



## Report of the Supervisory Board to the Shareholders' Meeting on supervisory activities performed in 2010

pursuant to art.153, Italian Legislative Decree 58 of 24 February 1998, and art. 25.1.3., letter d), of  
the Articles of Association

This is an English translation of the Italian original "Relazione del Consiglio di Sorveglianza all'Assemblea degli Azionisti sull'attività di vigilanza svolta nel 2010 ai sensi dell'art. 153 del D.Lgs. 24 febbraio 1998, n. 58 e dell'art. 25.1.3, lettera d), dello Statuto" and has been prepared solely for the convenience of the reader.

Intesa Sanpaolo S.p.A.

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Distinguished Shareholders,

The Shareholders' Meeting held on 30 April 2010 appointed the Supervisory Board in office, which, in turn, appointed the Management Board for the three-year period 2010-2012.

The dual corporate governance system of Intesa Sanpaolo, successfully applied during the first term, entered the consolidated phase of its application, characterised by the distinction between the steering, strategic supervision and control assigned to the Supervisory Board and the management activities of the Management Board, a Body that also contributes to performing the strategic supervision function. This distinction of roles, emphasised on numerous occasions also by the Bank of Italy, is set out in great detail in the Articles of Association, aimed at clearly setting out the duties and responsibilities of the two bodies, for the purposes of the overall management of the Bank and the direction and coordination of the Group which the Bank heads.

The new Supervisory Board confirmed the organisational decision to establish five Committees within the Board, whose operations ensure the adequate and prompt examination of the matters under the responsibility of the overall Board and its individual members, the formulation of comments and opinions and the provision of detailed ongoing reports on the activities performed.

The roles performed by the Chairman of the Supervisory Board – focused on the supervision and activation of the corporate bodies – and the Board Secretary – aimed at ensuring the liaison for all the Board's activities and improving their supervision – contribute to the effectiveness of the corporate governance model adopted by the Bank.

The organisational framework is completed by the work of the "General Secretariat of the Supervisory Board", which is responsible for assisting the Board, the Chairman, the Deputy Chairmen, the Secretary and the Committees in the performance of their respective functions.

Detailed information on the overall corporate governance of Intesa Sanpaolo, the role of the corporate bodies and the tasks performed, can be found in the specific "Corporate Governance Report and Information on Ownership Structures".

Art. 153, par. 1, of the Legislative Decree 58 of 24 February 1998 ("Consolidated Law on Finance") requires the Supervisory Board to report to the Shareholders' Meeting, called pursuant to art. 2364-*bis* of the Italian Civil Code, on the supervisory activities performed and any omissions or reprehensible facts found.

In view of the above and in accordance with the principles of conduct recommended by the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (the Italian accounting profession council), the Supervisory Board, in the first part of this Report, has provided a description of the supervisory activities performed in 2010 pursuant to art. 149, par. 1, of the Consolidated Law on Finance and the Articles of Association and on any omissions or reprehensible facts found. To this end, the Supervisory Board has made use of the Committees referred to above and, in particular, of the Control Committee that, in accordance with the Articles of Association and the requirements of the Bank of Italy, as well as pursuant to the provisions set forth in the Legislative Decree 39 of 27 January 2010, regarding auditing, is the permanent reference point for the organisational structures of the Bank that perform control functions.

This Report details the non-stop supervisory activities performed in 2010 by the Body in office since 30 April 2010, renewed from that date, and takes into account the recommendations issued by Consob in its Communications and, in particular, in the Communication 1025564 of 6 April 2001, as amended. In this regard and for the sake of completeness and ease of reference, the items specified in the abovementioned Consob document are shown in notes in the margin.

Within this context, this document also provides information on the performance of the other functions assigned to the Supervisory Board by the law and the Articles of Association.

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The second part of this Report provides information on:

- (i) the remuneration and incentive policies adopted by Intesa Sanpaolo and the results of the related audit performed by the Internal Auditing Department;
- (ii) the “Allowance for charitable, social and cultural contributions”;
- (iii) the allocation of net income for 2010;
- (iv) the proposed share capital increase.

Given all of the above, the Supervisory Board:

- a) confirms that it took note on 15 March 2011 of the “Corporate Governance Report and Information on Ownership Structures” approved on the same date by the Management Board pursuant to art. 123-*bis* of the Consolidated Law on Finance;
- b) points out, also in relation to its duties specifically attributed by law and by the Articles of Association with regard to approval of the Parent Company’s and consolidated financial statements, that:
  - on 15 March 2011 the Management Board approved the draft Parent Company’s and consolidated financial statements as at 31 December 2010 which, together with the Reports on operations, were made available to the Supervisory Board on the same date, within the period provided for in art. 154-*ter* of the Consolidated Law on Finance;
  - the Board has verified the compliance, also with the aid of the Financial Statements Committee, as well as the Control Committee and the information obtained from the external auditors Reconta Ernst & Young S.p.A. (“External Auditors” or “Independent Auditors”), with the legal and regulatory provisions on the presentation, structure and format of said financial statements, which comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders’ equity, the statement of cash flows and the notes, and which contain the information referred to in the joint Bank of Italy-Consob-ISVAP document 4 of 3 March 2010;
  - the Board has verified that the Reports on operations for 2010, accompanying the aforementioned draft financial statements, comply with the laws and regulations in force and that they fully describe the operations and situation of the Bank and the aggregate of companies included in consolidation;
  - the Board has examined said documents, which are clearly drawn up and represent the income statement, balance sheet and financial position of the Bank and the Group and the economic result for the year, as well as the business performance for the year, and also provide prudent information on the main risks and uncertainties that the Bank and the Group are exposed to;
  - on 15 March 2011 the Managing Director and the Manager responsible for preparing the Company’s financial reports released the certifications pursuant to art. 154-*bis*, par. 5 of the Consolidated Law on Finance;
  - on 29 March 2011 the External Auditors issued the Report pursuant to art. 19 of Legislative Decree 39/2010 on the fundamental issues arising from the audit, the annual confirmation of the independence of the Independent Auditors pursuant to art. 17, paragraph 9, letter a) of the aforementioned Decree, as well as the Audit Reports on the Parent Company’s financial statements and the consolidated financial statements as at 31 December 2010, with no exceptions;
  - by resolution of 5 April 2011, the Board approved the financial statements of Intesa Sanpaolo and the consolidated financial statements of the Group as at 31 December 2010, made up of the balance sheet, income statement, changes in shareholders’ equity, the statement of cash flow and the notes to the financial statements, as well as the respective Reports on operations;
- c) with regard to the liaison with the Boards of Statutory Auditors of the Italian subsidiaries, notifies that, with the aid of the Control Committee, it updated the specific “Operating guidelines” drawn up by the General Secretariat of the Supervisory Board to support the performance of the supervisory activities assigned to the Boards of Statutory Auditors of the Italian companies in the Group; it is also important to note the role carried out by several of its members in the control bodies of the leading subsidiary banks;
- d) no significant facts have emerged from the supervisory activities performed requiring disclosure to the Supervisory Authorities or mention in this Report.

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## PART I

### REPORT ON THE SUPERVISORY ACTIVITIES OF THE SUPERVISORY BOARD PURSUANT TO ART. 153 OF THE CONSOLIDATED LAW ON FINANCE

#### 1. Supervision of compliance with the law and the Articles of Association

##### 1.1 Compliance with the law

The Supervisory Board has monitored compliance with the law in general.

With reference to the Shareholders' Rights Directive, the Board directly approved several amendments to the Articles of Association, pursuant to art. 25.2 thereof, and authorised additional proposals to adapt the document, formulated by the Management Board, to be submitted to the Shareholders' Meeting.

Furthermore:

- with regard to the regulations governing the transparency of banking and financial services, through the Control Committee, the Board received regular reports from the Compliance Department on the planning and implementation of the necessary organisational and procedural measures to ensure compliance with the regulations;
- with regard to the regulations governing the performance of investment activities and services, the Board examined and approved updates to the policies on the matter, upon recommendation by the Management Board, and monitored the methods used to provide these services, also by examining the regular reports from the Compliance Department;
- with regard to the inspection carried out by Consob in 2009, the Board approved the plan of measures for the purpose of resolving the issues requiring attention noted by the Authority;
- through the Control Committee and the Financial Statements Committee, the Board investigated the Group's taxation and tax dispute, also in light of the attention that the entire banking system is paying to this issue.

Also as a result of the activities of the Surveillance Body, particular attention was paid to compliance with the anti-money laundering regulations, in consideration of the evolution of the specific regulatory framework and the reports and requests from the Supervisory Authority. The investigations of the foreign branches continued, keeping particular focus on the New York branch, in relation to the proceedings and inspections initiated by the US Authorities.

With reference to the provisions of art. 2408 of the Italian Civil Code, the Supervisory Board, in its capacity as the Control Body, received two complaints, which were formulated by shareholders during the Bank's ordinary Shareholders' Meeting held on 30 April 2010.

The first concerns the events regarding the supplementary pension funds of Cassa di Previdenza IBI. Via the Control Committee, the Supervisory Board had already studied the matter further in relation to a previous request from the shareholder, and involved the Parent Company departments, which provided suitable supporting documentation. The result of the analysis conducted on the specific context – with particular attention to the events which resulted in the Fund being placed under receivership, to the trade union agreements and related aspects concerning labour, civil and criminal law – and the findings set forth, showed that the Bank did not engage in any illegal conduct. Note that civil and criminal proceedings are currently pending on the events in question.

The second report concerns returns on investments in mutual funds made by the shareholder in the period 1997-2003 and, more generally, the service provided by the shareholder's specific branch.

In acknowledging that this report regards a complaint which was previously subject to the Bank's attention, via the Control Committee, the Supervisory Board studied the matter further and involved the Internal Auditing Department. With the aid of the Customer Service and Complaints Service of the Banca dei Territori Division, the Internal Auditing Department reconstructed the events, specifically verifying the amount of funds invested, the movements performed and the effective balances as at March 2003. Overall, no wrongdoing was found in the Bank's conduct.

With regard to the reports made to the Supervisory Board or directly to several of its members, in 2010 a total of 18 complaints were made (33 in 2009) regarding the Bank's core business operations. Via the responsible functions, notified by the Customers Service and Complaints Service, each report was suitably verified, also concerning the necessary reply and, in some cases, reaching an agreement with the complainant. On the whole, the assessment conducted on such complaints did not bring to light any significant omissions or irregularities.

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## 1.2 Compliance with the Articles of Association

The Supervisory Board verifies, on an ongoing basis, compliance with the Articles of Association, in performing its assigned functions, through its constant involvement in issues which must be submitted for its approval.

In 2010 the Bank renewed its corporate bodies. The performance of these duties was overseen by the Supervisory Board also in light of the specific recommendations from Consob and the provisions of the Bank of Italy. Appointments were made also in execution of the commitments between Crédit Agricole and Assicurazioni Generali, which are covered in the Corporate Governance Report and Information on Ownership Structures, to which reference should be made, and of shareholders' agreements between several shareholders; these are also covered in the aforementioned Report, which should be referred to.

The Supervisory Board appointed the Management Board, assessing its composition also in light of the indications set forth in the Corporate Governance Project. It appointed the Chairman and two Deputy Chairmen, and named the Managing Director and the executive Members, for the establishment of the Commissions, as envisaged by the Articles of Association. It also resolved upon the fees for members of the Management Board, in light of the remuneration policy resolved by the Shareholders' Meeting on 30 April 2010.

The Board also approved the procedure for selecting the independent auditors, carried out by the Control Committee and the Manager responsible for preparing the Company's financial reports, for the purpose of presenting its motivated proposal to the Shareholders' Meeting, to which reference should be made, for awarding of the auditing assignment for the years 2012-2020.

The Bank's corporate bodies met regularly during 2010, and the following meetings were held in particular:

- 1 Shareholders' Meeting, also attended by the members of the Supervisory Board;
- 14 Supervisory Board meetings;
- 20 Management Board meetings, attended, in accordance with the Articles of Association, by the members of the Control Committee and the Board Secretary, whereas the Chairman and the other members of the Supervisory Board did not attend;
- 4 Nomination Committee meetings;
- 16 Remuneration Committee meetings;
- 53 Control Committee meetings;
- 6 Strategy Committee meetings;
- 16 Financial Statements Committee meetings.

Moreover, the Supervisory Board issued the opinions required from the Control Body under the Articles of Association, with regard, in particular, to the appointment of the Compliance Manager and the remuneration of the control managers, as well as the appointment, assignment of powers and remuneration of the General Managers. It is noted that, in 2010 the Control Committee was called to issue specific opinions required by Supervisory Authority provisions, including the opinion on the methods used by the Bank for management and coordination of the SGRs and the adoption of the new procedures for managing transactions with related parties.

## 2. Supervision of the compliance with the principles of correct management

The Supervisory Board confirms that, also with the aid of its internal Committees, and within its area of responsibility, it has acquired information on and supervised the compliance with the principles of correct management, through direct observation, information gathering and regular meetings with the managers of the main company functions, together with the Manager responsible for preparing the Company's financial reports.

The Supervisory Board, as part of the strategic supervisory duties assigned to it by the Articles of Association, has:

- examined and approved the 2010 Budget, with support from the Strategy Committee;
- approved, upon proposal by the Management Board and with the favourable opinion of the Control Committee, the new Intesa Sanpaolo Group Regulations on the management of transactions with related parties pursuant to the Consob Regulation adopted with resolution no. 17221 of 12 March 2010, as amended;
- established the Related Party Transactions Committee, composed of independent Members of the Supervisory Board, according to the criteria of the Corporate Governance Code. The Committee became operational from 1 January 2011. Said Corporate Governance Report and Information on

Ownership Structures, to which reference should be made, also covers the composition of said Committee and the aforementioned Group Regulations.

- acquired quarterly reports, in compliance with art. 150, paragraph 1 of the Consolidated Law on Finance, on transactions with a major economic, financial and capital impact carried out by the Bank and its subsidiaries;
- supervised, also via the internal control functions, the observance of obligations envisaged for such transactions according to law and the Articles of Association, confirming that they are not manifestly imprudent, hazardous, in conflict of interest, in contrast with resolutions taken by the Shareholders' Meeting, or in any event likely to compromise integrity of the shareholders' equity.

Specifically, with regard to the supervision of the compliance with the principles of correct management, the Supervisory Board is required to:

- (i) assess and examine the causes and remedies for any management irregularities, performance deviations and gaps in the organisation and accounting structures.

To this end, the Supervisory Board received regular information from the Management Board – all of whose meetings were attended by the Control Committee – in relation to the main data on operations for the period and industry comparison.

In light of the information received, no atypical and/or unusual transactions were carried out with third parties, related parties or intragroup that could give rise to doubts concerning the fairness/completeness of the financial statements, conflicts of interest, the safeguarding of company assets, or the protection of minority interests.

In its Reports on operations and in the Notes to the Parent Company's and consolidated draft financial statements as at 31 December 2010, the Management Board adequately reported and illustrated the most significant ordinary and recurring transactions with third parties and related parties or intragroup, and extraordinary transactions carried out as part of the Group rationalisation plan, describing their characteristics;

- (ii) assess the appropriateness of the general rules and criteria established by the Management Board for the approval and execution of transactions with related parties and on conflicts of interest in general.

In 2010, the rules and criteria for the approval of transactions with related parties were governed by a specific Group Regulation, which required a prior opinion to be given by the Control Committee for the most significant transactions. The Committee, in accordance with said Regulation and in line with the recommendations of the Corporate Governance Code, examined over 40 transactions with related parties during the year, in addition to the renewal of two framework resolutions, in relation to which it gave the required opinion. As specified above, the regulations were adjusted to be compliant with the new Consob provisions.

With regard to the regulation of conflicts of interest, the Bank, in relation to the performance of the investment services and activities, and with the approval of the Supervisory Board, has adopted a specific policy which provides for organisational separation and the management of conflicts through watch lists and restricted lists. A policy is now operational for personal transactions, aimed at preventing the relevant persons, involved in activities that may give rise to conflicts of interest or with access to inside or confidential information, from carrying out personal transactions prohibited under the regulations governing market abuse, or that involve the abuse or disclosure of confidential information, or that breach the regulations governing conflicts of interest;

- (iii) receive notification from the Management Board Members of their interests, in their own name or on behalf of third parties, in relation to the Management Board decisions, together with any relevant information necessary to appreciate the size and extent of the interest.

To this end, the members of the Management Board, as usual, in accordance with the provisions of art. 136 of the Legislative Decree 385 of 1 September 1993 ("Consolidated Law on Banking"), took part in the casting of the favourable vote required for the effectiveness of the Management Board resolutions.

In accordance with the Articles of Association, the Supervisory Board Members who have an interest, in their own name or on behalf of third parties, in a transaction of the Bank that is deemed significant under the Articles of Association (such as a strategic transaction), must provide notification of such specifying the nature, terms, origin and extent of the interest. The Supervisory Board resolution must adequately set out the reasons for the transaction and its suitability for the Bank. In 2010 this type of operation was not submitted to the Board.

1  
Significant  
activities

1 e 2  
Significant  
activities

3  
Adequacy  
of  
information

2.3  
Intragroup  
and related  
party  
transactions

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In view of the above, the Supervisory Board confirms that the principles of correct management have been continuously applied.

### **3. Supervision of the adequacy of the organisational structure of the company within the Board's areas of responsibility and of the internal control system**

#### *3.1 The adequacy of the organisational structure*

Without prejudice to the information reported in the Corporate Governance Report and Information on Ownership Structures, it is noted that the Bank adopts Regulations which define the Group's overall structure and guarantee coordination of governance and compliance with the Group's policy principles.

Said Regulations are the reference discipline for relations between Intesa Sanpaolo and its subsidiaries, as well as between subsidiaries. For the purpose of actual application of the provisions of the Regulations, Intesa Sanpaolo has designed specific reporting procedures and adequate information flows.

The Supervisory Board confirms that, with the specific support from the Control Committee, and within its area of responsibility, it has continued analysing the governance and business units of Intesa Sanpaolo and the Group companies, on the matters of (i) their organisational structure, focusing on the internal control system and relations with other corporate functions of the Parent Company and the Group companies; (ii) the risk management methods adopted by the structures analysed; and (iii) the procedures supporting the activities performed, the organisational structure and the systems vital to operations. In this context, the Committee met with the officers of:

- the Corporate and Investment Banking Division, for in-depth information on the activities, processes and control system relating to the Merchant Banking Division and Banca IMI;
- the Banca dei Territori Division, for in-depth information on the new phase of development and additional rationalisation of the organisational model, as well as on the progress of the reorganisation plan;
- the International Subsidiary Banks Division, for updates on certain international subsidiaries with specific reference to the operations of the internal control committees.

The Internal Auditing Department usually participated in these meetings, providing its contribution in relation to the duties and activities performed by the Committee.

The Control Committee also examined the projects and/or activities aimed at the Group's organisational development and ensuring compliance with regulatory changes. In particular:

- the Committee was informed of the launch of a project for the reorganisation of the consumer credit segment;
- the Committee was updated regarding the foreseen operations of a specific company established under the Romanian law, similar to a network Back Office for Italy and other countries;
- it met with the top management of Moneta, Neos Finance and Eurizon Capital, for in-depth information on their operations, processes and control systems;
- it issued an opinion on the report for the Bank of Italy regarding the methods used by the Parent Company for the management and coordination of the SGR in the Group;
- it continued supervision of the overall credit process, including the analysis of the systems of assigned credit powers.

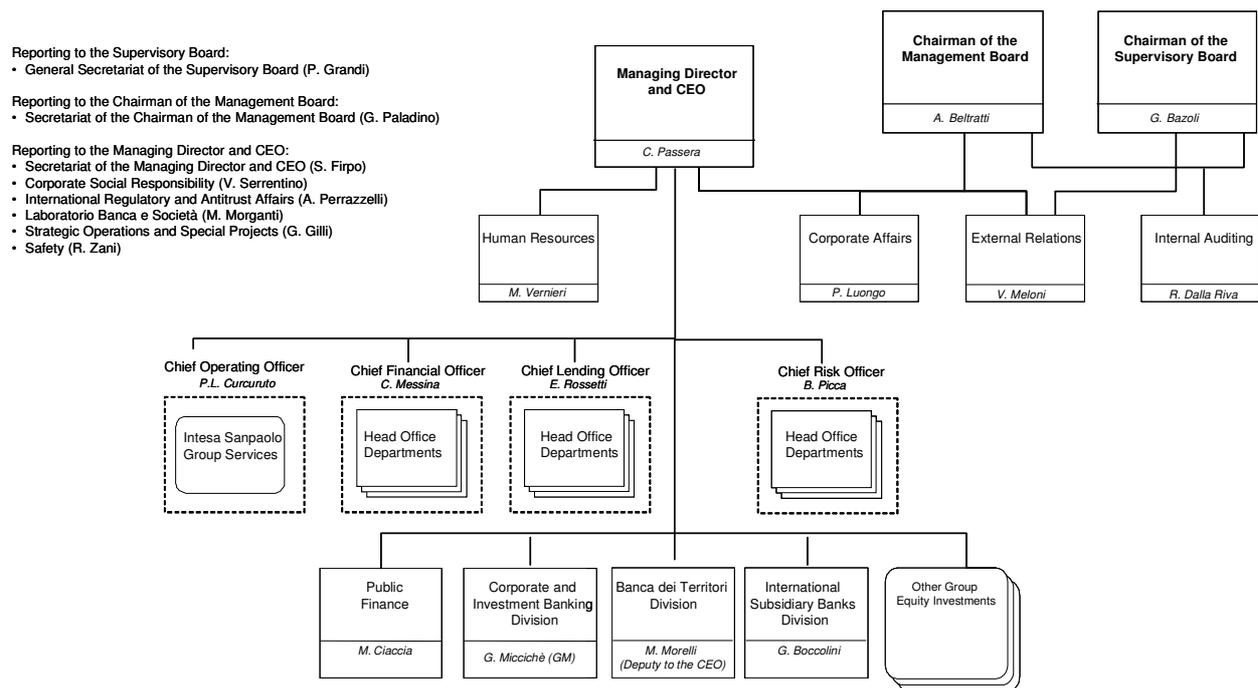
With reference to the adequacy of the internal control system, it is confirmed that the organisational model adopted by Intesa Sanpaolo is based on dividing the governance of control into three levels (business management, risk management and internal audit) and characterised by the separation of the risk management and risk monitoring departments, with the presence of the independent Compliance Department, within the Risk Management Department, as part of the second level controls coordinated by the Chief Risk Officer. The Control Committee verifies that these control functions are provided with suitable resources, in terms of quantity and quality.

The Internal Auditing Department – which amongst other things has to guarantee constant and independent control over the regular performance of Bank operations and processes – was placed under the direct responsibility of the Chairmen of the Management and Supervisory Boards, safeguarding its independence from the operations departments. The organisational structure of this function – which is used primarily by the Supervisory Board, the Control Committee and the Surveillance Body to perform their supervisory and control duties – was the subject of an assessment by the Control Committee.

In the first two months of 2011 an independent company completed a Quality Assessment Review of the Internal Auditing Department, recommended by international standards for the professional practice of Internal Auditing. Based on the outcome of said review, it was deemed that the department operates in a manner that is “generally compliant” with the international standards for professional practice and the Code of Ethics, simultaneously highlighting several areas for improvement regarding the internal quality monitoring programme and activity planning.

It is noted that, in order to safeguard the independence of the control functions, according to the Articles of Association the Supervisory Board issues a favourable opinion on the appointment of the respective managers. The Board’s opinion is also requested when defining the remuneration and incentive systems for the control functions, which must comply with specific parameters, avoiding bonuses linked to the net income for the year.

The organisational chart of Intesa Sanpaolo S.p.A. as at today’s date is shown below.



### 3.2 Adequacy of the internal control system

As already noted above, the internal control system is made up of three levels of controls:

- line controls conducted by operational structures (by the person performing the relevant activity plus hierarchical controls), or incorporated into procedures or back-office activities;
- controls which are under the responsibility of the Chief Risk Officer and include, alongside the activities of the Legal Affairs and Internal Validation units and the Credit Quality Monitoring Unit:
  - o risk management controls run by the relative function, which are aimed at contributing to the definition of risk management methodologies, at verifying compliance with the limits assigned to the various operating functions and at controlling the consistency of the operations of individual productive areas with the assigned risk-return targets;
  - o compliance controls run by the relative function, which are aimed at preventing the risk of incurring legal and administrative penalties, significant financial loss or damage to reputation as a consequence of infringements of laws and regulations or voluntary codes;
- internal auditing activities run by the Internal Auditing Department, an independent structure from the operational structures, whose aim is to identify anomalous operations and breaches of procedures and regulations, and to assess the overall functioning of the internal control system.

The control system is described in detail in the Corporate Governance Report and Information on Ownership Structures, to which reference should be made, and involves the participation of the corporate bodies, the Manager responsible for the Company’s financial reports, the specific internal control functions, and also of the Surveillance Body pursuant to Legislative Decree 231/2001, discussed in more

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detail below. The Independent Auditors, within their area of responsibility, also form part of the internal control system. This system, including the important role of the Control Committee as a permanent reference point for all internal control structures and functions, is closely linked to the Supervisory Board, the body which heads the overall control system. In this role, the Supervisory Board receives a continuous flow of information through the operations of the Committees and from the managers of the control functions.

### 3.2.1 Activities of the heads of the internal control functions

– The Risk Management Department, as part of its wider duties, submitted the following to the Control Committee:

- the Risk *Tableau de Bord*, which provides the Committee with an overall view of the Group risk, on a quarterly basis;
- a progress status report on the Basel 2 Project, with regard to which the Committee obtained updates and requested further information on the main risks, also with regard to internal risk measurement systems for the determination of capital requirements, adopted upon authorisation from the Bank of Italy.

In particular, the Department:

- submitted updates on the use of internal systems (IRB) to calculate credit risk for the Regulatory Corporate segment, also with regard to the changes made to the roll out plan (to be revised on a half-yearly basis) and illustrated to both the Control Committee and the Supervisory Board the application for authorisation to use the AIRB method for said segment, as well as the related corrective actions requested by the Bank of Italy in the pre-authorisation phase;
- with regard to market risk, it submitted to the Committee the progress of corrective actions required by the Bank of Italy on authorisation for the rollout of the internal model to commodity risk;
- with regard to operating risks, it submitted the change in the plan for roll out of the AMA advanced method and, at the beginning of 2011, the certifications for use of the TSA approach for 2011.

The work of the Risk Management function also involved the internal capital adequacy assessment process (ICAAP), in relation to which, also upon recommendation by the Committee, it examined various aspects (including the criteria for constructing the stress scenarios taken into consideration in the capital adequacy assessment).

– The Compliance Department, in accordance with the functions assigned to it, provided the Control Committee with:

- the institutional and periodic reports on the work carried out, on the compliance risk that the Group is exposed to and the related controls, on the planning of the measures to be implemented and on the results of the assessments of the investment services provided to customers;
- updates on the “Transparency” project, aimed at the planning and implementation of the necessary organisational and procedural measures to ensure compliance with transparency regulations issued by the Bank of Italy;
- updates on the assessment of non-compliance risks and on the sizing of its structure;
- information on the progress of the MiFID Project. In this regard, several changes to the Intesa Sanpaolo policies for order transmission and execution and for the management of conflicts of interest were submitted to the Supervisory Board, after assessment by the Control Committee. With regard to the policy on conflicts of interest, the Compliance Department illustrated to the Committee the regulation for the application of said policy on the matter of watch, insider and restricted lists.

The Committee was informed on the results of the Consob inspection conducted in 2009 and on the measures for the purpose of resolving the issues requiring attention indicated by the Supervisory Authority.

The Department also conducted a preventive analysis on the documentation concerning the Medium/Long-term Incentive Plan, submitted for approval by the Shareholders' Meeting of 30 April 2010, as well as the short-term incentives system of Banca dei Territori.

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- The Internal Auditing Department is the primary structure used by the Committee to perform its supervisory duties and it usually attends the Control Committee meetings, through its head, keeping it continually updated on the work carried out and planned, in accordance with the annual audit plan approved by the Management Board and the Supervisory Board at the beginning of the year.

In performing its functions, the Department:

- reports to the Control Committee, on a quarterly basis, on the work performed and, in describing the action taken during the period, highlights any critical areas identified and the plan of remedial actions, with the aid of a Tableau de Bord;
- reports regularly to the Control Committee on the actions taken by the Supervisory Authorities in relation to foreign branches and subsidiaries and companies abroad, also submitting its own reports;
- prepares the Report on the assessments of the foreign branches;
- then, at least once a year, it submits its own considerations and assessments of the overall internal control system;
- draws up the annual report on the assessments of the mechanisms used to ensure that the remuneration policies comply with the laws and regulations, to be reported to the Shareholders' Meeting. The outcomes of these assessments are set forth in Part II of this report.

In accordance with its duties, after analysis and discussion with the Control Committee, the internal auditing function prepared a variety of informational reports for the corporate bodies, such as: the annual report for 2009 on the internal model for measurement of market risk; the annual report on the internal system for the measurement of credit risk for the Regulatory Corporate segment, in light of the improvement actions required by the Bank of Italy; the report on the advanced internal rating based (AIRB) system for measuring credit risk for the Regulatory Corporate segment, for the purpose of submitting the application to the Bank of Italy; and the annual report on the work carried out by the international subsidiaries. The Department conducted the analysis and self-assessment of the ICAAP.

### *3.2.2 The Surveillance Body pursuant to Legislative Decree 231/2001*

The Control Committee is also the Bank's Surveillance Body, pursuant to Legislative Decree 231 of 8 June 2001, on matters relating to corporate administrative liability (hereinafter also referred to as the "Body").

The Body is responsible for supervising the functioning, effectiveness and observance of the "Organisational, Management and Control Model" adopted by the Bank in accordance with the aforementioned Legislative Decree 231/2001 (the "Model").

This Model, with reference to the composition of the Surveillance Body, requires the presence of additional members, who have been confirmed by the Supervisory Board on the renewal of the Surveillance Body, resolved by the Board on 7 May 2010.

Committee activities as the Surveillance Body are governed by the Regulations for the Control Committee and Surveillance Body. According to these Regulations, the Body meets regularly to monitor (through the Compliance Department) the efficiency, effectiveness and adequacy of the Model and (through the Internal Auditing Department) the compliance with its provisions, reporting regularly to the Management Board and the Supervisory Board. In 2010, the Body met 14 times, supervising anti-money laundering issues and analysing numerous issues relating to the observance and implementation of the Model, which was updated in the light of the changes introduced by the related legislative and regulatory developments.

The Body received information about the work carried out by the Surveillance Bodies of the Italian subsidiaries and about the staff training in relation to their administrative liability.

The Code of Ethics assigns the Control Committee, in its capacity as Surveillance Body, the task of supervising the observance of the principles and values of the Code, with the aid of the delegated structures (the Internal Auditing Department and the Corporate Social Responsibility Unit). In this regard, the Body examined the annual report produced by the Corporate Social Responsibility Unit on its implementation.

### *3.2.3 Other activities of the Supervisory Board*

In addition to all of the above, the Supervisory Board:

- monitored, through the Control Committee, the changes in the loan portfolio of the Parent Company and the Group banks and its degree of concentration. In this context, the Committee further examined the Group's credit commitment and the risks;

- confirmed that the Intesa Sanpaolo Group complies with the organisational and quantitative requirements set forth by prudential supervisory regulations for the use of the FIRB system;
- received information on the inspections, and their progress, carried out by the Supervisory Authorities at the Parent Company and its subsidiaries. In this regard, inspections launched by the Bank of Italy in 2010 are still underway, for the purpose of assessing the internal models for the measurement of market risk, as well as interest rate risk and the related governance, management and control processes. In 2011 the Bank of Italy launched an additional inspection focused on the Chief Financial Officer's scope of responsibilities, for the purpose of verifying the adequacy of the Group's strategic planning processes and the related Information Technology tools, as well as the level of integration of the ICAAP process in strategic planning, at consolidated level.
- The investigations in relation to the control processes for reputation risk of the Group were concluded in 2010. The results of these inspections highlighted points of action for which corrective measures are being implemented. The verification conducted by the Supervisory Authorities as part of the process of authorising the Intesa Sanpaolo Group to use the internal system for the calculation of the capital requirements for commodity risk at consolidated level and at individual level for the subsidiary Banca IMI was also concluded. The results of this verification highlighted points of action for which improvement measures are underway.

The Supervisory Board, in performing its strategic supervisory role, is the Body responsible, upon recommendation by the Management Board, for:

- approving the adoption of internal risk measurement systems for the calculation of capital requirements. In this regard, the Board, through the Control Committee, analysed and verified the process for the use and/or rollout of the internal risk management systems for the calculation of the capital requirements and, with reference to:
  - credit risk, it approved the update of the rollout plan with regard to the internal model according to the internal rating based approach (IRB) for the Regulatory Corporate segment, and the application for authorisation of the advanced model (AIRB) limited to the Regulatory Corporate segment. In this regard, with provision dated 8 March 2011, the Bank of Italy authorised the Intesa Sanpaolo Group to use the AIRB system to calculate capital requirements for the "loans to businesses" asset class, starting from the consolidated and individual reports as at 31 December 2010. In 2010 the Authority authorised the Group to use the IRB system for calculating consolidated and individual capital requirements for the "residential mortgages to private individuals" regulatory segment
  - market risk, it is noted that in 2010, the Bank of Italy authorised the Intesa Sanpaolo Group to use the internal model for the calculation of the capital requirements for commodity risk at consolidated level and at individual level only for the subsidiary Banca IMI.
- the approval of the report on the internal capital adequacy assessment process (ICAAP).

Regarding the latter issue, the Supervisory Board conducted a specific analysis of the capital adequacy of Intesa Sanpaolo and investigated, through the Control Committee, the criteria for setting up stress scenarios, also taking into account the increase in sovereign risk. The related results were published by the Supervisory Authorities on an individual basis.

During 2010, the information flow from the various Bank departments to the Control Committee – and therefore indirectly to the Supervisory Board – was consolidated. In addition to the regular reporting by the internal control functions – Risk Management Department, Compliance Department and Internal Auditing Department – important information was also provided by the Manager responsible for preparing the Company's financial reports on the work carried out, the problems identified and the actions taken to address them, as well as the assessments of the internal control system for accounting and financial reporting. Furthermore, the Control Committee periodically meets the Managing Director and CEO in order to discuss issues considered significant for the efficiency and effectiveness of the internal control system.

### *3.3 Assessment of the adequacy of the control system*

On conclusion of the work carried out in 2010, as reported to the Management Board and the Supervisory Board, the Internal Auditing Department issued an opinion of overall adequacy of risk governance, and noted that the evolution of the points of action indicated in the *Tableau de Bord* demonstrated a good level of mitigation.

Taking into account the results of the supervisory activities conducted, also via the Control Committee, as

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well as the information provided by the relevant departments on a case-by-case basis, the Supervisory Board agrees with the opinion issued by the Internal Auditing Department, and confirms its commitment to monitor the information concerning the *Tableau de Bord*, with the support of the Control Committee.

#### **4. Supervision of the adequacy of the accounting information system and its reliability in correctly representing the operational events**

##### *4.1 Adequacy of the accounting information system*

The Parent Company's and the consolidated financial statements as at 31 December 2010 have been prepared in accordance with the Legislative Decree 38/2005, the IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission, as established in Community Regulation 1606/2002. The financial statements have been prepared based on the "Instructions for the preparation of the separate and consolidated financial statements" pursuant to Bank of Italy Circular 262 of 22 December 2005, most recently amended in November 2009, which set out compulsory financial statement forms and their means of preparation, as well as the contents of the Notes to the financial statements

The Financial Statements Committee, also in joint meetings with the Control Committee, and with the attendance of the Manager responsible for preparing the Company's financial reports, dedicated several meetings to the examination of the procedures for the preparation of the 2010 financial statements, with particular reference to the following matters: changes in the accounting and supervisory regulations; structure and content of the 2010 financial statements; corporate transactions underway/carried out during the period; the assessment of equity investments; legal and tax disputes; loans; financial instruments; operating costs; extraordinary income and expenses; taxation; and impairment testing of intangible assets.

The disclosure to the public under the provisions of the Pillar 3 prudential supervisory regulations is provided on the Bank's internet site within the term required for publication of the financial statements.

The Supervisory Board, primarily with the aid of the Financial Statements Committee, monitored the preparation of corporate accounting documents, questioning the Financial Reporting Manager on the main points of action and the solutions adopted, assessing the correct use of the accounting standards and their consistent application in the preparation of the Parent Company's and consolidated financial statements as at 31 December 2010, also in order to correctly fulfil its duty in relation to the approval of the financial statements. With regard to the impairment tests, the Supervisory Board, again with the aid of the Financial Statements Committee, verified the compliance of the procedure with the provisions of IAS 36 and its specific approval by the Management Board. The Financial Statements Committee, together with the Manager responsible for preparing the Company's financial reports, also conducted a further analysis of the deferred tax assets and liabilities. Specific attention was also paid to the regulatory capital and capital ratios, also in the light of the recommendations made on this subject by the Bank of Italy to the banking industry in its note of 12 March 2010.

In 2010, the project relating to the "Target Accounting Model" – aimed at unifying the models used by the various Group entities, reducing manual reconciliations and, more generally, increasing the efficiency and effectiveness of the accounting system continued – while the "Group Accounting Manual" was adopted as the document that formalises the accounting policies and implementation models to be adopted by the entire Group.

The Manager responsible for preparing the Company's financial reports, with the aid of the Administrative and Financial Governance Unit – the structure responsible for performing the controls needed for the accounting and financial reporting – provided regular information on the implementation of the Guidelines for Administrative and Financial Governance, with an update on the steering and coordination activities for Group companies and to strengthen the GAF system.

##### *4.2 Meetings with the Independent Auditors*

The Supervisory Board, through the Control Committee (also in light of the provisions of the Legislative Decree 39/2010) and the Financial Statements Committee, and together with the Manager responsible for preparing the Company's financial reports, met with Reconta Ernst & Young S.p.A. 11 times in 2010, in accordance with art. 150, pars. 3 and 5 of the Consolidated Law on Finance.

The meetings offered the opportunity, among other things, to examine the work carried out by the external auditors in relation to both the "Management Letter", which illustrates several aspects of the internal control system in relation to the financial reporting process, and the 2010 audit plan for the

formulation of their opinion on the Parent Company's and the consolidated financial statements of the Bank. Through its Committees, the Supervisory Board monitored the implementation of the corrective measures planned by the management to address the aforementioned aspects of the internal control system, which were not deemed to be significant defects worthy of reporting.

The Financial Statements Committee and the Control Committee also held meetings with the Independent Auditors and the Manager responsible for preparing the Company's financial reports, in the early months of 2011, in preparation for the approval of the Parent Company's and consolidated financial statements as at 31 December 2010.

#### *4.3 Reports of the Independent Auditors*

On 29 March 2011, the Independent Auditors issued their Reports, pursuant to art. 39 of the Legislative Decree 39/2010, on both the Parent Company's and consolidated financial statements as at 31 December 2010, with no exceptions. Specifically, the Reports confirm:

- (i) that the two documents as at 31 December 2010:
  - comply with International Financial Reporting Standards adopted by the European Union and with provisions issued in enactment of art. 9 of Legislative Decree 38/2005;
  - have been drafted clearly and provide a true and fair presentation of the balance sheet and financial position, the income statement, and the cash flows;
- (ii) the consistency of the Reports on operations and the information referred to in par. 1) letters c), d), f), l), and m) and par. 2, letter b) of art. 123-bis of the Legislative Decree 58/1998, presented in the "Corporate Governance Report and Information on Ownership Structures".

#### *4.4 Reliability of the accounting information system in correctly representing the operational events*

Based on the evidence analysed and the information provided by the Manager responsible for preparing the Company's financial reports to the Supervisory Board, concerning the efficiency and adequacy of the internal control system for financial reporting, the Bank's administrative and accounting system can be deemed capable of ensuring a fair representation of the operational events.

### **5. Supervision of the independence of the Independent Auditors**

In order to supervise the independence of the Independent Auditors and verify compliance with the regulatory provisions, and monitor the nature and extent of the services other than accounts auditing provided to the Bank and its subsidiaries by the same Independent Auditors and by the entities belonging to its network, the Bank has adopted a Group Regulation for the granting of assignments to independent auditors and for the provision of audit and other services. This regulation, in addition to the role of "Main Auditor", which coincides with the External Auditor of the accounts of a quoted Parent Company (Public Interest Entity pursuant to the Legislative Decree 39/2010), also identifies the "Secondary Auditor", namely the Independent Auditors engaged to perform the audit of certain significant Italian and foreign subsidiaries, and the Independent Auditors' network and the entities connected to it. This Regulation lays down the operational rules to be observed in order to ensure proper management also with regard to safeguarding the independence of the Independent Auditors and provides for regular reporting to the bodies on the assignments granted.

The Independent Auditors are required to monitor the continuance of the auditor's conditions of independence, for which it has issued the aforementioned written confirmation.

The independent auditors appointed by the Parent Company and the other Group Companies are Reconta Ernst & Young S.p.A., assigned to audit the annual and consolidated accounts and, specifically, to verify, during the year, the regular keeping of corporate accounts and the proper recording of management operations in the books, and to express, through the appropriate reports, an opinion on the Parent Company's and consolidated financial statements, as well as on the half-yearly report, after ascertaining that they correspond to the accounting entries and related audits and that such records comply with the relevant regulations. The audit activities include verification of the balance sheets and income statements of branches abroad with regard to their inclusion in the Bank's financial statements, limited audit of the Half-yearly Report including limited audit of half-yearly positions of branches abroad for inclusion in the Bank's Half-yearly Report, examination of information provided for the preparation of consolidated annual and half-yearly reports, audit of the financial statements of the vehicle company and the statements of consolidated funds, review in relation to the signing of tax returns and declarations submitted to the National Guarantee Fund.

With regard to these assignments and to other additional audit activities (resulting from both regulatory changes and reorganisations and business combinations) the amounts paid in 2010 are indicated under “audit” in the statement on “Fees for auditing and services other than auditing pursuant to art. 149-duodecies of Consob Regulation 11971” provided as an attachment to the Annual Report 2010.

Reconta Ernst & Young S.p.A. and other entities “related by ongoing relations” were also appointed, in compliance with the requirements of the abovementioned Group Regulation, to perform tasks in addition to those indicated above, the fees for which, excluding reimbursed expenses and VAT, are detailed below.

## Fees for services other than auditing

(millions of euro)

Type of service	Intesa Sanpaolo		Group Companies (*)	
	Reconta Ernst & Young Network			
Release of attestations (**)	1.8	-	0.9	-
Tax consulting services	-	-	-	-
Other services:	1.3	0.2	1.9	-
<i>agreed audit procedures</i>	1.2	0.2	1.9	-
<i>social report audit</i>	0.1	-	-	-
<i>other</i>	0.02	-	-	-
<b>TOTAL</b>	<b>3.1</b>	<b>0.2</b>	<b>2.8</b>	<b>-</b>

(\*) Group companies and other fully consolidated subsidiaries.

(\*\*) Including costs for voluntary audit of Pillar 3 Disclosure.

Amounts net of VAT and reimbursed expenses.

Under the Group Regulation these tasks can be classified in part as audit related, in other words as tasks that involve activities that are an extension of the audit assignment or activities assigned under the law or by an Authority and therefore do not entail a particular “threat” to the external auditor’s independence. The majority of these tasks relate to the professional opinion on the Social Report, the issue of certifications on behalf of the Group (particularly significant for specific agreed upon procedures, verifications for the “Pillar 3” disclosure, certifications pursuant to SAS 70, etc.), of the various Supervisory Authorities, of the Market bodies (comfort letters, opinions, etc.), as well as fairness opinions required by law for extraordinary transactions (accounting due diligence for mergers between funds, transfers of businesses with capital increases, etc.).

The non audit tasks – which can constitute a limitation to the external auditors’ independence – have been avoided by the Parent Company in relation to its external auditors and by the Group companies in relation to both the Parent Company’s external auditors and its own external auditor.

## 6. Supervision of the methods for the implementation of the corporate governance rules laid down in the Corporate Governance Code for listed companies promoted by Borsa Italiana S.p.A.

The Corporate Governance Report and Information on Ownership Structures of the Bank – already referred to several times above and monitored by the Control Committee – provides a detailed description of the current dual corporate governance system of Intesa Sanpaolo S.p.A. and comprehensive information on the procedures used by the Bank to adapt and implement the recommendations of the corporate governance code published by Borsa Italiana S.p.A. in March 2006.

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Adoption of  
the  
Corporate  
Governance  
Code

## 7. Supervision of the adequacy of the instructions issued by the company to its subsidiaries pursuant to art. 114, par. 2 of the Consolidated Law on Finance to comply with the legal requirements

Existing Group regulations and procedures are deemed fit for Intesa Sanpaolo to promptly meet disclosure obligations in accordance with current regulations.

In general, the information flows between the Parent Company and its subsidiaries continue to guarantee an effective exchange of information between Intesa Sanpaolo’s corporate bodies and the respective bodies of the subsidiaries – also through the relevant functions - with regard to corporate governance

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Disclosures

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systems and the overall performance.

Contacts with the corresponding bodies of subsidiaries and reports submitted by the Internal Auditing Department on controls performed on subsidiaries did not bring to light any critical elements to be reported.

## 8. Conclusions summary

With regard to conclusions drawn on supervisory activities performed by the Supervisory Board as described above, reference should be made to the content of the individual headings.

It is also confirmed that no omissions, reprehensible facts or irregularities emerged worthy of report to the Shareholders.

## PART II

### OTHER INFORMATION

#### 1. Remuneration and incentive policies adopted by Intesa Sanpaolo. Results of the audit carried out by the Internal Auditing Department

Also in 2010, the remuneration and incentive systems have been the subject of attention by Intesa Sanpaolo's corporate bodies.

The Bank of Italy, through its Supervisory Provisions concerning Banks' organisation and corporate governance, also ensures that the Shareholders' Meeting is provided with adequate information on the implementation of remuneration policies. This fulfilment was emphasised by the Authority with note of 23 March 2011.

The Corporate Governance Report and Information on Ownership Structures, to which reference should be made, contains a specific chapter describing the remuneration and incentive systems adopted by the Bank in 2010 for the Supervisory Board Members, the Management Board Members, the General Manager, the management, the Manager responsible for preparing the Company's financial reports, the heads of the internal control functions and the employees in general, based on the responsibilities assigned to the bodies and Officers, which are in line with the Supervisory Provisions concerning Banks' organisation and corporate governance.

There is reason to believe that the "qualitative" information contained therein complies with the instructions from the Bank of Italy, while the Parent Company's relevant functions are assessing the methods for presenting to the public a more detailed account of the remuneration paid to the top management in 2010.

Investigations are also underway of the impacts on the Group's current incentive systems of the new Supervisory Provisions on banks' remuneration and incentive policies and practices, published by the Bank of Italy on 31 March 2011, also for the amendments and supplements to be submitted to the corporate bodies, for matters under their responsibility.

The Bank of Italy also required that the internal auditing function assess, at least annually, the mechanisms used to ensure that the remuneration policies comply with the laws and regulations in force, that said function report any anomalies found to the relevant bodies and functions for the adoption of the necessary corrective measures, and that the results of said assessment be reported to the Shareholders' Meeting on an annual basis.

The Internal Auditing Department of Intesa Sanpaolo carried out the audit in question, in order to verify that operating practices carried out in determining the incentives system, on the results achieved in 2010, is in line with the policies resolved by the bodies, reported to the Bank of Italy, and guidelines established by the regulator.

The audit plan is broken down into two separate stages, regarding:

- 1) proper implementation of the process for quantification and approval of the 2010 short-term and long-term incentives system and its components (estimate of economic requirements, measurement of results achieved, identification of beneficiaries, recognition to the Key Managers and Internal Control Managers);

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- 2) the effective payment of the short-term incentives, planned for May-June 2011, to verify alignment with what is defined and approved by the relevant corporate bodies.

The internal audit department specifies that the assessment of the compliance of the incentives system with the regulatory framework was conducted by the Compliance Department in 2010. The results were submitted to the attention of the Supervisory Bodies, including the long-term incentives system approved by the 2010 Shareholders' Meeting, which has not yet been applied as it is connected to the new Business Plan, approved by the Management Board and the Supervisory Board on today's date, as far as their responsibilities are concerned.

The remunerations policies adopted by the Bank will most likely be revised, correlated with a new incentives system and with regard to said new Plan and in light of the issue of the aforementioned new Supervisory Provisions on banks' remuneration and incentive policies and practices, in application of Directive 2010/76/EC of 24 November 2010. The adjustment of the incentives system will thus be subject to attention in the second phase of the audit.

The audits carried out by the Internal Audit Department are, therefore, concentrated on the short-term incentives system, linked to the 2010 results.

In this regard, the Internal Auditing Department confirms that the remuneration policy, applying consolidated practice and in line with the regulatory principles, is set up according to principles of (remunerative) fairness, (performance) merit, and sustainability (of costs). The incentives system follows an intricate process, with defined procedures for measuring performance and determining the variable portion of compensation, divided according to the role and type of work performed. The assignment of the variable component is linked to the performance appraisal, which certifies the level of achievement of the quali-quantitative targets assigned.

The Internal Auditing Department verified that the criteria applied in calculating and allocating the incentive system for the Business Areas are consistent over time, based on the results achieved at Group level and at the level of each individual Unit.

Bonuses for Top Management are in line with what was defined by the bodies and correspond to the indications set forth in Part "H" of the Notes to the consolidated financial statements, which also correctly reports the fees due to the members of the Management Board. Based on the outcome of the audit, the Internal Auditing Division judged the annual incentives system to be adequate, with specific reference to the main aspects referred to by the regulator: objectivity of bonuses, stability of capital and contractual obligations with management.

Compared to 2009, the Internal Auditing Department also found concrete improvements in the metrics for defining targets and assessing the control functions. It was suggested that the opportunity be taken to complete the convergence of the various systems adopted by the international subsidiary banks towards the Parent Company's standards, as well as providing suitable disclosure to the competent corporate bodies on one-off measures, where these can be classified as types of advance incentives of significant amounts.

The audit process will be completed with the verifications of the correctness of the disbursement process.

## **2. Allowance for charitable, social and cultural contributions**

The Intesa Sanpaolo Articles of Association assign the Supervisory Board and its Chairman duties with regard to the use of the "Allowance for charitable, social and cultural contributions". A brief summary is provided here of the work carried out in 2010, in compliance with the specific Regulation adopted by the Supervisory Board.

The definition of the operational processes for the implementation of the Regulation continued. Specifically, this regarded the local donations, meaning donations of limited amounts which will be autonomously managed by Banca dei Territori, as part of the annual Disbursement Plan approved by the Supervisory Board, with the objective of supporting local projects of significant social and cultural value. In this regard, the IT procedures to be used for managing the donations are being fine-tuned.

On the contrary, the planning of the interventions is fully on stream, through the adoption of a yearly plan. This instrument demonstrated its validity in managing applications, operating as both an additional "filter" in relation to the Regulation, and a driver to achieve the pre-set results with the donations.

At operating level, in 2010 389 applications for donations were received, of which 190 were approved and disbursed, for a total amount of 7,241,321 euro. Compared to 2009, there were increases of 12% in number and 47% in amount. The breakdown between the national and international spheres reveals that

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59% of the amounts (equal to 81% of the number of applications) were designated for the support of initiatives in Italy. It is noted that the difference in the impact between the number of applications and the amounts disbursed was due to the Bank's strong commitment to the Malawi Project II (to which over 2.3 million euro was allocated in 2010, corresponding, in terms of amount, to 32% of the total disbursement) and the support of other major projects. The disbursements for social projects represented 74% of the total amount (66% in 2009) and 55% in terms of number. The disbursements of a "religious/charitable" nature represented 13% in terms of amount (35% by number) and the "cultural" disbursements stood at 13% in terms of amounts disbursed (11% by number of applications approved). Compared to what was planned, provisions for international interventions were used in full. On the contrary, there was a slight negative deviation in the provisions for projects in Italy. This performance is attributable to the fact that the 2010 Plan included the activation of local donations, as mentioned, postponed due to organisational difficulties.

A more in-depth analysis of the Bank's activities via the Allowance can be found in the specific section of Intesa Sanpaolo's Social Report 2010.

### **3. Allocation of net income for 2010**

Management Board has resolved to propose to the next Shareholders' Meeting the distribution of one billion euro of dividends, amounting to 0.08 euro per ordinary share and 0.091 euro per savings share.

The Supervisory Board has no objections to the Management Board proposal to the Shareholders' Meeting regarding the allocation of net income for the year ended 31 December 2010.

### **4. Proposed share capital increase**

Based on the capital ratios at the end of 2010, including a Core Tier 1 ratio of 7.9%, Intesa Sanpaolo's capitalisation complies with the Basel 3 requirements. The current version of this regulation requires that capitalisation guarantee a minimum common equity ratio of 7% in order to maintain, among other things, the necessary flexibility in decision making on the matter of dividends and remuneration policies.

The Intesa Sanpaolo Group intends to face the competitive context and the uncertainties in future economic scenarios with a common equity ratio higher than this threshold. This is the framework for the proposed share capital increase of 5 billion euro, for the purpose of strengthening the levels of capital of Intesa Sanpaolo by increasing the capital ratios by approximately 150 basis points compared to the financial statements as at 31 December 2010.

This consolidation will improve the Group's competitive position in Italian and European financial markets, and the additional available resources will enable the Group to increase penetration in its reference markets, finance organic growth and provide greater strategic flexibility.

More specifically, the proposed increase would raise Intesa Sanpaolo's shareholders' equity to 58.5 billion euro compared to 53.5 billion euro as at 31 December 2010 on a *pro forma* basis, improving its risk profile by decreasing financial leverage (expressed as the ratio of Tangible Total Assets to Tangible Net Shareholders' Equity) which would decrease from 22.1x in pro-forma year-end 2010 to 18.9x (-14.2%).

The improvement in consolidated capital ratios as at 31 December 2010, taking into account transactions currently being finalised, would see the Core Tier 1 ratio increase from 8.1% to 9.6% following the share capital increase, with a significant margin on the minimum requirements mentioned above. The increase in capital will also generate benefits on the interest margin which can be estimated at approximately 120 million euro in 2013 and approximately 150 million euro in 2015.

Therefore, the Supervisory Board has authorised the Management Board's proposal, to be submitted to the next Shareholders' Meeting, regarding the share capital increase for a total of 5 billion euro, including share premium, to be carried out by 31 December 2011. For details, please see the specific report of the Management Board.

Torino, 5 April 2011

For the Supervisory Board  
the Chairman – Giovanni Bazoli