1.1 CREDIT RISK

QUALITATIVE INFORMATION

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

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

Credit risk management policies

Organisation

Within the Intesa Sanpaolo Group, a fundamental role in managing and controlling credit risk is played by the corporate bodies, which, to the extent of its each competence, ensure adequate coverage of credit risk by setting strategic guidelines and risk management policies, verifying that they remain constantly efficient and effective and assigning tasks and responsibilities to the company functions and units involved in the processes.
The coverage and governance of credit ensured by the corporate bodies is reflected in the current organisational structure, which identifies areas of central responsibility attributable to:
- the Chief Lending Officer;
- the Chief Risk Officer; and
- the Chief Financial Officer.

They ensure that risk control activities are managed and implemented, with an appropriate level of segregation.
The Chief Lending Officer assesses the creditworthiness of the loan applications received and, where competent, approves them or issues a compliance opinion. The chief Lending Officer manages and monitors non-performing loans, sets the Credit Granting and Management Rules, ensures that positions classified as non-performing, within his purview, are properly measured for financial statement purposes, and also defines operating credit processes, in collaboration with the subsidiary Intesa Sanpaolo Group Services, on some occasions at the proposal of the Group's various functions/structures.
The Chief Risk Officer is responsible for adapting the Risk Appetite Framework to the management of credit risk, in accordance with company strategies and objectives, as well as for measuring and controlling the Group's risk exposures. The Officer defines the metrics used to measure credit risk, provides risk-adjusted pricing models and guidelines for expected loss, economic capital (ECAP), RWA and acceptance thresholds, formulates proposals for assigning Credit Granting and Managing Powers, implements credit controls, including rating controls, constantly monitors risk and credit quality performance and ensures the consistency of the risk measurements and control systems with the processes and valuations methods of company activities, coordinating with the company structures concerned.
In accordance with the strategic guidelines and risk management policies set by the Management Board and approved by the Supervisory Board, the Chief Financial Officer coordinates the process of formulating credit strategies (a process in which the other chiefs and the business units participate), oversees pricing from a risk/return standpoint according to value creation objectives. The Chief Financial Officer is also responsible for identifying and implementing hedging transactions for the risk exposures of the asset classes in the loan portfolio by taking advantage of the opportunities presented by the secondary credit market with a view towards active management of company value.
In addition, within the framework of the loan assessment process, the Administration and Tax Department, which reports directly to the Managing Director and CEO, is responsible for incorporating the assessments of loan positions formulated, on a collective or individual basis, by the competent departments, as well as for coordinating the process of assessing loans for financial reporting purposes.

Intesa Sanpaolo Group Services provides specialised operating support for loan recovery activity and in defining credit processes while ensuring cost and performance synergies in the service offered.
The levels of autonomy assigned to the decision-making bodies are determined by agreement between the Bank/Banking group regarding the borrower/economic group. The rating assigned, along with any other credit-risk mitigating factors, conditions the determination of the decision-making competence of each delegated body. Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.
In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:
- the system of Credit Powers and Granting and Monitoring Rules governing the ways in which credit risk to customers is assumed;
- "Credit-granting limit", intended as the overall limit of lines of credit which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- the "Compliance opinion" on credit-granting to large customers (single name or Economic Group) which exceeds certain thresholds.

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

Management, measurement and control systems

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

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

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

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

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

– for the Retail SME segment, since the end of 2008 a Group rating model by counterparty has been used, following a scheme similar to that of the Corporate segment, meaning that it is extremely decentralised and its quantitative-objective elements are supplemented by qualitative-subjective elements; in 2011, the service model for the Small Business segment was redefined, by introducing in particular a sub-segmentation of Micro and Core customers according to criteria of size, simplicity, and a partial automation of the granting process. This required an adjustment of the rating model, which was divided into the two above-mentioned sub-segments, taking advantage of the opportunity to update the data sources and historical series used in development;
– for the Retail Mortgage segment (residential mortgages for private individuals), the Group model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data;
– for products aimed at individuals (the Other Retail segment), a new approval model was made available in September 2014 for operational purposes, which is applied to all new disbursements (such as personal loans, credit cards, and credit facilities on current accounts)

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

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

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

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

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

Rating models have been adopted for the counterparties of the International Subsidiary Banks, partly derived from the Parent Company, partly adapted to the local situation which entirely developed by the subsidiaries concerned.

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

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

The rating models (PD and LGD) for the Retail Mortgage segment received authorisation for transition to the IRB approach effective from June 2010 report, while rating models for the SME Retail received authorisation for transition to the IRB approach effective from December 2012 report. The rating models for the Corporate segment received authorisation for the use of the AIRB approach to calculate capital requirements effective from 31 December 2010 reporting date (the FIRB approach had been used since December 2008), while the LGD Corporate models for Leasing and Factoring products received authorisation for transition to the AIRB approach effective from June 2012 report.
For information on the plan to extend the IRB approach to other portfolios, refer to the paragraph concerning the Basel 3 Project.

In 2014 the development of an internal model for determining EAD (Exposure at Default) was launched.

The rating system also includes a risk trend indicator, calculated on a monthly basis. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments when any anomalies arise or persist. The positions to which the synthetic risk index attributes a high risk valuation, which is confirmed over time, are intercepted by the proactive Management Process.
Starting from July 2014 the new Proactive Credit Management process was activated, setting up a specialised dedicated chain in the Regional Governance Centres, the CIB Division and the CLO structures.
The objective is to promptly identify performing positions with early signs of difficulty and immediately implement the most suitable actions to remove the anomalies and restore the relationship of trust. The introduction of proactive management also significantly simplified the processes and statuses of non-performing loans, eliminating the Risks Under Observation and introducing the new status of Restoration.
The entire loan portfolio is also subject to a specific periodic review carried out by the competent central or peripheral structures based on the credit line limits for each counterparty/economic group.
Ratings and mitigating credit factors (guarantees, types of loan products/lending facilities and covenants) play a fundamental role in the loan granting and monitoring process and contribute to setting the Credit Powers and Granting and Monitoring Rules.
The Credit Quality Monitoring Unit oversees the above aspects at the Group level, through specific, extensive control and monitoring activities. The Unit focuses its verifications on the various credit granting and management processes, overseeing the phases of each administrative risk status and verifies the individual exposures and clusters of exposures, assessing the consistency of their classification in the various administrative risk statuses, the adequacy of provisions and of the credit recovery process. In the event that inconsistency is found in the valuations, it takes restoration action, imposing its determinations. It also carries out monitoring and control of the rating assignment and updating processes.
This activity is carried out using risk-based criteria, applying suitable methods and instruments fine-tuned over time and periodically subject to internal auditing, to improve their effectiveness and timeliness in detecting the occurrence of anomalies.
In general, the development of the audit activities includes a preliminary examination of the individual credit processes in order to verify that level I controls are correctly put in place, as well as their regulatory framework and implementation methods.

These activities are implemented with the aid of the information technology tools which are made available to the business units for their respective areas of responsibility. Examples of such tools include the Ermes - Rating Controls application, a tool that allows rating control activities to be managed by computer, and the Credit Monitoring Portal.
The latter receives input from the Credit Control Panel and is the Group's primary source in supporting the monitoring of the loan portfolio in terms of its development over time and for quantitative and qualitative composition as well as for loan-related processes aimed at identifying any areas showing potential critical weaknesses. The information available refers to all Group banks and companies that operate on the target information technology system.
In this context, the peripheral units within the Banca dei Territori and Corporate & Investment Banking Divisions down to the Area level, enjoy access to "information" dashboards that provide an organic, structured report prepared with the aim of:
- providing a structured, navigable overview of the phenomenon under review;
- reducing the time required to search for and process information;
- facilitating the identification of critical areas and defining priority actions;
- supporting the exchange of information between units on a consistent basis.

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

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

Counterparty risk is a particular kind of credit risk associated with OTC derivative contracts that refers to the possibility that a counterparty may default before the contract matures. This risk, which is often referred to as replacement risk, is related to the case in which the market value of a position has become positive and thus, were the counterparty to default, the solvent party would be forced to replace the position on the market, thereby suffering a loss.
Counterparty risk also applies to securities financing transactions (repurchase agreements, securities lending, etc.).

In 2010 a specific project was launched to ensure that the bank has an internal model for measuring counterparty risk, both for operational and regulatory purposes. The organisational functions involved, as described in the Bank's internal regulations, are:
- the Parent Company's Risk Management Department, which is responsible for the counterparty risk measurement system by defining calculation methods, producing and analysing measures of exposure;
- the Level I and Level II control functions that use the measurements produced to monitor the positions assumed;
- the marketing and credit functions that draw on the foregoing measures as part of the granting process to determine the limits of lines of credit.

The project yielded the following results:
- the Bank set up a suitably robust IT, methodological and regulatory infrastructure, in accordance with the use test requirement set out by regulations on internal models;
- the Bank integrated the risk measurement system into decision-making processes and the management of company operations;
- cutting-edge methods were adopted for calculating drawdowns on credit lines;
- the Supervisory Authority validated the Bank's use of the internal model for calculating the capital requirement in the first quarter of 2014. The first report using the internal model (with a view to Basel 3) was made on 31 March 2014, relating to the scope of the Parent Company and Banca IMI.

In particular, the Intesa Sanpaolo Group adopts at the moment the Internal Models Approach (to both the trading book and banking book) in order to determine the EAD (exposure at default) of OTC derivatives, for computing capital requirements. The legal entities Banca IMI and Intesa Sanpaolo were authorised in April 2014 by the Supervisory Authority to use the internal models approach (with a view to Basel 3), while this approach is being rolled out to banks in the Banca dei Territori Division.
Potential exposure (estimated with the actual average PFE - Potential Future Exposure) has been adopted by the Parent Company, Banca IMI and the banks in the Banca dei Territori Division for the purposes of operational measurement of uses.
For the rest of the Group, the definition of the use of the credit lines for transactions in OTC derivatives involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.
Add-ons indicate the maximum potential future exposure (95^{th} percentile), regularly estimated by the Risk Management Department by macro-product type and maturity.

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

The advanced measurement approach for counterparty risk is being rolled out also to SFT (Securities Financial Transactions, i.e. repos, and securities lending), with the aim of completing the validation process for regulatory purposes in 2015.
Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.
The expected loss is the product of exposure at default, probability of default (derived from the rating) and Loss Given Default.
The expected loss represents the average of the loss statistical distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast

macroeconomic scenario and on stress scenarios.
The expected loss, transformed into "incurred loss" as indicated by IAS 39, is used in the collective assessment of loans, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.
The loan portfolio model allows the level of expected loss to be measured with the chosen confidence interval, or capital at risk. The latter reflects not only the risk level of individual counterparties but also the effects of undesired concentration due to the geographical/sector composition of the Group's loan portfolio.

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

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

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

An overall revision of the rules, processes and instruments concerning guarantees received and, more generally, instruments that mitigate credit risk is underway. The goal of these activities is to increase the efficiency of management, reduce the related operational risks and increase the level of eligibility of the guarantees. Following a detailed analysis, the requirements and architecture of a new application platform to manage all the phases in the lifecycle of a guarantee (acquisition, modification, extinction, enforcement, control, monitoring and custody) were defined. An initial release will be gradually implemented, starting from the first half of 2015, issuing the model for personal guarantees.

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value. The enforcement of the guarantee is handled by specialist departments, which are responsible for credit recovery.
In any case, the presence of collateral does not grant exemption from an overall assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.
The assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments accepted as collateral.
For real-estate collateral, the prudential market value is considered; for properties under construction, the construction cost is considered, net of prudential haircuts according to the intended use of the property.
Assets are appraised by internal and external experts. The external experts are included in a special list of professionals accredited on the basis of an individual verification of their capabilities, professionalism and experience. The valuation of residential properties secured by mortgages to private individuals is mainly assigned to specialised companies. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts are required to produce estimates on the basis of standardised expert reports, differentiated according to the valuation method to be applied and the characteristics of the asset, in accordance with the Property Valuation Code prepared by the Bank. The content of the internal Code is consistent with the "Guidelines for the valuation of properties securing credit exposures" promoted by the Italian Banking Association.
Property valuations are managed through a specific integrated platform covering the entire expert analysis phase, ensuring that assignments are properly awarded, on an independent basis and according to objective criteria, the workflow is thoroughly monitored, valuation standards are correctly applied and all information and documents regarding real estate are kept.
The market value of collateral property is recalculated periodically through various statistical valuation methods applied to prices/coefficients provided by an external supplier offering proven skills and a solid reputation for surveying and measuring the market prices of Italian real-estate assets.

Asset value is constantly monitored. The experts conduct inspections and verify the work progress for properties under construction. The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property, significant impairment losses reported by market indicators used to monitor fair value and, in any case, every three years for major exposures.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of a pledge when the assets decrease below their initial value or, for mortgages, an obligation to carry insurance cover against fire damage and the presence of adequate monitoring of the property's value.
Guarantees are subject to accurate, regular control using a specific application, the CRM verifier, in which a series of tests have been implemented to confirm the effective compliance with the requirements set by prudential supervision regulations.
The support application verifies whether guarantees received are eligible with reference to each of the three methods permitted by the regulations for calculating capital requirements. Based on the specifics of each category, the eligibility results are defined at the level of individual guarantee for unfunded guarantees (usually personal guarantees) or, for collateral, for each asset or financial instrument.

To mitigate the counterparty risk associated with OTC (i.e., unregulated) derivatives and SFTs (securities financing transactions, i.e. securities lending and repurchase agreements), the Group uses bilateral netting agreements that allow for credit and debt positions to be netted against one another if a counterparty defaults.
This is achieved by entering into ISDA and ISMA/PSA agreements, which also reduce the absorption of regulatory capital in accordance with supervisory provisions.
The Group also establishes collateral agreements, typically calling for daily margins, to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Market Repurchase Agreement).
With regard to substitution risk, to mitigate risk exposure to specific counterparties, the Bank acquires protection through single name Credit Default Swaps. Furthermore, the Bank also purchases single name CDS or CDS on indexes to mitigate the risk of adjustment of the valuation of the credit or CVA.

A project was started for International Subsidiary Banks with the aim of guaranteeing a consistent approach at Group level to the use of the credit risk mitigation techniques. In further detail, the gap analysis of seven international subsidiary banks was completed for the main types of guarantees. For five of these, an action plan was drawn up and is now being implemented.

In 2014 the Parent Company launched the "GARC" (Active Credit Risk Management) project to create a platform to monitor credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending of SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit.

This type of transactions provide synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation no. 575/2013 and Bank of Italy Circular no. 285/2013).

As part of these operations, during the year the junior risk relating to a total portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) was sold to a specialised investor.

Non-performing financial assets

Non-performing financial assets include those loans which, due to events that occur after their granting, show objective evidence of possible impairment.
For the classification of non-performing assets in the various risk categories (doubtful loans, substandard loans, restructured loans and exposures past due, in decreasing order of severity), the Group applies regulations issued by the Bank of Italy. The regulations are consistent with Basel Accords and IAS/IFRS, supplemented by internal provisions that establish criteria and rules for the transfer of loans to the various risk categories, including via automatic mechanisms (with the exception of doubtful loans).
The information presented in the following chapters with the contents of financial statements from previous years relating to financial restructuring transactions and, more generally, the renegotiation of credit exposures, also takes account of the instructions provided by the European Securities and Markets Authority (ESMA) in the document published in December 2012, "Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions."
In detail, non-performing assets not classified as doubtful loans are subject to an individual measurement process or calculation of the expected loss for homogenous categories (such categories are identified on the basis of the risk status, duration of non-performance and significance of the exposure represented), with analytical allocation to each position.
This measurement is performed upon classification of the assets at the occurrence of significant events and, in any event, is periodically revised in accordance with the criteria and methods illustrated in Part A.2 – Accounting Policies, Main financial statement captions, Loans, to which specific reference should be made.
With reference to past due loans, restructured loans and substandard loans, the structures responsible for their management are identified on the basis of pre-determined thresholds of increasing significance, directly at the operating points that handle the accounts, or within peripheral organisational units that perform specialist activities and within the Head Office units, which are responsible for the overall management and coordination of these matters.
With regard to doubtful loans, it should note that effective from the second half of 2010 the Group adopted an organisational model based on the specialisation of management competencies between internal and external structures, calling for the positions of greatest significance and complexity to be handled internally. In particular, this model calls for:

- the attribution to the Loan Recovery Department of Intesa Sanpaolo Group Services of coordination of all loan recovery activities and direct management (for Intesa Sanpaolo and all banks within the Banca dei Territori Division) of customers classified as doubtful effective from July 2010 showing exposures in excess of a pre-determined threshold amount;
- the attribution to Italfondiario S.p.A. (for Intesa Sanpaolo and almost all banks within the Banca dei Territori Division) of direct management – under a specific mandate, and with pre-defined limits – of customers classified as doubtful effective from July 2010 showing exposures below the aforementioned threshold amount (the activity of Italfondiario is always coordinated and monitored by the Loan Recovery Department);
- the option, in special cases, not to entrust Italfondiario S.p.A. with the management of certain types of loans;

- the retention of management competency, defined according to the previous organisational model, between the Loan Recovery Department and Italfondiario for doubtful loans existing as at 30 June 2010;
- for doubtful positions of limited amounts, routine factoring without recourse to third-party companies on a monthly basis when they are classified as doubtful, with some specific exceptions.

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

The assessment of the loans is reviewed whenever the Bank knows events capable of significantly changing recovery prospects. In order to identify such events rapidly, the information set relative to borrowers is periodically monitored and the development of out-of-court agreements and the various phases of the judicial procedures under way are constantly controlled.
The activity of Italfondiario in managing the loans entrusted to it under management mandate was monitored by the responsible internal units of the Group. In particular, it should be noted that the individual measurement of loans has been conducted using similar procedures to those established for the internal management of positions, and the other management activities are subject to the guidelines similar to those established for the internally managed positions.
Said organisational model was subject to a revision in December 2014, which will be implemented in the first part of 2015. As a result of that revision of the model, the assignment to Italfondiario S.p.A. of management of new flows of doubtful loans will be terminated. These loans will substantially be managed by the Group Loan Recovery Department.
The classification of positions within non-performing financial assets and in the relative management systems was undertaken on proposal of both central and local territorial structure owners of the commercial relation or of specialised central and local territorial structures in charge of loan monitoring and recovery. Assets are also classified as non-performing for financial reporting purposes through automatic mechanisms when given objective default thresholds are exceeded. Such mechanisms apply to past-due loans, identified at the Group level, as well as positions that have met the objective requirements for non-standard status established by the Bank of Italy.
Automatic mechanisms detect any mismatches, thereby ensuring that material non-performing loans to counterparties shared between the Group’s various intermediaries are subject to the required uniform convergence of management aims. Significance is represented by exceeding a pre-established warning threshold for loans classified as at the greatest risk, with respect to the overall exposure.

The return to performing of exposures classified as substandard, restructured and doubtful, is governed by the Supervisory Authority and specific internal regulations, and takes place on the proposal of the aforementioned structures responsible for their management, upon ascertainment that the critical conditions or state of default no longer exist.
Exposures classified amongst “past-due loans” automatically become performing when payment is received. The same mechanism is applied to exposures of moderate amounts previously classified as substandard in accordance with internal instructions when automatic mechanisms detect that the conditions that triggered reclassification no longer apply. The overall non-performing loan portfolio is continually monitored through a pre-determined control system, as well as through single name audits conducted by the Credit Quality Monitoring Unit, and periodic managerial reporting.

Lastly, note that in 2014 the European Banking Authority (EBA) published the "final" version of the “Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No. 575/2013”. On 9 January 2015 the European Commission approved the draft Regulation endorsing said Technical Standards, which was then published in the Official Journal in February. In view of the entry into force of the EBA regulations, in January 2015 the Bank of Italy issued an update to its regulations which modifies the pre-existing breakdown of risk classes of non-performing financial assets, to enable alignment with the new European Community approaches, especially on the issue of forbearance.
In brief, the new provisions require the breakdown of non-performing financial assets into three categories: “doubtful loans”, “unlikely to pay” and “non-performing past due exposures”. Therefore, the categories of substandard and restructured exposures are eliminated, as they are effectively included in the unlikely to pay category.
A new category is also established, “exposures subject to concessions – forbearance”, referring to exposures subject to renegotiation due to customer financial difficulties which effectively constitute a subgroup of both non-performing and performing loans, depending on the level of risk of the exposure.
The new regulation will apply from 1 January 2015. Therefore, the financial statements as at 31 December 2014 have been drawn up using the pre-existing definitions.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

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

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

The data shown in the following tables (A.1.1, A.1.2 and in the subsequent one referring to performing positions by past-due bracket), refer to all companies within the scope of consolidation for accounting purposes. In the tables A.1.1 and A.1.2, figures for the banking group are stated net of all intragroup dealings, including those with other companies within the scope of consolidation.

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

(millions of euro)

	Banking group						Other companies		Total
	Doubtful loans	Substandard loans	Restructured exposures	Non performing past due exposures	Performing past due exposures	Other Assets	Non-performing	Other	
1. Financial assets held for trading	4	373	49	35	1	50,470	-	375	51,307
2. Financial assets available for sale	2	-	-	-	-	46,793	-	66,122	112,917
3. Investments held to maturity	-	-	-	-	-	1,471	-	-	1,471
4. Due from banks	18	8	-	-	524	29,796	-	1,026	31,372
5. Loans to customers	14,179	15,485	2,546	1,252	10,635	294,232	-	776	339,105
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	1,091	-	3,586	4,677
7. Financial assets under disposal	58	20	-	1	3	89	-	-	171
8. Hedging derivatives	-	-	-	-	-	9,208	-	2	9,210
Total 31.12.2014	**14,261**	**15,886**	**2,595**	**1,288**	**11,163**	**433,150**	**-**	**71,887**	**550,230**
Total 31.12.2013	**12,999**	**13,981**	**2,349**	**1,969**	**12,082**	**437,244**	**-**	**70,831**	**551,455**

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

(millions of euro)

	NON-PERFORMING ASSETS			PERFORMING ASSETS			TOTAL
	Gross exposure	Individual adjustments	Net exposure	Gross exposure	Collective adjustments	Net exposure	(net exposure)
A. Banking group							
1. Financial assets held for trading	533	-72	461	X	X	50,471	50,932
2. Financial assets available for sale	33	-31	2	46,793	-	46,793	46,795
3. Investments held to maturity	-	-	-	1,471	-	1,471	1,471
4. Due from banks	45	-19	26	30,355	-35	30,320	30,346
5. Loans to customers	62,890	-29,428	33,462	307,267	-2,400	304,867	338,329
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	1,091	1,091
7. Financial assets under disposal	199	-120	79	94	-2	92	171
8. Hedging derivatives	-	-	-	X	X	9,208	9,208
Total A	**63,700**	**-29,670**	**34,030**	**385,980**	**-2,437**	**444,313**	**478,343**
B. Other consolidated companies							
1. Financial assets held for trading	-	-	-	X	X	375	375
2. Financial assets available for sale	-	-	-	66,122	-	66,122	66,122
3. Investments held to maturity	-	-	-	-	-	-	-
4. Due from banks	-	-	-	1,026	-	1,026	1,026
5. Loans to customers	-	-	-	776	-	776	776
6. Financial assets designated at fair value through profit and loss	-	-	-	X	X	3,586	3,586
7. Financial assets under disposal	-	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	X	X	2	2
Total B	**-**	**-**	**-**	**67,924**	**-**	**71,887**	**71,887**
Total 31.12.2014	**63,700**	**-29,670**	**34,030**	**453,904**	**-2,437**	**516,200**	**550,230**
Total 31.12.2013	**57,928**	**-26,630**	**31,298**	**450,884**	**-2,468**	**520,157**	**551,455**

The amount of partial derecognition of non-performing loans came to 2,473 million euro as at 31 December 2014.

In accordance with regulations, "Individual adjustments" include the impairment losses recognised to account for counterparty risk ("credit risk adjustment") on non-performing derivative contracts in the amount of 72 million euro (75 million euro as at 31 December 2013).

(millions of euro)

Credit exposures	Past due up to 3 months	Past due from 3 months up to 6 months	Past due from over 6 months up to 1 year	Past due by over 1 year	Non-past due	Total
Exposures renegotiated under collective agreements (*)	**55**	**15**	**4**	**-**	**1,367**	**1,441**
1. Financial assets held for trading	-	-	-	-	-	-
2. Financial assets available for sale	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	-	-
5. Loans to customers	55	15	4	-	1,367	1,441
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Exposures renegotiated under bilateral agreements (**)	**593**	**119**	**141**	**142**	**6,538**	**7,533**
1. Financial assets held for trading	-	-	-	-	2	2
2. Financial assets available for sale	-	-	-	-	399	399
3. Investments held to maturity	-	-	-	-	-	-
4. Due from banks	-	-	-	-	39	39
5. Loans to customers	593	119	141	142	6,098	7,093
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-
7. Financial assets under disposal	-	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-	-
Total exposures renegotiated	**648**	**134**	**145**	**142**	**7,905**	**8,974**
Other performing exposures						
1. Financial assets held for trading	-	-	1	-	50,843	50,844
2. Financial assets available for sale	-	-	-	-	112,516	112,516
3. Investments held to maturity	-	-	-	-	1,471	1,471
4. Due from banks	2	-	-	-	31,305	31,307
5. Loans to customers	6,367	1,167	1,450	582	287,543	297,109
6. Financial assets designated at fair value through profit and loss	-	-	-	-	4,677	4,677
7. Financial assets under disposal	3	-	-	-	89	92
8. Hedging derivatives	-	-	-	-	9,210	9,210
Total other performing exposures (***)	**6,372**	**1,167**	**1,451**	**582**	**497,654**	**507,226**
Total performing exposures (net exposure)	**7,020**	**1,301**	**1,596**	**724**	**505,559**	**516,200**

(*) The figure for collective agreements refers to renegotiations in cases of financial difficulties of the counterparty, the granting of which remains valid.

(**) Also includes exposures already renegotiated due to financial difficulties of the counterparty under collective agreements, the granting of which has expired and for which the original conditions have thus been restored ("probation period").

(***) Also includes the exposures renegotiated relating to parties not undergoing financial difficulties.

Past due loans shown in the tables include 2,826 million euro in assets past due by up to three months, 166 million euro in assets past due by over three months up to six months, 410 million euro in assets past due by over six months up to one year and 94 million euro in assets past due by over one year, as well as the share of the debt not yet past due, which amounted to 4,194 million euro, 1,135 million euro, 1,186 million euro and 630 million euro, respectively.

During 2014, the Intesa Sanpaolo Group purchased an insignificant amount of non-performing loans. Accordingly, the outstanding amounts as at 31 December 2014 were immaterial.

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

(millions of euro)

	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Doubtful loans	31	-13	X	18
b) Substandard loans	14	-6	X	8
c) Restructured exposures	-	-	X	-
d) Non performing past due exposures	-	-	X	-
e) Other assets	37,393	X	-36	37,357
TOTAL A	**37,438**	**-19**	**-36**	**37,383**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	1	-	X	1
b) Other	59,014	X	-50	58,964
TOTAL B	**59,015**	**-**	**-50**	**58,965**
TOTAL (A + B)	**96,453**	**-19**	**-86**	**96,348**

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

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

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial gross exposure	**78**	**26**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-
B. Increases	**-**	**1**	**-**	**-**
B.1 inflows from performing exposures	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	1	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-47**	**-13**	**-**	**-**
C.1 outflows to performing exposures	-	-1	-	-
C.2 write-offs	-6	-	-	-
C.3 repayments	-2	-12	-	-
C.4 credit disposals	-39	-	-	-
C.4 bis losses from disposals	-	-	-	-
C.5 transfers to other non-performing exposure categories	-	-	-	-
C.6 other decreases	-	-	-	-
C.7 business combinations	-	-	-	-
D. Final gross exposure	**31**	**14**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-

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

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**49**	**6**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-
B. Increases	**-**	**-**	**-**	**-**
B.1 impairment losses	-	-	-	-
B.1bis losses on disposal	-	-	-	-
B.2 transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
B.4 business combinations	-	-	-	-
C. Decreases	**-36**	**-**	**-**	**-**
C.1 recoveries on impairment losses	-3	-	-	-
C.2 recoveries on repayments	-	-	-	-
C.2bis profits on disposal	-4	-	-	-
C.3 write-offs	-6	-	-	-
C.4 transfers to other non-performing exposure categories	-	-	-	-
C.5 other decreases	-23	-	-	-
C.6 business combinations	-	-	-	-
D. Final total adjustments	**13**	**6**	**-**	**-**
- of which exposures sold not derecognised	-	-	-	-

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

(millions of euro)

	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES				
a) Doubtful loans	38,245	-24,006	X	14,239
b) Substandard loans	20,314	-4,809	X	15,505
c) Restructured exposures	3,091	-545	X	2,546
d) Non-performing past due exposures	1,505	-218	X	1,287
e) Other assets	367,609	X	-2,401	365,208
TOTAL A	**430,764**	**-29,578**	**-2,401**	**398,785**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	2,114	-302	X	1,812
b) Other	107,546	X	-233	107,313
TOTAL B	**109,660**	**-302**	**-233**	**109,125**
TOTAL (A + B)	**540,424**	**-29,880**	**-2,634**	**507,910**

On-balance sheet exposures include all on-balance sheet financial assets claimed from customers, irrespective of their portfolio of allocation: trading, available for sale, held to maturity, loans and receivables, assets designated at fair value through profit and loss or assets under disposal.
Off-balance sheet exposures include all financial activities that are not on the balance sheet (guarantees given, commitments, derivatives, etc.) but entail the assumption of credit risk, regardless of the purpose of such activities (trading, hedging, etc.). Off-balance sheet exposures also include counterparty risk associated with SFTs (securities financing transactions) defined in prudential regulations.
Restructured exposures include 236 million euro associated with pool transactions (IBLOR structures) undertaken by the Bank as fronting bank, associated with cash collateral among deposits on the liabilities side.
Performing on-balance sheet exposures to customers include 3,740 million euro in dealings between the banking group and other companies within the scope of consolidation.
For performing off-balance sheet exposures, this amount comes to 945 million euro.

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

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial gross exposure	**34,600**	**18,019**	**2,728**	**2,236**
- of which exposures sold not derecognised	*19*	*24*	*-*	*-*
B. Increases	**7,227**	**12,844**	**1,576**	**5,880**
B.1 inflows from performing exposures	304	6,605	41	5,322
B.2 transfers from other non-performing exposure categories	5,560	4,818	1,116	98
B.3 other increases	1,363	1,421	419	460
B.4 business combinations	-	-	-	-
C. Decreases	**-3,582**	**-10,549**	**-1,213**	**-6,611**
C.1 outflows to performing exposures	-101	-1,641	-53	-1,996
C.2 write-offs	-1,115	-330	-20	-3
C.3 repayments	-1,093	-1,417	-212	-467
C.4 credit disposals	-98	-90	-3	-
C.4 bis losses from disposals	-30	-19	-1	-
C.5 transfers to other non-performing exposure categories	-378	-6,494	-614	-4,106
C.6 other decreases	-767	-558	-310	-39
C.7 business combinations	-	-	-	-
D. Final gross exposure	**38,245**	**20,314**	**3,091**	**1,505**
- of which exposures sold not derecognised	*20*	*24*	*-*	*2*

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

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

(millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**21,635**	**4,178**	**413**	**274**
- of which exposures sold not derecognised	*5*	*3*	*-*	*-*
B. Increases	**5,424**	**3,567**	**439**	**544**
B.1 impairment losses	2,875	2,414	146	388
B.1bis losses on disposal	30	19	1	-
B.2 transfers from other non-performing exposure categories	1,597	719	261	22
B.3 other increases	922	415	31	134
B.4 business combinations	-	-	-	-
C. Decreases	**-3,053**	**-2,936**	**-307**	**-600**
C.1 recoveries on impairment losses	-854	-533	-60	-68
C.2 recoveries on repayments	-242	-96	-15	-8
C.2bis profits on disposal	-15	-9	-	-
C.3 write-offs	-1,115	-330	-20	-3
C.4 transfers to other non-performing exposure categories	-144	-1,809	-152	-494
C.5 other decreases	-683	-159	-60	-27
C.6 business combinations	-	-	-	-
D. Final total adjustments	**24,006**	**4,809**	**545**	**218**
- of which exposures sold not derecognised	*6*	*4*	*-*	*-*

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

Conversion of loans into equity instruments

During the year, loans were converted into equity instruments as part of restructuring agreements for performing or non-performing positions. The gross loans converted into equity instruments, shares and units of UCIs amounted to 536 million euro, of which 132 million euro performing and 404 million euro non-performing. Performing loans did not result in value adjustments from conversion. For non-performing loans, adjustments directly attributable to the conversion amounted to 259 million euro, essentially provisioned in previous years.
Equity instruments and units of UCIs were recognised at their fair value of approximately 177 million euro at the execution date of the transactions among assets available for sale and approximately 96 million euro among Investments.
Loans amounting to approximately 1 million euro, classified among loans to customers represented by debt securities were transformed into mandatory convertible bonds.

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

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

The Intesa Sanpaolo Group uses the ratings supplied by the following external rating agencies for all portfolios subject to reporting: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings.
These agencies are valid for all Group banks. In compliance with the regulations, if there are two ratings for the same customer, the moreprudential of the two is used, and when three ratings are available the middle rating is adopted.
The Class 6 rating column includes non-performing loans.

(millions of euro)

Exposures	EXTERNAL RATING CLASSES						UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures	**17,541**	**37,464**	**64,835**	**9,054**	**12,153**	**33,797**	**263,675**	**438,519**
B. Derivatives	**1,058**	**2,995**	**5,304**	**481**	**498**	**449**	**3,967**	**14,752**
B.1. Financial derivatives	1,058	2,993	5,304	405	498	449	3,944	14,651
B.2. Credit derivatives	-	2	-	76	-	-	23	101
C. Guarantees given	**2,658**	**3,722**	**5,590**	**2,184**	**906**	**864**	**25,982**	**41,906**
D. Commitments to lend funds	**11,416**	**26,708**	**28,642**	**4,647**	**1,432**	**733**	**34,054**	**107,632**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**3,800**	**3,800**
Total	**32,673**	**70,889**	**104,371**	**16,366**	**14,989**	**35,843**	**331,478**	**606,609**

It should be noted that the exposures presented in the table also include quotas of UCI of 2,353 million euro.
The following tables show the mapping of risk classes and the external ratings.

Mapping of long-term ratings issued by external rating agencies

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

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

Short-term ratings for exposures to supervised issuers and enterprises

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

Ratings for exposures to UCI

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

Standardised approach - Long-term ratings for exposures to securitisations

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

Standardised approach - Short-term ratings for exposures to securitisations

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

IRB approach - Long-term ratings for exposures to securitisations

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

IRB approach - Short-term ratings for exposures to securitisations

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

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

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

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

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

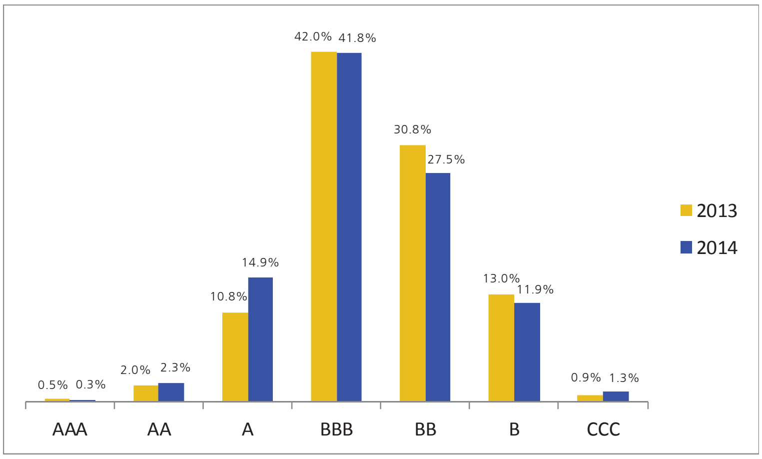
For the purposes of calculating the risk indicators, unrated counterparties are assigned an estimated rating on the basis of the average probabilities of default, deriving from the past experience of the respective sectors.

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

(millions of euro)

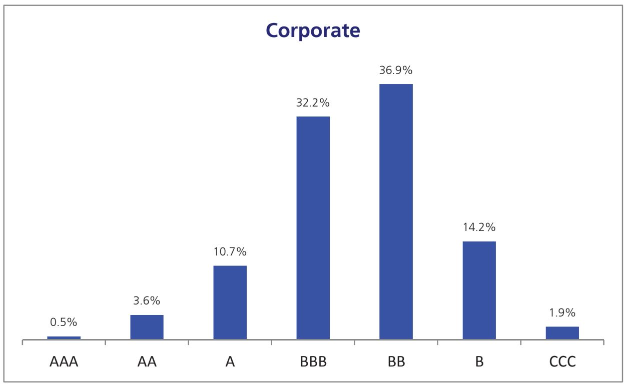
Exposures	INTERNAL RATING CLASSES							UNRATED	TOTAL
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Non-performing exposures		
A. On-balance sheet exposures	**20,056**	**59,628**	**149,112**	**73,015**	**41,293**	**3,590**	**33,603**	**55,869**	**436,166**
B. Derivatives	**1,226**	**2,999**	**6,115**	**1,681**	**808**	**70**	**426**	**1,427**	**14,752**
B.1. Financial derivatives	1,226	2,997	6,115	1,605	808	70	426	1,404	14,651
B.2. Credit derivatives	-	2	-	76	-	-	-	23	101
C. Guarantees given	**5,078**	**8,231**	**13,636**	**6,552**	**1,529**	**208**	**784**	**5,888**	**41,906**
D. Commitments to lend funds	**12,185**	**29,191**	**34,082**	**10,294**	**3,596**	**919**	**603**	**16,762**	**107,632**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,801**	**3,801**
Total	**38,545**	**100,049**	**202,945**	**91,542**	**47,226**	**4,787**	**35,416**	**83,747**	**604,257**

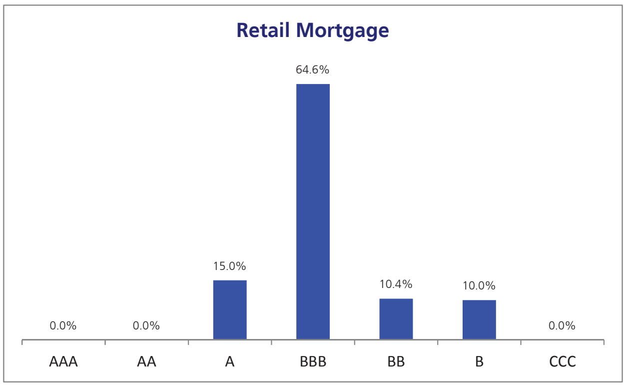
In addition to the tables required by supervisory provisions at the Group level, the following is the rating allocation for performing credit exposures to customers attributable to banks with internal models.
As at 31 December 2014, performing loans to customers assigned an individual rating internally or by an external agency accounted for 94% of the loans of banks with internal models and for 82% of the entire aggregate at the Group level.

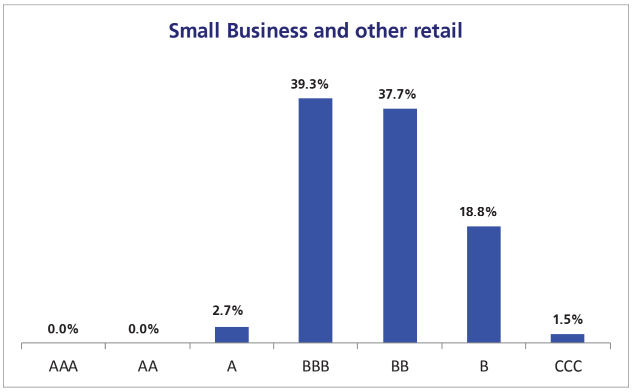


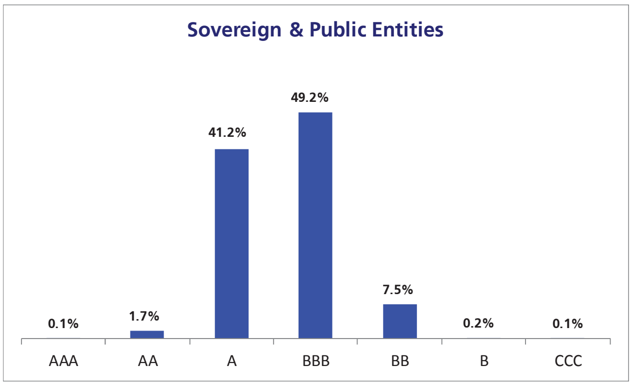
The allocation shows a high level of investment grade exposures of 59.3%, up compared to the previous year (55.3%).

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









Investment grade positions account for 47.1%, 79.7%, 42% and 92.2% of the above portfolios, respectively.

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

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

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**3,723**	***7***	**173**	***18***	**3,316**	***1***	**3,560**	**-**	**10,772**
COLLATERAL (1)									
Real estate assets	7	-	-	-	-	-	-	-	7
Mortgages	-	-	-	-	-	-	-	-	-
Financial leases	*7*	-	-	-	-	-	-	-	*7*
Securities	3,578	-	21	-	1,209	-	62	-	4,870
Other	-	-	2	-	3,913	-	3,073	-	6,988
GUARANTEES (1)									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*113*	*7*	-	-	*79*	*1*	-	-	*192*
Other public entities	-	-	-	-	-	-	-	-	-
Banks	*1*	-	*3*	-	*13*	-	*1*	-	*18*
Other counterparties	*19*	-	*1*	-	-	-	-	-	*20*
TOTAL	**3,718**	***7***	**27**	**-**	**5,214**	***1***	**3,136**	**-**	**12,095**

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

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

(millions of euro)

	GUARANTEED ON-BALANCE SHEET CREDIT EXPOSURES				GUARANTEED OFF-BALANCE SHEET CREDIT EXPOSURES				TOTAL
	Totally guaranteed		Partly guaranteed		Totally guaranteed		Partly guaranteed		
		of which non-performing		*of which non-performing*		*of which non-performing*		*of which non-performing*	
NET EXPOSURE	**190,994**	***23,512***	**14,339**	***2,924***	**16,972**	***700***	**3,317**	***61***	**225,622**
COLLATERAL [(1)]									
Real estate assets	348,109	***52,492***	2,038	***657***	8,076	***640***	365	***8***	358,588
Mortgages	*327,851*	***47,914***	*1,998*	***627***	*8,025*	***636***	*319*	***8***	*338,193*
Financial leases	*20,258*	***4,578***	*40*	***30***	*51*	***4***	*46*	-	*20,395*
Securities	23,100	*335*	1,835	*530*	2,514	*25*	418	*3*	27,867
Other	7,740	*1,794*	956	*252*	1,810	*8*	378	*15*	10,884
GUARANTEES [(1)]									
Credit derivatives									
Credit-linked notes	-	-	-	-	-	-	-	-	-
Other derivatives									
- Governments and Central Banks	-	-	-	-	-	-	-	-	-
- Other public entities	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-
- Other counterparties	-	-	-	-	-	-	-	-	-
Guarantees given									
Governments and Central Banks	*2,539*	*37*	*168*	*11*	*329*	-	*2*	-	*3,038*
Other public entities	*207*	*21*	*244*	*10*	*10*	-	*4*	-	*465*
Banks	*1,350*	*113*	*534*	*13*	*117*	*3*	*63*	-	*2,064*
Other counterparties	*29,717*	*5,559*	*3,207*	*608*	*9,961*	*195*	*892*	*14*	*43,777*
TOTAL	**412,762**	***60,351***	**8,982**	***2,081***	**22,817**	***871***	**2,122**	***40***	**446,683**

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

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

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

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					TOTAL ON-BALANCE SHEET EXPOSURES	OFF-BALANCE SHEET EXPOSURES				TOTAL OFF-BALANCE SHEET EXPOSURES	TOTAL 31.12.2014	TOTAL 31.12.2013
	Doubtful loans	Substandard loans	Restructured exposures	Non-performing past due exposures	Other exposures		Doubtful loans	Substandard loans	Other non-performing assets	Other exposures			
GOVERNMENTS													
Net exposure	2	2	-	36	64,321	64,361	-	-	-	4,811	4,811	69,172	80,513
Individual adjustments	-9	-1	-	-	X	-10	-	-	-	X	-	-10	-10
Collective adjustments	X	X	X	X	-12	-12	X	X	X	-	-	-12	-5
OTHER PUBLIC ENTITIES													
Net exposure	192	147	-	2	16,953	17,294	-	13	-	1,505	1,518	18,812	20,385
Individual adjustments	-70	-33	-	-	X	-103	-	-2	-	X	-2	-105	-92
Collective adjustments	X	X	X	X	-51	-51	X	X	X	-1	-1	-52	-54
FINANCIAL INSTITUTIONS													
Net exposure	178	628	110	27	38,651	39,594	2	18	-	26,807	26,827	66,421	64,129
Individual adjustments	-571	-214	-14	-5	X	-804	-1	-2	-22	X	-25	-829	-533
Collective adjustments	X	X	X	X	-134	-134	X	X	X	-10	-10	-144	-104
INSURANCE COMPANIES													
Net exposure	-	-	-	-	2,396	2,396	-	-	-	692	692	3,088	3,446
Individual adjustments	-	-	-	-	X	-	-	-	-	X	-	-	-
Collective adjustments	X	X	X	X	-	-	X	X	X	-	-	-	-3
NON-FINANCIAL COMPANIES													
Net exposure	11,622	13,200	2,420	1,019	162,972	191,233	199	1,317	249	71,291	73,056	264,289	270,526
Individual adjustments	-20,477	-3,918	-522	-141	X	-25,058	-108	-100	-52	X	-260	-25,318	-22,591
Collective adjustments	X	X	X	X	-1,877	-1,877	X	X	X	-190	-190	-2,067	-2,131
OTHER COUNTERPARTIES													
Net exposure	2,245	1,528	16	203	79,915	83,907	6	6	2	1,602	1,616	85,523	87,401
Individual adjustments	-2,879	-643	-9	-72	X	-3,603	-15	-	-	X	-15	-3,618	-3,575
Collective adjustments	X	X	X	X	-327	-327	X	X	X	-32	-32	-359	-354

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

(millions of euro)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	13,007	-21,428	1,216	-2,360	3	-35	2	-29	11	-154
A.2. Substandard loans	14,328	-4,348	1,052	-388	57	-36	13	-1	55	-36
A.3. Restructured exposures	2,034	-414	278	-111	-	-	149	-6	85	-14
A.4. Non-performing past due exposures	1,180	-178	58	-37	34	-	6	-1	9	-2
A.5. Other exposures	285,051	-1,776	64,163	-496	7,939	-32	3,659	-23	4,396	-74
Total A	**315,600**	**-28,144**	**66,767**	**-3,392**	**8,033**	**-103**	**3,829**	**-60**	**4,556**	**-280**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	165	-82	39	-27	-	-	-	-1	4	-14
B.2. Substandard loans	1,291	-84	51	-16	9	-2	-	-1	3	-
B.3. Other non-performing assets	243	-73	6	-2	-	-	-	-	1	-
B.4. Other exposures	49,173	-102	43,226	-106	12,625	-18	1,144	-2	540	-5
Total B	**50,872**	**-341**	**43,322**	**-151**	**12,634**	**-20**	**1,144**	**-4**	**548**	**-19**
TOTAL (A+B) 31.12.2014	**366,472**	**-28,485**	**110,089**	**-3,543**	**20,667**	**-123**	**4,973**	**-64**	**5,104**	**-299**
TOTAL 31.12.2013	**397,075**	**-25,395**	**100,739**	**-3,649**	**20,617**	**-73**	**3,456**	**-59**	**4,513**	**-276**

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

(millions of euro)

	NORTH-WEST		NORTH-EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	4,400	-7,191	2,695	-4,703	3,010	-4,521	2,902	-5,013
A.2. Substandard loans	5,558	-1,630	2,838	-785	3,401	-930	2,531	-1,003
A.3. Restructured exposures	841	-191	710	-125	243	-50	240	-48
A.4. Non-performing past due exposures	367	-52	181	-26	337	-49	295	-51
A.5. Other exposures	90,460	-697	46,199	-344	109,655	-410	38,737	-325
Total A	**101,626**	**-9,761**	**52,623**	**-5,983**	**116,646**	**-5,960**	**44,705**	**-6,440**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	50	-31	43	-22	64	-25	8	-4
B.2. Substandard loans	109	-2	223	-21	849	-33	110	-28
B.3. Other non-performing assets	176	-37	37	-26	11	-6	19	-4
B.4. Other exposures	20,236	-50	6,119	-19	20,372	-25	2,446	-8
Total B	**20,571**	**-120**	**6,422**	**-88**	**21,296**	**-89**	**2,583**	**-44**
TOTAL (A+B) 31.12.2014	**122,197**	**-9,881**	**59,045**	**-6,071**	**137,942**	**-6,049**	**47,288**	**-6,484**
TOTAL 31.12.2013	**133,836**	**-8,700**	**61,443**	**-5,456**	**148,942**	**-5,306**	**52,854**	**-5,933**

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

(millions of euro)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES										
A.1. Doubtful loans	18	-7	-	-6	-	-	-	-	-	-
A.2. Substandard loans	-	-	-	-	-	-	8	-6	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4. Non-performing past due exposures	-	-	-	-	-	-	-	-	-	-
A.5. Other exposures	6,835	-3	22,043	-22	2,074	-7	5,008	-4	1,397	-
Total A	**6,853**	**-10**	**22,043**	**-28**	**2,074**	**-7**	**5,016**	**-10**	**1,397**	**-**
B. OFF-BALANCE SHEET EXPOSURES										
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	1	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-	-	-
B.4. Other exposures	2,403	-5	41,438	-14	8,709	-3	2,725	-19	493	-9
Total B	**2,403**	**-5**	**41,438**	**-14**	**8,709**	**-3**	**2,726**	**-19**	**493**	**-9**
TOTAL (A+B) 31.12.2014	**9,256**	**-15**	**63,481**	**-42**	**10,783**	**-10**	**7,742**	**-29**	**1,890**	**-9**
TOTAL 31.12.2013	**10,148**	**-18**	**78,935**	**-82**	**6,072**	**-3**	**6,312**	**-27**	**1,919**	**-10**

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

(millions of euro)

	NORTH-WEST		NORTH-EAST		CENTRE		SOUTH AND ISLANDS	
	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments	Net exposure	Total adjustments
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	18	-7	-	-	-	-	-	-
A.2. Substandard loans	-	-	-	-	-	-	-	-
A.3. Restructured exposures	-	-	-	-	-	-	-	-
A.4. Non-performing past due exposures	-	-	-	-	-	-	-	-
A.5. Other exposures	1,939	-1	1,437	-1	3,426	-1	33	-
Total A	**1,957**	**-8**	**1,437**	**-1**	**3,426**	**-1**	**33**	**-**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.4. Other exposures	303	-5	161	-	1,929	-	10	-
Total B	**303**	**-5**	**161**	**-**	**1,929**	**-**	**10**	**-**
TOTAL (A+B) 31.12.2014	**2,260**	**-13**	**1,598**	**-1**	**5,355**	**-1**	**43**	**-**
TOTAL 31.12.2013	**2,752**	**-13**	**1,658**	**-4**	**5,266**	**-1**	**472**	**-**

B.4 Large exposures

Large exposures	
a) Book value (millions of euro)	116,594
b) Weighted value (millions of euro)	7,407
b) Number	6

Based on regulatory provisions, the number of large exposures presented in the table was determined by the reference to unweighted "exposures" in excess of 10% of eligible capital as defined by EU Regulation no. 575/2013 (CRR). The "exposures" are defined as the sum of on-balance sheet assets at risk and off-balance sheet transactions (excluding those deducted from eligible capital) with a customer or a group of related customers, without applying weighting factors.
Such presentation criteria result in the inclusion in the financial statement table for large exposures of entities that - even with a weighting of 0% - present an unweighted exposure in excess of 10% of eligible capital for the purposes of large risks.

C. SECURITISATIONS

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

Qualitative information

The securitisations carried out in 2014 are summarised below:

– GARC Securitisation
 In 2014 Intesa Sanpaolo launched the "GARC" (Active Credit Risk Management) project to create a platform to monitor credit risk in performing portfolios. The initiative involved the systematic acquisition of guarantees (both personal guarantees and collateral) to support lending to SMEs, a segment which, as a result of the crisis, was hit by significant difficulties in access to credit. This type of transactions provide synthetic hedging of default risk (failure-to-pay, bankruptcy and restructuring) of granular portfolios and freeing up of economic and regulatory capital, as envisaged by the current Supervisory Regulations on the matter (EU Regulation 575/2013 and Bank of Italy Circular 285/2013).
 As part of these operations, in 2014 the junior risk relating to a total portfolio of 1.8 billion euro in loans to approximately 5,400 businesses in the Corporate and SME Corporate segments, valued by applying internal models (Advanced IRB) was sold to a specialised investor.

– Telefonia Securitisation
 The transaction, involving securitisation of commercial loans in the telephony sector of 150 million euro, was completed at the beginning of 2014. The vehicles used for the transaction were Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc. The securities issued are unrated.

– Food & Beverages Securitisation
 The securitisation of commercial loans in the Food & Beverages sector was expanded during 2014, bringing the nominal value of securitised loans from 355 to 597 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc. The securities issued are unrated.

– Automotive, Electronics and Mechanics Securitisation (Conan)
 This securitisation was expanded during 2014, bringing the nominal value of securitised loans from 80 to 380 million euro. To close the transactions, the Group used the vehicles Trade Receivables Investment Vehicle S.a.r.l. and Duomo Funding Plc. The securities issued are unrated.

Quantitative information

C.1. Banking group - Breakdown of exposures deriving from securitisations by quality of underlying asset

On-balance sheet

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Exposure gross	Exposure net	Exposure gross	Exposure net	Exposure gross	Exposure net
A. Originated underlying assets	**1,387**	**1,387**	**71**	**71**	**96**	**93**
a) Non-performing	-	-	-	-	17	17
b) Other	1,387	1,387	71	71	79	76
B. Third party underlying assets	**4,832**	**4,829**	**359**	**357**	**43**	**42**
a) Non-performing	-	-	-	-	-	-
b) Other	4,832	4,829	359	357	43	42
Total	**6,219**	**6,216**	**430**	**428**	**139**	**135**

Part of the exposures shown in the table above has been included within the structured credit products: 2,376 million euro of gross exposures and 2,373 million euro net, in any case almost entirely attributable to exposures not included under the US subprime category. For further information on the relative economic and risk effects, see the chapter on market risks in the Notes to the consolidated financial statements.

Off-balance sheet

(millions of euro)

	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Exposure gross	Exposure net	Exposure gross	Exposure net	Exposure gross	Exposure net	Exposure gross	Exposure net	Exposure gross	Exposure net	Exposure gross	Exposure net
A. Originated underlying assets	**-**	**-**	**-**	**-**	**-**	**-**	**1,564**	**1,564**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	1,564	1,564 (**)	-	-	-	-
B. Third party underlying assets (*)	**-**	**-**	**-**	**-**	**-**	**-**	**852**	**852**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	852	852	-	-	-	-
TOTAL	**-**	**-**	**-**	**-**	**-**	**-**	**2,416**	**2,416**	**-**	**-**	**-**	**-**

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

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

C.2. Banking group - Breakdown of exposures deriving from the main "originated" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**-**	**-**	**-**	**-**	**22**	**2**
A.1 Intesa Sec Npl						
- performing mortgages	-	-	-	-	*17*	*2*
A.2 Intesa Sec (*)						
- performing mortgages	-	-	-	-	-	-
A.3 Cr Firenze Mutui						
- performing mortgages	-	-	-	-	*5*	-
B. Partly derecognised	-	-	-	-	-	-
C. Not derecognised	**1,387**	**-**	**71**	**-**	**71**	**-**
C.1 GARC (**)						
- loans to business	*1,387*	-	-	-	*5*	-
C.2 Da Vinci (*) (**)						
- loans to the aircraft sector	-	-	-	-	-	-
C.3 Intesa Sec 3						
- performing residential mortgages	-	-	*44*	-	*53*	-
C.4 Food & Beverage Securitisation(*)						
- trade receivables	-	-	-	-	-	-
C.5 Telefonia Securitisation						
- trade receivables	-	-	-	-	*1*	-
C.6 Luce Securitisation						
- trade receivables	-	-	*25*	-	*8*	-
C.7 Gas Securitisation						
- trade receivables	-	-	*2*	-	*2*	-
C.8 Automotive, Electronic & Mechanics Securitisation						
- trade receivables	-	-	-	-	*2*	-
TOTAL	**1,387**	**-**	**71**	**-**	**93**	**2**

(*) The positions of Intesa Sec and Da Vinci in the Parent Company's portfolio and the Food & Beverage Securitisation in Banca IMI's portfolio have values of less than 1 million euro. Therefore, they are shown in the table at values equal to zero.

(**) Da Vinci and GARC securitisations are synthetic.

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

Off-balance sheet

(millions of euro)

	GUARANTEES GIVEN						CREDIT LINES					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A. Fully derecognised	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognised	-	-	-	-	-	-	**1,564**	-	-	-	-	-
C.1 Duomo Funding Plc.												
- trade receivables	-	-	-	-	-	-	*1,564*	-	-	-	-	-
TOTAL	-	-	-	-	-	-	**1,564**	-	-	-	-	-

C.3. Banking group - Breakdown of exposures deriving from the main "third party" securitisations by type of securitised asset and by type of exposure

On-balance sheet

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A.1 Romulus (*)						
- Asset backed commercial papers	*2,211*	-	-	-	-	-
A.2 Fondo Immobili Pubblici						
- Financial credits deriving from rental of properties to the public sector	*185*	*2*	-	-	-	-
A.3 Posillipo Finance						
- Loans to the Italian health system	*153*	-	-	-	-	-
A.4 ASTI Finance SRL						
- Residential mortgages	*116*	-	*2*	-	-	-
A.5 CLARIS Finance S.r.l.						
- Residential mortgages	*118*	-	-	-	-	-
A.6 Sunrise S.r.l.						
- Consumer credit	*96*	-	*6*	-	-	-
A.7 Berica Residential MBS S.r.l.						
- Residential mortgages	*82*	-	*11*	-	-	-
A.8 Mecenate						
- Residential mortgages	*89*	-	*2*	-	-	-
A.9 VOBA FINANCE Srl						
- Residential mortgages	*87*	-	-	-	-	-
A.10 Quadrivio RMBS						
- Residential mortgages	*82*	-	-	-	-	-
A.11 Quadrivio SME						
- Financing for SMEs	*75*	-	-	-	-	-
A.12 Paragon Mortgages						
- Residential mortgages	*51*	-	*18*	-	*6*	-
A.13 D'Annunzio						
- Trade recevables from the Italian health system	*71*	-	-	-	-	-
A.14 GRANITE						
- Residential mortgages	*6*	-	*47*	*1*	*13*	-
A.15 VELA HOME Srl						
- Residential mortgages	*58*	*2*	*1*	-	-	-
A.16 Residual portfolio divided in 295 securities (**)	1,349	2	270	2	23	1
TOTAL	**4,829**	**6**	**357**	**3**	**42**	**1**

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

(**) Please note that 64 million euro included among "Residual portfolio" refers to single tranche securitisations, classified as Senior securities and not as exposures to securitisations for supervisory purposes.

The table below shows the breakdown of the residual portfolio divided into 295 securities by type of underlying asset.

(millions of euro)

	ON-BALANCE SHEET EXPOSURES					
	Senior		**Mezzanine**		**Junior**	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
Residential mortgages (*)	660	1	80	2	1	-
Commercial mortgages	116	-	83	-	4	1
Other ABS (CLO-CMO-CFO) (*)	159	-2	54	-1	-	-
Financing for SMEs	149	2	2	-	-	-
Loans deriving from leasing contracts	55	-	22	-	-	-
Consumer credit	73	-	20	-	-	-
Loans to the Italian health system	49	-	-	-	-	-
Loans to foreign public bodies	31	-	-	-	-	-
Electrical company loans due from the public sector	23	-	-	-	-	-
CDO Cash	23	-	-	-	-	-
Project finance loans	-	-	-	-	14	-
Public property	2	-	6	1	-	-
Personal loans	-	-	-	-	4	-
Other assets	9	1	3	-	-	-
TOTAL	**1,349**	**2**	**270**	**2**	**23**	**1**

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

Off-balance sheet

(millions of euro)

Type of securitised asset/Exposure (*)	**GUARANTEES GIVEN**						**CREDIT LINES**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries	Net exposure	Adjust./ recoveries
A.1 Duomo - *ABCP Conduit transactions*	-	-	-	-	-	-	*852*	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**852**	**-**	**-**	**-**	**-**	**-**

(*) In addition to the information shown in the table, the Group's trading portfolio as at 31 December 2014 also contains off-balance sheet transactions represented by credit default swaps with exposures to securitisations as underlyings for a nominal value of 137 million euro.

C.4. Banking group - Breakdown of exposures deriving from securitisations by portfolio and by type

(millions of euro)

	On-balance sheet exposures (*)			**Off-balance sheet exposures**		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
Financial assets held for trading	1,208	227	28	-	-	-
Financial assets measured at fair value	1	-	-	-	-	-
Financial assets available for sale	418	1	12	-	-	-
Investments held to maturity	-	-	-	-	-	-
Loans (**)	3,202	129	24	852	-	-
Total 31.12.2014	**4,829**	**357**	**64**	**852**	**-**	**-**
Total 31.12.2013	**4,497**	**340**	**45**	**1,269**	**-**	**-**

(*) Excluding on-balance sheet exposures deriving from originated securitisations in which assets sold have not been fully derecognised for a total of 1,529 million euro. As at 31 December 2014, off-balance sheet exposures deriving from originated securitisations whose assets sold were not fully derecognised from balance sheet assets totalled 1,564 million euro.

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

C.5. Banking group - Total amount of securitised assets underlying junior securities or other forms of backing

(millions of euro)

	Traditional securitisations	Synthetic securitisations
A. Originated underlying assets	**856**	**5**
A.1 Fully derecognised	56	*X*
1. Doubtful loans	*17*	*X*
2. Substandard loans	*-*	*X*
3. Restructured exposures	*-*	*X*
4. Past due exposures	*1*	*X*
5. Other assets	*38*	*X*
A.2 Partly derecognised	-	*X*
1. Doubtful loans	*-*	*X*
2. Substandard loans	*-*	*X*
3. Restructured exposures	*-*	*X*
4. Past due exposures	*-*	*X*
5. Other assets	*-*	*X*
A.3 Not derecognised	800	5
1. Doubtful loans	*11*	*-*
2. Substandard loans	*11*	*-*
3. Restructured exposures	*-*	*-*
4. Past due exposures	*2*	*-*
5. Other assets	*776*	*5*
B. Third party underlying assets	**289**	**-**
B.1. Doubtful loans	-	-
B.2. Substandard loans	1	-
B.3. Restructured exposures	-	-
B.4. Past due exposures	1	-
B.5. Other assets	287	-

C.6. Banking Group - Stakes in securitisation vehicles

(millions of euro)

SECURITISATION/ SPECIAL PURPOSE VEHICLE	REGISTERED OFFICE	CONSOLIDATION [i]	ASSETS [a]			LIABILITIES [a]		
			Loans	Debt securities	Other	Senior	Mezzanine	Junior
Adriano Lease Sec S.r.l.	Conegliano Veneto (TV)	(b)	3,080	-	207	48	3,044	-
Intesa Sanpaolo SEC SA [b]	Luxembourg	Consolidated	59	-	262	305	-	16
Intesa Sanpaolo Securitisation Vehicle S.r.l.	Milano	Consolidated	190	-	1		(c)	
Intesa Sec S.p.A.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Intesa Sec 3 S.r.l.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Intesa Sec NPL S.p.A.	Milano	Consolidated	(d)	(d)	(d)	(d)	(d)	(d)
Augusto S.r.l. [e]	Milano	(f)	5	-	2	17	-	-
Colombo S.r.l.[e]	Milano	(f)	45	-	10	5	40	10
Diocleziano S.r.l. [e]	Milano	(f)	15	-	3	67	-	-
CR Firenze Mutui	Conegliano Veneto (TV)	(f)	(g)	(g)	(g)	(g)	(g)	(g)
Trade Receivables Investment Vehicle S.a.r.l.	Luxembourg	Not consolidated	(g)	(g)	(g)	(g)	(g)	(g)
ISP OBG S.r.l. (former ISP Sec 4 S.r.l.) [h]	Milano	Consolidated	20,000	-	6,457		26,016	
ISP CB Ipotecario S.r.l. [h]	Milano	Consolidated	14,440	-	5,794		18,807	
ISP CB Pubblico S.r.l. [h]	Milano	Consolidated	5,876	2,677	4,143		12,062	

(a) Figures gross of any intercompany relations.

(b) Self-securitisation vehicle described in Section 1.3 Banking Group - Liquidity Risk, Quantitative Information, paragraph 4.

(c) This vehicle (former Intesa Lease Sec S.r.l.) has been used to launch the first phase of a transaction - completed at the end of 2014 - which entailed the sale without recourse of a portfolio of loans backed by guarantees and mortgages originated by the subsidiary CIB Hungary, also in currencies other than the euro, for a total of 343 million euro. During February 2015 the securitisation transaction was completed with the issue of 192 million euro in senior securities and 160 million euro in junior securities, fully subscribed by Intesa Sanpaolo SpA.

(d) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.9 of these Notes to the consolidated financial statements.

(e) The amounts shown under assets and liabilities refer to the latest financial statement data available (31.12.2013).

(f) Vehicle consolidated at equity.

(g) For the financial statement disclosure concerning this vehicle, see the prospectus published in Section C.7 of these Notes to the consolidated financial statements.

(h) Vehicle used for the covered bond issue by the Intesa Sanpaolo Group. For more information, see Section E.4 in Part E of these Notes to the consolidated financial statements.

(i) Consolidation method referring to the "prudential" scope.

C.7 Banking group – Not consolidated securitisation vehicles

With reference to not consolidated structured entities used for securitisation transactions, the Group reports its residual investments in the vehicles Augusto, Colombo and Diocleziano. These are entities used to implement securitisations of assets, primarily land and public works financing, of a company subject to joint control and sold in previous years.

The Group holds a residual investment in the vehicles. There are no agreements in place which could result in the obligation of the Group to provide financial support to said vehicles.

CR Firenze Mutui
Securitisation of performing residential mortgages

(millions of euro)

A. Securitised assets		**38**
A.1 Loans	38	
A.2 Securities	-	
A.3 Other assets	-	
B. Investments of the funds collected from loan management		**8**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	8	
C. Securities issued		**40**
C.1 Class A	-	
C.2 Class B	24	
C.3 Class C	8	
C.4 Class D	8	
D. Financing received		2
E. Other liabilities		**4**
F. Interest expense on securities issued		**1**
G. Commissions and fees		**-**
G.1 Servicing	-	
G.2 Other services	-	
H. Other expenses		**2**
I. Interest income on securitised assets		**1**
L. Other revenues		**2**

Trade Receivables Investment Vehicle Sarl
Securitisation of trade receivables

(millions of euro)

A. Assets		**79**
A.1 Receivables	74	
A.2 Other assets	5	
B. Liabilities		**79**
B.1 Class A securities issued	73	
B.2 Class B securities issued	1	
B.3 Other liabilities	5	
C. Interest charge		**10**
D. Interest income		**10**

C.8. Banking group - Servicer activities – collection of securitised loans and repayment of securities issued by the securitisation vehicle

SERVICER	SPECIAL PURPOSE VEHICLES	SECURITISED ASSETS (period-end figure) (millions of euro)		COLLECTIONS OF LOANS IN THE YEAR (millions of euro)		PERCENTAGE OF REIMBURSED SECURITIES (period-end figure)					
						Senior		Mezzanine		Junior	
		Non-performing	Performing	Non-performing	Performing	Non-performing loans	Performing loans	Non-performing loans	Performing loans	Non-performing loans	Performing loans
Intesa Sanpaolo	Intesa Sec	1	-	-	-	0%	100%	0%	100%	0%	81%
Intesa Sanpaolo	Intesa Sec 3	37	588	7	192	0%	100%	0%	76%	0%	0%
Italfondiario	Intesa Sec NPL	17	-	5	-	100%	0%	46%	0%	0%	0%
CR Firenze	Cr Firenze Mutui	-	38	1	14	0%	100%	0%	11%	0%	0%
Total		**55**	**626**	**13**	**206**						

C.9. Banking group – Consolidated securitisation vehicles

Intesa Sec
Securitisation of performing mortgages

(millions of euro)

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

Intesa Sec 3

Securitisation of performing residential mortgages

(millions of euro)

A. Securitised assets		**627**
A.1 Loans	625	
A.2 Securities	-	
A.3 Other assets	2	
B. Investments of the funds collected from loan management		**193**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	193	
C. Securities issued		**626**
C.1 Class A1	-	
C.2 Class A2	-	
C.3 Class A3	482	
C.4 Class B	72	
C.5 Class C	72	
D. Financing received		**48**
E. Other liabilities		**146**
E.1 Amounts due for services rendered	-	
E.2 Due to customers	-	
E.3 Due to Parent Company	92	
E.4 Due to securitisation vehicle	-	
E.5 "Additional return" allowance	52	
E.6 Accrued expenses – interest on securities issued	-	
E.7 Accrued expenses on IRS	2	
E.8 Other accrued expenses	-	
F. Interest expense on securities issued		**3**
G. Commissions and fees		**1**
G.1 Servicing	1	
G.2 Securities placement commissions	-	
H. Other expenses		**22**
H.1 Interest expense	14	
H.2 Other expenses	1	
H.3 Forecasted losses on loans	-	
H.4 Additional return	7	
I. Interest income on securitised assets		**20**
L. Other revenues		**6**
L.1 Interest income	5	
L.2 Revenues from penalties for early termination and other	1	

Intesa Sec Npl

Securitisation of non performing mortgages

(millions of euro)

A. Securitised assets		**20**
A.1 Loans	16	
A.2 Securities	-	
A.3 Other assets	4	
B. Investments of the funds collected from loan management		**2**
B.1 Debt securities	-	
B.2 Equities	-	
B.3 Liquidity	2	
C. Securities issued		**155**
C.1 Class A	-	
C.2 Class B	-	
C.3 Class C	-	
C.4 Class D	114	
C.5 Class E	41	
D. Financing received		**6**
E. Other liabilities		**48**
E.1 Amounts due for services rendered	1	
E.2 Accrued expenses – interest on securities issued	45	
E.3 Other accrued expenses	1	
E.4 Floor option premium received	1	
F. Interest expense on securities issued		**15**
G. Commissions and fees		**1**
G.1 Servicing	1	
G.2 Other services	-	
H. Other expenses		**25**
H.1 Interest expense	3	
H.2 Other expenses	2	
H.3 Losses on penalty interest	-	
H.4 Losses on loans	19	
H.5 Forecasted losses on loans	1	
I. Interest income on securitised assets		**8**
L. Other revenues		**16**
L.1 Interest income	-	
L.2 Recovery of legal expenses	-	
L.3 Write-backs	15	
L.4 Other income	1	

D. INFORMATION ON STRUCTURED ENTITIES (OTHER THAN SECURITISATION VEHICLES)

In line with IFRS 12, the Group considers structured entities to be entities set up to achieve a narrow, well-defined objective, defined through contractual arrangements which often impose strict restrictions on decision-making powers of the entity's management bodies. In that sense, structured entities are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, as they refer to administrative tasks, while the relevant operating activities are directed by means of contractual arrangements agreed on at the time of structuring the structured entity, which are difficult to modify. The characteristics of a structured entity include:

- limited activities;
- a narrow and well-defined objective;
- insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The structured entities through which the Group operates are mainly Special Purpose Entities (SPEs) and UCIs.

D.1 Consolidated structured entities

There are no structured entities consolidated in the accounts other than securitisation companies that fall within the scope of the Intesa Sanpaolo Banking Group.

D.2 Structured entities not consolidated in the accounts

D.2.1 Structured entities consolidated for regulatory purposes

There are no structured entities that are not consolidated in the accounts but are consolidated for regulatory purposes.

D.2.2 Other structured entities not consolidated for regulatory purposes

Qualitative information

As indicated above, the Group's operations through structured entities are also carried out through SPEs. To that end, SPEs are understood as legal entities established to pursue a specific, well-defined and limited objective:

- to raise funds on the market by issuing specific financial instruments;
- 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.

For the purposes of this section, operations carried out through securitisation vehicles, that is vehicles established to acquire, sell or manage specific assets, separating them from the financial statements of the Originator, for the purpose of carrying out securitisations of assets or for acquiring funding through self-securitisations and issues of Covered Bonds (CB), shall not be relevant. For that types of vehicle companies, reference to section C. Securitisations and section E. Sales of Part E of the Notes to the consolidated financial statements should be made.

In some cases the Group sponsors the SPE by structuring the transaction to pursue specific objectives, such as raising funds, securitising its own assets also for the purposes of funding or offering financial services to customers.

In detail, the Group's operations are carried out through the following types of structured entities represented by special purpose entities (SPEs).

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 sponsors "with entrepreneurial capacity", mostly abroad in order to benefit from operating and legal/bureaucratic efficiency.
The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

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 finances 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 undertaken is always a normal credit risk and the benefits are represented by the return on the financing granted.

Leveraged & Acquisition Finance SPEs

This category includes 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. The Intesa Sanpaolo Group finances entities of this type, as normal borrowers, without acting as sponsor.

The Intesa Sanpaolo Group also has investments in/exposures to structured entities represented by UCIs.
The main cases include the Group's investments in several funds managed by IMI Fondi Chiusi SGR, which sponsors and manages closed-end private equity funds, in the form of UCIs reserved to qualified operators, specialised in investment in Small and Medium-Sized Enterprises, operating in two complementary business lines: Private Equity and Venture and Seed Capital.
In the area of Private Equity, there are several operating funds dedicated to investment in SMEs throughout the country and in specific geographical areas.
In the area of Venture and Seed Capital, the sponsored funds operate in the following areas:
– participation in new business initiatives characterised by sound technological profiles;
– participation in projects to introduce process or product innovation using digital technology;
– investments in businesses with high forecast growth rates and cutting-edge technological development, both through direct investments in Seed Capital (financing the assessment and development of a business idea prior to the start-up phase) and indirect investments in UCI units with an investment policy matching the Fund's objectives or in business incubators/accelerators.

Investments in these types of funds derive from the Group's willingness to subscribe unplaced units offered during the placement to qualified investors, to ensure that the initiatives are successful, in any event, while maintaining suitable separation of management in organisational terms.
The closed-end funds in question finance their activities exclusively using the capital that investors committed to paying in at the time of placement, without using any types of debt.

The Group made further investments in UCIs through the subsidiary Eurizon Capital SGR, in line with the financial portfolio management policies issued by the company, in agreement with the Intesa Sanpaolo Group Guidelines. In detail, the asset management company has both temporary and structural available funds deriving from company equity that is not permanently invested in equity investments or other fixed assets, and from the ordinary cash flows. Based on that set out in the Guidelines for managing the financial portfolio, as part of Treasury management activities, structural and temporarily available funds linked to the trend in short-term and on demand cash flows make up the liquidity portfolio net of the amount held in current accounts or invested in term deposits. In relation to the activities carried out by the asset management company and the characteristics of the available funds in question, excess liquidity must be invested in assets with moderate risk that can be easily liquidated. That portfolio includes investments in short-term monetary and bond funds, both specialising in the Eurozone, established and/or managed by Eurizon Capital SGR or by subsidiaries. The Group's investments in UCIs managed by a subsidiary do not prejudice the operational autonomy and capacity of the asset management company to act in the exclusive interest of investors, considering the specific provisions set out in sector regulations and by the Supervisory Authorities.

The Intesa Sanpaolo Group also invests in hedge funds. For more information, refer to the specific section in Part E of the Notes to the consolidated financial statements.

Quantitative information

(millions of euro)

Captions / Type of structured entity	Accounting portfolios under assets	Total assets (A)	Accounting portfolios under liabilites	Total liabilities (B)	NET BOOK VALUE (C = A-B)	Maximum exposure to risk of loss (D)	Difference between exposure to risk of loss and book value (E = D - C)
1. SPE		**1,021**		**4**	**1,017**	**1,017**	**-**
	Financial assets held for trading	2	Due to customers	4			
	Financial assets available for sale	5	-	-			
	Loans to customers	1,014	-	-			
2. UCI		**931**		**1**	**930**	**1,054**	**124**
	Financial assets held for trading	226	Due to customers	1			
	Financial assets available for sale	320	-	-			
	Loans to customers	277	-	-			
	Equity investments	108	-	-			

The maximum exposure to risk, representing the maximum exposure of the entity to losses deriving from its interests in structured entities, was prudently posted at the net book value in most cases. The net book value equals the exposure in the financial statements net of value adjustments recorded during the current and previous years. For UCIs, where applicable, the maximum risk exposure also includes the Group's commitments, not yet called up by the fund, to subscribe additional units.

The table below shows the amount and type of revenues earned over the year by sponsored structured entities for which no exposures or equity investments were posted in the financial statements at the reporting date. Specifically, these are revenues recognised by the Group in the form of fees deriving from the management and placement of the UCIs sponsored and managed by the Group's asset management companies and placed with customers. The fees in question are charged by the asset management company to the funds managed and partly reversed to the distribution network for the placement service. The Group had no interests in the funds in question at the reporting date.

(millions of euro)

Type of structured entity sponsored	Interest	Fees and commissions	Dividends	Other revenue	TOTAL
UCI	-	1,336	-	-	1,336

E. SALES

A. Financial assets sold not fully derecognised

Qualitative information

For a description of the operations shown in tables E.1, E.2 and E.3 below, refer to the information shown below the relevant tables.
Conversely, for operations in debt securities against medium-/long-term repurchase agreements, refer to the information in Part B of the Notes to the consolidated financial statements.

Quantitative information

E.1. Banking group - Financial assets sold not derecognised: book value and full value

(millions of euro)

	CASH ASSETS				DERIVATIVES	31.12.2014		31.12.2013	
	Debt securities	Equities	UCI	Loans		Total	*of which non-performing assets*	Total	*of which non-performing assets*
FINANCIAL ASSETS HELD FOR TRADING	**4,623**	**-**	**-**	**-**	**-**	**4,623**	**-**	**6,364**	**-**
- Financial assets sold totally recognised (book value)	4,623	-	-	-	-	4,623	-	6,364	-
- Financial assets sold partly recognised (book value)	-	-	-	-	-	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	-	-	-	-	-
FINANCIAL ASSETS MEASURED AT FAIR VALUE	**-**	**-**	**-**	**-**	**X**	**-**	**-**	**-**	**-**
- Financial assets sold totally recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
FINANCIAL ASSETS AVAILABLE FOR SALE	**9,878**	**-**	**-**	**-**	**X**	**9,878**	**-**	**8,226**	**-**
- Financial assets sold totally recognised (book value)	9,878	-	-	-	X	9,878	-	8,226	-
- Financial assets sold partly recognised (book value)	-	-	-	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	-	-	-	X	-	-	-	-
INVESTMENTS HELD TO MATURITY	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**198**	**-**
- Financial assets sold totally recognised (book value)	-	X	X	-	X	-	-	198	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
DUE FROM BANKS	**-**	**X**	**X**	**-**	**X**	**-**	**-**	**724**	**-**
- Financial assets sold totally recognised (book value)	-	X	X	-	X	-	-	724	-
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
LOANS TO CUSTOMERS	**834**	**X**	**X**	**816**	**X**	**1,650**	**36**	**2,380**	***43***
- Financial assets sold totally recognised (book value)	834	X	X	816	X	1,650	36	2,380	43
- Financial assets sold partly recognised (book value)	-	X	X	-	X	-	-	-	-
- Financial assets sold partly recognised (full value)	-	X	X	-	X	-	-	-	-
Total 31.12.2014	**15,335**	**-**	**-**	**816**	**-**	**16,151**	**36**	**X**	***X***
Total 31.12.2013	**17,081**	**5**	**3**	**803**	**-**	**X**	**X**	**17,892**	***43***

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

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

E.2. Banking group - Financial liabilities corresponding to financial assets sold not derecognised: book value

(millions of euro)

	DUE TO CUSTOMERS		DUE TO BANKS		SECURITIES ISSUED		TOTAL 31.12.2014	TOTAL 31.12.2013
	Fully recognised	Partly recognised	Fully recognised	Partly recognised	Fully recognised	Partly recognised		
Financial assets held for trading	3,793	-	867	-	-	-	4,660	6,135
Financial assets measured at fair value	-	-	-	-	-	-	-	-
Financial assets available for sale	8,969	-	954	-	-	-	9,923	7,108
Investments held to maturity	-	-	-	-	-	-	-	-
Due from banks	-	-	-	-	-	-	-	14
Loans to customers	33	-	583	-	629	-	1,245	1,602
Total	**12,795**	**-**	**2,404**	**-**	**629**	**-**	**15,828**	**14,859**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.
The financial liabilities corresponding to financial assets sold not derecognised (shown in the columns Due to Customers and Due to Banks) mainly relate to repurchase agreements for securities recorded under assets.
On the other hand, in accordance with the regulations, the liabilities issued as part of the related securitisation by the SEC3 vehicle (included within the scope of consolidation) are shown under securities issued.
However, they do not include the repurchase agreements relating to securities received under reverse repurchase agreements.

E.3. Banking group - Sales with liabilities having recourse exclusively on the assets sold: fair value

(millions of euro)

	FINANCIAL ASSETS HELD FOR TRADING		FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS		FINANCIAL ASSETS AVAILABLE FOR SALE		INVESTMENTS HELD TO MATURITY (fair value)		DUE FROM BANKS (fair value)		LOANS TO CUSTOMERS (fair value)		TOTAL 31.12.2014	TOTAL 31.12.2013
	Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:		Financial Assets sold:			
	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised	fully recognised	partly recognised		
A. Cash assets	**4,623**	**-**	**-**	**-**	**9,878**	**-**	**-**	**-**	**-**	**-**	**1,475**	**-**	**15,976**	**17,768**
1. Debt securities	4,623	-	-	-	9,878	-	-	-	-	-	850	-	15,351	16,935
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	5
3. UCI	-	-	-	-	-	-	X	X	X	X	X	X	-	3
4. Loans	-	-	-	-	-	-	-	-	-	-	625	-	625	825
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total Assets	**4,623**	**-**	**-**	**-**	**9,878**	**-**	**-**	**-**	**-**	**-**	**1,475**	**-**	**15,976**	**17,768**
C. Associated liabilities	**4,660**	**-**	**-**	**-**	**9,923**	**-**	**-**	**-**	**-**	**-**	**1,245**	**-**	**X**	**X**
1. Due to customers	3,793	-	-	-	8,969	-	-	-	-	-	33	-	X	X
2. Due to banks	867	-	-	-	954	-	-	-	-	-	583	-	X	X
3. Securities issued	-	-	-	-	-	-	-	-	-	-	629	-	X	X
Total Liabilities	**4,660**	**-**	**-**	**-**	**9,923**	**-**	**-**	**-**	**-**	**-**	**1,245**	**-**	**15,828**	**14,718**
Net Value 2014	**-37**	**-**	**-**	**-**	**-45**	**-**	**-**	**-**	**-**	**-**	**230**	**-**	**148**	**X**
Net Value 2013	**322**	**-**	**-**	**-**	**1,118**	**-**	**196**	**-**	**694**	**-**	**720**	**-**	**X**	**3,050**

Covered bond transactions where the selling bank and the lending bank are the same are not included in this caption.

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

This type of exposure did not exist as at 31 December 2014.

E.4 . Banking group - Covered bond transactions

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

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

The first programme, launched at the end of July 2009, had an amount of 20 billion euro (the original amount was 10 billion euro). The guarantor of the Covered Bonds is the vehicle ISP CB Pubblico, to which a portfolio of performing loans and securities to the public sector, originated by the former subsidiary Banca Infrastrutture Innovazione e Sviluppo, now Intesa Sanpaolo, was transferred. In detail, performing loans and securities to the public sector with a total original nominal value of around 14.4 billion euro were sold, the last of which (amounting to around 1 billion euro) in April 2013. As at 31 December 2014 loans and securities sold to the vehicle had a book value of 8.6 billion euro.
Against these sales, Covered Bonds were issued for a total nominal value of 17.5 billion euro (of which 3 billion euro relating to a covered bond which matured in the fourth quarter of 2011, 11 billion euro relating to issues acquired by the Parent Company and cancelled from the accounts and 3.2 billion euro relating to an exchange offer to investors during 2012). During 2014:

– in March and April, early redemption of the sixth series of CB was carried out, as in 2012 these were cancelled in the accounts following the merger of BIIS into Intesa Sanpaolo;
– the ninth series of CB was issued for a nominal value of 1 billion euro. This is a floating-rate bond with maturity of two years, fully subscribed by Intesa Sanpaolo. The bond is listed on the Luxembourg Stock Exchange with Moody's A2 rating, and is eligible for Eurosystem transactions;

As at 31 December 2014 a total nominal amount of 5.5 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Pubblico was outstanding, of which 5.2 billion repurchased and 0.3 billion placed with third party investors.

In the second programme, amounting to a maximum of 20 billion euro, the guarantor of the Covered Bonds is the vehicle ISP CB Ipotecario S.r.l., to which Italian residential mortgage loans originated by Intesa Sanpaolo were transferred. In detail, these are sales of Italian residential mortgages with an original nominal value of 16.8 billion euro, in addition to the sale, in May 2014, of a portfolio of Italian residential mortgages originated by Intesa Sanpaolo with a nominal value of 2.5 billion euro. In April 2014 the cover pool was increased through a revolving sales of 1 billion euro of a CTZ which, as it matured on 31 December 2014, exited the cover pool at year-end. As at 31 December 2014 loans sold to the vehicle had a book value of 14.4 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds with a total nominal value of approximately 19.5 billion euro (of which 8.2 billion euro subject to early redemption in 2012). During 2014, series 16 of CB was issued in the form of a fixed-rate bond (3.25%) for a nominal value of 1.25 billion euro, with a 12-year maturity, listed on the Luxembourg Stock Exchange with Moody’s A2 rating.
As at 31 December 2014 a total nominal amount of 12.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP CB Ipotecario was outstanding, fully placed with third party investors.

In 2012 the new multi-originator CB issue programme was launched, secured by mortgages totalling 30 billion euro. Aimed at retained issues, the programme provides for the issue of unrated securities which thus benefit from the rating of the issuer Intesa Sanpaolo. The portfolio used to collateralise the issues of Covered Bonds is composed of mortgages originated by Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio del Veneto, Banca dell'Adriatico and, starting from May 2014, Cassa di Risparmio di Bologna. In particular:
- Intesa Sanpaolo sold mortgages to the vehicle with a total original nominal value of 13.4 billion euro. No sales were made during 2014;
- Banco di Napoli sold mortgages to the vehicle with a total original nominal value of 7.8 billion euro, of which 1 billion euro sold in May 2014;
- Cassa di Risparmio del Veneto sold mortgages to the vehicle with a total original nominal value of 2.6 billion euro. No sales were made during 2014;
- Banca dell'Adriatico sold mortgages to the vehicle with a total original nominal value of 1.1 billion euro. No sales were made during 2014;
- Cassa di Risparmio in Bologna sold mortgages to the vehicle with a total original nominal value of 1.2 billion euro in May 2014.

As at 31 December 2014 loans sold to the vehicle had a book value of 20 billion euro.
Over time, against the sale of these assets, Intesa Sanpaolo carried out issues of Covered Bonds for a total nominal value of approximately 21.4 billion euro. In May 2014, in relation to the early redemption of the first four series of securities, twelve new series of securities were issued with a total nominal value of 19.1 billion euro. These are floating-rate bonds with maturities of two to seven years, subscribed by the Parent Company.
All securities issued as part of the multi-originator programme are listed on the Luxembourg Stock Exchange and, as noted above, benefit from the rating of the issuer Intesa Sanpaolo. The characteristics of the issues make them eligible for Eurosystem refinancing transactions.
In October 2014, the issues were restructured, reducing the notional amount by 1.8 billion euro.
As at 31 December 2014 a total nominal amount of 19.6 billion euro of issues made as part of the Covered Bond Programme of the vehicle ISP OBG was outstanding, fully repurchased by Intesa Sanpaolo.

The key figures for ISP CB Pubblico, ISP CB Ipotecario and ISP OBG as at 31 December 2014 are shown in the table below.

(millions of euro)

COVERED BONDS		VEHICLE DATA		SUBORDINATED LOAN [1]	COVERED BONDS ISSUED	
		Total assets	Cumulated write-downs on securitised	amount	Nominal amount [2]	Book value [2]
ISP CB PUBBLICO	Performing public sector loans and securities	12,696	-	12,062	284	324
ISP CB IPOTECARIO	RMBSs (Performing residential mortgages)	20,234	57	18,807	12,576	13,900
ISP OBG	Performing mortgages	26,457	100	26,016	-	-

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

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

In addition to this type of Covered Bonds, provided for by Italian law (Law 80/2005), there are some mortgage bonds issued by the Slovak investee VUB. These are securities whose nominal value and returns are guaranteed by mortgage loans, i.e. loans with maturity of four to thirty years, backed by a pledge on a property located in the Slovak Republic, including property under construction, at least 90% of the value of which is financed by the issue of these securities.
Each issue has specific coverage, and the entire nominal value of the issue must be backed by mortgages on local properties on at least 90% of their nominal value, and the remaining 10% by liquidity deposits with the National Bank of Slovakia or with other resident banks, by government securities or other mortgage bonds.
As at 31 December 2014 the subsidiary VUB had issued 1.6 billion euro in this type of securities, booked in the financial statements at a value of approximately 1.5 billion euro.

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

As at 31 December 2014, the expected loss on core banks (Basel 3 validation area) amounted to 0.61% of disbursed loans, a 0.03 percentage point decrease on the figure as at the end of 2013. The economic capital corresponded to 3.9% of disbursed loans, in reduction of 0.1% compared to the figure in 2013.
The improvement in the risk indicators derives from the operational actions involving the recomposition of the portfolio towards better exposures and the transfers of loans to the non-performing loan category, which contributes to eliminating customers with worse ratings from the performing loans portfolio. These effects offset the downgrading of the ratings due to the continuing difficult economic scenario.
The internal rating and LGD models are subject to internal validation process by the Internal Validation Service and a level three control by the Internal Auditing Department. The control functions produce an annual report for the Bank of Italy on the compliance of the models with the supervisory regulations, which also verifies deviations of the ex-ante estimates and the effective ex post values. This report, approved by the Management Board and the Supervisory Board of Intesa Sanpaolo, confirms the requirements of compliance.