functions (certain international companies), coordinating and supervising the activities of such companies, and a centralised approach for the others.
The methodologies adopted were developed in implementation of the principles that inspire the Supervisory Regulations for banks, Community Directives, general orientations of international committees and best practices in the area and take the form of documentary, empirical and operating practice analyses.

[3] Bank of Italy Circular 285/2013; Bank of Italy Circular 263/2006 and subsequent amendments(where applicable); EU Regulation No. 575/2013 (CRR).

[4] Furthermore, as required by the Supervisory Authority, the Internal Validation function validates in advance the changes to the model of demand deposits and the annual re-estimation activities regarding the model parameters.

The function generally provides advice and suggestions to company and Group functions on an ongoing basis with the aim of improving the efficacy of the processes of risk management, control and governance of internal risk measurement and management systems for determining capital requirements.
In 2013, the main validation activities in the area of credit risks pertained to:
- validation activities aimed at presenting two applications: the AIRB approach (internal estimates of PD/LGD) for the Supervised Intermediaries regulatory segment (Banks and Public Entities) and the adoption of internal estimates of PD for the Banking Book Equity portfolio for the purposes of calculation of the regulatory capital requirement;
- extension of the IRB approach to the SME Retail segment for the subsidiary Banca Monte Parma;
- periodic quantitative and qualitative analyses (backtesting, performance analyses and empirical analyses of use tests) required by the Bank of Italy for the Residential Mortgages to Private Individuals, Corporate and SME Retail segments (PD and LGD models) in the context of the annual validation report;
- monitoring of the measures taken in accordance with the requirements set in the regulatory capital "floor" revision order of summer 2011.

In the cases of the international subsidiaries, the Internal Validation Function conducted its own assessments in collaboration with the local validation functions, where present, so that the relevant applications could then be submitted to the competent Supervisory Authorities. In detail, analyses of the adequacy of internal risk measurement systems for the purposes of determining capital requirements for credit risk were completed for the following subsidiaries:
- VUB (Slovakia): validation report for the application for authorisation to use the IRB approach for the SME Retail segment and the AIRB method for the regulatory Corporate segment;
- PBZ (Croatia): validation report for the application for authorisation to use the FIRB approach for the Micro Corporate segment;
- Banka Koper (Slovenia): pre-validation report for authorisation of the internal adoption of the FIRB approach for the Corporate segment.

Validation activities for operational risk conducted in 2013 took the form of:
- control of the update of the internal regulatory framework regarding operational risks launched in 2012 and completed in 2013;
- validation activities aimed at the control of the measures taken in accordance with the requirements set in the AMA authorisation orders of June 2013;
- methodological analyses with the goal of verifying the stability of the approach (LDA) in light of the changes applied (e.g., modelling of illicit acts by financial advisors and new allocation method);
- performance of annual validation analyses (process, empirical and model analyses) for the purposes of the drafting of the annual report.

For the purposes of such activities, the information drawn from documentary and empirical analyses (using Isidoro data) was supplemented by specific onsite inspections aimed at ascertaining the actual application of the monitoring and management process for operational risks and by methodological analyses. Concurrently, in the first half of 2013, the Internal Validation Function completed the Remote Verification Process for the Organisational Units/Legal Entities within the AMA scope.
The Internal Validation Function's activity relating to the market risk component focused on the following areas:
- validation activities aimed at the extension of the internal market risks model to the Parent Company's hedge funds portfolio;
- annual validation analyses (annual report) with specific follow-ups on unresolved anomalies relating to compliance with the EBA Guidelines on Stressed VaR published in 2012 and calculation of the Incremental Risk Charge (IRC);
- monitoring of the existing model for calculating stressed VaR, which entails a half-yearly revision of the adequacy of the historical stress period to be used in the calculation;
- periodic analyses required by the Bank of Italy on the progress of corrective measures applied to the spread VaR and IRC models.

Bank of Italy conducted a validation inspection in October 2013 for counterparty risk, currently used only for management purposes by the Parent Company and Banca IMI. The Internal Validation Function monitored the progress of the project in terms of both the quantitative and organisational aspects (IT processes and development), suggesting configuration modifications to the system as designed, also based on independent backtesting analyses. It also monitored the corrective measures implemented over time in response to such suggestions, as well as the irregularities observed by the Bank of Italy as a result of its pre-validation inspections. The project activities were reported to the Supervisory Authority through the submission of the validation report for the internal model appended to the July 2013 application.
The main analyses conducted with regard to Pillar II risks in reference to the methods applied for the purposes of calculation of economic capital as at 31 December 2013 pertain to:
- the method for the allocation of economic capital calculated by the portfolio model;
- the method for the estimate of the economic capital for default positions;
- the update and re-estimate of the parameters of the behavioural model of demand deposits for the assessment of banking book interest rate risk;
- the extension to floating-rate loans of the prepayment assessment method (CPR);
- the change in of stress-testing method;
- the changes made to the model for calculating economic capital for insurance risk.

In addition, the changes in the liquidity risk assessment policy to bring it into line with the provisions of the CRR were also validated.
Methods for equity risk, the integration of risks and reallocation to total economic capital, foreign exchange risk, interest rate risk and strategic risk, which were validated in previous years, were not subject to significant change in 2013. It was therefore not deemed necessary to update the associated validation analyses.

The Compliance Department

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
Management of non-compliance risk is entrusted to the Compliance Department, which reports to the Chief Risk Officer, from a position of autonomy with respect to operating departments, and of separation from internal auditing.
The Group's Compliance Model is set out in the Guidelines approved by Intesa Sanpaolo's Management Board and Supervisory Board. These Guidelines identify the responsibilities and macro processes for compliance, aimed at mitigating the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of non-compliance risk. The Compliance Department, including through the coordination of other company functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the assessment of the company’s bonus system, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, including through the use of information provided by the Internal Auditing Department, of ongoing compliance, and the promotion of a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.
The Compliance Department submits periodic reports to corporate bodies on the adequacy of compliance control. On an annual basis, these reports include an identification and assessment of the primary non-compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a semi-annual basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is also given when events of particular significance occur.
The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group’s structure in operational and territorial terms. In particular:

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

In 2013 a review of the current Compliance Model was launched with the aim of adapting to the new provisions on internal control systems issued by the Bank of Italy in July, which assign responsibility for compliance risk management for all regulatory aspects applying to corporate activities to the Compliance Department, with the option of tailoring regulatory tasks for which suitable forms of specialised monitoring are envisaged.
The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of non-compliance risk, including in light of the most significant ongoing projects, such as Out-of-branch offering and initiatives aimed at achieving compliance with new regulations enacted at an international level (e.g., EMIR, Dodd Frank Act, short-selling law). In particular:

– in the financial intermediation and investment services area, monitoring of the procedural organisational structure in support of the service model adopted by the Bank continued, also in light of the Guidelines on suitability issued by ESMA in July 2012. In this context, work was done on both the internal rules that govern the provision of investment services, adjusting those Roles to the changed economic scenario, and on the procedures that apply to operations with the aim of improving the service rendered to customers, with particular reference to the adequacy assessment model. Work also continued in the area of monitoring personal transactions, clearing new products and services and controlling customer operations in order to prevent market abuse. In the area of conflict of interest management and the circulation of insider information, work continued to be done with the aim of enhancing the model adopted by the Bank;
– legislative developments in the areas of banking products and services were monitored, with a particular focus on the issue of transparency, consumer credit and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of ensuring that customer-protection provisions are properly managed;
– in the area of insurance and pension services, business functions received constant advice, concerning in particular policies paired with mortgages and motor policies. In addition, initiatives continued with the aim of enhancing governance of non-compliance risks pertaining to the insurance and pension segment, with respect to the Group’s distribution networks; in particular, work was done with the aim of rationalising the line of pension products and adapting the associated post-sales process, and a specific project was created in order to return the residual premium for Group’s policies associated with loans repaid in advance;
– the organisational, management and control Model pursuant to Italian Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations, updating it to take into account the new predicate offences, and coordinating verification of its proper implementation.

Additional activities were aimed at reinforcing management and coordination activity for international subsidiaries, with the aim of implementing a supervisory model comparable to that adopted by the Parent Company, involving the establishment of shared control guidelines and standards for the most sensitive areas.
Considerable importance was attached to personnel training programmes, involving the implementation, in collaboration with the competent company functions, of initiatives aimed at pre-defined targets in order to maximise their efficacy.

The Anti-Money Laundering Function

In August 2011, in line with the regulatory provisions issued by the Bank of Italy on 20 March 2011, responsibilities in the area of the prevention of money laundering and embargo management, previously entrusted to the Compliance Department, were reassigned to a specific Anti-Money Laundering Function reporting directly to the Chief Risk Officer. The Function is charged with monitoring compliance risk in the area of money laundering, combating financing of terrorism and embargo management by:

– laying down the general principles to be adopted within the Group for the management of compliance risk;

- conducting ongoing monitoring, with the support of the competent functions, of developments in the national and international context of reference, verifying the adequacy of company processes and procedures with respect to applicable regulations and proposing appropriate organisational and procedural changes;
- providing advice to the functions of the Parent Company and subsidiaries on a centralised basis and establishing adequate training plans;
- preparing appropriate periodic information for corporate bodies and top management;
- discharging the required specific obligations on behalf of the Parent Company and subsidiaries on a centralised basis, including, in particular, enhanced customer reviews, controls of proper management of the Single Electronic Archive and the assessment of reports of suspicious transactions received from operating departments for the submission to the Financial Reporting Unit of reports deemed accurate.

During 2013, the Anti-Money Laundering Function devoted the utmost attention to projects aimed at reinforcing coverage of the Group's Italian and international companies in the area of money laundering and embargoes, including in light of the new provisions of law enacted at the national and international level. In further detail, organisational, IT and training activities were performed with the aim of implementing applicable regulations in this area.

The Internal Auditing Department

Internal auditing activities are performed by the Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board. It also liaises with the Control Committee and has no direct operating responsibilities.

The Department has a structure and a control model which is organised consistently with the organisational model of Intesa Sanpaolo and, more generally, of the Group.

As part of its duties the Department also liaises with the Internal Auditing departments of the Group's Italian and international companies.

The Internal Auditing Department performs overall third-level assessment of the internal control systems, reporting possible improvements to the corporate bodies.

In particular, the Department assesses the completeness, adequacy, functionality and reliability of the components of the internal control systems, the risk management process and corporate processes, also with regard to their capacity to identify errors and irregularities. In this context, amongst others, it audits the risk control and regulatory compliance departments, also through participation in plans so as to create value added and to improve the effectiveness of the control and corporate governance processes. The audit action directly concerns Intesa Sanpaolo and the Group companies.

The Internal Auditing Department is also responsible for assessing the effectiveness of the processing of defining the Risk Assessment Framework and related compliance of Bank operations.

The Head of the Internal Auditing Department enjoys the due autonomy and independence from operating departments. The Department has free access to the activities, data and documents of all company functions.

The Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practices and standards for internal auditing established by the Institute of Internal Auditors (IIA). The Department has earned the maximum rating in the external Quality Assurance Review envisaged by the international standards: "Generally Compliant."

In performing its duties, the Department uses structured risk assessment methods to identify existing situations of greatest interest and the main new risk factors. Based on the assessments emerging from risk assessment and the resulting priorities, as well as on any specific requests for further enquiry expressed by top management and corporate bodies, it prepares and submits an Annual Intervention Plan for prior examination by the Control Committee and subsequent approval by the Management Board and the Supervisory Board, on the basis of which it conducts its activities during the year.

During 2013, auditing was performed directly for the Parent Company, Intesa Sanpaolo, the Network Banks and other subsidiaries under an outsourcing contract. For the other Group companies with their own internal audit departments, second level controls were conducted (indirect surveillance).

Supervision activity was conditioned by the continuing delicate economic scenario. Consequently, in accordance with instructions issued by the Control Committee and the top management, audits were primarily aimed at monitoring the evolution of the risks associated with credit quality, internal capital adequacy estimation criteria and international activities. Particular attention was also devoted to the themes of compliance with money laundering prevention regulations.

Control activity was generally oriented towards the processes carried out by company functions with the aim of assessing:

- the functionality of line and second-level controls;
- the reliability of operating departments and delegation mechanisms;
- the accuracy of the information available in the various activities and the adequate use of the same.

Direct surveillance, both on-site and remote, was carried out in particular through supervision of processes relating to:

- credit granting, management and classification, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- measurement, management and control of the Group's exposure to various market, counterparty, property, liquidity, interest rate, operational, credit and country risks. Particular attention was dedicated to the adequacy of the processes and criteria for estimating internal capital in accordance with Basel 2 and Prudential Supervision regulations;
- controls carried out by compliance risks governance functions and operating functions, in particular on provisions of law concerning money laundering, usury, investment services, transactions with related parties and the administrative liability of entities pursuant to Legislative Decree 231/01;
- IT system development and management, to ensure their reliability, security and functionality;
- management of financial operations with the aim of verifying the adequacy of related risk control systems;
- management of the operations area, with a particular focus on the proper management of deferred amounts in the accounts.

Control activity was then completed through:

- measures affecting Italian product company subsidiaries, with a priority focus on credit quality and processes, as well as on money laundering prevention and embargo processes;
- verification of the operations performed by foreign banks, companies and branches, with interventions by both local internal auditors and internal auditors from the Parent Company;
- control of the governance activity performed by the Parent Company for the International Subsidiary Banks;

- timely performance of the assessments requested by Supervisory Authorities in specific areas such as management remuneration and incentive systems, the Parent Company's management and coordination powers over asset management companies, obligations under new authorisations, privacy, business continuity, provisioning for doubtful loans and Asset Quality Review.

Indirect audit was conducted via the steering and practical coordination of the auditing departments of Italian and international subsidiary banks and companies, to guarantee control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both structural and operational profiles. Direct auditing and review activities, in the capacity of Parent Company, was also performed for those companies, as mentioned above.

Any weak points detected during control activities have been systematically notified to the company functions involved for prompt improvement actions which are monitored by follow-up activities.
Summary Internal control system assessments from the checks have been periodically submitted to the Control Committee, Management Board and Supervisory Board. The main weaknesses detected and their development over time have been included in the Audit Tableau de Bord (TdB) so that they may be monitored until they are resolved. The reports on the audits with a negative outcome or with remarkable irregularities observed were submitted to and illustrated for the Control Committee and corporate bodies.

Lastly, the Internal Auditing Department ensured constant assessment of its own efficacy and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional audit practice.

Certification as required by art. 154-bis of the Consolidated Law on Finance

As required by art. 154-bis of the Consolidated Law on Finance, the delegated administrative bodies and the Manager responsible for preparing the Company's financial reports are to certify the following for the separate and consolidated financial statements in specific reports:

- adequacy and actual application of administrative and accounting procedures;
- compliance with international accounting standards;
- documents matching the accounting books and records;
- suitability of the documents to provide a true and fair view of the assets, liabilities, profit or loss and financial position of the issuer and of the companies included in the scope of consolidation;
- the report on operations includes a reliable analysis of business performance and results, as well as of the position of the issuer and the companies included in the scope of consolidation, together with a description of the main risks and uncertainties to which they are exposed.

The Manager responsible for preparing the Company's financial reports plays a steering and coordination role in Group companies with regard to administrative and accounting matters and in the supervision of internal control system functional to accounting and financial reporting. To this end, the Manager responsible for preparing the Company's financial reports plans the activities that the Group is required to perform over the year and is responsible for:

- coordinating the instructions issued to the companies for the correct and uniform application of the accounting standards, rules and measurement criteria, formalised as part of the Group accounting regulations and subject to regular periodic updates;
- preparing administrative and accounting procedures for producing the annual separate and consolidated financial statements, and coordinating process development measures to comply with financial reporting obligations to national and supranational authorities;
- verifying the adequacy and actual application of administrative and accounting procedures over the period, through a structured assessment process, the findings of which are formally included in a Report on the internal control system functional to the financial reporting process;
- monitoring the acquisition process for the information required to provide a fair view of the Group's assets, liabilities, profit or loss and financial position, especially with reference to the main risks and uncertainties to which companies are exposed;
- supervising the compliance of information contained in corporate documents disclosed to the market, such as public Pillar III disclosures and the Report on Corporate Governance and Ownership Structures subject to opinions from the independent auditors, and statements accompanying the issue and public offering of domestic and international bonds;
- providing feedback on recommendations made by the independent auditors during the auditing process for the Parent Company's financial statements and the Group consolidated financial statements for the purpose of continuous improvement of procedures affecting accounting data in the financial reporting process.

In detail, the internal control system for accounting and financial information is supervised by the Manager responsible for preparing the Company's financial reports (pursuant to the provisions of art. 154-bis of the Consolidated Law on Finance) in accordance with the Company Regulations "Guidelines for administrative and financial governance", which concern the methods of implementation for verification of the adequacy and actual application of administrative and accounting procedures at the Group level, as well as responsibilities and rules for the maintenance of an adequate system of information flows that the company functions of the Parent Company and subsidiaries are required to transmit in order to enhance the level of monitoring of information to be used for the presentation of the Group's assets, liabilities, profit or loss and financial position of the Group and the main risks and uncertainties to which it is exposed.
Through the Administrative and Financial Governance Unit, which supports his or her coordination of the Group, the Manager responsible for preparing the Company's financial reports has identified the set of subsidiaries deemed material for financial reporting purposes with respect to given qualitative thresholds and on the basis of assessments of a qualitative nature, thus establishing the overall plan of activities to be performed during the year with regard to legal obligations.
The assessment process in support of the legally required certifications is completed with:

- the acquisition and classification of the information flows reported by the companies, which are subject to periodic condensation by the Administrative and Financial Governance Unit for use by the Manager responsible for preparing the Company's financial reports and the independent auditors, for any further enquiries of interest to each;
- the drafting of a Report on the internal control system for financial reporting by the administrative head of each company following the completion of audit work; this Report is prepared according to common principles and rules of presentation within the Group and the Report's assessment aspects are subject to further review in collaboration with the Administrative and Financial Governance Unit before it is finalised;
- the formulation of an overall opinion of the adequacy of the financial reporting control procedures and system on the basis of the findings of the audits carried out, while also taking account of any recommendations made by the independent auditors during the auditing process for the Parent Company's financial statements and the opinions expressed by the management;
- the acquisition of the internal certifications signed by the delegated body of each company within the scope of application;
- the drafting of a Group Report by the Administrative and Finance Governance Unit in order for the Manager responsible for preparing the Company's financial reports to submit the activities carried out to the Control Committee, Management Board and Supervisory Board, in accordance with the purview of each.

The certifications signed by the CEO and Manager responsible for preparing the Company's financial reports are included in the report (one for the consolidated financial statements and one for the Parent Company's financial statements) and are given according to the model established by Consob Regulation (Annex 3c-ter of the Issuers Regulation).

Subsidiaries subject to the laws of non-EU member states

As is common knowledge, Consob (the Italian Securities and Exchange Commission), in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies incorporated and subject to the laws of non-EU member states (art. 36, paragraph 1 of the Market Regulation). In the cases of subsidiaries based in non-EU member states that are of material significance, the parent company listed in Italy is to:

a) provide the public with access to the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements, including at least the balance sheet and income statement;
b) obtain from its subsidiaries their articles of association, membership and powers of the control bodies;
c) determine that their subsidiaries: i) provide the independent auditor of the parent company with the information necessary to perform annual and interim audits of the parent company; and ii) have available access to an administrative and accounting system appropriate for regular reporting to the management and independent auditor of the parent company of the income statement, balance sheet and cash flow data necessary for the preparation of the consolidated financial statements.

The administrative body of the listed parent company is to certify in the report on operations that the conditions required by this legislation are met, at the time of the approval of the annual financial statements. The control body of listed parent company is to inform Consob and the stock exchange company of any events and circumstances that entail the unsuitability of the subsidiary's administrative and accounting system to the conditions mentioned above.

In this regard, with specific reference to the set of subsidiaries based in non-EU member states and the provisions of the above-mentioned article 36, Intesa Sanpaolo has implemented an audit plan aimed at verifying that the foregoing conditions are met:

- determining that the companies' administrative and accounting systems are suited to regularly providing the competent department within the parent company and its independent auditors with the income statement, balance sheet and cash flow data required for the preparation of the consolidated financial statements and control activity;
- regularly obtaining the required company information and ensuring that the public is provided access to the accounting positions prepared by the companies for the purposes of drafting the consolidated financial statements.

The Control Committee, Management Board and Supervisory Board are informed of compliance with the provisions governing companies incorporated in and subject to the laws of non-EU member states, with a specific notice (provisions of article 36 of the Markets Regulation) in the broader periodic report on the internal control system for financial reporting already drafted pursuant to article 154-bis of the Consolidated Law on Finance (see point 3.2), containing an illustration of the overall governance and control activities performed in accordance with the various provisions of laws and internal Group regulations governing the supervision of financial reporting, organically coordinated by the Manager responsible for preparing the Company's financial reports.

SECTION 1 – RISKS OF THE BANKING GROUP

As required by the instructions provided by the Bank of Italy, the information in this section - Risks of the Banking Group - is furnished solely with respect to the banking group, as defined in the Supervisory Instructions, except when it is expressly indicated to the contrary that all companies within the scope of consolidation are considered.
The tables that refer to the banking group alone include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes Amounts are stated gross of transactions with other companies within the scope of consolidation.
Where the contribution of transactions between the banking group and the other companies in the financial statement scope of consolidation is material, the details of such transactions are provided.

The following table contains the reconciliation of the consolidated balance sheet with the regulatory-scope balance sheet.

Assets		31.12.2013 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group	31.12.2013 Regulatory-scope balance sheet
10.	Cash and cash equivalents	6,525	-	6,525
20.	Financial assets held for trading	49,013	-854	48,159
30.	Financial assets designated at fair value through profit and loss	37,655	-36,463	1,192
40.	Financial assets available for sale	115,302	-54,279	61,023
50.	Investments held to maturity	2,051	-	2,051
60.	Due from banks	26,673	-442	26,231
70.	Loans to customers	343,991	2,001	345,992
80.	Hedging derivatives	7,534	-	7,534
90.	Fair value change of financial assets in hedged portfolios (+/-)	69	-	69
100.	Investments in associates and companies subject to joint control	1,991	5,138	7,129
110.	Technical insurance reserves reassured with third parties	14	-14	-
120.	Property and equipment	5,056	-59	4,997
130.	Intangible assets	7,471	-793	6,678
	of which: goodwill	*3,899*	*-472*	*3,427*
140.	Tax assets	14,921	-394	14,527
150.	Non-current assets held for sale and discontinued operations	108	-	108
160.	Other assets	7,909	-2,302	5,607
Total Assets		**626,283**	**-88,461**	**537,822**

Liabilities and Shareholders' Equity		31.12.2013 Financial Statements	Effects of the deconsolidation and consolidation of counterparties other than those in the banking group	31.12.2013 Regulatory-scope balance sheet
10.	Due to banks	52,244	-14	52,230
20.	Due to customers	228,890	4,575	233,465
30.	Securities issued	138,051	4,104	142,155
40.	Financial liabilities held for trading	39,268	-163	39,105
50.	Financial liabilities designated at fair value through profit and loss	30,733	-30,723	10
60.	Hedging derivatives	7,590	-6	7,584
70.	Fair value change of financial liabilities in hedged portfolios (+/-)	1,048	-	1,048
80.	Tax liabilities	2,236	-584	1,652
	a) current	*897*	*-59*	*838*
	b) deferred	*1,339*	*-525*	*814*
90.	Liabilities associated with non-current assets held for sale and discontinued operations	-	-	-
100.	Other liabilities	14,690	-3,397	11,293
110.	Employee termination indemnities	1,341	-5	1,336
120.	Allowances for risks and charges	2,898	-13	2,885
	a) post employment benefits	*738*	*-*	*738*
	b) other allowances	*2,160*	*-13*	*2,147*
130.	Technical reserves	62,236	-62,236	-
140.	Valuation reserves	-1,074	1	-1,073
150.	Redeemable shares	-	-	-
160.	Equity instruments	-	-	-
170.	Reserves	10,721	-	10,721
180.	Share premium reserve	30,934	-	30,934
190.	Share capital	8,546	-	8,546
200.	Treasury shares (-)	-62	-	-62
210.	Minority interests (+/-)	543	-	543
220.	Net income (loss)	-4,550	-	-4,550
Total Liabilities and Shareholders' Equity		**626,283**	**-88,461**	**537,822**