Report of the Supervisory Board to the Shareholders' Meeting on the supervisory activities performed in 2013

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,

The Shareholders' Meeting held on 22 April 2013 elected the current Supervisory Board, which in turn appointed the Management Board for the three-year period 2013-2015.

For the purposes of renewal, the outgoing Supervisory Board - in accordance with the current Supervisory provisions concerning banks' organisation and corporate governance and the guidelines of the Corporate Governance Code for listed companies ("Code") – published a timely assessment of its adequacy in terms of size, composition and operations, taking into account the duties assigned and the operation of the Board, as well as the complexity and size of the Bank. The new Supervisory Board subsequently confirmed the overall consistency between the qualitative-quantitative composition considered optimal and that resulting from the appointments made by the Meeting, also with regard to the recommended scopes of responsibility and professionalism.

The shareholders' decisions thereby confirmed, for the third mandate, the validity of the dual management and control system adopted by Intesa Sanpaolo since 2007, the implementation of which can now be considered as positively consolidated, based on the clear distinction of duties and responsibilities of the Supervisory Board and Management Board, for overall management of the Bank and management and control of the Group which it coordinates.

The recent amendments to the aforementioned Provisions proposed by the Bank of Italy – whose relevant discussion ended last January and whose results, as at the date of approval of this Report, have not yet been disclosed – show changes in terms of roles, responsibilities and qualitative/quantitative composition of the corporate bodies, particularly as regards banks that adopt the dual governance model. Once the final regulations are enacted, it may be necessary to reconsider, also in light of the provisions of the Articles of Association, a number of profiles regarding the description of the prerogatives of the Supervisory Board and Management Board.

The Supervisory Board has confirmed the organisational decision to establish six internal Committees – a higher number and with more extensive duties than what is required by the reference regulations – that aim to provide the Board and its members with data feeds on the matters for which they are responsible, remarks and observations and timely, ongoing reporting on the activities carried out. This activity therefore facilitates the Board's task of making reasoned decisions, without limiting its powers and responsibilities.

Similarly, the roles of Chairman - focused on the supervision and activation of the corporate bodies - and Director and Secretary to the Board - which ensures a liaison between the activities of the Committees and the duties of the Board - participate, with the support of the "General Secretariat of the Supervisory Board", in increasing the efficiency and effectiveness of works.

For detailed reporting on the overall corporate governance of Intesa Sanpaolo and on the role of the corporate bodies, see the specific "Report on Corporate Governance and Ownership Structures".

Art. 153, paragraph 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 2013 pursuant to art. 149, paragraph 1, of the Consolidated Law on Finance and the Articles of Association. The Report was prepared taking into account the Consob recommendations on the matter and, in particular, Communication 1025564 of 6 April 2001 and subsequent updates, expressly referred to in the text.

The second part of the document provides brief comments on the other functions of the Supervisory Board assigned by law and by the Articles of Association, with particular reference to:

(i) approval of the 2014-2017 Business Plan;

(ii) the results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group's remuneration systems and practices in 2013;
(iii) the Allowance for charitable contributions and cultural initiatives;
(iv) the results for 2013 and the payment of "dividends";
(v) the proposal for a share capital increase.

In light of the above, the Supervisory Board:

a) confirms that on 27 March 2014 it examined the "Report on Corporate Governance and Ownership Structures" approved on the same date by the Management Board, pursuant to Art. 123-bis of the Consolidated Law on Finance;

b) points out, also in relation to its duties specifically attributed by law and by the Articles of Association with regard to approval of the Parent Company's and consolidated financial statements, that:
   - on 27 March 2014 the Management Board approved the draft Parent Company's and consolidated financial statements as at 31 December 2013 which, together with the Reports on operations, were made available to the Supervisory Board on the same date, as an exception - authorised in advance by the control body - to 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 KPMG 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 2013, 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 prudent information on the main risks and uncertainties that the Bank and the Group are exposed to;
   - on 27 March 2014 the Managing Director and the Manager responsible for preparing the Company's financial reports released the certifications pursuant to art. 154-*bis*, paragraph 5 of the Consolidated Law on Finance;
   - on 3 April 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 2013, with no exceptions;

c) by resolution of 7 April, approved the financial statements of Intesa Sanpaolo and the consolidated financial statements of the Group as at 31 December 2013;

d) states that no significant facts have emerged from the supervisory activities performed requiring disclosure to the Supervisory Authorities.

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

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

Upon renewal of the body and subsequent replacement of a member, the Board – in addition to the aforementioned activities – verified that each member possessed the requirements set forth by the current legal, statutory and regulatory provisions, including that of independence in accordance with the criteria outlined by the Code. This verification also involved the profiles related to the interlocking prohibition (pursuant to Law Decree 201/2011, converted with amendments from Law 214/2011).

Regarding its adequacy in terms of powers, size, composition and operation, the Supervisory Board conducted a self-assessment at its meeting of 25 February 2014, with the support of the Control Committee and the Nomination Committee, without using any external consultants. As is customary, this activity consisted of detailed analysis of the functions actually carried out by the Board and by its Committees in 2013, aimed at verifying, in light of their respective duties and powers, the degree of completion of the activities performed and identifying any area requiring greater attention. Furthermore, each Board Member expressed their own opinion in a questionnaire on the size, composition and operation of the Board and its Committees.

The examination also regarded the profiles of independence and incompatibility of Members who, as required by the Bank of Italy in its letter of 11 December 2013, included an analysis of the credit relationships that Members declared to have with the Bank and/or its subsidiaries and that are attributable to the same.

As a result of this verification and with regard to the aforementioned profiles, the Supervisory Board expressed an assessment of adequacy, taking into account the comments in the questionnaires and the related areas for possible improvement.

With regard to the internal control system, the information system and business continuity procedures, the Board, with the support of the Control Committee, examined the New Regulations for the Prudential Supervision, issued on 2 July 2013 by the Bank of Italy, and the company's position in relation to these regulatory provisions. This task concluded with the preparation of a gap analysis report and an action plan to identify the measures to be adopted to ensure full compliance with the New Regulations. The relative results were submitted to the Supervisory Authority, as requested by it. The implementation of these measures is planned during 2014 and, in certain aspects, will also extend into 2015.

Furthermore, the Supervisory Board:

- through the Control Committee, examined the periodic report drawn up by the Corporate Affairs Department in accordance with the Group’s current policies on investments in non-financial companies;
- upon recommendation by the Management Board, approved updating of the Guidelines on anti-money laundering and the Regulation for the granting of assignments to independent auditors and their networks for the provision of audit and other services;
- as the Body responsible for strategic supervision, approved, upon recommendation by the Management Board, updating of the Guidelines of the public assets-backed Covered Bonds issue programme.

Particular attention was paid to compliance with anti-money laundering legislation, with the support of the Surveillance Body pursuant to Legislative Decree 231/2011 (“Surveillance Body”), which is responsible for the operation, effectiveness and compliance of the "Organisational Management and Control Model" adopted by the Bank in accordance with the aforementioned Decree. See subsequent paragraph 3.2.2 for further discussion on this matter.

With regard to the New York branch, the Supervisory Board has acknowledged completion of the proceeding initiated by the Office of Foreign Assets Control (OFAC), following a number of violations identified in the criminal investigations by the New York District Attorney's office and the local Department of Justice, already filed in 2012 with a positive outcome for the Group. This proceeding resulted in the stipulation of a Settlement Agreement with the OFAC. Furthermore, the same operating procedures subject to investigation by the criminal Authorities and by the OFAC have recently been the subject of attention by the two major bank supervisory authorities of New York (NYSDFS and the FED), which launched their own inquiries and assessments. As at the date of approval of this Report, there were no existing disputes against Intesa Sanpaolo.

As far as the London branch is concerned, the Board was informed about an intervention by the Prudential Regulatory Authority (PRA), which identified the opportunity to strengthen the local governance system. The Internal Auditing Department carried out an assurance activity on this issue, confirming the effectiveness of the risk governance system adopted by the branch since July 2013. The same branch was also subject to a recent assessment on anti-money laundering by the Financial Conduct Authority (FCA), which highlighted a number of shortcomings for which a specific action plan was defined; this plan is expected to be completed within the first half of the current year.

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

Upon appointment of the new Supervisory Board, the outgoing Body verified, with the support of the Control Committee and pursuant to Art. 23 of the Articles of Association, the lists of candidates filed by the shareholders and the absence of affiliations among them, in compliance with a specific request by Consob to this effect.

Upon proposal by the Nomination Committee, the Supervisory Board, after determining the number, appointed the new Members of the Management Board, indicating the executive ones and the

Managing Director. This activity was repeated in the autumn of 2013, upon replacement of the Managing Director, carried out promptly in order to ensure stability for the Bank, during a complex and uncertain market scenario.

The Board also verified the correct application of Art. 23.9 of the Articles of Association, upon replacement of a resigning member of the Supervisory Board in May 2013.

The Supervisory Board accepted the proposals of the outgoing Management Board to the Shareholders' Meeting – which approved them on 22 April 2013 – in terms of distribution of profits, without prejudice to the allocation to extraordinary reserves of the non-distributed amount for any treasury shares held as at the dividend detachment date.

5 Reports

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 in 2013 from a shareholder, on 7 June 2013, regarding alleged irregularities in the management of questions submitted prior to the meetings and the relative answers, not referred to in the minutes of the Shareholders' Meeting of 22 April 2013 and which, allegedly, were not easily made available to the public during the Meeting. Through the Control Committee, the Board examined the circumstances behind the complaint, involving the relative Bank structures for the required verifications. The outcome of this intervention determined that Intesa Sanpaolo's behaviour was in line with the legislative provisions set forth by Art. 127-ter of the Consolidated Law on Finance, with the utmost transparency during Meetings. The Bank presented its findings to the shareholder, providing the relative clarifications.

6 Complaints

With regard to complaints submitted to the Supervisory Board or directly to its members, in 2013 a total of 25 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.

9) Opinions

Moreover, the Supervisory Board issued the opinions required from the Control Body under the Articles of Association, with regard, in particular, to the appointment and remuneration of the General Manager, Deputy to the CEO (later appointed Managing Director and CEO), to the appointment and remuneration of the head of the Compliance Department and to the incentive system for the Manager responsible for preparing the Company's financial reports and the heads of the control functions.

10) Meetings

The Bank's Corporate Bodies met regularly during 2013, with the following meetings held:

- 1 Shareholders' Meeting;
- 17 Supervisory Board meetings;
- 24 Management Board meetings, attended, in accordance with the Articles of Association, by the members of the Control Committee and the Board Director and Secretary, whereas the Chairman and the other members of the Supervisory Board did not attend;
- 48 Control Committee meetings;
- 5 Nomination Committee meetings;
- 15 Remuneration Committee meetings;
- 5 Strategy Committee meetings;
- 15 Financial Statements Committee meetings;
- 23 Related Party Transactions Committee meetings.

2. Supervision of 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 heads 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 2013 Budget and, recently, the 2014 Budget and the new Business Plan;
- acquired reports, usually on a quarterly basis, in compliance with Art. 150, paragraph 1 of the Consolidated Law on Finance, on activities performed and on transactions with a major economic, financial and capital impact 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 departments 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, also for the purposes of Art. 17.7 of the Articles of Association.

2) Atypical or unusual transactions

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.

3) Adequacy of information

In its Reports on operations and in the Notes to the draft Parent Company's and consolidated financial statements as at 31 December 2013, 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;

2.3) Intragroup transactions with related parties

(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.

With specific reference to related-party transactions – which are based on the civil code corporate provisions (Articles 2391 and 2391-bis of the Italian Civil Code), the Consob Regulation adopted by resolution 17221 of 12 March 2010 as subsequently amended, and the regulations issued by the Bank of Italy on activities involving risks and conflicts of interest of banks and banking groups with respect to associated entities – the role assigned to the Committee established for this purpose within the Supervisory Board is emphasised.

This Committee - which has no authority to examine the remuneration of related parties, a matter that falls under the competence of the Remuneration Committee - examined 55 transactions in 2013, of which 52 were classified as less significant, and 3 "framework resolutions" (of which 1 intragroup) in the credit segment which were prudentially considered as more significant. The Committee issued a favourable, reasoned, non-binding opinion for each of these. The Committee also received 4 notices regarding transactions subject to the provisions and special decision-making powers pursuant to Art. 136 of Legislative Decree 385/1993 (Consolidated Law on Banking) or to decisions to classify positions with related parties and/or Group associated entities as substandard and/or doubtful.

In this respect, the Bank identified a request by Consob with regard to profiles of transactions with related parties, regarding an amendment agreement to the shareholders' agreement for a financial investee holding, specifying the nature of the existing correlation and confirming respect, in this case, of the company regulations on the management of transactions with related parties of Intesa Sanpaolo and associated entities of the Group.

As to legal compliance on conflicts of interest, the Bank has put in place a comprehensive set of rules ensuring compliance with the relevant legislation. The company regulations underwent verification by the internal control functions in 2013 as well, leading to approval in February 2014 of the update of the corporate policy.

(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 Supervisory Board, in accordance with the aforementioned 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 2013 as well.

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 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 2013 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. Supervision of the adequacy of the company's organisational structure as regards aspects under its scope of responsibility and of the internal control system

3.1 The adequacy of the organisational structure

The "Report on Corporate Governance and Ownership Structures", to which reference is made, describes Intesa Sanpaolo's operational structure, divided into Business Units, Governance Areas and Head Office Departments. This structure is governed by Regulations that define the institutional operations of the Intesa Sanpaolo Group and the intragroup transactions, in accordance with supervisory regulations, which assign responsibility for the overall consistency of group governance to the Parent Company, through management and coordination activities. For the purpose of actual application of the provisions of the Regulation, specific reporting procedures and adequate information flows are envisaged.

As part of the amendments made to the Group's organisational and corporate governance system in 2013, the Supervisory Board, with the support of the Strategy Committee, disclosed the following to the Management Board:

- the guidelines of the reorganisation process of the Banca dei Territori Division and the appointment of Carlo Messina as head of said Division; in particular, the structural reorganisation and expansion of the scope of operations to Mid Corporate firms and to product companies operating in the leasing and factoring segment, previously under the Corporate and Investment Banking Division, was approved;
- the establishment of two new governance areas: the Chief Governance Officer and Wealth Management.

The Supervisory Board – with the aid of the Control Committee – has continued to examine 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 governance area of the Chief Operating Officer, to examine training activities and the disciplinary and sanctions system for employees, as well as updating of the Group's Internal Code of Conduct, approved by the Boards, each within the scope of its remit. The assessment also regarded the information systems and the activities, processes and control system overseeing computer risk;
- the International Subsidiary Banks Division, to receive updates on coordination of the Group's activities on international markets - leading to the establishment of an ad hoc management committee - and on restructuring plan of Hungarian subsidiary CIB, also with the objective of providing feedback to the Supervisory Authority, which has expressly requested so;
- the Banca dei Territori Division, to examine the revision of sales and distribution agreements between the Banks and the Product Companies of the Group, as well as the plan for rationalisation and consolidation of the pawnshop structures, with the involvement of the Human Resources and Organisation Departments;
- the Company Safety Unit, to examine the organisation of sensitive activities pursuant to the Privacy Law.

The Internal Auditing Department generally participated in the meetings, supporting the Committee's work by illustrating data on the issues covered.

The Supervisory Board, through the Control Committee, examined the projects and/or activities aimed at the Group's organisational development and at ensuring compliance with regulatory changes. In this respect, particular mention goes to the aforementioned update of the Regulations for the Prudential Supervision of Banks which, to ensure coordination and interaction between the various departments and bodies responsible for control (envisaged in corporate, accounting and supervisory regulations), assign to the Supervisory Board, as Body responsible for supervision, the task of approving a specific document stating the duties, responsibilities and coordination/collaboration methods between the various control functions involved. Activities aimed at defining this document have already begun and will be completed within July 2014.

With reference to the internal control system – which is described in paragraph 3.2 below - the organisational model based on three separate levels of governance (business management, risk and compliance management and internal audit) and characterised by segregation of the risk management and risk control functions was confirmed in 2013 as well. The Control Committee verifies that these 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 - was placed under the direct responsibility of the Chairmen of the Management and Supervisory Boards, safeguarding its independence from the operations departments. Organisational development of this Department – which is used primarily by the Supervisory Board, the Control Committee and the Surveillance Body - is subject to further examination.

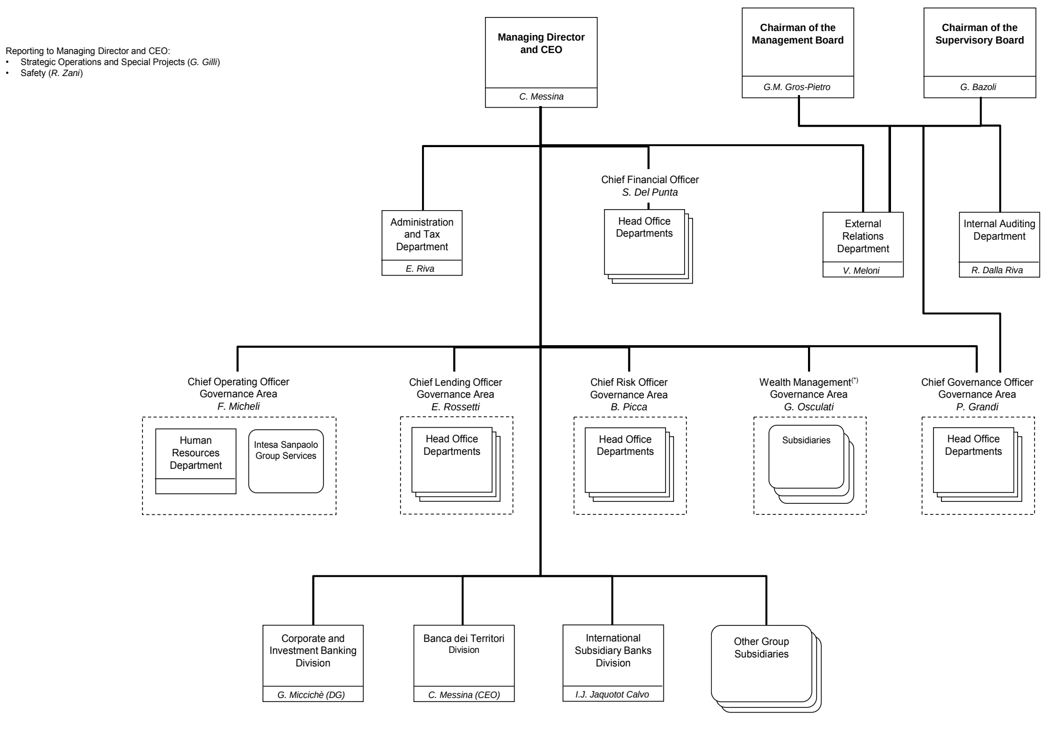
It is noted that, in order to safeguard the independence of the control functions, the Supervisory Board is directly involved in appointing the respective managers. In this respect, in June 2013, the Supervisory Board, with the support of the Control Committee and the Remuneration Committee for the profiles under their responsibility, expressed its opinion in favour of the appointment of the new head of Intesa Sanpaolo's Compliance Department.

The Group’s reorganisation process continued during the early months of 2014. More specifically:

– the business finance hub was created, aimed at supporting investments and growth plans of companies through incorporation into Mediocredito Italiano of the Group’s leasing activities, to be followed by aggregation of the factoring activities;
– agreements were signed for the disposal of 100% of the capital of Ukrainian subsidiary Pravex Bank and 19.9% of Chinese life insurance company Union Life, held by Intesa Sanpaolo Vita;
– a “Real Estate Owned Company” was established in the real estate segment, with the objective of protecting the value of real estate collateral lodged by customers in favour of the Bank for loans that have become the subject of forced recovery.

As envisaged in the Regulations for Prudential Supervision, in January 2014 the Supervisory Board, upon recommendation by the Management Board, appointed the head of the Group’s business continuity plan.

The organisational chart of Intesa Sanpaolo S.p.A. as at today’s date is shown below. Note that on 29 September 2013, the Management Board, upon recommendation by the Supervisory Board, appointed Carlo Messina as Managing Director, delegating the powers and authorisations that the Management Board deemed to assign to him also in his capacity as Chief Executive Officer.



(*) Coordinating: Eurizon Capital, Intesa Sanpaolo Assicura, Intesa Sanpaolo Previdenza, Intesa Sanpaolo Vita

3.2 Adequacy of the internal control system

The description of the internal control system provided in this Report should be considered to refer to the actual situation as at the date of its approval. In fact, activities to adopt the New Regulations for Supervision are underway, as indicated above, as well as the results of the assessment, concluded in 2013, that Intesa Sanpaolo spontaneously began in 2012 with the support of an external consulting firm, in order to evaluate the system's solidity, efficacy and possible areas for improvement. The results of this assessment were at the basis of the self-assessment report drawn up by Intesa Sanpaolo and sent to the Supervisory Authority.

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

13) Internal control system

- 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, which include, in addition to credit quality:
  - risk management controls run by the relative function, which are aimed at contributing to the definition of risk measurement methodologies, at verifying compliance with the limits assigned to the various operating departments 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 of the Bank as a consequence of infringements of laws and regulations or voluntary codes;
  - anti-money laundering controls, entrusted to a dedicated function, 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 "Report on Corporate Governance and Ownership Structures", to which reference should be made, and involves the participation of the corporate bodies, the Manager responsible for the Company's financial reports, the specific internal control functions, and also of the Surveillance Body pursuant to Legislative Decree 231/2001, discussed in more detail below.

The Independent Auditors, within their area of responsibility, also form part of the internal control system.

This system includes the important role of the Control Committee as a permanent reference point for the internal control structures and functions; this allows a close link with 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.

Lastly, please note that in 2013, the Control Committee was asked by the Bank of Italy to issue opinions on and assessments of specific events.

3.2.1 Activities of the heads of the internal control functions

13) Activities of the heads of the 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 status of corrective measures implemented as required by the Supervisory Authority for the adoption and rollout of the internal rating systems for the SME-Retail segment;
    - the progress of the corrective actions plan – required by the Bank of Italy upon authorisation of the reduction of the capital floor in order to contain capital requirements for credit risk –

necessary to obtain a further reduction of the floor; in this context, the Committee also analysed the results of the checks carried out by Internal Validation and by the Internal Auditing Department;

- consistency between the ratings assigned by the agencies and the independent evaluations carried out by Intesa Sanpaolo;
- the estimate of the impact of centralisation of the ratings of No-Profit customers in Banca Prossima in terms of additional workloads for managers of the subsidiary;
- the key reference regulations on internal credit risk models adopted by the Group;

▪ with regard to market risk, submitted to the Control Committee:

- for counterparty risk, extension of the advanced measurement system for exposure to collateralised transactions in OTC derivatives of Intesa Sanpaolo;
- the update on the improvement measures required by the Bank of Italy as part of the procedure for authorisation of the internal model on specific risk for debt securities and revision of the multiplication factors. The Internal Auditing Department also presented its findings on this issue;
- corrective measures required by the Bank of Italy, following the pre-validation inspection by the Authority to verify the level of reliability of the counterparty risk measurement system;
- the update of the Fair Value Policy, following modification of the reference regulations;
- a summary of the key reference regulations on internal models adopted by the Group;

▪ with regard to operational risk, it reported on

- the key reference regulations on internal models adopted by the Group on this type of risks.

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

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.

Finally, the Department submitted to the corporate bodies 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.

- Internal Validation 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 progress of the corrective actions plan required by the Bank of Italy, necessary in order to obtain a further reduction of the floor - as said above - as well as on the market risk and internal operational risk measurement models.
- 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, the report on the assessment of the compliance risk that the Group is exposed to and the related controls, the report on the planning of the measures to be implemented and on the results of the assessments of the investment services provided to customers and the periodic report on transparency of transactions and banking services;
  - a report on development of the company regulations on conflict of interest and confidential information;
  - an examination of the ESMA guidelines in terms of investment services;
  - an examination of the insider list procedures;
  - illustration of the conditions applied to customers' current account overdrafts.
- The Anti-Money Laundering Department, in accordance with the functions assigned to it, provided the Control Committee, also in its capacity as Surveillance Body, with information on the following issues:
  - anti-money laundering safeguards and relative Tableau de Bord;
  - staff training;
  - reports pursuant to Art. 52 of Legislative Decree 231/2007;
  - policies on foreign counterparties of Banca IMI in countries at risk;
  - organisational safeguards for Group components located in non-European countries.
- The Internal Auditing Department, responsible for level-three controls, is the primary structure used by the Supervisory Board to perform its supervisory duties and it generally attends the Control

Committee meetings, in the person of its 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:

- draws up and shares with the Control Committee the annual Risk Assessment report, the audit plan and the key performance indicators identified by the Department itself to monitor the effectiveness of the audit function; 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;
- periodically informs the Control Committee and the Surveillance Body on any action taken – reported in the *Tableau de Bord* – that has ended with a judgement of high risk;
- 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 second part of this 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 credit risk, market risk and operational risk;
- presents the report on governance of the Group's SGRs and on the potential conflicts of interest;
- submits, at least once a year, 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 facts that emerged during the year.

These include the assessment of irregularities identified in the branch of Fiorano al Serio (BG) of Intesa Sanpaolo Private Banking. The potential risks of violation of anti-money laundering regulations were also examined in this scenario. In this respect, the subsidiary's Board of Statutory Auditors submitted the report pursuant to Art. 52 of the Consolidated Law on Banking, as well as the report pursuant to Art. 52 of Legislative Decree 231/2007.

Following these assessments the Control Committee, in accordance with the Board of Statutory Auditors of Intesa Sanpaolo Private Banking and with the support of an external advisor, launched an examination of the internal control system of the subsidiary, with the objective of evaluating its solidity and efficacy. This initiative identified the guidelines for its evolution, aimed at rendering it more consistent with the changing market scenarios and the business model adopted, as well as providing regulators with the required information.

The control functions, each for the profiles under their responsibility, carried out further assessments following specific requests by the Bank of Italy, the results of which were presented to the Control Committee. In accordance with the Organisational, Management and Control Model adopted by the Bank pursuant to Legislative Decree 231/2001 (the "Model"), the Committee analysed the activities carried out by the Surveillance Bodies of Italian Companies of the Group.

Finally, the Code of Ethics assigns the Control Committee, also in its capacity as Surveillance Body pursuant to Legislative Decree 231/2001, 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 has examined the annual report produced by the Corporate Social Responsibility Unit on its implementation and has no particular observations to report.

3.2.2 The Surveillance Body pursuant to Legislative Decree 231/2001

Upon renewal of the corporate bodies in 2013, the Supervisory Board, confirming the decision previously adopted, appointed effective members of the Surveillance Body and members of the Control Committee, and confirmed two of the three alternate members of the Body.

This Body is responsible for supervising the functioning, effectiveness and observance of the Model, pursuant to Legislative Decree 231/2001 on matters relating to corporate administrative liability.

This Model, with reference to the composition of the Surveillance Body, requires the presence of additional members, who have been confirmed by the supervisory body on the renewal of the surveillance body. Verification of the requirements by the effective and alternate members was carried out by the Control Committee.

The activities of the Body are governed by the Regulations for the Control Committee and surveillance body. 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 2013, the Body met 22 times, analysing numerous issues relating to the observance and implementation of the Model, which was updated on 16 July 2013 in light of the changes introduced in the relevant legislation.

The Body received periodic reports from the internal control functions, with a focus on the Anti-money laundering safeguards (including the reports pursuant to Art. 52 of Legislative Decree 231/2007 on potential infringements of the legislation, measures to strengthen monitoring of international anti-money laundering, training and updating of personnel, approved by the corporate bodies, with regard to the guidelines for combating money laundering and the financing of terrorism and for managing embargoes) and the responsibilities of the employer in relation to workplace safety and environmental crimes.

The Body also examined adaptation of the risk assessment document and the 2 complaints it received in 2013, the findings of which did not identify any violations of the Intesa Sanpaolo Model.

3.2.3 Other activities of the Supervisory Board

The Supervisory Board launched an examination of the Comprehensive Assessment process promoted by the ECB in November 2013 on the major European banks – including Intesa Sanpaolo – in view of the full adoption of single supervision responsibilities. The areas of interest for the Authority are:

- the Supervisory Risk Assessment, which consists of a full analysis of risks to which the intermediary is subject, in order to evaluate, in quantitative and qualitative terms, the fundamental risk factors (including liquidity, financial leverage and financing);
- the Asset Quality Review, namely examination of the quality of assets in light of specific "harmonised" guidelines at the European level, including adequacy of the valuation of assets and collateral as well as the relative allocations to provisions;
- a stress test to verify the stability of financial statements under particularly critical situations.

The action was carried out with close coordination between the ECB and national Supervisory Authorities, which use external advisors. Intesa Sanpaolo will be assessed at the consolidated level, with the exception of Slovak subsidiary VUB, which will be assessed individually, as it is a bank with system-wide importance in its jurisdiction.

Moreover, the Supervisory Board, mainly with the assistance of the Control Committee and Financial Statements Committee within the respective areas of responsibility:

- monitored the changes and level of concentration of the loan portfolio of Intesa Sanpaolo and its subsidiary banks;
- further examined the processes for management and assessment of non-performing and doubtful loans, currently the subject of inspections by the Bank of Italy in 2013. The corrective measures implemented and the audits requested by the Supervisory Authority with regard to adequacy of the provisions on a sample of doubtful loans positions were also evaluated. In accordance with the Bank of Italy, assessments of the Internal Auditing Department also regarded the credit profile of the main economic groups classified as performing and the significant banking groups by exposure. Further analyses were carried out with regard to loans to the building/real estate sector, methods for identification, management and assessment of loans considered as Special Situations, and the criteria used to perform overrides;
- approved the Group Recovery Plan, upon recommendation by the Management Board, as adoption of the recommendation by the European Banking Authority with regard to management and resolution of crises of the major banking groups, in accordance with the international standards of the Financial Stability Board for financial institutes of global, system-wide importance.

Particular attention was paid to inspections by the domestic Supervisory Authorities of the Parent Company and subsidiaries in 2013.

As far as the Bank of Italy is concerned, these regarded Cassa di Risparmio di Firenze, Banca IMI and the units of the Corporate and Investment Banking Division operating abroad. With regard to the outcome of these inspections, as far as Cassa di Risparmio di Firenze is concerned, the Parent Company submitted its observations on the corrective measures based on the Supervisory Authority's findings.

With regard to the outcome of the inspection carried out in 2012 by the Bank of Italy on the adequacy of the governance, management and control systems of branches abroad, measures were defined with regard to the critical points highlighted by the Supervisory Authority. In particular, the restructuring plan for Hungarian subsidiary CIB Bank was drawn up, taking into account the findings of the due diligence carried out on its loan portfolio. Moreover, a "control room" was established in order to ensure a strategic, single vision and coordinated management of the projects regarding the Group's international scope, whose strategic guidelines, outlined in the 2014-2017 Business Plan, will optimise the overall performance of foreign business through:

- strengthening of the presence in countries with high potential;
- rationalisation of the presence in markets with limited profitability;revision of the operational model, in order to ensure more stringent supervision and control of subsidiaries.

In January-April 2013, the IVASS conducted an inspection to evaluate compliance of the Bank's insurance brokerage business, with regard to insurance coverage linked to mortgages and loans. This resulted in the notification of a number of complaints, with regard to which Intesa Sanpaolo provided its arguments.

Lastly, Consob, following the inspection between 20 June and 12 July 2013, recently questioned alleged infringements of the Insider List obligations on third party issuers, in relation to action by the Parent Company and one of its subsidiaries in a transaction involving several listed companies. Also in this case, Intesa Sanpaolo provided supporting arguments for the appropriateness of its actions.

The Supervisory Board also received specific requests for information from the Bank of Italy and Consob – also handled by the Control Committee – including the assessments made by the Internal Auditing Department at subsidiary Société Européenne de Banque, the risk data aggregation and risk reporting systems, profiles of transactions with related parties and clarification of certain items of the Half-yearly Report as at 30 June 2013.

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:

- adoption of the internal risk measurement systems for determination of the capital requirements and monitoring of their adequacy. 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, authorised submission to the Bank of Italy of the application to amend the selection of ratings adopted to calculate the Incremental Risk Charge requirement of debt securities of the trading book, as well as the application for approval of the internal counterparty risk measurement model for Intesa Sanpaolo and Banca IMI. The Board also approved revision of the multiplication factors applied during adoption of the internal model, following completion of the corrective measures required by the Supervisory Authority for its approval;
  - interest rate risk, approved, following the measures required by the Bank of Italy as a result of changes made by Intesa Sanpaolo to the modelling of demand deposits, strengthening of the model's governance, also with regard to the accounting profiles;
  - credit risk, disclosed the implementation in company processes of the operational model based on the PD/LGD approach for non-financial investments, updating of bank portfolio rating model, adoption of the new internal rating models for the Public Entities portfolio and adoption of the new LGD internal models for the banks and public entities portfolio;
  - credit, market and operational risks, approved the related plans for extension to Group companies, which have been submitted to the Bank of Italy;
- approving the report on the internal capital adequacy assessment process (ICAAP), with respect to which the Supervisory Board conducted a specific analysis of the capital adequacy of Intesa Sanpaolo;
- updating the Risk Appetite Framework and related operating limits;
- strengthening the non-compliance risk management model in the international subsidiary banks, with definition of the rules on consumer protection, investor protection and OTC derivatives.

The Supervisory Board also approved, upon recommendation of the Management Board, updating of the Market Risk Charter, of the rules for measurement and control of interest rate risk for the Group's banking book, and of the guidelines for Group liquidity risk management, to which an assessment of management of the authorised exceptions on internal transfer rates has been dedicated.

In 2013, as in the past, the information flows from the various Bank departments 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, Compliance Department, Anti-money Laundering Service 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

13) Adequacy of the control system

On conclusion of the work carried out in 2013, as reported to the Management Board and the Supervisory Board, the Internal Auditing Department confirmed its opinion as to the overall adequacy of risk governance. With regard to the above, as well as to the results of the supervisory activities conducted and the information that emerged during meetings with the Independent Auditors, the Control Committee shared the assessment of the Internal Auditing Department, recommending special attention to governance of the potential risks underlying the adoption of the new Business Plan.

With specific reference to the results of auditing of the Bank's financial statements and the Group's consolidated financial statements as at 31 December 2013, KPMG S.p.A. reported that no significant shortcomings in the internal control system with regard to the financial reporting process were identified.

In view of the above, the Supervisory Board agrees with the considerations of the Control Committee and highlights its commitment to monitor the areas identified by the Committee, as well as, through the latter, the issues presented in the Internal Auditing Department's *Tableau de Bord*.

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

14) Accounting information system

The Parent Company's and consolidated financial statements as at 31 December 2013 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 January 2014, 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 31.12.13 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 financial statements; considerations on extraordinary and bank operations; impairment testing of intangible assets and goodwill; loans; financial instruments; insurance business; assessment of equity investments; legal disputes; taxation; Group accounting rules; contingent assets.

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 and Financial Statements Committee dedicated a specific study to the changes in the Bank of Italy's Articles of Association and to the related governance and economic rights assigned to participants. In fact, conversion of Law Decree 133/2013 into law established:

- revaluation of the Bank of Italy's capital from 156 thousand to 7.5 billion euro, and simultaneous variation in the nominal value of each share, currently equal to 25,000 euro;
- a dividend distributable only on profits for the period and equal to a maximum of 6% of the nominal value of the capital;
- limitation of possession to a maximum of 3% at the consolidated level, with an adaptation period of 36 months, during which the voting rights are limited to said percentage.

In this regard, Intesa Sanpaolo, taking into account the assessments of independent advisors and considering the substantial difference of the legal and asset profiles of the new shares compared to the cancelled ones, deemed it appropriate to remove the cancelled shares and record the shares obtained in exchange at fair value, recognising the resulting difference in value in the income statement.

The Control Committee, assisted by the Manager responsible for preparing the financial reports and taking note of the comments of the Independent Auditors, 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 Manager responsible for preparing the Company's financial reports, with the aid of the Administrative and Financial Governance function – the structure responsible for performing the controls needed for the accounting and financial reporting – provided regular information on the implementation of the Guidelines for Administrative and Financial Governance. 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 58/98 with reference to the annual separate and consolidated financial statements for 2013.

4.2 Meetings with the Independent Auditors

16) Meetings with 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 KPMG S.p.A. 15 times in 2013, in accordance with art. 150, paragraphs 3 and 5 of the Consolidated Law on Finance.

The meetings offered the opportunity, among other things, of examining the auditing plan and the work carried out by the independent auditors in the formulation of their opinion on the Parent Company's and the consolidated financial statements. In this regard, the External Auditors 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 improvement measures planned by the Management to address aspects of the internal control system.

The above-mentioned Committees also held 11 meetings with the Independent Auditors and the Manager responsible for preparing the Company's financial reports, in the early months of 2014, in preparation for the approval of the Parent Company's and consolidated financial statements as at 31 December 2013.

4.3 Reports of the Independent Auditors

4) Reports of the Independent Auditors

On 3 April, 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 2013, with no exceptions. Specifically, the Reports confirm:

(i) that the two documents as at 31 December 2013:
- 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 paragraph 1) letters c), d), f), l), and m) and paragraph 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 their 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 governs the rules to be observed in order to ensure regulatory of communication flows and ongoing monitoring of the independence of the Independent Auditors for any assigned services other than auditing and provides for regular reporting to the bodies on the assignments granted. The Regulation, reviewed during the year upon approval by the Boards, confirms the principles of "Single Auditor" for the entire Intesa Sanpaolo Group, implemented from 1 August 2013, subsequent to expiry of the role of "Secondary Auditor" held by Reconta Ernst & Young S.p.A. and the simultaneous entry of KPMG S.p.A.

The Independent Auditors are required to monitor the continuance of the auditor's conditions of independence, for which the relative written confirmations have been issued.

The independent auditors appointed by the Parent Company and the other Group companies are KPMG, assigned to audit the annual and consolidated accounts for the year ended 31 December 2013, 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 also 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.

The amounts paid in 2013 to KPMG, which received the audit assignment for the period 2012-2020, 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.

KPMG and other entities "related by ongoing relations" were also appointed, in compliance with the requirements of the Group Regulation, to perform tasks in addition to those indicated above, the fees for which, excluding reimbursed expenses and VAT, are detailed below.

Fees for services other than auditing

(millions of euro)

Type of services	Intesa Sanpaolo		Group Companies (*)	
	KPMG	KPMG Network	KPMG	KPMG Network
Release of attestations (**)	1,38	-	0,43	-
Tax consulting services	-	-	-	-
Other services:				
agreed audit service	0,05	-	0,46	-
social report	0,05	-	0,04	-
other	-	-	0,02	-
Total	**1,48**	**-**	**0,95**	**-**

(*) Group companies and other consolidated subsidiaries.

(**) Including the assignments granted in implementation of the EMTM programme authorised by the Management Board as part of the credit limit resolved on 13 November 2012 (Comfort Letter), the audit costs, on a voluntary basis, for the "Pillar 3" disclosure and assignments granted under the law (mergers)

Amounts net of VAT and reimbursed expenses

Under the Group Regulation these tasks can be classified in part as audit related, in other words as tasks that involve activities that are an extension of the audit assignment or activities assigned under the law or by an Authority and therefore do not entail a particular "threat" to continuation of the external auditor's independence. During the year, these fees referred mainly to audits carried out in order to issue Comfort Letters on international issue programmes (1.25 million) and, for the residual amount, to assessments related to certain "Pillar 3" disclosures, to verifications required by the Supervisory authority on international subsidiaries of the Group and to the professional opinion on the Sustainability Report.

In implementation of the Group resolutions, no non-audit tasks were assigned to KPMG during the year.

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

17) Adoption of the Corporate Governance Code

The "Report on Corporate Governance and Ownership Structures" – 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 and comprehensive information on the procedures used by the Bank to adapt and implement the recommendations of the Code.

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

15) Disclosures

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

In general, the information flows between the Parent Company and its subsidiaries continue to guarantee an effective exchange of information between Intesa Sanpaolo's corporate bodies and the respective bodies of the subsidiaries – also through the relevant functions - with regard to corporate governance systems and the overall performance.
In particular, in 2013, the Financial Statements Committee informed the Supervisory Board on the provisions passed on to subsidiaries with regard to the Parent Company's management and coordination of the process for drawing up the consolidated financial statements, with a particular focus on the regulations, on the duties of the Administration and Tax Department and on the controls carried out.

8. Conclusions summary

18) Conclusions

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 additional irregularities emerged worthy of report to the Shareholders.

PART II

OTHER INFORMATION

1. 2014-2017 Business Plan

With resolution dated 27 March 2014, the Supervisory Board approved the new 2014-2017 Business Plan, upon recommendation by the Management Board.

The Plan confirms the bank's business model, oriented towards support of the real economy, focused on Italy and certain core countries, and divisional organisation, with operational and corporate simplification of Banca dei Territori. The main objective is creation of sustainable profitability, benefiting all stakeholders by optimising on full enhancement of the assets and existing resources – starting from the employees – as well as on the development of new growth drivers and on the efficient use of capital.

Achievement of the objectives will take place through measures aimed at:

- increasing revenues by identifying new business opportunities and developing the unexpressed profit potential of existing business; in this respect, the establishment of new Private Banking, Asset Management and insurance hubs is envisaged; the offer for Retail customers will also be rationalised and the business support model improved: both segments will also have access to the development of a fully-integrated multi-channel system;
- consolidating the governance of operating costs and risk control; in particular, in terms of costs, corporate simplification will continue, along with optimisation of the presence and rationalisation of the real estate portfolio; in terms of risk management, qualitative and quantitative monitoring of credit and of the internal control system in general will be further strengthened;
- optimising the use of capital, liquidity and deleveraging on non-strategic assets of the Group, through the creation of a dedicated Business Unit and minimising the non-core assets.

2. Results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group's remuneration systems and practices in 2013

The Supervisory Board reports below on the results of auditing carried out by Intesa Sanpaolo's Internal Auditing Department on the Group's remuneration systems and practices in 2013.

The Internal Auditing Department of Intesa Sanpaolo has carried out the planned audit, aimed at analysing the operational practices followed in defining the incentive system for the year 2013, in terms of consistency with the policies resolved by the bodies and the relative provisions issued by the Bank of Italy.

The audit aimed to verify the main operational phases of the process: the quantification and approval of the 2013 incentive system and its main components (economic requirements, provisions, certification of results achieved, any allocation of the bonus pool to the Departments), as well as incentives for Key Personnel and for Heads of the Control Functions.

With a view to improving the efficacy of the system, taking advantage of a number of innovations introduced by CRD 4 in advance, in addition to the Supervisory Authority's recommendations during 2013, amendments to the 2013 incentive system have been approved by the Boards, with regard to aspects under their responsibility, such as: the introduction of a cap on the variable portion, which cannot exceed 100% of the annual gross fixed remuneration, and reduction of the "relevant bonus" threshold.

The structure of the system has been assessed by the Compliance Department as being compliant with the regulations.

The recommendations made following the audits conducted the prior year have been adopted, except for the request to formalise the principles of the incentive system within the bank's internal regulations, to be carried out in 2014.

With regard to 2013, despite the presence of indicators consistent with the thresholds envisaged for access to the approved incentive system, taking into consideration the applicable external regulations (which exclude the contribution of "non-recurring" or "valuation" income components), the revaluation gain in the Bank of Italy stake has been removed from the income amount for the purposes of the incentive system. The minimum threshold envisaged by the rules for access to the incentive system is therefore considered not to have been achieved, and was consequently not activated for 2013.

Moreover, the intention to use provisions – allocated by those Group companies that achieved results higher than budget - has been expressed, for targeted "management" initiatives, with a view to maintaining adequate motivational and/or retention levels. The establishment of principles and selection and assignment criteria has been recommended for such initiatives.

Based on the observations thus far, the Internal Auditing Department has expressed an opinion of adequacy of the operational procedure followed, in accordance with the policies and application profiles defined.

The audit will be completed with the assessment of disbursement of the aforementioned management initiatives, together with corroboration of the deferred portions for the years 2011 and 2012.

3. 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 below on the work carried out in 2013, in compliance with the specific Regulation on the matter, with more detailed information provided in the Sustainability Report 2013.

It should firstly be noted that the local donation system was confirmed, 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, or having funds with inadequate resources.

In order to plan the interventions, the Board used a specific annual plan, as usual. This instrument proved to be valid not only in managing applications, acting as both an additional "filter" in relation to the Regulation and a tool to achieve the pre-established results through donations.

Selection of the applications give priority to supporting initiatives in favour of subjects in fragile conditions.

Overall, in 2013 the Fund granted 7,205,683 euro for 753 donation projects. Some 70% of the amounts (corresponding to 93% of the number of applications accepted) was allocated to initiatives at the national level. The impact of local donations was significant: 26% in terms of amount (76% in terms of number).

National and international disbursements for social projects represented 66% of the total amount (48% in terms of number of projects). Those of a "religious/charitable" nature were 16% in terms of amount (29% by number) and the "cultural" disbursements stood at 19% in terms of amounts disbursed (23% by number). At the national level, the total amount granted was 5,021,624 euro, broken down as follows: 52% for social projects, 21% for religious/charity projects, and 27% for cultural initiatives. As to international donations, 96% of the total went to social projects, while the remaining 4% was granted to religious initiatives.

Intesa Sanpaolo's significant commitment to culture continued in 2013, in accordance with the tradition of cultural, publishing and music initiatives promoted by the banks that have joined the Group.

The "Progetto Cultura", which is the strategic reference framework for the multi-year planning of the Bank's cultural initiatives and which was renewed for the years 2014-2016, continued to develop the

"Gallerie d'Italia" museum network: the Piazza Scala Galleries in Milan promoted two major exhibitions, in collaboration with public and private institutions, as well as four Monograph studies on the "Cantiere del '900"; two exhibitions were also held in Naples at the Palazzo Zevallos Stigliano Galleries where, at the end of the year, new exhibition space featuring over 120 paintings and sculptures was inaugurated, all of which underwent major conservation/restoration work, retracing the key stages of figurative arts in the city; the Palazzo Leoni Montanari Galleries in Vicenza also underwent reorganisation, in order to enhance the decorative works and allow rotating presentation to the public of Attic and Magna Graecia ceramics and additional paintings from the Venetian eighteenth century. Numerous activities were also carried out in each gallery to enhance the areas and collections, with particular focus on the various segments of the public, such as youth and the socially fragile categories.

In Naples, the XVI edition of "Restituzioni" was presented, the biennial restoration programme of public works of art, promoted and organised by Intesa Sanpaolo in partnership with the Italian architectural, archaeological and art history inspectorates. The 43 groups of art, for a total of over 250 individual items from various regions in Italy, restored in the prior two-year period, were displayed in various locations of Naples, thanks to the collaboration with major public and private institutions in the city.

Lastly, the Publishing and Musical Activities division confirmed its commitment to the protection, distribution, enhancement and public enjoyment of Intesa Sanpaolo's art collection in 2013 as well.

Among the editorial initiatives, the "Musei e Gallerie di Milano" series was enhanced with a new edition dedicated to the stone sculptures of the Castello Sforzesco's Museum of Ancient Art, with 363 works catalogued.

"La Traviata" by Giuseppe Verdi was published as part of the celebrations for the bicentenary of Verdi, in the Vox Imago series of books and music dedicated to opera, continuing the collaboration launched in 2004 with Teatro alla Scala, Mondadori Electa, Musicom.it, Rai Trade, Philip Gossett and Ipotesi Cinema.

Since the 2012 edition, the Vox Imago project has included a specific didactic section on the historical and philological analysis of opera, with training sessions for high school teachers held at Intesa Sanpaolo museums.

Publication of the mini-guides on the historic headquarters continued – dedicated in 2013 to Palazzo Anguissola Antona Traversi in Milan and Palazzo del Banco di Napoli in Naples – along with the collaboration with entities of high cultural and educational value, such as the Biblioteca Pinacoteca Ambrosiana, Casa del Manzoni, the Civic Museums of Milan's Castello Sforzesco, Fondazione Valla, Fondazione Feltrinelli, the Italian Banking Association and Associazione Amico Libro.

There were also numerous initiatives for the protection, enhancement and integrated management of Intesa Sanpaolo's centralised book heritage, using a specific web application.

4. Results for 2013 and distribution of "dividends"

The Supervisory Board has approved the Parent Company's and consolidated financial statements as at 31 December 2013.

The Parent Company's financial statements show a loss of 3,913 million euro and the consolidated financial statements 4,550 million euro. On the one hand, these results benefit from the aforementioned effects of fair value measurement of the new stake in the Bank of Italy's capital held by the Group and, on the other, are negatively impacted by impairment of goodwill and of other intangible assets. This has not, however, impacted the cash flow, liquidity, capital ratios or prospective profitability.

The Management Board has resolved to submit to the Shareholders' Meeting the distribution of a total of 822,044,844.10 euro in cash "dividends" from the extraordinary reserve, which would provide 5 euro cents to each of the 15,508,406,321 ordinary shares and each of the 932,490,561 savings shares.

In this respect, the Management Board has underlined that the Bank and the Group have adequate capitalisation, with regard to the parameters set by Basel 2, as well as taking into consideration the new capital requirements envisaged by Basel 3.

The same Management Board also observed that the proposal to distribute the extraordinary reserve allows for remuneration of shareholders to an extent consistent with the sustainable profitability of the Group and in accordance with the minimum capital requirements envisaged by the provisions of EU Bodies and by the Supervisory Authority, as well as the requirements of sound and prudent management of the Bank.

The Supervisory Board has no objections in regard to the proposals made by the Management Board.

5. Proposal for share capital increase

On 7 April 2014, the Supervisory Board resolved to approve, upon recommendation by the Management Board, the remuneration policy for employees of the Intesa Sanpaolo Group, subject to non-binding advisory vote by the Shareholders' Meeting in accordance with the terms outlined in the specific Report to the Meeting, to which reference is made for additional details.

Under said policy, the expansion of share ownership was identified as a factor to increase employees' sense of belonging and alignment to medium/long-term objectives, consistently with the launch of the 2014-2017 Business Plan, the implementation of which will require the commitment and energy of all individuals working in the Group.

Consequently, the 2014 remuneration policy includes an investment plan designed for all employees (LECOIP - Leveraged Employee Co-Investment Plan), which offers them an investment instrument comprising the following:

1. launch by the Bank of an Employee Share Ownership Plan that permits each employee to own a portion of the value of Intesa Sanpaolo and, therefore, to increase their sense of identification with the company;
2. alternatively, the possibility for each employee:
   a. to freely use the shares received;
   b. to invest them in a long-term financial instrument, the LECOIP Certificate, with term aligned to the Business Plan, which upon maturity:
      i. guarantees a "certain" capital amount (higher than the value of shares invested);
      ii. offers participation in the growth of stock value over a larger number of shares.

In the event of participation in the LECOIP, the voting rights of the shares issued under the Plan will not be available to subscribers. Moreover, the guaranteed capital that the employee receives at the end of the LECOIP Certificate's term may reach a maximum of 1 gross annual remuneration over 4 years.

As the LECOIP is based on the use of Intesa Sanpaolo shares, approval by the relevant bodies of the remuneration policy of which said plan is a part requires the Shareholders' Meeting to resolve:

- on the financial instrument-based investment plan in favour of employees, pursuant to art. 114-bis of the Consolidated Law on Finance;
- on the buyback of a maximum of 54,097,875 of its own shares, to be distributed free of charge to employees in order to implement sub.1, in accordance with art. 2357 of the Italian Civil Code;
- on capital increases required for the LECOIP sub.2.b, as follows:
  - free share capital increase for a maximum of 53,101,088.56 euro at nominal value, with the issue of a maximum of 102,117,478 shares, pursuant to article 2443 of the Italian Civil Code;
  - share capital increase with the exclusion of option rights, with the offer for subscription by employees of a maximum of 213,073,650.40 euro in nominal value and the issue of a maximum of 409,757,020 shares, pursuant to art. 2441, paragraph 8 of the Italian Civil Code.

Assuming all Group employees adhere to the Investment Plan, the total number of ordinary shares to be issued in the free share capital increase and in the capital increase for consideration is estimated to be equal to a maximum number representing around 3% of the total share capital of Intesa Sanpaolo.

The Supervisory Board has therefore authorised the proposal by the Management Board, to be submitted to the Shareholders' Meeting, with regard to the capital increases amounting to a total of 266,174,738.96 euro at nominal value, carried out within 18 months, with additional details provided in the specific reports by the Management Board.

Torino, 07 April 2014

For the Supervisory Board
the Chairman – Giovanni Bazoli