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 or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk and model risk. 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, as from 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), used partially along with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the leading banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium and by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.
The remaining companies, currently using the Standardised approach (TSA), which are included in the roll-out plan, will migrate progressively to the Advanced approaches starting from the first half of 2015, 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 the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination 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 Personnel and Organisation Department that supervise the planning of operational processes and business continuity issues, with the Administrative and Financial Governance 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 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 (by 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 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 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

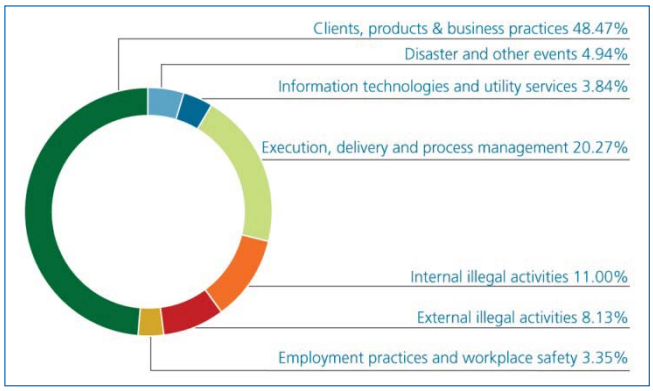
third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named 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 approaches allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,693 million euro as at 31 December 2014, down compared to June 2014 (1,770 million euro) and compared to 31 December 2013 (1,819 million euro).

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 2014 a total of 19,415 disputes were pending, with total remedy sought of 10,352 million euro and allowances of 838 million euro. Among the main types of lawsuits, bankruptcy revocatory actions had remedy sought of 662 million euro and allowances of 105 million euro; lawsuits concerning financial services had remedy sought of 507 million euro and allowances of 107 million euro; lawsuits concerning terms applied to customers had remedy sought of 1,073 million euro and allowances of 141 million euro; lawsuits for operational errors had remedy sought of 311 million euro and allowances of 82 million euro and labour lawsuits had remedy sought of 151 million euro and allowances of 112 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 lawsuits increased 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 Parmalat and Cirio bonds can now be considered as coming to an end.
Disputes concerning Argentina bonds are steadily declining, with a decrease of approximately 20% on the outstanding lawsuits in

2013 and 60% on 2012.
The disputes concerning bonds issued by companies belonging to the Lehman Brothers Group decreased slightly, both in the number of disputes and the values of the economic claims compared to the previous year, without prejudice to the fact that these disputes remained at insignificant levels in absolute terms. The judgments to this point in relation to Intesa Sanpaolo – with the exception of a few isolated cases 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.
There were no significant changes in disputes concerning derivative products 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 (now Banca IMI), 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 were quantified 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 Appeal. 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 prior to the sale, such as charges resulting from negative outcomes of litigation with taxpayers, tax authorities or employees, 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, to assess both the grounds for and the amount of the requests for compensation submitted pertaining to said guarantee. The board also examines asset captions for the seller, to be reconciled with those that are the subject of the requests for compensation.
Specifically regarding the litigation, as things stand, only one main dispute should be noted. This is the ruling 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 position is founded on valid defence arguments, both in pre-trial phase and on the merits, 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, accepting the plaintiff's requests, 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. The lawsuit was suspended pending the outcome of the judgment from the Court of Cassation.
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 for an amount of no less than 1 billion euro. In its ruling of 6 October 2014, the Court sentenced two Banca OPI Executives, while acquitting all of Bank's other defendants, in addition to jointly and severally ordering the Bank and the two aforementioned Executives, to pay compensation for damages in favour of the Municipality, to be settled in separate proceedings, as well as to pay an immediately enforceable provisional award of 26,167,175 euro, almost entirely represented by the interest portion of the repayments made by the Municipality - i.e. 25,167,175 euro - previously the subject of sentences from the First Instance Court and the Court of Appeal. Both the former employees found to be liable and the Bank will appeal this judgment, applying for a stay of the provisional enforcement of the civil remedies. It is noted that for the provisional award the Bank will not have to incur any outlays, as it can offset the amount in question with the higher credit claimed from the Municipality, as recognised by the Court of Appeal in the civil proceedings.
The assessment of the compensation risk indicated that there was no need to recognise a specific provision as at 31 December 2014.

Altroconsumo class action – In 2010, Altroconsumo, representing three account holders, brought a class-action suit seeking a finding of the unlawfulness of overdraft charges and the fee for overdrawing accounts without credit facilities, the latter of which had been adopted in 2009 as part of adjustments of contracts to the new rules imposed by lawmakers regarding bank fees. The suit also sought a finding that the "threshold rate" set out in the law on usury had been exceeded. By order of 28 April 2010, the Court of Turin declared the suit inadmissible. Following the complaint filed by the plaintiffs, the Torino Court of Appeal, by order of 16 September 2011, overturned the previous order, restricting the scope of the suit solely to account overdraft charges applied effective 16 August 2009. A total of 104 applications to join the suit were then filed within the terms set by the Court. The suit was resolved by the judgment filed on 10 April 2014, in which 101 of the 104 applications were found to be inadmissible due to formal irregularities of presentation or failure to meet consumer requirements by some of the applicants. On the merits, having rejected the claims regarding usury, the judgment finds that the account overdraft charge is void on the basis of the principle according to which, in the absence of a formal credit facility, an overdraft would not justify the application of additional costs to the account holder, given that no banking service requiring compensation has been provided in such cases. The decision was appealed because it is founded upon an untenable interpretation of the statute concerned. Altroconsumo and three parties promoting the class action appeared in court in the second instance proceedings, proposing an incidental appeal, specifically regarding the decision ruling that most of the participants in the class action were inadmissible. In economic terms, the ruling is irrelevant both in terms of the claims made by the three current account holders admitted and in terms of those referring to current account holders currently excluded. It bears clarifying that the contested fee was replaced, effective October 2012, by the expedited approval fee introduced by the Monti administration's Save Italy Decree.

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, postponed to 21 October 2014 for an evidentiary hearing, was declared interrupted due to the death of Angelo Rizzoli. Considering the favourable outcome of the first instance proceedings, no provisions were allocated.

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 (including the termination of the statute of limitations on the right to claim compensation brought against it) 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).
On conclusion of the preliminary investigation phase, in which the Court resolved various pre-trial issues raised by the defendants and rejected all preliminary motions brought by the plaintiffs, the lawsuit was postponed to the hearing of 16 September 2014 for a ruling. With the ruling of 26 January 2015 the Court rejected all claims brought by the plaintiffs, declaring the termination of the claim for compensation brought against Intesa Sanpaolo due to statute of limitations.

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 former CEO of the Luxembourg subsidiary, Société Européenne de Banque - SEB, and the head of Corporate Division relations of Intesa Sanpaolo, as well as SEB and ISP for administrative liability pursuant to Legislative Decree no. 231/01.
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 (in addition to the appropriate writedowns of receivables already performed by SEB).

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 in which numerous international banks participated, as a result of which Sanpaolo IMI 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. Law 32/2014 was enacted on 24 April 2014. The statute clarifies the subjective requirements for appealing previous privatisations by limiting standing to sue to the original contracting parties only. The counsel to the defence believe that the statute is also applicable to the ongoing proceedings to which Bank of Alexandria is a party. Moreover, the statute was reviewed by Egypt's Constitutional Court due to contentions of unconstitutionality that arose in other proceedings to which Bank of Alexandria is not a party. Both lawsuits are constantly monitored by the Parent Company, also in terms of possible developments of the 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 paid a fine of 2.9 million dollars 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 the merged company Banca Popolare dell'Adriatico, and also against Banca dell'Adriatico 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 - By 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.
In further detail, the plaintiff claimed that it decided to assume the debt arising from the first tranche of a pool loan disbursed to Comes S.r.l. (a total of 70 million euro for the construction of the shopping centre in Marcianise) on the understanding that the two banks concerned would then have disbursed an additional loan of 35 million euro for which ISE had applied directly (while reducing the original loan from 70 million to 35 million euro).
However, that loan was not in fact disbursed, and this situation allegedly resulted in a serious lack of liquidity for ISE, which, among other effects, purportedly prevented it from selling said shopping centre to third parties at a price regarded as expedient.
However, during the internal assessment process, various factual elements were brought to light, justifying the two banks' decision not to provide the loan.
The judge set the first hearing for 13 April 2015, granting the parties the terms in which to submit briefs setting out their claims and pre-trial requests which, however, the counterparty failed to file.

Dispute initiated by Acotel Group S.p.A - In its document initiating arbitration proceedings served on 4 November 2013, Acotel Group seeks an award ordering ISP to provide compensation for damages, quantified at a total of 150 million euro, caused by alleged breach of a complex cooperation agreement, which took the concrete form of various contracts aimed at developing and selling an innovative telephone SIM card known as "SIM Noverca" to bank customers. Acotel assumes that the failure of the commercial initiative and the resulting damages were the result solely of breach of contract by ISP due to the lack of interest shown in the promotion and distribution of the product amongst its customers, which culminated in the cancellation and termination of the commercial agreements. The Bank conducted its defence by raising a number of exceptions of a procedural nature. On the merits, it argued that the reasons for the transaction's lack of success may be found to lie in the technological inadequacy of the SIM card, which was rapidly rendered obsolete by the development of other, more attractive propositions on the market and the low level of competitiveness of the rate scheme, both of which were problems that Noverca was unable to overcome. Due to the lack of interest in proceeding with the arbitration shown by Acotel (which reserved the right to take action in the ordinary courts) and its consequent inactivity, the Chamber of Arbitration of Milan declared the proceedings closed by decision of 10 June 2014. By writ of summons served on 2 October 2014, Acotel Group S.p.A. and Noverca Italia S.r.l. resubmitted the same arguments to the Court of Turin, presenting, in the case of Acotel Group, a compensation claim of similar amount to that previously entered in the arbitration proceedings and, in the case of Noverca, a request for damages of the lesser amount of approximately 11.5 million euro by way of contractual penalties.
In light of the defence arguments which can be objected to, the lawsuit is considered free from risks. The preliminary investigation phase is currently underway.

Compensation claim of G & C Holding S.r.l. - With summons served on 5 December 2014, G. & C. Holding S.r.l. brought a legal action before the Court of Milan against the former CEO and the Head of ISP Corporate Division, as well as the Bank, as jointly liable with the two defendants.
Said writ also summoned Roberto Colaninno (Chairman of CAI), Rocco Sabelli (CEO of CAI) and Alitalia – Compagnia Aerea Italiana S.p.A., as jointly liable with the two defendants.
In substance, G.& C. Holding claims that it incurred, from the end of 2008 to the beginning of 2009, an investment in Alitalia – CAI of approximately 40 million euro, for the purpose of revitalising the Italian national airline, from the point of view outlined in the 'Fenice' project.
Intesa Sanpaolo, as the "director" of the project, is charged with misrepresenting the actual outlook for the investment, thereby inducing the company into taking on the initiative in a transaction which ended in bankruptcy.
The request for compensation, against all defendants, has been quantified at 65 million euro, in addition to interest and revaluation.
The first hearing was postponed automatically to 7 July 2015.
The preliminary pre-trial assessments are underway and, pending developments, the possibility of lawsuit risk will be assessed.

Lawsuit brought by Alis Holding S.r.l. in liquidation - By writ of summons served on 10 December 2014, Alis Holding S.r.l. in liquidation brought a compensation claim before the Court of Milan, requesting that Intesa Sanpaolo be sentenced to pay 127.6 million euro as a result of the failure to achieve the positive results expected in relation to the value that its investment Cargoitalia was expected to reach.
The plaintiff claims that in developing a project launched in 2008 to enhance the potential for business in the air cargo sector in Italy, it purchased, along with Intesa Sanpaolo as its financial partner, investments – in the amount of two-thirds (66.67%) and one-third (33.33%) – in the share capital of Cargoitalia, based on investment and shareholders' agreements through which the Bank reserved a series of prerogatives on significant issues for itself.
In 2011, as a result of an adverse economic situation and the presence of a fierce competitor, Cargoitalia suffered a situation of financial tension which made it necessary to draw up a three-year recovery plan (2011-2014) to protect the business as a going concern.

The recovery plan included obtaining 8 million euro in resources through debt financing, which Intesa Sanpaolo was to disburse in a pool with another Bank. Alis Holding claims that Intesa Sanpaolo allegedly refused, without reason, to honour that financing commitment, causing the winding up of Cargoitalia due to the impossibility of pursuing the corporate purpose and its resulting implementation of arrangement with creditors. Alis Holding thus claims liability of the Bank due to breach of a shareholders' loan agreement which was assumed to be entered into on a de facto basis or, alternatively, due to the de facto exercise of management and coordination of Cargoitalia which was allegedly carried out in breach of the principles of sound company management.
The defence arguments are currently being drawn up in view of appearance in court for the hearing of 16 June 2015.

Lawsuit brought by Novembre RSA S.r.l. impresa sociale, Segno Unico S.r.l. and Novembre SGI S.r.l. – By writ of summons served on 5 August 2014 (first hearing set for May 2015) Novembre RSA S.r.l. impresa sociale, Segno Unico S.r.l. and Novembre SGI S.r.l., which have common owners, brought a compensation claim before the Court of Turin in which they seek a finding of joint and several liability against Intesa Sanpaolo and Mediocredito Italiano for the payment of compensation for damages of approximately 63 million euro, for which both banks are claimed to be liable for having failed to disburse a loan intended to finance a home for the elderly. The banks' liability depends on their alleged conduct in bad faith, which allegedly generated in the plaintiffs a good faith reliance that the loan would be disbursed.
The lawsuit joins the other disputes concerning misappropriation of accounts of said three companies, disputes which, though the related claims are unclear, have economic content significantly lower than that stated in the claim for damages.
The lawsuit in question is deemed to be unfounded in that the grounds of the failure to approve the loan are to be sought in multiple factors attributable to objective situations to which the defendant banks are completely extraneous. For these reasons, the lawsuit is deemed to be free of risks.

Lawsuit brought by Fondazione Monte Paschi di Siena – By writ served on 11 July 2014, Fondazione MPS brought a lawsuit before the Court of Siena against former members of the Foundation's administrative body, as well as all of the banks, including Intesa Sanpaolo and Banca IMI, that had participated in 2011 in a pool loan to the Foundation intended to provide the Foundation with the resources required to subscribe for a capital increase undertaken by its subsidiary, Banca Monte Paschi di Siena.
In support of its compensation claim of approximately 286 million euro, the Foundation argued that the former directors and advisor bore contractual liability for having breached the limit on the debt-to-equity ratio imposed by the articles of association, as well as that the lending banks bore tortious liability for having knowingly been complicit in the alleged breach by the directors. Even though, as regards internal dealings between the defendants, alleged liability for compensation may be allocated proportionally, the Foundation sought a finding of joint and several liability of all the defendants in the proceedings.
The compensation claim, as presented, against the banks summoned is believed to be unfounded on a variety of grounds that relate not only, in general, to the possibility of attributing tortious liability to the banks, but also to an incorrect technical valuation of the financial statement captions which form the basis of the alleged breach of said financial parameter, the inexistence of a causal relationship between the objectionable conduct and the harmful event as well as the determination of the amount of the items of the damages into which the compensation claim is divided. The first hearing has been scheduled for 14 May 2015.

POTROŠAČ litigation against and PBZ relating to loans denominated in CHF - In the context of historically low interest rates on assets denominated in Swiss francs (CHF), in 2004 numerous Croatian banks began to disburse 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 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 Croatian banking sector along with fixed interest rates. Only with the introduction of the new law on consumer credit were administered interest rates banned for all new loans starting from January 2013. PBZ correctly complied with these law provisions by introducing index-linked interest rates.
By writ of summons served on 23 April 2012, PBZ was sued, along with seven major Croatian banks (subsidiaries of non-Croatian groups) by a consumer association (Potrošač). 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 had 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.
The execution of the first instance ruling had been suspended pending the judgment on the appeal.
On 16 July 2014, the High Commercial Court of the Republic of Croatia rendered its second instance ruling. The resulting situation appears more favourable than the first instance ruling. In particular:
- the part of the first instance ruling which established that the banks were to denominate in HRK the principal originally lent to the borrowers of loans granted in Swiss francs, was overturned.
- the first instance ruling was also overturned in the part in the part referring to the loans granted in Swiss francs to be converted, establishing that the banks were to apply a fixed interest rate equal to that applicable to the loan agreement when granted.
- on the other hand, the court upheld the unlawful nature of the unilateral changes to interest rates on the loans by the banks. In 2013 PBZ provisioned adequate amounts which, according to the appeal ruling, may be regarded as extremely prudential.

In relation to the foregoing, it is necessary to consider that, in order to secure recognition of their right to reimbursement of the unduly paid sums, individual customers will be required to take action against their banks separately. This should be a benefit for PBZ, since it has adopted policies focusing on customer relations, for example by offering the possibility to convert principal from CHF into HRK given the strong appreciation of the Swiss currency in recent years. Moreover, PBZ discontinued the offering of loans in CHF in 2008.

The banks appealed to the Croatian Supreme Court, in order to obtain the review of the part of the appeal ruling in which they are found liable. The appeal to the Supreme Court does not provide a stay of the enforcement of the appeal ruling.
From August 2014 to 31 December 2014, PBZ received 1,458 reimbursement applications, of which only 12 have resulted in litigation before the competent authorities to date.
The risks relating to the ruling, concerning the unilateral changes in interest rates, are 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 2014. 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 306 litigation proceedings, in which a total of 952 million euro is at issue, including proceedings in both administrative and judicial venues at various instances. The actual risks associated with these proceedings were quantified at 75 million euro at 31 December 2014.
The Group's other Italian companies within the scope of consolidation are parties to tax litigation proceedings in which a total of 370 million euro is at stake at that date, reflected by specific allowances of 29 million euro.
Pending international charges, totalling 9 million euro, are not material in amount when compared to the size of the business conducted by 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 2014 featured the mere reiteration of issues concerning interpretations which had arisen in previous years and have not been unequivocally defined.

With regard to Intesa Sanpaolo, it is important to note the issue of the assessment report for 2009 of the charges 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 claim is based on the assumption 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 said year, totalling 38 million euro in withholding taxes, penalties and interest, was, obviously, appealed before the court.
Moreover, the dispute for the year 2008, amounting to 74 million euro, is pending in the first instance. Conversely, the dispute relating to the year 2007, which amounted to 63 million euro, had a negative outcome in the first instance, in line with the adverse approach taken on the specific matter in the proceedings on the merits relating to equivalent charges against other banks. In spite of the approach of case law, due to the absolute debatable tax authority's argument, no provisions were made.

With regard to other Group companies, assessment notices were issued by the Agenzia delle Entrate against Intesa Sanpaolo Group Service Scpa as a result of the audit of the year 2009, containing a claim for IRES tax, IRAP tax and VAT, penalties and interests totalling 25 million euro. This claim is based on (i) the alleged breach of the accruals principle in relation to the division over time of costs relating to contributions to said Investee by the Parent Company in 2009, (ii) the rejection of the pertinence of the amortisation charge for the period prior to the contribution of the assets included in the business units contributed, (iii) the applicability of VAT to the recoveries relating to said costs, assuming that the exemptions for consortia do not apply to these and, rather, the ordinary tax regime applies with a rate of 20%. In relation to the expected outcome of the disputes initiated based on said position, the pre-existing precautionary allocation of 7 million euro was increased by 1 million euro, mainly due to the update of the interest caption.

In terms of the main outcomes of proceedings during the reporting period, the following is worth mentioning:

- for the Parent Company, the positive judgement in all proceedings on the merits, in the first and second instance, in relation to the reclassifications by Agenzia delle Entrate of contributions of business lines and the subsequent sale of shares deriving from contributions as a step transaction, equivalent to the transfer of a business line; Moreover, with regard to the contributions of bank branches to CariParma and FriulAdria in 2007, the State Attorney's Office submitted an appeal to the Court of Cassation on behalf of the Agenzia delle Entrate;
- for the merged company Centro Leasing Banca, the favourable ruling of the Court of Cassation, though with a structure that implies the confirmation of the second instance ruling, regarding the issue of real estate lease-back 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, concluded with the forecast of a total claim of 56 million euro for additional IRES tax, IRAP tax and VAT, in addition to penalties and interest. The tax claims under said ruling concerning the years 2004 and 2005 amounted to 16 million euro.

Using dispute settlement mechanisms, at the end of December 2014 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 2009, which the financial authorities reclassified as repurchase agreements based on their affirmed circular nature. Also in relation to this position, as previously done, 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 157 million euro (for taxes, withholding taxes and penalties) was settled with a payment of 4 million euro.

After the close of the year, on 10 February 2015 the Tax Police squad in Milan served Eurizon Capital S.A. – Luxembourg with a report on findings which, in relation to the tax years 2004 to 2013, claimed the failure to declare, for IRES purposes, income totalling approximately 731 million euro, based on the company's alleged tax residence in Italy due to the alleged presence in the country of the administrative headquarters and its main purpose. In particular, the auditors formulated said claim based on the

documentation acquired during an audit which is still underway of Eurizon Capital SGR. In this regard, the claim is deemed to be absolutely unfounded. This consideration is due to the correctness of the conduct of the subsidiary - which has operated in Luxembourg since 1988 with a structure comprising over 50 highly qualified employees mainly dedicated to the management, marketing and administration of Luxembourg mutual funds and subject to supervision by the Luxembourg regulatory authorities – always focused on full compliance with national tax laws and the double taxation treaty between Italy and Luxembourg.

Out of the total cases of tax litigation pending as at 31 December 2014, at Group level 236 million euro is posted to the balance sheet among assets, 200 million euro of which refers to the Parent Company, representing the total amount paid by way of provisional tax collection where assessments are conducted.

For said cases of litigation, provisions for risks and charges amount to 49 million euro at Group level, of which 35 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 ad d 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, Intesa Sanpaolo - assignee of the rights of Mr. Rovelli's heir - submitted an application for refund from the financial authorities of the taxes paid at the time for various reasons following the first judgment, which was cancelled as a result of the revocation. Based on the applicable accounting standards, as there is a reasonable certainty that said assets may be realised at least partially, the 2013 financial statements posted assets totalling 128.1 million euro. On 8 August 2014 the financial authorities settled the entire amount of inheritance tax paid at the time by the heir, amounting to approximately 111 million euro.

As regards the other two taxes, i.e. registration tax applied to the revoked judgment and the tax withholdings applied to the interest on the late payment due by IMI to the heir, all amounting to approximately 43 million euro, the measures of the administration are currently pending as a result of the process initiated by way of the applications for refund.