

## **REPORT OF THE BOARD OF DIRECTORS ON THE PROPOSAL OF A CAPITAL INCREASE RESERVED TO THE MANAGEMENT OF THE GROUP**

Distinguished Shareholders,

you have been summoned for this Extraordinary Shareholders' Meeting to discuss and resolve upon a new stock option plan (the Plan), to be executed through the delegation to the Board of Directors of the power to increase share capital, reserving the increase, pursuant to Art. 2441, par. 8, of the Italian Civil Code to management employed by IntesaBci and other Group companies, after the prior revocation of the analogous resolution made by the Extraordinary Shareholders' Meeting held on 1st March 2001.

The aforementioned Shareholders' Meeting had delegated the Board of Directors, pursuant to Art. 2443 of the Italian Civil Code, the power to increase share capital to serve a stock option plan up to a maximum nominal value of 29,954,500.16 euro, through the issue of a maximum number of 57,604,808 IntesaBci ordinary shares of nominal value 0.52 euro each.

In execution of this project a total of 10,210,000, personal and non-transferrable options in their name, were offered during 2001 for free to IntesaBci's Managing Directors and to 97 other Group managers. The options gave the right to acquire the same number of new ordinary shares at a price of 4.258 euro each corresponding – as provided for by the regulations of the plan approved by the Board of Directors – to the arithmetic average of the official stock market prices struck by the IntesaBci ordinary share in the period from 24th March to 24th April 2001. The assignment was in any case conditional upon the achievement of at least 95% of the Group's target ROE for 2001. Since, based on the results contained in the consolidated financial statements presented to the Shareholders' Meeting held on 30th April 2002, this condition has not been met, the assignment of stock options for 2001 – the first of the three-year plan – is not valid.

The structure and the impact of the preceding plan must be reconsidered, in particular as concerns the means of assignment of such rights, the conditions for their exercise and the potential beneficiaries, in consideration of the objectives set by the new Business Plan. The logic and the objectives pursued with the stock option plan remain the same: providing Top management with an effective tool for motivating a wide number of managers, by connecting a non-marginal part of their

compensation to the achievement of programmed objectives and the generation of effective value for shareholders.

Due to the objective interest of the operation for the Company and its Shareholders, the proposed operation will require the exclusion of pre-emptive rights for existing shareholders (pursuant to Art. 2441, par. 8, of the Italian Civil Code) which, considering that the proposed capital increase exceeds 1% of share capital, must be approved with the majority provided for by Art. 2441, par. 5, of the Italian Civil Code.

The guidelines of the Plan, which must be followed by the Board of Directors in the preparation of the relevant Regolamento, are the following:

1. Characteristics: The Plan will regulate the assignment, for free, of Rights (Options) to acquire new IntesaBci Spa ordinary shares. The options will be in the name of the beneficiary, they will be personal and not transferable, except for the case of death of the beneficiary and will not be eligible to be deposited as pledge or guarantee in favour of third parties.
2. Beneficiaries: The Plan will be in favour of “dirigenti” (executives), with a permanent labour contract or with a fixed-term contract (provided it expires at least three years after the Options’ assignment date), with IntesaBci or companies belonging to Gruppo IntesaBci. The Plan may also include employees which are not “dirigenti”, but have roles deemed to be strategic for the purpose of the achievement of Plan’s objectives.

The beneficiaries of the Plan and the number of Options assigned to each one will be identified by the Board of Directors following the proposal made by the Managing Director and Chief Executive Officer of IntesaBci .

The number of options to be assigned to the Managing Director, who is also a “dirigente” of the Company, will be defined by the Board of Directors, following the proposal made by the Compensation Commission (made up of the Chairman, one Deputy Chairman, one non-executive Director and the Chairman of the Board of Statutory Auditors).

3. Assignment: The Options will be assigned on one occasion within the first quarter of 2003. In the case of employees hired by Group companies after 31st December 2002, the eventual assignment of the Options must be decided upon within 180 days from the beginning of the relationship.
4. Conditions: The Options assigned will refer for one third to each of the fiscal years 2003, 2004 and 2005. The right to subscribe will be recognised conditional upon the achievement of the

performance objectives set for each year (2003 – 2004 – 2005). Such objectives will be linked to the rise in market value and/or return of the Company's ordinary shares, will be identified by the Board of Directors as part of the aforementioned Regolamento and may differ as concerns reference years, number of options and beneficiaries.

Furthermore, the exercise of the Options will be, in general terms and notwithstanding certain special cases which will be provided for in the Regolamento, conditional upon the fact that at the time of exercise of the Option the beneficiary is employed by a company belonging to the Group. The Regolamento will regulate in detail the consequences which will derive from the resolution of the employment contract, envisaging, in particular, that, unexercised option rights for which exercise conditions have occurred, will be subject to decadence in case of resignation or firing for a right cause for employment contracts, while such options will continue to be exercisable in the case of termination of the employment contract due to retirement or death of the beneficiary (in this last case the options will be exercisable by heirs or legatees). Furthermore, the Regolamento will regulate what will happen to the Options in the case of beneficiaries who are employed by a company which was part of Gruppo IntesaBci at the time of assignment, but which no longer belongs to the Group at the time of exercise, and set forth that the beneficiary may keep the Options for which the exercise conditions have already been met.

5. Exercise: The Options will be exercisable, by *tranches*, starting from 2005: according to the terms and conditions indicated in the Regolamento.

Every Option will give the beneficiary the right to subscribe at the price indicated in point 7. below one IntesaBci ordinary share, starting to accrue rights as of 1st January of the year in which the subscription takes place.

Options assigned and not exercised within the expiry date provided for by the Regolamento, will expire and consequently no longer confer any rights to the beneficiary or his/her heirs or legatees.

6. Number of Options: Based on the purposes of the Plan and the fact that it substitutes, in full or in part, bonuses which are currently paid in cash, the proposal entails a maximum number of 100,000,000 Options to be assigned in the period in which the Plan lasts. Consequently 100,000,000 is the maximum number of IntesaBci ordinary shares to be issued to service the exercise of the aforementioned Options.

7. Exercise price: The Options' strike price will be equal to the normal value of the share, that is the arithmetical average of the stock prices struck on the regulated market managed by Borsa

Italiana (MTA) in the period from the date of assignment of the Options (corresponding to the date on which the Board of Directors fixes the number of options and the beneficiaries of the Plan) to the same day of the previous calendar month. In any case, the strike price will be no lower than the nominal value of the shares issued.

The IntesaBci ordinary shares which will be subscribed following the exercise of the options will have the same characteristics as ordinary shares in circulation, will be freely transferable and will not be subject to any restriction.

As concerns provisions contained in Art. 2358 of the Italian Civil Code, it must be noted that no loans, guarantees or other incentives in favour of the beneficiaries of the Plan are envisaged to sustain the subscription of the shares.

Therefore the Board of Directors proposes, after the revocation of the aforementioned resolution made by the Extraordinary Shareholders' Meeting held on 1st March 2001, to delegate the Board of Directors, for a five-year period starting from the date of the resolution, the power to increase share capital one or more times, with the exclusion of pre-emptive rights for existing shareholders pursuant to Art. 2441, par. 8, of the Italian Civil Code, for a maximum amount of 52,000,000.00 euro through the issue of a maximum of 100,000,000 ordinary shares of nominal value 0.52 each, to be offered for subscription to employees of the Company or of subsidiary companies subject to the latter's control.

Furthermore, the proposal envisages to attribute to the Board of Directors all and the widest powers for this purpose, including the preparation of relevant Implementation Regulation of the Plan (which will, among other things, discipline the criteria, the timing and the means of assignment of the options and the newly-issued shares) as well as identify the beneficiaries of the Plan.

Considering the effects illustrated above, we propose to change Art. 5 of the Articles of Association as follows.

**Old Article**

**New Article**

<b><u>Article 5</u></b>	<b><u>Article 5</u></b>
<p>a) Share capital amounts to 3,561,062,849.24 euro, represented by 6,848,197,787 shares with a nominal value of 0.52 euro each, comprising 5,915,707,226 ordinary shares and 932,490,561 non-convertible saving shares.</p> <p>b) The Extraordinary Shareholders' Meeting held on 1st March 2001, pursuant to Art. 2443 of the Italian Civil Code, delegated to the Board of Directors the power to increase share capital, one or more times, within a five-year period, for a maximum amount of 29,954,500.16 euro, via the issue of up to a maximum of 57,604,808 ordinary shares of nominal value 0.52 euro each. The new shares will be offered for subscription to Managing Directors and employees of IntesaBci and Subsidiary companies subject to the latter's control.</p>	<p>Share capital amounts to 3,561,062,849.24 euro, represented by 6,848,197,787 shares with a nominal value of 0.52 euro each, comprising 5,915,707,226 ordinary shares and 932,490,561 non-convertible saving shares.</p> <p>The Extraordinary Shareholders' Meeting held on ... December 2002 pursuant to Art. 2443 of the Italian Civil Code, delegated to the Board of Directors the power to increase share capital, one or more times, within a five-year period, for a maximum amount of 52,000,000.00 euro, via the issue of up to a maximum of 100,000,000 ordinary shares of nominal value 0.52 euro each. The new shares will be offered for subscription to employees of IntesaBci and Subsidiary companies subject to the latter's control.</p>

Milano, 12th November 2002

The Board of Directors