1.4. BANKING GROUP – OPERATIONAL RISK

QUALITATIVE INFORMATION

General aspects, operational risk management processes and measurement methods

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual, out-of-contract responsibilities or other disputes; strategic and reputation risks are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.
With regard to Operational Risk, the Group has adopted the Advanced Measurement Approaches (AMA – internal model) to determine the associated capital requirement for regulatory purposes:

– effective from 31 December 2009, for an initial set including the Organisational Units, Banks and Companies of the Banca dei Territori Division (excluding network banks belonging to Cassa di Risparmio di Firenze Group, but including Casse del Centro), Leasint, Eurizon Capital and VUB Banka;
– effective from 31 December 2010, for a second set of companies within the Corporate and Investment Banking Division, in addition to Setefi, the remaining banks of the Cassa di Risparmio di Firenze Group and PBZ Banka;
– effective from 31 December 2011, a third set including Banca Infrastrutture Innovazione e Sviluppo. In December 2012 the full demerger of the Bank was completed in favour of the Parent Company Intesa Sanpaolo S.p.A. and Leasint S.p.A.. The above company has been eliminated from the scope of the Basel 2 roll out plan.

In December 2012, an application was submitted to the Bank of Italy for a fourth scope including several companies of the Banca Fideuram group (Banca Fideuram, Fideuram Investimenti, Fideuram Gestions, Fideuram Asset Management Ireland and Sanpaolo Invest) and two international subsidiaries of VUB Banka (VUB Leasing and Consumer Finance Holding). The remaining companies, currently using the Standardised approach (TSA), will migrate progressively to the Advanced approaches starting from the end of 2013, based on the roll-out plan presented to the Management and Supervisory Authorities.
The control of the Group's operational risks was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
The tasks of the Group Compliance and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual Organisational Units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these business units to be responsible for Operational Risk Management (collection and structured census of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Integrated self-assessment process, conducted on an annual basis, allows the Group to:

– identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
– create significant synergies with the specialised functions of the organizational department that supervises the planning of operational processes and business continuity issues and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests of the effectiveness of controls of company processes.

The Self-assessment process identified a good overall level of control of operational risk and contributed to enhancing the dissemination of a business culture focused on the ongoing control of these risks.
The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand. The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative information (self-assessment).
The quantitative component is based on an analysis of historical data concerning internal events (recorded by organisational units, appropriately verified by the central function and managed by a dedicated IT system) and external events (from the Operational Risk Management eXchange Association).
The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment, to take account of the effectiveness of internal controls in the various organisational units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for the management and/or mitigation of the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was fully implemented for employees actively involved in this process.

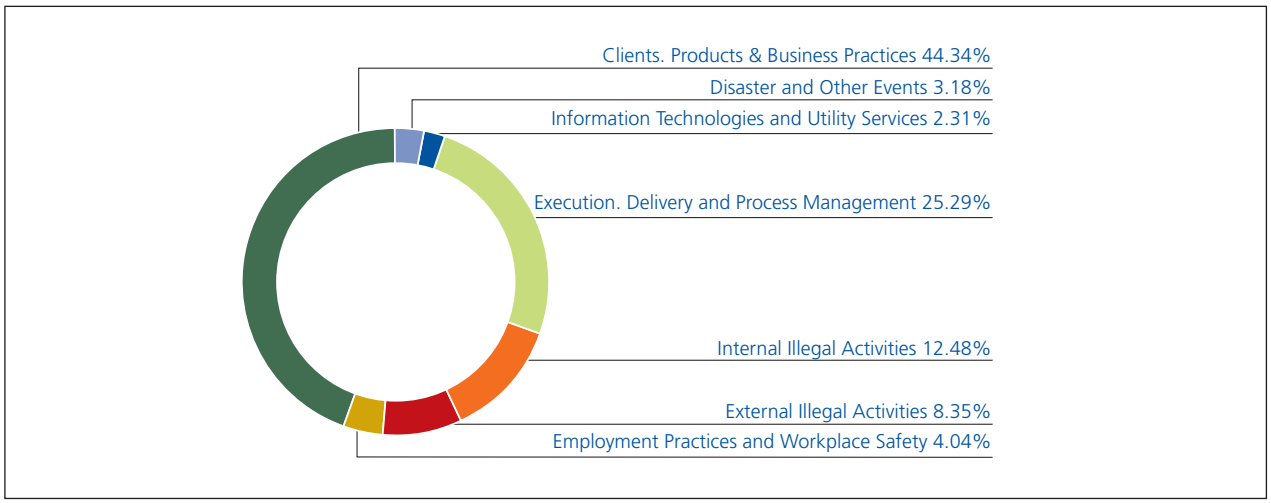
In addition, the Group has activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk, although it does not have an impact in terms of capital requirements. The internal model insurance mitigation component was submitted for regulatory approval through a specific application to the Bank of Italy in December 2012.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group employs a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process – AMA component - amounts to 1,629 million euro (1,573 million as at 31 December 2011).

The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of operational event.

Breakdown of capital requirement (Advanced Measurement Approaches - AMA) by type of operational event



LEGAL RISKS

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions are made to the Allowances for risks and charges when there are legal obligations for which it is probable that funds will be disbursed to meet such obligations and where the amount of the disbursement may be reliably estimated.
Breaking down the various types of lawsuits, there were 1,937 bankruptcy revocatory actions as at 31 December 2012, with total remedy sought of 873 million euro and allowances of 146 million euro; there were 2,467 lawsuits concerning financial services, with remedy sought totalling 588 million euro and allowances of 140 million euro; there were 4,986 lawsuits concerning terms applied to customers, with remedy sought totalling 749 million euro and allowances of 185 million euro; operational errors have resulted in 956 lawsuits, with remedy sought totalling 340 million euro and allowances of 71 million euro; lastly, there were 9,407 labour lawsuits and other lawsuits as at 31 December 2012, with remedy sought totalling 6,820 million euro and allowances of 380 million euro.
The most complex and/or potentially costly legal procedures are described in the paragraphs below.

Dispute relating to anatocism - After March 1999, the Italian Court of Cassation reversed its stance and found the quarterly capitalisation of interim interest payable on current accounts to be unlawful, assuming that the relevant clauses in bank contracts do not integrate the contract with a "regulatory" standard practice, but rather with a "commercial" practice, and therefore, such clauses are not adequate to derogate from the prohibition of anatocism pursuant to Art. 1283 of the Italian Civil Code.
The subsequent Legislative Decree 342 of 1999 confirmed the legitimacy of interim capitalisation of interest on current accounts, as long as interest is calculated with the same frequency on deposits and loans. From April 2000 (the date on which this regulation came into effect), quarterly capitalisation of both interest income and expense was applied to all current accounts.
Therefore the dispute on this issue concerns only those contracts which were stipulated before the indicated date.
In the judgment no. 24418 handed down by its Joint Sections on 2 December 2010, the Court of Cassation ruled that the ten-year statute of limitations applicable to account-holders' entitlement to reimbursement of capitalised interest debited on the current account begins to toll on the date the account is closed, if the account had an overdraft facility and the facility's limit was respected, or on the date on which deposits were made to cover part or all of previous interest debits if the account was drawn beyond such limits or did not have an overdraft facility.
With Law Decree 225 of 29 December 2010, enacted, with amendments, as Law 10/2011, the legislator set forth an official interpretation, establishing that the term of prescription of rights arising from account entries begins to toll on the date of the entry itself and thus, for anatocistic interest, on the date of each individual account debit. The constitutionality of this regulation

was subsequently challenged. The Constitutional Court ruling of 2 April 2012 accepted the exception, repealing the aforementioned provision.
Based on the effective date of the prescription, the legislative principles pronounced by the Joint Sections of the Court of Cassation in 2010 are once again applicable.
These principles have not always been uniformly applied by courts in the first and second instances. However, though with varying effectiveness based on the specific cases, they have contributed to a general decrease in the claims for restitution put forward by account holders.
In addition to this aspect, it must be noted that the overall number of pending cases is at an insignificant level in absolute terms and is the subject of constant monitoring. The risks related to these disputes are covered by specific, adequate provisions to the Allowances for risks and charges.

Litigation regarding investment services - Group policy on management of complaints and lawsuits on financial instruments sold sets out a case-by-case assessment, with particular attention paid to the suitability of the investment with respect to the position of the single investor.
Disputes relating to the Parmalat and Cirio bonds have always remained at modest levels (also as a result of the customer care tools implemented by the Bank in order to reduce the negative impact on customers) and are now coming to an end.
There is a general decrease in disputes concerning Argentina bonds, due to a significant reduction in the number of disputes which have arisen over the last few years.
As in other legal risk assessment procedures, provisions to account for a dispute are authorised on an individual basis after reviewing the specific circumstances that apply to particular cases.
The same criteria are applied to the assessment of risk relating to litigation concerning bonds issued by companies belonging to the Lehman Brothers Group. The related dispute, which is limited in extent, is covered by appropriate allowances that reflect the specific nature of each case. The judgments to this point in relation to Intesa Sanpaolo – with the exception of single isolated precedent subject to appeal – have all been favourable to the Bank.
As part of a system-wide initiative, the Intesa Sanpaolo Group oversaw and secured the establishment of proof of debt in the insolvency procedures pending in various foreign countries for its customers who hold the aforementioned bonds, at no cost to its customers.
Disputes concerning derivatives have remained substantially stable compared to 2011, at insignificant levels. The related risks are constantly monitored and subject to appropriate provisions to Allowances for risks and charges.

Litigation regarding the Cirio Group default - In November 2002, the Cirio Group defaulted on the repayment of a loan issued on the Euromarket. This event led to a cross default on all its existing issues. In April 2007, ten companies of the Cirio Group in Extraordinary Administration notified Intesa Sanpaolo and Banca Caboto, as well as five other banks, considered to be severally liable, of the filing of a claim for the reimbursement of alleged damages deriving from:

– the worsening of the default of the Cirio Group, from the end of 1999 to 2003, favoured also by the issue in the 2000-2002 period of 6 bond issues; the damages thereof are quantified – adopting three different criteria – with the main criteria in 2,082 million euro and, with the control criteria, in 1,055 million euro or 421 million euro;
– the impossibility by the Extraordinary Administration procedures of undertaking bankruptcy repeal, for undetermined amounts, in the event that the default of Cirio Group companies was not postponed in time;
– the payment of fees of 9.8 million euro for the placement of the various bond issues.

In a judgment filed on 3 November 2009, the Court of Rome found the Cirio Group's claims to be unfounded on the merits and therefore rejected said claims on the grounds of a lack of a causal relationship between the actions of the banks named defendants in the suit and the claimed damage event.
The claimants appealed this judgment, proposing in that venue a stay of enforcement of the judgment to pay legal fees, firstly, and said petition was accepted by the Rome Court of Appeals. The lawsuit has been postponed to 27 January 2016 for an evidentiary hearing.

Litigation regarding tax-collection companies sold - As part of the government's re-internalisation of tax collection operations, Intesa Sanpaolo sold to Equitalia S.p.A. (a company owned by Agenzia delle Entrate - Italian Revenue Agency - and INPS) the entire share capital of Gest Line and ETR/ESATRI, companies which managed tax-collection activities in the respective areas of the former Sanpaolo Imi Group (Gest Line) and the former Intesa Group (ETR/ESATRI), undertaking to indemnify the buyer against any out-of-period expenses associated with the collection activity carried out up to the moment of sale of the investment. The most significant portion of those out-of-period expenses consist in costs incurred for operations referring to events occurring prior to the sale, such as charges resulting from negative outcomes of litigation with taxpayers and tax authorities or labour law disputes, tax collection expenses not recovered due to events attributable to the former concessionaires (mainly expenses for unsuccessful administrative detentions). The above commitments were triggered not only by contractual guarantees, but also by a statute, which entered into force in 2005, that directly transfers to the seller any payment obligation concerning tax collection activities conducted by the company sold prior to the sale thereof.
In particular, the litigation with tax authorities, almost completely referring to Gest Line, originates from the rejection, in administrative and then judicial court, of the applications for discharge and reimbursement of the assessed taxes not collected. The grounds provided for the rejection were irregularities charged to the concessionaire in conducting the tax collection activities.
In a few cases, litigation regarding tax collection activities gave rise to rulings of lost tax revenue, promoted by the public prosecutors in the regional sections of the Court of Auditors with local jurisdiction. With regard to that complex litigation, although Gest Line and ETR/ESATRI availed themselves of the option afforded by Law 311/2004 to remedy irregularities deriving from the performance of collection activity by paying an amount determined according to the parameter of three euro per inhabitant served, some Regional Sections of the Court of Auditors, which were hearing the cases in question (for events taking place in the early 1990's) and later the Central Sections on appeal, have found that the amnesty statute does not apply to the circumstances at issue in the case. Finally, Law Decree 40 of 25 March 2010 allowed parties that have sold their interests in collection agencies to settle on advantageous terms all proceedings pending at 26 May 2010 in connection with collection activity conducted through 30 June 1999 by paying 10.91% of the amounts at issue.
On 29 October 2010, the Bank opted to reach such an advantageous settlement, paying the indicated percentage of 10.91% by

the stated terms. Following this, most of the pending proceedings have been declared discontinued, and the Bank is awaiting the announcement of discontinuation of the remaining proceedings affected by the regulation in question.
Intesa Sanpaolo (formerly Banca OPI, then Banca Infrastrutture Innovazione e Sviluppo) and Municipality of Taranto litigation - Banca Infrastrutture Innovazione e Sviluppo (BIIS), as the successor to Banca OPI, was involved in a case pending before the Court of Taranto brought by the Municipality of Taranto in relation to the subscription in 2004 by Banca OPI of a 250 million euro bond issued by the Municipality.
In its judgement of 27 April 2009, the Court declared the invalidity of the operation, ordering the Bank to reimburse, with interest, the partial repayments of the loan made by the Municipality of Taranto. The latter was ordered to reimburse, with interest, the loan granted. The Court also ordered compensation for damages in favour of the Municipality, to be calculated by separate proceedings. The Municipality and the Bank jointly agreed not to enforce the judgement.
On 20 April 2012 the Court of Appeal, without prejudice to the findings of the separate proceedings regarding the alleged damages, partially reformulated the first instance ruling by ordering that:

– BIIS reimburse the sums paid by the Municipality of Taranto, plus legal interest;
– the Municipality of Taranto reimburse BIIS for the sums disbursed in execution of the bond loan, less amounts already paid, plus legal interest and currency appreciation;
– BIIS reimburse the Municipality for first instance legal costs, compensated against those for the appeal.

Intesa Sanpaolo, which succeeded BIIS in the proceedings following the well-known corporate operations, shall file an appeal against this judgement before the Court of Cassation.
In the meantime, the insolvency procedure entity for the Municipality of Taranto informed BIIS that the Municipality's debt to the Bank for the repayment of the 250 million euro bond had been added to "the insolvency procedures' list of debts". The Bank nonetheless appealed the judgment before the Regional Administrative Court of Puglia, which found the appeal inadmissible, ruling that the dispute fell within the jurisdiction of the civil courts and – albeit on an incidental basis – the appealed judgment was devoid of dispositional content and was thus incapable of undermining the Banks' credit claims.
The Bank and the Municipality have met repeatedly to assess the possibility of an amicable settlement to the pending litigation, however, such settlement could not be reached due to the intervention of the insolvency procedure entity, which claimed its own jurisdiction over managing the debt in question. In order to ascertain the illegitimacy of including the Bank's receivable in the insolvency procedures' list of debts and the lack of jurisdiction of the Extraordinary Liquidator, BIIS thus filed an extraordinary appeal to the President of the Republic, which is still pending.
The Bank has also initiated additional civil proceedings before the Court of Rome, for a ruling on its lack of liability for damages to the Municipality of Taranto.
These events are also connected to criminal proceedings before the Court of Taranto, against several Executives of Banca OPI and Sanpaolo IMI, among others, in which the preliminary hearing judge has ruled that the Municipality of Taranto may file an appearance as civil claimant in the criminal proceedings. The defendants are charged with indirect abuse of office, a crime which is not significant for the purposes of Legislative Decree 231/2001. In these proceedings BIIS (now Intesa Sanpaolo) has been charged with civil liability. In the unimaginable case that the Bank is sentenced to pay some type of compensation, the amount should be extremely low, given that, in the opinion of our legal counsel, the Municipality did not suffer any damages.

Intesa Sanpaolo (formerly Banca OPI, then Banca Infrastrutture Innovazione e Sviluppo) and Piemonte Regional Government litigation – In 2006 the Piemonte Regional Government issued two bond loans for a total of 1,856 million euro, of which 430 million euro subscribed by the former Banca OPI (the remainder subscribed by two leading international financial institutions). Under the terms of these issues, the Regional Government finalised two derivative financial instrument transactions subscribed by the former Banca OPI for a notional amount of 628 million euro, together with the other two lending banks.
At the beginning of 2011 the Regional Government launched verification and comparison proceedings with the banks concerned to assess the financial and legal profiles of the swap transactions. Despite the clarifications provided concerning the technical and regulatory appropriateness of the contracts, the Regional Government subsequently launched self-protection proceedings for revocation of all the administrative documents underlying the derivative contracts (finalised between the Regional Government and the banks), which ended in January 2012 with the cancellation thereof.
The banks appealed against said measure before the Piemonte Regional Administrative Court which, with judgement of 21 December 2012, ruled that it did not have jurisdiction to decide on the matter, recognising the jurisdiction, provided by the contract, of the UK civil courts and thus, in substance, denying the effectiveness of the self-protection measure.
Back in August 2011, the banks petitioned the High Court of Justice of England and Wales to ascertain the validity and correctness of the contracts entered into with the Regional Authorities. The UK Court, which had jurisdiction over the matter, accepted the requests in July 2012.
The most suitable measures to take will be assessed in relation to further developments, considering that to date the Regional Government has not complied with the netting payment of the swap contracts since May 2012, despite the fact that BIIS repeatedly demanded such payments.

Codacons class action - On 5 January 2010, Codacons, acting on behalf of a single account holder, served Intesa Sanpaolo with a writ of summons for a class-action suit pursuant to art. 140-*bis* of Legislative Decree 206/2005 (Consumer Code).
The suit, brought before the Court of Turin, sought a finding that the new fee structure introduced by the Bank to replace the overdraft charges is unlawful and, accordingly, a sentence ordering the Bank to provide compensation for the alleged damages, which may also be determined on an equitable basis, suffered by the claimant (who has quantified them at 1,250 euro) and all other customers in the same class who elected to participate in the initiative.
On 4 June 2010, the Court of Turin filed an order stating the inadmissibility of such class action. The order was appealed before the Turin Court of Appeal, which in an order filed on 25 October 2010 rejected the appeal. Lastly, Codacons challenged this last decision by appeal brought before the Court of Cassation, which by judgement no. 9772 filed on 14 June 2012 rejected the appeal as inadmissible.

Altroconsumo class action - In 2010, the association Altroconsumo, acting on behalf of three account holders, served Intesa Sanpaolo with a writ of summons for a class-action suit pursuant to art. 140-*bis* of Legislative Decree 206/2005 (Consumer Code).

The suit originally sought a finding that application of overdraft charges and the new fee for overdrawing accounts without credit facilities in place is unlawful. It also sought an inquiry into whether the "threshold rate" set out in Law 108/96 (usury) has been exceeded and a sentence enjoining the restitution of any amounts collected by the Bank in excess of that threshold. The claim had been quantified at a total of 456 euro in connection with the three accounts cited in the suit.
By order of 28 April 2010, the Court of Turin declared the suit inadmissible.
Following the complaint filed by the plaintiffs, the Turin Court of Appeal, by order of 16 September 2011, overturned the previous order, declaring the suit admissible as limited solely to account overdraft charges applied effective from 16 August 2009. The Bank appealed against this ruling before the Court of Cassation, which is expected to pronounce upon the underlying reasons for the appeal.
In parallel, the class action was re-opened before the Court which by order filed on 15 June 2012 established the advertising terms and methods for the joinder of class action participants, setting the date of the hearing for continuation of the proceedings as 14 March 2013.
As at 28 January 2013, the deadline for submission of applications for joinder, there were only 102 participants. Given the low number of participants and resulting low financial amounts, the potential risk linked to the class action may be deemed immaterial.
With respect to the merits of the dispute – which will be examined only after the aforementioned hearing – it is believed that the Bank has valid arguments in support of the legitimacy of the account overdraft charge.

Angelo Rizzoli lawsuit - In September 2009, Angelo Rizzoli filed suit against Intesa Sanpaolo (as the successor of the former Banco Ambrosiano) and four other parties seeking a finding of nullity for the transactions undertaken between 1977 and 1984 alleged to have resulted in a detrimental loss of the control that he would have exercised over Rizzoli Editore S.p.A. and claiming compensation in an amount ranging from 650 to 724 million euro according to entirely subjective damage quantification criteria.
Rizzoli's claims, in addition to being without foundation on the merits due to the lack of a breach of the provision that prohibits preferential collateral rights argued to have occurred in the transactions whereby Rizzoli Editore S.p.A. was transferred, are also inadmissible at a preliminary procedural level, as held by the Bank in its motion of appearance, on the grounds that the Milan Court of Appeal had already decided the matter in its judgment of 1996, which has become res judicata, as well as that Rizzoli lacked an interest to sue due to prescription of claims for compensation or restitution and usucaption by third parties.
In a judgment filed on 11 January 2012, the Court of Milan granted the preliminary objections of prescription and change into res judicata of the subject of the dispute and rejected the claims brought by Angelo Rizzoli, sentencing him to compensate Intesa Sanpaolo for expenses and frivolous litigation.
In February 2012 the plaintiff filed an appeal and, in relation to his request for suspension of the enforceability of the first instance ruling, the Court of Appeal granted the suspension of solely the frivolous litigation conviction. The lawsuit has been postponed to 21 October 2014 for an evidentiary hearing.

Allegra Finanz AG litigation – On 31 January 2011, Allegra Finanz AG and other international institutional investors sued Intesa Sanpaolo and Eurizon Capital SGR, along with six other major international financial institutions, before the Court of Milan. The claimants are seeking compensation of approximately 129 million euro due to the losses they sustained as a result of various investments in bonds and shares issued by Parmalat Group companies.
According to the claimants, those investments were allegedly undertaken under the assumption that the issuers were solvent, an assumption deliberately fabricated by the banks named as defendants in the suit, which are alleged to have acted in various capacities and ways to permit the Parmalat Group to survive, despite an awareness of its state of insolvency.
Intesa Sanpaolo's involvement is claimed to derive from a private placement of 300 million euro by Parmalat Finance Corporation BV, fully underwritten by Morgan Stanley and placed with Nextra in June 2003, a transaction that subsequently gave rise to disputes with the Administration procedure to which the Parmalat Group companies were subject and a settlement between the Administration procedure and Intesa Sanpaolo (which succeeded Nextra due to the subsequent corporate events affecting the latter).
Intesa Sanpaolo raised a number of objections at a preliminary level and on the merits (including the lack of a causal relationship between the actions attributed to Nextra and the loss claimed by the claimants, considering their capacity as professional operators and the speculative nature of the investments undertaken).
After ruling on the various preliminary issues raised by the defendants (also declaring the proceedings against Eurizon Capital SGR to be dismissed), the judge initiated the preliminary investigation phase.
The claimants' claims are believed to be without foundation.
With order of 30 January 2013, the judge rejected all the claimants' preliminary motions and postponed the proceedings to 16 September 2014 for an evidentiary hearing.

Relations with the Giacomini Group – Starting from May 2012, certain media outlets published news of criminal investigations of members of the Giacomini family (which controls the industrial group of the same name) and other individuals in connection with possible illegal exportation of capital and other related offences.
In further detail, it was brought to light that the Public Prosecutor's Offices of Verbania and Novara have initiated investigations of possible tax offences committed by the Giacomini family and their advisors, and the Public Prosecutor's Office of Milan is investigating possible complicity in money-laundering by certain of the Giacominis' financial advisors and the CEO of the Luxembourg subsidiary, Société Européenne de Banque (SEB), as well as the latter company itself pursuant to Legislative Decree no. 231/2001.
In regard to this matter, the Bank has conducted internal inspection reviews to reconstruct the facts, including in reference to a loan disbursed by SEB in December 2008 in the amount of 129 million euro to Alberto Giacomini's family in the context of a family buy-out transaction. No significant irregularities have emerged so far in relation to this.
To date, the records of the investigating authorities of which Group companies have been made aware do not permit an evaluation of the existence of liability, and thus of risks and charges.

Situation relating to the acquisition of Bank of Alexandria - In 2006 Sanpaolo IMI acquired from the Egyptian government an 80% investment in Bank of Alexandria, as part of the government privatisation programme launched in the 1990's. In 2011, two

proceedings were initiated before the Administrative Court of Cairo, by two private entities against several members of the previous government, aimed at the cancellation of the administrative measure for privatisation and the resulting deed of purchase and sale, based on alleged irregularities in the administrative process and the alleged unfairness of the share transfer price.
Bank of Alexandria has intervened in both proceedings to fight the lawsuits, claiming the lack of jurisdiction of the administrative judge in the pre-trial proceedings and the groundlessness of the opponents' claims on the merits. Concerning the latter aspect, it has been inferred, with the support of suitable documentation, that the privatisation procedure was conducted correctly and - contrary to the opponents' allegations - in the form of public auction, with the participation of numerous international banks, as a result of which Intesa Sanpaolo was judged as the best bidder. The two proceedings, which are going forward at the same time and have been subject to numerous postponements and slowdowns, are currently in the preliminary investigation phase.
As things stand, and in consideration of the current phase of the proceedings, there are no critical issues in view with regard to the problems which are the focus of the disputes.
The lawsuits are constantly monitored by the Parent Company, also in terms of possible developments of the reference scenario.

Judicial and administrative proceedings involving the New York branch - The criminal investigation instigated by the New York District Attorney's Office and the Department of Justice aimed at verifying the methods used for clearing through the United States of payments in dollars to/from countries embargoed by the US government in the years from 2001 to 2008, an update on which has been provided each year in the Notes to the consolidated financial statements, was concluded in the Bank's favour in 2012.
Last April, our US attorneys notified the Bank that the Department of Justice had dropped the proceedings, having found no sufficient evidence to justify the infliction of any criminal sanctions. Subsequently, for the same reasons, the New York District Attorney's Office also decided to close the investigation.
As regards the transactions in question (the handling of bank transfers in dollars through the SWIFT interbank payments service, cleared through US banks), the Bank remains subject to assessments still in progress by the OFAC (Office of Foreign Assets Control), the authority of the United States Department of the Treasury responsible for foreign exchange control, which could impose a relatively small fine, which is already covered by suitable provisions.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2012. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION

Overall tax litigation risks of the Group are covered by adequate provisions to allowances for risks and charges.
The Parent Company is a party to 174 litigation proceedings, in which a total of 790 million euro are at issue, including disputes in both administrative and judicial venues at various instances. The actual risks associated with these proceedings were quantified at 60 million euro at 31 December 2012.
The Group's other Italian companies within the scope of consolidation are parties to tax litigation proceedings in which a total of 378 million euro is at stake at that date, reflected by specific allowances of 36 million euro.
Pending international charges, totalling 4 million euro, are not material in amount when compared to the size of the company involved and the Group. Specific provisions of adequate amount have been recognised to account for the risks associated with such charges.

In general, the checks conducted by the financial authorities in 2012 related to issues previously raised against other Italian banks, i.e. to charges which have now become ordinary in certain operating segments and, lastly, to the continuation of investigations launched in previous years concerning other tax years.
For the year 2007, Agenzia delle Entrate (Italian Revenue Agency) – Direzione Regionale del Piemonte served a notice of assessment to Intesa Sanpaolo in December 2012, relating to a series of transactions implemented for the purpose of capital strengthening by issuing preference shares through international subsidiaries (in the form of LLC) domiciled in Delaware (USA). Agenzia delle Entrate alleges that the subordinated deposits in place between the international subsidiaries and the Parent Company can be reclassified as loans, subject to 12.50% final withholding tax pursuant to the last paragraph of art. 26 of Italian Presidential Decree no. 600/1973. The claim related to this case amounts to 23 million euro in unpaid withholding taxes, in addition to 34 million euro in penalties and 4 million euro in interest. The claim of the financial authorities should be deemed unfounded.

With regard to the other Group companies, the following disputes arose in 2012:
- in the last quarter of 2012, two new Leasint tax audits, which objected to specific transactions previously censured at the related counterparties (reports of findings) were closed, and seven deeds of assessment deriving from said tax audits were notified. The subject of the disputes, common to the above cases, can substantially be attributed to issues concerning subjectively and/or objectively inexistent transactions, so-called nautical lease and the reclassification of contracts as loans, based on a different reading of the contractual clauses agreed and the re-weighting of the market values of leased assets. These disputes amount to a total of 77 million euro in greater taxes, penalties and interest;
- at the end of December 2012, the general tax audit of Intesa Sanpaolo Group Service for 2009 was closed, with the prospective of recovery of higher taxes, amounting to 11 million euro, plus penalties and interest, mainly based on breaches of the accruals principle, in relation to the division over time of several costs connected to contributions by the Parent Company to said subsidiary and pertinence, regarding assets included in the business lines contributed to it.

In terms of the main outcomes of proceedings during the reporting period, the following is worth mentioning:
- for the Parent Company:
  (i) the favourable ruling received on the appeal on the matter of stamp duty in relation to the compulsory accounting figures for the years 2005 and 2006, which recognised the legitimacy of the preparation of a hard copy of the journal

ledger for the daily totals of individual general ledger accounts and considered the computerised records to be absolutely irrelevant;

(ii) the favourable ruling received on the appeal on the matter of recognition of the tax relevance of loans deriving from repurchase agreements to the effect of calculation of the ceiling of deductibility of the write-down of loans in relation to 2003 and 2004;

(iii) the first instance rulings, all positive, issued in relation to the reclassifications by Agenzia delle Entrate of various contributions of branches and business lines and the subsequent sale of shares as a single case which gradually took shape, equivalent to the transfer of a business line;

(iv) the negative first instance ruling (against both the Parent Company and Mediocredito Italiano) regarding the IRES tax recovery claimed by Agenzia delle Entrate in relation to the sale without recourse of loans to the company Castello Finance in 2005. An appeal was naturally filed against this ruling;

– for Intesa Sanpaolo Private Banking, the negative first instance ruling regarding the tax assessment of year 2005, which reclassified the costs incurred as remuneration for the provision of presentation services to customers as goodwill, based on the assumption that this is equivalent to a case of transfer of a business line;
– for Banca IMI, the negative ruling on appeal of the tax assessment for year 2003 concerning both the presumed loan on the quota of dividends distributed by an international subsidiary and not collected and the withholding tax obligation on the manufactured dividend paid to foreign banking counterparties.

Through recourse to dispute settlement mechanisms, in November 2012 the Parent Company settled the dispute concerning "misuse of a right" involving structured finance transactions conducted in 2006 and 2007, with content fully equivalent to those conducted in 2005, which were equally settled in December 2011. Also in relation to this position, the decision to settle the litigation was taken, though fully convinced of the groundlessness of the claims, in consideration of the inappropriateness of nurturing litigations that are time-consuming and costly, with a sharp degree of randomness in the specific matter. In the case in point, the tax claim, amounting to 385 million euro (for taxes, withholding taxes and penalties) was settled with a payment of 44 million euro (plus interest).

* * *

Out of the total cases of tax litigation pending as at 31 December 2012, at Group level 188 million euro is posted to the balance sheet among assets, 163 million euro of which refers to the Parent Company, representing the total amount paid by way of provisional tax collection.

For said cases of litigation, provisions for risks and charges amount to 41 million euro at Group level, of which 26 million euro for the Parent Company.

In this regard, it is important to note that the provisional payments were made in compliance with specific legal provisions, which mandate such payments based on an automatic mechanism completely unrelated to whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely based on the administrative deeds that set forth the related tax claim, which does not lose its effectiveness even when appealed, has no suspensive effect and does not add to the assessments of the actual risk of a negative outcome, which must be measured using the criteria set forth in IAS 37 for liabilities.