1.3 BANKING GROUP - LIQUIDITY RISK

QUALITATIVE INFORMATION

General aspects, liquidity risk management processes and measurement methods

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

Preparing an adequate management and monitoring system for this risk is of fundamental importance in maintaining stability, not only at the level of each individual bank, but also of the market at large, 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 implementation of Community Directives, the Bank of Italy began in 2010 to issue a series of updates to the "New regulations for the prudential supervision of banks and banking groups" – Circular 263 of 27 December 2006 (hereinafter the "New Supervisory Regulations"). In further detail, the fourth update of 13 December 2010 transposed Directive 2009/111/EC ("CRD II"), which introduced important changes concerning the management and monitoring of liquidity risk.

In order to reflect the aforementioned New Supervisory Regulations governing liquidity and the experience with recent financial market turbulence, in 2011 Intesa Sanpaolo's corporate bodies approved new "Guidelines for Group Liquidity Risk Management", which represent an update to the previous Liquidity Policy.

The Guidelines illustrate the tasks of the various company departments, 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 Guidelines for the Fund Transfer Pricing System were also updated both as regards governance and the general principles to be applied to defining transfer prices.

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;
– a prudential approach to the estimation of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
– the constant availability of an adequate amount of liquidity reserves in relation to the pre-determined liquidity risk tolerance threshold;
– the assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time and the quantitative and qualitative adequacy of liquidity reserves;
– integration into the larger risk management and measurement system, with incisive controls consistent with developments in the context of reference;
– the adoption of a fund internal transfer pricing system that accurately incorporates the cost/benefit of liquidity, on the basis of the Intesa Sanpaolo Group's funding conditions.

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.

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 warning indicators used to activate emergency plans.

In order to pursue an integrated, consistent risk management policy, strategic decisions regarding liquidity risk monitoring and management at the Group level fall to the Parent Company's corporate bodies. From this standpoint, the Parent Company performs its functions of monitoring and managing liquidity not only in reference to its own organisation, but also by assessing the Group's overall transactions and the liquidity risk to which it is exposed.

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

The aforementioned Guidelines include procedures for identifying risk factors, measuring risk exposure and verifying observance of limits, conducting stress tests, identifying appropriate risk mitigation initiatives, drawing up emergency plans and submitting informational reports to company bodies. Within this framework, liquidity risk measurement metrics are laid down, distinguishing between short-term liquidity, structural liquidity and 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 of tension, on the various funding sourcing markets, including 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 is established by determining two short-term indicators for holding periods of one week and one month:

– an indicator of cumulative projected imbalances in wholesale operations: this measures the independence from unsecured wholesale funding in the event of a freeze of the money market, assuming the use of only the most readily liquidated liquidity reserves;
– the short-term gap indicator: this measures, for the various short-term time brackets, the relationship between the availability of reserves and expected positive cash flows and expected cash outflows in reference to all on- and off-balance sheet positions, considering behavioural maturities for positions characterised by an expected liquidity profile differing from the contractual profile.

The structural Liquidity Policy of the Intesa Sanpaolo Group incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.

The Guidelines also call for the periodic preparation of an impact estimate in an acute combined stress scenario (including both stresses specific to the Group and at the level of the market), with an indication of the scenarios of reference to be used and the presentation of a target threshold for the stressed short-term gap, aimed at establishing an overall level of reserves suitable to meeting greater cash outflows during a period of time adequate to take the required operating measures to restore the Group to balanced conditions.

Together with the short term and structural Liquidity Policy and the stress test, the Guidelines also provide for management methods for 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 pre-warning indexes, aimed at spotting the signs of a potential liquidity strain, both systematic and specific, are monitored with daily frequency by the Risk Management Department.

In a market situation characterised by severe tensions correlated with economic problems in the eurozone and the crisis in peripheral euro area countries and Italy in particular, the system of indexes provided for in the Contingent Liquidity Plan has proved efficient in providing timely reports, through pre-warning signals, of the intensification of tension and activating specific measures aimed at combating vulnerability factors and allowing the timely implementation of the required corrective measures.

In 2011, the Group's liquidity position remained within the risk limits provided for in the Group's Liquidity Policy both in terms of short-term and structural liquidity indicators. Adequate, timely information regarding the development of market conditions and the position of the Bank and/or Group was provided to company bodies and internal committees in order to ensure full awareness and manageability of the prevalent risk factors.

In 2011, the extensive liquidity reserves available to the Group allowed the use of secured funding in response to the difficulties in the orderly functioning of the interbank market. As at 31 December 2011, the liquidity reserves eligible with the various Central Banks came to 97 billion euro, of which 37 billion euro was available spot (net of the haircut) and remained unused.

QUANTITATIVE INFORMATION

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

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

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

Currency of denomination: Euro

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**56,891**	**10,003**	**6,060**	**19,184**	**24,341**	**23,866**	**33,544**	**121,870**	**113,350**	**4,330**
A.1 Government bonds	139	1	2	672	3,604	4,464	6,358	8,420	7,075	-
A.2 Other debt securities	342	8	3	89	672	2,651	2,687	9,760	10,510	60
A.3 Quotas of UCI	1,367	-	-	-	-	-	-	-	-	-
A.4 Loans	55,043	9,994	6,055	18,423	20,065	16,751	24,499	103,690	95,765	4,270
- Banks	*6,378*	*4,753*	*323*	*2,118*	*2,044*	*1,065*	*839*	*315*	*49*	*4,044*
- Customers	*48,665*	*5,241*	*5,732*	*16,305*	*18,021*	*15,686*	*23,660*	*103,375*	*95,716*	*226*
Cash liabilities	**151,710**	**15,637**	**3,670**	**35,531**	**16,498**	**9,655**	**15,651**	**108,678**	**38,476**	**4,164**
B.1 Deposits and current accounts	150,011	6,315	1,366	3,862	4,738	3,648	5,290	5,518	3,044	1
- Banks	*4,704*	*565*	*88*	*686*	*398*	*240*	*291*	*1,978*	*1,175*	*-*
- Customers	*145,307*	*5,750*	*1,278*	*3,176*	*4,340*	*3,408*	*4,999*	*3,540*	*1,869*	*1*
B.2 Debt securities	603	2,060	802	4,451	5,266	4,734	8,961	86,399	31,377	4,163
B.3 Other liabilities	1,096	7,262	1,502	27,218	6,494	1,273	1,400	16,761	4,055	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*3*	*14,013*	*5,824*	*9,949*	*11,838*	*5,905*	*3,914*	*6,714*	*5,694*	*6*
- Short positions	*6*	*12,968*	*2,999*	*5,781*	*9,612*	*3,892*	*5,040*	*8,744*	*6,462*	*6*
C.2 Financial derivatives without exchange of capital										
- Long positions	*40,786*	*75*	*8*	*85*	*60*	*132*	*261*	*1,006*	*535*	*-*
- Short positions	*41,654*	*56*	*21*	*81*	*78*	*150*	*292*	*1,086*	*672*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*198*	*264*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*114*	*131*	*8*	*182*	*-*	*32*	*2*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*3,329*	*6,805*	*1*	*36*	*943*	*2,894*	*4,616*	*31,367*	*5,085*	*8*
- Short positions	*23,729*	*3,933*	*2*	*22*	*841*	*1,516*	*3,524*	*34,663*	*3,009*	*9*
C.5 Financial guarantees given	110	207	-	14	80	75	99	259	139	11

Currency of denomination: US dollar

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**3,095**	**1,945**	**1,501**	**2,666**	**1,920**	**1,238**	**1,697**	**6,076**	**3,495**	**3**
A.1 Government bonds	5	-	8	6	-	21	39	277	193	-
A.2 Other debt securities	547	584	577	288	25	72	717	1,206	1,014	3
A.3 Quotas of UCI	636	-	-	-	-	-	-	-	-	-
A.4 Loans	1,907	1,361	916	2,372	1,895	1,145	941	4,593	2,288	-
- Banks	*1,030*	*456*	*72*	*599*	*739*	*675*	*255*	*363*	*75*	*-*
- Customers	*877*	*905*	*844*	*1,773*	*1,156*	*470*	*686*	*4,230*	*2,213*	*-*
Cash liabilities	**3,818**	**1,153**	**781**	**2,547**	**4,601**	**585**	**1,117**	**3,053**	**824**	**-**
B.1 Deposits and current accounts	3,693	968	308	1,581	888	200	275	130	3	-
- Banks	*926*	*280*	*147*	*1,070*	*200*	*32*	*72*	*80*	*-*	*-*
- Customers	*2,767*	*688*	*161*	*511*	*688*	*168*	*203*	*50*	*3*	*-*
B.2 Debt securities	-	36	84	470	222	385	841	2,415	764	-
B.3 Other liabilities	125	149	389	496	3,491	-	1	508	57	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*178*	*10,093*	*3,780*	*5,849*	*7,087*	*3,107*	*4,052*	*5,973*	*3,356*	*1*
- Short positions	*160*	*12,081*	*5,648*	*8,090*	*9,519*	*2,693*	*3,367*	*4,546*	*3,013*	*1*
C.2 Financial derivatives without exchange of capital										
- Long positions	*1,613*	*-*	*-*	*-*	*173*	*52*	*42*	*16*	*59*	*-*
- Short positions	*1,410*	*45*	*1*	*-*	*10*	*50*	*-*	*32*	*59*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*15*	*48*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*43*	*-*	*15*	*5*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*4*	*-*	*39*	*35*	*338*	*1,400*	*1,012*	*10,185*	*1,759*	*11*
- Short positions	*9,726*	*47*	*-*	*41*	*298*	*635*	*499*	*20,932*	*1,106*	*13*
C.5 Financial guarantees given	-	-	-	5	10	25	7	2	-	16

Currency of denomination: Pound sterling

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**120**	**45**	**12**	**89**	**168**	**283**	**92**	**658**	**485**	**-**
A.1 Government bonds	13	-	-	-	-	245	-	259	36	-
A.2 Other debt securities	2	-	-	-	-	7	-	79	310	-
A.3 Quotas of UCI	1	-	-	-	-	-	-	-	-	-
A.4 Loans	104	45	12	89	168	31	92	320	139	-
- Banks	*24*	*32*	*3*	*12*	*20*	*1*	*-*	*-*	*-*	*-*
- Customers	*80*	*13*	*9*	*77*	*148*	*30*	*92*	*320*	*139*	*-*
Cash liabilities	**226**	**112**	**326**	**31**	**705**	**44**	**90**	**37**	**1,007**	**-**
B.1 Deposits and current accounts	225	82	63	19	46	32	6	7	-	-
- Banks	*31*	*6*	*24*	*4*	*10*	*-*	*-*	*-*	*-*	*-*
- Customers	*194*	*76*	*39*	*15*	*36*	*32*	*6*	*7*	*-*	*-*
B.2 Debt securities	-	-	-	12	84	12	84	30	1,006	-
B.3 Other liabilities	1	30	263	-	575	-	-	-	1	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*1,126*	*56*	*864*	*784*	*261*	*859*	*322*	*2,198*	*1*
- Short positions	*-*	*1,771*	*574*	*539*	*460*	*265*	*534*	*406*	*1,593*	*1*
C.2 Financial derivatives without exchange of capital										
- Long positions	*235*	*1*	*-*	*-*	*6*	*-*	*-*	*-*	*-*	*-*
- Short positions	*252*	*-*	*-*	*-*	*12*	*-*	*-*	*-*	*-*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*29*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*29*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*33*	*347*	*3*	*2*
- Short positions	*384*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*2*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Hungarian forint

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**393**	**509**	**226**	**232**	**108**	**175**	**113**	**472**	**164**	**-**
A.1 Government bonds	-	19	61	45	25	8	1	30	8	-
A.2 Other debt securities	-	144	159	-	-	-	-	-	-	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	393	346	6	187	83	167	112	442	156	-
- Banks	*101*	*201*	*-*	*148*	*-*	*-*	*-*	*-*	*-*	*-*
- Customers	*292*	*145*	*6*	*39*	*83*	*167*	*112*	*442*	*156*	*-*
Cash liabilities	**985**	**258**	**154**	**316**	**878**	**95**	**156**	**230**	**257**	**-**
B.1 Deposits and current accounts	985	258	154	316	851	83	85	157	257	-
- Banks	*4*	*10*	*1*	*2*	*6*	*4*	*45*	*21*	*32*	*-*
- Customers	*981*	*248*	*153*	*314*	*845*	*79*	*40*	*136*	*225*	*-*
B.2 Debt securities	-	-	-	-	27	12	71	73	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*-*	*370*	*51*	*101*	*1,304*	*25*	*44*	*-*	*-*	*-*
- Short positions	*-*	*347*	*27*	*35*	*110*	*25*	*62*	*7*	*-*	*-*
C.2 Financial derivatives without exchange of capital										
- Long positions	*-*	*5*	*32*	*35*	*116*	*349*	*273*	*601*	*45*	*-*
- Short positions	*-*	*5*	*32*	*34*	*118*	*269*	*353*	*602*	*44*	*-*
C.3 Deposits and loans to be settled										
- Long positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
C.4 Irrevocable commitments to lend funds										
- Long positions	*25*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
- Short positions	*-*	*38*	*-*	*1*	*10*	*37*	*67*	*6*	*-*	*-*
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Swiss franc

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**286**	**46**	**48**	**118**	**158**	**104**	**231**	**1,062**	**2,030**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	8	7	169	-
A.3 Quotas of UCI	-	-	-	-	-	-	-	-	-	-
A.4 Loans	286	46	48	118	158	104	223	1,055	1,861	-
- Banks	*28*	*18*	*5*	*20*	*39*	*4*	*36*	-	-	-
- Customers	*258*	*28*	*43*	*98*	*119*	*100*	*187*	*1,055*	*1,861*	-
Cash liabilities	**159**	**25**	**16**	**18**	**55**	**21**	**31**	**150**	**267**	**-**
B.1 Deposits and current accounts	157	25	6	18	55	21	31	147	267	-
- Banks	*13*	*8*	*1*	*9*	*5*	*6*	*4*	*139*	*267*	-
- Customers	*144*	*17*	*5*	*9*	*50*	*15*	*27*	*8*	-	-
B.2 Debt securities	-	-	10	-	-	-	-	2	-	-
B.3 Other liabilities	2	-	-	-	-	-	-	1	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	-	*105*	*113*	*340*	*104*	*99*	*160*	*220*	-	*1*
- Short positions	-	*822*	*384*	*1,036*	*853*	*178*	*201*	*598*	*409*	*1*
C.2 Financial derivatives without exchange of capital										
- Long positions	*24*	*3*	-	*45*	*195*	*273*	*380*	-	-	-
- Short positions	*111*	*2*	*8*	*65*	*244*	*451*	*401*	-	-	-
C.3 Deposits and loans to be settled										
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	-	-	-	-	*6*	-	-	*14*	-	-
- Short positions	*20*	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees given	-	-	-	-	-	-	-	-	-	-

Currency of denomination: Other currencies

(millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity
Cash assets	**1,794**	**2,042**	**453**	**827**	**1,823**	**2,001**	**2,213**	**3,834**	**1,641**	**10**
A.1 Government bonds	1	35	6	81	373	481	874	487	174	-
A.2 Other debt securities	29	76	47	62	514	456	319	318	201	-
A.3 Quotas of UCI	65	-	-	-	-	-	-	-	-	-
A.4 Loans	1,699	1,931	400	684	936	1,064	1,020	3,029	1,266	10
- Banks	*616*	*1,255*	*268*	*129*	*254*	*14*	*61*	*110*	-	*10*
- Customers	*1,083*	*676*	*132*	*555*	*682*	*1,050*	*959*	*2,919*	*1,266*	-
Cash liabilities	**4,098**	**793**	**765**	**350**	**1,206**	**598**	**704**	**1,595**	**351**	**-**
B.1 Deposits and current accounts	4,095	662	454	338	1,098	532	487	207	15	-
- Banks	*141*	*109*	*175*	*76*	*53*	*38*	*9*	*14*	*1*	-
- Customers	*3,954*	*553*	*279*	*262*	*1,045*	*494*	*478*	*193*	*14*	-
B.2 Debt securities	1	2	2	12	44	66	217	1,387	336	-
B.3 Other liabilities	2	129	309	-	64	-	-	1	-	-
Off-balance sheet transactions										
C.1 Financial derivatives with exchange of capital										
- Long positions	*13*	*1,525*	*179*	*1,318*	*1,358*	*889*	*1,249*	*1,153*	*332*	-
- Short positions	*11*	*2,331*	*733*	*3,040*	*1,136*	*825*	*907*	*1,502*	*193*	-
C.2 Financial derivatives without exchange of capital										
- Long positions	*271*	*42*	*21*	*1*	*18*	*30*	*42*	*76*	-	-
- Short positions	*497*	*23*	*7*	*1*	*130*	*20*	*55*	*78*	-	-
C.3 Deposits and loans to be settled										
- Long positions	*18*	*19*	-	-	-	-	-	-	-	-
- Short positions	-	*30*	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to lend funds										
- Long positions	*2*	*27*	*10*	*23*	*12*	*99*	*93*	*78*	*108*	-
- Short positions	*968*	*508*	-	*3*	*113*	*86*	*74*	*71*	*19*	*1*
C.5 Financial guarantees given	-	3	-	-	4	25	73	12	-	-

2. Self-securitisations

The Intesa Sanpaolo Group has carried out securitisations in which all the liabilities issued by the vehicle companies involved were subscribed by Group companies.
The self-securitisations carried out through the vehicle SPQR II S.r.l. were closed ahead of the due date during 2011, through the sale to Banca Infrastrutture Innovazione e Sviluppo of the entire portfolios underlying the CBO1 and CBO2 securitisations and redemption of the senior and junior bonds issued, which were entirely held by BIIS. Subsequently, BIIS sold the securities repurchased to the vehicle ISP CB Pubblico S.r.l. to proceed with the covered bond issue.
A brief description of the existing transactions as at 31 December 2011 is provided below.

Adriano Finance

These involved securitisations carried out with the aid of two special purpose vehicles, Adriano Finance S.r.l. and Adriano Finance 2 S.r.l..
In further detail, through the vehicle Adriano Finance S.r.l.:

- on 4 August 2008, securitisation was completed of a portfolio of performing mortgages of 7,998 million euro, sold without recourse to the vehicle, which issued RMBSs of a like amount at par (Adriano Finance F/R Notes December 2055). The class-A notes, eligible for repurchase transactions with the ECB, are listed on the Luxembourg Stock Exchange. On 20 October 2010, Intesa Sanpaolo S.p.A. transferred all outstanding class-A Adriano Finance RMBS F/R Dec 2055 notes to the vehicle ISP CB Ipotecario S.r.l. in support of its inaugural issue of covered bonds of 1 billion euro intended for the euromarket as part of an issuance programme of 20 billion euro;
- on 18 December 2008, securitisation was completed of a portfolio of performing residential mortgages of 5,679 million euro originating with the former Intesa network, sold without recourse to the vehicle, which issued MBSs of a like amount at par (Adriano Finance F/R Notes due December 2058). On 7 April 2011, Adriano Finance S.r.l. authorised the early unwinding of the securitisation through the early redemption of both classes of notes, issued and subscribed by the Parent Company in their entirety. The repurchase of the portfolio of securitised loans took effect in economic terms on 23 May 2011 for the price of 3,780 million euro. The class-A notes were redeemed in their entirety at their nominal values on 31 May;
- on 20 July 2009, securitisation was completed of a portfolio of performing residential mortgages of 5,860 million euro, sold without recourse to the vehicle, which issued a third series of RMBSs of a like amount at par (Adriano Finance F/R Notes due June 2065). The class-A notes are eligible for refinancing transactions with the Eurosystem.

Through the vehicle Adriano Finance 2 S.r.l., on 31 December 2008 securitisation was completed of a portfolio of performing residential mortgages of 13,050 million euro originating with the former Sanpaolo network, sold without recourse to the vehicle, which issued RMBSs of a like amount at par (Adriano Finance F/R Notes due June 2061). The class-A notes, listed on the Luxembourg Stock Exchange, are eligible for repurchase transactions with the ECB.

On 25 November 2011, Intesa Sanpaolo S.p.A. completed the sale without recourse to the vehicle Adriano Finance 2 S.r.l. of a second portfolio of performing residential mortgages for approximately 5,349 million euro, with economic effects as of 7 November. The notes are expected to be issued in the first quarter of 2012.

Adriano Lease SEC S.r.l.

The transaction in question is a securitisation undertaken with the support of the vehicle Adriano Lease SEC S.r.l., which took the form of the sale by the subsidiary Leasint of loans arising to car, equipment and property lease rentals of a total amount of approximately 5.8 billion euro. The purpose of the transaction is to expand the liquidity reserve that may be activated through refinancing transactions at the European level. In December 2011, the vehicle Adriano Lease SEC issued two series of notes:

- a senior series, with a nominal value of 2.8 billion euro, listed and assigned a triple-A rating;
- a junior series, with a nominal value of 3 billion euro, unlisted and unrated.

All of these notes were purchased by the subsidiary Leasint. In 2012, the senior notes will be used to undertake refinancing transactions with the European Central Bank through the Parent Company, Intesa Sanpaolo.

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

(millions of euro)

Vehicle	Type of security issued	Type of asset securitised	External rating	Principal as at 31.12.2011
Adriano Finance S.r.l.				**6,300**
- of which first mortgage portfolio securitised (4 August 2008) (*)	Senior	Performing mortgages	AAA	-
	Junior	Performing mortgages	no rating	440
- of which second mortgage portfolio securitised (Adriano bis Securitisation) (18 December 2008)	Senior	Performing residential long-term mortgages	AAA	-
	Junior	Performing residential long-term mortgages	no rating	-
- of which third mortgage portfolio securitised (Adriano ter Securitisation) (20 July 2009)	Senior	Performing residential mortgages	AAA	5,297
	Junior	Performing residential mortgages	no rating	563
Adriano Finance 2 S.r.l.				**13,050**
	Senior	Performing residential mortgages	AAA	12,174
	Junior	Performing residential mortgages	no rating	876
Adriano Lease SEC S.r.l.				**5,832**
	Senior	Loans deriving from leasing contracts	AAA	2,788
	Junior	Loans deriving from leasing contracts	no rating	3,044
TOTAL				**25,182**

(*) The amount, totalling 7,558 million euro and used in covered bond issues, is shown in Section C.3. of Part E of these Notes to the financial statements.

INFORMATION ON SOVEREIGN RISK

The economic and financial environment during 2011 was severely affected by the sovereign debt crisis. The European Union and International Monetary Fund intervened on several occasions to provide financial support to the countries in greatest difficulty. Such actions involved Greece, Ireland and Portugal, however it is only in relation to Greece that the action envisaged involvement of the private sector. The most significant exposure, which is illustrated in further detail in the following paragraph, is towards the Greek government. Regarding exposures to Ireland and Portugal, it is considered that, also as a result of the aforementioned public aid, at present there are no conditions to consider a write-down of the exposures as there has been no breach of contracts such as default of interest or capital payments.

The Intesa Sanpaolo Group has a total of 98 billion euro in exposure to sovereign debtors, of which 74 billion euro is represented by debt securities and 24 billion euro by other loans. In further detail, the exposure to the Italian government came to 82 billion euro as at 31 December 2011, of which 60 billion euro was represented by securities and 22 billion euro by other loans.

Exposure to Greece

The constant intensification of the Greek debt crisis led Heads of State and Government of eurozone countries to approve a structured plan of aid for Greece which envisages involvement of the European Union, through the European Financial Stability Facility (the "EFSF"), the International Monetary Fund (IMF) and private institutional investors. As part of this plan, in the second half of 2011 and first few months of 2012 banks and insurance companies, under the direction of the Institute of International Finance (IIF), defined a number of support options for Greece (Private Sector Involvement – PSI), which were crystallised in an agreement dated 21 February 2012.

The legal and financial terms of the agreement are described in the Report on Operations – Balance sheet aggregates - to which reference should be made for more information.

The agreement of 21 July 2011, which was not subsequently finalised, and, even more so, the agreement of 21 February 2012, which envisaged the restructuring of Greek debt, triggered the impairment indicator pursuant to IAS 39 par. 59 lett. c), i.e., the presence of concessions which would otherwise not be granted by the lender in the absence of the borrower's financial difficulty.

Therefore, the Intesa Sanpaolo Group decided it was necessary to adopt an approach which aligns the overall carrying amounts of the securities with their exchange value under the agreement of 21 February 2012, and which takes account of both the haircut and the value of the securities received in exchange, determined on the basis of the yield established in the agreement.

The Intesa Sanpaolo Group has thus opted to adjust for impairment all Greek government bonds and the Hellenic Railways bond, included in the above restructuring agreement, by an average of approximately 75% of the nominal value of the bonds, substantially in line with the valuation deriving from the restructuring agreement.

In particular, in order to quantify the impairment of securities classified in the available for sale portfolio, given that the deterioration of their creditworthiness is attributable to the issuing Greek government and not to the specific market in general, the Intesa Sanpaolo Group referred to mid-market price listings (halfway between the bid/ask price), considering the presence of indicators of partial illiquidity in the Greek bond market (high bid/ask spread) and the effects of market distortions (displaced curve with short-term returns higher than long-term ones, typical situation for distressed issuers).

For securities classified in the loan portfolio, the objective evidence of impairment led to the quantification of impairment as the difference between the asset's carrying value and the present value of expected future cash flows, discounted at the original effective interest rate. For securities hedged for interest rate risk, the original interest rate was determined by taking account of the change in fair value due to the risk hedged, a change which was deducted from the amortised cost of the security. If the securities were classified in the loan portfolio as a result of the amendment to IAS 39 of October 2008, any AFS reserve crystallised at the time of the reclassification was not considered in the security's amortised cost, but fully reversed to the income statement.

As for the treatment of hedging derivatives, according to IAS 39, recognition of impairment of a hedged underlying does not constitute a break in the hedging relationship. Nonetheless, if the hedged instrument is impaired, the expected future cash flows of the hedged instrument contrast with unchanged cash flows on the hedging derivative. As a result of this asymmetry of cash flows, the conditions envisaged by IAS 39 – AG105 – to consider the hedge highly effective are no longer met. However, the present and future effectiveness of the hedge was assessed based on the estimates of recoverability of cash flows and the passing of the post-impairment effectiveness tests. The results of the effectiveness tests, conducted following recognition of the impairment, were not in line with the requirements envisaged by IAS regulations, with a resulting break in the hedging relationship. The derivatives have thus been reclassified to the portfolio held for trading and the difference between the delta fair value of the derivative at the date of the most recent positive effectiveness test and the delta fair value determined as at 31 December 2011 or, in the event of the early unwinding of the derivatives, the amount settled with the counterparty has been recognised under "Profits (Losses) on trading – caption 80", with a negative impact of 73 million euro in 2011.

To complete the overview of hedging against the risk of exposure to the Greek government, the purchase of credit risk protection, which cannot be classified as hedge accounting, on a security classified in the AFS portfolio resulted in a net impact on the income statement of 7 million euro, used to decrease the impairment losses on the security.

In terms of classification, the Intesa Sanpaolo Group decided to keep the credit risk exposure to the Greek government and Hellenic Railways among performing loans, considering that the Bank of Italy's definition of non-performing loans does not include exposures whose anomalous situation is attributable to causes relating to country risk, and that the agreement for restructuring of Greek debt was defined only on 21 February 2012.

The table below shows the Intesa Sanpaolo Group's exposure to the Greek government and Hellenic Railways as at 31 December 2011. In brief, the measurements performed resulted in the recording of a total of 1,046 million euro of impairment of the bonds (939 million euro net of amounts allocated to insurance products under separate management).

(millions of euro)

	Nominal value as at 31.12.2011	Amortised cost	Adjustment on security due to fair value hedge	Book value before valuation (net of accruals)	Profits (losses) on trading/Income from insurance business (*)	Impairment as at 31.12.2011	Book value as at 31.12.2011 (net of accruals)
Government bonds							
Loans and receivables	192	180	110	290	-63 (1)	-238 (1)	64
Financial assets available for sale	654	664	128	792	-8 (1)	-632 (3)	153
Financial assets held for trading	12	-	-	8	- (4)	-	2
TOTAL GOVERNMENT BONDS	**858**	**844**	**238**	**1,090**	**-71**	**-870**	**219**
Bonds issued by public entities							
Hellenic Railways							
Loans and receivables	200	203	23	226	-2 (1)	-176	50
TOTAL OTHER SECURITIES	**200**	**203**	**23**	**226**	**-2**	**-176**	**50**
GRAND TOTAL	**1,058**	**1,047**	**261**	**1,316**	**-73**	**-1,046**	**269**
TOTAL ADJUSTMENTS (net of amounts allocated to insurance portfolios under separate management)						**-939**	

(*) Includes -69 million euro comprised in Profits (Losses) on trading and -4 million euro in Income from insurance business in the reclassified income statement.

(1) Amounts referring to derivatives reclassified in the trading portfolio.

(2) Includes 12 million euro adjustment for the elimination of the AFS reserve, "crystallised" when reclassifying the security pursuant to IAS 39 amendment (October 2008).

(3) The amount of impairment takes into account the presence of income from financial guarantees of 7 million euro.

(4) Includes impairment of trading securities of -6 million euro and realised net income of +6 million euro.

INFORMATION ON STRUCTURED CREDIT PRODUCTS

Qualitative information

In 2011 structured credit products contributed about 55 million euro to the income statement, down on the figure for 2010 (+103 million euro). While the positive contribution in the previous year took account of the closure of several structured products at prices higher than their valuations, and a greater reduction in counterparty risk on structured packages, the positive result of 2011 is almost entirely attributable to the effect of amortisation of the structured products, in addition to the increase in counterparty risk on packages.

The general strategy for management of the portfolio continued to involve reducing exposure, in line with the opportunities which may arise over time on the market. It is planned to benefit as much as possible from the amortisation of the structured products, unless they are liquidated when the collateral no longer generates sufficient cash flows, prepayments slow down and it is necessary to recognise additional impairment.

Exposure in structured packages is gradually decreasing, while there are slim margins for action on the portfolio of funded ABSs/CDOs classified under loans. Assets included in this segment are liquidated only in the event of increases in the level of risk or undesirable deteriorations.

The risk exposure to structured credit products amounted to 2,772 million euro as at 31 December 2011 with respect to funded and unfunded ABSs/CDOs, compared to 3,715 million euro as at 31 December 2010, in addition to an exposure of 41 million euro with respect to structured packages (87 million euro as at 31 December 2010). The decrease in exposure in 2011 is due to the total/partial repayment of assets held in portfolio. In particular, the year 2011 saw the settlement of two unfunded positions included in the "Other structured credit products – unfunded Super Senior CDOs" aggregate for a notional value of approximately 500 million euro and the reduction of several funded positions included in the loans portfolio due to amortisation.

In the fourth quarter of 2011, the last tranche of transfer of securities of the vehicle Romulus to the Parent Company was completed. As these were recognised at fair value, this transfer did not have any effects on the consolidated income statement.

It is also noted that in the fourth quarter of 2011, an unfunded position was settled, with the resulting delivery of the underlying asset, recorded at fair value in the Parent Company's books.

As at 31 December 2011, 3.5% of the outstanding positions was affected by a reduction in creditworthiness. This percentage, which amounted to 4% as at 31 December 2010, remained substantially stable. The situation of the structured credit product portfolio at December 2011 is described by the following indicators:

- 70% of exposure was Investment Grade, compared to 80% as at 31 December 2010 – this decrease is due to the closure of unfunded positions with an AA/A rating, in addition to the progressive deterioration of the portfolio due to the overall performance of the market;
- 36% had an AAA rating;
- 30% had a BBB rating or less, compared to 20% as at 31 December 2010;
- 12% of the exposure has a pre-2005 vintage[3];
- 34% has a 2005 vintage;
- only 11% of exposure refers to the US Residential segment, and 18% to the US non-residential segment;
- the remaining exposure (71% of the total) is almost entirely (67%) European.

[3] Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgages underlying securitisations since, especially in the US, the phenomenon of mortgages granted to entities with inadequate income and with low prior assessment of documentation became significant as of 2005.

In terms of underlying contract types, slightly less than half the exposure consisted of CLOs (25%) and CDOs (22%); the rest was made up of ABSs (13%, down due to the closure of certain unfunded positions) and RMBSs (33%), with CMBSs representing 7% of the total.
As concerns valuation methods, of "long" positions, approximately 30% are measured using the mark-to-model (100% of unfunded positions, 18% of funded positions, 100% of positions in funds, 100% of the monoline risk and the non-monoline "packages"), 58% with the comparable approach (68% of funded positions) and 12% are measured using effective market quotes (14% of funded positions). Of the "short" positions, 25% are measured using the mark-to-model (100% of unfunded positions and 100% of positions of funds) and 75% are measured using effective market quotes (100% of CMBX-CDS hedges).
In the summary tables provided below, table (a) sets out risk exposure as at 31 December 2011 and income statement captions (sum of realised charges and profits, write-downs and write-backs) of 2011, compared with the corresponding values recorded as at 31 December 2010.
Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged.
Values expressed in USD as at 31 December 2010 were translated to euro at an exchange rate of 1.3362 euro per dollar, and as at 31 December 2011 at an exchange rate of 1.2939 euro per dollar.

Structured credit products: summary tables

a) Exposure in funded and unfunded ABSs/CDOs

(millions of euro)

Financial assets held for trading	**31.12.2011**		**31.12.2010**	
	Risk exposure (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading	**Risk exposure** (*) (including write-downs and write-backs)	**Income Statement** Profits (Losses) on trading
US subprime exposure	**28**	**8**	**24**	**1**
Contagion area	**162**	**24**	**140**	**19**
- Multisector CDOs	87	11	61	-4
- Alt-A	-	-	-	-
- TruPS	75	13	79	23
- Prime CMOs	-	-	-	-
Other structured credit products	**769**	**12**	**1,298**	**40**
- European/US ABSs/CDOs	625	1	607	3
- Unfunded super senior CDOs	155	4	672	26
- Other unfunded positions	-11	7	19	11
Total	**959**	**44**	**1,462**	**60**
in addition to:				
Positions of funds	-	-5	-	16
Total Financial assets held for trading	**959**	**39**	**1,462**	**76**
Loans	**31.12.2011**		**31.12.2010**	
	Risk exposure (**) (including write-downs and write-backs)	**Income Statement**	**Risk exposure** (**) (including write-downs and write-backs)	**Income Statement**
US subprime exposure	**3**	**-**	**3**	**-**
Contagion area	**63**	**-1**	**89**	**-**
- Multisector CDOs	9	-1	15	-
- Alt-A	36	-	49	-
- TruPS	-	-	-	-
- Prime CMOs	18	-	25	-
Other structured credit products	**1,747**	**7**	**2,161**	**7**
- Funded European/US ABSs/CDOs	1,280	-9	1,253	3
- Funded super senior CDOs	467	16	777	8
- Other Romulus funded securities	-	-	131	-4
Total	**1,813**	**6**	**2,253**	**7**
in addition to:				
Positions of funds	-	-	-	-
Total Loans	**1,813**	**6**	**2,253**	**7**
TOTAL	**2,772**	**45**	**3,715**	**83**

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

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

b) Exposure in packages

(millions of euro)

	31.12.2011		31.12.2010	
	Credit exposure to monoline insurers (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading	**Credit exposure to monoline insurers** (CDS fair value post write-down for CRA)	**Income Statement** Profits (Losses) on trading
Monoline risk	25	9	17	19
Non monoline packages	16	1	70	1
TOTAL	**41**	**10**	**87**	**20**

From an income statement perspective, structured credit products generated a net income of +55 million euro as at 31 December 2011 compared to + 103 million euro for 2010.
The exposure in funded and unfunded ABSs/CDOs had an effect on "Profits (Losses) on trading – Caption 80" of +39 million euro. The profit on this segment was a result of the effects of:

– unfunded Super Senior CDO positions included in "Other structured credit products" (+4 million euro as at 31 December 2011); the profit in this segment was positive, despite a reduction in 2011, due to a widening of the spreads of European issuers;
– European and US funded ABSs/CDOs (+1 million euro) and other unfunded positions (+7 million euro), also included in the area "Other structured credit products";
– US subprime exposure (+8 million euro), entirely attributable to unfunded positions included in the segment. The difference compared to last year's result (+1 million euro) is mainly attributable to the previously described settlement of the position included in unfunded CDOs;
– instruments included in the "Contagion Area"; in particular, TruPS recorded a positive result of 13 million euro and the positions included under Multisector CDOs recorded 11 million euro, also influenced by the settlement of the aforementioned unfunded position.

The securities reclassified to the loan portfolio showed an overall impact on the income statement of 6 million euro as at 31 December 2011. This figure was made up of the following:

– 1 million euro loss from the impairment of a security included in the portfolio of Multisector CDOs;
– 3 million euro loss from the impairment of a security included in the portfolio of the vehicle Romulus, which was transferred to the books of the Parent Company in the fourth quarter;
– 7 million euro loss from the impairment of ABSs issued by European parties;
– 1 million euro in profits on disposals of funded European ABSs/CDOs;
– 16 million euro profits from the market sale of positions in reclassified debt securities, including 7 million euro attributable to the subsidiary Banca IMI and 9 million euro to international branches.

As at 31 December 2011 the loan portfolio contained ABSs issued by parties resident in EU countries in situations of financial difficulty (known as "PIGS"). In particular, these consist of:

– 242 million euro in nominal value of securities issued by parties resident in Spain; as at 31 December 2011 these securities had a book value of 204 million euro and a fair value of 152 million euro;
– 37 million euro in nominal value of securities issued by parties resident in Portugal; as at 31 December 2011 these securities had a book value of 34 million euro and a fair value of 19 million euro;
– 7 million euro in nominal value of securities issued by parties resident in Greece; as at 31 December 2011 these securities had a book value of 6 million euro and a fair value of 3 million euro;
– 2 million euro in nominal value of securities issued by parties resident in Ireland; as at 31 December 2011 these securities had a book value of 1 million euro and a fair value of almost zero.

The "Monoline risk" and "Non-monoline packages" made a positive contribution of 10 million euro as at 31 December 2011, compared to +20 million euro recorded at the end of 2010. Despite the reduction in the provision percentage, the effect of packages on the income statement decreased compared to the end of the previous year, partly due to the effect of the reduction in the exchange rate and partly due to the reduction in gross exposure, which was written-down.
It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.
As at 31 December 2011, the aggregate included bonds reclassified as loans, which are summarised in the tables below.

(millions of euro)

	Nominal value	Risk exposure (**) (including write-downs and write-backs)	Fair value as at 31.12.2011	Benefit from the reclassification as at 31.12.2011	Effect on Shareholders' Equity
Reclassified securities:					
- from financial assets available for sale to loans	168	156	45	-	111
- from financial assets held for trading to loans	1,541	1,450	1,236	214	-
Total Securities reclassified to loans	**1,709**	**1,606**	**1,281**	**214**	**111**
Securities classified under loans from inception	211	207			
Total securities classified under loans from inception	**211**	**207**			
TOTAL LOANS	**1,920**	**1,813**	**1,281**	**214**	**111**

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

(millions of euro)

Negative economic effect without reclassification for 2008	-299
Negative economic effect without reclassification for 2009	-7
Positive economic effect without reclassification for 2010	117
Negative economic effect without reclassification for 2011	-25
BENEFIT FROM THE RECLASSIFICATION AS AT 31.12.2011	**-214**

For the sake of completeness, please note that, in addition to structured credit products included in the area described above, as part of its ordinary operations, the Intesa Sanpaolo Group holds securities which can be classified as Asset Backed Securities (ABS), with underlyings represented by consumer loans, lease receivables and, only a small part, residential mortgages. In particular, securities were recorded in the loan portfolio of the conduit Duomo for a nominal value of 762 million euro, with underlyings originated in recent years and not impacted by the 2007 crisis. As at 31 December 2011, there were no signs of impairment of the collateral of the structured products in question.

INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

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

– to raise funds on the market by issuing specific financial instruments;
– to acquire, sell, manage specific assets, separating them from the financial statements of the Originator, both for the purpose of carrying out securitisations of assets and for acquiring funding through self-securitisations;
– to develop and/or finance a specific business initiative, capable of generating, through an economic activity, cash flows which permit the complete reimbursement of the debt;
– to finance the acquisition of a target company which, through its economic activity, will be capable of generating cash flows for the SPEs which permit the complete reimbursement of the debt;
– to manage the credit risk connected to their portfolio of financial assets through protection purchases and sales with counterparties represented by SPEs (used by both the American market and the European market for synthetic portfolio securitisations). In such transactions the Bank accepts credit risk or counterparty risk with the SPEs, depending on the nature of the transaction.

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

Funding SPEs

These are entities incorporated abroad to raise funds on specific markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company. The change in Italian law which enables the Parent Company Intesa Sanpaolo to directly issue hybrid notes eliminated the funding activities carried out through these methods.
The only SPE of this type which falls within the scope of the Group's consolidated financial statements pursuant to IAS 27 is Intesa Funding LLC, with headquarters in the USA. This is a subsidiary which issues commercial paper on the U.S. market.
In 2011, the call option on the hybrid instrument issued by IntesaBCI Preferred Capital Co. LLC was exercised for 500 million euro. The company's liquidation ended in September 2011.
The table below shows the information and figures for the vehicle as at 31 December 2011.

(millions of euro)

FUNDING SPEs		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA FUNDING LLC	Funding	306	-	-	-	(1)	306	306			

(1) Subordinated guarantee given by Intesa Sanpaolo.

The total assets of this vehicle was almost entirely made up of loans to Intesa Sanpaolo. The sharp reduction in funding achieved by the vehicle compared to the previous year (securities issued as at 31 December 2010 of 9.4 billion euro) is linked to the liquidity crisis and Intesa Sanpaolo's difficulty in acquiring funding on the U.S. market as a result of its repeated downgrading.
Total funding of SPE above had a 0.1% incidence on total direct customer deposits in consolidated financial statements.

SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of the Group's insurance companies, which retain the majority of the risks and rewards; SPEs for insurance products are consolidated pursuant to IAS 27 / SIC 12.
In the Group there are 69 entities of this type with total net assets of approximately 16 billion euro (of which 7 billion euro relative to funds that report to Fideuram Gestions).
As at 31 December 2011, the assets of the funds in which Intesa Sanpaolo Vita/Intesa Sanpaolo Life hold the majority of the quotas in circulation are invested in bonds and liquidity for around 63% (except for the SPLux Sicav 2 Equity 100 fund, which has invested around 90% of the portfolio in equity funds and shares) and, for the remainder, in equity and bond mutual funds (around 15%), in corporate bonds (around 13%), and in shares and equity mutual funds (around 9%). In any case, these funds do not hold securities with underlying subprime mortgages or any other structured credit products affected by the financial crisis.
The total assets of these SPEs made up around 3% of the Group's total consolidated assets.

Securitisation SPEs

These are SPEs that enable an entity to transfer assets from its balance sheet assets, transforming them in securities which can be placed on the market. The crisis which began in 2007 caused a sharp slowdown in this type of transactions, which were replaced by structures used for raising funds through securitisations of a portion of assets owned by the transferor. In particular, this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle which, to finance the purchase, issues securities later placed on the market (traditional securitisations) or purchased in full by the transferor (self-securitisations). In the first case, the funds raised in this way are reversed to the seller, whereas the commitments to the subscribers are met using the cash funds generated by the loans sold. This category also includes SPEs used by Intesa Sanpaolo to implement the covered bond issue programme.
SPEs of this type that were part of the scope of consolidation as at 31 December 2011 pursuant to IAS 27 or SIC 12, were: Intesa SEC S.p.A., Intesa SEC 2 S.r.l., Intesa SEC 3 S.r.l., Intesa SEC NPL S.p.A., Intesa Lease SEC S.r.l., Split 2 S.r.l., ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l., Adriano Finance S.r.l. and Adriano Finance 2 S.r.l..
This category also included ISP SEC 4 S.r.l., which was not operational as at 31 December 2011.
These companies, incorporated under Italian law, are used to securitise the performing assets (mortgage loans, leasing contracts)

or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies. Specifically, the vehicles Adriano Finance S.r.l., Adriano Finance 2 S.r.l. and Adriano Lease SEC S.r.l. are used to implement self-securitisation. For more details on this type of transaction, see section 1.3 – Liquidity risk – in Part E of the Notes to the consolidated financial statements.
In the case of ISP CB Pubblico S.r.l. and ISP CB Ipotecario S.r.l., the sale of the assets to the vehicle is aimed at implementing covered bond issue programmes. Additional details on the operations of these vehicles are provided in Section C of Part E of the Notes to the consolidated financial statements.
Augusto, Colombo and Diocleziano are securitisation vehicles for assets, primarily land and public works financing, of a company subject to joint control and later sold.
The securities held by Intesa Sanpaolo or by Group companies have been measured according to the provisions for the specific IAS category for each security, as indicated in the table below, which shows the information and figures for these vehicles as at 31 December 2011.

(millions of euro)

SECURITISATION SPEs	Type of asset	Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	book value	amount	IAS classification	Valuation
INTESA SEC SPA [1]	performing mortgages	2	-	-	-		-	2	1	AFS	Fair value
INTESA SEC 2 SRL [2] [14]	performing mortgages	195	1	-	-		-	148	20	HFT - Loans	Fair value/ amortised cost
INTESA SEC 3 SRL [3] [14]	performing mortgages	1,395	8	-	-		-	1,315	89	AFS - HFT - Loans	Fair value/ amortised cost
INTESA SEC NPL SPA [4]	non-performing loans	45	-	-	-		-	155	29	AFS - Loans	Fair value/ amortised cost
INTESA LEASE SEC SRL [5]	performing leasing contracts	23	3	-	-		-	6	-		
Adriano Lease SEC	performing leasing contracts	5,874	-	-	-		-	5,832	-		
SPLIT 2 SRL	performing leasing contracts	156	-	-	-		-	147	25	Loans - HFT - HTM	Fair value/ amortised cost
ISP CB IPOTECARIO SRL [6]	residential mortgages	15,163	-	14,829	14,829		-	12,561	8,180	Loans	Amortised cost
ISP CB PUBBLICO SRL [6]	public sector loans	13,994	-	22,900	13,551		-	10,530	6,830	Loans	Amortised cost
ISP SEC 4 SRL		(11)	-	-	-		-	-	-		
ADRIANO FINANCE SRL - Series 1 [7] [14]	performing mortgages	5,326	38	-	-		-	5,045	-		
ADRIANO FINANCE SRL - Series 2 [8]	performing mortgages	1	-	-	-		-	-	-		
ADRIANO FINANCE SRL - Series 3 [9] [14]	performing mortgages	4,334	39	-	-		-	4,107	-		
ADRIANO FINANCE 2 SRL [10] [14]	performing mortgages	8,995	46	-	-		-	8,295	-		
CR Firenze Mutui S.r.l.	performing mortgages	98	-	-	-		-	89	5	Loans	Amortised cost
AUGUSTO SRL [12]	land financing (100%)	20	10	-	-		-	29	4	AFS	Fair value
COLOMBO SRL [13]	public works financing	79	10	-	-		-	71	5	HFT - Loans	Fair value/ amortised cost
DIOCLEZIANO SRL [15]	land financing (82%) Public works (12%) Indus. (6%)	59	37	-	-		-	93	8	AFS	Fair value

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

(2) ISP is committed to supporting the vehicle through limited recourse subordinated loan, in relation to any higher charge of a fiscal, legal, regulatory or supervisory nature other than the securities and operating costs deriving from the securitisation. ISP also granted a subordinated loan of 19 million euro used by the vehicle to set up the cash reserve which makes up the credit enhancement of the operation required by the rating agencies. The residual of the deferred fixed price amounts to 1 million euro at 31 December 2011. Swap contracts exist as interest rate risk hedge.

(3) ISP granted a limited recourse subordinated loan of 23 million euro used by the vehicle to set up the cash reserve which makes up the credit enhancement of the operation required by the rating agencies. Swap contracts signed with ISP exist as interest rate risk hedge.

(4) ISP granted a guarantee and indemnity contract currently used for approximately 0.2 million euro, in case of declarations or guarantees which lead to a reduction in loan value. The bank is also committed to support the vehicle through limited recourse subordinated loan, in relation to any higher charge or liability of a fiscal, legal, regulatory or supervisory nature. Subordinated loan was granted for approximately 2.7 million euro. The indemnity does not cover security-related costs and securitisation operating costs. Cumulated losses shall be absorbed by tranches E (equity) and D held by ISP whose value was adjusted both in the current and in previous years. An Interest Rate Cap contract and Interest Rate Floor contract exist as interest rate risk hedge.

(5) The company has entered into swap contracts as interest rate risk hedge.

(6) These vehicles were set up pursuant to art. 7-bis of Italian Law 130/99. Therefore they do not issue securities, but guarantees to bondholders (Covered Bonds) issued by ISP.

(7) ISP granted a limited recourse subordinated loan of 50 million euro used by the vehicle to set up the cash reserve required by the rating agencies in order to support the liquidity of the vehicle; credit enhancement is instead made up of Class B securities (440 million euro), fully subscribed by ISP. Swap contracts exist as interest rate risk hedge.

(8) ISP completed the unwinding of the transaction which involved the retrocession of the mortgage portfolio to ISP, effective 23 May 2011. On 31 May 2011 the subordinated loan of 50 million euro, Class A securities and part of Class B securities, was completely repaid.

(9) ISP granted a limited recourse subordinated loan of 75 million euro used by the vehicle to set up the cash reserve required by the rating agencies in order to support the liquidity of the vehicle; credit enhancement is instead made up of Class B securities (563 million euro), fully subscribed by ISP. A swap contract exists as interest rate risk hedge.

(10) ISP granted a limited recourse subordinated loan of 150 million euro used by the vehicle to set up the cash reserve required by the rating agencies in order to support the liquidity of the vehicle; credit enhancement is instead made up of Class B securities (876 million euro), fully subscribed by ISP. A swap contract exists as interest rate risk hedge.

(11) Established company not yet operative as at 31 December 2011.

(12) The company issued two series of bonds with different portfolios as underlying assets. The figures indicated represent the sum of the issues and refer to 31 December 2010.

(13) ISP granted the vehicle a subordinated loan of 1 million euro. The figures refer to 30 June 2011.

(14) During the year, ISP granted two subordinated loans for each of the following vehicles: Intesa Sec. 2 S.r.l., Intesa Sec. 3 S.r.l., Adriano Finance S.r.l. (Series 1 and 3) and Adriano Finance 2 S.r.l. The transaction totalled 30 million euro.

(15) The figures refer to 31 December 2010.

The IAS rules on first time adoption (IFRS 1) and the derecognition of financial assets and liabilities have been applied in full to the securitisations.
The securitised assets of this type of vehicle are represented by performing residential mortgages, with the exception of the vehicles Intesa SEC NPL S.p.A., whose securitised assets are represented by non-performing mortgages, and the vehicles Intesa Lease SEC S.r.l., Adriano Lease SEC and Split 2 S.r.l., whose securitised assets are represented by performing loans deriving from lease contracts.
The vehicle's remaining cash commitments are in addition to the above assets.
The total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up of land financing or receivables for public works.

The total assets of the consolidated SPEs not derecognised (Intesa SEC 3 S.r.l., Adriano Lease SEC, Split 2 S.r.l., Adriano Finance

S.r.l. and Adriano Finance 2 S.r.l., ISP CB Pubblico S.r.l. and ISP CB Ipotecario S.r.l.) made up 8.6% of the total consolidated assets. For the sake of completeness, C.R. Firenze Mutui S.r.l., a securitisation vehicle with its own underlying assets (performing mortgages), from the Carifirenze sub-group, should also be mentioned. This vehicle, consolidated at equity, had total securitised assets as at 31 December 2011 of 91 million euro.
Furthermore, pursuant to SIC 12, Intesa Sanpaolo controlled:

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

During 2011, there was a shift in the allocation of the assets between the two vehicles, resulting – in part due to the transfer of securities from Romulus to the Parent Company – in a concentration of the assets originated by customers in Duomo, leaving Romulus the sole activity of fund-raising on the U.S. market. However, it should be noted that due to the difficult liquidity situation in the U.S. commercial paper market, as at 31 December 2011 the securities issued by Romulus had been fully subscribed by the Parent Company Intesa Sanpaolo with a nominal value of approximately 2 billion euro.

The table below shows the information and figures for the above two vehicles as at 31 December 2011.

(millions of euro)

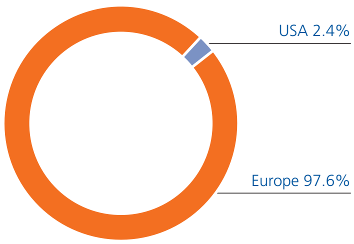
ROMULUS AND DUOMO		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
ROMULUS FUNDING CORP.	asset-backed commercial paper conduit	2,011 (1)		49	49	Letter of credit	24	2,005	2,005	Loans	Amortised cost
DUOMO FUNDING CORP.	asset-backed commercial paper conduit	1,922	-	2,277 (2)	-		-	-			

(1) of which 1,919 million euro for loans disbursed to Duomo, for transactions reported in the latter's financial statements.
(2) of which 648 million euro referring to credit lines granted to cover loans which did not meet the criteria for derecognition pursuant to IAS 39.

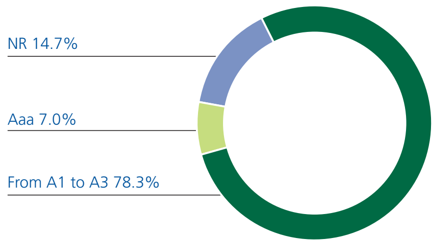
The total assets of the vehicle Romulus include loans to Duomo of 1,919 million euro and loans to third parties of 50 million euro. During 2011, the securities within the scope of structured credit products, which had been present at the end of 2010, were transferred to the Parent Company Intesa Sanpaolo, at their fair values, without any impact on the consolidated income statement. The vehicle's assets are completed by financial derivatives hedging against foreign exchange risk with a positive fair value of 38 million euro as at 31 December 2011, in addition to cash and other assets of 4 million euro.
At the end of 2011, the vehicle Duomo's portfolio consisted of loans to Group banks (34 million euro to Intesa Sanpaolo, 105 million euro to Intesa Sanpaolo Bank Ireland and 620 million euro to Société Européenne de Banque S.A.) and loans to customers of 1,122 million euro. Of these, 762 million euro consisted of structured credit products subscribed in the context of normal customer lending activity, the collateral for which had not shown any sign of impairment as at 31 December 2011. In the fourth quarter of 2011, the vehicle held in portfolio quotas of a mutual fund originated by an Intesa Sanpaolo Group company with a value of 41 million euro as at 31 December 2011.
The total assets of the above SPEs made up 0.6% of the total consolidated assets.

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

Breakdown by geographical area



Breakdown of assets by rating



Following the aforementioned transfer of eligible securities from the vehicle Romulus to the Parent Company, the composition of the portfolio of the two vehicles changed, showing a sharp reduction in exposures to U.S. entities (from 11% as at 31 December 2010 to 2.4% as at 31 December 2011). The rating of exposures was also changed, concentrating approximately 85% of exposure in ratings classes higher than A1. Please note that, although a minimum portion of the uses (approximately 15%) in relation to the eligible assets in the portfolios of the Romulus and Duomo vehicles were not supported by an external rating, they were of sufficient quality for the commercial papers issued by Romulus to maintain the A-1/P-1 ratings.

The self-securitisations carried out through the vehicle SPQR II S.r.l. were closed ahead of the due date during the first half of 2011, through the sale to Banca Infrastrutture Innovazione e Sviluppo of the entire portfolios underlying the CBO 1 and CBO 2 securitisations and redemption of the senior and junior bonds issued, which were entirely held by BIIS. Subsequently, BIIS sold the securities repurchased to the vehicle ISP CB Pubblico S.r.l. to proceed with the covered bond issue.
Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the synthetic securitisation vehicle "Da Vinci" (to hedge and actively manage risk exposure in the aircraft and aeronautic sector).

As at 31 December 2011, the Group's exposure to vehicle Da Vinci amounted to 8 million euro in nominal value, entirely represented by securities, classified as available for sale. Their book value at the end of 2011 amounted to 4 million euro. Their fair value adjustment was recorded with an offsetting entry in the Shareholders' equity valuation reserves.

Financial Engineering SPEs

These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions, through its special structures aimed at optimising accounting, tax and/or regulatory aspects. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.
Intesa Sanpaolo controls and consolidates Intesa Investimenti S.p.A., a company established to invest in quotas of Italian and international UCITS, in quotas and shares of other Italian and international entities and in Government securities of G8 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price. This company is currently on stand-by.
The shareholders' equity of the company is entirely deposited with Intesa Sanpaolo.

(millions of euro)

FINANCIAL ENGINEERING		Vehicle data		Liquidity lines		Guarantees given		Securities issued	of which: held by the Group		
		Total assets	Cumulated losses	loan facilities	use	nature	amount	amount	amount	IAS classification	Valuation
INTESA INVESTIMENTI SPA	Financial Engineering	922	-	-	-		-	-	-		

The assets of the vehicle are almost entirely made up of term deposits with the Parent Company Intesa Sanpaolo.
The SPEs of this type in the scope of consolidation comprise Lunar Funding Plc., a vehicle set up in Ireland, used for repackaging operations by a leading bank.

Project Financing SPEs

These are financing instruments for capital intensive projects, which are based on the economic or financial validity of the industrial or infrastructural project, and are independent from the standing/creditworthiness of the sponsors who developed the "entrepreneurial" idea. The financing of the initiative is based on the project's capacity to generate positive cash flows, sufficient to reimburse loans received and guarantee an adequate risk-adjusted return on invested capital.
Such vehicles are established by sponsor "entrepreneurs", mostly abroad in order to benefit from operating and legal/bureaucratic efficiency.
Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, as the Bank does not hold any stake or interest in the share capital of these companies and does not have any control over them. Where there are guarantees represented by pledges of shares of the SPE, contractual terms exclude the possibility of exercise of voting rights by the Bank.

Asset Backed SPEs

These are transactions aimed at acquisition / construction / management of physical assets by SPEs financed by one or more entities. Their recovery prospects mostly depend upon the cash flows generated by the assets. The assets generate cash flows in their recurring operations (e.g. rentals, goods transportation contracts, etc.) or in their non-recurring operations (e.g. a real estate disposal plan). Generally the assets are also the real guarantee for the financing obtained from the vehicle.
Intesa Sanpaolo has financed entities of this type, as normal borrowers, without any direct equity investments or any other interests which might lead to presume the role of sponsor. The risk accepted is always a normal credit risk and the benefits are represented by the return on the financing granted.
The Group consolidates only those entities in which it holds the majority of voting rights. Only one entity is this type of SPE (with total assets of around 44 million euro as at 31 December 2011), whose capital is held by an international subsidiary.

Leveraged & Acquisition Finance SPEs

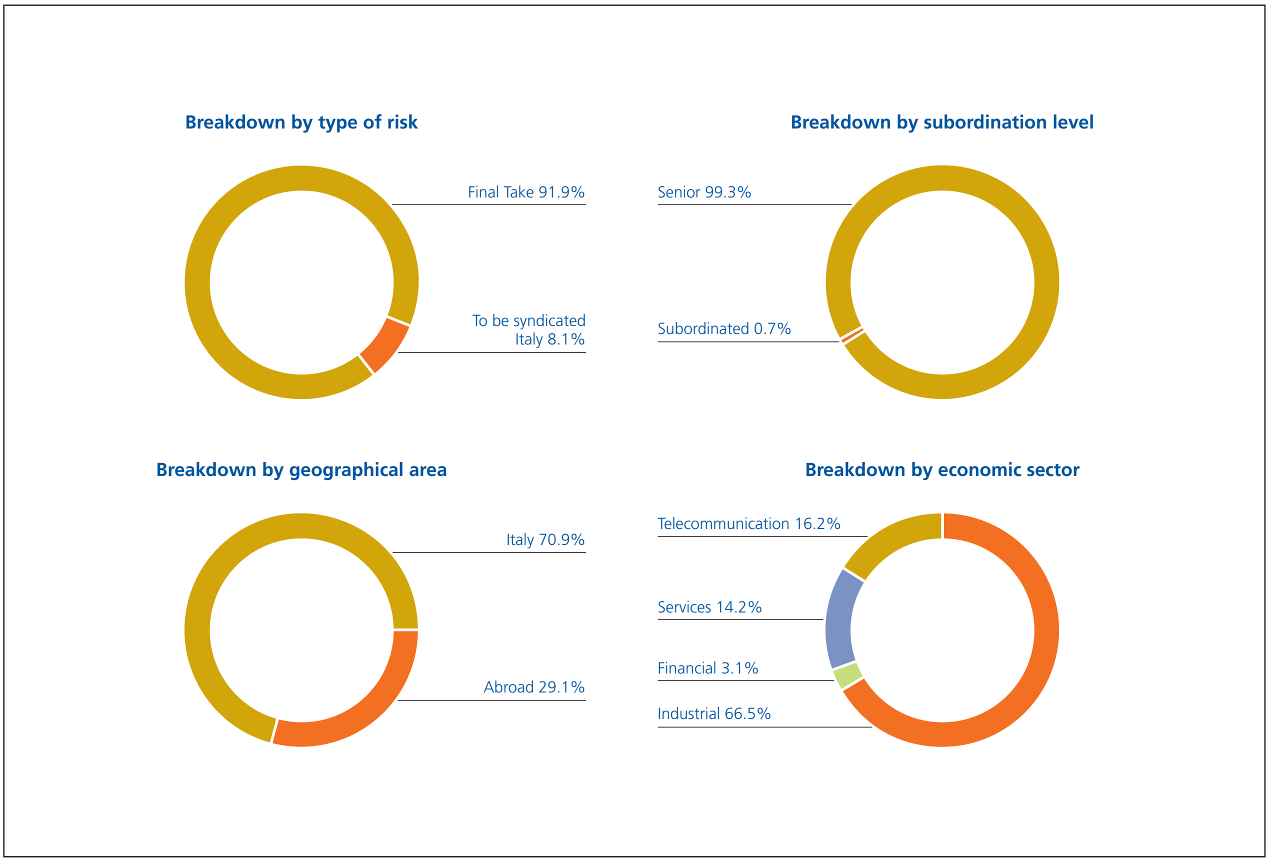
For the description of the transactions which involve these vehicles see the specific section dedicated to Leveraged Finance transactions.

Credit Derivatives SPEs

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

INFORMATION ON LEVERAGED FINANCE TRANSACTIONS

Since there is no univocal and universally agreed-upon definition of leveraged finance transactions, Intesa Sanpaolo decided to include in this category the exposures (loans granted and disbursed in relation to structured financing operations, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or part acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's shares/quotas package, these SPEs are normally merged into the target. The target companies generally have good economic prospects, stable cash flows in the medium term and low original leverage levels. Intesa Sanpaolo has financed entities of this type, as normal borrowers, without acting as sponsor.
None of these SPEs is consolidated, since the guarantees to support the transaction are solely instrumental for the granting of the financing and are never directed to the acquisition of direct or indirect control over the vehicle.
As at 31 December 2011, 111 transactions for a total amount granted of 4,418 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 funds portfolio as at 31 December 2011 totalled 665 million euro, compared to the 814 million euro recorded at year-end 2010. The reduction in the value of the portfolio is attributable to the significant capital losses deriving from outstanding positions at the end of 2011, in addition to several sales of units and the effect of the change in the exchange rate on positions denominated in U.S. dollars.
As at the same date, the contribution to "Profits (Losses) on trading – caption 80" of these investments was highly negative at -114 million euro (including -5 million euro abrovementioned in the structured credit products disclosure). Of these net charges:
– -10 million euro related to trading of funds for the year (including -1 million euro in the structured credit products disclosure);
– -111 million euro consisting of net valuations of positions outstanding at the period end (including -4 million euro in the structured credit products disclosure);
– 7 million of profits on foreign exchange transactions.

Taking into account the net capital losses on the final residual amount (-111 million euro), these were spread across 45 positions, 19 of which recording capital gains (4 million euro) and 26 capital losses (-115 million euro).
The negative performance of the portfolio (-16% on an annual basis) is comparable to the benchmark HFRX Global Hedge Fund Index, which showed negative performance of 9% over the same time period.
The positions which generated the greatest capital losses are connected to "global equity long/short" and "event-driven" strategies, with underlying investments in the financial and extraction sectors, harshly penalised by the negative performance of the markets. The strategy for management of the portfolio in 2011 was, in any event, characterised by a conservative approach aimed at both reducing its size and repositioning it towards sectors with strong growth potential and towards less liquid strategies which are less correlated to the performance of the markets.

INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

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

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

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

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

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

Considering only relations with customers, as at 31 December 2011, 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 3,818 million euro (3,268 million euro as at 31 December 2010). The notional value of such derivatives totalled 50,708 million euro (45,875 million euro as at 31 December 2010). Of these, notional value of plain vanilla contracts was 44,113 million euro (35,054 million euro as at 31 December 2010), and of structured contracts was 6,595 million euro (10,821 million euro as at 31 December 2010).

The positive fair value of the structured contracts in existence with the 10 customers with the highest exposures was 335 million euro (309 million euro as at 31 December 2010). The same indicator, referred to the total contracts with a positive fair value, was 1,517 million euro (1,472 million euro as at 31 December 2010).

Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 960 million euro as at 31 December 2011 (552 million as at 31 December 2010). The notional value of such derivatives totalled 14,751 million euro (13,157 million euro as at 31 December 2010). Of these, notional value of plain vanilla contracts was 13,690 million euro (11,576 million euro as at 31 December 2010), and of structured contracts was 1,061 million euro (1,581 million euro as at 31 December 2010).

The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Credit Risk Adjustment"). With regard to contracts outstanding as at 31 December 2011, this led to a negative effect of 75 million euro being recorded under Profits (Losses) on trading in the income statement, compared to a positive impact of 17 million euro as at 31 December 2010. Adjustments were recorded, for every single contract, on the market value determined using the risk free curves.

As regards the means of calculation of the aforesaid Credit Risk Adjustment and, in general, the various methodologies used in the determination of the fair value of financial instruments, see Part A of the Notes to the consolidated financial statements - Fair value measurement. 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 with banks and financial companies.