# Report of the Management Board
# Item 5 on the agenda

## Proposal to approve the Incentive System based on financial instruments and to authorise the purchase and use of own shares

Distinguished Shareholders,

You have been convened in this Ordinary Meeting to discuss and pass resolutions on the Incentive System (hereinafter, also, the "System") which involves the use of Intesa Sanpaolo ordinary shares to be purchased on the market, upon your specific authorisation.

The System is intended for a part of the Management staff and the so-called "risk takers" of the Intesa Sanpaolo Group, as explained in greater detail below. This constitutes an integral part of the remuneration and incentive policies of the Intesa Sanpaolo Group for 2011, whose purposes and methods of application are illustrated in detail to the Shareholders in the Report on Remuneration pursuant to the previous item on the agenda.

As you remember, in 2010 a long-term incentive plan based on financial instruments was submitted for the approval of the Shareholders' Meeting, with the same purpose as the current system, prepared in compliance with indications from the Bank of Italy set forth in the letter dated 28 October 2009 and, thus, fully consistent with the principles and application standards issued by the Financial Stability Board in April and September 2009, respectively.

The above plan was never implemented, as it was superseded by changes in national and international regulations, occurring:
- on 14 December 2010, with publication in the Official Journal of the European Union of Directive 2010/76/EC of the European Parliament and of the Council of 24 November 2010, amending Directives 2006/48/EC and 2006/49/EC with respect to capital requirements for the trading book and for re-securitisation and the supervisory review of remuneration policies (the so-called CRD III);
- on 7 April 2011, with the publication in the Official Gazette of the Italian Republic of the "Provisions regarding remuneration and incentive policies and practices in banks and in banking groups" (hereinafter, also "Supervisory Provisions").

The proposed System – whose approval will thus result in the revocation of the previous Incentive Plan – is fully consistent with recent regulatory provisions, with specific reference to:
- identification of "Key personnel", meaning those whose decisions have a significant impact on the Bank's risk profile, to which specific remuneration rules must be applied in terms of payment of variable remuneration;
- the ratio of the fixed component to the variable component of remuneration, suitably balanced;
- the structure of the variable component, of which:
  a. at least 40% (which can be raised to 60% for executive directors, top managers and heads of the main business lines, corporate functions or geographical areas) must be subject to deferred payment systems for a period of at least 3 years;
  b. at least 50% must be disbursed in shares or instruments linked to shares; this percentage is applied, in the same proportion, to the deferred variable component as well as to the non-deferred (upfront) component;
- the presence of a specific retention mechanism (of at least 2 years for the upfront component, shorter for the deferred component) for the financial instruments pursuant to point b;

Therefore, please note that the proposed incentive system belongs to the category of financial-instrument-based remuneration plan pursuant to art.114-bis, paragraph 1 of Legislative Decree 58 of 24 February 1998.

In accordance with the provisions of art. 84 bis of the Issuers' Regulation by Consob, the characteristics of the Incentive System are illustrated in detail in the specific Information Document provided hereunder, of which this report is an integral part.

In this regard, the System is to be considered as being of "particular importance" since it addresses, inter alia, top executives and, more generally, key managers who have regular access to privileged information and have the power to make management decisions which may affect the Group's evolution and outlook.

As the Company currently does not hold own shares in its portfolio to ensure implementation of the System, it was decided to request authorisation from the Shareholders' Meeting pursuant to articles 2357 et. seq. of the Italian Civil Code, so that the Company may purchase the necessary own shares and assign them to its employees and other staff and to directors, employees and other staff of its subsidiaries, in implementation of the variable remuneration system illustrated.

For these purposes, authorisation is requested for the purchase, also in several tranches, of ordinary shares with a nominal value of 0.52 euro each, up to a maximum number of ordinary shares and a maximum percentage of Intesa Sanpaolo share capital calculated by dividing the comprehensive amount of approximately 13,400,000 euro by the official price recorded by the share on 28 May 2012 (date of the Shareholders' Meeting). The above amount thus includes both the portion for employees of Intesa Sanpaolo and the portion for employees of companies it directly and/or indirectly controls.

Intesa Sanpaolo's share capital amounts to 8,545,561,614.72 euro, represented by 16,433,772,336 shares with a nominal value of 0.52 euro each, comprising 15,501,281,775 ordinary shares and 932,490,561 non-convertible savings shares.

The maximum number of ordinary shares for which purchase authorisation is requested pursuant to art. 2357 of the Italian Civil Code is thus within the legal limits, also considering any shares owned by subsidiaries.

Own shares shall be purchased within the limits of distributable income and available reserves as per the latest approved financial statements at the time the purchases are carried out.

An unavailable reserve equal to the amount of own shares recorded under balance sheet assets must be established and maintained until the shares are transferred or cancelled.

Purchase authorisation is requested for the maximum period of 18 months permitted by applicable law, from the date of the Ordinary Shareholders' Meeting resolution.

The Management Board may implement the authorised purchases, delegating suitable powers for such actions to the Managing Director and CEO, who shall avail himself of the competent corporate functions, in one or more steps and at any time.

The authorisation to use own shares purchased as above is requested within the time frame required to implement the Plan.

The Management Board proposes that the purchase be made, in compliance with any regulatory restrictions or permitted market practices, at a price identified on a case by case basis, net of accessory charges, in the range of a minimum and maximum price which can be determined using the following criteria:

- the minimum purchase price cannot be lower than the reference price the share recorded in the stock market session on the day prior to each single purchase transaction, decreased by 10%;
- the maximum purchase price cannot be higher than the reference price the share recorded in the stock market session on the day prior to each single purchase transaction, increased by 10%.

Purchases shall be made on the regulated market - pursuant to Article 144-bis, letter b) of the Issuers'

Regulation - in full compliance with the regulations on the equality of shareholders, the measures to prevent market abuse and the related market practices permitted by Consob.

Ordinary shares purchased based on the authorisation requested in this proposal shall be assigned to the recipients in accordance with the terms and conditions envisaged by the System. The shares shall be assigned free of charge, at a value for Recipients calculated in compliance with the provisions of tax and social security regulations in force from time to time.

If the shares purchased exceed the actual needs in service of the System, the Company may dispose of them on the regulated market, using the same methods provided for their purchase, at a price of no less than the reference price that the share recorded in the stock market session on the day prior to each single transaction decreased by 10%, or retain them for the service of any future incentive plans.

Distinguished Shareholders, you are thus requested to approve the share-based Incentive System for 2011, consequently revoking the Incentive Plan approved by the Ordinary Shareholders' Meeting of 30 April 2010, as well as to approve the proposed authorisation for the purchase and use of own shares, all in accordance with the terms illustrated.

17 April 2012

For the Management Board
The Chairman – Andrea Beltratti

# INFORMATION DOCUMENT

Pursuant to art. 84-bis, paragraph 1, of the Regulation adopted by Consob with Resolution no. 11971 of 14 May 1999, as subsequently amended and integrated

relating to the

## INCENTIVE SYSTEM
## BASED ON FINANCIAL INSTRUMENTS

OF

## INTESA SANPAOLO S.p.A.

April 2012

## Introduction

This Information Document is published in order to provide the Company's shareholders and the market with information on the incentive system based on financial instruments (hereinafter the "System") in accordance with the contents of art. 84-*bis*, paragraph 1 of the Issuers' Regulation.
The Information Document is available to the public at the registered office of INTESA SANPAOLO, in Torino, piazza San Carlo, 156, and on its website group.intesasanpaolo.com. The Information Document has also been sent to Borsa Italiana S.p.A. with copy to Consob. Publication of the document has been announced to the market through a press release.
The Ordinary Shareholders' Meeting called to approve the System has been convened for 28 May 2012 (on single call).

## Recipients

The System is addressed to "Key personnel", as defined by the Supervisory Provisions, identified by the Management Board and the Supervisory Board, each acting under its remit, as the Chief Executive Officer[1], the General Managers, the other Key Managers[2], the heads of the internal control functions at Group level[3], the heads of the main corporate functions and business areas and the persons defined by the regulations as "risk takers", who may take on significant risks for the Group, such as, merely by way of example, the heads of the main business units of Banca IMI, for a current total which can be estimated as about 120 resources.

Therefore, recipients include managers who have regular access to privileged information and have the power to make management decisions which may affect the Group's evolution and outlook.

As mentioned above, the Plan's recipients also include the Heads of the internal control functions, whose performance is measured by specific indicators, in compliance with the provisions issued by the Bank of Italy.

These officers play a key role in corporate processes, especially in the light of the lessons learnt from the recent financial crisis, since they are responsible for the correct presentation of income statement and balance sheet results and for guaranteeing efficient measurement and control of the Group's exposure to different types of risk (market, credit, rate, liquidity, operational and country risk), including the risk of non-compliance.

Therefore, we deem it appropriate for the heads of the internal control functions, as part of the Group's management component, to be able to participate in and benefit from the same incentive scheme. This will be done ensuring that, as required by regulators, the value of the relevant bonuses is dependent strictly on the quality of performance of the above-mentioned duties and only partially on the Group's economic results.

In line with the constraints of economic sustainability, the Company may also decide to expand participation in the System to a larger group of recipients ("extended scope") than the individuals which can be identified through the mere application of the current regulatory provisions, in order to disseminate a culture focused on sustainability as much as possible within the Group through a real connection between remuneration and the effectiveness and stability over time of results and the level of capital base.

It is understood that, as illustrated in further detail hereunder, for persons in the "extended scope", totalling around 780 resources, there are specific methods for deferring the variable component of remuneration, while the use of shares is limited, also in terms of amount, to the members of the Top Executive Group who, due to the activities they supervise, are not classified as "Key personnel" (around 70 executives).

The recipients are indicated in the attached Table.

## Plan rationale

Long-term incentive plans are designed, in general terms, to retain managers and support their motivation to achieve the company's long-term targets. Where they include compensation based on financial instruments, they also favour alignment of interest between employees and shareholders, via the employees' direct participation in corporate risk.

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[1] Given the termination of service and the role held, effective 16 November 2011, the former Chief Executive Officer, Corrado Passera, is no longer entitled to receive the incentive with respect to results achieved in 2011.

[2] As at the date of approval of this report, and in line with the criteria laid down in IAS 24 the Key Managers category is considered to include the Chief Executive Officer, the General Managers, the Manager responsible for preparing the Company's financial reports, the Heads of Business Units, the Heads of governance areas, the Heads of head office departments that report directly to the CEO and/or to the Chairman of the Management Board and the Chairman of the Supervisory Board, the Head of the General Secretariat of the Supervisory Board and the Head of Strategic Operations and Special Projects. Therefore, Key Managers, including the Chief Executive Officer and General Managers, currently total 15 managers.

[3] Based on the current organisational structure, these are the Manager responsible for preparing the Company's financial reports, the Chief Risk Officer, the Head of the Internal Auditing Department, the Head of the Human Resources Department, the Head of the Compliance Department, the Head of the Risk Management Department and the Head of the Anti Money Laundering Service. The first four, though they are all Key Managers, are considered to carry out "Control Functions" for the purposes of application of the specific regulations on incentives envisaged by the new Supervisory Provisions.

Under this approach, the plans are an integral component of the Intesa Sanpaolo Group compensation system addressed to executive officers, key managers and strategic professionals, fully in line with its investment in human capital development, in the framework of a policy targeting sustainable long-term development and accountability vis-à-vis all stakeholders, by incentivising the achievement of yearly and multi-year targets identified by the competent corporate functions from among the indicators that best reflect Group profitability over time, also taking account of risks assumed, the cost of capital, liquidity and the level of capital base required to handle the activities implemented.

The updating of the mechanisms in place in the Group to date and the adoption of the proposed System have become necessary in order to execute the Supervisory Provisions requiring, inter alia, that intermediaries adopt incentive mechanisms with specific characteristics.

Moreover, the proposed incentive system simplifies personnel management mechanisms, unifying the short and long-term incentive plans previously in force into a single instrument.

The incentive mechanism has been designed to ensure its impact on the income statement is sustainable and in line with capital base targets. Any cash payments made and the amount of the financial instruments assigned to recipients will come under social security provisions and will constitute income from employment, pursuant to the applicable legislation in force from time to time. Lastly, it is confirmed that accounting and fiscal considerations have had no significant impact on definition of the System.

## Approval process and timeframe for award of the instrument

Intesa Sanpaolo's remuneration and incentive policies, which the proposed System is an integral part of, were approved by the Supervisory Board based on a proposal of the Management Board on 20 July 2011.

The Business Plan and Extraordinary Transactions Commission and the Remuneration Committee, each acting under their specific remit, examined the characteristics and parameters thereof at their meetings of 18 and 19 July 2011 (Business Plan and Extraordinary Transactions Commission) and of 19 July 2011 (Remuneration Committee). The official price recorded by the Intesa Sanpaolo ordinary share on such dates fluctuated from a minimum of 1.5169 euro (quoted price on 18 July 2011) to a maximum of 1.6062 euro (on 20 July 2011).

To this end, it is worth noting that at the time the System was approved by the Boards, the then Managing Director and Chief Executive Officer was in a potential conflict of interest - as a member of the Management Board called to propose an incentive mechanism which concerned him personally to the Supervisory Board and the Shareholders' Meeting – and therefore, he refrained from participating in the related Board decision.

The System relates only to 2011.

This Incentive System shall be subject to approval of the Shareholders' Meeting called for 28 May 2012 in single call.

The proposed resolution which shall be submitted to the aforementioned Shareholders' Meeting includes the assignment to the Management Board of a specific mandate, with the right to sub-delegate, to carry out all required and suitable actions in order to execute said resolutions. To this end, the Management Board shall avail itself of the assistance of the Treasury Department and/or Banca IMI, which shall also be assigned the task to carry out any sales of shares which may exceed requirements.

The Human Resources Department is responsible for managing the System, supporting the Chief Executive Officer and the Management Board and Supervisory Board in drawing up the required measures to implement the System, and availing itself, to this end, of the support of other corporate functions for the activities under their respective remits.

## Characteristics of the financial instruments to be awarded

The System provides for the assignment to the recipients identified above of a bonus comprised of 50% cash and 50% Intesa Sanpaolo ordinary shares, which will be purchased on the MTA market (mercato telematico azionario) in compliance with the mandates specifically granted by the Shareholders' Meeting.

60% of the entire bonus (reduced to 40% for the Chief Executive Officer, Key Managers and other specific positions) will be paid to the recipients in the year following the year the bonus refers to (upfront portion) according to the same cash/shares ratio as above.

The remaining portion will, instead, be assigned proportionally in the three further following years, broken down as follows: the first third will be paid fully in cash, the second third exclusively through shares, and the last third divided equally between cash and shares.

As per the Supervisory Provisions, each portion of the bonus assigned in shares shall be subject to a retention period of 2 years for the upfront portion and 1 year for the deferred portions. The retention period starts from the accrual date of the bonus.

The shares accrued in each case shall be delivered to the recipients only at the end of the retention period described above and, save for the cases described hereunder, shall be subject to the employee remaining in service with any Group company.

In light of the above, the shares to be purchased on the basis of the Shareholders' Meeting mandate may be delivered to the recipients starting from 2014 (the upfront portion referring to 2011 results) and up to 2016 (for the last deferred tranche).

Therefore, as has become traditional practice in the Group, and in line with regulators' indications, based on which the ratio of the fixed component of remuneration to the variable component "must be suitably balanced, exactly determined and carefully assessed in relation to the characteristics of the intermediary and the various categories of personnel", the theoretical bonus which could be distributed is correlated to the level of each recipient's fixed component of remuneration.

More specifically, if the assigned targets are fully achieved, "Key personnel" may generally receive a yearly bonus, including the deferred portion and the portion assigned in shares, of approximately 60% of the remuneration pay mix. In light of regulator's indications, the Heads of the internal control functions, even if they are included under Key Managers, may benefit from a variable portion of compensation, with the same characteristics as that for "Key personnel", though smaller - amounting to approximately 40% of the remuneration pay mix.

The personnel in the "extended scope" can benefit from the same incentive mechanism as that for "Key personnel", except for a simpler deferral method (with a single solution after two years) and payment of the bonus. The deferred portion is normally paid fully through shares for members of the Top Executive Group and entirely in cash for the remaining resources; the upfront portion is paid exclusively in cash to all recipients in the "extended scope".

Moreover, the resources included in this scope may receive an annual payment, including the deferred portion and any portion assigned in shares, usually from 40% to 60% of the remuneration pay mix. The reason for this differentiation, in line with market best practice, is the type of activity and business overseen, the level of responsibility undertaken and the strategic nature of the resource.

In full harmony with the criterion of symmetry between the amount of bonuses paid and actual performance, the amount of the incentive, without prejudice to the provisions made for the Manager responsible for preparing the Company's financial reports and the Heads of the internal control functions, will be linked to the degree of achievement of the yearly and multi-year corporate targets described hereunder. Said targets shall be verified following approval of the draft financial statements by the competent bodies. If the targets are only partially achieved, there will be a corresponding reduction in the bonus, while if the assigned targets are exceeded, the incentive may be increased.

Accrual of the total bonus is subject to the achievement of the targets for Group results, measured using a risk-adjusted economic indicator (EVA®), and the exceeding of a specific minimum threshold, both at Group and Division/Business Unit level, of the specific summary indicator set forth below, which is also used to quantify the incentive.

The value of the bonus to be paid, including the deferred portion and any portion assigned in shares, is linked to the degree of achievement of a specific summary indicator composed of targets regarding

i) profitability (operating income), ii) efficiency (cost/income), iii) risk containment (adjustments to loans), iv) sustainability, considering the risks taken on and the cost of capital (EVA®), and v) quality, fairness in relations with customers, or containment of legal and reputational risks (i.e. customer satisfaction, report of the control functions.)[4]. The economic targets, as a whole, have the greatest impact in forming the aforementioned summary indicator (20-25% each), while the qualitative parameters have a total weight of 10%.

Moreover, each deferred portion is subject to an ex post adjustment mechanism - the "malus condition" – according to which the relative amount paid and the number of shares assigned, if any, may be reduced in relation to the level of achievement, in the year to which the deferred portion refers, of specific targets which measure the sustainability of value creation over time (EVA®) and respect of the maximum acceptable risk for the Group, in terms of capital base (using the Core Tier 1, or Common Equity Tier 1 value as a reference) as well as specific liquidity levels (through indicators similar to the Basel III Net Stable Funding Ratio, which enable monitoring of the structural trend of liquidity in the medium-to-long term).

As previously mentioned, the disbursement of the promised incentives, both in terms of the upfront portion and the deferred portion, whether assigned in cash or via shares, is conditional upon the participant being an employee of one of the companies in the Group at the time of actual disbursement of the incentive, or of the actual delivery of the shares at the end of the retention period. In fact, any right to receive the incentives "promised" shall be forfeited in the event of resignation or dismissal for just cause of the individuals concerned or similar situations. On the other hand, any amounts/shares accrued may be paid, at the end of the deferment/retention period and possibly measured in proportion to the period of actual service, in the event of termination by mutual consent or due to having reached retirement age or other similar situations.

The tables shown in attachment 1[5] illustrate the breakdown of the above mechanism, by way of example.

In light of the System's criteria, parameters and characteristics and, more generally, the information available to date, a total charge – inclusive of indirect charges pertaining to the employer and therefore also the cash component of the bonus - for "Key personnel" and the other members of the Top Executive Group, who are recipients of shares, can be estimated at a maximum of 37 million euro, equal to 0.7% of personnel expenses recorded in the 2011 consolidated financial statements.

In light of the information available to date, including the share value (on 16 April 2012) the maximum number of shares to be purchased on the market to meet the total requirements of the System can be estimated at 11.6 million, equal to around 0.07% of ordinary share capital and total share capital. As these are purchases of own shares, there will be no dilutive effects for shareholders.

As the shares are offered to recipients under an incentive mechanism, they will be assigned to recipients, where the conditions set forth above are met, free of charge and, as a result, no loans or other subsidies to employees are foreseen for their purchase.

Recipients shall be entitled to the rights deriving from ownership of the shares starting from the effective share delivery date, at the end of the retention period. From said date, recipients may freely use the shares, without any additional restrictions, except for the impossibility of directly selling said shares to Intesa Sanpaolo or companies in the Group.

In the event of extraordinary transactions on the share capital or of other transactions involving variation of share capital composition, of the Company's equity or of the number of underlying instruments (capital increases, grouping or subdivision of the underlying shares, mergers and spin-offs, conversions of shares into other categories, distribution of extraordinary dividends drawing on reserves, etc.), the Management Board and the Supervisory Board shall assess, each within the scope of its remit, whether it is necessary to adjust the number of shares promised/accrued. The above checks will be performed in accordance with the rules commonly accepted in financial market practice and, to the extent possible, implementing any adjustments as may be provided for by Borsa Italiana.

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[4] Note that for the Heads of the internal control functions, assuming achievement of the Group's thresholds, determination of the incentive accrued is strictly defined with reference to the specific qualitative indicators of the respective functions, in compliance with the Supervisory Provisions.

[5] For greater clarity, the tables illustrate the method of payment of the incentive referring to 2011 for the individuals which are part of "Key personnel", for which an upfront payment is made of 40% of the bonus accrued and the remaining 60% is deferred.

Note that, pursuant to the Group Corporate Governance Code of Conduct, employees are forbidden from "carrying out transactions in derivative instruments, such as those identified in art. 1, paragraph 3 of the Consolidated Law on Finance and the Regulation of Markets managed by Borsa Italia S.p.A. (for example, covered warrants, options, futures and leverage certificates), or, in any event, implement highly speculative transactions and/or operating strategies". As a result, the recipients may not carry out hedging transactions on the shares assigned through the System.

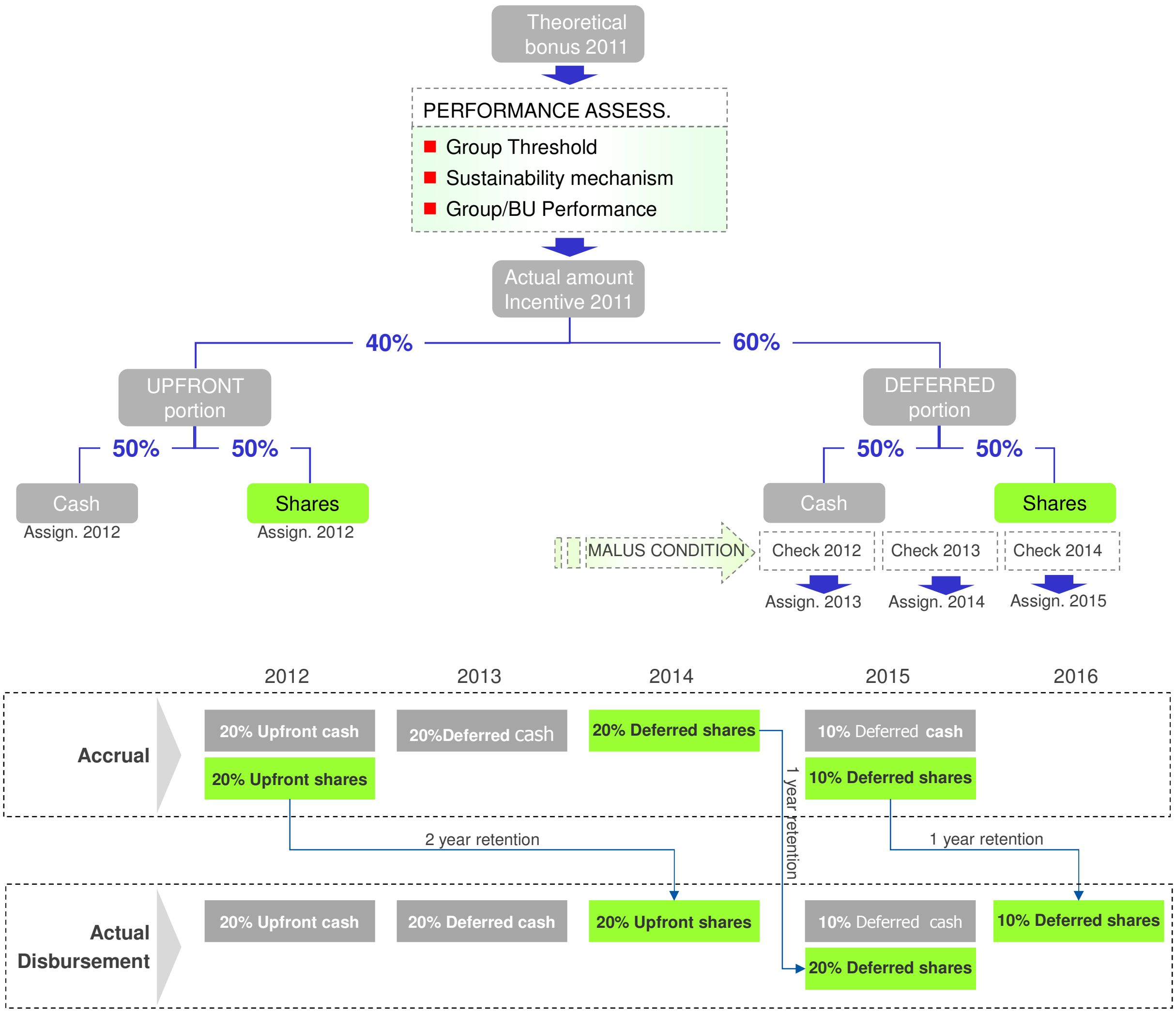
Lastly, it is noted that delivery of the shares to the recipients at the end of the retention period may not take place during the "blocking periods" pursuant to the Internal Dealing Regulations, which are time bands during which it is expressly prohibited for relevant persons for internal dealing purposes to carry out transactions on Intesa Sanpaolo ordinary shares.

The assignment of financial instruments according to the above terms, also in light of the opinions provided by the Compliance Department, is fully in line with the European level requirements of the CRD III and the new "Provisions regarding remuneration and incentive policies and practices in banks and in banking groups" published by the Bank of Italy.

*Attachment 1*

## Example chart illustrating the bonus attributable in relation to 2011 results

*(example with deferment of 60%)*



*Attachment 2*

**FINANCIAL-INSTRUMENT BASED REMUNERATION SCHEMES**
**Table 1 of Model 7 of Annex 3A to Regulation no. 11971/1999**

***Date: 17 / 04 / 2012***

| Name and surname or category | Office (to be specified only for individuals listed by name) | BOX 1 – Financial instruments other than stock options – **Section 2** – Newly assigned instruments based on the decision: [√] of the Board of Directors' proposal to the Shareholders' Meeting [ ] of the competent corporate body, implementing the Shareholders' Meeting resolution | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Date of Shareholders' Meeting resolution | Type of financial instruments | Number of financial instruments assigned | Assignment date | Possible strike price of the instruments | Market price on assignment | Vesting period |
| Key Managers | | 28/05/2012 | Ordinary Intesa Sanpaolo shares | n.a. | n.a. | n.a. | n.a. | n.a. |
| Key Personnel | | 28/05/2012 | Ordinary Intesa Sanpaolo shares | n.a. | n.a. | n.a. | n.a. | n.a. |
| Other members of the Top Executive Group | | 28/05/2012 | Ordinary Intesa Sanpaolo shares | n.a. | n.a. | n.a. | n.a. | n.a. |