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# Risk management

## BASIC PRINCIPLES

The policies relating to risk acceptance are defined by the Parent Company's Administrative Bodies (Supervisory Board and Management Board), with support from specific Committees.

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. For the main Group subsidiaries these functions are performed, on the basis of an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.

The risk measurement and management tools together define a risk-monitoring framework at Group level, capable of assessing risks assumed 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 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 normal and stress conditions. The capital position forms the basis for business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, 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 2 REGULATIONS AND THE INTERNAL PROJECT

In June 2004, the Basel Committee on Banking Supervision published the final version of the Capital Accord ("Basel 2"), adopted by the European Union at the end of 2005 through the Capital Adequacy Directive and in Italy by Law Decree no. 297 of 27 December 2006.

Very briefly, the Accord provides for new quantitative rules to establish the minimum capital requirement to hedge against credit, market and operational risks:

- for credit risks, the new rules introduce a greater degree of correlation between capital requirements and risks by acknowledging ratings and other credit risk measurement tools. The Accord sets out a Standardised approach together with two increasingly sophisticated approaches based on internal risk management (IRB) tools;
- for market risks, the legal regulations previously in force continue to apply;
- the new Accord introduces capital absorption for operational risks, which can also be measured using three increasingly analytical approaches (Basic Indicator, Standardised and Advanced Measurement - AMA).

For Pillar 2 purposes, capital adequacy must also be demonstrated for a wider range of risks including at least: banking book, liquidity, strategic, investment and insurance, securitisation-related, residual credit and reputation risks.

The regulations are designed to promote the adoption of more sophisticated methods, in both credit risks and operational risks, through a lower absorption of capital. However, in order to access these options, the banks must satisfy a set of minimum requirements for risk management and control methodologies, to be verified by the Supervisory authority.

The greatest advantages will come from the management and operating results obtained from the systematic application of the new methodologies that should make it possible to improve risk management and control capabilities as well as increase the efficiency and effectiveness of customer service.

In order to profit from these opportunities, in 2007 Intesa Sanpaolo launched the "Basel 2 Project", with the mission of preparing the Group for the adoption of advanced approaches, building on the pre-merger experience of Intesa and Sanpaolo IMI.

In 2008, the Intesa Sanpaolo Group began the approval process for adoption of the advanced approaches as part of the "Basel 2 Project".

With regard to credit risks, a "first scope" of companies that use approaches based on internal models was

identified. For this scope of companies, the Group obtained authorisation to use the IRB Foundation approach for the Corporate segment, starting from the report as at 31 December 2008. The rating models and credit processes for the SME Retail and Retail (Residential mortgages) segments were also implemented in 2008. With the release of the Loss Given Default (LGD) model, now being completed, in 2009 it will be possible to send a request for authorisation to use the AIRB approach.

Rating model development for other segments and extension of the business application scope is in progress, in line with a gradual programme for the adoption of advanced approaches submitted to the Supervisory Authority.

With regard to operational risks, work has reached the final implementation stage and will allow submission of the request for validation for the advanced approach in 2009.

Furthermore, in 2008 the Group presented its first ICAAP (Internal Capital Adequacy Assessment Process) Report as a “class 1” banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for the measurement of risk, internal capital and total capital available.

As part of the adoption of “Basel 2” by the Italian banking system, Bank of Italy Circular 263 of 27 December 2006 “New regulations for the prudential supervision of banks” sets out the procedures that must be adopted by banks and banking groups in public disclosures on capital adequacy, risk exposure and the general features of the risk identification, measurement and management systems (Basel 2 - Pillar 3).

To summarise, the new instructions envisage the drawing up of a separate report on banking group risk in addition to that already included in the financial statements. This disclosure, drawn up in accordance with the provisions of the aforementioned circular, which incorporates the provisions of Annex XII to EU Directive 2006/48, is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

- figures as at 31 December: full qualitative and quantitative disclosure;
- figures as at 30 June: update of the quantitative disclosure (as Intesa Sanpaolo is among the groups that have adopted IRB and/or AMA approaches for credit and operational risk);
- figures as at 31 March/30 September: update of the information relating to capital and capital adequacy (as Intesa Sanpaolo is among the groups that have adopted IRB and/or AMA approaches for credit and operational risk).

The Intesa Sanpaolo Group publishes the Basel 2 Pillar 3 disclosure and subsequent updates on its website at the address: [group.intesasnpaolo.com](http://group.intesasnpaolo.com).

## CREDIT RISKS

The Intesa Sanpaolo Group has developed a set of techniques and tools for risk measurement and management which ensure analytical control over the quality of loans to customers and financial institutions, and loans subject to country risk.

With particular reference to loans to customers, risk management uses different rating models on the basis of the borrower’s segment (corporate, Italian public sector entities, Small Businesses, Mortgages, Personal Loans), and in terms of industry and size.

Credit strategies and policies address:

- coordination of action to achieve a sustainable objective, consistent with risk appetite and value creation;
- portfolio diversification, limiting the concentration of exposures on single borrowers/groups, single sectors or geographical areas;
- efficient selection of the single borrowers via an attentive creditworthiness analysis aimed at containing default risk, notwithstanding the objective of privileging commercial lending or loans to support new production capacity with respect to merely financial interventions;
- control of relationship characteristics, carried out with information technology procedures and systematic surveillance of the relationships which present irregularities, both aimed at rapidly identifying any signs of deterioration in risk exposures.

The quality of the loan portfolio is constantly monitored by specific operating checks for all the phases of loan management (analysis, granting, monitoring of non-performing loans).

The management of credit risk profiles of the loan portfolio is assured, starting from the analysis and granting phases, by:

- regulations on Credit policies;
- checks on the existence of the necessary conditions for creditworthiness, with particular focus on the customer’s current and prospective capacity to produce satisfactory income and congruous cash flows;
- the assessment of the nature and size of proposed loans, considering the actual requirements of the

counterparty requesting the loan, the course of the relationship already in progress and the presence of any relationship between the client and other borrowers.

## Credit quality

The overall non-performing loan portfolio is continually monitored through a predetermined control system and periodic managerial reporting. In particular, such activities are performed using measurement methods and performance controls that allow the production of synthetic risk indicators. They interact with processes and procedures for loan management and for credit risk control and allow timely assessments to be formulated when any anomalies arise or persist.

Positions to which the synthetic risk indicator attributes a persistent high-risk rating are intercepted and allocated to different categories (manually or automatically) based on the risk profile. Exposures to borrowers in default or in similar situations are classified as doubtful loans; exposures to borrowers in temporary difficulty, deemed likely to be settled in a reasonable period of time, are classified as substandard loans; positions for which, due to the deterioration of the economic and financial position of the borrower, the bank (or group of banks) agrees to modify the original contractual terms giving rise to a loss, are classified as restructured loans. Lastly, non-performing loans include loans past due which exceeded the warning threshold.

(in millions of euro)

|                                            | 31.03.2009     |                   |                | 31.12.2008     |                   |                | Changes       |
|--------------------------------------------|----------------|-------------------|----------------|----------------|-------------------|----------------|---------------|
|                                            | Gross exposure | Total adjustments | Net exposure   | Gross exposure | Total adjustments | Net exposure   | Net exposure  |
| Doubtful loans                             | 13,769         | -9,534            | 4,235          | 13,047         | -9,079            | 3,968          | 267           |
| Substandard and restructured loans         | 8,517          | -2,033            | 6,484          | 7,545          | -1,855            | 5,690          | 794           |
| Past due loans                             | 1,904          | -177              | 1,727          | 2,022          | -156              | 1,866          | -139          |
| <b>Non-performing loans</b>                | <b>24,190</b>  | <b>-11,744</b>    | <b>12,446</b>  | <b>22,614</b>  | <b>-11,090</b>    | <b>11,524</b>  | <b>922</b>    |
| Performing loans                           | 361,407        | -2,443            | 358,964        | 370,611        | -2,442            | 368,169        | -9,205        |
| Performing loans represented by securities | 16,516         | -440              | 16,076         | 15,863         | -367              | 15,496         | 580           |
| <b>Loans to customers</b>                  | <b>402,113</b> | <b>-14,627</b>    | <b>387,486</b> | <b>409,088</b> | <b>-13,899</b>    | <b>395,189</b> | <b>-7,703</b> |

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

At the end of the first quarter of 2009, the Group recorded an 8% increase in non-performing loans compared to the 2008 year-end figure. This change reflects a slightly higher impact of non-performing loans on total loans to customers, from 2.9% to 3.2%. The hedging of non-performing loans through prudential provisioning policies extended to all commercial banks, stood at approximately 49%.

In particular, doubtful loans net of adjustments as at the end of the first quarter totalled 4,235 million euro, up 267 million euro on the 2008 year-end figure; the incidence on total loans to customers was approximately 1%, with approximately 69% coverage ratio.

Substandard and restructured loans amounting to 6,484 million euro increased by 14% on a quarterly basis, with an approximate 24% coverage ratio.

Past due loans, amounting to 1,727 million euro, decreased by 139 million euro and record a coverage ratio of approximately 9%.

Cumulated collective adjustments on performing loans totalled 0.7% of gross exposure to customers, in line with the figure recorded at the end of 2008.

Performing loans represented by securities increased by almost 4% due to the above-mentioned reclassifications for the quarter. The corresponding adjustments mainly relate to adjustments made before reclassification of the securities to the loans category.

## MARKET RISKS

### TRADING BOOK

The activities for the quantification of trading risks are based on daily and period estimates of sensitivity 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;
- equity and market indexes;
- investment funds;
- foreign exchange rates;

- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in issued bonds;
- correlation instruments;
- dividend derivatives;
- asset backed securities (ABSs);
- commodities.

A number of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 9% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading portfolios were interest rates and foreign exchange rates, both relating to linear pay-offs.

For some of the abovementioned risk factors, the Supervisory authority validated the internal models for the regulatory measurement of capital absorption of both Intesa Sanpaolo (internal model extended during 2007 to the books of the former SANPAOLO IMI Finance Department) and Banca IMI (the internal model, previously validated for the former Banca Caboto component, was extended, in the first quarter of 2008, to the former Banca IMI portfolios).

In particular, the validated risk profiles for market risks are: (i) generic on debt securities and generic/specific on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCITS solely with reference to the quotas in CPPI (Constant Proportion Portfolio Insurance) for Banca IMI, and (iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators, VaR being the most important one. 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, 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 of illiquid parameters.

In the first quarter of 2009, market risks generated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for the last quarter of 2008. The average VaR for the period totalled 50.3 million euro.

#### Daily VaR of the trading portfolio for Intesa Sanpaolo and Banca IMI<sup>(a)</sup>

(in millions of euro)

|                 | 2009                               |                                    |                                    | 2008                               |                                    |                                    |                                    |
|-----------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                 | average<br>1 <sup>st</sup> quarter | minimum<br>1 <sup>st</sup> quarter | maximum<br>1 <sup>st</sup> quarter | average<br>4 <sup>th</sup> quarter | average<br>3 <sup>rd</sup> quarter | average<br>2 <sup>nd</sup> quarter | average<br>1 <sup>st</sup> quarter |
| Intesa Sanpaolo | 32.3                               | 28.7                               | 35.6                               | 42.1                               | 31.5                               | 37.9                               | 29.4                               |
| Banca IMI       | 18.0                               | 14.1                               | 21.7                               | 18.3                               | 10.1                               | 12.9                               | 9.0                                |
| <b>Group</b>    | <b>50.3</b>                        | <b>44.6</b>                        | <b>55.7</b>                        | <b>60.4</b>                        | <b>41.6</b>                        | <b>50.8</b>                        | <b>38.4</b>                        |

<sup>(a)</sup> Each line in the table sets out past estimates of daily operational VaR calculated on the quarterly historical time-series respectively of Intesa Sanpaolo and Banca IMI; minimum and maximum values for Intesa Sanpaolo and Banca IMI 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 first quarter of 2009 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 41% of total VaR; for Banca IMI credit spread risk was the most significant representing 34% of total VaR.

### Contribution of risk factors to VaR<sup>(a)</sup>

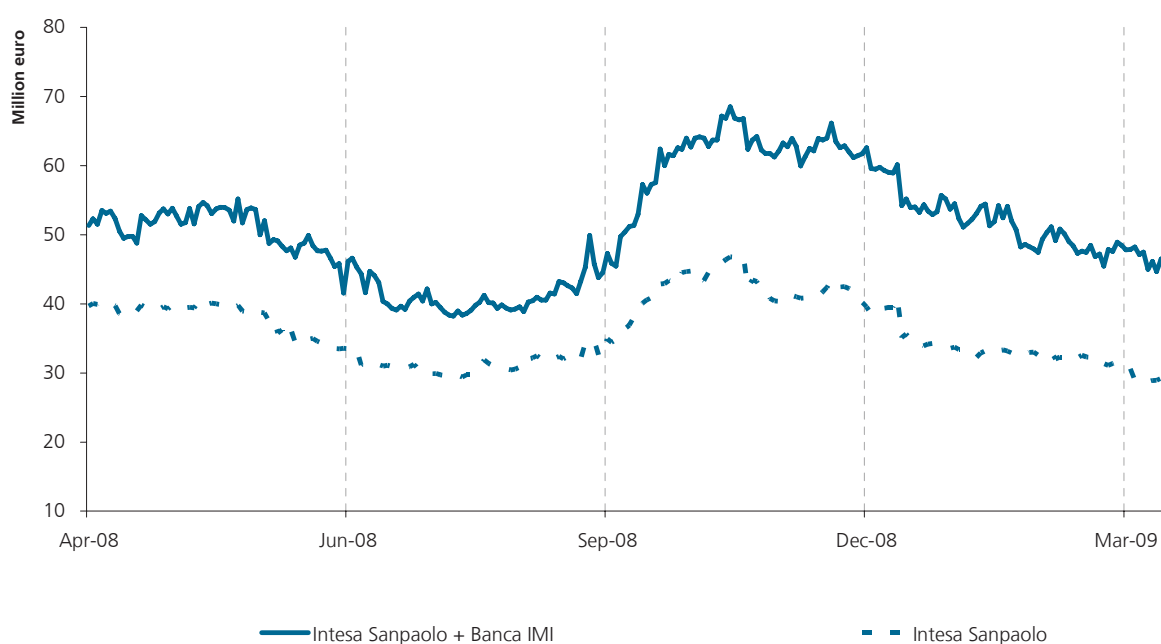
| 1st quarter 2009 | Shares     | Rates      | Credit spread | Foreign Exchange | Hedge fund | Other parameters |
|------------------|------------|------------|---------------|------------------|------------|------------------|
| Intesa Sanpaolo  | 6%         | 11%        | 20%           | 2%               | 41%        | 20%              |
| Banca IMI        | 32%        | 22%        | 34%           | 4%               | -          | 8%               |
| <b>Group</b>     | <b>17%</b> | <b>16%</b> | <b>26%</b>    | <b>3%</b>        | <b>23%</b> | <b>15%</b>       |

<sup>(a)</sup> Each line in the table sets out the contribution of risk factors considering the overall VaR 100%, calculated as the average of daily estimates in the first quarter of 2009, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall VaR.

VaR in the last twelve months is set out below. The first quarter of 2009 recorded a drop in VaR, primarily from operations (a decrease in certain exposures and greater hedge effectiveness) and a different impact on historic volatility simulation scenarios. The market, in fact, has recorded an upward volatility trend since the start of the year, though without reaching the peaks recorded after the Lehman Brothers collapse. In fact, the volatility figures of the first quarter 2009 were lower than those recorded last October.

As indicated in the chapter on balance sheet aggregates, a reclassification to LR (Loans & Receivables) was performed in October 2008, as permitted by IAS, on certain highly illiquid securities (mainly ABS). The average VaR in the first quarter of 2009 for this portfolio, not included in the VaR limit monitoring and the above statistics, was approximately 9.6 million euro.

### Daily evolution of market risks - VaR



Risk control with regard to the trading activities of Intesa Sanpaolo and Banca IMI also uses scenario analyses and stress tests. The impact on the income statement of selected scenarios regarding the evolution of stock prices, interest rates, credit spreads and exchange rates at the end of March are summarised in the following table.

In particular:

- 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 3 million euro gain; a bullish scenario, that is a 5% rise in stock prices with a simultaneous 10% decrease in volatility would have led to a 5 million euro loss;
- on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 19 million euro loss, whereas a parallel -25 basis point shift would have led to an 18 million euro gain;

- on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to a 30 million euro loss, 10 million euro of which attributable to structured credit products;
- with regard to EUR/USD market exposures, the portfolio would have recorded a 5 million euro gain in the event of depreciation of the Euro (-10%) due to a long position on the dollar;
- lastly, on commodity exposures a 2 million euro loss would have been recorded had there been a 50% increase in prices.

(in millions of euro)

|                     | Equity                            |                                   | Interest rates |       | Credit spreads |       | Foreign Exchange rates |      |
|---------------------|-----------------------------------|-----------------------------------|----------------|-------|----------------|-------|------------------------|------|
|                     | volatility +10%<br>and prices -5% | volatility -10%<br>and prices +5% | -25bp          | +25bp | -25bp          | +25bp | -10%                   | +10% |
| Group               | 3                                 | -5                                | 18             | -19   | 31             | -30   | 5                      | -2   |
| <i>of which SCP</i> |                                   |                                   |                |       | 10             | -10   |                        |      |

## INFORMATION ON FINANCIAL PRODUCTS

The negative phase of the financial markets and the difficulties faced by leading financial institutions led supranational and national Supervisory authorities to recommend the utmost transparency in the disclosure to shareholders and investors of credit and market risk exposure, in the various accepted forms, directly or through vehicles. As usual, an update is provided below on the information provided in the financial statements as at 31 December 2008.

### DETERMINATION OF THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Information in this chapter integrates the accounting principles adopted by the Intesa Sanpaolo Group, unchanged since the 2008 Annual Report, and clearly explains valuation concepts and parameters.

In the preparation of this information, a clear and simple approach is adopted, avoiding excessive technical jargon where possible.

For a definition of technical terms, especially those of English origin or of a mathematical nature, reference should be made to the glossary provided in the financial statements as at 31 December 2008.

#### General Principles

IAS/IFRS state that products in the trading portfolio must be measured at fair value through profit and loss. The existence of official prices in an active market<sup>1</sup> represents the best evidence of fair value and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities in the trading portfolio.

If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date, in an arm-length exchange, motivated by normal business considerations. Such techniques include:

- reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach);
- valuations performed using – even partly – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: if a published price quotation in an active market is available then the other valuation approaches may not be used.

#### Hierarchy of fair value

As described above, the hierarchy of measurement models, i.e. of the approaches adopted for fair value measurement attributes absolute priority to effective market quotes for valuation of assets and liabilities or for similar assets and liabilities (comparable approach) and a lower priority to non-observable and, therefore, more discretionary inputs (mark-to-model approach).

#### 1. Effective market quotes

In this case the valuation is the price of the same financial instrument to be measured on the basis of prices quoted on an active market.

The percentage (determined in relation to fair value in case of derivatives) of instruments valued with this methodology on the total of instruments measured at fair value is set out below:

Financial assets:

|               |       |                   |
|---------------|-------|-------------------|
| - cash        | 78.8% | 66.8 billion euro |
| - derivatives | 2.0%  | 0.9 billion euro  |

Financial liabilities:

|               |       |                  |
|---------------|-------|------------------|
| - cash        | 28.7% | 1.6 billion euro |
| - derivatives | 3.1%  | 1.5 billion euro |

The value of financial instruments measured on the basis of market prices has increased since December 2008, resulting in an increase in the percentage weight of cash assets on total assets measured at fair value, offset by a reduction in the percentage weight of instruments measured at level 2.

<sup>1</sup> A financial instrument is considered as quoted on an active market if the quotations, reflecting normal market transactions, are promptly and regularly available through organised markets (exchanges), brokers, intermediaries, companies operating in the sector, quotation services or authorised bodies, and such prices represent effective and regular market transactions taking place over a normal period of reference.

## 2. Valuation Techniques: Comparable Approach

In this case 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 quotes of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model).

The use of this approach requires the search for transactions on active markets in relation to instruments that, in terms of risk factors, are comparable with the instrument to be measured.

The calculation methodologies (pricing models) used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretionary parameters – parameters for which values may not be inferred from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation.

The proportion of the instruments valued with this method (determined in relation to fair value in the case of derivatives) as a percentage of the total of the instruments measured at fair value is as follows:

Financial assets:

|               |       |                   |
|---------------|-------|-------------------|
| - cash        | 18.3% | 15.5 billion euro |
| - derivatives | 97.5% | 45.2 billion euro |

Financial liabilities:

|               |       |                   |
|---------------|-------|-------------------|
| - cash        | 71.3% | 3.9 billion euro  |
| - derivatives | 95.0% | 44.7 billion euro |

Apart from the above-mentioned reduction in the percentage impact of cash financial assets measured at level 2, there were no other significant percentage changes compared to those indicated in the financial statements as at 31 December 2008.

## 3. Valuation techniques: Mark-to-Model Approach

In this case valuations are based on various inputs, which are not presumed directly from parameters which may be observed on the market and therefore imply estimates and assumptions on the part of the valuator.

In particular, with this approach the valuation of the financial instrument uses a calculation method (pricing model) 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 these are 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 percentage of the instruments valued with this method (determined in relation to fair value in the case of derivatives) in the total of the instruments measured at fair value is as follows:

Financial assets:

|               |      |                  |
|---------------|------|------------------|
| - cash        | 2.9% | 2.5 billion euro |
| - derivatives | 0.5% | 0.2 billion euro |

Financial liabilities:

|               |      |                  |
|---------------|------|------------------|
| - cash        | ---- |                  |
| - derivatives | 1.8% | 0.9 billion euro |

The cash financial assets include investments in equities of 1.5 billion euro, classified as securities available for sale.

## STRUCTURED CREDIT PRODUCTS

### The business model: objectives, strategies and relevance

As in 2008, the strategies adopted for structured credit products in the first quarter of 2009 did not generate new transactions, but managed merely existing investments.

The approach already adopted with good results in 2008, based on the following guidelines, was therefore confirmed:

- gradual reduction of the portfolio via an orderly process of sales and unwinding, exploiting prepayments and amortisation of the structured products in portfolio. This process was made possible by the limited weight of the structured credit portfolio on total Group assets and from the strong incidence within the portfolio of unfunded positions;
- risk profile management achieved via “short” positions on derivative markets with reference to the indexes representative of the US real estate market (ABX and CMBX), to the US market of leveraged loans (LCDX) and to some selected single names whose performance is considered to be particularly affected by the dynamics of the structured credit market.

The persistence of the dull market situation, in the context of structured credit products, practically led to the disappearance of any trading opportunity or intention on such positions. The gradual reduction strategy outlined above was therefore accompanied by a supplementary tactical option of transforming unfunded positions into cash positions, with subsequent classification in the banking book (loans and receivables). This option, in addition to responding to the current hold-to-maturity approach, was facilitated by the unwinding of the cash crisis which, a little at a time, diminishes advantages in terms of funding linked to unfunded positions.

### Highlights

Before illustrating the results as at 31 March 2009, it should be specified that the quality of the structured credit product portfolio remained steady also at the end of the first quarter of the year, as confirmed by the following indicators:

- 90% of exposure is Investment Grade;
- 58% of these exposures has a Super senior (22%) or AAA (36%) rating;
- 10% has a rating of BBB or lower;
- 71% of the exposure had a pre-2005 vintage<sup>2</sup>;
- 31% had a 2005 vintage;
- only 10% of exposure referred to the US Residential segment, and 29% to the US non-residential segment;
- the remaining exposure (61% of the total) was almost entirely (50%) European.

Considering underlying contract types, approximately one third of the exposure is represented by ABS (15%) and RMBS (17%); the rest is almost entirely made up of CDOs (29%) and CLOs (35%); CMBS represent 4% of the total.

The structured credit products affected by the financial crisis are indicated by segregating the part classified under financial assets held for trading and available for sale from those classified as loans<sup>3</sup>. The income statement effects reported show the impact of both aggregates on Profits (Losses) on trading – Caption 80 (for the second aggregate the effects refer to 2008 only and concern the pre-reclassification period).

The information provided below refers to the entire Group; any effects and positions indicated, in any event marginal, are attributable to entities other than the Parent Company and are specifically mentioned in the notes.

In the summary tables below, table (a) illustrates risk exposure as at 31 March 2009 and income statement captions (the sum of realised charges and profits, write-downs and write-backs) for the first three months of the year, compared with the corresponding values recorded as at 31 December 2008.

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. For a more complete description of exposures of this type see the specific paragraphs (Monoline risk and Non-monoline packages).

The translation to euro of values expressed in USD as at 31 December 2008 occurred at an exchange rate of 1.3917 euro, and as at 31 March 2009 at an exchange rate of 1.3308 euro.

<sup>2</sup> 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.

<sup>3</sup> This segregation is the result of the reclassification completed in 2008 after the IAS 39 amendments last October. Added to these are the reclassifications of securities completed after the restructuring of unfunded positions in the first quarter of 2009.

*Structured credit products: summary tables**a) Exposure in funded and unfunded ABS/CDOs*

(in millions of euro)

| Financial assets held for trading              | 31.03.2009                                                      |                                                    | 31.12.2008                                                      |                                                    |
|------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------|
|                                                | Risk exposure (*)<br>(including write-downs<br>and write-backs) | Income Statement<br>Profits (Losses)<br>on trading | Risk exposure (*)<br>(including write-downs<br>and write-backs) | Income Statement<br>Profits (Losses)<br>on trading |
| <b>US subprime exposure</b>                    | <b>21</b>                                                       | <b>-1</b>                                          | <b>23</b>                                                       | <b>-4</b>                                          |
| <b>Contagion area</b>                          | <b>279</b>                                                      | <b>-36</b>                                         | <b>207</b>                                                      | <b>-166</b>                                        |
| - Multisector CDOs                             | 199                                                             | -32                                                | 125                                                             | -103                                               |
| - Alt-A                                        | -                                                               | -                                                  | -                                                               | -                                                  |
| - TruPS                                        | 80                                                              | -4                                                 | 82                                                              | -63                                                |
| - Prime CMOs                                   | -                                                               | -                                                  | -                                                               | -                                                  |
| <b>Other structured credit products</b>        | <b>2,369</b>                                                    | <b>-44</b>                                         | <b>3,056</b>                                                    | <b>-327</b>                                        |
| - Funded European/US ABS/CDOs                  | 387                                                             | 4                                                  | 430                                                             | -53                                                |
| - Unfunded super senior CDOs                   | 2,312                                                           | -39                                                | 3,043                                                           | -249                                               |
| - Other                                        | -330                                                            | -9                                                 | -417                                                            | -25                                                |
| <b>Total</b>                                   | <b>2,669</b>                                                    | <b>-81</b>                                         | <b>3,286</b>                                                    | <b>-497</b>                                        |
| in addition to:                                |                                                                 |                                                    |                                                                 |                                                    |
| "Short" positions of funds                     | -                                                               | 1                                                  | -                                                               | 41                                                 |
| <b>Total Financial assets held for trading</b> | <b>2,669</b>                                                    | <b>-80</b>                                         | <b>3,286</b>                                                    | <b>-456</b>                                        |

| Loans                                   | 31.03.2009                                                       |                                                    | 31.12.2008                                                      |                                                    |
|-----------------------------------------|------------------------------------------------------------------|----------------------------------------------------|-----------------------------------------------------------------|----------------------------------------------------|
|                                         | Risk exposure (**)<br>(including write-downs<br>and write-backs) | Income Statement<br>Profits (Losses) on<br>trading | Risk exposure (*)<br>(including write-downs<br>and write-backs) | Income Statement<br>Profits (Losses) on<br>trading |
| <b>US subprime exposure</b>             | <b>6</b>                                                         | <b>-</b>                                           | <b>6</b>                                                        | <b>-</b>                                           |
| <b>Contagion area</b>                   | <b>139</b>                                                       | <b>-</b>                                           | <b>138</b>                                                      | <b>-5</b>                                          |
| - Multisector CDOs                      | 13                                                               | -                                                  | 12                                                              | -                                                  |
| - Alt-A                                 | 78                                                               | -                                                  | 78                                                              | -2                                                 |
| - TruPS                                 | -                                                                | -                                                  | -                                                               | -                                                  |
| - Prime CMOs                            | 48                                                               | -                                                  | 48                                                              | -3                                                 |
| <b>Other structured credit products</b> | <b>2,462</b>                                                     | <b>-</b>                                           | <b>1,973</b>                                                    | <b>-57</b>                                         |
| - Funded European/US ABS/CDOs           | 1,580                                                            | -                                                  | 1,729                                                           | -57                                                |
| - Unfunded super senior CDOs            | 641                                                              | -                                                  | -                                                               | -                                                  |
| - Other                                 | 241                                                              | -                                                  | 244                                                             | -                                                  |
| <b>Total</b>                            | <b>2,607</b>                                                     | <b>-</b>                                           | <b>2,117</b>                                                    | <b>-62</b>                                         |
| in addition to:                         |                                                                  |                                                    |                                                                 |                                                    |
| "Short" positions of funds              | -                                                                | -                                                  | -                                                               | -                                                  |
| <b>Total Loans</b>                      | <b>2,607</b>                                                     | <b>-</b>                                           | <b>2,117</b>                                                    | <b>-62</b>                                         |
| <b>Total</b>                            | <b>5,276</b>                                                     | <b>-80</b>                                         | <b>5,403</b>                                                    | <b>-518</b>                                        |

(\*) 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 value of the security, equal to fair value at the reclassification date, plus accrued interest calculated at the actual interest rate net of net value adjustments to the portfolio.

## b) Exposure in packages

| Detailed table        | 31.03.2009                                                               |                                                    | 31.12.2008                                                               |                                                    |
|-----------------------|--------------------------------------------------------------------------|----------------------------------------------------|--------------------------------------------------------------------------|----------------------------------------------------|
|                       | Credit exposure to protection seller<br>(CDS fair value) post write-down | Income Statement<br>Profits (Losses)<br>on trading | Credit exposure to protection seller<br>(CDS fair value) post write-down | Income Statement<br>Profits (Losses)<br>on trading |
| Monoline risk         | 5                                                                        | 3                                                  | -                                                                        | -94                                                |
| Non monoline packages | 179                                                                      | -2                                                 | 154                                                                      | -                                                  |
| <b>Total</b>          | <b>184</b>                                                               | <b>1</b>                                           | <b>154</b>                                                               | <b>-94</b>                                         |

Referring to the following summary for a more detailed illustration of the various product performances, it should be noted that in the first quarter of 2009 the structured credit products portfolio restructured unfunded positions, which with regard to "Other structured credit products", reduced the weight of these positions on funded positions, later classified under loans, less exposed to income statement volatility yet with no effect on the Intesa Sanpaolo risk profile. Furthermore, one position included in the first reporting boundary was moved from "Other structured credit products" to the "Contagion area". This proved necessary due to the increased weight of the nominal value of the US RMBS component on total assets in the collateral portfolio, resulting from default on ABS CDOs included in this portfolio.

From an economic point of view, in the reporting period the incidence of losses, particularly attributable to US subprime exposures, remained unchanged compared to the end of 2008 in both absolute and relative terms, due to the consistent write-downs in this segment in 2007 and 2008.

More specifically, the negative result of the structured credit products in the period (-79 million euro) is mostly attributable to unfunded structured credit products (-83 million euro). In this segment, there were write-downs that mainly involved the US RMBS not classed as subprime (see point i., "Contagion area") and transactions classed as unfunded super senior CDO (see point ii., "Other structured credit products"). The less significant contribution from European and US ABS (+3 million euro) and package exposure (+1 million euro) complete the summary description of the income statement figures in the Structured Credit Product segment as at 31 March 2009.

As at 31 March 2009, this aggregate included bonds classified as loans for a total nominal value of 2,875 million euro and risk exposure of 2,607 million euro. Of this amount, 309 million euro referred to securities reclassified from available for sale to the loans portfolio. As at 31 March 2009 their fair value was 267 million euro. The positive impact of this transaction on the Valuation reserve under Shareholders' Equity was 42 million euro. The remaining 2,298 million was reclassified from the trading book to the loans portfolio. The fair value of this aggregate as at 31 March 2009 was 1,916 million euro, with a positive effect on the income statement of 382 million euro, 299 million euro of which referring to 31 December 2008. Had the loans portfolio not been reclassified, the negative result for structured products would have increased to 162 million euro in the first quarter of 2009.

### US subprime exposure

As at 31 March 2009 the qualitative breakdown of US Subprime exposure remained unchanged compared to the figures indicated in the financial statements as at 31 December 2008. Specifically, the overall long position for US Subprimes dropped to 27 million euro compared to 29 million euro as at 31 December 2008.

In detail, the aggregate included ABS, funded CDOs and unfunded super senior CDOs for a nominal value of 254 million euro (246 million euro as at 31 December 2008), with a corresponding risk exposure of 21 million euro (22 million euro as at 31 December 2008). The related impact on the income statement for the first quarter was negative by 1 million euro (-30 million euro as at 31 December 2008).

Given a residual long position in dynamic hedges, the net position as at 31 March 2009 totalled 265 million euro in terms of nominal value (260 million euro as at 31 December 2008), and 21 million euro in terms of risk exposure (23 million euro as at 31 December 2008), whereas the overall impact on the income statement for the first three quarters proved negative by 1 million euro (-4 million euro as at 31 December 2008). This aggregate includes one CDO which, classified to the Romulus vehicle loans portfolio at the end of 2008, was transferred to the Parent Company loans portfolio for a nominal value of 9 million euro, equal to a 6 million euro risk exposure. As at 31 March 2009 this security had a fair value of 4 million euro; the amortised cost measurement resulted in a positive effect of 2 million euro on the Valuation reserve under Shareholders' Equity.

### “Contagion” area

The qualitative breakdown of this portfolio recorded no significant changes in the first quarter of 2009. In quantitative terms, as mentioned above, one position already included in the segment was moved to this area. The segment results subject to “contagion effect”, i.e. affected by the subprime mortgage crisis, can be summarised as follows:

- i. **Multisector CDOs:** Taking into account write-downs, write-backs, CMBX index hedges and a number of single-name credit default swap positions on related names implemented in 2008<sup>4</sup>, the net risk exposure was 212 million euro (137 million as at 31 December 2008) and also include 13 million euro in securities, partly in the Romulus vehicle portfolio and partly in the Parent Company portfolio, classified as loans. As at 31 March 2009, these securities had a fair value of 9 million euro. Their measurement at amortised cost led to a positive 4 million euro impact on the Valuation reserve under Shareholders’ Equity. The increase in risk exposure is due to the above-mentioned transfer of one unfunded position included in the “Other structured credit products” in previous periods. The overall impact of these positions on the income statement totalled -32 million euro (-103 million euro as at 31 December 2008). Considering, for the sake of completeness, Group investment in funds taking “short” positions on the US credit market, and with an impact on the income statement of 1 million euro (41 million euro as at 31 December 2008), the overall result for the segment is -31 million euro (-62 million euro as at 31 December 2008).
- ii. **Alt-A - Alternative A Loans:** this segment comprises bonds classified as loans and one position classified as available for sale, pertaining to the Parent Company. The overall nominal value of these securities was 95 million euro (of which 86 million euro in the loans portfolio and 9 million euro in the available for sale portfolio), and exposure to risk totalled 78 million euro (classified in full in the loans portfolio). The corresponding values as at 31 December 2008 were 96 million euro and 78 million euro respectively. The economic result for the segment as at 31 March 2009 was zero (-2 million as at 31 December 2008). At the same date, securities in this category had a fair value total of 58 million euro. The classification of securities in the loans segment therefore led to a positive effect on the income statement of 20 million euro, 16 million euro of which as at 31 December 2008 and 4 million euro referring to the first quarter of 2009.
- iii. **TruPS – Trust Preferred Securities of REITs (Real Estate Investment Trust):** the financial instruments included in this aggregate, which as at 31 March 2009 had a nominal value of 243 million euro (235 million euro as at 31 December 2008), were mainly unfunded. The risk exposure, taking into account write-downs and write-backs, was 80 million euro (82 million euro as at 31 December 2008), and the economic result attributable to these positions was -4 million euro (-63 as at 31 December 2008).
- iv. **Prime CMOs:** these form part of the bonds aggregate with a nominal value of 52 million euro (53 million euro as at 31 December 2008), classified as loans. The risk exposure linked to these securities was 48 million euro, unchanged since 31 December 2008, and with a zero impact on the income statement (-3 million euro as at 31 December 2008) due to the effect of their classification in the loans segment. As at 31 March 2009, securities in this category had a fair value total of 35 million euro. The resulting positive effect on the income statement was 13 million euro, entirely attributable to 31 December 2008.

### Other structured credit products

Starting from the end of 2008, the structured credit products segment, including underlying instruments not originating in the USA, were subject to the strongest write-downs due to expansion of the crisis. To reduce income statement volatility in connection with this segment, from the first quarter of 2009 Intesa Sanpaolo adopted a restructuring policy for unfunded positions included in the aggregate and their replacement with funded positions. These transactions resulted in no change in Intesa Sanpaolo’s exposure to risk. The funded nature of the new risk positions, also given the “rare circumstances” linked to the illiquidity of positions as required by IAS, allowed their reclassification to the loans portfolio, at the fair value of the security as at the time of category transfer.

The various types of product attributable to this last segment, which in the first three months of the year had a negative 44 million euro impact on the income statement, are illustrated below.

<sup>4</sup>

But not in “short” positions of Funds.

## i *Funded ABS/CDOs*

- Funded European ABS/CDOs classified to the trading book.  
As at 31 March 2009 the portfolio had a total nominal value of 432 million euro<sup>5</sup> (477 million euro as at 31 December 2008), with risk exposure of 384 million euro<sup>6</sup> (424 million euro as at 31 December 2008), the qualitative breakdown of which recorded no significant changes in the first quarter. As at the end of the period, the related impact on the income statement was a positive 7 million euro<sup>7</sup>, entirely representing realised income. This figure compares with the -35 million euro as at 31 December 2008.
- Funded European ABS/CDOs classified to the loans portfolio.  
The nominal value of the portfolio as at 31 March 2009 was 1,658 million euro<sup>8</sup> (1,840 million euro as at 31 December 2008) with risk exposure of 1,545 million euro<sup>9</sup> (1,686 million euro as at 31 December 2008). As at 31 March 2009, the securities in this portfolio had a fair value of 1,198 million euro. The positive effect of classification in the loans portfolio was 347 million euro as at the end of the quarter, of which 340 million euro to the income statement (266 million euro as at 31 December 2008 and 74 million for the first quarter of 2009) and 7 million euro to the Valuation reserve under Shareholders' Equity.  
The overall impact of this aggregate on the income statement was zero as at 31 March 2009, compared to the -57 million write-down recorded at the end of 2008.
- Funded US ABS/CDOs classified to the trading book.  
In this segment also, the qualitative breakdown of the portfolio recorded no significant changes in the first quarter. These are securities with US underlying assets for a total nominal value of 19 million euro (18 million euro as at 31 December 2008). At the same date the risk exposure totalled 3 million euro (6 million euro as at 31 December 2008). The impact on the income statement was -3 million euro (-18 million euro as at 31 December 2008).
- Funded US ABS/CDOs classified to the loans portfolio.  
This aggregate includes securities with a total nominal value of 40 million euro (48 million euro as at 31 December 2008), with risk exposure of 35 million euro (43 million euro as at 31 December 2008). The impact of these securities on the income statement was zero at both 31 March 2009 and 31 December 2008. At the end of the first quarter of 2009 the fair value of these securities was 26 million euro. The positive impact of their reclassification to the loans portfolio on the income statement was 9 million euro, 4 million euro of which referring to 31 December 2008 and the remaining 5 million euro to the first quarter of 2009.
- Funded super senior corporate risk CDOs  
These are funded positions classified to the loans portfolio that derive from the restructuring of unfunded positions as at 31 December 2008. The total nominal value of the securities as at 31 March 2009 was 736 million euro, with a risk exposure of 641 million euro. The impact of these positions on the income statement was zero as at the end of the first quarter. The fair value of the securities at the same date was 641 million euro with a zero impact from their reclassification to the loans portfolio.

## ii *Unfunded super senior CDOs*

- Unfunded super senior multisector CDOs.  
The super senior positions in this category had a nominal value of 639 million euro as at 31 March 2009 (790 million euro as at 31 December 2008), with a widely diversified High Grade collateral or characterised by high credit quality RMBS. In terms of risk exposure, unfunded CDOs included in this aggregate totalled 581 million euro as at the end of the first quarter (707 million euro as at 31 December 2008). The decrease in exposure is due to the transfer of one position to the "Contagion area". During the first three months of the year, the relative impact on the income statement was -32 million euro (all from valuations), against the -65 million euro of 31 December 2008.

<sup>5</sup> Of which 354 million euro pertaining to Banca IMI and 1 million euro pertaining to Carifirenze (classified under assets available for sale).

<sup>6</sup> Of which 313 million euro attributable to Banca IMI.

<sup>7</sup> Of which 6 million euro attributable to Banca IMI.

<sup>8</sup> Of which 242 million euro pertaining to Banca IMI (with a 15 million euro benefit to the income statement from reclassification, including 11 million euro for 2008 and 4 million euro for the first quarter of 2009); 8 million euro pertaining to Carifirenze (with a 4 million euro benefit from reclassification in the quarter to the Valuation reserve under Shareholders' Equity) and 45 million euro pertaining to Banca Fideuram (with a 3 million euro benefit from reclassification in the quarter to the Valuation reserve under Shareholders' Equity).

<sup>9</sup> Of which 231 million euro pertaining to Banca IMI, 7 million euro to Carifirenze and 42 million euro to Banca Fideuram.

- Unfunded super senior Corporate Risk CDOs.  
The nominal value of super senior positions in this residual category totalled 1,924 million euro as at 31 March 2009 (2,596 million euro as at 31 December 2008), with risk exposure of 1,731 million euro (2,336 million euro as at 31 December 2008). During the first three months of the year, the relative impact on the income statement was -7 million euro (all from valuations), against the -184 million euro of 31 December 2008.

iii. **Other: residual aggregate including:**

- Other unfunded short positions.  
These are the net short positions as at 31 March 2009 with a nominal value of 300 million euro (396 million euro as at 31 December 2008) and risk exposure of 330 million euro (417 million euro as at 31 December 2008). In the first three months of the year, the relative impact on the income statement was -9 million euro (-1 million euro from net realised charges, -8 million euro from valuations), against the -25 million euro at year-end 2008.
- Funded ABS/CDOs ascribable to the Romulus vehicle.  
These securities were classified as loans as at 31 March 2009. Their nominal value totalled 278 million euro (282 million euro as at 31 December 2008), with risk exposure of 241 million euro (244 million euro as at 31 December 2008). The pre-reclassification figure for capital losses recorded to the Valuation reserve under Shareholders' Equity was 38 million euro, recognised in full in previous years. As at 31 March 2009, the fair value of these securities was 212 million euro. Their classification to the loans portfolio led to a positive effect in the quarter on the Valuation reserve under Shareholders' Equity of 29 million euro.

### Monoline risk

Intesa Sanpaolo presents no direct exposure to monoline insurers (insurance companies specialised in hedging the default risk of bonds issued by both public entities and the corporate sector), but only indirect positions connected to hedging derivatives purchased from monoline insurers to buy protection on the default risk of assets held by the Group, which therefore only generate counterparty risk. Such hedging derivatives are part of two types of activities performed by Intesa Sanpaolo: packages and fully hedged credit derivatives transactions.

As at 31 March 2009, credit risk exposure on these protection purchases from monoline insurers amounted to 91 million euro, against the 84 million euro recorded as at 31 December 2008. The amount was written down by 86 million euro compared to the total write-down performed at year-end 2008. The decrease in provisions in the first quarter of 2009 is due to the restructuring of one monoline position included in the aggregate. The positive impact on the income statement was 2 million euro (-74 million euro as at 31 December 2008). Net credit exposure to the protection seller was therefore 5 million euro as at the end of the quarter, compared to zero exposure recorded as at 31 December 2008.

Intesa Sanpaolo's activities in fully hedged derivatives are made up of the simultaneous purchase and sale of protection on the same reference entity (underlying asset) with two different counterparties. Action was taken during the third quarter to reduce the overall exposure to the monoline counterparty for these transactions.

As at 31 March 2009, credit risk exposure on these protection purchases from monoline insurers remained 27 million euro, the same as at 31 December 2008. The position was fully written down in a similar manner to the write-down of 31 December 2008. The overall impact on the income statement was +1 million euro as at 31 March 2009 (-20 million euro as at 31 December 2008). Net credit risk exposure to the protection seller was therefore zero, as it was at 31 December 2008.

In conclusion, as at 31 March 2009, credit risk exposure with monoline insurers due to counterparty risk amounted to 118 million euro, compared to 111 million euro as at 31 December 2008; this exposure was provisioned by 113 million euro for the downgrade in the counterparty rating, compared with the 111 million euro of 31 December 2008, with a positive impact on the income statement as at the end of March of 3 million euro. Net of write-downs due to the counterparty credit rating, exposure to the protection seller for the transactions included in the aggregate totalled 5 million euro, compared to zero as at 31 December 2008.

### Non-monoline packages

This category includes packages with specific asset hedges stipulated with international banking institutions. As at 31 March 2009 the positions in question totalled 554 million euro in nominal value terms, with risk exposure of 367 million euro (558 million euro and 398 million euro, respectively, as at 31 December 2008). The decrease in hedged assets fair value generated an increase in credit risk exposure to the credit derivative counterparties, from 160 million as at 31 December 2008 to 187 million euro as at

31 March 2009. This exposure was written down by 8 million euro as at the end of the quarter. The negative impact on the income statement was 2 million euro, compared to the zero effect recorded as at 31 December 2008.

## 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 finance on the market by issuing specific financial instruments;
- to acquire, sell, manage specific assets, separating them from the financial statements of the Originator;
- 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 SPE which permit the complete reimbursement of the debt;
- to manage the credit risk connected to their portfolio of financial assets through both 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 SPE, depending on the nature of 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, offering customers a financial service.

There are no changes in the scope of consolidation with respect to those adopted in the previous year.

The types of transactions in SPEs related to Intesa Sanpaolo's current operations are set out below.

### Funding SPEs

Entities established abroad to raise finance on particular markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and reverse funding to the Parent Company.

These SPEs, which are controlled by Intesa Sanpaolo and are part of the Group's scope of consolidation as per IAS 27, are: Intesa Funding LLC, San Paolo IMI US Financial CO., IntesaBCI Preferred Capital Company LLC III and SanPaolo IMI Capital Company LLC 1. All these SPEs have registered offices in the US.

There has been no change to the figure recorded in the financial statements as at 31 December 2008.

The total SPE assets are almost fully represented by loans to the Parent Company Intesa Sanpaolo and remain unchanged since December 2008. The total securities issued – 100% guaranteed by the Parent Company – is also similar to the December 2008 figure.

### SPEs for insurance products

These are entities (UCITS) established for the purpose of investing internal funds of unit-linked and index-linked products of Eurizon Vita and Eurizon Life who retain the majority of the risks and rewards; SPEs for insurance products are consolidated pursuant to IAS 27 / SIC 12.

There has been no change in the number of consolidated companies or in their total assets from that recorded in the 2008 Annual Report.

### Securitisation SPEs

These are SPEs which permit an entity to raise funds for the securitisation of part of its assets. 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 or through a private placement. Funding raised in this way is reversed to the seller while commitments to underwriters are met by using the cash flows generated by the loans sold.

SPEs of this type, which are part of the scope of consolidation as at 31 March 2009 pursuant to IAS 27 or SIC 12, are: 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. and Adriano finance S.r.l. – Series 1 and 2 – and Adriano Finance 2 S.r.l.

These companies, incorporated under Italian law, have been used to securitise the performing assets (mortgage loans, leasing contracts) or non-performing assets (mortgage loans) of Intesa Sanpaolo or Group companies.

Augusto, Colombo and Diocleziano are securitisation vehicles of assets (residential mortgages), mostly to finance long-term mortgages and public works, of companies subject to joint control and later sold.

The securities held have been measured at fair value, as in previous years, except for securities issued by the vehicles Adriano Finance S.r.l. and Adriano Finance 2 S.r.l., instead classified to the loans portfolio and valued at amortised cost.

For the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec.), the Group availed itself of the exemption from compliance to IAS/IFRS permitted on first-time

adoption by IFRS 1 and, thus, assets or liabilities sold and derecognised, based on previous accounting principles and deriving from securitisations, have not been recorded in the financial statements. For transactions stipulated after that date, the provisions of IAS 39 on derecognition of financial assets and liabilities are applied.

The securitised assets of this type of vehicle are represented as follows: performing mortgages - Intesa Sec S.p.A.; performing residential mortgages - Intesa Sec 2 S.r.l., Intesa Sec 3 S.r.l., Adriano Finance S.r.l. and Adriano Finance 2 S.r.l.; non-performing mortgages – Intesa Sec NPL S.p.A., performing loans and cash commitments – Intesa Lease Sec S.r.l. and Split 2 S.r.l. Total assets of Augusto, Colombo and Diocleziano are instead almost entirely made up of long-term mortgages.

Note that:

- ISP CB Ipotecario S.r.l., ISP CB Pubblico S.r.l. and ISP Sec 4 S.r.l. were no longer operative as at 31 March 2009;
- the securitisation of Adriano Finance 3 S.r.l. is being defined.

To complete the information, C.R. Firenze Mutui S.r.l., a securitisation vehicle with its own underlying assets (performing mortgages) pertaining to the Carifirenze Group, should also be mentioned.

The total assets of this type of vehicle, the total securities issued and total securities repurchased by the Intesa Sanpaolo Group have shown no significant changes from the figures recorded as at 31 December 2008.

Furthermore, pursuant to the above-mentioned SIC 12, Intesa Sanpaolo controls:

- Romulus Funding Corporation, a company based in the USA that purchases financial assets, represented by loans or securities with predefined eligibility criteria originating from Bank customers, and finances purchases by issuing Asset-Backed Commercial Papers;
- Duomo Funding PLC, an entity which performs an activity similar to that of Romulus Funding Plc. but is limited to the European market and is financed through funding contracts with Romulus.

During the first quarter, two securities classified to the loans portfolio of the vehicle were transferred to the Parent Company with no impact on the consolidated income statement.

As at 31 March 2009, Romulus total assets amounted to 1.7 billion euro (1.6 billion euro as at 31 December 2008). The commercial papers issued by the company totalling 1.6 billion euro (1.7 billion euro as at 31 December 2008) were fully placed on the market. As at 31 December 2008, 0.9 billion euro in securities was repurchased by the Parent Company. Total Duomo assets amounted to approximately 1 billion euro (essentially in line with the December 2008 figure).

Intesa Sanpaolo holds no interest in SPQR II S.r.l. (CBO 1) and SPQR II S.r.l. (CBO II), but the companies were consolidated as the Group retains the majority of costs and benefits (SIC 12).

The vehicle assets almost entirely comprise a portfolio of bonds issued by Italian public entities, sold to the vehicle by Banca OPI (now Banca Infrastrutture Innovazione e Sviluppo - BIIS). The vehicle, in turn issued senior and junior securities; both security types were repurchased by BIIS, which allocated the senior classes as collateral to its funding with the European Central Bank, via transactions closed through the Parent Company Intesa Sanpaolo.

The overall total of SPQR II S.r.l. assets and securities issued remain unchanged from that recorded at 31 December 2008.

Lastly, Intesa Sanpaolo acquired protection on its credit risk exposure from the synthetic securitisation vehicles "Da Vinci" (to hedge and manage risk exposure in the aircraft and aeronautic sector) and "Vespucci" (on the asset-backed securities portfolio and collateralised debt obligation to manage the trading of structured credit products).

### Financial Engineering SPEs

These SPEs undertake investments and funding which allow better risk/return combinations than those generated by standard transactions, due to their particular structure aimed at optimising accounting, tax and/or regulatory issues. These structures have been established to respond to the needs of primary customers and to 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 G7 countries, with the simultaneous subscription of a commitment to resell at a future date and at a predetermined price; all assisted by swaps aimed at assuring an adequate profitability of the investment. Intesa Sanpaolo replicates every transaction, again with a repurchase agreement with Intesa Investimenti, whose shares are in turn the object of an analogous contract with investing customers. The company is currently inoperative.

The assets of the vehicle are almost entirely made up of term deposits with the Parent Company Intesa Sanpaolo and remain unchanged since December 2008.

**Other unconsolidated Special Purpose Entities**

With regard to the other unconsolidated SPEs (Project Financing, Asset Backed, Leveraged & Acquisition Finance and Credit Derivatives) reference should be made to the Financial statements as at 31 December 2008.

## 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, normally medium/long term) to legal entities in which the majority of share capital is held by private equity funds.

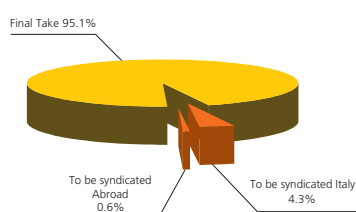
These are mainly positions in support of Leveraged Buy Out projects (therefore with high financial leverage), i.e. linked to the full or part acquisition of companies through recourse to SPEs created for this purpose. After acquisition of the target company's securities package, these SPEs are normally 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.

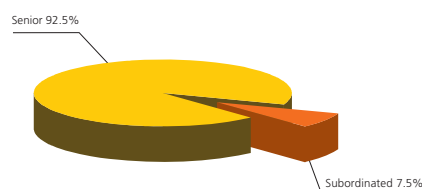
As at 31 March 2009, around 100 transactions, for a total amount granted of 4,783 million euro, met the above definition.

Such exposures are mostly classified in the loan portfolio. These also include the portions of syndicated loans underwritten or under syndication destined from the outset to be sold. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.

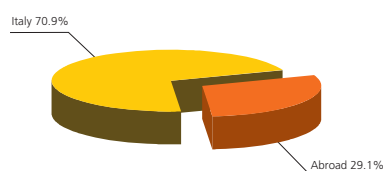
Breakdown by type of risk



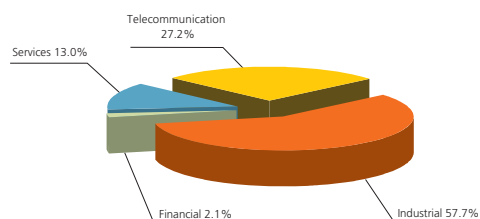
Breakdown by subordination level



Breakdown by geographical area



Breakdown by economic sector



### INFORMATION ON INVESTMENTS IN HEDGE FUNDS

The Hedge Funds portfolio as at 31 March 2009 totalled 813 million euro, compared to the 852 million euro recorded at year-end 2008.

At the same date, the contribution to Profits (Losses) on trading of these investments was positive by 19 million euro (including 1 million euro in the structured credit products disclosure since the amount refers to funds with short positions on the US credit market). Of these net profits:

- 6 million euro are net profits realised in the quarter from fund trading;
- 11 million euro from net valuation of positions remaining at the end of the quarter;
- 2 million euro from other net income.

Taking into account the net capital gains on the final residual amount (11 million euro), these are spread across 47 positions, 17 of which recording capital losses (-26 million euro) and 28 capital gains (37 million euro), plus 2 positions measured at cost given the existence of a hard lock-up<sup>10</sup>, included in the portfolio in 2009.

### INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

As at 31 March 2009, in relation to derivative trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), the Intesa Sanpaolo Group recorded a positive fair value, gross of netting arrangements, of 3,530 million euro (2,524 million euro as at 31 December 2008). The notional value of such derivatives totalled 49,556 million euro (47,076 million euro as at 31 December 2008).

Conversely, negative fair value determined with the same criteria, for the same types of contracts, with the same counterparties, totalled 499 million euro at 31 March 2009 (443 million at 31 December 2008). The notional value of such derivatives totalled 9,331 million euro (11,759 million euro as at 31 December 2008).

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<sup>10</sup>

Hard lock-up: a strong constraint to liquidity, in other words during the hard lock-up period it is not possible to exit from the fund. Funds with similar restrictions are prudentially measured at the lower between the purchase cost and the operating NAV.

## BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the main subsidiaries that carry out 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, IMI Investimenti, Intesa Sanpaolo Holding International and Private Equity International.

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 "unexpected" 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  $\pm 100$  basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer sight loans and deposits.

Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve of  $\pm 100$  basis points, over a period of 12 months. This measure highlights the effect of variations in interest rates on the portfolio being measured, excluding assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered a predictor of the future levels of the interest margin.

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve or (ii) at reducing the volatility of future cash flows related to a particular 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 the 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 one refers to the fair value hedge of assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. In addition, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic to the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period 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 variable rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). In other cases, cash flow hedges are applied to specific assets or liabilities.

The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting.

In the first three months of 2009, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, recorded an average value of 389 million euro, and 476 million euro at the end of March, almost entirely concentrated on the euro and in line with the 2008 year-end figure of 484 million euro.

Sensitivity of the interest margin – in the event of a 100 basis point rise in interest rates – amounted to +141 million euro (–129 million euro in the event of reduction) at the end of March; these values compare with the 2008 year-end figures of +102 million euro and -92 million euro, respectively, in the event of an increase/decrease in interest rates.

Interest rate risk, measured in terms of VaR, averaged 137 million euro in the first quarter of 2009 (177 million euro at the end of 2008) and reached a value of 169 million euro at the end of March, which also was the peak value for the period (the minimum value was 86 million euro).

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, measured in terms of VaR, of 105 million euro (120 million euro at the end of 2008) in the first three months of 2009, with minimum and maximum values of 87 million euro and 116 million euro. The maximum value was also the final figure at the end of March 2009.

## OPERATIONAL RISK

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 risks include legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.

The Group has a centralised function within the Risk Management Department for the management of the Group's operational risks. 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 accordance with current regulations, the Group's individual business units are involved, each assigned responsibilities for the identification, assessment, management and mitigation of its operational risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

Intesa Sanpaolo's Internal Model is designed to combine the main quantitative (internal and external historical loss data) and qualitative information sources (self-assessment: scenario analysis and evaluation of the business environment). The quantitative component is based on the assessment of historical data on internal and external events (including participation in consortium initiatives such as "Database Italiano Perdite Operative" – Italian Operational Loss Database – managed by the Italian Banking Association and Operational Riskdata eXchange Association).

The qualitative component focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured collection of subjective estimates with the aim of assessing relevant scenarios identified starting from the proprietary risk classification system based on the types of events provided for by the New Capital Accord.

Capital at Risk is therefore identified as the minimum amount at Group level, net of insurance cover, required to bear the maximum potential loss (worst loss); 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 and qualitative figures with a 1-year holding period, and on a 99.96% confidence level (99.90% for the regulatory figure).

The Intesa Sanpaolo Group has activated a traditional operational risk transfer policy (insurance) with the objective of mitigating the effect of any unexpected losses, and thus contributing to the reduction of Capital at Risk.

At the end of March the capital absorption for operational risks was determined with the Traditional Standardised Approach, with an approximate 2.3 billion euro incidence at Group level.

### Legal risks

With regard to legal risks, there were no significant changes in the first quarter of 2009 compared to the Intesa Sanpaolo Group Annual Report 2008, to which reference should be made.

## INSURANCE RISKS

### Life branch

The typical risks of a life insurance portfolio can be divided into three main categories: premium risk, life underwriting risk and reserve risk.

Premium risks are protected initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including liabilities).

Actuarial and demographic risks are guarded against by a regular statistical analysis of the evolution of liabilities, divided by type of risks and through simulations of expected profitability on the assets which cover technical reserves.

Reserve risk is protected 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.

### Casualty branch

The risks of the casualty insurance portfolio are essentially premium risk and reserve risk.

Premium risks are protected initially during definition of the technical features and product pricing, and over the life of the instrument by means of periodic checks on the sustainability and profitability (both at product level and at portfolio level, including liabilities).

Reserve risk is guarded against through the exact calculation of technical reserves.

### ALM and 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 with the objective of both strengthening risk governance and managing and controlling risk-based capital has been launched.

With reference to investment portfolios, set up both as coverage of obligations with the insured and in relation to free capital, the Investment Policy is the control and monitoring instrument for market and credit risks.

The Policy 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, market risks, in turn measured in terms of sensitivity to variations in risk factors and Value at Risk on a 1-year holding period.

In order to measure and manage all risks (underwriting and financial), a simulation tool, named FAP (Financial Analysis Program), is also used with the objective of measuring the intrinsic value, fair value of the liabilities and economic capital. The FAP is based on a dynamic Asset Liability Management (ALM) model and, through this engine, it fully recognises the sensitivity of liabilities to changes in market risk factors and permits an effective management of hedging assets.

### Investment portfolios

The investments of the companies of the Intesa Sanpaolo Group operating in the insurance segment are made with their free capital and to cover the contractual obligations with customers. These essentially refer to traditional revaluable life insurance policies, Index- and Unit-linked policies, pension funds and casualty insurance policies.

At 31 March 2009 the investment portfolios of Group companies, recorded at book value, amounted to 42,378 million euro; of these, the share regarding traditional revaluable life policies, casualty policies and free capital (Class C portfolio or portfolio at risk) amounted to 16,091 million euro, while the other component (Class D portfolio or portfolio with total risk retained by the insured) mostly comprised investments related to pension funds, index- and unit-linked policies and totalled 26,287 million euro.

Considering the various types of risks, the analysis of investment portfolios, described below, concentrates on the assets included in the "at-risk portfolio".

In terms of breakdown by asset class, net of derivative positions, 94.3% of assets, i.e. approximately 15,337 million euro, were bonds, while assets subject to equity risk represented 4.5% of the total and amounted to 733 million euro. The remainder comprised investments in UCITS, Private Equity and Hedge Funds (194 million euro).

The fair value of derivatives totalled -173 million euro, of which -174.3 million in hedging derivatives and +1.3 million in other derivatives.

At the end of the first quarter of 2009, investments of EurizonVita and SudPoloVita free capital amounted to 1,046 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) equal to 15.5 million euro.

The Modified duration of the bond portfolio, calculated by means of the sensitivity to uniform and parallel variations of the interest rate curve of  $\pm 25$  basis points, is 4.3 years. The reserves relating to the revaluable contracts under Separate Management have an average modified duration of 3.9 years. The related portfolios of assets have a modified duration of around 3.2 years.

The breakdown of the bond portfolio in terms of fair value sensitivity to interest rate changes showed that a +100 bp parallel shift in the yield curve leads to an approximate 618 million euro decrease. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 130 million euro rise which partly offsets the corresponding loss on the bonds.

The investment portfolio had a high credit rating. AAA/AA bonds represented approximately 78.4% of total investments and A bonds approximately 13%. Low investment grade securities (BBB) accounted for approximately 2.5% of the total and the portion of speculative grade or unrated securities was minimum (approximately 0.4%).

The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks represented approximately 76.8% of the total investments, while financial companies (mostly banks) contributed almost 12.5% of exposure and industrial securities made up approximately 5%.

At the end of the first quarter of 2009, 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 -721 million euro.