1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods
Liquidity risk is defined as the risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).

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

The new provisions on liquidity - introduced in the European Union on 27 June 2013 with the publication of (EU) Regulation 575/2013 and Directive 2013/36/EU, which was followed by European Commission Delegated Regulation of 10 October 2014, incorporated the new minimum liquidity requirements set out in the reform plan that the Basel Committee on Banking Supervision (BCBS) promoted to strengthen regulations on liquidity, by adjusting them to European specificities. Since March 2014, banking groups have been required to fulfil specific reporting obligations to record their exposure to liquidity risk.

The "Guidelines for Group Liquidity Risk Management" approved by Intesa Sanpaolo's corporate bodies, incorporate the above regulatory provisions and illustrate the tasks of the various corporate functions, the rules and the set of control and management processes aimed at ensuring prudent monitoring of liquidity risk, thereby preventing the emergence of crisis situations. The key principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:
- the existence of liquidity management guidelines approved by senior management and clearly disseminated throughout the bank;
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- the constant availability of adequate liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
- the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
- the adoption of an internal fund transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

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

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

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

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

The cumulative projected wholesale imbalances indicator measures the Bank's independence from unsecured wholesale funding in the event of a freeze of the money market and aims to ensure financial autonomy, assuming the use on the market of only the highest quality liquidity reserves. The LCR indicator is aimed at strengthening the short-term liquidity risk profile, ensuring that sufficient unencumbered high quality liquid assets (HQLA) are retained that can be converted easily and immediately into cash on the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the Regulations. Based on the applicable European regulations, the LCR requirement will gradually come into force, starting with a percentage of 60% in October 2015 to reach 100% on 1 January 2018.

The aim of Intesa Sanpaolo Group's structural Liquidity Policy is to adopt the structural requirement provided for by the regulatory provisions of Basel 3: Net Stable Funding Ratio (NSFR). This indicator is aimed at promoting the increased use of stable funding, to prevent medium/long-term operations from giving rise to excessive imbalances to be financed in the short term. To this end, it sets a minimum acceptable" amount of funding exceeding one year in relation to the needs originating from the characteristics of liquidity and residual duration of assets and off-balance sheet exposures. NSFR's regulatory requirement, which is still subject to a period of observation, will come into force starting from 1 January 2018.

Within the Liquidity Policy it is also envisaged the time extension of the stress scenario for LCR indicator, provided by the new regulatory framework, measuring, for up to 3 months, the effect of specific acute liquidity tensions (at bank level) combined with a widespread and general market crisis. The internal management guidelines also envisage an alert threshold (Stressed soft ratio) for the LCR indicator up to 3 months, with the purpose of establishing an overall level of reserves covering greater cash outflows during a period of time that is adequate to implement the required operating measures to restore the Group to balanced conditions.
The Guidelines also establish methods for management of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash obligations falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration. By setting itself the objectives of safeguarding the Group’s asset value and also guaranteeing the continuity of operations under conditions of extreme liquidity emergency, the Contingency Liquidity Plan ensures the identification of the early warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The early warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.
Moreover, there are no medium/long-term loan contracts containing contractual clauses that result in the immediate collectability of the loans following the downgrading of the bank. For several medium/long-term loan contracts from supranational bodies, compensation for the rating trigger, i.e. loss of the minimum rating, may be requested with the issue of additional guarantees or collateral deemed suitable by the counterparty.

The Group's sound liquidity position - supported by suitable high quality liquid assets (HQLA) and the significant contribution from retail stable funding - remained well within the risk limits set out in the current Group Liquidity Policy for all of 2014: both indicators (LCR and NSFR) were met, already reaching a level above the limits under normal conditions. As at 31 December 2014, the Central Banks eligible liquidity reserves, mainly under centralised management by the Treasury Department of the Parent Company, came to a total of 97 billion euro (124 billion euro at the end of December 2013), of which 63 billion euro, net of haircut, was unencumbered (88 billion euro at the end of December 2013).
Also the stress tests, when considering the high availability of liquidity reserves (liquid or eligible), yielded results in excess of the target threshold for the ISP Group, with a liquidity surplus capable of meeting extraordinary cash outflows for a period of more than 3 months. Adequate and timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the main risk factors.

QUANTITATIVE INFORMATION

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

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

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

Currency of denomination: Euro

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**67,683**	**13,566**	**8,824**	**10,279**	**24,396**	**17,670**	**30,247**	**109,986**	**109,007**	**1,688**
A.1 Government bonds	8	9	51	181	1,276	2,971	6,585	22,272	14,655	30
A.2 Other debt securities	8	1	1,150	1,084	617	365	1,000	6,653	9,280	3
A.3 Quotas of UCI	1,701	-	-	-	-	-	-	-	-	-
A.4 Loans	65,966	13,556	7,623	9,014	22,503	14,334	22,662	81,061	85,072	1,655
- Banks	*9,524*	*1,807*	*382*	*960*	*1,192*	*702*	*651*	*615*	*48*	*1,613*
- Customers	*56,442*	*11,749*	*7,241*	*8,054*	*21,311*	*13,632*	*22,011*	*80,446*	*85,024*	*42*
Cash liabilities	**166,202**	**31,348**	**3,595**	**8,280**	**19,601**	**8,493**	**19,676**	**88,358**	**26,896**	**2,101**
B.1 Deposits and current accounts	159,790	3,461	1,718	3,030	5,794	3,849	7,821	11,290	1,884	1
- Banks	*5,012*	*1,297*	*55*	*118*	*501*	*95*	*1,214*	*949*	*380*	-
- Customers	*154,778*	*2,164*	*1,663*	*2,912*	*5,293*	*3,754*	*6,607*	*10,341*	*1,504*	*1*
B.2 Debt securities	121	110	777	3,815	12,314	3,582	10,927	58,712	19,887	2,100
B.3 Other liabilities	6,291	27,777	1,100	1,435	1,493	1,062	928	18,356	5,125	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*326*	*7,282*	*4,212*	*6,689*	*12,361*	*5,040*	*5,588*	*12,973*	*10,332*	*5*
- Short positions	*615*	*6,792*	*3,207*	*7,618*	*9,420*	*3,702*	*6,313*	*14,565*	*9,855*	*5*
C.2 Financial derivatives without exchange of capital										
- Long positions	*35,195*	*24*	*4*	*126*	*269*	*182*	*369*	*839*	*288*	-
- Short positions	*36,999*	*45*	*7*	*119*	*139*	*189*	*359*	*867*	*269*	-
C.3 Deposits and loans to be settled										
- Long positions	*20,046*	*15*	-	-	-	-	-	-	-	-
- Short positions	-	*19,687*	*17*	*9*	*336*	*8*	*3*	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*212*	*4,977*	*284*	*145*	*324*	*340*	*772*	*12,475*	*1,787*	*1*
- Short positions	*19,433*	*2,078*	*3*	*18*	*49*	*74*	*167*	*31*	*280*	*1*
C.5 Financial guarantees given	124	6	1	5	38	38	13	128	255	1
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*998*	*1,656*	*1,190*	*8,005*	*1,551*	-
- Short positions	-	-	-	-	*998*	*1,656*	*1,190*	*8,005*	*1,551*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*932*	-	-	-	-	-	-	-	-	-
- Short positions	*949*	-	-	-	-	-	-	-	-	-

Currency of denomination: US dollar

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**3,749**	**1,994**	**1,119**	**1,543**	**3,883**	**1,951**	**1,699**	**6,648**	**3,179**	**5**
A.1 Government bonds	1	-	-	26	4	1	55	369	113	2
A.2 Other debt securities	18	65	3	-	27	72	155	2,417	495	-
A.3 Quotas of UCI	610	-	-	-	-	-	-	-	-	-
A.4 Loans	3,120	1,929	1,116	1,517	3,852	1,878	1,489	3,862	2,571	3
- Banks	*2,401*	*665*	*390*	*507*	*1,569*	*1,530*	*506*	*274*	*68*	-
- Customers	*719*	*1,264*	*726*	*1,010*	*2,283*	*348*	*983*	*3,588*	*2,503*	*3*
Cash liabilities	**5,688**	**2,040**	**1,353**	**1,474**	**2,265**	**2,371**	**1,180**	**6,712**	**4,209**	**-**
B.1 Deposits and current accounts	5,155	819	778	769	496	238	198	84	230	-
- Banks	*1,594*	*481*	*377*	*463*	*145*	*15*	*7*	*16*	-	-
- Customers	*3,561*	*338*	*401*	*306*	*351*	*223*	*191*	*68*	*230*	-
B.2 Debt securities	17	414	116	147	99	1,226	982	6,426	3,979	-
B.3 Other liabilities	516	807	459	558	1,670	907	-	202	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*321*	*7,599*	*3,148*	*6,021*	*7,697*	*2,702*	*5,031*	*9,276*	*6,004*	*6*
- Short positions	*549*	*6,356*	*3,872*	*5,458*	*9,067*	*3,666*	*5,232*	*8,160*	*5,948*	*6*
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,601*	-	*4*	-	*5*	*3*	*20*	-	-	-
- Short positions	*1,111*	*7*	*1*	*3*	*5*	*5*	*10*	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	*4*	-	-	-	-	-	-	-	-	-
- Short positions	-	-	*4*	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	*2*	*9*	*1*	*97*	*805*	*561*	*8,395*	*914*	-
- Short positions	*10,751*	*67*	-	*1*	-	*46*	*4*	*46*	*4*	*1*
C.5 Financial guarantees given	1	-	-	1	2	3	3	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	*1,161*	*998*	*467*	*2,286*	*173*	-
- Short positions	-	-	-	-	*1,161*	*998*	*467*	*2,286*	*173*	-
C.8 Credit derivatives without exchange of capital										
- Long positions	*228*	-	-	-	-	-	-	-	-	-
- Short positions	*217*	-	-	-	-	-	-	-	-	-

Currency of denomination: Pound sterling

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**221**	**462**	**52**	**160**	**219**	**403**	**75**	**264**	**475**	**-**
A.1 Government bonds	-	-	-	-	-	333	4	-	45	-
A.2 Other debt securities	34	-	-	-	2	2	3	63	275	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	187	462	52	160	217	68	68	201	155	-
- Banks	*25*	*32*	*4*	*14*	*9*	-	-	-	-	-
- Customers	*162*	*430*	*48*	*146*	*208*	*68*	*68*	*201*	*155*	-
Cash liabilities	**351**	**47**	**218**	**80**	**442**	**55**	**60**	**110**	**316**	**-**
B.1 Deposits and current accounts	314	47	11	27	50	34	58	1	-	-
- Banks	*80*	*14*	*1*	*3*	*3*	-	-	-	-	-
- Customers	*234*	*33*	*10*	*24*	*47*	*34*	*58*	*1*	-	-
B.2 Debt securities	-	-	-	12	6	21	-	33	316	-
B.3 Other liabilities	37	-	207	41	386	-	2	76	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*2*	*599*	*302*	*487*	*492*	*656*	*438*	*691*	*2,589*	-
- Short positions	*7*	*1,235*	*593*	*511*	*350*	*578*	*458*	*766*	*2,627*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*234*	*2*	-	-	-	-	-	-	-	-
- Short positions	*123*	-	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	*7*	-	-	-	-	-	-	-	-	-
- Short positions	-	*3*	-	-	*5*	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	*1*	-	-	-	-	*392*	-	-
- Short positions	*418*	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Hungarian forint

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**324**	**279**	**370**	**194**	**181**	**402**	**182**	**483**	**126**	**-**
A.1 Government bonds	-	-	-	24	110	23	11	143	3	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 Quotas of UCI	4	-	-	-	-	-	-	-	-	-
A.4 Loans	320	279	370	170	71	379	171	340	123	-
- Banks	*59*	*259*	*349*	*137*	-	-	-	-	-	-
- Customers	*261*	*20*	*21*	*33*	*71*	*379*	*171*	*340*	*123*	-
Cash liabilities	**1,340**	**293**	**63**	**94**	**318**	**112**	**221**	**335**	**226**	**-**
B.1 Deposits and current accounts	1,340	293	63	94	243	111	123	289	226	-
- Banks	*1*	*1*	-	-	*8*	*11*	*20*	*108*	*28*	-
- Customers	*1,339*	*292*	*63*	*94*	*235*	*100*	*103*	*181*	*198*	-
B.2 Debt securities	-	-	-	-	75	1	98	46	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*1*	*74*	*86*	*184*	*230*	*11*	*10*	-	-	-
- Short positions	-	*311*	*117*	*18*	*899*	*314*	*57*	-	-	-
C.2 Financial derivatives without exchange of capital										
- Long positions	-	-	-	*48*	*19*	*41*	*28*	*275*	-	-
- Short positions	-	-	-	-	*19*	*40*	*27*	*275*	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	*1*	*22*	*30*	*27*	*45*	*9*	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Swiss franc

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**185**	**27**	**34**	**29**	**62**	**56**	**103**	**572**	**1,017**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	4	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	185	27	34	29	62	56	103	572	1,013	-
- Banks	*39*	*16*	*26*	*5*	-	*4*	-	-	-	-
- Customers	*146*	*11*	*8*	*24*	*62*	*52*	*103*	*572*	*1,013*	-
Cash liabilities	**176**	**36**	**3**	**15**	**25**	**26**	**54**	**144**	**185**	**-**
B.1 Deposits and current accounts	157	36	3	15	25	26	54	137	185	-
- Banks	*22*	-	-	*6*	*6*	*7*	*22*	*123*	*185*	-
- Customers	*135*	*36*	*3*	*9*	*19*	*19*	*32*	*14*	-	-
B.2 Debt securities	-	-	-	-	-	-	-	7	-	-
B.3 Other liabilities	19	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	*289*	*169*	*376*	*359*	*164*	*483*	*277*	-	-
- Short positions	-	*395*	*290*	*328*	*322*	*131*	*471*	*499*	*241*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*23*	-	-	-	-	-	-	-	-	-
- Short positions	*21*	*10*	-	-	-	-	-	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	*2*	-	-	*32*	*4*	-
- Short positions	*38*	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	1	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**1,815**	**1,626**	**224**	**843**	**1,418**	**1,938**	**2,324**	**3,399**	**859**	**1,080**
A.1 Government bonds	5	46	4	1	440	1,041	1,175	1,030	69	-
A.2 Other debt securities	1	10	38	24	43	5	5	36	73	-
A.3 Quotas of UCI	37	-	-	-	-	-	-	-	-	-
A.4 Loans	1,772	1,570	182	818	935	892	1,144	2,333	717	1,080
- Banks	*841*	*1,383*	*65*	*12*	*81*	*20*	*20*	*69*	*-*	*1,080*
- Customers	*931*	*187*	*117*	*806*	*854*	*872*	*1,124*	*2,264*	*717*	*-*
Cash liabilities	**4,291**	**995**	**345**	**571**	**665**	**716**	**762**	**2,910**	**323**	**-**
B.1 Deposits and current accounts	4,218	928	276	539	465	459	478	414	63	-
- Banks	*135*	*159*	*9*	*29*	*26*	*8*	*26*	*114*	*30*	*-*
- Customers	*4,083*	*769*	*267*	*510*	*439*	*451*	*452*	*300*	*33*	*-*
B.2 Debt securities	5	4	13	32	200	253	283	2,278	260	-
B.3 Other liabilities	68	63	56	-	-	4	1	218	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*75*	*1,307*	*783*	*1,630*	*2,251*	*1,089*	*1,768*	*4,318*	*305*	*2*
- Short positions	*5*	*2,408*	*718*	*1,560*	*1,993*	*1,535*	*1,389*	*2,720*	*193*	*2*
C.2 Financial derivatives without exchange of capital										
- Long positions	*143*	*39*	*-*	*9*	*32*	*36*	*27*	*63*	*-*	*-*
- Short positions	*154*	*2*	*-*	*5*	*40*	*20*	*41*	*63*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*44*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*43*	*1*	*1*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*4*	*6*	*4*	*17*	*56*	*17*	*7*	*3*	*-*
- Short positions	*115*	*24*	*4*	*81*	*51*	*84*	*77*	*218*	*540*	*-*
C.5 Financial guarantees given	-	2	-	2	6	6	20	21	1	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of capital										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

2. Disclosure on encumbered assets recognised in the financial statements

(millions of euro)

	ENCUMBERED		UNENCUMBERED		31.12.2014	31.12.2013
	Book value	Fair value	Book value	Fair value	TOTAL BOOK VALUE	TOTAL BOOK VALUE
1. Cash and cash equivalents	120	X	5,100	X	5,220	6,525
2. Debt securities	21,703	21,260	57,860	55,163	79,563	91,410
3. Equities	12	12	7,943	7,883	7,955	5,077
4. Loans	83,564	X	272,919	X	356,483	355,570
5. Other financial assets	20	X	78,756	X	78,776	40,126
6. Non-financial assets	20	X	6,336	X	6,356	39,114
TOTAL 31.12.2014	**105,439**	**21,272**	**428,914**	**63,046**	**534,353**	**X**
TOTAL 31.12.2013	**88,120**	**25,640**	**449,702**	**67,381**	**X**	**537,822**

Intragroup deposits of 3,178 million euro, established to serve securities lending with subjects outside the Group, were netted.

3. Disclosure on encumbered owned assets not recognised in the financial statements

(millions of euro)

	ENCUMBERED	UNENCUMBERED	31.12.2014	31.12.2013
1. Other financial assets	21,291	37,470	58,761	69,705
- Securities	*21,291*	*35,800*	*57,091*	*69,506*
- Other	*-*	*1,670*	*1,670*	*199*
2. Non-financial assets	-	2,918	2,918	-
TOTAL 31.12.2014	**21,291**	**40,388**	**61,679**	**X**
TOTAL 31.12.2013	**17,861**	***51,844***	**X**	**69,705**

The guarantees provided in connection with the refinancing operations at the European Central Bank amount to approximately 34 billion euro for the owned assets recorded and to approximately 1 billion euro for the assets not recognised in the financial statements.

4. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
A brief description of the existing transactions as at 31 December 2014 is provided below.

Adriano Lease SEC S.r.l.

The transaction in question is a securitisation undertaken pursuant to Law 130/99 with the support of the vehicle Adriano Lease SEC S.r.l., which took the form of the sale by the subsidiary Leasint (merged by incorporation into Mediocredito Italiano in 2014) of a portfolio of loans selected on the basis of pre-defined criteria and arising from performing property, equipment and car lease contracts, for a total amount of approximately 5.8 billion euro. The purpose of the transaction is to expand the liquidity reserve that may be activated through refinancing transactions on the Eurosystem. The vehicle Adriano Lease SEC issued two series of notes:

– a senior series, with a nominal value of 2.8 billion euro, listed and assigned an A+ rating by Standard & Poor's and AAA by DBRS. As at 31 December 2014, the note, which is being repaid, had a residual nominal value of 48 million euro;
– a junior series, with a nominal value of 3 billion euro, unlisted and unrated.

All these notes were purchased by the subsidiary Leasint (now Mediocredito Italiano). In 2014, the junior notes were assigned through a repurchase agreement to Intesa Sanpaolo, which partially used them as collateral for a loan received.

Intesa Sanpaolo SEC S.A.

The securitisation of loans issued to large international corporate customers by some international branches of Intesa Sanpaolo (Frankfurt, Hong Kong, Madrid and New York) was finalised in August 2013. The securitisation was conducted through the Luxemburg-based vehicle company Intesa Sanpaolo SEC. SA., which is wholly owned and is part of the Group.
The securities issued, with a total value of about 321 million euro, were subscribed by Intesa Sanpaolo and used for a value of about 305 million euro (corresponding to the most senior class of notes issued, representing the principal of the securitised loans) as collateral of a loan received by a primary European bank.

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

(millions of euro)

Vehicle		Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2014
Adriano Lease SEC S.r.l.					**3,092**
		Senior	Loans deriving from leasing contracts	A+	48
		Junior	Loans deriving from leasing contracts	no rating	3,044
Intesa Sanpaolo SEC SA					**321**
of which issued in EUR					291
	Secured Principal Notes	Senior	Loans to large foreign corporate customers	no rating	276
	Secured Income Notes	Junior	Loans to large foreign corporate customers	no rating	15
of which issued in USD					30
	Secured Principal Notes	Senior	Loans to large foreign corporate customers	no rating	29
	Secured Income Notes	Junior	Loans to large foreign corporate customers	no rating	1
TOTAL					**3,413**

SOVEREIGN RISK EXPOSURE BY COUNTRY OF RESIDENCE OF THE ULTIMATE BORROWER

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

(millions of euro)

	DEBT SECURITIES							LOANS
	Banking Group					Insurance companies (*)	Total	
	Loans and Receivables	Financial assets available for sale	Investments held to maturity	Financial assets designated at fair value through profit and loss	Financial assets held for trading			
EU Countries	**7,563**	**40,850**	**1,033**	**822**	**6,870**	**57,016**	**114,154**	**20,035**
Austria	-	416	3	-	31	6	456	-
Belgium	-	931	-	-	42	10	983	-
Bulgaria	-	-	-	-	-	-	-	-
Croatia	134	49	24	776	14	4	1,001	949
Cyprus	3	-	-	-	-	-	3	-
Czech Republic	-	-	-	-	1	-	1	-
Denmark	-	-	-	-	17	-	17	-
Estonia	-	-	-	-	-	-	-	-
Finland	-	30	-	-	182	8	220	10
France	106	2,733	-	-	620	131	3,590	16
Germany	39	2,989	-	-	1,394	2,122	6,544	-
Greece	-	-	-	-	-	-	-	-
Hungary	28	307	-	-	46	28	409	242
Ireland	-	-	-	-	-	92	92	-
Italy	6,814	30,596	383	46	3,040	52,653	93,532	17,965
Latvia	-	-	-	-	-	-	-	58
Lithuania	-	21	-	-	-	-	21	-
Luxembourg	50	-	-	-	570	102	722	-
Malta	-	-	-	-	-	-	-	-
Netherlands	-	44	-	-	415	137	596	-
Poland	25	-	-	-	-	-	25	-
Portugal	-	-	-	-	2	26	28	18
Romania	10	138	-	-	6	49	203	9
Slovakia	-	1,030	623	-	6	-	1,659	121
Slovenia	-	174	-	-	-	7	181	183
Spain	354	1,392	-	-	93	1,641	3,480	464
Sweden	-	-	-	-	347	-	347	-
United Kingdom	-	-	-	-	44	-	44	-
North African Countries	**-**	**1,213**	**-**	**-**	**-**	**-**	**1,213**	**-**
Algeria	-	-	-	-	-	-	-	-
Egypt	-	1,213	-	-	-	-	1,213	-
Libya	-	-	-	-	-	-	-	-
Morocco	-	-	-	-	-	-	-	-
Tunisia	-	-	-	-	-	-	-	-
Japan	**-**	**-**	**-**	**-**	**554**	**-**	**554**	**-**

(*) Debt securities of insurance companies are classified almost entirely to the available-for-sale portfolio

As illustrated in the table, the exposure to Italian government securities totalled approximately 94 billion euro, in addition to around 18 billion euro represented by loans. The value of debt security exposures decreased by approximately 10 billion euro compared to the figure recorded at 31 December 2013.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,492 million euro as at 31 December 2014, with respect to funded and unfunded ABSs/CDOs, compared to 2,033 million euro as at 31 December 2013, in addition to an exposure of 21 million euro with respect to structured packages, broadly in line with the exposure to 31 December 2013.
The rise in funded and unfunded ABS/CDO exposure (from 1,068 million euro in December 2013 to 1,821 million euro in December 2014) classified in the trading portfolio is mainly due to higher investments in ABSs (for the most part securities with underlying residential mortgages and CLOs with mainly AA ratings) by the subsidiary Banca IMI, part of which was classified to the available-for-sale portfolio.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, a significant decrease was recorded (from 965 million euro in December 2013 to 671 million euro in December 2014), mostly attributable to the Parent Company loan portfolio and mainly due to sales. In detail, an early payment of approximately 78 million euro was recorded for one of securities classified in the funded super-senior CDO segment in the third quarter.

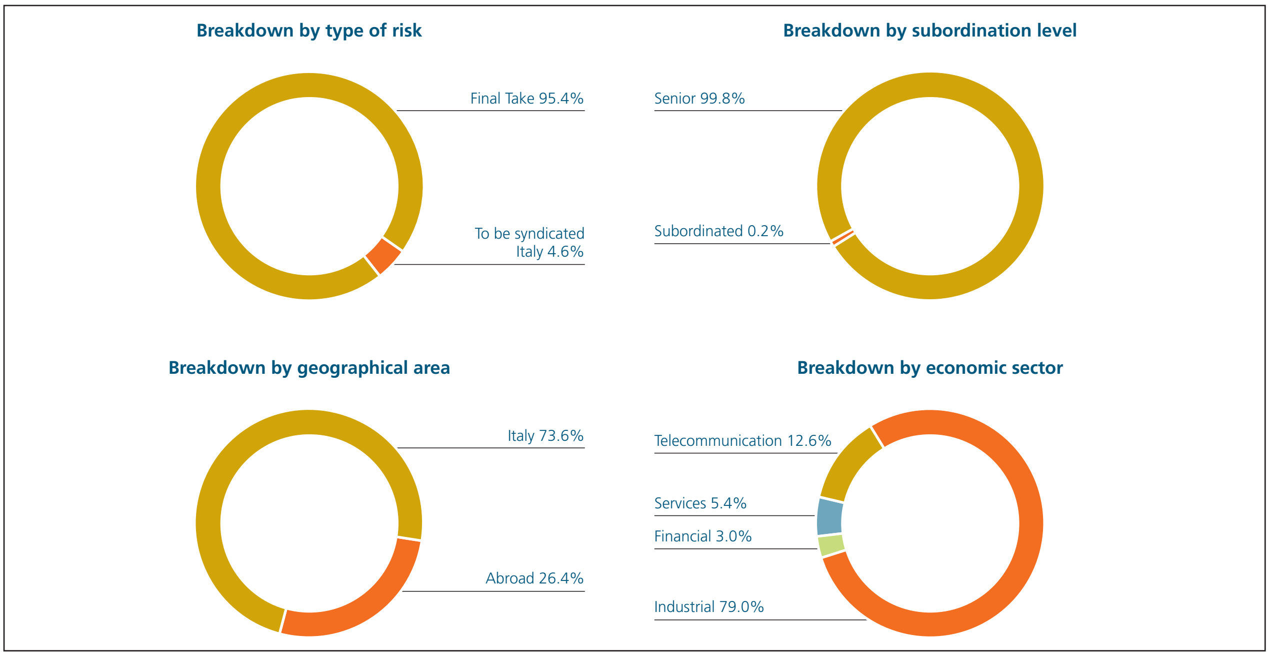
From an income statement perspective, structured credit products generated a net income of 40 million euro as at 31 December 2014 compared to 67 million euro at the end of 2013.
The exposure to funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of 39 million euro. The profit on this segment was a result of the effects of:

– unfunded Super CDO positions for +5 million euro;
– European and US funded ABSs/CDOs (+29 million euro), entirely attributable to the subsidiary Banca IMI. The impact was the result of the profits realised on the partial disposal of the trading book (20 million euro) and of the revaluation of outstanding positions (9 million euro);
– the negative contribution of the subprime exposure for 2 million euro;
– unfunded Multisector CDO positions for 9 million euro;
– other unfunded positions for -2 million euro.

As regards to the exposure to funded and unfunded ABSs/CDOs, it should be noted that the securities classified by the subsidiary Banca IMI in the portfolio of available-for-sale recorded an increase in fair value of 1 million euro, accounted for in the specific shareholders' equity reserve.
The securities reclassified to the loan portfolio had a positive impact of 2 million euro as at 31 December 2014. This is the combination result of the 8 million euro in profits realised on the sale of positions and 6 million euro in impairment losses on a number of securities included in the portfolio.
The "Monoline risk" and "Non-monoline packages" made a contribution of -1 million euro to "Profits (Losses) on trading – caption 80" as at 31 December 2014, compared to the positive result of 40 million euro recorded at 31 December 2013. The segment trend reflects the spread volatility of the counterparty on which this exposure is concentrated.

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities, in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or partial acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2014, 114 transactions for a total amount granted of 2,858 million euro met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.



INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The hedge fund portfolio as at 31 December 2014 totalled 733 million euro, compared to 744 million euro recorded in December 2013. An analysis of changes in the portfolio shows distributions and redemptions during the period, which, however, were more than offset by the increase in the value in euro of the positions in US dollars due to the sharp appreciation of the foreign currency.
As at the same date, the overall result of the investments in this segment was positive for 11 million euro, compared to 70 million euro of the "Profits (Losses) on trading – caption 80" as at 31 December 2013.
Net profits of 11 million euro, recognised as at 31 December 2014 under "Profits on trading – caption 80", were almost fully attributable to profits on foreign exchange transactions deriving from the sharp appreciation of the US dollar against the euro, even with a breakeven position in foreign currency.
The hedge fund portfolio saw profits and losses on trading which offset each other and had a nil impact on the "Profits (losses) on trading – caption 80". Gross capital gains on the final residual amount (24 million euro), spread across 12 positions, were almost fully offset by capital losses (24 million euro), spread across 14 positions.
During the fourth quarter of 2014, there were no noteworthy changes in the portfolio's overall strategy, which still prevalently aims to benefit from the implementation of specific corporate events, typically independent from the general market trend.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

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

– Banca dei Territori Division, for the sale of derivative products to retail and SME customers with consolidated turnover under 350 million euro, through the branch network of Intesa Sanpaolo and of the Group's Italian banks. Derivatives sold by the network are hedged back to back with a swap house which, in most cases, is Banca IMI;
– Corporate and Investment Banking Division, for the sale of derivative products to medium-sized and large companies, through the branch network of Intesa Sanpaolo and the Group's Italian banks, and to entities of the Public Administration. Derivatives sold by the network are hedged back to back with Banca IMI.

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

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

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

Considering relations with customers only, as at 31 December 2014, the Intesa Sanpaolo Group, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), presented a positive fair value, having not applied netting agreements, of 8,731 million euro (5,542 million euro as at 31 December 2013). The notional value of such derivatives totalled 49,251 million euro (54,087 million euro as at 31 December 2013). Of these, the notional value of plain vanilla contracts was 44,543 million euro (51,817 million euro as at 31 December 2013), and of structured contracts was 4,708 million euro (4,475 million euro as at 31 December 2013).

Please note that the positive fair value of structured contracts outstanding with the 10 customers the highest exposures was 558 million euro (363 million euro as at 31 December 2013). The same indicator, referred to the total contracts with a positive fair value, was 5,890 million euro.

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,306 million euro as at 31 December 2014 (606 million euro as at 31 December 2013).

The notional value of these derivatives totalled 17,000 million euro (17,627 million euro as at 31 December 2013). Of these, the notional value of plain vanilla contracts was 15,150 million euro (17,787 million euro as at 31 December 2013), and of structured contracts was 1,850 million euro (1,030 million euro as at 31 December 2013).

The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding at 31 December 2014, this led to a negative effect of 58 million euro being recorded under "Profits (Losses) on trading" in the income statement.

As regards the means of calculation, for the various methodologies used in the determination of the fair value of financial instruments, see the specific paragraphs in this chapter.

Please note that contracts made up of combinations of more elementary derivative instruments have been considered "structured" and that the aforesaid figures do not include fair value of derivatives embedded in structured bond issues neither the relative hedges agreed by the Group.