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 reputational risks are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the main 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 control of the Group's operational risk was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
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 Group Risk Manager Area (specifically in the Enterprise Risk Management Department) for the 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-diagnosis process, conducted on an annual basis, allows to:
- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk, through a preliminary assessment by the IT functions and other functions with control duties (IT Security and Business Continuity);
- create significant synergies with the other functions with control duties 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-diagnosis 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 (Self-diagnosis) information.
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 analysis) 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 (Business Environment Assessment), to take into account 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 managing and/or mitigating the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was 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 damage, cash and valuables in transit losses, computer fraud, forgery, cyber crimes, 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.

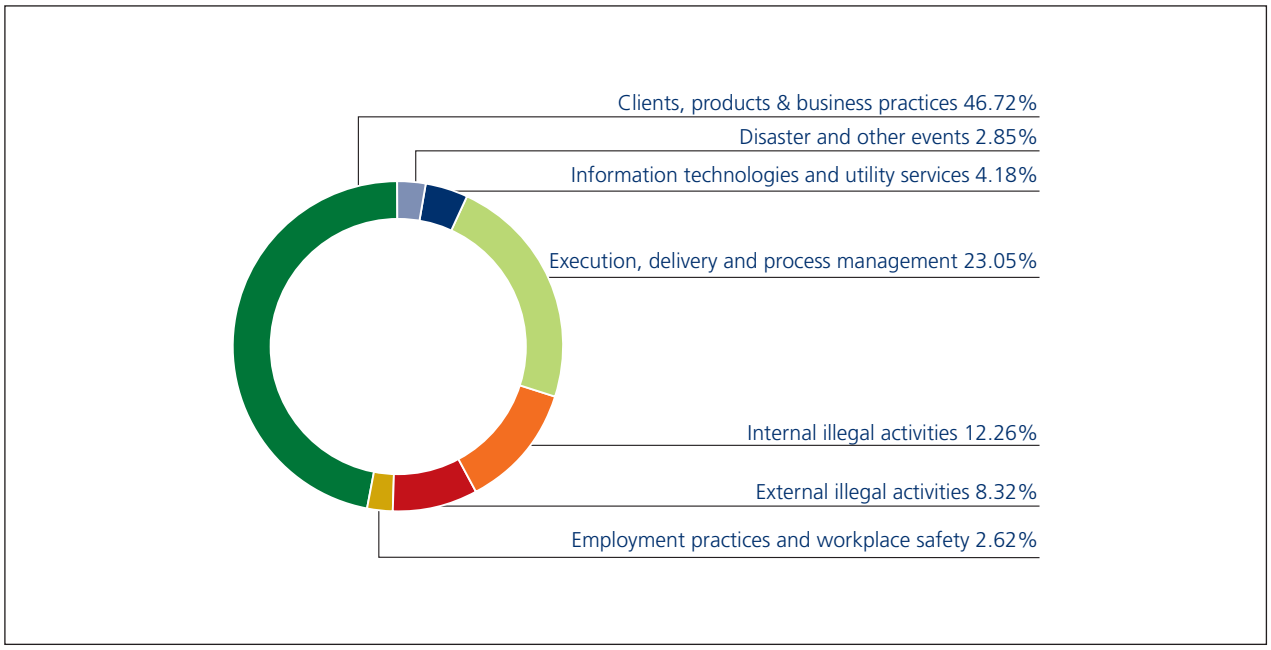
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

QUANTITATIVE INFORMATION

In determining its capital requirements, the Group adopts a combination of the methods provided for in regulations; the resulting capital requirement was 1,652 million euro as at 31 December 2015, down slightly from 31 December 2014 (1,693 million euro), with the AMA portion essentially stable and a slight decrease in the TSA and BIA components (following the annual update of the Relevant Indicator data used for this purpose).

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 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 2015 a total of about 18,000 disputes were pending, with total remedy sought of 7,916 million euro and allowances of 822 million euro.
The Parent Company and network banks are parties to disputes with total remedy sought of 6,319 million euro and allowances of 573 million euro with respect to the Parent Company and network banks. In further detail, these are:

- bankruptcy revocatory disputes, with remedy sought of 382 million euro and allowances of 56 million euro;
- insolvency compensation disputes, with remedy sought of 544 million euro and allowances of 8 million euro
- disputes concerning investment services, with remedy sought of 291 million euro and allowances of 61 million euro;
- disputes concerning interest in excess of the legal limit and other conditions, with remedy sought of 820 million euro and allowances of 122 million euro;
- disputes involving banking products, with remedy sought of 227 million euro and allowances of 26 million euro;
- complaints concerning loan positions, with remedy sought of 1,361 million euro and allowances of 12 million euro;
- disputes concerning criminal procedures and operational errors, with remedy sought of 113 million euro and allowances of 17 million euro;

– disputes concerning transferred loan positions, with remedy sought of 548 million euro and allowances of 94 million euro;
– other civil and administrative disputes, with remedy sought of 2,033 million euro and allowances of 177 million euro. The total amount also includes the remedy sought in the Rizzoli dispute, illustrated below, amounting to approximately 700 million euro. There are also labour lawsuits, in which the amount of remuneration or compensation for damages sought is often not specified, covered by allowances of 89 million euro.

Other disputes with total remedy sought of 1,192 million euro and allowances of 184 million euro relate to the other Italian investees (excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) and primarily consist of disputes concerning interest beyond the legal limit and other conditions, with remedy sought of 288 million euro (allowances of 10 million euro), bankruptcy revocatory disputes, with remedy sought of 159 million euro (allowances of 16 million euro), disputes concerning operational matters, with remedy sought of 113 million euro (allowances of 68 million euro) and disputes concerning investment services, with remedy sought of 101 million euro (allowances of 28 million euro).
Other disputes, with total remedy sought of 405 million euro and allowances of 65 million euro, concern the international subsidiaries.

The following paragraphs contain brief remarks concerning the dispute relating to anatocism and investment services, as well as some concise information concerning individual legal disputes involving matters of particular complexity and/or potentially high costs.

Dispute relating to anatocism – As is common knowledge, in 1999 the Italian Court of Cassation reversed its stance and found the quarterly capitalisation of interest payable on current accounts to be unlawful. Following this decision, a series of disputes emerged on the subject of the capitalisation of interest for contracts executed prior to that date, whereas the problem was partly resolved for contracts executed after the amendment of Art. 120 of the Consolidated Law on Banking introduced in the interim by Legislative Decree 342/99, which made it legal to capitalise interest payable and receivable, provided that both occur with the same frequency.
In many cases, lawsuits pertaining to anatocism also concern other current account conditions, such as interest rates and overdraft charges (no longer applied). The overall economic impact of lawsuits in this area remain at insignificant level in absolute terms. The phenomenon is nonetheless the subject of constant monitoring. The risks related to these disputes are covered by specific, adequate provisions to the Allowances for risks and charges.
The phenomenon of "anatocism" (capitalisation of interest) saw further development following the amendment to Art. 120 of the Consolidated Law on Banking by the 2014 Stability Law. The new statute, deemed inapplicable in the absence of the resolution of the CICR (Interdepartmental Committee for Credit and Savings), which has been delegated to establish the "conditions and criteria for the accrual of interest in transactions undertaken in the context of banking activity", has rekindled controversy surrounding the legality of capitalised interest. In particular, the Consumers Movement Association has brought various suits on a preventative basis against the major Italian banks, including Intesa Sanpaolo, seeking an injunction against contractual clauses concerning capitalised interest, inasmuch as the new Art. 120 of the Consolidated Law on Banking is argued to have rendered it impossible to apply such interest from the date of entry into force of the statute (1 January 2014).
With the exception of some decisions favourable to the banks, in most cases, as in the case of Intesa Sanpaolo, the application for an injunction was granted, and the proceedings on the merits are now pending before the various courts. In this context, Intesa Sanpaolo objected, among its other arguments, that Art. 120 of the Consolidated Law on Banking is inapplicable in the absence of the resolution of the CICR, and that the statute is in conflict with the principle of EU law and the European Convention on Human Rights, in addition to being unconstitutional.
The outcome of the dispute cannot be predicted at this time. However, it will presumably also be influenced by the contents of the CICR resolution to be passed. The risk is estimated to be limited, even in the event of a negative outcome.

Altroconsumo class action - In 2010 Altroconsumo brought a class-action suit against Intesa Sanpaolo, seeking a finding of the unlawfulness of overdraft charges and the fee for overdrawing accounts without credit facilities. After the scope of the dispute was limited to the fee for overdrawing accounts without credit facilities, on 10 April 2014 the Court of Turin ruled that 101 of the 104 participants in the class-action suit were not admissible due to formal irregularities. On the merits, it found that the fee for overdrawing accounts without credit facilities was 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 accountholder, given that no banking service requiring compensation has been provided in such cases. The decision was appealed by Intesa Sanpaolo because it is founded upon an untenable interpretation of the statute concerned. The appeal proceedings are still pending.
At the level of the income statement, the judgment is of negligible significance. 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.

Dispute concerning other banking products – In the context of the dispute relating to other banking products, which remained at normal, limited overall levels, there was an increase, with regard to consumer credit business, in requests from customers who repaid their loans in advance to obtain a partial refund of sums paid at the signing of the contract (by way of financial fees or insurance costs).
In particular, the complaints revolve around an unclear distinction in contracts between fees for services rendered by the disbursing entity during the process of granting the loan, which thus are not eligible for a refund in the event of early repayment, and fees relating to management of the loan over time, which are therefore eligible for a pro-rated refund in the event of early repayment.
The foregoing contractual uncertainties relate to contracts signed in 2010, since after that date the aspects set out above were more clearly delineated in the contracts.

Dispute pertaining to investment services – Disputes concerning investment services continue to decrease in both number and value (down by approximately 16% compared to 2014). Also risks related to this category of disputes are constantly monitored and covered by accurate allowances that reflect the specific characteristics of the individual cases.

Cirio Group lawsuits - In 2007 ten companies affiliated with the Cirio Group in extraordinary administration served writs of summons on Intesa Sanpaolo and Banca Caboto (now Banca IMI), along with five other banks, seeking compensation, on a joint and several basis, for alleged damages, deriving in particular from the exacerbation of the default of the Cirio Group from the end of 1999 and 2003, of a maximum amount of 2,082 million euro and a minimum amount of 421 million euro.
In November 2009, the Court of Rome found that the Cirio Group's claims were without foundation.
While the appeal lodged by the claimants was pending, at the end of December 2015 a comprehensive settlement was reached, without the need for any outlay by the Intesa Sanpaolo Group, but only the waiver of the reimbursement of legal costs awarded in the first instance, the unsecured claims against the extraordinary administration procedures, and future distributions, up to the all-inclusive amount of 1 million euro.

Angelo Rizzoli lawsuit - In September 2009, Angelo Rizzoli filed suit against Intesa Sanpaolo 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 control of Rizzoli Editore S.p.A. and claiming compensation in an amount ranging from 650 to 724 million euro.
In 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 claimant lodged an appeal, and the suit, which was suspended due to Angelo Rizzoli's death, was then resumed by the executor of the estate. Conclusions were then presented at the hearing of 22.12.2015.
Considering the favourable outcome of the first instance proceedings, no provisions were allocated.

Mazzucco Group lawsuit - By judgment filed on 20/05/2011, the Court of Bologna rejected the compensation claims of over 343 million euro brought against Cassa di Risparmio di Bologna and the Ministry of Economic Development by Antonio Mazzucco and companies represented by him, in respect of alleged damages sustained due to the revocation of the subsidies initially granted to the companies pursuant to Law 488/1992.
The decision was appealed, and the Court of Appeal, without granting the appellants' interim motions, set the term to proceed with the decision of the case in early 2016.
The appeal appears likely to see the judgment of the first instance upheld, and there are therefore no elements of risk.

Tralli Federico, Nuova Era S.A. and Holding 99 S.r.l. lawsuit - In September 2004 the claimants sued Intesa Sanpaolo, seeking, among other remedies, compensation for damages of 304 million euro, alleged to have been caused by the unlawful assignment to third parties of the receivables due from the claimants and the related pledge of Area S.p.A. shares. The Bank - as global coordinator and sponsor of the public invitation to bid for the shares of Area S.p.A. - was also alleged to be responsible for the failure of Area S.p.A. to obtain a listing on the stock exchange.
In its defence, the Bank demonstrated that it acted with the due diligence, and in particular that the decision to suspend the listing on the stock exchange was not attributable to the Bank.
The outcome of the trial was favourable to Intesa Sanpaolo in both the first and second instances. In 2011 the claimants lodged an appeal with the Court of Cassation. It is believed likely that the outcome will also be favourable in this instance.

Fondazione Monte Paschi di Siena lawsuit – In July 2014, Fondazione Monte Paschi di Siena sued 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 on a joint and several basis for all defendants, 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.
The compensation claim, as presented against the defendant banks, is believed to be without foundation on a variety of grounds, including: an incorrect technical valuation of the financial statement captions which form the basis of the alleged breach of said statutory limit, the lack of a causal relationship between the objectionable conduct and the harmful event, and, finally, the improper determination of the amount of the items of the damages into which the compensation claim is divided.

Municipality of Taranto disputes – In 2007 the Municipality of Taranto sued Banca OPI (now Intesa Sanpaolo) before the Civil Court of Taranto with regard to the subscription by Banca OPI in 2004 for a bond of 250 million euro issued by the municipality.
In 2012 the Lecce Court of Appeal, upholding the judgment of the first instance, declared the invalidity of the operation, ordering the Bank to refund, with interest, the partial repayments of the bonds made by the municipality. The municipality was ordered to repay the bond, with interest. 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.

Intesa Sanpaolo lodged an appeal with the Court of Cassation and the hearing for discussion has been scheduled for 26 January 2016.
In November 2010 the Bank 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. A stay of these proceedings has been ordered pending the decision by the Court of Cassation.
The same matter is also the subject of criminal proceedings before the Court of Taranto against several executives of Banca OPI and Sanpaolo IMI (and members of the municipal council), in which the municipality has claimed damages, and Intesa Sanpaolo has been claimed to bear civil liability of no less than 1 billion euro. The charge is indirect abuse of office (a crime not significant for the purposes of Legislative Decree 231/2001).
In October 2014, the court ordered two Banca OPI executives (after acquitting all of the other Group defendants) to provide compensation, on a joint and several basis with the Bank, for the damages suffered by the municipality, to be established in separate proceedings, with the provisional amount of 26 million euro.
Both the convicted former employees and the Bank have lodged appeals.
In light of the grounds of the criminal judgment, in which it is clearly stated that the provisional amount is almost entirely represented by the interest actually paid by the municipality (approximately 25 million euro), already the subject of a civil judgment, an outlay by the Bank is unlikely, since the amount may be set off against the larger claim (approximately 230 million euro) against the municipality.
The Bank and the municipality have met repeatedly to assess the possibility of an amicable settlement to the 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.

Interporto Sud Europa (ISE) lawsuit – At the end of 2013 Interporto Sud Europa (ISE) sued Banco di Napoli and another bank, seeking a judgment ordering them to provide compensation for damages of 185 million euro on a joint and several basis. The damages in question, which have not been proved, are claimed to be attributable to failure to disburse an approved loan for the construction of a shopping centre. This is argued to have caused ISE a liquidity shortfall that led it to sell the shopping centre at a price 157.4 million euro below its market value and to accept liability for additional construction work for a total cost of 27.8 million euro.
In its defence, the Bank emphasised various factual elements intended to justify the decision not to disburse the loan.
The claimant did not file preliminary briefs, and the judge adjourned the case until the presentation of conclusions in 2017. In light of the factual circumstances and defensive arguments, the case may currently be regarded as without risks.

Acotel Group S.p.A. lawsuit - In October 2014 Acotel Group S.p.A. (after having waived arbitration proceedings previously initiated in regard to the same matter) and Noverca Italia s.r.l. sued Intesa Sanpaolo, seeking total compensation for damages of approximately 160 million euro, due to alleged breach of a cooperation agreement concerning, among other matters, the sale of an innovative telephone SIM card.
In its defence, the Bank emphasised, among its other arguments, the inadequacy of the product from a technological standpoint and the uncompetitive rates, factors to which it attributed the failure of the commercial initiative.
Pending the decision concerning the admission of the evidence requested by the claimants, in light of the facts of the case and the defensive arguments, the suit may currently be regarded as without risk.

Fatrotek lawsuit – Fatrotek S.r.l. brought a compensation suit against Intesa Sanpaolo (along with four other banks and the assignee of the receivables, the former Carime, Castello Finance). The claimant disputed the report of bad payer status in the Central Credit Register and sought a judgment ordering the banks that submitted the report to provide compensation for financial and non-financial damages of 157 million euro. The claim appears to be unfounded, primarily in light of the failure to demonstrate the causal connection between the alleged damages and the Bank's purportedly unlawful conduct: in the three years prior to the report of bad payer status in the Central Credit Register (which was submitted in 2004), the claimant had assets insufficient to cover its exposure to the banking system.
The suit is currently in the preliminary phase.

I Viaggi del Ventaglio Group lawsuits - The dispute with the I Viaggi del Ventaglio Group concerns three separate sets of allegations, two of which have now come to trial.
In December 2011, the bankruptcy trustee of Ventaglio International and two of its subsidiaries sued Intesa Sanpaolo and another bank, claiming damages due to the sale of mortgaged tourism complexes and the exacerbation of its default as a result of the continuation of company operations made possible by a pool loan of 95 million euro (only 25 million euro of which was provided by ISP), disbursed in 2005 to the parent company, I Viaggi del Ventaglio. The judgment is still pending, but it is believed it will be favourable, since it has not been proved that the banks' actions were unlawful or that there was a causal link between the loan provided and alleged damages.
In June 2014, the bankruptcy trustee of I Viaggi del Ventaglio sued the bankrupt company's directors and statutory auditors, along with Intesa Sanpaolo and another bank, for compensation for a series of financing transactions argued to have allowed the company to continue to operate improperly and thus to have exacerbated its default. The damages have been quantified at a minimum of 170 million euro and a maximum of approximately 191 million euro. In its appearance, Intesa Sanpaolo objected firstly that the right to damages had extinguished due to prescription and that the claimant did not have standing to sue, while also challenging the claims on the merits on matters of fact and law. The case is in the initial phase and there is currently not believed to be a concrete risk of an unfavourable outcome.
In July 2012 an extra-judicial request was received from the bankruptcy trustee of Organizzazione Viaggi Columbus S.r.l., regarded as specious and without foundation from the bank's perspective. This request did not give rise to any legal initiatives.

Allegra Finanz AG lawsuit – In 2015 the judgment rejecting the claims brought by Allegra Finanz AG and other international institutional investors against Intesa Sanpaolo, Eurizon Capital SGR and six other financial institutions concerning compensation claims of 129 million euro, resulting from losses due to investments in bonds and shares issued by Parmalat Group companies, became res judicata.

Alis Holding S.r.l. lawsuit – At the end of 2014, Alis Holding S.r.l. in liquidation sued Intesa Sanpaolo, seeking compensation for damages of 127.6 million euro, on the grounds that the Bank allegedly breached an obligation to provide financing to its investee Cargoitalia without justification. In addition to objecting that Alis Holding lacked standing to sue, the Bank challenged the opposing party's claims from various perspectives, in particular due to the lack of a causal link between its actions and the alleged damages, the absence of any commitment whatsoever on the Bank's part to fund Cargoitalia and the improper representation and quantification of the alleged damages.
While the suit was ongoing, the claimant formulated an additional subordinate compensation claim (in the same amount as its principal claim), alleging that the Bank was liable on the basis of statements made by a Bank employee in the capacity of the company's Board of Directors. In its defence, Intesa Sanpaolo disputed this allegation and objected to the new claim. At present, given the facts of the case and defensive arguments, the suit may be regarded as without risks.

Elifani Group lawsuits - In 2014 several disputes involving anatocism and interest beyond the legal limit were settled with four companies attributable to the Elifani Group of Rome, resulting in a total outlay for the Bank of 6 million euro.
In November 2015, the proceedings before the Court of Appeal were concluded, upholding the judgment of the first instance favourable to the Bank concerning the compensation claims of approximately 116 million euro formulated by three Elifani Group companies. The term for an appeal before the Court of Cassation has begun to run.

Alberto Tambelli lawsuit - In January 2013, before the Milan Court of Appeal, Alberto Tambelli reinstated an action after the Court of Cassation decision, claiming compensation for damages in terms of lost earnings for a total of approximately 110 million euro. The damages in question are alleged to derive from futures transactions undertaken in 1994, as a result of which Mr. Tambelli purportedly suffered financial loss**.** On termination of both levels of proceedings brought against the Bank, the claimant obtained compensation of the damages suffered but was 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.
On appeal, the counterparty's preliminary motions were not granted and the case was adjourned until 2016 for the presentation of conclusions.
As the lawsuit is deemed lacking in grounds no provisions have been made.

Disputes regarding tax-collection companies - In the context of the government's decision to reassume responsibility for tax collection, Intesa Sanpaolo sold to Equitalia S.p.A. 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 financial situation at the time of the sale.
A technical roundtable has been formed with Equitalia in order to assess the parties' claims.
At the level of disputes, the sole case of litigation refers to the suit brought before the Court of Accounts - Campania Regional Section, by the bankruptcy trustee of SERIT S.p.A., a former collection agent. The bankruptcy trustee claims 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 compensation claim has been quantified at 129 million euro. The judgment is pending. 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.

Dealings with the Giacomini Group - In May 2012, the Public Prosecutor's Offices of Verbania and Novara initiated investigations of possible tax offences committed by the Giacomini family and their advisors, and the Public Prosecutor's Office of Milan launched an investigation of 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 (now Intesa Sanpaolo Bank Luxembourg S.A.) 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 the autumn all positions relating to the Intesa Sanpaolo Group were dismissed.

Geni S.p.A. bankruptcy lawsuit - A compensation suit was brought against Cassa di Risparmio Salernitana (subsequently IGC, now Intesa Sanpaolo), alleging that it occupied the position of dominant shareholder and de facto director, failed to provide financial support and unlawfully suspended credit to Geni (a tax-collection company), resulting in its default and bankruptcy.
In its March 2010 judgment, the Court of Salerno rejected the claims brought by the bankruptcy procedure due to a lack of a causal link between the alleged act of mismanagement and the bankruptcy damages.
In April 2011, the bankruptcy trustee lodged an appeal before the Court of Salerno. The case has been adjourned until the hearing of 7 July 2016 for the presentation of conclusions.
We are confident that the outcome of the appeal will also be favourable.

Alexbank lawsuit – In 2015 the preliminary phase of the suit that began in 2011, seeking the quashing of the administrative order for privatisation and the ensuing purchase by Sanpaolo IMI in 2006 of an 80% equity interest in Bank of Alexandria from the Egyptian Government, was brought to a conclusion.
A stay of the proceedings has currently been granted, pending a decision by the Constitutional Court as to the constitutionality of the April 2014 law, known as the "Save Privatisation Act".
On the merits of the case, the opposing party's claims are believed to be without foundation.

Legal and administrative proceedings at the New York branch - Two additional separate developments emerged from the investigation launched in 2008 by the New York District Attorney's Office and the Department of Justice concerning payments in dollars through the New York Branch, which was brought to a favourable conclusion in 2012.
The first, conducted by OFAC (Office of Foreign Assets Control of the U.S. Department of the Treasury), concluded with a modest

fine of 2.9 million dollars. The second, conducted by the Federal Reserve and the New York State Department for Financial Services (a financial service supervisory body of the State of New York), is still ongoing. At present, it is not possible to predict the outcome or evaluate the risk of penalties.

Potrošac dispute
In April 2012, PBZ and seven banks were sued by Potrošac, a consumer association, in relation to loans granted in CHF beginning in 2004, on the grounds that they allegedly did not inform customers adequately of foreign exchange risk and did not clearly specify in the contracts the rules for determining the interest rates, subject to unilateral modification by the banks.
The judgement of the first instance, unfavourable to the banks, was overturned in the second instance, with respect to the part ordering the banks to convert the loans into the local currency (HRK) at the exchange rate as at the disbursement date and at the fixed interest rate applicable to the loan contracts on the signing date. The courts upheld the ruling that the unilateral modification of the interest rates on the loans was unlawful.
In May 2015, the Supreme Court upheld the judgement of the second instance. According to the decision, in order to exercise their rights, customers would have had to take separate legal action. At present, only a very small minority of PBZ's customers have done so. PBZ has recognised appropriate allowances to account for the risk of an unfavourable outcome.

In September 2015, a law was enacted, requiring Croatian banks to offer customers the option of converting loans disbursed or indexed in CHF into euro at the exchange rate applicable at the disbursement date of each loan and at the interest rates applied from time to time to the corresponding loans in euro or in HRK with a euro indexing clause. The law applies to loans contracted from 1 January 2000 to 30 September 2015.
PBZ complied with the law, but in the interim (along with other Croatian banks) submitted an application to the Constitutional Court for constitutional review of the law, requesting that it be suspended pending the decision. The Constitutional Court denied the request for suspension of the law.
PBZ recognised a provision of 172 million euro to cover the losses resulting from the obligations imposed by the new legislation.

As a result of the new law, customers no longer have an interest in pursuing individual litigation.

IMI/SIR dispute
In judgement 11135 filed on 21 May 2015, the Court of Rome ordered Giovanni Acampora and Vittorio Metta, the latter jointly liable with the Prime Minister's Office (pursuant to Law no. 117/1988 on the accountability of the judiciary), to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest running from 1 February 2015 to the date of final payment, plus legal expenses.
The above judgement followed on:
– judgement of the Rome Court of Appeal no. 1306/2013, which overturned, on the basis of judicial corruption, the judgement handed down by that same Rome Court of Appeal in 1990, ordering IMI to pay the heir of entrepreneur Nino Rovelli (who passed away in the interim) the sum of approximately 980 billion Italian lire;
– the compensation claim put forward by Intesa Sanpaolo (successor to IMI) on the basis of the judgements establishing the criminal liability of the corrupt judge (and his accomplices) and ordering the defendants to provide compensation for damages, referring the question of the amount of such damages to the civil courts.

The Court of Rome therefore proceeded to quantify the financial and non-financial damages due to Intesa Sanpaolo for a total of 173 million euro net of tax and after deduction of the amounts since received by the bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.
Given that it was calculated net of tax, the award was grossed up and accounted for net of the amounts relating to: sums already recognised in the balance sheet (but not taken into account in the ruling by the Court of Rome) and to tax credits sold to Intesa Sanpaolo by the Rovelli family by way of settlement. These related to taxes previously paid by IMI as a result of the revoked, corrupt ruling, and the fiscal authorities have already been asked to pay them back. Consequently, 211 million euro has been booked in other operating income, along with the related taxes of 62 million euro.
The counterparties lodged an appeal with a motion for a stay. The appeal documents do not introduce any essentially new elements beyond those already considered and rejected by the court. The first hearing will be held on 19 July 2016.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2015. 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 allowances for risks and charges.

The Parent Company has 300 pending cases of litigation, for a total amount of 380 million euro (952 million euro in the 2014 financial statements), calculated considering both proceedings in administrative venues and proceedings in the various instances of the courts, in addition to three cases, illustrated below, with a tax risk of 467 million euro, for which initiatives were taken to reach a settlement through what are known as "dispute settlement mechanisms". The provisions for risks covering tax litigation were quantified at 229 million euro at 31 December 2015 (75 million euro in 2014).

At the Group's other Italian companies included in the scope of consolidation (with the exclusion of Risanamento S.p.A., not subject to management and coordination by Intesa Sanpaolo), tax litigation totalled 217 million euro at year-end (370 million euro in 2014), covered by specific provisions of 27 million euro (29 million euro in 2014).

Tax disputes involving international subsidiaries, totalling 537 million euro (9 million euro in 2014), are covered by allowances of 10 million euro (6 million euro in 2014). The significant increase in potential risks observed during the year (+528 million euro compared to 2014) is almost entirely related to the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A.

Among major developments affecting Intesa Sanpaolo, an audit initiated by the Guardia di Finanza in November 2013 was concluded with the issue in February 2015 of the auditors' report on findings, including three irregularities. Setting aside the first irregularity, relating to failure to apply VAT to custodian banking services rendered to asset management companies (settled through acquiescence to the assessment notices, but with the right to subsequent recovery of the tax from the asset management companies, which in turn charged it to the funds they manage), the second irregularity concerns the failure to withhold tax on interest paid by the New York branch on deposits by Intesa Funding LLC (2008-2013) and Sanpaolo IMI US Financial Company (2008-2010) on the basis of commercial papers issued by the companies in question on the U.S. market. The allegation, which presupposes that the foreign branch is subject to Italian withholding agent obligations, and which does not take account of the treaty for the avoidance of double taxation between Italy and the U.S., entails a total tax risk of 134 million euro. The third irregularity concerns a clearly unsubstantiated allegation of abuse of the law in connection with the operations of Intesa Sanpaolo Holding International ("ISPHI"), a Luxembourg holding company based that manages equity investments and loans to the Group's international banks. In particular, the Guardia di Finanza claim that the interest paid by the Italian subsidiary Mediocredito Italiano to Intesa Sanpaolo Bank Luxembourg (in turn, a borrower from ISPHI) may be attributed to Intesa Sanpaolo (as a shareholder of ISPHI), resulting in IRES and IRAP due on that same interest. The total risk associated with this irregularity is 107.5 million euro, including tax, penalties and interest.

Another significant tax dispute involves Tier 1 funding raised by issuing preference shares through companies based in the U.S.A. In this connection, it should be recalled that a report on findings issued by the Guardia di Finanza in September 2013 alleged that tax had failed to be withheld at source on interest paid by Intesa Sanpaolo, in the years 2007-2011, in respect of deposits placed by the above U.S. companies in view of capital enhancement. The allegations are based on the characterisation of the deposits as loans by the issuers to the Parent Company, and, as such, as subject to approval by the Bank of Italy and reporting in the financial statements. Overall, the allegations in question entail a maximum tax risk of 225 million euro, including tax, penalties and interest. The appeals concerning 2007 and 2008 were rejected by the Turin Provincial Tax Commission, but without application of penalties.

To resolve the disputes illustrated above (with the exception of the dispute concerning VAT on custodian bank services, which has already been settled), which present a total tax risk of 467 million euro and account for approximately 60% of Intesa Sanpaolo's disputes, initiatives have been taken to reach a settlement with the Italian Revenue Agency through "dispute settlement mechanisms", in view of the Bank's admission of the "cooperative compliance" programme governed by Legislative Decree 128/2015.

Attention should also be drawn to the important agreement reached with the Italian Revenue Agency in 2015 for complete settlement of the charges concerning tax period 2005, resulting in a reduction of the revenue authority's claim from the original 376 million euro (including tax, penalties and interest) to approximately 6 million euro. The most significant dispute from a quantitative standpoint subject to the above settlement, amounting to 370 million euro, concerned the claim that the losses on the transfer without recourse of non-performing loans to Castello Finance S.r.l. (a vehicle controlled by Fortress and Merrill Lynch), undertaken in 2005 by Banca Intesa, Intesa Gestione Crediti and Mediocredito Italiano, were not tax-deductible.

With respect to the dispute concerning the recovery of registration tax on contribution of company assets and the subsequent sale of equity investments, characterised by the tax authorities as transfer of a business unit, the Regional Tax Commission of Milan handed down its judgment with an unfavourable ruling to the Group in the specific matter at hand, despite the unambiguously favourable precedents. In this regard, there are currently eleven pending disputes concerning a total of 64.3 million euro of tax and interest.

Turning to the other Group companies, the Italian Revenue Agency, Emilia Romagna Regional Department, challenged the tax treatment by all Group banks based in the region (Cariromagna, Carisbo and the merged Banca Monte Parma) of the losses related to the transfer of loans to customers out of the performing category, subject to lump-sum write-downs, to positions subject to individual impairment testing, as a consequence of their involvement in insolvency procedures. In extremely short form, the revenue authorities argue that the individual impairment losses should be allocated, as a first priority, to the generic provision for adjustment, rather than being regarded, in accordance with the accounting treatment, full loan losses subject to immediate deduction pursuant to Art. 105, paragraph 5, of the Combined Tax Regulations, as in force at the time. The risk associated with the charges in question, totalling 61 million euro, is regarded as without foundation by the Bank, because it conflicts with the derivation principle set out in Art. 83 of the Combined Tax Regulations.

On the subject of abuse of the law, Banca IMI also reached a settlement through administrative channels for the last of the three years (2008 to 2010) subject to the charges brought by the Guardia di Finanza following an audit concluded in September 2013. The claim, which concerns the sale of futures on Italian listed shares to non-resident entities, argued that a manufactured dividend had been paid by the Bank and demanded that it be subject to withholding. Despite the conviction that the claim was unjustified, it was likewise decided to be in the Bank's interest to settle this claim as well, which for 2010 entailed a charge of 2 million euro, compared to the tax authority's claim of 134.3 million euro.

On 10 February 2015, the Guardia di Finanza concluded an audit of the Luxembourg subsidiary Eurizon Capital S.A. ("ECSA") based on the claim (supported by documentation obtained by the auditors while at the offices of Eurizon Capital SGR) that the Company is resident in Italy for tax purposes due to the alleged presence in Italy of its administrative office and primary place of business, and thus charged the company with failing to report income of approximately 731 million euro for the periods from 2004 to 2013. On 23 June 2015, ECSA received the assessment notices for the periods from 2004 to 2008 (a total of 122 million euro of IRES due, plus interest and penalties), against which it lodged an appeal in a timely manner. The claim, as also confirmed by an opinion issued by ECSA's advisors, is believed to be without foundation, in light of the legality of the actions of the subsidiary, which has been operating in Luxembourg since 1988, with over 50 highly qualified employees, primarily dedicated to managing, marketing and administering Luxembourg funds, is subject to supervision by the local authorities and has always acted in full compliance with national tax provisions and the treaty for the avoidance of double taxation between Italy and Luxembourg. Currently, contacts are ongoing with the Italian Revenue Agency to demonstrate the appropriateness of the subsidiary's conduct.

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Out of the total cases of tax litigation pending as at 31 December 2015, at Group level 262 million euro is posted to the balance sheet among assets (236 million euro in the 2014 financial statements), 222 million euro of which refers to the Parent Company (200 million euro in the 2014 financial statements), representing the total amount paid by way of provisional tax collection where assessments are conducted. The amount relating to Intesa Sanpaolo falls to 117 million euro if one excludes the provisional collection of the former Castello Finance position, for which the Bank received a refund on 5 February 2016.
The share of the provision for risks that covers the disputes in question amounts to 131 million euro, of which 119 million euro relates to Intesa Sanpaolo (49 million euro in 2014, of which 35 million euro for Intesa Sanpaolo).
The provisional payments in question were made in compliance with specific legal provisions, which mandate such payments based on an automatic mechanism 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 based on the administrative deeds that set forth the related tax claim, which does not lose its effectiveness even when appealed, has no suspensive effect and does not add to the assessments of the actual risk of a negative outcome, which must be measured using the criteria set forth in IAS 37 for liabilities.

Potential assets
As far as potential assets are concerned, it is noted that judgement of the Court of Appeal of Rome on 7 March 2013, which has become final, ordered the revocation, due to judicial misconduct, of the judgement 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 judgement).
As a result of the revocation of the judgement, 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 judgement, 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 judgement 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.