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# Report of the Supervisory Board to the Shareholders' Meeting on the supervisory activities performed in 2011

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

Distinguished Shareholders,

As you are aware, 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.

Accordingly, in the first part of this document, the Supervisory Board, reporting on the activities performed in view of approval of the Parent Company's and consolidated financial statements, illustrates the supervisory activities performed in 2011 pursuant to art. 149, par. 1, of the Consolidated Law on Finance and the Articles of Association.

To perform this activity, the Supervisory Board has routinely availed itself of its own internal Committees, which provide the Board as a whole and its individual members with appropriate and timely in-depth data feeds on the matters they are responsible for, including precise and detailed reports on the activity performed by each Committee and remarks and opinions on the matters covered.

In particular, in accordance with the Articles of Association and the requirements of the Bank of Italy, the Control Committee is the permanent reference point for the organisational structures of the Bank that perform control functions. Information on the composition, structure and operation of the Control Committee and the other Committees is provided in the Report on Corporate Governance and Ownership Structures – Report on Remuneration ("Annual Report") approved by Intesa Sanpaolo's Corporate boards on 15 March 2012 and 17 April 2012 each within the scope of its remit.

The roles performed by the Chairman of the Supervisory Board – focused on the supervision and activation of the corporate bodies – and the Director and Secretary to the Board – aimed at ensuring the liaison for all the Board's activities and improving their supervision – also contribute to discharge of the Supervisory Board's duties.

On this point, the Supervisory Board, acting in accordance with the provisions of the Bank of Italy and with the Corporate Governance Code for listed companies, carried out the routine self-assessment to verify, in the light of its duties and powers, that all activities had been exhaustively carried out and whether any areas required more focused attention. The duties assigned to the Supervisory Board were considered adequately fulfilled, and the Committees and Board were deemed to be suitable for the effective performance of their respective functions.

In reporting on the supervisory activities performed in 2011, the Supervisory Board takes into account the recommendations issued by Consob in its Communications, in particular 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.

This Report also provides information on the performance of the other functions assigned to the Supervisory Board by the law and the Articles of Association. Accordingly, the second part of this Report provides information on:

- (i) the Allowance for charitable contributions and the cultural initiatives;
- (ii) the results for 2011.

Please note that, differently from the practice of past years, the outcomes of the checks carried out by the Internal Auditing Department on remuneration and incentive policies are reported under the Report on Remuneration, included in the Annual Report.

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Given all of the above, the Supervisory Board:

- a) confirms that on 17 April 2012 it approved the Annual Report within the scope of its remit, pursuant to art. 123-ter 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 2012 the Management Board approved the draft Parent Company's and consolidated financial statements as at 31 December 2011 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 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 2011, 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 balance sheet, cash flows and income statement 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 information on the main risks and uncertainties that the Bank and the Group are exposed to;
  - on 15 March 2012 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 23 April 2012 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 2011, with no exceptions;
  - by resolution of 26 April 2012, the Board approved the financial statements of Intesa Sanpaolo and the consolidated financial statements of the Group as at 31 December 2011;
- c) with regard to liaison with the Boards of Statutory Auditors of the Italian subsidiaries, the Board wishes to draw your attention to the significant role played 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. This report provides information on an event concerning the relations of two Group banks with a common customer, which the Chairman of the Supervisory Board relayed to the Bank of Italy.

## 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

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## 1-1 Compliance with the law

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

After the entry into force of Legislative Decree no. 27 of 27 January 2010, implementing Directive 2007/36/EC (Shareholders' Rights) on the exercise of certain rights of shareholders in listed companies and of Legislative Decree no. 39 of 27 January 2010, implementing Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, the Supervisory Board in its resolution of 8 February 2011, subsequent to the Bank of Italy's measure pursuant to art. 56 of the Consolidated Law on Banking, approved certain amendments to the Articles of Association, pursuant to art. 25.2, letter c) of the same.

On this point, the Supervisory Board:

- with regard to the regulations governing the transparency of banking and financial services, through the Management 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, including the "Transparency Project";
- with regard to the regulations governing the performance of investment activities and services, upon recommendation by the Management Board, approved updates to specific rules on the matter and monitored the methods used to provide these services, also by examining the regular reports from the Compliance Department and the Internal Auditing Department and the annual reports from such control departments and the Risk Management Department;
- through the Control Committee and the Financial Statements Committee, investigated tax accounting, including the recognition of deferred taxes, and the Group's tax litigation. Intesa Sanpaolo has reached a settlement with the Agenzia delle Entrate in disputes on misuse of a right.

In addition, the Supervisory Board implemented the Italian Competition Authority's measure no. 21966 of 22 December 2010, which is designed to preclude Assicurazioni Generali from influencing or obtaining insider information on the Bank's decisions in insurance matters. On this point, the Board has adopted specific organisational procedures covering proceedings of the Boards and Committees and participation in such proceedings by interested parties, in this case Assicurazioni Generali.

Particular attention was paid, also with the Surveillance Body's support (pursuant to Legislative Decree 231/2011), to compliance with anti-money laundering legislation, in view of the evolution of the regulatory framework and of the notices and requests from the Supervisory Authority. Accordingly, having regard to the provisions of the "Stability Law" (Law 183/2011), last February the Supervisory Board approved simplification of the Group subsidiary companies' Surveillance Bodies. Consequently, the Group's subsidiaries will be able to submit to their Meetings the proposal to assign such role to their Board of Auditors, on expiry of the current Surveillance Bodies' mandates.

Investigations on the foreign branches continued, keeping a strong focus on the New York branch, in relation to the proceedings and inspections initiated by the US Authorities, and on the Banca IMI London branch, subsequent to the information requests made by the UK Authorities.

With reference to the provisions of art. 2408 of the Italian Civil Code, the Supervisory Board, in its capacity as Control Body, received one complaint, which was submitted by one shareholder during the Bank's ordinary Shareholders' Meeting of 10 May 2011.

This complaint concerns, on the one hand, the time limit allegedly set by Intesa Sanpaolo for submitting questions prior to the meeting, and on the other alleged mismanagement of the processes relating to meeting attendance certification and the return of share certificates.

The reply to the shareholder's first complaint was given during the Meeting by the Chairman of the Supervisory Board, also in reply to similar requests for clarifications made by other shareholders, and is recorded in the Meeting minutes.

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Subsequently, the Supervisory Board, acting through its Control Committee, investigated the other complaint, asking the Internal Auditing Department to make the appropriate checks. This assessment of the issue, which also involved the Legal Affairs Department, revealed no questionable issues or flaws in the Bank's operations.

With regard to complaints submitted to the Supervisory Board or directly to any of its members, in 2011 a total of 18 complaints were received 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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Complaints

### *1.2 Compliance with the Articles of Association*

The Supervisory Board verifies on an ongoing basis compliance with the Articles of Association as part of its assigned functions.

In this area, the Board authorised submission of a proposal to the Ordinary Shareholders' Meeting for a share capital increase for consideration, for a total maximum amount of 5 billion euro. This increase, approved by the Extraordinary Shareholders' Meeting on 10 May 2011 and fully subscribed by 22 June 2011, proved to be a timely and fundamental strategic choice, in view of the serious crisis that would soon affect the whole European banking system. Indeed, this operation gave the Bank an advantage over competing banks, as was subsequently confirmed by the stress tests carried out by the European Banking Authority (EBA).

During 2011, the Supervisory Board, assisted by the Nomination Committee completed the roster of Management Board members and appointed the new Managing Director, following Mr Corrado Passera's resignation from office.

The Board also verified the correct application of art. 23.9 of the Articles of Association at the time of the appointment of two new Supervisory Board Members to replace outgoing members Ferdinando Targetti and Elsa Fornero. Under said article, Eugenio Pavarani and Guido Ghisolfi, being the first non-appointed candidates on the outgoing members' list, replaced them automatically without any requirement for a specific resolution of the Board.

The Board also submitted to the Ordinary Shareholders' Meeting, which approved it on 10 May 2011, a reasoned proposal to appoint the firm KPMG S.p.A. as independent auditor for the years 2012-2020.

The Bank's Corporate Bodies met regularly during 2011. More specifically, the following meetings were held:

- 1 Shareholders' Meeting, also attended by the members of the Supervisory Board;
- 1 Savings Shareholders' Meeting;
- 11 Supervisory Board meetings;
- 22 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;
- 1 Nomination Committee meeting;
- 28 Remuneration Committee meetings;
- 46 Control Committee meetings;
- 13 Strategy Committee meetings;
- 14 Financial Statements Committee meetings;
- 9 Related Party Transactions Committee meetings.

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Meetings

On this point, it should be noted that effective 1 January 2011, the Supervisory Board also comprises the Related Party Transactions Committee, in line with the new "Intesa Sanpaolo Group Regulations on the management of transactions with related parties", adopted by the Bank to adapt its governance to the Consob Regulation on related parties. Information on the composition and operation of this Committee and its rules of procedure is provided in the Annual Report, approved by the Boards on 15 March 2012 and 17 April 2012, each within its remit.

Moreover, the Supervisory Board issued the opinions required from the Control Body under the

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Articles of Association with regard, in particular, to the appointment of the head of the new Anti-money Laundering Unit and to remuneration of the General Managers, the Manager responsible for preparing the Company's financial reports, and the heads of the control departments. Lastly, please note that in 2011, the Control Committee was asked by the Bank of Italy to issue opinions on specific events.

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

The Supervisory Board confirms that, also with the aid of its Committees, and within its area of responsibility, it has acquired information on and supervised compliance with the principles of correct management, through 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, with the Strategy Committee's assistance, the 2011 Budget and the 2011-2013 Business Plan with extension to 2015; when approving the 2012 Budget, the Supervisory Board noted that, in the light of the negative market trends and the Italian economy's predicted downturn, the Plan's quantitative targets will need to be revised, something which can be done as soon as the financial markets stabilise;
- acquired quarterly reports, in compliance with art. 150, paragraph 1 of the Consolidated Law on Finance, on activities performed and on transactions with a major impact on the income statement, cash flows and balance sheet carried out by the Bank and its subsidiaries, including related-party transactions; on this point, the Supervisory Board and the Committees are assisted by the constant information flows between the Bank's functions and the Managing Director, between the latter and the Management Board and between the Management Board and the Supervisory Board. This exchange of information is boosted by regular meetings between the Control Committee and the Managing Director, mainly aimed at ensuring the smooth operation and effectiveness of the internal control system, and by the Control Committee's six-monthly reports on activities submitted to the Chairman of the Management Board and the Managing Director;
- supervised, also via the internal control functions, the observance of the 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 the integrity of the shareholders' equity.

Specifically, with regard to the supervision of 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 shortfalls 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 draft Parent Company's and consolidated financial statements as at 31 December 2011, the Management Board adequately reported and illustrated the most significant intragroup related-party transactions (which, under the Intesa Sanpaolo Group's Related-party Transaction Regulation are exempt from the special decision-making procedure and from the obligation to publish a market disclosure document), of an ordinary or recurring nature and specific transactions; moreover, the Management Board provided information on company merger transactions and extraordinary intragroup transactions, describing their

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*Atypical  
and unusual*

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*Adequacy of  
information*

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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.

As mentioned above, the Related Party Transactions Committee commenced activities in early 2011, reviewing 12 transactions, all of minor importance, issuing for each a non-binding reasoned favourable opinion. The Committee – which has no authority to examine the remuneration of Intesa Sanpaolo’s related parties, a matter that falls under the competence of the Remuneration Committee – has furthermore been informed of several transactions between Intesa Sanpaolo and its related parties which are also governed by art. 136 of Legislative Decree 385/1993 (“Consolidated Law on Banking”). The Committee is not required to deliver an opinion on these transactions, which are covered by the special decision-making procedure under the above-mentioned article 136, which requires the unanimous decision of the Management Board and the favourable vote of all Supervisory Board members.

In 2012 the Control Committee, together with the Related Party Transactions Committee, reviewed the soundness and effectiveness of the procedures adopted by Intesa Sanpaolo, with the assistance of the Internal Auditing Department which reported on the outcome of this review. The Auditing Department found the procedures to be on the whole appropriate, while highlighting some areas for improvement.

The rules on related party transactions, which today are based on the civil-law corporate provisions (Articles 2391 and 2391-bis of the Italian Civil Code) and on the Consob Regulation issued by resolution no. 17221 of 12 March 2010 as subsequently amended, will be updated to incorporate the supervisory regulation issued by the Bank of Italy on 12 December 2011 on activities involving risk and conflicts of interest by banks and banking groups with respect to “associated entities”. The deadline for implementation of these provisions is 31 December 2012. However, by 30 June 2012, Intesa Sanpaolo will have to define and publish a Group Regulation in this matter, updated with the new provisions which will need to be coordinated with the current provisions on related-party transactions.

As to legal compliance on conflicts of interest with regard to investment services and activities, the Bank has put in place a comprehensive set of rules ensuring compliance with the relevant legislation (“Policy for the management of conflicts of interest”; “Rules for the management of conflicts of interest and confidential information flows regarding third-party issuers”, “Personal Transaction Rules”). The Company rules were reviewed in 2011 also in the wake of an enquiry aimed at ascertaining whether the Bank might incur administrative liability in respect of a predicate offence (insider trading) one of his executives had been charged with (“Parmalat” transaction). The examination carried out with the assistance of the Compliance and Internal Auditing Departments showed that Intesa Sanpaolo’s Model pursuant to Legislative Decree no. 231/2001 in substance complies with the internal legislation and rules; the review also identified areas for improvement, which led, *inter alia*, to integration between the Code of Ethics and the Code of Conduct, strengthening the duty for all Group employees and agents to avoid any conflicts of interest and report any such conflicts they might become aware of;

- (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 per the usual practice, in accordance with the provisions of art. 136 of the 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 any transaction of the Bank that is deemed significant under the Articles of Association (such as a strategic transaction), must

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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 2011 no operation of this type was submitted to the Board.

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

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

As to the Bank's organisational structure, see the information provided in the Annual Report, which describes Intesa Sanpaolo's operational structure, divided into Business Units, Governance Areas and Head Office Departments.

It should be noted that the Bank has adopted a Regulation which sets out the Group's overall structure, guaranteeing coordination of governance and compliance with its policy principles. Said Regulation is the reference document for relations between Intesa Sanpaolo and its subsidiaries. For the purpose of actual application of the provisions of the Regulation, Intesa Sanpaolo has designed specific reporting procedures and adequate information flows.

The Supervisory Board – with the aid of the Control Committee – has continued to analyse the main governance and business units of Intesa Sanpaolo and Group companies. Attention was paid in particular to their organisational structure (focusing on the internal control system and on relations with the Parent Company's other corporate functions and with the Group companies), the risk management methods and 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 Global Banking & Transaction Department within the Corporate and Investment Banking Division, to investigate in greater detail the issues of the control system, credit management procedures, and the loan granting process and timing of loan reviews;
- the International Subsidiary Banks Division, for updates on the control system put in place in certain foreign subsidiaries (Alexbank, CIB and Pravex Bank), on the IT and Disaster Recovery systems, the project to harmonise loan classification and measurement criteria and the main results of the Audit Committees' activities;
- the Internal Auditing Department which, on the Committee's request, submitted details on the figures of Intesa Sanpaolo's international branches;
- Moneta and Neos Finance, which provided an update on the progress of works on the consumer credit segment reorganisation project and on control activities, processes and system.

The Internal Auditing Department participated in many of those meetings, supporting the Committee's work by supplying data on the issues covered.

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

- continued to supervise the credit process;
- examined the relevant aspects of the business plan of Intesa Sanpaolo Group Services – the consortium company entrusted with the provision of services between Intesa Sanpaolo Group companies – in order to check the effectiveness of the support given by the Chief Operating Officer area to the development of the Group's strategic projects;
- received from the ICT Systems Department an illustrative report on the Group's information systems and on the Department's own activities, processes and control system;
- supported the Supervisory Board in issuing a favourable opinion on the appointment of the Anti-Money Laundering Unit Manager. On this point, it was agreed that the Unit report directly to the Chief Risk Officer, as this enhances its effectiveness and independence and ensures a more direct line of reporting to the corporate governance Bodies.

With reference to the internal control system, it is confirmed that the organisational model adopted by Intesa Sanpaolo is based on splitting the governance of control into three separate levels (business management, risk and compliance management and internal audit) and is characterised by segregation between the risk management and the risk

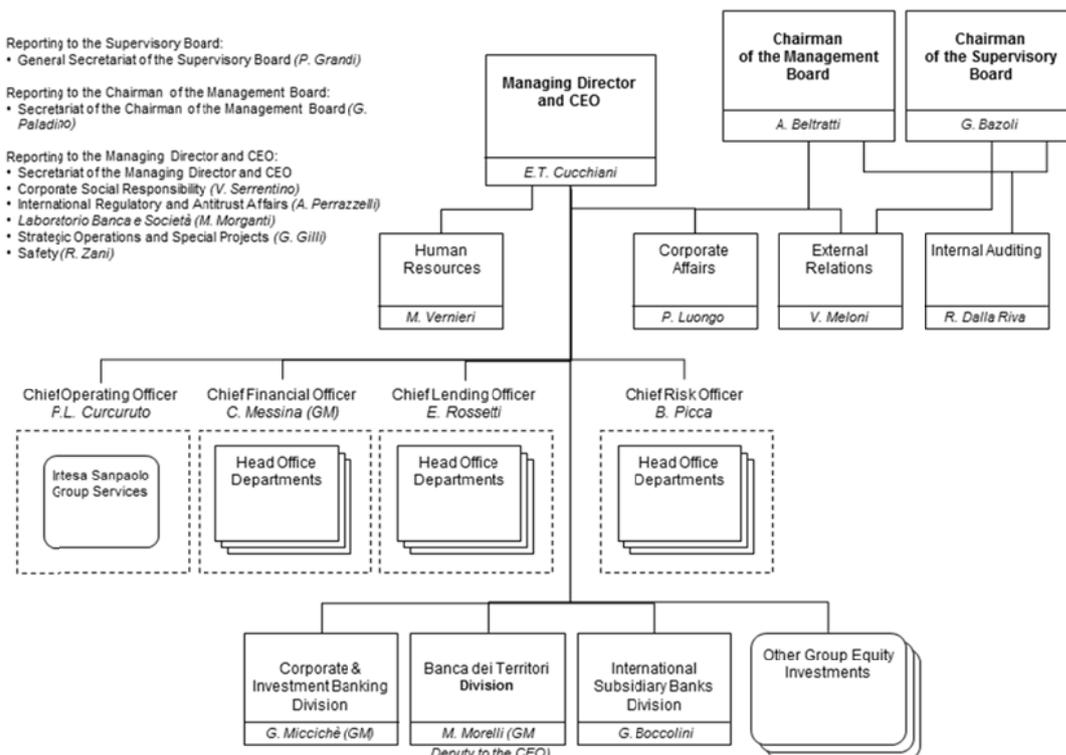
control departments. In particular, second-level controls are entrusted to several departments (Risk Management Department, Internal Validation Unit, Compliance Department, Anti-Money Laundering Unit) coordinated by the Chief Risk Officer. The Control Committee verifies that these control functions are assigned 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 – is placed under the direct responsibility of the Chairmen of the Management and Supervisory Boards, safeguarding its independence from the operations departments. The appropriateness of the organisational structure of this Department – which is used primarily by the Supervisory Board, the Control Committee and the Surveillance Body – is regularly reviewed by the Control Committee.

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.

Moreover, during 2011 the project to rationalise the Group’s bancassurance activities via specialisation according to distribution network, was completed. Its end result has been the creation of a single company serving the Group’s banking networks, called Intesa Sanpaolo Vita.

The organisational chart of Intesa Sanpaolo S.p.A. as at today’s date is shown below. It should be noted that on 14 February 2012 the Management Board, after receiving the Supervisory Board’s favourable opinion, appointed Mr. Carlo Messina as new General Manager, also confirming his powers and duties as Chief Financial Officer.



### 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; they include, in addition to the Legal Affairs Department and the Credit Quality Monitoring Unit:
  - 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;
  - validation of internal models, whether already implemented or under development, carried out by a dedicated function tasked with assessing on an ongoing basis risk management and measurement systems in terms of models, processes and IT infrastructure, and their continuing compliance with regulatory requirements and appropriateness to operational needs and market developments.
  - 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;
  - anti-money laundering controls, entrusted to a dedicated function, established in accordance with the provisions issued by the Bank of Italy on 10 March 2011, to ensure the monitoring of compliance risk in respect of anti-money laundering, the fight against the financing of terrorism and embargo management;
- internal auditing activities managed 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 Annual Report, to which reference should be made, and involves the participation of the Corporate bodies, the Manager responsible for preparing 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 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 initiatives under way to ensure compliance with the regulations for the prudential supervision of banks issued by the Bank of Italy. With regard to these initiatives, 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:

- with regard to credit risk, submitted updates concerning:
  - the use of internal credit risk rating systems (AIRB) for the Regulatory Corporate segment, authorised by the Supervisory Authority in 2011;
  - the launch of the validation process for the adoption of internal risk measurement systems for the Financial Institutions portfolio (Supervised Intermediaries);
  - the application submitted to the Bank of Italy to lift floor relating to the capital

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- requirements; on this point, the Control Committee analysed the progress of the main corrective actions requested by the Supervisory Authority in view of forwarding of the application and the result of the checks carried out by the Internal Validation Unit and by the Internal Auditing Department;
- the rating override management process; on this point, the Internal Auditing Department has also issued the results of its checks;
  - adoption and deployment of rating systems for the SME-Retail segment (*small business*) together with the associated preliminary checks carried out by Internal Validation and Internal Auditing;
  - adoption and implementation of internal risk measurement systems (AIRB) for management purposes, concerning, *inter alia*, the structured finance transactions of Banca IMI and subsequent submission of the application to the Authority;
- with regard to market risk, the Department submitted to the Committee:
- the changes made – subsequent to the new rules issued by the Basel Committee, known as Basel 2.5 – to the Market Risk Charter, which outlines the set of principles, objectives, methods and instruments used to measure, control and manage market risks, and which is part of the overall risk governance model adopted by the Group;
  - the findings of the inspections carried out to verify the definition of specific risk and the progress in the development of stressed VaR measurement methods as part of the internal model for the measurement of market risk;
  - the reply to the Bank of Italy on the additional corrective measures requested on the use of the internal model to measure regulatory capital requirements for commodity risk;
- with regard to operating risks, the Department reported that the Bank of Italy had authorised use of the AMA advanced method by certain subsidiaries and by the Corporate and Investment Banking Division. In 2012 it also reported on the certifications of compliance with the eligibility criteria for the TSA method by the Group entities that have adopted this method.

With regard to the three risks mentioned above, the Department reported to the Control Committee and the Supervisory Board on the related extension plans.

Furthermore, the Department illustrated the results of the assessment carried out on reputational and compliance risk; on this issue, the Head of the Compliance Department pointed out that the checks carried out have indicated the fact that exposure to these risks is limited for Intesa Sanpaolo and the Group's Italian companies.

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

Moreover, the Department submitted the report required by art. 13 of the Consob-Bank of Italy Joint Regulation pursuant to art. 6, paragraph 2-bis, of the Consolidated Law on Finance, concerning the provision of investment services and activities.

- The Internal Validation Unit, in particular, submitted as per its remit to the Control Committee and the Supervisory Board its annual reports on the outcomes of the checks carried out on the rating systems for home mortgage portfolio, on market risk models and on the internal system for the measurement of operational risk.
- 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, including the report required by art. 16 of the Consob-Bank of Italy Joint Regulation pursuant to art. 6, paragraph 2-bis, of the Consolidated Law on Finance, on the assessment of the compliance risk that the Group is exposed to and the related controls, on the

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- 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;
  - information on the progress of the activities to implement the MiFID and updates on the related internal regulations;
  - information on Consob’s requests in connection with the inspections carried out in 2009.
- The Anti-money Laundering Unit, in accordance with the functions assigned to it, provided updates on the following issues:
- the Anti-money laundering project, also in view of the regulatory changes introduced by the New Provisions issued by the Bank of Italy in this area;
  - the new anti-money laundering provisions introduced by the amendments made to Legislative Decree 231/2007 by Decree Law 201/2011 (known as the “Save Italy” Decree) of 6 December 2011;
  - reports pursuant to art. 52 of Legislative Decree 231/2007;
  - “Guidelines for combating money laundering and the financing of terrorism and for managing embargoes”.
- The Internal Auditing Department is the primary structure used by the Supervisory Board to perform its supervisory duties and it often attends the Control Committee meetings, in the person of the head of Department, 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, also using a *Tableau de Bord* which highlights the main issues identified and the actions taken to correct them;
- reports regularly to the Control Committee on the actions taken by the Supervisory Authorities in relation to the foreign branches, subsidiaries and companies, also submitting its own reports;
- prepares the Report on the assessments of the foreign branches;
- draws up the annual report on the assessments of the mechanisms used to ensure that the remuneration policies comply with the laws and regulations. The outcome of these assessments is set forth in the Report on Remuneration, within the Annual Report, to which reference is made;
- submits the annual report on internal audit activities required by art. 14 of the Consob-Bank of Italy Joint Regulation pursuant to art. 6, paragraph 2-bis, of the Consolidated Law on Finance;
- conducts the analysis and self-assessment of the ICAAP process;
- prepares the annual reports on the internal models that measure market risk and operational risk;
- at least once a year, submits its own considerations and assessments of the overall internal control system.

Furthermore, in accordance with its duties, after analysis and discussion with the Control Committee, the Internal Auditing Department prepared various other reports concerning, *inter alia*:

- the checks required by the Supervisory Authority subsequent to inspections carried out on the retail credit portfolio;
- rationalisation of the insurance sector and the procedures adopted by the Risk Management Department to monitor insurance risk;
- the checks carried out within the Parent Company and Banca di Trento e Bolzano

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further to the Bank of Italy's letter on risk concentration;

- the actions taken to remedy the problem areas identified in Banco Emiliano Romagnolo and Banca Sara, which joined the Intesa Sanpaolo Group in 2011;
- the plan of corrective actions relating to the reduction of the capital floor in order to contain capital requirements for credit risk;
- the reports on the adoption and rollout of the internal rating systems for the SME-Retail segment (small business), for the purposes of the application to be submitted to the Supervisory Authority;
- the main processes and methods adopted by Intesa Sanpaolo and Banca IMI, in preparation for the application for authorisation to extend the internal model for the measurement of specific risk on debt securities;
- in cooperation with the ICT Systems Department, an enquiry into the causes of the computer blackout which occurred on 22 June 2011 at the Group's Italian branches, illustrating the reasons for system failure (attributable to an outsourced provider) and consequent actual and potential economic impacts;
- the Annual Report on the checks carried out on the Group SGRs' governance processes and potential conflicts of interest. On this point, the Corporate Affairs Department provided information on the initiatives taken by the Bank to follow up on the recommendations for improvement contained in the Audit Department's report.

The Control Committee, acting also in its capacity as Surveillance Body pursuant to Legislative Decree 231/2001, examined, from the viewpoint of the control system, the involvement of two Group managers in judicial proceedings concerning the Parmalat and Serravalle transactions. The outcomes of these verifications, carried out by the internal control functions, were also perused by the Supervisory Board; the Bank of Italy was also informed.

### *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.

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 alternate members, who have been confirmed by the Supervisory Body 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 2011, the Body met 22 times, supervising anti-money laundering issues and analysing numerous issues relating to the observance and implementation of the Model, which was updated on 6 March 2012 in the light of the changes introduced in the relevant legislation.

In connection with the New Anti-money Laundering Provisions issued by the Bank of Italy on 10 March 2011, the Surveillance Body examined the "Guidelines for combating money laundering and the financing of terrorism and for managing embargoes", which were approved by the Boards, each within its own remit.

The Surveillance Body received information on:

- the reports on potential infringements of the legislation;
- the reports pursuant to art. 52 of Legislative Decree 231/2007;
- the activities performed by the Italian subsidiaries' Surveillance Bodies;
- staff training on the administrative liability of entities;
- the Anti-money laundering project, also in view of the regulatory changes introduced by the new Provisions issued by the Bank of Italy in this area;
- the new anti-money laundering provisions introduced by the amendments made to

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Legislative Decree 231/2007 by Decree Law 201/2011 (known as the “Save Italy” Decree) of 6 December 2011;

- the Compliance Department’s report on its activities, pursuant to Legislative Decree 231/2001;
- review of the report submitted by the Anti-money Laundering Unit on the initiation of inspections at Intesa Sanpaolo by the Financial Information Unit (UIF) in the sphere of anti-money laundering.

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 (Internal Auditing 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 performed the following activities:

- acting through the Control Committee and the Financial Statements Committee, it monitored the loan portfolio of Intesa Sanpaolo and its subsidiary banks, with particular emphasis on its changes and level of concentration. In this area, the Group’s credit commitment and risk profiles was subjected to detailed assessment; special attention was also paid to the portfolio of performing loans most subject to deterioration risk. This portfolio was reviewed as to lending policies, decision-making support systems and the system of powers, controls and performance monitoring;
- with regard to the monitoring of the liquidity risk, the Supervisory Board examined the developments in short, medium and long-term funding and in eligible assets, also in order to monitor developments in Group liquidity in the light of the current economic environment and to respond to specific requests from the Bank of Italy. To this end, the Supervisory Board agreed to the recourse, in line with the whole Italian banking system, to the European Central Bank’s liquidity auctions, which provided European banks with liquidity in order to abate the tensions affecting the financial system and reduce the credit squeeze which would deepen the recession already in progress. The Board also approved, on the Management Board’s proposal, the Guidelines on the management of liquidity risk, updated in accordance with the applicable Regulations on Prudential Supervision;
- it supervised the Intesa Sanpaolo’s group ongoing compliance with the requirements for adoption of internal systems to determine regulatory capital requirements for credit risk (IRB system – regulatory segment on Residential Mortgages to Private Individuals), market risk and operational risk;
- it received information on the inspections, and their progress, carried out by the Supervisory Authorities at the Parent Company and its subsidiaries. In this area, during 2011, the Bank of Italy completed inspections addressing:
  - the adequacy of the Group’s strategic planning processes and related Information Technology tools, as well as the level of integration with the ICAAP process;
  - interest rate risk and the related governance, management and control processes.

With regard to the above-mentioned inspections, corrective actions were launched, based on the remarks and requests made by the Supervisory Authority.

Furthermore, at the beginning of the year, the Bank of Italy launched new inspections, for fact-finding purposes, concerning the performance of the internal rating-based approaches (AIRB) for measuring credit risk in the Corporate segment.

Lastly, it should be noted that via the Control Committee, the Supervisory Board received from the Internal Auditing Department a ‘relevant event alert’ concerning abnormal transactions by one customer, involving two banks belonging to the Group. The Committee felt that the abnormal transactions highlighted by the Internal Auditing Department alert warranted closer scrutiny and therefore launched an enquiry process spanning several meetings, involving the Chief Lending Officer, the Chief Risk Officer, the Chief Operating Officer, the Internal Auditing Department and the two subsidiaries’ Boards of Auditors. This fact-finding process generated precise identification of the issues and appropriate remedies,

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some of which have already been adopted, while others are in progress.

Among the documents received by the Control Committee, particular importance was attached to the comments of one of the subsidiary banks' Board of Auditors, which stated that the event could well fall within the scope of art. 52 of the Consolidated Law on Banking, and, consequently, requested the Parent Company to submit to the Bank of Italy a report in accordance with such provision. Accordingly, the Chairman of the Supervisory Board reported the case to the Supervisory Authority and forwarded to the Authority the Control Committee's report and the documents it had received.

Lastly, it is worth recalling that 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:
  - market risk, it approved the application to the Bank of Italy for Intesa Sanpaolo and Banca IMI to be authorised to use the internal model with regard to the specific position risk for debt securities; it also approved the application for formal recognition of the new Stressed VaR requirement;
  - credit risk, the Board approved adoption of (i) the internal rating system for operational purposes for the Financial Institutions portfolio (Supervised Intermediaries), (ii) the new rating models applicable to customers in the SME Retail regulatory segment (small business), (iii) the internal AIRB system for the corporate segment (Leveraged & Acquisition Finance, Commercial Real Estate and Asset Finance) within Banca IMI;
  - credit, market and operational risks, the Board approved the related extension plans to be submitted to the Bank of Italy;
- 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 Supervisory Board also approved the updating of the Guidelines for the adoption, extension, management and control of the internal measurement systems for operational, credit, market and counterparty risks. The amendments were made also in order to extend the scope of application to market and counterparty risk, and to include, in the light of the experience and practice built up over time, those processes which had been partially already formalised, also defining the roles and duties of the individuals concerned.

During 2011, the information flows from the various Bank functions to the Control Committee – and therefore indirectly to the Supervisory Board – were ongoing. In addition to the regular reporting by the internal control functions (Risk Management Department, Internal Validation Unit, Compliance Department, Anti-money Laundering Unit 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.

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

On conclusion of the work carried out in 2011, as reported to the Management Board and the Supervisory Board also via the Control Committee, the Internal Auditing Department issued an opinion as to the overall adequacy of risk governance, also in view of the fact that several initiatives by Management are currently under way to address the main issues reported.

Taking into account the results of the supervisory activities conducted, as well as the information provided by the relevant departments on a case-by-case basis, the Control Committee has highlighted the areas warranting analysis and has concurred with the opinion

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issued by the Internal Auditing Department, also in the light of subsequent meetings with the Independent Auditor. The Supervisory Board agrees with this opinion and confirms its commitment to monitoring the areas highlighted by the Control Committee and, with the Committee's support, the data reported in the Tableau de Bord produced by the Internal Auditing Department.

#### 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 consolidated financial statements as at 31 December 2011 were prepared pursuant to 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 provided for by European Regulation 1606/2002. The financial statements were 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 (balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, and statement of cash flows) and their means of preparation, the contents of the Notes to the financial statements and the Report on operations, for the Parent Company and consolidated.

The Supervisory Board, assisted by the Financial Statements Committee and the Control Committee, supervised the adequacy of the administration and accounting systems, questioning the Manager responsible for preparing the Company's financial reports on the main action lines and solutions adopted, also in order to correctly fulfil its duty in relation to the approval of the financial statements.

The Financial Statements Committee held various meetings, including several joint meetings with the Control Committee and with the attendance of the Manager responsible for preparing the Company's financial reports and the Independent Auditing Firm, to examine the issues relating to preparation of the Parent Company and consolidated financial statements as at 31 December 2011 and to analyse the logic and processes involved in the preparation of the financial reports of the Bank and the Group (including quarterly and half-yearly reports). The Financial Statements' Committee investigated in depth, *inter alia*, the following topics: changes in the accounting and supervisory regulations; structure and content of the 2011 financial statements; the assessment of equity investments; legal and tax disputes; loans; taxation; impairment testing of intangible assets; capital ratios. With regard to the impairment tests, the Financial Statements Committee and the Control Committee were provided with a detailed report on the procedure, which complies with the provisions of the IAS 36 accounting standard and has been specifically approved by the Management Board. Specific attention was also paid to the regulatory capital and capital ratios.

The Control Committee, assisted by the Manager responsible for preparing the Company's financial reports and taking note of the comments of the Independent Auditing Firm, assessed the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Parent Company's financial statements, the consolidated financial statements and any other financial report.

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 was also kept abreast of progress in adoption of the "Target Accounting Model" (which aims to unify the models used by the various companies in the Group, limit manual reconciliation and, in general, increase the efficiency and effectiveness of the accounting system).

The Manager responsible for preparing the Company's financial reports, with the aid of the Administrative and Financial Governance function – the structure responsible for performing

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the controls needed for the accounting and financial reporting – provided regular information on the implementation of the Guidelines for Administrative and Financial Governance. The work done enabled the Managing Director and CEO and the Manager responsible for preparing the financial reports to issue the certifications required by art. 154-*bis* of Legislative decree no. 58/98 with reference to the annual separate and consolidated financial statements for 2011.

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

The Supervisory Board, through the Control Committee (also in the light of the provisions of 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. 8 times in 2011, in accordance with art. 150, paragraphs 3 and 5 of the Consolidated Law on Finance.

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The meetings offered the opportunity, among other things, of examining the auditing plan and the work carried out by the external auditors in the formulation of their opinion on the Parent Company's and the consolidated financial statements. In this regard, the External Auditor illustrated the report prepared pursuant to art. 19 of Legislative Decree 39/2010 and certain aspects of the internal control system in relation to the financial reporting process ("Management Letter"). Through its Committees, the Supervisory Board monitored the implementation of the corrective measures planned by the management to address aspects of the internal control system. Furthermore, the Financial Statements Committee and the Control Committee oversaw the process of transition to the new independent auditors (KPMG S.p.A.), assigned to carry out the auditing task starting from 2012.

The above-mentioned Committees also held 8 meetings with the Independent Auditors and the Manager responsible for preparing the Company's financial reports, in the early months of 2012, in preparation for the approval of the Parent Company's and consolidated financial statements as at 31 December 2011.

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

On 23 April 2012, the Independent Auditors issued their Reports, pursuant to articles 14 and 16 of Legislative Decree 39/2010, on both the Parent Company's and consolidated financial statements as at 31 December 2011, with no exceptions. Specifically, the Reports confirm:

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(i) that the two documents as at 31 December 2011:

- 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 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 and the Group'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 they have 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 for the year ended 31 December 2011 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 2011 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 2011.

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

Type of services	Intesa Sanpaolo		Group Companies <sup>(*)</sup>	
	Reconta Ernst & Young	Reconta Ernst & Young Network	Reconta Ernst & Young	Reconta Ernst & Young Network
Release of attestations (**)	2.2	-	0.5	-
Tax consulting services	0.02	-	0.02	-
Other services:	0.3	0.3	1.7	0.2
<i>agreed audit procedures</i>	0.2	0.3	1.7	0.2
<i>social report</i>	0.1	-	-	-
<i>other</i>	-	-	-	-
<b>Total</b>	<b>2.5</b>	<b>0.3</b>	<b>2.2</b>	<b>0.2</b>

<sup>(\*)</sup> Group companies and other consolidated subsidiaries.

<sup>(\*\*)</sup> Including the audit costs, on a voluntary basis, for the "Pillar 3" disclosure, and the further audits carried out on 31 March 2011 on the Bank and the main Group companies for the purposes of the capital increase. Amounts net of VAT and reimbursed expenses.

Under the Group Regulation these tasks can be classified in part as audit related, in other

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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 issue of certifications to the Group, the various Supervisory Authorities, the Market bodies (comfort letters, opinions, etc.). Some of the most important certifications are those relating to the Bank’s capital increase and the audits in view of drafting Comfort Letters on international issue programmes.

Furthermore, specific agreed-upon procedures have been carried out, including, most significantly, the audits in connection with the creation of the “Insurance Hub” and those preparatory to drawing up the “transfer pricing” documentation for the Parent Company, Banca IMI and Eurizon Capital SGR, the audits on the accounting treatment of the balance sheet and income statement impacts on exercise of the option to apply the substitute tax system to Goodwill by the Parent Company and by subsidiary Cassa di Risparmio di Firenze, the audits on the securitisation companies’ periodic reports and those relating to the migration of the custody and administration of the Luxembourg mutual funds.

Lastly, “audit-related” tasks include verifications for the “Pillar 3” disclosure, the professional opinion on the Social Report, and some verifications on international subsidiaries required by law by the relevant Supervisory Authorities.

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.

Lastly, it is reported that one year in advance of the expiry (as per the common practice among the main quoted companies), the Ordinary Shareholders’ Meeting of Intesa Sanpaolo S.p.A. held on 10 May 2011 approved the proposal by the Supervisory Board with respect to assignment of the auditing mandate for the period 2012-2020 to KPMG S.p.A., whose offer, following a detailed technical and economic evaluation, was deemed the most suitable in relation to the Group’s size, complexity and risk profile. KPMG S.p.A. thus replaces as the Independent Auditor of Intesa Sanpaolo the previous Auditor, Reconta Ernst & Young S.p.A. whose assignment expires on the date of the Shareholders’ Meeting called to allocate net income for 2011.

## 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

The “Annual Report” – 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 its Report, the Bank describes the actions taken to implement the Code in force up to 31 December 2011. Please note that a new edition of the Code was issued in December 2011: issuers, with the exception of certain specific provisions, e.g. information on adoption of the plans for the replacement of executive directors, are required to apply the new recommendations by the end of the financial year beginning in 2012, and to provide information to the market by means of the corporate governance report published the subsequent year.

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## 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

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Bodies and the respective bodies of the subsidiaries – also through the relevant functions - with regard to corporate governance systems and the overall performance.

## 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, with the exception of the facts reported in paragraph 3.2.3. above.

## PART II

### OTHER INFORMATION

#### 1. Allowance for charitable contributions and cultural initiatives

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 2011, in compliance with the specific Regulation adopted by the Supervisory Board. More detailed information on this point is provided in the Social Report 2011.

It should firstly be noted that the local donation system became fully operational in the second half of the year; these local donations are managed independently by the Banca dei Territori Division to support local projects of significant social and cultural value in the geographical areas of operation of the Bank and the other credit entities not equipped with an independent charity fund.

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.

Overall, in 2011 the Fund granted 6,308,181 euro for 327 donation projects.

The breakdown between the national and international spheres reveals that 70% of the amounts (equal to 91% of the number of approved applications) were designated for the support of initiatives in Italy. This distribution is influenced by the impact of the launch of the local donation system. Overall, national and international disbursements for social projects represented 55% of the total amount (43% in terms of number of projects). Disbursements of a “religious/charitable” nature were 20% in terms of amount (41% by number) and the “cultural” disbursements stood at 25% in terms of amounts disbursed (16% by number of applications approved). At national level, the total amount granted was 4,409,582 euro, broken down as follows: 37% for social projects, 27% for religious/charity projects, and 36% for cultural initiatives. As to international donations, 97% of the total (which was 1,898,599 euro) went to social projects, while the remaining 3% was granted to religious initiatives.

It should also be noted that, continuing the important tradition of cultural, publishing and music initiatives promoted by the banks that have joined the Group, in 2011 the Bank continued to implement and disseminate projects relating to studies on art, architecture, music, history, and economics.

In particular, as part of the Guidelines for the Culture Project – which is the strategic reference framework for the multi-year planning of the Bank’s cultural initiatives – major initiatives included museum projects and the planning and organisation of temporary exhibitions. The main highlight in this area was, last autumn, the opening in Milano of the Piazza Scala Galleries, Intesa Sanpaolo’s new museum centre which, with the Palazzo Leoni Montanari Galleries in Vicenza and the Palazzo Zevallos Stigliano Gallery in Napoli, forms the “Gallerie d’Italia”.

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## 2. The results for 2011

The Supervisory Board approved the annual financial statements of Intesa Sanpaolo, which posts a loss of euro 7,679,385,663.49 due to the significant impairment of the carrying value of goodwill and of some equity investments in subsidiaries, caused by the deterioration of the economic situation and the financial markets and by the changed profit forecasts for banks.

On this point, the Supervisory Board took note of the fact that the Management Board, taking into account the capital increase completed in 2011, decided to propose to the Meeting that such loss be covered by means of "issue premiums" for a total amount of euro 4,829,424,813.86 and of the "Extraordinary reserve" for an amount of euro 2.849.960.849,63. This proposal also entails raising the "Legal reserve" to one fifth of the share capital, pursuant to art. 2430 of the Italian Civil Code – by a total amount of euro 379,802,738.42 drawn from the "issue premium" reserve.

The Management Board also resolved to propose to the next Shareholders' Meeting the distribution of some 821,688,616.80 euro from the "Extraordinary reserve", assigning 0.05 euro per ordinary share and per savings share, pursuant to art. 29.3 of the Articles of Association.

The Supervisory Board took note of the profits produced by the Group prior to goodwill impairment, and of the fact that such impairment has no impact on the cash-flow, liquidity, capital soundness and Core Tier 1 and EBA ratios and does not impact on prospective profitability.

In the light of the above remarks, the Supervisory Board has no objections to the proposals made by the Management Board to use the reserves to raise the legal reserve, in order to cover the loss, nor to the distribution of reserves by way of "dividend" for 2011.

Torino, 26 April 2012

For the Supervisory Board  
*the Chairman – Giovanni Bazoli*