Risk management

BASIC PRINCIPLES

As described in greater detail in the annual financial statements, the Intesa Sanpaolo Group's risk acceptance policies are defined by the Parent Company's Supervisory Board and Management Board. The Supervisory Board performs its activities through specific committees set up from among its members, including the Internal Control Committee and the Risk Committee. The Management Board draws on the activities conducted by managerial committees, particularly the Group Risk Governance Committee. Both corporate bodies receive support from the Chief Risk Officer who reports directly to the Chief Executive Officer. The Chief Risk Officer is responsible for proposing the Risk Appetite Framework, setting the Group's risk management guidelines and policies in accordance with company strategies and objectives and coordinating and verifying the implementation of those guidelines and policies by the responsible units of the Group, including within the various corporate departments. The Chief Risk Officer ensures management of the Group's overall risk profile by establishing methods and monitoring exposure to the various types of risk and reporting the situation periodically to the corporate bodies.
The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiaries' Management Bodies.
The risk measurement and management tools contribute to defining a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The assessment of capital is included in business reporting and is submitted quarterly to the Group Risk Governance Committee, the Risk Committee and the Management Board, as part of the Group's Risks Tableau de Bord. Risk hedging, given the nature, frequency and potential impact of the risk, is based on a constant balance between mitigation/hedging action, control procedures/processes and capital protection measures.

BASEL 3 REGULATIONS AND THE INTERNAL PROJECT

With effect from 1 January 2014, the reforms of the accords by the Basel Committee ("Basel 3") were implemented in the EU legal framework. Their aim is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance, and strengthen banks' transparency and disclosures. In doing so, the Committee maintained the approach based on three Pillars, which was at the basis of the previous capital accord, known as "Basel 2", supplementing and strengthening it to increase the quantity and quality of intermediaries' available capital as well as introducing counter-cyclical regulatory instruments, provisions on liquidity risk management and financial leverage containment.
Therefore, the EU implemented "Basel 3" through two legislative acts:

– Regulation (EU) No. 575/2013 of 26 June 2013 (CRR), which governs the prudential supervision requirements of Pillar 1 and public disclosure requirements (Pillar 3);
– Directive 2013/36/EU of 26 June 2013 (CRD IV), which, among other things, deals with the access to the activity of credit institutions, freedom of establishment, freedom to provide services, supervisory review process, and additional equity reserves.

EU legislation is complemented by the provisions issued by the Bank of Italy and referring to Circular no. 285 of 17 December 2013, which contains the prudential supervision regulations applicable to banks and Italian banking groups, reviewed and updated to adjust the internal regulations to the new elements of the international regulatory framework, with special reference to the new regulatory and institutional structure of banking supervision of the European Union and taking into account the needs detected while supervising banks and other intermediaries.

In order to comply with the new rules envisaged by Basel 3, the Group has undertaken adequate project initiatives, expanding the objectives of the Basel 2 Project in order to improve the risk measurement systems and the related risk management systems.
Additional information on own funds, which are now calculated according to the Basel 3 rules, and on capital ratios of the Group is provided in the section on balance sheet aggregates: Own funds and capital ratios, and in the document Basel 3 Pillar 3.

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

Company (*)	Corporate FIRB	Corporate AIRB LGD	SME Retail IRB LGD	Mortgage IRB LGD
Intesa Sanpaolo Banco di Napoli Cassa di Risparmio del Veneto Cassa di Risparmio in Bologna Cassa di Risparmio del Friuli Venezia Giulia Cassa dei Risparmi di Forlì e della Romagna Banca dell'Adriatico	Dec - 2008	Dec - 2010	Dec - 2012	Jun - 2010
Mediocredito Italiano				n.a.
Gruppo Cassa di Risparmio di Firenze	Dec - 2009	Dec - 2010	Dec - 2012	Jun - 2010
Cassa di Risparmio dell'Umbria	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio della Provincia di Viterbo	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Cassa di Risparmio di Rieti	n.a.	Dec - 2010	Dec - 2012	Dec - 2011
Banca Prossima	n.a.	Dec - 2013	Dec - 2013	n.a.
Banca IMI	n.a.	Jun - 2012	n.a.	n.a.
Intesa Sanpaolo Bank Ireland	Mar - 2010	Dec - 2011	n.a.	n.a.
Vseobecna Uverova Banka	Dec - 2010	Jun - 2014	Jun - 2014	Jun - 2012

(*) Changes compared to the situation as at 30 June 2015 include the mergers by incorporation of Banca di Trento e Bolzano and Banca Monte Parma into the Parent Company Intesa Sanpaolo S.p.A..

Dedicated rating approaches have been developed for the Banks and Public Entities Portfolio according to the type of counterparty to be assessed. This was the subject of a pre-validation inspection by the Supervisory Authority conducted in December 2013, followed by an additional validation visit in March 2015. In the same month an AIRB authorisation request was presented to the Supervisory Authority for this portfolio.
The Group is also proceeding with development of the IRB systems for the other segments and the extension of the scope of companies for their application in accordance with a plan presented to the Supervisory Authority.

With reference to the Parent Company Intesa Sanpaolo and to Banca IMI, the Bank of Italy granted the authorisation to use the internal counterparty risk model for regulatory purposes, starting from the first quarter of 2014.
The advanced measurement approach for counterparty risk is in the development phase for the Banks of the Banca dei Territori Division, with the aim of launching the validation process for regulatory purposes in 2015.

With regard to Operational Risk, the Group obtained authorisation to use the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes, with effect from the report as at 31 December 2009; the scope of application of the advanced approaches is being progressively expanded in accordance with the roll out plan presented to the Management and to the Supervisory Authorities. For additional details see the section on operational risks.

The adequacy of the internal control system for risks is also illustrated in the annual Internal Capital Adequacy Assessment Process Report, based on the extensive use of internal approaches for the measurement of risks and for the calculation of internal capital and total capital available. The document was approved and presented to the Bank of Italy in April 2015.

The Intesa Sanpaolo Group was well above the thresholds required by the 2014 EU-wide Comprehensive Assessment, carried out in 2014 on the balance sheets of the European banks as at 31 December 2013 and consisted of an asset quality review (AQR), as well as an exercise examining the impact of a negative macroeconomic scenario on banks' capital (Stress Test).

As mentioned, as part of its adoption of Basel 3, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 3 - Pillar 3" or simply "Pillar 3".
The document is published on the website (group.intesasanpaolo.com) on a quarterly basis.

CREDIT RISK

The Group's strategies, powers and rules for the granting and managing of loans are aimed at:

- achieving the goal of sustainable growth consistent with the Group's risk appetite and value creation objectives, whilst guaranteeing and improving the quality of its lending operations;
- diversifying the portfolio, limiting the concentration of exposures to counterparties/groups, 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 and mitigating potentially associated losses;
- given the current economic climate, favouring lending business aimed at supporting the real economy and production system and at developing relationships with customers;
- constantly monitoring relationships and the related exposures, through the use of both IT procedures and systematic surveillance of positions that show irregularities with the aim of detecting any symptoms of deterioration in a timely manner.

The Intesa Sanpaolo Group has developed a set of techniques and tools for credit risk measurement and management which ensures analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.
In particular, with respect to loans to customers, risk is measured using internal rating models which change according to the counterparty's operating segment.

Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall watch-list and non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring through a control system and periodic managerial reporting. In particular, this activity is performed using measurement methods and performance controls that allow the production of synthetic risk indicators. Constant monitoring of the quality of the loan portfolio is pursued through specific operating checks for all the phases of loan management, through the use of both IT procedures and systematic supervision of positions with the aim of detecting any symptoms of deterioration and promote corrective measures to prevent possible deterioration of credit risk.
Positions are detected and automatically entered in the credit management processes by way of daily and monthly checks, using objective risk indicators.
They allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and for credit risk control.
Within the Group, in accordance with pre-set rules, positions which are attributed a persistent high-risk rating are intercepted (manually or automatically) and classified to the following categories based on their risk profile, in accordance with the new regulatory provisions on credit quality: doubtful loans, exposures to borrowers in default or similar situations; unlikely to pay (new category of non-performing loans which substantially includes the repealed category of substandard loans). This category includes all on- and off-balance sheet exposures which the bank, based on its opinion, deems unlikely to be completely (as principal and/or interest) repaid by the borrower without the implementation of actions such as enforcement of guarantees. This assessment is irrespective of the presence of any amounts (or instalments) due and unpaid.
The category of non-performing loans also includes past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy. Lastly, non-performing exposures also include the individual forborne exposures which comply with the definition of "Non-performing exposures with forbearance measures" envisaged by the EBA ITS (Implementing Technical Standards – European Banking Authority). The latter do not comprise a separate category of non-performing assets, rather, they are an attribute of the above categories of non-performing assets.

(millions of euro)

	30.09.2015			31.12.2014			Changes
	Gross exposure	Total adjustments	Net exposure	Gross exposure	Total adjustments	Net exposure	Net exposure
Doubtful loans	38,968	-24,484	14,484	38,210	-23,992	14,218	266
Unlikely to pay	24,151	-5,592	18,559	23,156	-5,311	17,845	714
Past due loans	1,358	-225	1,133	1,472	-219	1,253	-120
Non-performing loans	**64,477**	**-30,301**	**34,176**	**62,838**	**-29,522**	**33,316**	**860**
of which forborne	***10,866***	***-2,748***	***8,118***	***9,405***	***-2,215***	***7,190***	***928***
Performing loans	299,779	-2,315	297,464	294,235	-2,386	291,849	5,615
of which forborne	*8,516*	*-238*	*8,278*	*8,758*	*-229*	*8,529*	*-251*
Performing loans represented by securities	13,774	-274	13,500	14,111	-274	13,837	-337
of which forborne	*148*	*-5*	*143*	*4*	-	*4*	*139*
Loans to customers	**378,030**	**-32,890**	**345,140**	**371,184**	**-32,182**	**339,002**	**6,138**

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and discontinued operations.

The table above shows an increase (+2.6%) of non-performing loans for the first nine months of 2015, net of adjustments compared to the end of the previous year.
With non-performing loans decreasing to 9.9% of total loans to customers (essentially unchanged compared to the end of the year), the Group maintained a rigorous provisioning policy suited to covering expected losses, also considering the collateral and guarantees. Specific coverage of non-performing loans came to 47%, at the same level recorded at the end of 2014.
In particular, as at 30 September 2015, doubtful loans, net of adjustments, reached 14.5 billion euro, up 1.9% since the beginning of the year. The incidence on total loans was 4.2%, with a coverage ratio of 62.8%.

Unlikely to pay loans increased by 4% on 31 December 2014, amounting to 18.6 billion euro. Unlikely to pay loans as a proportion of total loans to customers equalled 5.4% and the coverage ratio, adequate for the risk intrinsic to this portfolio, was 23.2%, up slightly on the figure at the end of the prior year.
Past due loans totalled 1.1 billion euro, down 9.6% compared to the end of 2014. This type of non-performing loans accounted for 0.3% of the total. The coverage ratio came to 16.6%, compared with 14.9% as at the end of 2014.
Net forborne non-performing positions amounted to 8.1 billion euro, with a coverage ratio of 25.3% and a percentage of 2.3% (2.1% as at 31 December 2014).
Performing exposures increased, from 291.8 billion euro in the previous year to 297.5 billion euro. In this context, the cumulated collective adjustments on these loans totalled 0.8% of the gross exposure to customers, a value that is essentially in line with the figure recorded at the end of the previous year.
Forborne performing positions amounted to 8.3 billion euro, with a coverage ratio of 2.8%, and comprise 2.4% of total loans to customers (2.5% at the end of 2014).

MARKET RISKS

TRADING BOOK

The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:

- interest rates;
- equities and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABS);
- commodities.

Other Group subsidiaries hold smaller trading portfolios with a marginal risk (approximately less than 4% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are local government bonds, positions in interest rates, and foreign exchange rates relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
Effective from the report as at 30 September 2012, both banks have received authorisation from the Supervisory Authority to extend the scope of the model to specific risk on debt securities. The model was extended on the basis of the current methodological framework (a historical simulation in full evaluation), and required the integration of the Incremental Risk Charge into the calculation of the capital requirement for market risks.

Effective from June 2014, market risks are to be reported according to the internal model for capital requirements for the Parent Company's hedge fund portfolios (the full look-through approach).
The risk profiles validated are: (i) generic/specific on debt securities and on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCI underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) position risk on dividend derivatives and (iv) position risk on commodities for Banca IMI, the only legal entity in the Group authorised to hold open positions in commodities.

The requirement for stressed VaR is included when determining capital absorption effective from 31 December 2011. The requirement derives from the determination of the VaR associated with a market stress period. This period was identified considering the following guidelines, on the basis of the indications presented in the Basel document "Revision to the Basel 2 market risk framework":

- the period must represent a stress scenario for the portfolio;
- the period must have a significant impact on the main risk factors for the portfolios of Intesa Sanpaolo and Banca IMI;
- the period must allow real historical series to be used for all portfolio risk factors.

In keeping with the historical simulation approach employed to calculate VaR, the latter point is a discriminating condition in the selection of the holding period. In fact, in order to ensure that the scenario adopted is effectively consistent and to avoid the use of driver or comparable factors, the historical period must ensure the effective availability of market data.
As at the date of preparation of this document, the period relevant to the measurement of stressed VaR had been set as 1 January to 31 December 2011 for Intesa Sanpaolo and at 1 July 2011 to 30 June 2012 for Banca IMI.

The analysis of market risk profiles relating to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, with a 99% confidence level and 1-day holding period.
The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.

During the third quarter of 2015, the market risks generated by Intesa Sanpaolo and Banca IMI increased compared to the average values of the second quarter of 2015. The average VaR for the period totalled 116.3 million euro compared to 85 million euro as at 30 June 2015.

Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI

(millions of euro)

Var [a]	2015						2014		
	average 3rd quarter	minimum 3rd quarter	maximum 3rd quarter	average 2nd quarter	average 1st quarter	average 4th quarter	average 3rd quarter	average 2nd quarter	average 1st quarter
Intesa Sanpaolo	11.6	8.4	17.2	13.8	12.1	8.2	9.3	9.6	9.4
Banca IMI	104.7	74.9	116.3	71.1	64.6	52.0	32.9	35.0	37.0
Total	**116.3**	**90.3**	**125.7**	**84.9**	**76.7**	**60.3**	**42.2**	**44.7**	**46.5**

[a] Each line in the table sets out past estimates of daily VaR calculated on the quartely historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

(millions of euro)

Var [a]	2015			2014		
	average 30.09	minimum 30.09	maximum 30.09	average 30.09	minimum 30.09	maximum 30.09
Intesa Sanpaolo	12.5	6.0	18.5	9.4	7.3	12.0
Banca IMI	80.6	54.0	116.3	35.0	23.8	45.7
Total	**93.1**	**64.5**	**125.7**	**44.4**	**32.0**	**55.5**

[a] Each line in the table sets out past estimates of daily VaR calculated on the historical time-series of the first nine months of the year respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for the two companies are estimated using aggregate historical time-series and therefore do not correspond to the sum of the individual values in the column.

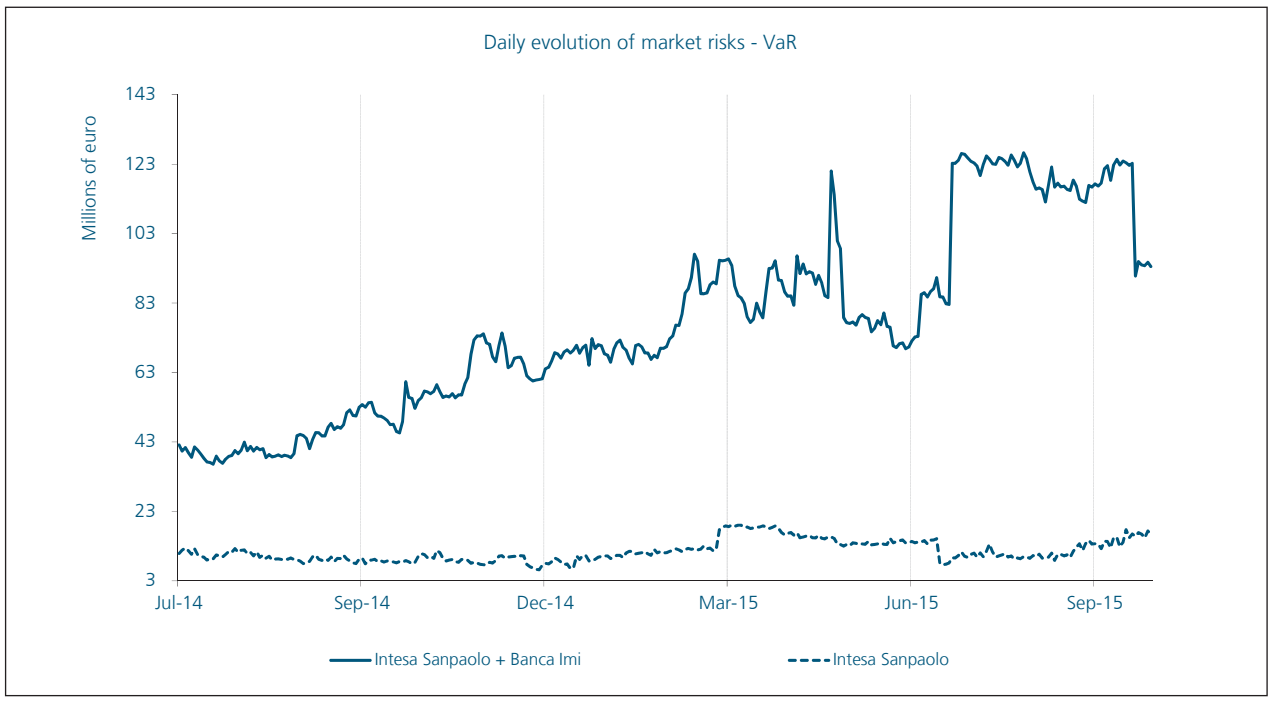
For Intesa Sanpaolo the breakdown of risk profile in the third quarter of 2015 with regard to the various factors shows the prevalence of the risk generated by equities, which accounted for 31% of total VaR; for Banca IMI credit spread risk was the most significant, representing 68% of total VaR.

Contribution of risk factors to total VaR

3rd quarter 2015 [a]	Shares	Hedge funds	Rates	Credit spreads	Foreign exchange rates	Other parameters	Commodities
Intesa Sanpaolo	31%	11%	11%	29%	14%	4%	0%
Banca IMI	5%	0%	21%	68%	1%	3%	2%
Total	**8%**	**1%**	**20%**	**64%**	**2%**	**3%**	**2%**

[a] Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the third quarter of 2015, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

The evolution of VaR in the last twelve months is set out below.
The first part of the first half of 2015 saw growth in risks as a result of the increase in Banca IMI's exposures in Italian and Spanish government bonds (taken within the limits approved by the Risk Appetite Framework 2015). In the following period, the risk measures showed peaks (in May and June) due to volatility on financial markets (specifically of government credit spreads) relating to the uncertainties linked to the Greek debt crisis. In particular, the first peak in risk recorded in May was reduced as a result of the reduction in historical scenario volatility, and as a result of disposals; the one which occurred at the end of June continued until around halfway through September when another reduction in the implicit volatility of the historical scenarios took place, reducing risk to lower levels. The Group VaR limit (of 130 million euro) was never breached during the period.



Risk control with regard to the trading activity of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads, foreign exchange rates and commodity prices at the end of June is summarised as follows:

- on stock market positions, a bearish scenario, that is a 5% decrease in stock prices with a simultaneous 10% increase in volatility would have led to a 14 million euro theoretical loss; the opposite scenario would have led to a 5 million euro theoretical gain;
- on interest rate exposures, a parallel +40 basis point shift in the yield curve would have led to a 156 million euro loss, whereas a bearish rates scenario would imply potential gains for 49 million euro;
- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a theoretical 289 million euro loss;
- on foreign exchange exposures, an increase of the euro against the other currencies would have led to a theoretical loss of approximately 8 million euro;
- lastly, on commodity exposures, the risk profile shows a potential theoretical loss (-3 million euro) in the event of a 20% increase in prices of underlyings.

(millions of euro)

	EQUITY		INTEREST RATES		CREDIT SPREADS		FOREIGN EXCHANGE RATES		COMMODITY	
	volatility +10% and prices -5%	volatility -10% and prices +5%	+40bp	lower rate	-25bp	+25bp	-10%	+10%	-20%	+20%
Total	-14	5	-156	49	279	-289	8	-8	2	-3

Backtesting

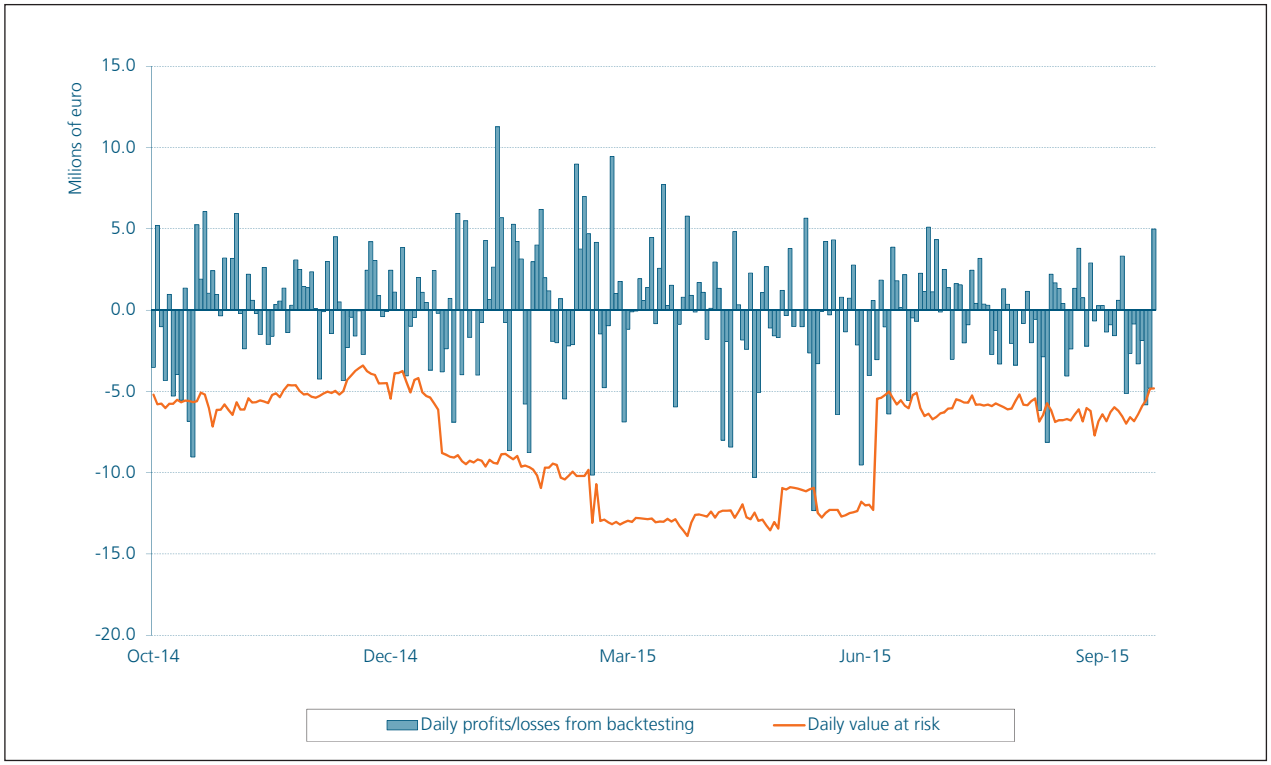
The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

- the daily estimates of value at risk;
- the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate. Current regulations require that backtesting is performed by taking into consideration both the actual P&L series recorded and the theoretical series. The latter is based on valuation of the portfolio value through the use of pricing models adopted for the VaR measurement calculation. The number of significant backtesting exceptions is determined as the maximum between those for actual P&L and theoretical P&L.

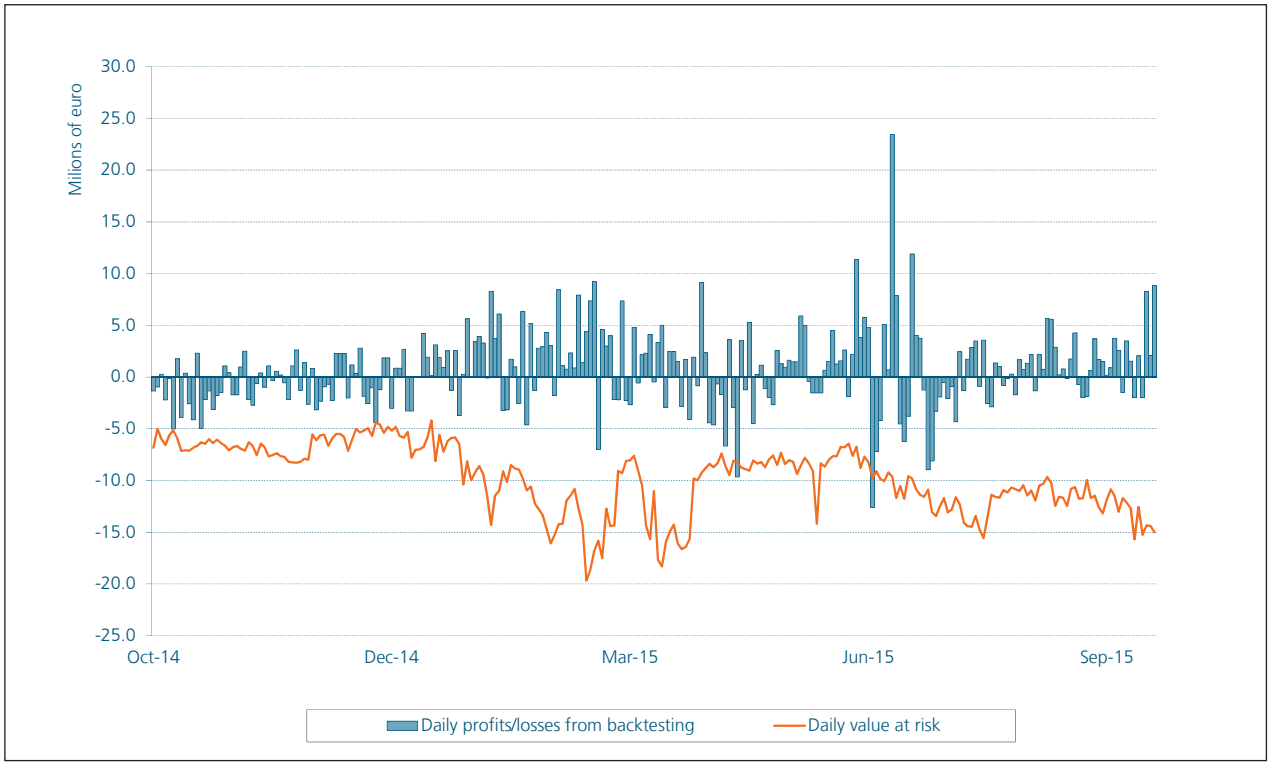
Backtesting in Intesa Sanpaolo

There were six backtesting exceptions during the last year. The exceptions can be attributed to the volatility of the credit markets following the ECB's announcements in mid-October (delay in QE), to the effects of the Greek debt crisis, and to equity market volatility at the end of August 2015.



Backtesting in Banca IMI

The two backtesting exceptions of Banca IMI refer to the actual P&L data. The losses derive from the increased volatility as a result of the worsening of the Greek debt crisis.



BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies involved in retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and by Equiter and IMI Investimenti.
The following methods are used to measure financial risks of the Group's banking book:

- Value at Risk (VaR);
- Sensitivity Analysis.

Value at Risk is calculated as the maximum potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits. Furthermore, interest margin sensitivity is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio that is being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a forecast indicator of the future levels of the interest margin.

Hedging of interest rate risk is aimed at (i) protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) reducing the volatility of future cash flows related to a specific asset/liability. The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of specifically identified assets or liabilities (micro-hedging), mainly consisting of bonds issued or acquired by Group companies and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to hedge against fair value changes intrinsic to the instalments under accrual generated by floating rate operations. The Group is exposed to this risk from the date on which the rate is set and the interest payment date.
Another hedging method used is the cash flow hedge, which has the purpose of stabilising interest flow on both variable rate funding, to the extent that the latter finances fixed-rate investments, and on variable rate investments to cover fixed-rate funding (macro cash flow hedges).
The risk management of the banking book includes the activity of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.
In the first nine months of 2015, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 245 million euro settling at 618 million euro at the end of September, almost entirely concentrated on the euro currency; this figure compares with 190 million euro at the end of 2014.
Interest margin sensitivity – assuming a 100 basis point change in interest rates – amounted to 545 million euro at the end of September 2015 (217 million euro at the end of 2014).
Interest rate risk, measured in terms of VaR, averaged 42 million euro during the first nine months of 2015 (11 million euro at the end of 2014), with a minimum value of 10 million euro and a maximum value of 93 million euro; the latter figure compares to a value of 83 million euro at the end of September.
Price risk generated by minority stakes in listed companies, mostly held in the AFS (available for sale) category and measured in terms of VaR, recorded an average level of 38 million euro in the first nine months of 2015 (30 million euro at the end of 2014), with a minimum value of 22 million euro and a maximum value of 52 million euro; these figures compare with a value of 33 million euro at the end of September.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to 8 million euro at the end of September 2015.

LIQUIDITY RISK

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.
In March 2015 the corporate bodies of Intesa Sanpaolo approved the update of the "Guidelines for Group Liquidity Risk Management", implementing the latest regulatory provisions issued through the so-called «Delegated Regulation» and by the Basel Committee (BCBS October 2014). These Guidelines illustrate the tasks of the various company 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, the Planning Head Office Department and the Active Value Management Department, responsible for liquidity management, and the Group Risk Manager Area, 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 the timing of which is certain or estimated to fall within a period of 12 months, in order to respond to periods of tension, including extended periods, on the various funding sourcing markets, also by establishing adequate liquidity reserves in the form of liquid securities on private markets and securities eligible for refinancing with Central Banks. 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) respectively.
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 Liquidity Coverage Ratio (LCR) is aimed at strengthening the short-term liquidity risk profile, ensuring a detention of sufficient unencumbered high quality liquid assets (HQLA) that can be easily and immediately converted into cash in the private markets to satisfy the short-term liquidity requirements (30 days) in a liquidity stress scenario. To this end, the Liquidity Coverage Ratio measures the ratio between: (i) the stock of HQLA and (ii) the total net cash outflows calculated according to the scenario parameters defined by the regulations. The Delegated Regulation implies a gradual introduction of the regulatory framework of LCR according to the following schedule: from 1 October 2015 to 31 December 2015 = 60%; from 1 January to 31 December 2016 = 70%; from 1 January to 31 December 2017 = 80%; from 1 January 2018 = 100%.
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 is still subject to a period of observation: the European Commission is required to present a legislative proposal that will come into force from 2018.
Within the Liquidity Policy it is also envisaged the time extension of the stress scenario for the 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 Group Risk Manager area.
In the first nine months of 2015, the Group's liquidity position remained within the risk limits provided for in the Group's Liquidity Policy: both the LCR and NSFR indicators were largely respected, as they reached a level well above the phased-in requirements. As at 30 September 2015, the eligible liquidity reserves for the Central Banks, considering cash components, came to 116.2 billion euro (116.3 billion euro at the end of June 2015), of which 76.7 billion euro, net of haircut, was unencumbered (64.1 billion euro at the end of June 2015).

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 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.

INFORMATION ON FINANCIAL PRODUCTS

In line with the requests for utmost transparency made by supranational and national Supervisory Authorities, the following information is provided on the fair value measurement methods adopted, structured credit products, activities performed through Special Purpose Entities (SPE), leveraged finance transactions, hedge fund investments and transactions in derivatives with customers.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

General principles

This chapter summarises the criteria used by the Group to measure the fair value of financial instruments. These criteria are substantially unchanged with respect to those illustrated in detail in the Annual Report 2014, to which reference is made for more information.
The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single entity. Underlying the definition of fair value is the assumption that the company is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible.

The fair value of financial instruments is determined according to a hierarchy of criteria based on the origin, type and quality of the information used. In detail, this hierarchy assigns top priority to quoted prices (unadjusted) in active markets and less importance to unobservable inputs. Three different levels of input are identified:
- level 1: input represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date;
- level 2: input other than quoted prices included in level 1 that are directly or indirectly observable for the assets or liabilities to be measured;
- level 3: unobservable input for the asset or liability.

The Group has set up guidelines overseeing the process of identification and control of the classification of measurement inputs, governing the hierarchical application of fair value levels and introducing high level principles to be used to govern input levels.
The document "Fair Value Hierarchy Rules" defines, with regard to the respective financial instrument pricing models/inputs, the basic rules that market inputs must comply with in order to be classified as Level 2, and the significance thresholds which, when overrun, result in the assignment of Level 3.
The rules are based on the verification of the degree of observability of inputs used in the measurement techniques, classifying financial instruments whose inputs are all observable on the market.

As level 1 inputs are available for many financial assets and liabilities, some of which are traded in more than one active market, the company must pay particular attention to defining both of the following aspects:
- the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability;
- whether the company can complete a transaction involving the asset or liability at that price and in that market as at the measurement date.

The Intesa Sanpaolo Group considers the principal market of a financial asset or liability to be the market in which the Group generally operates.
A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.
In specific cases regulated by internal policies and despite being quoted on regulated markets, research is carried out in order to verify the significance of official market values.

In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out.

The following are considered as level 1 financial instruments:
- contributed equities;
- contributed bonds (i.e. quoted on the EuroMTS circuit, or for which it is possible to continuously derive from the main price contribution international platforms at least three bid and ask prices);
- harmonised mutual funds contributed;
- spot exchange rates;
- derivatives for which quotations are available on an active market (for example, futures and exchange traded options).

Finally, level 1 instruments also include hedge funds for which the fund administrator provides the NAV (Net Asset Value) with the frequency established in the subscription contract, and the checklist, which is the summary document of significant information on underlying assets of the fund, does not highlight any critical points in terms of liquidity risk or counterparty risk.

For level 1 financial instruments, the current bid price is used for financial assets and the current ask price for financial liabilities, struck on the principal active market at the close of the reference period.
For financial instruments with a scarcely significant bid-ask spread or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
Conversely, all other financial instruments that do not belong to the above-described categories or that do not have the contribution level defined by the Fair Value Policy are not considered level 1 instruments.

When no quotation on an active market exists or the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset is sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
Such techniques include:
- the use of market values that are indirectly linked to the instrument to be measured, deriving from products with the same risk profile (level 2);
- valuations performed using – in whole or in part but primarily – inputs not identified from parameters observed on the market, for which estimates and assumptions made by the valuator are used (level 3).

In the case of level 2 inputs, the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model). The use of this approach requires the identification of transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured. Level 2 calculation methodologies reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets – that significantly influence the final valuation.
The following are measured using level 2 input models:
- bonds without official quotations expressed by an active market and whose fair value is determined through the use of an appropriate credit spread which is estimated starting from contributed and liquid financial instruments with similar characteristics;
- derivatives measured through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market;
- ABS for which significant prices are not available and whose fair value is measured using valuation techniques that consider parameters which may be presumed from the market;
- equities measured based on direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, using, therefore, the "relative" valuation models based on multipliers;
- loans measured through the discounting of future cash flows.

The calculation of the fair value of certain types of financial instruments is based on valuation models which consider parameters not directly observable on the market, therefore implying estimates and assumptions on the part of the valuator level 3).

In particular, the valuation of the financial instrument uses a calculation methodology which is based on specific assumptions of:
- the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where this is not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The following are measured under the Mark-to-Model Approach:
- debt securities for which at least one significant input for the purposes of calculating fair value is not observable on the market;
- debt securities and complex credit derivatives (CDOs and some ABS) included among structured credit products and credit derivatives on index tranches;
- hedge funds not included in level 1;
- shareholding and other equities measured using models based on discounted cash flows;
- some loans, of a smaller amount, classified in the available-for-sale portfolio;
- derivative transactions relating to securitisations and equity-risk structured options;
- some OTC interest-rate derivatives relating to correlations between CMS (Constant Maturity Swap) rates;
- some commodities options;
- derivatives with counterparties in default;
- some derivatives for which the bCVA is calculated through the use of historical PD with a significant impact on the transaction's total fair value.

Compared with 31 December 2014, the list of active markets was revised, eliminating the Markit platform from said list. As result, in terms of fair value level, all the instruments measured are reclassified through the Markit proxy. With regard to the attribution of fair value hierarchy levels, it is also underlined that, for the hedge funds managed through the Managed Account Fund (MAF) platform, the platform's characteristics make it possible to perform an analysis of the financial instruments underlying the funds and to assign the fair value hierarchy level based on the prevalence, in terms of percentage of NAV, of the weight of assets priced according to the various levels.

The Intesa Sanpaolo Group governs and defines the fair value measurement of financial instruments through the Group's Fair Value Policy, prepared by the Group Risk Manager area and also applied to the Parent Company and to all consolidated subsidiaries. The first part of the document, "General principles", once a favourable opinion has been given by the Group

Financial Risks Committee and the Managing Director and CEO, is approved and revised at least on an annual basis by the Management Board, and specific notice thereof is given to the Risk Committee of the Supervisory Board. The second part, "Detailed methods", is reviewed, approved and revised at least on an annual basis by the Group Financial Risks Committee, which is specifically delegated to do so by the Management Bodies, and which also reviews material changes and updates, proposal of which falls to the Group Risk Manager area.

The valuation process for financial instruments (as described in the "Fair Value Policy") entails the following phases:
- identification of the sources for measurements: for each asset class, the Market Data Reference Guide establishes the processes necessary to identify market parameters and the means according to which such data must be extracted and used;
- certification and treatment of market data for measurements: this stage consists of the accurate verification of the market parameters used (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means;
- certification of pricing models and Model Risk Assessment: this phase is aimed at verifying the consistency and the adherence of the various measurement techniques used with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for measurement;
- monitoring consistency of pricing models over time: periodical monitoring of the adherence to the market of the pricing model in order to discover any gaps promptly and start the necessary verifications and interventions.

In particular, in valuing the derivative contracts, the Group considers the (own and counterparty) non-performance risk which is calculated through the bilateral Credit Value Adjustment method. Valuation of the "credit risk free" component of OTC derivatives determines the initial choice of the level of the fair value hierarchy, according to the level of observability of market parameters. Calculation of the component linked to the insolvency risk of the counterparty/issuer, with unobservable parameters such as historical PD, may involve reclassification to level 3 of the fair value hierarchy.

Fair value hierarchy

The table below shows financial assets and liabilities designated at fair value through profit and loss broken down by fair value hierarchy levels.
Compared to the information provided in the 2014 financial statements, the Group did not amend the guidelines based on which level changes are carried out within the fair value hierarchy. It should also be noted that the list of active markets was revised, eliminating the Markit platform, as described in more detail in the preceding chapter.

(millions of euro)

Assets / liabilities at fair value	30.09.2015			31.12.2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	17,618	33,754	1,019	14,433	38,055	1,253
2. Financial assets designated at fair value through profit or loss	48,459	1,186	353	41,579	1,806	478
3. Financial assets available for sale	122,861	5,188	5,314	114,081	5,032	5,063
4. Hedging derivatives	-	7,616	20	-	9,206	4
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
Total	**188,938**	**47,744**	**6,706**	**170,093**	**54,099**	**6,798**
1. Financial liabilities held for trading	5,905	37,956	328	4,189	41,919	273
2. Financial liabilities designated at fair value through profit or loss	-	43,657	-	-	37,622	-
3. Hedging derivatives	-	8,706	8	-	10,291	9
Total	**5,905**	**90,319**	**336**	**4,189**	**89,832**	**282**

Figures restated, where necessary, considering the changes in the scope of consolidation and discontinued operations.

As shown in the table, level 3 instruments, which allow for more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio, with percentages reaching approximately 2.8% for financial assets and 0.3% for financial liabilities, in line with the percentages of December 2014.
Approximately 78% of financial assets measured at fair value are determined based on market prices, and therefore without any discretion by the valuator.

The sensitivity analysis performed on level 3 structured credit products highlights a negative change in fair value, referring to complex credit derivatives, for an amount not material (0.01 million euro[4]) when the following parameters change:
- risk-neutral probability of default derived from market spreads (10%);
- recovery rate (from 5% to 25%, based on the type of risk of the underlying product);
- correlation between the value of collateral present in the structure (from 25% to 80%, based on the type of risk of the underlying product);
- expected residual life of the contract (one-year increase over the expected term).

[4] The amount is shown net of the adjustments to valuations relating to the main input parameters which were already considered to determine the fair value of financial instruments (see paragraph "Fair value measurement of financial assets and liabilities" above).

STRUCTURED CREDIT PRODUCTS

The risk exposure to structured credit products amounted to 2,651 million euro as at 30 September 2015 with respect to funded and unfunded ABS/CDOs, compared to 2,492 million euro as at 31 December 2014, in addition to an exposure of 6 million euro with respect to structured packages, which compares with the 21 million euro observed as at 31 December 2014.
The rise in the exposure in funded and unfunded ABS/CDOs classified in the trading portfolio (from 1,821 million euro in December 2014 to 2,142 million euro in September 2015) is largely attributable to higher investments in ABS by the subsidiary Banca IMI, part of which was classified to the available-for-sale portfolio, to European ABS/CDOs acquired by the Parent Company. Banca IMI's investments mainly consist of securities with underlying residential mortgages and CLOs with mainly AA ratings. The Parent Company invested in European RMBS with mainly Aaa ratings.
With regard to the exposure represented by securities classified under the loan portfolio, on the other hand, another decrease was recorded (from 671 million euro in December 2014 to 509 million euro in September 2015), mostly attributable to sales that concerned the portfolios of the Parent Company and of Banca IMI.

From an income statement perspective, there was a loss of 4 million euro as at 30 September 2015 compared to the 40 million euro income recorded at the end of 2014.
The exposure to funded and unfunded ABS/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of -4 million euro. The profit on this segment was a result of the effects of:

- European and US funded ABS/CDOs (-6 million euro), comprising -2 million euro attributable to the Parent Company and -4 million euro attributable to the subsidiary Banca IMI. The impact was the result of the profits realised on the partial disposal of the trading book (6 million euro) and of the write-downs of outstanding positions (-10 million euro);
- unfunded Multisector CDO positions for 2 million euro;

As regards the exposure to funded and unfunded ABS/CDOs, it should be noted that the securities classified by the subsidiary Banca IMI in the available-for-sale portfolio recorded a net decrease in fair value of around 3 million euro, accounted for in the specific Shareholders' Equity Reserve.
The securities reclassified to the loan portfolio had a negative impact of 2 million euro on the income statement as at 30 September 2015. This was the result of 2 million euro in profits realised by Banca IMI and -4 million euro in impairment losses on a number of securities included in the Parent Company's portfolio.
The "Monoline risk" and "Non-monoline packages" made a positive contribution of 2 million euro to "Profits (Losses) on trading – caption 80" as at 30 September 2015, compared with the 1 million euro loss recorded as at 31 December 2014. The segment trend reflects the spread volatility for the counterparty on which this exposure is concentrated.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPES)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets both for asset securitisations, acquisition of funding through self-securitisations and the issue of covered bonds (CB), developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions, or managing credit risk inherent in an entity's portfolio).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above.
No amendments to the criteria are reported for the other SPE categories compared to the information already provided in the 2014 financial statements.

With regard to funding SPEs, used by the Intesa Sanpaolo Group to raise funds on certain markets through the issue of financial instruments, typically guaranteed by Intesa Sanpaolo, there was a considerable decrease compared to the end of December 2014, due to the unsuitable rating, which prevents the attraction of stable investors.

In the first half of 2015 the Parent Company Intesa Sanpaolo issued some new Covered Bonds (CB) backed by residential mortgages sold by the same Intesa Sanpaolo to the vehicle ISP CB Ipotecario. The issue is at a fixed rate of 0.625% and is addressed to professional investors and financial intermediaries. The bond is listed on the Luxembourg Stock Exchange as well as traded over-the-counter, as is customary.
As part of the covered bond programme of the vehicle ISP CB Ipotecario, during the first half, residential mortgages of approximately 1.6 billion euro were sold to the vehicle.
The fifth series of the Multioriginator covered bond programme of the vehicle ISP OBG was redeemed for an amount of 1.375 billion. Cassa di Risparmio di Firenze joined the banks originating the loans guaranteeing the issues for that programme. During the first half of the year, CR Firenze sold loans to the vehicle amounting to approximately 1.6 billion euro, while Banco di Napoli and Cassa di Risparmio del Veneto, which were already participants in the programme, sold an additional approx. 0.6 billion euro and approx. 0.9 billion euro, respectively.
In addition, in the third quarter, Banca dell'Adriatico sold a mortgage portfolio with a value of 531 million euro to ISP OBG S.r.l..

Moreover, the securitisation transaction was finalised in February through the fully owned vehicle Intesa Sanpaolo Securitisation Vehicle S.r.l.. Three series of securities were issued, each with senior and junior class, in Euro for 241.5 million, in CHF for 57.3 million and in HUF for 17.1 billion, respectively.

There were no significant changes to the other categories of SPEs subject to disclosure. Accordingly, reference should be made to the 2014 Financial Statements.

LEVERAGED FINANCE TRANSACTIONS

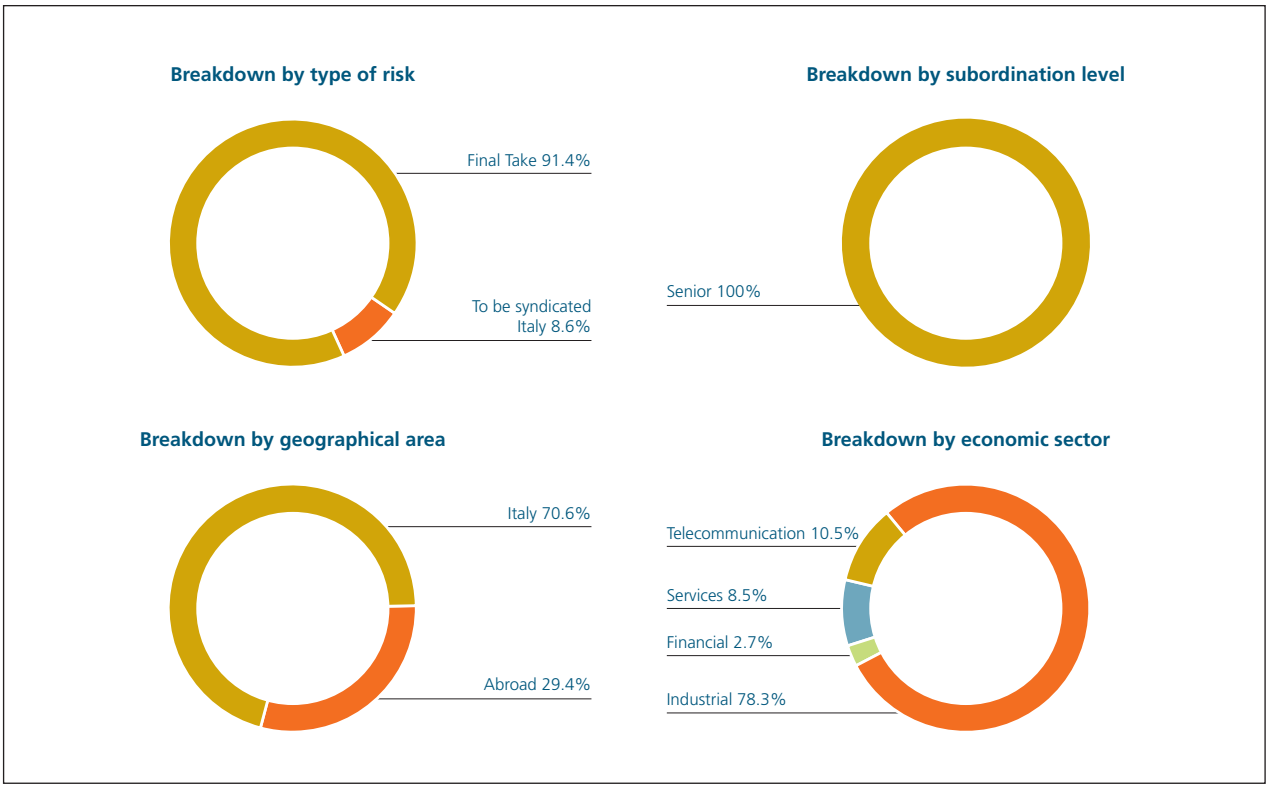
Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities in which the 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/units, 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 30 September 2015, 110 transactions for a total amount granted of 2,924 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 30 September 2015 totalled 755 million euro, compared to 733 million euro recorded in December 2014. The analysis of changes in the portfolio showed a positive impact substantially linked to the depreciation of the euro on the dollar, which affected the value of the positions denominated in that currency.
As at the same date, the overall result of the investments in this segment was positive for 3 million euro, compared to a loss of 1 million euro in the "Profits (Losses) on trading – caption 80" in the first nine months of 2014.
The 3 million euro of net profits as at 30 September 2015 comprised:

- 4 million euro of profits on trading;
- -2 million euro of net capital losses on the outstanding portfolio;
- 1 million euro of profits on foreign exchange transactions deriving from the appreciation of the US dollar against the euro, even with a breakeven position in foreign currency.

Net capital losses on the final residual amount (-2 million euro) were spread across 25 positions, 16 of which with capital gains (24 million euro) and 9 with capital losses (26 million euro).
The negative performance of the portfolio in the third quarter of 2015 (-48 million euro) is attributable to the market movements seen in August and September. In particular, the sharp fall in the Chinese market had an effect on funds exposed to that country, and it also led to contagion on the other international markets. Over the month of September, the loss was predominantly caused by funds exposed to the pharmaceuticals sector where reference indexes lost around 7%. The fall in the market also affected other sectors including US and European financials.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 September 2015, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, not having applied netting agreements, of 8,195 million euro (8,731 million euro as at 31 December 2014). The notional value of such derivatives totalled 45,820 million euro (49,251 million euro as at 31 December 2014).
The positive fair value of the structured contracts in existence with the 10 customers with the highest exposures was 5,557 million euro.
Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 1,883 million euro as at 30 September 2015 (1,306 million euro as at 31 December 2014).
The notional value of such derivatives totalled 20,056 million euro (17,000 million euro as at 31 December 2014).
The fair value of derivative financial instruments entered into with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Bilateral Credit Value Adjustment"). With regard to contracts outstanding as at 30 September 2015, this led to a positive effect of 97 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 as well as the relative hedges agreed by the Group.

OPERATIONAL RISKS

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk and model risk. Strategic and reputational risks are not included.

The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

With regard to operational risk, on 31 December 2009 the Group adopted the Advanced Measurement Approach (AMA - internal model), used partially along with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium, by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.
The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced Measurement approaches, based on the roll-out plan presented to the Management and Supervisory Authorities.

The control of the Group's operational risks was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised Function within the Group Risk Manager area (specifically in the Enterprise Risk Management Department) for the management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with the prevailing regulations, the individual Organisational Units are responsible for the identification, assessment, management and mitigation of risk. Specific functions have been identified within these Organisational Units responsible for the Operational Risk Management processes of their unit (collection and structured census of information relating to operational events, scenario analyses and assessment of the level of risk associated with the business environment).

The Integrated Self-assessment process, conducted on an annual basis, allows the Group to:
- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- create significant synergies with the other functions with control duties of the Personnel and Organisation Department that supervise the planning of operational processes and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-assessment process identified a good overall level of control of operational risks and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.
The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (Self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by Management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment, to take into account of the effectiveness of internal controls in the various organizational units.

Operational risks are monitored by an integrated reporting system, which provides Management with support information for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.
In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group subscribed an insurance coverage policy named Operational Risk Insurance Programme, which offers

additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013, with immediate effect of its benefits on operations and on the capital requirements.

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,630 million euro as at 30 September 2015, unchanged compared to 30 June 2015.

Legal risks

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions are made to the Allowances for risks and charges in the event of legal obligations for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
In the nine months of 2015, no new significant legal procedures were commenced or important developments took place with respect to those under way, except as described below.
Reference should therefore be made to the Notes to the 2014 Financial Statements for a detailed description of litigation regarding anatocism, investment services and other significant proceedings and litigation.

Croatia - Class Action against PBZ relating to CHF denominated loans

In the context of historically low interest rates on assets denominated in Swiss francs (CHF), starting from 2004, numerous Croatian banks have disbursed retail loans in Swiss francs. This practice was immediately appreciated by customers. Therefore, in order to avoid erosion of market share, PBZ also began to offer similar products in February 2005.
Though it was following market trends, PBZ implemented procedures significantly different than those of other banks. In particular, in informing its customers of exchange rate risk, PBZ included specific clauses in its loan contracts which notified customers of the possibility that the amount of their instalments could change due to the volatility of exchange rates.
In addition to foreign currency, a fundamental characteristic of this loan portfolio is the presence of so-called "administered interest rate", which means that interest rates could be changed at the discretion of the Bank, without a clearly identified underlying index. This type of interest rate was the most common type in the Croatian banking sector along with fixed interest rates. Only with the introduction of the new law on consumer credit were administered interest rates banned for all new loans starting from January 2013. PBZ correctly complied with these law provisions by introducing index-linked interest rates.
By writ of summons served on 23 April 2012, PBZ was sued, along with seven major Croatian banks (subsidiaries of non-Croatian groups) by a consumer association (Potrošač). Extremely in brief, the association called for the banks to be sentenced for:

- not having appropriately informed customers of the risks of an exposure in a foreign currency such as the Swiss franc;
- not having clearly set out in the contracts the rules for determining the interest rate, which the bank could unilaterally change.

On 4 July 2013, in the first instance, the Commercial Court of Zagreb substantially accepted the requests of the consumers association, ordering the banks to transform their receivables into HRK at the exchange rate at the disbursement date and to a fixed interest rate equal to the interest rate applicable to loan contracts on the date of their subscription.
In July 2013 the banks appealed against the first instance measure; the execution of the ruling was suspended pending the judgment on the appeal.
On 16 July 2014, the High Commercial Court of the Republic of Croatia rendered its second instance ruling. The resulting situation is more favourable for the banks than the first instance ruling; in particular:

i. the part of the first instance ruling which established that the banks were to denominate in HRK the principal originally lent to the borrowers of loans granted in CHF, was overturned.
ii. the first instance ruling was also overturned in the part in the part referring to the loans granted in CHF to be converted, establishing that the banks were to apply a fixed interest rate equal to that applicable to the loan agreement when granted.
iii. on the other hand, the court upheld the unlawful nature of the unilateral changes to interest rates on the loans by the banks.

The banks appealed to the Croatian Supreme Court, in order to obtain the review of the part of the appeal ruling in which they are found liable. The appeal to the Supreme Court did not provide a stay of the enforcement of the appeal ruling. The counterparty, Potrošač also submitted the same appeal.
On 13 May 2015, the Croatian Supreme Court announced its own decision on the appeal ruling, upholding it in its entirety. The Supreme Court's ruling did not substantially change the situation compared with the appeal ruling.
On 11 June 2015, PBZ lodged an appeal with the Constitutional Court, contesting the Supreme Court ruling, and on 23 June 2015 it further requested that the Croatian Constitutional Court should verify the constitutionality of the legislation in force governing consumer credit.
With relation to the disputes described, it should be noted that the Croatian Parliament passed a number of amendments to the "Consumer Credit Act" and to the "Credit Institutions Act" on 18 September 2015; these amendments took effect on 30 September.
Very briefly, these amendments contemplate obliging Croatian banks to offer customers a conversion into euro of the loans either disbursed in CHF, or pegged to CHF, using the exchange rate applicable on the date of disbursement of each loan. The sums already disbursed must be converted in euro at the exchange rate of the payment date. The interest rates must be the same as those applied to customers which took out loans in euro over the same period.
The impact of applying the new law, which effectively shifts the entire burden of the CHF revaluation since the disbursement date onto the bank, has been estimated by PBZ at around 172 million euro, which has been included in provisions for risks and charges in this Interim Statement.
Taking into account the negative impact of the law, on 29 September 2015, PBZ filed an appeal with the Croatian Constitutional Court to verify its legitimacy. The bank challenged the constitutionality of the legislation on the basis of its violation of a number of articles of the Croatian constitution, including legal certainty, property rights, freedom of enterprise and the free market, rights to compensation in the event of expropriation and the non-retroactive nature of laws and other government regulations. PBZ applied to the court for the law to be suspended until the appeal has been ruled on.

If the new law is confirmed as legitimate and PBZ is obliged to proceed with the abovementioned conversion of the loans for its customers, it is expected that individual litigation with customers will decrease.

Tax litigation

With regard to pending tax litigation and the related risks and provisions, detailed information is provided in the Notes to the 2014 Financial Statements (Part E). Further information regarding developments in the first six months of the year is presented in the Half-yearly Report as at 30 June 2015.
Regarding the third quarter of 2015, September saw the completion of the inspection of the Cassa di Risparmio in Bologna by the fiscal Authorities. This concluded with a PVC (Processo Verbale di Constatazione - report on findings) which sets out the recovery of higher IRES totalling 18.6 million euro, plus fines and interest. This almost exclusively related to a dispute which has taken on wider applicability within the area administered by the Emilia Romagna Regional Department of the Agenzia delle Entrate (Italian Revenue Agency).
In particular, this dispute relates to the reclassification of performing loans (which are discounted at a flat rate) as loans which are valued analytically (because they are related to insolvency proceedings). The assumption is that the impairment losses are not limited to merely neutralising the corresponding amounts deducted beforehand, but that they should be attributed to corresponding impairment reserves, at least at a purely fiscal level, in line with the treatment of write-offs or disposals which remove the loan from the balance sheet.
The Agency's view is thus that this type of value adjustment can not be set off entirely against the financial year in which they are made in accordance with art. 101, para. 5 of the Combined Tax Regulations, but that they must be deducted over 18 financial years pursuant to art. 106, para. 3 of the Combined Tax Regulations (the "limit").
There are several clear reasons why this tax claim is unfounded, but it should be noted that it is indicative of a fiscal approach which is closer to an exemption from the applicable law than to an interpretation of its meaning. Nonetheless, the approach of our Group was the same as that applied to all the other main Italian Banks.
At the judicial level, two rulings on preference shares by the Turin Regional Tax Committee should be noted. These went against the negative position taken on the merits, which was reported in prior financial reports and annulled the approx.15 million euro of fines imposed relating to the 2007 and 2008 financial years, on the basis that the applicable regulations were objectively unclear.

* * *

Lastly, as a consequence of litigation, it should be noted that the Civil Court of Rome sentenced (ruling no. 11135 filed on 21 May 2015) Giovanni Acampora and Vittorio Metta, the latter jointly liable with the Prime Minister's Office (pursuant to Law no. 117 from 1998 on the accountability of the judiciary), to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest running from 1 February 2015 to the date of final payment, plus legal expenses.
On the one hand this ruling follows Rome Court of Appeal ruling no. 1306/2013 which revoked - on the grounds of corruption in judicial proceedings - its prior ruling no. 4809/90 whereby IMI had been sentenced to pay the sum of around 980 billion lire to the heirs of the businessman Nino Rovelli, since deceased. On the other hand it relates to Intesa Sanpaolo's (as IMI's successor) claim for damages as a result of the final sentences by the Milan Court of Appeal of 10/05/2004 and 23/05/2005 (the latter regarded solely Acampora who had obtained fast track treatment). These sentences had become final as a result of rulings no. 33435 and 33519 by the Court of Cassation - Criminal division on 4 May 2006, definitively establishing the criminal responsibility of the corrupt judge and of the accomplices. The final sentences had further ordered the guilty parties to pay damages, to be established by the civil court.
The Civil Court of Rome therefore proceeded to quantify the financial (in terms of consequential damages and loss of profit) and non-financial damages due to Intesa Sanpaolo for a total of 173 million euro net of tax and after deduction of the amounts since received by the bank as part of the transactions with the Rovelli family and with the counterparties Previti and Pacifico.
Given that it was calculated net of tax, the award was grossed up and accounted for net of the amounts relating to: sums already recognised in the balance sheet but not taken into account in the ruling by the Court of Rome, and to tax credits sold to Intesa Sanpaolo by the Rovelli family. These related to taxes previously paid by IMI as a result of the revoked, corrupt ruling, and the fiscal authorities have already been asked to pay them back. 211 million euro has therefore been booked in other operating income and related taxes were 62 million euro.
Even taking into account the deduction of the amounts since received as part of the transactions with the Rovelli family and from other jointly liable parties, the amount awarded by the first instance ruling is nevertheless significantly lower than the sum in Intesa Sanpaolo's claim for damages dating back to January 2007. This was for 506 million euro of consequential damages and 505 million euro for loss of revenues, in addition to the non-financial component to be assessed by the court.
With regard to the amount of the award, Intesa Sanpaolo reserves the right, in any further litigation on the settlement in other levels of the justice system, to pursue a more commensurate compensation for the damages suffered.

INSURANCE RISKS

Life business

The typical risks of a life insurance portfolio may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Actuarial and demographic risks are monitored by means of systematic statistical analysis of the evolution of liabilities in its own contract portfolio, divided by risk type, and through simulations of expected profitability of the assets hedging technical reserves.
Reserve risk is monitored through the exact calculation of mathematical reserves, with a series of detailed checks as well as overall verifications, by comparing results with the estimates produced on a monthly basis.
The mathematical reserves are calculated on almost the entire portfolio, on a contract-by-contract basis, and the methodology used to determine the reserves takes account of all the future commitments of the company.

Non-life business

The risks of the non-life insurance portfolio are essentially premium risk and reserve risk.
Premium risks are managed initially during definition of the technical features and product pricing and over the life of the instrument by means of periodic checks on sustainability and profitability (both at product level and at portfolio level, including liabilities).
Reserve risk is monitored through the exact calculation of technical reserves.

Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Framework Resolution is the main control and monitoring instrument for market and credit risks.
The Resolution defines the goals and the operating limits that are needed to distinguish the investments in terms of eligible assets and asset allocation, breakdown by rating classes and credit risk, concentration risk by issuer and sector, and market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk (VaR).

Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (Intesa Sanpaolo Vita, Intesa Sanpaolo Assicura, Intesa Sanpaolo Life and Fideuram Vita) are made with their free capital and to cover contractual obligations with customers. These refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
As at 30 September 2015, the investment portfolios of Group companies, recorded at book value, amounted to 127,713 million euro. Of these, a part amounting to 78,713 million euro relates to traditional revaluable life policies - the financial risk of which is shared with the policyholders by virtue of the mechanism whereby the returns on assets subject to segregated management are determined - non-life policies and free capital. The other component, whose risk is borne solely by the policyholders, consists of investments related to Index-linked policies, Unit-linked policies and pension funds and amounted to 49,000 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets held to cover traditional revaluable life policies, non-life policies and free capital.
In terms of breakdown by asset class, net of derivative financial instruments, 90.3% of assets, i.e. approximately 71,142 million euro, were bonds, whereas assets subject to equity risk represented 2.0% of the total and amounted to 1,593 million euro. The remainder (6,094 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (7.7%).
The carrying value of derivatives came to approximately -116 million euro, almost entirely relating to effective management derivatives.[5]. The hedging derivatives amounted to a total of approximately 0.6 million euro.

At the end of the first nine months of 2015, investments made with the free capital of Intesa Sanpaolo Vita and Fideuram Vita amounted to approximately 2,075 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 61 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 6.1 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of approximately 5.75 years. The related portfolios of assets have a modified duration of around 5.5 years.
The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 basis points parallel shift in the curve leads to a decrease of approximately 4,078 million euro. Based on this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 8 million euro rise which partly offsets the corresponding loss on the bonds.
The distribution of the portfolio by rating class is as follows. AAA/AA bonds represented approximately 5.2% of total investments and A bonds approximately 4.4%. Low investment grade securities (BBB) were approximately 87.6% of the total and the portion of speculative grade or unrated was minimal (approximately 2.8%).
A considerable portion of the BBB area is made up of securities issued by the Italian Republic.
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central Banks approximately made up 78.5% of the total investments, while financial companies (mostly banks) contributed almost 13.6% of exposure and industrial securities made up approximately 7.9%.

[5] ISVAP Regulation 36 of 31 January 2011 on investments defines "effective management derivatives" as all derivatives aimed at achieving pre-established investment objectives in a faster, easier, more economical or more flexible manner than would have been possible acting on the underlying assets.

At the end of the third quarter of 2015, the fair value sensitivity of bonds to a change in issuer credit rating, intended as a market credit spread shock of +100 basis points, was 4,178 million euro, with 3,420 million euro due to government issuers and 758 million euro to corporate issuers (financial institutions and industrial companies).