

INTESA SANPAOLO GROUP PROFILE



Intesa Sanpaolo Group

The Intesa Sanpaolo Group, with 11.1 million customers and more than 4,000 branches in Italy, is the country's leading banking group and one of the top banking groups in Europe. The Group is Italy's leading provider of financial products and services for households and businesses, particularly in banking (with a market share of nearly 16% for loans and 17% for deposits), life insurance premiums (with a market share of nearly 20%), asset management (over 20%), pension funds (nearly 22%) and factoring (28.5%).

The Group also has a strategic presence as one of the main banking groups in central and eastern Europe and in middle eastern and north African countries, serving 7.8 million customers via a network of approximately 1,200 branches. Through its local subsidiaries, the Intesa Sanpaolo Group ranks first in Serbia, second in Croatia and Slovakia, fourth in Albania, fifth in Egypt, seventh in Bosnia and Herzegovina, Slovenia and Hungary.

As at 31 December 2016, the Intesa Sanpaolo Group had total assets of 725,100 million euro, customer loans of 364,713 million euro, direct deposits from banking business of 393,798 million euro and direct deposits from insurance business and technical reserves of 144,098 million euro.

The Intesa Sanpaolo Group comprises seven Business Units serving different customer categories, Governance Areas and Central Entities directly reporting to the Chief Executive Officer and CEO

Details of Intesa Sanpaolo's organisational structure are available on the Group's website [\[i\]](#).

An international dimension

ITALY

3,978 Branches

OTHER EUROPEAN COUNTRIES

1,003 Branches 3 Representative Offices

AMERICA

3 Branches 2 Representative Offices

ASIA

7 Branches 6 Representative Offices

AFRICA

172 Branches 3 Representative Offices

OCEANIA

1 Representative Office



Data: February 2017.

Competitive positioning

Ranking in Italy

1°	Loans		15.7%
1°	Deposits*		16.7%
1°	Collected premiums for life policies		19.7%
1°	Investment funds		20.3%
1°	Open-end pension funds		21.6%
1°	Factoring – Operating turnover		28.5%

Figures at 31 December 2016.

* Includes bonds .

Vision and values

Aware of the value of our activities in Italy and abroad, we promote growth that focuses on sustainable results in the long term and creates a virtuous cycle based on the trust that stems from customer and shareholder satisfaction, from our employees' sense of belonging and from listening to the needs of communities and local areas. Our growth strategy aims at creating solid and sustainable values from economic and financial, social and environmental standpoints, built on the trust of all our stakeholders and based on our values.

(from the Code of Ethics [i])

Integrity, excellence, transparency, respect for specific qualities, equality, values of the individual and responsibility in the use of resources: these are the values, stated in the Code of Ethics, on which the Intesa Sanpaolo Group bases its banking methods and its relations with stakeholders. These values are also set out in its Code of Conduct. At the end of 2016, the Board of Directors approved an update to the Code of Ethics, which takes into account the new corporate governance model, redefines implementation procedures and clarifies some principles on which bank/stakeholder relations are based. The Group is also committed to complying with sustainable development principles and participates in important international initiatives that promote dialogue between companies, international organisations and society and pursue respect for the environment and human rights.

GOVERNANCE OF CORPORATE SOCIAL RESPONSIBILITY

In its implementation methods, the Code of Ethics sets out the management model which is centred around the concept of direct responsibility: every company function is called upon to guarantee its commitment to ensuring that business activities remain consistent with the values stated and that the improvement objectives expressed in the Sustainability Report are gradually achieved.

The Corporate Social Responsibility (CSR) Sub-Department assists top management in defining sustainability strategies and policies designed to generate value for stakeholders. It reports through the Chief Governance Officer to the Managing Director and CEO and to the Board of Directors.



The CSR Delegates network is made up of more than 60 employees working in various entities in Italy and abroad, who cooperate with the CSR Sub-Department to manage relations with reference stakeholders, implement projects and define improvement objectives, manage non-compliance with the Code of Ethics, and monitor and report on activities.

The Bank's governance bodies are periodically informed by the CSR Sub-Department about significant issues and their integration with business activities. Updates to the Code of Ethics and Sustainability Report are shared with the Risks Committee and approved by the Board of Directors. The Unit also reports annually to the Management Control Committee and Supervisory Body pursuant to Legislative Decree No. 231/2001 (see the section "Certification of social responsibility governance", page 53).

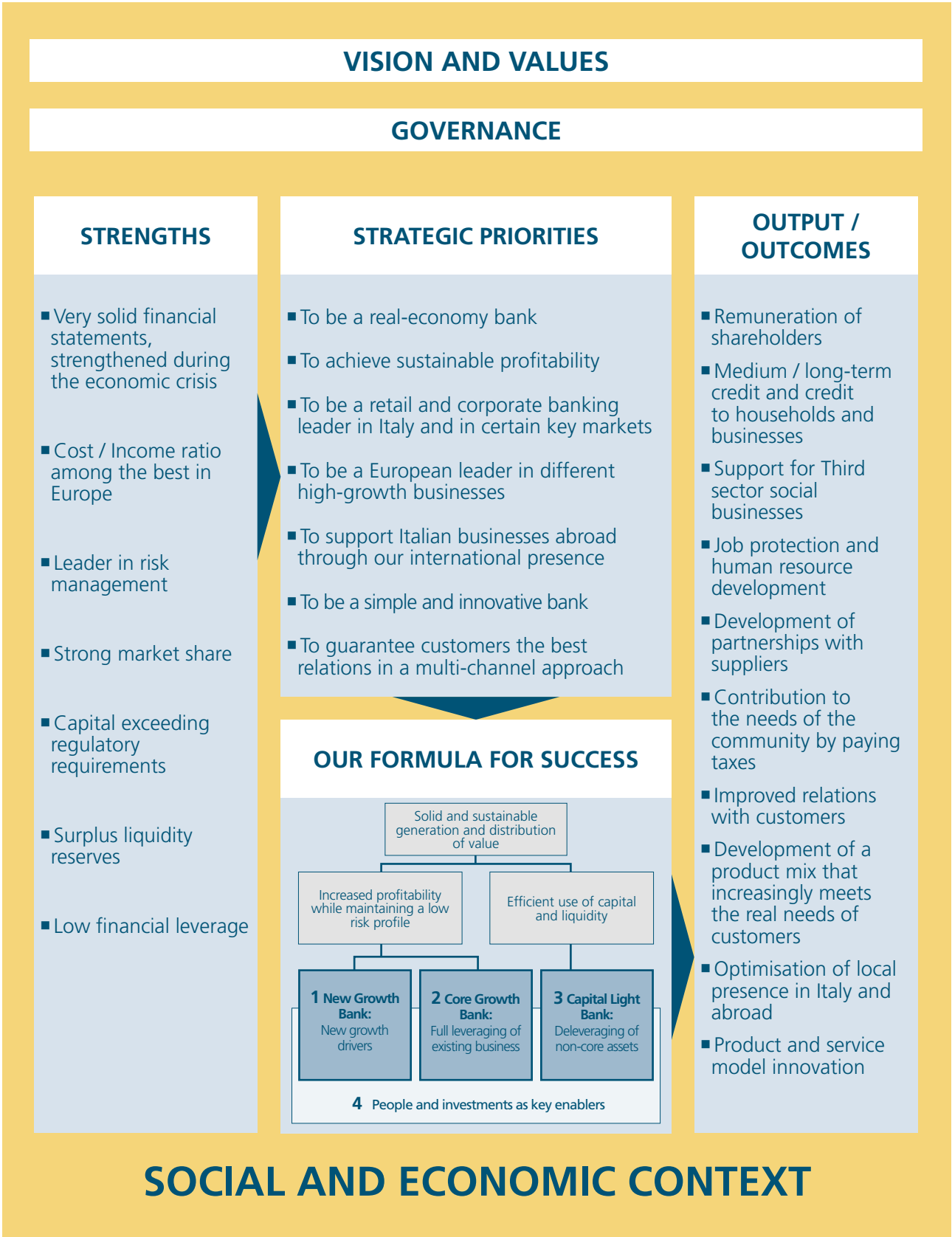
STAKEHOLDER ENGAGEMENT

Stakeholder engagement is key for the Intesa Sanpaolo Group in order to understand the level of satisfaction of activities carried out by the Bank. Structured dialogue is arranged every year, using different engagement approaches: multi-stakeholder forums, focus groups and online questionnaires for employees and trade unions, interviews with shareholders, customers and non-government organisations, customer satisfaction surveys and surveys with suppliers. Stakeholder expectations, within corporate business strategies, allow Intesa Sanpaolo to identify improvement objectives.

ACTIVITY MONITORING

The effectiveness of the Bank's social responsibility commitment is monitored through two integrated processes: one process, originating from engagement with the Group's most significant stakeholders, defines improvement objectives, which is followed up with the KPI monitoring of the implementation status of commitments and, lastly, with reporting in the Sustainability Report; the other process, using ISO 26000 Guidelines as a basis, assesses the level of integration of Code of Ethics values with business activities, through self-assessment performed by entities, followed by an independent audit if the self-assessment identifies potential aspects of reputational risk.

Business Model



Effectiveness of the governance system

THE CORPORATE GOVERNANCE MODEL

By resolution of the Extraordinary Shareholders' Meeting of 26 February 2016, effective as from 27 April 2016, Intesa Sanpaolo has adopted a single-tier administration and control model. This section refers to the period from 27 April to 31 December 2016.

For more details on corporate governance, see the "Report on Corporate Governance and Ownership Structures – Remuneration Report", which also has information on the period from January to April 2016, when the two-tier governance model was still in use [i].

BOARD OF DIRECTORS

The Board of Directors has guidance and strategic supervisory functions. Management functions are mainly overseen by the Managing Director and CEO, while control functions are carried out by the Management Control Committee, appointed by the Shareholders' Meeting from Board members and comprising only independent directors.

The Board of Directors' role closely supplements the strategic supervisory function, with controls that are increasingly ex ante in nature (of strategic plans, company risks, organisational and internal control system adequacy), and are considered as physiological and essential for strategic business management.

This nature of the Board's role (which does not affect necessary ex post controls on actions already taken) can guarantee a positive mix at the highest level of management and control – because of the specific characteristics of the one-tier model, and also ensures continual monitoring of the merit and lawfulness of company conduct.

The fact that members of the Management Control Committee are also company directors that have to take management decisions considerably reinforces the effectiveness and efficiency of the Board's role overall and guarantees the utmost consistency of administrative actions, allowing directors to evaluate the implications of their decisions, from when they are taken, and control committee members to carry out their duties more effectively, because they are also directly involved in the decision-making process.

The Board of Directors in office at the date of this Report comprised 19 members appointed by the ordinary Shareholders' Meeting, by list voting, on 27 April 2016. The appointment was made based on lists of candidates meeting requirements established by law and the Articles of Association, presented by shareholders owning at least 0.5% of capital comprising ordinary shares. A sizeable majority of independent Board directors and the appointment of a single Managing Director by the Board, excluding other Directors that may have executive positions and that the Board may delegate its own duties to an executive committee, were considered as priorities. At least one third of board positions are reserved for the least represented gender, in compliance with applicable laws on the gender equality of management boards of listed companies.

In accordance with the Bank's governance model, the Chairman of the Management Control Committee and Chairman of the Committee for Transactions with Related Parties and Associated Entities (of the Group) are minority-elected members.

In carrying out its duties, the Board of Directors is assisted by the following Committees, with members appointed from the Board. The organisation and operation of these committees are governed by specific Regulations approved by the Board:

- the Nomination Committee;
- the Remuneration Committee;
- the Risks Committee;
- the Committee for Transactions with Related Parties of Intesa Sanpaolo and Associated Entities of the Group.

Characteristics of the Board of Directors (data for the period from 27 April to 31 December 2016)

Body	No. of members	Independent*	% of women	No. of meetings	Attendance
Board of Directors	19	14	37%	19	99%
of which: Management Control Committee	5	5	40%	27	98%

* Independence requirements pursuant to applicable laws and the Articles of Association.

Characteristics of Board Committees (data for the period from 27 April to 31 December 2016)

Body	No. of members	Independent*	No. of meetings	Attendance
Remuneration Committee	5	3	7	100%
Nomination Committee	5	3	3	93%
Risks Committee	5	3	19	100%
Related Party Transactions Committee	5	5	9	100%

* Independence requirements pursuant to applicable laws and the Articles of Association.

The Chairman of the Board of Directors has a non-executive role and does not carry out management duties, even on a de facto basis.

In view of the current governance model and duties established by the Articles of Association, which are described in more detail in the Regulations of the Board of Directors, the Chairman's role is fundamental for the Bank, as reflected by his/her authority and responsibilities and the amount of time dedicated to this position.

The Chairman of the Board of Directors supervises the activities of the Board, organises and oversees activities and carries out all duties required by supervisory regulations.

The Managing Director is also Chief Executive Officer and General Director and supervises company management within the framework of the powers granted to him/her in compliance with general planning and strategic guidelines established by the Board of Directors.

LEADERSHIP AND BOARD MEMBERS' AREAS OF EXPERTISE

On renewal, the Board assessed all eligibility requirements and the overall composition of the board (in qualitative/quantitative terms) in relation to recommendations from the outgoing Supervisory Board, in the case of new appointments/re-appointments (see the document published on the Bank's website on the appointment of positions currently in office).

The characteristics declared by Board Directors are diversified and suitable for ensuring a Board composition that is adequate, also for the improvement areas identified in previous self-assessments, as well as a correctly balanced composition of Board committees.

Expertise	Board of Directors [No. of members]
Banking (strategies, risk assessment and management techniques)	16/19
Reading and interpreting bank financial statements	18/19
Strategic guidance (scenarios, trends, peers)	17/19
Managerial, entrepreneurial and business management	14/19
Risk management	18/19
Global dynamics of the economic/financial system	18/19
Auditing and control	12/19
The regulation of financial activities	16/19
Remuneration and incentive systems and tools	18/19
International experience	13/19

TRAINING AND CONTINUAL PROFESSIONAL DEVELOPMENT OF BOARD DIRECTORS

The Chairman of the Board of Directors ensures that the Bank plans and adopts orientation programmes and training plans for Board members. It arranges for and promotes Directors' involvement in initiatives that will give them a greater knowledge of the sector the Bank and Group operate in, of company dynamics and their evolution, of principles of correct risk management and the legal and self-regulatory framework, and also holds meetings, including informal sessions, on strategic issues (ongoing-induction).

10 specific induction sessions were held from when the new Board of Directors took office until December 2016, with Directors exploring and discussing various aspects of the Bank's and Group's activities and the applicable legal framework, as well as their duties and responsibilities.

These sessions addressed the following issues in particular:

- governance, including the Regulations of the Board of Directors and of individual Committees, as well as updates to the Compliance Model pursuant to Legislative Decree 231/2001;
- risk management, including the Group's Risk Appetite Framework;
- the Group controls system;
- the Group technological model and IT issues;
- aspects concerning bank financial statements;
- remuneration and incentive policies;
- banking regulations.

To promote the best knowledge of the company and applicable legal framework and relative developments, Board Directors are given a set of regularly updated documents on governance, laws and regulations, main correspondence with the supervisory authorities and accounts, as well as additional documents, to help them carry out their duties.

SELF-ASSESSMENT OF GOVERNANCE BODIES

In February 2017, the Board of Directors conducted its annual self-assessment of the composition, performance, conduct and dynamics of the board and board committees.

This process was carried out in compliance with Board Regulations on Self-Assessment, adopted in compliance with Supervisory Provisions on Corporate Governance and the Corporate Governance Code.

The self-assessment was carried out with the professional assistance of the consultancy management experts Crisci & Partners, that assisted the Bank in its board review process in 2015. This company meets the requirements for neutrality, objectivity, competence and independence established in the Regulations.

Besides analysing the Board's activities during the year, the self-assessment also reviewed improvements made in relation to weaknesses identified in the previous self-assessment.

In line with Regulations, Crisci & Partners assisted the Board of Directors during the various stages of the self-assessment process: review (also based on questionnaires and individual interviews), data processing and preparing process outcomes.

Overall, the compliance of board governance with the Corporate Governance Code, with European Banking Authority guidelines, with Section VI of the Bank of Italy Circular No. 285 "Supervisory Provisions for Banks", and with the best practices of listed companies, in so far as they are comparable with the Bank, was high.

Based on replies in the questionnaire and interviews, some good practices were identified to be retained and developed in the future, as part of consolidation of the new governance model. These include the further development of induction activities to cover additional topics, and earlier times for sending pre-board meeting documents that are more complex and/or highly confidential.

THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The internal control system is a three-tier system, in line with applicable laws and regulations. The system has the following types of controls:

- the first type comprises line controls; the purpose of these controls is to ensure that operations are carried out correctly and, as far as possible, are included in IT procedures. The controls are overseen by the same operating and business entities (level-one functions), also through dedicated control units that report to the managers of the entities, or are carried out by back office entities;
- the second type comprises risk and compliance controls; the purpose of these controls is to ensure, among others:

- the correct adoption of the risk management process;
- compliance with operating limits assigned to various functions;
- the compliance of company operations with regulations, including self-regulation.

The functions overseeing these controls (level-two control functions) are separate from operating functions and help define risk management policies and the risk management process. In the Intesa Sanpaolo Group, the following parent company entities and equivalent entities of Group companies are level-two control functions:

- the Chief Compliance Officer, to whom the Anti-Money Laundering Head Office Department also reports;

- the Chief Risk Officer Governance Area, to which the Controls Head Office Department reports.

In compliance with Supervisory provisions issued by the Bank of Italy, which require these functions to be independent of operating entities and separate from the internal audit function, the Head of the Chief Risk Officer Governance Area and Chief Compliance Officer report directly to the Managing Director and CEO and, as required by laws, have direct access to corporate bodies, reporting the results of control activities carried out, without restrictions or intermediation.

- The third type comprises internal audits; the purpose of these audits is to identify infringements of procedures and regulations and periodically assess the completeness, adequacy, functionality (in terms of efficiency and effectiveness) and reliability of the organisational structure of other components of the

internal control system and IT system (ICT audit) at a Group level, on a regular basis in relation to the nature and extent of risks. In line with Supervisory provisions, the Head of the Audit function directly reports to the Board of Directors and functionally to the Management Control Committee.

Strategic decisions concerning the internal control and risk management system at a Group level are submitted to the Board of Directors of Intesa Sanpaolo, in its capacity as parent company. In view of the single-tier governance model adopted by Intesa Sanpaolo, the Board of Directors, assisted by the Risks Committee and taking account of proposals from the Managing Director and CEO, defines and approves the overall governance and organisational structure of the Bank and Group, the internal control system guidelines, the risk appetite and risk management policies and governance processes.

REMUNERATION

Extensive information (in both qualitative and quantitative terms) is provided in the Remuneration Report, available on the website [i].

According to the Bank's Articles of Association, Board Members are entitled to the reimbursement of expenses incurred in carrying out their duties and to fees which are determined by the Shareholders' Meeting on their appointment and refer to a fixed amount for their entire term of office. The shareholders' meeting also establishes additional fees of the Chairman and Deputy Chairman. On appointment of the Management Control Committee, the Shareholders' Meeting determines the specific fees (of the same amount) for each Board Director on the Committee, for the entire term of office, with an additional amount for the Committee Chairman.

The Managing Director and General Director receive fixed, variable fees determined by the Board of Directors in line with the remuneration policies approved by the Shareholders' Meeting. In compliance with the

principle that the incentive system must be consistent and compatible with the allocation of dividends, the Supervisory Board has decided that the variable part of remuneration for the Managing Director and CEO, Carlo Messina, also considering his appointment as Chief Executive Officer, will have a maximum limit based on the fixed part of remuneration multiplied by around 0.86 and referred to the performance score (the maximum limit is determined considering the effect of the annual portion of the LECOIP on the cap including variable remuneration at 100% of fixed remuneration). Bonuses determined as above will be paid 50% in cash and 50% in shares (assuming that the materiality threshold has been exceeded) and will be subject to 60% deferment over 5 years. The payment of these deferred amounts will be subject to the annual verification of any malus conditions. The Managing Director is not a beneficiary of any stock option plan at present.

OPERATIONAL STRUCTURE

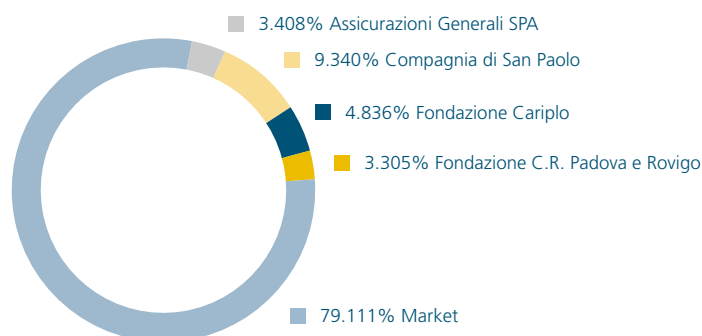
In terms of organisational logic and to ensure that Group governance has the necessary coherence, the parent company is divided into seven Business Units, comprising the aggregation of business lines with similar characteristics in terms of products and services provided

and the regulatory framework, six Governance Areas, as well as Head Office Departments directly reporting to the Managing Director and CEO that carry out steering, coordination, control, support and service duties at a Group level [i].

SHAREHOLDER BASE

Share capital subscribed and paid up is equal to 8,731,984,115.92 euro, divided into 16,792,277,146 shares of a nominal value of 0.52 euro each, of which 15,859,786,585 ordinary shares (equal to 94.45% of share capital) and 932,490,561 non-convertible savings shares (equal to 5.55% of share capital).

At 28 February 2017, Intesa Sanpaolo's shareholder base was composed as follows (holders of shares exceeding 3%*):



* Asset management shareholders could have requested exemption from reporting, up to the threshold of 5%.

RELATIONS WITH SHAREHOLDERS AND THE FINANCIAL COMMUNITY

In its relations with the market, Intesa Sanpaolo adopts a specifically transparent form of conduct, especially with regard to annual and interim financial results and to Group strategies. This also takes place via meetings with the national and international financial community, in a framework of constant dialogue with the market based on correct and timely communication.

During 2016, in a still very difficult economic scenario, communications with the financial community continued to focus on sustainable profitability and the Group's solidity as a safe point of reference for stakeholders. To guarantee access to all, again in 2016 this information was made available quickly, easily and economically through a number of channels: Internet, conference calls via a toll-free number and the free distribution of financial statements on request. The Investor Relations section of the website [\[i\]](#) has a well-organised content and theme updates, always providing stakeholders with extensive, systematic information.

In order to contribute to the creation of sustainable value over time, regular and frequent meetings were held with the financial community that consolidated long term relations based on mutual trust.

Special attention was paid to socially responsible investors and investment analysts, with dedicated meetings and road shows.

SHAREHOLDERS' MEETING

The company considers shareholders' meetings as one of the main opportunities for engagement with its shareholders, as well as an occasion to report information, in accordance with the principle of non-selective disclosure and rules on price sensitive information. At the same time, the meetings are a chance for shareholders to take an active role in the company and vote on issues, according to procedures established by law and by the Articles of Association.

Intesa Sanpaolo has always facilitated the most extensive involvement in shareholders' meetings and guarantees the highest standard of information, in order to give due importance to the meetings.

Shareholders' meetings are convened by the Board of Directors whenever deemed necessary, or on request of shareholders representing at least one twentieth of the share capital.

The shareholders' meeting, subject to notification to the Chairman of the Board of Directors, may also be convened by the Management Control Committee, if necessary for it to carry out its duties.

During 2016, an extraordinary Shareholders' Meeting was held on 26 February and an ordinary Shareholders' Meeting was held on 27 April.

Right to attend and vote

Each ordinary share confers the right to cast one vote. Savings shares, which may be in bearer form, do not confer the right to vote in ordinary and extraordinary shareholders' meetings but entitle the holder only to attend and vote at the Special Meeting of savings shareholders.

Materiality analysis

The 2016 Sustainability Report focuses on aspects that are most relevant and most “material” for the business and Group's stakeholders. These aspects were identified by materiality analysis – a process structured according to “G4 Sustainability Reporting Guidelines” of GRI, the main reference standard for sustainability reporting and the <IR>, the international reference framework for integrated reporting, promoted by the IIRC (International Integrated Reporting Council), which can be used to identify organizational and strategic factors and solutions that are the basis of the current and future ability of the Group to create value. Therefore, aspects that “have significant economic, social and environmental impact for the organisation or that could substantially influence assessments and decisions taken by stakeholders” are considered “material”.

In this regard, materiality analysis was integrated with the IIRC reporting framework that includes:

- the introduction of the six capitals (financial, social and relational, intellectual, infrastructural, human and natural), to highlight how the value creation process is the result of synergies between financial and non-financial capital;
- forward-looking elements (megatrends), in order to give new interpretations to aspects considered as “material” and increase the Group's oversight of changes to the external environment.

The process recommended by GRI involves three steps:



IDENTIFICATION OF MATERIAL ASPECTS AND STAKEHOLDERS

The identification of “material” aspects for the financial sector which are significant for Intesa Sanpaolo's business and for its stakeholders are identified, by analysing:

- documentary sources within the Group, including the 2014-2017 Strategic Plan, top management communications, shareholders’ meeting minutes, notices to shareholders, ESG rating agency questionnaires, Sustainability Reports for the last three years, policies adopted by the Group and complaints concerning the Code of Ethics;
- external documentary sources, including the reference reporting standards for sustainability performance (G4, <IR>, SASB);
- Sustainability Reports of other Italian and international financial groups;
- sources from national and international institutions (World Bank, ISTAT, World Economic Forum etc.) for the identification of general and specific megatrends of the banking sector.

The issues identified were sorted into a three-tier structure with progressive details and were addressed during stakeholder engagement in 2016.

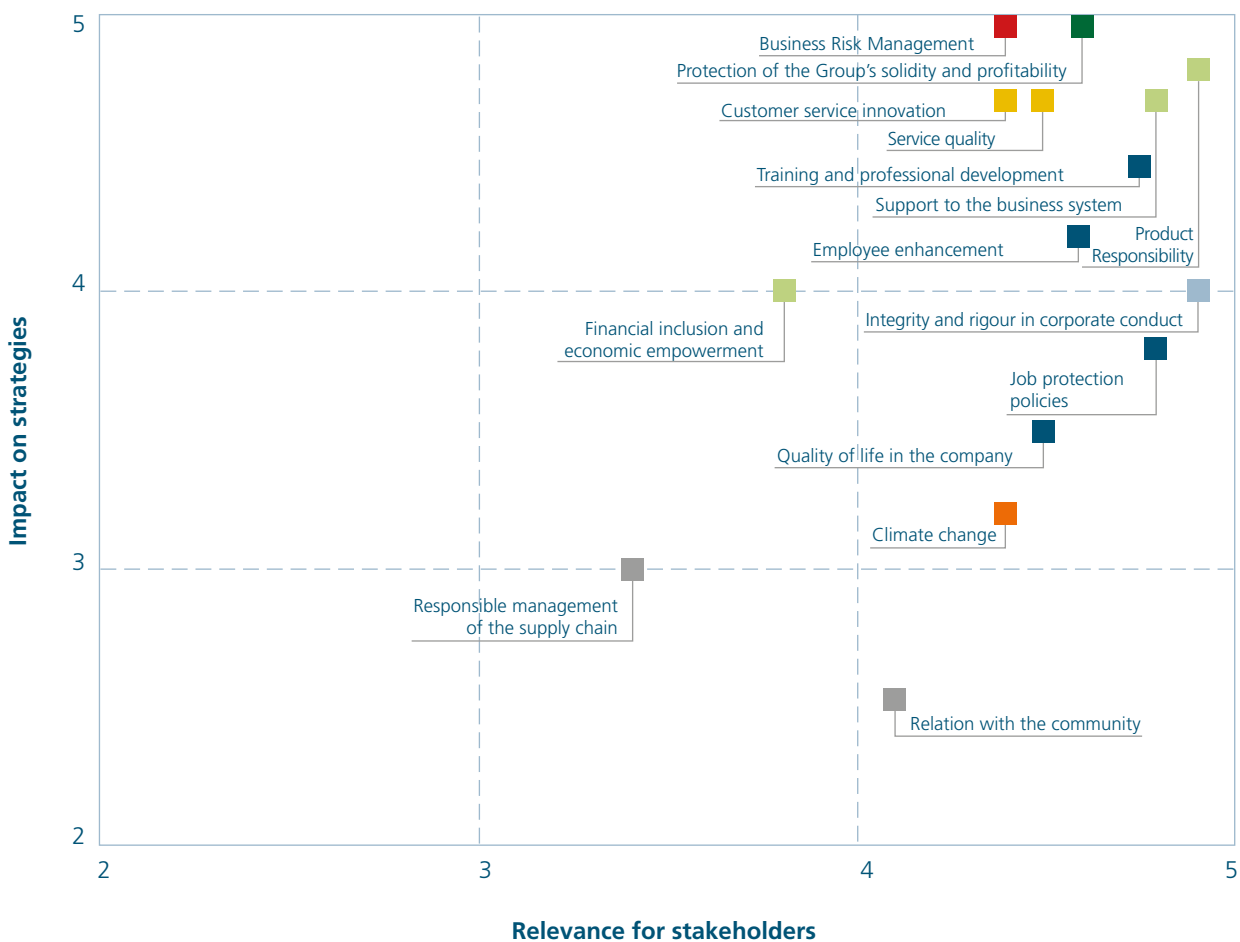
PRIORITISATION AND DEFINITION OF THE MATERIALITY MATRIX

Stakeholder engagement continued to be a key aspect of materiality analysis in 2016. To prioritise the issues identified, each one was assessed in relation to its significance to business strategies and commitments defined in the Business Plan, and also in relation to the degree to which it represents the interests and expectations of stakeholders: these two aspects are represented by the two axes of the materiality matrix, shown below.

The two aspects respond to the need to identify, for each topic:

- the degree of commitment that the company has taken or plans to take on each issue according to the perception of the potential to generate risks and opportunities for the short, medium and long term strategic objectives;
- the relevance perceived by stakeholders of the same issues assessed through a variety of listening and engagement initiatives implemented by Intesa Sanpaolo during 2016.

2016 MATERIALITY MATRIX



Priority areas for 2016, with details given in the Sustainability Report about relative management procedures, projects, actions taken, significant indicators and objectives, also in relation to the Business Plan, are as follows:

- Protection of solidity and profitability
- Business Risk Management
- Access to credit and savings management
- Integrity and rigour in corporate conduct
- Offering a valued service to customers
- Human resource development and management
- Climate change

Compared to 2015, there were no significant changes in the “impact of strategies”, with priorities determined by the strategic lines of the four-year Business Plan that will end in 2017. As regards “relevance for stakeholders”, the importance of issues identified in the previous analysis cycle was confirmed, with the relevance of the following aspects increasingly considerably:

- “Climate change” in view of national and international developments in environmental issues (COP21, Agenda 2030, etc.) and the growing interest shown by SRIs;
- “Customer service innovation” which includes the digitalisation of services and technological innovation and which has increased in relevance for all stakeholders (People, Customers, the Community and Investors);
- “Training and professional development” and “Employee enhancement”, which have gained greater significance for People, Trade Union Organisations and Investors, particularly as concerns customised training for specific roles, procedures and innovative systems for knowledge transfer, diversity management and talent attraction;
- “Integrity and rigour in corporate conduct” which is an issue of particular importance for Investors, the Community and Customers, particularly concerning the protection of privacy and anti-money laundering – which gained importance, also in view of recent legal developments.

Relations with suppliers and the community do not qualify as material aspects, but Intesa Sanpaolo recognises their high social and environmental value and therefore provides detailed disclosures on the website and in single-issue papers [i]. A summary disclosure is in any event provided in the Sustainability Report.

MATRIX VALIDATION

For each aspect identified as “material”, the potential risks/business opportunities were assessed, as well as possible impact on external and internal stakeholders and on company entities, in the long term (see the section “Analysis of “material” issues in the wider context of sustainability”). This also made it possible to define the reporting structure and disclosure for each issue of the Sustainability Report (both within and outside the Bank), in order to give stakeholders fully comprehensive information about performance (see GRI – Impact boundaries on page 181).

The materiality matrix was shared with Chief Risk Officer Governance Area Supervisors, with the aim of integrating outcomes with the Reputational Risk Management processes conducted annually by the relative function. From this year onwards, process outcomes were also considered when assessing the significance of issues concerning strategies and this provides a qualitative/quantitative overview of the Group's reputational risk as perceived by top management. At the same time, the CSR Sub-Department informed the Reputational Risk function of the significance of issues concerning stakeholders, to give Area and Division Managers an integrated overview of critical reputational factors.

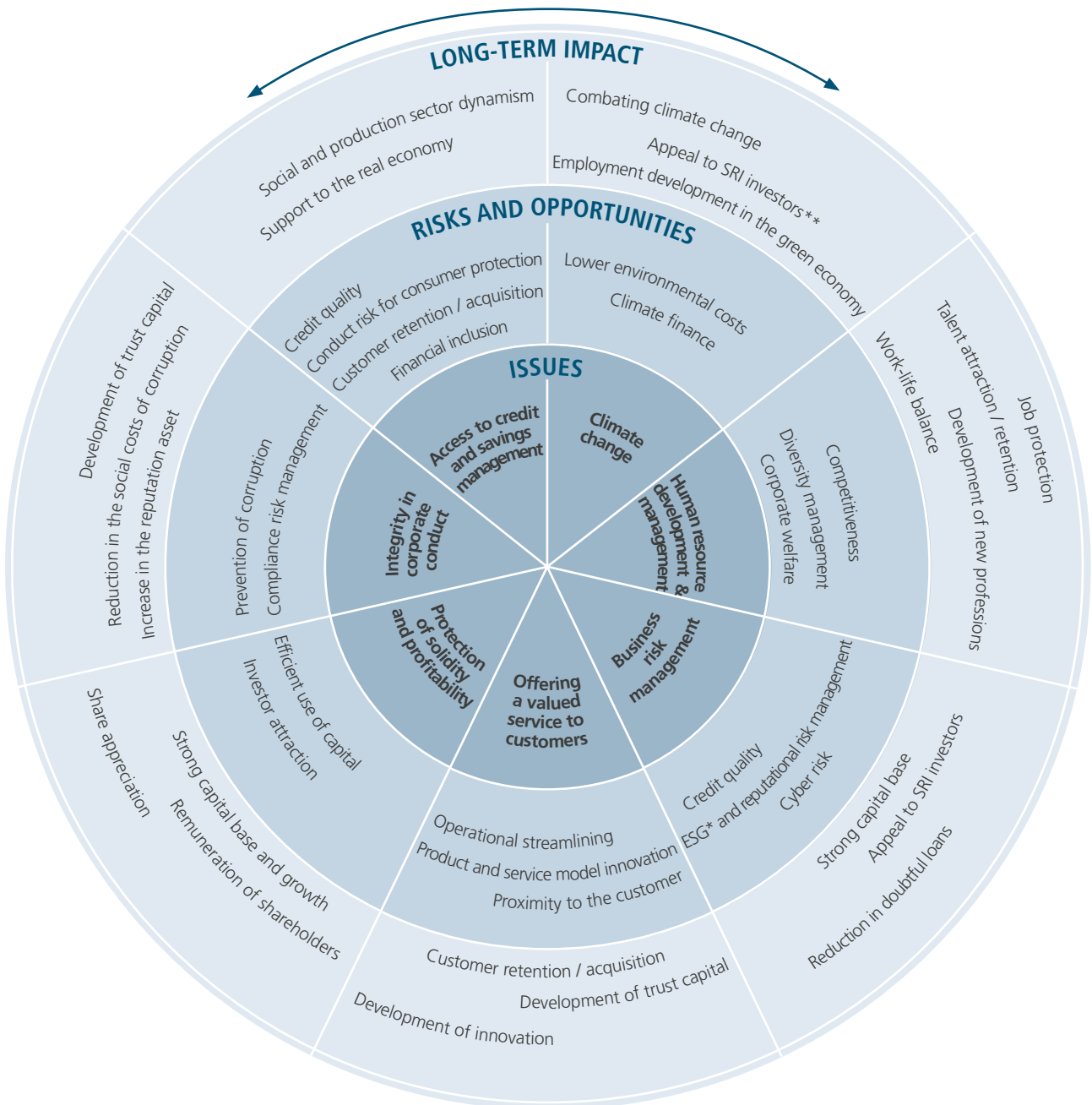
ANALYSIS OF MATERIAL ISSUES IN THE WIDER CONTEXT OF SUSTAINABILITY

Intesa Sanpaolo aims to show how business activities help improve or deteriorate social, economic and environmental conditions in a local, regional or global framework. To this end, a concentric figure is presented, with the seven “material” macro-areas, i.e. the most relevant results according to the materiality analysis in relation to:

- the risks and opportunities associated with each issue, which could have a broad-ranging impact on the strategies and business of Intesa Sanpaolo in the medium and long term;
- the positive impact that could generate shared long term value for the Group, the environment and society in general.

IMPACT, RISKS AND OPPORTUNITIES

- LONG-TERM IMPACT
- RISKS AND OPPORTUNITIES
- "MATERIAL" MACRO-ISSUES



* ESG refers to Environmental Social and Governance Risks.

** SRI (Socially Responsible Investment) investors: investors that assess ESG criteria (Environmental, Social, Governance).

Protection of solidity and profitability

WHY THIS ISSUE IS SIGNIFICANT

The Group aims to lever opportunities from an improved economic climate, to consolidate its central role in sustainability and social and environmental and responsibility as part of its global strategy. Considerable attention – in addition to profitability targets – is given to actions aimed at further consolidating capital strength and improving risk and liquidity profiles. The capital base remains high, while the risk profile remains relatively low. Being a solid bank with growing profitability means that Intesa Sanpaolo can make a positive contribution to the interests of shareholders and all stakeholders. With the 2014-2017 Business Plan, Intesa Sanpaolo is achieving important results that demonstrate its ability to live up to commitments made with markets, to keep its promise to protect staff jobs and support customers, even those experiencing potential problems, by activating internal processes and structures to avoid NPL situations.

HOW IT IS MANAGED

All company departments are involved in implementing business solidity and profitability protection policies. As part of its strategic supervisory functions, the Board of Directors defines and approves the business model, strategic guidelines and risk appetite, and strategic, industrial and financial plans of the company and Group, and any amendments.

Company policies take into consideration the analysis and economic debate concerning Italy's main structural problems and issues relating to the international economy important to the Group. The aim is to continue being a partner Bank for the country's real economy, with reciprocal benefits in the long term.

DEPARTMENTS/FUNCTIONS IN CHARGE

The Group's capital strength and profitability are ensured by a corporate governance model implemented through the Board of Directors, which has guidance and strategic supervisory functions; Management functions are mainly overseen by the Chief Executive Officer and CEO, while control functions are carried out by the Management Control Committee, appointed by the Shareholders' Meeting from Board members and comprising only independent directors.

RELATED TOPICS

Economic and financial performance	page 51
Management of business risks	page 53
Support for the business system	page 60
Financial inclusion and economic empowerment	page 68
Relations with the community	page 98
Job protection	page 103

RESULTS ACHIEVED IN 2016

Consolidated results at the end of 2016 report a considerable improvement in profitability compared to 2015, with net profit increasing to 3.1 billion euro, despite very prudent adjustments to receivables, that resulted in higher hedging of non-performing loans, and a consequent proposed 3 billion euro of cash dividends to distribute to shareholders, confirming a considerable capital strength, with levels well above legal requirements. Intesa Sanpaolo continued to boost growth in the real economy, providing 56 billion euro of new medium/long term household and business loans in 2016. In Italy, approximately 24,000 companies were brought back to performing loan positions in 2016 (over 52,000 in 2014).

Thanks to the Group's capital strength and profitability, over 46.4 million euro (43.7 million in Italy) monetary contributions were made to communities.

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results	2017 Objectives
Growth in revenues	2%*	4%**
Percentage of Net fee and commission income/Total revenues	43%***	43%
Cost/Income	51.2%***	46.1%
Cost of credit	1.02%	0.80%
CET1 – Fully Loaded	12.9%	12.2%
LCR and NSFR	>100%	>100%
Financial Leverage****	19.3%	17%
Monetary contributions to the community ***** [m]	46.4	Support and cooperation with areas and communities where the Bank operates for the development of social and cultural projects

* Calculated as the compound annual growth rate (CAGR) for the 2013-2016 period. According to the new formula of the reclassified income statement, introduced from the fourth quarter of 2016.

** Calculated as the compound annual growth rate (CAGR) for the 2013-2017 period.

*** According to the new formula of the reclassified income statement, introduced from the fourth quarter of 2016.

**** Total Tangible Assets/Total Tangible Equity, including Net Income, net of dividends paid or payable and excluding Goodwill and other intangible items.

***** Measurement according to the London Benchmarking Group model, which includes only cash contributions.

Business risk management

WHY THIS ISSUE IS SIGNIFICANT

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure the reliable and sustainable creation of value in a context of controlled risk.

Intesa Sanpaolo has a moderate risk profile in which capital adequacy, stable profit, a sound liquidity position and a strong reputation are the key factors protecting its current and future profitability.

The risk management strategy targets a complete, consistent vision of risk, consolidating a transparent and accurate approach to representing the possible risk of the Group's portfolios. The strategy also includes an assessment of the social and environmental variables of financing activities, particularly in the case of infrastructure projects, for which the assessment criteria of Equator Principles are applied.

Risk monitoring includes an environmental management and occupational health and management system, and a commitment to protecting and safeguarding staff and customers, with a specific focus on preventing the risk of robberies at bank branches, risks related to the use of electronic channels and fraud prevention.

HOW IT IS MANAGED

The Group has adopted processes and established specific responsibilities for understanding and managing risks, in order to ensure capital strength and business continuity in the long term. To this end, it has adopted an internal control and risk management system to identify, measure and verify the typical risks of its operations. These general principles are outlined in policies, limits and criteria applicable to different risk categories and business areas, in a structured framework of governance and control procedures.

DEPARTMENTS/FUNCTIONS IN CHARGE

Policies on risk assumption are defined by the Board of Directors, with strategic supervisory and management functions and by the Management Control Committee. The Board of Directors carries out activities also through specific board committees, including the Risks Committee. Corporate bodies are assisted by managerial committees, including the Group Risk Governance Committee, and by the Chief Risk Officer that directly reports to the Chief Executive Officer.

The Credit Activities Sub-Department is involved in social and environmental risk assessment processes for loans covered by the scope of application of the Equator Principles.

Intesa Sanpaolo Group Service oversees IT security, business continuity and safety functions. The Safety and Protection Head Office Department monitors occupational health and safety and environmental compliance (as well as privacy compliance).

RELATED TOPICS

Certification of social responsibility governance	page 53
Reputational risk assessment and management	page 55
Value of the brand	page 55
Management of social and environmental risks in loans	page 56
Health and safety risk management	page 57
IT risk prevention	page 59
Climate change: management of potential environmental risks and impact	page 120

RESULTS ACHIEVED IN 2016

The customary close monitoring of risk assumption strategies summarised in the Group's Risk Appetite Framework and specifically concerning credit risk continued. Control and management processes designed to allow the correct ex ante assessment of any transactions that are potentially relevant in terms of risk profile and that could impact the Group's stability were further implemented.

In view of a changing economic scenario, the Bank took steps to develop the latest generation rating model, for Italian businesses, to measure sector and competitive variables.

The risk classification of the Equator Principles – international guidelines based on World Bank standards – continued to be adopted for loans for project development. As regards the management of controversial sectors, “Rules for transactions in the armaments industry” were updated.

An overall Group framework was prepared, for reputational risk, with the involvement of other company functions and a monitoring tool for the Group's web reputation was identified.

Regarding the overall evaluation of work-related stress situations in 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, which considered the general health of more than thirteen thousand employees (in 2016 alone, company-appointed doctors carried out over 6,000 health surveillance check-ups and in 97.7% of cases, employees were considered as being fit for their work duties, and in 2.2% of cases the fitness rating was pending).

The focus on combating computer crime continued, with an anti-fraud system set up to block transactions totalling nearly 10 million euro for retail customers and around 21 million euro for business customers.

Activities to protect people and branches from the risk of robberies focussed on consolidating and innovating technological safety measures. As from 2016, the “post-robbery support” programme has been operative and assistance from a medical team is provided for all robberies, regardless of the severity of the event, for attacks on personnel, and in the case of natural disasters.

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results
Definition of systematic monitoring to manage Most Significant Transactions (MSTs)	Around 460 transactions were reviewed, with prior opinions issued, mainly concerning “TOP20 Concentration”, “Property Sector” and “Public sector - local authorities” risks
Breakdown of Group RAF limits on Divisions and Subsidiaries with a high contribution to risks and/or specific local features.	RAF limits were defined for all Group Divisions, for subsidiaries with a specialist business model (Banca IMI, Fideuram-ISP, Eurizon) or that are subject to sector regulations (Intesa Sanpaolo Vita, Fideuram Vita) and for international banks
Definition of systematic monitoring to manage and mitigate reputational risk	Activities to define the overall reference framework continued
Projects subject to the Equator Principles screening and relative percentage of total project financing	14 projects for a value of 2.04 billion 10% of total project finance loans *
Monitoring health and safety: Accidents	Accidents in the workplace: 269 (211 in 2015) Accidents outside the workplace: 598 (698 in 2015) Percentage of accidents out of the number of people: 0.98% (1.04 % in 2015)
Personnel training the prevention and management of the risk of robbery / Number of robberies	In Italy, nearly 18,000 hours of training were held for around 3,000 people. Since 2014, robberies have decreased in Italy by 65%, with 21 events in 2016

* The percentage only refers to project finance transactions, excluding corporate loans relative to projects.

Integrity and rigour in corporate conduct

WHY THIS ISSUE IS SIGNIFICANT

The Intesa Sanpaolo Group recognises the strategic importance of activities to ensure compliance with internal and external regulations and codes of conduct, in the belief that respecting standards and fairness in business are essential elements in carrying out banking operations, which by nature are based on trust. The view is that compliance with standards encourages the creation and maintenance of a competitive economic context, in which merit can be promoted and shared value can be created, contributing to the area and community development. Intesa Sanpaolo aims to be a reliable, qualified contact for regulators, dealing with them in a transparent manner and helping to develop the regulatory context through the identification of common objectives for banks and stakeholders. The Group actively supports the United Nations' Global Compact principles that envisage the development of activities to combat corruption, protect human rights and respect the environment.

The Group also focuses in particular on developments in international tax legislation steered by the OECD to offset tax evasion and the transfer of profits from high-taxation to low-taxation countries, with a steadfast commitment to adopting the principles.

HOW IT IS MANAGED

Intesa Sanpaolo complies with rules through all company members/areas – corporate bodies, company control functions and operating and business functions – working together, based on principles and standards of conduct which are set out in governance documents and incorporated in the Bank's operating procedures, and that are observed by all employees. Specific provisions are issued for more sensitive areas (anti-money laundering, anti-corruption, taxation, anti-trust, privacy, fairness in customer relations, etc.).

Training is provided on internal regulations and operating procedures to familiarise Bank personnel. The regulations and procedures are revised on a regular basis to align them with company operations and legal developments and are periodically verified by control functions to ensure they are actually complied with.

DEPARTMENTS/FUNCTIONS IN CHARGE

Parent company corporate bodies are responsible, each to the extent of their own duties and prerogatives, for ensuring the suitable monitoring of compliance risk to which the Group is or could be exposed.

The Chief Compliance Officer, acting independently from operating structures and separately from the internal audit function, oversees monitoring of the non-compliance risk at a Group level. In particular, regulations on anti-money laundering, embargoes, armaments, anti-terrorism and anti-corruption are monitored by the Anti-Money Laundering Department, while for specific regulatory areas, the Chief Compliance Officer is assisted by other company structures with specific expertise such as the Antitrust Affairs and Strategic Support Sub-Department (for regulations on competition), the Safety and Protection Department (for aspects concerning privacy, environmental protection and occupational safety), and the Tax Sub-Department and Labour Policies Sub-Department. For all areas, the Internal Auditing Department controls the regular nature of operations and the adequacy and efficiency of monitoring, proposing any corrective actions required.

RELATED TOPICS

Customer protection and responsible sales	page 67
Prevention of corruption	page 82
Prevention of money laundering	page 82
Compliance with tax regulations	page 83
Protection of privacy	page 83
Protection of free competition	page 83
Litigation	page 84

RESULTS ACHIEVED IN 2016

Intesa Sanpaolo has established organisational measures and procedures over time to prevent money laundering risk, and during the year a project was started to consolidate corruption risk management, leading to the approval of Guidelines on Anti-Corruption and the Identification of a Group Anti-Corruption Officer in March 2017.

As for measures to protect customers “Group Guidelines for the management of claims, derecognition, appeals filed with the supervisory authorities and with alternative settlement bodies” were adopted to define the model and reference principles for evaluating and managing these cases at a Group level.

Internal regulations on tax compliance were issued to ensure that regulations are met in the development of products and services, structured operations and advisory activities as a whole. The Group continued to combat transactions in countries with little transparency and/or concerning particularly complex corporate structures with limited transparency in terms of ownership structures. In this framework, a tax function has been set up to control tax compliance processes and, along with other Tax Sub-Departments, specific documents on the Group’s tax strategy are being formalised, as well as procedures for joining the “cooperation scheme” (a tax authority scheme to help taxpayers identify tax risks) with the financial authorities, to help promote relations based on cooperation, transparency and mutual trust.

Since the start of 2016, an internal reporting system (whistleblowing) has been in place for personnel to report actions or events that may constitute infringements of banking regulations.

The monitoring of the risk of compliance with competition protection rules has been further expanded and consolidated, to include EU regulations on state aid and Italian regulations supporting the competitiveness of the Italian system.

With regard to the protection of privacy, Intesa Sanpaolo ensures that personal data are collected and processed in accordance with legal provisions and principles in the Code of Ethics. All Group personnel receive training and updates on this issue, through mandatory and voluntary initiatives online, and in classroom sessions and activities focused on specific areas.

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results
Specialist training to prevent corruption and money laundering	37,269 trained employees (42% of the total) 164,326 hours of training (4.2% of the total)
Whistleblowing	22 reports, all followed up, of which 3 were identified as not relevant; specific investigations were started for the remaining 19 reports

Human resource development and management

WHY THIS ISSUE IS SIGNIFICANT

The 2014-2017 Business Plan considers personnel empowerment and motivation as a fundamental driver for achieving the Group's strategic objectives. Through a new and more balanced internal cohesion, managers are required to create an environment that is motivating, facilitating, based on trust and encouraging individual engagement, enhancing diversity. Training plays a crucial role in supporting development, company reorganisation and improved customer service, including necessary expertise to assess the social and environmental impact of operations. Intesa Sanpaolo promotes engagement with employees and bases industrial relations on principles of fairness and respect for roles, with the aim of finding mutual solutions aimed at growth, competitiveness and sustainability. An important Business Plan objective is the reallocation of 4,500 members of staff in order to achieve strategic plans, without cutting jobs. This objective was further confirmed in agreements which led to the signing of a protocol for the Group's sustainable development in February 2017, which also defined new tools and solutions for a better work/life balance, combined with a socially responsible approach to developing business strategies and people empowerment.

HOW IT IS MANAGED

Through an integrated system of internal regulations, widely-distributed multichannel communication and effective training at all levels of knowledge and awareness, human resources are supported in their current and future career paths. Trade unions are involved and informed about relevant company projects in a timely fashion and by disseminating information with an approach that goes beyond meeting current regulations and instead targets an overall vision and shared awareness to identify converging solutions. This ongoing dialogue has led to a joint company/trade union "Welfare, Safety and Sustainable Development Committee" being set up, with the aim of developing joint solutions to improve employees' welfare and business productivity.

DEPARTMENTS/FUNCTIONS IN CHARGE

The Chief Operating Officer is responsible for defining Group Human Resources guidelines and policies. The Human Resources Department has specific responsibility, and comprises the "Personnel Management and Recruitment", "Performance Systems, Remuneration and Labour Costs", "Employment Policies", "Intergroup Mobility" and "Executives and Talent Management" functions, to which "Training, Managerial Development and Managers' School" and "Personnel Administration" functionally report.

RELATED TOPICS

The quality of life in the company	page 91
Job protection	page 103
Employee enhancement	page 104
Fairness and variable remuneration	page 106
The value of diversity	page 106
Training	page 107

RESULTS ACHIEVED IN 2016

Development and reorganisation programmes designed to protect employment and strengthen market competitiveness, also through service and product innovation, were adopted.

The scope of the On Air platform for dedicated actions supporting professional development, motivation and consolidation, was extended.

Intesa Sanpaolo used the new Performer 2.0 appraisal system, which is based on qualitative performance indicators that are more concrete and in tune with the language used by employees. Merit was recognised with the Variable Results Bonus, which is given for the professionalism and commitment shown by all Group personnel in developing the Business Plan according to principles of transparency and inclusion.

Intesa Sanpaolo's approach to promoting diversity continued to focus on inclusion and non-discrimination, targeting in particular personnel management policies and the development of a work/life balance programme. The promotion of talent and leadership, the consolidation of motivation and a sense of belonging were behind activities carried out prior to planning the "ISP International Talent Programme", which will be developed during 2017. Training was central to transferring expertise and creating a culture based on ongoing training (before, during and after classroom sessions). More than 3.9 million training hours were provided overall (44 training hours per person).

Important company welfare initiatives were taken, including: the continuation of the "Flexible Work" project, involving an increasing number of entities and people throughout the Group; the "Time Bank"; measures for maternity and paternity leave; measures to help staff working in distant locations and with particular personal needs to move closer to their homes.

A single Pension Fund was also set up with defined contributions from the Group, incorporating nearly all equivalent funds, as well as the Healthcare Scheme Fund which provided healthcare cover amounting to more than 140 million euro and reimbursed 200,000 scheme members.

A focus on people encouraged an inclusive and coherent working climate. Climate analysis carried out in the year involved all Group personnel, with the number of participants from professional areas and middle managers in Italy going up compared to 2014, from 51.3% to 55.2% and satisfaction indexes improving (in Italy, this figure stood at 78% compared to 67% in 2014; figures were mainly stable for international areas: 77% in 2016 and 78% in 2014).

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results	2017 Objectives cumulative value 2014-2017
Personnel expenses	5.3 bn in 2016 15.7 bn cumulative value 2014-2016	~21 bn
Human resources reabsorbed in the professional reallocation	270 in 2016 4,500 cumulative figure 2014-2016	4,500
Training Days and teaching (classroom, mentoring, remote training and Web TV)*	1.3 m in 2016 3.8 m cumulative figure 2014-2016	5 m
Development: Managerial assessments	In Italy 661 For international banks 286 From 2014 to 2016 in Italy 2,882	Career advancement paths for employees to be assigned to coordination duties
<ul style="list-style-type: none"> ▪ Flexible work No. of members ▪ Members of ALI ▪ Services provided by the Healthcare Scheme Fund 	<ul style="list-style-type: none"> ▪ Flexible work: more than 5,700 members of staff at 13 Group companies ▪ ALI members: approximately 125,000 ▪ Healthcare Scheme Fund: over 200,000 members with over 140 million of contribution provided 	Promoting a work/life balance for greater cohesion among people, innovation development and service excellence

* Actual training days provided. Includes training of personnel no longer working at 31/12 of the reporting period.

Offering valued service to customers

WHY THIS ISSUE IS SIGNIFICANT

To contribute to the wellbeing and progress of the community where it operates, Intesa Sanpaolo strives to provide an outstanding, reliable service, guaranteeing diversified support for different customer categories and promoting customer relations, through in-depth, systematic engagement, customer satisfaction surveys and an effective claims management process. This approach meets customers' needs for trust and proximity and paves the way for an overall growth strategy.

The service models adopted focus on customer needs and the business approach is geared towards advisory services that promote informed purchases. Special attention is paid to people with disabilities, to ensure full access to services.

The Group operates with a truly multichannel model to make banking services increasingly available, in a simple, efficient, flexible manner and at lower cost, providing multiple virtual contact points and greater accessibility of services. Intesa Sanpaolo promotes innovation and research and analyses innovative solutions available on the domestic and international markets to identify opportunities for growth, also through partnerships with universities and research centres.

HOW IT IS MANAGED

Customer relations, customer satisfaction, claims, multichannel services and innovation are all monitored through internal regulations and operating procedures that comply with applicable laws, and also through dedicated processes and specific service models. Results are tracked and assessed over time during improvement processes.

DEPARTMENTS/FUNCTIONS IN CHARGE

The marketing functions of Business Units define the commercial model for customer relations and methods for analysing satisfaction, managing claims and developing new initiatives. Head Office Sub-Departments assist Business Units' for areas in their responsibility.

In particular, the Savings Working Group of the Banca dei Territori Division, chaired by the Division Manager, is a technical body, with an advisory and decision-making role, dealing with asset management issues for retail and business customers.

Innovation is overseen by the Chief Innovation Officer department, which defines strategies and guidelines and identifies development opportunities for the Group and its customers.

RELATED TOPICS

Customer proximity through all relational channels	page 84
Accessibility	page 86
Customer experience	page 86
Innovation for growth	page 111
Smart Biz	page 112
Smart Bank	page 113
Smart People	page 117

RESULTS ACHIEVED IN 2016

The Business Plan puts customers at the very centre of the new service model. The branch model, offering open flexible places, has been extended to include advisory services with digital channels to make customers feel “at home”. The “Insieme per la Crescita” (Together for Growth) programme, focussing on relational and behavioural skills, has improved customer and people satisfaction, through service quality and a new branch experience. This change was measured by customer and employee satisfaction, using the branch barometer (a synthetic rating of 7.7 on a scale from 1 to 10, with over 230,000 questionnaires collected). The contract digitalisation project, which reached the target of using only electronic or digital signatures, helped improve customer satisfaction; waiting times were decreased, filing was streamlined, cost savings achieved and the environmental footprint was reduced.

Better conditions to access services were achieved with the Online Branch and development of a multichannel approach (6.4 million customers, up by around 1.6 million since the start of 2014). International banks (above all Alexbank, CIB Bank and Privredna Banka Zagreb) developed a cutting-edge platform to access services through digital and physical channels (Digital).

Customer experience surveys were revised, to include the “SElok Excellence System” in new indicators, which measures the service quality provided by branches for an easier identification of areas for improvement.

To support competitiveness, expertise and innovation in business, the Group provided training for SMEs (extending the “Skills4Business” programme with the introduction of “Digital4Export” on digitalisation and internationalisation), and implemented technological services (advisory services for sectors/technologies of excellence, support for new local economy projects and for start-ups with a considerable potential for growth, digital platforms for contact between “innovation creators” and potential users).

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicator	2016 Results	2017 Objectives
Insieme per la crescita	Approximately 4,000 branches involved Branch barometer: synthetic rating of 7.7 Over 220,000 questionnaires	Customer and employee satisfaction and performance improvement
Systematic identification of the Net Promoter Score through web and telephone surveys	Approximately 400,000 ratings from retail and personal customers and 50,000 ratings from business customers NPS Retail: 8 NPS Businesses: 18 Surveys started in 2016	Developing Customer Experience Leadership through: - insight collected from NPS surveys in the Bank's operating and commercial processes; - initiatives to consolidate relations with requesting customers
Systematic Customer Experience surveys	Email and text message alerts to retail and businesses customers on the sale of products, advisory services and cash transactions. A target of approximately 2 million customers and around 250,000 ratings given Net satisfaction index: 45 (41 in 2015)	Measuring satisfaction perceived by customers for all customer/bank points of contact and channels (branch, online, telephone and chat) and improving customer experience
Maintenance of the average response times to customer complaints and claims (parent company) in line with reference regulations (RR)	Investment activities Claims: 41 days (versus RR 90 days; 46 days in 2015) Appeals: 39 days Banking and financial services Claims: 19 days (versus RR 30 days; 19 days in 2015) Appeals: 18 days	Keeping performance indexes high when listening to customers
Digitalisation of contracts	The target of eliminating hard copy signatures at all Retail and Personal branches was reached Approximately 8.3 m dematerialised transactions in 2016	Reducing waiting times, streamlining processes and improving service quality
Integrated multichannel development*	6.4 m multichannel customers (+1.6 m from the start of 2014)	7.9 m multichannel customers

* In Italy, natural persons and legal entities (not including Fideuram Intesa Sanpaolo Private Banking).

Access to credit and asset management

WHY THIS ISSUE IS SIGNIFICANT

The Intesa Sanpaolo Group guarantees products and services that promote financial inclusion and access to credit. The correct allocation of resources and ability to identify local players with whom agreements and synergies can be developed facilitates inclusion, also for vulnerable people, preferring counterparties that meet requirements in terms of repayment capacity.

Asset management is also targeted by innovation, with the development of customer services offering investment as well as forms of protection and welfare – which are an increasingly important factor for the long term wellbeing of households. Intesa Sanpaolo's portfolios include funds which adopt selection criteria based on Principles for Responsible Investment, also with a view to generating sustainability dynamics in businesses and customer choices.

HOW IT IS MANAGED

Intesa Sanpaolo acts on an ongoing basis to continually develop processes, rules and tools to manage credit using rating systems integrated with quality and forward-looking aspects and a proactive approach to preventing non-performing loans.

Intesa Sanpaolo steers, governs and supports the Group in coordinated action, based on Powers, Rules for Concession and Management and detailed Operating Procedures . With regard to Third sector customers, a rating model has been developed that is better suited to the characteristics of this type of customers.

Clear and specific positive and negative selection criteria are adopted for ethical investment funds, for securities to be included in the portfolio, with the supervision of an external, independent Sustainability Committee.

DEPARTMENTS/FUNCTIONS IN CHARGE

Risk management and control are monitored by corporate bodies, and coordinated by the Chief Risk Officer (for risk management) and by the Chief Lending Officer (for Group credit risk and management), reporting directly to the Chief Executive Officer.

These areas of central responsibility support Business entities and other functions involved in the credit process, with the aim of making credit disbursement, management and control more efficient and effective.

As for asset management, "Group Product Governance Guidelines on financial and banking products for retail customers" have been defined, updating the legal and organisational framework for a fully comprehensive and unique approach to rules on customer relations and the conduct to adopt for retail proposals.

RELATED TOPICS

Support for the business system	page 60
Offering investments based on sustainability criteria	page 65
Customer protection and responsible sales	page 67
Financial inclusion and economic empowerment	page 68
Loans and services for the green economy	page 122

RESULTS ACHIEVED IN 2016

The key objective of the Business Plan is to develop the real economy and communities where the Group operates. Actions to promote access to credit continued, with initiatives to offer micro-credit and combat usury, totalling around 76 million euro. Various solutions for young people and households were offered, including "Mutuo Giovani", a mortgage with special conditions for first home buyers and "Per Te Prestito con Lode", loans and agreements to support university students. To protect economic stability and safeguard people and households in difficult situations, several insurance solutions were made available (the "ProteggiMutuo", "Mi curo dei miei", "Tu dopo di Noi", "Offerta Salute" policies for mortgage protection, life and health insurance).

To support the business system, the "Entrepreneurship Micro-Credit Loan" was launched for small businesses, which does not require collateral and uses a special part of the Guarantee Fund for SMEs of the Ministry for Economic Development. The "Production Chain Development" programme improves credit access conditions for investments in industrial production chains with a new risk assessment that takes into account quality aspects. Partnerships with trade associations (Confindustria Piccola Industria, Confindustria, Confcommercio, Confagricoltura, and Coldiretti) promoted investments in fixed and intangible capital, above all in research, innovation and training.

Support for the start-up of Italian businesses (Intesa Sanpaolo Start-Up Initiative to promote new companies with a high technological content) and companies investing in innovation and research ("Nova+" programme) was considerable.

To promote the growth of large companies and Groups on international markets, the Corporate and Investment Banking Division put in place an extensive reorganisation process to include advisory services and specialist, focussed products (Transaction Banking, with specific reference to support for Cash Management and Trade Finance) as part of international network assistance (available in over 40 countries).

Activities to support the Third sector and social economy continued with new medium and long term loans in support of social enterprises for approximately 200 million euro. In November 2016, Banca Prossima was awarded Certified Benefit Corporation (B-Corp) certification, demonstrating the benefits it has generated for the community.

As regards asset management and sustainable investment products, Eurizon Capital and Banca Fideuram offer socially responsible investment solutions. In particular, Eurizon Capital has developed asset management products in line with Principles for Responsible Italian Stewardship Principles for exercising administrative and voting rights in listed companies it has invested in.

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results	2017 Objectives cumulative value 2014-2017
New medium/long term credit granted to the real economy	56 bn in 2016 137 bn cumulative figure 2014-2016	Approximately 170 bn
New medium/long term credit granted to social enterprises	0.2 bn in 2016 0.6 bn cumulative figure 2014-2016	Approximately 1.2 bn
Loans for initiatives with a high social impact	4.6 bn in 2016 More than 11.4 bn cumulative figure 2014-2016	Support for vulnerable social groups
Nova+ loans for business innovation	46.5 m in 2016 More than 245 m cumulative figure 2014-2016	Support for companies that create innovation

Climate change

WHY THIS ISSUE IS SIGNIFICANT

Climate change is far reaching, with consequences that not only affect the “environment”, but can have considerable repercussions on social dynamics and on future generations. It is worldwide in scope and rapidly evolving, involving all components of the environment, society and all aspects of the economic system, with considerable impact on customers, households, the community and consequently on the overall operations of the Group.

Intesa Sanpaolo, aware that the fight against climate change calls for a clear, effective strategy, has adopted an Environmental and Energy Policy which mainly focuses on reducing its ecological footprint and protecting the ecosystem, supporting research and innovation for improving energy performance, analysing risks and climate change opportunities, in order to incorporate them in company policies. In this context, the Group pursues qualitative and quantitative improvement objectives, to help offset the effects of climate change at both a social/environmental and business level. In particular, Intesa Sanpaolo has produced a Long Term Action Plan for Environmental Sustainability since 2009, for its long term objectives, in order to reduce risks and environmental impact and also decrease energy use and climate-altering emissions.

Through green finance activities and the development of innovative products and services, Intesa Sanpaolo supports its customers in reducing their ecological footprint and responding effectively to the pressure of environmental challenges.

HOW IT IS MANAGED

Fighting climate change is a commitment to environmental sustainability set out in the Code of Ethics. Environmental and energy policy rules and specific policies originating from these establish standards and behaviour to adopt to focus on climate change. The scope refers to both direct impact on the environment deriving from the Bank's operations, for which a certified Environmental Management System has been adopted and Energy Manager and Mobility Manager positions established, and indirect impact deriving from customers and suppliers. The Intesa Sanpaolo Group carefully monitors risks relating to climate change to promote a behaviour that helps reduce and develop a culture focussed on prevention. The monitoring of these risks is based on processes in the Code of Ethics, the Environmental Management System and Sustainability Report that make it possible to identify objectives and action plans for the management and mitigation of these risks.

DEPARTMENTS/FUNCTIONS IN CHARGE

The CSR Sub-Department monitors the Group's social and environmental responsibility areas, planning, managing and monitoring sustainability policies and tools. This function reports, through the Chief Governance Officer, to the Managing Director and CEO and to the Board of Directors and works with a network of contacts at various entities of the Group in Italy and abroad. The Safety and Protection Department, reporting to the Managing Director and CEO, is responsible for governing the Environmental and Energy Management System adopted by the Group, monitoring direct and indirect impact and promoting improvement objectives, guaranteeing that international ISO certification is maintained in conjunction with relevant entities.

RELATED TOPICS

Management of social and environmental risks in loans	page 56
Climate change: management of potential environmental risks and impact	page 120
Loans and services for the green economy	page 122
A green culture and initiatives	page 124
Environmental aspects	page 126

RESULTS ACHIEVED IN 2016

Intesa Sanpaolo is committed to environmental sustainability, also through green products and services. In this context, the Group continued to provide financing in the field of renewable energy, energy savings and environmental protection, with measures for individual customers, enterprises and the Third sector. Loans for over 1.7 billion euro were disbursed in 2016.

As for customer advisory services, Mediocredito Italiano's Energy Desk continued its specialist activities to analyse projects in the renewable energies sector, supporting the Group's commercial network.

Support for investments in research and technological innovation to tackle climate change was also considerable. The Intesa Sanpaolo Start-Up Initiative Programme continued to promote business initiatives with a high technological content, with a particular focus on the Clean Tech sector and Circular Economy. Environmental risk assessment in the loan process is ensured by Equator Principles screening and internal credit rating (see the section "Management of business risk", page 53).

As regards the management of direct impact on the environment, action continued to improve overall energy efficiency and reduce CO₂ emissions. In Italy, around 97% of electricity used came from renewable sources, certified by a Guarantee of Origin, and with over 1,000 MWh produced from the Group's own photovoltaic plants. Thanks to feed-in tariffs and the fact that no electricity was bought, the photovoltaic plants at Moncalieri, Settimo Torinese and Sarmeola di Rubano generated savings of around 298,000 euro. The Environment and Energy Management System, certified to ISO 14001 and ISO 50001 and, for the reporting of greenhouse gas emissions, to ISO 14064, continued to be extended in Italy. With the inclusion of the New Headquarters in Turin, the System is now in place at more than 200 operating units. In 2016, the Hungarian Bank CIB Bank was awarded ISO 50001 certification for all 85 sites.

The reduction in the Group's electricity and heating use, equal to 6.7%, generated an estimated economic return of over 800,000 euro and tax relief of around one million euro.

For sustainable mobility, the number of agreements with public transport companies, and car and bike sharing services, was increased.

89% of all paper purchased was eco-friendly paper. Dematerialisation programmes made it possible to avoid using around 2,700 tonnes of paper, with fewer CO₂ emissions of over 4,300 tonnes and savings of around 3 million euro.

Awareness of environmental issues was developed internally, with training courses (a new course on waste management in Intesa Sanpaolo branches on the e-learning platform "Ambientiamo"), and externally, with customer notices and participation in numerous national and international events.

PERFORMANCE INDICATORS AND OBJECTIVES ACHIEVED

Indicators	2016 Results	2016 Objectives	2017 Objectives
Electricity consumption in Italy compared to 2012	19.9% reduction	17% reduction	20% reduction
Purchase of eco-friendly or recycled paper in Italy	93%	98%	98%
Group indirect emissions (Scope2 – location based) compared to 2012	13.5% reduction	13% reduction	14% reduction
Extension of "other indirect emissions" reporting (Scope3)	The reporting scope of Internet banking transactions was extended to include international banks	Gradual expansion of the scope and improvement in reporting	
Environmental certification	The New Turin Headquarters (approximately 2,000 people) was included in the sample and CIB Bank (Hungary) was awarded ISO 50001 certification	The number of sites with UNI EN ISO 14001, UNI CEI EN ISO 50001 and UNI EN ISO 14064 certification was extended	The system was extended to another 25 operating units in Sicily, Tuscany, Umbria and Emilia and aligned with the new ISO 14001:2015 standard

Adoption of international standards and commitments



Global Compact [i]

A UN initiative that aims to promote corporate social responsibility through the adoption of ten fundamental principles relating to human rights, labour rights, environmental protection and the fight against corruption.



Equator Principles [i]

Guidelines for social and environmental risk assessment and management in project financing, based on criteria recommended by the International Finance Corporation, a World Bank organisation.



UNEP Finance Initiative [i]

The UN Environmental Programme that promotes dialogue among financial institutions on economic performance, environmental protection and sustainable development.



CDP [i]

An independent non-profit organisation that holds and manages the most extensive database worldwide of information on climate change in the corporate sector. Membership of the Carbon Disclosure Project requires the disclosure of greenhouse gas emissions and the corporate strategies implemented to manage issues regarding climate change. The Intesa Sanpaolo Group is part of the CDP as a signatory through Eurizon Capital SGR and the Intesa Sanpaolo Group Pension Fund.



Global Reporting Initiative [i]

An organisation which develops sustainability guidelines recognised at a global level through a multi-stakeholder process. Intesa Sanpaolo has been accredited as an Organizational Stakeholder of GRI since 2010.



London Benchmarking Group [i]

An internationally recognised reporting standard on the community investments of businesses.

Signatory of:



PRI - Principles for Responsible Investment [i]

Investment sustainability principles established from the partnership between UNEP-FI and Global Compact. The Intesa Sanpaolo Group supports the principles as a signatory through Eurizon Capital SGR and the Intesa Sanpaolo Group Pension Fund.

Global Compact: the 10 principles of the United Nations

Intesa Sanpaolo participates in the Global Compact Advanced Programme and reports on actions taken in compliance with its commitments in the “Advanced Level” disclosure available on the Global Compact website.

	The 10 Principles	Performance Indicators
Human rights [i]	1. Promote and respect the protection of internationally proclaimed human rights within their spheres of influence	Human Rights: G4-HR2 (Investments), G4-HR8 (Rights of Indigenous Peoples), G4-HR9 (Assessment), G4-HR12 (Human Rights Grievance Mechanisms) Society: G4-SO1, G4-SO2 (Local Communities)
	2. Make sure that they are not complicit, albeit indirectly, in human rights abuse	Human Rights: G4-HR1 (Investment)
Job protection [i] [i]	3. Uphold the freedom of association and the effective recognition of the right to collective bargaining	Organisational profile: G4-11 (Employees covered by collective bargaining agreements) Human Rights: G4-HR4 (Freedom of Association and Collective Bargaining) Labour: G4-LA4 (Labour/Management Relations)
	4. Eliminate all forms of forced or compulsory labour	Human Rights: G4-HR6 (Forced or Compulsory Labour)
	5. Ensure the effective abolition of child labour	Human Rights: G4-HR5 (Child Labour)
	6. Eliminate all forms of discrimination in employment and occupation	Organisational profile: G4-10 (Employees by type) Economic: G4-EC5, G4-EC6 (Market Presence) Labour practices and decent work: G4-LA1, LA3 (Employment); G4-LA9, G4-LA11 (Training and Education); G4-LA12 (Diversity and Equal Opportunity); G4-LA13 (Equal Remuneration for Women and Men) Human Rights: G4-HR3 (Non-discrimination)
Environmental [i]	7. Support a precautionary approach to environmental challenges	Economic: G4-EC2 (Economic Performance) Environment: G4-EN1 (Materials); G4-EN3 (Energy) G4-EN8 (Water); G4-EN15, G4-EN16, G4-EN17, G4-EN21 (Emissions); G4-EN27 (Products and Services) G4-EN31 (Overall)
	8. Undertake initiatives to promote greater environmental responsibility	Environment: G4-EN1, EN2 (Materials); G4-EN3, G4-EN4, G4-EN5, G4-EN6, G4-EN7 (Energy); G4-EN8, G4-EN15, G4-EN16, G4-EN17, G4-EN18, G4-EN19, G4-EN21 (Emissions), G4-EN23, (Effluents and Waste); G4-EN27, (Products and Services); G4-EN29 (Compliance); G4-EN30 (Transport); G4-EN31 (Overall); G4-EN34 (Environmental Grievance Mechanisms)
	9. Encourage the development and diffusion of environmentally friendly technologies	Environment: G4-EN6, G4-EN7 (Energy); G4-EN19 (Emissions); G4-EN27 (Products and Services); G4-EN31 (Overall)
Corruption [i] [i]	10. Promote initiatives to work against corruption in all its forms, including extortion and bribery	Ethics and Integrity: G4-56, G4-57, G4-58 Society: G4-SO3, G4-SO4, G4-SO5 (Anti-corruption); G4-SO6 (Public Policy)

Intesa Sanpaolo's Commitment to the Sustainable Development Goals of the United Nations

Intesa Sanpaolo is a member of the business communities that support the United Nations' Sustainable Development Goals. Recognising the close connection of some of these objectives with its own business, Intesa Sanpaolo has identified the most significant projects and activities already in progress, witnessing their contribution to the generation of positive change at a global level.



BANK THE UNBANKED

Over the years, Alexbank has developed several products dedicated to individuals who would have no access to banking to improve living and working conditions in the poorest areas of the country. This commitment is part of a dedicated project – “Bank the Unbanked” – which provides for the development and integration of three lines of intervention for this type of customer: micro-deposits, which include new savings products at attractive rates, a dedicated debit card and the halving of charges on all additional services (more than 700 accounts opened, with deposits of nearly 177 thousand euro); expansion of micro business, with a network of local supporting specialists; creation of a mobile wallet platform. Moreover, the offer to support small and very small businesses, available since 2008 with several dedicated branches, operating in close contact with these individuals to help them develop their business, continued. Overall, micro-credit activities led to around 38 million euro of loans in 2016 (45.6 million euro in 2015). See page **75**

Material issue: financial inclusion and economic empowerment

Business issue: access to financial services



USE OF RENEWABLE SOURCES

In 2016, 80% of the electricity used by the Intesa Sanpaolo Group, which is committed to gradually reducing its dependence on fossil fuels, came from renewable sources. In particular, in Italy, the percentage reached was equal to around 97%, with over 110,000 tonnes of CO₂ per year avoided, thanks to the use of electricity certified with a Guarantee of Origin from renewable sources, and own production of over 1,000 MWh from photovoltaic plants. The cogeneration plant at the Parma EDP centre produced a limited amount of energy, equal to around 3% of total consumption in Italy. See page **127**

Material issue: Climate change

Business issue: renewable energy



INTESA SANPAOLO'S EMPLOYMENT PROTECTION

Employment is one of the priority areas in which we are working to motivate and engage people in terms of flexibility, efficiency and productivity. An important objective of the 2014-2017 Business Plan is the reallocation of 4,500 members of staff in order to achieve strategic plans, without cutting jobs.

In 2016 the Group recruited 4,100 people (1,098 in Italy and 3,023 abroad). At a Group level the number of female staff accounted for 54% (53% in 2015) and investment in the future through the introduction of young resources continued in line with company objectives. See page **103**

Material issue: job protection policies

Business issue: employment

EMPLOYMENT, TRAINING AND PROMOTION OF NEW ENTREPRENEURSHIP

Intesa Sanpaolo is a strategic partner to Piccola Industria Confindustria in the “AdottUP” project for the adoption of start-ups. It turns the best entrepreneurial ideas into sustainable businesses thanks to the training provided by established companies which become their “tutors” and guide them through their development. As part of funding for new business activities, 235 initiatives were supported in 2016, for 87.6 million euro, of which 46.5 million earmarked for 48 start-ups for research and development projects with Nova+ funding. See page **63**

Material issue: support for the business system

Business issue: youth employment



TECH MARKETPLACE

This promotes interaction between start-ups, SMEs and large companies, allowing technological start-ups and SMEs to offer their innovations to larger firms, thereby facilitating the meeting of supply and demand for technological innovation, with the aim of creating partnerships, commercial agreements and acquisitions. In 2016, the platform had over 5,000 businesses on the demand side, and over 1,200 profiles on the technological supply side comprising start-ups and tech SMEs grouped into about ten different sectors, including energy, software, telecommunications, transport, the food and agricultural industry and fashion. See page 112

Material issue: support for the business system

Business issue: research and development



THE MANAGEMENT OF ENVIRONMENTAL EMERGENCIES

Intesa Sanpaolo's strategy includes actions to adapt to climate change that has already taken place. In recent years we have witnessed extreme atmospheric events at a global level that have had considerable impact on the Bank's structures and on the activities and daily lives of customers. Knowing how to assess and manage these risks is therefore increasingly important. In particular, Intesa Sanpaolo supports families and economic operators damaged by bad weather and climatic emergencies, through specific loans with favourable terms and the suspension of repayments on existing loans. See page 120

Material issue: Climate change

Business issue: risks and opportunities deriving from Climate change

LOANS FOR THE GREEN ECONOMY

Loans for corporate, small business and retail customer segments wishing to invest in energy savings and renewable sources continued in 2016.

Over 1.7 billion euro was disbursed, accounting for 3.1% of total loans. See page 122

Material issue: Climate change

Business issue: risks and opportunities deriving from Climate change



PREVENTION OF CORRUPTION

The Bank has adopted strict internal procedures over time to prevent the risk of corruption and extortion. In addition to specific provisions in the Code of Ethics, the Group's Internal Code of Conduct and the Compliance Programme pursuant to Legislative Decree 231/2001 on the administrative liability of entities, a detailed set of internal regulations has been established, which all personnel must be familiar and comply with. These regulations govern in detail corporate processes that may potentially lead to this type of offence being committed. The Compliance, Audit and Internal Control Departments must ensure ongoing consistency between the control and conduct principles on corruption in the Compliance Programme and internal regulations in force, also ensuring compliance with said principles. In 2016, a specific anti-corruption project was set up to consolidate the internal monitoring of customer and Bank activities, with the approval of Guidelines on Anti-Corruption and the Identification of a Group Anti-Corruption Officer in March 2017. See page 82

Material issue: integrity and rigour in corporate conduct

Business issue: anti-corruption

Awards and inclusion in indexes

Intesa Sanpaolo is in several sustainability indexes, where selection is based not only on financial performance but also on social and environmental performance (ESG analysis).



DJSI World and DJSI Europe [i]

Selection is dependent on an annual assessment carried out by Robeco SAM, with a best-in-class criterion based on three aspects: economic and governance, social and environmental. Intesa Sanpaolo received the 2017 Bronze Class Sustainability Award.



FTSE4Good Global and FTSE4Good Europe [i]

The analysis conducted uses only publicly available information on the three ESG areas, with assessment in 14 sectors and the use of approximately 350 indicators.



CDP "A list 2016" [i]

This includes 193 listed companies chosen for their advanced approach to mitigating climate change.



MSCI Global Sustainability, with assessment based on the three ESG areas.
MSCI Low Carbon, for which carbon emissions are assessed [i].



Euronext Vigeo Europe 120 and Euronext Vigeo Eurozone 120 [i]

Inclusion is based on an assessment conducted on the three ESG areas and also includes analysis of any disputes.



Ethibel Excellence Investment Register (Ethibel Excellence Index Global and Europe) [i]

Inclusion in the indexes is based on the assessment conducted by the rating agency Vigeo sustainability on the three ESG criteria and also includes the analysis of any disputes.



UN Global Compact 100 stock index [i]

This includes the 100 companies adhering to the ten principles of the UN Global Compact and which stood out at a global level both in terms of their attention to sustainability issues and in terms of their performance in the financial sector.



Standard Ethics Italian Banks, with assessment based solely on corporate governance, **Standard Ethics Italian** on corporate social responsibility and corporate governance. The title is assigned a rating equal to EE on a scale from EEE to E- [i].



ECPI Indices [i]

The assessment is based on an analysis of public information on the three ESG areas and also assesses risks and any disputes.



Diversity and Inclusion index (D&I) - Thomson Reuters [i]

This index includes over 4,000 listed companies and measures their performance in terms of diversity, inclusion and professional development. Intesa Sanpaolo was ranked 28th.

STOXX® Global ESG Leaders index [i]

The index includes companies that are leaders worldwide in terms of environmental, social and governance criteria, based on ESG indicators provided by Sustainalytics. Intesa Sanpaolo obtained a rating of A, compared to a sector average of C.

Intesa Sanpaolo gained numerous awards. The classification produced by Corporate Knights in January 2017 on sustainability performance ranked Intesa Sanpaolo 20 on the list of the most sustainable companies worldwide, and the first company in Italy. The Group's environmental commitment was recognised with its inclusion in the 2016 Newsweek Green Rankings, and with the "Industry Carbon Leader 2016" award from ET Index Research. The Group's commitment to people and inclusion was recognised with the "2016 Diversity & Inclusion Award Diversitalavoro" while its "Flexible Work" project received a mention of merit in the Italian Association for Financial Innovation AIFIn Award and an award during the ITC trade show, SMAU.

Intesa Sanpaolo was also recognised for its ability to innovate, receiving the Italian Association for Financial Innovation's "Cerchio d'Oro dell'Innovazione Finanziaria" financial innovation award, for its projects on Customer Experience and New Branch Layouts (Distribution Channels and Customer Experience category), and obtaining a mention of merit for the project Digital Factory - Innovating and digitalising Bank processes.