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# Report of the Management Control Committee to the Shareholders' Meeting on the supervisory activities performed in 2016

pursuant to Article 153, paragraph 1 of Legislative Decree 58 of 24 February 1998, and Article 23.1, letter j), of the Articles of Association

Dear Shareholders,

Since 27 April 2016 Intesa Sanpaolo S.p.A. has adopted the one-tier corporate governance system by implementing the Articles of Association approved by the Extraordinary Shareholders' Meeting of 26 February 2016.

This corporate governance system - characterised by the presence of a Board of Directors and a Management Control Committee set up within it, both appointed by the Shareholders' Meeting - has been considered suitable to embody the development of the Bank's governance structure, preserving the added value represented by the simultaneous exercising of the strategic supervisory function and the control function, which had proven to be efficient and effective in the two-tier system previously in force.

The experience gained up to now makes it possible to confirm that the new system allows a more direct relationship between who determines the strategic guidelines and who has to implement them; it also guarantees greater interaction and debate between those who have to monitor the consistency of the management with the strategic guidelines and the Managing Director.

The supervisory and oversight activity carried out by the Management Control Committee, composed of non-executive and independent directors, has contributed, on the cognitive and evaluative level, to the taking of the corresponding decisions by the Board, first and foremost those concerning the organisational structure, the internal control system and the risk management policies and processes.

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This Report is the first drawn up by the Management Control Committee pursuant to Article 153, paragraph 1 of Legislative Decree 58/1998, ("Consolidated Law on Finance"), to report to the Shareholders' Meeting, called to approve the annual financial statements, on its supervisory activities and on any omissions or reprehensible facts found. This requirement is also stated in Article 23.1, letter j), of the Articles of Association.

The Management Control Committee has carried out its duties in line with and implementing the results of the activities performed by the Supervisory Board, which carried out strategic supervisory, steering and oversight functions in the two-tier system previously in force. In order to provide a complete overview of the supervisory activities carried out during 2016, in the first part of this Report we give an account of the activities carried out by the Supervisory Board in the first four months, while in the second part we report on the activities carried out by the Management Control Committee as from the date it was established.

The Report was prepared taking into account the Consob recommendations on the matter and, in particular, Communication no. 1025564 of 6 April 2001 and subsequent updates, expressly referred to in the text.

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## PART I

### REPORT ON THE SUPERVISORY ACTIVITY CARRIED OUT BY THE SUPERVISORY BOARD IN THE FIRST FOUR MONTHS OF 2016

It should be noted that - in carrying out its duties as from the date of approval of the Report pursuant to Article 153 of the Consolidated Law on Finance on the supervisory activities performed in 2015 and for as long as it remained in office (27 April 2016) - the Supervisory Board, assisted during the preparatory phase by the competent internal Board committees, and in particular the Internal Control Committee and the Risk Committee, approved:

- the quantitative results of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) for 2016;
- the report by the Internal Auditing Department on the outsourcing of the important operative or control functions;
- the annual business continuity plan and residual risks for 2016. In respect to this, it examined the report on the checks on the adequacy of the plan and the business continuity measures, as well as the annual report on the evaluation of IT security;
- the Sustainability Report for the Group.

The activity of providing feedback to requests from the Supervisory Authorities was also continued, including as a result of investigations, and to update the Group's Governance documents. With regard to the latter, the Supervisory Board approved a review of the Guidelines for managing the most significant transactions, and of the Guidelines for liquidity risk management and of the scheduling model for interest rate risk within the framework of the modelling of core deposits.

The Supervisory Board also authorised, pursuant to Article 25.1.2 of the Articles of Association in force at that time, two strategically important transactions approved by the Management Board as far as they fell within its remit, concerning the investment in the Atlante Fund and the sale of the payment services processing business.

As to the operations of the Internal Control Committee in the period in question, the examination should be noted of the disclosures, by the Manager responsible for preparing the Company's financial reports, in relation to the Guidelines for the Administrative and Financial Governance activities plan for 2016 and, by the Safety and Protection Unit on the monitoring of risks within the scope of privacy at Group level.

Moreover, the Chief Lending Officer provided insights into the methods of reporting the transfer of debt, the outlook for the corporate restructuring plans on Group customers, the methods of appointing external professionals for consultancies on lending, as well as the procedures for decision-making in the matter of loan disbursement.

As to the preliminary activities carried out by the Risk Committee, the following should be noted:

- the disclosure about the launch of Swap Dealer trading on the US market;
- the project for reporting the non-current financial part allocated in the Corporate Centre and the activities put in place in order to provide the information required by the European Central Bank ("ECB") in relation to expected profits for 2016;
- the update on the Fundamental Review on the Trading Book, the state of completion of the work on the action plan for the internal model on specific risk as well as the results of the Reputational Risk Management process;
- the bad loans disposal strategy and the updating of the evaluations of the strategic outlook for the extra-captive consumer credit channel.

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During the first four months of 2016 the following meetings were held:

- 2 Shareholders' Meetings, one of which an extraordinary meeting;
- 6 Supervisory Board meetings;
- 9 Management Board meetings, attended, in accordance with the Articles of Association, by the members of the Internal Control Committee and the Director and Secretary of the Supervisory Board;
- 17 Internal Control Committee meetings;
- 1 Nomination Committee meetings;
- 9 Remuneration Committee meetings;
- 15 Risks Committee meetings;
- 3 meetings of the Committee for transactions with related parties.

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## PART II

### REPORT ON THE SUPERVISORY ACTIVITY CARRIED OUT BY THE MANAGEMENT CONTROL COMMITTEE

The Articles of Association assign to the Management Control Committee ("Committee") the tasks assigned by current law to the control Body. The Committee also carries out tasks assigned under Article 19 of Legislative Decree 39/2010 to the internal control and audit committee.

The Committee, in exercising its duties and to improve performance thereof, exchanges information of mutual interest and, where appropriate, coordinates with the Risks Committee on the performance of their respective duties. The Committee also coordinates with the Surveillance Body pursuant to Legislative Decree 231/2001, which is responsible for supervising the functioning, effectiveness and observance of the "Organisational, Management and Control Model" adopted by the Bank in accordance with Legislative Decree 231/2001. Some information flows of mutual interest are examined during joint meetings.

It should be noted that between May and December 2016 the following meetings were held by the corporate Bodies:

- 19 meetings of the Board of Directors;
- 27 meetings of the Management Control Committee.

10)  
Meetings

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

In order to implement the one-tier governance system, the Committee examined and approved its own Regulations and verified the existence, at the time of appointment, of the professional qualifications, personal integrity and independence of its own members, as required by the laws in force, by Article 13.5 of the Articles of Association as well as by the said Regulations.

With reference to its own suitability in terms of composition and operation, the Committee approved, within its own remit, the Regulations for the Board of Directors' self-assessment process. These Regulations, drawn up in compliance with statutory and regulatory provisions and those of the Articles of Association and in accordance with the applicable guidelines of the European Banking Authority ("EBA"), implement the provisions of Bank of Italy Circular 285/2013 on Supervisory Provisions for Banks, taking into account the provisions of the Corporate Governance Code for listed companies updated by the Corporate Governance Committee in July 2015 ("Corporate Governance Code"), with which the Bank has stated that it complies.

In compliance with such Regulations, the Committee therefore carried out a separate self-assessment from that of the Board of Directors, according to criteria and procedures consistent with the nature of the function it performs within the one-tier system. This exercise, conducted - consistently with the previous year and in line with what the Board of Directors was doing - by availing itself of the preliminary documents prepared by an independent external consultant, involved both the use of questionnaires and the conduct of individual interviews on the operating, efficiency and effectiveness profiles of the Committee. The qualitative and quantitative results of the questionnaires and interviews confirmed the adequacy of the Committee and the high level of overall compliance with the provisions of the Corporate Governance Code, the EBA guidelines, the provisions of Bank of Italy Circular 285/2013 and the best practices of other listed companies, in so far as they are comparable with the Bank. On 16 February 2017, the Committee therefore expressed an assessment of adequacy with regard to its own size, composition and functioning.

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In accordance with the requirements of the said Supervisory Provisions and the internal regulations, on 16 February 2017 the Committee also assessed the continuing existence of the necessary requisites for each of its members. With particular reference to the definition of the criteria used to evaluate the independence of the Directors of Intesa Sanpaolo, note that during the financial year, after examination by the Committee within its own area of responsibility, the Regulations for assessing the significance of financial relations were adopted. At the time of the annual audit, no component of the Committee declared the existence of significant financial relations with Group companies. As envisaged by the Corporate Governance Code, the members of the Committee ascertained the correct application of the assessment criteria and procedures adopted by the Board of Directors for evaluating the independence of its members.

With reference to the provisions of the Articles of Association, it should be noted that attention has been drawn to the need to establish a Steering Committee, which will be chaired by the Managing Director and composed of the heads of the main corporate departments.

With reference to statutory compliance, the Committee examined the proposals concerning:

- ensuring compliance of the rules and internal procedures with the new European legislation on the subject of market abuse (Market Abuse Directive II);
- the issuing of Guidelines on Product Governance of financial and banking products and on amending the rules regarding over-the-counter derivatives;
- the updating of Consumer Protection Rules for the international subsidiary banks;
- the issuing of Anti-corruption Guidelines.

The Committee also shared the proposal for updating the Group Procedures regulating the conduct of transactions with related parties of Intesa Sanpaolo S.p.A., associated entities of the Group and Relevant Persons pursuant to Article 136 of Legislative Decree 385/1993 ("Related Parties, Associated Entities and Relevant Persons Regulations"). These Regulations, although already compliant in terms of legal compliance and best practice, have been reviewed in order to implement the one-tier model and include the rules envisaged by the Consolidated Law on Banking on the liabilities of bank officers, thus uniting the procedures. Pursuant to Consob Regulation 17221 of 12 March 2012 implementing provisions on transactions with related parties, the Committee - having also consulted the Internal Auditing Department on the overall monitoring of the organisational and IT infrastructure involved in the process - expressed a favourable opinion about the suitability of the Regulations in question to guarantee the substantive and procedural correctness of any transactions with related parties and associated entities of the Group.

With regard to relations with the Supervisory Authorities, the Committee received regular updates from the International and Regulatory Affairs Department on the ECB's Supervisory Plan for the Group and the launch of various inspections and Thematic Reviews, as a result of which it monitored the progress of the mitigation plans put in place. In particular, the Committee examined the draft answers to the ECB's Recommendation Letters issued after the following inspections:

- "On-site inspection on Credit and Counterparty Risk Management and Risk Control";
- "On-site inspection on Liquidity risk and Interest Rate risk in the Banking Book".

Moreover, after making the appropriate inquiries with the Internal Auditing Department, the Committee examined various findings to provide feedback to the Bank of Italy, including those pertaining to:

- the restructuring of the Group's consumer credit sector;
- the decision of Intesa Sanpaolo Private Banking to inform customers of the strengths and merits of Intesa Sanpaolo Private Bank Suisse;

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- the operations of the Brazilian subsidiary a year after its launch, expressing its assessment of it as requested by the Authority;
  - the capital adequacy of the subsidiary Provis.

The Committee also examined the actions taken to resolve the irregularities that occurred during the first statistical survey on bad loans sent to the Bank of Italy in September 2016.

As far as relations with the US supervisory authorities are concerned, the Committee monitored the development of the administrative proceedings with the New York FED and the New York State Department of Financial Services ("DFS"). In December 2016 an agreement with the DFS was definitively reached in relation to the proceedings concerning shortcomings in anti-money laundering controls and procedures by the New York branch; the agreement provides for the imposition on Intesa Sanpaolo of an administrative penalty of 235 million dollars (225 million euro) - expensed to the income statement in 2016 - and the implementation of a remediation plan. In February 2017, the New York FED announced the results of its annual inspection of the branch, indicating some critical issues to be solved.

With reference to the submission of reports pursuant to Article 2408 of the Italian Civil Code by shareholders on matters deemed reprehensible, to the actions taken and related outcomes, we note that the Committee has completed its review, already launched by the control Body in office at the time, of the results of the internal audits conducted by the Internal Auditing Department in connection with a complaint in January 2016 with respect to events that involved a member of the Supervisory Board previously in force in connection with the position held by same at companies outside the Group. In this regard - in recalling that the director in question had suspended himself as a precautionary measure from his position with Intesa Sanpaolo with effect as from 10 February 2016 and, in the meantime, has ceased to hold office following the renewal of the corporate Bodies - it is confirmed that, as emerged as from the initial results, the complaint relates to facts that do not concern the management of Intesa Sanpaolo and is therefore irrelevant. For more outlines of other complaints submitted by the same shareholder on this issue, please refer to the Report pursuant to Article 153 of the Consolidated Law on Finance for 2015, to the Shareholders' Meeting held on 27 April 2016, as well as the minutes of said General Meeting.

Additionally, the Committee examined the results of the internal audits carried out by the competent corporate functions as a result of the following complaints pursuant to Article 2408 of the Italian Civil Code submitted by shareholders of the Bank.

5)  
Complaints

- In April 2016, with reference to the case involving the Additional Pension Fund for the Staff of Istituto Bancario Italiano, a complaint was made that the Supervisory Board members previously in office allegedly fell short of the duties related to their position in relation to the handling of the assets in liquidation in the presence of false representations in court documents. The complainant also requested joint and several compensation for alleged damages. The facts denounced proved unfounded in light of both the internal investigation carried out and the recent judgment by the Court of Appeal of Milan, which dismissed the claim for compensation against Intesa Sanpaolo and the Fund, noting - among other things - that no false document was produced by Intesa Sanpaolo in its deeds and that the defendants did not supply any proof, as they had a duty to do, of the alleged damage suffered. It is therefore confirmed that there was no unlawful conduct on the part of the Bank.
- In December 2016, the case of the administrative penalty imposed on Intesa Sanpaolo by the DFS was the subject of a complaint by a shareholder, which focussed on the compliance of the conduct of the Bank's employees with the anti-money laundering legislation in force and the possible impacts on the directors' liability. As a result of the checks carried out it can be confirmed that there was no evidence that the Bank, or any

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of its employees, adopted any knowingly incorrect conduct and that the Bank has always taken an approach of full cooperation with the Authorities.

- With regard to a complaint in December 2016 concerning the participation of Intesa Sanpaolo as financing bank in the sale of the 19.5% equity stake in Rosneft Oil to Glencore and Qatar Investment Authority, the Committee has verified that the transaction was conducted in compliance with international regulations on embargoes.
- With regard to two complaints lodged in November and December 2016 in connection with the offer of investment diamonds to customers of the Banca dei Territori Division, it should be noted that – notwithstanding the inapplicability at present of the rules on investment services and therefore of the obligations on the preparation of prospectuses – the Bank adopted a process that guarantees the safeguarding of the principles of fairness and transparent reporting. During the sale proposal phase, inter alia, the characteristics and the price of the diamond are explained in order to allow a prior verification of its appropriateness and of the cost elements that contribute to forming the price. The Bank also activated its own controls on the fairness of the prices and the quality of the gems traded, using independent experts. Since the start of trading, 8,297 transactions for the purchase of diamonds have been concluded, 179 resale transactions and 17 complaints have been received (0.2%). There are no ongoing civil and criminal proceedings against the Bank involving the marketing of diamonds.
- With reference to a complaint lodged in March 2017 about the relationship with Alitalia, it should be emphasised that all the stakeholders, including Intesa Sanpaolo, are working to relaunch the company, including to protect their respective economic interests. Regards the choice of the company's top management, which is the responsibility of the Board of Directors of Alitalia, Intesa Sanpaolo does not have the rights to impose any names. Therefore, the Committee notes the absence of any reprehensible conduct by the Bank and the Managing Director and CEO.

With reference to the submission of complaints and the initiatives undertaken, it should be noted that during 2016, there were 5 complaints received, addressed by customers to the supervisory Body and related to the Bank's core business. Through the relevant departments, each complaint was the subject of appropriate checks, which did not bring to light any significant omissions or irregularities.

6)  
*Protests*

## 2. Supervision of compliance with the principles of correct management

The Committee has held regular meetings with the heads of the Governance Areas and Business Units, the Corporate Control Functions, the Manager responsible for preparing the Company's financial reports and the Independent Auditors KPMG S.p.A. ("Independent Auditors"), in order to also ensure that the decision-making process is based on a suitable representation of the risks and effects of the choices made and that the corporate Bodies have the availability of an appropriate system of information flows. With regard to this last point the Committee noted that the flows between the Bank's structures and the Managing Director, and between them and the Board of Directors, are continuous. Information exchange between the Committee and the Managing Director is enhanced by regular meetings, mostly focused on the functionality and effectiveness of the internal control system, as well as submission to the Board of Directors of the Committee's own regular reports on its activities and recommendations.

The Committee supervised the observance of the obligations envisaged for transactions of greater economic, financial and capital importance, confirming that they were performed according to law and the Articles of Association, and that they were not manifestly imprudent,

1)  
*Most  
significant  
transactions*



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hazardous, in conflict of interest, in contrast with resolutions taken by the Shareholders' Meeting, or in any event likely to compromise the integrity of the shareholders' equity. The Committee received regular reports provided pursuant to Article 150, paragraphs 1 and 2 of the Consolidated Law on Finance on the activities undertaken and the most significant transactions carried out by the Bank or its subsidiaries both as part of the information regarding the preparation of the quarterly reports, the half-yearly report and the financial statements provided by the Manager responsible for preparing the Company's financial reports, and at their regular meetings with the Managing Director and CEO. The report on transactions in which the directors have an interest, on their own behalf or on behalf of third parties, or which are influenced by the party exercising the activity of management and coordination, was made to the Committee as part of the quarterly reports received pursuant to the Regulations on Related Parties, Associated Entities and Relevant Persons. Through the Internal Auditing Department, the Committee was likewise able, among other things, to continuously oversee the effectiveness and functionality of the procedures to monitor transactions with related parties, associated entities and relevant persons as well as compliance thereto by the corporate departments.

2)  
*Atypical or unusual transactions*

No atypical and/or unusual transactions were carried out either with third parties, or related parties or intragroup that could give rise to doubts concerning the fairness/completeness of the financial statements, conflicts of interest, the safeguarding of company assets, or the protection of minority interests. Furthermore, there emerged no management irregularities nor performance anomalies.

3)  
*Adequacy of information*

The main ordinary or recurring transactions with related parties of major intragroup significance (exempt pursuant to the relevant Regulations from the special decision-making procedure and the obligation to publish a market disclosure document), were adequately reported and illustrated in the reports on operations and the notes to the draft Parent Company's financial statements and the consolidated financial statements as at 31 December 2016, approved by the Board of Directors on 21 February 2017. For further details please refer to these documents.

11)  
*Principles of correct management*

Finally, the Committee monitored compliance with the Group Code of Ethics, examining the annual report on its implementation and updating, approved by the Board of Directors on 20 December 2016.

In view of all the above, we confirm that the principles of correct management have been continuously applied.

### 3. Supervisory activities of the procedures for effective implementation of the corporate governance rules laid down in the Corporate Governance Code

17)  
*Adoption of the Corporate Governance Code*

The Committee examined the draft Report on Corporate Governance and Ownership Structure pursuant to Article 123 Bis of the Consolidated Law on Finance ("Report on Corporate Governance") for 2016 which was then approved by the Board of Directors on 21 February 2017, also with reference to the information about the main features of the risk management and internal controls systems in relation to the financial reporting process.

The Report on Corporate Governance, which should be consulted for further details, illustrates among other things the management and control model adopted by Intesa Sanpaolo and provides a complete disclosure of how the Bank has adopted and implemented the recommendations of the Corporate Governance Code.



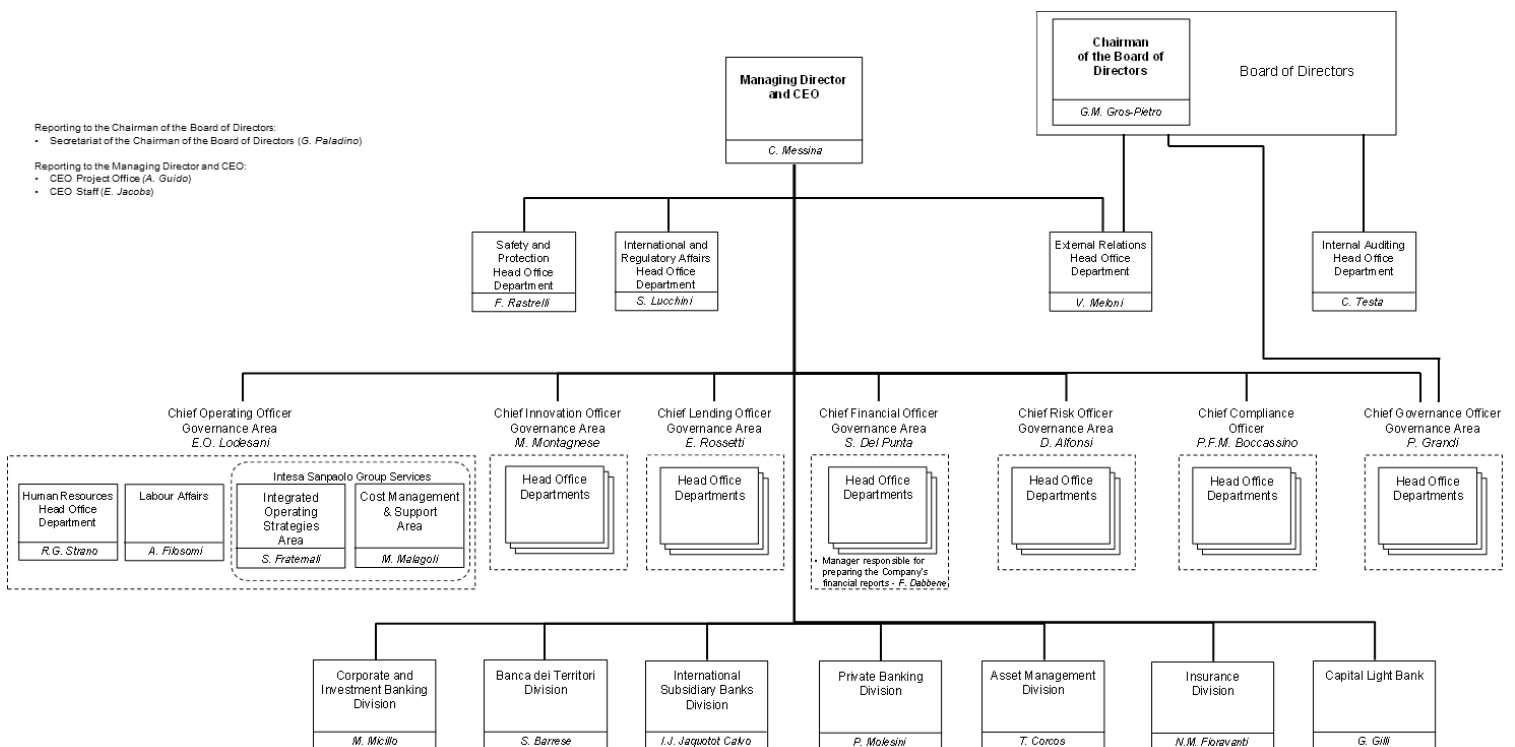
#### 4. Supervisory activity on the adequacy, efficiency and functionality of the organisational structure

The Committee carried out a survey of the main Governance Areas and Business Units of Intesa Sanpaolo and the main Group Companies, focussing on organisational structure, risk management processes and procedures to support the business carried on. In 2016, the following were examined:

- the corporate organisation, operational procedures and progress of work on the Internal Auditing Department's development plan, aimed at alignment with the EBA standard;
- the organisational model and operational structure of the Chief Compliance Officer Area and the Group Compliance Model;
- the development prospects of the International & Regulatory Affairs Department;
- the organisational structure of the Chief Lending Officer Governance Area;
- the structure and organisation of the International Subsidiary Banks, Banca dei Territori, Insurance, Private Banking and Asset Management Divisions;
- the mission and organisational structure of Banca IMI.

The Committee also discussed with the Chief Operating Officer and the managers of the Internal Auditing Department and of the Integrated Operating Strategies Area the mitigating actions to increase the efficiency of managing staffing requests by the corporate functions, checking the progress of the work, and benefited from the regular report referring to the analysis of the costs at Group level attributable directly to the Corporate Control Functions. It should be noted that the Report on Corporate Governance describes the organisational and operating structure of Intesa Sanpaolo.

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



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## 5. Supervisory activity on the adequacy, efficiency and functionality of the administrative and accounting system

The Committee examined the periodic report on the activities carried out and the corrective actions put in place by the Manager responsible for preparing the Company's financial reports in support of the statutory attestations and analysed the causes and remedies of the shortcomings of the accounting arrangements, including in order to provide its own contribution to the Risk Committee for the purposes of the latter's assessment of the correct use of the accounting principles for the preparation of the 2016 financial statements.

From this perspective, every six months, the Committee examined the report on the internal control system for the financial reporting process and the Tableau de Bord of the Administrative and Financial Governance function, which supports the Manager responsible for preparing the Company's financial reports. This Tableau de Bord shows the focus points identified both by the Administrative and Financial Governance of the Parent Company and that of the subsidiaries, that operate with a coordinated approach, including as a result of audits carried out by other parties (Supervisory Authorities, the Internal Auditing Department and other Corporate Control Functions) and by the Independent Auditors. The governance and control activities carried out, the degree of residual risk content after the mitigation measures and consideration of the results of the audit activities carried out in previous years allowed the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports to issue the attestations required under Article 154-bis of the Consolidated Law on Finance with reference to the 2016 half-yearly report, the Parent Company's financial statements and the consolidated financial statements for 2016.

During the year, special attention was devoted to the subject of the adoption of IFRS 9 in light of the pervasiveness of the effects on the Group of the new accounting standard coming into force. In addition to a specific induction session for the Board of Directors, the Manager responsible for preparing the Company's financial reports presented various insights on the IFRS 9 Project to the Committee, with summaries of the main decisions taken, estimated impact on First Time Adoption and progress of the dedicated processes.

In order to contribute to the assessment of the correct use of the accounting principles and the adequacy of the disclosure to the public, the Committee was invited to attend all the meetings of the Risk Committee which included a discussion of the Guidelines for the governance of financial disclosures as well as the instructions for the preparation of quarterly reports, the half-yearly report and the 2016 financial statements. On such occasions, the Committee also received the disclosure on the outlook for non-performing loans and the results achieved in the application of the criteria and procedures for the classification, valuation and management of non-performing exposures.

The Committee, together with the Manager responsible for preparing the Company's financial reports, met with the Independent Auditors 7 times in 2016, to discuss - in accordance with Article 150, paragraphs 3 and 5 of the Consolidated Law on Finance - the audit plan and the activities carried out in the formulation of the opinion on the 2016 financial statements and the letter of recommendations to the management as at 31 December 2016.

In the initial months of 2017 another 4 meetings were also held in preparation for the approval by the Board of Directors of the draft Parent Company's financial statements and the consolidated financial statements as at 31 December 2016. The latter, pursuant to Legislative Decree 38/2005, are prepared in compliance with the IAS/IFRS accounting principles issued by the International Accounting Standards Board (IASB) and the relative interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission as provided for by Community Regulation 1606 of 19 July 2002. The

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financial statements have been prepared on the basis of Circular 262/2005 of the Bank of Italy and subsequent updates. The disclosure to the public, under the provisions of the prudential supervisory regulations, is provided on the Bank's internet site within the term laid down for publication of the financial statements.

The Independent Auditors' reports, issued on 13 March 2017 on the financial statements of Intesa Sanpaolo S.p.A. and on the consolidated financial statements of the Intesa Sanpaolo Group as at 31 December 2016 pursuant to articles 14 and 16 of Legislative Decree 39/2010, do not include any qualification, limitation or emphasis of matters. In particular these reports attest that:

- (i) the two documents provide a true and fair view of the financial position and operating results as at 31 December 2016, of the profit and loss and the cash flows for the year ended at that date in accordance with the International Financial Reporting Standards adopted by the European Union as well as the orders implementing Article 9 of Legislative Decree 38/2005 and Article 43 of Legislative Decree 136/2015;
- (ii) the reports on operations and the information referred to in paragraph 4 of Article 123-bis of the Consolidated Law on Finance, presented in the Report on Corporate Governance are in line with the Parent Company's financial statements and the consolidated financial statements.

Moreover on 13 March 2017, the Independent Auditors issued:

- (i) the report referred to in Article 19, paragraph 3, of Legislative Decree 39/2010, in which they attest that they did not identify any material misstatements during the financial year covered by the statutory audit and there were no significant shortcomings in the internal control system in relation to the financial reporting process;
- (ii) the annual confirmation of independence pursuant to Article 17, paragraph 9, heading a) of Legislative Decree 39/2010.

In light of the evidence found, the information disclosed by the Manager responsible for preparing the Company's financial reports on the levels of efficiency and adequacy of the internal control system on the financial disclosure as well as on the basis of the Independent Auditors' observations, the Committee has reason to believe that the Bank's and Group's administrative and accounting system is such as to ensure a fair presentation of the operational events and that there are no significant shortcomings in the internal control system in relation to the financial reporting process.

On the basis of the disclosure received, we also found that the administrative and accounting procedures are effectively followed for the preparation of the financial statements and all other financial reports.

## 6. Supervisory activity of the statutory audit process and the independence of the Independent Auditors

During 2016 some important changes affected the reference regulatory framework with regard to the responsibilities of the Committee in its relations with the Independent Auditors.

Legislative Decree 135/2016, in transposing European Directive 2014/56/EU, introduced important changes to the text of Legislative Decree 39/2010, which operate jointly with changes introduced at the same time by (EU) Regulation 537/2014. The combined provisions of the new regulations confirmed the attribution to the Committee - in its capacity as internal control and audit committee, according to the provisions of the said Legislative Decree 39/2010 - of the task of verifying and monitoring the independence of the Independent

4)  
*Independent  
Auditors'  
Reports*

14)  
*Adequacy of  
the  
accounting  
system*

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Auditors, in particular with regard to the adequacy of the provision of non-audit services to audit clients, indicating however a new and broader area of forbidden activities. Among the other innovations, it should also be noted, that at the time of appointing the external auditors, the Committee will be responsible for the selection process of the Independent Auditors, having to make a proposal containing a reasoned recommendation to the Shareholders' Meeting with at least two possible alternatives for the appointment and express a duly justified preference between these.

In order to oversee the independence of the Independent Auditors and to verify compliance with the regulatory provisions with regard to the nature of non-audit services rendered by them and the related network, Intesa Sanpaolo has for some time adopted specific Group Regulations. Following enactment of the above legislation, in December 2016 the said Regulations were updated whilst still retaining the validity of the key principles - amongst which that of the "sole Auditor" for the Group - and the already existing information gathering and authorisation process, the functionality of which had been appreciated over the course of a multi-year application. Likewise the principle was confirmed according to which non-audit assignments cannot be given to the independent auditors, where such definition encompasses a range of services that amount to that of the services prohibited by law, thereby obtaining a more selective and prudent approach than that of the said statutory requirement. The prohibition envisaged by the Group Regulations, to give non-audit assignments and assignments banned pursuant to (EU) Regulation 537/2014 also extends to non-EU subsidiaries. The Group Regulations govern the internal communications and monitoring processes of the independence criteria of the Independent Auditors in case of a new assignment being given. The necessary preparatory activities and - for some types of assignment concerning services other than statutory audit activities, called audit-related services - the authorisation powers, according to procedures that vary based on the nature and, in some cases, size of the assignment are attributed to the Manager responsible for preparing the Company's financial reports. Details of the fees related to such assignments are shown in the table below. The full picture of the responsibilities assigned is described however twice a year to the Committee by the said Manager responsible for preparing the Company's financial reports, including for the purposes of the related reporting obligations in the financial statements and to the Shareholders' Meeting.

KPMG S.p.A. are the independent auditors to whom the role of "sole Auditor" of the Group was attributed, with the responsibility of carrying out the statutory audit of the annual and consolidated accounts of Intesa Sanpaolo as at 31 December 2016, as part of a mandate for the period 2012-2020, according to the provisions of law. They have the responsibility of checking, during the period, the due keeping of the corporate accounts and correct recording of operations in the accounts. Following assessment, the auditors express, through the appropriate reports, an opinion on the Parent Company's and consolidated financial statements, as well as on the half-yearly report, after ascertaining that they correspond to the accounting entries and that such records comply with the relevant regulations. The appointment also envisages: the verification of the balance sheets and income statements of branches abroad with regard to their inclusion in the Bank's financial statements; limited review of the half-yearly report including limited review of half-yearly positions of branches abroad for inclusion in the Bank's half-yearly report; examination of information provided for the preparation of consolidated annual and half-yearly reports; audit of the financial statements of the vehicle companies and the statements of consolidated funds; review in relation to the signing of tax returns and declarations submitted to the National Guarantee Fund.

During 2016, moreover, an assignment was given, for the period 2016-2020, for a limited review of accounts on a voluntary basis of the consolidated tables (Statement of Assets and Liabilities

7 - 8)  
*Possible  
additional  
audit  
assignments*

and Profit and Loss Account) and relative to explanatory notes as at 31 March and 30 September drawn up pursuant to Article 154-ter of the Consolidated Law on Finance, for the determination of the net income for the period for the purposes of calculating the Common Equity Tier 1 capital.

A complete picture of the amounts paid to the Auditors in the 2016 financial year is represented in the Annex to the statements entitled "Fees for auditing and the services other than auditing pursuant to Article 149-duodecies of Consob Regulation no. 11971", to which reference should be made.

Below we report the fees for non-audit services for 2016.

Type of service	(millions of euro)				TOTAL
	INTESA SANPAOLO		GROUP COMPANIES <sup>(*)</sup>		
	KPMG	KPMG Network	KPMG	KPMG Network	
Release of attestations (**)	1.35	-	1.33	-	2.68
Tax consulting services	-	-	-	-	-
Other services:					
agreed upon procedures	0.16	-	1.27	-	1.43
social report audit	0.05	-	0.06	-	0.11
other	-	-	0.05	-	0.05
<b>TOTAL</b>	<b>1.56</b>	<b>-</b>	<b>2.71</b>	<b>-</b>	<b>4.27</b>

(\*) Group companies and other consolidated subsidiaries.

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

Amounts net of VAT and reimbursed expenses and Consob contribution

As already stated, the Group Regulations define such assignments as audit related. They concern tasks which represent an extension of the audit assignment or activities assigned under the law or at the request of an Authority; these assignments do not entail any detriment to the continuation of the criteria for the auditor's independence. During the year, these fees almost entirely referred to audits carried out in order to issue Comfort Letters in implementation of international issue programmes (0.71 million euro) and, for the residual amount, to assessments related to certain Pillar 3 disclosures, to verifications required, according to local legislation, in favour of international subsidiaries of the Group, and to the professional opinion issued on the Sustainability Report.

As envisaged by the Group Regulations, again for the 2016 financial year there have not been any assignments of a non-audit nature conferred on the auditors KPMG S.p.A.

## 7. Supervisory activity on the adequacy, efficiency and functionality of the internal control system

The Committee assessed compliance with the supervisory provisions with reference to the general principles of the internal control system, the role of the Bodies, as well as the role and requirements of all the departments involved in the control system, checking their adequacy, the correct performance of tasks and the proper coordination thereof. Where considered appropriate, the adoption of functional corrective measures was promoted to address any deficiencies detected.

The guidelines of the integrated internal control system of Intesa Sanpaolo as a Bank and Parent Company are governed by the Integrated Internal Control System Regulations ("IICS Regulations") implementing the current supervisory regulations. These Regulations define the responsibilities of the Bodies and functions with control duties, establish the coordination procedures and information flows that facilitate integration of the system and lay down the principles for referring to the other internal regulatory documents. The Regulations also define the management and coordination of subsidiaries and branches abroad in order to ensure a

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consistent approach at Group level in the risk management process.

In accordance with these Regulations, the internal control system is structured on three levels:

- Level I: line controls conducted by the operational and business structures, aimed at ensuring the proper execution of transactions and, as far as possible, incorporated in IT procedures;
- Level II: controls to ensure, among other things, the correct implementation of the risk management process, observance of operating limits and compliance with regulations. These inspections are conducted by the departments belonging to the Chief Compliance Officer Area (which has the duties and responsibilities of the compliance with regulations and to which the Anti-Money Laundering Department reports with anti-money laundering duties and responsibilities) and the departments belonging to the Chief Risk Officer Area (which is responsible for the risk management function and to which the Internal Validation and Controls Department also reports which is responsible for the validation function, as defined in the reference legislation);
- Level III: controls carried out by the Internal Auditing Department, in its capacity as the internal audit function, aimed at identifying violations of procedures and regulations, as well as assessing, from a risk-based viewpoint, the completeness, adequacy, functionality and reliability of the organisational structure of the other components of the internal control system and the information system at Group level.

The control system sees the Committee as the ongoing point of reference for the Corporate Control Functions. This system - described in detail in the aforementioned Report on Corporate Governance, to which reference should be made for further details - also sees the involvement of specialised functions with control responsibilities, of the head of the Business Continuity Plan, the Manager responsible for preparing the Company's financial reports, the Independent Auditors and the Surveillance Body pursuant to Legislative Decree 231/2001.

With reference to the latter, and in order to launch the information flows required under the IICS Regulations, the Committee examined the half-yearly report on the activities carried out by the Surveillance Body pursuant to Legislative Decree 231/2001 of the Parent Company noting that, according to the disclosure made, there are no facts or circumstances worthy of mention.

With a view to ensuring consistency at Group level in the manner in which the contents of the aforesaid Decree are transposed and implemented, establishing adequate risk control procedures, the Committee examined the regular reports on the activities conducted by the Surveillance Bodies pursuant to Legislative Decree 231/2001 of the Italian companies in the Group.

Below you will find a summary of the activities conducted by the parties responsible for carrying out internal controls.

### **Chief Compliance Officer**

The Chief Compliance Officer delivered the institutional and periodic reports within his remit to the Committee, in particular the report on the activities carried out in the first half of 2016 and the annual report for 2016 and the action plan for 2017 pursuant to the supervisory regulations of the Bank of Italy and the joint Bank of Italy-Consob Regulations, with the relative Tableau de Bord, reporting the outlook for the activities of high relevance. The annual report also includes the report on the overall complaints situation and on the adequacy of the relevant procedures, the report on the Governance of the Asset Management Companies, the Dodd-Frank Act compliance report and the annual report on the application profiles of the Lecoip Investment Plan.



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A disclosure was made to the Committee regarding the issuance of guidelines for managing complaints and petitions to the Supervisory Authorities and the updating of various internal regulations, including the Rules on the marketing of non-life insurance products and protection in the framework of the rules on the insurance brokerage business and the Rules for trading in the arms industry.

The Chief Compliance Officer also provided specific disclosures with reference to:

- various issues connected with operations in the US, including embargoes, obtaining the status of Financial Holding Company and the Dodd-Frank Act regulations;
- the application of the terms and conditions to customers in cases of loan underlyings with negative values;
- the results of the inspection conducted by Consob at Banca IMI regarding Product Governance;
- staff training with regard to compliance;
- the process of adjustment to the new provisions of the Bank of Italy on usury;
- the adequacy of the Conduct Risk controls in effect at the Private Banking and Corporate and Investment Banking Divisions.

Finally, in adopting the provisions of Consob decision no. 17297 of 28/4/2010, the Chief Compliance Officer - in the presence of representatives from the Banca dei Territori Division and the Integrated Operational Strategies Area - illustrated the draft Report to the Committee on the terms of provision of services and investment activities and ancillary services and the distribution of financial products issued by insurance companies or by banks for the 2016 financial year, which was then submitted to the Authority.

To enable the Committee to adequately perform its supervisory role on compliance with anti-money laundering (hereinafter also "AML") rules, as well as on the completeness, functionality and adequacy of the relative controls, the head of the Anti-Money Laundering Department provided ongoing updates on the state of the Group's anti-money laundering safeguards, including the reports pursuant to article 52 of Legislative Decree 231/2007 by Intesa Sanpaolo in cases of possible infringement, which were then transmitted to the Supervisory Authority, and the quarterly disclosure of such reports. He also illustrated the report on the activities carried out in the first half of 2016 and the annual report for the 2016 financial year and activities plan for 2017 pursuant to the supervisory regulations of the Bank of Italy, with the relevant Tableau de Bord. The annual report also includes the three-year training plan for the Group's staff on anti-money laundering, anti-terrorism and embargoes. Moreover, the Committee also benefited from specific insights on:

- the feedback provided to the Bank of Italy following AML checks on some subsidiaries of the Group;
- staff training with regard to anti-money laundering;
- the Bank of Italy's notice to the system on money-laundering risks connected to tax offences and the approach adopted in the identification of the internal list of Off Shore Countries;
- the raising of the threshold for attribution of a high risk profile and the active advice given to high risk customers;
- the issuing of the national legislation implementing the IV anti-money laundering Directive;
- the state of completion of the project for the consolidation of the international AML model and the development of the AML control model of the Private Banking Division;
- the results of the inspection conducted by the Bank of Italy on anti-money laundering, which highlighted the need to strengthen the Group's controls.



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### **Chief Risk Officer**

The Chief Risk Officer submitted to the Committee the Tableau de Bord of the Group's critical issues every six months, the annual report on the activities carried out in 2016 and the planning of the activities scheduled for 2017, including those for the validation function. In accordance with Article 13 of the Regulations issued by the Bank of Italy and Consob pursuant to Article 6, paragraph 2-bis of the Consolidated Law on Finance, he also illustrated the risk management activities within the scope of the investment services to customers performed during 2016.

### **Internal Auditing Department**

The Internal Auditing Department is the primary centre used by the Committee to carry out its own supervisory tasks and, through its Manager, it normally attends the meetings of the Committee, keeping it constantly informed about the activities carried out, some of them at the explicit request of the Committee. The Committee plays a proactive role vis-a-vis the Internal Audit function and the priorities stated are taken into account also at the time of definition of the annual audit plan.

In carrying out its duties, in 2016, the Department updated the Committee on the activities carried out on a quarterly basis using the Audit Tableau de Bord, which highlights the main critical issues found and reports on the action plans put in place by the competent corporate functions to overcome them. Every six months it submitted its own considerations and assessments on the internal control system as a whole, within the context of a specific report. On an annual basis, the Department prepared and shared with the Committee the final report on the activities carried out and the results of the Risk Assessment, the guidelines and the activities plan for the following financial year, together with the Key Performance Indicators identified by it to monitor the effectiveness of its own services. In this respect the Committee examined the results of the Quality Assurance Review by the Internal Auditing Department carried out with the support of an external consultant.

The final report on the activities carried out in 2016 also fulfils the obligations laid down by the Bank of Italy with regard to disclosures to the competent Bodies on some specific areas such as liquidity risk management, anti-money laundering, information systems and business continuity, governance of the Asset Management Companies, the result of the audits carried out at Branches abroad and the internal systems for reporting violations (so-called whistleblowing).

The Internal Auditing Department also drew up the following documents:

- the quarterly disclosure on the reports received through the channels designated for whistleblowing;
- the annual report on internal audit activities required by Art. 14 of the Consob-Bank of Italy Joint Regulation pursuant to Art. 6, paragraph 2bis, of the Consolidated Law on Finance.

The Internal Auditing Department also produced numerous informative reports concerning evidence that emerged during the financial year, that was promptly brought to the attention of the Committee. On this subject we draw attention to the in-depth considerations on the offer process of investment diamonds to the customers of the Banca dei Territori Division examined by the Committee as from the third quarter of 2016. In order to fully consider the mitigation plan put in place in respect of the areas for improvement picked up as a result of that audit activity, and to monitor the state of progress of it, the Committee held several meetings with the head of that Division and the Chief Compliance Officer, looking into and examining the various aspects of the matter.

A further informative report was produced as a result of an audit intervention on the governance of the demand and the IT investments, which highlighted some implementation

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requirements.

### **Corporate Control Functions Integrated Reporting**

In implementation of the provisions of the IICS Regulations, every six months, the Integrated Tableau de Bord of the control functions, which provides a summary of the most significant irregularities among those highlighted by the Corporate Control Functions in their own Tableau de Bord, was submitted to the Committee. The Committee attributes particular importance to this disclosure, pledging to examine the evidence provided in it and to continuously monitor the progress of any planned mitigation actions. To that end, the Committee - in the presence of the Internal Auditing Department representatives - held the following meetings:

- with the Chief Lending Officer, to examine the credit checks system, the management of non-performing loans of the Corporate and Investment Banking Division, the collateral guarantees, the IT procedures on credit and the review of the consumer credit service model;
- with the head of the International Subsidiary Banks Division, to examine the main critical issues of the Division and the corresponding mitigating actions, with particular reference to IT procedures, the credit control model and the quality of the loan portfolio of some foreign subsidiaries;
- with the head of Capital Light Bank, to examine the project for streamlining controls and for further information regarding the conferment of bad loans on the subsidiary Provis and management of non-performing loans of certain foreign entities belonging to the Business Unit;
- with the head of the Banca dei Territori Division, to examine the internal control system and in-depth consideration of the mitigation actions to deal with the critical issues relating to "old" unlikely to pay items, collateral management, consumer credit and the subsidiary Mediocredito Italiano;
- with the Managing Director of Banca IMI, to examine the internal control system, including with reference to the new business areas, the status of the remediation plans prepared to deal with the most significant areas of weakness that relate to the operations of the subsidiary as well as projects related to controls on market risks, operations and ICT;
- with the head of the Insurance Division, to examine the internal control system, check the adequacy of the anti-money laundering controls and for in-depth consideration of the development of the ICT systems and processes and also of the measures to align with the Solvency II rules;
- with the head of the Private Banking Division, for an update on the process of integration between Fideuram and Intesa Sanpaolo Private Banking, on the governance and control systems of the subsidiaries, on the governance of the activity of promoters and the operational risks, on the progress of work aimed at mitigating the risk of money laundering and on the project for the international development of the Division;
- with the head of the Asset Management Division, to examine the governance and control system of the subsidiaries and affiliates, the internal control and risk control system, the state of progress of the corrective measures put in place at Group Companies belonging to the Division in response to suggestions by the Authorities.

The Committee examined the annual summary report of the Corporate Control Functions, which – at the end of the activity carried out in 2016 – rated risk control as on the whole adequate, including in terms of completeness, operation and reliability of the internal control system.

Finally, it should be noted that the Committee expressed its assessments on the achievement of certain objectives for the purposes of the payment of the variable component of the

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remuneration of Top Risk Takers from the Corporate Control Functions and participated in the process of defining the objectives of the incentive system 2017 for these persons.

## 8. Supervisory activity on the adequacy, efficiency and functionality of the governance and risk management process

The Committee monitored:

- the completeness, adequacy, functionality and reliability of the Risk Appetite Framework ("RAF") for 2017, examining its methodological aspects;
- the completeness, adequacy, functionality and reliability of the internal risk measurement systems for determining capital requirements and their compliance with law, including for the purpose of the annual attestation made by the Board of Directors on compliance with the requirements for their use. In detail, the Committee examined the specific annual report drawn up by the Internal Audit Department, the final report on the activities carried out by the Internal Validation function as well as the action plan prepared by Risk Management in order to mitigate the attention points highlighted by the control functions.

The Committee also examined:

- the response to the letter of recommendations from the ECB following the inspection conducted at CIB Bank Hungary regarding Capital Calculation Accuracy and Operational Risk;
- the results of the checks carried out by the Asset Monitors on the Covered Bonds programmes;
- the main initiatives undertaken as part of the Risk Culture Project, in line with the recommendations of the Financial Stability Board;
- the regular update on the state of progress of the actions taken as a result of surveys carried out by the ECB on IT Credit Risk;
- the periodic reporting on the overall consistency of the ratings of the External Credit Assessment Institutions with the measurements processed independently by the Bank.

With reference to these supervisory areas, the Committee also examined the results of audits and the state of progress of the following remediation plans:

- streamlining the IT controls of the Securities Back Office of Banca IMI;
- strengthening the Cyber Security Plan;
- strengthening the Control Room's controls;
- enhancing the performance of the Group's new Internet Banking platform.

The Committee benefited from in-depth considerations on the state of progress of the Risk Aggregated Data And Reporting and Big Financial Data projects, directed at strengthening the management and quality of the Group's strategic data.

Finally, the Committee examined, finding no objections, a transaction aimed at the reorganisation and valorisation of part of the Group's real estate assets held for operating activities, checking their purposes, the estimated financial and capital impacts and thoroughly analysing any operational risks.

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## 9. Supervisory activities of compliance with the legislation applicable to the Bank in its capacity as the parent

The Committee found that the Bank, within the framework of the management and coordination activity of the Group, exercises control over the development of the different business areas in which the Group operates and the relative risks, managerial control aimed at ensuring the maintenance of conditions of economic, financial and equity equilibrium both of the individual companies and of the Group, as well as technical-operational control aimed at the measurement of the various risk profiles contributed to the Group by individual subsidiaries and the Group's total risk. The information flows between the Parent Company and its subsidiaries guarantee an effective exchange of information between the corporate Bodies with regard to the management and control systems and the overall performance. The rules and procedures in place allow Intesa Sanpaolo to promptly fulfil its disclosure obligations to the public in accordance with current provisions pursuant to Article 114, paragraph 2, of the Consolidated Law on Finance.

The Committee, including pursuant to Article 151-ter, paragraph 4, of the Consolidated Law on Finance, was informed about the activities of the Boards of Auditors of the Group's main Italian subsidiaries, holding a series of dedicated meetings with the representatives of these Bodies.

## 10. Conclusive assessments on the supervisory activity carried out

As detailed above, the Committee verified the functionality of the internal procedures, which have been found fit to guarantee compliance with the laws, regulations and Articles of Association. As to compliance with the principles of proper administration, it ascertained that the decision-making process takes into due consideration the riskiness and the effects of management decisions taken and that company Bodies have an adequate information flow system, including with reference to any directors' interests. The organisational structure, the administrative and accounting system and the statutory audit of accounts process are deemed adequate and functional for the tasks they are expected to perform.

The Committee also verified that there are no critical elements such as to affect the structure of the internal controls system and the governance and risk management process, while also taking into account the mitigation actions in progress, as attested in the said summary annual report of the Corporate Control Functions.

Taking into account all the foregoing, the Committee, having considered the content of the opinions issued by the Independent Auditors, and having taken note of the attestations issued jointly by the Managing Director and CEO and the Manager responsible for preparing the Company's financial reports, is not reporting, in as far as it is within its remit, any impediment to the approval of the financial statements of Intesa Sanpaolo S.p.A. as at 31 December 2016 accompanied by the report on operations and the explanatory notes, as approved by the Board of Directors on 21 February 2017.

The Committee expresses a favourable opinion on the proposed allocation of the profit for the year and the distribution of reserves included in the financial statements.

15)  
*Instructions  
given to  
subsidiaries*

18)  
*Conclusive  
assessments*

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Milan, 16 March 2017

For the Management Control Committee

The Chairman - Marco Mangiagalli

*This is an English translation of the Italian original report that has been prepared solely for the convenience of the reader.*