
Report of the Board of Directors

Item 1 on the agenda

2016 financial statements:

- a) Approval of the Parent Company's 2016 financial statements
- b) Allocation of net income for the year and distribution to shareholders of dividend and part of Share Premium Reserve

Distinguished Shareholders,

Pursuant to Art. 2364 of the Italian Civil Code and Articles 7.3 and 29.3 of the Company's Articles of Association, we hereby submit for your approval the financial statements of the parent company Intesa Sanpaolo as at 31 December 2016 and the proposal for allocation of Intesa Sanpaolo's net income, subject to reclassification of the net amount of the differences in merger, exchange transaction and demerger, currently stated under Other Reserves, as a decrease of Extraordinary Reserve.

Indeed, during 2016 Intesa Sanpaolo has recorded into specific shareholders' equity reserves the differences in merger, exchange transaction and demerger for corporate transactions carried out in the year. In particular, the subsidiaries Banca dell'Adriatico and Casse di Risparmio dell'Umbria were merged by incorporation, while specific branches of the subsidiaries Oldequiter and Setefi were subject to demerger.

The cancellation and swapping of shares of the merged or demerged companies resulted in positive and negative merger differences, recognised under Other Reserves, for a negative net amount of 191,833,864.38 euro. It should be noted that, pursuant to Art. 172, paragraph 5, of the Consolidated Law on Income Taxes, Reserves qualifying for deferred taxation applicable to the merger surplus will be reconstituted for a total of 285,129.85 euro.

Pursuant to Art. 6, paragraph 1, letter a) of Legislative Decree 38/2005, a portion of net income corresponding to capital gains recognised in the income statement, net of the related tax charge, arising from application of the fair value criterion, must be recorded in an unavailable reserve. As at 31 December 2016, such amount was 9,400,081.73 euro.

Given the above, it is proposed to allocate the net income of 1,759,516,827.14 euro as follows:

	(euro)
Net income for the year	1,759,516,827.14
Assignment of a dividend of 0.109 euro (determined pursuant to Art. 29 of the Articles of Association) for each of the 932,490,561 savings shares, for a total disbursement of	101,641,471.15
Assignment of a dividend of 0.098 euro for each of the 15,859,786,585 ordinary shares outstanding, for a total disbursement of	1,554,259,085.33
for a total disbursement for dividends of	1,655,900,556.48
Assignment to the Extraordinary reserve of the residual net income	103,616,270.66

Furthermore, taking into account that the consolidated net income relating to 2016 is equal to 3,111 million euro, we hereby propose to resolve on a partial distribution of the Share Premium Reserve of 0.080 euro for each of the 16,792,277,146 shares constituting the ordinary and savings share capital, pursuant to Art. 30.3 of the Company's Articles of Association, for a total amount of 1,343,382,171.68 euro.

As a consequence, the total dividend amounts to 2,999,282,728.16 euro.

This assignment of reserves shall be subject to the same tax regime as the distribution of dividends.

The proposed dividend and the anticipated distribution of part of the Share Premium Reserve makes it possible to remunerate shareholders consistently with the sustainable profitability of the Group, while ensuring the capital adequacy of the Bank and the Banking Group. This is as a result of the Basel 3 series of Rules, as well as the provisions issued by the European Central Bank. If this proposal is approved, capital requirements would stand at the following levels:

Intesa Sanpaolo S.p.A. – Common Equity Tier 1: 18.2% and Total Capital Ratio: 24.5%;

Intesa Sanpaolo Group - Common Equity Tier 1: 12.7% and Total Capital Ratio: 17.0%.

The aforesaid capital ratios exceed the requirements of EU Bodies and the Supervisory Authority.

We propose that the above distributions be made payable, in compliance with legal provisions, as of 24 May 2017, with detachment of the coupon on 22 May 2017.

Please note that dividends not distributed in respect of any treasury shares held by the Bank at the record date shall be allocated to the Extraordinary Reserve.

If the proposals formulated obtain your approval, the resulting shareholders' equity of Intesa Sanpaolo S.p.A. will be as indicated in the table below.

Shareholders' equity	Annual report 2016	Change due to the Shareholders' Meeting resolutions	Share capital and reserves after the Shareholders' Meeting resolutions
(millions of euro)			
Share Capital			
- <i>ordinary</i>	8,247	-	8,247
- <i>savings</i>	485	-	485
Total share capital	8,732	-	8,732
Share premium reserve	27,508	-1,343	26,165
Reserves	3,816	103	3,919
Valuation reserves	-425	-	-425
Equity instruments	2,117	-	2,117
Treasury shares	-20	-	-20
Total reserves	32,996	-1,240	31,756
TOTAL	41,728	-1,240	40,488

Distinguished Shareholders,
you are therefore invited to resolve on the following:

- a) the proposal of approval of the Parent Company's 2016 financial statements,
- b) the proposal of allocation of net income for the year and distribution to shareholders of dividend and part of Share Premium Reserve,

all in accordance with the terms set out above.

21 February 2017

For the Board of Directors
the Chairman – Gian Maria Gros-Pietro

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