



Governance and  
management of risks

## Governance structure

Intesa Sanpaolo adheres to the goals and recommendations of the Corporate Governance Code for listed companies, and has adopted the one-tier corporate governance system. Detailed information on the corporate governance system and remuneration – including references to diversity in the Board of Directors – is provided in the “Report on Corporate Governance and Ownership Structures” and in the “Report on Remuneration”, to which reference should be made.

### THE BOARD OF DIRECTORS

The Board of Directors is tasked with the functions of guidance and strategic supervision. The management duties primarily rest with the Managing Director and CEO (except for those which the Board decided not to delegate), whereas the control duties are performed by the Management Control Committee, appointed by the Shareholders’ Meeting from the members of the Board and entirely composed of Independent Directors. The Board of Directors in office is composed of 19 members elected for three years by the Ordinary Shareholders’ Meeting on 27 April 2016. The election took place on the basis of lists of candidates who meet the requirements envisaged by law and by the Articles of Association, presented by Shareholders holding at least 0.5% of the ordinary share capital. The presence within the Board of a large majority of independent members (14 out of 19) and the appointment by the Board of a single Managing Director and Chief Executive Officer, excluding the possibility of other Members holding executive positions and of the Board delegating its duties to an Executive Committee, were considered priorities. Under the governance model adopted by the Bank, the members elected by the minority are also assigned, in addition to the chairmanship of the Management Control Committee, the chairmanship of the Committee for Transactions with Related Parties and Associated Entities.

In the performance of its duties, the Board of Directors receives support from Internal Committees, whose organisation and operation are governed by specific Regulations approved by the Board:

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

The Chairman of the Board of Directors has a non-executive role and does not carry out, not even de facto, management functions. The Chairman oversees the work of the Board, organises and directs the activity, and performs all the tasks set by the supervisory regulations.

The Managing Director is the Chief Executive Officer and General Manager and supervises the company’s management to the extent of his/her assigned powers, in compliance with the general planning and strategic guidelines set forth by the Board of Directors.

### DIVERSITY OF THE MANAGEMENT AND CONTROL BODIES

In line with the Supervisory provisions, for the appointment and co-option of the Directors, the Board of Directors is required to indicate its optimal qualitative and quantitative composition, which must include an adequate level of diversity among members, including in terms of age, gender, geographical origin and skills. In this regard, Intesa Sanpaolo’s Articles of Association specify that the Board shall adopt the necessary measures to ensure that each Director and the Board as a whole have a continually adequate level of diversification, including in terms of experience, gender and international orientation, in addition to competence, fairness, reputation, independence of mind, and time commitment.

The Board of Directors currently in office has been appointed in compliance with the optimal qualitative and quantitative indications issued in 2016 at the time of the election of the Board, by the outgoing Supervisory Board of Intesa Sanpaolo, within a specific document published on the Bank’s website [i]. This document specifically asked shareholders to ensure that the Board of Directors had the widest gender diversity with adequate professional skills, as well as a diversity of age brackets amongst Directors, in addition to a comprehensive level of knowledge and experience. The indications established in terms of diversification were verified during the self-assessments, on an annual basis during the term in office. The less-represented gender must be reserved a share of at least one third of the total members (in the outgoing Board, 7 out of 19 members), as established by current laws in force on the matter of equal access to the administrative and control bodies of listed companies.



The table below lists the competences stated by the Directors in 2016 in their application. These Directors were also subsequently engaged in continuous and in-depth education and training, as detailed in the paragraph below with specific regard to 2018.

Competences	Presence in the Board of Directors (No. Members]
Banking business (strategies, assessment and risk management techniques)	16/19
Reading and interpreting the financial statements data of a financial institution	18/19
Strategic approach (scenarios, trends, peers)	17/19
Managerial, entrepreneurial and business administration	14/19
Risk management	18/19
Global dynamics of the economic and financial system	18/19
Audit and monitoring	12/19
Regulation of financial activities	16/19
Remuneration and incentive systems and tools	18/19
International experience	13/19

In relation to the renewal of the outgoing Corporate Bodies with the approval of the 2018 Financial Statements, new criteria were drawn up on the composition of the Board and on diversity, which also took account of the Guidelines published by the European Banking Authority in September 2018 on the suitability requirements for members of bodies. On this point, please refer to the specific document published on the Bank's website. Intesa Sanpaolo is also responsible, as part of the direction and coordination activities performed as the Parent Company, for ensuring the overall consistency of the Group's governance structure, and in particular the adequacy of the governance of the companies that make up the Group, including in relation to the Corporate Bodies' composition/structure.

Under the provisions of the Articles of Association, the senior officers of the subsidiaries are appointed by the Board of Directors of the Parent Company, which operates according to uniform principles at Group level and in compliance with the regulations and best practices applicable to each subsidiary, with the aim of ensuring an adequate qualitative and quantitative composition of the Bodies, with specific importance given to the level of diversity, including in terms of age, gender, seniority of service, geographical origin and international orientation. In establishing the composition of the Bodies, the most adequate and effective mix of personal and professional profiles is sought for each subsidiary in terms of its nature, the structure of its activities and the risks taken. The goal is to ensure that each Body has access to a set of expertise, experiences, skills and professional abilities that is sufficiently diversified and complementary. To this end, any indications made by the Management Body of each subsidiary during the annual self-assessment process are taken into account. The principles regarding appointments in subsidiaries are also governed by specific guidelines.

## TRAINING AND UPDATING OF THE DIRECTORS

The Chairman of the Board of Directors shall ensure that the Bank draws up and implements induction and training programmes for the members of the Board. In this context, he/she organises and promotes Board Members' participation in initiatives aimed at enhancing the degree of knowledge of the operating sectors of the Bank and of the Group's companies, company dynamics and their development, the principles of sound risk management and the regulatory and self-regulatory environment of reference, and in formal and informal meetings, aimed at further review of strategic matters.

This training activity also continued in 2018, with a total of 10 specific induction sessions held to allow Board Members to learn about and discuss the various aspects of the Bank's and Group's business, the applicable regulations and the duties and responsibilities of their office. The induction sessions conducted in 2018 dealt with topics such as financial statements (with particular reference to the application of accounting standard IFRS9), tax issues and risk management, and also more in-depth analysis of the Internal Capital Adequacy Assessment Process and the Internal Liquidity Adequacy Assessment Process, remuneration and incentive policies, US legislation and activities of the Bank's main Business Units.

One specific session was devoted to Intesa Sanpaolo's commitment to Corporate Social Responsibility and to non-financial reporting and Intesa Sanpaolo's position in the sustainability indices.

One of the four seminars held in 2018 handled the issue of climate change.

Finally, it should be noted that in order to promote better understanding of the reference corporate and regulatory environment and its evolution, a collection of governance documents, regulatory references, key correspondence with the Supervisory Authorities, accounting positions and any additional documentation conducive to the performance of their duties is available to Board Members and regularly updated.

## REMUNERATION

Full information, both in qualitative and quantitative terms, is provided in the Report on Remuneration, available on the website [1].

The Bank's Articles of Association envisage that the members of the Board of Directors be entitled, in addition to the reimbursement of expenses incurred due to their office, to a remuneration for the services rendered, which is determined by the Shareholders' Meeting in a fixed amount for the entire period of their office. The Shareholders' Meeting also determines the additional remuneration for the office of Chairman and Deputy Chairperson. Pursuant to the Articles of Association, the Shareholders' Meeting has the duty to determine, at the time of the appointment of the Management Control Committee and for the entire term of office, specific remuneration for the Board Members of this Committee, consisting of an equal amount for each Member, but with a special addition for the Chairman.

Pursuant to the Articles of Association, the Managing Director is entitled to receive a fixed and variable remuneration tied to the position of General Manager, determined by the Board of Directors in line with the remuneration policies approved by the Shareholders' Meeting.

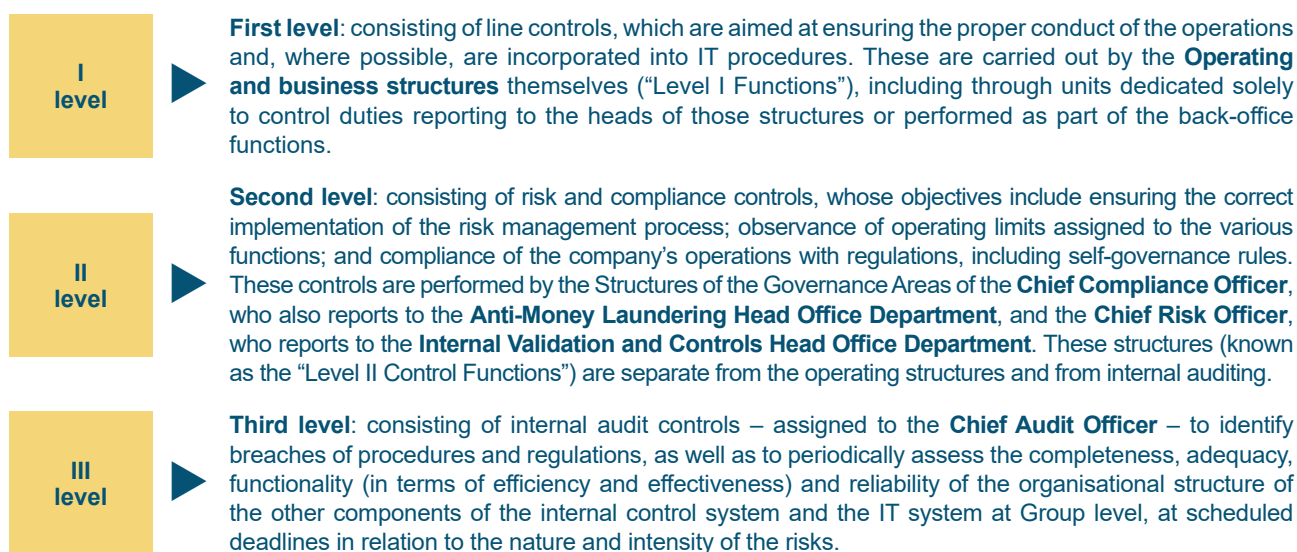
In order for the short-term incentive system to be consistent and compatible with shareholders' remuneration, the Board of Directors decided that this short-term variable component in the remuneration should have a maximum limit of twice the fixed component, including the annual pro-rata long-term Incentive Plan 2018 – 2021 POP (Performance-based Option Plan), and should be indexed to performance in achieving the assigned objectives.

If the bonus is less than 100% of the fixed remuneration, 50% is paid in shares and 50% in cash; on the other hand, if the bonus is higher than 100% but lower than 150% of the fixed remuneration, 55% is paid in shares and the remaining portion in cash; and lastly, if the bonus is higher than 150% of the fixed remuneration, 60% is paid in shares and 40% in cash. The disbursement of 60% of the bonus is deferred for 5 years. The payment of this deferred portion will be subject to verification, each year, of the malus conditions.

## THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

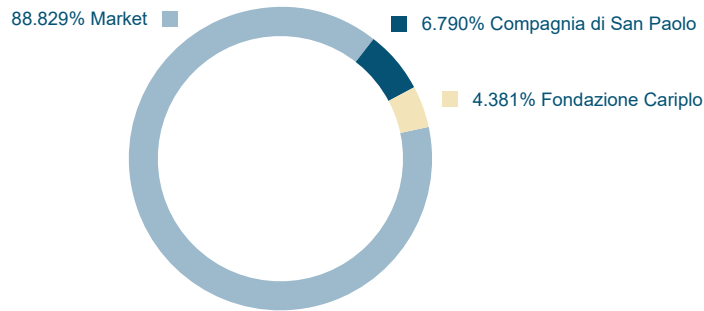
To ensure sound and prudent management, which combines business profitability with informed risk taking and operating conduct underpinned by fairness, the Bank has updated the Integrated Internal Control System Regulations, also to take account of the transition to the one-tier governance system.

The internal control system has been designed to achieve constant monitoring of the identification, governance and control of the risks involved in our activities and is based on three levels:



## SHAREHOLDER BASE

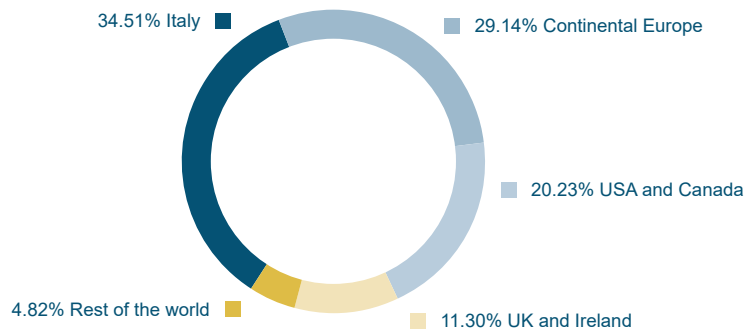
Intesa Sanpaolo's share capital is equal to 9,085,534,363.36 euro, divided into 17,509,481,027 ordinary shares. In February 2019, Intesa Sanpaolo's shareholder base was composed as follows (holders of shares exceeding 3%\*):



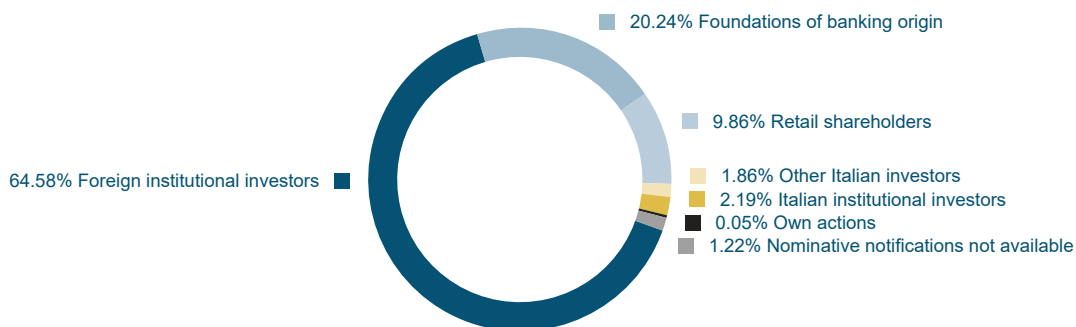
\* Shareholders that are fund management companies may be exempted from disclosure up to the 5% threshold.

Below is a breakdown of the shareholder base by geographic area and type of shareholder, based on the names of the receivers of the dividend paid for the year 2017, as reported by the intermediaries (ex-dividend date 21 May 2018).

## SHAREHOLDER COMPOSITION BY GEOGRAPHICAL AREA



## SHAREHOLDER COMPOSITION BY TYPE OF SHAREHOLDERS



## RELATIONS WITH SHAREHOLDERS AND THE FINANCIAL COMMUNITY

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

During 2018, communications with the financial community continued to focus on sustainable profitability and the Group's solidity as a firm point of reference for stakeholders. To guarantee access to all, again in 2018 this information was made available quickly, easily and economically through a number of channels: Internet, conference calls via a freephone number and the free distribution of financial statements on request. The Investor Relations section of the website [\[i\]](#) boasts well organised content and updates on topics, always providing stakeholders with extensive, systematic information.

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

Special attention was also paid to SRI (Socially Responsible Investment) investors and analysts, with dedicated events and road-shows.

## INTESA SANPAOLO STOCK PERFORMANCE

The performance of Intesa Sanpaolo ordinary shares in 2018 mirrored that of the banking sector indices, showing an upward trend until the start of February, when the stock price peaked, followed by a floating trend until mid-May, and then a marked decline in the second half of May, and then a floating trend until the end of September and a downward trend in the last quarter reaching the minimum in the second half of November, with the stock closing 2018 down by 30% compared to the end of 2017.

Intesa Sanpaolo's capitalisation fell to 34 billion euro at the end of 2018, from 46.4 billion euro recorded at the end of 2017.

The Board of Directors shall propose to the Shareholders' Meeting to allocate a unit amount of 0.197 euro on ordinary shares, totalling approximately 3.45 billion euro.

## SHAREHOLDERS' MEETING

For the Bank, Shareholders' Meetings are one of the main opportunities for contact and dialogue with shareholders, as well as important occasions for the disclosure of news, in accordance with the principle of non-selective disclosure and rules on price sensitive information. At the same time, the Shareholders' Meeting represents for shareholders an opportunity for active participation in the Bank's operations and a chance to express their opinions, through the methods and on the topics envisaged by law and by the Articles of Association.

Intesa Sanpaolo has always strived to encourage the widest possible participation in the Shareholders' Meetings and to guarantee the best quality standards for the information provided in order to realise the full potential of the meeting.

The Shareholders' Meeting is called by the Board of Directors whenever it is deemed appropriate, or upon request by Shareholders representing at least one twentieth of the share capital.

The Shareholders' Meeting may also be called by the Management Control Committee, where required for the fulfilment of its duties, subject to sending notice thereof to the Chairman of the Board of Directors.

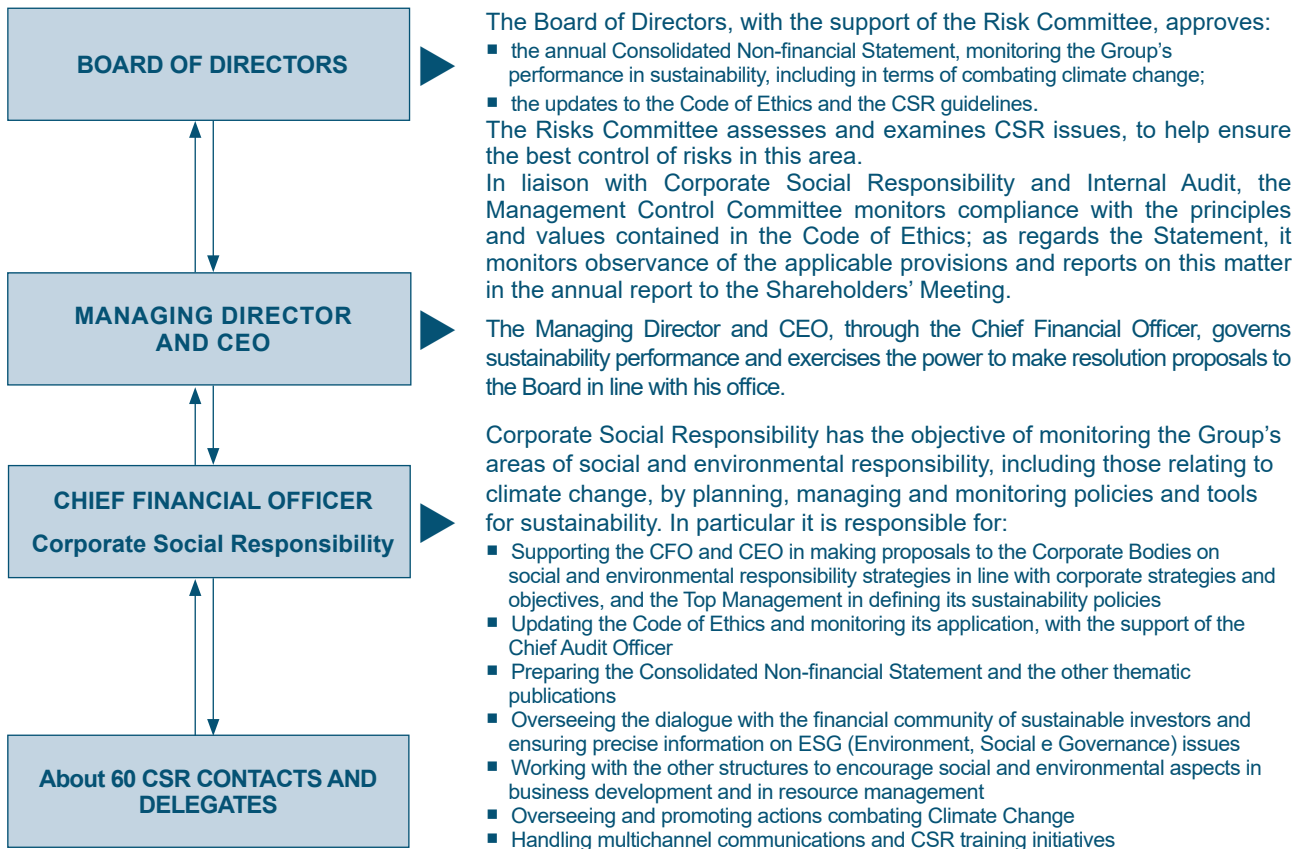
In 2018, the ordinary and extraordinary Shareholders' Meeting was held on 27 April; the Special Savings Shareholders' Meeting was held on the same date and approved the resolutions of the extraordinary Shareholders' Meeting concerning the conversion of the savings shares into ordinary shares.

## RIGHT TO ATTEND AND VOTE

Each ordinary share confers the right to cast one vote at ordinary and extraordinary Shareholders' Meetings.

# Governance of Corporate Social Responsibility

The Corporate Social Responsibility (CSR) structure provides support to Top Management in defining sustainability strategies and policies designed to generate value for stakeholders. It reports through the Chief Financial Officer to the Managing Director and CEO, and to the Board of Directors.



The CSR governance system is also based on the strong involvement of the Risks Committee, which has been established within Board of Directors, also to provide specific support to the Board in relation to all CSR matters. To this end, CSR periodically meets with the Committee to agree upon the approach and report on the progress of processes and activities related to sustainability and non-financial reporting. In 2018, it took part in four meetings with the Risks Committee (with the Management Control Committee also invited) to provide information on the 2017 Consolidated Non-financial Statement and on the Guidelines for its preparation, defined at Group level to regulate the process, activities, roles and responsibilities of the Group structures and bodies involved in the preparation, approval and publishing of the Statement in compliance with the provisions of the Decree. In addition, it presented the Annual Report on the implementation and governance of the Code of Ethics to the Management Control Committee together with the Surveillance Body pursuant to Italian Legislative Decree 231/2001.

In these activities, CSR is supported by the CSR Contacts appointed in the main structures and by the CSR Delegates in each of the Banks that are part of the International Subsidiary Banks Division.

In order to strengthen the governance of Corporate Social Responsibility, in 2018 CSR involved those reporting directly to the CEO in 18 meetings with a view to increasing engagement and knowledge of CSR themes, and to analysing material issues, also in relation to the priorities of the 2018-2021 Business Plan. In addition, a proposal was made to institute a Sustainability Manager in each Governance Area, Division and Head Office Department, who could play a strategic role in the definition and implementation of sustainability objectives and in the cooperation and coordination between Top Management and CSR.



In 2018, CSR promoted specific initiatives including:

- the preparation and sharing of the Guidelines for the drafting of the Consolidated Non-financial Statement pursuant to Italian Legislative Decree 254/2016 and the related Process Guidelines, through the specified process of internal agreement with the Group's structures; the Guidelines were approved by the Board of Directors;
- the support given to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with the voluntary commitment to disseminate transparent reporting on the risks and opportunities linked to climate change;
- responding to 20 assessments from investors and analysts on ESG (Environment, Social, Governance) and climate change issues, and holding 23 meetings with 27 parties including investors and analysts focusing on sustainability, in collaboration with Investor Relations.

## IMPLEMENTATION AND GOVERNANCE OF THE CODE OF ETHICS

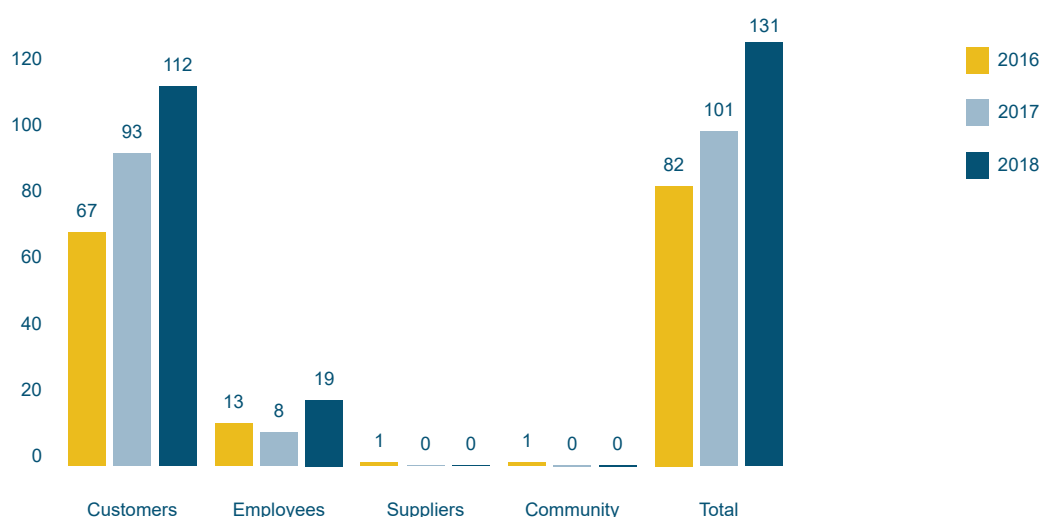
The Code of Ethics is the self-regulation document for the integration of social and environmental considerations into company processes, practices and decisions. It contains voluntary commitments in the management of relations with all the Group's internal and external stakeholders, setting out the core values and foundations of the corporate culture.

The Code's implementation and governance mechanism is based on the following cornerstones:

- The principle of self-responsibility, where each structure is directly responsible and ensures adherence to the values and principles of the Code, setting the related objectives and action plans and, where appropriate, appointing a CSR contact.
- The commitments set out in the Code are given practical expression in the annual reporting process (Consolidated Non-financial Statement), which presents the management policies and procedures, initiatives, indicators and objectives for the issues relevant to the stakeholders and the business.
- The analysis and subsequent certification of corporate social responsibility governance by an independent third party in accordance with the principles and contents of standard ISO 26000, published annually on the website [i]. The Governance was assessed according to the method UNI PdR ("Reference Practice") 18:2016, which concluded with a rating of "Consistent and committed to excellence" and a score of 42 (in 2017, "In progress" with a score of 23 on a scale from 15 to 45). Some significant elements of progress were shown thanks to clear inclusion of social responsibility assessments in the Business Plan and the engagement of Top Management in dialogues with the CSR function. The Third-Party assessment in Italy showed strong coverage of the CSR issues investigated, with a clear commitment to fostering consistency in conduct with respect to the Intesa Sanpaolo Group Code of Ethics and the necessary improvements, through the liaison work by the CSR unit. In particular, the principles of the Code of Ethics are set out in a corporate regulatory system that enables their application, also taking into account the results of the stakeholder engagement processes. Compared to the previous year, in Italy progress was recorded in 8 of the 10 issues monitored, namely: Quality and innovation in customer relations, Employment protection, Employee well-being, Access to credit and financial inclusion, Employee growth and development, Relations with the Community, Green Economy and Integrity in corporate conduct. For the international subsidiaries, the analysis identified a structured approach in line with Group Policies and progress achieved in all monitored issues. Quality and innovation in customer relations was shown to be a strong point; the other issues were substantially in alignment, despite slight differences from the Italian context and with greater room for improvement in the Integrity in corporate conduct.
- Management of cases of non-compliance with the Code of Ethics: CSR receives reports sent in and, following the necessary checks, replies in collaboration with the structures concerned, ensuring to protect the reporting parties from any form of retaliation, discrimination or penalisation, and guaranteeing the utmost confidentiality, without prejudice to obligations laid down by the law. In 2018, 131 reports were received, of which 97 were received in Italy and 34 from abroad; this number was up on last year (101 in 2017) and comprises reports that reached the Code of Ethics email box directly (47 compared to 12 in 2017) and those that reached the International Subsidiary Banks, whose awareness regarding careful management of these reports has been raised in recent years through training initiatives. The highest number of reports came from customers (112), followed at a distance by those from employees (19). The category with the greatest impact, with 20 reports, concerned complaints about products or services considered to be provided incorrectly; about half of these reports came from International Subsidiary Banks and included claims due to technical errors, whereas the reports from Italian customers mainly resulted from tensions due partly to the ongoing economic crisis and partly to the difficulties that some categories of customers have in using products utilising the latest technologies.



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



There were 17 reports on problems associated with access to branches or services due to disabilities. Following a TV report on “armed banks”, the issue of financing controversial sectors led to 17 reports concerning this issue. The 19 reports from employees included two concerning cases of alleged mobbing. Non-discrimination issues were constantly and carefully monitored in 2018 as well.

- The spread of sustainability culture: a “Collection” of 9 Training Tools (training videos and drama series) on the values and principles in the Code of Ethics were produced and made available from February 2018 to all Group structures. A new collection – relating to six sustainability themes – has also been planned and launched to reinforce the knowledge and awareness of CSR issues among people, and was made available from February 2019. In 2018, two meetings were organised on responsibility culture issues and stakeholder engagement for CSR Delegates of the International Subsidiary Banks Division. At the same time, there were training initiatives on the Code of Ethics, with sessions devoted to the identification and reporting of potential non-compliances of the Code of Ethics. These involved employees from the structures engaged in the management of complaints and customer satisfaction in the International Subsidiary Banks. In order to complete the two pilot editions (in 2016 with PBZ and in 2017 with Banca Intesa Beograd), the project was extended to other subsidiaries following a “train the trainers” procedure, with the aim of transferring knowledge, skills and support (in terms of materials and tools) to colleagues who would then perform the training locally. 2018 ended with 7 editions, 6 of which were carried out locally, involving a total of 65 participants.

Compliance with the principles and values of the Code of Ethics was monitored with the support of the Chief Audit Officer, so that it could be reported annually to the Management Control Committee and the Surveillance Body pursuant to Italian Legislative Decree 231/2001. Checks were conducted on 20 risk areas that also considered social and environmental responsibility aspects and implications including:

- Transactions with Related Parties and associated entities;
- Personnel remuneration and incentive systems (in various Group companies) and the policies for the selection/hiring of employees;
- Reporting on the Research and Development Special Fund financing; management of the Sustainable Growth Fund and more generally the disbursement of loans in specific segments or business areas (involving an assessment of social and environmental elements);
- System of controls on health and environmental safety (Safety and Protection Department)
- Tests on investment tools (e.g. PIR- Individual Savings Plans) or on mechanisms safeguarding depositors (e.g. National Interbank Deposit Guarantee Fund) for certain contexts in the Fideuram Group;
- Management of purchasing procedures (i.e. centralised purchasing or for specific companies and activities), of monitoring and qualification of suppliers and of the significant outsourced processes of important operational functions;
- Local sponsorships and donations from the Charity Fund of the Banca dei Territori Division;
- Fraud prevention activities (Fideuram) and compliance with the Group’s Internal Code of Conduct (Banca dei Territori Division).

The audits did not identify any particular breaches or critical issues.

## Management of the main social and environmental risks

The Group has implemented specific processes and responsibilities to understand and manage risks in such a way as to ensure long-term soundness and continuity, extending the benefits to its stakeholders.

Below is an overview of the main social and environmental risks that are significant due to their potential impact on company activities and stakeholders, and the related mitigation measures. A specific table explains in depth the risks associated with the environment and climate change.

Issue	Potential risk	Potential impacts	Mitigation measures
Integrity in corporate conduct	Risks of non-compliance with applicable legislation (corruption, money laundering, taxation, free competition, privacy, labour law) and ineffective response to regulatory changes Risk of providing employees with insufficient or no training Reputational risks	Fines and penalties, limitations to conducting business Damage to reputation and brand	Compliance system divided into different levels to monitor the risk of non-compliance, with specialised functions Internal Control System Definition of corporate internal regulations Specialist training for employees Introducing a whistleblowing system Drafting self-regulation policies for controversial sectors
Customer protection and responsible sales	Unfair commercial practices Inadequate customer service levels Inadequate customer communications Ineffective transition from traditional to digital channels Inadequate customer communications Business continuity in the event of an emergency, blocking or malfunctions	Loss of competitiveness, customers and market shares leading to reduced profitability Disputes and complaints Fines and penalties Damage to reputation and brand Damage to persons and objects during robberies	Model focussing on the level of service, on personalised advice, and on transparency Process of clearing for new products and services Careful and proactive management of complaints Innovation in the offer aimed at ensuring accessibility to services Business continuity plan
Multichannel approach and accessibility	IT risk		Prevention of IT risk
Health and safety of customers and employees	Robberies		Preventing and combating robberies
Supporting to businesses	Management of social and environmental risks in loans Transactions or loans in controversial sectors Reputational risks	Non-performing loans or needs for provisions Damage to reputation and brand	Rating model which also includes intangible aspects of companies Risk clearing processes Equator Principles for project finance Drafting self-regulation policies on controversial sectors Opinions involving social-environmental factors

Issue	Potential risk	Potential impacts	Mitigation measures
Responsible asset management	Assessment and control of ESG risks in the investment portfolios Investments in controversial sectors Reputational risks	Loss of competitiveness, market shares and customers who are conscious of ESG aspects, leading to reduced profitability Damage to reputation and brand	Subscription to PRIs and Stewardship Principles Range of Ethical/ESG funds Company engagement activities Drafting self-regulation policies for controversial sectors
Employee growth and development	Inadequate employee growth and motivation Incapacity to acquire and maintain talent Insufficient focus on diversity and inclusion issues	Employee dissatisfaction with impacts on productivity Lack of adequately trained and qualified personnel Inadequate customer service levels	Investments in training activities Talent management programmes Recognition of employees' merit Initiatives to ensure diversity and inclusion
Employee well-being	Health and safety of employees	Accidents in the workplace Employee dissatisfaction with impacts on productivity	Certification of the health and safety management system (OHSAS 18001) in all branches in Italy Coordination and rules for health and safety management systems in the International Subsidiary Banks perimeter Assessment of work-related stress Work-life balance initiatives Prevention and welfare for employees
Responsible reorganisations	Conflicts and related labour dispute risks	Disputes Strikes with impacts on service continuity for customers Employee dissatisfaction with impacts on productivity	Responsible management of corporate restructuring processes, with the reallocation of employees to other activities New hires to promote generational change Management of labour dispute risks

## REPUTATIONAL RISK ASSESSMENT AND MANAGEMENT

Considering the high awareness of business ethics and the growing interest in the valuation of intangible assets, Intesa Sanpaolo has developed a model to manage its reputation with all its stakeholders with a view to preventing and minimising potential negative effects on its image. The Group attaches great importance to non-financial risks and, as part of the main risk-taking strategies set out in the Risk Appetite Framework (RAF), has defined its commitment dedicated to the protection of its reputation.

Intesa Sanpaolo's reputational risk governance model assigns the Corporate Bodies the function of strategic supervision and the Enterprise Risk Management Head Office Department general responsibility for governing reputational risk processes. Each company function is involved in the process of safeguarding the Group's image by complying with the codes of conduct and identifying the reputational risks associated with the activities under its responsibility. However, on a more specialised level, the reputational risk management system is based, on the one hand, on systematic and independent monitoring by certain corporate structures (e.g. Chief Compliance Officer, Chief Institutional Affairs and External Communications Officer, Corporate Social Responsibility, Internal Communication) and, on the other hand, on Reputational Risk Management processes implemented through the Enterprise Risk Management Head Office Department.

These processes include, in particular:

- Reputational Risk Clearing, with the objective of ex-ante identification and assessment of potential reputational risks (including those arising from social-environmental risks) connected with the most significant business



transactions, the main strategic projects and the selection of Intesa Sanpaolo's suppliers/partners. By providing an advisory opinion, the clearing seeks to identify the potential risks associated with a specific transaction and/or counterparty, enabling informed risk taking. In 2018, approximately 140 initiatives/ transactions were assessed.

- Reputational Risk Monitoring to monitor the evolution over time of Intesa Sanpaolo's reputational positioning and identify the main areas of exposure, above all through periodic analysis of its web reputation. The monitoring processes are performed on the basis of the reputational dimensions identified and enable the integration of the internal perspective (for example, through Reputational Risk Assessment) with the external perspective (for example, analyses/surveys conducted by third parties to monitor stakeholder perception and expectations). The 2018 web reputation analysis confirmed the positive trends in terms of brand perception, in particular with reference to Corporate Social Responsibility, despite the existence of a few events that had a negative impact. The mitigation of reputational risk is also entrusted to the structures responsible for managing primary risks (credit risk, market risk, liquidity risk and operational risk), in view of the consequential nature of reputational risk.

## MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS IN LOANS

Overseeing the management and control of risks, within the Corporate Bodies, is entrusted to the coordinated action of the Chief Risk Officer as regards risk management, and the Chief Lending Officer as regards the Group's taking and management of credit risks, reporting directly to the Chief Executive Officer. These areas of centralised responsibility support the business structures and the other functions involved in the credit process in order to make the activity of granting, managing and controlling credit as efficient and effective as possible. For the activity of providing credit and finance, there are various forms of coordination – with specific reference standards on powers, criteria for granting and managing loans, and detailed operating Guidelines – that allow Intesa Sanpaolo to exercise an active policy-making and support role within the Group. In particular, there are set Group policies for granting and managing credit based on the formulation of a rating, which represents a summarised assessment of risks.

The Code of Ethics requires investment decisions and the credit policy to take into account the socio-environmental risks associated with the activities of corporate customers. This commitment is also contained in the Rules for the environmental and energy policy and in the Human Rights Principles.

The Group also adheres to the Equator Principles covering these risks in project financing. The assessment of environmental risks also enables compliance with the regulatory requirements set out in the Organisational, Management and Control model pursuant to Italian Legislative Decree 231/2001 on the administrative liability of entities.

From an organisational perspective, the analysis and assessment of the socio-environmental risk of financing operations subject to the Equator Principles is the responsibility of the Chief Lending Officer Area. As regards other loans, the structure responsible for this kind of assessment is Risk Management, with support from Corporate Social Responsibility.

The assessment of creditworthiness, which includes the socio-environmental aspects, is conducted for all corporate customers, in accordance with the Rules of the Internal Rating System.

In particular, thanks to its long-term collaboration with Confindustria Piccola Industria, an innovative rating model has been developed, validated by the ECB. In the model, social and environmental aspects can also have a positive impact, leading to an improvement in the rating. In addition to the usual economic and financial assessments, the new model aims to make it easier to access credit, with more favourable financial terms, by highlighting the intangible qualities of the business, such as trademarks, patents, quality and environmental certifications, research and development activities, innovation and digitalisation, development and competitive positioning projects, management of business risk and being part of a supply chain.

With reference to the sectors that may potentially be more exposed to environmental risks, the experimental phase of a Questionnaire on Environmental Risks launched in July 2017 reached completion in June 2018, based on a sample of customers of the Corporate and Investment Banking Division.

Following the positive outcome of the pilot phase, the activity is properly up and running, aimed at the same category of customers, and has been included in the Operating Guidelines on lending activities. The initiative allows environmental risk to be taken into consideration when assessing creditworthiness for the most sensitive sectors.

Lastly, in 2018 there was a continuation of the activity launched in the previous year for the provision of advisory opinions on the social, environmental and reputational risks of business operations and/or customers operating in sensitive sectors that are not included in the scope of application of the Equator Principles. The opinions, provided by the Reputational Risk Office of the Chief Risk Officer Area with the contribution of Corporate Social Responsibility, include the allocation of a risk class (from low to very high) 67: of these opinions were issued in 2018.

## ADOPTION OF THE EQUATOR PRINCIPLES

The evaluation and management of the social and environmental risks plays a fundamental role for loans for large industrial and infrastructural projects.

The Equator Principles (EP or Principles) are international Guidelines (that financial institutions adhere to on a voluntary basis) for the management of socio-environmental risks arising from project financing. Applying these Principles in a structured and integrated manner allows emerging risks to be identified and managed in countries that are vulnerable from a social and environmental viewpoint, as well as in sensitive sectors. Intesa Sanpaolo has adhered to the EPs since 2007.

The Principles are based on the criteria of the International Finance Corporation (IFC) of the World Bank (the Performance Standards), which concern, amongst other issues: the assessment of social and environmental impacts; the protection of workers' rights; the exclusion of child labour and forced labour; the prevention of pollution and the promotion of energy efficiency; risks to the health and safety of communities; the consultation of the populations concerned and protection of their rights; safeguarding biodiversity and the sustainable management of natural resources; and the preservation of cultural heritage.

The EP process takes specific account of the impacts of climate change. In fact, the Principles require customers to demonstrate that, if the CO<sub>2</sub> equivalent annual emissions are expected to exceed 100,000 tonnes, they have considered solutions with lower emissions, through an analysis of the alternatives. The Principles also require the publication, on an annual basis, of CO<sub>2</sub> emission levels for these projects.

The Climate Change Working Group of the Equator Principles Association liaises continuously with the IFC on the implementation of its climate change strategy in the Performance Standards and to share best practices in the area of climate change risk management.

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

The scope of the Principles includes the technical form of Project Finance, from 10 million US dollars, and Project related Corporate Loans, from 100 million US dollars.

## THE SOCIAL AND ENVIRONMENTAL RISK ASSESSMENT PROCESS ACCORDING TO THE EQUATOR PRINCIPLES

The process of implementing the Equator Principles is organised and regulated by the "Rules for the Equator Principles" that are valid for the whole Group.

The implementation process of the EPs is integrated into the Group's credit policies in order to identify all loans, starting from the application stage, that come under the scope of the Principles. The process requires higher-risk projects, and medium-risk projects if necessary, to be assessed by an independent advisor who identifies the main social and environmental impacts. The results of this independent due diligence provide suggestions and recommendations regarding the need to supplement the preliminary assessment with in-depth studies or action plans, for example on safeguarding human rights, to ensure that the project meets the requirements of international standards. The action plans must be integrated into the contractual obligations and monitored at a frequency based on the level of risk identified.

Customers are required to submit regular reports as evidence of the implementation of the actions requested by the Bank, which may also be verified with on-site inspections. In the event of non-compliance with the agreed conditions, the Bank reserves the right to exercise the intervention measures for assessment on a case-by-case basis.

The assessment process also envisages engagement and consultation with local communities, to understand the possible social impacts and identify any mitigation measures needed. The Equator Principles require an ongoing relationship with stakeholders, from the design phase and throughout the entire project, through structured stakeholder engagement activities and a grievance mechanism process.

The Bank checks all the actions implemented by the customer and the correct implementation of the EPs; this also includes giving an internal opinion issued by the structure of the Chief Lending Officer Area in charge of monitoring the EPs. This opinion is included in the preliminary analysis, and is taken into consideration by the Reputational Risk Office for the purposes of Reputational Clearing.

In 2018, there were two training initiatives on the Equator Principles, with a joint aim of spreading awareness of the importance of the issue, and to present case studies to the participants to focus on the scope of application of the Principles and the phases of the implementation process.

The first initiative, designed for the structures based in Italy that are most directly involved, was run via distance learning with about 100 people invited to attend; the second course was made available to over 400 people, using the "Equator Principles e-Learning Tool", developed by the Equator Principles Association.

## 2018 PROJECTS

In 2018, a total of 20 loans subject to screening according to the Equator Principles reached financial close (a total of 346 since 2007).

In 2018, the amount agreed for projects that adopted the Equator Principles assessment process, was 993.5 million euro, equal to approximately 11% of the total amount agreed for loans in the reference scope (all Intesa Sanpaolo structures active in project financing within the scope of the Principles, in Italy and abroad). The table below shows the number of projects that reached financial close in 2018, with a breakdown by category.

	Total	Category A	Category B	Category C
<b>Project finance</b>	18	5	10	3
<b>Project related corporate loans</b>	2	2	-	-

## CONTROVERSIAL SECTORS

Intesa Sanpaolo is aware of the importance of the correct and responsible allocation of credit, following social and environmental sustainability criteria. To this end, it devotes particular attention to examining the sustainability issues associated with sectors considered more sensitive, such as arms, nuclear energy, and fossil fuel extraction sectors. Sensitive sectors are identified among those that have a significant socio-environmental risk profile and that are the subject of awareness-raising initiatives or pressure campaigns by specialist NGOs, civil society groups and customers. In keeping with the values and principles expressed in the Code of Ethics and aware of the need to support national and European defence together with the allied countries in NATO, the Intesa Sanpaolo Group does not support operations that relate to the production and/or trade of military goods, even if permitted by applicable law, in countries that do not belong to the European Union and/or NATO. The company rules also prohibit the undertaking of any kind of banking or lending activity related to the production of and/or trade in controversial weapons and/or those banned by international treaties and in particular: nuclear, biological and chemical weapons; cluster and fragmentation bombs; weapons containing depleted uranium; and anti-personnel landmines. In addition to the provisions already adopted by Intesa Sanpaolo in accordance with the provisions of Italian Law 185/1990, in 2017 specific rules were issued for the Group's International Subsidiary Banks. The operations of the Group's Branches and International Subsidiary Banks are also subject to local regulations, when they are stricter than the Group regulations.

In 2018, the total number of transactions reported to the Italian Ministry of the Economy and Finance pursuant to Law 185/1990 in terms of loan disbursements, payments and guarantees given and/or renewed amounted to 2,401.6 million euro.

In other sensitive sectors, where the Equator Principles are not applied, the Reputational Risk function with support from Corporate Social Responsibility, provides the business and lending structures with advisory opinions on the social, environmental and reputational risks.

## ENVIRONMENT AND CLIMATE CHANGE: MANAGEMENT OF POTENTIAL RISKS AND IMPACTS

Climate change represents a complex challenge that is set to have a major impact on the future of our planet and society. Climate change is responsible for the increase in extreme weather events (flooding, whirlwinds, forest fires, etc.), and has permanent effects on climate conditions (increase in average temperature, increase in sea level, etc.) which may lead to significant economic, environmental and social costs. These events may generate a loss of wealth and income for companies and families, thus having a potential impact on the financial system. Banks have a key role to play and a responsibility on the issue of climate change, because they have the possibility of directing loans and investments towards companies that are virtuous from an environmental point of view, and operate with a view towards raising awareness and risk containment.

The growing focus given to the possible consequences of climate change has led to a greater awareness among financial institutions of the need to develop specific knowledge about such risks and the opportunities associated with them.

Climate change risks are divided into "physical risks", associated with the physical impact of climate events, and "transition risks" arising from the process of adjustment to an economy based on low carbon emissions, associated with the changes in public policies, technology and consumer choices.

In this regard, the Intesa Sanpaolo Group actively considers the risks and opportunities arising from climate change within its overall strategy.



Through the monitoring of the Code of Ethics, stakeholder engagement activities and sustainability reporting, the Group identifies and analyses the range of risks associated with climate change and sets objectives and guidelines aimed at implementing actions designed to manage and mitigate these risks.

The potential risks, opportunities and possible impacts on stakeholders and on corporate structures have been considered when analysing material issues, both in terms of direct impacts on Group operations and properties and in terms of indirect impacts relating to customer and supplier activities. The materiality matrix is shared with the Chief Risk Officer Area, with the aim of initiating a process of integration with reputational risk assessment.

On an annual basis, a mapping is conducted of the risks and opportunities related to climate change, published in the questionnaire of the Carbon Disclosure Project [1]. Specifically, the impacts, possible financial implications (if quantifiable), risk management methods and associated costs are examined, taking into account, where relevant, the specific climatic characteristics of the different geographical areas where the Group operates.

Intesa Sanpaolo's strategy includes actions to reduce greenhouse gas emissions (mitigation), together with measures of "adaptation" to climate change. In recent years, we have witnessed extreme atmospheric events at a global level that have had a considerable impact on the Bank's structures and on the activities of our customers. The tables below show the main risks arising from climate change, the related impacts and the mitigating actions undertaken by the Group.

### Direct risks for the Intesa Sanpaolo Group

Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in environmental regulations	Short/medium term	Possible fines in the event of failure to comply with new regulations	Constant and precautionary monitoring of possible changes to national and European regulations
<b>Transition</b> Introduction of new greenhouse gas emission limits or new related reporting systems Increased cost of greenhouse gas emissions	Short/medium term	Costs for upgrading heating and air conditioning systems and for new monitoring tools Costs related to greenhouse gas emissions Increase in costs of energy supply	Implementation and monitoring of the Climate Change Action Plan Energy efficiency actions Increase in the use of renewable energy sources Preventive actions to replace old systems with next-generation systems with a low environmental impact, as well as consumption monitoring systems during the renovation of branches and buildings
<b>Transition</b> Changes in environmental regulations and standards that the Group voluntarily adheres to (ISO standards)	Medium/long term	Costs of changing the processes of certification in the event of changes to standards and regulations	Continuous and precautionary monitoring of possible changes in standards Participation in specific training courses and workshops
<b>Physical</b> Extreme weather events (floods, heavy snowfall, whirlwinds)	Short/medium/long term	Possible damage to the Bank's infrastructure and possible disruption of activities	Precautionary assessment of the hydrogeological risks for buildings Adoption of a business continuity plan and measures to prevent/mitigate/manage physical damage to the Bank's structures

\* 0-3 years short term; 3-6 years medium term; over 6 years long term.

With regard to the Environmental and Energy Management System according to the UNI EN ISO 14001:2015 standard, the Background Analysis has been updated to shed light on the needs and expectations of all stakeholders involved in applying the System, and on the specific associated risks. This update was performed based on the results of the stakeholder engagement and confirmed that all the risks – split into six categories (commercial, economic, operational, technological, implementational and reputational) – are managed by the Group through a continuously monitored programme of actions. A “low” level of risk is considered acceptable, whereas for “medium” level risks, actions are foreseen within six months, and for “high” level risks, specific actions are to be defined within a month.

The assessment of risks to workers’ health and safety also includes the assessment of the hydrogeological risk due to flooding and landslides. A hydrogeological risk assessment of buildings is conducted as a preventive measure in relation to local risk and building vulnerability, and also subsequent to an external event with a view to maintaining the practical features of the buildings involved.

With regard to flooding, the benchmark is based on the level of danger associated with a floodable area, and depends on the probability that the area can be flooded: generally, the high-danger areas are identified as those that speculatively suffer a flood on average every 20-50 years (P3), whilst the medium and low-danger areas are speculated to suffer floods on average every 100-200 years (P2) and 200-plus years (P1) respectively. With regard to landslides, the benchmark is based on the level of danger (from P1 to P4) associated with an area subject to landslides and depends on the relationship between the probability of occurrence of the event and its magnitude taking into account both the speed of the landslide’s movement and the extent of its spread over the area. These assessments are set out in the Risk Assessment Document pursuant to Italian Legislative Decree 81/08. They enable the Intesa Sanpaolo Group to implement actions that take account of the effects of critical events linked to natural phenomena attributable to climate change, allowing for the management of different potential risk scenarios, through the implementation of specific Emergency Plans, in order to mitigate and reduce possible damage, particularly to workers and third parties.

Intesa Sanpaolo has also adopted an Organisational Model for Crisis Management which, through process guidelines, defines the organisational structure responsible for managing critical events and identifies the roles, responsibilities and decision-making powers. This ensures the participation of all the managerial and operational levels necessary for managing emergencies and crises, including those arising from large-scale destructive events, of a metropolitan or wider extent, that affect essential infrastructures of both the Bank and third parties, or situations that do not necessarily have a significant impact on operations, but have a high social or local impact (e.g. floods, etc.). In particular, the Emergency Management Operational Centre deals with the various crisis scenarios involving disruptions to business continuity, by ensuring continuous and precise monitoring of the situation and coordinating the actions to be implemented for the local structures concerned, in constant collaboration with the competent head office structures. If critical events occur without disrupting business continuity, the Critical Events Manager begins his/her work; his/her role is to identify and engage the relevant functions in order to define and implement the counter-measures needed to mitigate the risk.

## Indirect risks for the Intesa Sanpaolo Group

Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in public policies Technological changes Changes in customer/ consumer preferences	Short/medium/ long term	<b>LOANS</b> Reduction of business or increase in costs for companies with possible consequences on creditworthiness and solvency. <b>ASSET MANAGEMENT</b> Reduction in the value of assets under management due to consequences of climate change on companies in the portfolio	<b>LOANS</b> Assessment of ESG risks in transactions and loans in sensitive sectors Inclusion of environmental risks when assessing creditworthiness Implementation of self-regulation policies for the assessment and management of the socio- environmental risk of loans in sensitive sectors Support to the Circular Economy <b>ASSET MANAGEMENT</b> Assessment and control of ESG risks in the investment portfolios
<b>Transition</b> Changes in public policies Technological changes Changes in customer/ consumer preferences	Short/medium/ long term	Reputational impact, negative perception from stakeholders and in particular from SRI investors due to nil or inadequate management of such risks Possible exclusion from sustainability (ESG) indices or a worse ESG position or lower rating	Inclusion of environmental risks when assessing creditworthiness Implementation of self-regulation policies for the assessment and management of the socio- environmental risk of loans in sensitive sectors Stakeholder engagement initiatives Participation in international working groups on climate change issues
<b>Transition</b> Changes in environmental regulations Introduction of new atmospheric emission limits or new related reporting systems	Short/medium term	Financial implications on some industries and customer segments	Offering dedicated financial solutions and specialist advisory services for customers in the field of renewable energies and energy efficiency Participation in work groups and initiatives relating to climate change Active collaboration with policy makers to highlight the need for stable and clear environmental regulations
<b>Transition</b> Changes in the regulations and incentives on renewable energy	Short term	Negative impact on loans to customers interested in investing in renewable energy sources, due to an Italian scenario characterised by the uncertainty of public intervention	Offering advisory services to customers on new regulations and incentives for the renewables and energy efficiency sectors



Potential risks	Timeframe*	Potential impacts	Actions
<b>Transition</b> Changes in customer/ consumer preferences	Short/medium term	Reduction in revenues for the Group due to a lower demand for certain financial services/products	Offering green products and services Green bond issues Support to the Circular Economy
<b>Physical</b> Extreme weather events (floods, heavy snowfall, whirlwinds)	Short/medium/long term	Financial implications for corporate and retail customers damaged by extreme weather events, with possible consequences on their creditworthiness and solvency	New subsidised loans intended to restore damaged structures Suspension or moratorium of repayments of loans issued to damaged customers Implementation of a plafond for the reconstruction of damaged properties in case of disaster events

\* 0-3 years short term; 3-6 years medium term; over 6 years long term.

Since October 2018, the Group has decided to support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), with the voluntary commitment to disseminate transparent reporting on the risks and opportunities linked to climate change, in order to include the main climate-related communications within the framework of financial disclosures for stakeholders. An inter-functional working group has been set up for this purpose, whose goal is to implement the TCFD's recommendations and outline the monitoring methods for climate change risk within the scope of the risk governance framework, particularly with respect to the impacts on lending activities.

### THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Task Force on Climate-related Financial Disclosures (TCFD) was set up in 2015 by the Financial Stability Board (FSB) – the body that monitors the world financial system – so as to formulate a series of recommendations on the disclosure of climate-related risks. The aim is to guide companies to align the information they disclose with the needs and expectations of investors. In June 2017, the Task Force published 11 recommendations relating to four areas: Governance, Strategy, Risk Management, Metrics and Targets.

# Integrity in corporate conduct

## RELEVANT ISSUES

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Combating money laundering	page 58
Compliance with tax regulations	page 59
Protection of free competition	page 60
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Compliance with labour laws	page 62
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## WHY THESE ISSUES ARE RELEVANT

The Intesa Sanpaolo Group recognises that compliance with internal and external regulations and codes of conduct is of significant importance, also from a strategic viewpoint, and therefore it acts in the belief that respecting standards and fairness in business are essential elements in carrying out banking operations, which by nature are based on trust and transparency. Indeed, Intesa Sanpaolo believes that compliance with standards encourages the creation and maintenance of a competitive economic environment and protection of customer rights, which contributes to the development of local areas and communities. Intesa Sanpaolo also seeks to be a reliable and professional partner for the regulators. In this context, the Group actively adheres to the principles of the United Nations Global Compact that envisage the development of policies for combating corruption, protecting human rights, workers' rights and safeguarding the environment.

The Group has defined and implemented a well-structured system of risk assessment throughout the company structures, which is applied according to risk assessment criteria. Adherence to the rules and integrity of corporate conduct are also ensured through compliance activities focused on the monitoring of risk in relation to fighting corruption and money laundering, combating the financing of terrorism, embargo management and protecting competition. The Group adheres to the principle of active cooperation in preventing these phenomena, which represent a serious threat to the legal economy. Intesa Sanpaolo monitors developments in international tax regulations guided by the OECD and aimed at countering base erosion and profit shifting from high-tax to low-tax countries, with the ongoing commitment to adhere to those principles.

Internal auditing involves constant and independent monitoring of the due conduct of the Group's operations and processes.

## PERFORMANCE INDICATORS AND RESULTS ACHIEVED

Macro-issue	Projects/Indicators	2018 Actions/Results
Fighting against corruption and combating money laundering	Training to prevent corruption and money laundering	<ul style="list-style-type: none"> <li>66,320 trained employees (72.5% of the total)</li> <li>323,242 hours provided</li> </ul>
	Disciplinary sanctions due to staff corruption	<ul style="list-style-type: none"> <li>0</li> </ul>
	Dismissals due to corruption	<ul style="list-style-type: none"> <li>0</li> </ul>
	Internal advice and clearing on transactions in the corruption highest risk areas	<ul style="list-style-type: none"> <li>191</li> </ul>

Macro-issue	Projects/Indicators	2018 Actions/Results
Protection of free competition	Training on free competition	<ul style="list-style-type: none"> <li>47,976 employees trained (52.4% of the total)</li> <li>72,938 hours provided</li> </ul>
	Internal requests for antitrust advice and clearing on Group projects	<ul style="list-style-type: none"> <li>Advice and clearing requests were made for 49 initiatives, of which 21 advice and 14 clearing requests have been completed (opinions not subject to changes or updates), with the rest still ongoing</li> </ul>
Privacy protection	Training on Privacy protection	<ul style="list-style-type: none"> <li>51,896 employees trained (56.7% of the total)</li> <li>43,501 hours provided</li> </ul>
	Cases of customer data being lost or stolen	<ul style="list-style-type: none"> <li>13, in relation to which no risk to the rights and freedoms of data subjects was identified, and therefore notifying the Italian Antitrust Authority was not required</li> </ul>
Consumer protection	Training on consumer protection	<ul style="list-style-type: none"> <li>40,041 employees trained (43.7% of the total)</li> <li>1,223,201 hours provided</li> </ul>
Whistleblowing	Whistleblowing reports	<ul style="list-style-type: none"> <li>21 reports, of which 4 were found to be not pertinent and 17 were subject to specific investigations*</li> </ul>

\* More specifically: there were 18 reports for Intesa Sanpaolo S.p.A., three of which were not pertinent and 15 were subject to investigations; for ISGS there was one report which was subject to investigation; for the CR Firenze Group, there were two reports, one of which was not pertinent and one which was subject to appropriate investigations.

## FIGHTING AGAINST CORRUPTION

The Group's Code of Ethics provides that business goals are pursued with honesty, fairness and with a sense of responsibility in full compliance with the rules, professional ethics and spirit of signed agreements. It recognises the strategic importance of the work aimed at ensuring compliance with internal and external regulations and codes of conduct, and sets high standards of compliance for all employees, which are also included in the Code of Conduct.

The Code of Ethics also establishes Intesa Sanpaolo's commitment to contributing to combating corruption, supporting the OECD (Organisation for Economic Co-operation and Development) Guidelines, and the anti-corruption principles established by the United Nations in 2003, including by taking a "zero tolerance" approach. The Group has adopted strict internal procedures and specific Guidelines over time to prevent the risk of corruption.

### MODEL FOR THE MANAGEMENT OF ADMINISTRATIVE LIABILITY PURSUANT TO ITALIAN LEGISLATIVE DECREE 231/01

Legislative Decree 231/01 establishes a system of administrative liability for Italian Companies for certain specifically identified crimes or offences, committed in their interest or for their benefit by their senior officers and/or employees. Intesa Sanpaolo has long had a specific Organisational, Management and Control Model in place that defines the principles of control and conduct that must be adopted to reduce the risk of committing crimes and offences envisaged by the Decree, including, in particular, corruption, environmental crimes and the violation of human rights.

In preparing the Model, the Bank first of all took into account all the existing regulations, procedures and control systems already being implemented, insofar as they were also suitable as measures for preventing crimes and illegal conduct in general, including those envisaged by Italian Legislative Decree 231/01.

The Bank identified the following as specific instruments already existing and aimed at planning the formation and implementation of company decisions and carrying out controls on business operations, including in relation to crimes and offences to be prevented:

- the corporate governance rules, adopted in compliance with the Corporate Governance Code for listed companies and the relevant company regulations and regulatory legislation;
- internal regulations and company policies;
- the Group's Code of Ethics, Internal Code of Conduct and Anti-Corruption Guidelines;
- internal control system;
- power and delegation system.

The Board of Directors delegates the structures the task of implementing the content of the Model and ensuring the constant updating and implementation of internal regulations and company processes, which are an integral part of the Model, in compliance with the principles of control and conduct defined for each sensitive activity.

The effective and concrete implementation of the Model is also guaranteed by:

- the Surveillance Body, in exercising the powers of initiative and control assigned to it in relation to the activities carried out by the individual organisational units in sensitive areas;
- the heads of the various organisational units of the Bank (Governance Areas, Divisions, Departments and Organisational Units) in relation to the activities at risk carried out by them.

Without prejudice to the independent responsibility of each Italian-registered company of the Group regarding the adoption and effective implementation of its own Model, Intesa Sanpaolo in performing its duty as the Parent Company issues general criteria and instructions, and verifies the compliance of company Models with those criteria and instructions.

In August 2018, the Board of Directors approved the update of Intesa Sanpaolo's Model, which takes account of the evolution of legislation in the following areas:

- Italian Law 179/2017, which modified Italian Legislative Decree no. 231/01 with regard to whistleblowing. For this purpose, the systems for reporting to the Surveillance Body were integrated on the basis of the requirements set out in the new Article 6 (2-bis) of the Decree, and were articulated with the Group Rules on internal whistleblowing systems for financial intermediaries;
- Law no. 161/2017 and Law no. 167/2017 which respectively introduced new elements into Italian Legislative Decree 231/01, namely the offences of "conducting illegal immigration" and "facilitation of illegal immigration" (Article 25-duodecies) and "racism and xenophobia" (Article 25-terdecies).

In addition, there were further adjustments to the Model, involving the inclusion of the obligation for the Intesa Sanpaolo Group to prepare the Consolidated Non-financial Statement and the inclusion of an additional cause for the suspension or revocation of members of the Surveillance Body i.e. the non-final conviction for bankruptcy offences and tax offences, in line with the Regulations that establish the requirements of integrity and professionalism of the Banks' senior representatives and causes of suspension.

Following the approval of the new Model by the Parent Company, the other Italian companies of the Group began the adoption of these updates.

To provide the Surveillance Body with an overall picture of the planning of the various control structure activities (compliance, anti-money laundering, administrative/financial governance, internal audit), the Compliance function collects the respective plans from the relevant structures on an annual basis regarding the scheduled supervision of sensitive areas and incorporates them into the 231 Audit Plan. On the basis of this document, the Surveillance Body assesses the adequacy of the programme of audits on individual sensitive company activities and identifies any further actions needed to strengthen the audit plans proposed by the structures concerned.

The heads of the organisational units involved in sensitive processes pursuant to Italian Legislative Decree 231/01 certify the level of implementation of the Model, by means of an overarching self-diagnosis process on the work carried out, with a particular focus on compliance with the principles of control and conduct and the operating rules.

Lastly, an unremitting focus is placed on training initiatives and spreading compliance culture. In this regard, the overall percentage of participation at Group level for the distance training course, initiated in 2015, was 84% at the end of 2018.

The Group's Anti-Corruption Guidelines, approved in 2017 by the Board of Directors, identify the principles and the sensitive areas and define the roles, responsibilities and macro-processes for the management of this risk, further strengthening an internal regulatory framework which already consists of the Code of Ethics, the Group Internal Code of Conduct and – for the Italian Group companies – the Organisational, Management and Control Model adopted pursuant to Italian Legislative Decree 231/2001.

The Guidelines define the commitment to comply with the regulatory provisions aimed at combating corruption in all its forms, where corruption means the direct or indirect offering or acceptance of money or other benefits capable of influencing the recipient, in order to induce or reward the performance of a function/activity, or alternatively its omission. In line with international best practices, the Group does not tolerate:

- any type of corruption, in any form, manner or jurisdiction, not even if activities of this kind are permitted, tolerated or not prosecuted under the laws in force in the countries in which the Group operates;



- any conduct involving the offer or acceptance of money or other benefits – directly or indirectly – with the aim of inducing or rewarding the performance of a function/activity, or alternatively its omission. Such conduct is not tolerated even with regard to small payments aimed at speeding up, facilitating or ensuring the performance of a routine activity, or any activity that forms part of the recipient's duties (known as facilitation payments). Benefits that cannot be granted include, for example, gifts and services offered free of charge (except for those envisaged by specific regulations on gifts, and entertainment and charitable expenses), the undue hiring of a person, the granting of credit on terms that do not conform to the principles of sound and prudent management and, more generally, all transactions that entail the generation of a loss for the Group and the creation of a profit for the recipient.

Monitoring in this area is assigned to the Anti-Money Laundering Head Office Department, and its Manager is allocated the role of Group Anti-Corruption Officer.

The Anti-Corruption Guidelines have been approved by the main Group companies, including the Banks of the Banca dei Territori Division, Fideuram Intesa Sanpaolo Private Banking, Intesa Sanpaolo Vita and Eurizon Capital. In the perimeter of the International Subsidiary Banks Division, all the banks presented the document for formal examination by their competent bodies.

In 2018, there were continued checks on the consistency of the detailed internal regulations with the general principles set out in the Anti-Corruption Guidelines, in order to implement the necessary alignment, in addition to a detailed analysis of the anti-corruption controls currently in place in the individual “highest risk areas”, in order to identify any strengthening measures. In particular, updates were made to the regulations concerning the Suppliers List and Sponsorships, and the regulations for Charities were also reviewed.

During the year, the Anti-Money Laundering Head Office Department processed 191 “advice” and “clearing” files for specific operations in the highest risk areas, particularly concerning the purchase, management and sale of equity investments and other assets, donations, sponsorships and relationships with suppliers, the hiring of personnel, and gifts.

In terms of the dissemination of information and the culture in this area, the Anti-Corruption Guidelines were sent to all members of the Boards of Directors of the main companies in the Group.

Lastly, in October 2018, a specific training initiative was held for employees in the Group's Italian companies on the Anti-Corruption Guidelines.

In Italy, there were no cases of disciplinary measures related to corruption incidents.

There were no significant penalties for non-compliance with laws or regulations relating to corruption or discrimination in the workplace.

## COMBATING MONEY LAUNDERING

Intesa Sanpaolo pays particular attention to compliance with national and international regulations aimed at combating money laundering and terrorist financing, which it recognises as a serious threat to the legal economy with destabilising effects for the banking system, and it adheres to the principle of active cooperation in preventing these phenomena.

In compliance with the legislative provisions of the legislator and the sectoral supervisory authorities, and based on the international standards contained in the FATF (International Financial Action Task Force) Recommendations, the Group has adopted procedures, instruments and controls designed to mitigate the risk of being involved, even unknowingly, in acts of money laundering and terrorist financing.

The Group's governance system to combat money laundering and the financing of terrorism is based on Guidelines that constitute a systematic and functional reference framework, with active collaboration by the Group in preventing these illegal activities. Specific processes and procedures are in place in the areas of obligations of customer due diligence, reporting of suspicious transactions, recording of relations and transactions, storage of documents, risk assessment and management, internal control and guarantee of compliance with all of the relevant provisions to prevent and impede the completion of transactions connected to money laundering or the financing of terrorism. The guidelines and standards established by the Parent Company are developed and implemented within the individual operating structures in accordance with the characteristics and complexity of the activity carried out, as well as in accordance with their size and organisational structure, in compliance with the requirements of local regulations and ensuring the sharing of information at a consolidated level.

Procedures that provide automatic checks on the Group's register and transactions have been active for some time now, in order to mitigate the risk of having customers included in the list of entities subject to

restrictions or freezing of assets (black list). The Group has also adopted a stricter approach, going beyond the regulatory requirements, by envisaging more detailed assessments of credit and reputational aspects to prevent its involvement, in any capacity, in transactions with counterparties or countries under embargo, even if the transaction is among those permitted by the restrictive provisions issued by the international authorities. In 2018, the activities planned for the strengthening of anti-terrorist controls were substantially completed through the enhancement of filtering systems for detecting suspicious elements. In addition, the project initiative continued, which aims to bring the AML controls into line with the new regulatory requirements of the AML IV Directive (transposed by Italian Legislative Decree 90/2017), aligning, among other things, the Guidelines in the month of April; there was a continuation of the multi-year programme for the overall review and strengthening of anti-money laundering, embargo, anti-terrorism and anti-corruption measures at a Group level (ENIF - Enabling Integrated Financial Crime Project).

## RELATIONS WITH POLITICAL PARTIES AND MOVEMENTS

The internal policies establish that political parties and movements cannot be recipients of donations and sponsorships. With regard to the financing of political parties, connected associations and individual candidates, specific rules state that the only form of new credit concession for them, that can solely be decided upon by the Board of Directors, consists of the advance on an annual basis of the "2x1,000 contribution" against the transfer, to be notified in accordance with the law, of the sums due to the parties for this form of contribution. In 2018 no financing was granted in this area.

## COMPLIANCE WITH TAX REGULATIONS

In compliance with the Code of Ethics, the entire Group is committed to observing principles based on values of honesty and integrity in managing tax matters, compliance with the tax regulations applicable in the countries in which the Group operates, and maintaining a collaborative and transparent relationship with the tax authorities, including through adherence to cooperative compliance schemes.

Intesa Sanpaolo places a particular focus on the evolution of tax regulations, both on a domestic and international level, aimed at countering base erosion and profit shifting, with the ongoing commitment to adhere to those principles. The Group has strengthened the internal control system for tax risk, known as the Tax Control Framework, to make it capable of covering the strategically important area of tax risk and meeting the requirements for access to the collaborative compliance scheme introduced in Italy, in accordance with Italian Legislative Decree 128/2015. On 10 December 2018, Intesa Sanpaolo was granted access by the Italian Revenue Agency to the Cooperative Compliance scheme, starting from 2017 when the application was submitted. Under this scheme, Intesa Sanpaolo and the Italian Revenue Agency can perform joint assessments on certain situations that could lead to tax risks thanks to ongoing, preventive contact, with a view to resolving any potential disputes before they occur.

In December 2017, the Intesa Sanpaolo Group adopted its Principles in relation to tax matters, in order to ensure compliance with the tax and fiscal rules of the countries where it operates over time, and to guarantee the financial and reputational integrity of all the Group companies. In particular, guidelines have been established to ensure uniform management of taxation at all Group companies, based on approach of: (i) correct and timely determination and payment of taxes due by law and performance of the related obligations, (ii) containment of tax risk, understood as the risk of operating in violation of tax regulations or in conflict with the principles or with the aims of the legal system in the various jurisdictions in which the Group operates, both due to outside factors (primarily, uncertainty of the interpretation of tax laws due to ambiguity or lack of clarity of tax regulations) and internal factors (usually, incorrect and/or untimely compliance with mandatory requirements, failure to detect regulatory changes affecting the taxation of the Group; and transactions that may be challenged by the tax authorities as abusive).

The Principles are:

- Corporate Responsibility - The Group, in compliance with the Corporate Responsibility principle, acts according to the values of honesty and integrity in the management of tax matters, in the knowledge that revenue from taxes is one of the main sources of resources contributing to the economic and social development of the countries in which it operates.
- Legality - The Group adopts conduct based on compliance with the tax regulations applicable in the countries in which it operates and on interpretations that allow it to manage tax risk responsibly, so that it can satisfy the interests of all its stakeholders and ensure its positive reputation.
- Tone at the top - The Board of Directors defines the principles of conduct in relation to Group tax matters and ensures its application, therefore assuming the responsibility of driving the spread of a corporate culture based on the values of honesty and integrity and principle of lawfulness.

- Relationship - The Group maintains a collaborative and transparent relationship with the tax authorities, guaranteeing, among other things, to provide them the information needed to fully understand the circumstances underlying the application of tax rules. To this end, Intesa Sanpaolo encourages the Group companies to adhere to cooperative compliance schemes, which supplement the national regulations, in order to create stronger relationships with the tax authorities.

The Guidelines were also approved for the management of tax risk within the collaborative compliance scheme with the Italian Revenue Agency, which govern the criteria and processes that Intesa Sanpaolo must adopt to ensure the adequacy and effectiveness of its Tax Control Framework, as well as the related Rules.

The types of tax risk that may arise in the context of business processes have been identified by Intesa Sanpaolo as:

- Tax compliance risks. These are risks of an operational nature and arise in both business processes (such as risks of not correctly performing all the operational tasks necessary to ensure correctness – in terms of completeness, accuracy and timely processing – of the relevant data for tax purposes), and in specific tax compliance processes (from data collection through to its processing and preparation of tax declarations/ payments and communications sent to the tax authorities);
- Tax risks of an interpretative nature in transactions/routine operations. This type of risk relates to the uncertainty about the actual meaning of the regulations and the classification of actual cases with respect to theoretical circumstances, and arises within the following processes: regulatory alignment, advice given to the Structures of the Bank and interpretation choices adopted in tax compliance processes;
- Tax risks of an interpretative nature in non-routine transactions. These risks arise whenever non-routine transactions/operations are carried out, which are characterised by objective and defined uncertainty regarding the risk of adopting incorrect interpretations or, in any case, interpretations that are contrary to the principles and aims of the tax system.

The supervision of compliance with tax legislation is assigned to the Tax structure, which performs the role of Specialist Function.

Based on the periodic reports and other information flows provided by the Tax structure and the other corporate control functions, and checks conducted directly, the Compliance, Governance and Controls Head Office Department produces an independent assessment of the regulatory non-compliance risk in relation to tax matters and the adequacy of controls put in place for its mitigation, and, when it deems necessary, it requests the Tax structure to implement appropriate strengthening measures.

During 2018<sup>1</sup> the Group, in addition to indirect taxes of 915 million euro, recorded accrued income taxes for the year of 1,659 million euro, for the most part in Italy, where the majority of operating income was earned, as per the table below.

2018 Figures [millions of euro]	Italy	Europe	Rest of the world
Taxes on income	1,240	343	76
Operating income	14,266	2,905	704

The International Branches are presented in the geographical breakdown in relation to the country where these branches are located. As far as taxes on income are concerned, since Intesa Sanpaolo did not apply the option for the scheme of income exemption for international branches (known as Branch exemption), these branches' income is also taxed in Italy. In compliance with the applicable regulations, Intesa Sanpaolo also publishes a country-by-country disclosure in which the following information is provided for each country (according to the rules established by the Bank of Italy): gross income; number of employees; profit or loss before tax; and tax on profit or loss. The report is available at the following link [\[i\]](#).

## PROTECTION OF FREE COMPETITION

The Group constantly monitors and promotes free competition, and spreads a culture of compliance with anti-trust regulations, working to ensure that the international, European and national rules and procedures are effectively applied and observed.

In the Group's Code of Ethics, Intesa Sanpaolo declares its commitment to compete fairly in the market and cooperate with other economic, private and public entities, whenever necessary, to strengthen the overall

<sup>1</sup> The comments refer to the reclassified data published in the 2018 Consolidated Financial Statements of the Intesa Sanpaolo Group, which can be referred to for additional details or information.

capacity of the countries where the Group operates. The Bank has an ongoing commitment to manage relations with institutions and organisations, in monitoring existing regulations and in conducting attentive advocacy on any bills that could impact the activities of the Group and of its stakeholders at the national, European and international level, with a view to limiting legal, economic and reputational risks and exploiting new opportunities.

Due to the growing importance of antitrust issues, the Group has long since adopted a risk control system for antitrust non-compliance, under the responsibility of the Institutional Affairs Department. In this regard, it has adopted an extensive antitrust compliance program whose key features include the creation of a specific internal team aimed at overseeing antitrust regulation compliance and the adoption of an antitrust legislation Compliance Policy and a training and information programme. The control of this area has been extended beyond the more traditional forms of antitrust (mergers, abuses of dominant positions and agreements) to also include EU regulations on state aid and the recent Italian regulations in support of Italy's competitiveness.

Training events on compliance with competition law were also held in 2018. In particular, 10 Web TV clips were recorded and nine articles were published for "Mosaico", as well as six for "Mosaico International", available on the Company Intranet. The issues discussed focused on specific protection topics, such as price fixing, gun jumping, the use of algorithms and the dangers to competition, as well as the Guidelines on compliance of the Italian Antitrust Authority. Within the scope of digital training, an Antitrust Collection has been created (10 Learning Objects), accessible to about 70,000 employees within Italy through the APPRENDO platform, hitting over 6,000 views as of the end of 2018. A distance learning event was also held on the issue of "Merger Antitrust Assessment - Theoretical and operational aspects in M&A operations", for approximately 30 selected employees from the structures most closely involved in this kind of operation.

## PRIVACY PROTECTION

Intesa Sanpaolo is continually committed to implementing regulatory, organisational and technological measures aimed at adequately meeting the needs of privacy protection. These actions reflect the principles of the Group's Code of Ethics which commit the Bank to adopting criteria of absolute transparency in informing customers and employees about their data privacy rights and how their personal information is processed. This commitment is set out in Company rules for the processing of personal data and in Guidelines on the protection of personal data of private individuals, approved by the Board of Directors, which provide an overall framework for conduct for all Bank staff, as well as for those who work in cooperation with it. The EU Regulation no. 2016/679 of the European Parliament and Council of 27 April 2016 [General Data Protection Regulation (GDPR)], which came into force on 25 May 2018, makes each data controller responsible, based on the principle of accountability, for implementing regulatory, organisational and technological measures to adequately comply, following a risk-based approach, with the regulatory principles of the GDPR: Data Protection by design and by default, appointment of the Data Protection Officer, Privacy Impact Assessment, Register of Processing Activities, subjective role of Third Parties, and Data Breach. The GDPR alignment project under the responsibility of the Privacy structure, defined all the organisational measures by 25 May 2018, whereas the work is still underway regarding the development of the technological and IT security measures needed to comply with the requirements of the European Regulation in Italy and for the Group's companies located within the EU.

The Data Protection Officer, who is supported by the Privacy structure in the Safety and Protection Head Office Department, provides supervision, for the Parent Company and the Group Companies that have signed specific service agreements, of the privacy regulations, ensuring the adoption of the related updates and regulatory alignment, in addition to compliance with the provisions of the Italian Data Protection Authority. This structure conducts prior assessments on the compliance of new products, initiatives and services involving the processing of personal data, and represents the Company before the Italian Data Protection Authority during inspection procedures. The Data Protection Officer assesses the role performed by the Group's suppliers/ Third Parties based on the provisions for the processing of personal data contained in the contracts, and supports the business and support structure in preparing any letters of appointment as Data Processor, and in updating the Register of Processing Activities. It also updates and publishes the List of Third Parties that process the personal data of customers and employees. The Data Protection Officer manages the responses to the Italian Data Protection Authority and the interested parties, following reports or complaints submitted to the Authority. It also processes customer requests associated with Data Subjects' rights in compliance with the legal provisions and the measures issued by the Authority, and oversees training on privacy, in collaboration with the designated structures.



For the other Group Companies, the Data Protection Officer performs a role of guidance, coordination and control, overseeing the correct application of the Group guidelines and regulations on privacy, and provides support and advice for the performance of the current activities in this area. For the Group, it ensures control of the non-compliance risk in relation to privacy regulations, performing the role of Specialist Function set out in the Group Compliance Guidelines. The Function updates the Register of Processing Activities for personal data performed by the Parent Company, with the cooperation of the business and support functions, and provides assistance with regard to other Group companies.

This commitment allows for the mitigation of reputational and non-compliance risks in the processing of personal data, also with respect to the lawfulness and fairness of the processing, the purposes of the processing and its relevance, and the completeness and non-excessive nature of the data collected.

With regard to requests received from customers regarding personal data protection, in Italy 115 reports were received in 2018 for an alleged violation of the Privacy Code, and one request from the Italian Data Protection Authority regarding companies belonging to the Group, for which the necessary responses were given. In 2018, 13 cases of lost or stolen data relating to customers of the Group (data breach) were assessed. No risk to the rights and freedoms of the parties involved was identified in any of these cases, and so there was no need to notify the Italian Data Protection Authority.

## COMPLIANCE WITH LABOUR LAWS

In line with the commitment set out in the Code of Ethics for the development of a working environment of mutual trust and loyalty, enhanced by the contribution of each person, the management model in this area is based on the national and second-level bargaining agreements (Group). Compliance with these rules, in addition to the legal provisions, is instrumental to improving the working environment, with a view to continued growth in the quality of relations between the Company and its personnel and customers. They also have the goal of asserting the need for a transparent and sustainable work organisation, with clear operational responsibilities at the various levels to continuously ensure compliance with the rules and the prevention of non-compliant behaviour, identifying measures that ensure the effective encapsulation of company objectives and worker expectations in terms of the working environment and internal relations. Responsibility for management, and consequently also for monitoring the effective application of the trade union agreements, is assigned to the Trade Union Affairs and Labour Policies Head Office Department. The protocol for Labour Relations enables joint research and sharing between the Company and Trade Union Organisations on solutions to improve the well-being of employees and make a positive contribution to productivity with advanced and innovative responses in the area of pensions, assistance and services for families, education and an improved work-life balance.

The aims of the actions include improving the work-life balance for the employees.

In general, the number of labour lawsuits is small: 20 cases for violations of labour law were notified in 2018 and around 35 cases were closed. In addition to appeals against dismissals for just cause following disciplinary procedures, the main types of litigation initiated include the establishment of subordinate employment relationships in cases of contracts for the supply of services, higher job positions and compensation for damages for deskilling (in 2018, no lawsuits were reported by current employees that related to cases of mobbing).

There is no evidence of cases of discrimination that have led to investigations for measures to be issued under formal procedures or processes, except for two reports of harassment: in one case, a disciplinary measure was issued (suspension from work and pay for 10 days, together with a management measure) whereas the other case, due to a lack of evidence, has been shelved from a disciplinary point of view, although a management measure has prudently been implemented.

Ongoing monitoring has also been conducted on compliance with the rules laid down by the Internal Code of Conduct, through carrying out investigations of potentially abnormal situations.

## AUDIT

The planning of Audits is coordinated by a specific internal structure, which supports the Chief Audit Officer in setting and assigning medium/short term objectives and plans to the Auditing Responsibility Centres, which are internal structures focused on specific sectors (e.g. head office functions, ITC, branch network, product companies, etc.). This activity takes into account the findings from risk analysis, the requests from the Company Management and Control Bodies, and from Top Management, as well as the obligations arising from external regulations and instructions from the Supervisory Authorities. In terms of timing, the planning is divided into:

- Multi-year Strategic Planning: in line with the company's strategic guidelines;
- Annual Operational Planning: annual audit plan, subject to approval by the Bodies;
- Quarterly Operational Planning.

As required by international standards, the Internal Audit function is subject to an external Quality Assurance Review at least every five years; the last assessment was carried out in 2016 and it assigned the function the maximum rating (“Generally Compliant”). At the end of 2018, at the request of the Management Control Committee, a new audit was initiated that will be completed in the first quarter of 2019. In addition, on an annual basis, the Internal quality assurance and improvement plan is prepared, which also includes the Annual Plan submitted for approval to the Corporate Bodies. At the international level, the audits are structured in such a way as to ensure the direct monitoring of Intesa Sanpaolo’s international branches, in addition to guaranteeing supervision of the Head Office Departments and the International Subsidiary Banks. For these banks, the dedicated offices of the Parent Company provide direct auditing, together with governance of the activities carried out by local audit units.

With reference to the audit activities conducted in 2018 in the Head Office Departments, Banks and Companies of the Group, activities regarding 237 Risk Areas identified during the planning stage were completed, making a total of 396 interventions overall, some (114) of which were flagged as of significant importance in relation to Italian Legislative Decree 231/2001. Included in the total are 53 “non-routine” interventions (which have generally been performed as a result of specific requests from Corporate Bodies, Supervisory Authorities or events/circumstances that occur after the annual planning has been completed). In 2018, there were 20 audits regarding actions that directly or indirectly also related to aspects linked to social and environmental policies. The impact of audits that have an effect on the implementation of social and environmental policies should nevertheless be assessed differently depending on the various areas in question: as an example, interventions concerning the disbursement and management of loans may also involve certain aspects related to rules for operations in sectors such as arms and energy policies.

Following on from the Internal Audit Transformation (IAT) project completed at the end of 2017, the new development programme called FAST, or Future Audit Solutions & Transformation, was launched, which is an integral part of the broader Multiannual Audit Plan.

The FAST programme is based on four different lines of action:

- Lean Audit geared to improving reporting, reinforcing coordination and integration with the other Control Functions, therefore streamlining the interaction between interlocutors;
- Audit Integration aimed at extending the Group framework to the audit functions in the Group companies, and at reinforcing internal coordination and alignment with international best practices;
- Tools kit developed to ensure an advanced audit operating model as regards methods, tools and support technologies;
- Our People & Culture aimed at enhancing the resources and expertise within the audit team, and contributing to the development of a corporate Risk Culture.

## WHISTLEBLOWING

Since 2016, a whistleblowing system has been in place, which allows employees to report actions or occurrences that could constitute breaches of the regulations governing banking activities – from which no significant reports have emerged. Whistleblowing, which ensures the confidentiality of the individual making the report (without the risk of retaliatory, unfair or discriminatory behaviour) encourages employees (including suppliers and consultants) to report acts or conduct they become aware of that may constitute a breach of the regulations governing banking activities or related activities that may also be instrumental to a breach. The Chief Audit Officer is responsible for ensuring the correct performance of the process; in 2018 a total of 21 reports were received, of which 4 were not pertinent whereas 17 resulted in the launch of specific investigations.

## DISPUTES AND FINES

As at 31 December 2018, a total of about 18,000 disputes were pending for a total amount of 5,571 million euro. In further detail, the most important of these are:

- bankruptcy revocatory disputes (392 million euro);
- disputes concerning settlements in insolvency proceedings (524 million euro);
- disputes concerning investment services (374 million euro);
- disputes concerning anatocism and other conditions (1,018 million euro);
- disputes concerning banking products (347 million euro);
- disputes concerning credit positions (1,322 million euro);
- disputes concerning lease contracts (180 million euro);
- disputes concerning loan recovery (192 million euro);
- other civil and administrative disputes (917 million euro).

In terms of tax litigation, there were disputes pending amounting to a total of 365 million euro for the Group. With regard to compliance with environmental regulations, for damage caused to the environment as a result of the Bank's operations and in relation to health and safety, over the last three years, no significant reports emerged and no fines were imposed (see page **166**).

With regard to labour litigation, at the end of December 2018 there were no significant disputes from either a qualitative or quantitative standpoint.

For information on the disputes in 2018 and a detailed description of the most significant civil and fiscal lawsuits, please refer to the Consolidated Financial Statements (see page 501 ff.) [\[i\]](#).