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 governance 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 Approach (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.;
- effective from 30 June 2013, 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 Measurement approaches starting from the end of 2014, 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 (structured collection 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 Human Resources Department and the Personnel and Organisation Department that supervise the planning of operational processes and business continuity issues and with control functions (Compliance, Administrative and Financial Governance 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 risks and contributed to enhancing the diffusion 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 severe 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 organizational 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 governance process on a continuous basis, a structured training programme was fully implemented for employees actively involved in this process.

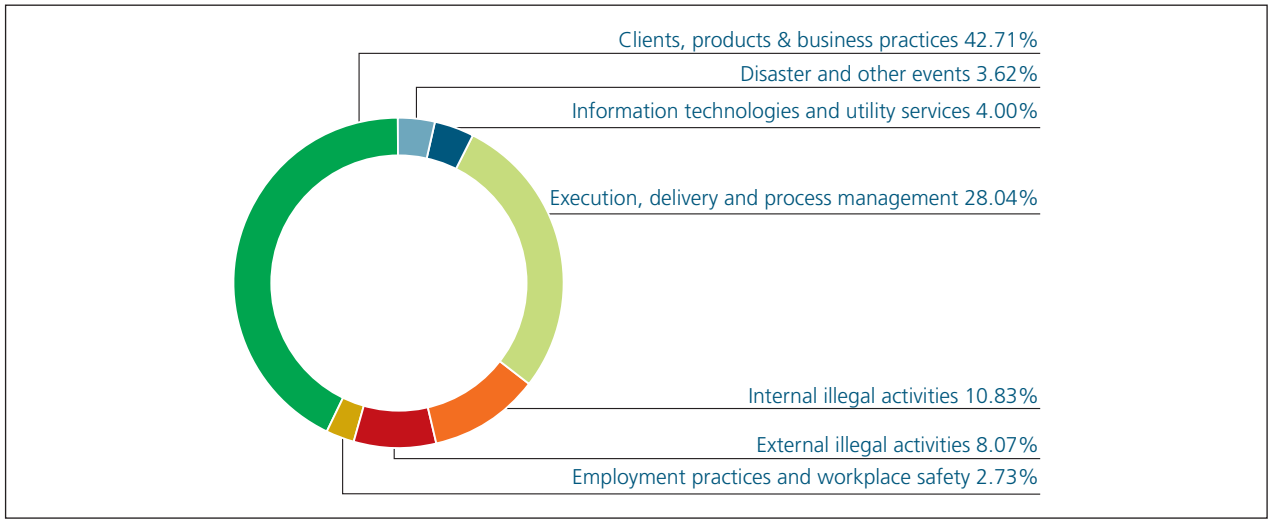
In addition the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and theft damage, cash and valuables in transit losses, computer fraud, forgery, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an innovative insurance coverage policy known as Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market. The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

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 amounts to 1,819 million euro (2,059 million as at 31 December 2012).

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 Approach - 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.
As at 31 December 2013 a total of 19,104 disputes were pending, with total remedy sought of 10,312 million euro and allowances of 888 million euro. Among the main types of lawsuits, bankruptcy revocatory actions had remedy sought of 890 million euro and allowances of 129 million euro; lawsuits concerning financial services had remedy sought of 509 million euro and allowances of 140 million euro; lawsuits concerning terms applied to customers had remedy sought of 824 million euro and allowances of 167 million euro; lawsuits for operational errors had remedy sought of 382 million euro and allowances of 83 million euro and labour lawsuits had remedy sought of 196 million euro and allowances of 114 million euro.
The most complex and/or potentially costly legal procedures are described in the paragraphs below.

Dispute relating to anatocism - In 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.
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 contribute to a general decrease in the claims for restitution put forward by account

holders, especially when the claims relate to transactions far back in time.
In addition to this aspect, it must be noted that, though the overall number of pending lawsuits increased slightly due to the current economic situation, it remains 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.

Dispute relating to investment services - Disputes relating to investment services show a diversified trend based on the type of financial instrument concerned by the dispute.
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 can be considered as 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.
The litigation concerning bonds issued by companies belonging to the Lehman Brothers Group increased slightly compared to previous years from a developmental standpoint, but remained at insignificant levels in absolute terms. The judgments to this point in relation to Intesa Sanpaolo – with the exception of a single isolated previous case 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.
Though disputes concerning derivative products increased compared to previous years, they remain at insignificant levels (both in number and value).
All risks related to this category of disputes are constantly monitored and covered by accurate allowances that reflect the specific characteristics of the individual cases.

Disputes 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 against 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.

Disputes 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 October 2012 a board of experts was set up for dialogue with Equitalia, concerning both the grounds for and the amount of the requests for compensation submitted pertaining to said guarantee. This board of experts is also examining the asset items the Seller may use for offsetting (ex. the remaining allowances for risks on the sale balance sheet which have not been used, deferred amounts in the accounts, default interest collected by Equitalia but pertaining to the Seller, as it accrued prior to the sale).
Specifically regarding the litigation, as things stand, two main disputes should be noted. The first constitutes the interpretation ruling with the Municipality of Bologna to determine the calculation criteria for currency appreciation which are not clearly indicated in the judgment issued by the Emilia Romagna Regional Section of the Court of Auditors, sentencing the Bank to pay the Municipality of Bologna 4 million euro in principal in the proceedings for lost tax revenue promoted in June 2010 (for alleged irregularities which allegedly gave rise to the unenforceability of the receivables being collected). Intesa Sanpaolo paid this amount on 13 March 2012. The interpretation ruling relating to the quantification of the currency appreciation recently concluded with the judgment of the First Central Section of the Court of Auditors, filed on 11 December 2013, which rejected the Bank's defence. Thus, it is expected that the Municipality of Bologna will enforce said decision for an amount of around 2.5 million euro, which is fully covered by the overall allowances for former Gest Line risks.
The second ruling was promoted before the Campania Regional Section of the Court of Auditors by the bankruptcy proceedings of SERIT S.p.A., which was already the collection agent for section "B" of the Province of Caserta. The bankruptcy appellant is claiming that the defendants (in addition to our Bank, Ministry for Economy and Finance and the Italian Revenue Agency) are liable for breach of contract with the resulting request for compensation for the damages suffered, as a result of the failure to refund the taxes paid in advance by SERIT under the "contingent payment obligation" system (note that in 1994 SERIT'S concession was revoked and then assigned to Banco Napoli as Government Commission Agent). The claim for damages is

quantified as 129 million euro, unless more accurately specified through an expert's report to be drawn up during the proceedings.
The Bank's defence is founded on valid defense arguments which lead us to consider the dispute as free from risks.

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, filed an appeal against this judgement before the Court of Cassation. The date of the hearing has not been set.
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.
By way of non-final ruling, the Court of Rome rejected the claims of lack of interest to sue, demurrer and estoppel, and ordered the continuation of the proceedings for the purpose of drawing up a court-appointed expert's report, not only on amount but also on the cause of the alleged damages. Moreover, the court-appointed expert's report must be limited to the documents already filed in the records, as all the preclusions pertaining to the preliminary investigation have been applied, and should be confirmed by the Bank's stance that the Municipality of Taranto suffered no damages as a result of the loan from BIIS.
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, which are currently in the main hearings phase, BIIS (now Intesa Sanpaolo) has been charged with civil liability for an amount of no less than 1 billion euro. In the opinion of our legal counsel, in the unlikely case that the Bank is sentenced to pay some type of compensation, the amount should be extremely low, given that 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 other financial institutions, as well as the former Banca OPI. Under the terms of these issues, the Regional Government finalised two derivative financial instrument transactions, also subscribed by the former Banca OPI for a total notional amount of 628 million euro.
Following discussion with the Banks to assess the financial and legal profiles of the swap transactions, in January 2012 the Regional Government launched self-protection proceedings for the revocation of the administrative deeds relating to the derivative contracts.
In this regard, with judgment of 21 December 2012, the Piemonte Regional Administrative Court announced to the Banks that it did not have jurisdiction to decide on the matter, recognising the jurisdiction, provided by the contract, of the UK civil courts. The Regional Government appealed this judgment before the Council of State.
In August 2011 the Banks also petitioned the High Court of Justice of England and Wales to ascertain the validity and correctness of the contracts entered into with the Regional Government, obtaining a favourable ruling in July 2012, which was then appealed by the Regional Government.
Subsequently, the Banks petitioned the High Court of Justice of England and Wales to order the Piemonte Regional Government to settle the netting payments of the swap contracts maturing from May 2012, obtaining a favourable ruling in July 2013, which was also appealed by the Regional Government.
In December 2013 our Bank and the Piemonte Regional Government reached a settlement agreement for all pending litigation, with each party bearing their respective legal costs. Also taking account of opportunities in terms of mutual relations, this agreement envisaged the full payment of said past due netting by the Regional Government as well as the partial payment by the Regional Government of overdue interest accrued and the application by the Bank of returns on deposits favourable to the Regional Government from hereon.

Altroconsumo class action - In 2010, the association Altroconsumo, acting on behalf of three account holders, served Intesa Sanpaolo with 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 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 104 participants. Given the insignificant number of participants, the potential risk linked to the class action may be deemed substantially eliminated.
With respect to the merits of the dispute the Bank has developed valid arguments in support of the legitimacy of the account overdraft charge, which result in the reasonable belief in a positive outcome of the dispute, for which a ruling is expected in 2014.

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.

Dispute 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 - During 2012 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, was concluded in the Bank's favour in 2012.
As regards the transactions (the handling of bank transfers in dollars through the SWIFT interbank payments service, cleared through US banks), the Bank was also subject to assessments by the OFAC (Office of Foreign Assets Control), the authority of the United States Department of the Treasury responsible for foreign exchange control. As a result of these assessments, the Bank agreed to pay a fine of 2.9 million euro due to the acknowledgement of the commission of a small number of administrative errors during the period 2004-2007.
The transactions in question remain subject to the scrutiny of the FED and the New York State Department for Financial Services. The related proceedings are still pending and, at present, it is not possible to forecast its outcome or assess the risk of penalties.

Alberto Tambelli Lawsuit - In January 2013 – before the Milan Court of Appeal – Alberto Tambelli summarised a judgment of the Court of Cassation, claiming compensation for damages in terms of lost earnings for a total of approximately 110 million euro. The proceedings originate from futures transactions performed in 1994 with the Milan branch of the former Banca Popolare dell'Adriatico (now Banca dell'Adriatico) resulting in a capital loss for Mr. Tambelli. On termination of both levels of proceedings brought against the Bank, Mr. Tambelli obtained reimbursement of the damages suffered but both the Ordinary Court and the Milan Court of Appeal denied compensation for other damages associated with loss of earnings which, in Mr. Tambelli's opinion, could have been achieved in the period in which he was deprived of availability of the sums lost in the aforementioned financial transactions. The Court of Appeal judgment was challenged by both parties before the Court of Cassation, which by decision dated 1 October 2012 rejected the Bank's appeal, thereby finalising the order to compensate damages resulting from the loss of capital invested (which had in any event already been paid to Mr. Tambelli in 2004) and, vice versa, accepted Mr. Tambelli's claim, considering that – unlike the decision of the Milan Court of Appeal – the further claims for compensation for loss of earnings were not time-barred and their merits could therefore be assessed in new proceedings before a different bench by the Milan court.
As a result of the corporate affairs affecting Banca Popolare dell'Adriatico, the new proceedings were brought against Intesa Sanpaolo, as universal successor to Banca dell'Adriatico, and also against the latter as specific successor of the former bank.
At the hearing of 23 April 2013, the judge, without considering Mr. Tambelli's preliminary claims, ordered the case to be decided by the Bench and set the date for the evidentiary hearing as 9 February 2016.
As the lawsuit is deemed lacking in grounds no provisions have been made.

Interporto Sud Europa (ISE) lawsuit against Banco di Napoli - With write of summons served on 28 December 2013, Interporto Sud Europa (ISE) summoned Banco di Napoli and another bank before the Court of Santa Maria Capua Vetere, calling for them to be jointly ordered to compensate for damages – quantified at 186 million euro - which the plaintiff company allegedly suffered due to the failure to disburse the second tranche of a mortgage loan granted by the two banks to Comes S.r.l. on a 50-50 basis (total of 70 million euro) for the purchase of a shopping centre being built by ISE.
Said company specifically claims that it decided to assume the debt arising from the disbursement of the first tranche (amounting to 35 million euro) of said loan on the condition that the two Banks would regularly disburse the second tranche of the same amount. However, this did not occur, and a subsequent loan of 35 million euro directly applied for by ISE S.p.A. (in exchange for reduction of the original loan from 70 million euro to 35 million euro) was also denied.
This situation allegedly resulted in a serious lack of liquidity for ISE, which, among other effects, allegedly prevented it from selling said shopping centre to third parties at a price of 254 million euro.
Internal assessments are currently underway concerning the implications in terms of risk.

POTROŠAČ litigation against PBZ relating to loans denominated in CHF. In the context of historically low interest rates on assets denominated in Swiss francs (CHF), starting from 2004, numerous Croatian banks have disbursed retail loans in Swiss francs. This practice was immediately appreciated by customers. Therefore, in order to avoid erosion of market share, PBZ also began to offer similar products in February 2005.
Though it was following market trends, PBZ implemented procedures significantly different than those of other banks. In particular, in informing its customers of exchange rate risk, PBZ included specific clauses in its loan contracts which notified customers of the possibility that the amount of their instalments could change due to the volatility of exchange rates.
In February 2008 PBZ was the first bank to cease offering this product. Furthermore, given that the majority of the loans disbursed were long-term residential mortgages (average original maturity between 20 and 25 years), a significant portion of that portfolio is still included in PBZ's financial statements.
In addition to foreign currency, a fundamental characteristic of this loan portfolio is the presence of so-called "administered interest rate", which means that interest rates could be changed at the discretion of the Bank, without a clearly identified underlying index. This type of interest rate was the most common type in the Croation banking sector along with fixed interest

rates. Only with the introduction of the new law on consumer credit administered interest rates were banned for all new loans starting from January 2013. PLZ correctly complied with these law provisions by introducing index-linked interest rates.
As at 31 December 2013, PBZ's retail loans amounted to 24,478 million Kuna (around 3,210 million euro), of which 15%, equal to 3,567 million Kuna (around 468 million euro) is denominated in CHF. The majority of the total exposure in CHF is comprised of home mortgage loans.
Despite the fact that our bank has taken a pro-active approach with its customers, repeatedly offering the option of renegotiating loans in Swiss francs and transforming them into Euro or Kuna (obtaining little response from customers), with write of summons served on 23 April 2012 PBZ was sued by a consumers association (Potrošač), along with other 7 leading Croatian banks (subsidiaries of non-Croatian groups). Extremely in brief, the association called for the banks to be sentenced for:
- not having appropriately informed customers of the risks of an exposure in a foreign currency such as the Swiss franc;
- not having clearly set out in the contracts the rules for determining the interest rate, which the bank could unilaterally change.

On 4 July 2013, in the first instance, the Commercial Court of Zagreb substantially accepted the requests of the consumers association, ordering the banks to transform their receivables into Kuna at the exchange rate at the disbursement date and to a fixed interest rate equal to the interest rate applicable to loan contracts on the date of their subscription.
On 11 July 2013 PBZ submitted an appeal to the High Commercial Court of the Republic of Croatia. The Court may change or confirm the first instance ruling, or send it back to the first instance court for re-examination.
The execution of the first instance ruling is suspended pending the judgement on the appeal.
With the assistance of a leading Croation legal firm, and in line with the other banks involved, PBZ affirmed its conviction that the lawsuit initiatied against the banks is unfounded, and declared that it was optimistic about the approach to defence taken.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2013. 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 217 litigation proceedings, in which a total of 879 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 68 million euro at 31 December 2013.
The Group's other Italian companies within the scope of consolidation are parties to tax litigation proceedings in which a total of 629 million euro is at stake at that date, reflected by specific allowances of 32 million euro.
Pending international charges, totalling 5 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 2013 related to issues raised against other Italian banks as well, i.e. to types of 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.

With regard to Intesa Sanpaolo, it is important to note the extension to the years 2008 to 2011 of the charges, already arose in 2012 with regard to 2007, concerning a series of transactions implemented for the purpose of capital strengthening by issuing preference shares through international subsidiaries (in the form of LLCs) resident in Delaware (USA). The allegation is 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, whose premise should be deemed unfounded, amounts to a total of 82 million euro in unpaid withholding taxes, in addition to 124 million euro in penalties and 13 million euro in interest.

With regard to other Group companies, it is worth noting the charges against Setefi raised by Agenzia delle Entrate (Italian Revenue Agency), following the audit of the accounting and tax treatment of dividends received by the company from VISA Europe Ltd. in the tax period 2008, which considered the reorganisation of the VISA Group in July 2004, alleging that said reorganisation can be treated as a contribution of intangible assets, realising capital gains that were allegedly undeclared and not taxed. This was followed by the notification of two assessment notices, for IRES and IRAP, respectively, for a total of 14 million euro, which, however, are deemed fully illegitimate and unfounded.

In terms of the main outcomes of proceedings during the reporting period, the following is worth mentioning:
- for the Parent Company, a new positive first judgement in relation to the reclassifications by Agenzia delle Entrate of contributions of branches and business lines and the subsequent sale of shares deriving from contributions as a step transaction, equivalent to the transfer of a business line;
- for Leasint, the 100% favourable outcome of the first instance proceedings challenging the unlawful nature of VAT findings for 2005 and 2006 on the issue of the tax rate in nautical lease contracts.
  Equivalent to the judgment against the Parent Company indicated above, this specific outcome is also worth mentioning, even though in both cases this litigation relates to the marginally insignificant amount of 7 million euro, but are related to charges which are highly significant as a whole, given their serial nature;
- for Centro Leasing S.p.A., two negative rulings, issued respectively by the Provincial Tax Committee in relation to 2006 and the Firenze Regional Tax Committee, which overturned the positive result of the first instance proceedings for 2004 and 2005, regarding the question of real estate leaseback transactions performed by the company, which, in the tax audit of the years 2003 to 2007 were claimed to be a misuse of a right. These rulings concluded with the forecast of a total claim of 56 million euro for additional IRES, IRAP and VAT, in addition to penalties and interest. The assessments said decisions refer to amount of 11 million euro and 16 million euro, respectively.

Using dispute settlement mechanisms, at the end of December 2013 Banca IMI settled the dispute concerning "misuse of a right" involving the sales of futures on listed Italian shares carried out as part of market maker operations in 2008, which the financial authorities reclassified as repurchase agreements based on their affirmed circular nature. Also in relation to this position, the decision to settle that litigation was taken, though fully convinced of the groundlessness of the claim, 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 35 million euro (for taxes, withholding taxes and penalties) was settled with a payment of 3 million euro.

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Out of the total cases of tax litigation pending as at 31 December 2013, at Group level 196 million euro is posted to the balance sheet among assets, 159 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 44 million euro at Group level, of which 29 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.

Potential assets

As far as potential assets are concerned, it is noted that judgment of the Court of Appeal of Rome on 7 March 2013, which has become final, ordered the revocation, due to judicial misconduct, of the judgment issued by said Court of Appeal of Rome on 26 November 1990, which had ordered IMI to pay the heir of entrepreneur Nino Rovelli (who passed away in the meantime) the amount of around 980 billion lira (amount paid to the heir on 13 January 1994: 678 billion lira, net of inheritance taxes and withholding on default interest settled at the time of the judgment).

As a result of the revocation of the judgment, it is now possible for Intesa Sanpaolo - assignee of the rights of Mr. Rovelli's heir - to obtain the refund from the financial authorities of the taxes paid at the time for various reasons following the first judgment, which has now been revoked. Based on the accounting standards, these assets may only be recorded when there is a reasonable certainty that they may be realised.

The recovery of the registration tax applied on the revoked judgment, of the withholding tax applied to the interest on late payment of the amount due to the heir and of the inheritance tax paid by the sole heir is considered reasonably certain. The total amount comes to 128.1 million euro and includes the time presumably necessary for tax recovery.