1.5. OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects, operational risk management processes and measurement methods

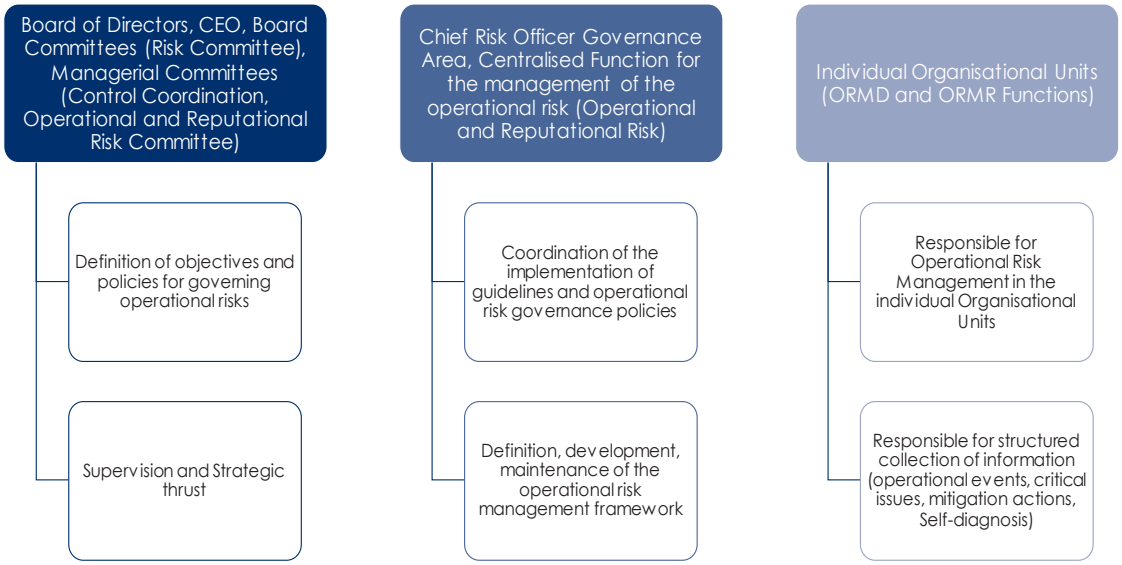
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.

The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing long-term solidity and continuity for the company. In addition, the Group pays particular attention to achieving an optimal balance between growth and profitability and the resulting risks.
In line with these objectives, the Intesa Sanpaolo Group has long since established an overall operational risk management framework, by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

For regulatory purposes, the Group adopts the Advanced Measurement Approach (below also AMA or internal model), in partial use with the standardised (TSA) and basic approaches (BIA), to determine the capital requirement. The AMA approach is adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by Intesa Sanpaolo Group Services, VUB Banka and PBZ Banka.

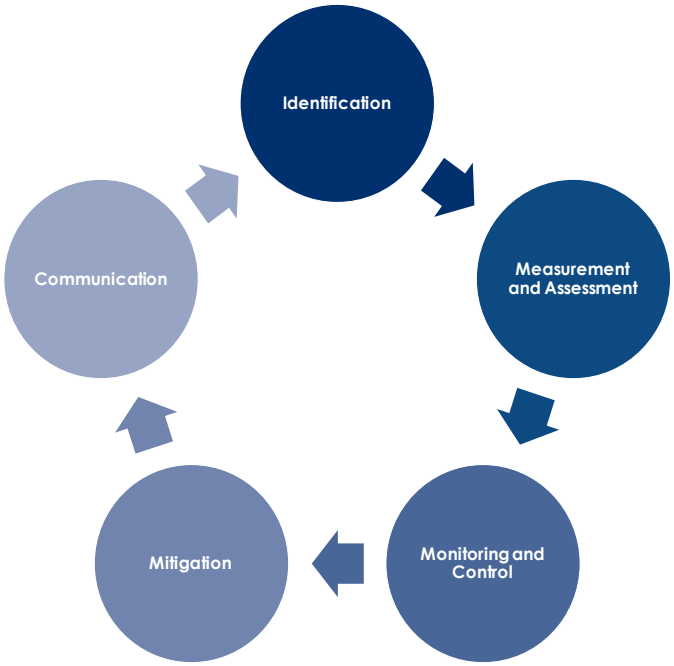
Governance Model

The monitoring of the Intesa Sanpaolo Group's Operational Risk Management involves Bodies, Committees and structures that interact with different responsibilities and roles in order to create an effective operational risk management system that is closely integrated into the decision-making processes and the management of company operations.



Group Operational Risk Management Process

The Intesa Sanpaolo Group's operational risk management process is divided into the following phases:



Identification

The identification phase involves:

- the structured collection and timely updating of the data on operational events, decentralised to the Organisational Units;
- the detection of critical issues;
- the performance of the annual Self-diagnosis process;
- the identification of potential operational risks arising from the introduction of new products and services, the launch of new activities and the entry in new markets, as well as risks associated with outsourcing;
- the analysis of operational events and indicators originating from external consortia (O.R.X. - Operational Riskdata eXchange Association);
- the identification of operational risk indicators (including ICT and cyber risks, compliance risks, etc.) by the individual Organisational Units.

Measurement and assessment

Measurement is the transformation, using a dedicated model, of the elementary information (internal and external operational loss data, Scenario Analyses and Business Environment Evaluations) into synthetic risk measures. These measures present an adequate detail to allow complete knowledge of the Group's overall risk profile and to allow the quantification of capital at risk for the Group's units.

Monitoring and control

The monitoring of operational risks consists of the analysis and structured organisation of the results obtained from the identification and/or measurement in order to verify and control the evolution over time of the exposure to operational risk (including ICT and cyber risk) and to prevent the occurrence of harmful events.

Mitigation

Management activities and mitigation actions, defined on the basis of the results of the identification, measurement and monitoring, consist of:

- the identification, definition and implementation of risk mitigation and transfer activities, in accordance with the established risk appetite;
- the analysis and acceptance of residual operational risks;
- the rationalisation and optimisation, from a cost/benefit perspective, of insurance coverage and any other forms of risk transfer adopted by the Group.

In this regard, in addition to benefiting from a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cybercrimes, fire and earthquake, and third-party liability), the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme in compliance with the requirements established by the regulations and to have access to the capital benefits provided for by the policy, which provides specific cover, significantly increasing the limits and transferring the risk of significant operational losses to the insurance market.

In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

Communication

Communication consists of setting up adequate information flows related to the management of operational risks between the various actors involved, in order to enable the monitoring of the process and provide adequate knowledge of the exposure to those risks.

Self-diagnosis

The self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational risk by assessing the level of managemnt of the elements characterising their business environment (Business Environment Evaluation, VCO) and estimating potential losses in the event of potentially harmful operational events (Scenario Analysis, SA). The assessment takes into account the critical issues identified and the operational events occurred. This assessment does not replace the specific risk assessments carried out by the specialised and control functions within the scope of their responsibilities (e.g. assessments carried out by the Chief Audit Officer, by the Manager responsible for preparing the Company's financial reports and by the Chief Compliance Officer), but allows the assessments that emerge during the process to be brought to the attention of the functions concerned and to be discussed with the Head of the Organisational Unit concerned.

The detection of critical issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT Risk

Information Technology or ICT risk means the risk of incurring economic, reputational and market share losses, in relation to the use of information and communication technology. In the integrated representation of business risks for prudential purposes, this type of risk is considered, according to the specific aspects, under the operational, reputational and strategic risks and includes the risk of violation of the confidentiality, integrity or availability of the information.

In line with the methodological framework established for the governance of corporate risks and, in particular, for operational risks, the Intesa Sanpaolo Group's ICT Risk framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.

Every year, the Technical Functions (e.g. ICT Head Office Department, IT functions of the main Italian and international subsidiaries) and the Cybersecurity Function identify the level of exposure to ICT risk (and to the Information Security risk included within it) of the information technology assets managed through the top-down assessment of the level of management of the relevant Risk Factors. In addition to this analysis, carried out for all the application assets and company processes, when there are situations that may modify the overall level of risk or in the case of innovation projects or changes to significant components of the ICT System, the Technical Functions and the Cybersecurity Function identify the level of exposure to ICT risk of the specific components of the ICT system.

This assessment is accompanied, as part of the Self-diagnosis process, by the bottom-up assessment carried out by the individual Group Organisational Units, which analyse their own exposure to ICT risk and provide an opinion on the level of management of the risk factors relevant for this purpose (e.g. relating to the adequacy of the software for the Unit's operations, etc.).

Internal model for the measurement of operational risk

The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: Scenario Analysis and Business Environment Evaluation).

Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case). It 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 (VCO), to take into account the effectiveness of internal controls in the various Organisational Units.

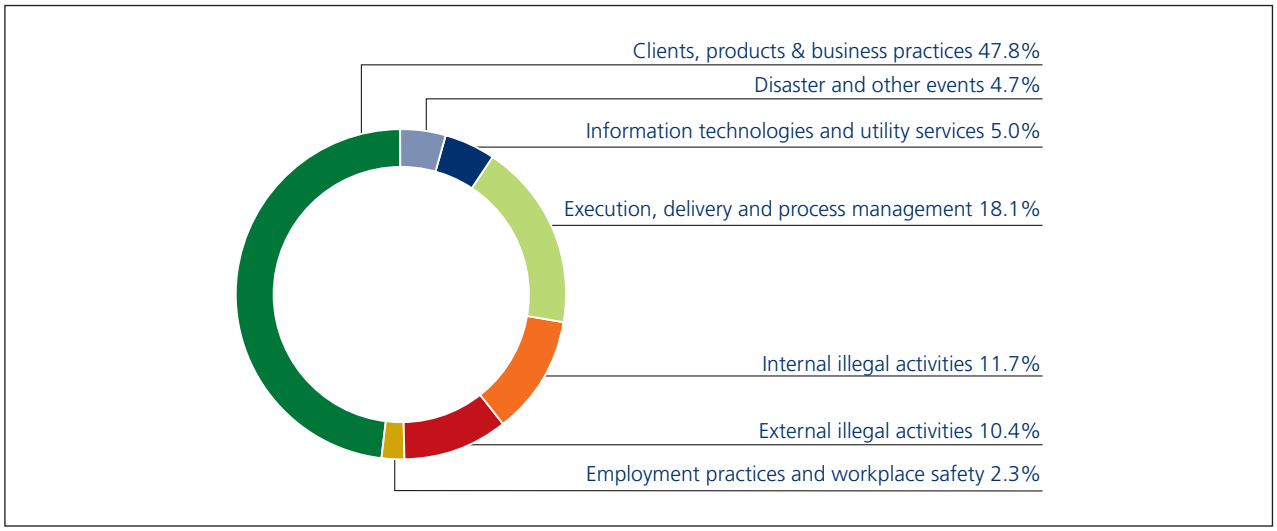
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group uses a combination of the methods allowed under applicable regulations. The capital absorption resulting from this process amounted to 1,414 million euro as at 31 December 2018.

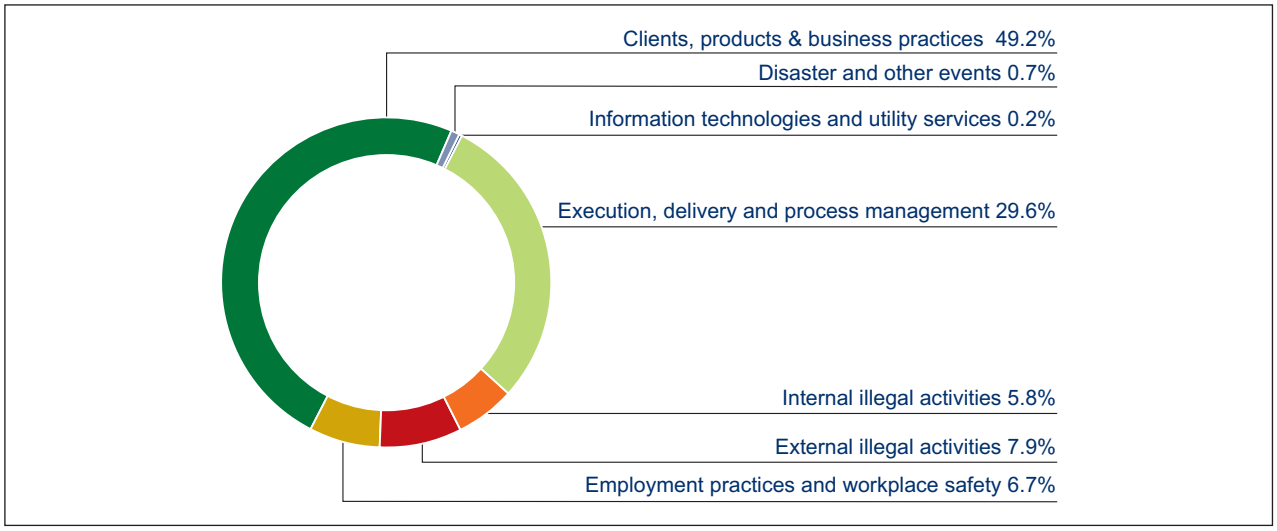
The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by event type.

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



With regard to the sources of operational risk, the chart below shows the impact of the operational losses accounted during the year, based on event type.
In 2018, the most significant event type was *Clients, Products and Business Practices*, which included losses related to defaults connected with professional obligations towards customers, suppliers or outsourcers and to the provision of services and products to customers performed improperly or negligently.
The *Execution, delivery and process management* category is also particularly significant, which reports the losses relating to unintentional errors in the management of operational and support activities, or to contractual disputes with counterparties that cannot be qualified as customers, suppliers or outsourcers.

Breakdown of operational losses recorded in 2018, by event type



LEGAL RISKS

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Specific and appropriate provisions have been made to the Allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.

As at 31 December 2018, there were a total of about 18,000 disputes were pending (excluding those involving Risanamento S.p.A. and Autostrade Lombarde S.p.A., which are not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 5,571 million euro and allowances of around 653 million euro.
In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 392 million euro and allowances of 58 million euro;
- insolvency compensation disputes, with remedy sought of 524 million euro and allowances of 8 million euro;
- disputes concerning investment services, with remedy sought of 374 million euro and allowances of 58 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 1.018 million euro and allowances of 138 million euro;
- disputes concerning bank products, with remedy sought of 347 million euro and allowances of 25 million euro;
- disputes concerning loan positions, with remedy sought of 1,322 million euro and allowances of 46 million euro;
- disputes concerning lease contracts, with remedy sought of 180 million euro and allowances of 17 million euro;
- credit recovery disputes, with remedy sought of 192 million euro and allowances of 91 million euro;
- other civil and administrative disputes, with remedy sought of 917 million euro and allowances of 82 million euro.

In addition to brief remarks on the disputes relating to anatocism and investment services, the following paragraphs provide concise information about the dispute connected to the transaction concerning the former Venetian banks, as well as the significant individual disputes (those with a remedy sought of more than 100 million euro and where the risk of an outlay is currently deemed probable or possible).

Disputes relating to anatocism and other current account and credit facility conditions - For many years, this type of dispute has been a significant part of the civil disputes brought against the Italian banking industry and therefore also the Group banks[20]. The overall economic impact of lawsuits in this area remains at insignificant level in absolute terms.

Disputes relating to investment services - In general, in 2018, the number of disputes relating to investment services decreased both in terms of number and in terms of the total value of the claims. There was only an increase in the number of disputes concerning OTC derivatives and equities, but the amounts involved were insignificant.

ENPAM lawsuit - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan.
ENPAM's allegations related to the trading (in 2005) of several complex financial products known as "JP Morgan 69.000.000" and "JP Morgan 5.000.000", and the subsequent "swap" (in 2006) of those products with other similar products known as "CLN Corsair 74.000.000"; the latter were credit-linked notes, i.e. securities whose repayment of principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses, for which compensation is sought.
In the writ of summons, ENPAM submitted several petitions for enquiries and rulings, in particular for contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance, asking for the repayment of an amount of around 222 million euro and compensation for damages on an equitable basis; the part relating to Cassa di Risparmio di Firenze's position should be around 103 million euro (plus interest and purported additional damages).
Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consors S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within which the above-mentioned securities had been subscribed.

[20] With specific regard to the subject of "anatocism", the disputes mainly concern relationships opened before 1999, when the amendment of Article 120 of the Consolidated Law on Banking legitimised the capitalisation of debtor and creditor interest, provided they were carried out with equal frequency. At the beginning of 2014, Article 120 of the Consolidated Law on Banking, which governs the compounding of interest in banking transactions, was amended with the establishment of the ban on anatocism and the delegation of the CICR (Interdepartmental Committee for Credit and Savings) to regulate this matter. In the absence of the CICR resolution, Intesa Sanpaolo considered this ban not to be applicable and that the 1999 provisions continued to apply, which allowed the compounding of debit and credit interest on debtors and creditors provided it was applied at the same frequency.
In 2016, Article 120 of the Consolidated Law on Banking was amended again. Without prejudice to the requirement of the same frequency of calculation of the interest, it was established that the frequency must not be "less than one year" (with calculation at 31 December of each year and, in any event, at the end of the relationship) and that debt interest accrued could not in general give rise to interest other than arrears interest. In addition, for current account credit facilities and overdrafts it was established that:

- the debt interest is calculated at 31 December and becomes due on 1 March of the year after the year when it accrued; if the account is closed, the interest becomes due immediately;
- the customer can provide authorisation, also beforehand, for the interest to be charged to their account (and therefore for its compounding) when it becomes due; this authorisation can be revoked at any time, provided it is before the charge has been made.

The implementing resolution by the CICR was published in August 2016. It establishes, among other things, that the new regulations apply to interest accrued from 1 October 2016.
In February 2017, the Italian Antitrust Authority initiated proceedings against Intesa Sanpaolo for alleged unfair business practices involving, among other things, the methods used to request the above-mentioned authorisation from customers for the charging of the interest to the account.
The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting the customers through various means of communications and without putting them in a position to consider the consequences of that choice in terms of the interest calculation on the compounded debt interest. As a result, the Authority issued a fine of 2 million euro against Intesa Sanpaolo. Intesa Sanpaolo has submitted an appeal with the Lazio Regional Administrative Court, on the grounds that the ruling was unfounded. The proceedings are still pending.
No significant disputes have yet emerged specifically regarding the 2014-2016 legislation.

At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (including a lack of standing to be sued and the time bar). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance cited were not applicable and that there was no evidence of the damages. It also disputed their calculation and, in the alternative, that ENPAM had contributed to causing the damages. If an unfavourable judgement is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to hold it harmless.
During the proceedings, it emerged from the analysis of the 2016 financial statements of ENPAM that the securities subject of the allegations against Cassa di Risparmio di Firenze had been "sold back" to JP Morgan at a price of around 206 million euro and this circumstance was emphasised in further defence pleadings by Cassa di Risparmio di Firenze, highlighting the resulting lack of the alleged damages and perhaps even the presence of a capital gain.
In February 2018, the judge ordered a court-appointed expert's review aimed at determining, among other matters:

- whether during the pre-contractual phase the structure, value and costs of the securities at issue were properly represented to ENPAM;
- whether the securities were fit for the purpose indicated in the entity's Charter and Investment Guidelines;
- the performance achieved by ENPAM as at the date of conclusion of the individual transactions;
- the difference, if any, between the performance achieved by ENPAM and the performance that would have resulted if other investments consistent with the entity's Charter and Investment Guidelines had been undertaken (also considering the need for diversification of the risk).

The case was deferred until April 2019 for a review of the expert report, which is currently being prepared. Once the expert report has been filed, it should be possible to provide an assessment of the risk inherent in the proceedings.

Disputes regarding tax-collection companies - In the context of the government's decision to re-assume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A., now the Italian Revenue Agency - Collections Division, full ownership of Gest Line and ETR/ESATRI, companies that managed tax-collection activities, undertaking to indemnify the buyer against any expenses associated with the collection activity carried out up to the time of purchase of the equity interests.
In particular, such expenses refer to liabilities for disputes (with tax authorities, taxpayers and employees) and out-of-period expenses and capital losses with respect to the financial situation at the time of the sale.
A technical roundtable has been formed with the Italian Revenue Agency - Collections Division in order to assess the parties' claims.

Administrative and judicial proceedings against Banca IMI Securities Corp. of New York – The SEC proceedings were concluded in 2017 through the payment of a total sum of approximately 35 million dollars – entirely covered by provision – levied on the basis of violations of Articles 15(b)(4)(E) of the Exchange Act and 17(a)(3) of the Securities Act.
With regard to the investigation started in October 2016 by the Antitrust Division of the Department of Justice (DoJ), after having submitted documents and information with a view to full co-operation, details are being awaited on the DoJ's position.

Offering of diamonds - In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by DPI to the customers of Intesa Sanpaolo and of the banks of the Banca dei Territori Division. The aim of this initiative was to provide customers with a diversification solution with the characteristics of a "safe haven asset" in which to allocate a marginal part of their assets over the long term. Diamonds had already been sold for several years by other leading national banking networks.
This activity primarily generated transactions in 2016, with a significant fall starting from the end of that year. A total of around 8,000 customers purchased diamonds, for a total of around 130 million euro. The marketing process was based on criteria of transparency, with safeguards progressively enhanced over time, including quality controls on the diamonds and the fairness of the prices applied by DPI.
In February 2017, the AGCM (the Italian Competition Authority) brought proceedings against companies that marketed diamonds, (DPI and other companies), for alleged conduct in breach of the provisions on unfair business practices. In April, those proceedings were extended to the banks that carried out the recommendation of the services of those companies.
At the end of those proceedings, on 30 October 2017, the AGCM notified the penalties imposed for the alleged breach of the of Consumer Code through the conduct of DPI and of the banks which the proceedings had been extended to, consisting - in short - of having provided partial, deceptive and misleading information on the characteristics of the diamond purchases, the methods used to calculate the price - presented as being the market price - and the performance of the market. The Authority issued a fine of 3 million euro against Intesa Sanpaolo, reduced from the initial fine of 3.5 million euro, after the Authority had recognised the value of the measures taken by the Bank from 2016 to strengthen the safeguards on the offering process aimed, in particular, at ensuring proper information to customers.
Following the order by the AGCM, the Bank paid the amount of the fine and filed an appeal with the Lazio Regional Administrative Court against the order. There were no developments regarding this appeal during 2018.
From November 2017, the Bank:

- terminated the partnership agreement with Diamond Private Investment (DPI) and ceased the activity, which had already been suspended in October 2017;
- started a process that provides for the payment to customers of the original cost incurred for the purchase of the diamonds and the withdrawal of the stones, in order to satisfy the customers' resale needs which, due to the illiquidity that had arisen in the market, are not met by DPI within the contractually-agreed period of 30 days;
- sent a communication in January 2018 to the diamond-holding customers reiterating the nature of the stones as durable goods, and also confirming the Bank's willingness to intervene directly in relation to any realisation needs expressed by the customers and not met by DPI.

As at 31st December 2018, a total of 4,430 repurchase requests had been received from customers and met by the Bank, for a total value of 77.4 million euro.

The risk of potential losses connected to the diamonds for which the Bank may be required to pay the original cost incurred for their purchase is covered by a prudential provision. The assessment of this risk is carried out and updated taking into account the current appraisal values of the diamonds sold (retail prices) and their estimated wholesale prices.
In February 2019 an order for preventive criminal seizure of 11.1 million euro was served, corresponding to the fee and commission income paid by DPI to the Bank.
The preliminary investigations initiated by the Public Prosecutor's Office of Milan also concern four other banks (more involved) and two companies that sell diamonds.
ISP is accused of an administrative offence pursuant to Legislative Decree 231/2001 in relation to the alleged offence of self-laundering.
In this regard, the Bank is confident that the correctness of its actions will emerge and that the aforementioned initiatives towards customers will be appreciated.

Disputes connected with the acquisition of certain assets, liabilities and legal relationships of Banca Popolare di Vicenza S.p.A. in compulsory administrative liquidation and Veneto Banca S.p.A. in compulsory administrative liquidation - With regard to the risks connected with the possible outcomes for the Intesa Sanpaolo Group of the lawsuits relating to Banca Popolare di Vicenza and Veneto Banca (and/or their directors and top management), the following is noted:

a) based on the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo (sale contract of 26 June 2017 and Second Acknowledgement Agreement of 17 January 2018), two distinct categories of disputes can be identified (also relating to the subsidiaries of the former Venetian banks included in the sale):
   - the Previous Disputes, included among the liabilities of the Aggregate Set transferred to Intesa Sanpaolo, which include civil disputes relating to judgements already pending at 26 June 2017, with some exceptions, and in any case different from those included under the Excluded Disputes (see the point below);
   - the Excluded Disputes, which remain under the responsibility of the Banks in compulsory administrative liquidation and which concern, among other things, disputes brought (also before 26 June 2017) by shareholders and convertible and/or subordinate bondholders of one of the two former Venetian banks, disputes relating to non-performing loans, disputes relating to relationships terminated at the date of the transfer, and all disputes (whatever their subject) arising after the sale and relating to acts or events occurring prior to the sale;

b) the relevant allowances were transferred to Intesa Sanpaolo along with the Previous Disputes; in any case, if and to the extent the allowances transferred prove insufficient, Intesa Sanpaolo will be entitled to be indemnified by the Banks in compulsory administrative liquidation, at the terms provided for in the sale contract of 26 June 2017. This indemnity is backed by a government guarantee, pursuant to Decree Law 99/2017;

c) after 26 June 2017, a number of lawsuits included within the Excluded Disputes were initiated or resumed against Intesa Sanpaolo. With regard to these lawsuits:
   - Intesa Sanpaolo is pleading and will plead its non-involvement and lack of capacity to be sued, both on the basis of the provisions of Decree Law 99/2017 (Article 3), the sale contract signed with the two Banks in compulsory administrative liquidation on 26 June 2017 (Articles 3.1.1, 3.1.4 and 3.2), the First Acknowledgement Agreement signed on 19 December 2017, and the Second Acknowledgement Agreement signed on 17 January 2018 (Article 3 and Attachment 1.1), and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the sale contract), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
   - even if there were to be a ruling against Intesa Sanpaolo (and in any event for the charges incurred by Intesa Sanpaolo for any reason in relation to its involvement in any Excluded Disputes), it would have the right to be fully reimbursed by the Banks in compulsory administrative liquidation;
   - it should be noted that the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that, with effect from 26 June 2017, they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and subordinate bondholders against Intesa Sanpaolo (or in any case included in the category of Excluded Disputes), asking for the declaration of their exclusive capacity to be sued and the consequent exclusion of Intesa Sanpaolo from those proceedings;

d) pursuant to the agreements between the two Banks in compulsory administrative liquidation and Intesa Sanpaolo, the disputes regarding the marketing of shares/convertible and/or subordinated bonds initiated against Banca Nuova (subsequently merged by incorporation into Intesa Sanpaolo) and Banca Apulia are also included in the Excluded Disputes (and therefore have the same treatment as described above), as a result of the abovementioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented.
   In this regard, however, it should be noted that as at 31 December 2018, the Securities and Financial Ombudsman (*Arbitro per le Controversie Finanziarie*) upheld 88 complaints filed by customers of Banca Nuova regarding shares of Banca Popolare di Vicenza and 108 complaints filed by customers of Banca Apulia regarding shares of Veneto Banca. Banca Nuova (now Intesa Sanpaolo) and Banca Apulia did not implement the decisions because – for the reasons set out above and in accordance with the provisions of the European Commission Decision C(2017) 4501 final on State aid – any liability relating to the marketing of the shares of the former Venetian banks must be considered as being borne exclusively by the two Banks in compulsory administrative liquidation.

In January 2018, as part of a criminal proceeding before the Court of Rome for the alleged market rigging and obstructing the Supervisory Authorities in the performance of their functions with respect to officers and executives of Veneto Banca, the preliminary hearing judge decided that Intesa Sanpaolo could be charged with civil liability.
As a result of this decision, more than 3,800 civil plaintiffs joined the proceedings as shareholders or subordinated bondholders of Veneto Banca. Intesa Sanpaolo entered an appearance requesting its exclusion from the proceedings, in application of the provisions of Decree Law 99/2017, of the rules established for the compulsory administrative liquidation of banks and, before that, of the principles and rules contained in the bankruptcy law, in addition to the constitutional principles and decisions made at EU level. Veneto Banca in compulsory administrative liquidation intervened voluntarily affirming its exclusive, substantial and procedural capacity to be sued.

In March 2018, the preliminary hearing judge declared his lack of territorial jurisdiction, transferring the files to the Public Prosecutor's Office of Treviso. The charge of civil liability and the joinders of the civil parties were therefore removed.
On the other hand, in a criminal proceeding before the Court of Vicenza against the officers and executives of Banca Popolare di Vicenza, the preliminary hearing judge rejected the request for authorisation to charge Intesa Sanpaolo with civil liability, on the basis of the sale contract of 26 June 2017 and the special provisions contained in Decree Law 99/2017.

Potential assets
With regard to potential assets – given that there have been no substantial changes – please see the information provided in the 2016 Financial Statements regarding the IMI/SIR dispute.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2018.
In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 31 December 2018, Intesa Sanpaolo had 246 pending litigation proceedings (144 as at 31 December 2017) for a total amount of 222 million euro (214 million euro as at 31 December 2017), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 47 million euro (65 million euro as at 31 December 2017). The reduction was largely due to the so-called "tax amnesty" described below.
At the Group's other Italian companies, tax disputes totalled 139 million euro as at 31 December 2018 (unchanged compared to 31 December 2017), covered by specific provisions of 47 million euro (33 million euro in the 2017 financial statements).
Tax disputes involving international subsidiaries, totalling 5 million euro at year-end (11 million euro as at 31 December 2017), are covered by allowances of 4 million euro (unchanged from 31 December 2017).
The general tax audit on the Parent Company by the Piedmont Regional Office - Large Taxpayers Office, covering the 2014 tax period, was completed at the end of September. After having considered the results from both the audit and the subsequent discussions with the Agency to be very positive, it was agreed to settle all the claims, also with regard to the tax years 2013, 2015 and 2016 made in the tax audit report, with a total charge of about 1.5 million euro, of which around 70 thousand euro for penalties and around 150 thousand euro for interest.
With regard to the new disputes initiated, an appeal has been filed against the assessment notice served in August 2018 on ISP, as the consolidating entity of Intesa Sanpaolo Private Banking ("ISPB"), regarding IRES tax for the tax year 2013 for higher tax of 3.3 million euro, plus penalties of 3.2 million euro and interest. The notice contests the subsidiary's deduction of the amortisation of goodwill arising from two contributions of private banking business units from ISP and Cariromagna in 2009. ISP and ISPB have filed an appeal against the notice before the Milan Provincial Tax Commission. Identical claims have already been made by the Italian Revenue Agency, also for IRAP tax purposes, against ISPB and ISP for 2011 and 2012 and the related proceedings have been completed at first instance with decisions in favour of the Milan Provincial Tax Commission.
A dispute involving the former Banca Carime (now UBI S.p.A.) concerning two assessment notices for IRPEG tax for the years 1996 and 1997 (value of claim of 7.5 million euro), after an unfavourable first instance and a positive second instance outcome for the bank, completed its last instance of the proceedings with order no. 22973 of the Court of Cassation of 2018 which, on rather brief and cryptic grounds, would appear to have accepted the Agency's argument regarding the multi-year nature of the costs which, in contrast, the bank had deducted entirely in the year in which the costs were incurred, and deferred the case back to the appeal judge for a new assessment of the merits of the case.
The effects arising from the settlement of disputes through the new so-called tax amnesty deserve a separate and specific discussion. Article 6 of the tax decree linked to the 2019 Budget Act (Law Decree no. 119/2018) introduced the possibility for taxpayers of settling tax disputes, by May 2019, in which the Italian Revenue Agency is a party (but with the possibility of extending it to local authorities and their bodies), concerning tax claims pending at any instance and level of proceedings, including the proceedings before the Court of Cassation, also after deferral. An analysis was conducted on Intesa Sanpaolo, which identified significant benefits with regard to the settlement of disputes concerning the recovery of registration tax paid on the contributions of business units and the subsequent sales of the equity investments, which were reclassified by the tax authorities as sales of business units, with the consequent assessment of a higher value for the business units. Many of these disputes are pending before the Court of Cassation on appeal by the State Attorney General, and rulings in favour of the bank have been issued at both first and second instance proceedings.
Of the total disputes relating to this area, which totalled 129 million euro, 94.3 million euro will be settled, with taxes of around 6 million euro.
In view of the above, as at 31 December 2018, the allowances for risks in excess of the above amount due were released and the corresponding DTAs were derecognised.
With regard to the settlement of disputes, it should also be noted that Article 1, paragraph 1084, of the 2019 Budget Act (Law 145/2018) established that the amendments to Article 20 of Presidential Decree 131/1986 (Consolidated Law on Registration Tax) introduced by Law 205/2017 constitute an authentic interpretation of the aforementioned Article 20. In particular, the provision of the 2018 Budget Act (paragraph 87), which amended Article 20 of the Consolidated Law on Registration Tax limiting the reclassification by the tax authorities in relation to deeds subject to registration has been specifically classed as an authentic interpretation, thus giving it retroactive effect. The reclassification can now only be performed on the basis of the information contained in the deed subject to registration, without considering information outside the text of the deed or contained in the documents related to the deed. It is worth recalling that paragraph 87, letter a) of the 2018 Budget Act amended the rule that established that the registration tax must be charged according to the intrinsic nature and legal effects of the deeds submitted for registration, even if their title or apparent form does not correspond to them

(Article 20 of Presidential Decree no. 131 of 1986). This is without prejudice to the rules governing the abuse of rights contained in the charter of taxpayer's rights, within the scope of the powers and responsibilities of the offices in determining the tax base. As a result of the provision introduced in the 2019 Budget Act, the amendments made to Article 20 are expressly classed as rules of authentic interpretation and, consequently, the amendment is not only applicable from 1 January 2018, but also has retroactive effect for registrations prior to that date.
This amendment could have a positive impact on the Group's pending proceedings involving registration tax relating to the reclassification, but it has not been prudentially taken into account as at 31 December 2018, pending verification, within the deadline for the tax amnesty, of the position that will be adopted by the Italian Revenue Agency and the rulings of the Court of Cassation.
With regard to the Italian subsidiaries, a positive conclusion was reached in a dispute involving Intesa Sanpaolo Vita (-13 million euro) and Mediocredito Italiano - former Leasint (-1 million euro) and disputes involving Banca Apulia were settled (-9 million euro).
New disputes included Fideuram – Intesa Sanpaolo Private Banking. On 11 October 2018, the Tax Police (*Guardia di Finanza*) served a tax audit report on the company for the 2013 tax year - as a partial result of the audit initiated on 26 January 2017 and still in progress - regarding the:

– the recalculation of the transfer prices for transactions involving the French subsidiary Euro-Trésorérie, based on the application of the profit split method, attributing part of it to the parent company Fideuram, with the consequent claim of higher taxable income not declared for IRES/IRAP tax purposes of 47.2 million euro, determined on the basis of the French accounting standards;
– the non-deductibility for IRES and IRAP tax purposes of the cost incurred by the company for the organisation of conventions for its financial advisors, due to the lack of the requirement of pertinence envisaged in Article 109, paragraph 5, of the Italian Income Tax Legislation (value of 1.9 million euro) and for failure to comply with the requirement of pertinence envisaged in Article 107, paragraph 4, of the Italian Income Tax Legislation (value of 1.5 million euro);
– the failure to apply withholding taxes on the proceeds of long-standing Luxembourg mutual funds amounting to less than 2 thousand euro.

This matter has been the subject of analysis and long discussions with the competent Large Taxpayers Office of the Lazio Region Italian Revenue Agency, following which the Italian Revenue Agency has made a settlement proposal with the following terms:

– with regard to the first dispute, through the adjustment of the transfer prices of the transactions with Euro-Trésorérie by around 14.4 million euro (instead of the 47.2 million euro claimed in the tax audit report), corresponding to higher taxes (IRES tax at 27.5%, additional IRES tax at 8.5% - applicable only in 2013 - and IRAP tax at 5.55%) of around 6 million euro, plus interest of around 1 million euro, without application of any penalties;
– with regard to the two disputes relating to the conventions, through the acceptance of the amounts claimed with the payment of around 1.2 million euro of taxes, penalties and interest. In view of the uncertainty underlying a possible dispute in terms of the possibility of obtaining a favourable ruling or the difficulties of settling the dispute by arbitration, the Agency's settlement proposal was assessed positively, also taking into account the developments in the dispute in relation to the continuation of the audits for the following years, from 2014 to 2016.

The situation for 2013 was therefore settled, with a total charge of 8.5 million euro determined on a higher taxable income of 17.7 million euro. For the years 2014-2017, the total charge was estimated at 16.8 million euro and has been allocated to the allowance for tax litigation. In total, an overall amount of 25.3 million euro was recognised in the 2018 income statement.
The company was also served an assessment for IRES tax and the related additional tax and IRAP tax for 2013, contesting the deduction of the annual amortisation charge of 11.9 million euro for goodwill arising from the contribution of private banking business units in 2010 by Intesa Sanpaolo and other Group companies (value of claim of 10 million euro). The risk of liabilities is considered to be remote, also taking into account the favourable first instance rulings for the years 2011 and 2012, already mentioned above in relation to the Parent Company.
At the end of the year, Intesa Sanpaolo Vita was served an assessment, for the former Eurizon Vita S.p.A., in relation to VAT for 2013 for a total amount of 0.24 million euro for failure to invoice the agency fees received, in its capacity as an agent under the co-insurance agreements.
The dispute - the latest in a series which also covers previous tax periods - relates to a long-debated matter that has affected the insurance sector for years, regarding which the courts have had difficulty in taking a definitive position. In particular, the disputed transactions relate to contracts entered into between insurance companies falling within the category of co-insurance contracts. According to the agreements on the new insurance relationships shared in co-insurance, the principal company assigned the management of the contract to the agent company, through the so-called agency clause. The services that the agent provides in the common interest include, for example, the search for the customer, with the associated management of the negotiation phases; the signing and conclusion of the contract; the receipt of communications from the policyholders; the collection of insurance premiums; and the management, assessment and determination of damages. In return for these services, the principal pays the agent a fee commonly referred to as the "agency fee" or "liquidation fee". According to the insurance companies and based on the rules of conduct laid down by ANIA (Italian insurance businesses association), the activities carried out by the agent co-insurer should be considered exempt from VAT, in accordance with the combined provisions of nos. 9) and 2) of Article 10, first paragraph, of Presidential Decree no. 633 of 26 October 1972, because, in addition to managing the performance of those contracts, it also looks for potential customers, puts them in contact with the principal co-insurers and enters into the contracts in their name and on their behalf, thereby providing an intermediation service relating to insurance operations.
According to the Italian Revenue Agency, the services provided by the agent to the principal are to be considered independent from the co-insurance contract and subject to VAT at the ordinary rate as they are not related to the assumption of the risk of the policyholder by the insurer, instead they concern the joint organisation of several insurers for the expansion of the market and the management of the contracts.
The trial courts' case-law and Court of Cassation rulings up to 2017 were mainly oriented towards considering the activities carried out by the agent co-insurer as being exempt from VAT. However, in the last year the Court of Cassation has reversed its stance. In particular, in July 2018, the Court of Cassation handed down rulings in favour of the tax authorities against Intesa Sanpaolo Vita in relation to the VAT disputes of 2003 and 2004 (value of 15 million euro). At present, the company has

9 pending disputes for a total remedy sought of around 19 million euro for VAT and penalties (plus interest) with risk considered to be remote.
Also for Intesa Sanpaolo Vita, the IRES tax dispute for 2010, in which the write-downs of two unlisted bonds (value of 13 million euro) were contested, was concluded with a favourable outcome. The risk of a negative outcome had been considered remote.
For the international subsidiaries, the following tax audits are currently being carried out: on the Croatian company Privredna Banka Zagreb - PBZ, with regard to direct taxes and VAT for the year 2015, with the possibility of extending them to other years; on the US company IMI SEC, for the years 2015 and 2016; and on the Hungarian company CIB Bank Ltd, for the tax years 2015 and 2016. None of these audits have so far resulted in significant claims.
The disputes of CIB Bank concerning VAT for the year 2007 (-3.6 million euro) and Pravex concerning direct taxes for the years 2011-2017 (-2.8 million euro) have been settled, with no impact on the allowance for risks and on the 2018 income statement.

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In connection with all the tax disputes outstanding as at 31 December 2018, for a total value of 366 million euro, of which 222 million euro relating to Intesa Sanpaolo (364 million euro as at 31 December 2017, of which 214 million euro for Intesa Sanpaolo), the Group has recognised receivables of 69 million euro in its balance sheet assets (75 million euro as at 31 December 2017) to account for amounts paid on a provisional basis due to tax assessments, of which 37 million euro (45 million euro as at 31 December 2017) related to the Parent Company.
The portion of the allowance for risks, which relates to provisional tax assessments, amounts to 73 million euro (48 million euro at 31 December 2017), of which 26 million euro (in line with 31 December 2017) for Intesa Sanpaolo.
The provisional payments in question were made in compliance with specific legal provisions, which provide for the mandatory payment based on an automatic mechanism totally independent of 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 because of the enforceable nature of the administrative acts that set forth the related tax claim, which does not lose its effectiveness even in the event of an appeal (no suspensive effect) and has no impact on the assessment of the actual risk of a negative outcome, which must be measured using the criterion set forth in IAS 37 for liabilities.