1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods

Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

The arrangement of a suitable control and management system for that specific risk has a fundamental role in maintaining stability, not only at the level of each individual bank, but also of the market as a whole, given that imbalances within a single financial institution may have systemic repercussions. Such a system must be integrated into the overall risk management system and provide for incisive controls consistent with developments in the context of reference.

The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:

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

From an organisational standpoint, a detailed definition is prepared of the tasks assigned to the strategic and management supervision bodies and reports are presented to the senior management concerning certain important formalities such as the approval of measurement methods, the definition of the main assumptions underlying stress scenarios and the composition of early warnings used to activate emergency plans.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are, in particular, the Treasury Department and the Planning Department, Strategic ALM and Capital Management Department, responsible for liquidity management, and the Risk Management Department, directly responsible for measuring liquidity risk on a consolidated basis.

With regard to liquidity risk measurement metrics and mitigation tools, in addition to defining the methodological system for measuring short-term and structural liquidity indicators, the Group also formalises the maximum tolerance threshold (risk appetite) for liquidity risk, the criteria for defining liquidity reserves and the rules and parameters for conducting stress tests.

The short-term Liquidity Policy is aimed at ensuring an adequate, balanced level of cash inflows and outflows with certain or estimated maturities included in 12 months' time horizon, in order to respond to periods of tension, including extended periods of tension, on different funding markets, also by establishing adequate liquidity reserves in the form of assets eligible for refinancing with Central Banks or liquid securities on private markets. To that end, and in keeping with the liquidity risk appetite, the system of limits consists of two short-term indicators for holding periods of one week (cumulative projected imbalance in wholesale operations) and of one month (Short Term Gap).

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The short-term gap indicator measures, for the various short-term time brackets, the ratio between availability of liquidity reserves and expected positive cash flows to expected and potential cash outflows, with reference to both on- and off-balance sheet captions. This indicator aims to ensure that the Bank maintains an adequate level of unencumbered liquidity reserves that may be converted into cash to meet expected and potential liquidity requirements. To that end, the behavioural coefficients and assumptions underlying the valuation of expected and potential cash flows incorporate cautionary and extremely prudential assumptions (such as: (i) the loss of a portion of customer demand deposits, (ii) unforeseen uses of undrawn committed credit and liquidity lines and (iii) an increase in market volatility for determining haircuts on liquidity reserves and estimating the potential future exposure associated with derivatives positions) effectively constituting an especially severe "base prudential scenario", with the adoption of run-off percentages for demand deposits more conservative than those identified by Basel 3 (LCR).

The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities and involves the adoption of internal limits on maturities' transformations aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term. These limits take into account the liquidity characteristics of the assets and the behavioural representation models used for the items characterised by a liquidity profile other than the contractual profile (e.g. demand positions and estimated prepayments on mortgages).

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

– a "firm-specific" stress scenario, relating to a liquidity crisis specific to the Bank, reflected in an accelerated withdrawal of funds by deposit-holders, a significant reduction in the realised value of assets due to the need for immediate liquidation of assets not eligible for refinancing through repurchase agreements, the activation of downgrade triggers and the need to repurchase own debt securities or honour extra-contractual obligations in order to attenuate reputational risk;
– a "market-related" stress scenario, representing a general market crisis extending to both the financial and industrial sectors, characterised by, for example: (i) failure to repay granted credit facilities to corporate customers; (ii) a sudden increase in uses of lines of credit and guarantees; and (iii) a significant increase in market volatility, with negative effects on the value of reserves or potential future exposure associated with positions in derivatives, resulting in larger haircuts and the need for additional guarantees.

The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group's asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

In 2013, the Group's liquidity position remained largely within the risk limits provided for in the Group's Liquidity Policy both in terms of short-term and structural liquidity indicators.

The stress test, applied by considering total available liquidity reserves, yielded results widely in excess of the target threshold, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than three months. Adequate, timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.

As at 31 December 2013, the liquidity reserves eligible with the various Central Banks came to 124 billion euro (115 billion euro at the end of December 2012), of which the unencumbered part came to 88 billion euro (67 billion euro at the end of 2012).

Basel 3 new metrics on the liquidity risk

The new provisions on liquidity[5], which were introduced in the European Union on 27 June 2013 with the publication of (EU) Regulation 575/2013 and Directive 2013/36/EU, incorporated the new minimum liquidity requirements by adjusting them to European specificities. At the same time the European Banking Authority (EBA) was entrusted with developing guidelines aimed at enhancing regulatory harmonization in Europe through the «Single Rulebook», which will provide a regulatory framework for the so-called Single Supervisory Mechanism (SSM) to exercise its tasks. These measures make up the reference regulatory framework of the European Union for banks and the investment firms since 1 January 2014. Starting from March 2014, the banking Groups are also obliged to fulfil specific reporting requirements to measure their exposure to the liquidity risk.

To reflect such regulatory measures and ensure the regular use, also for management purposes, of the new regulatory metrics, the "Guidelines for Group Liquidity Rik Management" in December 2013 were updated by Intesa Sanpaolo's corporate bodies, replacing, from January 2014, the current internal indicators with the metrics defined by the Basel Committee (LCR: Liquidity Coverage Ratio; NSFR: Net Stable Funding Ratio)

The Liquidity Coverage Ratio (LCR) is aimed at strengthening the short-term liquidity risk profile, ensuring a detention of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash in the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the regulatory framework. The LCR will gradually come into force, starting with a percentage of 60% from January 2015.

The Net Stable Funding Ratio (NSFR) instead pursues the objective of making the Group more resilient over a longer time horizon by ensuring the use of more stable and longer-term funding sources to fund the existing activities in a way to guarantee a sustainable maturity structure of assets and liabilities. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force starting from 1 January 2018.

While awaiting the definitive enforcement, the Intesa Sanpaolo Group's level of adherence to the new regulatory indicators is measured by adopting the international metrics of BCBS and incorporating the regulatory amendments published by the regulators from time to time.

Intesa Sanpaolo Group's sound liquidity position, supported by suitable high quality liquid assets (HQLA) and the significant contribution from the retail stable funding, is proven by the LCR and NSFR results recorded during 2013, which always stood (LCR and NSFR >100%) well above the minimum regulatory requirement.

[5] See the reform plan which the Basel Comittee for Bank Supervision (BCBS) defined in December 2010 and subsequently amended and integrated in January 2013 to strengthen the regulations concerning liquidity.

QUANTITATIVE INFORMATION

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

The breakdown by maturity of financial assets and liabilities is shown in the tables below according to the rules set forth in financial statement regulations (Bank of Italy Circular 262 and related clarifications issued by the Supervisory Authority), using accounting information organised by contractual residual maturity.

Therefore, no operational data was used that would require, for example, the modelling of demand liabilities and the representation of cash items according to their level of liquidability.

Currency of denomination: Euro

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**56,424**	**11,091**	**10,948**	**15,182**	**28,725**	**28,807**	**39,597**	**117,759**	**100,886**	**2,075**
A.1 Government bonds	13	23	2,115	3,077	6,407	11,115	14,104	18,117	6,458	3
A.2 Other debt securities	52	4	526	1,302	944	1,046	1,256	7,151	7,136	5
A.3 Quotas of UCI	1,928	-	-	-	-	-	-	-	-	-
A.4 Loans	54,431	11,064	8,307	10,803	21,374	16,646	24,237	92,491	87,292	2,067
- Banks	*6,520*	*1,100*	*1,139*	*742*	*499*	*790*	*765*	*999*	*41*	*2,006*
- Customers	*47,911*	*9,964*	*7,168*	*10,061*	*20,875*	*15,856*	*23,472*	*91,492*	*87,251*	*61*
Cash liabilities	**153,056**	**16,070**	**15,477**	**11,284**	**27,599**	**24,846**	**30,378**	**80,622**	**32,899**	**2,172**
B.1 Deposits and current accounts	146,319	2,534	3,613	4,709	10,250	10,600	13,835	10,857	2,878	1
- Banks	*3,762*	*108*	*1,349*	*125*	*1,800*	*1,673*	*356*	*2,096*	*1,245*	-
- Customers	*142,557*	*2,426*	*2,264*	*4,584*	*8,450*	*8,927*	*13,479*	*8,761*	*1,633*	*1*
B.2 Debt securities	38	161	166	2,540	7,793	13,479	15,633	64,406	24,976	2,171
B.3 Other liabilities	6,699	13,375	11,698	4,035	9,556	767	910	5,359	5,045	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*33*	*9,769*	*5,031*	*7,773*	*10,321*	*4,812*	*6,131*	*15,416*	*6,523*	*5*
- Short positions	*69*	*7,269*	*4,384*	*4,285*	*13,061*	*3,549*	*4,940*	*11,616*	*7,219*	*5*
C.2 Financial derivatives without exchange of capital										
- Long positions	*30,012*	*5*	*24*	*53*	*386*	*436*	*662*	*864*	*261*	-
- Short positions	*29,577*	*33*	*43*	*63*	*305*	*330*	*519*	*874*	*254*	-
C.3 Deposits and loans to be settled										
- Long positions	*24,398*	*11*	-	-	-	-	-	-	-	-
- Short positions	-	*24,371*	-	-	*2*	*2*	*20*	*13*	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*794*	*14,593*	*70*	*34*	*346*	*1,125*	*865*	*9,695*	*1,240*	-
- Short positions	*25,752*	*1,965*	*8*	*8*	*31*	*46*	*39*	*43*	*73*	-
C.5 Financial guarantees given	108	31	1	9	48	19	38	121	274	1
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*1,005*	*1,323*	*1,716*	*18,483*	*2,215*	-
- Short positions	-	-	-	-	*1,005*	*1,323*	*1,716*	*18,483*	*2,215*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*855*	-	-	-	-	-	-	-	-	-
- Short positions	*976*	-	-	-	-	-	-	-	-	-

Currency of denomination: US dollar

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**3,048**	**1,559**	**985**	**2,627**	**3,467**	**1,956**	**1,259**	**5,869**	**2,020**	**8**
A.1 Government bonds	1	-	-	-	3	5	22	751	135	-
A.2 Other debt securities	10	361	-	113	94	58	55	1,789	502	-
A.3 Quotas of UCI	630	-	-	-	-	-	-	-	-	-
A.4 Loans	2,407	1,198	985	2,514	3,370	1,893	1,182	3,329	1,383	8
- Banks	*1,540*	*514*	*389*	*1,361*	*1,258*	*1,544*	*258*	*30*	*67*	*-*
- Customers	*867*	*684*	*596*	*1,153*	*2,112*	*349*	*924*	*3,299*	*1,316*	*8*
Cash liabilities	**4,143**	**1,853**	**1,228**	**1,757**	**3,624**	**1,079**	**282**	**3,620**	**1,972**	**-**
B.1 Deposits and current accounts	4,013	1,192	1,061	904	487	175	182	83	91	-
- Banks	*765*	*698*	*337*	*494*	*51*	*38*	*21*	*20*	*-*	*-*
- Customers	*3,248*	*494*	*724*	*410*	*436*	*137*	*161*	*63*	*91*	*-*
B.2 Debt securities	-	180	138	132	1,398	32	100	3,427	1,881	-
B.3 Other liabilities	130	481	29	721	1,739	872	-	110	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*217*	*6,032*	*4,207*	*3,958*	*8,240*	*2,920*	*3,635*	*7,441*	*2,969*	*3*
- Short positions	*172*	*7,318*	*4,379*	*6,667*	*6,504*	*3,795*	*4,489*	*7,917*	*2,533*	*3*
C.2 Financial derivatives without exchange of capital										
- Long positions	*828*	*2*	*-*	*-*	*2*	*3*	*15*	*-*	*-*	*-*
- Short positions	*807*	*-*	*-*	*1*	*5*	*5*	*10*	*-*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*20*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*3*	*17*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*15*	*7*	*1*	*-*	*140*	*169*	*585*	*5,965*	*555*	*-*
- Short positions	*7,342*	*69*	*1*	*-*	*18*	*-*	*-*	*1*	*-*	*-*
C.5 Financial guarantees given	1	-	-	-	1	3	3	-	-	1
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*220*	*472*	*640*	*7,774*	*244*	*-*
- Short positions	*-*	*-*	*-*	*-*	*220*	*472*	*640*	*7,774*	*244*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*299*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*259*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: Pound sterling

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**234**	**43**	**15**	**59**	**59**	**29**	**70**	**596**	**395**	**-**
A.1 Government bonds	-	-	-	-	-	4	3	309	44	-
A.2 Other debt securities	6	-	-	-	2	1	2	78	293	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	228	43	15	59	57	24	65	209	58	-
- Banks	*128*	*21*	*2*	*12*	*4*	*5*	*-*	*-*	*-*	*-*
- Customers	*100*	*22*	*13*	*47*	*53*	*19*	*65*	*209*	*58*	*-*
Cash liabilities	**353**	**78**	**247**	**64**	**385**	**28**	**92**	**61**	**295**	**-**
B.1 Deposits and current accounts	260	76	19	43	20	20	44	-	-	-
- Banks	*26*	*3*	*6*	*20*	*1*	*-*	*-*	*-*	*-*	*-*
- Customers	*234*	*73*	*13*	*23*	*19*	*20*	*44*	*-*	*-*	*-*
B.2 Debt securities	-	2	-	21	4	7	48	27	295	-
B.3 Other liabilities	93	-	228	-	361	1	-	34	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*13*	*585*	*304*	*455*	*655*	*187*	*335*	*388*	*2,658*	*-*
- Short positions	*7*	*598*	*261*	*665*	*673*	*143*	*218*	*454*	*2,532*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*120*	*-*	*-*	*-*	*-*	*1*	*-*	*-*	*-*	*-*
- Short positions	*93*	*-*	*-*	*-*	*-*	*-*	*1*	*-*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*-*	*36*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*36*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*-*	*-*	*1*	*-*	*196*	*-*	*-*
- Short positions	*241*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

Currency of denomination: Hungarian forint

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**319**	**91**	**299**	**644**	**186**	**479**	**279**	**321**	**152**	**-**
A.1 Government bonds	-	18	5	50	107	1	18	1	2	-
A.2 Other debt securities	-	-	286	454	-	-	-	-	-	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	319	73	8	140	79	478	261	320	150	-
- Banks	*55*	*65*	*-*	*118*	*-*	*-*	*-*	*-*	*-*	-
- Customers	*264*	*8*	*8*	*22*	*79*	*478*	*261*	*320*	*150*	-
Cash liabilities	**1,357**	**211**	**75**	**266**	**248**	**147**	**145**	**410**	**466**	**-**
B.1 Deposits and current accounts	1,357	211	75	266	248	120	131	253	466	-
- Banks	*7*	*4*	*-*	*-*	*4*	*7*	*44*	*59*	*41*	-
- Customers	*1,350*	*207*	*75*	*266*	*244*	*113*	*87*	*194*	*425*	-
B.2 Debt securities	-	-	-	-	-	27	14	157	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*137*	*141*	*204*	*505*	*28*	*6*	*-*	*-*	*-*
- Short positions	*-*	*104*	*71*	*12*	*129*	*19*	*14*	*-*	*-*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*-*	*3*	*-*	*-*	*81*	*77*	*61*	*232*	*-*	*-*
- Short positions	*-*	*3*	*-*	*-*	*81*	*77*	*61*	*232*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*26*	*9*	*62*	*36*	*1*	*-*	*-*
- Short positions	*134*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Swiss franc

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**182**	**30**	**17**	**90**	**84**	**72**	**127**	**585**	**1,222**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	3	53	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	182	30	17	90	84	72	127	582	1,169	-
- Banks	*24*	*21*	*11*	*21*	*-*	*4*	*-*	*-*	*-*	-
- Customers	*158*	*9*	*6*	*69*	*84*	*68*	*127*	*582*	*1,169*	-
Cash liabilities	**195**	**30**	**2**	**18**	**189**	**29**	**48**	**124**	**211**	**-**
B.1 Deposits and current accounts	187	30	2	18	136	29	48	116	211	-
- Banks	*29*	*2*	*-*	*6*	*115*	*8*	*13*	*105*	*211*	-
- Customers	*158*	*28*	*2*	*12*	*21*	*21*	*35*	*11*	*-*	-
B.2 Debt securities	-	-	-	-	53	-	-	8	-	-
B.3 Other liabilities	8	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*124*	*108*	*33*	*710*	*65*	*279*	*418*	*-*	*-*
- Short positions	*-*	*228*	*224*	*353*	*1,074*	*231*	*327*	*599*	*237*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*25*	*-*	*-*	*-*	*126*	*-*	*-*	*-*	*-*	*-*
- Short positions	*13*	*1*	*1*	*2*	*-*	*-*	*-*	*-*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*-*	*2*	*-*	*-*	*18*	*5*	*-*
- Short positions	*35*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	1	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**1,793**	**722**	**640**	**816**	**2,301**	**1,710**	**1,484**	**3,238**	**971**	**813**
A.1 Government bonds	6	79	14	260	1,206	868	448	715	237	-
A.2 Other debt securities	1	-	-	1	22	37	22	56	53	-
A.3 Quotas of UCI	66	-	-	-	-	-	-	-	-	-
A.4 Loans	1,720	643	626	555	1,073	805	1,014	2,467	681	813
- Banks	*659*	*464*	*499*	*27*	*390*	*4*	*1*	*172*	*-*	*813*
- Customers	*1,061*	*179*	*127*	*528*	*683*	*801*	*1,013*	*2,295*	*681*	*-*
Cash liabilities	**4,026**	**689**	**232**	**267**	**808**	**698**	**811**	**2,351**	**441**	**-**
B.1 Deposits and current accounts	3,992	683	208	255	743	549	621	470	64	-
- Banks	*221*	*31*	*36*	*7*	*56*	*10*	*15*	*84*	*34*	*-*
- Customers	*3,771*	*652*	*172*	*248*	*687*	*539*	*606*	*386*	*30*	*-*
B.2 Debt securities	5	6	5	12	65	145	190	1,839	184	-
B.3 Other liabilities	29	-	19	-	-	4	-	42	193	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*21*	*1,071*	*785*	*786*	*1,305*	*950*	*1,292*	*3,923*	*227*	*1*
- Short positions	*32*	*1,465*	*1,249*	*1,157*	*1,940*	*868*	*1,135*	*2,306*	*125*	*1*
C.2 Financial derivatives without exchange of capital										
- Long positions	*163*	*21*	*20*	*-*	*7*	*54*	*16*	*44*	*-*	*-*
- Short positions	*177*	*-*	*-*	*2*	*7*	*37*	*27*	*44*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*2*	*48*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*50*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*38*	*17*	*31*	*24*	*95*	*78*	*121*	*156*	*487*	*-*
- Short positions	*1,086*	*70*	*1*	*1*	*8*	*25*	*38*	*53*	*7*	*-*
C.5 Financial guarantees given	-	3	1	2	4	29	12	26	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.8 Credit derivatives without exchange of capital										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*

2. Disclosure on encumbered assets recognised in the financial statements

(millions of euro)

	Encumbered		Unencumbered		31.12.2013
	Book value	Fair value	Book value	Fair value	Total Book value
1. Cash and cash equivalents	-	X	6,525	X	6,525
2. Debt securities	27,320	25,606	64,090	62,338	91,410
3. Equities	34	34	5,043	5,043	5,077
4. Loans	60,670	X	294,900	X	355,570
5. Other financial assets	1	X	40,125	X	40,126
6. Non-financial assets	95	X	39,019	X	39,114
TOTAL 31.12.2013	**88,120**	**25,640**	**449,702**	**67,381**	**537,822**

Intragroup deposits of 3,604 million euro, established to serve securities lending with subjects outside the Group, were netted.

3. Disclosure on encumbered owned assets recognised in the financial statements

(millions of euro)

	Encumbered	Unencumbered	31.12.2013
1. Other financial assets	17,861	51,844	69,705
- Securities	*17,861*	*51,645*	*69,506*
- Other	-	*199*	*199*
2. Non-financial assets	-	-	-
TOTAL 31.12.2013	**17,861**	**51,844**	**69,705**

The guarantees provided in connection with the refinancing operations at the European Central Bank amount to 26.6 billion euro for the owned assets recorded and to 2.5 billion euro for the assets not recognised in the financial statements.

4. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
With regard to the self-securitisations undertaken with the vehicles Sanvitale 1 and Sanvitale 2, it is specified that, compared to the situation highlighted in the 2012 financial statements, the transactions were terminated, with retrocession of the loans and settlement of the swap in March 2013 and January 2013, respectively.
A brief description of the existing transactions as at 31 December 2013 is provided below.

Adriano Lease SEC S.r.l.

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

- a senior series, with a nominal value of 2.8 billion euro, listed and assigned an A+ rating by Standard & Poor's and AAA by DBRS. The security amortisation period started on July 2013; as at 31 December 2013 its residual book value was 947 million euro;
- a junior series, with a nominal value of 3 billion euro, unlisted and unrated.

All of these notes were purchased by the subsidiary Leasint. In 2013, the senior notes were used to undertake refinancing transactions with the European Central Bank through the Parent Company, Intesa Sanpaolo.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxemburg-based vehicle company Intesa Sanpaolo SEC. SA., which is wholly owned and is part of the Group.
The securities issued, totalling about 318 million euro, were subscribed by Intesa Sanpaolo and used for about 302 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.
The table below shows the characteristics of the securities issued by the vehicles and subscribed by the Group companies.

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2013
Adriano Lease SEC S.r.l.					**3,991**
		Senior	Loans deriving from leasing contracts	A+	947
		Junior	Loans deriving from leasing contracts	no rating	3,044
Intesa Sanpaolo SEC SA					**318**
of wich issued in euro					291
	Secured Principal Notes	Senior	Loans to large corporate foreign customers	no rating	276
	Secured Income Notes	Junior	Loans to large corporate foreign customers	no rating	15
of wich issued in usd					27
	Secured Principal Notes	Senior	Loans to large corporate foreign customers	no rating	26
	Secured Income Notes	Junior	Loans to large corporate foreign customers	no rating	1
TOTAL					**4,309**

INFORMATION ON SOVEREIGN RISK

As at 31 December 2013 the Intesa Sanpaolo Group's sovereign debt exposure was represented by debt securities for 120 billion euro (of which 45 billion euro in securities held in Group insurance companies' portfolios) and by other loans for 22 billion euro. Among these, the exposure to Italian government securities totalled approximately 103 billion euro, in addition to around 20 billion euro represented by loans. The exposure figure increased by approximately 13 billion euro compared to that recorded as at 31 December 2012.

The following table illustrates the book value of the aforementioned Intesa Sanpaolo Group exposures to sovereign risk.

(millions of euro)

	DEBT SECURITIES							LOANS
	Banking Group					Insurance companies (*)	Total	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading			
EU Countries	**7,766**	**50,152**	**1,531**	**612**	**9,372**	**44,343**	**113,776**	**21,917**
Austria	-	4	3	-	15	16	38	-
Belgium	-	63	-	-	38	19	120	-
Bulgaria	-	-	-	-	-	-	-	-
Cyprus	9	-	-	-	-	-	9	-
Croatia	194	-	28	565	11	-	798	1,070
Czech Republic	-	26	-	-	1	-	27	25
Denmark	-	-	-	-	-	-	-	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	-	-	-	37	8	45	12
France	109	3	-	-	418	111	641	17
Germany	39	119	-	-	488	1,964	2,610	-
Greece	-	-	-	-	34	-	34	-
Hungary	28	943	19	-	33	6	1,029	225
Ireland	-	-	-	-	-	81	81	-
Italy	6,896	47,215	414	47	6,973	41,808	103,353	19,692
Latvia	-	-	-	-	-	-	-	57
Lithuania	-	20	-	-	-	-	20	-
Luxembourg	50	55	-	-	298	102	505	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	34	-	-	151	69	254	-
Poland	25	-	-	-	37	-	62	-
Portugal	-	-	-	-	16	21	37	15
Romania	10	143	-	-	2	-	155	15
Slovakia	-	1,375	1,067	-	29	-	2,471	120
Slovenia	-	152	-	-	-	-	152	180
Spain	406	-	-	-	526	116	1,048	489
Sweden	-	-	-	-	212	22	234	-
United Kingdom	-	-	-	-	53	-	53	-
North African Countries	**-**	**1,119**	**-**	**-**	**50**	**-**	**1,169**	**27**
Algeria	-	-	-	-	-	-	-	27
Egypt	-	1,119	-	-	50	-	1,169	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**136**	**-**	**136**	**-**
Other Countries	**1,631**	**1,567**	**249**	**5**	**606**	**1,107**	**5,165**	**216**
TOTAL	**9,397**	**52,838**	**1,780**	**617**	**10,164**	**45,450**	**120,246**	**22,160**

(*) Debt securities held by insurance companies are recognised as follows: 44.749 million euro in the available-for-sale portfolio, 505 million euro in the portfolio of assets designated at fair value through profit and loss and 196 million euro in the trading portfolio.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

Qualitative information

In 2013 there was a substantial decline in the portfolio on risk positions classified as part of the loan portfolio. As regards the trading book, the increase in exposure during the year is largely attributable to the purchase of ABSs by the subsidiary Banca IMI.
2013 yielded a positive contribution to profit of 67 million euro, of which 33 million euro deriving from realised profits and 34 million euro from revaluation, down compared to 96 million euro as at 31 December 2012.

The risk exposure to structured credit products amounted to 2,033 million euro as at 31 December 2013 with respect to funded and unfunded ABSs/CDOs, compared to 2,247 million euro as at 31 December 2012, in addition to an exposure of 26 million euro with respect to structured packages (this position was 3 million euro as at 31 December 2012).
The reduction in the exposure during 2013 was, in relation to financial assets held for trading, associated with the termination of two CDO funded structures included within the "Contagion Area" with a TruPS risk exposure of 54 million euro and of two unfunded Super Senior CDO positions recorded under “Other structured credit products” for 83 million euro. These decreases, however, were largely offset by the increase in risk exposure in European/US ABSs/CDOs held by Banca IMI.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a significant decrease was recorded, almost all of which attributable to the Parent Company loan portfolio and for the most part due to sales. Sales on the market were also carried out by Banca Fideuram, which reduced its position in structured credit products to zero.
Lastly, with regard to exposure in packages, the figure of 26 million euro recorded as at 31 December 2013 was entirely due to a substantial improvement in the creditworthiness of the counterparty which led to a positive fair value of the credit derivative.

In the summary tables provided below, table (a) sets out risk exposure and income statement captions (sum of realised charges and profits, write-downs and write-backs) as at 31 December 2013, compared with the corresponding values recorded as at 31 December 2012.
Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged.
Values expressed in USD as at 31 December 2012 were translated to euro at an exchange rate of 1.3194 euro per dollar, and as at 31 December 2013 at an exchange rate of 1.3791 euro per dollar.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABSs/CDOs

(millions of euro)

Financial assets held for trading	31.12.2013		31.12.2012	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading
US subprime exposure	**1**	**-9**	**9**	**-3**
Contagion area	**-20**	**8**	**33**	**65**
- Multisector CDOs (1)	-20	8	-21	18
- Alt-A	-	-	-	-
- TruPS	-	-	54	47
- Prime CMOs	-	-	-	-
Other structured credit products	**1,087**	**38**	**844**	**44**
- European/US ABSs/CDOs	1,043	17	716	31
- Unfunded super senior CDOs	44	21	128	16
- Other unfunded positions	-	-	-	-3
Total	**1,068**	**37**	**886**	**106**
in addition to:				
Positions of funds	-	-	-	11
Total Financial assets held for trading	**1,068**	**37**	**886**	**117**

Loans	31.12.2013		31.12.2012	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement**
US subprime exposure	**2**	**-**	**3**	**-**
Contagion area	**27**	**3**	**43**	**1**
- Multisector CDOs	-	3	8	1
- Alt-A	19	-	23	-
- TruPS	-	-	-	-
- Prime CMOs	8	-	12	-
Other structured credit products	**936**	**-13**	**1,315**	**-1**
- Funded European/US ABSs/CDOs	789	-18	1,017	-8
- Funded super senior CDOs	147	5	298	7
- Other Romulus funded securities	-	-	-	-
Total	**965**	**-10**	**1,361**	**-**
in addition to:				
Positions of funds	-	-	-	-
Total Loans	**965**	**-10**	**1,361**	**-**
TOTAL	**2,033**	**27**	**2,247**	**117**

(1) The short position of the Multisector CDO segment was generated as a result of the closing of almost all the risk positions which had been included from the beginning, and the maintenance of derivatives on indices for the operational hedging of said positions. More specifically, these comprise 7 million euro in risk exposure hedged by 27 million euro in "short" operational positions.

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

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

b) Exposure in packages

(millions of euro)

	31.12.2013		31.12.2012	
	Credit exposure to monoline insurers (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading	**Credit exposure to monoline insurers** (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading
Monoline risk	25	40	-	-21
Non monoline packages	1	-	3	-
TOTAL	**26**	**40**	**3**	**-21**

From an income statement perspective, structured credit products generated a net income of 67 million euro as at 31 December 2013 compared to 96 million euro for 2012.
The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of 37 million euro. The profit on this segment was a result of the effects of:

– unfunded Super Senior CDO positions included in "Other structured credit products" for +21 million euro, of which 18 million euro deriving from termination of the two structures mentioned previously and 3 million euro from revaluation of outstanding positions;
– European and US funded ABSs/CDOs (+17 million euro), entirely attributable to the subsidiary Banca IMI and including 8 million euro attributable to profits realised on the partial disposal of the trading book and +9 million from revaluation of outstanding positions;
– instruments included in the "Contagion Area" (+8 million euro) and particularly in the Multisector CDO segment.
– the contribution of the subprime exposure for -9 million euro, of which -1 million euro attributable to losses realised on the sale of several structures and -8 million euro due to the further impairment of unfunded structures in the portfolio, which were valued as irrecoverable.

The securities reclassified to the loan portfolio had a negative impact of 10 million euro on the income statement as at 31 December 2013. This result is the combination of the 8 million euro in profits realised on the sale of positions (of which -4 million attributable to the sale of securities held by Fideuram) and -18 million euro in impairment losses on securities included in the portfolio.
As at 31 December 2013 the loan portfolio contained ABSs issued by parties resident in EU countries in situations of financial difficulty (known as "PIGS"). In particular, these consist of:

– 151 million euro in nominal value of securities issued by parties resident in Spain; as at 31 December 2013 these securities had a book value of 136 million euro and a fair value of 119 million euro;
– 83 million euro in nominal value of securities issued by parties resident in Portugal; as at 31 December 2013 these securities had a book value of 79 million euro and a fair value of 70 million euro;
– 4 million euro in nominal value of securities issued by parties resident in Greece; as at 31 December 2013 these securities had a book value of 4 million euro and a fair value of 3 million euro;
– 3 million euro in nominal value of securities issued by parties resident in Ireland; as at 31 December13 these securities had a book value of 2 million euro and a fair value of 1 million euro.

The "Monoline risk" and "Non-monoline packages" made a positive contribution of 40 million euro to "Profits (Losses) on trading – caption 80" as at 31 December 2013, up strongly on the -21 million euro recorded at the end of 2012. The segment trend reflects the spread volatility for the counterparty on which this exposure is concentrated.

It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.
As at 31 December 2013, the aggregate included bonds reclassified as loans, which are summarised in the tables below.

(millions of euro)

	Nominal value	Risk exposure (*) (including write-downs and write-backs)	Fair value as at 31.12.2013	Benefit from the reclassification as at 31.12.2013	Effect on Shareholders' Equity
Reclassified securities:					
- from financial assets available for sale to loans	131	115	80	-	35
- from financial assets held for trading to loans	728	669	589	80	-
Total Securities reclassified to loans	**859**	**784**	**669**	**80**	**35**
Securities classified under loans from inception	185	181			
Total securities classified under loans from inception	**185**	**181**			
TOTAL LOANS	**1,044**	**965**	**669**	**80**	**35**

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

(millions of euro)

Negative economic effect without reclassification for 2008	-299
Negative economic effect without reclassification for 2009	-7
Positive economic effect without reclassification for 2010	117
Negative economic effect without reclassification for 2011	-25
Positive economic effect without reclassification for 2012	67
Positive economic effect without reclassification for 2013	67
BENEFIT FROM THE RECLASSIFICATION AS AT 31.12.2012	**-80**

In addition to the structured credits identified during the subprime crisis, the Group continues to invest in this type of security as part of its normal customer lending operations. In particular, securities were recorded in the loan portfolio of the conduit Duomo for a nominal value of 1,237 million euro, with underlyings originated in recent years, but not impacted by the 2007 crisis. As at 31 December 2013, there were no signs of impairment of the collateral of the structured products in question.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

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

– to raise funds on the market by issuing specific financial instruments;
– to acquire, sell, manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets and for acquiring funding through self-securitisations and issues of Covered Bonds (CB);
– to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
– to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt;

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

Funding SPEs

These are entities incorporated abroad to raise funds on specific markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company. The change in Italian law which enables the Parent Company Intesa Sanpaolo to directly issue hybrid notes eliminated the funding activities carried out through these methods. For this reason, the total of this type of funding made up a marginal amount of total direct customer deposits.
The only SPE of this type which falls within the scope of the Group's consolidated financial statements pursuant to IAS 27 is Intesa Funding LLC, with headquarters in the USA. This is a subsidiary which issues commercial paper on the US market.
The table below shows the information and figures for the vehicle as at 31 December 2013.

(millions of euro)

		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA FUNDING LLC	Funding	300	-	-	-	(1)	300	300			

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of this vehicle are almost entirely made up of intragroup items. The funding of this vehicle increased compared to the previous year (48 million euro as at 31 December 2012) as a result of the improved market conditions and despite the difficulties in acquiring funding on the US market due to an unsuitable rating.

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of the Group's insurance companies, which retain the majority of the risks and rewards; SPEs for insurance products are consolidated pursuant to IAS 27 / SIC 12.
In the Group there are 67 entities of this type with total net assets of approximately 15.8 billion euro (of which 6.4 billion euro relative to funds that report to Fideuram Gestions).
As at 31 December 2013, the assets of the funds in which Intesa Sanpaolo Vita/Intesa Sanpaolo Life hold the majority of the units outstanding are invested in bonds and liquidity for around 49% (except for the SPLux Sicav 2 Equity 100 fund, which has invested around 99% of the portfolio in equity funds and shares) and, for the remainder, in equity and bond mutual funds (around 31%), in corporate bonds (around 7%), and in shares and equity mutual funds (around 13%). In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.
The total assets of these SPEs made up around 2.5% of the Group's total consolidated assets.

Securitisation SPEs

These are SPEs that enable an entity to transfer assets from its balance sheet assets, transforming them in securities which can be placed on the market. This category includes structures used for raising funds through securitisations of a portion of assets owned by the transferor. In particular, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market (traditional securitisations) or purchased in full by the transferor (self-securitisations). In the first case, the funds raised in this way are reversed to the transferor, whereas the commitments to the subscribers are met using the cash funds generated by the loans sold. In the second case the securities issued by the vehicle are used by the Group company that subscribes them as collateral for raising funds.
This category also includes SPEs used by the Intesa Sanpaolo Group to implement the covered bond issue programme.
SPEs of this type that were part of the scope of consolidation as at 31 December 2013 pursuant to IAS 27 or SIC 12, were: Intesa SEC S.p.A., Intesa SEC 3 S.r.l., Intesa SEC NPL S.p.A., ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l., ISP OBG S.r.l., Adriano Lease SEC S.r.l., Intesa Sanpaolo Sec S.A. and Trade Receivable Investment Vehicle S.a.r.l.. Adriano Finance 2 S.r.l. is included in the scope of consolidation but at present is on stand-by.
Compared to the information provided in the 2012 financial statements, please note that in August 2013 the vehicle Intesa Sanpaolo Sec S.A. was created with the aim of implementing a self-securitisation of loans. In addition, the vehicles Intesa SEC 2 S.r.l. and Adriano Finance S.r.l. were merged by incorporation into Intesa Sanpaolo.
These are companies incorporated under Italian law, except for Trade Receivable Investment Vehicle and Intesa Sanpaolo Sec S.A. which are set up in Luxembourg. The securitised assets of this type of vehicle are represented by performing mortgages. The following vehicles represent an exception:

– Intesa SEC NPL S.p.A., whose securitised assets consist of doubtful mortgages;
– Intesa Sanpaolo Sec S.A. whose assets are represented by loans issued to large international corporate customers by some international branches of Intesa Sanpaolo;
– Adriano Lease SEC S.r.l., whose securitised assets consist of performing loans deriving from lease contracts;
– Trade Receivable Investment Vehicle S.a.r.l., whose securitised assets are represented by trade receivables originated by

primary customers and purchased by the Intesa Sanpaolo Group without recourse to be subsequently securitised through the issue of unrated securities.

The vehicle's remaining cash commitments are in addition to the above assets.

The vehicles Adriano Lease SEC S.r.l. and Intesa Sanpaolo Sec S.A. are used to implement self-securitisations. For more details on this type of transaction, see section 1.3 – Liquidity risk – in Part E of the Notes to the consolidated financial statements.

In the case of ISP CB Pubblico S.r.l., ISP CB Ipotecario S.r.l. and ISP OBG S.r.l., the sale of the assets to the vehicle is aimed at implementing covered bond issue programmes. Additional details on the operations of these vehicles are provided in Section C of Part E of the Notes to the consolidated financial statements.

The securities held by Intesa Sanpaolo and by Group companies have been measured according to the provisions for the specific IAS/IFRS category for each security, as indicated in the table below, which shows the information and figures for these vehicles as at 31 December 2013.

(millions of euro)

	Type of asset	Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	book value	amount	IAS classification	Valuation
INTESA SEC SPA [1]	Performing mortgages	3	1	-	-	-	-	2	-		
INTESA SEC 3 SRL [2]	Performing mortgages	1,030	10	-	-	-	-	822	109	AFS - HFT - Loans	Fair value - amortised cost
INTESA SEC NPL SPA [3]	Non-performing loans	26	-	-	-	-	-	155	13	AFS - Loans	Fair value - amortised cost
Adriano Lease SEC S.r.l.	Performing leasing contracts	4,140	-	-	-	-	-	3,991	-		
ISP CB IPOTECARIO S.r.l. [4]	Residential mortgages	17,601	35	18,905	16,344	-	-	-	-		
ISP CB PUBBLICO S.r.l. [4]	Loans to the public sector	13,600	-	15,817	13,062	-	-	-	-		
ISP OBG S.r.l. [4]	Multioriginator performing mortgages	24,027	58	25,580	23,773	-	-	-	-		
CR Firenze Mutui S.r.l.	Performing mortgages	64	-	-	-	-	-	54	5	HFT-Loans	Fair value - amortised cost
Intesa Sanpaolo Sec S.A.	Loans issued to large international corporate customers	321	-	-	-	-	-	316	-		
Trade Receivable Investment Vehicle S.a.r.l.	Trade receivables	85	-	-	-	-	-	82	39	HFT	Fair value

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

(2) ISP granted a limited recourse subordinated loan of 45 million euro used by the vehicle to set up the cash reserve which makes up the credit enhancement of the operation required by the rating agencies. The loan was increased by 23 million euro in November 2013. Swap contracts signed with ISP are in place as interest rate risk hedge.

(3) ISP granted a guarantee and indemnity contract currently used for approximately 0.9 million euro, in case of representations or guarantees which lead to a reduction in loan value. The bank is also committed to support the vehicle through limited recourse subordinated loan, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. The subordinated loan was granted for approximately 3.1 million euro. The indemnity does not cover security-related costs and securitisation operating costs. Cumulated losses shall be absorbed by tranches E (equity) and D held by ISP whose value was adjusted both in the current and in previous years. An Interest Rate Cap contract and an Interest Rate Floor contract are in place as interest rate risk hedge.

(4) These vehicles were set up pursuant to art. 7-bis of Italian Law 130/99. Therefore they do not issue securities, but guarantees to holders of securities (Covered Bonds) issued by ISP. The vehicle ISP OBG S.r.l. is used for a multioriginator CB issue programme.

The IAS/IFRS rules on first time adoption (IFRS 1) and the derecognition of financial assets and liabilities have been applied in full to the securitisations and self-securitisations.

Furthermore, pursuant to SIC 12, Intesa Sanpaolo controlled:

– Romulus Funding Corporation, a company based in the USA with the mission of purchasing financial assets, consisting of loans or securities with predefined eligibility criteria originating from Group customers, and financing purchases by issuing Asset-Backed Commercial Papers;
– Duomo Funding Plc., an entity that operates in a similar manner to Romulus Funding Corporation, but is limited to the European market, and is financed through funding agreements with Romulus.

The assets originated by customers have been placed in the vehicle Duomo, leaving Romulus activity of fund-raising on the U.S. market. Nonetheless, due to an unsuitable rating, the vehicle had difficulties in obtaining funding on the US market through commercial papers. As at 31 December 2013, 2.1 billion euro of the around 2.6 billion euro in securities issued by Romulus had been repurchased by the Parent Company Intesa Sanpaolo.

The table below shows the information and figures for the above two vehicles as at 31 December 2013.

(millions of euro)

		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	Asset-backed commercial paper conduit	2,650 [1]		-	-		-	2,649	2,118	Loans	Amortised cost
DUOMO FUNDING CORP.	Asset-backed commercial paper conduit	2,665	-	2,102 [2]	-		-	-			

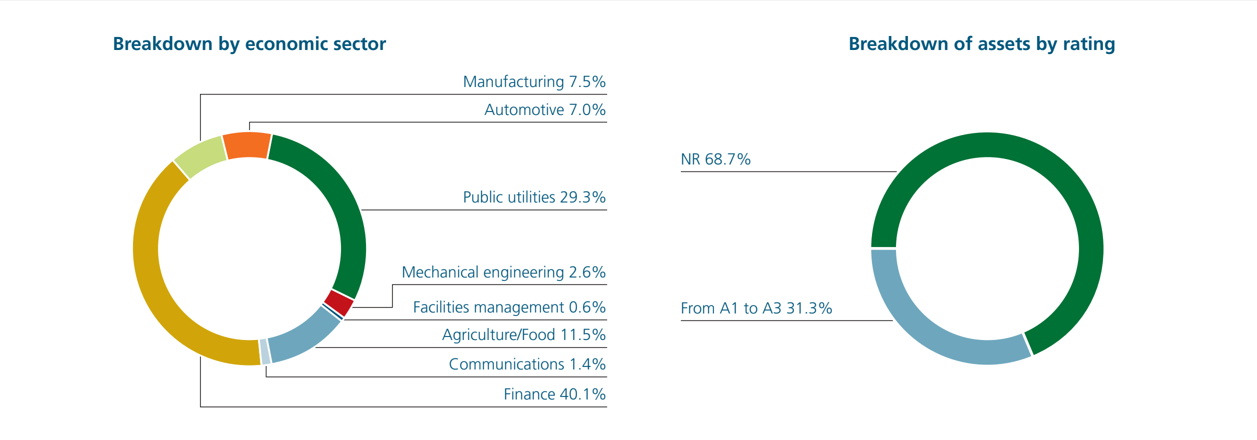
(1) Entirely made up of loans disbursed to Duomo for transactions booked in the financial statements of the vehicle.
(2) of which 833 million euro referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

The total assets of the vehicle Romulus include receivables from Duomo for 2,650 million euro.

With regard to the portfolio of the vehicle Duomo, at the end of 2013 – in addition to receivables from Group banks for 1,154 million euro – this portfolio includes loans to customers for 1,467 million euro. Of these, 1,237 million euro consisted of structured credit products subscribed in the context of normal customer lending activity, the collateral for which had not shown any sign of impairment as at 31 December 2013. In portfolio, the vehicle also holds quotas of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 44 million euro as at 31 December 2013.

The total assets of the above SPEs, net of dealings between the two vehicles, made up 0.4% of the total consolidated assets.

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



With reference to the geographical distribution of the assets held by the two vehicles, please note that more than 97% of the debtors of the total assets are located in Italy.
Please note that the uses in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were of sufficient quality for the commercial papers issued by Romulus to maintain the A-2/P-2 ratings.

Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the Da Vinci vehicle as part of a synthetic securitisation operation to hedge and actively manage risk exposure in the aircraft and aeronautic sector.
As at 31 December 2013, the Group's exposure to vehicle Da Vinci amounted to 1 million euro in nominal value, entirely represented by securities, classified as available for sale. Their book value at the end of 2013 amounted to 1 million euro. Their fair value adjustment was recorded with an offsetting entry in the Shareholders' equity valuation reserves.

Financial Engineering SPEs
These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions, through their special structures aimed at optimising accounting, tax and/or regulatory aspects. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.
Lunar Funding, a vehicle set up in Ireland and used for repackaging operations by a leading bank, is still included in the scope of consolidation.

Project Financing SPEs
These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.
Such vehicles are established by sponsor "entrepreneurs", mostly abroad in order to benefit from operating and legal/bureaucratic efficiency.
The Intesa Sanpaolo Group has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since Group companies do not hold any stake or interest in the venture capital of these companies and no presumed control assumptions apply. Where there are guarantees represented by pledges of shares of the SPE, contractual terms exclude the possibility of exercise of voting rights by the Bank.

Asset Backed SPEs
These are transactions aimed at acquisition / construction / management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate disposal plan). Generally the assets are also the collateral for the financing obtained from the vehicle.

The Intesa Sanpaolo Group has financed entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk accepted is always a normal credit risk and the benefits are represented by the return on the financing granted.
The Group consolidates only those entities in which it holds the majority of voting rights. Only one entity is this type of SPE (with total assets of around 10 million euro as at 31 December 2013), whose capital is held by an international subsidiary.

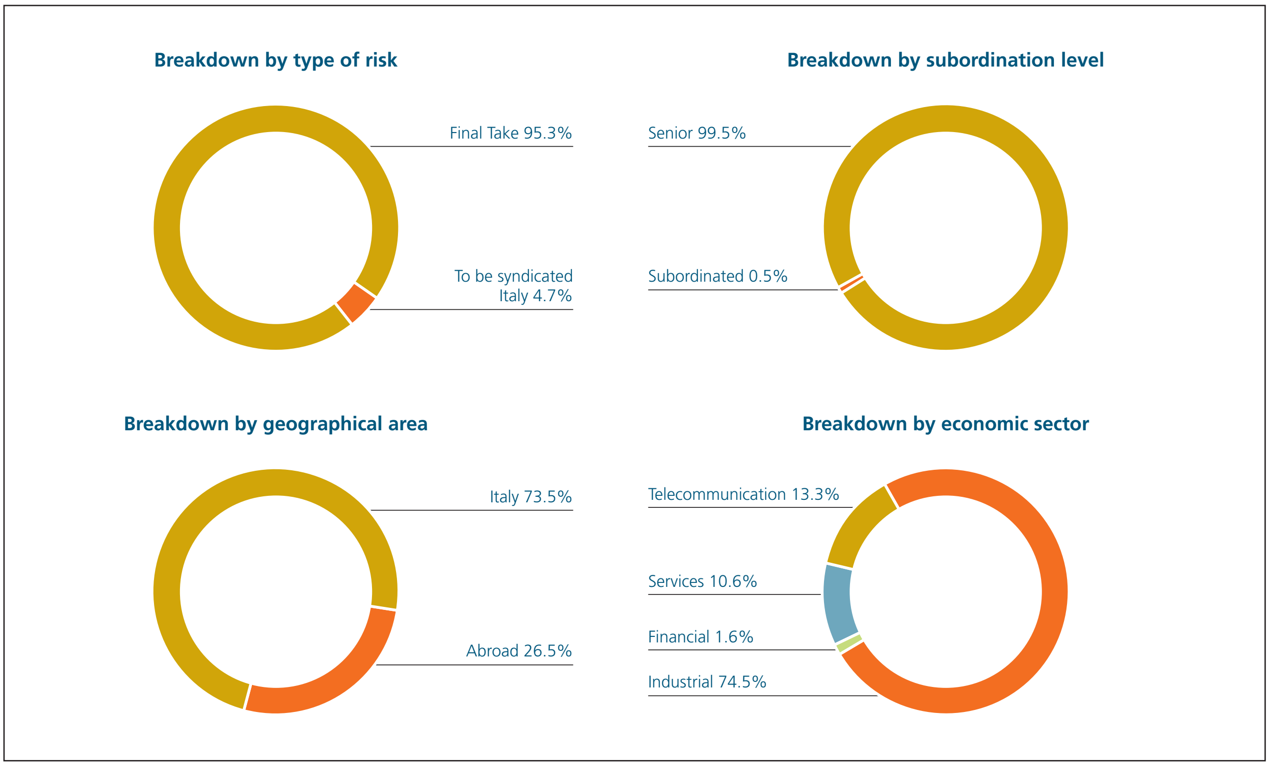
Leveraged & Acquisition Finance SPEs
For the description of the transactions which involve these vehicles see the specific section dedicated to Leveraged Finance transactions.

Credit Derivatives SPEs

Credit derivatives are contracts which permit the synthetic transfer of credit risk of a specific borrower from the protection buyer to the protection seller. Especially in structures connected to synthetic securitisations, it is possible to achieve the transfer of credit risk of a portfolio of assets from a SPE to the Bank, both by a credit derivative protection sold or by the purchase of securities with embedded credit derivatives. In certain cases (e.g. monoline) the SPE is protection seller and offers the Bank the possibility of hedging risk on portfolios of assets.
There are no equity investments or other interests which might lead to the role of sponsor.
None of these SPEs is consolidated, since there are never any equity investments or forms of indirect control by the Bank. The relations with the parties are fundamentally based on the stipulation of derivative contracts or the acquisition of securities with embedded credit derivatives. This never leads to the transfer to the Bank of most of the risks and rewards deriving from the activities of the vehicle.

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2013, 120 transactions for a total amount granted of 3,637 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio as at 31 December 2013 totalled 744 million euro, compared to the 696 million euro recorded at the end of 2012. The increase in the value of the portfolio is attributable to the capital gains deriving from outstanding positions at the end of 2013, in addition to several increases of units, only partially offset by the effect of the change in the exchange rate on positions denominated in U.S. dollars.

As at the same date, the contribution to "Profits (Losses) on trading – caption 80" of these investments was positive at +70 million euro. Of these net profits:

– 8 million euro related to trading of funds for the year;
– 65 million euro consisting of net valuations of positions outstanding at year end;
– -3 million of losses on foreign exchange transactions.

Taking into account the net capital gains on the final residual amount (65 million euro), these were spread across 34 positions, 26 of which recording capital gains (69 million euro) and 8 capital losses (-4 million euro).

During 2013, the portfolio's overall strategy remained in line with the one pursued in 2012, i.e. geared towards benefiting from the occurrence of specific corporate events, which are generally independent from the general trend, and thus avoid spikes in volatility. However, the year just ended, and in particular the fourth quarter of 2013, benefited from a combination of positive factors generated on the markets, such as the easing of the strains on the sovereign debt of peripheral EU countries, the real improvement of the global economic conditions and the accommodating policy by the ECB and the FED. In the year, these phenomena triggered a substantial recovery in the indexes of the main world markets and the credit, which in turn positively affected the performance of the funds in the portfolio.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

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

- Banca dei Territori Division, for the sale of derivative products to retail and corporate customers with consolidated turnover under 350 million euro, through the branch network of Intesa Sanpaolo and of the Group's Italian banks. Derivatives sold by the network are hedged back to back with a swap house which, in most cases, is Banca IMI;
- Corporate Division, for the sale of derivative products to corporate customers with consolidated turnover over 150 million euro, through the branch network of Intesa Sanpaolo and the Group's Italian banks, and to public entities, through the Public Finance and Infrastructure Department. Derivatives sold by the network are hedged back to back with Banca IMI.

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

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

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

Considering only relations with customers, as at 31 December 2013, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, not having applied netting agreements, of 5,542 million euro (7,314 million euro as at 31 December 2012). The notional value of such derivatives totalled 54,087 million euro (55,865 million euro as at 31 December 2012). Of these, the notional value of plain vanilla contracts was 51,817 million euro (50,168 million euro as at 31 December 2012), and of structured contracts was 4,475 million euro (5,697 million euro as at 31 December 2012).

Please note that the positive fair value of structured contracts outstanding with the 10 customers with the highest exposures was 363 million euro (516 million euro as at 31 December 2012). The same indicator, referred to the total contracts with a positive fair value, was 3,610 million euro.

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 606 million euro as at 31 December 2013 (1,054 million euro as at 31 December 2012).

The notional value of such derivatives totalled 17,627 million euro (15,701 million euro as at 31 December 2012). Of these, the notional value of plain vanilla contracts was 17,787 million euro (13,743 million euro as at 31 December 2012), and of structured contracts was 1,030 million euro (1,958 million euro as at 31 December 2012).

The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 31 December 2013, this led to a positive effect of 7 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the means of calculation of the aforesaid bilateral Credit Value Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see Part A.4 of the Notes to the consolidated financial statements - Information on fair value.

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