Part E – Information on risks and relative hedging policies

SECTION 1 – RISKS OF THE BANKING GROUP

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk, protect the Group's financial strength and reputation, and permit a transparent representation of the risk profile of its portfolios.
The risk management strategy aims to achieve an increasingly complete and consistent overview of risks, given both the macroeconomic scenario and the Group's risk profile, as well as to foster a culture of risk-awareness.
The efforts of recent years to secure the Supervisory Authority's validation of internal models for credit, operational, market and credit derivative risk should be seen in this context.
The definition of operating limits related to market risk indicators, the use of risk measurement instruments in granting and monitoring loans and controlling operational risk and the use of capital at risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the strategic and management guidelines defined by the Supervisory Board and the Management Board along the Bank's entire decision-making chain, down to the single operating unit and to the single desk.
The main principles in risk management and control are:
– clear identification of responsibility for acceptance of risk;
– measurement and control systems in line with international best practices;
– organisational separation between the functions that carry out day-to-day operations and those that carry out controls.

The policies relating to the acceptance of risks are defined by the Supervisory Board and the Management Board of the Parent company with support from specific operating Committees, the most important of which are the Internal Audit Committee and the Group Risk Governance Committee, and from the Chief Risk Officer reporting directly to the Chief Executive Officer.
Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum "unexpected" loss the Group might incur over a year. This a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in a comprehensive framework of governance, control limits and procedures.
The risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:
– credit and counterparty risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
– market risk (trading book), including position, settlement and concentration risk on the trading book;
– financial risk (banking book), mostly represented by interest rate and foreign exchange rate risk;
– operational risk, including legal risk;
– liquidity risk;
– strategic risk;
– risk on equity investments not subject to line by line consolidation;
– risk on real estate assets owned for whichever purpose;
– reputation risk;
– insurance risk.

Risk coverage, in consideration of the nature, frequency and potential impact of the risk, is based on the constant balance between mitigation/hedging actions, control procedures/processes and finally capital protection.
The Parent company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries, these functions are performed, on the basis of an outsourcing contract, by the Parent company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.
For the purposes described above, Intesa Sanpaolo uses a wide-ranging set of tools and techniques for risk assessment and management, detailed in this Part of the Notes to the consolidated financial statements.
The information provided in this part of the document is based on internal management data and may not coincide with that contained in Parts B and C. Tables and information for which the indication of "book values" is specifically required represent an exception.

Other risks

In addition to credit, market, operational and insurance risks, discussed in detail in the following paragraphs, the Group has also identified and monitors the following other risks.

Strategic risk

The Intesa Sanpaolo Group defines current or prospective strategic risk as risk associated with a potential decrease in profits or capital due to changes in the operating context, misguided company decisions, inadequate implementation of decisions, or an inability to react sufficiently to changes in the competitive scenario.
The Group's response to strategic risk is represented first and foremost by policies and procedures that call for the most important decisions to be deferred to the Supervisory Board and the Management Board, supported by a current and forward-looking assessment of risks and capital adequacy. The high degree to which strategic decisions are made at the central level, with the involvement of the top corporate governance bodies and the support of various company functions, ensures that strategic risk is mitigated.
An analysis of the definition of strategic risk leads to the observation that this risk is associated with two distinct fundamental components:

– a component associated with the possible impact of misguided company decisions and an inability to react sufficiently to changes in the competitive scenario: this component does not require capital, but is one of the risks mitigated by the ways in which, and the levels at which, strategic decisions are reached, where all significant decisions are always supported by ad hoc activities aimed at identifying and measuring the risks implicit in the initiative;
– the second component is more directly related to business risk; in other words, it is associated with the risk of a potential decrease in profits as a result of the inadequate implementation of decisions and changes in the operating context. This component is handled not only by using systems for regulating company management, but also via specific internal capital, determined according to the Variable Margin Volatility (VMV) approach, which expresses the risk arising from the business mix of the Group and its business units.

Strategic risk is also assessed as part of stress tests based on a multiple-factor model that describes the relations between changes in the economic scenario and the business mix resulting from planning hypotheses.

Reputation risk

The Intesa Sanpaolo Group attaches great importance to reputation risk, namely the current and prospective risk of a decrease in profits or capital due to a negative perception of the Bank's image by customers, counterparties, shareholders, investors and supervisory authorities.
The Group has adopted and published a Code of Ethics that sets out the basic values to which it intends to commit itself and enunciates the principles of conduct for dealings with all stakeholders (customers, employees, suppliers, shareholders, the environment and, more generally, the community) with objectives more ambitious than those required by mere compliance with the law. On the subject of customer relations, it should be recalled that the Group has set up a systematic dialogue process. It has also issued voluntary conduct policies (environmental policy and arms industry policy) and adopted international principles (UN Global Compact, UNEP FI, Equator Principles) aimed at pursuing respect for the environment and human rights.
The Group also provides effective governance for compliance risk as a prerequisite for mitigating reputation risk.
There has been a particular focus on financial advisory services for customers, for which the MiFID Directive was taken as an opportunity to update the entire marketing process and associated controls.
Accordingly, the Group has reinforced its longstanding general arrangement, which calls for the adoption of processes supported by quantitative methods for managing the risk associated with customers' investments in accordance with a broad interpretation of the law with the aim of safeguarding customers' interests and the Group's reputation.
This has allowed assessments of adequacy during the process of structuring products and rendering advisory service to be supported by objective assessments that contemplate the true nature of the risks borne by customers when they undertake derivative transactions or subscribe for financial investments.
More in particular, the marketing of financial products is also governed by specific advance risk assessment policies from the standpoint of both the Bank (along with risks, such as credit, financial and operation risks, that directly affect the owner) and the customer (sustainability in terms of risk to return ratio, flexibility, concentration, consistency with objectives and risk tolerance profiles, and knowledge and awareness of the products and services offered).

Risk on owned real-estate assets

The risk on owned real-estate assets may be defined as risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets and is thus included in the category of banking book financial risks. Real estate management is highly centralised and represents an investment that is largely intended for use in company operations. The degree of risk in the portfolio of owned properties is represented by using a VaR-type model based on indices of mainly Italian real estate prices, which is the main type of exposure associated with the Group's property portfolio.

The Basel 2 Project

In 2007, Intesa Sanpaolo launched the "Basel 2 Project" to prepare the Group for the adoption of advanced approaches, building on the pre-merger experience of Intesa and Sanpaolo IMI. In 2008, the Intesa Sanpaolo Group began the approval process for their adoption.
With regard to credit risks, a "first scope" of Group entities that use approaches based on internal models was identified. For this scope, the Group secured permission to use the IRB Foundation approach for the Corporate segment, effective

from the report as at 31 December 2008. In 2009, the Group initiated a process of expanding the scope of application of internal models by securing permission for the use of the IRB Foundation approach by network banks belonging to the former Cassa di Risparmio di Firenze Group (effective from the report as at 31 December 2009) and to Intesa Sanpaolo Bank Ireland (effective from the report as at 31 March 2010) and also submitted a petition to launch the procedure for the international subsidiaries CIB Bank and VUB Banka and the Italian Banca IMI. In 2008, the Group implemented rating models and credit processes for the SME Retail and Retail segments (residential mortgages), and in 2009 it completed development of the LGD (Loss Given Default) model, which will allow for the adoption in the first half of 2010 of the IRB approach for the Retail Mortgage segment, followed by the adoption of the IRB approach for the SME Retail segment and the advanced IRB approach for the Corporate segment.
The Group is also proceeding with development of the rating models for the other segments and the extension of the scope of companies for their application in accordance with the gradual roll-out plan for the advanced approaches presented to the Supervisory Authority.
With regard to operational risk, it should be noted that the Group obtained permission, effective from the report as at 31 December 2009, to use the Advanced AMA Approach (internal model) to determine the associated capital requirement on an initial scope that includes the banks and companies of the Banca dei Territori Division (except network banks belonging to Cassa di Risparmio di Firenze Group excluding Casse del Centro), Leasint, Eurizon Capital and VUB Banka. The remaining companies, which currently employ the Standardised approach, will gradually migrate to the Advanced approaches beginning in 2010.

Furthermore, in 2009 the Group presented its second Internal Capital Adequacy Assessment Process Report as a "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for the measurement of risk, internal capital and total capital available.

As part of its adoption of Basel 2, the Group publishes information concerning capital adequacy, exposure to risks and the general characteristics of the systems aimed at identifying, monitoring and managing them in a document entitled "Basel 2 - Pillar 3" or simply "Pillar 3".
The document is published on the website each quarter, as Intesa Sanpaolo is among the groups that have adopted IRB and/or AMA approaches for credit and operational risk, at the address: group.intesasanpaolo.com.

The internal control system

To ensure a sound and prudent management, Intesa Sanpaolo combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.
Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Code of conduct of listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.
Intesa Sanpaolo's internal control system is built around a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies and the achievement of the following objectives:

– the effectiveness and efficiency of Company processes;
– the safeguard of asset value and protection from losses;
– reliability and integrity of accounting and management information;
– transaction compliance with the law, supervisory regulations as well as policies, plans, procedures and internal regulations;

The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, incorporating both the Company policies and the instructions of the Supervisory Authorities, and provisions of law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005.
The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines, Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.
More specifically, the Company rules set out organisational solutions that:

– ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
– are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
– enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
– guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
– ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
At the Corporate Governance level, Intesa Sanpaolo has adopted a dual governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company's business, which is exercised by the Management Board in accordance with the provisions of art. 2409-octies and subsequent of the Italian Civil Code and art. 147-ter and subsequent of the Consolidated Law on Finance.

The Supervisory Board has established an internal Control Committee that proposes, advises and enquires on matters regarding the internal control system, risk management and the accounting and IT system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative responsibility of companies, supervising operations and compliance with the Organisational, Management and Control Model adopted by the Bank.
From a more strictly operational perspective the Bank has identified the following macro types of control:
- line controls, aimed at ensuring the correct application of day-to-day activities and single transactions. Normally, such controls are carried out by the productive structures (business or support) or incorporated in IT procedures or executed as part of back office activities;
- risk management controls, which are aimed at contributing to the definition of risk management methodologies, at verifying the respect of limits assigned to the various operating functions and at controlling the consistency of operations of single productive structures with assigned risk-return targets. These are not normally carried out by the productive structures;
- compliance controls, made up of policies and procedures which identify, assess, check and manage the risk of non-compliance with laws, Supervisory authority measures or self-regulating codes, as well as any other rule which may apply to the Bank;
- internal auditing, aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the overall functioning of the internal control system. It is performed by different structures which are independent from productive structures.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
As a consequence, Intesa Sanpaolo's control structure is in compliance with the instructions issued by the Supervisory Authorities. Indeed, alongside an intricate system of line controls involving all the function heads and personnel, a Chief Risk Officer area has been established specifically dedicated to second level controls that incorporates both units responsible for the control of risk management (in particular, the Risk Management Department, Credit Quality Monitoring, and Internal Validation in accordance with Basel 2), and the management of compliance controls (Compliance Department). Also reporting to the Chief Risk Officer is the Legal Affairs Department, which monitors and controls the legal risk of Intesa Sanpaolo and its Group.
There is also a dedicated Internal Auditing Department, which reports directly to the Chairman of the Management Board and to the Chairman of the Supervisory Board, and is also functionally linked to the Control Committee.

The Compliance Department
The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
Non-compliance risk is managed by the Compliance Department, established in June 2008 in accordance with the regulations issued by the Bank of Italy on 10 July 2007 and the provisions of the Joint regulations issued by Consob and the Bank of Italy on 29 October 2007. The Compliance Department reports to the Chief Risk Officer.
In the first few months of 2009, Intesa Sanpaolo's Management Board and Supervisory Board approved the Compliance Guidelines, which incorporate the Group's Compliance Model. These Guidelines identify the responsibilities and macro processes for compliance, aimed at mitigating the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. The Compliance Department, including through the coordination of other corporate functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the assessment of the company's bonus system, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, including through the use of information provided by the Internal Auditing Department, of ongoing compliance, and the promotion of a corporate culture founded on the principles of honesty, fairness and respect for the spirit and the letter of the rules.
The Compliance Department submits periodic reports to Corporate Bodies on the adequacy of compliance control. On an annual basis, these reports include an identification and assessment of the primary non-compliance risks to which the Group is exposed and a schedule of the associated management measures, and on a semi-annual basis they include a description of the activities performed, critical issues noted, and remedies identified. A specific notice is given when events of particular significance occur. A supplemented report is also periodically presented to the competent Corporate Bodies. This support is drafted by units charged with second-tier controls and aims to provide a comprehensive overview of the Group's supervision of operational and reputation risk. The document, the preparation of which also involves the use of information provided by the Internal Auditing Department, draws attention to the most critical areas and the state of progress of activities aimed at mitigating the risks identified.
The Compliance Guidelines call for the adoption of two distinct models in relation to direction and control of the Group. These models are organised in such a way as to account for the Intesa Sanpaolo Group's structure in operational and territorial terms. In particular:
- compliance supervision activities for specifically identified Network Banks and Italian Companies whose operations show a high degree of integration with the Parent company are centralised with the Compliance Department;
- for the other companies, specifically identified on the basis of the existence of a legal obligation or their material nature, as well as for Foreign Branches, an internal compliance function is established and a local Compliance Officer is appointed. In functional terms, the Compliance Officer reports to the Compliance Department and is assigned compliance responsibilities.

The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of compliance risk. In particular:

- the process of bringing the financial intermediation and investment services area into compliance with the MiFID Directive continued to be supervised. As required by the implementing regulations issued by Supervisory Authorities and on the basis of specific requests from Authorities, this process involved changes to governance and organisational systems consisting of drafting policies, processes and procedures, with a particular focus on supervision of conflicts of interest and personal transactions; compliance activities also involved launching the required training initiatives, clearing new products and services and monitoring customer transactions in order to prevent market abuse;
- further effort was dedicated to projects aimed at enhancing the supervision of the Group's Italian and foreign companies in the area of embargoes and the prevention of money laundering. In detail, these involved coordinating organisational, IT and training activities aimed at implementing the Third European Directive. Proper maintenance of the Single Electronic Archive also continued to be monitored and suspicious transactions analysed and assessed for reporting to the competent Authorities;
- legislative developments in the areas of banking products and services were monitored, with a particular focus on the issue of transparency and usury. Rules, procedures and operational practices were established to prevent violations or infractions of applicable rules governing such products and services in order to ensure that support and guidance are provided to business units with the aim of guaranteeing that consumer-protection provisions are properly managed;
- a specific project was launched with the aim of enhancing supervision of compliance risks affecting the insurance segment in terms of both the Group's product companies and distribution networks;
- the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations, updating it to take into account the new offences, and coordinating the training activities and the verification of its proper implementation;
- controls of company processes functional to certification by the Manager responsible for preparing the Company's financial reports in accordance with art. 154-bis of the Consolidated Law on Finance continued and assurance activities were enhanced according to a risk-based approach.

The Internal Auditing Department

With regard to Internal Auditing activities, the Internal Auditing Department is responsible for ensuring the ongoing and independent surveillance of the regular progress of the Bank's operations and processes for the purpose of preventing or identifying any anomalous or risky behaviour or situation, assessing the functionality of the overall internal control system and its adequacy in ensuring the effectiveness and efficiency of company processes, the safeguarding of asset value and loss protection, the reliability and completeness of accounting and management information, and the compliance of transactions with the policies set out by the Company's administrative bodies and internal and external regulations.

Furthermore, it provides consulting to the Bank's and the Group's departments, also through participation in projects, for the purpose of adding value and improving the effectiveness of control, risk management and organisation governance processes.

The Internal Auditing Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practice and standards for internal auditing established by the Institute of Internal Auditors (IIA).

The Internal Auditing Department has a structure and a control model which are organised consistently with the divisional model of Intesa Sanpaolo and the Group.

During the year, the auditing was performed directly for the Parent company and for the Banche dei Territori, and also for a limited number of other subsidiaries with an outsourcing contract. For the other Group companies second level controls were conducted (indirect surveillance).

Supervision activity was conditioned to an especially significant degree by the delicate economic scenario. Consequently, also in accordance with instructions issued by the Control Committee and Top Management, verifications were aimed at monitoring the evolution of the risks associated with credit quality, financial operations, the Group's investment banking and other international activities.

Direct surveillance was carried out in particular through:

- the control of the operational processes of network and central structures, with verifications, also through on-site interventions, on the functionality of line controls in place, of risk management, of the respect of internal and external regulations, of the reliability of operational structures and delegation mechanisms, of correctness of available information in the various activities and of their adequate use with free and independent access to functions data and documentation and application of adequate tools and methodologies;
- the surveillance, via distance monitoring integrated by on-site visits, of the credit origination and management process, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- the surveillance of the process for the measurement, management and control of the Group's exposure to market, counterparty, operational and credit risks, periodically reviewing the internal validation of the models and the ICAAP process developed for Basel 2 and the Prudential Supervisory regulations;
- the valuation of adequacy and effectiveness of information technology system development and management processes, to ensure their reliability, security and functionality;
- the surveillance, also via on-site visits, of the processes related to financial operations and the adequacy of related risks control systems;
- the control of compliance with the behavioural rules and of the correctness of procedures adopted on investment services as well as compliance with regulations in force with respect to the separation of the assets of customers;

– the verification of the operations performed by foreign branches, with interventions by internal auditors both local and from the Head Office.

During the year the Internal Auditing Department also ensured the supervision of all the main development projects paying particular attention to control mechanisms in the Bank's models and processes and, in general, to the efficiency and the effectiveness of the control system established within the Group.

Indirect surveillance was conducted via direction and functional coordination of the Auditing structures in subsidiaries, for the purpose of ensuring control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both the structural and operational profile. Direct reviews and verification interventions were also conducted.

In conducting its duties, the Internal Auditing Department used methodologies for the preliminary analysis of risks in the various areas. Based on the assessments made and on the consequent priorities, the Internal Auditing Department prepared and submitted an Annual Intervention Plan for prior examination to the Control Committee, the Management Board and the Supervisory Board, on the basis of which it conducted its activities during the year, completing the scheduled audits.

Any weak points have been systematically notified to the Departments involved for prompt improvement actions which are monitored by follow-up activities.

The valuations of the internal control system deriving from the checks have been periodically transmitted to the Control Committee, to the Management Board and to the Supervisory Board which request detailed updates also on the state of solutions under way to mitigate weak points; furthermore, the most significant events have been promptly signalled to the Control Committee.

A similar approach is used with respect to the responsibilities of administrative bodies pursuant to Legislative Decree 231/01 for the Control Committee, as Surveillance body.

Finally, the Internal Auditing Department ensured constant assessment of its own efficacy and efficiency in line with the internal "quality assurance and improvement" plan drafted in accordance with the recommendations of international standards for professional practice.

Certification as required by art. 154-bis of the Consolidated Law on Finance

As required by art. 154-bis of the Consolidated Law on Finance, the delegated management bodies and the Manager responsible for preparing the Company's financial reports must issue a specific report annexed to the financial statements in which it is certified that the administrative and accounting procedures were adequate and effectively applied during the period, the Company's accounting documents match the contents of accounting books and records, the documents are suitable to providing a true and fair view of the assets, liabilities, profit or loss and financial position of the Company and the set of companies included in the scope of consolidation, and the analysis of the Group's performance and results presented in the Report on operations is reliable, along with a description of the main risks and uncertainties to which the Group is exposed.

Intesa Sanpaolo has established a governance and control system that is appropriate to monitoring the risks typical of the company and the Group on an ongoing basis. In detail, the internal control system for accounting and financial information is supervised by the Manager responsible for preparing the Company's financial reports in accordance with the Company Regulations "Guidelines for administrative and financial governance".

The monitoring of the quality of accounting and financial information is based on a joint review of:

– organisational and control arrangements, conducted according to a review plan aimed at providing an ongoing assessment of the adequacy and effective application of the administrative and accounting procedures for managing the data required for a true and fair view of the Group's assets, liabilities, profit or loss and financial position in financial statement documents and all other financial disclosures, including, in particular, the Pillar III public disclosure document; to the extent functional to documenting the quality of accounting data streams, monitoring extends not only to administrative and accounting processes, narrowly defined, but also to guidance and control processes (planning, management control, risk control), business processes (credit, finance, etc.), support processes (operations) and governance rules for the technological infrastructure and applications that support the management of administrative and accounting procedures;
– the completeness and consistency of information disclosed to the market by enhancing ordinary internal communications processes through the regular acquisition of a structured, organised system of information streams by the Manager responsible for preparing the Company's financial reports; the functions of the Parent company and its subsidiaries regularly give notice of events material to accounting and financial information, particularly as regards the primary risks and uncertainties to which they are exposed, while also facilitating ongoing relations with the units that the Manager responsible for preparing the Company's financial reports asks to conduct any further inquiries in a timely manner.

The Manager responsible for preparing the Company's financial reports, aided by the Administrative and Financial Governance Unit, has identified the scope of the subsidiaries viewed as material to financial information on the basis of their respective contributions to captions of the consolidated income statement and balance sheet and assessments of business complexity and underlying risk types. He then defined the schedule of the work to be done on the Group in connection with legal obligations – the preparation of procedures and management of review activities – taking care to ensure that development was oriented in accordance with the principles enunciated in the Regulations entitled "Guidelines for administrative and financial governance" and that the application of control approaches was fully consistent with the reference methods used, which reflect international standards derived from the COSO and COBIT Framework[1], to ensure that the review process and assessment criteria were applied homogeneously to Group companies.

[1] The COSO Framework was prepared by the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. organisation dedicated to improving the quality of financial reporting through ethical standards and an effective system for corporate governance and

In particular, evidence provided by Internal Auditing Departments is used to determine whether there is an adequate internal control system at corporate level to reduce the risk of errors or incorrect conduct. This is achieved through the verification of elements such as adequate governance systems, conduct standards based on ethics and integrity, effective organisational structures, clear attribution of powers and responsibilities, adequate risk policies, personnel disciplinary systems, effective codes of conduct and fraud prevention systems.
Verification of the adequacy and actual application of administration and accounting procedures and of governance rules for the IT infrastructure and applications is carried out partly according to specific methodologies derived from auditing standards supervised by the Manager responsible for preparing the Company's financial reports and dedicated departments, and partly based on evidence provided by the Internal Auditing Department and other control departments, with a view to maximising organisational synergies.
After completing this process, each Company then produced a Report on the internal control system functional to financial reporting, which was enhanced and completed in concert with the Parent company's Administrative and Financial Governance Unit before being formally sent to the Manager responsible for preparing the Company's financial reports. These Reports, presented as part of the periodic information provided to each company's supervisory bodies, were drafted to include:

– the outcome of reviews of processes sensitive to financial information by the control functions that support the review plan set by the Manager responsible for preparing the Company's financial reports (local Administrative and Financial Governance, Internal Audit and Compliance Units);
– material information included in the data streams transmitted by the companies, remarks formulated by the management for the Manager responsible for preparing the Company's financial reports and any suggestions made by the independent auditors in the conduct of their engagements.

The Report on the internal control system functional to financial reporting includes:

– information concerning the company's overall situation and financial information control system;
– the scope of the audit plan carried out in the performance of administrative and accounting procedures and the governance rules for the technology and applications that support it;
– a summary and detailed breakdown of the reviews conducted and the anomalies detected, with a precise indication of measures aimed at restoring the full functionality of controls.

Once the evaluation process for administrative and accounting procedures at the level of the Parent Company and subsidiaries has been completed, the Administrative and Financial Governance Unit drafts a Group report in which:

– an account is given of the state of application of the administrative and financial governance model adopted by the Group and the primary initiatives promoted by the Manager responsible for preparing the Company's financial reports during the year aimed at constantly enhancing the administrative and accounting system;
– further information is provided concerning the anomalies detected, including an indication of risk, the affected captions of the income statement and balance sheet, the accounts that could be impacted, and compensatory controls with a mitigating effect with the aim of filling gaps in terms of the values and information represented at the consolidated level;
– an overarching judgment is expressed, considering both the information provided during the period by the Parent company's functions and the subsidiaries and the opinions stated by management and of any suggestions made by the independent auditors.

Following completion of the reviews conducted during the year to express an opinion of the adequacy and effective application of controls of administrative and accounting procedures and technology and application governance rules, the reliability of the internal control system for accounting and financial information is confirmed.
However, the fact that administrative and accounting procedures are suitable to providing an accurate representation of the assets, liabilities, profit or loss and financial position of the Bank and Group in the financial statements does not mean that there is no room for improvement, which is then the object of measures taken by the interested units and the supervision provided by the Manager responsible for preparing the Company's financial reports without any interruption of the working process.
The information was presented to the Control Committee, to the Management Board and to the Supervisory Board in relation to their respective spheres of competence.
The work done provided the basis for the Managing Director – CEO and Manager responsible for preparing the Company's financial reports to issue the certifications required by art. 154-*bis* of Legislative Decree 58/98 with respect to the 2009 Annual Report, in accordance with the model established by the Consob Regulation (Annex 3c-*ter* to the Issuers Regulation).

Subsidiaries incorporated and subject to the laws of non-EU member states

As is common knowledge, Consob, in accordance with Law 262/2005 governing the protection of savings and the regulation of financial markets, has set certain conditions for the listing of companies that control companies incorporated and subject to the laws of non-EU member states (art. 36 Market Regulation).
In connection with this provision, the "material" companies to be included in the scope of compulsory monitoring in accordance with art. 36 of the Market Regulation for 2009 have been identified through a structured process of quantitative analysis of their individual contributions to the captions of the consolidated income statement and balance sheet and of qualitative assessments aimed at determining the level of complexity of the processes of generating financial information resulting from the specific nature of their businesses and the contexts in which they operate.
Obligations for "material" companies were duly discharged with respect to requirements that:

organisation. The COBIT Framework - Control Objectives for IT and related technology is a set of rules prepared by the IT Governance Institute, the U.S. organisation whose aim is to define and improve the standards of corporate IT.

a) the public be provided access to the accounting positions of subsidiaries prepared for the purposes of drafting the consolidated financial statements[2];
b) articles of association, membership and powers of the control bodies be acquired;
c) the Auditor of the Parent Company, Intesa Sanpaolo, be provided with the information necessary to perform annual and interim audits of the Parent Company, ensure that there is an administrative and accounting system appropriate for regular reporting to the management and auditor of the Parent Company of the income statement, balance sheet and financial data necessary for the preparation of the consolidated financial statements.

With respect to the requirement set out under c) above, which represents the most complex responsibilities, the companies:
- regularly provided the Parent Company with the information required to allow the public to be given access to the accounting positions employed to prepare the consolidated financial statements;
- awarded a specific audit engagement to secure an independent opinion certifying the information forwarded to the Parent Company to prepare the consolidated financial statements (auditing of the reporting package);
- took measures to ensure, in accordance with the Regulation "Guidelines for administrative and financial governance", that:
  - the Manager responsible for preparing the Company's financial reports regularly received the set of established data streams and had timely and complete access to any circumstance material to accounting and financial information; during the year, these data streams reported by the companies were further examined, where appropriate, by the Manager responsible for preparing the Company's financial reports, the Administration and Tax Department, and the independent auditors;
  - the audit plan for certifying the adequacy of administrative and accounting procedures was conducted in accordance with the indications provided by the Administrative and Financial Governance Unit, on which the Manager responsible for preparing the Company's financial reports draws to coordinate the Group's activities by drawing up a Report on the internal control system for financial information in support of the internal certification required by the Company's delegated body at the conclusion of the assessment process.

The Report is drafted in the same way as cited above in connection with the obligations under art. 154 bis of the Consolidated Law on Finance in order to ensure that the approach taken to the supervision of financial information is organic and consistent.
The procedures adopted call for the Supervisory Board of Intesa Sanpaolo to be informed in a timely manner of the outcome of controls conducted in accordance with the plan adopted to certify the adequacy of the administrative and accounting system. Periodic meetings concerning this area of responsibility were held with the Control Committee and Financial Statements Committee for the purposes of the subsequent preparation of the information to be provided to the Management Board and Supervisory Board.
It is worth noting that even those companies considered "immaterial" were involved in the standardisation of the process of acquiring the articles of association, powers and details of membership of corporate bodies and extending – where controlled by "material" subsidiaries acting as sub-holding companies – some forms of control, such as the audit of the reporting package and/or local financial statements by the sub-holding company's auditor. "Exempt" companies were subject to the forms of supervision consisting of an audit in accordance with local laws and the discharge of obligations towards the Parent Company.
The set of supervision initiatives implemented for companies within the scope of activity provides the basis for coverage that is consistent with provisions of law and satisfactory in light of the guidelines issued by the Manager responsible for preparing the Parent Company's financial reports concerning the supervision of financial information.
On the specific subject of the scope of subsidiaries based in non-EU Member States subject to compulsory auditing in accordance with the provisions of the cited art. 36, the work done by the competent units allowed the acquisition of the necessary information and the conduct of reviews aimed at determining whether legal conditions had been met.
As part of the filing process for documents due before the Shareholders' Meeting, the Parent Company will ensure that the public is provided access to the accounting positions prepared by these companies for use in drafting the consolidated financial statements.
On this basis, the listed Parent Company's administrative body may certify that the conditions required by law have been met.

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As required by the instructions provided by the Bank of Italy, the information in this section is furnished solely with respect to the Banking Group, except when it is expressly indicated to the contrary that all companies within the scope of consolidation are considered.
In the tables that refer solely to the Banking Group, amounts are stated gross of dealings with other companies within the scope of consolidation. By convention, these amounts include the share proportional to the interest held of the assets and liabilities of jointly controlled banking, financial and instrumental companies consolidated proportionally for regulatory purposes. Where the contribution of dealings between the Banking Group and the other companies in the scope of consolidation for the financial statement is material, the details of such dealings are provided.

[2] As is common knowledge, it is theoretically possible for them to be different from those presented in the separate financial statements of the same subsidiaries on the basis of the application of heterogeneous measurement standards in accordance with the laws of their home jurisdictions.