

# Financial capital



This capital includes funds made available from deposits and investments, net interest income, fee and commission income, income from trading and profit generated from our business activities. Financial capital is used to implement our services to customers.

## SHARED VALUE GENERATED BY INTESA SANPAOLO

- Capital solidity and growth
- ESG<sup>1</sup> and reputational risk management
- Share appreciation
- Social and production sector dynamism
- Reduction in doubtful loans

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1. ESG: Environmental, Social and Governance

## ECONOMIC AND FINANCIAL PERFORMANCE<sup>1</sup>

In a still difficult economic context, in 2014 the Intesa Sanpaolo Group achieved positive economic results. The consolidated income statement closed with a net income of 1,251 million euro, against the loss of 4,550 million euro recorded in 2013, which was due to the considerable goodwill impairment. In detail, operating income rose and improved in qualitative terms. In fact, the contribution from interest and fee and commission income increased, added to which are the positive contributions from the companies consolidated at equity and that from the insurance segment. These positive trends have completely offset the lower contribution from trading, a component structurally subject to volatility. The increase in personnel expenses, entirely attributable to the variable component, was then partly offset by lower administrative expenses. Consequently the operating margin rose by 5%. Income before tax from continuing operations benefited from the much-reduced need for adjustments to loans. Growth in income, associated with cost control and lower adjustments, allowed a pre-tax income up by approximately 37% compared to 2013, which had even included the significant positive effect of the fair value measurement of the new stake in the Bank of Italy.

The persisting headwinds in the macroeconomic environment and the financial markets' volatility require constant control of the factors enabling the Group to pursue sustainable profitability: high liquidity, funding capacity, low leverage, adequate capital base and prudent asset valuations.

Group liquidity remained high: as at 31 December 2014 both regulatory indicators envisaged by Basel 3 (LCR and NSFR), adopted from this year also as the internal liquidity risk measurement metrics, reached a level above fully phased-in requirements. As at the end of 2014 the liquidity reserves allocatable with the various Central Banks came to 97 billion euro. In September 2014 and again in December, recourse was made to the ECB's TLTRO programme for a total of 4 billion euro and 8.5 billion euro, respectively. With regard to funding, the extensive branch network continued to be a stable and reliable source: in fact, 75% of direct deposits from banking business came from retail operations. Furthermore, approximately 20 billion euro bonds were placed during the year.

The leverage of the Group remained among the best levels in the sector and the capital base remained high. The total capital ratio stood at 17.2%, Tier 1 ratio at 14.2% and Common Equity Tier 1 at 13.5%.

As to balance sheet aggregates, loans to customers totalled 339 billion euro (-1.4% compared to the end

of 2013). With regard to funding, direct deposits from banking business recorded a slight decrease to 360 billion euro (-3.3% compared to the end of 2013), whilst direct deposits from insurance business, which include technical reserves, increased significantly (+27% approximately to almost 119 billion euro). Indirect deposits stood at a little under 466 billion euro, up 8.2% on the end of the previous year, and were attributable to asset management (+43 billion euro; 16.7%), which benefited from the positive net inflows and the revaluation of assets under management.

## INTESA SANPAOLO STOCK PERFORMANCE

In 2014, the performance of Intesa Sanpaolo ordinary shares followed the trend shown by the banking sector indices, with a strong uptrend in the first quarter, fluctuation in April, a downtrend in the first half of May, a recovery in the first ten days of June, when the peak was reached, and then a decline until mid-August, followed by a recovery until the end of September, a further decline in the first half of October and lastly a recovery which - after being broken by a downturn in the first half of November - brought the shares to close the year up by 35% compared to the end of 2013. The price of Intesa Sanpaolo savings shares increased by 40.8% at the end of 2014, compared to the end of 2013. The discount with respect to ordinary shares decreased to approximately 15% at the end of 2014 from around 18% at the end of 2013.

Intesa Sanpaolo's capitalisation rose to 40.3 billion euro at the end of 2014, from 29.2 billion euro at the end of 2013.

## REMUNERATION OF SHAREHOLDERS

The Management Board will propose to the Shareholders' Meeting to allocate a unit amount of 0.07 euros on ordinary shares and 0.081 euros on savings shares, totalling approximately 1.2 billion euro.

## CALCULATION AND DISTRIBUTION OF ECONOMIC VALUE

In 2014 the economic value generated by the Intesa Sanpaolo Group<sup>2</sup> was 13.9 billion euro. This amount expresses the value of the wealth produced, most of which distributed among the stakeholders with which the Group interacts in various ways on a day-to-day basis. In particular:

- employees and other staff benefited from around 42% of the economic value generated, for a total of 5.8 billion euro. The caption includes 105 million euro (before tax) relating to personnel exit incentives, 85 million euro of which relating to manager exits in accordance with the agreement signed with the trade unions. In addition to staff pay, the total also includes payments to the network of financial advisors;

<sup>1</sup> The figures and comments refer to the reclassified consolidated income statement published in the 2014 Financial Statements of Intesa Sanpaolo; annual percent changes were calculated based on restated 2013 figures, where necessary, in order to take into account changes in the scope of consolidation. Amounts are in millions of euros. For additional details or information, see the 2014 Consolidated Financial Statements of Intesa Sanpaolo.

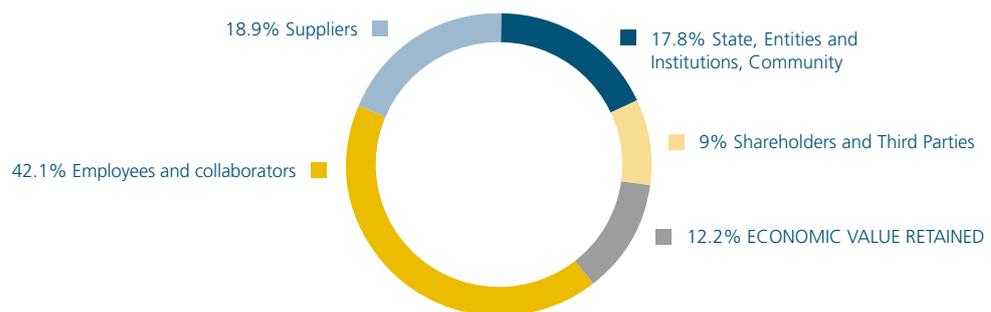
<sup>2</sup> The economic value generated was calculated according to instructions issued by the Italian Banking Association (ABI - Associazione Bancaria Italiana) in keeping with international reference standards. The calculation is carried out by reclassifying the captions of the consolidated Profit and Loss Account included in the accounting statements regulated by Circular no. 262 issued by the Bank of Italy.

- suppliers received approximately 19% of the economic value generated, for a total of around 2.6 billion euro in payment for goods and services;
- the State, Organisations and Institutions recorded a total flow of funds of approximately 2.5 billion euro, equal to around 18% of the economic value generated and for the most part referring to current income taxes. In addition to the specific allocation by the Parent Company and certain Group companies of profits to Charity Funds, donations and gifts (a total of 13 million euro), there were numerous social and cultural initiatives, in addition to initiatives for charities and social and cultural gifts by the Parent Company established in prior years;
- approximately 9% of the economic value generated was allocated to Shareholders and minority interests, largely in terms of the proposed dividend, for a total of 1.2 billion euro;
- the remaining 1.7 billion euro, approximately, was withheld by the corporate system. This refers to prepaid and deferred taxes, amortisation, and provisions for risks and charges. Self-financing is considered an investment that other stakeholder categories make each year to maintain efficiency and allow development of the Bank as a whole.

ECONOMIC VALUE	MILLION EURO	[%]
ECONOMIC VALUE GENERATED	13,876	100
ECONOMIC VALUE DISTRIBUTED	- 12,173	87.8
Employees and collaborators*	- 5,836	42.1
Suppliers	- 2,619	18.9
State, Entities and Institutions, Community	- 2,474	17.8
Shareholders and Third Parties	- 1,244	9.0
ECONOMIC VALUE RETAINED	1,703	12.2

\*Includes exit incentive charges of 105 million.

### Economic value generated in 2014



## MANAGEMENT OF BUSINESS RISKS

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

TYPE OF RISK	DEFINITION	MONITORING METHOD
<b>Credit risk</b>	<p>The strategies, powers and rules for credit granting and management are aimed at:</p> <ul style="list-style-type: none"> <li>▪ sustainable growth of lending operations consistent with the risk appetite and value creation;</li> <li>▪ diversifying the portfolio, limiting the concentration of exposures to individual borrowers/groups, economic sectors or geographical areas;</li> <li>▪ efficiently selecting economic groups and individual borrowers through a thorough analysis of their creditworthiness aimed at limiting the insolvency risk;</li> <li>▪ given the current economic climate, favouring lending business aimed at supporting the real economy and production system;</li> <li>▪ constantly monitoring relationships, through the use of both IT procedures and systematic surveillance of positions, with the aim of promptly detecting any symptoms of imbalance and promoting corrective measures geared towards preventing possible deterioration of the relationship. Constant monitoring of the quality of the loan portfolio is also pursued through specific operating checks for all the phases of loan management.</li> </ul>	<p>A set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and of exposures subject to country risk.</p> <p>Risk measurement is performed by means of different rating models according to the borrower segment (Corporate, Retail SME, Retail Mortgage, Other Retail, Sovereigns, Public Sector Entities, Financial institutions). These models offer a summary of the borrower's creditworthiness into a single measurement, the rating.</p>
<b>Market risk (trading book)</b>	<p>The quantification of trading risks is based on daily and periodic VaR of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors: interest rates, shares and indices; investment funds; exchange rates; intrinsic volatility; credit default swap (CDS) spreads; bond issue spreads; correlation instruments; dividend derivatives; asset-backed securities (ABSs); commodities.</p>	<p>For some of the risk factors indicated, the Supervisory Authority has validated the internal models for the reporting of the capital absorption of both Intesa Sanpaolo and Banca IMI.</p>
<b>Financial risk (banking book)</b>	<p>This largely refers to the exposure accepted by the Parent Company and the main Group companies involved in retail and corporate banking.</p> <p>The banking book also includes exposure to market risks deriving from the equity investments in listed companies not fully consolidated, mostly held by the Parent Company and by Equiter, IMI Investimenti and Private Equity International.</p>	<p>The following methods are used to measure financial risks of the Group's banking book:</p> <ul style="list-style-type: none"> <li>▪ Value at Risk (VaR);</li> <li>▪ Sensitivity Analysis.</li> </ul>
<b>Operational risk</b>	<p>This is defined as the risk of incurring losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, tortious liability or other disputes, ICT risk and model risk. Strategic and reputational risks are not included.</p>	<p>For some time the overall operational risk governance framework has been defined by setting up rules and organisational processes for measuring, managing and controlling operational risk.</p>

TYPE OF RISK	DEFINITION	MONITORING METHOD
<b>Strategic risk</b>	This is the risk associated with a potential decline in profits or capital due to changes in the operating context, misguided Company decisions, inadequate implementation of decisions, or an inability to react to changes in the competitive scenario.	The response to this risk is first and foremost in the form of policies and procedures that call for the most important decisions to be deferred to the Management Board and the Supervisory Board, supported by a current and forward-looking assessment of risks and capital adequacy.
<b>Reputational risk</b>	We attach great importance to the reputational risk, namely the current and prospective risk of a decline in profits or capital due to a negative perception of the Bank's image by customers, stakeholders, shareholders, investors and Supervisory Authorities.	We actively manage the Group's image with all stakeholders and aim to prevent and contain any negative effects on this image, including through robust, sustainable growth capable of creating value for all stakeholders, minimising possible adverse events through rigorous, stringent governance, control and guidance of the activity performed at the various service and function levels.
<b>Risk on owned real-estate assets</b>	It is the risk associated with the possibility of suffering financial losses due to an unfavourable change in the value of such assets.	The degree of risk of the owned real-estate portfolio is represented by using a VaR-type model.
<b>Insurance risk</b>	The typical risks of the life insurance portfolio (managed by Intesa Sanpaolo Vita, Intesa Sanpaolo Life and Fideuram Vita) may be divided into three main categories: premium risks, actuarial and demographic risks and reserve risks.	Continuous risk monitoring.
<b>Liquidity risk</b>	The risk that the Bank may not be able to meet its payment obligations due to the inability to obtain funds on the market (funding liquidity risk) or liquidate its assets (market liquidity risk).	A suitable governance and management system has a fundamental role in stability, not only at the level of each individual bank, but also of the market, given that imbalances within a single financial institution may have systemic repercussions. The Group Liquidity Risk Governance Guidelines define a suitable management and monitoring system, defining the corporate duties and responsibilities, as well as the metrics and operating limits systems, in compliance with the RAF and with Supervisory regulations.

## CONTROL OF SOCIAL AND ENVIRONMENTAL RISKS IN THE GOVERNANCE PROCESSES

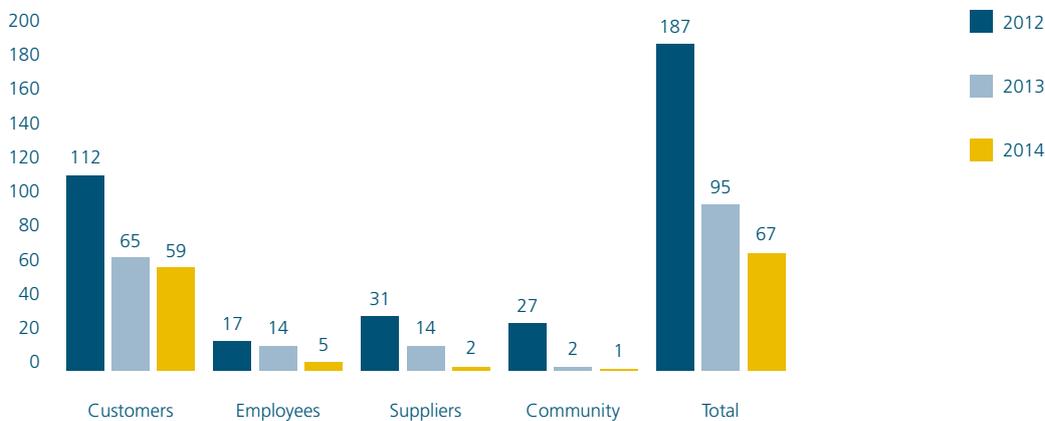
The Internal Control Committee monitors the implementation of the Code of Ethics – the broader regulatory reference due to the integration of social and environmental considerations in the corporate processes, practices and decisions – and reports to the Supervisory Board. The Committee receives periodic reports from the Corporate Social Responsibility (CSR) Unit on the outcome of control activities performed in line with provisions of the Group Compliance Guidelines and in reference to the UNI ISO 26000 standard. The control process of the Code of Ethics – integrated with the management processes underlying the Sustainability Report (stakeholder engagement and listening, definition of improvement objectives, monitoring implementation via KPIs and, lastly, reporting) – envisages a self-assessment by the department heads and a subsequent third-party assessment which, following onsite verification of the self-assessment results, issues a **statement on the CSR governance level** in the Intesa Sanpaolo Group that provides a transparent illustration of the method applied and the results, with separate assessment of respect for human rights. Following the controls, CSR also reports on the corrective measures implemented by the departments

and on any serious non-compliance and anomalies, where necessary in agreement with the Compliance and Internal Auditing Head Office Departments.

The process for managing non-compliance with the Code of Ethics is encoded in corporate policy, protects those who make the reports in good faith from any form of retaliation, discrimination or penalisation, ensuring the utmost confidentiality without prejudice to legal obligations. The CSR Unit receives and processes the reports, which can be submitted by any stakeholder and, after assessing them, takes action in collaboration with the departments affected by the reports, always under the supervision of the Internal Control Committee.

The control process for the application of Italian Legislative Decree 231/2001 also envisages that the reporting of the crimes referred to in the Decree – including corruption, money laundering, terrorism-related crimes – must (by employees) or can (by external staff: advisors, suppliers, trade partners) be sent, also in anonymous format, directly to the e-mail address of the Supervisory Authority or via the Internal Auditing Department, both independent control bodies, thus setting up a complementary whistleblowing procedure to that described above for the Code of Ethics.

### Reports of non-compliance with the Code of Ethics



60 refer to Italy and 7 abroad. The absolute number has declined compared to the previous year, confirming the trend over the past three years that has seen this evidence category decrease. The majority of these reports (59) was from customers and the highest frequency of issues was associated with branch and service accessibility and with the expected responsible conduct in the credit granting, management and recovery in subjective and fragile situations. Every report was assessed in cooperation with the departments responsible to verify their accuracy and a response was provided to each one. All the formal complaints from employees received during 2014 were managed before the end of the year. Generally speaking, non-discrimination issues are constantly and carefully monitored. In 2014 the Code of Ethics mailbox received 2 reports complaining of discrimination, as such attributable to the issue of human rights - one complaining of nationality-related discrimination in access to credit, and the other of alleged discrimination in the workplace. In both cases, in-depth study was conducted that excluded discriminatory intent, with both situations reaching a satisfactory conclusion for the interested parties. One area of potential

discrimination, arising in relation to non-recognition of paid leave, also for same-sex marriages, was avoided by the issue of rules targeting an inclusive approach. Through a message sent to the Code of Ethics mailbox, a request was received to take a responsible approach in assessing loans to companies adopting business plans with a heavy social impact on workers and the local area. In relation to environmental issues, no formal reports were received by the Code of Ethics mailbox.

## REPUTATIONAL RISK ASSESSMENT AND MANAGEMENT

Intesa Sanpaolo considers its relationship of trust with customers and with the market to be a key asset to the sustainability of its business activities. Considering the increased awareness on business ethics and the growing interest of investors in the measurement of intangible assets, the Group has developed a model to actively manage its reputation with all stakeholders with a view to preventing and minimising potential negative effects. In this context the corporate values and the principles of conduct to adopt with stakeholders, expressed in the Group Code of Ethics, are an important reference for all personnel.

The corporate bodies and functions of Intesa Sanpaolo directly involved in the reputational risk management process, with separate roles and responsibilities, perform strategic supervision and control duties.

Intesa Sanpaolo's reputational risk governance model envisages that reputational risk management and mitigation are pursued through systematic and independent monitoring by the corporate structures with the specific duty of protecting reputation and through transversal monitoring across the various departments using a Reputational Risk Management process.

As regards the transversal monitoring implemented by the Reputational Risk Management process, the main issues raised by the various company functions involved in the process of safeguarding the corporate reputation allow the Risk Management Head Office Department - in agreement with the Compliance Head Office Department in relation to compliance risks - to identify and define the main risk scenarios to which the Group is exposed and submit these for company management assessment with a view to identifying, where necessary, suitable communication strategies and specific mitigation measures.

The identification stage of the main critical areas uses the results of the corporate processes that assess the reputational component of compliance risk

management, internal and external communication activities, monitoring of antitrust regulations, communications with investors and rating agencies, and the Corporate Social Responsibility function.

In particular, the CSR Unit makes available the results of two processes, the Sustainability Report management activities with stakeholder engagement and materiality analysis, and the activities associated with monitoring application of the Code of Ethics (see chapters: "Relations with stakeholders: engagement and listening" and "Control of social and environmental risks in the governance processes").

Reputational risk mitigation and management activities are performed to guarantee consistency between the Group's risk appetite and business developments, and the prioritisation of action on the various critical issues and related proposals.

## VALUE OF THE BRAND

Aware of the fact that the brand is a major strategic asset, capable of generating value for stakeholders, Intesa Sanpaolo is always focused on the measurement, enhancement and protection of the image and reputation of its brand.

In the banking sector, where products and services are intangible, the image and reputation have a certain impact, and even greater importance in influencing decisions and awareness of consumers. For this reason, Intesa Sanpaolo has for some time adopted a Group brand image monitor to assess developments over time among all targets (the population, small business, SMEs, corporate and opinion leaders), also considering the social, political and economic scenario and the reference sector.

The brand is a corporate asset with a quantifiable economic value which each year is measured by the Bank's internal bodies by using an average of three important international estimation models: Brand Finance, Hirose and Royalty Relief. This value is also compared with synthetic brand equity indices calculated

## VALUE OF THE INTESA SANPAOLO BRAND

Taking into account the Brand Finance assessments and applying other internal models based on the Hirose and Royalty Relief approaches, values attributable to the Intesa Sanpaolo Group brand fall between 4.0 billion euro and 4.4 billion euro. These values, given the scenarios assumed and the correlation with observable stock market prices, are in any event indicative and represent a prudential measurement of the intangible asset in question.

by leading research institutions based on: visibility, image and ability to attract new customers.

2014 saw a strong improvement in the image, both with customers and non-customers, greater than the growth recorded by the entire banking system. The increase in image values of Intesa Sanpaolo can be largely attributed to factors such as prestige, the Bank's solidity, support to household and business projects and the good level of service offered, also through online channels.

The image improvement is also echoed in the improved reputation, which is monitored annually through multi-client analysis in the reference competitive context.

Intesa Sanpaolo's reputation is higher than the banking system average in the retail segment and, to an even greater extent, among the opinion makers and non-customers. The considerable gap in the reputation index between Intesa Sanpaolo and the system average in the non-customer segment - having no direct experience with the Bank - is mainly attributable to the positive impact of communication activities undertaken by Intesa Sanpaolo in recent years.

The Bank's communication activities are also constantly measured through ad hoc research to monitor memory, correct brand association, impact on image and call-to-action.

The Bank pays special attention to image and reputation monitoring also via web. Web listening platforms monitor participation in online discussions, the main discussion sources, the buzz share in the sector and the issues and mood of these conversations. This monthly monitoring complements qualitative analysis for an accurate, non-automatic assessment of true sentiment on the web about the Bank, its management and its products and services. Specific units of the Bank are responsible for managing online conversations generated on its proprietary social platforms, designed mainly as a form of customer support. The high response rate and reduced average response time on our social media pages rank us among the leaders in terms of social caring.

Every opportunity for contact with the brand helps to form a corporate image, both with customers and with non-customers, and for this reason Intesa Sanpaolo also monitors the effects of sponsorships and cultural activities on its image and reputation. In particular, in 2014 monitoring of 2015 Milan Expo was implemented. This important event should relaunch the city and Italy and will see Intesa Sanpaolo's participation as Official Global Banking Partner. During the year the impact on reputation and image of this partnership, as seen by customers and non-customers, will be assessed.

## MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS IN LOANS: THE EQUATOR PRINCIPLES

Protecting financial capital means adopting an approach also designed to manage social and environmental risks deriving from loans for industrial and infrastructural projects.

In this area, the Bank also operates in countries where human rights are often not guaranteed and local communities do not have suitable means to protect their rights, and where the use and consumption of natural resources call for careful, forward-looking assessment.

Monitoring this risk also means guaranteeing that the Bank's operations and its reputation are protected.

To control this risk, Intesa Sanpaolo has adopted the Equator Principles (EP or Principles), a set of voluntary international guidelines to support financial institutions adopting them in managing the social and environmental risk resulting from certain types of financing. Applying these in a structured, integrated manner in a bank's operations also allows emerging risks to be managed in countries that are vulnerable from a social and environmental viewpoint and in sensitive sectors. Being ready to face these unquestionably offers a competitive advantage, including in the long term.

The Principles, based on criteria of the World Bank's International Finance Corporation - the Performance Standards -, refer to the protection of natural resources, health, human and labour rights, cultural heritage and biodiversity as well as the fight against climate change and specifically refer also to respect for local communities and indigenous rights. They envisage the assignment of a risk category (A, B, or C, where C indicates a low risk level) to projects to be financed, based on variables such as the socio-environmental characteristics of the country, the industrial sector and the characteristics of the project in question.

## THE PROJECTS TO BE SCREENED

June 2013 saw the official launch of the third version of the Principles, or EPIII, which Intesa Sanpaolo has applied since January 2014. The changes introduced mainly regard the scope of application, which was expanded.

In fact, the Principles now apply - in all countries and for all business sectors - to all new Project Finance transactions when the total project cost is 10 million USD or higher; to corporate financing and bridge loans for project development if the total aggregate loan is at least 100 million USD, if the individual commitment of the Bank is at least 50 million USD and if the duration of the loan is at least 2 years. The EPs also apply to all advisory services on project financing.

## OTHER NEW ASPECTS OF THE EQUATOR PRINCIPLES III

The updates introduced by the new Principles also concern other areas that call for an increasing focus by civil society. Firstly, they introduce additional requirements compared to previous versions, both for the financial institutions and customers, in relation to the fight against climate change. They place a stronger focus on assessing the impact on human rights and, lastly, drive members and project sponsors to increase the level of transparency in their various forms of communication.

Given the launch of the new EPIII and with a view to updating internal regulations, also in order to improve effectiveness at the same time, in 2013 the Corporate Social Responsibility Unit set up a work group which, beginning with existing internal rules, established new Operating Guidelines that were published in corporate policy in 2014. The work group was made up of representatives from all departments, who are or will be involved in different ways in the application of the Principles.

Compared to the previous version, the Operating Guidelines are more integrated into the Group's credit policies. In fact, given the expansion of the scope of application of the Principles, reference to the new Guidelines is now present in all other lending procedures in order to detect, right from the application phase, all loans included in the scope of application of the Equator Principles.

This integration ensures that the assessment process adopted by the Credit Department evaluates the loan based on financial as well as social and environmental considerations. In addition, a business committee - the Engagement Committee - was set up in 2014 to assess consistency between certain "Significant" transactions and the business strategy defined for Corporate and Investment Banking Division customers. The committee, which does not replace the normal lending process, preliminarily ensures that - in addition to legal, compliance and risk management aspects - for the transaction in question, aspects relating to the assessment of reputational risk and the Equator Principles are also covered (see also "Business risk management" in the chapter "Materiality analysis" p. 32).

## Operating Guidelines for implementation of Equator Principles

The Operating Guidelines for implementation of Equator Principles is an instrument which, through a process that includes the activities indicated in the Equator Principles, provides support to the Bank in identifying environmental and social risks associated with the customer's ability to manage them and with the sector related to the project, in addition to the characteristics of the project itself.

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

Information emerging from the due diligence is integrated into the contractual obligations and monitored with a frequency based on the level of risk identified.

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

Part of the assessment process also envisages involvement of the local communities, in order to identify the possible social impacts and identify further mitigation measures. In fact, the Equator Principles imply an ongoing relationship with stakeholders, from the design phase and throughout the entire project, via a structured and culturally

suitable stakeholder engagement and complaints handling process.

In 2014, the amount agreed for projects following the Equator Principles assessment process, as outlined in the Operating Guidelines, represented approximately 7.7% of the total amount agreed for loans in the reference scope.

In order to guarantee accessibility of the Guidelines and all support documentation to all the Bank's departments, in Italy and abroad, the full set of documents is available in Italian and English.

Consolidation of the Parent Company's internal regulations is a fundamental prerequisite to the continued involvement of the International Subsidiary Banks. The foundations were laid in 2014 for the new Rules that will be based on the Intesa Sanpaolo Operating Guidelines and adapted to individual local needs. This will allow those Banks which, according to their operations, have to apply the new Equator Principles, to implement them effectively and consistently with the Parent Company, also as a result of a specific, customised training programme.

### The training programme

The launch of the third version of the Equator Principles (EPIII) and the entry into force of the new obligations from January 2014 made it necessary to re-programme a new training plan, this time much more extensive and structured than that completed in 2012. In fact, the new broader application of the Equator Principles have driven us to add additional staff and Bank departments among the course participants, as well as the project finance specialists.

The creation of training sessions as varied as possible in terms of business and local origin was successful in that the discussion fuelled by the topics involved added value and increased the awareness of risk management

in its broader sense. In addition, it is important that all the Bank's departments and staff involved in the Equator Principles implementation process adopt a standard approach. For this reason, the classroom presence of the credit and risk management functions was fundamental.

As regards the contents of the training sessions, these were based on application of the new Operating Guidelines in actual cases, making great use of documents produced by the Equator Principles Association and made available to its members. In 2014 the first two days of a five-session training package were held.

### Participation in the international debate

Adoption of the Equator Principles also means participation in the association activities and the international debate conducted by the EP Association. Once again in 2014 Intesa Sanpaolo participated in annual events dedicated to members and to conferences with other member banks, and also in meetings with our stakeholders - mainly the IFC, NGOs and the industry business associations. Lastly, the Bank continued to make its contribution to discussions on the issue of biodiversity, as part of the specific Work Group created in 2013 (Cross Sector Biodiversity Initiative).

### Projects completed in 2014

There have been 282 loan applications since 2007, which also underwent the Equator Principles screening. The reference area regards all Intesa Sanpaolo departments involved in project finance covered by the scope of application of the Principles, in Italy and abroad, and two International Subsidiary Banks: VÚB Banka and Alexbank.

The table below shows the number of projects that were financially closed in 2014, with breakdown by category:

	Total	Category a	Category b	Category c
Project finance	18	4	8	6
Business loans associated with projects	1	1		
Project finance advisory services	1			

## MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS IN LOANS: ENVIRONMENTAL CRIMES

The assessment of environmental risk in the granting of loans regards not only big projects but also loans granted to all types of Bank customers. A careful assessment of these potential risks also mitigates the risk of involvement in environmental crimes. Intesa Sanpaolo's 231/2001 Model has included environmental crimes as a sensitive area, acknowledging that the illegal acts governed by criminal law to protect the environment implies administrative liability of the relative entities and, consequently, indirect liability of the Bank with regard to the activities of its customers.

With the objective of identifying the most effective methods to assess any environmental risks connected to the activities of corporate customers as well as the most significant indicators to measure them, a work group comprising all bank departments involved was promoted. The work group prepared an analytical questionnaire with the aim of verifying potential environmental risks associated with our customers' activities and a pilot project is under way to test validity on a sample of significant companies. An analysis was also developed of the product sectors into which the Bank's loans portfolio is divided, to assign an environmental risk rating - low, medium or high - according to their potential negative impact on the environment. This rating allows an initial assessment of businesses in each sector and implementation of a suitable risk analysis process.

## CONTROVERSIAL SECTORS

With a view to responsible management, the banks are called upon from multiple parties to be answerable for the decisions they make when granting loans to controversial sectors such as arms, nuclear energy, fossil fuel extraction, etc. In particular, pressure campaigns and public opinion and customer awareness campaigns are becoming more frequent, aiming to steer bank's decisions.

Intesa Sanpaolo is aware of the importance of correctly and responsibly allocating credit, and focuses specifically on the in-depth study of issues associated with the most sensitive sectors.

In recent years in-depth studies of the coal, waste-to-energy and water industries have been conducted and circulated within the Group (the water study was also made publicly available).

Among the sensitive sectors monitored by the Bank on an ongoing basis, production and trade of military weapons hold particular importance. In fact, this is a complex and controversial area that since 2007 Intesa Sanpaolo has decided to manage through a restrictive internal policy.

In accordance with the values and principles in the Code of Ethics, the Bank has decided to take on its responsibility as financial intermediary, sharply limiting its participation in activities that involve the production and trade of military weapons. In particular, specific

operating methods to limit and control the granting of loans and other financial services to companies in this sector were defined, and all transactions relating to import/export of military weapons was suspended, despite being authorised by Italian Law 185/90.

Intesa Sanpaolo has also specified in its policy certain particularly controversial sectors with which it intends to refuse business: arms banned by international treaties, such as nuclear, biological and chemical weapons, cluster and scatter munitions, weapons containing depleted uranium and anti-personnel mines.

Concrete application of the policy includes a number of exceptions that consider the interests of national defence, also in light of an integrated European defence. The Bank has therefore decided to support Inter-governmental Programmes between countries that respect democratic principles and to authorise imports and domestic activities in favour of the national armed forces and relative designated entities.

Our commitment of consistently standing by our decisions has always been recognised and appreciated by the associations responsible for monitoring the arms sector and the related financial flows. In fact, authorised transactions progressively decreased over the years to reach zero in 2012. In 2013, the last year in which Italian Law 185/90 granted authorisations, the amount was less than 1 million euro (see the "Controversial Sectors", p. 148).

In 2014, support continued with regard to the International Subsidiary Banks, for which a specific internal policy was issued in 2010. Each Bank, through an appropriately trained delegate, monitors and reports to the Corporate Social Responsibility Unit on a quarterly basis regarding all information on operations during the period, in accordance with the principles of the policy.

## HEALTH AND SAFETY RISK MANAGEMENT

Intesa Sanpaolo takes great care in assessing the health and safety risks for employees through a special management system in compliance with the most important national standards. Monitoring of over 1,000 organisational units was constant, with in-depth site inspections allowing the "Risk Assessment Document" to be kept up to date and available to all employees. The management process for risks at Group offices has been finalised, in close cooperation with the relevant company functions, achieving a reduction in greater risk factors of more than 78% compared to 2013. Furthermore, the preliminary assessment of the work-related stress risk was updated, taking into consideration new homogeneous groups based on analysis of branches operating with extended working hours. In particular, an in-depth analysis of the risk for switchboard operators, security guards, IT system technicians and contact unit operators was performed, using a method developed in partnership with the Occupational Health Clinic of the University of Milan. Analysis of indicators shows no significant

presence of work-related stress. In quality terms, the result is consistent with the outcomes of health monitoring examinations on employees apparently in good health, with a greater percentage of employees judged to be in good/excellent general health (91%) and with a disorder/illness frequency lower than that of the general population. In 2014 the video terminal operators classification was updated (subject to specific health supervision) through the Work Sampling activity, with a particular focus on branches operating extended opening hours and through the involvement of head office organisational units heads.

Once again in 2014 Intesa Sanpaolo was actively committed to protecting employees and customers by taking action to prevent branch robberies and to manage its staff in emergency situations. Personal protection is the key principle behind all initiatives undertaken to protect branches from the risk of robbery: training, enhancement of safety technology measures and consolidation of security services. The training, designed to make employees aware of the correct conduct for their own and others' safety, is based on the sound experience of Intesa Sanpaolo's physical safety experts. The training is provided by high-level interaction in the classroom to encourage active participation and mentoring by personnel operating locally in such a way that the learning process continues, even after the training activities, in everyday relations. The safety technologies aim

to reduce the appeal of branches to robbers by reducing the amount of cash at counters, separation into multiple vaults fitted with delayed opening devices and custody in high-security areas. Another deterrent is the ability to recognise the perpetrators of crimes through the use of advanced video surveillance compliant with guaranteed protection of privacy provisions. In addition, access to areas where valuables are held has been reduced through the set-up of high-security areas. The replacement continued of armed guards with GSS (Global Security System) "virtual guards", a system offering remote surveillance of premises using bidirectional video instruments.

Furthermore, the focus on personal protection is a constant factor in distribution model development projects that allow the creation of synergic opportunities among the needs for physical safety, commercial growth objectives and the need for personal protection at the same time. An example is the organisation of branches with extended opening hours where, despite the increased time for banking service provision, no criminal situations have been recorded during the extended hours as a result of the behavioural and technology cautions established.

In 2014 further innovation was introduced in the distribution models, which take personal protection into consideration, particularly through the specialisation of retail branches into hubs, branches and advisory points.

### RISK MANAGEMENT IN THE RETAIL BRANCH SPECIALISATION PROJECT

To meet customer needs, in 2014 the retail branches were divided into three segments with different management models for cash-based services and resulting opportunities for personal safety:

- hubs: cash-based services throughout opening hours
- branches: cash-based services only in the morning
- advisory points: no cash-based services

To maximise personal protection benefits for those affected by this segmentation, different additional solutions were adopted. These include:

- installation of emergency health alert systems for the smaller branches
- installation of cash in-cash out devices for the smaller branches
- time-lock development for the safes
- increased installation of vaults with timers
- increased installation of security cabinets
- display of safety messages

Also in 2014, this constant focus on safety aspects allowed the Group to achieve significant results in terms of reducing the number of robberies committed and, more importantly, of offering more effective protection to individuals at branches. Since 2007, the year in which 451 robberies at Group branches were recorded, the number has decreased drastically to 60 in 2014 (-43% compared to 2013).

Post-robbery support activities continued through help from specialists at Milan University, arranged with the voluntary prior consent of interested parties, provided by the company doctor and – in cases considered more critical (given the dynamics of the event) – also by psychologists. A special assessment was performed for workers seconded abroad, by means of a specific homogeneous group and taking into account the following aspects: environmental, health and hygiene, logistics and personal safety. With regard to assessment of the risk scenarios, a specific checklist was prepared containing a series of standard items to identify the presence of any risks. Particular subjective health conditions of personnel seconded abroad were assessed by the Qualified Physician, at the request of the interested party, both prior to departure and on return to Italy. The seismic risk assessment was finalised - implemented both as a preventive measure in relation to local risk and building vulnerability and following a seismic or other external event - in relation to the maintenance of the static solidity requirements of buildings. Based on the maximum safety principle, to protect the health of workers exposed to substances that could be inhaled after vapourisation, in 2014 the ban on smoking was extended to include e-cigarettes. With regard to food and beverage distribution, a control plan was prepared for the levels of services contracted out, assigning this activity to a company specialising in the food sector. This plan involves verifications which assess compliance with health and hygiene requirements of the vending machines and the areas in which they are installed, also through microbiological analysis. The focus on health and safety issues was also constantly backed by specific training and education activities which in 2014 focused in particular on specific training for Organisational Unit Heads. All other existing training initiatives continued, for a total of more than 53,000 training hours on health and safety during the year.

Furthermore, the constant strengthening of crisis management procedures, solutions and mechanisms again in 2014 allowed the relevant company department to profitably ensure service continuity and the safeguarding and protection of employees and customers during particular environmental and social crises. In particular:

- emergencies caused by very bad weather and by seismic events in areas of certain local offices in Italy (Liguria, Marche, Tuscany) and abroad (New York, Serbia);
- persisting international crises in Egypt, Ukraine and Hong Kong;

- repeated social protests in Italy in the vicinity of Group offices in the major Italian cities;
- power blackouts at the Branch in Amsterdam, the Headquarters in Torino Lingotto and the Finance campus in Piazza Scala, Milan;
- prolonged data and phone line breaks at the headquarters in Via Langhirano, Parma, due to flooding of the Telecom main exchange in Parma.

## FINANCIAL INCLUSION AND ECONOMIC EMPOWERMENT

Credit management has a direct impact on financial capital, the use of which allows us to remain faithful to our traditional vocation, being a real economy bank, for households and businesses. For a bank, encouraging financial inclusion and business idea growth means supporting recovery. This is the key factor for economic, environmental and social sustainability of the community and, at the same time, represents growth opportunities and corporate development.

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

## HOUSEHOLDS AND PAYMENT SOLUTIONS FOR HOME MORTGAGES

For some time the Bank has envisaged means of renegotiating mortgage terms in order to meet the needs of households asking to adapt instalments to their changed income-generation capacity. Over 5,000 renegotiations were completed in 2014, for a corresponding residual debt amount of more than 540 million euro.

In 2014 new solutions were created to help households in difficulty: "**Rata Leggera**" allows customers who have contracted mortgage loans for which the repayment period has begun at least twelve months prior and who are up to three months behind with their payments to suspend the principal portion for a maximum period of twelve months. Conceived as a means of "rewarding" selected customers with a sound credit profile, Rata Leggera was expanded with a view to making it available to customers also as a solution for overcoming temporary economic difficulties. Suspension of the principle portion of the instalments is therefore a renegotiation tool that can be used to meet unexpected expenses, overcoming temporary economic difficulties rather than freeing up household budget resources set aside for consumption and investments intended to improve their lifestyles. There were almost 2,000 renegotiations in 2014 for a total residual debt of more than 167 million euro.

In the first half of the year, Intesa Sanpaolo also launched "**Casa Insieme**", an initiative aimed at

revitalising the real-estate market that enhances the saleability of newly built properties financed by the Bank by bringing together buyers and sellers of new homes through measures focusing on financial services and communication.

Through specific contractual arrangements, the Bank provides the construction companies amongst its customers with access to communication initiatives aimed at increasing the visibility of their work sites, commercially supporting them through its branches - also with periodic site visits by a branch manager - and providing subsidised financial terms for those purchasing homes at participating work sites.

Thanks to "Casa Insieme", builders can cut the amount of time needed to sell their properties, reduce their entrepreneurial risk and free up lines of credit to be used for new real-estate initiatives, while retail customers can benefit from more favourable conditions than standard list prices, simplified criteria for access to credit and, in some cases, contributions from the builders (lower instalments and exemption from administrative expenses).

Since the launch of the initiatives over 100 construction companies have become members of Casa Insieme.

As part of the memorandum of understanding with ABI, in partnership with the Government and Consumer Associations, once again in 2014 more than 1,700 suspension applications from households in temporary economic difficulty were accepted. Total suspensions, at the end of 2014, included more than 3,100 mortgages for a total residual debt value of over 266 million euro.

In order to support laid-off employees, Intesa Sanpaolo has made use of the "Anticipazione Sociale" product since 2005. Italian companies continue to make recourse to extraordinary lay-off payments and employees often receive the indemnity from INPS, the Italian Social Security Authority, after 7/8 months following the request.

Anticipazione Sociale offers the opportunity to open a time-release credit facility with particularly favourable terms. It can be used until INPS credits the worker's current account with the salary integration. Through agreements signed with the Authorities and local institutions in Lombardy, Piedmont, Emilia Romagna, Tuscany and Veneto, the worker does not bear any charges as these are covered by the project partners. In 2014, 4,600 households were given access to a total of 21.7 million euro.

With regard to initiatives of the International Subsidiary Banks to encourage first home purchases by young people and newlyweds, Intesa Sanpaolo Bank Albania has created a line of loans which, in cases of difficulty, offers the option of missing an instalment payment three times during the life of the loan. More than 4.8 million euro was granted in 2014.

The Slovakian VUB Banka has also continued to grant subsidised loans for home purchases to young people (maximum 35 years of age) with limited income. The

"fleximortgage young" line offers discounts on the instalment interest rate borne by the Bank and the Slovakian Government, payment suspension options or restructuring of instalments. More than 222.4 million euro was granted in 2014.

The Slovakian VÚB Banka has also continued to grant subsidised loans for home purchases to young people (maximum 35 years of age) with limited income. The "fleximortgage young" line offers discounts on the instalment interest rate borne by the Bank and the Slovakian Government, payment suspension options or restructuring of instalments. More than 222.4 million euro was granted in 2014.

Already since 2013 Banca Intesa Beograd in Serbia has been making loans available with insurance against job loss or disability. The loan offers the option of delaying payment of the instalment five times during the repayment period. 53.1 million euro was granted in 2014.

VÚB Banka in Slovakia has created a loan for small construction companies which, in partnership with municipal authorities, envisages the construction of apartments for rent with support from a state housing fund set up for social housing initiatives. In 2014, the Bank granted over 1.8 million euro.

## LOOKING TO THE FUTURE: YOUNG PEOPLE

In socio-demographic terms, the situation for young people shows personal and professional instability as well as financial dependence, often still significant on their families, uncertainty about the future and a rise in the provisional nature of living conditions even after the age of 30. Nevertheless, Intesa Sanpaolo continues to focus on those representing our leverage of the future.

**The Superflash product** is an "umbrella" brand characterising not only products, services and solutions for young people between the ages of 18 and 35, but also a new communication language at Branches and online, with a dedicated section of the Bank's website and with the activation of social networks.

Superflash is made up of a dedicated product line with extremely limited costs, designed to meet the main needs of young people: prepaid cards, current accounts, loans, mortgages and savings. In 2014 the Superflash Loan allowed the granting of almost 303 million euro to more than 27,000 young customers (250 million euro to 24,000 customers in 2013). With regard to mortgages, the amounts granted remained significant, almost 840 million euro to 8,700 young people, though recording a decrease compared to 2013 (1.1 billion euro granted to 10,800 young people).

As regards welfare, the Group considered it important to offer specific subsidised terms to young people. The two solutions launched at the end of 2012 – an open-ended pension fund, "Il Mio Domani", and an individual welfare plan, "Il Mio Futuro" – offer under-25s a discount on the annual management fee. In 2014 more than 38,400 subscriptions were recorded.

**Bridge Loan**, on the other hand, was designed to give university students an opportunity to fund their studies under particularly favourable conditions. It is targeted at students enrolled in one of the partner Universities and its eligibility requirements do not take into account household income, but are solely based on university attendance and merit, without the need for any personal guarantees. In 2014 alone, 289 new loans were granted for a total of 3.1 million euro.

The Slovakian VÚB Banka dedicated a current account (without fees for students) to young people aged 15 to 24, which includes various banking services and a form of insurance free of charge in the event of document, mobile phone and baggage loss or theft. 17,000 accounts were opened in 2014. The Bank also continued to grant loans to young couples with limited income and consumer credit to young people and university students, granting a total of almost 6.5 million euro in 2014.

The Croatian PBZ also provides support to students, granting loans at subsidised terms to young people to cover university fees and board and lodging costs. Again for students, the Bank created a product line that includes a current account, a credit and debit card, and Internet banking. The package offers limited costs for basic banking services and no-fee current accounts. In 2014 more than 7,500 subscriptions were recorded.

"Tu Dopo di noi" is an insurance product designed to protect a disabled beneficiary on the death of the insured. A lifelong product giving priority to the value of capital invested, as a result of prudential separate management, mainly in bonds.

"Tu Dopo di noi" targets those with a disabled family member and wishing to protect their future by guaranteeing protected capital that continues to provide them with real, secure protection.

106 new policies have been under written in 2014. Previously our portfolio contained a similar product with the same characteristics, "Alfa Dopo di Noi", and therefore up to 31 December 2014 a total of 783 contracts had been signed.

## SENIORS: THE VALUE OF RELATIONS WITH THE BANK

The products and services dedicated to this type of customer take into consideration the specific needs of simplicity and enhancement of relations with the Bank that have consolidated over time. Intesa Sanpaolo has consolidated its marketed product mix in the last two years with three dedicated product lines: "Carta Pensione" (Pension Card), "Libretto Pensione per te" (Pension Book for you) and "Conto Facile" (Easy Current Account) that can be customised according to customers' personal needs, without account opening and closing costs, to which all the Bank's services can be linked. In 2014 the account was offered with a discount on the annual fee. As at 31 December 2014 there were:

3,400 Pension Cards, 20,800 Pension Books and 90,000 Current Accounts.

The range dedicated to Senior customers is completed by the **Basic Account**, created to comply with regulations introduced in 2012 for financial inclusion purposes.

The account is dedicated to customers with limited banking needs and envisages low management costs, particularly for socially disadvantaged customers.

Given the aims of this product, Intesa Sanpaolo chose to make its Basic Account product even more convenient, guaranteeing more transactions free of charge than the limits established in regulations.

As at 31 December 2014, over 8,500 Basic Accounts had been opened, of which: 912 to socially disadvantaged customers, 3,269 to holders of pensions of up to 18,000 euro per year and 4,368 to customers not belonging to these categories.

The standard banking product component, with services enhancing simplicity and transparency and meeting protection needs, is backed by a non-banking component relating to health, welfare and recreation, for example including: protection against unforeseen events, access to medical and healthcare services under preferential terms, social, welfare and tax assistance services at subsidised rates or even free of charge, and opportunities to purchase recreational products and services at preferential prices. In a scenario of rising health costs borne by households, 2014 saw the consolidation of its "Riconoscimento Senior" health service, with greater monitoring by Intesa Sanpaolo of the local coverage and network quality. More than 508,000 customers over the age of 65 accessed this programme.

The International Subsidiary Banks also developed several initiatives in favour of senior customers: specific products for pensioners are offered in Serbia with loans for almost 41.5 million euro, in Slovenia over 269 thousand euro was granted, and in Bosnia and Herzegovina loans for 12.5 million euro.

The Croatian bank PBZ and the Slovakian VÚB Banka created current accounts for pensioners with subsidised terms and which offer other banking services. In 2014 there were more than 7,300 subscriptions to these PBZ services, whilst subscribers to the VÚB Banka service numbered 9,200.

## A BRIDGE CONNECTING THE WORLD: REMITTANCE MANAGEMENT

In 2014, Intesa Sanpaolo continued its focus on immigrant customers, recording over 942 thousand customers (+4.32% compared to 2013). The money transfer services offered include three complementary services which, in terms of characteristics and costs, make the product range complete and competitive: Getmoney to Family, which enables the sending of money to the migrants' main countries of origin thanks to agreements entered into with local banks; Express to

Family, designed to transfer money to Intesa Sanpaolo Group banks located in Albania, Egypt, Romania, Serbia and Ukraine and Money Transfer Western Union which, thanks to its widespread agent network, enables the receipt of money worldwide.

In 2014 a total of almost 110,000 remittances were executed through the three services amounting to over 57 million euro, up on the figure for 2013. The increase mainly refers to the Western Union service which in 2014 was used by just under 14,000 customers.

## MICROFINANCE SOLUTIONS FOR VULNERABLE SOCIAL GROUPS

Our willingness to play a part in the social growth of the communities where we operate has resulted in numerous microfinance projects and initiatives aimed at the prevention of usury, involving us as partners of local players, shareholders' foundations and local Onlus associations.

### Il Prestito della Speranza

In 2010 the Italian Episcopal Conference (CEI) launched the first national microfinance project targeting households, offering income support, as well as targeting companies for the start-up or relaunch of business. The initiative was promoted by the Italian Banking Association and involved 54 banks. The CEI assigned Banca Prossima the task of managing the 30 million euro guarantee fund. At the request of the CEI we managed development of the project by training 127 dedicated branches and the setup of a voluntary workers' association - VOBIS - operating at national level and made up of 250 retired colleagues. This association examines the loan applications, interviews households and reduces the workload for the branches. The banking groups committed to 2 forms of credit: Social Microfinance targeting households that are particularly economically or socially vulnerable, and Business Microfinance for individuals, partnerships or cooperatives wishing to start up or performance freelance or microbusiness activities.

Intesa Sanpaolo is now the initiative's leading bank and has managed 46% of the applications originating from desks of the diocese. In 2014 Intesa Sanpaolo granted almost 2.4 million euro to 315 applicants.

Other significant initiatives include Intesa Sanpaolo's participation as partner to Fondazione Lombarda Antiusura and Fondazione Welfare Ambrosiano.

**Fondazione Lombarda Antiusura** has been operating since 1997 to defend individuals or small businesses in dire financial straits or at risk of usury. The Foundation, set up by Cariplo S.p.A. in collaboration with Fondazione Cariplo and Caritas, has provided free of charge the guarantees required to cover the credit granted. The selection of the applications takes place through sector experts, employees or retired members of the Group, who act as a listening and guidance centre in identifying the financing solutions required to remedy critical situations. Thanks to

the work of the Foundation – acting as guarantor or to cover interest – 580 entities have been able to gain access to Intesa Sanpaolo loans for a total of almost 9.2 million euro since it was set up.

**Fondazione Welfare Ambrosiano**, an entity financed by the Municipality of Milan, which also involves the participation of Fondazione Lombarda Antiusura, envisages microfinance initiatives both of a "social" nature to provide income support to households in temporary difficulties and of a business nature, for the creation of micro and small enterprises. The catchment area is essentially the Milan area. Intesa Sanpaolo is one of the four financial partners involved: since the initiative was launched approximately 1.2 million euro has been granted to 215 applicants.

Other two projects, launched in 2011, cover the Piedmont and Lombardy areas in particular:

- the "Microcredito per il lavoro", in collaboration with Fondazione Lombarda Antiusura Onlus, is aimed at Italian and foreign individual and family businesses located in the Lombardy Region; the loans are backed by the guarantee of a fund set up by the Foundation which accounts for 90% of the loan granted;
- the "Finanziamento a valere sul Fondo Regionale di garanzia per il Microcredito – Regione Piemonte assistito da garanzia FINPIEMONTE", dedicated to newly set-up small businesses and self-employed workers with operational headquarters in Piedmont, for the business start-up phase. The loans are backed by a guarantee of 80% of the capital issued; this guarantee is released by the regional investment company.

Major initiatives were launched during the year:

- the agreement with **Fondazione San Patrignano**, launched in May 2013, which entails microfinance activities for the integration of the San Patrignano Community youth in the job market. Thanks to a guarantee fund of 250,000 euro established by Fondazione San Patrignano and assigned to Banca Prossima, Intesa Sanpaolo has allocated a maximum of 750,000 euro to grant loans in favour of residents of the Community who wish to start up businesses. The project entails a training stage with the support of Bocconi University and guidance through the first business experience with the 250 "Credit Angels" of the Vobis association.
- **Fondo Famiglia Lavoro** of the Archdiocese of Milan envisages the start-up of microfinancing activities that increase existing opportunities to provide support to business activities through action by Fondazione San Bernardino and based on specific agreements with the participating banks. The activities envisaged by the Fondo Famiglia Lavoro also include a special focus on households that have lost their main source of employment income (due to dismissal or redundancy) or self-employment income (due to business closure or suspension), but which still have a form of income, albeit modest, from at least one of the other

household members. Fondazione San Bernardino, the guarantee fund manager on behalf of the Diocese, arranges assessment of the applications and grants them access to the guarantee fund, allowing Intesa Sanpaolo to issue loans at favourable terms.

Numerous projects were also launched by our International Subsidiary Banks.

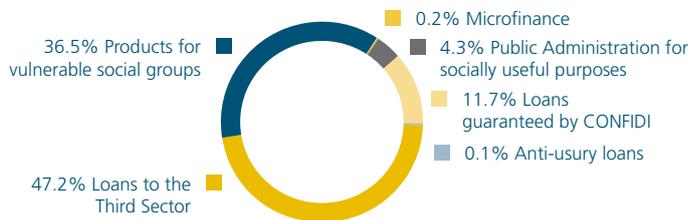
In Egypt, microfinance activities have been developed since 2008, both for loans to individuals with no access to banks and for the development of small businesses. In 2014 a total of 31.6 million euro was granted (25 million euro in 2013).

Already since 2013, Alexbank's commitment has been included within the scope of a dedicated project - "Bank the Unbanked" – with a view to increasing penetration and diversifying the offer in terms of products (introduction of savings methods, cards, insurance products) and channels (mobile banking).

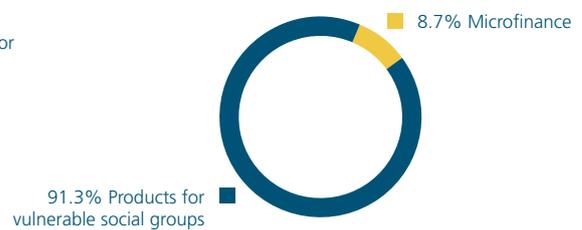
In 2014, Banka Koper in Slovenia also launched a microfinance initiative, signing an agreement with the European Investment Fund offering arrangements to provide guarantees under the "European Progress Microfinance Facility Programme". The aim of the loan is to facilitate access to credit for individuals who would otherwise have no access to banking (start-ups, young self-employed, social enterprises, women business owners, etc.) to combat social exclusion. Over 975.000 euro was granted in 2014.

**Initiatives with high social impact [%]**

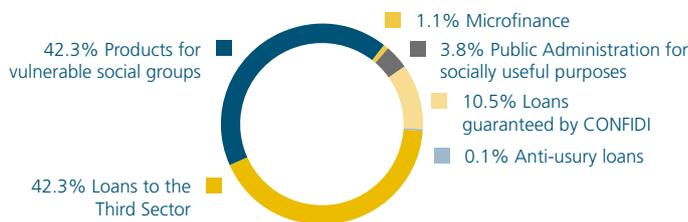
**Italy (15.2% of loans granted in Italy)**



**Abroad (5.6% of loans granted abroad)**



**Total (12.9% of the total loans granted by the Group)**



Overall, the numerous microfinance and anti-usury initiatives in Italy and abroad resulted in the granting of more than 40.4 million euro.

In 2014, the Intesa Sanpaolo Group issued loans for high social impact activities amounting to over 3.6 billion euro (12.9% of the total loans granted), helping to create business and employment opportunities as well as to assist people in difficult situations in several

ways: microfinance; anti-usury loans; loans to the Public Administration to develop socially useful services and activities; credit facilities granted to small and medium enterprises belonging to CONFIDI (consortia or cooperatives for collective credit guarantee); products and services addressed to Third Sector associations and entities; products dedicated to the most vulnerable social groups to support their financial inclusion.

### THIRD SECTOR AND LOCAL AREA

Intesa Sanpaolo attributes a great deal of importance to the Third Sector, which represents a significant part of the economy and of Italian companies. These customers are assisted by Banca Prossima, which creates positive social impact through its lending activities. Its greater and more targeted credit with lower costs once again in 2014 supported the Third Sector in terms of inflows-outflows balancing, job creation and capacity to reach the ultimate beneficiaries. The Bank has achieved significant results in recent years. At the end of 2014 it had over 51,800 customers, with approximately 6.7 billion euro in deposits (of which 2.5 billion euro direct) and around 1.5 billion euro in loans. In 2014 the company reported revenues of 53 million euro (+16.7% on 2013). These are major milestones that demonstrate the ability to monitor a socially important segment, above all in the current context where Public Administration has partially withdrawn from its involvement in welfare matters.

In many of the initiatives launched, the collaboration with VoBIS (Volontari Bancari per le Iniziative Sociali), a national non-profit association comprising former bank employees who offer their expertise to citizens and non-profit organisations, providing applicants with mentoring and tutoring activities, proved to be particularly valuable.

For Banca Prossima, operating close to the community has also translated into promotion, in partnership with certain shareholders' foundations and Third Sector entities, of the "Fiducia e nuove risorse per il Terzo Settore" Manifesto (Confidence and new resources for the growth of the Third Sector), which aims to build a network of operators providing financing sources at a moderate cost in order to support non-profit investments [i].

In 2014, in agreement with the signatories and with assistance from Euricse (European Research Institute on Cooperative and Social Enterprises), nine stops of a roadshow were organised that allowed local development of the most important non-profit issues, promoting the sharing of the best ideas and access to all available support tools.

#### Subsidised loans to the Third Sector

Banca Prossima has gradually launched a series of initiatives to grant subsidised loans to the Third Sector. These loans are sustainable for the Bank through a number of low-cost deposit methods. The benefit for the Bank of lower cost of deposits fully translates into lower lending rates.

Essentially, this mechanism operates in three areas: the use of European Investment Bank loans, in 2014 a total of more than 35 million euro was granted for

14 loans; the collection of funds on the Terzo Valore crowdfunding portal and issue of the "Serie Speciale Banca Prossima" bonds.

**Terzo Valore [i]** is a crowdfunding portal which allows anyone to lend money or to directly fund non-profit organisation projects, without intermediaries and with principal repayment guaranteed by the Bank. Terzo Valore has so far financed 17 projects with loans granted by external subscribers for 2.1 million euro, plus approximately 218 thousand euro donations. With regard to the "**Serie Speciale Banca Prossima**", bonds, two issues were performed - one in October 2013 and one in June 2014. The Bonds are issued at lower rates than those normally adopted for securities with the same characteristics in terms of rate type and maturity. The total funding was used as loans to the Third Sector: amounting to approximately 45 million euro, divided among 218 projects of various types of organisation, primarily social cooperatives, associations and religious organisations.

In order to sustain the implementation of social enterprise ideas by encouraging access to employment for deserving university students, also through self-financing methods, Fondazione San Patrignano - in partnership with Banca Prossima - set up the Social Start-Up project "Giovani idee per il social business" (Young ideas for social business), an ideas competition addressed to university students and designed to award the best three social enterprise projects with a dedicated loan.

Through this initiative, Fondazione San Patrignano and Banca Prossima aim to activate business culture operating in the social field, assisting emarginated or excluded people and making itself known on the market to guarantee - in addition to transparency, responsibility and environmental protection - real economic sustainability.

The most significant partnerships with the Third Sector include: **Consorzio SPIN-Sport Insieme**, a non-profit entity deriving from the collaboration with the leading sports Promoting Entities at national level (ACSI, AICS, ASI, CSI, ENDAS, LIBERTAS, UISP, USACLI) to build new sports facilities, renovate or adapt the existing ones to promote sports activities in Italy. The SPIN credit access model is innovative: association takes on the risk by investing its own capital (minimum 20% of the amount) and undertakes a project study and analysis process together with the Consorzio. Banca Prossima's credit decisions are supported by SPIN's certification, which investigates some aspects, such as the investment's economic and financial sustainability, the cost adequacy and the necessary authorisation process, which are key factors for the success of the project. 19 projects were financed in 2014, for a total amount of about 18 million euro.

## ASSESSMENT OF BANCA PROSSIMA SOCIAL IMPACT

At the end of 2013 an assessment process of Banca Prossima social impact was launched and was conducted in 2014 with a view both to conceptualisation and actual measurement. It can be assumed that the Bank's impact can be divided into various lines:

- the service to existing non-profit organisations. Most of this impact is assumed to be associated with the credit, granted to a greater extent than other banks, priced at a level more suited to the "real" level of risk and therefore less expensive, "better" in other terms (more suitable types, sharing of the business plan, acceptable timing and guarantees).
- the effect generated at the end of the process by said organisations and involving two beneficiary categories: their workers (job creation) and the organisations' end users.
- the "structural" effect that improves the capacity of non-profit organisations to obtain funding ("investment readiness")

The results were mainly obtained by sending a questionnaire to borrowing customers and asking them questions in order to assess the extent of this effect, bearing in mind the conceptualisation described above. One segment of the questionnaire was dedicated to recording customer satisfaction, which is used to measure both the impact and the commercial success. 546 valid responses were collected out of approximately 4,400 borrower customers to whom the questionnaire was sent.

To summarise, the results were as follows:

With regard to the economic impact on customers, an increase in business volume of customer organisations was recorded. This is associated primarily with medium/long-term credit and amounts to 26.8 million euro, which - as a ratio to the total Banca Prossima customers - means additional business for approximately 312 million euro. As regards the creation of new jobs, 811 were identified in the sample (over 10,000 if taken as a ratio to total customers). Lastly, with regard to the ultimate beneficiaries, the involved organisations estimated that these increased by around 65,600 in the sample, which corresponds to no less than 1,400,000 individuals if taken as a ratio to total customers.

The section of the questionnaire on customer satisfaction showed very high levels of satisfaction, both in terms of quality of relations and the opinion on financial terms. Relations were described according to four categories: communication effectiveness, deadlines met, support, ease of contact and completeness of responses. The percentages of "good" or "excellent" responses were always over 80%. The financial terms included financial restrictions, capital requirement conditions and the interest rate applied. The "fair" response category was the most frequent (29%-44%). The sum of "favourable" and "highly favourable" varies between 46% and 51%. The sum of the three classes is normally around 95%.

This process was not only useful for the initial quantification of the bank's social impact. Among the most significant figures obtained we should mention the importance of Public Administration payment delays in generating dependence of non-profit organisations on short-term credit; the partial use of short-term funding also to finance additional projects; the great differences among the types of social impact mentioned by the organisations, which probably preclude the use of highly-standardised impact analysis methods; and the importance of detailed information on credit to document the bank's commitment.

For all the impact categories it is important to distinguish between the short-term credit and medium/long-term credit effects. Medium/long-term credit usually finances the acquisition of certain assets and it is therefore possible to understand the additional operations made by the organisation as a result of the asset acquired and its final effects. Conversely, short-term credit finances current business, not additional operations, and it is difficult to apply the same logic.

Nevertheless, the responses show that short-term credit availability is necessary to support entire business lines or even the basic operations of the organisations in question, and that such availability is often not increased through banking relations other than those with Banca Prossima.

The process is not finished and Banca Prossima intends to improve and extend it in 2015 and in the future, both with regard to its activities and - if possible - to assessment of the impact of the applicant organisations.

## GROWING WITH OUR STAKEHOLDERS: FINANCIAL CULTURE FOR INFORMED CHOICES

Intesa Sanpaolo Group is particularly involved in the dissemination of knowledge related to economic and financial issues, to make people more aware (especially the younger generations) of their choices. The Bank undertook numerous initiatives by providing, without marketing purposes, its experience and advice on asset management and family budget issues through meetings with customers at Branches, with support from employees and specialists.

With regard to young people, the Bank - also with expert participation - continues to support the “**Financial Education Week**”, a series of meetings proposed to students attending the last two years of high school on the basic concepts of “Enterprise and Business Plans: how a business is born”. The programme sees participation in the national competition “Sviluppa la tua idea imprenditoriale” (Develop your business idea), which proposes that the classes design a business plan for creating a socially useful business in their local area. Since 2008, in partnership with Osservatorio Permanente Giovani-Editori, Intesa Sanpaolo has promoted the project “**Cultura finanziaria a scuola: per prepararsi a scegliere**” (Financial culture at school: get ready to make choices), which aims to provide useful knowledge on how to make reasoned decisions about the future. Dedicated to high school students, in 2014 the project involved 317,278 students and 12,203 classes. The “**Young Factor**” project was launched in 2014. Involving Intesa Sanpaolo, Unicredit and Monte dei Paschi di Siena, in the next five years this project will include initiatives to encourage the highest level of economic and financial education in Italian students.

In partnership with the Consumer Associations, the project “**Mettere in comune competenze**” (Skills pooling) was launched in 2011, with the aim of improving the mutual knowledge and collaboration skills to the benefit of customers and consumers. The project is divided into four annual steps: training of Consumer Associations’ middle managers; development of a training plan targeted at all Intesa Sanpaolo employees; local expansion; meetings with Intesa Sanpaolo Group top management and middle and junior managers of the Associations to combine skills and proposals in the main operating areas. 2014 was characterised by the local customisation of the initiative. In Piedmont, Intesa Sanpaolo organised four seminars and nine training days targeting managers and representatives of the regional consumer associations.

In 2012 Intesa Sanpaolo opened the **Museo del Risparmio** (Savings Museum) in Turin: the first interactive multimedia museum dedicated to the economy and savings, with the aim of encouraging thoughts about savings and teaching the basic concepts about

investments. In 2013 the Bank founded the International Federation of Finance Museums together with the Museum of Global Finance in Beijing, the Museum of American Finance in New York, and the Global Financial Literacy Excellence Center in Washington. In 2014 it consolidated relations with organisations which, at national and international levels, operate in the financial education field. In Italy this translated into a partnership with Fondazione Rosselli, as part of Progetto Cittadinanza Economica (development of pilot financial education courses for schools), into the participation in tenders for the dissemination of financial education in partnership with CeRP - Collegio Carlo Alberto and the University of Turin, and into the development of new content on food savings with the University of Bologna. At international level, bilateral cooperation agreements were established with the Museo Interactivo de Economía in Mexico City and with the British Museum in London. In addition, it organised the annual meeting of the International Federation of Finance Museums at its own offices, attended by the main organisations that have created or are creating museums dedicated to the economy (for example the Central Banks of the United Kingdom, France, Canada and Turkey, ISBANK, ERSTE Group, Allianz Asset Management, BBVA, and the British Museum). The Museum is an active member of the GreenBack 2.0 project (managed by the World Bank in partnership with the City of Turin) aimed at educating and raising awareness of migrants on the topic of remittances and financial education. Lastly, 10 video clips have been made with Fondazione per l’Educazione Finanziaria e il Risparmio. Through amusing infographics they explain the keywords of finance [i].

In Serbia, as a member of the local network of the United Nations Global Compact, Banca Intesa Beograd has for many years been actively involved in financial education programmes for secondary school students. Among its many activities, in 2014 it cooperated with the NGO Trag Foundation, USAID and TACSO (the European programme for technical aid to civil society organisations) to provide financial education and support in the financial management, marketing and budget planning for NGOs. In Hungary, CIB participates in the “Finance Compass” programme launched by the Hungarian Bank to raise awareness among citizens as to the financial issues associated with day-to-day life through the publication of press articles. In addition, to improve the financial awareness of microbusiness customers, a “Start-up Guide” is provided with updated information on topics of interest (business plans, what financing means, state subsidies, business activities - tax and accounting issues, insurance, legal aspects, etc.).

## SUPPORT TO THE BUSINESS SYSTEM

Even in recent years, Intesa Sanpaolo has never stopped believing in Italy and provides support to those wishing to relaunch. In 2014 it allocated 34 billion euro to businesses and households. Access to credit is an issue of such importance that it has become one of the Business Plan objectives, envisaging the allocation of funds totalling 140 billion euro between 2014 and 2017.

Mortgage renegotiation is another highly important issue to production: for this reason since 2013 we have adopted specific processes and procedures that offer mortgage renegotiation to SMEs in temporary financial difficulty, facilitating the sustainability of the loan by extending the duration of the repayment plan for the residual debt in order to adjust the commitment to the actual available cash flows of the customer. This tool allows prompt and proactive monitoring of the positions which, despite being affected by temporary financial difficulties, show solid prospects of positive development.

During 2014 mortgages with payment arrears were renegotiated for 656 Corporate customers and 911 Small Business customers. In addition, 791 lease agreements were reviewed for Corporate customers and 427 for Small Business customers.

### Proactive credit management

The Group's 2014-2017 Business Plan provides for initiatives for dynamic management of credit risk. These include the development and complete operational start-up of the Proactive Credit Management Processes through full activation of the dedicated chain and the creation of new support tools.

Proactive Credit Management is the new model dedicated to managing customers in potential difficulty, with the aim of recognising the first signs of problems and acting promptly with the most appropriate and effective management initiatives, avoiding deterioration of the basic credit fundamentals of the borrower. The approach adopted is differentiated by customer type:

- "prevention" for potentially recoverable customers with a view to growth and development through targeted action to renegotiate and/or grant new financing that allows the temporary difficulty to be overcome;
- "care" for customers with weak fundamentals by restructuring credit facilities using the most strongly controlled types, but at the same time guaranteeing the sustainability of the financial commitment by the customer.

In this first phase, in operation since July 2014, the project was activated for the Banca dei Territori and Corporate and Investment Banking Divisions with the involvement of the Chief Lending Officer's department.

## AGREEMENTS AND SOLUTIONS FOR BUSINESS GROWTH

Again in 2014 the Intesa Sanpaolo Group finalised important agreements with trade associations for the sustainable growth of businesses. Amongst others, of particular importance is the fifth cooperation agreement between the Intesa Sanpaolo Group and Piccola Industria Confindustria, "**Una crescita possibile**" (Possible Growth). The partnership envisages the allocation of a further 10 billion euro, in addition to 35 billion euro allocated under the previous agreements, as well as a programme focusing on measures targeting growth, innovation and start-ups, exports and internationalisation, supported by the services and business opportunities that Intesa Sanpaolo, as Official Global Banking Partner to Expo 2015, can offer corporate customers for the entire duration of the event.

Among the tools developed to encourage dialogue between corporate customers and the Bank, the "Modello diagnostico di autovalutazione finanziaria" (Financial Self-Assessment Diagnostics Model) is being kept available. It is an online tool available to all Confindustria members, which provides companies with a personal risk profile to identify the best growth strategies. Since its launch in October 2010 more than 7,600 users have accessed the diagnostics model, with 428 new users in 2014.

The ABI Credit Agreement, which aims to guarantee the availability of sufficient funds to SMEs which, despite reporting liquidity tensions, in any event indicate positive prospects for development or going concern assumptions, was extended to 31 December 2014. This agreement allowed access to certain benefits with loan suspension and extension measures and two targeted credit lines: "Italy Investment Projects" dedicated to SMEs which, despite the economic crisis, have continued to make new investments and "Public Administration Receivables", whereby participating banks made special credit lines available for the provision of advance or discounting transactions.

In 2014, the transactions subject to suspension numbered almost 8,000 for a total residual debt amount of over 2.5 billion euro and around 338 million euro of extended debt. For the extensions, the accepted applications were more than 1,000 for a total residual/deferred debt of over 360 million, while recapitalisation loans were 28 for a total amount of approximately 7 million euro. Intesa Sanpaolo disbursed over 4,000 loans in 2014 through the "Italy Investments Project" for a total of more than 1,200 million euro.

### Support to the public administration and solutions to guarantee liquidity to credit companies

The factoring of receivables to the Public Administration is a rather complex and at the same time highly relevant issue, especially in view of the large volume of receivables that companies claim against central and local public Entities and the major payment delays accumulated in that regard. Again as part of the ABI Credit Agreement, as at 31 December 2014, 222 SME applications were

received relating to the factoring of Public Administration receivables for a total of 6 million euro.

### Youth employment and innovative start-ups

The EIB and Intesa Sanpaolo have signed the first joint loan in Italy dedicated to creating new jobs for young people in small and medium enterprises, mid-caps and innovative start-ups.

Making available a total of 240 million euro, the transaction responds to the request in June 2013 from the European Council in Brussels to activate “without delay” all possible means to combat the growing phenomenon of unemployment, especially among

young people. The transaction includes a credit line of 120 million euro for the creation of new jobs for young people aged 15 to 29 in SMEs and mid-caps and in support of the creation and development of innovative start-ups. In this area, 5 million euro was granted in 2014. Another 120 million euro credit line was allocated to finance investments by small and medium enterprises in the social sector (healthcare, education and urban renewal). 14 loans totalling 37.5 million euro were granted in 2014 (see the chapter “Financial inclusion and economic empowerment” - p. 66).

### ADOTTUP

With regard to the promotion of new high quality enterprises, the AdottUP project, created in 2013, continued to operate also in 2014.

This is the Piccola Industria Confindustria programme for the adoption of start-ups, of which Intesa Sanpaolo is a strategic partner. AdottUp 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.

Intesa Sanpaolo gathers business idea applications, submits them to a joint Committee (Intesa Sanpaolo and Confindustria) which evaluates them, selects them and provides high level training and work areas, and creates the “Vetrina delle migliori idee” (Showcase of the best ideas) [i]. This is a dedicated area on Confindustria’s website which provides members with an overview of the best projects, thus enabling them to review the selected ideas and apply to become their “tutors”. In 2014, 69 new start-ups were assessed, 15 contacted for further studies, 8 selected for training and 12 included in the showcase. 8 training days were held.

219 start-ups have been assessed so far, around 80 have been contacted for further study, approximately 45 have been selected to attend training, 3 courses for a total of 32 days have been held, and 54 start-ups have been included in the showcase.

With the 2014-2015 Intesa Sanpaolo-Confindustria agreement, AdottUp was relaunched with a view to expansion envisaging action not only on supplying innovation but also on the demand side, facilitating matching between innovative SMEs (not just start-ups) and the SMEs that need such innovation to increase their competitive levels. Among the lending tools in support of new enterprises, Intesa Sanpaolo also makes the “NeolImpresa Loan” available, specifically for medium/long-term financing to start-ups.

### Agreements with Confidi and Trade Associations to aid credit access

Intesa Sanpaolo cooperates with the major Confidi organisations that issue guarantees (with 50% coverage on average) in favour of the Bank, facilitating businesses’ access to short-term and medium/long-term financing to business and production activities.

In 2014, 21,995 loans guaranteed by Confidi were granted for a total of over 1.6 billion euro. The stock of loans guaranteed by the guarantee consortia as at 31 December 2014 was over 3.8 billion euro (for a total of 71,420 positions guaranteed).

The role of Confidi with regard to the use of the Guarantee Fund pursuant to Italian Law 662/96 is important. The acquisition in the form of counter-guarantee of a State guarantee of last resort allows a reduction in capital absorption for Banks and Confidi, with a positive impact in terms of price and/or greater volume of credit granted.

The Intesa Sanpaolo Group’s International Subsidiary Banks are also very active in subsidised lending to small

business and SME customers. For example, in 2014 Banka Koper in Slovenia developed a series of loans guaranteed by the Slovenian Fund for businesses. The initiative aims to support investments to ensure the growth of businesses and the development of high value added activities. In 2014, the Bank contributed with loans for 7.5 million euro.

### Employment for women

Intesa Sanpaolo has also adopted another important memorandum of understanding signed by ABI, the Equal Opportunities Department of the Prime Minister’s Office, the Ministry of Economic Development and the major industrial and trade associations (Confindustria, Confapi, Rete Imprese Italia, Alleanza delle Cooperative Italiane) which offers a framework of action to facilitate access to credit for businesses operated by women in the various phases of a company’s lifecycle or the working life of freelance professionals. In adopting this agreement, with a range of services known as “Business Gemma”, Intesa Sanpaolo has made available 600 million euro until 31 December 2015 for businesses

run by women and for female freelancers. In 2014 the first 16 loans were granted amounting to 365,800 euro. This new loan also offers the chance to benefit, once during the repayment period, from the special segment guarantee of the "SME Guarantee Fund" dedicated to businesses operated by women, from up to twelve months' suspension of the principal portion of instalments on the loan for maternity leave, for serious illnesses also of the spouse or children or for a disabling illness of a parent, blood relative or relative by marriage up to the third degree, provided that the person lives with the applicant. The Business Gemma services also include an insurance policy that offers insurance cover and welfare services aimed at addressing the problems of balancing private and professional life. The areas of action envisaged are maternity, assistance, aid and legal protection in times of difficulty and illness. At the end of 2014 there were more than 1,400 existing policies with 37 new contracts signed during the year.

Banca Intesa Beograd in Serbia provides subsidised financing for enterprises run by women in the province of Vojvodina. The facilities include loans to purchase equipment for setting up small businesses and for the development of start-ups created by unemployed women. Approximately 216,000 euro was granted in 2014.

In Croatia, the collaboration continued between PBZ and Adria Women Association [1] for the development of female enterprises through dedicated training initiatives, online magazines and weekly newsletters. PBZ sponsors events, participates in training sessions and contributes to the preparation of e-learning materials.

In Slovakia, VÚB Banka entered the fifth consecutive year of the project launched with the women's magazine "Emma" aimed at training future female entrepreneurs, including new graduates, women on maternity leave and unemployed women. The courses, held by bank managers as well, were attended by 17 women.

## INNOVATION AS A DRIVING FORCE FOR COMPETITIVENESS

In 2014, on the issue of innovation Intesa Sanpaolo dedicated a structure reporting directly to the Managing Director, Chief Innovation Officer, who has the task of researching and analysing innovative solutions available on the national and international markets to identify development opportunities for the Group and its customers, leveraging the departments already present in the Bank (see chapter "Innovation for growth" - page 118). Fully aware of the high social value that innovation is able to express in terms of creating progress and shared value, the structure's objective is to develop the technological innovation mix in favour of businesses in synergy with the relevant Group departments. Proposing the use of digital matchmaking platforms, it acts as the link between companies, bringing together the "innovation creators" and the potential users. In 2014 the Technological Opportunity Proposal initiative continued with the aim of identifying technologies

for Group's corporate customers and involved 100 customers.

Included among the activities to disseminate innovation are:

- offer of advisory services on sectors and technologies of excellence,
- support for development projects in the local areas and the local economy,
- support for start-ups with high growth potential and contribution for the Group and for the business system in general.

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

### Nova+ loans

Year	Projects financed	Grants [€/000]
2011	244	467,618
2012	291	369,140
2013	333	360,091
2014	90	108,337

In 2014, R&D lending from the Bank's funds continued, albeit to a lesser extent than in previous years due to the negative economic situation. In addition, during the year - as envisaged in the agreements - the two loan facilities "Nova+ FNI Disegni" and "Nova+ FNI Brevetti" terminated. These facilities had supported SME model, design and patent industrialisation projects through loans included in a portfolio of transactions backed by public guarantee drawing on the Ministry of Economic Development's National Innovation Fund.

In 2014, over 108 million euro in loans was granted for 90 initiatives, of which 20 loans totalling 5.4 million euro referring to the Disegni and Brevetti facilities. Overall, 958 projects were financed in the period 2011-2014 for a total of more than 1,300 million euro.

From 2015 a recovery in R&D investments is expected from companies that can also benefit from a significant tax credit that combines effectively with the Nova+ financing.

### New sustainable enterprise

Among the initiatives worthy of mention is the "Intesa Sanpaolo StartUp Initiative", the accelerated path for growing businesses that maps out a structured and continuous process of research, training, selection and

presentation to investors of high-tech start-ups. 84 start-ups were presented to investors in the 11 events planned during the year.

Strengthening the Group's commitment to sustainable development and innovation, in 2014 the coaching activities offered by the department involved start-ups operating in high social and environmental value sectors such as:

- **Foodtech**, characterised by enabling technologies for the sustainable development of the agro-food chain: 34 beneficiary start-ups, of which 15 presented to investors;
- **Cleantech**, the meta-sector characterised by a series of technologies designed to reduce intensive use of natural resources and to make the use of energy sources for civil and industrial purposes more efficient and sustainable: 22 beneficiary start-ups, of which 10 presented to investors;
- **Biotech**, characterised by technological applications enabling solutions in the pharmaceutical and chemical industries through the use of substances originating from living organisms: 10 beneficiary start-ups, of which 7 presented to investors. Among these is **CellPly**, founded in 2013 by a research team from the University of Bologna which aims to develop a technological platform capable of prediction analysis of the conduct of certain target cells of specific molecules or substances with a view to testing their efficacy prior to clinical administration. This start-up received direct investment in February 2014 from the ISP Group through Atlante Seed.
- **Healthcare**, a sector dedicated to looking for solutions to improve personal wellness: 10 beneficiary start-ups, of which 7 presented to investors.

Customer satisfaction of the initiative was regularly monitored to assess the perceived quality and areas for improvement, through printed questionnaires distributed to investors, observers and participating customers. For 2014, the Net Promoter Score out of 235 responses was 60%.

### New social enterprise

With a view to promoting new enterprise with strong social and/or environmental significance, support was again given in 2014 to the Italian version of the Global Social Venture Competition, the international competition designed and promoted by the Berkeley-Haas School of Business and organised by Altis, the High School of Business and Society of University Cattolica del Sacro Cuore in Milan.

A particular focus was placed on the quantitative assessment of social impact generated by the candidate enterprise initiatives, based on three fundamental criteria:

- clarity of the statement of social and/or environmental value of the social venture and identification of the three key social/environmental impact indicators;
- consistency and accuracy of the Social Returns on

- Investment (SROI) and related value assessment;
- innovative nature of the social venture's approach in reference to the context it will affect.

The department's contribution essentially involved the following activities:

- training on business plan preparation and on assessment of the social and environmental impact of the business idea in question;
- coaching on drafting the Business Plan;
- networking to facilitate access to a network of players from the universities, businesses and venture capital companies.

2014 saw the admission of 20 start-ups to the training phase, of which 9 presented to investors. The winner was Swiss Leg, the Swiss Start UP which, based in Syria, Jordan and Iraq, offers prosthetic limb solutions to victims of armed conflicts.

To develop start-up investment activities, in April 2014 an agreement was reached between the Intesa Sanpaolo Group's **Atlante Funds system and Como Venture**, an investment company that promotes enterprise initiatives with a high innovation and technology content.

Atlante Ventures and Atlante Seed, the Intesa Sanpaolo Group funds dedicated to Venture Capital, invest in the venture capital of innovative businesses which, albeit still small in size, present a high growth potential, with a particular focus on activities in high-technology sectors. The agreement with Como Venture represented a major step in the Intesa Sanpaolo strategy that aims to build a strong partnership network with leading Italian and international venture incubators and accelerators. The distribution of skills and information for selecting the best start-ups, in fact, is a fundamental basis for growing successful enterprises that are sustainable in the long term.

Between Como Venture and the Atlante Ventures Funds system of Intesa Sanpaolo an initial partnership had already been finalised in February 2014. Together with New Enterprises Associates (NEA) - one of the largest and most active Venture Capital companies in the world - 1.2 million dollar was invested in the development of Hyperfair, a start-up that began in Lecco and is based in San Francisco which reinvented the way to organise web-based virtual trade fairs.

### BUSINESSES: NETWORKING TO BE MORE COMPETITIVE

The relaunch of business competition can make use of the synergies offered by innovative business combination tools. Mediocredito Italiano - the SME finance hub into which all the Group's advisory, targeted financing and leasing activities are concentrated - plays a central role in managing the products dedicated to business networks and the activities designed to stimulate network culture, develop partnerships already in progress and facilitate new business combinations. During the year this activity

led to the establishment of 16 Business Networks, 11 of which in the agribusiness and food management sector. The service model, which envisages a desk dedicated to the development of business networks, also makes use of a "**Osservatorio nazionale**" by the Research Department in partnership with Mediocredito Italiano and the Business Marketing Department, with the aim of assessing the positive effects of the network system on business performance and, in more general terms, on the competitiveness of the Italian production system. The studies conducted extend to other areas through the setup of Regional Laboratories involving local Associations and Institutions.

Osservatorio Nazionale, now in its fifth edition, describes the acceleration of the network tool in Italian production system in the two-year period 2013-2014. At the end of 2014, 1,927 network contracts involving 9,662 companies had been registered with the Chamber of Commerce. Most of the networks are made of businesses operating in different provinces. Furthermore, the percentage of green contracts, i.e. associated with environmental sustainability, is particularly high (approximately 14% of the total).

Among the most recent business networks set up in 2014 was the "**RIUSO-Rete Imprese Umido-Sostanza Organica**", a network to individually and collectively increase the innovation capacity of the companies involved and make them more competitive on the Piedmont organic waste disposal market. Another network recently established was "**Rete Politecnica Restauro**", which brings together a group of entrepreneurs that express the country's excellence in the field of restoring works of art, architecture and monuments, as well as in the private and public building industry.

#### **Business clusters: knowing the local area to support sectors in difficulty**

Intesa Sanpaolo's Research Department has continued to study business clusters as part of its publications ("**Monitor dei Distretti**" and the annual report "**Economia e Finanza dei Distretti**") and through participation in a series of meetings with local associations, institutions and business owners.

It concentrated in particular on certain business clusters suffering a structural crisis for some years but with good development potential, for which the analysis conducted on the main strengths and weaknesses offered active support to local institutions in preparing a production relaunch and local production job plan for submission to the Ministry for Economic Development.

#### **OFFERING INVESTMENTS BASED ON SUSTAINABILITY CRITERIA**

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

The ethical funds are mutual funds which invest in the financial instruments of issuers (companies, supranational organisations and governments) with a high social and environmental profile.

#### **The "ethics system" of eurizon capital**

From 1997 Eurizon Capital SGR has been the leading operator in Italy offering ethical funds that envisage clear, well-defined positive and negative selection criteria of the securities to be included in its portfolio (listed in the Prospectus and the Fund Management Regulations), a Sustainability Committee (external to and independent from the SGR) and the devolution of revenues. The experience gained in managing these products has over the years led to managers fine-tuning the selection criteria and, in 2002, adopting ethical benchmarks in order to provide objective financial measurement of the results.

Eurizon Capital's range of ethical funds is now made up of an equity fund and two bond funds, all Italian. These products have the aim of gradually increasing the value of capital subscribed by implementing an investment policy based on strict ethical principles. All the products form part of the "Ethics System" and envisage that revenues are devolved.

Investments in ethical funds are selected on the basis of positive criteria (inclusive principle) to identify the presence of good social and environmental governance in companies or institutions under analysis and negative (exclusive principle) for those areas of activity that are considered to be in contrast with the ethical principles asserted by the funds. The "best in class" principle is also used to identify companies that, in certain markets at risk, stand out for their social-environmental initiatives. Environmental screening is entirely subject to the "best in class" principle given that all major listed companies have a notable impact on the environment, and this principle facilitates the selection of the most "virtuous" securities.

During 2014, the application of these criteria led to a variation in the investable universe, and consequently the inclusion or exclusion of certain issuing bodies from the fund portfolio. The reasons for inclusion include programmes to reduce greenhouse gases, the protection of biodiversity, the use of clean technologies, the involvement of suppliers and protection of minorities in the workforce. The reasons for exclusion include involvement in the arms sector, the breach of anti-trust rules, accounting fraud and discrimination in the granting of loans. The exclusions for 2014 were

related to 6 companies for environmental issues, labour law disputes on fair conduct in market competition, product safety or exposure to controversial sectors.

### **Institutional customers**

Eurizon Capital supports its own institutional customers through the management of assets with environmental, social and governance (ESG) criteria, providing assistance in choosing among the available solutions and according to the expectations, needs and awareness of these issues of each customer. In 2014, Eurizon managed 5 institutional mandates with various ESG approaches.

### **Fonditalia Ethical Investment**

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

An Ethics Committee composed of managerial and other professionals with proven experience in social, economic, environmental and financial sustainability, including qualified academic professionals, is tasked with verifying consistency between the actual fund portfolio composition and the ethical principles characterising the same, thereby formulating, where applicable, its own opinions on the ethics of investments.

A further element characterising the ethics behind the sub-fund is given by its commitment to supporting scientific research, through the placement of share units and through the donation in favour of the AISM and its Foundation (FISM), the amount of which is proportional to the fund fees. The sub-fund assets as at 31 December 2014 amounted to 24.9 million euro.

### **Share ownership**

Share ownership targets large institutional investors that request them. This activity translates mainly into engagement practices involving direct communication with the management boards of investee companies, posing questions and notes on topics of particular interest to customers on social, environmental and corporate governance issues.

The Intesa Sanpaolo Group Pension Fund - one of the primary pension funds of Intesa Sanpaolo personnel - is the first in Italy to adopt a share ownership strategy, interacting directly with a number of large companies included in the portfolio. The dialogue focused on the chain of suppliers and allowed assessment of the companies' conduct and recommendations of improvement measures. For a more effective action, the Intesa Sanpaolo Group Pension Fund has also joined the Principles for Responsible Investments Initiative (PRI is an international network of institutional investors and managers, promoted by the United Nations, based on which the signatories cooperate to put the Principles for Responsible Investments into practice) and has become a member of the CDP, the international non-profit organisation that promotes the reduction of greenhouse gases and the improved management of water resources.

The FAPA's equity and corporate portfolio in 2014 included 432 companies. 11 engagement initiatives were undertaken (2.55% of the total).