# Interim Statement as at 30 September 2010

*This is an English translation of the Italian original "Resoconto intermedio al 30 settembre 2010" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A.. This document contains certain forward-looking statements and forecasts reflecting the Intesa Sanpaolo management's current views with respect to certain future events. Forward-looking statements are generally identifiable by the use of the words "may," "will," "should," "plan," "expect," "anticipate," "estimate," "believe," "intend," "project," "goal" or "target" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts, including, without limitation, those regarding Intesa Sanpaolo's future financial position and results of operations, strategy, plans, objectives, goals and targets and future developments in the markets where Intesa Sanpaolo participates or is seeking to participate.*

*The Intesa Sanpaolo Group's ability to achieve its projected results is dependent on many factors which are outside management's control. Actual results may differ materially from (and be more negative than) those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.*

*The following important factors could cause the Group's actual results to differ materially from those projected or implied in any forward-looking statements:*

- *the Group's ability to successfully integrate the employees, products, services and systems of mergers and acquisitions;*
- *the impact of regulatory decisions and changes in the regulatory environment;*
- *the impact of political and economic developments in Italy and other countries in which the Group operates;*
- *the impact of fluctuations in currency exchange and interest rates;*
- *the Group's ability to achieve the expected return on the investments and capital expenditures it has made in Italy and in foreign countries; and*
- *the Group's ability to finalise capital management actions on its non-core assets (including disposals, either full or partial, partnerships, listings, etc.).*

*The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements as a prediction of actual results. All forward-looking statements included herein are based on information available to Intesa Sanpaolo as of the date hereof. Intesa Sanpaolo undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by applicable law. All subsequent written and oral forward-looking statements attributable to Intesa Sanpaolo or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements.*

# Interim Statement as at 30 September 2010

**Intesa Sanpaolo S.p.A.**
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 6,646,547,922.56 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

# Contents

# Supervisory Board, Management Board, General Management, Manager responsible for preparing the Company's financial reports and Independent Auditors

## Supervisory Board

| | |
|---|---|
| Chairman | Giovanni BAZOLI |
| Deputy Chairpersons | Mario BERTOLISSI<br>Elsa FORNERO |
| Members | Luigi Arturo BIANCHI<br>Rosalba CASIRAGHI<br>Franco DALLA SEGA<br>Gianluca FERRERO<br>Jean-Paul FITOUSSI<br>Pietro GARIBALDI<br>Giulio Stefano LUBATTI<br>Marco MANGIAGALLI<br>Gianni MARCHESINI<br>Fabio PASQUINI<br>Gianluca PONZELLINI<br>Gian Guido SACCHI MORSIANI<br>Marco SPADACINI<br>Ferdinando TARGETTI<br>Livio TORIO<br>Riccardo VARALDO |

## Management Board

| | |
|---|---|
| Chairman | Andrea BELTRATTI |
| Senior Deputy Chairman | Marcello SALA |
| Deputy Chairman | Giovanni COSTA |
| Managing Director and Chief Executive Officer | Corrado PASSERA |
| Members | Aureliano BENEDETTI<br>Paolo CAMPAIOLI<br>Elio CATANIA<br>Roberto FIRPO<br>Emilio OTTOLENGHI |

## General Managers

Corrado PASSERA
Gaetano MICCICHÈ
Marco MORELLI (*)

## Manager responsible for preparing the Company's financial reports

Ernesto RIVA

## Independent Auditors

RECONTA ERNST & YOUNG S.p.A.

(*) Deputy to the CEO

# Intesa Sanpaolo Group Financial highlights and alternative performance measures

| **Income statement** (millions of euro) | **30.09.2010** | **30.09.2009** | **Changes amount** | **Changes %** |
|---|---|---|---|---|
| Net interest income | 7,346 | 8,031 | -685 | -8.5 |
| Net fee and commission income | 4,152 | 3,860 | 292 | 7.6 |
| Profits (losses) on trading | 341 | 993 | -652 | -65.7 |
| Income from insurance business | 413 | 304 | 109 | 35.9 |
| Operating income | 12,312 | 13,255 | -943 | -7.1 |
| Operating costs | -6,819 | -6,936 | -117 | -1.7 |
| Operating margin | 5,493 | 6,319 | -826 | -13.1 |
| Net adjustments to loans | -2,263 | -2,637 | -374 | -14.2 |
| Income after tax from discontinued operations | 691 | 142 | 549 | |
| Net income | 2,200 | 2,262 | -62 | -2.7 |

| **Balance sheet** (millions of euro) | **30.09.2010** | **31.12.2009** | **Changes amount** | **Changes %** |
|---|---|---|---|---|
| Loans to customers | 378,832 | 375,454 | 3,378 | 0.9 |
| Direct customer deposits | 434,833 | 425,159 | 9,674 | 2.3 |
| Indirect customer deposits | 434,136 | 424,452 | 9,684 | 2.3 |
| *of which: Assets under management* | *240,134* | *232,143* | *7,991* | *3.4* |
| Total assets | 677,378 | 652,344 | 25,034 | 3.8 |
| Shareholders' equity | 52,978 | 52,681 | 297 | 0.6 |

| **Operating structure** | **30.09.2010** | **31.12.2009** | **Changes amount** |
|---|---|---|---|
| Number of employees | 102,435 | 103,455 | -1,020 |
| *Italy* | *70,931* | *70,488* | *443* |
| *Abroad* | *31,504* | *32,967* | *-1,463* |
| *of which: atypical labour contracts* | *419* | *555* | *-136* |
| Number of financial advisors | 4,344 | 4,292 | 52 |
| Number of branches [(a)] | 7,669 | 7,933 | -264 |
| *Italy* | *5,877* | *6,041* | *-164* |
| *Abroad* | *1,792* | *1,892* | *-100* |

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

[(a)] Including Retail Branches, Private Banking Branches, SME Branches and Corporate Branches.

| | 30.09.2010 | 30.09.2009 | 31.12.2009 |
|---|---|---|---|
| **Profitability ratios (%)** | | | |
| Cost / Income | 55.4 | 52.3 | 54.1 |
| Net income / Average shareholders' equity (ROE) [(a)] | 5.1 | 5.7 | 5.5 |
| Economic Value Added (EVA) [(b)] (millions of euro) | 247 | 500 | 242 |
| **Risk ratios (%)** | | | |
| Net doubtful loans / Loans to customers | 1.8 | 1.3 | 1.4 |
| Cumulated adjustments on doubtful loans / Gross doubtful loans to customers | 65.7 | 68.3 | 67.4 |
| **Capital ratios (%) [(c)]** | | | |
| Tier 1 capital [(d)] net of preference shares / Risk-weighted assets (Core Tier 1) | 7.7 | 7.2 | 7.1 |
| Tier 1 capital [(d)] / Risk-weighted assets | 8.9 | 8.0 | 8.4 |
| Total capital [(e)] / Risk-weighted assets | 12.5 | 11.6 | 11.8 |
| Risk-weighted assets (millions of euro) | 354,970 | 367,372 | 361,648 |
| **Basic earnings per share (basic EPS) [(f)] – euro** | 0.17 | 0.18 | 0.22 |
| **Diluted earnings per share (diluted EPS) [(g)] – euro** | 0.17 | 0.18 | 0.22 |
| **Shares [(h)]** | | | |
| Number of ordinary shares (thousands) | 11,849,332 | 11,849,332 | 11,849,332 |
| Share price at period-end - ordinary share (euro) | 2.375 | 3.032 | 3.165 |
| Average share price for the period - ordinary share (euro) | 2.532 | 2.421 | 2.569 |
| Average market capitalisation (millions of euro) | 31,855 | 30,359 | 32,228 |
| Book value per share (euro) | 4.472 | 4.383 | 4.447 |
| **Long-term rating** | | | |
| Moody's | Aa2 | Aa2 | Aa2 |
| Standard & Poor's | A+ | AA- | AA- |
| Fitch | AA- | AA- | AA- |

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

[(a)] Ratio between net income and average of share capital, share premium reserve, reserves and valuation reserves. The figure for the period, with the exception of non-recurring components, has been annualised.

[(b)] The indicator indicator represents the economic value generated in the period in favour of shareholders, since it is the portion of net income for the period which remains after having remunerated shareholders' equity via the cost of capital. The latter represents the opportunity cost and is determined using the Capital Asset Pricing Model.

[(c)] Ratios are determined using the methodology set out in the Basel 2 Capital Accord.

[(d)] Paid-in share capital, share premium reserve and reserves and retained earnings minus treasury shares, goodwill, intangible assets and after the application of prudential filters set out by supervisory regulations.

[(e)] Tier 1 capital plus eligible subordinated liabilities, valuation reserves, with the application of "prudential filters", net of equity investments as set out by supervisory regulations.

[(f)] Net income attributable to holders of ordinary shares compared to the weighted average number of outstanding ordinary shares.

[(g)] The dilutive effect is calculated with reference to the programmed issues of new ordinary shares.

[(h)] Figures for 2009 not restated. Book value per share does not consider treasury shares.

# Financial highlights and alternative performance measures by business area

| **Income statement** (millions of euro) | **Banca dei Territori** | | **Corporate and Investment Banking** | | **Public Finance** | | **International Subsidiary Banks** | | **Eurizon Capital** | | **Banca Fideuram** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** |
| Operating income | 7,312 | 7,520 | 2,561 | 2,781 | 240 | 327 | 1,698 | 1,674 | 203 | 190 | 573 | 521 |
| Operating costs | -4,354 | -4,371 | -656 | -648 | -56 | -60 | -852 | -864 | -97 | -92 | -255 | -262 |
| Operating margin | 2,958 | 3,149 | 1,905 | 2,133 | 184 | 267 | 846 | 810 | 106 | 98 | 318 | 259 |
| Net income | 657 | 783 | 1,061 | 912 | 103 | 103 | 324 | 255 | 52 | 41 | 114 | 104 |

| **Balance sheet** (millions of euro) | **Banca dei Territori** | | **Corporate and Investment Banking** | | **Public Finance** | | **International Subsidiary Banks** | | **Eurizon Capital** | | **Banca Fideuram** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **30.09.2010** | **31.12.2009** | **30.09.2010** | **31.12.2009** | **30.09.2010** | **31.12.2009** | **30.09.2010** | **31.12.2009** | **30.09.2010** | **31.12.2009** | **30.09.2010** | **31.12.2009** |
| Loans to customers | 177,541 | 178,239 | 110,202 | 107,616 | 42,629 | 41,186 | 30,510 | 29,644 | 113 | 171 | 2,739 | 1,982 |
| Direct customer deposits | 217,351 | 220,955 | 108,428 | 94,900 | 5,045 | 6,461 | 29,943 | 28,564 | 20 | 3 | 11,851 | 13,604 |

| **Profitability ratios (%)** | **Banca dei Territori** | | **Corporate and Investment Banking** | | **Public Finance** | | **International Subsidiary Banks** | | **Eurizon Capital** | | **Banca Fideuram** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** | **30.09.2010** | **30.09.2009** |
| Cost / Income | 59.5 | 58.1 | 25.6 | 23.3 | 23.3 | 18.3 | 50.2 | 51.6 | 47.8 | 48.4 | 44.5 | 50.3 |
| ROE [(a)] | 9.1 | 10.6 | 17.9 | 14.5 | 12.9 | 14.0 | 21.0 | 17.5 | 117.8 | 78.3 | 39.2 | 34.3 |
| Economic Value Added (EVA) (millions of euro) | 246 | 437 | 462 | 298 | 26 | 33 | 125 | 60 | 76 | 66 | 159 | 141 |

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

[(a)] Ratio between Net income and Allocated capital. Figure for the period is annualised.

# Intesa Sanpaolo in the third quarter of 2010

## The macroeconomic context and the banking system

The strains on the sovereign debt of certain eurozone countries continued to affect the performance of financial markets in the July-September quarter, but did not undermine the area's economic recovery. Industrial production continued to grow rapidly, although at a slower rate than in the second quarter.
The international environment remained relatively favourable. In the early part of the third quarter there were signs of a slowdown in the global economy, with a deterioration in the economic situation in Asia and the United States. At the end of the quarter, however, these fears were largely dispelled by the improvement in the economic figures. World trade continued to grow steadily, albeit at a lower rate than in the early months of 2010.
In Italy, like the rest of the eurozone, industrial production grew at relatively high rates in July and August, generally exceeding expectations, with an estimated increase of 2% from the second to the third quarter. Employment figures were also better than expected and the unemployment rate fell from 8.5% in June to 8.2% in August[1]. The recovery was mainly driven by exports and investment, with private consumption still weak.
The level of official ECB rates were unchanged. The Central Bank continued to meet the demand for liquidity through open-market operations and also announced that the extraordinary operations would be extended at least until the end of January 2011. On July 1 expiry date, European banks only renewed part of the maturing repurchase agreements, generating a two thirds reduction in excess reserves. The Eonia (Euro OverNight Index Average) rate rose as a consequence from 0.35% to 0.45% in the third quarter. Euribor rates were also subject to modest upward pressure as a result: the monthly rate rose 19 basis points on the 0.42% for the second quarter. Excess reserves fell again at the end of September, upon the maturity of other long-term transactions, prompting a further rise in interbank rates. Surplus liquidity fell further, with demand for liquidity becoming increasingly concentrated: a number of peripheral banking systems (in Ireland, Portugal, Spain and Greece) were absorbing a higher proportion of ECB funds than their economic weight.
The sovereign debt crisis also extended to issues from Ireland and Portugal, with risk premiums on 10-year issues increasing to over 400 basis points. However, unlike Greece several months earlier, no other sovereign issuers saw their access to the primary market jeopardised. In the meantime, Greece complied with the fiscal consolidation plan agreed under the support program, reaping the first rewards in September in terms of reduction in risk premiums. BTP yields fell particularly sharply on long-term maturities. Despite the continuing strains on certain issuers, the market appeared to be less and less worried about the risk of crisis in the monetary union. The euro/dollar exchange rate closed the quarter up sharply (to 1.36 from 1.22 at the end of June). The euro's recovery was also driven by signs of possible monetary easing in the United States, in the form of government bond purchases.

As regards the stock markets in the nine months of 2010, the performance of the international stock indices was very uneven, with high levels of price volatility.
The stock indices lost ground early in the year, pricing in uncertainties about the strength of the economic recovery and the first signs of the Greek crisis; markets started to recover, from February to the beginning of April, on the back of generally better than forecasted 2009 company results and favourable liquidity conditions.
In the second quarter, stock markets, particularly in the peripheral European countries, suffered the effects of the sovereign bond crisis, with sharp falls in prices. Fears of new potential losses in the European financial system and renewed concerns about the extent of the economic recovery, also for 2011, prompted a revival in investor risk aversion.
From the beginning of the third quarter, however, international stock markets embarked on a recovery, which continued through to early October. The turnaround was driven by generally improved half-year results and sustained favourable liquidity conditions, with economic recovery continuing at a moderate rate, although having lost pace compared to the previous months. Investor risk aversion, although slightly abated, remained high amid continued concerns about public finance imbalances in many eurozone countries.
The S&P 500 index ended the nine months with a moderate rise (+2.3%), while the DJIA performed slightly better (+4.7%). Recovery was also seen in the major European stock markets: the DAX ended the period with a rise (+4.6%), as did the FTSE 100 index (+2.5%), while the French market suffered a downturn, with the CAC 40 at -5.6%. The EuroStoxx index also performed negatively (-3,4%). The Chinese stock market was still in severe decline, with the SSE Composite index down 19.1% at the end of September (up however from the -27% for the first half year). Losses in the Japanese market were more contained, with the Nikkei index ending the first nine months down 11.2%, in line with the levels at the end of June.

Despite a general recovery in prices, the performance of the Italian stock market from the beginning of the year was worse than the major European indices, as a result of greater investor risk aversion towards "peripheral" eurozone markets. The FTSE All Shares index fell 10.8% from the beginning of the year (compared to -16.0% at the end of the first half year), while the FTSE MIB lost 11.8% (compared to -17% in June 2010). As in the first half of the year, mid-cap stocks continued

[1] Source: Istat

to outperform blue chips: the Mid Cap index was down 5.0% at the end of September, whereas the losses of the STAR index were limited to 3.3%.
The performance of the European corporate bond market, during the period, varied according to segment and instrument, with high volatility in general.
After an initial period of sideways movement in the early months of the year, there was a significant overall increase in the risk premium in the second quarter. During the period from July and September, however, the performance of the European corporate bond market was generally positive. Indeed, over the last few months spreads have generally tightened in both the investment-grade and high-yield segments. This recovery was prompted by the easing of fears about the sovereign debt crisis. The strong performance of bond prices was also aided by the rebound in the major international stock markets, accompanied by a reduction in volatility and abundant liquidity in the system.
Financial stocks performed particularly well in the third quarter, outstripping industrial stocks.

In the emerging economies, the GDP growth rate picked up pace during the first half of the year, with signs of a modest slowdown in the third quarter. Growth was stronger in countries with a solid foreign financial position and greater room for manoeuvre in their stabilisation policies. These countries were less hard hit by the global recession in 2009 and now, with the impetus from the public support measures to the economy gradually fading away, they are benefiting from good recovery in private demand. Growth was weaker, on the other hand, in countries with greater external and internal vulnerability and less room for manoeuvre in the public and private sectors.
On a regional basis, recovery was driven by Asia, with a GDP growth rate of over 9% in the early part of the year (thanks especially to China and India) followed by Latin America, with an increase in GDP in the first half year of around 7%, and the MENA countries (Middle East and North Africa). In Latin America, particularly in Argentina, Brazil and Mexico, growth started to show signs of a slowdown in the third quarter due to the weak performance of the mature economies and the fading of the rebound effect of the recovery in foreign trade.
Growth in Eastern Europe was slower, influenced by the relatively slow pace of recovery in the eurozone countries and the adjustments being made in the budgets (and debt positions) of households and businesses. As a whole, GDP growth came to over 3%. In the CIS countries, GDP growth - aided in particular by the recovery in raw material prices and, in the case of Ukraine, by greater political stability - was over 5% in the second quarter. Among the CEE countries, recovery was particularly strong in Poland, the Czech Republic and Slovakia, where, mainly as a result of the resurgence in exports to Germany, growth is forecasted at 4% for 2010. The situation in the SEE countries was more varied, with predicted growth of 2.6% and 1.5% in Albania and Serbia respectively, and Croatia and Romania still in recession.
In most of the emerging countries, inflation was still under control, despite price rises for raw materials and certain foodstuffs. The trend rate of price increases for a composite basket including the major emerging economies was 5.7% as at September, unchanged on the end of December 2009.
In recent months, the central banks of various emerging countries in Asia (including China, Korea, India and Malaysia) and in Latin America (Brazil, Chile and Peru), in the face of particularly strong internal demand, started to withdraw monetary support through interest rises and/or reserve ratio increases.
In the Eastern European countries, successful financial stabilisation enabled further rate cuts in Ukraine, whereas in Serbia the base rate was increased twice to counter inflationary pressures. The other countries in the area were still benefitting from the continuation of expansionary monetary policy in Europe and the United States. In the Middle East, Israel increased rates as an anti-inflationary measure.
In the third quarter, the improved economic prospects and the easing of the financial strains prompted a rebound in share prices and a reduction in spreads on the debt of a number of emerging countries. Between July to September the MCSI emerging markets index gained almost 14%, after having lost 7% between May and June. In the third quarter, growth was driven by Latin America (Argentina, Brazil and China) and certain countries in Asia (China and Thailand), the Middle East (the Emirates) and Europe (Poland, Romania, Russia, Turkey and Hungary), all with double digit gains. The EMBI+ (Emerging Market Bond Index) spread fell to 270 basis points at the end of September 2010 from 340 at the end of June. In relative terms, spreads tightened more sharply in Asia and Central-Eastern Europe.
In the currency markets, between July and September 2010, the dollar, penalised by concerns about the prospects for the US economy, fell 3% against emerging country currencies (OITP index - Other Important Trading Partners), and lost almost 7% against a basket including the major industrialised countries (the Major index). During the same period, recovery in the euro (+11.5% against the dollar in the third quarter) prompted a significant rise by many Central-Eastern European currencies against the dollar, including the Hungarian forint (+13%), the Romanian leu (+12%) and the Croatian kuna (+9%). In Latin America, the Brazilian, Chilean, Columbian and Peruvian authorities repeatedly intervened to curb exchange rate rises driven by substantial flows of foreign funds.
There were few changes in ratings by the major agencies between July and September. In the emerging countries, the ratings were improved for certain Latin American countries (Argentina, Colombia, Ecuador and Peru).

### The Italian banking system

In the first nine months of 2010 there were only very small changes in bank rates, with the downward trend coming to an end in the third quarter. The rise in market rates was accompanied by signs of a turnaround in bank rates, which however remained at record lows.
Rate rises were initially seen in short term lending rates and rates for new loans.
The average rate on new loans to businesses, despite monthly fluctuations around very low levels, increased in the third quarter over the previous three months, although the average for the nine months was still below the average for the same period in 2009. Otherwise, there were only very small changes in lending rates. The rate on the overall loans to households and businesses only marginally reflected the increase in the short-term lending rate, due to the essential stability of the rate

on medium-long term loans, with the figure for the quarter remaining in line with the average level for the previous three months and still much lower for the first nine months than in the same period in 2009.
The average rate on overall customer funding, after the first six months of minor cuts, also saw the first small increases in the third quarter, although it still remained close to the all-time lows. This trend reflected similar movements in all the components of the average rate. More specifically, the rate on the stock of household and business deposits (including repurchase agreements) recovered slightly during the third quarter. Within the aggregate of deposits, the current account rate rose to slightly higher levels than in the first six months of the year; whereas the rate on outstanding bonds settled down.
The spread between lending and funding rates remained essentially stable at the all-time lows (average of 2.15%) over the nine months (33 basis points less than the average for the first three quarters of 2009).
The spread on funding, measured on short-term interest rates, remained very low, although it improved during the third quarter as a result of the rise in money market rates (mark-down on 1-month Euribor almost doubled from the 0.15% average for the first six months to the 0.31% average for the third quarter). The mark-up on 1-month Euribor, on average, continued its downward trend (to an average of 3.54% for the first nine months of the year from 3.87% for the same period in 2009). Given these trends, the short-term spread remained at a record low, settling at an average of 3.74% for the first nine months, 57 basis points lower than the average for the first three quarters of 2009.

With regard to lending, the signs of an improvement in the performance of bank loans grew steadily stronger in the first nine months of 2010. In particular, from the second quarter onwards loans to the private sector accelerated slightly, achieving an average growth over the nine months in line with the corresponding period in 2009. This performance reflected the steady increase in medium/long-term loans, with a modest acceleration in the third quarter. The decrease in short-term loans also gradually slowed down.
More specifically, loans to non-financial companies improved steadily and moved towards a turnaround during the summer, with less negative changes than in the previous months and nearing a return to growth. In the third quarter, the main contribution to the recovery in bank lending continued to come from the strong performance of household lending, already seen at the end of 2009 and steadily improving, driven by the growth in home purchase mortgages. There was a general improvement in loans to business, both for medium-large businesses, with a slowdown in their fall, and for small businesses, which returned to positive growth.

The customer funding of Italian banks has slowed down steadily over the course of 2010, as a result of the deceleration in its main components, after the particularly strong growth in 2009. There was a significant fall in the annual growth rate for current accounts, which, for the third quarter, was less than half the double digit increase at the beginning of 2010. This trend was also reflected in the broader aggregate of deposits. Bonds, after the sharp slowdown in the first half of the year, changed at a rate of almost nil (-0.2% change year-on-year in the third quarter), mainly driven by the fall in shorter term securities (up to two years), offset by continued growth in longer term bonds (over two years), although still at their lowest level since the beginning of the decade. Nevertheless, at international level the performance of customer funding of Italian banks was better than the average for the eurozone.
With regard to assets under management, after the positive results in the first quarter, open-ended mutual funds recorded net outflows over the next two quarters bringing the accumulated net inflows down to 4.5 billion euro, but still higher than the corresponding figure for 2009, when there was a deficit of over 7 billion euro for the first nine months. Breaking down the aggregate figure, heavy outflows were seen from cash funds in the first nine months of the year, with investors favouring bond instruments and flexible funds. At the end of September, the assets managed by the industry amounted to 449 billion euro, up on the figures for 2009. In the life insurance segment, growth in new business remained steady, exceeding 50 billion euro on a cumulative basis at the end of September, as a result of the strong performance of traditional products and the recovery of instruments with a higher financial component.

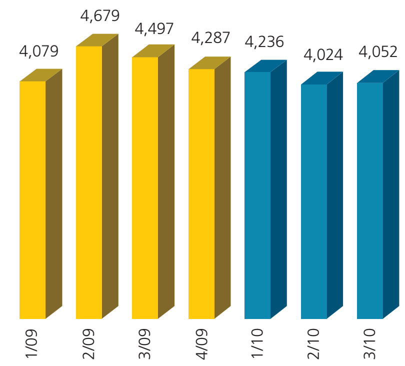
### Forecast for the year

2010 is proving to be a year of economic recovery, supported by expansionary fiscal and monetary policies, but accompanied by rising unemployment and continuing disinflationary pressures. This expansionary phase also continued in the last quarter, despite the general slowdown in growth rates. Recovery in the eurozone will continue to be highly uneven however with GDP growth of around 1% also forecasted for Italy, where the pace of growth is expected to slow down at the end of the year, after the strong performance over the nine month period.
Liquidity conditions in the euro market will continue to be favourable until the end of 2010 and official rate rises by the ECB can be ruled out; however the excess reserves and expectations of the normalisation of the auction procedures will push money market rates to higher levels than in the summer quarter. The scenario of abundant liquidity, slow growth and moderate inflation will continue to keep medium and long term rates at all-time lows. Expectations regarding the tone of monetary policy and the performance of interbank interest rates mean that the scenario of rock-bottom bank rates and margins may continue throughout the whole of 2010, albeit with gradual signs of recovery.
Lending will continue to benefit from the improvement in the production cycle, but will still be affected by sluggish economic growth, high unemployment and credit risk.
The reshaping of financial regulations should have important implications for intermediaries. The formulation by the end of the year of the Basel 3 prudential rules, especially those relating to the capital and liquidity ratios banks will be required to hold, should make the regulatory context less uncertain.
The gradual recovery in lending, which started during 2010, is expected to continue, in line with the forecasted resumption in economic activity. Due to the traditional delay in the emergence of non-performing loans, adjustments to loans will continue to have a significant impact on banking profitability.
Direct customer deposits are expected to slow down, also towards the end of the year, following the brisk performance in 2009 against a backdrop of severe uncertainty for investors and in line with the gradual return to normality in money and capital market conditions, which should prompt a shift in investment towards instruments offering a higher risk/return. The prospects for the asset management industry appear tied to market trends, especially for mutual funds, and life insurance is expected to continue the positive performance achieved in the nine months of the year.

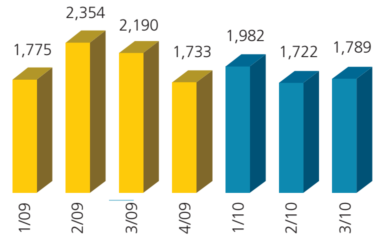
## Intesa Sanpaolo in the nine months of 2010

The results achieved in the third quarter, despite a continued weak economic environment, show the positive performance of the operating margins compared to the previous quarter, which had been particularly affected by strains in the financial markets caused by the downgrading of the debt of several eurozone countries.
Increases were recorded in both operating income, as a result of the renewed contribution from trading profits, and operating margin, attributable to the ongoing and effective cost containment measures. These performances, together with the lower need for credit risk adjustments, led to an increase in income before tax from continuing operations, on a quarterly basis, of almost 33%. At net income level, on the other hand, the fall in the third quarter compared to the second quarter was essentially attributable to the capital gain realised in May from the sale of the securities services business.
The results for the nine months of the year compared to the same period in 2009 show a decrease in operating income and operating margin mainly due to the fall in interest rates and to the difference in the contribution from trading activities in the two periods. Net income came to 2,200 million euro and, also as a result of lower adjustments to loans, was at levels close to those of the nine months of the previous year.

**Operating income**
(millions of euro)



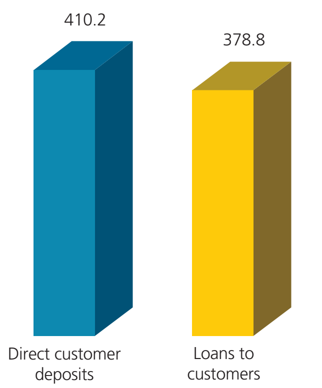

**Operating margin**
(millions of euro)



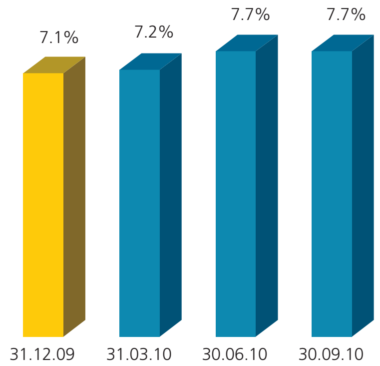

The results achieved in a still unstable environment, albeit with signs of improvement, demonstrate the appropriateness and effectiveness of the careful management of the Bank's liquidity, solidity and risk profile.
In terms of liquidity, the Group continues to maintain direct customer deposits that broadly cover the corresponding lending and a well-balanced net interbank position, with around 59 billion euro in eligible assets with central bank.

The placement of bond issues for the international institutional investors and financial institutions also continued in the third quarter. The diversification of sources in fact continues to be one of the Group's main strengths. More specifically, in July a new subordinated Lower Tier 2 note targeted at international markets was issued for 1.25 billion euro; in August a senior bond for 1 billion dollar was issued, targeted exclusively at qualified institutional buyers; and in September, a 1 billion euro Tier 1 Hybrid Instrument was launched targeted at international institutional investors and financial institutions.
In terms of capital adequacy, the capital ratios were high, with Core Tier 1 at 7.7%, Tier 1 at 8.9% and a Total capital ratio of 12.5%, reflecting the success of the actions carried out during the period aimed at strengthening the capital base.

**Direct customer deposits [1] / Loans to customers as at 30.09.2010** (billions of euro)



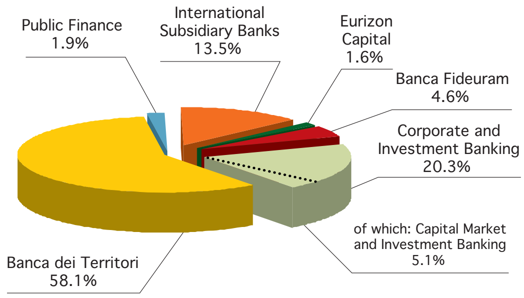

**Core Tier 1 ratio**




[1] Excluding financial liabilities from insurance business

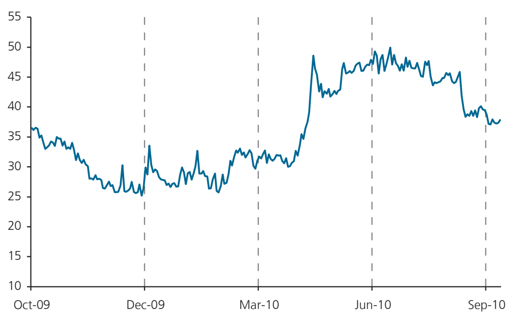
The Group's risk profile remained low, despite the performance of the trading book VaR (down, in any event, at the end of the quarter), linked to the increase in the volatility of the spreads on government issues. Indeed, the Group continues to favour retail banking operations maintaining a limited and diversified presence in international markets.

**Operating income: Breakdown by business area [1]**




[1] Excluding Corporate Centre

**Market risks trend: VaR** (millions of euro)




At the level of individual aggregates, the income statement for the period showed 7,346 million euro in net interest income, down 8.5% compared to the same period in 2009, but with an improvement in the third quarter (2,470 million euro) compared to both the second quarter (2,462 million euro) and the first quarter (2,414 million euro). The year-on-year comparison is influenced by the fall in Euribor rates and, to a lesser extent, by the elimination of overdraft charges from July 2009 and the lower average volume of loans.
The services segment generated net fee and commission income of 4,152 million euro, up significantly (+7.6%) on the nine months of the previous year. Increases were reported in both fees and commissions on commercial banking activities (+4.5%) and fees and commissions on asset management and financial instruments dealing (+11.5%).
In the year-on-year comparison the trading results reflect the trends in the markets. After the positive performance in the first three months of the year, concerns about the finances of several Member States created tension in government bond and equity markets, resulting in losses that reduced part of the profits. In the third quarter, however, there appeared to be an encouraging trend reversal.

The contribution from the insurance business was positive (413 million euro), with significant year-on-year growth and a slight fall on the previous quarter (-7%).
Operating income as at 30 September 2010 totalled 12,312 million euro, a modest decrease (around -7%) compared to 2009, mainly as a result of the difference in financial market conditions between the two periods, but slightly up on the previous three months (+0.7%). The year-on-year decrease was mainly driven by the downturn in the second quarter, largely attributable to the poor trading performance.
The Group continues to monitor operating costs carefully and implement ongoing structural cost-containment measures. Over the nine-month period these costs (6,819 million euro) decreased by 1.7%. Personnel expenses essentially remained at last year's levels (-0.7%) despite the contractual adjustments effective from the second half of 2009, whilst administrative expenses and adjustments were down 2% and 9% respectively.
Operating margin came to 5,493 million euro, down 13% on 2009, but up 4% on the previous quarter, mainly due to the renewed contribution from trading profits.
Adjustments to assets and net provisions for risks (2,521 million euro for the nine months) were down by a total of 389 million euro on the same period in 2009. Specifically, adjustments to loans, amounting to 2,263 million euro, fell 14.2% on the nine months of the previous year despite the continued high level of coverage ratios for non-performing loans. The quarterly trend in adjustments and provisions shows a fall of 192 million euro in the third quarter compared to the second quarter, owing in part to impairment of non-trading securities as a result of financial market performance.
Income before tax from continuing operations amounted to 2,983 million euro, down approximately 13% on 2009. On a quarterly basis, the improvement in the result for the third quarter (1,047 million euro) over the second quarter (789 million euro) was due to the improvement in trading results, the containment of operating costs and the lower need for adjustments.
Net income for the period came to 2,200 million euro, down 2.7% on the 2,262 million euro in 2009. It should be noted that the aggregates for both periods were affected by two non-recurring items: the nine months of 2010 reflected the capital gain, after tax, of 648 million euro realised on the sale of the securities services business, whereas the previous year enjoyed much lower taxes as a result of the payment of a substitute tax for intangible assets and employee termination indemnities, which yielded a net benefit of 537 million euro.
At the quarterly level, the fall in net income in the third quarter (510 million euro) compared to the second quarter (1,002 million euro) was essentially attributable to the capital gain referred to above.

The performance of the balance sheet aggregates confirmed the Group's sound financial position. Direct customer deposits, which reached a level of almost 435 billion euro, increased by around 10 billion euro compared to 2009, whilst loans to customers, despite the still difficult macroeconomic environment, grew by more than 3 billion euro over the nine months to nearly 379 billion euro.
Indirect deposits (net of the dealings attributable to the securities services business, sold in the second quarter), totalled 434 billion euro, up 2.3% on the end of 2009, mainly due to the positive performance of assets under management, as well as recovery in assets under administration and in custody.

The business units performed differently over the nine months compared to the same period of 2009.
Banca dei Territori reported net income of 657 million euro, down approximately 16%, mainly due to the fall in market rates – which resulted in a significant reduction in the mark-down – and the elimination of overdraft charges from June 2009. The greater adjustments to loans, related to the continued difficult macroeconomic environment, also had an impact. On the other hand, the contribution from net fee and commission income increased.
The Corporate and Investment Banking Division reported a growth in net income (around +16% to 1,061 million euro), despite the lower contribution from operating income, affected by the trend in net interest income and trading results, only partially offset by higher fee and commission income. The lower need for adjustments to loans also had a positive impact.
Public Finance ended the nine-month period with a net income of 103 million euro, in line with same period of the previous year. The decrease in net operating income – attributable to the trend in interest rates, only partially compensated by the positive performance of fee and commission income – was offset by lower adjustments to loans.
The International Subsidiary Banks Division reported considerable growth in net income (+27% to 324 million euro), due to the increase in operating margin and lower adjustments to the loan portfolio.
On the strength of the growth in operating income and in net fee and commission income and trading profits in particular, Banca Fideuram closed the nine-month period with a net income of 114 million euro, up almost 10%.
Eurizon Capital's net income was also up (around +27% to 52 million euro), as a result of the recovery in commission income and the positive contribution from the investee company Penghua Fund Management Company Limited.

In the final part of the year, the Group remains focused on the priority of assuring sustainable profitability in the medium term by developing long-lasting client relationships, fine-tuning cost control and investments while at the same time monitoring asset quality, liquidity and the capital base.
Also in light of the results generated over the first nine months of 2010, the Group is expected to register an improvement in net income for the year, compared to 2009, due in particular to a reduction in operating costs, in the cost of credit and integration charges as well as to the contribution of non-recurring items.

With regard to the significant events in the quarter, at the end of September Intesa Sanpaolo completed the acquisition of total control of Intesa Vita and Centrovita, as part of the restructuring of the Group's bancassurance segment. With effect from 30 September 2010, all the Group's equity investments in the bancassurance business (Intesa Vita, Eurizon Vita, Centrovita, Sud Polo Vita and Fideuram Vita) consisted of wholly-owned subsidiaries.

The restructuring project involves the rationalisation of the Group's bancassurance operations based on specialisation according to distribution network: one company serving the banking networks and one life-insurance company serving the financial advisors of Banca Fideuram. The completion of the project is subject to obtaining the necessary authorisations. In particular, as the Competition Authority's decision authorising the Banca Intesa and Sanpaolo IMI merger required that Sud Polo Vita be disposed of to third parties, a request has been made to the Authority to release Intesa Sanpaolo from its obligation to sell said company.
Since Intesa Vita's acquisition was only completed on the last day of the quarter, only its balance sheet figures have been consolidated on a line-by-line basis in the interim report as at 30 September. Its income statements figures will be consolidated on a line-by-line basis from the fourth quarter of 2010.

In October, Intesa Sanpaolo signed an agreement with Fondazione Monte di Parma for the acquisition of a majority stake in the share capital of Banca Monte Parma. Under the agreement the Intesa Sanpaolo Group shall acquire 51% of the Banca Monte Parma share capital from Fondazione Monte di Parma at the price of 159 million euro and subscribe, for an equal percentage, an increase in the Banca Monte Parma share capital of 75 million euro reserved to shareholders.
Moreover, as provided for in the agreement, in the event that the other shareholders who entered into the existing shareholders' pact with Fondazione Monte di Parma (the "Parties", that collectively hold 28% of the Banca Monte Parma share capital) exercise the right conferred on them by said pact, the Intesa Sanpaolo Group undertakes to buy the Parties' shares at the conditions set forth in the shareholders' pact - with a total maximum investment for the acquisition of 79% of the Banca Monte Parma share capital equal to around 230 million euro - and, as the case may be, to subscribe the corresponding portion of the aforementioned share capital increase. In addition, the Intesa Sanpaolo Group undertakes to subscribe any unopted portion of the share capital increase.
The finalisation of the transaction is conditional upon the authorisation of competent authorities.
As at 30 June 2010, Banca Monte Parma direct customer deposits amounted to about 2.3 billion euro, its indirect customer deposits to around 2.3 billion euro, customer loans to approximately 2.7 billion euro and net shareholders' equity was 156 million euro. Net income for the first half of 2010 was a negative 13 million euro.
Banca Monte Parma has a network of 67 branches in the provinces of Parma, Piacenza and Reggio Emilia.

# The Intesa Sanpaolo Group

## Intesa Sanpaolo

**Head Office Departments**

### Public Finance
- Banca Infrastrutture Innovazione e Sviluppo

### Corporate and Investment Banking Division
- Banca IMI
- IMI Investimenti
- Intesa Sanpaolo Bank Ireland
- Leasint
- Mediofactoring
- Société Européenne de Banque

### Banca dei Territori Division
- Intesa Sanpaolo
- Banca CR Firenze
- Banca dell'Adriatico
- Banca di Credito Sardo
- Banca di Trento e Bolzano
- Banco di Napoli
- Cassa dei Risparmi di Forlì e della Romagna
- Cassa di Risparmio del Friuli Venezia Giulia
- Cassa di Risparmio del Veneto
- Cassa di Risparmio di Venezia
- Cassa di Risparmio in Bologna
- Casse del Centro*
- Banca Prossima
- Centrovita Assicurazioni
- EurizonTutela
- EurizonVita
- Intesa Sanpaolo Previdenza
- Intesa Sanpaolo Private Banking
- Mediocredito Italiano
- Moneta
- Sirefid
- Sud Polo Vita

### International Subsidiary Banks Division
- Banca Intesa
- Banca Intesa Beograd
- Bank of Alexandria
- Banka Koper
- CIB Bank
- Intesa Sanpaolo Bank Albania
- Intesa Sanpaolo Bank Romania
- Intesa Sanpaolo Banka Bosna i Hercegovina
- Pravex-Bank
- Privredna Banka Zagreb
- VUB Banka

### Other Group Subsidiaries
- Banca Fideuram
- Eurizon Capital

* Merger by incorporation of Casse del Centro into Banca CR Firenze as of 1 November 2010

# Consolidated financial statements

## Consolidated balance sheet

(millions of euro)

| Assets | 30.09.2010 | 31.12.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Financial assets held for trading | 90,517 | 70,900 | 19,617 | 27.7 |
| Financial assets designated at fair value through profit and loss | 33,252 | 31,982 | 1,270 | 4.0 |
| Financial assets available for sale | 60,307 | 50,943 | 9,364 | 18.4 |
| Investments held to maturity | 4,205 | 4,561 | -356 | -7.8 |
| Due from banks | 45,175 | 43,260 | 1,915 | 4.4 |
| Loans to customers | 378,832 | 375,454 | 3,378 | 0.9 |
| Investments in associates and companies subject to joint control | 2,364 | 2,334 | 30 | 1.3 |
| Property, equipment and intangible assets | 30,963 | 31,198 | -235 | -0.8 |
| Tax assets | 7,839 | 7,374 | 465 | 6.3 |
| Non-current assets held for sale and discontinued operations | 48 | 6,552 | -6,504 | -99.3 |
| Other assets | 23,876 | 27,786 | -3,910 | -14.1 |
| **Total Assets** | **677,378** | **652,344** | **25,034** | **3.8** |

| Liabilities and Shareholders' Equity | 30.09.2010 | 31.12.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Due to banks | 47,242 | 44,043 | 3,199 | 7.3 |
| Due to customers and securities issued | 408,476 | 397,008 | 11,468 | 2.9 |
| Financial liabilities held for trading | 58,140 | 42,264 | 15,876 | 37.6 |
| Financial liabilities designated at fair value through profit and loss | 26,357 | 28,151 | -1,794 | -6.4 |
| Tax liabilities | 3,050 | 3,225 | -175 | -5.4 |
| Liabilities associated with non-current assets held for sale and discontinued operations | - | 9,723 | -9,723 | |
| Other liabilities | 26,015 | 22,727 | 3,288 | 14.5 |
| Technical reserves | 49,585 | 46,026 | 3,559 | 7.7 |
| Allowances for specific purpose | 4,567 | 4,799 | -232 | -4.8 |
| Share capital | 6,647 | 6,647 | - | - |
| Reserves | 45,265 | 43,659 | 1,606 | 3.7 |
| Valuation reserves | -1,134 | -430 | 704 | |
| Minority interests | 968 | 1,697 | -729 | -43.0 |
| Net income | 2,200 | 2,805 | -605 | -21.6 |
| **Total Liabilities and Shareholders' Equity** | **677,378** | **652,344** | **25,034** | **3.8** |

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

## Quarterly development of the consolidated balance sheet

(millions of euro)

| Assets | 2010 | | | 2009 | | | |
|---|---|---|---|---|---|---|---|
| | 30/9 | 30/6 | 31/3 | 31/12 | 30/9 | 30/6 | 31/3 |
| Financial assets held for trading | 90,517 | 98,472 | 83,979 | 70,900 | 78,889 | 75,780 | 79,846 |
| Financial assets designated at fair value through profit and loss | 33,252 | 32,973 | 33,431 | 31,982 | 31,818 | 30,473 | 29,583 |
| Financial assets available for sale | 60,307 | 54,960 | 55,369 | 50,943 | 50,206 | 45,602 | 44,209 |
| Investments held to maturity | 4,205 | 4,307 | 4,341 | 4,561 | 4,772 | 5,241 | 5,461 |
| Due from banks | 45,175 | 48,618 | 47,909 | 43,260 | 42,666 | 45,570 | 41,898 |
| Loans to customers | 378,832 | 374,867 | 370,916 | 375,454 | 378,788 | 387,292 | 388,012 |
| Investments in associates and companies subject to joint control | 2,364 | 2,352 | 2,332 | 2,334 | 2,265 | 2,256 | 2,262 |
| Property, equipment and intangible assets | 30,963 | 31,155 | 31,050 | 31,198 | 31,127 | 31,352 | 31,700 |
| Tax assets | 7,839 | 8,112 | 7,550 | 7,374 | 6,890 | 7,365 | 7,608 |
| Non-current assets held for sale and discontinued operations | 48 | 35 | 7,741 | 6,552 | 7,247 | 6,643 | 8,101 |
| Other assets | 23,876 | 26,315 | 27,570 | 27,786 | 23,730 | 25,863 | 24,460 |
| **Total Assets** | **677,378** | **682,166** | **672,188** | **652,344** | **658,398** | **663,437** | **663,140** |

| Liabilities and Shareholders' Equity | 2010 | | | 2009 | | | |
|---|---|---|---|---|---|---|---|
| | 30/9 | 30/6 | 31/3 | 31/12 | 30/9 | 30/6 | 31/3 |
| Due to banks | 47,242 | 49,542 | 45,367 | 44,043 | 44,315 | 47,737 | 47,383 |
| Due to customers and securities issued | 408,476 | 412,996 | 405,127 | 397,008 | 399,509 | 407,944 | 403,226 |
| Financial liabilities held for trading | 58,140 | 56,413 | 48,350 | 42,264 | 45,329 | 41,320 | 48,707 |
| Financial liabilities designated at fair value through profit and loss | 26,357 | 26,430 | 27,692 | 28,151 | 28,629 | 27,970 | 26,921 |
| Tax liabilities | 3,050 | 2,874 | 3,785 | 3,225 | 3,347 | 3,191 | 4,859 |
| Liabilities associated with non-current assets held for sale and discontinued operations | - | - | 9,375 | 9,723 | 9,702 | 10,210 | 10,771 |
| Other liabilities | 26,015 | 26,505 | 24,685 | 22,727 | 24,233 | 26,382 | 25,587 |
| Technical reserves | 49,585 | 48,612 | 47,947 | 46,026 | 44,461 | 41,073 | 39,157 |
| Allowances for specific purpose | 4,567 | 4,620 | 4,799 | 4,799 | 5,214 | 5,232 | 5,442 |
| Share capital | 6,647 | 6,647 | 6,647 | 6,647 | 6,647 | 6,647 | 6,647 |
| Reserves | 45,265 | 45,317 | 46,358 | 43,659 | 43,614 | 43,548 | 43,697 |
| Valuation reserves | -1,134 | -1,120 | -339 | -430 | -589 | -1,041 | -1,905 |
| Minority interests | 968 | 1,640 | 1,707 | 1,697 | 1,725 | 1,636 | 1,573 |
| Net income | 2,200 | 1,690 | 688 | 2,805 | 2,262 | 1,588 | 1,075 |
| **Total Liabilities and Shareholders' Equity** | **677,378** | **682,166** | **672,188** | **652,344** | **658,398** | **663,437** | **663,140** |

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

## Consolidated income statement

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Net interest income | 7,346 | 8,031 | -685 | -8.5 |
| Dividends and profits (losses) on investments carried at equity | 42 | 48 | -6 | -12.5 |
| Net fee and commission income | 4,152 | 3,860 | 292 | 7.6 |
| Profits (Losses) on trading | 341 | 993 | -652 | -65.7 |
| Income from insurance business | 413 | 304 | 109 | 35.9 |
| Other operating income (expenses) | 18 | 19 | -1 | -5.3 |
| **Operating income** | **12,312** | **13,255** | **-943** | **-7.1** |
| Personnel expenses | -4,116 | -4,144 | -28 | -0.7 |
| Other administrative expenses | -2,268 | -2,314 | -46 | -2.0 |
| Adjustments to property, equipment and intangible assets | -435 | -478 | -43 | -9.0 |
| **Operating costs** | **-6,819** | **-6,936** | **-117** | **-1.7** |
| **Operating margin** | **5,493** | **6,319** | **-826** | **-13.1** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | -214 | -198 | 16 | 8.1 |
| Net adjustments to loans | -2,263 | -2,637 | -374 | -14.2 |
| Net impairment losses on other assets | -44 | -75 | -31 | -41.3 |
| Profits (Losses) on investments held to maturity and on other investments | 11 | 28 | -17 | -60.7 |
| **Income (Loss) before tax from continuing operations** | **2,983** | **3,437** | **-454** | **-13.2** |
| Taxes on income from continuing operations | -1,066 | -800 | 266 | 33.3 |
| Merger and restructuring-related charges (net of tax) | -54 | -130 | -76 | -58.5 |
| Effect of purchase price allocation (net of tax) | -296 | -295 | 1 | 0.3 |
| Income (Loss) after tax from discontinued operations | 691 | 142 | 549 | |
| Minority interests | -58 | -92 | -34 | -37.0 |
| **Net income** | **2,200** | **2,262** | **-62** | **-2.7** |
| **Basic EPS - euro** | **0.17** | **0.18** | | |
| **Diluted EPS - euro** | **0.17** | **0.18** | | |

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

## Quarterly development of the consolidated income statement

(millions of euro)

| | 2010 | | | 2009 | | | |
|---|---|---|---|---|---|---|---|
| | Third quarter | Second quarter | First quarter | Fourth quarter | Third quarter | Second quarter | First quarter |
| Net interest income | 2,470 | 2,462 | 2,414 | 2,494 | 2,590 | 2,769 | 2,672 |
| Dividends and profits (losses) on investments carried at equity | 8 | 27 | 7 | -2 | 18 | 36 | -6 |
| Net fee and commission income | 1,333 | 1,410 | 1,409 | 1,504 | 1,333 | 1,306 | 1,221 |
| Profits (Losses) on trading | 126 | -3 | 218 | 129 | 447 | 439 | 107 |
| Income from insurance business | 119 | 128 | 166 | 133 | 116 | 124 | 64 |
| Other operating income (expenses) | -4 | - | 22 | 29 | -7 | 5 | 21 |
| **Operating income** | **4,052** | **4,024** | **4,236** | **4,287** | **4,497** | **4,679** | **4,079** |
| Personnel expenses | -1,371 | -1,371 | -1,374 | -1,460 | -1,395 | -1,355 | -1,394 |
| Other administrative expenses | -748 | -783 | -737 | -892 | -746 | -814 | -754 |
| Adjustments to property, equipment and intangible assets | -144 | -148 | -143 | -202 | -166 | -156 | -156 |
| **Operating costs** | **-2,263** | **-2,302** | **-2,254** | **-2,554** | **-2,307** | **-2,325** | **-2,304** |
| **Operating margin** | **1,789** | **1,722** | **1,982** | **1,733** | **2,190** | **2,354** | **1,775** |
| Goodwill impairment | - | - | - | - | - | - | - |
| Net provisions for risks and charges | -30 | -98 | -86 | -99 | -66 | -63 | -69 |
| Net adjustments to loans | -711 | -798 | -754 | -1,069 | -823 | -1,081 | -733 |
| Net impairment losses on other assets | -1 | -38 | -5 | -160 | 4 | -72 | -7 |
| Profits (Losses) on investments held to maturity and on other investments | - | 1 | 10 | 517 | 13 | 15 | - |
| **Income (Loss) before tax from continuing operations** | **1,047** | **789** | **1,147** | **922** | **1,318** | **1,153** | **966** |
| Taxes on income from continuing operations | -404 | -309 | -353 | -171 | -500 | -479 | 179 |
| Merger and restructuring-related charges (net of tax) | -11 | -27 | -16 | -84 | -44 | -38 | -48 |
| Effect of purchase price allocation (net of tax) | -103 | -101 | -92 | -90 | -98 | -102 | -95 |
| Income (Loss) after tax from discontinued operations | - | 663 | 28 | 27 | 21 | 16 | 105 |
| Minority interests | -19 | -13 | -26 | -61 | -23 | -37 | -32 |
| **Net income** | **510** | **1,002** | **688** | **543** | **674** | **513** | **1,075** |

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

# Report on operations

# Economic results

Despite a scenario still marked by uncertainty regarding the strength and continuity of the economic recovery and characterised by tensions concerning the financial condition of several European countries, which has continued to affect financial market performances, the Intesa Sanpaolo Group achieved a net income of 2,200 million in the first nine months of 2010, essentially in line with that for the same period last year.

## Operating income

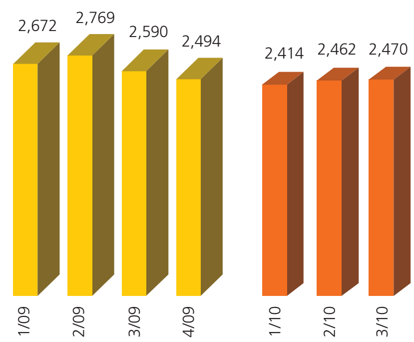
Operating income amounted to 12,312 million euro in the first three quarters of 2010, down 7.1% compared to the first nine months of 2009.
The trend that emerges from a comparison of the two periods was essentially the consequence of the decline in net interest income (-8.5%), mainly attributable to lower market rates, and in the profits (losses) on trading (-65.7%). Conversely, there were increases in fee and commission income (+7.6%) owing above all to the positive performance of management and placement of financial products.
Operating income came to 4,052 million euro in the third quarter of 2010, 28 million euro more than in the second quarter. This improvement is essentially due to the increase in profits on trading (126 million euro compared to -3 million euro in the second quarter) arising from the upward trend in financial markets.

### *Net interest income*

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Relations with customers | 7,856 | 10,071 | -2,215 | -22.0 |
| Securities issued | -3,905 | -4,493 | -588 | -13.1 |
| Differentials on hedging derivatives | 1,791 | 1,009 | 782 | 77.5 |
| **Customer dealing** | **5,742** | **6,587** | **-845** | **-12.8** |
| Financial assets held for trading | 533 | 634 | -101 | -15.9 |
| Investments held to maturity | 94 | 136 | -42 | -30.9 |
| Financial assets available for sale | 338 | 376 | -38 | -10.1 |
| **Financial assets** | **965** | **1,146** | **-181** | **-15.8** |
| **Relations with banks** | **140** | **-137** | **277** | |
| **Non-performing assets** | **560** | **513** | **47** | **9.2** |
| **Other net interest income** | **-61** | **-78** | **-17** | **-21.8** |
| **Net interest income** | **7,346** | **8,031** | **-685** | **-8.5** |

**Quarterly development of net interest income**




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

Though to a lesser extent, the downward trend in the interest margin seen since the second half of 2009 continued. Net interest income reached 7,346 million, down 8.5% on the first nine months of 2009. Interbank market rates reached even lower levels than last year, resulting in minimum spreads, and in particular the markdown on deposits fell steeply.
This factor was exacerbated by the impact of the elimination of overdraft charges effective June 2009 and the effect of the disintermediation of volumes on the asset side.
Net interest from customer dealing, which also includes interest on securities issued and differentials on hedging derivatives, came to 5,742 million euro, down 845 million euro compared to the first nine months of 2009, despite the positive contribution of hedging differentials used to achieve partial protection against the decline in interest rates. However, the stability of this component in the three quarters of this year was a positive factor.
In the nine months of 2010 net interest on the interbank market came to a positive 140 million compared to -137 million for the same period in 2009. However, net interest on financial assets fell by 15.8%, largely due to the decrease in returns on trading.

(millions of euro)

| | 2010 | | | Changes % | |
|---|---|---|---|---|---|
| | **Third quarter** (A) | **Second quarter** (B) | **First quarter** (C) | (A/B) | (B/C) |
| Relations with customers | 2,641 | 2,568 | 2,647 | 2.8 | -3.0 |
| Securities issued | -1,291 | -1,298 | -1,316 | **-0.5** | **-1.4** |
| Differentials on hedging derivatives | 558 | 637 | 596 | -12.4 | 6.9 |
| **Customer dealing** | **1,908** | **1,907** | **1,927** | **0.1** | **-1.0** |
| Financial assets held for trading | 194 | 178 | 161 | 9.0 | 10.6 |
| Investments held to maturity | 31 | 32 | 31 | -3.1 | 3.2 |
| Financial assets available for sale | 118 | 114 | 106 | 3.5 | 7.5 |
| **Financial assets** | **343** | **324** | **298** | **5.9** | **8.7** |
| **Relations with banks** | **30** | **60** | **50** | **-50.0** | **20.0** |
| **Non-performing assets** | **203** | **186** | **171** | **9.1** | **8.8** |
| **Other net interest income** | **-14** | **-15** | **-32** | **-6.7** | **-53.1** |
| **Net interest income** | **2,470** | **2,462** | **2,414** | **0.3** | **2.0** |

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

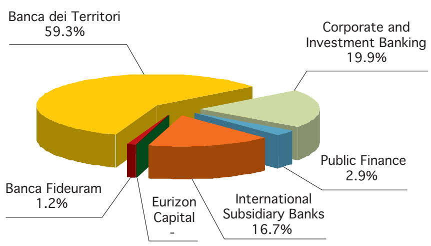
The slight but progressive growth in net interest already seen at the end of the second quarter (+2% between the first and second quarters, +0.3% between the second and third) was nevertheless confirmed.

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 4,357 | 4,753 | -396 | -8.3 |
| Corporate and Investment Banking | 1,462 | 1,589 | -127 | -8.0 |
| Public Finance | 209 | 301 | -92 | -30.6 |
| International Subsidiary Banks | 1,225 | 1,074 | 151 | 14.1 |
| Eurizon Capital | 1 | 2 | -1 | -50.0 |
| Banca Fideuram | 88 | 125 | -37 | -29.6 |
| **Total business areas** | **7,342** | **7,844** | **-502** | **-6.4** |
| Corporate Centre | 4 | 187 | -183 | -97.9 |
| **Intesa Sanpaolo Group** | **7,346** | **8,031** | **-685** | **-8.5** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**




Banca dei Territori, which accounts for 59% of business area results, recorded an 8.3% decrease in net interest income, mainly due to the reduced markdown on deposits and the elimination of overdraft charges. A less marked decrease by amount was reported by the Corporate and Investment Banking segment (-127 million euro), in relation to both the drop in average loan volumes and the slight decrease in market rate spreads following historically low market rates. Likewise the Public Finance segment (-92 million euro) after a narrowing of the spreads which in 2009 had benefited from asset liquidity in a scenario of strong bear rates, and Banca Fideuram (-37 million euro), largely due to contraction in the spread between the cost of deposits and lending interest rates. Conversely, the International Subsidiary Banks showed an increase in net interest income (+151 million euro), benefiting from the higher lending spreads.

### *Dividends and profits on investments carried at equity*

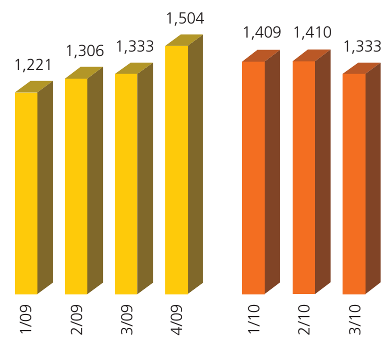
Dividends and profits on investments carried at equity came to 42 million euro in the first nine months of 2010, of which 25 million euro was represented by the dividend collected on the investment in the Bank of Italy and 17 million euro in investments carried at equity attributable to Intesa Vita, Penghua Fund Management, Bank of Quingdao, Telco and Termomeccanica. The caption recorded a decrease compared to the 48 million euro in profits reported in the same period of the previous year. Please note that the dividends relate to non-consolidated companies, excluding those on shares held for trading and securities available for sale restated to Profits (Losses) on trading.

## *Net fee and commission income*

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Guarantees given | 248 | 222 | 26 | 11.7 |
| Collection and payment services | 251 | 255 | -4 | -1.6 |
| Current accounts | 685 | 672 | 13 | 1.9 |
| Credit and debit cards | 339 | 309 | 30 | 9.7 |
| **Commercial banking activities** | **1,523** | **1,458** | **65** | **4.5** |
| Dealing and placement of securities | 334 | 291 | 43 | 14.8 |
| Currency dealing | 40 | 40 | - | - |
| Portfolio management | 900 | 755 | 145 | 19.2 |
| Distribution of insurance products | 548 | 521 | 27 | 5.2 |
| Other | 63 | 84 | -21 | -25.0 |
| **Management, dealing and consultancy activities** | **1,885** | **1,691** | **194** | **11.5** |
| **Other net fee and commission income** | **744** | **711** | **33** | **4.6** |
| **Net fee and commission income** | **4,152** | **3,860** | **292** | **7.6** |

**Quarterly development of net fee and commission income**




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

Net fee and commission income, which represents over a third of operating income, amounted to 4,152 million euro, up 7,6% compared to the corresponding period in 2009, owing largely to the positive performances of the dealing and management of financial products.
Fees and commissions on commercial banking activities rose to 1,523 million euro in the reporting period (+4.5% compared to the first nine months of 2009). This positive trend stemmed from the contribution of commissions on credit and debit cards (+30 million euro), guarantees given (+26 million euro) and current accounts (+13 million euro). Conversely, commissions on collection and payment services showed a slight decline (-4 million euro), owing in part to the unfavourable economic climate and the consequent contraction of consumption.
Overall, management, dealing and consultancy activities generated net fee and commission income of 1,885 million euro, up 11.5% with respect to the 2009 figure, chiefly due to portfolio management (+145 million euro), most markedly collective schemes which benefited from an appreciation of assets under management, dealing and placement of securities (+43 million euro) and distribution of insurance products (+27 million euro).
Other net fee and commission income, whose key factors are represented by commissions on loans issued and on factoring services, were also higher than the figures for the first nine months of 2009, reaching 744 million euro.

(millions of euro)

| | 2010 | | | Changes % | |
|---|---|---|---|---|---|
| | Third quarter (A) | Second quarter (B) | First quarter (C) | (A/B) | (B/C) |
| Guarantees given | 81 | 82 | 85 | -1.2 | -3.5 |
| Collection and payment services | 84 | 85 | 82 | -1.2 | 3.7 |
| Current accounts | 229 | 227 | 229 | 0.9 | -0.9 |
| Credit and debit cards | 119 | 111 | 109 | 7.2 | 1.8 |
| **Commercial banking activities** | **513** | **505** | **505** | **1.6** | **-** |
| Dealing and placement of securities | 73 | 118 | 143 | -38.1 | -17.5 |
| Currency dealing | 13 | 14 | 13 | -7.1 | 7.7 |
| Portfolio management | 304 | 303 | 293 | 0.3 | 3.4 |
| Distribution of insurance products | 174 | 188 | 186 | -7.4 | 1.1 |
| Other | 16 | 20 | 27 | -20.0 | -25.9 |
| **Management, dealing and consultancy activities** | **580** | **643** | **662** | **-9.8** | **-2.9** |
| **Other net fee and commission income** | **240** | **262** | **242** | **-8.4** | **8.3** |
| **Net fee and commission income** | **1,333** | **1,410** | **1,409** | **-5.5** | **0.1** |

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

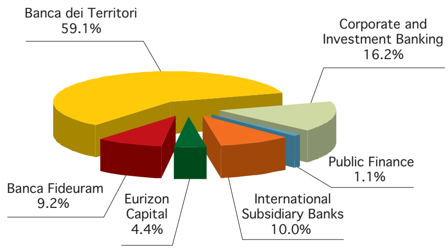
The quarterly trend shows that third quarter fee and commission income registered a 5.5% decrease on the second quarter, attributable to lower income from dealing and placement of securities and policies, normally less effective in the summer. However, commissions in the third quarter of 2010 yielded a result higher than the average achieved in the first three quarters of 2009. It was only in the fourth quarter of the previous year that higher results were reported owing to the effect of the overperformance commissions recognised by Eurizon Capital and Banca Fideuram at year-end.

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 2,514 | 2,340 | 174 | 7.4 |
| Corporate and Investment Banking | 687 | 677 | 10 | 1.5 |
| Public Finance | 48 | 31 | 17 | 54.8 |
| International Subsidiary Banks | 423 | 400 | 23 | 5.8 |
| Eurizon Capital | 188 | 178 | 10 | 5.6 |
| Banca Fideuram | 393 | 303 | 90 | 29.7 |
| **Total business areas** | **4,253** | **3,929** | **324** | **8.2** |
| Corporate Centre | -101 | -69 | 32 | 46.4 |
| **Intesa Sanpaolo Group** | **4,152** | **3,860** | **292** | **7.6** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**



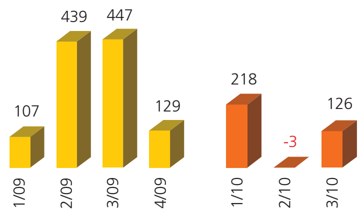

All business units contributed to the increase in the Group's net fee and commission income compared to the first nine months of 2009 (+7.6%). In detail, the greatest contribution was made by Banca dei Territori (+7.4%), which represents 59% of the total fee and commission income earned by all business units, driven by the strong performance of asset management, stronger placement of bancassurance products, along with the introduction of the commitment fee. Increases in net fee and commission income were also reported by Banca Fideuram (+29.7%), driven by the rise in average assets under management and the repositioning of the product mix to favour management products with a less conservative risk profile. More moderate increases by amount were reported by the International Subsidiary Banks (+23 million euro), Public Finance (+17 million euro) owing to revenue growth on services and the structuring of project finance transactions, Corporate and Investment Banking (+10 million euro) thanks to the development of collection, payment, credit facility and guarantee services to Italian and international corporates, and by Eurizon Capital (+10 million euro) driven by the rise in average assets under management.

### *Profits (Losses) on trading*

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Interest rates | 12 | 647 | -635 | -98.1 |
| Equity instruments | -23 | 80 | -103 | |
| Currencies | 205 | 218 | -13 | -6.0 |
| Structured credit products | 64 | -36 | 100 | |
| Credit derivatives | 1 | -41 | 42 | |
| Commodity derivatives | 11 | 12 | -1 | **-8.3** |
| **Trading result** | **270** | **880** | **-610** | **-69.3** |
| **Trading on AFS securities and financial liabilities** | **71** | **113** | **-42** | **-37.2** |
| **Profits (Losses) on trading** | **341** | **993** | **-652** | **-65.7** |

**Quarterly development of profits (losses) on trading**




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

Trading activities, which represent the component of operations most exposed to market volatility, yielded a profit of 341 million euro in the first nine months of 2010 compared to the 993 million euro reported in the same period of the previous year.
The downtrend was largely caused by the decrease in transactions involving interest rates (involving debt securities and interest rate derivatives) and to a lesser extent equity instruments (-635 million euro and -103 million euro, respectively, in terms of absolute change). Currency transactions amounted to 205 million euro, down 13 million euro on the same period of the previous year.
Conversely, structured credit products recorded a positive balance of 64 million euro, representing a considerable recovery from the negative figure (-36 million euro) reported in the same period in 2009. For a more detailed illustration of such products, reference should be made to the chapter regarding risk management.
It should be noted that this caption also incorporates dividends and proceeds on the trading of securities classified as available for sale and the effects of the measurement at fair value of the component of financial liabilities issued associated with an assessment of creditworthiness related to the fair value option. Collectively, these results for the first nine months came to a positive 71 million euro.

(millions of euro)

| | 2010 | | | Changes % | |
|---|---|---|---|---|---|
| | **Third quarter** (A) | **Second quarter** (B) | **First quarter** (C) | (A/B) | (B/C) |
| Interest rates | 68 | -125 | 69 | | |
| Equity instruments | 16 | -63 | 24 | | |
| Currencies | 27 | 94 | 84 | -71.3 | 11.9 |
| Structured credit products | 27 | 10 | 27 | | -63.0 |
| Credit derivatives | -35 | 40 | -4 | | |
| Commodity derivatives | 12 | -1 | - | | - |
| **Trading result** | **115** | **-45** | **200** | | |
| **Trading on AFS securities and financial liabilities** | **11** | **42** | **18** | **-73.8** | |
| **Profits (Losses) on trading** | **126** | **-3** | **218** | | |

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

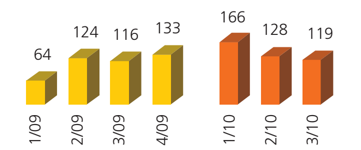
The quarterly development in profits (losses) on trading shows considerable fluctuations, owing in part to the differing performances of financial markets in the three quarters: positive results of 218 million and 126 million euro, respectively, for the first and third quarters, compared to a 3 million euro loss in the second quarter.

## *Income from insurance business*

(millions of euro)

| | 30.09.2010 | | | 30.09.2009 | | | Changes | |
|---|---|---|---|---|---|---|---|---|
| | Life | Non-life | Total | Life | Non-life | Total | amount | % |
| Premiums and payments [(a)] | -226 | 73 | -153 | -397 | 81 | -316 | -163 | -51.6 |
| *net premiums* | *5,272* | *118* | *5,390* | *4,607* | *105* | *4,712* | *678* | *14.4* |
| *net charges for claims and surrendering of policies* | *-2,711* | *-45* | *-2,756* | *-2,806* | *-26* | *-2,832* | *-76* | *-2.7* |
| *net charges for changes in technical reserves* | *-2,787* | *-* | *-2,787* | *-2,198* | *2* | *-2,196* | *591* | *26.9* |
| Net income from financial instruments designated at fair value through profit and loss [(b)] | 299 | - | 299 | 571 | - | 571 | -272 | -47.6 |
| Net income from securities (including UCI) classified as Financial assets available for sale and Financial assets held for trading [(c)] | 763 | 12 | 775 | 499 | 7 | 506 | 269 | 53.2 |
| Other income/charges from insurance business[(d)] | -444 | -64 | -508 | -399 | -58 | -457 | 51 | 11.2 |
| **Income from insurance business** | **392** | **21** | **413** | **274** | **30** | **304** | **109** | **35.9** |

**Quarterly development of income from insurance business**




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

[(a)] The caption includes collections, payments and provisions for the integration of reserves referred solely to products considered insurance products for IAS/IFRS purposes. The corresponding items regarding products which do not present these characteristics are, instead, accounted for using the same method as for financial movements. The related economic components are included in the caption Net income from financial instruments designated at fair value through profit and loss.

[(b)] The caption includes net income from the measurement of assets and liabilities connected to products considered financial products for IAS/IFRS purposes and those deriving from the measurement of assets accounted for applying the Fair Value Option.

[(c)] The caption registers realised profits and interest / dividends collected on financial assets covering products considered insurance products for IAS/IFRS purposes and on the trading portfolio of the insurance company.

[(d)] The caption includes all other income / charges connected to products considered insurance products for IAS/IFRS purposes, including commission expense.

During the first three quarters of 2010, income from insurance business, which includes the revenue captions of the Group's life and non-life companies, was 413 million euro, up on the 304 million euro earned in the same period of the previous year as a result of positive developments in the life segment.
This improvement may be attributed in particular to the favourable performance of financial management, which allowed capital gains to be achieved, as well as to traditional policy business through bank branch networks. The insurance companies benefited from dynamic portfolio management aimed at seeking the best investment opportunities by favouring those offering high coupon yields.
The result for non-life business decreased, mainly due to the increase in claim-related charges.

(millions of euro)

| | 2010 Third quarter (A) | 2010 Second quarter (B) | 2010 First quarter (C) | Changes % (A/B) | Changes % (B/C) |
|---|---|---|---|---|---|
| Premiums and payments [(a)] | -88 | -40 | -25 | | 60.0 |
| *net premiums* | *1,558* | *1,649* | *2,183* | *-5.5* | *-24.5* |
| *net charges for claims and surrendering of policies* | *-785* | *-980* | *-991* | *-19.9* | *-1.1* |
| *net charges for changes in technical reserves* | *-861* | *-709* | *-1,217* | *21.4* | *-41.7* |
| Net income from financial instruments designated at fair value through profit and loss [(b)] | 99 | 57 | 143 | 73.7 | -60.1 |
| Net income from securities (including UCI) classified as Financial assets available for sale and Financial assets held for trading [(c)] | 323 | 246 | 206 | 31 | 19 |
| Other income/charges from insurance business[(d)] | -215 | -135 | -158 | 59.3 | -14.6 |
| **Income from insurance business** | **119** | **128** | **166** | **-7.0** | **-22.9** |

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

[(a)] The caption includes collections, payments and provisions for the integration of reserves referred solely to products considered insurance products for IAS/IFRS purposes. The corresponding items regarding products which do not present these characteristics are, instead, accounted for using the same method as for financial movements. The related economic components are included in the caption Net income from financial instruments designated at fair value through profit and loss.

[(b)] The caption includes net income from the measurement of assets and liabilities connected to products considered financial products for IAS/IFRS purposes and those deriving from the measurement of assets accounted for applying the Fair Value Option.

[(c)] The caption registers realised profits and interest / dividends collected on financial assets covering products considered insurance products for IAS/IFRS purposes and on the trading portfolio of the insurance company.

[(d)] The caption includes all other income / charges connected to products considered insurance products for IAS/IFRS purposes, including commission expense.

Income from the insurance business stood at 119 million euro in the third quarter of 2010, down 9 million euro on the second quarter.

### *Other operating income (expenses)*

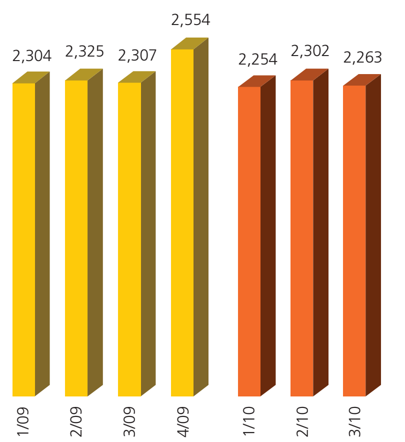
Other operating income (expenses) is a residual caption comprising various types of income and expenses that cannot be recognised in other operating income captions, except expense and tax recoveries that are deducted from administrative expenses. This caption recorded a positive balance of 18 million euro for the period, essentially stable compared to the 19 million euro of the first nine months of 2009.

## Operating costs

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Wages and salaries | 2,938 | 2,951 | -13 | -0.4 |
| Social security charges | 746 | 767 | -21 | -2.7 |
| Other | 432 | 426 | 6 | 1.4 |
| **Personnel expenses** | **4,116** | **4,144** | **-28** | **-0.7** |
| Information technology expenses | 550 | 533 | 17 | 3.2 |
| Management of real estate assets | 562 | 587 | -25 | -4.3 |
| General structure costs | 337 | 345 | -8 | -2.3 |
| Professional and legal expenses | 344 | 343 | 1 | 0.3 |
| Advertising and promotional expenses | 112 | 110 | 2 | 1.8 |
| Indirect personnel costs | 94 | 88 | 6 | 6.8 |
| Other costs | 215 | 241 | -26 | -10.8 |
| Indirect taxes and duties | 474 | 490 | -16 | -3.3 |
| Recovery of expenses and charges | -420 | -423 | -3 | -0.7 |
| **Administrative expenses** | **2,268** | **2,314** | **-46** | **-2.0** |
| Property and equipment | 282 | 295 | -13 | -4.4 |
| Intangible assets | 153 | 183 | -30 | -16.4 |
| **Adjustments** | **435** | **478** | **-43** | **-9.0** |
| **Operating costs** | **6,819** | **6,936** | **-117** | **-1.7** |

**Quarterly development of operating costs**




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

Operating costs came to 6,819 million euro, down 1.7% compared to the same period of the previous year, confirming the structural decrease in costs following integration of the Intesa and Sanpaolo IMI Groups.
Personnel expenses decreased slightly (-0.7%) to 4,116 million euro. This trend is essentially attributable to human resource optimisation policies leading to staff downsizing in both period-end and average figures, offset by a rise in the average cost tied to the impact of contractual tranches.
Administrative expenses were 2,268 million euro, down 2%: this result was shaped particularly by property management and other costs. In addition, the increase in information technology expenses should be viewed in light of the considerable decrease in services rendered by third parties recorded under other administrative expenses, made possible by completion of the integration processes for the Banca CR Firenze Group.
Adjustments amounted to 435 million euro, recording a 9% decrease on the first nine months of the previous year and attributable to both intangible assets, due to full software amortisation, and property and equipment.
The cost/income ratio for the period was 55.4%, up from 52.3% in the same period of 2009 due to the fact that the fall in revenues was greater than the reduction in costs.

(millions of euro)

| | 2010 | | | Changes % | |
|---|---|---|---|---|---|
| | **Third quarter** (A) | **Second quarter** (B) | **First quarter** (C) | (A/B) | (B/C) |
| Wages and salaries | 976 | 973 | 989 | 0.3 | -1.6 |
| Social security charges | 242 | 250 | 254 | -3.2 | -1.6 |
| Other | 153 | 148 | 131 | 3.4 | 13.0 |
| **Personnel expenses** | **1,371** | **1,371** | **1,374** | **-** | **-0.2** |
| Information technology expenses | 184 | 182 | 184 | 1.1 | -1.1 |
| Management of real estate assets | 185 | 187 | 190 | -1.1 | -1.6 |
| General structure costs | 105 | 120 | 112 | -12.5 | 7.1 |
| Professional and legal expenses | 116 | 126 | 102 | -7.9 | 23.5 |
| Advertising and promotional expenses | 37 | 36 | 39 | 2.8 | -7.7 |
| Indirect personnel costs | 28 | 36 | 30 | -22.2 | 20.0 |
| Other costs | 71 | 79 | 65 | -10.1 | 21.5 |
| Indirect taxes and duties | 160 | 163 | 151 | -1.8 | 7.9 |
| Recovery of expenses and charges | -138 | -146 | -136 | -5.5 | 7.4 |
| **Administrative expenses** | **748** | **783** | **737** | **-4.5** | **6.2** |
| Property and equipment | 94 | 94 | 94 | - | - |
| Intangible assets | 50 | 54 | 49 | -7.4 | 10.2 |
| **Adjustments** | **144** | **148** | **143** | **-2.7** | **3.5** |
| **Operating costs** | **2,263** | **2,302** | **2,254** | **-1.7** | **2.1** |

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

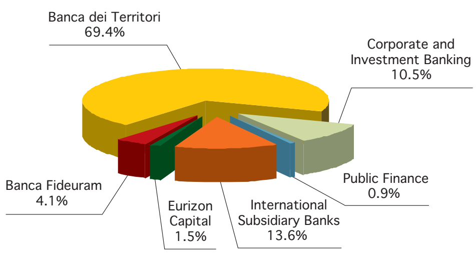
At the quarterly level, operating costs, 2,263 million euro, fell by 1.7% in the third quarter compared to the previous quarter. This trend is essentially attributable to administrative expenses, most markedly general structure costs, professional and legal expenses and indirect personnel costs.

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 4,354 | 4,371 | -17 | -0.4 |
| Corporate and Investment Banking | 656 | 648 | 8 | 1.2 |
| Public Finance | 56 | 60 | -4 | -6.7 |
| International Subsidiary Banks | 852 | 864 | -12 | -1.4 |
| Eurizon Capital | 97 | 92 | 5 | 5.4 |
| Banca Fideuram | 255 | 262 | -7 | -2.7 |
| **Total business areas** | **6,270** | **6,297** | **-27** | **-0.4** |
| Corporate Centre | 549 | 639 | -90 | -14.1 |
| **Intesa Sanpaolo Group** | **6,819** | **6,936** | **-117** | **-1.7** |

Figures restated where required by international accounting standards and, where necessary, considering the changes in the scope of consolidation and in business unit constituents.

**Business areas**




The reduction in Group operating costs (-1.7%) was driven by all business units with the exception of Corporate and Investment Banking and Eurizon Capital. The greatest cost reductions by amount was made by Banca dei Territori (-17 million euro), which accounts for over 69% of business area costs, and the International Subsidiary Banks (-12 million euro). Banca Fideuram (-7 million euro) and Public Finance (-4 million euro) showed more moderate declines. The

Corporate Centre's costs were also down (-14.1%). Conversely, costs increased for Corporate and Investment Banking (+8 million euro) and Eurizon Capital (+5 million euro), the latter relating to the rise in the costs of planning the unification of Intesa Sanpaolo's fund administration operational platforms and outsourcing and consulting services.

## Operating margin

Operating margin in the first nine months of 2010 was 5,493 million euro, down 13.1% on the corresponding period of the previous year. This trend was generated by a decline in operating income (-7.1%), only partially offset by the decrease in operating costs (-1.7%). At the quarterly level the operating margin increased by 3.9% in the third quarter (1,789 million euro) compared to the second quarter (1,722 million euro), due to the improved result in trading profits and cost containment measures.

## Adjustments to/write-backs on assets

### *Net provisions for risks and charges*

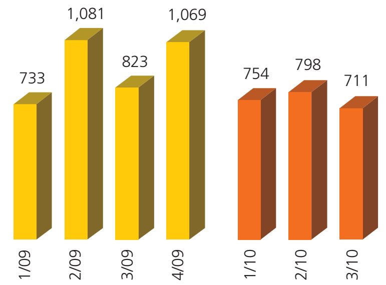
Net provisions for risks and charges totalled 214 million euro, 16 million higher than the first nine months of 2009, due to provisions attributable to the ongoing revision of outstanding consumer credit products and tax litigation.

### *Net adjustments to loans*

(millions of euro)

| | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Doubtful loans | -1,243 | -1,132 | 111 | 9.8 |
| Substandard loans | -771 | -1,284 | -513 | -40.0 |
| Restructured loans | -32 | -14 | 18 | |
| Past due loans | -129 | -139 | -10 | -7.2 |
| Performing loans | -80 | -41 | 39 | 95.1 |
| **Net impairment losses on loans** | **-2,255** | **-2,610** | **-355** | **-13.6** |
| **Net adjustments to guarantees and commitments** | **-8** | **-27** | **-19** | **-70.4** |
| **Net adjustments to loans** | **-2,263** | **-2,637** | **-374** | **-14.2** |

**Quarterly development of net adjustments to loans**




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

In the first nine months of 2010, net adjustments to loans, while remaining high, declined by 14.2% to 2,263 million euro compared to 2,637 million euro in the corresponding period of 2009.
Net adjustments to loans remain at significant levels as a consequence of the expected deterioration of the quality of the loan portfolio as a result of the crisis affecting the economies of Italy and the other main countries in which the Group operates. In the reporting period, doubtful positions required total net adjustments of 1,243 million euro, marking an increase of 111 million euro compared to the first nine months of 2009.
Net adjustments to substandard positions decreased by 40% in relation to the downward trend in new positions, whereas net adjustments to restructured loans rose from 14 to 32 million euro.
A total of 8 million euro in adjustments was recognised to guarantees, compared to 27 million euro in the corresponding period of the previous year.

(millions of euro)

| | 2010 | | | Changes % | |
|---|---|---|---|---|---|
| | Third quarter (A) | Second quarter (B) | First quarter (C) | (A/B) | (B/C) |
| Doubtful loans | -472 | -375 | -396 | 25.9 | -5.3 |
| Substandard loans | -165 | -338 | -268 | -51.2 | 26.1 |
| Restructured loans | -8 | -22 | -2 | -63.6 | |
| Past due loans | -28 | -43 | -58 | -34.9 | -25.9 |
| Performing loans | -29 | -23 | -28 | 26.1 | -17.9 |
| **Net impairment losses on loans** | **-702** | **-801** | **-752** | **-12.4** | **6.5** |
| **Net adjustments to guarantees and commitments** | **-9** | **3** | **-2** | | |
| **Net adjustments to loans** | **-711** | **-798** | **-754** | **-10.9** | **5.8** |

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

Compared to the second quarter, the third recorded a 10.9% decrease in net adjustments to loans, while remaining significantly below the maximum levels reached in the quarters of 2009.

### *Net impairment losses on other assets*

Net impairment losses on other assets in the first nine months of 2010 totalled 44 million euro, compared to the 75 million euro recorded for the same period in 2009. This decrease is mainly due to lower adjustments recognised by the insurance companies on the securities available for sale portfolio.
Adjustments of 1 million euro were made in the third quarter of 2010.

### *Profits (Losses) on investments held to maturity and on other investments*

Profits on investments held to maturity and on other investments amounted to 11 million euro and included capital gains on the disposal of property (assets held to maturity) and profits on the disposal of other equity investments. The figure for the sale of minority interests for the first three quarters of 2010 was down on the 28 million profit recognised in the first nine months of 2009.

## Income before tax from continuing operations

Income before tax from continuing operations came to 2,983 million euro, down 13.2% compared to the first nine months of 2009. This performance was primarily the result of the decrease in net interest income and the loss on trading, as already mentioned, which were not sufficiently offset by the decline in operating costs and lower net adjustments to loans. The third quarter result of 1,047 million euro instead increased by 32.7% on the second, mainly owing to lower adjustments and provisions and the improved result for trading activities.

## Other income and expense captions

### *Taxes on income from continuing operations*

Current and deferred income taxes accrued during the period were 1,066 million euro, compared to 800 million euro in the first nine months of 2009, which had benefited from the favourable effects of the detaxation of intangibles and employee termination indemnities (537 million euro). The first nine months of 2010 also benefited from the positive effect of goodwill detaxation, pursuant to Law Decree 185/08, within several Group banks to which the Parent Company had contributed business lines, although this benefit was limited to 86 million euro. The charge for the period also includes the effects of extraordinary taxation enacted in Hungary (28 million euro) and the recovery (32 million euro) of higher taxes paid internationally in 2008 in relation to the capital gain on the sale of an equity investment.
The tax rate for the period, calculated as the simple ratio of taxes on income from continuing operations and income before tax from continuing operations, came to 35.7%.

### *Merger and restructuring-related charges (net of tax)*

Net of tax effects, merger and restructuring-related charges amounted to 54 million euro, down compared to the 130 million euro recognised in the first nine months of the previous year. The gradual decrease in these charges confirms the near completion of the main integration processes for Group banks.

### *Effect of purchase price allocation (net of tax)*

This caption comprises charges attributable to the revaluation of loans, debts, real estate and the recognition of new intangible assets, in application of IFRS 3, upon recognition of acquisition transactions. These charges amounted to 296 million euro, with no significant change from the corresponding period in 2009. No impairment indicators regarding the set of intangible assets and goodwill recognised in conjunction with acquisitions were detected in the reporting period.

### *Income (Loss) from discontinued operations (net of tax)*

Income from discontinued operations came to 691 million euro and is attributable to the net capital gain of 648 million euro on the sale of the securities services business to State Street Co. and the profits earned by this business line until the transaction closing date.
The capital gain on the transaction was calculated net of directly attributable expenses, including those that have already been incurred (advisory, the write-off of dedicated systems and so forth) and those that may reasonably be estimated in connection with the customary guarantees given.
This figure is compared to the 142 million euro in the first nine months of 2009, which included not only the income reported by the abovementioned securities services business, but also the capital gains on the sale of Cassa di Risparmio di Orvieto and several branches sold in March 2009.

## Net income

The Group closed the first nine months of 2010 with a net income of 2,200 million euro, up 2.7% on the 2,262 million euro reported in the same period of the previous year.
Net income for the third quarter of 2010 was 510 million euro, down 492 million euro on the second quarter, which had in any case seen an impact of 663 million euro in income from discontinued operations.

# Balance sheet aggregates

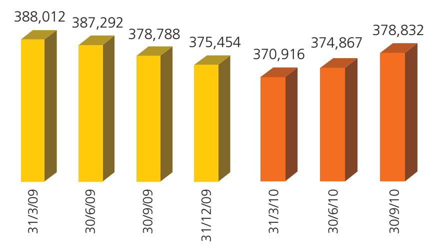
## Loans to customers

(millions of euro)

| | 30.09.2010 | % breakdown | 31.12.2009 | % breakdown | Changes amount | Changes % |
|---|---|---|---|---|---|---|
| Current accounts | 32,346 | 8.6 | 32,468 | 8.7 | -122 | -0.4 |
| Mortgages | 165,597 | 43.7 | 165,655 | 44.1 | -58 | - |
| Advances and other loans | 128,515 | 33.9 | 127,762 | 34.0 | 753 | 0.6 |
| **Commercial banking loans** | **326,458** | **86.2** | **325,885** | **86.8** | **573** | **0.2** |
| **Repurchase agreements** | **12,484** | **3.3** | **10,586** | **2.8** | **1,898** | **17.9** |
| **Loans represented by securities** | **19,054** | **5.0** | **18,527** | **4.9** | **527** | **2.8** |
| **Non-performing loans** | **20,836** | **5.5** | **20,456** | **5.5** | **380** | **1.9** |
| **Loans to customers** | **378,832** | **100.0** | **375,454** | **100.0** | **3,378** | **0.9** |

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

**Quarterly development Loans to customers**



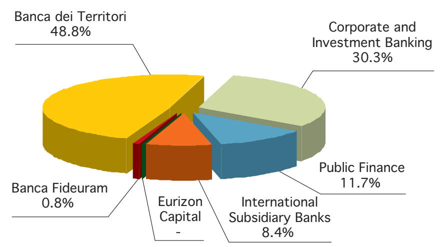

As at 30 September 2010, the Intesa Sanpaolo Group's loans to customers were up (+0.9%) compared to the end of the previous year. The trend, conditioned by a market that is still uncertain about the continuity of the economic recovery, showed a decline in the first quarter of the year and a recovery in the second and third quarters.
In particular, commercial banking loans (+0.2%) recorded the increase in technical forms of advances and other loans (+0.6%), used especially by businesses, whilst mortgages were stable, confirming the stability of investments in residential properties. Conversely, current accounts declined slightly (-0.4%). Repurchase agreement transactions, mainly carried out with businesses, increased by 17.9%. Loans represented by securities recorded a 2.8% increase. As a result of the persistent difficulties of businesses and households, the uptrend in non-performing loans continued (+1.9%).
In the domestic medium-/long-term loan market, disbursements to households totalled around 11 billion euro in the first nine months of 2010 and those to businesses exceeded 7 billion euro.
As at 30 September 2010, the Group's share of the domestic market (calculated on the harmonised time-series defined for countries in the eurozone) was 16.0% for total loans, confirming the downward trend since the start of the year.

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Banca dei Territori | 177,541 | 178,239 | -698 | -0.4 |
| Corporate and Investment Banking | 110,202 | 107,616 | 2,586 | 2.4 |
| Public Finance | 42,629 | 41,186 | 1,443 | 3.5 |
| International Subsidiary Banks | 30,510 | 29,644 | 866 | 2.9 |
| Eurizon Capital | 113 | 171 | -58 | -33.9 |
| Banca Fideuram | 2,739 | 1,982 | 757 | 38.2 |
| **Total business areas** | **363,734** | **358,838** | **4,896** | **1.4** |
| Corporate Centre | 15,098 | 16,616 | -1,518 | -9.1 |
| **Intesa Sanpaolo Group** | **378,832** | **375,454** | **3,378** | **0.9** |

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

**Business areas**




Breaking down loans by business areas, Banca dei Territori, which accounts for approximately half the aggregate of the Group's business areas, reported that loans to customers were essentially stable (-0.4%) compared to the end of the previous year. The more significant contributions were from the Corporate and Investment Banking segment (+2.4%), due to the resumption of disbursements by Large Corporate Italia and Mid Corporate customers, and from Public Finance (+3.5%) due to the effect of new business developed during the period. Banca Fideuram loans also increased (+38.2%) in relation to the increase in facilities granted in current accounts and the introduction of new repurchase agreement operations collateralised with institutional players, as did those of the International Subsidiary Banks (+2.9%). The decrease in Corporate Centre loans (-9.1%) was mostly driven by the unwinding of repurchase agreements with Cassa di Compensazione e Garanzia.

## Loans to customers: loan portfolio quality

(millions of euro)

| | 30.09.2010 | | 31.12.2009 | | Change |
|---|---|---|---|---|---|
| | Net exposure | % breakdown | Net exposure | % breakdown | Net exposure |
| Doubtful loans | 6,634 | 1.8 | 5,365 | 1.4 | 1,269 |
| Substandard loans | 9,663 | 2.5 | 10,375 | 2.8 | -712 |
| Restructured loans | 3,339 | 0.9 | 2,293 | 0.6 | 1,046 |
| Past due loans | 1,200 | 0.3 | 2,423 | 0.7 | -1,223 |
| **Non-performing loans** | **20,836** | **5.5** | **20,456** | **5.5** | **380** |
| Performing loans | 338,942 | 89.5 | 336,471 | 89.6 | 2,471 |
| Performing loans represented by securities | 19,054 | 5.0 | 18,527 | 4.9 | 527 |
| **Loans to customers** | **378,832** | **100.0** | **375,454** | **100.0** | **3,378** |

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

At the end of the first nine months of 2010, the Group recorded a 1.9% increase in non-performing loans, net of adjustments, compared to the end of the previous year. Despite this growth, the impact of non-performing loans on total loans to customers remained stable compared to the start of the year. Coverage of non-performing loans deemed adequate to address expected losses, considering the collateral that secure several significant positions, was 43%, up compared to the end of 2009.

In detail, loans classified as doubtful came to 6,634 million euro as at 30 September 2010, up by 1,269 million euro (+24%) since the beginning of the year and representing 1.8% of total loans.

Substandard loans amounted to 9,663 million euro and were down by 6.9% compared to 31 December 2009, also owing to the reaching of restructuring agreements resulting in the reclassification of several positions of significant amount. Substandard loans declined to 2.5% of total loans.

Restructured loans came to 3,339 million euro, up in fact by 46% on 31 December 2009, following the agreements with debtors cited above.

Past due loans totalled 1,200 million euro, down by 50% owing in part to the reclassification to performing loans of several exposures relating to the regulatory segment of residential mortgages for private individuals following authorisation from the Bank of Italy for the use of the internal model for that technical form.

## Customer financial assets

(millions of euro)

| | 30.09.2010 | | 31.12.2009 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Direct customer deposits | 434,833 | 51.6 | 425,159 | 51.7 | 9,674 | 2.3 |
| Indirect customer deposits | 434,136 | 51.5 | 424,452 | 51.7 | 9,684 | 2.3 |
| Netting [(a)] | -26,230 | -3.1 | -27,965 | -3.4 | -1,735 | -6.2 |
| **Customer financial assets** | **842,739** | **100.0** | **821,646** | **100.0** | **21,093** | **2.6** |

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

[(a)] Netting refers to components of indirect deposits which are also included in direct customer deposits (financial liabilities of the insurance business designated at fair value and fund-based bonds designated at fair value issued by Group companies and placed by the networks).

Customer financial assets reached 843 billion euro as at 30 September 2010, up by 2.6% since the beginning of the year owing to the good performance of direct deposits, essentially owing to the expansion of repurchase agreements and securities lending, as well as to indirect deposits. The latter benefited from developments in assets under management, up 3.4%, and to a lesser extent from assets under administration and in custody (+0.9%).

The performance of assets under management is attributable in particular to portfolio management, markedly in the private banking market, which also benefited from the investment of capital repatriated under the tax amnesty, and to insurance products. Demand in the mutual funds segment remains weak.

### *Direct customer deposits*

The table below sets out amounts due to customers, securities issued, including those designated at fair value and certain insurance policies with mainly financial features.

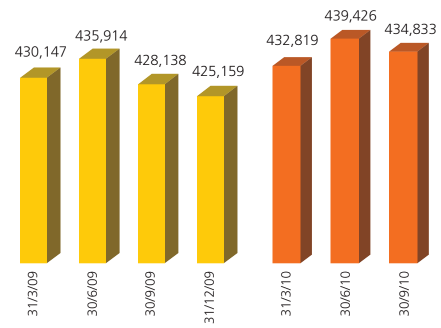
(millions of euro)

| | 30.09.2010 | | 31.12.2009 | | Changes | |
|---|---|---|---|---|---|---|
| | | % breakdown | | % breakdown | amount | % |
| Current accounts and deposits | 196,836 | 45.2 | 198,356 | 46.7 | -1,520 | -0.8 |
| Repurchase agreements and securities lending | 15,121 | 3.5 | 7,422 | 1.7 | 7,699 | |
| Bonds | 121,265 | 27.9 | 124,955 | 29.4 | -3,690 | -3.0 |
| *of which designated at fair value (*)* | *1,740* | *0.4* | *3,225* | *0.8* | *-1,485* | *-46.0* |
| Certificates of deposit | 22,387 | 5.1 | 25,475 | 6.0 | -3,088 | -12.1 |
| Subordinated liabilities | 24,277 | 5.6 | 22,981 | 5.4 | 1,296 | 5.6 |
| Financial liabilities of the insurance business designated at fair value (*) | 24,617 | 5.7 | 24,926 | 5.9 | -309 | -1.2 |
| Other deposits | 30,330 | 7.0 | 21,044 | 4.9 | 9,286 | 44.1 |
| *of which designated at fair value (*)* | - | - | - | - | - | - |
| **Direct customer deposits** | **434,833** | **100.0** | **425,159** | **100.0** | **9,674** | **2.3** |

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

(*) Figures included in the Balance sheet under Financial liabilities designated at fair value through profit and loss.

**Quarterly development Direct deposits**



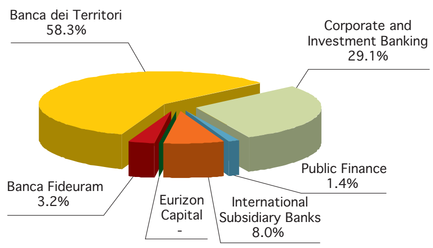

Direct customer deposits amounted to 435 billion euro, up (+2.3%) compared to the end of December 2009.
In detail, a positive contribution came from repurchase agreements and securities lending, which doubled compared to 31 December 2009, and subordinated liabilities (+5.6%). Other deposits also increased by over 9 billion euro, mainly due to new issues of commercial papers by the Group's international subsidiaries. However, bonds recorded a decrease (-3%), but confirmed their importance to the Group's overall funding. Current accounts and deposits (-0.8%), certificates of deposit (-12.1%) and financial liabilities of the insurance business (-1.2%) also fell.
At the end of the first nine months of 2010, the Group's share of direct deposits on the domestic market (according to the ECB's harmonised definition) came to 16.7%, down compared to the beginning of the year mainly due to the deposits and certificates of deposit component.

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Banca dei Territori | 217,351 | 220,955 | -3,604 | -1.6 |
| Corporate and Investment Banking | 108,428 | 94,900 | 13,528 | 14.3 |
| Public Finance | 5,045 | 6,461 | -1,416 | -21.9 |
| International Subsidiary Banks | 29,943 | 28,564 | 1,379 | 4.8 |
| Eurizon Capital | 20 | 3 | 17 | |
| Banca Fideuram | 11,851 | 13,604 | -1,753 | -12.9 |
| **Total business areas** | **372,638** | **364,487** | **8,151** | **2.2** |
| Corporate Centre | 62,195 | 60,672 | 1,523 | 2.5 |
| **Intesa Sanpaolo Group** | **434,833** | **425,159** | **9,674** | **2.3** |

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

**Business areas**




The breakdown by Group business areas shows that Banca dei Territori, which made up 58% of the total aggregate attributable to the business areas, recorded a 1.6% decrease compared to the start of the year, mainly as a result of funding through securities. Funding increases were reported by Corporate and Investment Banking (+14.3%), which benefited from the expansion of repurchase agreements and bond placement by Banca IMI, and by the International Subsidiary Banks (+4.8%). Vice versa, Public Finance deposits fell (-21.9%), largely due to lower cash balances on customer current accounts, as did Banca Fideuram (-12.9%) in relation to the shift in cash assets under management and bond subscriptions. The growth reported by the Corporate Centre (+2.5%) is chiefly due to the Parent Company's amounts due to customers in the form of repurchase agreements with Cassa di Compensazione e Garanzia and to the funds made available by Cassa Depositi e Prestiti to support credit for small and medium enterprises.

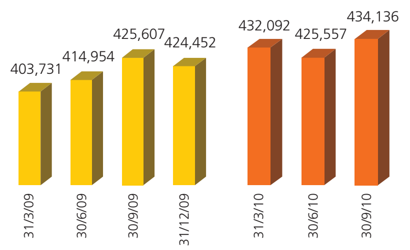
### *Indirect customer deposits*

(millions of euro)

| | 30.09.2010 | % breakdown | 31.12.2009 | % breakdown | Changes amount | Changes % |
|---|---|---|---|---|---|---|
| Mutual funds | 74,685 | 17.2 | 80,140 | 18.9 | -5,455 | -6.8 |
| Open-ended pension funds and individual pension plans | 3,620 | 0.8 | 3,417 | 0.8 | 203 | 5.9 |
| Portfolio management | 76,858 | 17.7 | 65,820 | 15.5 | 11,038 | 16.8 |
| Life technical reserves and financial liabilities | 75,180 | 17.3 | 71,343 | 16.8 | 3,837 | 5.4 |
| Relations with institutional customers | 9,791 | 2.3 | 11,423 | 2.7 | -1,632 | -14.3 |
| **Assets under management** | **240,134** | **55.3** | **232,143** | **54.7** | **7,991** | **3.4** |
| **Assets under administration and in custody** | **194,002** | **44.7** | **192,309** | **45.3** | **1,693** | **0.9** |
| **Indirect customer deposits** | **434,136** | **100.0** | **424,452** | **100.0** | **9,684** | **2.3** |

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

**Quarterly development Indirect deposits**




Indirect customers deposits amounted to 434 billion euro as at 30 September 2010, an increase of 9.7 billion euro (+2.3%) compared to 31 December 2009. Figures are net of third-party securities on deposit in connection with the dealings of the securities services business, which was sold in the second quarter of 2010.
Assets under management, which account for more than half of the aggregate, exceeded 240 billion euro (+3.4%). Positive contributions came from portfolio management (+16.8%) and life insurance policies (+5.4%), which more than offset the downtrend in mutual funds (-6.8%). In the insurance segment, new Intesa Vita, EurizonVita, Sud Polo Vita and Centro Vita Assicurazioni business exceeded 10 billion euro for the period, compared to 9 billion euro for the first nine months of 2009.
Assets under administration also increased (+0.9%) due to the securities positions of institutional customers.

## Financial assets and liabilities

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Financial assets held for trading | 90,517 | 70,900 | 19,617 | 27.7 |
| *of which derivatives at fair value* | *52,087* | *37,913* | *14,174* | *37.4* |
| Financial assets designated at fair value through profit and loss | 33,252 | 31,982 | 1,270 | 4.0 |
| Financial assets available for sale | 60,307 | 50,943 | 9,364 | 18.4 |
| Investments held to maturity | 4,205 | 4,561 | -356 | -7.8 |
| **Total financial assets** | **188,281** | **158,386** | **29,895** | **18.9** |
| **Financial liabilities held for trading** | **58,140** | **42,264** | **15,876** | **37.6** |
| *of which derivatives at fair value* | *55,374* | *39,863* | *15,511* | *38.9* |

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

The table above illustrates the breakdown of financial assets and the total financial liabilities held for trading. Financial liabilities designated at fair value, referring to insurance business and certain bond issues designated at fair value, are not represented as these are included in the direct deposits aggregate.
Total financial assets increased by 18.9%, primarily owing to the performance of financial assets held for trading, that rose from 71 billion euro to 91 billion euro. This increase can largely be attributed to trading derivatives, and to a lesser extent to bonds and other debt securities. However, derivative assets yielded a substantial break-even: the increase in fair value of derivative contract assets reflects a similar increase in the fair value of derivative contract liabilities.
Financial assets available for sale recorded an 18.4% increase, mainly attributable to the insurance segment companies which cover the major quota of this aggregate.
Financial assets designated at fair value through profit and loss increased (+4%), whereas investments held to maturity decreased (-7.8%).

The table below illustrates the stock of securities subject to reclassification included in the portfolio as at 30 September 2010, with related effects on the income statement and shareholders' equity reserves deriving from the transfer from designation at fair value to measurement at amortised cost.
Note that:
- the columns entitled "Income components in case of no transfer (before tax)" show the profit and losses that would have been recognised as components of comprehensive income (either through profit and loss or as changes in valuation reserves) in the first nine months of 2010 if the transfer had not been made;
- the columns entitled "Income components in the period (before tax)" show the profit and losses actually recognised as components of comprehensive income (either through profit and loss or as changes in valuation reserves) in the first nine months of 2010 following the transfer.

(millions of euro)

| Type of financial instrument | Previous portfolio | New portfolio | Book value at 30.09.2010 | Fair value at 30.09.2010 | Income components in case of no transfer (before tax) | | Income components in the period (before tax) | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Valuation | Other | Valuation | Other |
| Debt securities | Financial assets held for trading | Loans | 3,297 | 3,076 | 150 | 48 | 1 | 67 |
| Debt securities | Financial assets held for trading | Financial assets available for sale | 85 | 85 | -30 | 5 | -30 | 5 |
| Shares and funds | Financial assets held for trading | Financial assets available for sale | 109 | 109 | 2 | - | 2 | 2 |
| Debt securities | Financial assets available for sale | Loans | 6,464 | 5,209 | -189 | 141 | 459 | 146 |
| Loans | Financial assets available for sale | Loans | 185 | 155 | -5 | -18 | - | -18 |
| **TOTAL** | | | **10,140** | **8,634** | **-72** | **176** | **432** | **202** |

If the Group had not elected to reclassify the foregoing financial assets, a total of 504 million euro in higher negative mark-to-market income components would have been recognised during the period, broken down as follows:

– write-off of the positive income components recognised following the 432 million euro transfer. Of this amount, 6 million euro relates to adjustments, 482 million euro to fair value increases due to hedges and 44 million euro to the decrease in Valuation reserves;
– reversal of the negative income components which would have been recognised had no transfer taken place, totalling 72 million euro. Of this net amount, 99 million euro refers to the revaluation of reclassified securities in the income statement, 482 million euro to fair value increases due to hedges and 653 million euro to the decrease in Valuation reserves.

Moreover, had no reclassification taken place, other positive income components amounting to 26 million euro would have not been recognised. Of this amount, 12 million euro refers to the amortised cost of the reclassified securities.
On the whole, the reclassified assets would have been written down by 1,506 million euro as at 30 September 2010, of which 287 million euro would have been recognised through profit and loss and 1,219 million euro through Valuation reserves for financial assets available for sale under Shareholders' equity.
No portfolio transfers were made in 2010.
The total effective interest rate attributable to the reclassified securities portfolio is 3.16% (3.1% as at 31 December 2009).

## Net interbank position

The net interbank position came to a negative 2 billion euro as at 30 September 2010, compared to 0.8 billion euro reported at the end of 2009 and consistent with the Group's policy of privileging its liquidity profile. At the same time, the liquidity situation in dealings with customers remains positive.

## Shareholders' equity

As at 30 September 2010, the Group's shareholders' equity, including net income for the period, came to 52,978 million euro compared to the 52,681 million euro at the end of the previous year. The change in shareholders' equity was primarily due to the performance of reserves and the distribution of the 2009 dividend. No changes in share capital occurred in the first nine months of the year.

### *Valuation reserves*

(millions of euro)

| | Valuation reserves as at 31.12.2009 | Change in the period | Valuation reserves as at 30.09.2010 | |
|---|---|---|---|---|
| | | | | % breakdown |
| Financial assets available for sale | -135 | -181 | -316 | 27.9 |
| Property and equipment | - | - | - | - |
| Cash flow hedges | -451 | -465 | -916 | 80.8 |
| Legally-required revaluations | 343 | - | 343 | -30.2 |
| Other | -187 | -58 | -245 | 21.5 |
| **Valuation reserves** | **-430** | **-704** | **-1,134** | **100.0** |

Valuation reserves increased their negative balance, reaching -1,134 million euro as at 30 September 2010 compared to -430 million euro at the end of 2009. The deterioration may be attributed to cash flow hedges (change for the period of 465 million euro), and financial assets available for sale (-181 million euro). Reserves recognised in accordance with special revaluation laws remained unchanged.

## Regulatory capital

Regulatory capital and related capital ratios as at 30 September 2010 have been determined by applying the Bank of Italy's instructions in accordance with Basel 2 provisions.
The Intesa Sanpaolo Group has been using the Foundation Internal Rating Based (FIRB) approach to calculate capital requirements credit risk with reference to the regulatory portfolio Exposures to corporates since 31 December 2008. In addition, in early 2010 the Intesa Sanpaolo Group received authorisation to use the internal AMA to determine capital requirements for operational risks effective from reporting as at 31 December 2009.
Moreover, the Bank of Italy has authorised the Group to use the internal approach to determine the credit risk requirement relating to the regulatory segment of residential mortgages for private individuals effective 30 June 2010.

(millions of euro)

| Regulatory capital and capital ratios | 30.09.2010 | 31.12.2009 |
|---|---|---|
| **Regulatory capital** | | |
| Tier 1 capital | 31,680 | 30,205 |
| *of which: preferred shares* | *4,500* | *4,499* |
| Tier 2 capital | 16,305 | 15,472 |
| Minus items to be deducted | -3,576 | -2,923 |
| **REGULATORY CAPITAL** | **44,409** | **42,754** |
| Tier 3 subordinated loans | - | - |
| **TOTAL REGULATORY CAPITAL** | **44,409** | **42,754** |
| **Risk-weighted assets** | | |
| Credit and counterparty risks | 310,345 | 316,258 |
| Market risks | 15,669 | 16,804 |
| Operational risks | 28,507 | 28,113 |
| Other risks | 449 | 473 |
| **RISK-WEIGHTED ASSETS** | **354,970** | **361,648** |
| **Capital ratios %** | | |
| Core Tier 1 ratio | 7.7 | 7.1 |
| Tier 1 ratio | 8.9 | 8.4 |
| Total capital ratio | 12.5 | 11.8 |

In compliance with the provisions of the Bank of Italy Circular 263/2006, in the calculation of capital ratios, elements to be deducted from total regulatory capital have been deducted separately and for an equal amount from Tier 1 and Tier 2 capital, with the exception of the contributions deriving from the insurance business that refer to contracts which arose prior to 20 July 2006, and as such continue to be deducted from total capital.

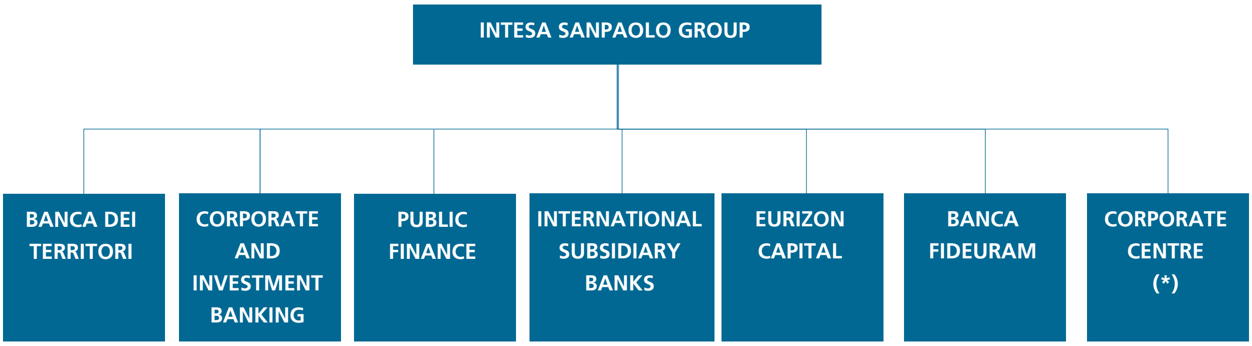
As at 30 September 2010, total regulatory capital came to 44,409 million euro, compared to risk-weighted assets of 354,970 million euro, resulting primarily from credit and counterparty risk and, to a lesser extent, operational and market risk. Regulatory capital takes into account ordinary operations and an estimate of the dividends to be paid out on net income for 2010, the amount of which has been determined on a conventional basis as three fourths of the dividends distributed on the 2009 net income (774 million euro of the total 1,033 million euro).
All capital ratios improved compared to 31 December 2009. The Total capital ratio stood at 12.5%, while the Group's Tier 1 ratio was 8.9%. The ratio of Tier 1 capital net of preferred shares to risk-weighted assets (Core Tier 1) was 7.7%.

The improvement in ratios compared to 31 December 2009 was the result not only of ordinary operations, but also of the sale of the securities services business (+37 basis points on the Core Tier 1 ratio) and the application of the internal approach to determine capital requirements for residential mortgages for private individuals following authorisation from the Bank of Italy (+13 basis points on the Core Tier 1 ratio). The acquisition of the Monte dei Paschi di Siena branches and the purchase of 50% of Intesa Vita had a negative impact (respectively, -7 and -11 basis points on the Core Tier 1). Regarding the latter transaction, in the statements as at 30 September 2010 accounting according to IFRS 3 was provisional, and therefore also the impact on regulatory capital could change slightly in the final accounting on closing of the Annual Report 2010.

Lastly, the Bank of Italy, in a Regulation issued on 18 May 2010, provided new supervisory instructions concerning the prudential treatment of reserves associated with debt securities issued by the central governments of EU countries and classified among "Financial assets available for sale". In particular, the Regulation allows the capital gains and losses recognised through such reserves associated with the foregoing securities to be completely neutralised effective 1 January 2010, as an alternative to the already established asymmetrical approach (full deduction of the net capital loss from Tier 1 capital and partial inclusion of the net capital gain in Tier 2 capital). The Intesa Sanpaolo Group has elected to apply this approach. Accordingly, the regulatory capital and capital ratios as at 30 September 2010 account for this measure (the effect on the Core Tier 1 ratio is +7 basis points).

# Breakdown of consolidated results by business area

The organisational model of the Intesa Sanpaolo Group is based on six Business Units. In addition there is the Corporate Centre, which is responsible for providing guidance, coordination and control for the entire Group.




(*) Includes the Group Treasury Department.

The Intesa Sanpaolo Group's segment reporting is based on the elements that the management uses to make its own operating decisions (the "management approach") and is therefore consistent with the disclosure requirements of IFRS 8.
In addition to reflecting the operating responsibilities assigned according to the Group's organisational structure, the business areas are an aggregation of business lines similar in the type of products and services they sell.

The table below shows the main data summarising the trend of the business areas of the Intesa Sanpaolo Group in the first nine months of 2010.
The following itemised analysis of the business areas contains a description of the products and services offered, the type of customers served and the initiatives carried out in the third quarter; it also illustrates income statement figures, the main balance sheet aggregates and the most significant profitability ratios.
The results of the Banca CR Firenze Group, including Casse del Centro banks, previously attributed in their entirety to the Banca dei Territori Division, have been assigned to divisions effective the beginning of 2010. The comparative figures have been restated in accordance with the new division scopes. More specifically, the eleven banks in the group based in Firenze have been segmented by rendering the criteria for allocating customers to portfolios consistent with those of the other Group banks, and product companies have been allocated according to the centre of responsibility.
Additionally, Zao Banca Intesa, which merged with KMB Bank on 1 January 2010 to create Banca Intesa Russia, has been included within the scope of the International Subsidiary Banks Division (previously the bank was under the Corporate and Investment Banking Division).
Lastly, in July 2010, Fideuram Vita, the insurance company previously controlled by EurizonVita, was removed from the scope of consolidation of Banca dei Territori and included under the Banca Fideuram Business Unit.

Allocated capital and, consequently, EVA® (Economic Value Added) were determined in accordance with the instructions issued by the Bank of Italy in compliance with Basel 2 regulatory provisions.

(millions of euro)

| | Banca dei Territori | Corporate and Investment Banking | Public Finance | International Subsidiary Banks | Eurizon Capital | Banca Fideuram | Corporate Centre | Total |
|---|---|---|---|---|---|---|---|---|
| **Operating income** | | | | | | | | |
| 30.09.2010 | 7,312 | 2,561 | 240 | 1,698 | 203 | 573 | -275 | 12,312 |
| 30.09.2009 | 7,520 | 2,781 | 327 | 1,674 | 190 | 521 | 242 | 13,255 |
| % change [(a)] | -2.8 | -7.9 | -26.6 | 1.4 | 6.8 | 10.0 | | -7.1 |
| **Operating costs** | | | | | | | | |
| 30.09.2010 | -4,354 | -656 | -56 | -852 | -97 | -255 | -549 | -6,819 |
| 30.09.2009 | -4,371 | -648 | -60 | -864 | -92 | -262 | -639 | -6,936 |
| % change [(a)] | -0.4 | 1.2 | -6.7 | -1.4 | 5.4 | -2.7 | -14.1 | -1.7 |
| **Operating margin** | | | | | | | | |
| 30.09.2010 | 2,958 | 1,905 | 184 | 846 | 106 | 318 | -824 | 5,493 |
| 30.09.2009 | 3,149 | 2,133 | 267 | 810 | 98 | 259 | -397 | 6,319 |
| % change [(a)] | -6.1 | -10.7 | -31.1 | 4.4 | 8.2 | 22.8 | | -13.1 |
| **Net income** | | | | | | | | |
| 30.09.2010 | 657 | 1,061 | 103 | 324 | 52 | 114 | -111 | 2,200 |
| 30.09.2009 | 783 | 912 | 103 | 255 | 41 | 104 | 64 | 2,262 |
| % change [(a)] | -16.1 | 16.3 | - | 27.1 | 26.8 | 9.6 | | -2.7 |
| **Loans to customers** | | | | | | | | |
| 30.09.2010 | 177,541 | 110,202 | 42,629 | 30,510 | 113 | 2,739 | 15,098 | 378,832 |
| 31.12.2009 | 178,239 | 107,616 | 41,186 | 29,644 | 171 | 1,982 | 16,616 | 375,454 |
| % change [(b)] | -0.4 | 2.4 | 3.5 | 2.9 | -33.9 | 38.2 | -9.1 | 0.9 |
| **Direct customer deposits** | | | | | | | | |
| 30.09.2010 | 217,351 | 108,428 | 5,045 | 29,943 | 20 | 11,851 | 62,195 | 434,833 |
| 31.12.2009 | 220,955 | 94,900 | 6,461 | 28,564 | 3 | 13,604 | 60,672 | 425,159 |
| % change [(b)] | -1.6 | 14.3 | -21.9 | 4.8 | | -12.9 | 2.5 | 2.3 |

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

[(a)] The change expresses the ratio between 30.09.2010 and 30.09.2009.

[(b)] The change expresses the ratio between 30.09.2010 and 31.12.2009.

# BUSINESS AREAS

## Banca dei Territori

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 4,357 | 4,753 | -396 | -8.3 |
| Dividends and profits (losses) on investments carried at equity | 25 | 102 | -77 | -75.5 |
| Net fee and commission income | 2,514 | 2,340 | 174 | 7.4 |
| Profits (Losses) on trading | 65 | 91 | -26 | -28.6 |
| Income from insurance business | 336 | 224 | 112 | 50.0 |
| Other operating income (expenses) | 15 | 10 | 5 | 50.0 |
| **Operating income** | **7,312** | **7,520** | **-208** | **-2.8** |
| Personnel expenses | -2,491 | -2,500 | -9 | -0.4 |
| Other administrative expenses | -1,857 | -1,854 | 3 | 0.2 |
| Adjustments to property, equipment and intangible assets | -6 | -17 | -11 | -64.7 |
| **Operating costs** | **-4,354** | **-4,371** | **-17** | **-0.4** |
| **Operating margin** | **2,958** | **3,149** | **-191** | **-6.1** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | -56 | -58 | -2 | -3.4 |
| Net adjustments to loans | -1,436 | -1,263 | 173 | 13.7 |
| Net impairment losses on other assets | -4 | -31 | -27 | -87.1 |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **1,462** | **1,797** | **-335** | **-18.6** |
| Taxes on income from continuing operations | -577 | -726 | -149 | -20.5 |
| Merger and restructuring-related charges (net of tax) | -36 | -94 | -58 | -61.7 |
| Effect of purchase price allocation (net of tax) | -192 | -192 | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | -2 | -2 | |
| **Net income** | **657** | **783** | **-126** | **-16.1** |
| **Allocated capital** | 9,706 | 9,915 | -209 | -2.1 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 59.5 | 58.1 | 1.4 | 2.4 |
| ROE annualised | 9.1 | 10.6 | -1.5 | -14.3 |
| EVA® (millions of euro) | 246 | 437 | -191 | -43.7 |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 177,541 | 178,239 | -698 | -0.4 |
| Direct customer deposits | 217,351 | 220,955 | -3,604 | -1.6 |
| *of which: due to customers* | *139,400* | *140,119* | *-719* | *-0.5* |
| *securities issued* | *59,401* | *61,882* | *-2,481* | *-4.0* |
| *financial liabilities designated at fair value through profit and loss* | *18,550* | *18,954* | *-404* | *-2.1* |

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

Banca dei Territori closed the first nine months of 2010 with an operating income of 7,312 million euro, representing 59% of the Group’s consolidated revenues, down 2.8% on the same period in 2009. In further detail, there was a fall in net interest income (-8.3%), mainly deriving from the decrease in contribution from customer deposits following the drop in market rates, which resulted in a lower mark-down. The interest margin was also negatively impacted by the elimination of overdraft charges effective June 2009. On the other hand, hedging activity and the rise in average direct deposit volumes had a positive effect. Conversely, net fee and commission income increased (+7.4%), benefiting from the positive performance of asset management, the increased volume of bancassurance products distributed, as well as the introduction of a commitment fee. The other income components that showed increases include income from the insurance business, which rose from 224 million euro in the first nine months of 2009 to 336 million euro, as a result of

the attentive management of the financial portfolios and the positive performance of the new business driven by the traditional policies in the life insurance segment. Operating costs, amounting to 4,354 million euro, fell slightly compared to the same period of the previous year (-0.4%). The operating margin came to 2,958 million euro, down 6.1% on the first nine months of 2009. After higher net adjustments to loans (+13.7%), income before tax from continuing operations was 1,462 million euro, down 18.6%. Lastly, after allocation of merger and restructuring-related charges to the Division of 36 million euro and the economic effects of purchase price allocation for 192 million euro, net income was 657 million euro, down 16.1%.
On a quarterly basis, the operating margin in the third quarter was down 7.9%, compared to the second quarter, as a result of the usual seasonal slowdown in commercial operations and the placement of less products with up-front commissions. Income before tax from continuing operations increased 11.4% as a result of lower adjustments to loans.
The Division absorbed 42% of Group capital, in line with the level reported for the first nine months of 2009. In absolute terms, the capital, amounting to 9,706 million euro, fell (-2.1%) mainly due to the containment of assets at risk associated with the retail segment. As a result of the trend described for allocated capital and net income, annualised ROE came to 9.1%, down on the first nine months of 2009. Value creation came to 246 million euro, down on the same period in the previous year.

The balance sheet figures at the end of September 2010 showed loans to customers of 177,541 million euro, essentially stable (-0.4%) compared to the previous year end. Direct customer deposits totalled 217,351 million euro, down (-1.6%) from the beginning of the year, mainly due to the decrease in funding through securities.

| | |
|---|---|
| Business | Traditional lending and deposit collection operations in Italy and associated financial services |
| Mission | To serve retail customers (households, personal, small businesses), small and medium enterprises and "private" customers, creating value through:<br>o widespread local coverage<br>o a focus on the specifics of local markets<br>o exploitation of the brands of banks and the centrality of the roles of the officers responsible for the Regional Governance Centres, Area Governance Centres, Banks and Branches as points of reference for the Group at local level<br>o exploitation of the companies specialised in medium/long-term credit, consumer credit and pensions & insurance, reporting to the Business Units |
| Organisational structure | |
| Retail Marketing Department | Handles the Household (individual customers with financial assets under 100,000 euro) and Personal (individual customers with financial assets of 100,000 euro - 1 million euro) segments |
| Small Business Marketing Department | Manages businesses with a turnover of less than 2.5 million euro and Group credit facility of less than 1 million euro |
| Business Marketing Department | Manages companies with a turnover of between 2.5 and 150 million euro |
| Intesa Sanpaolo Private Banking | Devoted to private customers whose financial assets exceed 1 million euro |
| Product Companies | Specialised in medium-term credit (Mediocredito Italiano), in the consumer credit and e-money segment (Moneta, which absorbed Setefi, specialised in the management of electronic payments) and in trust services |
| Banca Prossima | Serves non-profit organisations |
| Insurance and Pension Companies | Specialised in offering pension and personal and asset protection services |
| Distribution structure | Over 5,700 branches, including retail, business and private-banking branches, distributed throughout Italy. The territorial structure is divided into 8 Regional Governance Centres that coordinate 22 Areas/Network Banks, designed to guarantee optimum territorial coverage and standardised sizing in terms of numbers of branches and resources assigned |

Effective the beginning of 2010, the scope of the Banca dei Territori Division changed due to the assignment to divisions of the banks belonging to the Banca CR Firenze group, including Casse del Centro banks, thereby rendering the criteria for allocating customers to portfolios consistent with those of the other network banks.
In June, the purchase was completed of the 50 branches of Banca Monte dei Paschi di Siena by Banca CR Firenze.
At the end of July, Fideuram Vita, the insurance company previously controlled by EurizonVita, was removed from the scope of consolidation of Banca dei Territori and included under the Banca Fideuram Business Unit.

## Retail Marketing Department

| | |
|---|---|
| Investment | In the third quarter of 2010 the offering of investment products was expanded with the launch of:<br>– "Focus Azioni Strategia Flessibile", a new sub-fund of the mutual fund "Eurizon Easy Fund" for customers who want to invest in stock markets whilst protecting themselves against fluctuations. The objective of the fund is to achieve a return, over at least a 7-year time period, in line with the historic returns of the stock markets of western countries over the long-term, whilst protecting against market volatility;<br>– "Area Flessibile", a new investment offer under the "Unit Prospettiva" policy aimed at customers who want to exploit opportunities in the financial markets within a maximum level of risk and volatility. The offering provides a choice of the following funds: "Capitale Attivo Base", "Capitale Attivo Standard" and "Capitale Attivo Plus" that differ in terms of expected return and maximum levels of annual volatility. The management of these new funds is characterised by broad freedom in the selection of investments, continuous efforts to optimise return and the option to dynamically adjust the monetary, bond and equity component according to market trends. |
| Cards, internet and mobile banking | During the third quarter the range of cards was expanded with two new products:<br>– "Milano AmaMiCard", the first multi-purpose and highly innovative card for tourist, which provides access to a large number of useful services to enjoy the city, from public transport to access to museums and cultural events, whilst also offering some of the traditional payment card functions;<br>– the "Commercial" credit card, aimed at small business, company and corporate customers, issued on the VISA circuit and that can be used to pay business and professional expenses. Thanks to its flexibility, the card can be customised to meet customer needs.<br>The card represents the first part of a comprehensive offering to businesses that will be expanded in 2011 with the launch of the new "SuperFlash Commercial" card. |
| Mortgages | During the third quarter the restyling of the repayment plans for "Domus Block", the capped floating rate property mortgage, was expanded with the introduction of new purposes (purchase plus renovation, construction, renovation and minor renovation of residential properties either as first or second homes) and a mechanism that, in the event of the granting of condition exemptions, enables the automatic reduction of the CAP equal to the exemptions applied to the spread. |
| Loans | At the beginning of September a campaign was launched for the "Prestito Scuola" (school loan), a new product for households that want to finance their education and training expenses at a promotional rate available until the end of the year. This loan, up to a maximum of 5,000 euro, provides customers simple and rapid access to an instrument enabling them to spread school expenses over time (from 12 to 24 months), such as the purchase of books and materials, payment of university fees, language courses and the purchase of a personal computer. |

## Small Business Marketing Department

| | |
|---|---|
| Loans | In the third quarter of the year a new product "Anticipo su prenotazioni alberghiere" (advance on hotel bookings) was launched. This is a short-term loan with a maximum duration of 8 months that meets the needs of companies operating in the accommodation and tourism sector, where liquidity is highly seasonal, by providing access to cash flows from documented bookings of up to 50% of the amount.<br>The "Anticipo Fatture a carico della Pubblica Amministrazione" (advances on invoices issued to public authorities) was also introduced. This product is aimed at small and medium businesses that have commercial receivables due from public authorities for which the Bank is the treasurer/cashier. The target customers (small businesses and companies with an adequate internal rating) will be able to factor the receivables for up to 100% of the amount due. The loan must be backed by the with-recourse sale of the receivable, by the signature of a specific commercial agreement between the Authority and the Bank and by the issue of a certificate by the Authority concerning the certainty and collectability of the receivable. |
| Agreements | An agreement was signed between the Intesa Sanpaolo Group and Fiavet (the Italian association of travel agents) which offers association members two current accounts (Conto Commercio - commercial account - and Conto Business Illimitato - unlimited business account) with favourable conditions, and the possibility of opening credit facilities at subsidised rates, also in the form of advances on future cash receipts.<br>In collaboration with Agriventure, the "Countersign" project was also implemented, which provides instruments for the development of the agro-food sector and for risk management, facilitating the acquisition of new relationships. The project involves the signature of commercial agreements with operators who are members of Wine Growers Cooperatives, Consortia, Dairies, Milling Houses etc., guaranteeing favourable conditions for their members. |

## Business Marketing Department

| | |
|---|---|
| Agreements | In September, Intesa Sanpaolo and Confindustria signed an agreement to promote the growth and development of Italian small and medium industrial enterprises in the difficult environment created by tough economic conditions.<br>The agreement continues and extends the anti-crisis measures provided for in the July 2009 agreement:<br>– additional credit line for the management of defaults;<br>– recapitalisation programmes to strengthen capital;<br>– up to 270 day extension for short-term maturities;<br>– deferral of mortgage and lease payments.<br>The agreement also provides for a ceiling of 10 billion euro for strategic investments to boost the competitiveness of Italian companies:<br>– internationalisation, through operational support in 40 countries and specialist advice from the Intesa Sanpaolo Group's internationalisation centre;<br>– innovation, with the financing of research programmes, the acquisition of new technology and the creation of a link between banks, companies and universities;<br>– growth in size, through initiatives aimed at strengthening the capital of companies and promoting business networks and local synergies. |
| Internationalisation | During the quarter a new commercial service was introduced, known as "Export 360°", developed in synergy with the Corporate and Investment Banking Division. The new service integrates the various methods of financing a commercial export operation, from advances on orders/contracts to the factoring of receivables. The aim of "Export 360°" is to:<br>– finance companies with foreign operations involving ongoing supplies and contracts that have long periods between entry into the contract/order and payment for the supply;<br>– sharing and developing a plan with customer companies to increase the channelling of cash flows from these types of transactions;<br>– encouraging the network branches to adopt an approach that considers the overall cycle of the customer's export operations. |

## Intesa Sanpaolo Private Banking

In the third quarter of 2010, private banking operations proceeded in accordance with the strategic guidelines: innovating commercial offerings, focusing commercial action on asset management and the development of synergies with other markets, brand promotion communications, and optimising the distribution structure and service model.
In terms of supply model innovation, the new Private Top service was launched, which gives customers access to a full range of banking and investment services, for a set monthly fee. This is also being accompanied by the development of the Active advisory service, to provide a highly sophisticated advisory service to top range customers. The new model for assessing the adequacy of transactions ordered by customers, based on the satisfaction of their investment requirements, has been operational since September. This new service forms part of the *"Progetto Risparmio"* (Savings Project), aimed at reviewing the procedures for the provision of investment services to strengthen the Group's position in the asset management sector. With regard to products, the placement continued of bonds issued by the Group and major third party issuers. Work in relation to certificates, developed in collaboration with Banca IMI, focused on searching for innovative formulae and particular underlyings.
Marketing focused on managed products and the development of new customer relationships. During the period, the Bank continued to implement the initiatives aimed at seeking potential business opportunities for the Group, focusing in particular on the development of commercial synergies with the businesses of the Banca dei Territori Division ("Imprese – Banca Private" project), and with Mid Corporates ("Modello di Business Integrato Private e Corporate" project) and Large Corporates.
Brand promotion communications also continued with the organisation of initiatives including events, sponsoring and co-branding. With regard to the optimisation of the distribution structure and service model, the process of integrating the Group's private networks continued in the third quarter, with a particular focus on the integration of CR Firenze's private banking unit. Lastly, the measures to rationalise the network, aimed at reducing the number of private banking units without undermining the structure's potential, also continued.

## Product companies

In the first nine months of 2010, Mediocredito Italiano disbursed 1.5 billion euro in loans, a decrease of approximately 9% compared to the same period of the previous year. The transactions channelled by the Intesa Sanpaolo networks represented 94% of the total. With regard to the preliminary activities performed on an outsourcing basis by the Group's networks, during the first nine months of the year, approvals worth 814 million euro were granted compared to 532 million euro for the same period in 2009 and 740 million euro for the whole of 2009. During the third quarter, an intensive programme of local business development was implemented, with events held at all the branches of Mediocredito and the Regional Governance Centres of the Banca dei Territori. A specific campaign was launched dedicated to financing innovation to boost commercial operations in this sector. Significant amounts of loans were disbursed to fund investments in renewable energy generation installations, especially photovoltaic, stimulated by the particularly favourable public incentive system.
In the first nine months of 2010, Mediocredito Italiano reported an operating margin of 118 million euro, down on the same period last year (-8.7%), mainly due to lower net interest income. During the first three quarters of 2009, operating income had benefitted from the greater responsiveness of the cost of funding compared to the yield on loans in an environment of decreasing interest rates. This comparison has been made on a like for like basis by removing the dividend received from Leasint (57 million euro), a subsidiary until 31 December 2009, from the results for the first nine months of 2009.

Consumer credit activities are carried out through Moneta. In the first nine months of 2010, a total of 1,465 million euro in loans were disbursed, up 12.3% on the same period in 2009. The Personal Loans segment recorded an increase in volumes of 20.8%; in contrast to a fall in the Credit Card (-27.2%) and Assignment of One-Fifth of Pension/Salary (-17.2%) segments. The operating margin came to 42 million euro, essentially unchanged on the first nine months of last year.

Setefi, which specialises in managing electronic payment systems and is wholly owned by Moneta, recorded a significant increase in operating margin in the first nine months of 2010 compared to the same period of 2009, up from 64 million euro, net of non-recurring components, to 102 million euro, linked to the increase in operations in terms of credit cards issued, transaction volumes and the number of POS installed.

## Banca Prossima

Banca Prossima operates in the non-profit sector through 52 local branches and 120 specialists distributed throughout Italy. During the third quarter of 2010, the Bank continued to acquire new customers for the Group within the non-profit world. In order to further reinforce its role as the bank of choice for the non-profit sector, new products, services and initiatives aimed exclusively at non-profit firms were created, including savings certificates consisting of deposits on current accounts or savings accounts fixed for periods of up to 18 months that provide a greater yield for customers' surplus liquidity. The FRI lab was also launched, a consultancy service that allows customer organisations to improve the effectiveness and efficiency of their fund raising projects. The "Tutto 5x1.000 – campagna", a loan designed to fund marketing and communications campaigns for the raising of funds from "cinque per mille" (five per thousand) income tax allocations, has been available since beginning of the year. Also, through the Previmedical Card, people working within non-profit organisations can have preferential access to accredited healthcare facilities and dental practices, as well as a dedicated telephone advice service. A preview was also given of the "Terzo Valore" platform, which will provide non-profit organisations access to innovative funding instruments.

## Insurance and Pension companies

As part of a project approved in 2009 aimed at rationalising the Group's bancassurance activities, on 29 July 2010, Fideuram Vita, the company dedicated to the management of the portfolio of policies distributed by the financial advisors of the Fideuram Group, was removed from EurizonVita's scope of consolidation following the sale of the company to Intesa Sanpaolo (which acquired 80.01% of the capital) and Banca Fideuram (which holds the remaining 19.99%) and included in the scope of the Banca Fideuram Business Unit. Note that the figures presented below do not include the results of Fideuram Vita.
During the first nine months of 2010, EurizonVita reported income before tax from continuing operations of 196 million euro, up significantly on the 55 million euro in the same period of the previous year, primarily owing to the positive performance of the financial management of traditional products and assets. The insurance policies portfolio amounted to 27,083 million euro, including 13,577 million euro from financial unit- and index-linked policies. In the first nine months of 2010, EurizonVita recorded gross life and non-life premiums underwritten (for both insurance products and policies with investment content) of 4,739 million euro, up 21.4% on the same period in the previous year. New life business amounted to 4,519 million euro compared to 3,672 million euro for the first three quarters of 2009.
The income before tax from continuing operations of Sud Polo Vita came to 36 million euro, compared to 21 million euro in the first nine months of 2009, mainly due to the increase in income from the insurance business attributable to the improvement in financial management. New business increased around 40% compared to the level recorded for the first nine months of 2009.
Centrovita Assicurazioni reported income before tax from continuing operations of 18 million euro, down on the first nine months of the previous year, due to the poor performance of financial management attributable to securities valuation losses.
Intesa Vita (consolidated on a line-by-line basis solely for balance sheet figures) made a contribution to the consolidated income statement of 24 million euro, down on the same period of 2009 owing to the decrease in income from insurance business, which was negatively impacted by financial items.
As at 30 September 2010, the assets managed by Intesa Sanpaolo Previdenza, formerly Intesa Previdenza, came to 1,933 million euro, up 6.5% since the beginning of the year. Net inflows were reported in the first nine months of 2010, owing to the contributions made by open-ended pension funds, which represent over half the total assets under management, and by closed-ended pension funds. At the end of the first nine months of the year, Intesa Previdenza had over 244,000 pension positions under management, largely attributable to administration mandates granted by third parties.

## Corporate and Investment Banking

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 1,462 | 1,589 | -127 | -8.0 |
| Dividends and profits (losses) on investments carried at equity | -28 | -37 | -9 | -24.3 |
| Net fee and commission income | 687 | 677 | 10 | 1.5 |
| Profits (Losses) on trading | 419 | 523 | -104 | -19.9 |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | 21 | 29 | -8 | -27.6 |
| **Operating income** | **2,561** | **2,781** | **-220** | **-7.9** |
| Personnel expenses | -291 | -278 | 13 | 4.7 |
| Other administrative expenses | -360 | -363 | -3 | -0.8 |
| Adjustments to property, equipment and intangible assets | -5 | -7 | -2 | -28.6 |
| **Operating costs** | **-656** | **-648** | **8** | **1.2** |
| **Operating margin** | **1,905** | **2,133** | **-228** | **-10.7** |
| Goodwill impairment | - | -1 | -1 | |
| Net provisions for risks and charges | -5 | -5 | - | - |
| Net adjustments to loans | -316 | -772 | -456 | -59.1 |
| Net impairment losses on other assets | -12 | -10 | 2 | 20.0 |
| Profits (Losses) on investments held to maturity and on other investments | -4 | - | 4 | - |
| **Income (Loss) before tax from continuing operations** | **1,568** | **1,345** | **223** | **16.6** |
| Taxes on income from continuing operations | -501 | -426 | 75 | 17.6 |
| Merger and restructuring-related charges (net of tax) | -5 | -7 | -2 | -28.6 |
| Effect of purchase price allocation (net of tax) | -1 | - | 1 | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income** | **1,061** | **912** | **149** | **16.3** |
| **Allocated capital** | 7,945 | 8,382 | -437 | -5.2 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 25.6 | 23.3 | 2.3 | 9.9 |
| ROE annualised | 17.9 | 14.5 | 3.3 | 22.7 |
| EVA® (millions of euro) | 462 | 298 | 164 | 55.0 |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 110,202 | 107,616 | 2,586 | 2.4 |
| Direct customer deposits | 108,428 | 94,900 | 13,528 | 14.3 |
| *of which: due to customers* | *39,216* | *31,650* | *7,566* | *23.9* |
| *securities issued* | *67,441* | *60,025* | *7,416* | *12.4* |
| *financial liabilities designated at fair value through profit and loss* | *1,771* | *3,225* | *-1,454* | *-45.1* |

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

In the first nine months of 2010, the Corporate and Investment Banking Division earned 2,561 million euro in operating income (representing 21% of the Group's consolidated figure), down on the same period of 2009 (-7.9%). This result was attributable to the trend in net interest income and trading results, only partly offset by the strong performance of fee and commission income. In detail, net interest income amounted to 1,462 million euro, down 8%, mainly due to the reduction in average loan volumes and the slight decrease in spreads as a result of the very low market rates. The decrease in the interest margin was reduced, within the area of corporate finance services provided by Banca IMI, as a result of the increased interest from trading and the benefits of active management in the finance and capital management segment. Net fee and commission income amounted to 687 million euro, up 1.5%, attributable to the development of the commercial banking segment, in particular for collection, payment, credit line and guarantee services, developed on Italian and international corporate relationships especially. On the other hand, investment banking business was down, mainly as

a reflection of the comparison against significant transactions carried out in the previous year. Profit on trading, amounting to 419 million euro, was down 19.9% on the first nine months of 2009, due to the lower contribution from the activities in the capital markets business areas. Operating costs came to 656 million euro, up 1.2% compared to the corresponding period of the previous year. The cost/income ratio of 25.6%, was up 2.3 percentage points on the first nine months of 2009, mainly as a result of the decrease in revenues. As a result of the trend in revenues and costs described above, the operating margin, amounting to 1,905 million euro, decreased 10.7%. Income before taxes from continuing operations was 1,568 million euro (+16.6%), benefiting from a significant decrease in adjustments to loans (-456 million euro), confirming the effective management of the loan portfolio structure and the careful risk management. Lastly, net income, which amounted to 1,061 million euro, was up 16.3% on the same period of 2009.
In quarterly terms, the third quarter of 2010 showed a decrease in operating income (-6.9%) compared to the second quarter, attributable to the decline in profits on trading and net fee and commission income accompanied by essentially stable net interest income. Operating costs, on the other hand, increased slightly. This revenue and cost performance generated a decrease in the operating margin (-10.2%). After adjustments to loans, up slightly on the previous quarter, net income fell 20.9% on the second quarter.
The Division absorbed 35% of the Group's capital, down slightly on the level recorded in the first nine months of 2009. In absolute terms, the capital, amounting to 7,945 million euro, was also down: the decrease was attributable in particular to lower credit risk associated with the reduction in on-balance sheet loans to mid-corporate borrowers. The sector performance was reflected in the annualised ROE, which rose from 14.5% to 17.9%. EVA® came to 462 million euro, a significant improvement on the corresponding period of 2009.

The Division's intermediated volumes showed growth compared to the end of December 2009 (+8%). This increase was due to the strong performance of funding (+14.3%), which benefited from both the increase in repurchase agreements transactions and the placement of bonds by Banca IMI. Loans to customers also increased (+2.4%) due to the resumption of disbursements by Italian large corporates and mid corporates.

| | |
|---|---|
| **Business** | Corporate and investment banking, in Italy and abroad |
| **Mission** | To act as a global partner in supporting companies and financial institutions in achieving balanced, sustainable growth, including at the international level, through a specialised network of branches, representation offices and subsidiaries involved in corporate banking operations |
| **Organisational structure** | |
| Large and International Corporate | The Department is responsible for managing relationships with Italian and international large corporate customers (large groups) |
| Mid Corporate Italy | The Department is responsible for handing companies with a turnover in excess of 150 million euro |
| Global Services | The Department is responsible for international branches, representation offices and corporate firms and provides specialist assistance in support of the internationalisation of Italian firms and the development of exports, the management and development of relations with financial institution counterparties in emerging markets, the promotion and development of cash management instruments, and trade services |
| Financial Institutions | The Department is responsible for relations with Italian and foreign financial institutions, management of transactional services related to payment systems, custody and settlement of securities, mainly Italian (local custody) |
| Merchant banking | The Department operates in the private-equity segment, including through its subsidiaries |
| Structured Finance | Responsible for creating structured finance products through Banca IMI |
| Proprietary Trading | The Service is responsible for management of the proprietary portfolio and risk through direct or indirect access to markets, via relevant internal functions, in order to carry out trading, arbitrage and long/short positions on capital markets products, cash and derivatives |
| Investment Banking, Capital Market and Primary Markets | The scope of the Division also includes the M&A and advisory, capital markets and primary markets (equity and debt capital market) activities performed by Banca IMI |
| Factoring and Leasing | Factoring is overseen by Mediofactoring and leasing by the company Leasint e Centro Leasing |
| **Distribution structure** | It draws on 55 domestic branches. At the international level, the Corporate and Investment Banking Division operates in 30 countries in support of the cross-border operations of its customers through a specialised network of branches, representation offices and subsidiaries that engage in corporate banking activity |

## Large and International Corporate and Mid-Corporate Italy

In the third quarter of 2010, in a scenario characterised by a decrease in loans granted at industry level, Intesa Sanpaolo favoured medium-/long-term facilities and preferred long-term projects of greater scope. The tendency for large and international corporate customers to reduce their use of lines of credit is attributable to the signs of an economic recovery that have allowed them to draw on alternative sources of financing, such as the launch of new bond issues, thereby effectively limiting their need to use bank credit. For mid corporate customers, the reduction in the lines used also coincided with an average improvement in the quality of the portfolio, the result of a company policy of withdrawal from higher risk positions, with a view to value creation over the long term. A constant attention to risk and balanced loan development policy allowed for a stable share of wallet, with particularly strong performances in the large foreign multinationals segment. A total of 15 structured finance and investment banking transactions were concluded in the third quarter.

The initiatives launched during the third quarter include: the completion of a pilot programme to assess the competitive positions of mid-corporate firms, aimed at enabling managers to identify the marketing actions most appropriate to each company; and the continuation of the "Start-Up Initiative", the first platform in Italy devoted to companies that innovate, designed to bring them into contact with finance providers, thereby promoting investments and business combinations and reducing the costs and timescales for innovative research and development processes.
Formulation continued of the plans for the development of corporate products, aimed at rationalising and facilitating the implementation of commercial projects by involving all the relevant units and product companies. The project for the coordination and integration of the Division's customer relationship management and customer interaction instruments also continued, with a view to improving overall commercial efficiency and the level of customer service. This project also includes a new instrument currently being launched for the management and monitoring of sales campaigns. Lastly, the Financial Value Chain project has been developed as part of the Payment Systems Assessment Programme. This project will have a significant impact on corporate customers by enabling the development of the range of cash-management and trade-finance products and services on a horizontal basis, with close integration at the inter-Division and international levels, and with consequent benefits in terms of relationship intensity and the full use of the Bank's international network.

## Global Services

The Global Services Department directly covers 30 countries through 15 wholesale branches, 17 representative offices, 2 subsidiary banks and one advisory firm. In the third quarter of 2010, international coverage was pursued by fostering the internationalisation of Italian firms and building relationships with major multinationals through a model for managing international network customers that is consistent throughout the Group's international network. The launch of two projects continued during the period: the internationalisation and the international account management strategies. The first is aimed at achieving entry into international markets and pursues the objective of identifying, for each customer segment, the potentially most interesting countries from a commercial standpoint, the most appropriate products, the most easily reachable customers, the priority sectors and the levels of ambition for each geographical area. The second, implemented in collaboration with the International Subsidiary Banks, involves the development of a commercial model that includes both the introduction of operating centres within the International Subsidiary Banks and the creation of an offer range for the subsidiaries of corporate firms competing in international markets. Following the success of the roll-out to corporate customers, a pilot project is being launched for the financial institutions customer base (emerging markets) of Banca Intesa Russia. Lastly, the SEPA, PSD, ISPay.Hub and Financial Value Chain projects continued as part of the Payment Systems Assessment Programme.
The Department is responsible for:
- Société Européenne de Banque, which reported net income of 69 million euro in the first nine months of 2010, stable compared to the same period of 2009; this result was attributable to lower revenues (-2%), particularly income from trading, higher operating costs and lower adjustments to loans;
- Intesa Sanpaolo Bank Ireland, which closed the first three quarters with a net income of 82 million euro, up 34.4% on the first nine months of the previous year, due to the increase in operating income (+27.3%), driven by net interest income and profits on trading, a reduction in costs and lower adjustments to loans.

## Financial Institutions

During the third quarter of 2010, the Financial Institutions Department continued to focus on maintaining stable profitability on maturing transactions and identifying counterparties with a potentially satisfactory risk profile, in the more favourable economic environment, with a view to growth in lending. On the marketing front, campaigns were launched for the development of a number of Capital Market products (including Market Hubs, Rates and Solutions) through the identification of the first concrete business opportunities.
Transaction Services activities during the third quarter were mainly focused on the reorganisation of the segment. In the sector of financial institutions non banks, the migration continued of the relationships still remaining within the bank networks to the company branch in Parma in order to bring the customers together in a single structure, and a new product is being developed, for the insurance and pensions sector, aimed at providing a more comprehensive and attractive range of services. In the banking sector, work continued on the development of clearing services for the Italian and European collection and payment systems, including through the conclusion of an agreement with a major Italian operator.
With regard to the securities services customers of the local custody unit, made up of non-resident banks, central depositories handling Italian securities and certain brokers that use Intesa Sanpaolo for services for international and Italian securities, the volumes and values of assets under custody remained stable during the quarter.
The third quarter was also characterised by the preparatory work for the opening of the securities sub-custodian account in the name of State Street Trust – Boston, that will hold the Italian securities linked to the recent sale, as well as the structuring of transactional services for securitisations handled by Banca IMI.
Within the area of trade export finance, the Department continued to coordinate with Banca IMI in relation to the emerging markets financial institutions customer base to be developed; the Italo/German loan for multi-source exports to Russia was finalised (VTB / SIBUR); a transaction from France to the United States was concluded (with the aid of Coface)

and significant pre-export finance transactions were carried out towards Africa (Egypt and Angola), Central Asia and Russia. Lastly, the Department consolidated its role as a cross-sector production unit with the increase in the use of Polizza Sace's "Voltura" product and completed preparations for the launch of the "Structured Commodity Finance" product.

## Merchant Banking

During the quarter Intesa Sanpaolo, through its Merchant Banking department, participated in the production of Paolo Sorrentino's latest film "This must be the place" due to be released in cinemas in 2011. This operation, the first of its kind in Italy, was carried out through a partnership agreement between Medusa Film, Lucky Red and Indigo Film, on the one hand, and IMI Investimenti, on the other. The investment, amounting to 2.5 million euro, forms part of a wider system of support to the Italian cinematographic industry and is an implementation of the recent legislation that provides tax benefits to investors from outside the sector who contribute funds for the production of a cinematographic work (external tax credit).
In July, with the minimum target of 150 million euro having been reached, the initial fund raising stage was completed for the closed-ended "Atlante Private Equity" fund, which will operate throughout Italy, continuing on from the positive experience gained with the "multi-regional" funds. The new fund will be able to start making the first investments, whilst awaiting the final closure of subscriptions due in May 2011, with an overall funding target of 250-300 million euro. In September, the Bank subscribed for 250 million euro of the "Fondo Investimenti per l'Abitare" (housing investment fund) set up by Cassa Depositi e Prestiti, together with the Italian Association of Foundations and Savings Banks (ACRI) and the Italian Banking Association (ABI). The fund was also subscribed by other major Italian banks and institutional investors. This property fund, which has already collected subscriptions of around 2 billion euro and will have a thirty-year lifetime, is reserved for qualified investors operating in the private social housing sector, with the aim of increasing the amount of social housing available in Italy to support and supplement government and local authority policies in the sector. As at 30 September 2010, the portfolio held by the Merchant Banking department, directly and through subsidiaries, amounted to 2.8 billion euro, of which 2.5 billion euro was invested in companies and 0.3 billion euro in private equity funds.

## Structured Finance

In the third quarter of 2010, in the leverage and acquisition finance segment, Banca IMI, acting as mandated lead arranger (MLA), completed the structuring and disbursement of credit facilities to fund the acquisitions of the Arena Group by the private equity fund Riverside, of the Teamsystem Group by the private equity fund HG Capital, and of the Republic (Retail) Limited Group by the private equity fund TPG. In collaboration with the relevant relations units of the Corporate and Investment Banking Division, Banca IMI also contributed to the origination and structuring of credit facilities for borrowers with high financial leverage in relation to corporate acquisitions, leveraged buyouts or medium-term refinancing that are expected to be carried out during the year.
With regard to project & industry specialized lending, Banca IMI continued to adopt a selective approach in the assessment of transactions with the aim of establishing itself as a regional player whilst still maintaining a strong position in the Italian market. In the shipping sector, the Bank set up credit facilities as the MLA in favour of Synergas and CAFIMA.
In the area of Real Estate, the Bank maintained its leadership in the structuring of loans, offering a comprehensive range of financial products dedicated to real estate and providing specialist advisory services for the property segment. Origination activities continued to be very lively thanks to the strength of the relationships network and the Group's positioning. As MLA, the Bank completed the structuring of credit facilities including those set up to fund the acquisition of a portfolio of properties already largely let out, together with the related Capex, by the Anastasia and Monteverdi Funds, and of building areas/rights relating to seven real estate development projects within the Municipality of Roma by the "HB" Fund (Tritone Fund). With regard to advisory services, mandates were acquired from Anastasia for the structuring and placement of the Anastasia Fund managed by Pirelli RE SGR.
Syndications were completed during the third quarter with the support of the major banks operating in the euromarket, despite the volatile market environment. The Bank acted as global coordinator and/or MAL and/or bookrunner in the Prada, Comifar, Finmeccanica and Italcementi transactions. The Bank also continued to acquire mandates for international transactions, including Sanofi Aventis, Air Products, Iberdrola, Egyptian General Petroleum Corp, Wolters Kluwer, Telefonica, Carrefour, Solvay, PPG Industries, Groupe Auchan, BHP Billiton, Close Brothers, Reliance Industries, Embraer, X5 and Xstrata. In the Italian market, the Group maintained its leadership as MLA and bookrunner in terms of value of syndicated transactions and was in 14$^{th}$ place in the European market.
Within the area of securitisations, Banca IMI, as arranger or hedging counterparty, completed the structuring of a portfolio of loans of FGA Bank Germany and the cover pool swap of covered bank bonds of Banco Popolare, and also acquired the mandate as arranger for another 6 transactions that will be completed in the fourth quarter.
Lastly, in the loan agency sector, the third quarter of 2010 witnessed the acquisition of a large number of mandates as agent bank for syndicated loans for both corporate customers and customers of the Banca dei Territori and in relation to all forms of loans: plain vanilla, more complex structured financing, club deals and international syndicates. These included the Marr, Teamsystem and L.G.R. di Navigazione transactions.

## Proprietary Trading

In the third quarter of 2010, proprietary trading continued to perform well, with structured credit products in particular benefiting from the market conditions and increasing their contribution to income in relation to both unfunded positions (including unfunded super senior CDOs) and funded positions. From an asset standpoint, risk exposure (taking into account write-downs and write-backs) decreased slightly both for securities and packages reclassified under financial assets held for trading and for assets reclassified under loans.
The hedge fund portfolio showed movement in the third quarter through both the management of pre-existing units and new acquisitions: the hedge funds portfolio as at 30 September 2010 totalled 762 million euro, compared to the 740 million euro recorded at the end of December 2009. These performances were attributable to investments that, in accordance with the Group’s strategic asset allocation guidelines, allow the Bank to exploit the distressed credit opportunities available in the markets.

## Investment Banking, Capital Market and Primary market

During the third quarter, in the equity capital market, Banca IMI acted as co-lead manager in the private placement of Axel Springer shares and as placing agent for the capital increase of ErgyCapital. The Bank acquired the mandate as joint global coordinator and joint bookrunner for the institutional offer and as joint lead manager for the public offer in the upcoming IPO of Enel Green Power and acted as sponsor for the planned listing of Fiat Industrial. Banca IMI also confirmed its position in the takeover bid/delisting segment, overseeing the public offering of the ErgyCapital 2011 warrants as the intermediary responsible for coordinating subscriptions and as financial advisor to the bidder, and acquiring the mandate as intermediary responsible for coordinating subscriptions for the upcoming public tender offer for Fastweb shares and units of the “Caravaggio” quoted closed-ended real estate fund. At the end of September, the Bank acted as specialist or corporate broker for 36 companies quoted on the Italian market, thereby confirming its leadership in this market segment.
With regard to the debt capital market for corporate customers, during the period the Bank acted as joint lead manager and bookrunner for the Atlantia dual tranche issue and for Saras. In terms of foreign issues, the Bank acted as joint lead manager and bookrunner for the new issue of Banque PSA, the finance company of the Peugeot Group. In relation to financial institutions, the Bank acted as joint lead manager and bookrunner for LeasePlan’s senior unsecured notes issue and for Intesa Sanpaolo’s first public issue in US dollars, maturing in 2015 and with a nominal amount of 1 billion dollars. In the covered bonds sector, the Bank acted as joint lead manager and bookrunner for Royal Bank of Scotland’s 5-year covered bond. As regards the subordinated notes sector, Banca IMI acted as joint lead manager and bookrunner for Intesa Sanpaolo in the first Tier 1 hybrid issue, using an innovative Perp-NC5 structure, and the Lower Tier 2 10-year bond (for 1 billion euro and 1.5 billion euro, respectively). In terms of retail placements, the Bank was responsible for the placement of Danske Bank’s Fix to Floater senior bond. In the sovereign, supranational & agencies sector, Banca IMI acted as joint lead manager and bookrunner in the placement of the new 15-year Benchmark BTP by the Republic of Italy, one of the most successful government bond issues in the eurozone in the 2009-2010 two-year period in terms of subscriptions received and the final amount issued. Lastly, Banca IMI acted as advisor and co-placement agent for the Anastasia Fund, managed by Pirelli RE. The placement was completed at the end of July 2010 and the equity units were placed with a group of Italian and foreign institutional investors.
In the area of M&A, despite the downturn in this segment in both Italy and Europe, Banca IMI achieved positive results, completing 17 transactions from the beginning of the year for a total value of 4.8 billion euro. In the third quarter, the Bank’s advisory service operations were particularly intensive in the energy & utilities sector where it assisted: Gas Plus in the acquisition of Padania Energia from Eni; the supervisory board of A2A in analysing the strategic options for the investments held in Edison and Edipower; F2i in the partnership with Iride for the development of Mediterranea delle Acque’s hydro operations; and BBA Airports (Ferrovial Group) in its acquisition of Gesac (the company that manages Naples airport). In the TMT sector, the Bank assisted TI Sparkle in the disposal of Elettra, and HG capital in the acquisition of Teamsystem; in the financial institutions sector, Banca IMI assisted Fondazione Cassa di Risparmio di Lucca in the sale of the equity investment in CR Lucca to Banco Popolare and the Parent Company in the sale of 96 branches of Cassa di Risparmio della Spezia to Crédit Agricole.

## Factoring and Leasing

Mediofactoring had a turnover of 22.1 billion euro as at 30 September 2010, a 15.6% increase on an annual basis, allowing it to remain the number one domestic factoring provider. This performance was attributable to both with recourse (+1.4 billion euro) and without recourse transactions (+1.2 billion euro). Loans totalled 5.6 billion euro, down 12.3% since the beginning of the year owing to the seasonal nature of the business characterised by increasing rises in operations in each quarter of the year. The positive operating performance was also confirmed by the average volumes, which amounted to 5.4 billion euro for the first nine months of 2010, up 7.7% on the same period of the previous year. In terms of income statement figures, the operating margin for the first nine months of 2010, amounting to 94 million euro, was up 4.5% on the same period last year as a result of the increase in operating income (+2.3%) and the fall in operating costs (-4.5%). Net income came to 45 million euro, an increase of 27.7%, with a fall in adjustments to loans compared to the same period in 2009.

Through Leasint and Centro Leasing, Intesa Sanpaolo is the number-one leasing provider in the Italian market with a share of 18.4%.
In the first nine months of 2010, Leasint entered into 8,300 new contracts, for a total amount of 2,431 million euro (+16.6% over the first nine months of 2009) and a significant increase in the number of transactions completed (+13.3%). The composition of the portfolio was influenced by the growth of Leasenergy, the product devoted to power generation attributable to the Instrumental and Property segments that represents 30% of the total portfolio. In the traditional segments, net of Leasenergy, the securities component, which represents 34% of the business was essentially stable (-0.4%); auto, which represents 6.6% of the portfolio, was up (+7.2%); and real estate, which represents 29.2%, was down (-26.9%). Net income came to 30 million euro, up 16.4% on the first nine months of 2009 as a result of the growth in revenues (+2.9%), the reduction in costs (-1.4%) and stable adjustments to loans.
Centro Leasing, the Banca CR Firenze group company, which has been included in the Corporate and Investment Banking Division since the beginning of 2010, reported a net loss of 10 million euro for the first nine months of the year compared to a net income of 4 million euro for the first nine months of 2009, owing to higher adjustments to loans (+54%), which more than offset the stable operating income and the significant reduction in costs (-15.7%).

## Public Finance

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Net interest income | 209 | 301 | -92 | -30.6 |
| Dividends and profits (losses) on investments carried at equity | - | - | - | - |
| Net fee and commission income | 48 | 31 | 17 | 54.8 |
| Profits (Losses) on trading | -19 | -7 | 12 | |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | 2 | 2 | - | - |
| **Operating income** | **240** | **327** | **-87** | **-26.6** |
| Personnel expenses | -26 | -27 | -1 | -3.7 |
| Other administrative expenses | -30 | -33 | -3 | -9.1 |
| Adjustments to property, equipment and intangible assets | - | - | - | - |
| **Operating costs** | **-56** | **-60** | **-4** | **-6.7** |
| **Operating margin** | **184** | **267** | **-83** | **-31.1** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | - | 2 | -2 | |
| Net adjustments to loans | -18 | -82 | -64 | -78.0 |
| Net impairment losses on other assets | - | - | - | - |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **166** | **187** | **-21** | **-11.2** |
| Taxes on income from continuing operations | -60 | -81 | -21 | -25.9 |
| Merger and restructuring-related charges (net of tax) | - | - | - | - |
| Effect of purchase price allocation (net of tax) | -3 | -3 | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income** | **103** | **103** | **-** | **-** |
| **Allocated capital** | 1,070 | 984 | 86 | 8.7 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 23.3 | 18.3 | 5.0 | 27.3 |
| ROE annualised | 12.9 | 14.0 | -1.1 | -8.0 |
| EVA® (millions of euro) | 26 | 33 | -7 | -21.2 |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes amount | Changes % |
|---|---|---|---|---|
| Loans to customers | 42,629 | 41,186 | 1,443 | 3.5 |
| Direct customer deposits | 5,045 | 6,461 | -1,416 | -21.9 |
| *of which: due to customers* | *3,438* | *4,846* | *-1,408* | *-29.1* |
| *securities issued* | *1,607* | *1,615* | *-8* | *-0.5* |

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

The results of Public Finance for the first nine months of 2010 show net income in line with the same period in 2009.
Operating income amounted to 240 million euro, down 26.6% on the first nine months of 2009, due to the following factors: net interest income of 209 million euro, a fall of 30.6% following the contraction in spreads that in 2009 had benefited from the liquidity characteristics of assets in a scenario of a sharp decline in market rates; net fee and commission income of 48 million euro, up sharply (+54.8%) owing to the effect of growth in revenues from services and the structuring of project finance transactions; and losses on trading of 19 million euro compared to -7 million euro recognised for the first nine months of 2009 due to the decreases associated with credit risk adjustment valuations. Both the mark-up and average loans remained essentially stable (+0.8% including the securities component) on the basis of almost 4 billion euro in new disbursements from September 2009 to September 2010.
Operating costs amounted to 56 million euro, down 6.7% on the same period of the previous year, reflecting effective cost containment measures. The cost/income ratio rose to 23.3% from 18.3% for the first nine months of 2009 due to the fall in revenues. As a result of the above trends, operating margin was 184 million euro, down 31.1%. After lower

adjustments to loans, income before tax from continuing operations came to 166 million euro, down 11.2% on the first nine months of 2009. Lastly, net income, amounting to 103 million euro, remained in line with the same period in 2009.
At quarterly level, operating income for the third quarter of 2010 fell compared to the previous quarter (-4.2%) as a result of the negative change in the profits (losses) on trading and net interest income, which more than offset the growth in net fee and commission income. Income before tax from continuing operations increased 5.9% as a result of effective cost containment and lower adjustments to loans. Net income was up 9.4%.
Capital allocated amounted to 1,070 million euro, up on the first nine months of 2009, due to the increase in credit risk associated with the increase in loans. Annualised ROE fell slightly, from 14% to 12.9%, due to the increase in allocated capital. EVA® came to 26 million euro, down on the same period last year.

With regard to the main balance sheet figures, loans to customers amounted to 42,629 million euro, up 3.5% since the beginning of the year, owing to the new business acquired during the first three quarters, which resulted in disbursements of almost 3 billion euro, and also to the increase in the fair value of securities and loans with hedged interest rate risk. Direct customer deposits amounted to 5,045 million euro, down 21.9%, essentially as a result of the lower cash balances of customer current accounts. Public Finance contributed to developing the reserve of allocable assets in support of the Group's liquidity position and also completed the placement in the Euromarket, in the first nine months of 2010, of a new issue of Obbligazioni Bancarie Garantite (OBG), backed by public-sector loans, originated by Public Finance, in continuation of the issue programme initiated by Intesa Sanpaolo in July 2009.

| | |
|---|---|
| Business | Public Finance serves central governments, public entities, local authorities, universities, public utilities, general contractors, and public and private healthcare providers |
| Mission | To foster collaboration between the public and private sectors with the aim of supporting the creation of infrastructure and the modernisation of the public administration by pursuing international growth opportunities in countries of strategic interest to the Group through operations in six priority areas of action:<br>– loans for infrastructure projects<br>– support for the healthcare system, universities and scientific research<br>– improvement of public utilities<br>– support for the public administration's financial equilibrium<br>– funding for urban and local development projects<br>– introduction of innovative tools for effective management of the banking services used by public entities and government-owned companies |
| Distribution structure | 18 branches in Italy and one branch abroad (London) |

With the aim of supporting and promoting the development of large infrastructure projects in Italy, in the third quarter of 2010, Public Finance continued to advise on large motorway projects, such as the BreBeMi project (Brescia-Bergamo-Milano motorway), Pedemontana Lombarda, the Milano East outer ringroad and the Cremona-Mantova motorway. The project was also financed for the development of the new road system for the regions of Umbria and Marche through the purchase without recourse of receivables due to the general contractor Val di Chienti from the public special purpose company Quadrilatero, of the ANAS Group, for the works on the "Maxi Lotto 1" of the road system.
In support of healthcare services, universities and scientific research, the assignments of receivables started under the operation conducted by a pool of banks that, for the first time in Italy, have set up a joint initiative with SACE to favour the efficiency of the healthcare system of the Campania Region, by entering into an agreement to factor receivables claimed by companies that act as suppliers to the public healthcare system. Within the pool, BIIS acted as assignee of the receivables, which will be guaranteed by SACE. A four-year agreement with the Regional Health Authority of Molise (ASREM) was renewed for the purchase without recourse of receivables due to pharmacists from the Regional Healthcare System. Work also continued on projects for the renovation and revamping of hospital facilities in Brescia and Sardegna under previously acquired mandates.
Public Finance's activity aimed at improving public services and utilities was particularly intense in the energy sector and included the loan disbursed to Linea Group Holding, a multi-utility based in the Lombardia region, which operates in all the sectors of the energy, water and waste treatment segments, serving over 1 million euro inhabitants in around 250 Municipalities in the provinces of Brescia, Cremona, and Lodi. Operations in the low environmental footprint alternative energy sector included the loan disbursed to Solon for the construction of the biggest photovoltaic roof installation in Italy, and one of the largest in the world in terms of power, on the buildings of the Padova freight terminal. A number of wind and solar power projects were also developed in this sector under the project financing scheme: namely, the largest Italian wind farm built by the Falck Group in the municipalities of Buddusò and Ala dei Sardi in Sardegna, financed, in a pool with other banks, and with Public Finance also acting as mandated lead arranger (MLA); a photovoltaic installation on agricultural greenhouses in Sardegna; and four photovoltaic installations in Abruzzo, in the province of Chieti, and one in Campania, in Savignano Irpino.
In order to support the financial balance of the public sector, disbursements continued for the funding of the long-term investment expenses of various local entities, including the Province of Pavia and the Municipalities of Roma and Monza. Also, under the provisions for support to companies in the so-called "Anti-crisis" law, an agreement was signed for the factoring of the receivables due to goods and services suppliers from the Province of Treviso. This project is aimed at

overcoming the difficulties arising from the economic crisis by making financial resources available to firms to enable them to carry out their business. Lastly, financing to defence systems suppliers continued as part of the priority investment programmes for national defence subsidised by the government.
Urban and local development projects included the completion of a financing transaction, in which BIIS also acted as MLA, in favour of the company EUR S.p.A. for the construction of the New EUR Congress Centre in Roma and for investments in the company's existing assets. In addition, activity continued on mandates acquired to structure financing for various projects such as tourist ports, parking areas and the revamping of the road network.
With regard to public and infrastructure finance activities abroad, disbursements continued for road and motorway projects in several European countries and a loan was granted to the government-owned company Hrvatske Ceste, for the management of the Croatian road network. In the water sector, a bond issue was subscribed in favour of Edia (Empresa de Desenvolvimento e Infra-estruturas do Alqueva), which manages the water resources of the Portuguese region of Alqueva. Lastly, loans were also provided to a number of Portuguese and Spanish local authorities, including the Municipio de Lisboa and the Comunidad di Castilla La Mancha.

## International Subsidiary Banks

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 1,225 | 1,074 | 151 | 14.1 |
| Dividends and profits (losses) on investments carried at equity | 12 | 9 | 3 | 33.3 |
| Net fee and commission income | 423 | 400 | 23 | 5.8 |
| Profits (Losses) on trading | 72 | 218 | -146 | -67.0 |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | -34 | -27 | 7 | 25.9 |
| **Operating income** | **1,698** | **1,674** | **24** | **1.4** |
| Personnel expenses | -428 | -442 | -14 | -3.2 |
| Other administrative expenses | -322 | -316 | 6 | 1.9 |
| Adjustments to property, equipment and intangible assets | -102 | -106 | -4 | -3.8 |
| **Operating costs** | **-852** | **-864** | **-12** | **-1.4** |
| **Operating margin** | **846** | **810** | **36** | **4.4** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | 3 | 7 | -4 | -57.1 |
| Net adjustments to loans | -411 | -485 | -74 | -15.3 |
| Net impairment losses on other assets | -2 | -1 | 1 | |
| Profits (Losses) on investments held to maturity and on other investments | 2 | 1 | 1 | |
| **Income (Loss) before tax from continuing operations** | **438** | **332** | **106** | **31.9** |
| Taxes on income from continuing operations | -114 | -76 | 38 | 50.0 |
| Merger and restructuring-related charges (net of tax) | - | -1 | -1 | |
| Effect of purchase price allocation (net of tax) | - | - | - | - |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income** | **324** | **255** | **69** | **27.1** |
| **Allocated capital** | 2,065 | 1,948 | 117 | 6.0 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 50.2 | 51.6 | -1.4 | -2.7 |
| ROE annualised | 21.0 | 17.5 | 3.5 | 19.9 |
| EVA® (millions of euro) | 125 | 60 | 65 | |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Loans to customers | 30,510 | 29,644 | 866 | 2.9 |
| Direct customer deposits | 29,943 | 28,564 | 1,379 | 4.8 |
| *of which: due to customers* | *27,383* | *26,694* | *689* | *2.6* |
| *securities issued* | *2,560* | *1,870* | *690* | *36.9* |

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

The International Subsidiary Banks Division is responsible for the Group's activities in foreign markets through commercial banking subsidiaries and associates, mainly active in retail banking.
Effective from the beginning of the year, the Division's scope includes the Russian bank ZAO Banca Intesa, previously classified to the Global Services Department of the Corporate and Investment Banking Division, which merged with KMB Bank effective from 1 January 2010 to create Banca Intesa Russia.
On 31 March the subsidiaries ISP Card and Centurion, which operate in the credit card business, were merged.
Lastly, Banca CR Firenze Romania, the Banca CR Firenze Group company active in Romania and previously allocated to the Banca dei Territori Division, and Bank of Qingdao (carried at equity), were added to the scope of the International Subsidiary Banks Division.
The comparative figures have been restated in accordance with the new scope of the division.

In the first nine months of 2010, the Division's operating income amounted to 1,698 million euro, up 1.4% on the same period of the previous year. A detailed analysis shows that net interest income came to 1,225 million euro, an increase on the 1,074 million euro in the first three quarters of 2009, owing chiefly to CIB Bank (+88 million), Banca Intesa Russia (+24 million euro) and Bank of Alexandria (+18 million euro). Net fee and commission income showed an increase of 5.8%, largely attributable to VUB Banka (+8 million euro) and Bank of Alexandria (+10 million euro). Conversely, profits on trading, amounting to 72 million euro, fell compared to the same period of 2009 (-67%), primarily due to the lower contributions from CIB Bank (-116 million euro) and Privredna Banka Zagreb (-20 million euro).
Operating costs came to 852 million euro, down 1.4% compared to the first nine months of the previous year. As a result of the above revenue and cost trends, the operating margin came to 846 million euro, up 4.4%. Income before tax from continuing operations of 438 million euro was up 31.9%, benefiting from the reduction in net adjustments to loans, down from 485 million euro to 411 million euro. The Division closed the first nine months of 2010 with net income of 324 million euro, up 27.1% compared to the same period in 2009 (+38% excluding the effects of extraordinary taxation enacted in Hungary).
At quarterly level, revenues in the third quarter of 2010 were up 0.8% on the second quarter, mainly due to the increase in net interest income (+2.5%), which benefited from the improvement in the mark-down. Income before tax from continuing operations increased 14.4%, benefiting from lower operating costs and a decrease in adjustments to loans.
Allocated capital, which represents 9% of the Group's capital, amounted to 2,065 million euro, up on the level recorded in the same period of the previous year. The strong earnings performance resulted in an increase in annualised ROE to 21% (from 17.5% in the first nine months of 2009). Value creation, expressed in terms of EVA®, came to 125 million euro compared to 60 million euro for the first three quarters of the previous year.

| | |
|---|---|
| Business | It is responsible for the Group's operations on the international markets through commercial bank subsidiaries and associates |
| Mission | Guidance, coordination and support for international subsidiaries, which engage primarily in retail banking operations. The Division is responsible for setting the Group's strategic development guidelines in terms of its direct presence on international markets, involving systematic exploration and analysis of new growth opportunities on markets already served and new markets, the coordination of international subsidiary banks' operations and the management of the relationships between international subsidiary banks and the Parent Company's central units and the branches and other foreign offices of the Corporate and Investment Banking Division |
| Organisational structure | |
| South-Eastern Europe | Presence in Albania, Bosnia-Herzegovina, Croatia, Romania and Serbia |
| Central-Eastern Europe | Presence in Slovakia, Slovenia and Hungary |
| Commonwealth of Independent States & South Mediterranean | Presence in Egypt, the Russian Federation and Ukraine |
| Distribution structure | 1,766 branches in 13 countries |

## South-Eastern Europe

In the first nine months of 2010, the operating income of the Privredna Banka Zagreb Group, including ISP Card, amounted to 348 million euro (-1.3% compared to the same period of the previous year). This performance was attributable to the decrease in profits on trading (-55.9%) only partly offset by the increase in net interest income (+6.5%) and net fee and commission income (+6.3%). Operating costs increased 2.1% up to 176 million euro, as a result of the increase in personnel and administrative expenses mainly related to the work on the start-up of the ISP Card. These results generated an operating margin of 172 million euro, down 4.5% on the first nine months of 2009. Net income, amounting to 106 million euro, was up (+5.8%) as a result of lower adjustments to loans.

Banca Intesa Beograd reported an operating margin of 102 million euro, down 2.3% on the first nine months of 2009 (net of the exchange-rate effect, there was an increase of over 6%). Operating income fell 1.4%, mainly due to the poor results from trading (-44.3%), which more than offset the increase in net interest income (+3.8%) and net fee and commission income (+1.9%). Operating costs were essentially stable, as a result of a fall in personnel expenses and adjustments, offset by an increase in administrative expenses. Net income amounted to 55 million euro, compared to 49 million euro for the same period in the previous year.

Intesa Sanpaolo Banka Bosna i Hercegovina ended the first nine months of 2010 with an operating margin of 8 million euro, up 39.4% on the same period in 2009. The increase is due to higher revenues (+18.1%) and, in particular, to net interest income (+20.6%), due to the lower cost of funding. Operating costs increased 8.8% due to the expansion of all components attributable to the Company's development plan. Net income rose to 2.6 million euro, up on the 1.8 million euro earned in the first nine months of 2009, despite higher net adjustments to loans owing to the deterioration of asset quality caused by the economic crisis and the increase in loan volumes.

Intesa Sanpaolo Bank Albania reported an operating margin of 18 million euro, up 15.7% on the same period of the previous year. Revenues rose by 4.6% owing to the contribution of net interest income, which benefited from the increase in the total spread and average volumes, and the profits on trading, which benefited from greater foreign exchange operations and more effective treasury management. Operating costs fell 7.9% due to the sharp decrease in administrative expenses. Net income came to 12 million euro, up 19% on the first nine months of 2009, also as a result of the lower adjustments to loans.

The companies operating in Romania (Intesa Sanpaolo Bank Romania and Banca CR Firenze Romania) recorded a total operating margin of 7 million euro, almost double the figure for the same period of the previous year. Operating income increased 10.8% owing to the rise in net interest income (+15.3%) attributable to the growth in volumes. The increase in operating costs (+1.7%) was attributable to higher personnel expenses and adjustments for the development of the branch network. The first nine months of 2010 ended with a loss of 3.8 million euro compared to a loss of 18 million euro for the three quarters of 2009, which had been affected by the higher level of net adjustments to loans as a result of the deterioration of the loan portfolio.

## Central-Eastern Europe

Banka Koper, including Finor Leasing, reported operating income of 70 million euro, down 1.3% on the first nine months of 2009. The decrease was mainly due to the lower net fee and commission income (-6.9%), which was only partly offset by the increase in profits from trading (+16.7%). Operating costs fell slightly (-0.8%) due to the decline in personnel expenses. Net income came to 15 million euro, down 16.1% on the same period last year, also as a result of the higher net adjustments to loans.

The VUB Banka Group achieved an operating margin of 195 million euro, up 5% on the first nine months of 2009, benefiting from an increase in operating income (+1.4%), attributable to net fee and commission income (+10.9%), and lower operating costs (-2.8%), particularly administrative expenses and adjustments. Net income, amounting to 106 million euro, increased 11.2% on the first nine months of 2009, benefiting from the reduction in net adjustments to loans (-20.7%).

The CIB Bank Group recorded operating income of 350 million euro, down 7.3% on the first nine months of 2009. This performance was attributable to the decrease in profits on trading (-116 million euro), mainly due to the losses on securities affected by the crisis, only partly offset by the increase in net interest income (+88 million euro) resulting from higher spreads. Operating costs decreased by 9.7% owing to savings on personnel expenses (-18.3%). The net result for the nine months period, affected by the adjustments to loans and higher taxation, was a loss of 28 million euro, compared to a net income of 9 million euro for the first nine months of the previous year.

## Commonwealth of Independent States & South Mediterranean

Banca Intesa Russia closed out its income statement for the first nine months of 2010 with a net income of 9 million euro compared to a 11 million euro loss in the same period of the previous year. In detail, net income was driven by a rise in net interest income (+31.3%), owing to the positive spread arising from the decrease in the cost of funding, and by profits on trading (+44.4%), due to the greater profits from the sale and revaluation of securities held in portfolio. Operating costs rose 6.3% as a result of increases in all components. Net adjustments to loans of 32 million euro, fell 9.2% compared to the first nine months of 2009, where the loan portfolio deteriorated severely in connection with the Russian market crisis.

The operating margin of Pravex Bank for the first nine months of 2010 showed a loss of 1.6 million euro (compared to net income of 2.8 million euro for the same period in 2009) due to the significant fall in operating income (-20.1%) and, in particular, in net interest income (-38%), as a result of the reduction in the total spread and the drop in income from trading (-35.8%), due to the reduction in operations with customers caused by the change in the regulations on transaction volumes that introduced daily transaction limits from the end of 2009. Operating costs fell by 10.6% due to lower personnel and administrative expenses resulting from the distribution network rationalisation programme. Net adjustments to loans came to 6 million euro, down significantly on the figure of 48 million euro for the same period last year. Pravex Bank closed the first nine months of 2010 with a net loss of 5 million euro, compared to the loss of 40 million euro for the same period of 2009.

Bank of Alexandria's operating margin of 77 million euro was up 35.3% on the first nine months of 2009. Operating income increased 20.1%, benefiting from the rise in net interest income (+17.6%), driven by the increase in average volumes with customers (+23.8% of loans) and the spread, and also from the increase in net interest income (+40.6%). The growth in operating income also led to an increase in operating costs (+9%). After the release of 8 million euro from allowances for risks and charges, net income came to 62 million euro compared to the 50 million euro generated in the same period of 2009.

## Eurizon Capital

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 1 | 2 | -1 | -50.0 |
| Dividends and profits (losses) on investments carried at equity | 11 | - | 11 | - |
| Net fee and commission income | 188 | 178 | 10 | 5.6 |
| Profits (Losses) on trading | - | 3 | -3 | |
| Income from insurance business | - | - | - | - |
| Other operating income (expenses) | 3 | 7 | -4 | -57.1 |
| **Operating income** | **203** | **190** | **13** | **6.8** |
| Personnel expenses | -39 | -36 | 3 | 8.3 |
| Other administrative expenses | -58 | -55 | 3 | 5.5 |
| Adjustments to property, equipment and intangible assets | - | -1 | -1 | |
| **Operating costs** | **-97** | **-92** | **5** | **5.4** |
| **Operating margin** | **106** | **98** | **8** | **8.2** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | -1 | - | 1 | - |
| Net adjustments to loans | - | - | - | - |
| Net impairment losses on other assets | - | - | - | - |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **105** | **98** | **7** | **7.1** |
| Taxes on income from continuing operations | -24 | -27 | -3 | -11.1 |
| Merger and restructuring-related charges (net of tax) | - | - | - | - |
| Effect of purchase price allocation (net of tax) | -28 | -29 | -1 | -3.4 |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | -1 | -1 | - | - |
| **Net income** | **52** | **41** | **11** | **26.8** |
| **Allocated capital** | 59 | 70 | -11 | -15.7 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 47.8 | 48.4 | -0.6 | -1.2 |
| ROE annualised | 117.8 | 78.3 | 39.5 | 50.5 |
| EVA® (millions of euro) | 76 | 66 | 10 | 15.2 |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Assets under management | 140,694 | 135,491 | 5,203 | 3.8 |

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

Overall, total assets managed by Eurizon Capital as at the end of September 2010 stood at 140.7 billion euro, up 3.8% since the beginning of the year, benefiting from the strong performance of net inflows and the positive performance effect. Net inflows of 2.3 billion euro were driven by the contribution of the life insurance business arising from the placement of class I policies by the Intesa Sanpaolo networks and the inflows from the unit-linked policies of Prospettiva, managed by Eurizon Capital. Retail portfolio management schemes also yielded inflows, whereas mutual funds, hedge funds and institutional asset management generated outflows.
Eurizon Capital’s share of the mutual fund market was 17.7% as at 30 September 2010, down one percentage point on the end of December 2009. This performance was due in part to the more defensive portfolio held by Eurizon Capital compared to the market average as equity markets generally rallied and in part to lower net inflows compared to the sector nationally.
Operating income for the first nine months of 2010, amounting to 203 million euro, was up 6.8% on the same period in 2009, mainly attributable to a recovery in commission income (+5.6%), due to the rise in average assets under management and the contribution of the net income from the investee Penghua Fund Management Company Limited. These positive elements more than offset the performance of the interest margin and the income from trading, which were

affected by the fall in market rates and the reduction in other operating income that included performance fees not yet settled by Caam SGR in the first nine months of 2009. Operating costs rose 5.4%, in relation to the increase in the costs of planning the unification of Intesa Sanpaolo's fund administration operational platforms and outsourcing and consulting services. As a result of the above revenue and cost trends, the operating margin came to 106 million euro, up 8.2%. Eurizon Capital closed the first nine months of 2010 with a net income of 52 million euro (80 million euro net of the effects on the income statement of the purchase price allocation) compared to 41 million euro in the same period of the previous year.
Absorbed capital amounted to 59 million euro, down on the first nine months of 2009, owing to the reduction in market risks arising from the change in the method used to calculate the risk for UCI funds. Annualised ROE remained at the high levels characteristic of the business unit, attributable to its limited absorption of capital compared to the huge volumes of assets managed by the company and placed by the Group's banking networks. EVA®, which measures value creation, increased to 76 million.

| | |
|---|---|
| Business | Asset management |
| Mission | To provide collective and individual asset management products to the Group's internal banking networks and develop its presence on the open market through specific distribution agreements with other networks and institutional investors |
| Organisational structure | |
| Eurizon Capital SGR | Specialised in asset management on behalf of both retail customers (mutual funds and portfolio management schemes) and institutional customers, to which it offers a wide range of specific investment products and services |
| Eurizon Capital SA (Luxembourg) | Specialised in managing Luxembourg mutual funds with low tracking error |
| Eurizon A.I. SGR | Specialised in managing funds of hedge funds |
| Epsilon Associati SGR | Specialised in managing mutual funds using quantitative methods and 51% owned by Eurizon Capital and the remaining 49% by Banca IMI |
| Penghua Fund Management Company Limited | Chinese fund manager 49% owned by Eurizon Capital SGR |

Significant events included the completion by Eurizon Capital SGR in July of the sale to Banca IMI of a 49% stake in the capital of Epsilon Associati SGR. The aim of the joint venture with Banca IMI is to create a structured asset management platform within the Group.
Also in July, Eurizon Capital acquired the management contracts for the portfolios of the customers included in the business unit made up of the 50 branches of Banca Monte dei Paschi di Siena acquired by Intesa Sanpaolo.

In terms of the product range, in the first nine months of 2010, the range of Luxembourg mutual funds was expanded with the launch of a new sub-fund of the "Eurizon Focus Riserva DOC" fund, known as "Obbligazioni Corporate 06/2015", aimed at retail customers of the Intesa Sanpaolo branch network. The range of the "Eurizon Investment Sicav" open-ended collective investment scheme was expanded with the "Flexible Duration 1-2", "Flexible Beta 1-2" and "Flexible Equity Strategy" sub-funds. The range of capital protected products within the "Eurizon Focus Capitale Protetto" umbrella fund was also expanded with the new "Protezione 09/2016" and "Protezione 12/2016" sub-funds. Lastly, the hedge fund offer range was simplified by merging a number of funds.

## Banca Fideuram

(millions of euro)

| Income statement/Alternative performance indicators | 30.09.2010 | 30.09.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Net interest income | 88 | 125 | -37 | -29.6 |
| Dividends and profits (losses) on investments carried at equity | - | - | - | - |
| Net fee and commission income | 393 | 303 | 90 | 29.7 |
| Profits (Losses) on trading | 24 | 11 | 13 | |
| Income from insurance business | 73 | 82 | -9 | -11.0 |
| Other operating income (expenses) | -5 | - | 5 | - |
| **Operating income** | **573** | **521** | **52** | **10.0** |
| Personnel expenses | -103 | -103 | - | - |
| Other administrative expenses | -140 | -147 | -7 | -4.8 |
| Adjustments to property, equipment and intangible assets | -12 | -12 | - | - |
| **Operating costs** | **-255** | **-262** | **-7** | **-2.7** |
| **Operating margin** | **318** | **259** | **59** | **22.8** |
| Goodwill impairment | - | - | - | - |
| Net provisions for risks and charges | -56 | -30 | 26 | 86.7 |
| Net adjustments to loans | - | - | - | - |
| Net impairment losses on other assets | -3 | -10 | -7 | -70.0 |
| Profits (Losses) on investments held to maturity and on other investments | - | - | - | - |
| **Income (Loss) before tax from continuing operations** | **259** | **219** | **40** | **18.3** |
| Taxes on income from continuing operations | -69 | -44 | 25 | 56.8 |
| Merger and restructuring-related charges (net of tax) | -5 | -2 | 3 | |
| Effect of purchase price allocation (net of tax) | -71 | -69 | 2 | 2.9 |
| Income (Loss) after tax from discontinued operations | - | - | - | - |
| Minority interests | - | - | - | - |
| **Net income** | **114** | **104** | **10** | **9.6** |
| **Allocated capital** | 389 | 405 | -16 | -4.0 |
| **Profitability ratios (%)** | | | | |
| Cost / Income ratio | 44.5 | 50.3 | -5.8 | -11.5 |
| ROE annualised | 39.2 | 34.3 | 4.8 | 14.1 |
| EVA® (millions of euro) | 159 | 141 | 18 | 12.8 |

(millions of euro)

| | 30.09.2010 | 31.12.2009 | Changes | |
|---|---|---|---|---|
| | | | amount | % |
| Assets under management | 52,110 | 47,034 | 5,076 | 10.8 |

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

On 29 July, Banca Fideuram completed the purchase of 19.99% of the capital of Fideuram Vita, the company dedicated to the management of the portfolio of policies distributed by the financial advisors of the Fideuram Group, previously controlled by EurizonVita. Note that the figures below include the results of Fideuram Vita.

Assets under management of the Banca Fideuram Group amounted to 70.8 billion euro at the end of September 2010 (of which 52.1 billion euro in assets under management and 18.7 billion euro in assets under administration), up 4.4% since the beginning of the year owing to both the net inflows of 1.6 billion euro (616 million euro in the first nine months of 2009) and the strong asset performance. In particular, net inflows of assets under management came to 3.6 billion euro, compared to 1.1 billion euro in the first three quarters of 2009, benefiting from the strong performance of the mutual funds segment. Conversely, assets under administration showed net outflows of 2 billion euro, compared to net outflows of 450 million euro in the same period of the previous year. The results achieved in the first nine months of 2010 confirm that customers' portfolios are currently being repositioned towards assets under management to be able to take advantage of the opportunities offered by the recovery of capital markets.

Net inflows for the period benefited from the investment, to the sum of 235 million euro, of assets repatriated or regularised in the first four months of the year (the period allowed for participation in the "third tax amnesty").
The number of private bankers rose from 4,292 at the end of 2009 to 4,344 units as at 30 September 2010.
The operating margin for the first nine months of 2010 came to 318 million euro, up 22.8% compared to the same period of 2009, driven by the growth in operating income (+10%) and a fall in operating costs (-2.7%). In detail, the revenue performance was essentially attributable to the rise in net fee and commission income (+29.7%), particularly recurring items, associated with the growth in average assets under management and the gradual shift in the product mix towards asset management products with a less conservative risk profile. At the quarterly level, net fee and commission income has been increasing since the first quarter of 2009, with a sharp acceleration in the third quarter of 2010. Profits on trading, amounting to 24 million euro, also improved (+13 million euro), benefiting from the income earned on the sale of part of a portfolio classified as available for sale. Conversely, net interest income declined (-29.6%), primarily owing to the reduction in the spread between the cost of funding and the lending rates on loans, and, to a lesser extent, to a decrease in volumes. Quarterly performance, however, showed a positive trend in the margin in the third quarter of 2010 over the first two quarters. The fall in operating costs (-2.7%) was attributable to administrative expenses, as a result of the containment of the costs for services rendered by third parties and advertising and marketing expenses. After additional provisions for risks and charges attributable to tax litigation, income before tax from continuing operations came to 259 million euro compared to 219 million euro for the same period of last year. Lastly, Banca Fideuram closed the first nine months of 2010 with a net income of 114 million euro (+9.6% compared to the same period of 2009), rising to 185 million euro excluding the effects of the purchase price allocation on the income statement.
The capital absorbed by Banca Fideuram amounted to 389 million euro, down on the first nine months of 2009. Annualised ROE was 39.2%, an increase owing to the positive net income performance and lower amount of capital absorption. EVA®, which measures value creation, also increased up to 159 million euro.

| | |
|---|---|
| Business | Asset-gathering activity through financial advisor networks at the service of customers with medium/high savings potential |
| Mission | To aid customers with informed management of their assets, beginning with a thorough analysis of their true needs and risk profile. To advise on financial and pension issues with the aid of highly qualified professionals in a fully transparent manner and in full compliance with the rules |
| Distribution structure | 97 branches in Italy with 4,344 private bankers |

The initiatives undertaken by Banca Fideuram in the third quarter of 2010 were consistent with the objective of consolidating market leadership through the development of its key strengths. This strategy was pursued through the development of products and services, creating value for customers by providing an increasingly discerning level of service and the offer of new strategic opportunities. The initiatives, which were aimed at all the customer segments with a focus on private customers, involved both the offer range, with solutions aimed at tackling a still uncertain market environment, and the consultancy service, built on a distinctive model.

## Corporate Centre

The Corporate Centre is responsible for direction, coordination and control of the whole Group, as well as for treasury.

The Corporate Centre closed the first nine months of 2010 with an operating loss of 275 million euro, compared to revenues of 242 million euro in the corresponding period of the previous year. This performance was primarily attributable to the trading activity, affected by the decrease in interest rate and equity transactions and lower net interest income, also as a result of the gap between non-interest bearing assets and non-interest bearing liabilities. Operating costs were down on the first nine months of 2009. Overall, the net result was a loss of 111 million euro. This result compared with a net income of 64 million euro for the first nine months of 2009, which had benefited from higher tax credits, attributable to the redemption of intangibles.

### Treasury operations

The Treasury Department includes treasury services in euro and foreign currencies, and the integrated management of liquidity requirements/surpluses, financial risks and settlement risks. Intesa Sanpaolo, as a direct member and provider of settlement services to Group and third-party banks, continued to play a key role within the euro payments system during the third quarter of 2010, obtaining the status of "Critical Participant" from the ECB in the Target2 circuit. This status entails a commitment to the annual self-certification of the presence of security and business continuity measures adopted by the Bank and their compliance with internationally recognised standards. Also within the area of gross payment systems, the Group stabilised its Target2 market shares at Italian and European level.
The Treasury Department continued to devote considerable attention to various working groups within the ECB, Bank of Italy and Italian Banking Association concerning the new projects for the development of international settlement systems. In particular, in the area of Target2-Securities, the Bank is setting up the operational processes needed to formulate the strategic guidelines for the internal development of this important project.
The Parent Company also continued to dedicate significant efforts to eliminating settlement risk in foreign exchange transactions, where, as a direct member of the CLS system, it continued to offer a clearing service in line with the quality standards of the major European banks.
A significant new initiative involved the process of internalisation of the Chinese Yuan (CNY). The Asian branches (Hong Kong, Shanghai and Singapore) are completing the formalities required to offer customers all the key services related to the development of the offshore market for the Yuan, including the opening of accounts in CNY, bank transfers, and forex, and to be able to seize other opportunities offered by the Chinese financial market.

The money market in the third quarter was characterised by the evolution of the crisis in the peripheral eurozone countries with an easing of strains in the months following the severe phase in May, particularly after the approval of the aid plan for Greece. Renewed fears about the sustainability of public debt/deficits in Spain, Portugal and, especially, in Ireland, generated high volatility, particularly in securities and CDS prices; however there were no particular strains on the money market itself. The publication of the results of the Committee of European Banking Supervisors (CEBS) stress test in mid-July, with a positive outcome in terms of the capital adequacy of the major European banks, and the release of the initial details on the Basel III compliance timescale for capital and liquidity requirements, contributed significantly to preventing any further strains. The European Central Bank measures helped to ensure the maintenance of funds in excess of the system's needs. As a consequence, and in the absence of expectations of a rise in official rates for some time, current market rates remained essentially stable, still at near record lows, across all typical money market maturities (0-18 months). Short-term rates only started to rise again in September, with the maturity of one of the three extraordinary ECB auctions with a one year duration, accompanied by a reduction in the use by banks of ECB refinancing, in what may be considered to be part of the slow but steady return of markets to normal conditions and independence.
Money market operations continued to be largely concentrated on short-term maturities, with a slight recovery, particularly in the Italian Collateralised Interbank Market (CIM), where trading was fairly lively, driving outstandings close to the highest levels since the Bank of Italy launched this market segment in February 2009. During the quarter, the process was completed for the replacement of the Italian Central Bank, which only intervened on a temporary basis to manage the contingency phase, by the Cassa Compensazione e Garanzia as the operator of the collateral scheme for CIM, thus providing continuity to a market that has proven itself to be efficient and in which foreign banks will also be able to take part from October.
Short-term issues, which had seen a significant slowdown affecting all the financial issuers at the beginning of the quarter, started to return to normal volumes and transactional levels from August. Intesa Sanpaolo's European and U.S. issue programmes followed a similar trend and returned to a normal level of outstandings, reaching the highest levels for the current year in the second half of the quarter. Work started on the preparations for the quotation of the main programmes of European commercial paper and certificates of deposit (French CD and Euro CP/CD) on the Euronext Liffe and ISE exchanges.
As a whole, Intesa Sanpaolo's liquidity position remained on average in excess of its current needs and stayed continuously positive beyond the period of survival required by the regulators and the Bank's liquidity policy.

With regard to the securities portfolio, the third quarter of 2010 was characterised by continuing strains on European sovereign debt, essentially reflected in the maintenance of the record levels of the spreads between the yields on peripheral securities against swaps and Bunds reached in previous months.
The negative widening trend only continued in Portugal and Ireland, whereas Italian securities, despite the worsening of a particularly tense political situation that generated a sharp increase in volatility, avoided the contagion effect thanks to the much better state of the public finances.
Against this background, the desk continued to adopt a highly cautious strategy. The portfolio structure remained concentrated almost entirely on Italian government securities with maturities of less than two years, offering attractive spreads against relatively low risk. This was also driven by the low level of the structure of money market rates, as a result of the ECB's decision to persist with its policy of injecting liquidity into the system.
Positions in Covered Bonds, Government Guaranteed Securities and Financials, already at minimum levels, remained essentially unchanged on the holdings for the previous quarters.

## Operating ACM and Structured Operations

With regard to Asset & Liability Management, operational management of the interest rate risks of the Group's banking book – in the segment over 18 months – is handled by the ALM structure under the supervision of the Risk Management Department. Interest rate risk is monitored and managed mainly by examining the sensitivity of the market value of the various positions in the banking book to parallel shifts in the interest rate curve at the various maturities; moreover specific scenario analysis techniques on rate developments are used, as well as performance scenarios for specific positions. The strategic choices on interest rate risk are made by the Group's Financial Risks Committee, within limits established by the Management Board. The ALM structure actively supports the Committee's decision-making activity by formulating analyses and proposals. Despite the sharp drop in short-term interest rates over the last few months, the reduction in mark-down on demand deposits was significantly offset by the decisions made to protect the interest margin. The structural component of liquidity risk is managed by identifying expected liquidity mismatches by maturity bands, on the basis of liquidity policies defined internally at the Group level. Mismatch analysis on medium-/long-term maturities provides input for planning bond funding, in order to anticipate possible pressures on short-term funding.

## Funding

With regard to medium-/long-term funding, at the end of the third quarter of 2010 the total issues of Group securities placed on the domestic market through its own and third-party networks was 12.4 billion euro, around 800 million euro of which in subordinated floating-rate Lower Tier 2 securities with an average 5-year maturity. Structured bonds (mainly structured interest-rate securities) made up the bulk of the securities placed at 67.6%, whereas the weight of plain vanilla securities was 32.4%. A breakdown by average maturity shows a concentration of 3-year maturities with a weight of 45.8%, with 49.1% represented by 5- to 7-year securities; the remaining 5.1% consisted of 2- and 4-year bonds. In terms of international funding transactions, a total of approximately 8.1 billion euro of "unsecured" transactions was completed during the first nine months of 2010, 7.2 billion euro of which in the form of bond issues and the remainder representing financing from German institutional investors (mainly insurance companies) and medium-/long-term term deposits made by international branches and subsidiaries by drawing on their local funding.
In the third quarter, after a phase of stagnation attributable to the worsening of the market crisis due to certain sovereign risks particularly in Southern Europe, funding operations started to pick up speed again, although investors were still selective in terms of credit and country risk.
Public transactions finalised during the third quarter included the launch of a 1.25 billion euro subordinated Lower Tier 2 eurobond issue at a fixed rate and with a 10-year maturity and a US$ 1 billion, fixed-rate, 5-year, senior bond issue, both aimed exclusively at institutional investors.
The second of these two transactions was particularly significant, as it inaugurated the recent US$ 15 billion Yankee programme of Medium Term Notes aimed at qualified institutional buyers in the American market that was finalised in July. This is the first issue in the US market by an Italian issuer through its own parent company.

Structured funding operations, under the second Covered Bond programme, continued at the end of July with the first sale to the vehicle ISP CB Ipotecario Srl of the Adriano Finance Class A, first series, senior note (with an S&P AAA rating and a Moody's Aaa rating) with a principal amount of 5.8 billion euro. The inaugural issue of the first tranche of Covered Bonds was completed in October.

# Risk management

## BASIC PRINCIPLES

Intesa Sanpaolo Group policies relating to risk acceptance are defined by the Parent Company's Management Bodies, Supervisory Board and Management Board, with support from specific Committees (particularly, the Group Risk Governance Committee), and the Chief Risk Officer, who reports directly to the Chief Executive Officer.
The Parent Company is in charge of overall direction, management and control of risks, whereas Group companies that generate credit and/or financial risks operate within the assigned autonomy limits and have their own control structures. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiary's Management Bodies.
The risk measurement and management tools together define a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum "unexpected" loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. It is estimated on the basis of the current situation and also as a forecast, based on the Budget assumptions and projected economic scenario under ordinary and stress conditions. The capital position forms the basis for the 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

Within the Basel 2 Project, the purpose of which is to prepare the Group for the adoption of advanced approaches, and with regard to credit risks, the Group was authorised by the Supervisory Authority to use the IRB Foundation approach for the Corporate segment, effective from the report as at 31 December 2008, on an initial scope of Group companies (comprised of the Parent Company and most of Network Banks and Italian product companies).
As part of the expansion of the Group's scope of application of internal models, permission was secured to use the IRB Foundation approach for the network banks belonging to the former Cassa di Risparmio di Firenze Group (effective from the report as at 31 December 2009) and by Intesa Sanpaolo Bank Ireland (effective from the report as at 31 March 2010) and an application was submitted to start the procedure for the international subsidiaries CIB Bank and VUB Banka and the Italian Banca IMI.
In 2008, the Group had implemented rating models and credit processes for the SME Retail and Retail segments (residential mortgages), and in 2009 it completed development of the LGD (Loss Given Default) model. The Bank of Italy authorised the Intesa Sanpaolo Group to adopt the IRB approach for the Retail Mortgage segment starting from the report as at 30 June 2010. Moreover, the application for the validation of the advanced IRB approach for the Corporate segment and the IRB approach for the SME Retail segment is set to be submitted by year end and during 2011, respectively.
The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application in accordance with the gradual roll-out plan for the advanced approaches presented to the Supervisory Authority.
With regard to operational risk, it should be noted that the Group was authorised, effective from 31 December 2009, to use the Advanced AMA Approach (internal model) to determine the associated capital requirement on an initial scope that includes the Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently employ the Standardised approach, will migrate progressively to the Advanced approaches starting from the end of 2010, based on the roll-out plan presented to the Management and Supervisory Authorities.
In 2010 the Group presented its 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 its adoption of Basel 2, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 2 - Pillar 3" or simply "Pillar 3".
The document is published on the website (group.intesasanpaolo.com) each quarter, inasmuch as Intesa Sanpaolo is among the groups that have adopted validated internal approaches for credit, market and operational risk.

## CREDIT RISK

The Group's strategies, powers and rules for the granting and management of loans are aimed at:
- achieving the goal of sustainable growth of lending operations consistent with the risk appetite and value creation;
- diversifying the portfolio, limiting the concentration of exposures on single counterparties/groups, single economic sectors or geographical areas;
- efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the risk of insolvency;
- privileging lending of a commercial nature or intended for new investments in production, provided that they are sustainable, over those of a merely financial nature;
- constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, that show irregularities with the aim of detecting any symptoms of performance deterioration in a timely manner.

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

### Credit quality

Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.
The overall non-performing loan portfolio is subject to a specific management process which, inter alia, entails accurate monitoring 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 allow timely assessments when any anomalies arise or persist and interact with processes and procedures for loan management and for credit risk control.
Positions to which the synthetic risk indicator attributes a persistent high-risk rating are intercepted (manually or automatically) and included in an operational category based on their risk profile. They are classified in the following categories: doubtful loans, exposures to borrowers in default or in similar situations; substandard loans, exposures to borrowers in temporary difficulty, deemed likely to be settled in a reasonable period of time and exposures which satisfy the conditions objectively set by the Supervisory Authority ("objective substandard loans"), although they do not meet the requirements to be classified under doubtful loans; restructured loans, positions for which, due to the deterioration of the economic and financial position of the borrower, the bank (or pool of banks) agrees to modify the original contractual terms giving rise to a loss. Lastly, non-performing loans also include past due positions that cannot be considered mere delays in reimbursements, as established by the Bank of Italy.

(millions of euro)

| | 30.09.2010 | | | 31.12.2009 | | | Changes |
|---|---|---|---|---|---|---|---|
| | Gross exposure | Total adjustments | Net exposure | Gross exposure | Total adjustments | Net exposure | Net exposure |
| Doubtful loans | 19,366 | -12,732 | 6,634 | 16,459 | -11,094 | 5,365 | 1,269 |
| Substandard loans | 12,222 | -2,559 | 9,663 | 12,976 | -2,601 | 10,375 | -712 |
| Restructured loans | 3,637 | -298 | 3,339 | 2,402 | -109 | 2,293 | 1,046 |
| Past due loans | 1,326 | -126 | 1,200 | 2,583 | -160 | 2,423 | -1,223 |
| **Non-performing loans** | **36,551** | **-15,715** | **20,836** | **34,420** | **-13,964** | **20,456** | **380** |
| Performing loans | 341,427 | -2,485 | 338,942 | 338,919 | -2,448 | 336,471 | 2,471 |
| Performing loans represented by securities | 19,556 | -502 | 19,054 | 19,083 | -556 | 18,527 | 527 |
| **Loans to customers** | **397,534** | **-18,702** | **378,832** | **392,422** | **-16,968** | **375,454** | **3,378** |

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

As at 30 September 2010, the Group's non-performing loans amounted to 36,551 million euro (up +6.2% on 31 December 2009) in gross terms and 20,836 million euro (1.9%), net of adjustments. Net non-performing loans as a proportion of total loans to customers was unchanged at 5.5%. However, the average coverage of non-performing loans increased from 40.6% in 2009 to 43% as at 30 September 2010.
Within the aggregates of non-performing loans, doubtful loans (of 6,634 million euro in net terms) grew by 1,269 million euro (around +24%) over the nine months, while substandard loans were down 712 million euro (-6.9%), mainly as a result of the transfer of a number of significant positions to restructured loans following the conclusion of restructuring agreements. The coverage of doubtful loans as at 30 September (65.7%) was slightly down on the level as at 31 December 2009 (67.4%), while that of substandard loans (20.9%) improved slightly on year-end 2009 (20%).

The 1,046 million euro increase in restructured loans is mainly due to the abovementioned transfer of some positions from substandard loans. Past due loans were down by 1,223 million euro also as a result of the change in the residential mortgages classification. Having obtained the Bank of Italy's authorisation to use the internal model for the purposes of determining the capital requirements of this customer segment, they are now classified under past due loans only when they are past due by more than 180 days (instead of over 90 days), using an approach "by customer" instead of the

previous approach “by transactions”.
Cumulated collective adjustments on performing loans came to 0.73% of overall gross exposure relating to loans to customers, up slightly compared to the 0.72% at the end of 2009. The risk associated with the performing loan portfolio is calculated collectively on the basis of the risk configuration of the entire portfolio analysed by means of models that consider the Probability of Default (PD) and Loss Given Default (LGD) for each loan.

## MARKET RISKS

### TRADING BOOK

The quantification of trading risks is based on daily VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:
- interest rates;
- equity and market indices;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps (CDSs);
- spreads in bond issues;
- correlation instruments;
- dividend derivatives;
- asset-backed securities (ABSs);
- commodities.

Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk (around 4% of the Group's overall risk). In particular, the risk factors of the international subsidiaries' trading books are interest rates and foreign exchange rates, both relating to linear pay-offs.
For some of the risk factors indicated above, the Supervisory Authority has validated the internal models for the reporting of the capital absorptions of both Intesa Sanpaolo and Banca IMI.
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 funds underlying CPPI (Constant Proportion Portfolio Insurance) products for Banca IMI, (iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo, (iv) position risk on dividend derivatives.
From the second quarter of 2010, the validated risk profiles were extended to commodity risk for Banca IMI, the only legal entity of the Group authorised to hold open positions in commodities.

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.
The following paragraphs provide the estimates and evolution of VaR, defined as the sum of VaR and of the simulation on illiquid parameters, for the trading book of Intesa Sanpaolo and Banca IMI.
In the third quarter of 2010, market risks generated by Intesa Sanpaolo and Banca IMI increased with respect to the averages for the second quarter of 2010. The average VaR for the period totalled 43.4 million euro.

#### Daily VaR of the trading book for Intesa Sanpaolo and Banca IMI[a]

(millions of euro)

| | 2010 | | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | average 3rd quarter | minimum 3rd quarter | maximum 3rd quarter | average 2nd quarter | average 1st quarter | average 4th quarter | average 3rd quarter | average 2nd quarter | average 1st quarter |
| Intesa Sanpaolo | 27.6 | 24.9 | 31.1 | 27.0 | 19.5 | 21.8 | 25.8 | 27.9 | 32.3 |
| Banca IMI | 15.8 | 12.0 | 19.0 | 13.9 | 11.7 | 10.1 | 10.6 | 15.7 | 18.0 |
| **Total** | **43.4** | **37.0** | **49.9** | **40.9** | **31.3** | **31.9** | **36.4** | **43.6** | **50.3** |

[a] Each line in the table sets out past estimates of daily VaR calculated on the historical time-series in the first nine months 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.

In the first nine months of 2010, market risks generated by Intesa Sanpaolo and Banca IMI decreased with respect to the averages for 2009. The average VaR for the period totalled 38.5 million euro.

(millions of euro)

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **average 30.09** | **minimum 30.09** | **maximum 30.09** | **average 30.09** | **minimum 30.09** | **maximum 30.09** |
| Intesa Sanpaolo | 24.7 | 17.7 | 32.2 | 28.6 | 24.5 | 35.6 |
| Banca IMI | 13.8 | 8.9 | 19.5 | 14.8 | 8,5 | 21.7 |
| **Total** | **38.5** | **27.6** | **49.9** | **43.4** | **34.1** | **55.6** |

(a) Each line in the table sets out past estimates of daily VaR calculated on the historical time-series in the first nine months 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.

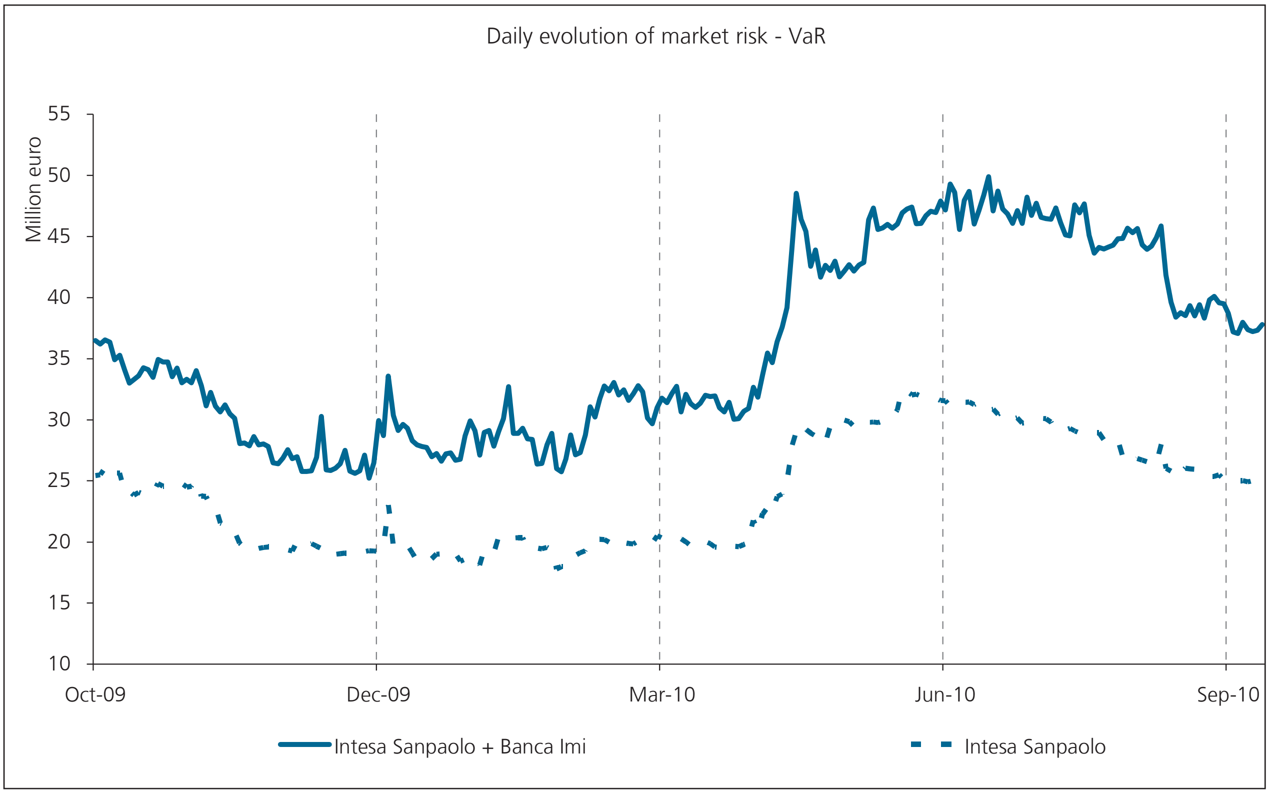
For Intesa Sanpaolo and Banca IMI, the breakdown of risk profile in the third quarter of 2010 with regard to the various factors shows the prevalence of the hedge fund risk, which accounted for 48% of total VaR; for Banca IMI, credit spread risk was the most significant, representing 50% of total VaR.

### Contribution of risk factors to overall VaR [a]

| **3rd quarter 2010** | **Shares** | **Hedge funds** | **Rates** | **Credit spreads** | **Foreign exchange rates** | **Other parameters** | **Commodities** |
|---|---|---|---|---|---|---|---|
| Intesa Sanpaolo | 2% | 48% | 14% | 29% | 2% | 6% | 0% |
| Banca IMI | 12% | 0% | 20% | 50% | 2% | 8% | 7% |
| **Total** | **7%** | **25%** | **17%** | **39%** | **2%** | **7%** | **3%** |

(a) Each line in the table sets out the contribution of risk factors considering 100% the overall capital at risk, calculated as the average of daily estimates in the first nine months of 2010, broken down between Intesa Sanpaolo and Banca IMI and indicating the distribution of overall capital at risk.

VaR in the last twelve months is set out below. The level of risk remained high in the third quarter of 2010 due to the increased volatility of the spreads in government issues, following the worsening of the Greek crisis and the related contagion effect on eurozone countries.




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

– on stock market positions, a bullish scenario, that is a 5% increase in stock prices with a simultaneous 10% decrease in volatility would have led to a 17 million euro loss;
– on interest rate exposures, a parallel +25 basis point shift in the yield curve would have led to a 26 million euro loss, whereas a parallel -25 basis point shift would have led to a 33 million euro gain;
– on exposures sensitive to credit spread fluctuations, a 25 basis point widening in spreads would have led to an 85 million euro loss, 6 million euro of which due to structured credit products (SCP), whereas a 25 basis point tightening of the spreads would have led to an 86 million euro gain, 6 million euro of which due to SCPs;
– on foreign exchange exposures (main position on Euro/USD), the portfolio would have recorded a 4 million euro gain in the event of exchange depreciation (-10%). The loss in the event of foreign exchange appreciation (+10%) would have been 1 million euro;
– lastly, on commodity exposures a 6 million euro loss would have been recorded had there been a 50% increase in prices.

(millions of euro)

| | EQUITY | | INTEREST RATES | | CREDIT SPREADS | | FOREIGN EXCHANGE RATES | | COMMODITIES | |
|---|---|---|---|---|---|---|---|---|---|---|
| | volatility +10% and prices -5% | volatility -10% and prices +5% | -25bp | +25bp | -25bp | +25bp | -10% | +10% | -50% | +50% |
| Total | 21 | -17 | 33 | -26 | 86 | -85 | 4 | -1 | 6 | -6 |
| *of which SCP* | | | | | *6* | *-6* | | | | |

## BANKING BOOK

Market risk originated by the banking book arises primarily in the Parent Company and in the other main Group companies that carry out retail and corporate banking. The banking book also includes exposure to market risks deriving from the equity investments in quoted companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti 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 potential loss in the portfolio's market value that could be recorded over a 10-day holding period with a 99% confidence level (parametric VaR).
Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, equity). For interest rate risk, an adverse movement is defined as a parallel and uniform shift of ±100 basis points of the interest rate curve. The measurements include an estimate of the prepayment effect and of the risk originated by customer demand loans and deposits.
Furthermore, 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 ±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 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. Initially, reference is made to the fair value hedge of assets or 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 hedge against 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 floating 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 nine months of 2010, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, amounted to an average of 516 million euro and settled at 498 million euro at the end of September, almost entirely concentrated on the euro currency; this figure compares with an amount of 560 million euro at the end of 2009.
Sensitivity of the interest margin – in the event of a 100 basis point rise in interest rates – amounted to +151 million euro (-147 million euro in the event of reduction) at the end of September 2010; these values record a slight increase compared

to the 2009 year-end figures of +119 million euro and -120 million euro, respectively, in the event of an increase/decrease in interest rates.
Interest rate risk, measured in terms of VaR, averaged 98 million euro in the first three quarters of 2010 (131 million euro at the end of 2009) and reached a value of 95 million euro at the end of September, with a peak value of 116 million euro and a minimum value 82 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 of 94 million euro (126 million euro at the end of 2009) in the first nine months of 2010, with minimum and peak values of 85 million euro and 115 million euro respectively. VaR at the end of September amounted to 87 million euro.
Lastly, an analysis of banking book sensitivity to price risk, measuring the impact on Shareholders' Equity of a price shock on the above quoted assets recorded in the AFS category shows sensitivity to a 10% negative shock equal to -70 million euro at the end of September 2010.

## INFORMATION ON FINANCIAL PRODUCTS

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

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

IFRS state that financial products in the trading portfolio must be measured at fair value through profit and loss. The existence of official prices in an active market represents the best evidence of fair value, and these prices must be used with priority (effective market quotes – level 1) for the registration of financial assets and liabilities in the trading book.
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 – level 2);
– valuations performed using – even partially – 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 – level 3).
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.
For a more detailed description of the fair value measurement methods used, see the Accounting policies section of the 2009 financial statements.

The following table shows the fair value hierarchy in relation to the measurement of the various categories of financial instruments.

(millions of euro)

| Financial assets / liabilities designated at fair value | 30.09.2010 | | | 31.12.2009 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| 1. Financial assets held for trading | 30,008 | 58,869 | 1,640 | 24,843 | 44,677 | 1,380 |
| 2. Financial assets designated at fair value through profit or loss | 26,067 | 6,960 | 225 | 23,989 | 7,721 | 272 |
| 3. Financial assets available for sale | 52,863 | 5,789 | 1,655 | 43,923 | 5,319 | 1,701 |
| 4. Hedging derivatives | - | 9,397 | 4 | - | 7,008 | - |
| **Total** | **108,938** | **81,015** | **3,524** | **92,755** | **64,725** | **3,353** |
| 1. Financial liabilities held for trading | 4,172 | 52,931 | 1,037 | 2,878 | 38,913 | 473 |
| 2. Financial liabilities designated at fair value through profit or loss | 3,243 | 23,114 | - | 2,728 | 25,423 | - |
| 3. Hedging derivatives | - | 7,959 | 4 | - | 5,179 | - |
| **Total** | **7,415** | **84,004** | **1,041** | **5,606** | **69,515** | **473** |

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

As shown in the table, level 3 instruments, which have more discretion in fair value measurement, still account for a limited portion of the financial instruments portfolio and the relevant balances are substantially unchanged from those at 2009 year end. Conversely, over one third of the items measured at fair value (more than one-half considering only financial assets) are determined based on market prices (no discretion).

## STRUCTURED CREDIT PRODUCTS

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

During the quarter the risk exposure of financial assets held for trading was reduced through direct sales in the market at values in line with the carrying amounts. Advanced reimbursements and the exchange-rate effect also contributed to the lower amount of this exposure compared to the previous quarter.
Market spreads in the third quarter of 2010 were essentially stable, with an improvement in certain asset classes, reflected in a positive contribution for the quarter (around 30 million euro).
In the US market, in addition to the uncertainties already mentioned, associated with the performance of the American economy, the legal problems related to the origination/structuring stage have necessitated a renewed focus on the management of the portfolio.

### Highlights

The risk exposure of structured credit products amounts to 3,485 million euro as at 30 September 2010 with respect to funded and unfunded ABSs/CDOs and to 90 million euro with respect to packages. The change compared to the exposure at the end of June 2010 was mainly due to exchange rate movements.
The positions still outstanding as at 30 September 2010, which have been downgraded by approximately 12.3% (down from 27% as at 31 December 2009), remain of good quality, as shown by the following indicators:

- 79% of the exposure was Investment Grade, compared to 73% as at 31 December 2009;
- 40% had a AAA rating, with Super Senior rating positions having been cancelled;
- 21% had a BBB rating or less, compared to 27% as at 31 December 2009;
- 26% of the exposure had a vintage[2] prior to 2005;
- 36% has a 2005 vintage;
- only 8% of exposure refers to the US Residential segment, and 25% to the US non-residential segment;
- the remaining exposure (67% of the total) was almost entirely (62%) European.

In terms of underlying contract types, just over half the exposure consisted of CLOs (30%) and CDOs (21%); the rest was almost entirely made up of ABSs (20%) and RMBSs (23%), with CMBSs representing 6% of the total.
With regard to valuation methods, unfunded positions were measured using the Mark-to-Model Approach (Level 3 of the Fair Value hierarchy) with the sole exception of positions on CMBX and LCDX indices, which were measured on the basis of Effective Market Quotes (Level 1 of the Fair Value hierarchy). As for funded products, around 9% of the exposure was measured on the basis of Effective Market Quotes (Level 1 of the Fair Value hierarchy), however, in 91% of cases, valuation methods were adopted. Specifically, 54% of the exposures were measured through the Comparable Approach (Level 2) and the remaining 37% through the Mark-to-Model Approach (Level 3).
In the summary tables below, table (a) illustrates risk exposure as at 30 September 2010 and income statement captions (the sum of realised charges and profits, write-downs and write-backs) for the first nine months of the year, compared with the corresponding values recorded as at 31 December 2009.
Table (b) sets out figures related to structured packages, normally made up of an asset (security) whose credit risk is entirely hedged by a specific credit default swap. Risk exposure in the table refers to the protection seller and not to the issuer of the asset hedged.
Values expressed in USD as at 31 December 2009 were translated to euro at an exchange rate of 1.4406 euro, and as at 30 September 2010 at an exchange rate of 1.3648 euro.

[2] 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.

## *Structured credit products: summary tables*

*a) Exposure in funded and unfunded ABS/CDOs*

(millions of euro)

| **Financial assets held for trading** | **30.09.2010** | | **31.12.2009** | |
|---|---|---|---|---|
| | **Risk exposure** (*) (including write-downs and write-backs) | **Income Statement** Profits (Losses) on trading | **Risk exposure** (*) (including write-downs and write-backs) | **Income Statement** Profits (Losses) on trading |
| **US subprime exposure** | **23** | **-2** | **28** | **19** |
| **Contagion area** | **134** | **5** | **164** | **-68** |
| - Multisector CDOs | 58 | -6 | 88 | -71 |
| - Alt-A | - | - | - | - |
| - TruPS | 76 | 11 | 76 | 3 |
| - Prime CMOs | - | - | - | - |
| **Other structured credit products** | **1,092** | **38** | **1,235** | **-27** |
| - European/US ABS/CDOs | 390 | 2 | 479 | 36 |
| - Unfunded super senior CDOs | 685 | 26 | 834 | -51 |
| - Other unfunded positions | 17 | 10 | -78 | -12 |
| **Total** | **1,249** | **41** | **1,427** | **-76** |
| in addition to: | | | | |
| Positions of funds | - | 12 | - | 15 |
| **Total Financial assets held for trading** | **1,249** | **53** | **1,427** | **-61** |

| **Loans** | **30.09.2010** | | **31.12.2009** | |
|---|---|---|---|---|
| | **Risk exposure** (**) (including write-downs and write-backs) | **Income Statement** | **Risk exposure** (**) (including write-downs and write-backs) | **Income Statement** |
| **US subprime exposure** | **3** | **-** | **7** | **-1** |
| **Contagion area** | **95** | **-** | **107** | **-** |
| - Multisector CDOs | 15 | - | 15 | - |
| - Alt-A | 52 | - | 59 | - |
| - TruPS | - | - | - | - |
| - Prime CMOs | 28 | - | 33 | - |
| **Other structured credit products** | **2,138** | **6** | **2,321** | **4** |
| - Funded European/US ABS/CDOs | 1,203 | 2 | 1,476 | -11 |
| - Funded super senior CDOs | 807 | 4 | 714 | 15 |
| - Other Romulus funded securities | 128 | - | 131 | - |
| **Total** | **2,236** | **6** | **2,435** | **3** |
| in addition to: | | | | |
| Positions of funds | - | - | - | - |
| **Total Loans** | **2,236** | **6** | **2,435** | **3** |
| **TOTAL** | **3,485** | **59** | **3,862** | **-58** |

(*) 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 effective interest rate net of net value adjustments to the portfolio.

*b) Exposure in packages*

(millions of euro)

| Detailed table | 30.09.2010 | | 31.12.2009 | |
|---|---|---|---|---|
| | **Credit exposure to protection seller** (CDS fair value post write-down for CRA) | **Income Statement** Profits (Losses) on trading | **Credit exposure to protection seller** (CDS fair value post write-down for CRA) | **Income Statement** Profits (Losses) on trading |
| Monoline risk | 9 | 10 | 10 | 31 |
| Non monoline packages | 81 | 1 | 98 | 4 |
| **TOTAL** | **90** | **11** | **108** | **35** |

The overall risk exposure of structured credit products passed from 3,862 million euro as at 31 December 2009 to 3,485 million euro as at 30 September 2010, in addition to an exposure of 90 million euro in connection with structured packages. The two periods being compared showed no substantial differences, whereas as at 30 June 2010 the risk exposure was 4,020 million euro for structured credit products and 96 million euro for structured packages. This difference was due to the revaluation of USD positions as a result of the appreciation of the US dollar against the euro as at 30 June 2010.
From an income statement perspective, structured credit products improved, reaching +70 million euro as at 30 September 2010, compared to +40 million euro as at 30 June 2010 and -23 million euro on 31 December 2009.
The exposure in funded and unfunded ABSs/CDOs had an effect on “Profits (Losses) on trading – Caption 80” of +53 million euro. The profit on this segment was essentially a result of the effects of:

– unfunded positions included in the area “Other structured credit products” (+36 million euro as at 30 September 2010, of which +26 million euro in unfunded super senior CDOs and +10 million in Other unfunded positions);
– funded and unfunded positions associated with the "Contagion Area" (+5 million euro); this result is further improved if the positions in funds attributable to the segment are also considered (+12 million euro);
– European and U.S. funded ABSs/CDOs (+2 million euro), also included in the area "Other structured credit products";
– the US Subprime exposure (-2 million euro).

The securities reclassified to the loans portfolio and included under European ABSs/CDOs showed losses as at 30 September 2010, partly offset by net income from the sale of certain securities included in the segment, with an overall positive impact on the income statement of 6 million euro.
The “Monoline risk” and “Non-monoline packages” made a positive contribution of 11 million euro as at 30 September 2010, with 1 million euro recorded at the end of the first half of 2010. This increase was mainly due to the improvement in the monoline credit spread that the Bank is exposed to.
It should be noted that the "Structured credit products" aggregate was identified in 2007, immediately following the outbreak of the "subprime phenomenon" and, in disclosure to the market, has been kept essentially constant.
As at 30 September 2010, the aggregate included bonds classified as loans for a total nominal value of 2,417 million euro and a risk exposure of 2,236 million euro (2,089 million euro was reclassified and 147 million euro was classified in the loans portfolio since its initial recognition and included in the portfolios of the Parent Company and its subsidiaries Banca Fideuram and Eurizon Vita). This amount included 158 million euro for securities reclassified from available for sale to the loans portfolio. As at 30 September 2010 their fair value was 82 million euro. The positive impact of this reclassification on the Valuation reserve under Shareholders’ Equity was 76 million euro. The remaining 1,931 million was reclassified from the trading book to the loans portfolio. The fair value of this aggregate was 1,733 million euro as at 30 September 2010, with a positive effect on the income statement totalling 198 million euro, of which 299 million euro in benefits attributable to 2008, 7 million euro in benefits attributable to 2009 and a lesser benefit of 108 million euro attributable to 2010. Had the loans portfolio not been reclassified, the positive result for structured credit products as at 30 September 2010 would have been 178 million euro.

## INFORMATION ON ACTIVITIES PERFORMED THROUGH SPECIAL PURPOSE ENTITIES (SPEs)

For the purpose of this analysis, legal entities established to pursue a specific, clearly defined and limited objective are considered Special Purpose Entities (raising funds on the market, acquiring/selling/managing assets, developing and/or financing specific business initiatives, undertaking leveraged buy-out transactions or managing credit risk inherent in an entity’s portfolio).
The sponsor of the transaction is normally an entity which requests the structuring of a transaction that involves the SPE for the purpose of achieving certain objectives. In some cases the Bank is the sponsor and establishes a SPE to achieve one of the objectives cited above. There have not been any changes in the scope of consolidation beyond those reported in the 2009 financial statements.

### Funding SPEs

These are entities incorporated abroad to raise funds on specific markets. The SPEs issue financial instruments, normally guaranteed by Intesa Sanpaolo, and transfer the funds raised to the Parent Company.
Changes compared to the situation reported as at 31 December 2009 included the extinction of the notes issued by Sanpaolo IMI US Financial Co. in February 2010 and the increase in the funding of SPE Intesa Funding LLC from around 6 billion euro as at 31 December 2009 to around 12 billion euro as at 30 September 2010. There were no changes to report in the other names included in the aggregate.

### 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 that retain the majority of the risks and rewards; SPEs for insurance products are consolidated according to IAS 27 / SIC 12.
There were no changes in this segment compared to the situation reported as at 31 December 2009.

### Securitisation SPEs

These are funding SPEs that enable an entity to raise funds through 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. The resources raised in this way are returned to the seller, whereas the commitments to the subscribers are met using the cash funds generated by the loans sold.
The SPEs included in this category were unchanged with respect to 31 December 2009. Moreover, no changes took place in the first nine months of 2010 with respect to the nature of securitised assets. As regards the total assets, the changes compared to the end of the previous year were essentially linked to the amortisation of the securitised portfolios.
With regard to the vehicles used to support Covered Bond transactions, please note:

- the sale of approximately 2 billion euro of public sector loans to the vehicle ISP CB Pubblico on 30 March 2010, effective 1 April 2010;
- the completion, during the third quarter, of the sale of Adriano Finance securities to the vehicle ISP CB Ipotecario, with underlying Italian residential mortgage loans originated by Intesa Sanpaolo, for around 6 billion euro. The inaugural issue of 1 billion euro of "Obbligazioni Bancarie Garantite" (OBG) under a 20 billion euro issue programme is planned for the fourth quarter.

Intesa Sanpaolo controls, pursuant to SIC 12, the vehicles Romulus Funding Corporation and Duomo Funding Plc. Compared to the previous year there was a reduction in the total assets of the two vehicles: for Romulus, in particular, total assets fell from around 1.8 billion euro to around 1.4 billion euro, including 1.1 billion euro relating to the loans to Duomo (around 1.2 billion euro as at 31 December 2009). There was also a reduction in the liquidity lines granted to the vehicles (from 649 million euro to 358 million euro for Romulus and from 1.3 billion euro to 1.2 billion euro for Duomo) compared to the end of the previous year. An analysis of the distribution of the two vehicles' assets by geographical area shows an increase in the percentage of assets claimed from European entities and a decrease in those claimed from North American entities. An analysis of their distribution by rating indicates that there has been a rise in the percentage of unrated assets (from approximately 46% in December 2009 to 63% in September 2010).
Compared to the situation reported as at 31 December 2009 the percentage of positions backed by collateral with a vintage prior to 2005 fell from 62% as at 31 December 2009 to 36% as at 30 September 2010.
In addition, there were no significant changes in the data and information for the vehicle SPQR II S.r.l. as compared to the situation reported at the end of 2009.

### Financial Engineering SPEs

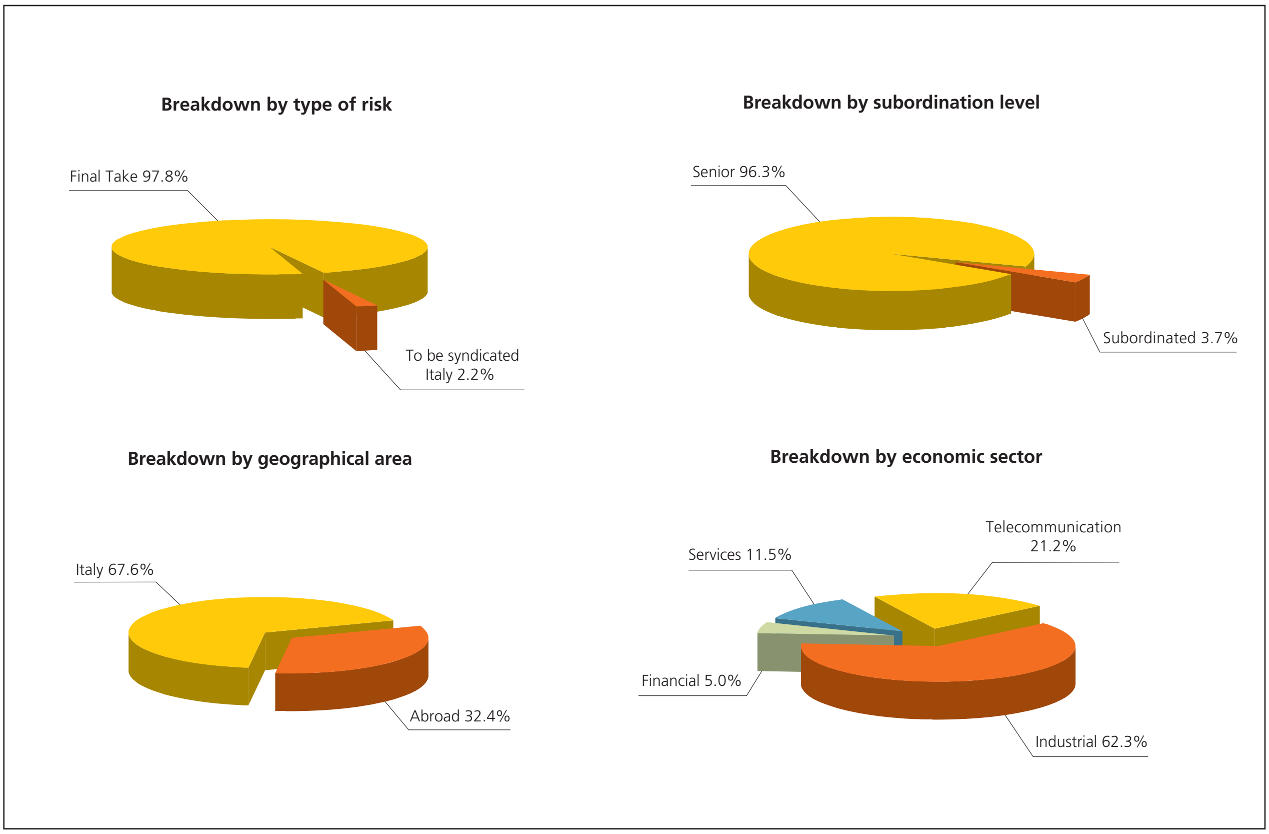
These SPEs carry out investment and funding transactions that achieve better risk/return combinations than those generated by standard transactions. These structures have been set up to respond to the needs of primary customers and provide solutions that offer financing at competitive interest rates and investments with higher returns.
The situation of the only vehicle of this kind controlled by Intesa Sanpaolo, Intesa Investimenti S.p.A., is entirely similar to that described as at 31 December 2009.

### 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 2009.

## 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 30 September 2010, just over 110 transactions, for a total amount granted of 4,650 million euro, met the above definition.
These exposures are classified under the loans portfolio. They also include the portions of syndicated loans underwritten or under syndication. In line with disclosure requirements, breakdown of exposures by geographical area, economic sector and by level of subordination is set out below.




## DISCLOSURE ON INVESTMENTS IN HEDGE FUNDS

The hedge funds portfolio as at 30 September 2010 totalled 762 million euro, compared to the 740 million euro recorded at the end of 2009. The movements in the portfolio, during the third quarter, were due to both the management of outstanding positions and the acquisition of new positions.
As at 30 September 2010, the contribution of these investments to "Profits (Losses) on trading – Caption 80" was positive, with a recovery from the downturn in the second quarter, by a total of 44 million euro (including 12 million euro in the structured credit products disclosure), compared to the 112 million euro recognised in the third quarter of 2009 and the 135 million euro at the end of the previous year.
The 44 million euro of operating income recognised as at 30 September 2010 under "Profits (Losses) on trading – caption 80" included:

– 3 million euro from net profits realised during the period from fund trading;
– 39 million euro from net valuations of positions remaining at the period end (including 6 million euro in the structured credit products disclosure);
– 2 million euro from other net income.

Net capital gains/losses on the final residual amount (39 million euro) were spread across 60 positions, 25 of which with capital losses (15 million euro) and 35 with capital gains (54 million euro).

## INFORMATION ON TRADING TRANSACTIONS IN DERIVATIVES WITH CUSTOMERS

Considering only relations with customers, as at 30 September 2010, the Intesa Sanpaolo Group presented, in relation to derivatives trading with retail customers, non-financial companies and public entities (therefore excluding banks, financial and insurance companies), a positive fair value, considering netting agreements, of 4,282 million euro (3,008 million euro as at 31 December 2009). The notional value of such derivatives totalled 47,985 million euro (47,107 million euro as at 31 December 2009). Note that the positive fair value of structured contracts outstanding with the 10 customers with the highest exposures was 1,877 million euro (1,117 million euro as at 31 December 2009).
Conversely, negative fair value determined with the same criteria, for the same types of contracts and with the same counterparties, totalled 628 million euro at 30 September 2010 (327 million at 31 December 2009). The notional value of such derivatives totalled 10,750 million euro (8,321 million euro as at 31 December 2009).
The fair value of derivative financial instruments stipulated with customers was determined considering, as for all other OTC derivatives, the creditworthiness of the single counterparty ("Credit Risk Adjustment"). On contracts outstanding as at 30 September 2010, this resulted in the recognition in the income statement, under profits from trading, of a net adjustment of 12 million euro, in addition to the 104 million euro recognised in previous years, bringing the total adjustment to 116 million euro.
For every single contract, adjustments are recorded at the market value determined using the risk free curves.

## 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 risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.
The Intesa Sanpaolo Group has long defined the overall operational risk management framework by setting up a Group policy and organisational process for measuring, managing and controlling operational risk.
Effective from the report as at 31 December 2009, the Group was authorised by the Supervisory Authority to use the Advanced Measurement Approach (AMA) to determine capital requirements for operational risk on an initial scope that includes the Banks and Companies of the Banca dei Territori Division (with the exception of Banca CR Firenze but including Cassa del Centro banks), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently employ the Standardised approach, will migrate progressively to the Advanced approaches starting from the end of 2010, based on the rollout plan presented to the Management and Supervisory Authorities.
The control of operational risk was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
The tasks with which the Group Compliance and Operational Risk Committee is charged include periodically reviewing the Group's overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Risk Management Department for the management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific functions 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).
The Integrated self-assessment process, which has been conducted on an annual basis, has allowed the Group to:

- identify, measure, monitor and mitigate operational risk; and
- create significant synergies with the specialised functions of the Organisation and Security Department that supervise the planning of operational processes and business continuity issues and with control functions (Compliance and Audit) that supervise specific regulations and issues (Legislative Decree 231/05, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-assessment process identified a good overall level of control of operational risks and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative and qualitative information (self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (the Operational Riskdata eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business units, the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events. Capital-at-risk is therefore identified as the minimum amount at Group level 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 to both the quantitative data and the results of the scenario analysis over a one-year time horizon, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk of the evaluation of the business environment, to take account of the effectiveness of internal controls in the various organisational units.
Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in the process of managing and mitigating operational risk.
To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounts to approximately 2,281 million euro as at 30 September 2010.

### Legal risks

There were no significant changes in legal risks as at 30 September 2010 compared to the 2009 financial statements and the half-yearly report as at 30 June 2010, to which reference should be made for a description of the main ongoing disputes.

# INSURANCE RISKS

### Life business

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

### Non-life business

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

### Financial risks

In line with the growing focus in the insurance sector on the issues of value, risk and capital in recent years, a series of initiatives has been launched with the objective of both strengthening risk governance and managing and controlling financial risks.
With reference to investment portfolios, set up both as coverage of obligations towards policyholders and in relation to free capital, the Investment Policy is the main control and monitoring instrument for market and credit risks.
The Policy defines the goals and 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.

### Investment portfolios

The investments of the insurance companies of Intesa Sanpaolo Group (EurizonVita, EurizonTutela, EurizonLife, SudPoloVita, CentroVita, FideuramVita and Intesa Vita) are made with their free capital and to cover contractual obligations with customers. These essentially refer to with-profit life insurance policies, Index- and Unit-linked policies, pension funds and non-life policies.
The quantitative data shown below do not include Intesa Vita’s portfolios, as this is a recently acquired company.
At 30 September 2010 the investment portfolios of Group companies, recorded at book value, amounted to 49,566 million euro; of these, the share regarding with-profit life policies, non-life policies and free capital (Class C portfolio or portfolio at risk) amounted to 24,187 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 25,379 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, 93.2% of assets, i.e. approximately 22,769 million euro, were bonds, while assets subject to equity risk represented 3.4% of the total and amounted to 819 million euro. The remaining part (838 million euro) consisted of investments relating to UCI, Private Equity and Hedge Funds (3.4%).
The carrying value of derivatives came to approximately -239 million euro, almost entirely relating to hedging derivatives, with other derivatives only amounting to 0.3 million euro.
At the end of the third quarter of 2010, investments of EurizonVita, SudPoloVita and CentroVita free capital amounted to approximately 1,877 million euro at market value, and presented a risk in terms of VaR (99% confidence level, 10-day holding period) of approximately 47 million euro.
The modified duration of the bond portfolio, or the synthetic financial term of assets, is approximately 6.3 years. The reserves associated to with-profit life policies have an average modified duration of approximately 6.4 years. The related portfolios of assets have a modified duration of around 5.3 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 curve leads to a decrease of approximately 1,344 million euro. On the basis of this hypothetical scenario, the value of hedging derivatives in the portfolio undergoes an approximate 129 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 78.7% of total investments and A bonds approximately 9.4%. Low investment grade securities (BBB) were approximately 4.3% of the total and the portion of speculative grade or unrated was minimal (approximately 0.8%).
The analysis of the exposure in terms of the issuers/counterparties produced the following results: securities issued by Governments and Central banks represented approximately 74.5% of the total investments, while financial companies (mostly banks) contributed almost 10.8% of exposure and industrial securities made up approximately 7.9%.

As at the end of the third quarter of 2010, 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 -1,432 million euro, -1,215 million euro due to government issuers and -217 million euro to corporate issuers (financial and industrial companies).

# Accounting policies

# Criteria for the preparation of the Interim statement

## General preparation principles

The "Interim Statement as at 30 September 2010" has been prepared, in consolidated form, in compliance with art. 154-ter of Legislative Decree 58 of 24 February 1998 and in application of the IAS/IFRS issued by the International Accounting Standards Board (IASB) and related International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Commission in EC Regulation 1606 of 19 July 2002.

The accounting principles adopted in preparation of the consolidated interim report on operations, with regard to the classification, recognition, measurement and derecognition of asset and liability captions, and the recognition methods for revenues and costs, have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2009, to which reference should be made for further details.

The Consolidated Interim Statement was not subject to auditor review and comprises the condensed Balance sheet and Income statement, accompanied by Explanatory notes to the report on operations. It is prepared in euro as the operating currency. The amounts indicated in the Financial statements and Explanatory notes are expressed in millions of euro, unless otherwise specified.

The accounting statements are presented in condensed/reclassified format, based on the most appropriate presentation criteria for the captions according to standard operating principles. For the Income statement, the content of captions refers to Bank of Italy instructions laid down in Circular 262/2005, including aggregations/reclassifications as follows:
- net interest includes: profits (losses) on trading relating to net interest; the reversal in time value on loans, based on the amortised cost criterion in the absence of changes in expected future flows; the time value of employee termination indemnities and provisions for risks and charges;
- profits (losses) on trading records: dividends on shares classed as financial assets available for sale and as assets held for trading; fair value adjustments in hedge accounting, given the strict connection that has arisen in the markets; profits and losses on disposal or repurchase of financial assets available for sale and of financial liabilities; profits (losses) on financial assets and liabilities designated at fair value;
- the contribution from insurance companies to net income is traditionally recorded in the specific caption "Income from insurance business" rather than line by line. For the insured parties' portion the adjustment effect of the technical reserve associated with the impairment of securities available for sale in the portfolio of the Group's insurance companies was also attributed to this caption;
- administrative expenses are stated net of recoveries of expenses, taxes and duties from customers; direct taxes, based on the entity's taxable capacity rather than calculated on the basis of parameters other than current taxable income, have been reclassified to Taxes on income from continuing operations;
- net adjustments to loans include profits (losses) on disposal or repurchase of loans and net impairment losses on other financial activities related to guarantees, commitments and credit derivatives;
- net impairment losses on other assets include – in addition to net impairment losses on financial assets available for sale, investments held to maturity and other financial activities – any impairment of property, equipment and intangible assets;
- profits (losses) on investments held to maturity and on other investments include profits (losses) on disposal of investments in associates and companies subject to joint control and profits (losses) on disposal of investments; conversely net income from investments carried at equity is recorded in a specific caption of net operating income along with dividends;
- merger and restructuring-related charges are recorded in a specific caption net of the tax effect;
- the economic effect of purchase price allocation, net of the tax effect, is indicated in a specific caption.

For the Balance sheet, in compliance with Circular 262/2005, aggregation has been performed in certain circumstances, i.e.:
- the inclusion of Cash and cash equivalents in the residual caption Other assets;
- the inclusion of hedging derivatives and fair value change of financial assets/liabilities in hedged portfolios under Other assets/liabilities;
- the inclusion of the technical insurance reserves reassured with third parties under Other assets;
- the aggregation in one single caption of Property and equipment and Intangible assets;
- the aggregation of amounts Due to customers and Securities issued into a single caption;
- the aggregation into one caption of allowances for specific purpose (Employee termination indemnities and Allowances for risks and charges);
- the presentation of Reserves as an aggregate and net of any treasury shares.

With respect to discontinued operations, in the Interim statement as at 30 September 2010, the economic effects of the agreement to sell the securities services business to State Street Corp. were classified separately, as per the 2009 financial

statements. IFRS 5 was not applied to the sale of assets to Crédit Agricole (the equity investment in Cassa di Risparmio della Spezia and 96 branches) as the transaction does not constitute the sale of a business or a relevant component of a business.
As customary, in the interest of a consistent basis of comparison, balance sheet and income statement figures for 2009 and figures for the previous quarters for 2010 have been restated, where necessary, to account for the income statement and balance sheet components of discontinued operations and changes in the scope of consolidation.

## Scope of consolidation and consolidation methods

### Scope of consolidation

The consolidated Interim statement includes Intesa Sanpaolo and the companies directly and indirectly controlled, jointly controlled or subject to significant influence, also including – as specified by IAS/IFRS – companies operating in sectors dissimilar to that of the Parent Company and private equity investments. Similarly, special purpose entities/vehicles (SPE/SPV) are included when the requisite of effective control recurs, even if there is no direct or indirect stake in the company.
The following are excluded from the scope of consolidation:
– the equity investment in the Bank of Italy, in which the Group holds a 42.5% stake, since, considering its peculiarity, it is maintained at cost and is therefore not carried at equity;
– certain companies in which the Parent Company holds an equity stake exceeding 20% of voting share capital and which are classified among assets available for sale, and in any case of limited absolute amount, since Intesa Sanpaolo, directly or indirectly, exclusively holds rights on a portion of the rewards of the investment, does not have access to management policies and may exercise limited governance rights to safeguard its economic interests;
– equity investments of over 20% held, directly or through funds, in companies involved in the venture capital business. These equity investments are included in the category of instruments measured at fair value;
– companies for which the shares have been received as pledges with voting rights exceeding 20%, in consideration of the substance underlying the pledge, which has the purpose of guaranteeing loans and not of exercising control and direction over financial and economic policies in order to benefit from the economic return on the shares.

With respect to the position as at 31 December, the more significant changes have been the sale of the securities service business completed in May and Cassa di Risparmio di Firenze's acquisition of 50 branches from Banca Monte dei Paschi di Siena.

In addition, the balance sheet aggregates also take into account, on a line by line basis, the acquisition completed on 30 September 2010 of 50% of Intesa Vita capital, an addition to the 50% already held and previously consolidated according to the equity method. Its income statements figures will be consolidated on a line-by-line basis from the fourth quarter of 2010. The price paid was 706.4 million euro. The acquisition has been accounted for on a provisional basis in this interim statement, as permitted by IFRS3. Final accounting will be arranged when preparing the Annual Report 2010.

This acquisition forms part of the bancassurance segment restructuring now at finalisation stage. In detail, as at 30 September 2010 Intesa Sanpaolo's investments in bancassurance business were as follows:
– Intesa Vita (100%), a subsidiary serving the former Intesa branches, fully consolidated in the balance sheet and 50% consolidated in the income statement;
– EurizonVita (99.96%), a subsidiary serving the former Sanpaolo branches, fully consolidated;
– Centrovita (100%), a subsidiary serving the Carifirenze Group branches, fully consolidated;
– Sud Polo Vita (99.97%), a subsidiary established in accordance with the Italian Competition Authority's decision authorising the merger between Intesa and Sanpaolo, serving the Banco di Napoli and Casse del Centro branches, fully consolidated;
– Fideuram Vita (100%), a fully consolidated subsidiary.
The corporate restructuring project involves the rationalisation of the Group's bancassurance operations based on specialisation according to distribution network:
– a single insurance company serving the banking networks;
– a life insurance company serving the Banca Fideuram financial advisors.
The completion of the project is subject to obtaining the necessary authorisations. In particular, as the Competition Authority's decision authorising the Banca Intesa and Sanpaolo IMI merger required that Sud Polo Vita be disposed of to third parties, a request has been made to the Authority to release Intesa Sanpaolo from its obligation to sell said company.

Lastly, note should also be taken of certain extraordinary intragroup transactions carried out in the first nine months, which as such had no effects on the consolidated income statement; they consisted in transfers of businesses or shareholdings between Intesa Sanpaolo Group companies (under common control). In particular:
– the merger by incorporation of ZAO Banca Intesa Closed Joint Stock Company into KMB Bank, which changed its name to Banca Intesa Closed Joint Stock Company, was completed;
– Eurizon Vita contributed the business line serving the Banca Fideuram and Sanpaolo Invest financial advisors' networks to Fideuram Vita and, as already mentioned, then sold its share in Fideuram Vita to Intesa Sanpaolo and Banca Fideuram;
– a business line was sold by the consortium Intesa Sanpaolo Group Services to Intesa Sanpaolo, with the aim of subsequently transferring the securities services business to State Street;

– Banca di Trento e Bolzano undertook several transactions involving sales and contributions of business units aimed at completing the geographical reorganisation process. In further detail, these transactions consisted of the contribution of two private-banking branches to Intesa Sanpaolo Private Banking, the sale of three branches based in the provinces of Brescia to the Parent Company and, lastly, the contribution of ten branches based in the provinces of Belluno, Treviso and Verona to Cassa di Risparmio del Veneto.

### Consolidation methods

The methods used for line-by-line consolidation of subsidiaries and consolidation by the equity method of associates and companies subject to joint control have remained unchanged with respect to those adopted for the Intesa Sanpaolo Group Annual Report 2009 to which reference should therefore be made.
The financial statements of the Parent Company and of other companies used to prepare the Report as at 30 September 2010 refer to the same date. In certain limited cases, for subsidiaries which are not material, the latest official figures are used.
Where necessary – and always in cases of marginal relevance – the financial statements of consolidated companies which are drawn up using different accounting criteria are restated to be compliant with the standards used by the Group.
The financial statements of non-eurozone companies are translated into euro by applying the spot exchange rate at period-end to assets and liabilities in the Balance sheet, and the average exchange rate for the period to Income statement captions.

### Other information: subsidiaries established and regulated under the law of non-EU countries

Consob, in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies established and regulated under the law of non-EU countries (art. 36 Market Regulation). Pursuant to Art. 2.6.2, paragraph 12 of the Regulation of Markets managed and organised by Borsa Italiana S.p.A., Borsa Italiana has also required that at the time of approval of the Parent Company's financial statements, the Management Board of a company controlling non-EU companies declares in its Report on operations whether or not the conditions set out in Art. 36, letters a), b) and c) of the Market Regulation are met. Intesa Sanpaolo's declaration to this effect can be found in the Annual Report 2009.
In this respect, no acquisitions were completed in the third quarter of 2010 concerning companies registered in non-EU countries which, considered independently, are of material significance to the regulations in question.

The Management Board

Milano, 9 November 2010

# Declaration of the Manager responsible for preparing the Company's financial reports

Pursuant to art. 154-bis, subsection 2 of the Italian Consolidated Law on Finance, the Manager responsible for preparing the Company's financial reports, Ernesto Riva, hereby declares that the accounting information contained in this Interim Statement as at 30 September 2010 corresponds to corporate records, books and accounts.

Milano, 9 November 2010

Ernesto Riva
Manager responsible for preparing
the Company's financial reports

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PREPRESS AND PRINTING: AGEMA CORPORATION – ITALIA

PRINTED ON FSC ECOLOGICAL PAPER WITH ECO-COMPATIBLE VEGETABLE INKS BY GRAFICHE AGEMA S.P.A. ITALIA – CERTIFIED COMPANY FOR ECO-SUSTAINABLE DEVELOPMENT.

Intesa Sanpaolo is the most widespread bank in Italy. Its leadership stems not only from its size but also thanks to its ability to interpret and respond to the needs of the areas in which it is present.
This commitment can be seen in the choice of maintaining and enhancing all the banks in the group, since it is they that allow Intesa Sanpaolo to present itself to the market as a fully-fledged citizen of every place in which it operates.
This is the reason the illustrations chosen for this report have been inspired by the rich cultural heritage of Italian cities. They show the steeples of greatest importance to the cities where our registered offices are located and which appear in the names of our local Banche dei Territori. It is a tribute to Italian tradition and history. But it is also emblematic of the willingness to communicate and establish relationships that distinguishes the people at Intesa Sanpaolo and the banks in the Group.

**1. Milano**
Steeple, Basilica of Sant'Ambrogio

**2. Torino**
Steeple, San Carlo Church

**3. Napoli**
Steeple, Santa Chiara Monastery

**4. Trento**
Steeple, Duomo of Trento

**5. Forlì**
Steeple, Piazza Vittorio Emanuele

**6. Bologna**
Steeple, San Francesco Church

**7. Venezia**
Steeple, Piazza San Marco

**8. Padova**
Steeple, Basilica of Sant'Antonio

**9. Narni**
Steeple of San Giovenale

**10. Rieti**
Steeple, Duomo dell'Assunta

**11. Spoleto**
Steeple, Palazzo Montevecchio

**12. Bolzano**
Steeple, San Giovanni in Villa Church

**13. Civitavecchia**
Steeple, Chiesa dell'Orazione e Morte

**14. Foligno**
Steeple, Cathedral

**15. Pistoia**
Steeple, Piazza del Duomo

**16. Terni**
Steeple, San Francesco Church

**17. Firenze**
Giotto's Bell Tower, Piazza del Duomo

**18. Ascoli Piceno**
Steeple, Santi Vincenzo e Anastasio Church

**19. Viterbo**
Steeple, Ex Chiesa degli Almadiani

**20. Pescia**
Steeple, Santa Maria Assunta Cathedral

**21. Città di Castello**
Steeple, Duomo

**22. Pesaro**
Steeple, San Giacomo Church

**23. Gorizia**
Steeple, Sant'Ignazio Church

**24. Cagliari**
Steeple, Sant'Anna Church

**25. La Spezia**
Steeple, Chiesa di Nostra Signora della Neve

**Credits**
1-7-8-17 Raccolte Museali Fratelli Alinari (RMFA), Firenze
2-4-5-6-10-18 Archivi Alinari - Alinari Archive, Firenze
3-11-14 Archivi Alinari - Anderson archive, Firenze
9-16 Photo by Sergio Pagliaricci, Terni
12 Photo by Michele Bernardinatti - KLR foto - Trento
13 Photo by Fotoarte Mazzoldi Gabriella, Civitavecchia
15 Archivi Alinari - Brogi Archive, Firenze
19 Photo by Francesco Biganzoli, Viterbo
20 Photo by Aurelio Amendola, Pistoia
21 Photo by Enrico Milanesi, Città di Castello
22 Photo by Luciano Dolcini, Pesaro
23 Photo by Franco Debernardi, Trieste
24 Photo by Elisabetta Messina, Cagliari
25 Photo by Maurizio Baldi, La Spezia