

Financial capital



Financial capital includes funds and profit from operations to create value shared with our stakeholders.

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RESOURCES	ACTIONS AND RESULTS	IMPACT ON STAKEHOLDERS
<p>Direct deposits from the banking business: 394 bn</p> <p>Direct deposits from the insurance business: 144 bn</p> <p>Due to banks: 73 bn</p> <p>Shareholders' equity: 49 bn</p>	<p>Total assets: 725 bn, with liquid assets worth 150 bn</p> <p>Loans to customers: 365 bn</p> <p>Net income: 3.1 bn (2.7 bn in 2015)</p> <p>Net operating income: 16.9 bn</p> <p>Operating margin: 8.3 bn</p> <p>Economic value generated: 15.4 bn</p> <p>Stock Exchange mid-cap: 37 bn</p> <p>Average listed price for the period: 2.22 euro</p>	<p>New medium and long term loans for the real economy: 56 bn</p> <p>New medium and long term loans for social enterprises: ~200 m</p> <p>24,000 Italian companies back to performing loan positions from non-performing loan positions (over 52,000 since 2014)</p> <p>Environmental loans for over 1.7 bn (3.1% of total new loans)</p> <p>Loans for initiatives with a high social impact amounting to 4.6 bn (8.3% of total new loans)</p> <p>Nearly 66,000 renegotiations of mortgage loans to financially vulnerable households for a total residual debt value of approximately 6.2 bn</p> <p>Economic value distributed: 14.1 bn</p> <p>Dividends: 3 bn</p>
	<p>Management of social and environmental risks in lending activities: 14 projects for 2.04 bn screened based on Equator Principles</p> <p>Monitoring of the health and safety of employees</p> <p>Cyber risk management</p> <p>Group brand value, indicatively close to 6 bn</p>	<p>Reduction of social and environmental costs resulting from the financing of potentially harmful activities</p> <p>Minimisation of risk factors for the health and safety of employees: a 4.6% decrease in accidents</p> <p>Number of robberies: 25 (- 59.7% compared to 2015)</p> <p>Blocking of fraudulent transactions amounting to over 31 m</p> <p>The synthetic index of image on the population (IPSOS) shows Intesa Sanpaolo at the top of the banking system, despite the sector's reputational crisis</p>

ECONOMIC AND FINANCIAL PERFORMANCE

In an economic context with moderate growth, the Intesa Sanpaolo Group ended 2016¹ with a net profit of 3.1 billion (+13.6%) recorded in the income statement. This performance was achieved despite considerable expenses paid by the Group relative to banking system stability, comprising ordinary, extraordinary and additional contributions to resolution funds and deposit protection and guarantee schemes, as well as value adjustments of related investments, which overall totalled 820 million (559 million net of taxes). Value adjustments for credit risk went up considerably compared to 2015 (+402 million), due to an increase in hedging. A capital gain of 881 million from the disposal of Setefi and Intesa Sanpaolo Card was also recorded for the year.

Specifically, net operating income amounted to 16.9 billion, down by 1.5% compared to 2015 figures, mainly due to the decrease in net interest and, to a lesser extent, in net commission, and to basically stable results in the insurance segment as well as a better performance in trading and increase in other net operating income. Operating expenses fell slightly compared to the previous year, thanks to effective cost-cutting actions. In relation to the above trends, the operating result fell by 2.3%. Particularly prudent credit adjustments along with an increase in the hedging of non-performing loans, net provisions for risks and value adjustments for other assets decreasing overall and profit on assets held for sale increased gross profit on continuing operations by 8.3%.

As for regulatory capital, customer loans increased (+5% compared to the end of 2015 at 365 billion) as well as direct deposits, in both the banking segment (+5.8% to 394 billion) and insurance (+8.4%, to 144 billion). Indirect deposits were close to 469 billion (basically stable compared to the end of 2015), affected by the downwards trend of share prices that devalued stocks of assets under management and custody. Specifically, assets under management recorded an increase (+11.6 billion), while assets under custody recorded a decrease (-11.1 billion) due to a heightened market volatility.

The persisting headwinds in the macroeconomic environment and the financial markets' volatility require

constant control of the factors enabling the Group to pursue sustainable profitability: high liquidity, funding capacity, low leverage, adequate capital base and prudent asset valuations.

Group liquidity remained high: as at 31 December 2016, both regulatory indicators envisaged by Basel 3 (LCR and NSFR), and adopted as internal liquidity risk measurement metrics, reached a level well above fully phased-in requirements. At the end of the year, Central Banks eligible liquidity reserves came to 150 billion euro (117 billion at the end of December 2015), of which 96 billion, net of the haircut, was unencumbered (78 billion at the end of December 2015). The loan to deposit ratio at the end of 2016, calculated as the ratio of loans to customers to direct deposits from banking business, came to 93%.

In terms of funding, the widespread branch network remains a stable, reliable source: 73% of direct deposits from the banking business come from retail operations (289 billion euro). During the year, over 1.5 billion USD of Tier 2 subordinated bonds, 1.25 billion euro of Additional Tier 1 and 1.25 billion euro of guaranteed bank bonds were placed on the wholesale international market. With particular reference to Additional Tier 1 instruments, a further 1.25 billion euro were placed in January 2017. In June 2016, the Group participated in the first TLTRO II operation for approximately 36 billion euro (against a maximum that may be requested of approximately 57 billion euro) after the repayment in full of the TLTRO I, outstanding at 27.6 billion euro. In September, the Group participated in the second TLTRO II operation for approximately 5 billion euro and in December, it participated in the third operation for 3.5 billion euro. As at 31 December 2016, the Group's participation in the refinancing programme therefore amounted to approximately 45 billion euro.

Intesa Sanpaolo Group leverage (6.3% as at 31 December 2016) remained at top levels recorded in the sector.

The capital base was also high. At the end of December, the total capital ratio stood at 17.0%; the ratio of the Group's tier 1 capital to its total risk-weighted assets (tier 1 ratio) was 13.9%. The ratio of Common Equity Tier 1 (CET1) to risk-weighted assets (Common Equity Tier 1 ratio) stood at 12.7%.

¹ Comments refer to reclassified data published in the 2016 Consolidated Financial Statements of the Intesa Sanpaolo Group. Annual percent changes were calculated based on restated 2015 figures, where necessary, to take into account variations in the scope of consolidation. Amounts are in millions of euro. For additional details or information, see the 2016 Consolidated Financial Statements of the Intesa Sanpaolo Group.

INTESA SANPAOLO STOCK PERFORMANCE

In 2016, the performance of Intesa Sanpaolo ordinary shares mirrored that of banking sector indices, with a drop at the start of the year, until the first ten days of February, followed by a recovery until mid-March and a subsequent downturn, which accelerated sharply at the end of the half year, when the lowest point was reached, to then gradually recover, with a strong rise in December, which brought the shares to record a fall of 21.4% compared to the end of 2015. The price of Intesa Sanpaolo savings shares decreased by 21.2% at the end of 2016 compared to the end of 2015. The discount in relation to ordinary shares at the end of 2016 remained in line with the figure of 8% at the end of 2015.

Intesa Sanpaolo's capitalisation went down to 40.6 billion euro at the end of 2016, from 51.6 billion euro at the end of 2015.

The Board of Directors will submit a proposal to the Shareholders' Meeting to allocate a unit amount of 0.178 euro on ordinary shares and 0.189 euro on savings shares, totalling approximately 3 billion euro.

CALCULATION AND DISTRIBUTION OF ECONOMIC VALUE

Economic value generated is calculated according to instructions from the Italian Banking Association (ABI) and in line with international reference standards. The calculation is made by reclassifying consolidated income statement items recorded in the financial statements, as required by Bank of Italy Circular No. 262. The economic value generated, which in 2016 was 15.4 billion euro, came from net income from financial operations and the insurance business – which therefore takes into account impairment losses on loans and financial assets available for sale – plus realised gains and losses on

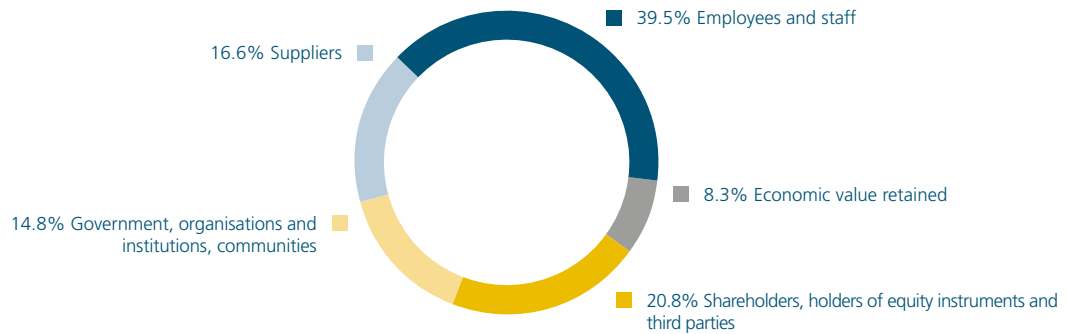
investments and discontinued operations and other operating income. The amount of economic value generated expresses the value of wealth produced, most of which is distributed among stakeholders with whom the Group interacts in various ways on a daily basis. In particular:

- employees and other staff benefited from over 39% of the economic value generated, for a total of 6.1 billion euro. In addition to staff pay, the total also includes payments to the network of financial advisors;
- suppliers received approximately 17% of the economic value generated, for a total of 2.6 billion euro as payment for goods and services;
- government, organisations and institutions recorded a total flow of funds of 2.3 billion euro, equal to around 15% of the economic value generated, over 800 million euro of which referring to taxes on income from continuing operations, almost 900 million euro to indirect taxes and duties, and 578 million to levies and other charges concerning the banking industry, consisting of ordinary and extraordinary contributions to resolution funds and guarantee schemes. There were also numerous social and cultural initiatives and other actions taken to support the charity funds and social and cultural disbursements;
- approximately 21% of the economic value generated was allocated to Shareholders and minority interest, and mainly for the proposed dividend, for a total of 3.2 billion euro.

The remaining amount, of around 1.3 billion euro, was withheld by the corporate system. This refers to deferred tax assets and liabilities, amortisation, depreciation and provisions for risks and charges. Self-financing is considered an investment that other stakeholder categories make each year to maintain efficiency and allow development of the Bank as a whole.

ECONOMIC VALUE	Millions of euro	[%]
ECONOMIC VALUE GENERATED	15,373	100.0
ECONOMIC VALUE DISTRIBUTED	-14,104	91.7
Employees and staff	-6,075	39.5
Suppliers	-2,555	16.6
Government, organisations and institutions, communities	-2,275	14.8
Shareholders, holders of equity instruments and third parties	-3,199	20.8
ECONOMIC VALUE RETAINED	1,269	8.3

Breakdown of 2016 economic value



MANAGEMENT OF BUSINESS RISKS

In 2016, the usual close oversight of risk-acceptance strategies was maintained, which are summarised in the Group's Risk Appetite Framework (RAF), and in particular a specific RAF was defined for credit risk (Credit Risk Appetite Framework - CRA). This identifies areas of growth for loans and areas to control using an approach based on ratings and other predictive statistical indicators, to steer the growth in loans, optimising the management of risks and expected loss. In 2016, the CRA was implemented with credit process restrictions, through the quantification of specific limits that define the maximum risk tolerated for the most risky transactions. The limits identified are approved in the RAF and continually monitored by the Credit Risk Management Head Office Department. In 2016 a project launched in 2015 continued, identifying qualitative information such as success factors for SMEs (sector, innovation, certification, patents, brands, training, awarding legal ratings etc.), their competitive positioning (performance, sales trend, etc.), aspects connected to the presence of risks, investment policies adopted and forecasts, and membership of networks and supply chains.

These factors were identified by internal entities of the Bank (Risk Management, Credit and Marketing) and are currently being examined by the European Central Bank to be included, with full entitlement, in the new rating model which will have an impact on both credit granting and pricing procedures.

In line with Supervisory provisions, the systematic monitoring of Significant Transactions was introduced in 2014, and namely of transactions that may result in a potential significant change in the Group's risk profile. These include: acquisition or disposal extraordinary transactions which significantly alter the scope of Group risks, with a potential impact on the overall risk profile as defined in the Risk Appetite Framework (RAF); transactions that have an impact on specific risks identified in the RAF and any other transactions specifically characterised by

the presence of potential risks which cannot be regularly quantified ex ante, or because of the high risk relating to each individual transaction (e.g. renegotiation or credit restructuring transactions).

CERTIFICATION OF SOCIAL RESPONSIBILITY GOVERNANCE

The Code of Ethics, which sets out voluntary commitments for managing relations with all entities both in and outside the Group, is the regulatory tool that includes social and environmental issues in company processes, practices and decisions. The Code specifically provides the basis for company culture and reference values for the conduct to adopt with stakeholders and is therefore a document that follows developments in the Bank's operating context, guaranteeing the utmost transparency and consistency in relationships of trust with stakeholders. The Code of Ethics was revised, with approval given in December 2016 by the Board of Directors. The revision concerned the corporate governance model and:

- customer relations, also as regards financial inclusion and project finance, specifying the standards and guidelines adopted;
- supplier relations, with information about awareness of sustainability issues and equality;
- relations with the community, with information about empowering, safeguarding and promoting historic, artistic and cultural heritage.

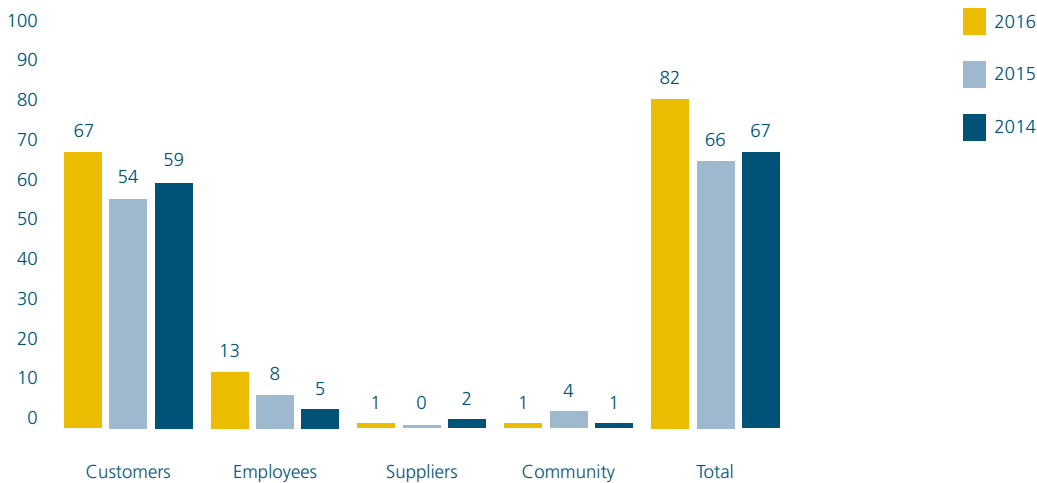
The revision also indicated the model implementing the Code, clarifying the role of the CSR Sub-Department in activities implementing and governing the Code, with specific reference to monitoring the consistency of company decisions and involvement in developing actions to disseminate a culture of sustainability. In this framework, the Sustainability Report provides an overview of the consistency of actions in relation to the Code's principles.

Compliance with the principles and values in the Code of Ethics is also monitored with the assistance of the Internal Auditing Head Office Department, to report annually to the Management Control Committee and Supervisory Authority pursuant to Legislative Decree No. 231/2001. The Compliance and Auditing functions monitor activities concerning the Bank's ethical and social responsibility commitments. The process to monitor the Code of Ethics – integrated with Sustainability Report management processes – includes an audit and relative certification by an independent body on the level of implementation of the Code's principles within the Group, pursuant to the principles

and contents in the Guidelines as of ISO 26000. The certification indicates the methodology adopted and results, separately assessing activities concerning respect for human rights.

As regards alleged infringements of the Code of Ethics, based on provisions in the Code and in company regulations, the CSR Sub-Department receives, processes and checks complaints which may be sent by any stakeholder, and then replies, together with the units involved, guaranteeing that persons reporting information are protected from any type of retaliation, discrimination or penalisation and ensuring the utmost confidentiality, save for legal obligations.

Reports of non-compliance with the Code of Ethics



In 2016, 82 reports of non-compliance with the Code of Ethics were received: 70 refer to Italy and 12 abroad. The total number of reports increased from the previous year, due to the complex ongoing economic situation and stakeholders' new awareness of engagement with the Bank. Most of the reports (67) were from customers. A recurrent theme is the accessibility of branches and services (10 reports), and in particular new problems due to the ageing of the population in relation to new technologies. Moreover, responsible conduct in credit management, in the case of particularly delicate situations, was also an issue that was raised (17 reports). In this regard, the Proactive Credit Unit reviewed seven reports with a positive outcome for four customers in particular difficulty. First-time reports from customers who have immigrated (5 reports) suggest the need for the Bank to adopt new approaches more focussed on cultural diversity. As regards information reported about people, two reports were received from trade unions

concerning alleged pressure on branch personnel to achieve business results. One report concerned the smoking ban on company premises, with new signs and procedures now in place. Issues concerning non-discrimination were carefully monitored.

As part of a global campaign, numerous complaints were received about Intesa Sanpaolo's involvement in project finance in the pool of banks funding the DAPL (Dakota Access Pipeline): this pipeline will transport crude oil in the United States, from North Dakota to Texas, and is opposed by the Standing Rock Sioux Tribe. The funding was screened using Equator Principles and given an A risk rating (see the website [\[i\]](#)).

REPUTATIONAL RISK ASSESSMENT AND MANAGEMENT

Considering the increased awareness of business ethics and growing interest of investors in the measurement of intangible assets, Intesa Sanpaolo has developed a model to manage its reputation, with a view to preventing and minimising potential negative effects.

Intesa Sanpaolo's reputational risk governance model has a strategic supervisory and control function overseen by corporate bodies and in particular by the Risks Committee which is on the Board of Directors.

The reputational risk management system is based, on the one hand, on systematic and independent monitoring by company entities with specific duties to protect reputation, and on the other hand, on a Reputational Risk Management process steered by the Enterprise Risk Management Head Office Department – in agreement with the Chief Compliance Officer as regards non-compliance risks.

With reference to the Reputational Risk Management process, the main evidence provided by company functions can be used to identify and define the main risk scenarios the Group is exposed to, which are assessed by company management to identify, where necessary, adequate communication strategies and specific mitigation actions.

In particular, this processes uses the outcomes and findings from: compliance risk management activities, internal and external communication, monitoring of anti-trust regulations, investor and rating agency relations, stakeholder engagement and materiality analysis as part of Sustainability Report management processes, as well as monitoring of the adoption of the Code of Ethics (see the sections: "Relations with stakeholders: engagement" and "Certification of social responsibility governance").

VALUE OF THE BRAND

In the banking sector, where products and services are intangible, the image and reputation of a bank have a great importance in influencing decisions and perceptions of consumers. Aware of the fact that the brand is a major strategic asset, Intesa Sanpaolo is always focused on the measurement, enhancement and protection of the image and reputation of its brand.

For this reason, Intesa Sanpaolo has been involved for several years in an observatory on the Group's brand, to assess developments over time, in view of the social/political/economic framework and reference sector.

In 2016, in a highly unstable climate in the banking industry, Intesa Sanpaolo stood out for its solidity and financial strength. The synthetic score of its image on the population, constructed by Ipsos based on 26 issues, ranked it at the top of the banking system and well above the average for market image.

The brand, as a corporate asset, is also economically quantified each year by the Bank's internal bodies in order to measure its value. To this end, an average of three important international estimation models is used: Brand Finance, Hirose and Royalty Relief. This value is also compared with synthetic brand equity indices calculated by leading research institutions based on: visibility, image and ability to attract new customers. Special attention was also paid to monitoring online image, where network engagement platforms can identify discussion volumes, main sources of discussion, as well as the issues and mood/sentiment of these conversations. In 2016, Intesa Sanpaolo retained its position as the third most talked about brand, with top ranking for conversations about customer communication and services. Intesa Sanpaolo is increasingly active on social media, with Facebook taking the lead for the number of followers.

Aware that every contact with the brand is a chance to shape the Company's image, the effects of sponsorship and cultural activities on image and reputation are monitored.

The successful sponsorship of Expo, centred on sharing experiences and emotions, encouraged the Bank to continue its involvement in art, creativity, projects, ideas, history and music. In this context, the Bank made a novel and innovative decision to be a main sponsor of X Factor 2016. Post-sponsorship surveys showed positive outcomes about image and reputation from people who remembered the sponsorship, compared to those who didn't. The sponsorship was effective in assisting brand positioning and increasing brand consideration, above all among younger people. Trust in the brand went up by 29% among people watching the programme on tv.

VALUE OF THE INTESA SANPAOLO BRAND

Considering Brand Finance assessments and adopting internal models based on the Hirose and Royalty Relief methods, a value close to 6 billion euro can be attributed to the Intesa Sanpaolo Group brand (considered as indicative), based on 2016 data. This figure is slightly up on the previous year, in a context where the perception of brand value of main competitors decreased.

MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS IN LOANS

Considering environmental and social risk in loan management is required not only for large-scale projects screened using Equator Principles, but also for the transactions of some types of Bank customers, most exposed to these risks.

To identify the most effective procedures to assess social/environmental risks associated with the activities of business customers, the rating assessment model already includes a specific questionnaire on company exposure to these risks.

During 2016, activities already adopted in 2015 to assess environmental risk were completed. In particular, the questionnaire on environmental risks to give to customers was revised and the target group of business customers was analysed, using criteria relating to their relative economic segments and size.

During the test stage, a defined sample of customers will be requested to compile and sign this questionnaire. The data obtained will be used by the Bank, along with the other qualitative and quantitative information, in the overall assessment of the credit worthiness rating of the customer/applicant and included in the loan granting process. Based on test results, procedures for adopting the process on a larger scale will be evaluated.

In September 2016, Intesa Sanpaolo signed an agreement with the Christian Union of Business Executives (UCID), with the aim of promoting the personal commitment of businessmen and women to adopting virtuous behaviour for the common good of all stakeholders. According to the agreement, Intesa Sanpaolo will take into account qualitative information processed by the GRSI® model when assessing the credit rating of companies which are members of the UCID. The GRSI® model measures the degree of social and environmental risk of a business and correlates that risk with the company's competitive strength and ability to create economic value, through safeguarding social and environmental aspects of management, in relation to a reference benchmark.

THE EQUATOR PRINCIPLES

The evaluation and management of social and environmental risks is fundamental in the case of loans for large industrial and infrastructural projects.

The Equator Principles (EPs or Principles) are international guidelines for banks that adopt them on a voluntary basis in managing risks arising from project financing. Applying these Principles in a structured, integrated manner in a bank's operations also allows emerging risks to be managed in countries that are vulnerable from a social and environmental viewpoint and in sensitive sectors.

The Principles, based on criteria of the World Bank's International Finance Corporation (Performance Standards) concern: assessing social and environmental

impact in projects to finance; protecting workers' rights; preventing pollution and promoting energy efficiency; risks to the health and safety of communities in countries where activities are carried out; consulting populations concerned and protecting their rights; safeguarding biodiversity and the sustainable management of natural resources; preserving cultural heritage.

The EPs envisage the assignment of a risk category to projects to finance (A indicates a high level of risk, B medium, C low), based on variables such as the socio-environmental characteristics of the country, the industrial sector and characteristics of the project in question.

The scope of the Principles includes the technical form of Project Finance and business loans, if earmarked for the development of a specific project; the EPs apply to the two forms of loans, if above the threshold of 10 and 100 million USD respectively.

The social and environmental risk assessment process according to the Equator Principles

Intesa Sanpaolo's "Operating Guidelines for implementing the Equator Principles" are included in the Group's credit policies, in order to identify, from the application stage, all loans covered by the scope of the EPs.

The Guidelines require higher-risk projects, and medium-risk projects if necessary, to be assessed by an independent advisor who identifies the main social and environmental impacts. The independent assessment (due diligence) provides suggestions and recommendations in the event that the work performed has to be integrated with in-depth studies or mitigation measures to ensure that the project meets the requirements of international standards.

Mitigation actions requested are included in contract requirements and monitored with a frequency based on the level of risk identified.

Customers are required to submit regular reports demonstrating implementation of the mitigation measures required by the Bank and which may also be verified by on-site inspections. In the event of non-compliance with the agreed conditions, the Bank may take appropriate measures, to be evaluated on a case-by-case basis.

Part of the assessment process also envisages the involvement of local communities, in order to understand possible social impact and identify further mitigation measures. In fact, the Equator Principles imply an ongoing relationship with stakeholders, from the design phase and throughout the entire project, via stakeholder engagement and a process to manage complaints (grievance mechanisms).

Participation in the international debate

Adoption of the Equator Principles also means participation in the association activities and the international debate conducted by the EP Association. Once again, in 2016 Intesa Sanpaolo participated in

annual events dedicated to members and in conferences with other member banks, and also meetings with our stakeholders – mainly the IFC, NGOs and the industry business associations. Lastly, the Bank continued to make its contribution to discussions on the issue of biodiversity, as part of the specific Work Group created in 2013 (Cross Sector Biodiversity Initiative).

Projects completed in 2016

Since 2007, 315 loans have been screened based on the Equator Principles with financial closure, of which 14 in 2016.

In 2016, the amount agreed for projects following the Equator Principles assessment process, totalled 2.04 billion euro, equal to approximately 10% of the total amount agreed for loans in the scope of the Principles¹. This scope includes all Intesa Sanpaolo entities involved in project finance to which the Principles are applicable, in Italy and abroad, and three international banks: VÚB Banka, Privredna Banka Zagreb and Alexbank.

The table below shows the number of projects that were financially closed in 2016, with breakdown by category.

	Total	Category A	Category B	Category C
Project finance	11	4	6	1
Business loans associated with projects	3	2	1	-

CONTROVERSIAL SECTORS

Banks are required by numerous entities and organisations to make responsible financial management choices in controversial sectors such as armaments, nuclear energy, and fossil fuel extraction. In particular, specialist NGOs, groups from civil society and customers are increasingly involved in pressure and awareness campaigns targeting Banks' decisions.

Intesa Sanpaolo is aware of the importance of correctly and responsibly managing funding, according to social and environmental sustainability criteria, and focuses specifically on the in-depth study of issues associated with the most sensitive sectors. In recent years studies on the coal, waste-to-energy and water industries have been conducted and circulated within the Group.

Among the sensitive sectors monitored by the Bank, the production and trade of military weapons is of particular importance and is governed by an internal policy.

Group rules on transactions in the armaments industry ban any type of banking or financing activities connected with the production and/or trade of controversial weapons and/or weapons banned by international treaties and in particular: nuclear, biological and chemical weapons; cluster bombs and munitions;

weapons containing depleted uranium; AP mines.

Save for the above ban, transactions and financing relative to the production, domestic sales/purchases, imports, exports, EU transfers and the transaction of armament material used on a permanent basis by the armed forces and relative entities, as well as by local police forces, are permitted: a) in and between countries within the European Union and NATO; b) regardless of the country of production and / or origin of the weapons, if the end user is a Ministry, an Italian Governmental Authority, the Italian armed forces or police. Any exceptions shall be authorised by the Managing Director and CEO.

In 2016, the total number of transactions reported to the Ministry of Economy and Finance, referring to loan disbursements and payments amounted to 408 million euro.

A project is underway to produce a self-regulation policy for financing in sensitive sectors, starting from the coal and oil & gas industries.

HEALTH AND SAFETY RISK MANAGEMENT

In compliance with regulations in force and with the most important national standards, Intesa Sanpaolo adopted an Occupational Health and Safety Management System, identifying within its organizational structure, responsibilities, procedures, processes and resources for implementing the corporate policy on the protection of employees. Risks to the health and safety of employees are evaluated according to a multidisciplinary approach, considering the combined effect of the environment, processes and equipment with the subjective conditions of workers.

Constant workplace monitoring, the reporting of risks, accidents and incidents and the annual programme for risk mitigation allowed the Risk Assessment Report be kept up to date and available to all employees.

The risk management process adopted at Group sites, in close association with relevant company functions, made it possible to reduce risks overall. As in previous years, measures adopted in 2016 led to a reduction of around 20% in critical factors.

In relation to the new branch concept, the Safety Department evaluated the impact of solutions adopted, in terms of employee health and safety. In particular, issues connected with environmental factors and namely the microclimate, lighting and noise, as well as the ergonomics of new workstations, were assessed. The assessment process continued with the on-site evaluation of pilot branches in Milan, Rome and Turin, using highly specialized personnel. The assessment of ergonomics checked compliance with regulations. A questionnaire on staff's perception of the ergonomics of workstations was also given out at pilot branches. Compliance with microclimate requirements was also assessed through environmental monitoring at the pilot branches.

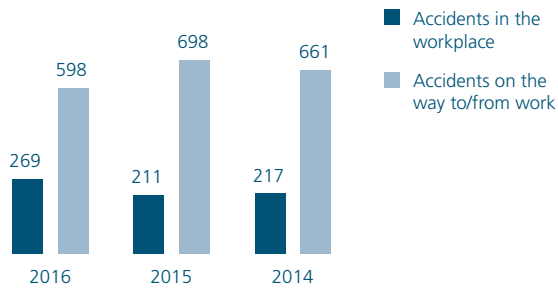
This approach made it possible to turn evidence into

¹ The percentage only refers to project finance transactions, excluding project related corporate loans.

concrete proposals for improvement, which in turn were shared with the working group and in particular with the department in charge of property planning. Identified solutions have been adopted at the new concept branches being developed.

The same level of involvement and assessments took place starting from the last quarter of 2016 for the “New Office Concept for Governance Entities” project, which the Company has launched to trial innovative layouts, for management areas as well.

Accidents



Assessment of work-related stress risk

To mitigate work-related stress risk arising from critical areas identified during assessment activities, specific measures were defined in 2016 (summarised in the Risk Assessment Report), by context and work content, referring also to agreements signed in October 2015 by Intesa Sanpaolo and trade union organisations. During the year, the effectiveness of measures taken for critical aspects identified during the in-depth assessment, was analysed.

A specialist from the Department of Clinical and Community Science, Milan University, conducted 5 control Focus groups involving 43 colleagues, to further investigate the changes perceived by these people during the year, following measures adopted by the company after the agreements were signed.

As regards Online Branches, and as part of activities to revise the stress risk assessment, the Bank decided to repeat the in-depth assessment stage using specific questionnaires produced by Clinica del Lavoro di Milano Luigi Devoto – a centre specialising in occupational medicine (which oversaw the first assessment), as well as the subsequent focus groups held by psychologists from this centre. Activities already involved the Lecce and Milan offices in 2016, with a total of 6 focus groups, and 2017 planning is now underway. One of the objectives is to check the effectiveness of measures adopted by the Bank in terms of a greater variety of work duties, greater opportunities for professional growth, the possibility to change entity, switching from the Online Branch to retail branches and vice versa, improved environmental comfort, with a review of office layouts and the use of relaxation areas.

Regarding the overall assessment concerning work-related stress situations at the Intesa Sanpaolo Group and in order to identify any mitigation measures, the

results of the epidemiological report of the last three years were taken into account. This report documents the general health of more than thirteen thousand employees (in 2016 alone, company-appointed doctors performed more than 6,000 health inspections and in 98% of cases these inspections were completed with a fit for work rating and in 2% of cases the fit for work rating was pending).

Working safely

With regard to the protection of employees and customers by taking action to prevent branch robberies and manage employees in emergency situations, personal protection continued to be the key principle behind all initiatives undertaken to protect branches from the risk of robbery. A number of activities were carried out for the systematic prevention of risks and the mitigation of existing and potential vulnerabilities, through the consolidation and innovation of technological security measures, plus the development of information tools and a culture of integrated security as well as the publication of operating procedures.

The analysis of robbery risk at branches continued: following improvements to security systems already in place, the level of protection at high risk sites and specific branches was followed up.

Robberies have been on the decrease for several years now. In 2016, the number of “professional” robberies (that produce the greatest impact in economic terms and on staff) went down.

Prevention activities already adopted with specific action plans to modernise branch security systems (with particular attention paid to branches with safety deposits and security boxes), and a plan to replace security guard services with technological services, helped to achieve results that met expectations.

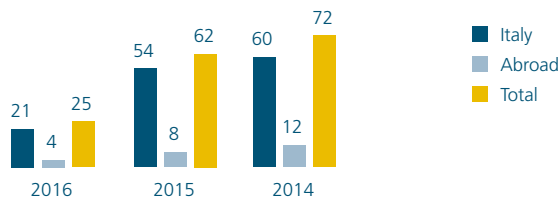
As part of the “post-robbery support” programme, 63 specialist sessions were held by qualified doctors and psychologists from Milan University, involving around 200 members of staff. Initial counselling was held, with “debriefing techniques”¹ i.e. understanding what happened, what worked and what did not, and managing the potential trauma of personnel; a second “follow-up” stage then took place to assess the re-stabilisation of pre-event emotional and psychological conditions. Since 2016, medical assistance has been provided in the case of all attempted or actual robberies, regardless of their severity. The psychological support programme was also extended to cases where colleagues have been attacked, as well as for natural disasters, such as the recent earthquakes in Italy.

Activities continued to implement the database prepared in 2015 on information about personnel involved in robberies, also in the case of relocation to other branches, to identify and pay particular attention to victims of several robberies, planning tailor-made support and focussing in particular on

¹ Psychological/clinical intervention to eliminate or alleviate the emotional consequences of an emergency situation.

situations that could more easily turn into post-trauma stress disorder. For very severe cases, because of injury or severe involvement by employees, specialist psychologists from Milan University are called in immediately to provide an even more structured support programme. In all cases, the local company-appointed doctor is available to assist requesting employees, with medical examinations to assess if they are fit for work, following the traumatic event.

Number of robberies



During 2016, the security information programme continued, with domestic network updates, classroom courses and online training sessions, as well as the alignment of contents with new risks.

In managing events related to natural disasters and crisis events, activities to maintain and consolidate oversight, business continuity solutions and crisis management mechanisms confirmed their effectiveness, allowing for service continuity and customer and staff protection. As regards specific aspects of business continuity, activities continued to expand the model to include Banks and Group Companies. In particular, the new Group Business Continuity Management (BCM) model, aligned with requirements of the Bank of Italy Circular of 285/13 which requires an extensive approach to defining organisational and business continuity measures commensurate with risk levels was extended to include international banks. In keeping with projects started in 2015, training workshops were held for BCM officers from all international banks.

IT RISK PREVENTION

For the Group's Italian banks and for some of its international banks, Intesa Sanpaolo has activated an anti-fraud system that analyses all transactions carried out via Internet Banking in real time and identifies those considered questionable. Alerted transactions are verified at a central level by a specialist team that checks the truthfulness and accuracy, directly contacting customers and unknown transactions are revoked. If the customer cannot be contacted by telephone, the branch is notified immediately in order to find another

contact method. In the event of ascertainable fraud or fraud attempt, the customer is also assisted in filing a report with the relevant authorities. All customers are informed about the rules of conduct for a proper and safe use of online tools (e.g., updated anti-virus software, detection of phishing emails, correct use of personal codes, etc.). A section on the company intranet has been set up, to promptly inform branches about new phishing campaigns.

Constant monitoring of fraud resulted in the blocking of nearly 10 million euro of fraudulent transactions for retail customers and around 21 million euro for corporate customers in 2016.

During 2016, the process to consolidate the Intesa Sanpaolo CERT (Computer Emergency Response Team) was started. The team was appointed as the operating interface for critical cyber events concerning external stakeholders, and as a promoter of cyber security awareness, through specific project actions and cooperation. CERT was involved in initiatives at various levels: in Europe, with involvement in the European Cyber Security Organization (ECSO); at a financial industry level, with a proactive and key role in setting up the sector CERT (CERTfin); with the Postal Police forces; at a national level, supporting the adoption of the National Cyber Security Framework for its own supplier chain.

The Group CERT is also active on various fronts, including participation in Cyber Threat Intelligence (FS-ISAC, BitSight, Recorded Future) services, internal infosharing services (Banks and Group Companies) and external infosharing services (national CERT, CERTFin, other CERTs) and reporting to supervisory authorities in the case of serious IT security incidents.

During the year, projects/activities for the forward-looking definition of policies and processes to internally manage cyber security were focussed on in particular. For example, the 2016/2017 Cyber Security Programme was launched, which aims to increase Group maturity through a more efficient and effective management of threats and to consolidate expertise and structures necessary to mitigate risk from cyber attacks. Activities to analyse the management of citizens' digital identity, which are a part of the government's digital agenda (SPID), continued, as well as activities on cryptocurrencies.

As in previous years, the Bank remained committed to obtaining and maintaining independent certification of its own security and business continuity activities as a guarantee of the quality and adequate monitoring of the services it provides [1].

SUPPORT FOR THE BUSINESS SYSTEM

In keeping with the 2014-2017 Business Plan, Intesa Sanpaolo continued to support the development of the “real” economy and communities where the Group operates.

In 2016 Sanpaolo granted new medium/long term loans to the real economy for approximately 56 billion euro (48 billion in Italy, up by 16% compared to 2015). Of this total amount, 40 billion (up by 19% compared to 2015) comprised loans for households and SMEs.

Information from the Intesa Sanpaolo network represents a unique source of data about local economies and the Research Department prepared an internal survey for managers of Banca dei Territori Division businesses to give their opinions on the economic situation: albeit with considerable differences among segments and geographic areas, the businesses rated economic recovery and an approach that was only moderately in favour of investments, due to uncertainty and bureaucracy.

To support growth and benefit the business community, actions targeted credit access and support for customers still in difficulty (Proactive Credit, agreements at an ABI and Confidi level to facilitate access to loans and the renegotiation of mortgages), a reduction in loan disbursement times, micro-businesses (self-employment, young entrepreneurship), the development of SME production chains, industry agreements (with Confindustria, Confcommercio, Confagricoltura and Coldiretti), activities serving the Third sector, the disbursement of loans along with international banks for investment projects (EIB, EBRD and others), training and the promotion of new forms of entrepreneurship (women in business, businesses managed by people from non-EU countries), loans and services for businesses investing in internationalisation and innovation.

CREDIT ACCESS AND SUPPORT FOR CUSTOMERS IN DIFFICULTY

The adoption in full of Proactive Credit management processes, to assist customers in potential difficulty, made it possible to promptly identify the first signs of tension so that 24,000 Italian companies could return to a performing loan position (over 52,000 since 2014) from a non-performing loan position in 2016 (use equal to 1,673 million euro).

The “2015 credit agreement”, signed on 31 March 2015 by ABI and main trade associations and in effect since 31 December 2017, includes targeted initiatives to access loans, for:

- recovering companies, with the possibility for all SMEs “in good standing” to suspend principal payments on their loans for a maximum of twelve months and

extend the amortisation schedules of their mortgages and due dates of their short-term loans and credit for farm activities;

- developing companies, in support of the entrepreneurial projects of SMEs;
- companies and the Public Administration, for the factoring of companies' claims on the Public Administration.

Overall, transactions suspended in 2016 numbered 1,541 for a total residual debt of 725 million and 90 million euro in deferred debt. For the extensions, accepted applications were 136 for a total residual/deferred debt of 47 million, while recapitalisation loans were 36 for a total amount of 8 million. In 2016, Intesa Sanpaolo disbursed 582 loans through the “Imprese in sviluppo” (Business Development) initiative, for 222 million euro. The factoring of companies' claims on the Public Administration resulted in 46 loans for 1.3 million euro.

Intesa Sanpaolo cooperates with major Confidi organisations that issue guarantees (with 50% coverage on average) in favour of the Bank, facilitating businesses' access to short, medium and long term financing for business and production activities. Agreements with Confidi organisations (particularly for the use of the Guarantee Fund pursuant to Law No. 662/96, which provides for operational development against a State guarantee, with a reduction in capital absorption for Banks and Confidi), had a beneficial impact in terms of price and/or the higher number of loans disbursed. In 2016, 14,400 loans guaranteed by Confidi were granted for a total of over one billion euro.

Since 2013, Intesa Sanpaolo has adopted specific processes and procedures for loan renegotiation, which enable SMEs in temporary financial difficulty

to renegotiate loans, facilitating the sustainability of financing by extending the duration of the repayment plan for residual debt, so that repayments can be based on actual available cash flows. This allows for the prompt monitoring of positions which, despite being affected by temporary financial difficulties, show solid prospects of positive development.

During 2016, loans with payment arrears were renegotiated for over 2,500 Corporate customers and Retail Companies. In addition, 263 lease agreements for Corporate customers and 175 for Retail Companies were reviewed.

The adoption of new credit management processes made it possible to reduce net flows from performing to non-performing positions to 3.1 billion (down by 46% compared to 5.7 billion in 2015).

REDUCTION IN DISBURSEMENT TIMES

The reduction in disbursement times is important to facilitate credit access: a Mediocredito Italiano project, which covers all product ranges (medium/long term loans, leasing and factoring) was adopted, with a monitoring system for disbursement times, the digitalisation of documents and formalities from the Sales Function to the Credit Function and the introduction of a pre-assessment stage, to speed up the assessment process relative to real estate. Average disbursement times were shorter, compared to 2015, decreasing from 23 to 17.7 days for MLT loans; from 25.2 to 23.9 days for leasing and from 17.2 to 16.6 days for factoring.

A FOCUS ON MICRO-BUSINESSES

The “Finanziamento Microcredito imprenditoriale” (Entrepreneurship Micro-Credit Loan) is for young people and micro-businesses to help them start up new business activities or invest in growth projects, with the chance for borrowers without necessary economic and capital guarantees to access credit also without collateral. This is possible thanks to a special part of the Guarantee Fund for SMEs set up by the supplementary decree of the Ministry for Economic Development on 18 March 2015.

The loan is to finance the start-up or development of self-employment or micro-businesses or to promote the inclusion of people on the labour market. With a maximum duration of 7 years and maximum amount of 25,000 euro, the loan can be used for purchasing assets (including commodities), or services for activities carried out (including lease payments), paying salaries of new employees or partner staff and paying for training courses to improve professional, technical and managerial skills.

Borrowers can also benefit from additional assistance and monitoring services free of charge: before the loan is granted (support for preparing the business plan and assessing project feasibility) and after the loan has been granted (analysing solutions for improvements and consistency in relation to the business plan). 388 loans for 8.1 million euro were disbursed in 2016.

Production Chain Development

The Italian business system is wide-ranging and extensive comprising small and medium-sized businesses operating in production systems with very strong links to the local area.

Intesa Sanpaolo considers this particular aspect of the Italian system as a great opportunity for the growth of numerous manufacturing companies that excel, thanks to the “Production Chain Programme” – a new and innovative model of cooperation between the bank and businesses, based on three areas:

- investments, with loans offered at special conditions and training for participating companies;
- innovation, with new criteria for access to credit, including the identification of the industrial production chain and signing of a specific contract – the production chain agreement – with the lead company;
- a new approach to granting loans, with the formalisation of the production chain, and a risk assessment that takes account of qualitative elements, the establishment of a production chain limit, and tailor-made commercial offerings dedicated to both companies and their employees.

The “Production Chain Programme” enables businesses to improve credit access conditions, with investments in industrial supply chains and a risk assessment which chiefly considers quality factors. Programme uptake was considerable, with 377 company customers involved as Lead Production Companies at the end of 2016.

The Programme offers considerable potential for production growth: besides developing contracts with lead production companies, over 15 thousand suppliers may be involved overall, for a turnover of more than 64 billion euro and a workforce in excess of 80 thousand employees.

Lead production companies are distributed in 16 regions in Italy, covering all other regions in Italy with their supply chains: the three regions with the highest level of representation are Lombardy, Emilia Romagna and Piedmont.

The production chains are operative in 21 business segments. The main sectors involved are the food and agricultural industry (27% of production chains), the mechanical and engineering industries (24%) and the

fashion industry (12%), followed by furnishing, the chemical industry and electrical engineering industry. As part of the programme, Mediocredito Italiano tested the new “Conforming” product in 2016, which is an evolved type of indirect factoring for lead production companies, with a more efficient management of trade payables and payments to production systems and credit access procedures/conditions that are particularly favourable for suppliers.

SPECIFIC SUPPORT FOR BUSINESS GROWTH

The Intesa Sanpaolo Group consolidated important agreements with trade associations to support business growth.

Cooperation with Confindustria Piccola Industria continued. The agreement “Una crescita possibile” (“A possible growth”) was extended to include new areas added such as company welfare and capital market access for SMEs, along with financial benefits for investing companies.

The government's proposed 2016 Stability Law included a “Package for Businesses” with a number of benefits and tax relief measures. Tax relief up to 140% of the value of capital goods will be granted (“invest 100 and deduct 140”) immediately for taxpayers making investments. In 2016, Intesa Sanpaolo assisted companies wishing to make investments, offering a combined medium/long term loan (maximum duration of 5 years, including prepayment up to 2 years) and a short term credit line to support current assets, provided as an advance on trade receivables generated by company growth with the investment made (up to a maximum of 40% of the amount invested).

An agreement was also renewed with Confindustria Piccola Industria in November 2016 (the sixth since 2009) for the 2017-2019 period, with the shared aim of repositioning the industrial system in a central role in the country's development. The agreement, called “Progettare il futuro. Accelerazione, trasformazione digitale, competitività” (Planning the future. Acceleration, digital transformation, competitiveness) has earmarked 90 billion for companies to lever opportunities of the “fourth industrial revolution” to digitalise the production system.

The agreement focuses on the following areas:

- financing growth, accelerating company investments, through the use of a new rating model (that considers intangible assets along with purely financial and economic factors of individual companies), and targeted MLT solutions;
- empowering human capital in companies, with training, the inclusion of young people in production (alternating school/work) and offering company welfare solutions;
- consolidating business integration and creating ecosystems or networks among companies;

- creating a digital platform – the Tech-marketplace – to support internationalisation and some important Italian sectors such as tourism and artistic/cultural heritage (see the section “Intellectual and infrastructure capital”, page 110).
- promoting the creation of new businesses, also through the development of a new model to assess innovative start-ups, women in business and companies run by non-EU citizens.

The agreement signed in December 2016 with Confcommercio shared the objective of supporting the re-qualification and innovation of trading and service companies. Human capital and generational change, support for women and young people in business, e-commerce and POS, valuing Italian manufacturing, loyalty initiatives and training all feature in the agreement.

To support agriculture and food industry companies in Italy, Intesa Sanpaolo and the Ministry of Agricultural, Food and Forestry Policies signed a three-year agreement for cooperation in the food and agricultural sectors, in 2016. The agreement has a three-year limit of 6 billion euro, mainly for promoting and developing Italian production chains, generational change, e-commerce, technological innovation and products. Agreements with main trade associations were also renewed. The “Plafond Creditagri Italia” (Italy Credit Agreement) was renewed with Coldiretti, and a partnership with entered into with Confagricoltura to train members (Enapra), with whom the tender “Social Agriculture” was called. The commitment of international banks to agriculture was significant. Some of the actions taken in 2016 are listed below. Intesa Sanpaolo Bank Romania continued to provide financial support for small and medium-sized agricultural companies during seasonal changes, for young farmers and rural start-ups. Intesa Sanpaolo Bank Albania supported the local agricultural industry with advisory services and loans, and involved around 300 farmers in events and seminars for implementing new financial tools for the sector. Banca Intesa Beograd started the “Agroprotect” project for Serbian farmers.

THE INTERNATIONALISATION OF ENTERPRISES

Intesa Sanpaolo supports all Italian companies in Italy and abroad in internationalisation processes, through dedicated structures, loans and trade and cash management products available in Italy and on the international network.

During 2016, 50 events were organised to give participants knowledge of markets and international business dynamics, and companies support for preparing international development plans (identifying qualified advice and assistance, operating support and local services in 84 countries representing the main markets of interest for Italian businesses).

With a view to increasing its size and presence on

global markets, and to promote relations with major international groups, the Corporate and Investment Banking Division underwent a major reorganisation, to increase its specialisation in various sectors (industries) and provide assistance for business expansion abroad, through an international network in over 40 countries with branches and representative offices and coordinated by three hubs in London, New York and Hong Kong. Transaction Banking products were made available, with specific reference to advice and specialist assistance for Cash Management and Trade Finance. These initiatives are geared towards promoting the growth of companies and Italian Groups that are increasingly present on international markets.

PARTNERSHIP FOR BUSINESS INVESTMENTS

To support Italy's real economy, Mediocredito Italiano, which is the sole manager of EIB funds for Banca dei Territori, entered into agreements with the European Investment Bank for loans totalling 850 million euro. At the same time, Mediocredito Italiano committed to providing its own resources, for the same amount, to beneficiary companies, thus increasing the total amount available to support the Italian economic system to up to 1.7 billion euro:

- 600 million is for financing mid-cap business projects in all sectors
- 1 billion is for smaller-scale companies
- 100 million is for the "Italian Risk sharing facility", a joint initiative of the EIB, Italian Ministry for Economic Development (MISE) and Italian Ministry of Economy and Finance (MEF) to support research, development and innovation projects of SMEs.

Mediocredito Italiano also offers "tailor-made" financial solutions for businesses investing in plants producing energy from renewable sources or in energy efficiency processes (see the section "Natural capital", page 119). The Group's international banks are also very active in supporting local production with services and subsidised lending for small businesses and SME customers. Initiatives are often carried out in partnership with multilateral banks for regional development (e.g. The European Bank for Reconstruction and Development) and through local economic development programmes (e.g. The Ledib program for the development of the Balkans) or government funds aimed at ensuring the growth of small businesses and the development of high value-added activities.

Overall, new medium/long term loans for approximately 8 billion euro were disbursed for the real economy at an international level.

TRAINING AND PROMOTING A NEW ENTREPRENEURSHIP

The Research Department investigated the age of entrepreneurs on business performance, in order to analyse the effects in the medium/long term on the competitiveness of the Italian economy.

Conducted on a large number of manufacturing companies, the survey highlighted the considerable prevalence of young people in smaller businesses. These types of companies stand out for their performance (a far higher growth in turnover with fewer sacrifices in terms of margins), and the energy of younger company managers seems to have generated benefits in the recent past. However, the survey also showed that these companies do not have sufficient "key competitive factors" in the current competitive scenario, such as adequate protection of their innovative output through patents or significant recognition through brand policies at an international level.

The development of the "AdottUp" project, which also continued in 2016, meets the need to actively promote a new, quality entrepreneurship.

Intesa Sanpaolo is a strategic partner of this Piccola Industria Confindustria programme for the adoption of start-ups. "AdottUp" turns the best entrepreneurial ideas into sustainable businesses thanks to training provided by established companies which become their "tutors" and guide them in their development.

Intesa Sanpaolo gathers business idea applications, submits them to a joint Committee (Intesa Sanpaolo and Confindustria) which evaluates them, selects them and provides high level training and work areas, and creates the "Vetrina delle migliori idee" (Showcase of the best ideas).

In 2016, loans for a total of 87.6 million euro were granted for 235 start-ups (of which 46.5 million to 48 companies receiving the Nova+ innovation loan).

In 2016, the Intesa Sanpaolo Group business school continued to provide business expertise for customers working on start-ups or ready to launch on the market. "Officine Formative" delivers educational courses through the online acceleration and mentoring platform to support more mature start-ups.

The Skills4Business project continued, with three training programmes in partnership with Confindustria, to assist businesses in developing digital skills.

An important training project "Digital4Export" was organised in partnership with ICE, the Italian Trade Industry, and Confindustria, for companies that want to use digitalisation as a way of transforming and developing their business on international markets.

WOMEN IN BUSINESS

Intesa Sanpaolo supports women in business, in setting up and managing successful businesses, helping them as they build up their expertise.

Women in business have a major role particularly for SMEs (accounting for 13% of total businesses) and especially in the north east of the country. The strategic profile of these companies highlights a greater tendency to serve international markets and focus on marketing and technological innovation. Intesa Sanpaolo has developed an agreement with Confindustria to support women entrepreneurs in creating and managing successful companies, through a systematic growth process that supports them from the outset.

With “Business Gemma”, the Bank has allocated a total of 600 million euro – available until 31 December 2017 – for businesses run by women and for women freelance workers. 450 loans for 15.8 million euro have been disbursed.

The “Business Gemma” loan also offers the chance to freely benefit from the special segment guarantee of the “SMEs Guarantee Fund” dedicated to female businesses and to request, once during the repayment period, up to twelve-month suspension of the instalment repayment of the loan principal amount in the event of maternity leave, serious illness (also of the spouse and children) or disabling illness of a parent, blood relative or relative by marriage up to the third degree who lives with the applicant. “Business Gemma” services also include an insurance policy that offers insurance cover and welfare services to address the problems of achieving a work/life balance. The areas of action envisaged are maternity, assistance, aid and legal protection in times of difficulty of the private life of the business woman and illness. 288 new policies were underwritten during 2016.

In Albania, a total of 200,000 euro was disbursed to fund 6 business women (the project started halfway through 2016); in Serbia, 411 loans were disbursed amounting to 4.6 million euro (575 loans totalling 6.3 million since 2015); in Slovakia, VÚB Banka continued to partner the Business Academy during 2016, with training workshops for women who want to set up their own business (20 participants).

Additional training workshops and mentoring also took place thanks to a partnership with the Impact Hub incubator: more than 300 women were able to hone their technical skills and apply them to developing new business initiatives.

Entrepreneurship among non-EU nationals will be increasingly important for a more inclusive social and economic development (individual companies opened by non-EU citizens in 2015 went up by nearly 23,000, to total over 350,000). Under the agreement signed by Intesa Sanpaolo and Confindustria, initiatives may be identified to carry out jointly to support businesses set up in Italy by non-EU nationals.

FINANCING AND SERVICES FOR COMPANIES INVESTING IN INNOVATION

The Nova+ financing programme continued to support Italian companies investing in innovation and research. Nova+ supplements traditional credit rating analysis with a technical and business assessment of investment plans, conducted by a team of engineers specialised in various product sectors and with in-depth knowledge of technology trends. In this regard, Mediocredito Italiano continued to partner a number of reputable Italian universities which offer their technical and scientific support to assess the technological risk of more complex and ambitious projects.

Overall, nearly 200 projects were financed from 2014 to 2016, for total funding of more than 245 million euro. 48 projects were funded in 2016, for a total of approximately 46.5 million euro.

The decrease in Nova+ loans highlights the difficulties of recent years concerning loan applications for innovation made by Italian companies, at a time when the signs of a recovery in the investments cycle have not yet been consolidated. In 2016, Mediocredito Italiano renewed the Nova+ programme, which will be implemented in 2017 as part of the “Industria 4.0” initiative, to support business investments, also in light of incentives in the 2017 Stability Law, which extend tax relief measures in the 2016 Stability Law.

Initiatives supported by the Group include Rome Med – Mediterranean Dialogues 2016, organised by the Ministry for Foreign Affairs and International Cooperation together with the Italian Institute for International Political Studies. The 2016 edition developed a “positive agenda” for the Mediterranean region based on four fundamental areas (Shared Prosperity, Shared Security, Migration and Civil Society and Culture). Ideas to relaunch economic interaction, promote a broader-ranging regional cooperation and ensure adequate incentives for sustainable development were dedicated to business leaders and civil society and their role in promoting political and economic stability in a region with important opportunities in terms of new commercial possibilities and energy channels.

OFFERING INVESTMENTS BASED ON SUSTAINABILITY CRITERIA

The Intesa Sanpaolo Group's product ranges includes ethical funds made available by Eurizon Capital SGR, the company specialising in asset management for retail and institutional customers, and by Fideuram whose operations target high profile customers.

Ethical funds are mutual investment funds that invest in the financial instruments of issuers (Companies, international organisations and governments), selected based on sustainability and economic/financial performance criteria.

Eurizon capital's "ethical system" and fideuram's ethical funds

Eurizon Capital SGR was the first operator in Italy, from as early on as 1997, to offer ethical funds, i.e. mutual investment funds in financial instruments of issuers (companies, international organisations and governments), with a high social and environmental responsibility profile. These funds envisage clear, well-defined positive and negative selection criteria for the securities to be included in their portfolio (listed in the Prospectus and Fund Management Regulations), a Sustainability Committee (external to and independent from the SGR) and the donation of revenues. The experience gained in managing these products has led to managers fine-tuning their selection criteria over the years and, in 2002, adopting ethical benchmarks in order to provide objective financial measurement of results.

In asset management and the development of sustainable and responsible investment products, Eurizon Capital SGR has confirmed its commitment to activities in line with the Principles for Responsible Investment (PRI) signed in September 2015. The company is also a signatory of the Carbon Disclosure Project.

Eurizon Capital SGR's range of ethical funds is now made up of an equity fund and two bond funds, all registered in Italy. These products have the aim of gradually increasing the value of capital subscribed by implementing an investment policy based on strict ethical principles.

Investments in ethical funds are selected on the basis of positive criteria (inclusive principle) to identify the presence of good social and environmental governance in companies or institutions under analysis and negative (exclusive principle) for those areas of activity considered to be in contrast with the ethical principles asserted by the funds. The "best in class"

principle is also used to identify companies that, in certain markets at risk, stand out for their social-environmental initiatives. Environmental screening is entirely subject to the "best in class" principle, given that all major listed companies have a notable impact on the environment, and this principle facilitates the selection of the most "virtuous" securities.

During 2016, new benchmarks provided by MSCI, one of the first companies at a global level to produce ESG (Environmental, Social, Governance) indexes and research, were added to the Ethical System. At the same time, the asset management company introduced an additional research service focussed on environmental, social and governance (ESG) issues supplied by MSCI ESG. The adoption of these criteria led to a change in the investable universe, and consequently the inclusion or exclusion of certain issuing bodies from the fund portfolio. The reasons for inclusion cover: programmes to reduce greenhouse gases, the protection of biodiversity, the use of clean technologies, the involvement of suppliers and protection of minorities in the workforce; the reasons for exclusion include involvement in the arms sector, the breach of anti-trust rules, accounting fraud and discrimination in the granting of loans.

In 2016 Eurizon Capital SGR supported its own institutional customers through the management of assets with ESG criteria, providing assistance in choosing from available solutions and according to the expectations, needs and awareness of these issues of each customer. Eurizon manages seven institutional mandates with various ESG approaches for approximately 870 million euro.

During the year, a new fund was launched – Eurizon Flessibile Azionario – which incorporates environmental, social and governance issues in the process to select issuers to invest in.

Besides the ethical funds of Eurizon Capital SGR for retail and institutional customers, the Intesa Sanpaolo Group offers ethical funds managed by Fideuram, the company serving high-profile customers.

In 2016, Eurizon Capital SGR invested approximately 900 million euro (1.3% of total funds managed by Eurizon Capital) in ethical funds. For Fideuram, segment capital at the end of 2016 amounted to around 40 million euro.

FONDITALIA ETHICAL INVESTMENT

Fonditalia Ethical Investment is the new socially responsible investment solution of Fideuram which integrates income objectives with financial sustainability and social value aspects. The sub-fund invests in the bonds of those States that stand out for their special focus on social and environmental issues, in bonds issued by Supranational Bodies in favour of developing economies and in funds specialised in micro-finance, fair trade funds, equity funds and shares with a positive impact at social and/or environmental level.

An Ethics Committee comprising managers, qualified experts from academic communities and professionals with proven experience in the field, provides opinions, where required, on the ethics of investments.

A further element characterising the ethics behind the sub-fund is its commitment to supporting scientific research, through the placement of share units and through a donation in favour of the Italian Association for Multiple Sclerosis, AISM, and its Foundation (FISM), of an amount which is proportional to fund fees.

SHARE OWNERSHIP

Eurizon Capital SGR was one of the first companies to sign the Italian Stewardship Principles to exercise administrative and voting rights in the listed companies in which it has invested. During 2016, it monitored the most significant corporate events relating to financial instruments in its portfolio and focused on governance with the companies it invests in. Eurizon Capital SGR voted during 87 shareholders' meetings of issuers in its asset management portfolio. It is also part of a network of international investors working in collaboration with the UN to share a set of principles inspired by an understanding of the mechanisms of the sustainability of investments through attention to ESG factors and their integration in the investment process.

Shareholder activity was also carried out by the Intesa Sanpaolo Group defined contribution Pension Fund, as concerns companies invested in, for which the Board of the Fund identified critical aspects in ESG terms. This activity translates mainly into soft engagement practices involving direct communication with investee companies, putting questions and notes on topics of particular interest on social, environmental and corporate governance issues.

The Intesa Sanpaolo Group defined contribution Pension Fund was the first in Italy to adopt an active shareholder activity strategy, interacting directly with some of the larger companies in its portfolio. Engagement focused on the chain of suppliers and enabled an assessment of the companies' conduct and recommendations of improvement measures, if necessary. To further support its initiatives, the Fund is a signatory of the Principles for Responsible Investment and the Carbon Disclosure Project.

The Fund includes a section that invests based on a sustainability benchmark, with underlyings selected using ESG criteria. The equity and corporate portfolio as at 31 December 2016 comprised some 1,300 issuers. Six engagement activities were carried out involving various companies in the IT and finance industries (Apple, HSBC, Facebook, Amazon, Alphabet, Google), equal to approximately 0.45% of the number of companies and 0.84% of the portfolio value. To give greater visibility to engagement, the Fund decided to exercise its voting rights for the above companies, through providers specialised in proxy voting.

"CHARITY AND PHILANTHROPY ADVISORY" SERVICE

As from March 2016, Intesa Sanpaolo Private Banking, aware of its social and environmental impact, has run a "Charity and Philanthropy Advisory" service, in the HNWI Department. The service supports customers with considerable financial assets, also with a view to providing advice for financial and/or strategic needs concerning philanthropic initiatives.

In particular, assistance is provided for setting up philanthropic organisations (foundations, associations), also as a means for planning generational change and empowering businesses and the community. Customised asset management services are also provided, with a dedicated manager to select SRI investments as well as partnership agreements with management companies at the forefront of ethical issues.

CUSTOMER PROTECTION AND RESPONSIBLE SALES

TRANSPARENCY FOR CUSTOMERS

Main documents offering products and services, prepared based on requirements of clarity and comprehensibility, are available at branches and online, on the Bank's website, in the section Banking Transparency [i]. In particular, the Information Sheets of the products and services offered, specific Guidelines (Current Accounts, Mortgages, Consumer credit) and Documents on conditions offered to customers are made available.

Since November 2016, information sheets have been aligned with new laws on transparency concerning secured credit and consumers, and the Lending Directive which establishes, in particular, new requirements for consumer assistance, information procedures with "General information" replacing "information sheets" and the addition of three new cost indicators besides the TAEG.

INVESTMENTS: ADVISORY SERVICE

In line with the 2007 MiFID Directive, Intesa Sanpaolo opted to give all its customers the chance to use its advisory service – which offers the highest level of protection for customers – in order to have personalised advice in making investment decisions. Offering advice means reflecting on the needs of customers and their assets as a whole, proposing customised recommendations consistent with their Financial Profile. To support investment choices, Intesa Sanpaolo has developed Recommended Portfolios that originate from a process of analysis that selects and combines the products and services offered by the Bank according to consistency with the market scenario and customer risk profiles. The combination of products and services in the Recommended Portfolios seeks to ensure diversification by market and by instrument, using both asset management and assets under administration products/services.

In 2014, a new European Directive and regulations were issued, introducing major changes. Intesa Sanpaolo started a Project to align with the regulations for the starting date envisaged (3 January 2018). In December 2016, Group Product Governance Guidelines on financial and banking products for retail customers were adopted. Although the legal context is still developing, the Guidelines introduce new processes to protect the interests of customers during the entire life cycle of products.

INVESTMENTS: PROFILING

From as early on as 2015, the Bank carried out a complete overhaul of its profiling questionnaire aimed at obtaining, in advance from the customer, information on their knowledge of and experience in investments, their financial situation and investment objectives. The new questionnaire – developed further in 2016 –

significantly revised the profiling methodology adopted by the Bank, as the process to obtain information from customers has changed from assessment based on self-statements to an evaluation of information already available to the Bank, in terms of customer experience and assets, and includes questions which are not based on self-evaluation and instead mainly refer to "objective" parameters (such as education, profession, dependent family members, income, etc.).

NEW PRODUCTS AND SERVICES: COMPLIANCE CLEARING PROCESSES

Intesa Sanpaolo adopts a "Compliance Clearing" process in developing new products, services and activities with operational and/or reputational risk. The process involves various entities (e.g. Marketing, Compliance, Risk Management, Legal) that give a technical opinion. The "Model to approve new products, services, the start of new activities and investments in new markets" defines the responsibilities, duties and main processes for the Bank and all Italian and international Group Companies in the prior assessment of risks originating from the introduction or revision of a new product or service, the start-up of new activities and entry on new markets in relation to applicable laws.

COMPOUND INTEREST

Since 1 October 2016, interest on deposits and credit transactions between intermediaries and customers has been regulated by new laws which establish that accrued interest payable in these transactions cannot produce interest, save for interest on arrears.

The new rules, which define the frequency for calculating and requesting payment of interest for current accounts and relative credit openings, have introduced considerable changes that also require customer authorisation.

Intesa Sanpaolo has facilitated this change, paying particular attention to notices to customers so that they include various options in a balanced way, representing the various advantages and disadvantages for the customer.

At the same time, a detailed communication and update plan for customer managers was prepared, for them to provide the best assistance possible.

RELATIONS WITH CONSUMER ASSOCIATIONS

Intesa Sanpaolo has long been involved in engagement activities with Italy's leading Consumer Associations, from receiving applications/appeals to finalising cooperation initiatives at a design, technical and operational level.

In 2016, Intesa Sanpaolo renewed its shared commitment to consolidating an economic/banking and consumer culture with the "Mettere in Comune competenze" (Sharing Expertise) project (see "Financial culture for informed choices" page 75) and "Final Settlement" (see the website "Settlement Agreement" [i]) as a method of out-of-court settlement adopted and managed together with Consumer Associations.

The settlement procedure, which concerns products offered to retail customers (current accounts and linked payment cards, mortgages and personal loans), is simple, free and fast, with maximum case resolution times of 60 days. Customers may decide to participate, at no cost and without compromising any other procedures they

may wish to take subsequently, in order to protect their own interests. During 2016, 40 new applications for final settlement were received.

Concerning the technical debate on specific issues of global significance, the Bank offered to establish technical working groups focused on credit, savings, digitization and new, important products for households.

FINANCIAL EDUCATION INITIATIVES

On a day-to-day basis, increasingly influenced by decisions connected with finance, credit and welfare, most people come up against growing difficulties in managing their money, not only and not always due to a lack of resources, but above all because of a lack of basic financial expertise.

Numerous initiatives have been adopted by Intesa Sanpaolo, particularly for its future customers (for more details, see "Financial culture for informed choices" page 75).

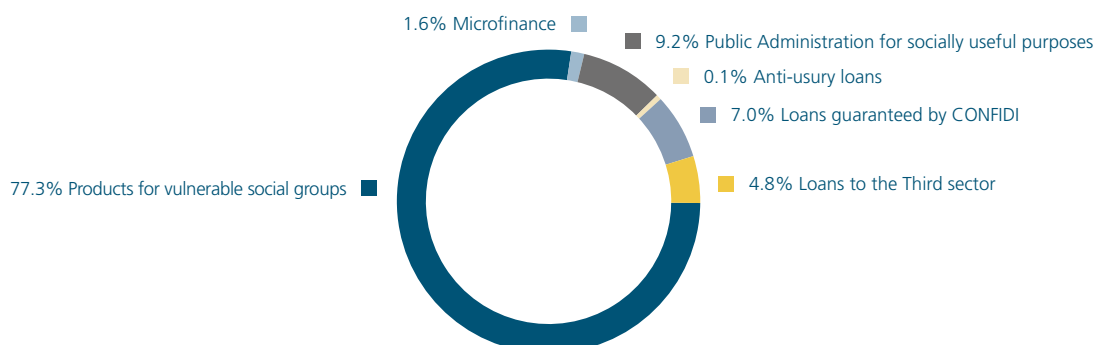
FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT

Credit management has a direct impact on financial capital, the use of which allows us to remain faithful to our traditional vocation, being a real economy bank, for households and businesses. Promoting financial inclusion means that a bank must support recovery which is fundamental for the economic, environmental and social sustainability of the community and also represents an opportunity for growth and development.

Intesa Sanpaolo meets the different needs of consumers with a marketing focus and different approaches according to the customer segment, with the aim of accompanying customers through their own life cycle, developing a new way of banking and of looking towards the future.

INITIATIVES WITH HIGH SOCIAL IMPACT

In 2016, the Intesa Sanpaolo Group issued new loans for high social impact activities amounting to over 4.6 billion euro (8.3% of total new loans granted), helping to create business and employment opportunities as well as assist people in difficult situations in several ways: micro-finance; anti-usury loans; loans to the Public Administration to develop socially useful services and activities; credit facilities granted to small and medium enterprises belonging to CONFIDI (consortia or cooperatives for collective credit guarantee); products and services addressed to Third sector associations and entities; products dedicated to the most vulnerable social groups to support their financial inclusion.



HOUSEHOLDS AND PAYMENT SOLUTIONS FOR MORTGAGES

For some time, the Bank has taken specific action to renegotiate mortgages stipulated with customers in recent years, reducing the overall amount of each repayment. In 2016, 66,000 renegotiations, for a total residual debt of approximately 6.2 billion euro, took place.

To help customers who are struggling to meet their mortgage payments, a solution has been available since 2014 "Rata Leggera", allowing customers who have contracted mortgage loans, for which repayment started at least twelve months earlier, to suspend their principal payments for a maximum of 12 months, to cover unexpected expenses and overcome temporary hardship or as a means of freeing up funds in the household budget to be used in consumer goods and lifestyle improvement investments. There were 2,200 suspensions in 2016 for a total residual debt of nearly 689 million euro.

Mortgage products were revised and expanded, with new solutions to further increase flexibility for customers. Dedicated to the under-35s, including people with non-typical employment or contracts with increasing forms of protection, and with the aim of helping first-time home purchases, "Mutuo Giovani" is a new, flexible, modular mortgage, financing up to 100% the value of property and lasting up to 40 years, which allows customers to initially pay, for a period they choose and up to 10 years, a lower instalment, comprising only interest, with the possibility of suspending repayments or extending or shortening their duration.

In total, mortgages amounting to nearly 2.6 billion euro and for around 23,000 people were disbursed in this target group (in 2015, over 1.5 billion of loans were issued, for more than 14,000 people).

For customers who are already property owners and want to buy a new home and are waiting to sell, the new mortgage has a pre-payment period of one year, an initial repayment comprising only interest, so the amount is smaller, and some of the proceeds from the sale of the existing property can be used to pay off the outstanding amount owing.

Lastly, "MutuoUp" is a mortgage for first-time or second home buyers to obtain an additional sum, granted in 24 hours, a short time after the house purchase, and up to 10% of the mortgage, for any additional expenses not planned for or not envisaged, rather than for new projects. 93 loans for almost 10.4 million euro were disbursed in 2016.

As a result of the earthquake that hit the regions of Lazio, Marche, Umbria and Abruzzo, the Bank adopted a number of measures in favour of companies, small businesses, traders and families in the affected areas. In particular, repayments on mortgages, loans and leases were suspended free of charge (principal amount and interest) up to 25 February 2017 for borrowers resident or with their registered and/or trading office in one of the municipalities listed by the Government Cabinet.

Numerous system agreements were made, in keeping

with the economic and regulatory context, to help families in difficulty.

The Group participates in the Guarantee Fund for First Homes, established by the 2014 Stability Law to facilitate access to credit by households for the purchase and energy efficiency of their main residence. Thanks to the Memorandum of Understanding between ABI and the Ministry of Economy and Finance, the beneficiaries – mostly young couples, single-parent families with minor children, young people under the age of 35 who hold an atypical employment contract and tenants of public housing owned by IACP – can get a guarantee on the principal amount of their loan (up to 50%). The lending Bank undertakes not to request additional guarantees besides the mortgage on the property and to apply, free of charge, the flexible options connected to the mortgage. 1,200 loans for almost 161 million euro were disbursed in 2016.

As part of the Solidarity Fund for first home mortgages, set up at the Ministry of Economy and Finance, 237 new requests for suspension were accepted during the year. Total suspensions, at the end of 2016, included over 3,700 mortgages for a total residual debt value of approximately 314 million euro.

An additional agreement between ABI and main consumer associations to suspend household loans, following provisions in the 2015 Stability Law, has made it possible to suspend up to 12 repayments of the principal amount of loans. Since its activation, at the end of May 2015, 663 applications have been upheld, of which 267 in 2016, for a total residual debt value of 20.5 million euro and deferred debt of nearly 6 million (8.8 and 2.9 million respectively for 2016 alone).

Aware that the property sector is fundamental for Italy's recovery and that the home is a fundamental value for Italians, in 2015 Intesa Sanpaolo set up "Intesa Sanpaolo Casa", the Group company acting as estate agent in the residential property sector. Since the end of 2016, thirty-two agencies have been operating in Italy with a shop in shop formula, inside Bank branches, with estate agents who are company employees. In 2016, some 1,000 sales orders were placed, 290 contracts were finalised or are being finalised and over 700 buyers are listed in the customer portfolio.

A focus on people coming up against financial difficulties, also because of losing their jobs, led Sanpaolo to promote its "Anticipazione sociale" (Welfare Advance) initiative. Starting in 2005, it grants a credit line with sums gradually released, at particularly beneficial conditions, and which can be used up until the time when social security payments are made into the customer's current account. Through agreements signed with the Authorities and local institutions in Lombardy, Piedmont, Emilia Romagna, Tuscany and Veneto, the worker does not bear any charges as these are covered by the project partners. In 2016 approximately 1.9 million euro were disbursed and about 1.1 million were used for over 400 households.

The Intesa Sanpaolo Group has joined the social initiative

project promoted by Adiconsum designed to prevent usury. "Prestito Adiconsum", the loan guaranteed by a fund financed by grants that the Italian State has made available through Law No. 108 of 7 March 1996 and entrusted to Banca Prossima, is for all persons and households who, despite having recovered repayment ability, because of previous negative positions do not have access to legal credit.

The verification and pre-selection of loan applicants is carried out exclusively by professional staff at the Adiconsum National Headquarters. The loan, in place since October 2015, is a medium term loan repaid in monthly instalments, for an amount of 2,000 to 30,000 euro, and a maximum term of 84 months. 30 loans totalling 642 thousand euro were disbursed in the year. International banks are also targeting workers and their families who are in serious difficulties because of job losses. In these cases, loans with special conditions and ad hoc financial solutions are provided.

Initiatives adopted over the years include Banca Intesa Beograd's Intermezzo cash loan project.

Started in 2003, this loan model gives customers the chance to defer monthly repayments, for up to five times during the entire repayment period, and additional peace of mind with an insurance package (at no extra charge), in the event of redundancy or disability due to an accident. In 2016, loans for over 108 thousand were granted (over 38 thousand to new customers) for a total of nearly 98 million euro.

As part of a specific course of action aimed at offering customers simple and concrete solutions, Intesa Sanpaolo offers a wide range of products.

Since mid-November 2015, the new "ProteggimiMutuo" policy with insurance cover by Intesa Sanpaolo Assicura and life insurance from Intesa Sanpaolo Vita has been available. This can be combined with real estate mortgage loans to individuals granted by Group Banks and through a modular structure, these protect borrowers from serious events that may hinder their ability to repay the loan, through three guarantees: Life insurance, total permanent disability and job loss.

A range of insurance products, with similar purposes and at competitive market rates, is also included in products offered by international banks – Intesa Sanpaolo Bank in Slovenia (formerly Banka Koper), VÚB Banka, Privredna Banka Zagreb and CIB Bank – to protect customers that take out loans and mortgages, in the event of their

death, unemployment or permanent disability. In 2016, over 68,000 policies were stipulated.

"Mi Curo dei Miei" of Intesa Sanpaolo Vita is dedicated to the protection of the family, in the event of predecease.

"Tu Dopo di noi" is an insurance product designed to protect a disabled beneficiary on the death of the insured. In 2016, 243 new policies were entered in (over 1,100 policies already existing and referring to a similar product).

"Base Sicura Tutelati" has the same purpose and is a product entirely for minors and/or incapacitated persons that have capital at their disposal and require prior authorisation from a supervising judge.

In 2016, Intesa Sanpaolo adopted an insurance measure to help people affected by the earthquake which hit the areas of Rieti, Ascoli Piceno, Perugia, Macerata and Fermo: "Vicino a te". Not only customers at a Group level but also people most affected by this dramatic effect – i.e. minors who have lost both parents – are given assistance, with up to 300,000 euro being donated to each minor involved, up until they reach eighteen years of age.

With a growing demand for supplementary healthcare, Intesa Sanpaolo has launched its innovative Offerta Salute healthcare package, which at the end of 2016 included four policies to protect household economic stability: "Prevention and Health"; "Accidents"; "Surgery"; "Serious illnesses".

LOOKING TO THE FUTURE: LOANS FOR YOUNG PEOPLE

Intesa Sanpaolo wants to be closer to the projects and dreams of young people – who represent our future – and believes it is essential to meet their needs with products and services that promote financial inclusion. For this reason it has developed a specific product range: besides Mutuo Giovani, products include prepaid cards, the ad hoc loans – PerTe Prestito Giovani and PerTe Prestito Con Lode – and supplementary welfare solutions.

In 2016, the "PerTe Prestito Giovani" loan was disbursed to more than 41,000 young customers for nearly 486 million euro (in 2015 the loan was disbursed to over 43,000 customers, totalling more than 487 million).

PER TE PRESTITO CON LODE

This loan, which underscores the Bank's commitment to promoting the training and university careers of young people, is for students who are up to date with their courses not only at University, but also with an organisation that is a Foundation, a guarantee fund in general or a company in the welfare sector. The requirements for obtaining the loan are regardless of family income and are based solely on university attendance and merit, without any collateral.

The "Per Te Prestito con Lode" loan has been extended to students on post-graduate courses, with higher amounts and longer repayment periods, based on single agreements, offering flexible and customisable management by any participating organisation.

The agreement with the Jesuit Educational Foundation was revised in 2016, which brings together Jesuit schools in Italy and Albania, providing access to credit for families of pupils at the foundation's secondary schools. A further 13 organisations signed up. In total 27 organisations – comprising universities and further educational organisations – have signed the agreement.

519 loans for 6.7 million euro were disbursed.

The "Per Te Prestito con Lode" loan will be offered to all Italian universities, to the Ministry of Education and Italian companies, as a corporate welfare programme.

As regards supplementary welfare, the two solutions launched at the end of 2012 – an open-ended pension fund, "Il Mio Domani", and an individual welfare plan, "Il Mio Futuro" – offer under-25s a discount on the annual management fee. In 2016, over 86,000 joined, with figures up considerably on 2015 (+21.90% for "Il mio Futuro" and +50.34% for "Il mio Domani").

To promote employment and help young people purchase a home and develop a new business, Banca CR Firenze signed a partnership agreement with Ente Cassa di Risparmio di Firenze, based on which non-returnable funding of 4 million euro will be granted in the 2016-2018 period. Amounts will be allocated to individuals and companies in the provinces of Florence, Arezzo and Grosseto through participation in tenders covering five areas: Jobs Act Plus (the employment of specialist workers or apprentices), E-Commerce Evolution (the use of e-commerce), New One (the renewal and modernisation of plants, equipment and processes), Young Home (for young, first-time home buyers) and New Artist (for young people to open artisan and art businesses).

Numerous tailor-made solutions have been offered to young people and students by international banks. These include the initiatives of VÚB Banka and Intesa Sanpaolo Banka Bosna i Hercegovina.

The Slovakian VÚB Banka had already launched a loan in 2007 for young people to buy or renovate their home: Flexi mortgage for young. The Bank has based the loan on a government initiative, providing special conditions in the first five years of the loan to customers up to 35 years of age, with limited financial possibilities. A 3% decrease in interest is applied and repayments can be suspended or halved for three years in the case of the birth of a child or adoption. The loan is for a maximum of 50,000 euro and up to thirty years. In 2016, 334 million euro was disbursed to more than 5,000 applicants.

For students up to thirty years of age, Intesa Sanpaolo Banka Bosna i Hercegovina provides an Overdraft for students account. Launched in 2014, this initiative has gradually been expanded and offers a current account with overdraft facility, Internet and mobile banking, Visa Inspire and monthly account statements by email, with no charges for keeping the account. More than 4,300 new current accounts were opened in 2016 (since the offer was launched, over 10,451 accounts have been opened).

SENIORS: THE VALUE OF RELATIONS WITH THE BANK

The products and services dedicated to this type of customers take into consideration the specific needs of simplicity and enhancement of relations with the Bank that have consolidated over time. The Intesa Sanpaolo offer features three lines of dedicated products: "Carta Pensione", "Libretto Pensione per te" and "XME Conto" that, for account-holders and their joint holders over 65, provides, in addition to conditions valid for all customers, the opportunity to join the free "Senior Health" programme.

At the end of 2016: more than 7,600 pension cards, approximately 26,200 pension savings books and over 273 thousand over-65 joint holders of "Conto Facile" and the new "XME Conto", replacing the former at the end of September, had been issued.

The Basic Account, created to comply with regulations introduced in 2012 for financial inclusion purposes, completes the range of products specifically for senior customers. The account is dedicated to customers with limited banking needs and envisages low management costs, particularly for socially disadvantaged customers.

Given the aims of this product, Intesa Sanpaolo chose to make its Basic Account product even more

convenient, guaranteeing more transactions free of charge than the limits established in regulations.

At the end of 2016, over 15,800 Basic Accounts had been registered, of which nearly 1,500 account holders are socially disadvantaged and around 4,900 account holders are pensioners with pensions up to 18,000 euro a year.

A non-banking service is also provided for health, wellbeing and leisure, including for example: protection for unforeseen events, doctors and healthcare facilities accessible at preferential terms, social, welfare and tax-related services at subsidised conditions or even free of charge, and opportunities to purchase recreational products and services at bargain prices.

With Salute Senior (Senior Health), customers can benefit from special conditions to see specialists, have outpatient diagnostic tests, be hospitalised or have surgery and dental and physiotherapy treatment at over 2,300 clinics and hospitals throughout Italy, with additional services that are free of charge or offered at special rates. During 2016, more than 287,000 customers over the age of 65 accessed this programme. Products provided by international banks for this customer segment include current accounts at special conditions and loans for pensioners from the Croatian bank Privredna Banka Zagreb.

The first, which has been on offer since 2004, is a loan that adopts a different approach to calculating merit ratings to allow low-income pensioners to have access to financing. Interest rates are fixed and the cost is just 0.50% of the amount of the loan. In 2016, more than 2 thousand loans were granted for a total of nearly 3.6 million euro.

Current accounts with special conditions target the same type of customer but have costs 50% lower than conventional accounts offering the same services for regular customers. At the end of 2016, over 180,000 people had this type of current account (including over 3,000 new customers).

A BRIDGE CONNECTING THE WORLD: REMITTANCE MANAGEMENT

Immigrants continue to account for an important part of Intesa Sanpaolo's customer base, with over 1 million customers at the end of 2016 (+2.4% compared to 2015). The money transfer services offered include three complementary services which in terms of characteristics and costs make the product range complete and competitive: Getmoney to Family, which enables the sending of money to the migrants' main countries of origin thanks to agreements entered into with local banks; Express to Family, designed to transfer money to Intesa Sanpaolo Group Banks

located in Albania, Egypt, Romania, Serbia and Ukraine and Money Transfer Western Union, which thanks to its widespread agent network enables the receipt of money worldwide. "Money Transfer Western Union", which thanks to its widespread agent network enables the receipt of money worldwide.

During 2016, around 135,000 remittances were placed for nearly 74 million euro, confirming the growth trend already recorded in 2015.

Through Western Union, over 110,000 transfers were made in 2016, totalling nearly 33 million euro (from 2014 to 2016, 311,000 transactions were managed for around 95 million euro).

As for the other two services, almost 6,700 transactions for about 12 million euro were handled by Express to Family and more than 18,000 for nearly 29 million euro were handled by GetMoney to Family.

"Carta Insieme" was created for organisations operating in the social sector, to support needy or disadvantaged people such as migrants and asylum seekers.

Available in three versions, the new card can be used to disburse sums of money in favour of card holders, with specific limits which can be set for card transactions.

THIRD SECTOR

The Third sector is an important part of Italy's economy and society; in 2016, a law was passed recognising this sector's importance and establishing a reform to improve its functioning. Intesa Sanpaolo has long recognised the importance of serving organisations in this sector, including religious organisations (which for the main part are not included in the scope of civil laws) and in fact Banca Prossima is dedicated to this type of customer. At the end of 2016, the Bank had over 58 thousand customers, with 7.7 billion euro in deposits (of which 3.1 billion euro direct) and around 1.7 billion euro in loans.

In 2016, new medium and long term loans for approximately 211 million euro were granted.

After the seven stages of the road show "Daterzoaprimo tour" in 2015, for Banca Prossima to meet its main local stakeholders, customers and over 400 members of staff throughout Italy and to promote the key aspects of the Third sector, a plenary event was organised in 2016, at two different venues, involving all Bank staff. Initiatives to improve operating effectiveness and efficiency, thought up by staff divided into teams, were presented and approved by the majority of those present. One idea in particular, currently being assessed, is to collect quantitative data describing the social impact of customers trusted by the Bank and to include this data (over the long-term and after checking its reliability and use) in the Bank's operating and planning procedures.

B-CORP CERTIFICATION

In November 2016, Banca Prossima was awarded Certified Benefit Corporation (B-Corp) certification, demonstrating the benefits it has generated for the community. The certification is issued by a non-profit American organisation, B-Lab, based on replies to a questionnaire and with a core of over 80 (Banca Prossima received a score of 88).

In Italy, there are around forty Certified Benefit Corporations and Banca Prossima is the only Bank. At present, there are over 2,000 B-Corporations in the world, in 50 countries (of which half in the US) and in 130 different sectors. A dozen B-Corps belong to the banking sector including European banks (Triodos, in Holland and other countries, Charity Bank in the United Kingdom and Cultura Bank in Norway).

Subsidised loans to the Third sector

Banca Prossima has gradually launched a series of initiatives to grant subsidised loans to the Third sector. These loans are sustainable for the Bank through a number of low-cost deposit methods. The benefit for the Bank of lower deposit costs fully translates into lower lending rates. Essentially, this mechanism has been adopted in three areas: the use of loans from the ECB for investments, raising funds on the Terzo Valore crowdfunding portal and the issue of "Serie Speciale Banca Prossima" bonds.

As for the use of EIB funds, approximately 29 million euro was disbursed in 2016 for 10 loans as part of a three-year programme (2014-16) providing 120 million euro in favour of 43 beneficiaries. The considerably high amount of the loans (around 3 million for each operation) was important; although typical of EIB funds, this is not common in Third sector operations. At the end of 2016, another agreement was signed between the Intesa Sanpaolo Group and European Investment Bank making available a further 50 million euro for Banca Prossima over the next three years.

Terzo Valore [\[i\]](#) is a crowdfunding portal which allows anyone to lend money or to directly fund non-profit organisation projects, without intermediaries and with principal repayment guaranteed by the Bank. Since its launch in 2011, Terzo Valore has financed 86 projects with loans granted by external subscribers for about 7.3 million euro, plus 1.4 million euro of donations.

Intesa Sanpaolo issued two "Serie Speciale Banca Prossima" bonds in 2013 and 2014. The Bonds are issued at lower rates than those normally adopted for securities with the same characteristics in terms of rate type and maturity. Total funding was used as loans to the Third sector, amounting to approximately 45 million euro and divided among 218 projects of various types of organisations, primarily including social cooperatives, associations and religious organisations.

To support social enterprise ideas encouraging access to employment for deserving university students, Fondazione San Patrignano – in partnership with Banca Prossima – launched the Social Start-Up award "Giovani idee per il social business" (Young ideas for social business), an ideas competition addressed for university students and young people enrolled in a master's course or a Ph.D. (not older than 35 years of age).

The competition is designed to award the best three social enterprise projects with a loan up to 25,000 euro, granted by Banca Prossima, guaranteed by a fund set up in 2013 by the Foundation. Through this initiative, Fondazione San Patrignano and Banca Prossima aim to activate business culture operating in the social field, assisting emarginated or excluded people and making itself known on the market to guarantee – in addition to transparency, responsibility and environmental protection – real economic sustainability. In February 2016 the Third edition was launched.

One of the most important Third sector partnerships is with the SPIN-Sport Insieme Consortium, a non-profit organisation set up by main associations promoting sport at a national level to build new sports facilities, renovate or modernise existing sites and promote sport in Italy. The SPIN credit access model is innovative: the association takes on the risk by investing its own capital (minimum 20% of the amount) and undertakes a project study and analysis process together with the Consorzio. Banca Prossima's credit decisions are supported by SPIN's certification, which investigates some aspects, such as the investment's economic and financial sustainability, the cost adequacy and necessary authorisation process, which are key factors for the project's success. In 2016, 30 projects were analysed and assessed for a total value of approximately 23 million euro and 24 were financed for an amount of about 13 million euro.

MICRO-FINANCE SOLUTIONS FOR VULNERABLE SOCIAL GROUPS

A desire to play a part in the social growth of communities where it operates has led Intesa Sanpaolo to work with shareholder foundations and local charity organisations in numerous micro-credit projects and initiatives targeting the prevention of usury, with around 76 million euro disbursed in 2016.

Prestito della Speranza

Since 2010, the Group has been involved in the "Prestito della Speranza" (Loan for Hope) initiative promoted by the Italian Episcopal Conference with ABI to support families temporarily in difficulty and businesses and to create micro and small businesses.

The initiative was renewed in 2015 in an exclusive partnership with the Italian Episcopal Conference,

with the aim of disbursing 100 million euro of loans guaranteed by a 25 million euro CEI fund entrusted with Banca Prossima, through the Caritas charity network and under the aegis of VoBIS-Volontari Bancari per le Iniziative nel Sociale (the volunteer association of former bank employees that operate throughout Italy for social solidarity initiatives).

The new Prestito della Speranza 3.0 programme has two specific goals, with dedicated initiatives: life choice projects and entrepreneurship for the young as well as start-up businesses. The loan is structured either as a Social Loan (Credito Sociale) for families up to a maximum amount of 7,500 euro, disbursed in 6 bi-monthly instalments of 1,250 euro as an income top-up; or as a Business-builder loan (Credito fare impresa) to micro-enterprises which are either new or have a low capital base, with disbursement in one payment of a maximum of 25,000 euro.

Following the complete revision of the agreement with the Italian Episcopal Conference, Intesa Sanpaolo is the only Bank to which new applications are made. Since March 2015, Intesa Sanpaolo has assessed over 5,000 applications for around 41 million euro, granting loans of approximately 26 million for over 3,400 applications.

Other partnerships

The system of a guarantee fund through Banca Prossima offered by an organisation, which is usually a charity or religious organisation, associated with an agreement with Intesa Sanpaolo for loans to private customers or small businesses in difficulty, was replicated with a number of parties. Significant initiatives include Intesa Sanpaolo's involvement as partner to Fondazione Lombarda Antiusura and Fondazione Welfare Ambrosiano.

Fondazione Lombarda Antiusura has been operating since 1997 to defend individuals or small businesses in financial dire straits or at risk of usury. The Foundation, set up by Cariplo S.p.A. in collaboration with Fondazione Cariplo and Caritas Ambrosiana, has provided the guarantees required to cover the credit granted free of charge. The selection of the applications takes place through sector experts, employees or retired members of the Group, who act as a listening and guidance centre in identifying the financing solutions required to remedy critical situations. Thanks to the work of the Foundation – acting as guarantor or to cover interest – over 600 entities have been able to gain access to Intesa Sanpaolo loans for a total of almost 10.2 million euro since it was set up.

Fondazione Welfare Ambrosiano, an entity financed by the Municipality of Milan, which also involves the participation of Fondazione Lombarda Antiusura, entails micro-finance initiatives both of a "social" nature, to provide income support for households, and of a business nature, for the creation of micro and small enterprises. Users are mainly in the Milan area and Intesa Sanpaolo is one of four financial partners involved. Since the start of activities in 2011, a total

of 3.4 million euro has been disbursed (two thirds as social funding and one third as business loans), with approximately 60% from Intesa Sanpaolo, above all referring to social funding.

Fondazione Welfare Ambrosiano is one of Intesa Sanpaolo's partners in the "Anticipazione Sociale" initiative (see page 69).

In July 2016, an agreement was signed by Banca Prossima, Banco di Napoli and Finetica Onlus, which manages a guarantee fund for social micro-credit activities (2-15 thousand euro per loan) and business loans (up to 25,000 euro). Banco di Napoli disburses the loans.

In October, an agreement was entered into with the Cesare Pozzo mutual aid cooperative, that deposited a guarantee fund – currently comprising 3 million euro, but which will increase – with Banca Prossima. Members of the cooperative may ask apply for a loan from any Intesa Sanpaolo Group bank for family expenses (such as health or school expenses) at very favourable conditions.

Another, recent project concerns the NEETwork agreement signed in October. This is an agreement relative to the Young Peoples' Social Fund "Garanzia Giovani", which provides additional contributions for non-profit organisations that employ NEET (young people who are not in education, employment or training) with a fixed-term contract. The aim of the agreement is to ensure that the process for paying apprenticeships is streamlined and made easier by Banca Prossima, that finances 100% of total payments to apprentices (the monthly amount is 400 euro, of which 100 paid by the organisation, 100 by Fondazione Cariplo and 200 by the Lombardy Region).

A partnership has also been ongoing with Fondazione Cariplo for Funder35 – a number of initiatives taken by foundations to identify, in an annual tender, the best projects presented by cultural organisations established by the under 35s, giving them a chance to grow and develop through non-returnable funding and assistance. The Bank helps finance the winning organisations and if necessary advances contributions.

Several other projects have been developed in collaboration with locally active Foundations.

These include:

- the "Finanziamento a valere sul Fondo Regionale di garanzia per il Microcredito – Regione Piemonte assistito da garanzia FINPIEMONTE", dedicated to newly set-up small businesses and self-employed workers with operational headquarters in Piedmont, for the business start-up phase;
- the agreement with Fondazione San Patrignano, which entails micro-finance activities for the integration of the San Patrignano Community youth in the job market. The project includes a training stage with the support of Bocconi University and guidance through the first business experience with 250 "Credit Angels" from the VoBIS association.

BANK THE UNBANKED

Alexbank, as part of the “Bank the Unbanked”, project, has developed various products over the years for people without access to banking facilities, to improve living and working conditions even in the poorest areas of the country, incorporating them in a single project that includes:

- micro-loans for various customer needs and for setting up small businesses. At the end of 2016, nearly 54 thousand customers had access to the loans for approximately 38 million euro.
- micro-deposits at special rates to encourage a culture of saving (over 700 accounts opened for total deposits amounting to nearly 177 thousand euro).

A platform for smart phones (MA7FAZTY Mobile wallet) is also offered, for simple and safe shared banking transactions.

FINANCIAL CULTURE FOR INFORMED CHOICES

Growing with our stakeholders

The Intesa Sanpaolo Group is particularly involved in projects and initiatives to disseminate a knowledge of economic and financial issues, to make people more aware (especially the young generations) of their choices. Numerous initiatives have been adopted, without marketing purposes, leveraging the experience and advice of the Group's employees and specialists.

Since 2008, in order to encourage education opportunities for young people, in partnership with Osservatorio Permanente Giovani-Editori, Intesa Sanpaolo has promoted the project “Cultura finanziaria a scuola: per prepararsi a scegliere” (Financial culture at school: get ready to make choices), which aims to provide useful knowledge to individuals on how to make reasoned decisions about their future. Dedicated to high school students, the project involved 500,200 students in 2016, over 19,000 classes and 7,500 teachers. The “Young Factor” project was launched in 2014. Involving Intesa Sanpaolo, Unicredit and Monte dei Paschi di Siena, until school year 2020-2021 this project will include a series of initiatives to encourage the highest level of economic and financial education in Italian students.

Museo del Risparmio

The Museo del Risparmio is a multi-media, interactive workshop set up in 2012 through Intesa Sanpaolo. Dedicated to families, adults and children, the museum explains the concepts of saving and investing with a clear, simple language, to help improve financial literacy. In 2013 the it founded the International Federation of Finance Museums (IFFM) in collaboration with the Museum of Global Finance in Beijing, the Museum of American Finance in New York, and the Global Financial Literacy Excellence Center in Washington, and became co-chair in 2015.

In association with member associations of the IFFM, a number of concrete proposals were made in 2016 (“Addressing the gender gap in financial literacy: a practical toolkit”) to encourage the greater involvement

of women in financial issues. Other initiatives particularly for women were also been adopted, with the aim of breaking down the gender gap in financial education. These include “Rischiare? È un mestiere da donne” (Taking risks? It's a woman's job), designed to encourage debate among adult women on how to gain more awareness and promote saving. The new “It's up to you” workshop for 11 to 14 year-olds, which is part of the same theme, helping youngsters to plan their personal finances without gender stereotypes.

Numerous initiatives were set up for all types and levels of schools, to give primary school children new learning opportunities and secondary school pupils the chance to meet affirmed business men and women and start-uppers, find out about international financial organisations and attend workshops to improve their relational skills.

The Museum also organised a number of events on financial education for young people, including: the conference “Il risparmio e la società giusta” (Saving and the right society), which was part of the investment management show Salone del Risparmio di Milano; the “No cash world” workshop, which was part of the No Cash Day and Salone dei Pagamenti di Milano; the conference “Denaro sporco: seguirne le tracce per la tutela della legalità” (Dirty money: tracking to protect legality) as part of the Forum on Fiscal and Economic Legality; the presentation of the book “Attenti a quei soldi” (Careful with that money) and children's workshops during the Turin Book Fair, in partnership with the Bank of Italy's Turin branch.

To mark National Saving Day, the Museum also promoted “Arte del Risparmio” (The Art of Saving) a week of events (exhibitions, workshops, etc.) for young children and adults, in association with Gallerie d'Italia and the Historical Archive of Intesa Sanpaolo.

Lastly, activities continued to develop new content, with the e-book “Le parole della finanza” (A finance glossary), which is the second of three publications that present comprehensible, concise explanations of the most common terms used concerning loans, finance and risk. For further information please visit the Website [\[i\]](#).

Mettere in comune competenze

In partnership with the Consumer Associations, the project “Mettere in comune competenze” (Sharing Expertise) was launched in 2011 with the aim of improving mutual knowledge and collaboration skills to the benefit of customers and consumers. The project is divided into four activity sectors: training of Consumer Associations’ middle managers; development of a training plan targeted at all Intesa Sanpaolo employees; initiatives for the training and information of the local structures of the Associations; meetings with Intesa Sanpaolo Group

top management and middle and junior managers of the Associations to combine skills and proposals in the main operating areas. Two cycles of seminars were held in 2016: the first, for national executives of Consumer Associations, provided an update on the banking/financial part and introduced insurance and welfare issues; the second, for local executives of Associations in Lombardy, was part of the local training project already trialled in Piedmont, with further information about credit products.

International banks also focussed on customers' financial education. Some of the most significant projects are listed below.

Alexbank opted to use the bank's Facebook page to publish 10 videos (“Ask the Expert with Alexbank”) explaining the main concepts of banking in a simple and attractive manner, as well as terms used in contracts, and products offered (credit or debit cards; current or savings accounts; fixed or floating rate interest, etc.).

The Slovakian bank VÚB Banka launched “iPoradca” (“iAdvisor”) in 2015, a programme that has a “Digital Ambassador” at branches to help customers understand the benefits of digital services and teach them to use these services in their day-to-day lives. In 2016, the project was expanded to include internal workshops to train all branch staff to become “digital ambassadors” for customers.

Intesa Sanpaolo Bank Albania, in association with Junior Achievement Albania (the business education programme) involved some staff members – who volunteered to use their expertise – in a project for secondary school pupils to develop business management skills. The Bank also signed a partnership agreement with the Faculty of Economics, to share experience and professional expertise in various projects with an academic background.