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# Report of the Supervisory Board to the Shareholders' Meeting on the supervisory activities performed in 2014

**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 year 2014 saw some important changes on both the regulatory and supervisory fronts.

First and foremost, on 4 November, the Single Supervisory Mechanism became fully operational, with regard to which, based on EU Regulation 1024/2013, the European Central Bank adopted specific tasks involving the prudential supervision of banks, in cooperation with the national authorities of participating Countries. Interaction with the new contact and, in particular, with the Joint Supervisory Team responsible for Intesa Sanpaolo, has already begun and new and more specific meetings are planned for the second part of this year, also involving members of the Supervisory Board in relation to their positions.

On a preliminary basis, with regard to introduction of the European Supervisory Model, the European Central Bank had disclosed the results of the Comprehensive Assessment (Asset Quality Review and Joint ECB/EBA Stress Test) conducted on 130 banks of the Eurozone, of which 15 Italian. The Intesa Sanpaolo Group received confirmation of its capital soundness, following the results of the due diligence on assets and on their proper measurement, as well as the outcome of stress scenarios.

In 2014, adoption of the EU regulatory measures in the Supervisory Provisions also became effective, particularly with regard to the CRD IV Directive. In particular, this refers to the updating of Circulars 263/2006 on the internal control system, the information system and business continuity (which requires a strategic supervision body to have a series of decision-making responsibilities with regard to corporate strategies, risk governance policies and definition of the Risk Appetite Framework) and 285/2013 (which confirmed and further expanded the "binding power" of said body with regard to prerogatives that also impact profiles not directly connected to the control system). The Intesa Sanpaolo Articles of Association were therefore amended by resolution of the Supervisory Board pursuant to Article 25.2 of said Articles, in order to ensure that the subdivision of responsibilities among the corporate bodies is consistent with the requirements of the Bank of Italy, eliminating any provisions that are incompatible with the new regulations, as well as integrating and coordinating, where necessary, the responsibilities of the Supervisory Board and Management Board, in accordance and close compliance with the Provisions.

Lastly, on 18 November 2014, the Bank of Italy issued the new Supervisory Provisions on remuneration. The regulation - which follows the consultation launched in December 2013, to which Intesa Sanpaolo responded as well - acknowledges the changes of the CRD IV Directive and requires additional adjustments to the Articles of Association, currently underway.

With regard to remuneration, particular mention goes to the success of the investment plan for employees of the Group (LECOIP), which was again mentioned in the report by this Board to the Shareholders' Meeting held on 8 May 2014, also for the purposes of proposals that were then approved by the shareholders. The percent participation is, in fact, significantly higher than similar initiatives in recent years by other European companies in favour of their employees.

Notwithstanding the above - in referring to the specific "Report on Corporate Governance and Ownership Structures" for detailed reporting on the Bank's governance system and on the role of the corporate bodies - the Supervisory Board, taking into account the new and more complex regulatory framework in terms of Supervision and its operational implications, has deemed it appropriate to carry out further analysis of the corporate governance model currently adopted by Intesa Sanpaolo, also for comparative purposes, in order to assess the areas of development or support its replacement. The results will be disclosed in time for renewal of the corporate bodies in spring 2016.

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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. This requirement is also stated in Art. 25.1.3 letter d) of the Articles of Association.

Accordingly, in the first part of this document, the Supervisory Board, reporting on the activities

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performed in view of approval of the Parent Company's and consolidated financial statements, illustrates the supervisory activities performed in 2014 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) the results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group's remuneration systems and practices in 2014;
- (ii) the Allowance for charitable contributions and cultural initiatives;
- (iii) the results for 2014 and the proposal for distribution of profit.

In light of the above, the Supervisory Board:

- a) confirms that on 3 March 2015 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 10 February 2015, the Management Board approved the consolidated results as at 31 December 2014, following introduction of the regulation on Supervisory Reporting, which requires reports to be sent to the European Banking Authority ("EBA") within 42 days from the end of the quarter in question; on 3 March 2015, the Management Board approved the draft Parent Company's and consolidated financial statements as at 31 December 2014 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 deadline provided for in art. 154-ter of the Consolidated Law on Finance;
  - the Board has verified, also with the aid of the relevant Committees within the Board, the information obtained from KPMG S.p.A. ("External Auditors" or "Independent Auditors") and compliance with the legal and regulatory provisions on the presentation, structure and format of said financial statements, which contain the information required by the Bank of Italy, Consob and ISVAP;
  - the Board has verified that the Reports on operations for 2014, 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, providing information on the main risks and uncertainties that the Bank and the Group are exposed to;
  - on 3 March 2015 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 12 March 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 2014, with no exceptions;
- c) by resolution of 17 March 2015, approved the financial statements of Intesa Sanpaolo and the consolidated financial statements of the Group as at 31 December 2014;
- 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**

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

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

In this respect, with resolution dated 18 November 2014, the Supervisory Board – in place of the Shareholders' Meeting, as it involved amendments to the regulations – aligned the Articles of Association to the updates of the Bank of Italy circulars 263/2006 (on internal control systems, information systems and business continuity) and 285/2013 (on corporate governance), thereby ensuring timely compliance with the aforementioned provisions, with specific reference to integration and coordination of the responsibilities of the Supervisory Board (and of its internal Committees) and Management Board, as well as the elimination of any provisions incompatible with the new regulations.

In light of the changing regulatory framework on Supervision and of the new Articles of Association and in order to ensure better and more efficient operation of the Body, with resolution dated 19 December 2014, the Supervisory Board revised its own operational model, reorganising its internal committees - also with regard to composition - and envisaging the following:

- elimination of the Control Committee, Financial Statements Committee and Strategy Committee;
- the simultaneous establishment of the new Risk Committee (to support the Board in exercising the strategic supervisory functions, also assigning to this Committee the tasks previously carried out by the aforementioned Strategy and Financial Statements Committees) and the Internal Control Committee (to support the Board in its control function, also assigning to this Committee the Surveillance Body functions pursuant to the Organisational, Management and Control Model governed by Legislative Decree 231 of 8 June 2001, as well as the functions of the Internal Control and Auditing Committee pursuant to Legislative Decree 39/2010);
- confirmation of the Nomination Committee, Remuneration Committee and the Committee for Transactions with Related Parties of Intesa Sanpaolo S.p.A. and Associated Entities of the Group.

The Regulations of the Supervisory Board and of the Committees were consequently reviewed as well.

Regarding its adequacy in terms of powers, size, composition and operation - also in view of the examination of the Bank's corporate governance model launched by the Supervisory Board as mentioned above - the Supervisory Board conducted a self-assessment at its meeting of 17 March 2015, with the support of an appraisal carried out by a leading external consultant which in October 2014 was assigned the task of supporting the Corporate Bodies in examining their self-assessment processes used until now and in their transformation into specific internal Regulations, which were the subject of a specific resolution by the Boards in December 2014.

These Regulations - drawn up in accordance with the requirements of the Supervisory Provisions and the Corporate Governance Code ("Code") and recommended by the main international standards also in terms of best practices - define the application profiles (scope, purpose, delegated parties, structure of the process, frequency and reporting), areas and objectives, and they outline the self-assessment process of the Boards, in relation to their qualitative-quantitative composition and their operation and, as regards the Supervisory Board, the self-assessment process for the Committees.

The self-assessment exercise of the Supervisory Board involved both questionnaires for all Board Members, with differing content based on role (with the results processed anonymously), as well as personal interviews on the operating, efficiency and effectiveness profiles of the Board. The qualitative-quantitative results of the questionnaires and interviews confirmed the adequacy of the Board. In particular, it was noted that in 2014, the Supervisory Board performed its control function in a timely and effective manner, with an especially high analytical level. In conducting the strategic supervision function, despite highly effective results, a number of possible areas for improvement were identified, mainly tied to development of the induction activity, to the need to better balance - to the extent possible and with regard to topics discussed in board meetings - strategic and business issues and those broadly regarding the control realm, as well as to the possibility to intensify interaction between the management body and the control, steering and strategic supervision body.

The Supervisory Board has therefore expressed an assessment of adequacy with regard to the powers, size, composition and functioning of the Board and its Committees.

In accordance with the requirements of the Supervisory Provisions and the internal regulations, the Board also conducted the usual verification of requirements for each member by the current legal, statutory and regulatory provisions, as well as by the Code. In this respect, see the Report on Corporate Governance and Ownership Structures.

With regard to the internal control system, the information system and business continuity, in 2014 - with the support of the previously effective Control Committee - the Supervisory Board approved a number of proposals for adaptation to the Group regulations, in accordance with the aforementioned update of Bank of Italy Circular 263/2006. In this respect, the Board resolved, to the extent of its

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responsibilities, adoption and updating of the Group Regulations and Guidelines, including, in particular, the Integrated Internal Control System Regulation ("IICS Regulation"). See subsequent paragraph 3.2 for further discussion on this matter.

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 resumption by the two main Supervisory authorities of New York (Federal Reserve Bank of New York and New York State Department of Financial Services) of the administrative proceeding - formalised in a Written Agreement - relative to the same operating procedures that were the subject of prior investigation by the criminal authorities and a proceeding by the Office of Foreign Assets Control (OFAC), both filed in 2012 and 2013. Despite Intesa Sanpaolo having already complied with the obligations envisaged in the Written Agreement, we cannot exclude the possibility that the additional inquiries identify irregularities that could be used by the Authorities to support a request for economic sanctions against the Bank. Nevertheless, as at the date of approval of this Report, there were no charges against Intesa Sanpaolo.

The Supervisory Board also verifies on an ongoing basis compliance with the Articles of Association. In this respect, during 2014, acknowledging the resignation of Francesco Micheli, it integrated the Management Board by appointing, upon recommendation by the Nomination Committee, Stefano Del Punta and indicating him to the Management Board as executive board member selected from among the Group's executives.

The Supervisory Board subsequently acknowledged the decision by Giuseppe Morbidelli to resign as Management Board Member, effective 16 March 2015, reserving the right to make the relative resolutions.

With reference to the provisions of Art. 2408 of the Italian Civil Code, the Supervisory Board, in its capacity as Control Body, received three complaints in 2014 from shareholders, concerning alleged reprehensible facts, with regard to which the previously effective Control Committee conducted the appropriate analyses to support the assessments of the Board.

The first regards certain facts, considered by the shareholder to be reprehensible, relative to the sale of theatre tickets. The Supervisory Board examined the circumstances involved in the complaint, along with the role of Teatro alla Scala, as a result of which the shareholder's complaint appears to be unrelated to the activities of Intesa Sanpaolo.

The other two reported alleged damage resulting from improper exercising of the banking activity and of the governance system of the associates. The Supervisory Board examined the case with the relevant Bank departments, which provided adequate supporting documentation. The assessments conducted confirmed that there was no illegitimate conduct by the Bank, nor were any facts identified that could give rise to action against the Management Board.

During the early months of 2015, there was an additional complaint pursuant to Art. 2408 of the Civil Code, regarding alleged incorrect accounting in the corporate documents. The Supervisory Board sought the involvement of the Administration and Tax Department on this matter, which examined the complaint in question and deemed it to be without grounds. In any case, it would be barred from any proceedings, as the individual in question is not a shareholder of the Bank, save any error.

With regard to complaints submitted to the Supervisory Board or directly to its members, in 2014 a total of 18 complaints were received regarding the Bank's core business operations. Via the responsible functions, notified by the Customers Service and Complaints Service, each report was suitably verified, also concerning the necessary reply and, in some cases, reaching an agreement with the complainant. On the whole, the assessment conducted on such complaints did not bring to light any significant omissions or irregularities.

Moreover, the Supervisory Board issued the opinions required from the Control Body under the Articles of Association, with regard, in particular, to the incentive system for Executives that the Bank of Italy qualifies as Risk Takers, thereby requiring involvement of the Body, also with regard to the "protected capital" amounts to be recognised to the same for participation in the LECOIP mentioned in the introduction.

The Bank's Corporate Bodies met regularly during 2014, with the following meetings held:

- 1 Shareholders' Meeting;
- 1 Savings Shareholders' Meeting;

5)  
Reports

6)  
Complaints

9)  
Opinions

10)  
Meetings

- 15 Supervisory Board meetings;
- 26 Management Board meetings, attended, in accordance with the Articles of Association, by the members of the Control Committee and the Board Member and Secretary, whereas the Chairman and the other members of the Supervisory Board did not attend;
- 51 Control Committee meetings;
- 2 Nomination Committee meetings;
- 14 Remuneration Committee meetings;
- 5 Strategy Committee meetings;
- 20 Financial Statements Committee meetings;
- 18 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 Board, as part of the strategic supervisory duties assigned to it by the Articles of Association, has:

- examined and approved the 2015 Budget, with the Risk Committee's assistance;
- 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 then effective Control Committee (now replaced by the Internal Control Committee) and the Managing Director, mainly aimed at ensuring the smooth operation and effectiveness of the internal control system, and by the 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 then effective Control Committee (now replaced by the Internal Control Committee) – in relation to the main data on operations for the period and industry comparison.

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

In its Reports on operations and in the Notes to the draft Parent Company's and consolidated financial statements as at 31 December 2014, the Management Board adequately reported and illustrated the most significant intragroup related-party transactions (which, under the Group Regulations on the management of transactions with related parties of Intesa Sanpaolo, 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;

- (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

2)  
*Atypical or unusual transactions*

3)  
*Adequacy of information*

2.3)  
*Intragroup transactions with related parties*

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the Supervisory Board is confirmed.

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 64 transactions in 2014, of which 61 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 3 notices regarding decisions to classify positions with related parties and/or Group associated entities as substandard or doubtful.

The same Committee - jointly with the previously effective Control Committee - was also involved by the competent units of the Bank with regard to possible updating of the Group Regulations on management of transactions with related parties of Intesa Sanpaolo and associated entities of the Group. In fact, while the current Regulations are adequate, in terms of regulatory alignment as well as best practices, it may be advisable to make some refinements in light of guidelines by the Authorities and the changes introduced by lawmakers to Art. 136 of the Consolidated Law on Banking, as well as the practices applied until now and the possibility to rationalise the internal regulations on conflicts of interest.

With particular regard to this last area, 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 2014 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 2014 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 2014 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, the functioning of which is defined by Group Regulations that are the reference discipline for relations between Intesa Sanpaolo and Group companies, as well as between the latter, in accordance with supervisory regulations, which assign responsibility for the overall consistency of governance to the Parent Company, through management and coordination activities.

This structure, broken down into Business Units, Governance Areas and Head Office Departments, was modified in 2014 in accordance with the new 2014-2017 Business Plan, approved by the Supervisory Board on 27 March, upon recommendation by the Management Board, referred to in the Report pursuant to Art. 153 of the Consolidated Law on Finance on the activities carried out by this Board in 2013. The Plan, upon confirmation of the bank's business model focused on support of the real economy and divisional organisation, envisages measures across all management levers, in order to enhance existing activities, develop new growth drivers and use capital efficiently. As part of the main project initiatives aimed at achieving the aforementioned objectives, the Supervisory Board, backed by the previously effective Strategy Committee and in accordance with the new Supervisory Provisions on corporate governance, approved the amendments to the Group's organisation and corporate governance system and, more specifically, establishment of the following, reporting directly to the Managing Director:

- the Private Banking Division, the Asset Management Division and the Insurance Division - with simultaneous termination of the Wealth Management area - which included the Group companies operating in the respective business sectors;
- the Capital Light Bank Business Unit, which was assigned the mission of coordinating initiatives for

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optimisation of the Group's financial resources, such as stronger management of doubtful loans and real estate assets in the portfolio of non-performing loans, disposal of non-core investments - subject to analysis by the Internal Control Committee - and proactive management of other non-strategic assets;

- the Chief Innovation Officer Governance Area, assigned the task of identifying, analysing and developing innovation activities, guaranteeing monitoring, coordination and coherence at Group level;
- the International and Regulatory Affairs Department, also due to the start of the European Single Supervisory Mechanism.

The Supervisory Board, backed by the previously effective Strategy and Control Committees, also examined the initiatives undertaken to simplify the operational and corporate structure of the Banca dei Territori Division, regarding the following:

- introduction of a new service model, consisting of three specialised commercial areas (Retail, Personal and Business) and the relative provisions on the review of lending powers; in this scenario, the Supervisory Board approved updating of the Rules on out-of-branch offering and via remote communication techniques, which are part of the broader Integrated Multichannel project and complies with the requirement to increasingly strengthen relations with customers;
- creation of three new Sales Departments and three new Area Governance Centres - one for each "specialised sales region" - within each of the seven Regional Governance Centres;
- rationalisation of the product companies and merger by incorporation into Intesa Sanpaolo of Banca di Credito Sardo S.p.A. and Cassa di Risparmio di Venezia S.p.A..

Achievement of the aforementioned objectives as envisaged by the Plan will require strengthening of the IT systems and enhancement of human resources. In this respect, the Supervisory Board, through the previously effective Control Committee, examined the costs and efficiency indicators of the Group's IT systems with respect to those of the main European competitors, as well as the training provided to personnel by the Group.

Also note that the Supervisory Board has appointed the new Chief Operating Officer of Intesa Sanpaolo, responsible for the Business Continuity Plan.

The issue of defining internal regulations on the rotation of human resources of the Group was also discussed with the same Chief Operating Officer, with regard to strengthening the control system as well as in relation to the dynamics of the organisational structure.

The Supervisory Board – with the contribution of the previously effective 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, in 2014, the Control Committee met with the officers of:

- the governance area of the Chief Lending Officer, in order to examine the organisational layout of its departments and offices, with a focus on the operating procedures of the Non-Performing Loans and International Subsidiary Banks Credit departments. In this respect, note that the area's organisational structure was modified in March 2015 in order to encourage better collaboration with the business units and integrated management of the entire credit-granting process;
- the governance area of the Chief Financial Officer, who illustrated the method to determine transfer prices and the internal premium model for intragroup services;
- Banca IMI, to examine the risk management method and control system of the structured finance Business Unit, also in light of the recent organisational and operational changes in the structure;
- the Banca dei Territori Division, to continue to examine the revision of sales and distribution agreements between the Banks and the Product Companies of the Group, verify the accuracy of the processes to manage complaints from customers and evaluate the new model for management of business customers, previously under the Corporate and Investment Banking Division.

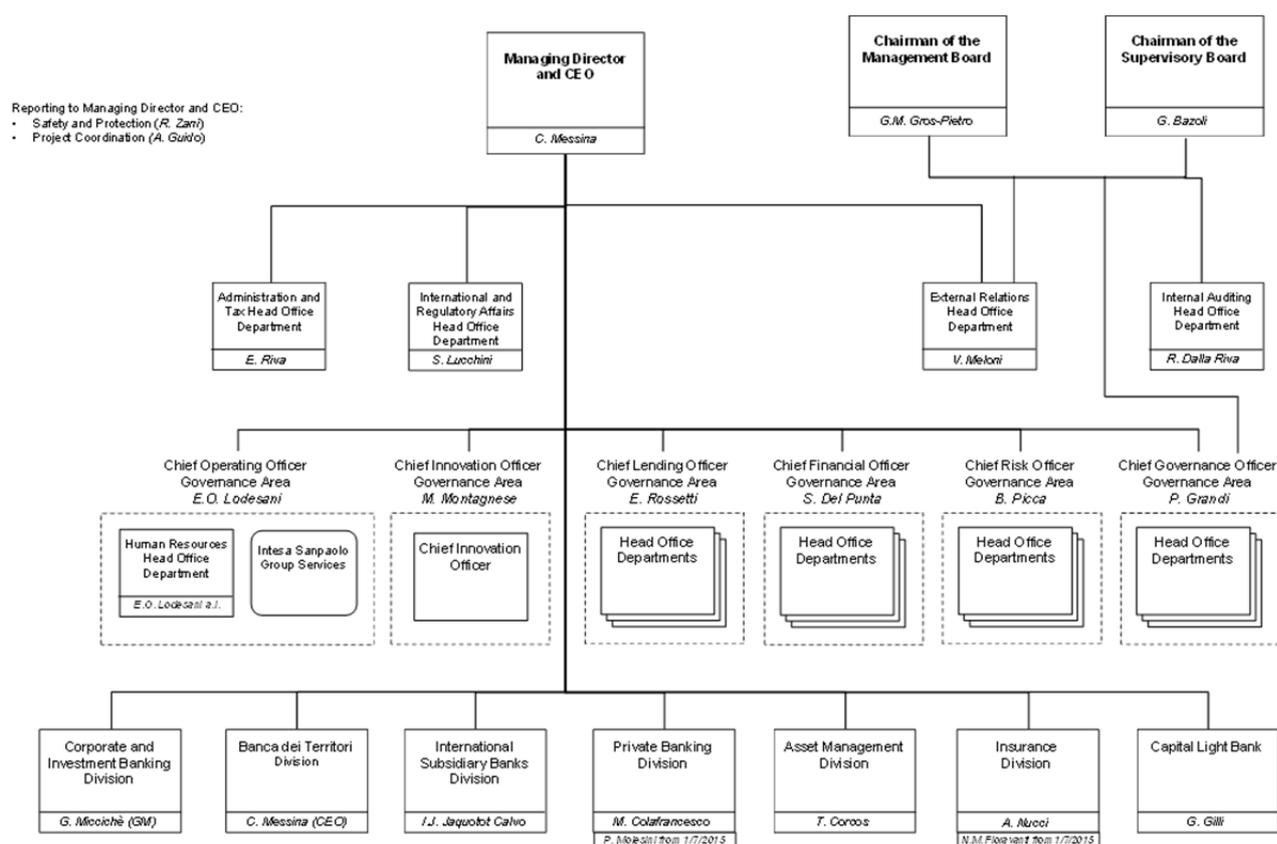
The Internal Auditing Department generally participated in the meetings, supporting the Committee's work by illustrating data on the issues covered.

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 2014 as well. The previously effective Control Committee

verified proper functioning of the Bank's internal control functions and assessed, in a meeting with the Chief Operating Officer, the qualitative and quantitative composition of said functions.

As mentioned, the Supervisory Board, through the previously effective Control Committee, examined projects and activities aimed at the Group's organisational development and at adapting to the changes introduced by the update of the Regulations for the Prudential Supervision of banks. In light of the new Bank of Italy regulations, the start of the European Single Supervisory Mechanism and the rapid transformation of risk scenarios, the previously effective Control Committee dedicated a number of meetings to the changes in the role of the Bank's internal auditing function.

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



### 3.2 Adequacy of the internal control system

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

- line controls conducted by operational structures (by the person performing the relevant activity plus hierarchical controls), or incorporated into procedures or back-office activities;
- controls under the Chief Risk Officer, which currently include:
  - risk management controls run by the relative function (Risk Management Department), 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 (Internal Validation Department) 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 (Compliance Department), 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 (Anti-money Laundering

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Department), to ensure the monitoring of compliance risk in respect of anti-money laundering, the fight against the financing of terrorism and embargo management;

- controls aimed at overseeing credit quality, assigned to an appropriate Service;

(iii) 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 previously effective Control Committee, now replaced by the Internal 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.

In 2014, the activities initiated in 2013 to adopt the New Regulations for Supervision in terms of controls continued, as well as the results of the assessment concluded in 2013, in order to evaluate the system's solidity, efficacy and possible areas for improvement.

In this respect, the aforementioned IICS Regulation have been issued, defining the key principles and the responsibilities of the control bodies and functions, and identifying coordination methods and information flows to encourage integration of the internal control system at Group level. The document complies with the regulatory requirements envisaged in Bank of Italy Circular 263/2006, which requires the Parent Company to draw up a document on control coordination within the Group.

In this area, changes were also made with regard to operation of the Managerial Committees of the Intesa Sanpaolo Group, with modification of the current Compliance & Operational Risk Committee of the Group, which was re-named Group Control Coordination and Operational Risk Committee, operating in two separate sessions:

- the "Operational Risk" session, which maintains the main Operational Risk tasks previously assigned to the Group's Compliance & Operational Risk Committee;
- the "Integrated Internal Control System" session, charged with strengthening and coordinating the inter-departmental cooperation mechanisms of the internal control system, facilitating integration of the risk management process.

The internal regulatory documents on the following topics were thereby submitted to the attention of the relative Bodies, for updating or new issue: information system, business continuity, out-of-group and intragroup outsourcing, compliance and risks management.

Lastly, again in 2014, the relative board Committees were 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*

The Risk Management Department, as part of its wider duties, submitted the following to the relative board Committees:

- the Risk *Tableau de Bord*, on a quarterly basis, with monitoring of the overall Group risk - and examination of the capital adequacy, liquidity and specific risks - and confirming its consistency with the risk appetite determined by the Bodies;
- the progress of the corrective actions plan required by the Bank of Italy, as well as progress of the rollout of the internal measurement systems for credit, operational and market risk for calculation of the capital requirements, providing the required updates and examinations.

Moreover, the Risk Management Department has provided the relevant Committees with specific reports and information on:

- the information required by the Bank of Italy with regard to amendments made to the modelling of demand deposits, the effects of interest rate risk on the Group's exposure and the related accounting implications;
- the project to update, in an integrated manner, the processes for management of IT risk and risks not managed by the business continuity plan;
- launch of the Risk Data Aggregation & Risk Reporting project, aimed at adoption of a global framework to collect risk data, as required for systemically important banks by the European Supervisory Authority;

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- the planned improvement measures in terms of assessment and management of model risk, in line with the provisions of the Action Plan, following the update of Bank of Italy circular 263/2006;
  - the periodic assessment of the consistency between external and internal rating, as required by the Bank of Italy;
  - 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, as required by the Supervisory Authority and within the scope of its functions, submitted to the relevant board Committees and to the Supervisory Board the annual reports on the results of assessments on the progress of the rollout of internal risk measurement systems and on the solidity of the ICAAP process. The department also drew up the final report on implementation of corrective measures aimed at reducing the floor with regard to calculation of the capital requirements.

The Compliance Department, in accordance with the functions assigned to it, provided the relevant board Committees with the institutional and periodic reports under its responsibility, including the annual report on activities conducted and the intervention plan pursuant to the supervisory regulations of the Bank of Italy, the report under 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 complaints pursuant to the supervisory guidelines on transparency and the report pursuant to Legislative Decree 231/2001.

Furthermore, on request by the Committees, this Department provided specific information with regard to:

- development of the company regulations on conflict of interest and confidential information;
- the recently published guidelines of the ESMA on investment services, implementing the principles outlined by the MiFID;
- progress of the process for centralised storage of contracts pursuant to the MiFID;
- the commission scheme applied to customer overdrafts;
- the rules for marketing insurance products.

Lastly, following updating of Group Compliance Guidelines - in accordance with the aforementioned Action Plan 263 - and extension of the responsibility of the Compliance Department to include management of compliance risk for all company activities, the results of the survey on the specialised functions overseeing the significant regulatory areas not directly governed by the Compliance Department and mapping of all the measures and controls for the management of compliance risk were presented. In this context, the Compliance Department also illustrated the internal practices used to manage personnel rotation.

The Anti-Money Laundering Department, in accordance with the functions assigned to it, illustrated to the previously effective Control Committee, now replaced by the Internal Control Committee (also in its capacity as Surveillance Body), its periodic and ad hoc reports on the activities carried out, as better detailed in point 3.2.2.

The Credit Quality Monitoring Unit presented to the relevant board Committees the half-yearly report on development of the loans portfolio, outlining the trends, composition, quality and evolution of non-performing loans.

The Internal Auditing Department, as specified above, responsible for level-three controls, is the primary structure used by the Supervisory Board to perform its supervisory duties and it generally attends the meetings of the relevant board Committees, in the person of its head of Department, keeping them 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 duties, the Department draws up and shares with the Committees, generally on an annual basis, the Risk Assessment report, the audit plan and the key performance indicators identified by the Department itself to monitor the effectiveness of the audit function.

Following its activities, at least once a year it submits its own considerations and assessments of the overall internal control system. The Annual Report of the Internal Auditing Department also satisfies reporting on branches abroad, on the governance of the SGRs and on the auditing of Group companies.

On a quarterly basis, the Department updates the Committees and the Surveillance Body with regard to activities carried out, also using a *Tableau de Bord* that highlights the main critical issues identified and the measures to resolve them; it also provides periodic reports on any action taken that has ended with a judgement of high risk.

The Internal Auditing Department also draws up the following documents:

- the annual report on the assessments of the mechanisms used to ensure that the remuneration

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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;

- 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;
- the analysis and self-assessment of the ICAAP process;
- the annual reports on the internal models that measure credit risk, market risk and operational risk;
- assessment of reporting by the Special Fund for Applied Research.

The Internal Auditing Department has produced numerous additional reports on information that emerged during the year, with particular mention to subsidiaries Mediocredito Italiano, CIB Hungary, Intesa Sanpaolo Bank Romania and Pravex Ukraine. The results of audit assessments on the operations of the Fiorano al Serio branch of Intesa Sanpaolo Private Banking, following irregularities the prior year, were also presented. In this respect, a report was issued on the administrative liability of delayed notification of suspected money laundering by a manager of said branch.

Lastly, upon request by the Committees, the Internal Auditing Department provided some additional information on the Risk Assessment method adopted, focusing on determination of the synthetic index known as Q Factor - which is used to assign priorities to risk-based controls - on the annual budget formation and management process, and on the accounting of Financial Guarantees.

In the early months of 2015, the company control functions, implementing the provisions of the new IICS Regulation, presented to the Internal Control Committee and to the Risks Committee the new integrated *Tableau de Bord*, which includes the main anomalies identified in the *Tableau de Bord* produced by each function, with high critical level or assessed to be relevant enough to update the various Bodies.

Moreover, the same functions, each to the extent of their responsibilities, carried out additional activities upon specific request by the Bank of Italy and the European Central Bank, the results of which were presented to the relevant board Committees which drew up - where required - their own assessments to submit to the Authorities.

Lastly, the Code of Ethics assigns the Internal 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 Department 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.

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.

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

Under the Organisational, Management and Control Model adopted by the Bank in accordance with Legislative Decree 231/2001, the Surveillance Body is the Committee that supports the Supervisory Board in performing the supervisory and control functions. Therefore, in line with the prior year, members of the Control Committee appointed upon renewal of the Corporate Bodies in 2013 were also members of the Surveillance Body for 2014. Following reorganisation of the Supervisory Board's operations, members of the Internal Control Committee are effective members of the Surveillance Body as of January 2015.

Note that "the Model" also requires three alternate members. In this respect, during 2014, acknowledging the resignation of one of them, the Control Committee verified the existence of the requirements envisaged by the regulations with regard to the identified replacing member, later appointed as alternate member of the Body by the Supervisory Board.

The Surveillance Body is responsible for overseeing the adequacy, functioning and observance of "the Model" in order to prevent and offset any illegal acts subject to Legislative Decree 231/2001 on administrative liability of the Bank, as well as observance of the provisions of Legislative Decree 231/2007 on money laundering and the financing of terrorism, having the power to act in this sense and able to count on an amount allocated specifically for its activities. The activity is governed by the Regulations of the Internal Control Committee and the Surveillance Body pursuant to Legislative Decree 231/2001.

The Body meets periodically, overseeing respect of the provisions contained in "the Model", with the support of the Internal Auditing Department, as well as the efficiency, effectiveness and adequacy of "the Model" itself, with the support of the Compliance Department. Furthermore, for the purposes of supervision with regard to the provisions contained in Legislative Decree 231/2007, the Body avails itself of the Anti-Money Laundering function.

In 2014, the Body met 23 times to examine a number of issues regarding respect and application of "the

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Model”, which is updated continuously in light of the amendments introduced by the reference regulations, and periodically reported on its activities to the Management Board and Supervisory Board. In particular, the Surveillance Body received disclosures on:

- the periodic ad hoc activities carried out by the Internal Auditing Department and by the Compliance Department with regard to Legislative Decree 231/2001 and the relative intervention plans;
- the anti-money laundering safeguards, including the reports pursuant to Art. 52 of Legislative Decree 231/2007, later submitted to the Supervisory Authority, the periodic reports from the Anti-Money Laundering Department and the relative intervention plan, with particular attention to strengthening monitoring of international anti-money laundering, authorisation of existing relations with high-risk customers, adaptation to the new Provisions with regard to adequate assessment of customers and the embargoes in place against the Russian Federation;
- the disciplinary provisions and training activities provided to employees on the administrative liability of entities and the anti-money laundering regulations;
- assessment of the company's system for management of health and safety in work sites and monitoring of the workplace health and safety risks;
- company regulations defining the safeguards aimed at avoiding public disclosure of inside information;
- the crime of money laundering and the voluntary disclosure procedure.

Lastly, the Body has initiated, with the support of an independent consulting firm, an assessment of “the Model”, in order to identify potential risk drivers in the intragroup dealings with foreign entities.

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

The aforementioned New Regulations for Prudential Supervision (Circular 263/2006), in addition to the impacts on the internal control system, the IT system and business continuity, have resulted in the need to assign a series of decision-making responsibilities to the Strategic Supervision Body, with regard to corporate strategies, risk governance policies and definition of the Risk Appetite Framework.

This was confirmed and expanded by the provisions of Circular 285/2013 on corporate governance, which requires said Body to be assigned a series of responsibilities and rights not directly connected to the control system. In accordance with the provisions of the Supervisory Authority, and the consequent statutory amendments resolved by the Bodies on 18 November 2014, the Supervisory Board, taking into account the guidelines proposed by the Management Board and backed by the relevant board committees, approved:

- the Group Recovery Plan, as adoption of the Bank Recovery and Resolution EU directive with regard to management and resolution of crises of the major banking groups;
- the report on the internal capital adequacy assessment process (ICAAP);
- updating of the Risk Appetite Framework and the related operating limits, also with regard to the bank's exposure to financial instruments or products that are uncertain or difficult to assess;
- updating of the Market Risk Charter;
- adoption and implementation of the internal acceptance rating system for the Other Retail segment;
- the application for adoption and implementation of the internal system to calculate capital requirements with regard to credit risk for banks and public entities.

Furthermore, in light of the aforementioned new competencies in terms of risk governance policies, the Supervisory Board was presented with the risks Tableau de Bord starting from the one referring to 30 September 2014.

In accordance with the Supervisory regulations in effect until 30 June 2014, the Supervisory Board, through the previously effective Control Committee, carried out the verifications aimed at use of the internal risk measurement systems and, upon recommendation by the Management Board, approved the plan to extend the internal systems for measurement of credit, market and operational risks to the Group companies. With regard to credit risk, the Supervisory Board:

- approved, upon recommendation by the Management Body, the new autonomy limits expressed in terms of Risk Weighted Assets for the granting of credit, in accordance with the roll-out plan examined;
- has acknowledged the corrective measures taken to complete the plan required by the Bank of Italy upon authorisation of the reduction of the floor in order to contain capital requirements.

Particular attention was paid to inspections by the domestic Supervisory Authorities of the Parent Company and subsidiaries in 2014.

With regard to the inspection reviews by the Bank of Italy, regarding adequacy of the management and operational profiles of adjustments to doubtful loans, substandard loans and restructured loans, as well as governance, credit risk management, anti-money laundering and anti-terrorism safeguards and several

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aspects regarding foreign branches and subsidiaries of the Corporate and Investment Banking Division, the Parent Company has submitted its observations with regard to the corrective measures based on the Supervisory Authority's findings. The progress of the aforementioned initiatives with regard to anti-money laundering is monitored by the Boards which, as required, have sent their assessments on the matter to the Bank of Italy.

Similarly, Intesa Sanpaolo expressed its considerations on the results of the inspection report from the Bank of Italy to subsidiary Banca IMI.

It is also noted that the remuneration and incentive policies and practices were the subject of an inspection by the Bank of Italy between October and December 2014.

The relative report provided to the Boards today expresses a partially favourable overall opinion, with some areas for improvement with regard to system management aspects.

Lastly, note that in 2013, IVASS had submitted a number of complaints with regard to the insurance brokerage business conducted by the Bank, more specifically with regard to insurance coverage linked to mortgages and loans. As a result, the Bank adopted a number of corrective measures agreed upon with the Supervisory Authority.

With regard to the alleged infringements of the Insider List obligations on third party issuers, subject to dispute by Consob, the same Commission, having examined the arguments made by the Bank, ordered the procedure to be filed.

The Supervisory Board, with the support of the Remuneration Committee, performed its duties and functions with regard to the remuneration policies and practices pursuant to the provisions of the Articles of Association, in accordance with any applicable regulations and in compliance with the new Supervisory provisions issued on November 2014. Apart from the resolutions on the LECOIP mentioned in the introduction and referring to the specific Report on Remuneration for greater detail, the following are highlighted:

- approval, with the favourable opinion of the compliance function, of the remuneration and incentive policies;
- approval of funding of the 2014 Bonus Pool and its activation thresholds and subsequent verification of their achievement;
- confirmation of achievement of the pre-established objectives for activation of the incentive system for Risk Takers included within the scope of "key personnel" defined by the Bank of Italy, authorising recognition of the variable remuneration component;
- sharing of the proposal to adapt the remuneration structure of the company control functions, of the human resources function and of the Manager responsible for preparing the Company's financial reports, taking into account development of the reference regulations;
- favourable examination of the proposals based on financial instruments of the Management Board, to be submitted to resolution by the Shareholders' Meeting.

In 2014, as in the past, the information flows from the various Bank departments to the Committees – and therefore indirectly to the Supervisory Board – were conveyed on a regular basis. In addition to the regular reporting by the internal control functions (Risk Management, Internal Validation, Compliance, Anti-money Laundering, Credit Quality Monitoring and Internal Auditing Departments), 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. The Supervisory Board, with the support of the previously effective Control Committee, now replaced by the Internal Control Committee, is also responsible for assessing the degree of efficiency and adequacy of the internal control system, with particular reference to risk control, internal audits and the IT accounting system. In this respect, the Supervisory Board approved the regulatory structure of the internal audit function, outlining the duties assigned, the organisational and operational models, governance of the steering and control activity at Group level and the IT system used by said function.

The Supervisory Board, with the support of the relevant Committees, assessed the risks connected to the negative evolution of the socio-political context of some Countries and the consequences on operations of the international subsidiaries located there.

As in prior years, the Supervisory Board approved the Sustainability Report of Intesa Sanpaolo, which illustrates the initiatives undertaken to combine improvement of the Bank's competitiveness with sustainable social development.

Lastly, the Supervisory Board expressed its favourable opinion with regard to the proposal to assign KPMG to assist the Bank in the assessments required as a result of issuance of Circular 31/E of Agenzia delle Entrate.

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

The Bank's control functions, upon conclusion of the activities carried out in 2014, as represented to the Boards, determined risk governance to be adequate overall, for the profiles under their responsibility.

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 Internal Control Committee shared the assessment of the company control functions, also highlighting areas warranting analysis, in order to further bolster the operation and reliability of the control system.

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 2014, the independent auditors confirmed 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 Internal Control Committee and highlights its commitment to monitor the areas identified, as well as the issues presented in the company control function's Integrated *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

The Supervisory Board, assisted by the relevant Committees, supervised the efficiency and adequacy of the administration and accounting system, discussing with 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 approval of the Parent Company's and consolidated financial statements. With regard to the aforementioned reorganisation of the Supervisory Board's operations, the relevant Committees until 31 December 2014 referred to the Financial Statements Committee and the Control Committee, and from 1 January 2015 to the Risk Committee and Internal Control Committee.

The Parent Company's and consolidated financial statements as at 31 December 2014 were prepared pursuant to Legislative Decree 38 of 28 February 2005, 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 of 19 July 2002. The 2014 financial statements were prepared based on Bank of Italy Circular 262/05, with subsequent amendments of 18 November 2009, 21 January 2014 and 22 December 2014. With regard to modification of the Group's divisional structure at the end of 2014 as part of the Business Plan, the usual segment report was accompanied by restatement of the 2014 data only, based on the new divisional model, as required by IFRS 8.

During the course of several meetings, including some joint meetings, the Committees, with the presence of the Manager responsible for preparing the Company's financial reports and the Independent Auditing Firm, examined issues relating to preparation of the financial statements as at 31 December 2014 and analysed the logic and processes involved in preparation of the financial reports of the Bank and the Group (including quarterly and half-yearly reports). In this respect, the topics examined in detail included: changes in the accounting and supervisory regulations; statistical and prudential reporting as at 31 December 2014; structure and content of the financial statements; other documents connected to the financial statements; extraordinary and bank operations; impairment testing of intangible assets and goodwill; loans; equity investments; legal disputes; taxation. Specific attention was also paid to own funds and capital ratios.

In particular, the procedure used to conduct impairment tests on intangible assets and goodwill recorded based on the Purchase Price Allocation processes envisaged by IFRS 3 was illustrated. This procedure, which complies with the provisions of the IAS 36 accounting standard, has been approved by the Management Board.

The Committees also examined the following issues:

- progress of the Fast Closing projects, aimed at revision of the processes and completion times to close the financial statements of the Parent Company and Subsidiaries in light of the new European regulatory framework;
- assessment, tax treatment and execution methods for the impairment tests on the stake in the Bank

- of Italy;
- legislative initiatives of the Hungarian government with regard to subsidiary CIB;
- significant regulations with regard to own funds, capital ratios and Risk Weighted Assets of Intesa Sanpaolo with regard to calculation of profit as at 31 December 2014;
- accounting of derivatives and Financial Guarantees;
- preparation methods and main contents of the Sustainability Report;
- segment reporting method and management method for the internal rate of transfer;
- the LECOIP investment plan;
- Consob requirements and relative findings.

The relevant Committees, 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 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 proposal for additional remuneration to be paid to KPMG S.p.A. for activities carried out and to be carried out for some Group Companies during the period 2014-2020 was also discussed during the year.

The work done enabled the Managing Director and CEO and the Manager responsible for preparing the Company's 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 2014.

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.

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

The Supervisory Board, through the relevant Committees (also in the light of the provisions of Legislative Decree 39/2010), together with the Manager responsible for preparing the Company's financial reports, met with KPMG S.p.A. 9 times in 2014, also 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, paragraph 3, 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 5 meetings with the Independent Auditors and the Manager responsible for preparing the Company's financial reports, in the early months of 2015, in preparation for the approval of the Parent Company's and consolidated financial statements as at 31 December 2014.

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

On 12 March 2015, 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 2014, with no exceptions. Specifically, the Reports confirm:

- (i) that the two documents as at 31 December 2014:
  - 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.

*16)  
Meetings  
with the  
Independent  
Auditors*

*4)  
Reports of  
the  
Independent  
Auditors*

## 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 for the provision of audit and other services. This Regulation governs the rules to be observed in order to ensure regularity of communication flows and ongoing monitoring of the independence of the Independent Auditors for any assigned services other than auditing, with regular reporting to the bodies. Also note that the Independent Auditors are required to monitor the continuance of the auditor's conditions of independence, for which the relative confirmations were duly acquired.

The Regulation, evaluated based on concrete situations during its long-term application, was updated, confirming its compliance and introduced limited and targeted refinements. In particular, it confirms the principles of "Single Auditor" for the entire Intesa Sanpaolo Group, already fully implemented since 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 auditing firm appointed by the Parent Company and the other Group Companies is KPMG S.p.A., assigned to audit the annual and consolidated accounts for the year ended 31 December 2014. KPMG S.p.A. is also responsible for verifying, during the year, the regular keeping of corporate accounts and the proper recording of management operations in the books. Following assessment, the auditors 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 that such records comply with the relevant regulations. The assignment also includes: verification of the balance sheets and income statements of branches abroad with regard to their inclusion in the Bank's financial statements; limited review of the Half-yearly Report including limited review 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 companies 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 2014 to KPMG S.p.A., which received the audit assignment for the period 2012-2020, are indicated under "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 S.p.A. 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

Type of services	(millions of euro)			
	Intesa Sanpaolo		Group Companies (*)	
	KPMG	KPMG Network	KPMG	KPMG Network
Release of attestations (**)	1.54	-	0.46	-
Tax consulting services	-	-	-	-
Other services:				
<i>agreed audit service</i>	0.27	-	1.12	-
<i>sustainability report</i>	0.05	-	0.04	-
<i>other</i>	-	-	0.20	-
<b>Total</b>	<b>1.86</b>	<b>-</b>	<b>1.83</b>	<b>-</b>

(\*) Group companies and other consolidated subsidiaries.

(\*\*) Including the audit costs, on a voluntary basis, for the "Pillar 3" disclosure.

Amounts net of VAT and reimbursed expenses

Under the Group Regulation these tasks are classified 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 almost entirely referred to audits carried out in order to issue Comfort Letters in the implementation of international issue programmes (1.15 million) and, for the

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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 S.P.A. 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**

The “Report on Corporate Governance and Ownership Structures” – already referred to several times above and monitored by the relevant board Committees – provides a detailed description of the current dual corporate governance system of Intesa Sanpaolo, also in light of the amendments by the recent Supervisory Provisions on corporate governance, and comprehensive information on the procedures used by the Bank to adopt and implement the recommendations of the Code.

In this respect, note that an updated version of the Code was presented in 2014, in order to align the text to the corporate governance recommendations contained in several national and international documents. In particular, revision of the Code was aimed at implementing the recommendations outlined by the European Commission in terms of “comply or explain” and the Consob recommendations on indemnity and/or other benefits recognised for executive directors and general managers.

#### **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**

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 2014, the previously effective Control Committee informed the Supervisory Board on the updates to the Operating Guidelines of the Boards of Statutory Auditors for the Group’s Italian companies.

#### **8. Conclusions summary**

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

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

15)  
Disclosures

18)  
Conclusions

## **PART II**

### **OTHER INFORMATION**

#### **1. Results of auditing carried out by the Internal Auditing Department on the Intesa Sanpaolo Group’s remuneration systems and practices in 2014**

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 2014.

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 2014, in accordance with the Policies resolved by the Bodies and the relative Provisions issued by the Bank of Italy. The audit was broken down in order to examine the operational phases of the process: quantification and approval of the main components of the incentive system (economic requirements, provisions, certification of results achieved, allocation of the bonus pool to the Departments, incentives for top Risk Takers and Heads of the Control Functions); actual payment of the incentives to the Departments.

As envisaged, the remuneration policies, the principles of the incentive system, the financing methods for the bonus pool and the relative activation thresholds were approved by the Boards, each within the scope of its remit.

The 2014 incentive system, which already adopted a number of the changes introduced by CRD IV (such as the cap of 100% of annual gross remuneration for variable remuneration and reduction of the Relevant Bonus threshold), was refined with regard to the activation thresholds within risk appetite indicators. The structure has been assessed as compliant with regulations by the Compliance Department.

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Further adjustments will be submitted to the attention of the Boards in order to adopt, in accordance with the deadlines envisaged by the transitional regime of the Provisions, all of the guidelines of the Supervisory Authority, including the "rules" to identify Risk Takers.

The threshold envisaged by the rules for activation of the Group bonus pool were achieved, in accordance with the Income Before Tax from Continuing Operations and RAF indicators (CET1R and NSFR), and it was therefore financed according to the approved application profiles. Certification of the performance levels achieved by a number of top Risk Takers, summarised in assessment forms, was submitted for approval by the Boards. The Group Bonus Pool was therefore allocated to the departments based on the results achieved.

Based on the observations made, the Internal Auditing Department expressed an opinion of overall adequacy of the operational procedure followed, in accordance with the policies and profiles defined, and made a number of recommendations to improve the overall set of internal operating procedures, timing for completion of the Management objective forms and monitoring of the LECOIP Plan throughout the entire accrual period.

The audit process will be completed with the assessments on accuracy of the effective disbursement process, including the deferred portion, in order to ensure alignment with what was defined and approved by the relevant corporate bodies.

In addition to the information presented in the Report on Remuneration illustrated for the Shareholders' Meeting on 8 May 2014, the targeted management measures implemented during the second part of the year using the available provisions as at the end of 2013 for employment costs were also assessed, for departments whose results were higher than the expected budget. These assessments confirmed the assignment of retention bonuses in accordance with the resolutions made in 2014 and with the relevant regulations.

## **2. 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 2014, in compliance with the specific Regulation on the matter, with more detailed information provided in the Sustainability Report 2014.

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 2014 the Fund granted 8,031,925 euro for 948 donation projects. Some 72% of the amounts (corresponding to 96% of the number of applications accepted) was allocated to initiatives at the national level. The impact of local donations over the total was significant: 25% in terms of amount (79% in terms of number).

National and international disbursements for social projects represented 67% of the total amount (52% in terms of number of projects). Those of a "religious/charitable" nature were 16% in terms of amount (24% by number) and the "cultural" disbursements stood at 17% in terms of amounts disbursed (24% by number). At the national level, the total amount granted was 5,799,486 euro, broken down as follows: 55% for social projects, 21% for religious/charity projects, and 24% for cultural initiatives. As to international donations, 98% of the total went to social projects, while the remaining 2% was granted to religious initiatives.

Intesa Sanpaolo's significant commitment to culture continued in 2014, in accordance with the tradition of cultural, publishing and music initiatives promoted by the banks that have joined the Group.

The cultural initiatives envisaged by the 2014-2016 Culture Project, strategic reference framework for the Bank's cultural initiatives, were fully implemented, with development of the "Gallerie d'Italia" museum network as one of its priorities: in Milan, the Piazza Scala Galleries promoted three major exhibitions enhancing the space accommodating them and the collections, in collaboration with public and private institutions, as well as two studies on "Cantiere del '900". In Naples, the new exhibition space at the Palazzo Zevallos Stigliano Galleries, featuring over 120 paintings and sculptures, was inaugurated in June 2014 by President Giorgio Napolitano, previously subject to major restoration works, and an exhibition

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dedicated to a young artist of the Caravaggio circle during his time in Naples was set up, generating enthusiasm by the public and interest by critics. The Palazzo Leoni Montanari Galleries in Vicenza also underwent renovation of its exhibit areas, 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, restored for the occasion. Numerous secondary 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.

With a continuing view to protecting and enhancing Italy's cultural heritage, works were lent out in 2014 as well, participating in temporary exhibitions in Italy and abroad.

With regard to the country's cultural heritage, the XVII edition of Restituzioni was launched, the restoration programme for works of art that for more than a decade Intesa Sanpaolo has promoted and implemented, in collaboration with the Italian entities for the protection of architectural, historical-artistic and archaeological heritage. The restoration works began upon conclusion of the selection process and will continue throughout 2014-2015. The 51 groups of works of art involved in the project (compared to 45 in the previous edition), for a total of over 130 individual items, come from 12 Italian regions; 17 inspectorates were also involved (compared to 14 in the previous edition). Given the international importance of the Intesa Sanpaolo Group, Restituzioni extended its range for the first time to the areas of the International Subsidiary Banks, including a group of works belonging to the Slovak Republic.

Lastly, as part of the "Officina delle Idee" of the Culture Project, collaborations were established in order to support scholarships to young students and for training and research initiatives.

The Publishing and Musical Activities unit confirmed its commitment to the protection, distribution, enhancement and public enjoyment of Intesa Sanpaolo's art collection in 2014 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, which presents the scientific cataloguing of an additional 590 works of public artistic heritage.

Publication of guides on the Group's historic headquarters continued - with a new edition dedicated to the Palazzo on Via Stabile in Palermo - along with collaboration with entities of high cultural and educational value, such as the Biblioteca Pinacoteca Ambrosiana, Centro Nazionale Studi Manzoni, the Civic Museums of Milan's Castello Sforzesco, Cambridge University Press, Fondazione Valla, Fondazione Feltrinelli and the Italian Banking Association.

Continuing the collaboration launched in 2004 with major entities and private organisations as part of the Vox Imago series of books and music dedicated to opera, a new edition dedicated to Giuseppe Verdi's Nabucco was published. Note that since the 2012 edition, the Vox Imago book and music project has included a specific didactic section on the historical and philological analysis of opera.

With a view to sharing the book heritage, the constant and widespread free distribution of publications continued, in public reading areas, libraries and to cultural entities in Italy and abroad.

### **3. Results for 2014 and proposal for allocation of net income**

The Parent Company's and consolidated financial statements of Intesa Sanpaolo as at 31 December 2014 were approved by the Supervisory Board on 17 March 2015.

The Management Board proposes distribution of Intesa Sanpaolo S.p.A.'s net income of 1,212,765,890.42 euro as follows: a dividend of 0.081 euro per non-convertible outstanding savings share, for a total of 75,531,735.44 euro, and a dividend of 0.070 euro per outstanding ordinary share, for a total of 1,109,226,284.81 euro, after reclassification of the net merger surplus amount, currently stated under Other Reserves, as an increase to Legal Reserve. Assignment of 10,000,000 euro to the Charity Fund is also proposed, with the residual amount of 18,007,870.71 euro to Extraordinary Reserve. Dividends not distributed in respect of any treasury shares held by the Bank at the record date shall also be allocated to the extraordinary reserve.

The proposed allocation of net income, which is consistent with the 2014-2017 Business Plan, makes it possible to remunerate shareholders consistently with sustainable profitability, while maintaining an adequate capital structure at the company and Group level. This is as a result of the Basel 3 series of Rules, as well as the provisions issued by the European Central Bank. In fact, in the event of approval of the proposal by the Shareholders' Meeting, the capital requirements would be at the following levels, higher than the requirements of the EU Bodies and of the Supervisory Authority:

- Intesa Sanpaolo S.p.A. - Common Equity Tier 1: 20.8% and Total Capital Ratio: 26.8%;
- Intesa Sanpaolo Group - Common Equity Tier 1: 13.5% and Total Capital Ratio: 17.2%.

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

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Milan, 17 March 2015

For the Supervisory Board  
the Chairman – Giovanni Bazoli