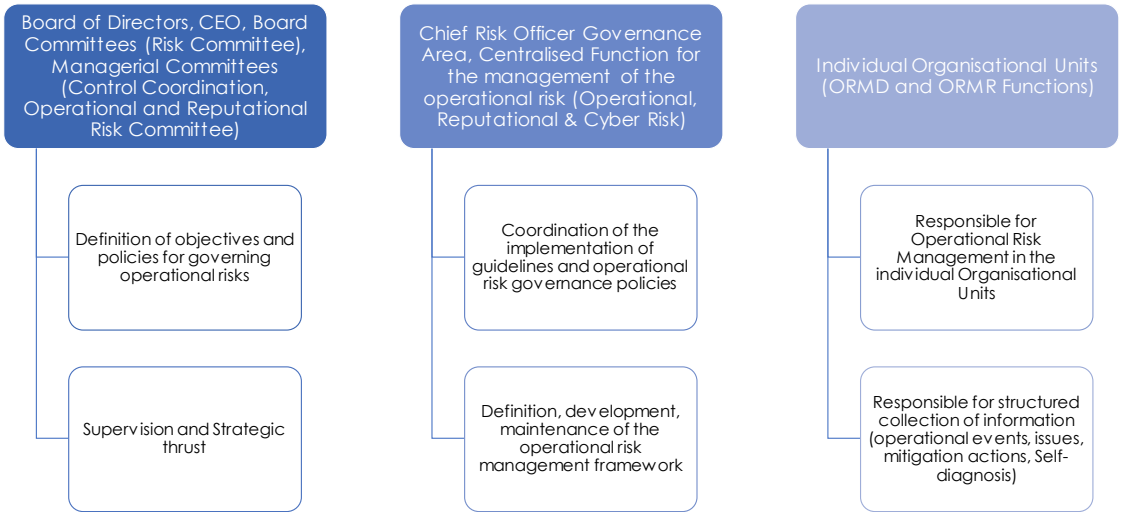
1.5. OPERATIONAL RISK

QUALITATIVE INFORMATION

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

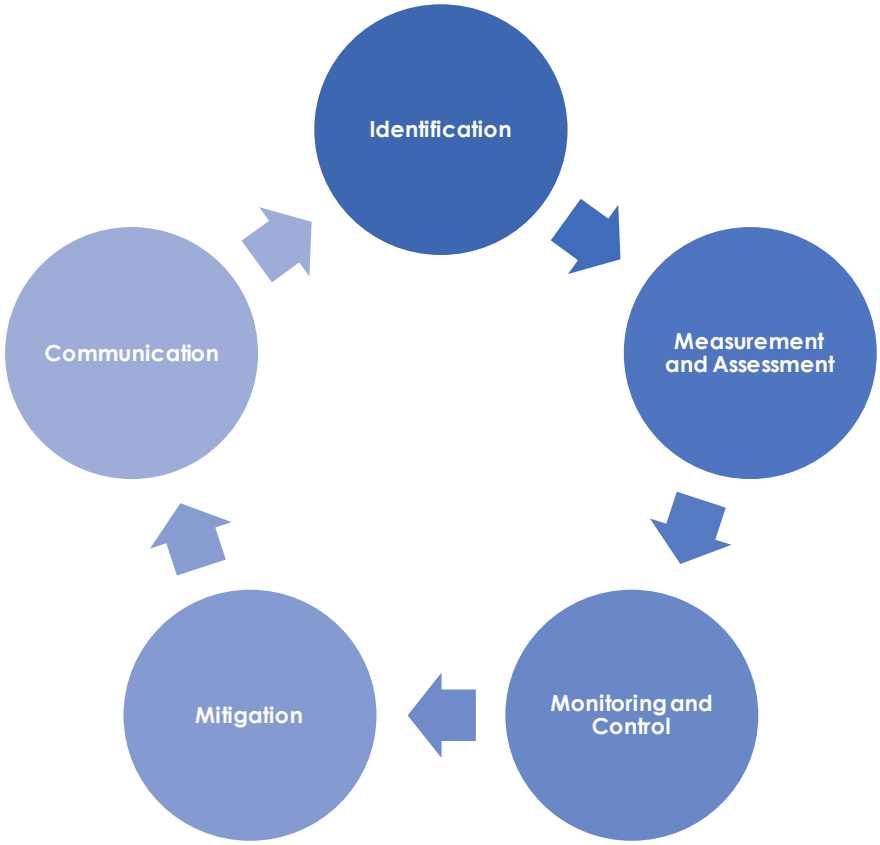
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk and compliance risk, model risk, ICT risk and financial reporting risk; strategic and reputational risk are not included.
The Intesa 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 Intesa Sanpaolo SpA and the main banks and companies in the Corporate and Investment Banking, Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing 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 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
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 a traditional insurance programme (to protect against offences such as employee infidelity, theft and damage, transport of valuables, computer fraud, forgery, cyber-crimes, fire and earthquake, and third-party liability), the

Group has taken out 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 estate 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 control 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 issues identified and the operational events actually occurred. This assessment does not replace the specific risk assessments carried out by the specialist 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 issues enables the identification and definition of suitable mitigation actions, whose implementation is monitored over time to reduce the exposure to operational risk.

ICT and cyber risk
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 management model 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 areas 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 IT 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.).
The information from the processes established to identify and assess the exposure to ICT risk (for the procedures in place or related to changes to significant components of the IT system) together with the analysis and prevention activities carried out by the Cybersecurity function are also used to identify the main areas of exposure and determine the cyber risk scenarios.

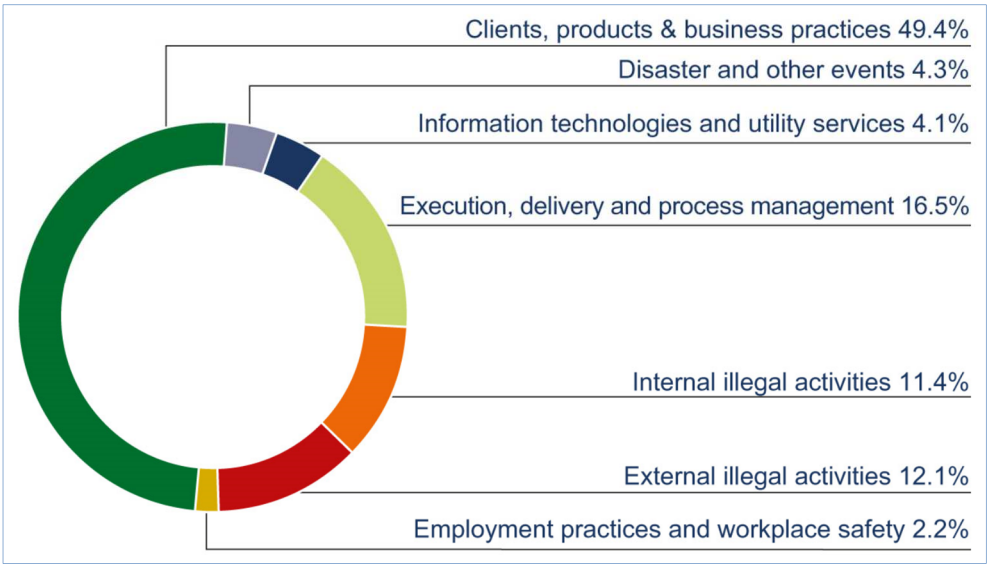
Internal model for the measurement of operational risk
The Intesa Sanpaolo Group's internal model for calculating capital absorption is designed to combine all the main sources of quantitative information (operational losses: internal and external events) and qualitative information (Self-diagnosis: 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 operational 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 requirement amount to 1,697 million euro as of 31 December 2019, up from 1,414 million euro of 31 December 2018. This increase was mainly due to the changes made to the AMA model in compliance with Delegated Regulation (EU) 2018/959.

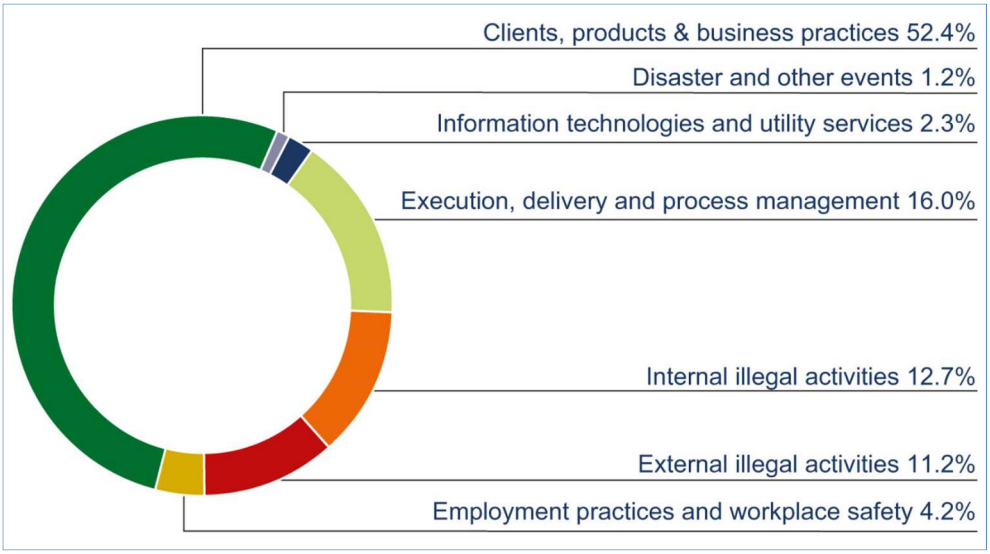
The following shows the breakdown of capital requirement relating to the Advanced Measurement Approach (AMA) by type of operational event (Event Type).

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 recorded during the year, based on event type.
In 2019, 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 2019, by event type



LEGAL RISKS

As at 31 December 2019, there were a total of about 22,000 disputes, other than tax disputes, pending at Group level (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 around 5,635 million euro[34]. This amount includes all outstanding disputes, regardless of the estimated risk of a disbursement of financial resources resulting from a potential negative outcome and therefore also includes disputes with a remote risk.
The risks associated with these disputes 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 there is an estimated probability of a disbursement of more than 50% and where the amount of the disbursement may be reliably estimated (disputes with likely risk). These disputes amount to around 12,000 with a remedy sought of 1,824 million euro and provisions of 588 million euro. The part relating to the Parent Company Intesa Sanpaolo is around 5,000 disputes with a remedy sought of 1,430 million euro and provisions of 435 million euro, the part relating to other Italian subsidiaries is around 500 disputes with a remedy sought of 250 million euro and provisions of 96 million euro, and the part relating to the international subsidiaries is around 6,500 disputes with a remedy sought of 144 million euro and provisions of 57 million euro.
The breakdown according to the main categories of disputes with likely risk shows the prevalence of cases related to the Group's ordinary banking and credit activities: disputes involving claims relating to banking and investment products and services or on credit positions and revocatory actions account for about 74% of the remedy sought and 67% of the provisions. The remaining disputes mainly consist of other civil and administrative proceedings and, for the remainder, to labour disputes or criminal proceedings or proceedings related to operational violations.
The paragraphs below provide summary information on the significant disputes (mainly those with a remedy sought of more than 20 million euro and where the risk of a disbursement is currently considered likely or possible), together with the cases considered significant.

Disputes relating to anatocism and other current account and credit facility conditions, as well as usury – In 2019, the disputes of this type – which for many years have been a significant part of the civil disputes brought against the Italian banking industry – decreased both in number and in total value of claims made compared to the previous year. Overall, the remedy sought with likely risk, including mediations, amounted to around 475 million euro with provisions of 134 million euro. As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and case-law decisions, for each dispute.
You are reminded that in 2014 and 2016, 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 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 imposed by the new regulations introduced in 2016. The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting customers to provide it 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.

Disputes relating to investment services – Also in this area, the disputes decreased in terms of number compared to the previous year. The most significant sub-group was disputes concerning derivatives, which remained substantially stable in number and value, but were nevertheless not significant in amount overall. The total remedy sought for the disputes with likely risk for this type of litigation amounted to around 150 million euro with provisions of 51 million euro. As is the case for the other civil disputes, the assessment of the risk related to this type of litigation is carried out individually, taking into account the claims made, the defences submitted, the progress of the proceedings and the case-law guidance, for each dispute.

Disputes relating to loans in CHF – As already noted in the financial statements for the years 2013-2015, Privredna Banka Zagreb ("PBZ") and seven other Croatian banks were jointly sued by the plaintiff Potrošač (Croatian Union of the Consumer Protection Association) , which claimed - in relation to loans denominated or indexed in Swiss francs granted in the past - that the defendants engaged in an unfair practice by allegedly using unfair contractual provisions on variable interest rate changed unilaterally by the banks and by linking payments in local currency to Swiss franc, without (allegedly) appropriately informing the consumers of all the risks prior to entering into a loan agreement.
In September 2019, the Croatian Supreme Court rendered a ruling in the collective action proceedings, rejecting the appeals filed by the sued banks against the High Commercial Court ruling from 2018 and confirming the position of courts of lower instance that banks had breached collective interests and rights of consumers by incorporating unfair and null and void provisions on CHF currency clause.

The decision of the Supreme Court was challenged by PBZ before the Constitutional Court, on the grounds that the claim Being of the opinion that the claim does not have meritorious grounds, PBZ filed a constitutional complaint against the decision reached by the Supreme Court of the Republic of Croatia.

O In connection with the mentioned proceedings for the protection of the collective interests of consumers, numerous individual proceedings have been brought by clients against PBZ, despite the fact that most of them voluntarily accepted the offer to convert their CHF loans into EUR denominated loans retroactively, in accordance with the Act on the Amendments to the Consumer Credit Act (Croatian Official Gazette 102/2015).

[34] The figures for the remedy sought do not include claims of indeterminate value, i.e. those that do not contain a specific financial claim when the dispute is initiated; the value of these disputes is determined during the course of the proceedings when sufficient information emerges for the valuation.

In 2019, the number of such individual lawsuits filed against PBZ increased to a low single digit thousands. It cannot be excluded the possibility that additional lawsuits might be filed against PBZ in the future in connection with CHF loans.
The amount of provisions recognized as at 31 December 2019 is reasonably adequate – according to available information to meet the obligations arising from the claims filed against the subsidiary so far. The evolution of the overall matter is anyhow carefully monitored in order to take appropriate initiatives, if necessary, in consistence with any future developments.

ENPAM – In June 2015 Fondazione ENPAM – Ente Nazionale di Previdenza ed Assistenza dei Medici e degli Odontoiatri (ENPAM) sued Cassa di Risparmio di Firenze (subsequently merged into Intesa Sanpaolo), along with other defendants including JP Morgan Chase & Co and BNP Paribas, before the Court of Milan. ENPAM's claims related to the trading (in 2005) of several complex financial products, and the subsequent "*swap*" (in 2006) of those products with other similar products; 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.
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.
Cassa di Risparmio di Firenze raised various objections at the preliminary stage (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. 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.
In February 2018, the judge ordered a court-appointed expert's review aimed at determining, among other matters:
- whether the securities were fit for the purpose indicated in the entity's Charter and Investment Guidelines;
- 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).

In December 2019, the court-appointed expert submitted the draft report, which compared the return generated by the securities purchased with that of a hypothetical "counterfactual scenario" of the purchase of securities in line with those indicated in the entity's Charter and the Guidelines and found that the damage in terms of principal for the security that Cassa di Risparmio di Firenze was involved in trading was allegedly 14.1 million euro, which, together with interest, amounted to around 15 million euro or 18.7 million euro (depending on the calculation method used).
Following the forthcoming examination of the expert's review, a hearing for the submission of the final arguments is scheduled for the end of March 2020.
In 2019, upon invitation from the expert, discussions were initiated between the parties to consider a possible settlement solution, but this was not reached because of the distance between their respective positions.

Florida 2000 – In 2018, Florida 2000 s.r.l. (together with two directors of the company) challenged the legitimacy of the contractual terms and conditions applied to the accounts held with the Bank, requesting that the latter be ordered to pay back 22.6 million euro in interest and fees that were not due, plus compensation for damages quantified as an additional amount of 22.6 million euro.
Based on the results of the court-appointed expert review and case-law, it appears likely that the claim for repayment of the sums involved will be upheld, but only for a very small amount, whereas the claim for damages is unlikely to be upheld.
The case is now pending a decision by the court.

Alitalia Group: Claw-back actions – In August 2011, companies of the Alitalia Group – namely Alitalia Linee Aeree, Alitalia Servizi, Alitalia Airport and Alitalia Express – brought five bankruptcy claw-back proceedings against the Bank before the Court of Rome, requesting the repayment of a total of 44.6 million euro.
When the proceedings were initiated, a line of defence was adopted based mainly on the grounds that the actions were invalid due to the vagueness of the claims, that the condition of knowledge of the Alitalia Group's state of insolvency (subject first of the Air France plan and then of the subsequent rescue conducted by the Italian Government) did not apply, and that the credited items were not eligible for claw back, due to the specific nature of the account movements.
In March 2016, the Court of Rome upheld Alitalia Servizi's petition and ordered the Bank to repay around 17 million euro, plus accessory costs.
In addition to being contestable on the merits, the ruling was issued before the deadline for filing of the final arguments. Accordingly, in the appeal subsequently lodged, a preliminary objection was made regarding the invalidity of the judgment, together with an application for suspension of its provisional enforceability, which was upheld by order of 15 July 2016 of the Court of Appeal. The final arguments have been filed in the case and the judgment is pending.

In contrast, the Bank won the Alitalia Linee Aeree and Alitalia Express cases at first instance and the appeal proceedings are underway, whereas for Alitalia Airport, which was also won at first instance, the favourable judgment has become final.
The lawsuit against the former Cassa di Risparmio di Firenze also ended favourably on first instance and is now pending an appeal.

Tirrenia di Navigazione in A.S. (Extraordinary Administration): Claw-back actions – In July 2013, Tirrenia di Navigazione in A.S. filed two bankruptcy claw-back actions before the Court of Rome against the former Cassa di Risparmio di Venezia for 2.7 million euro and against the former Banco di Napoli for 33.8 million euro.
In both cases, the plaintiff claimed that there was knowledge of the state of insolvency for the entire half year prior to admission to extraordinary administration on the basis of media reports, the non-renewal of shipping concessions, the absence of state subsidies (because they were considered state aid), and the information from the central credit register.
The claim was quantified on the same basis as the so-called "return of profits" earned on Tirrenia's accounts, corresponding to the difference between the maximum debt exposure and the final balance of the accounts generated in the half year prior to the declaration of insolvency.
The case against the former CR Venezia was concluded at first instance in 2016 with an order for payment of 2.8 million euro and is pending an appeal brought by the Bank.
In the case against the former Banco di Napoli, the most significant dispute concerns a currency adjustment of 28 million euro, whose recognition has a substantial impact on the total amounts that can be clawed back, and a court-appointed expert review is now underway. The hearing for the submission of the final arguments has been set for 16 April 2020.
Discussions were initiated during the period aimed at settling both disputes.

Dargent lawsuit – The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Dargent, which made a request to the Bank for compensation of 55.6 million euro for the alleged "improper financial support" provided to the entrepreneur. The claim of the trustee in bankruptcy has consistently been rejected by the courts of different instance which dealt with the case over 17 years, until the Court of Colmar, on 23 May 2018, ordered the Bank to pay compensation of around 23 million euro (equal to the insolvency liabilities, minus the bank's credit claim and the proceeds from the sale of several assets). An appeal against the Court of Colmar ruling has been lodged with the French Court of Cassation. The amount of the payment ordered has been temporarily deposited with the appropriate "*Caisse des Reglements Pecuniaires des Avocats*"..
A hearing before the Court of Cassation was held in November 2019, no significant elements arose.
On 22 January 2020, the French Supreme Court of Cassation quashed the decision of the Court of Appeal of Colmar and referred the matter to the Court of Appeal of Metz, because, in particular:

- it failed to demonstrate and, in any case, justify the reasons why it considered the entire asset shortfall to be reparable damage rather than only the part attributable to the Bank's alleged fault and used an incorrect criterion for determining any damage that might be compensable (if need be);
- even if the Bank were required to pay damages, that circumstance would not prevent it from being allowed to participate in the insolvency distribution for the recovery of its preferential claim.

As a result of this, the Bank will request the repayment of the sum of 23 million euro paid following the decision that has now been quashed, which was deposited with the "*Caisse des Reglements Pecuniaires des avocats*". The bankruptcy receivership, in case, may refer the matter to the Court of Appeal of Metz, which however in such a case must take into account the findings of the Court of Cassation.
It shall be reminded that all the rulings made in this long legal case, prior to that of the Colmar Court of Appeal, had been in favour of the Bank.

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. Overall, the claims made amount to 80 million euro. A technical roundtable has been formed with the Italian Revenue Agency - Collections Division in order to assess the parties' claims.

Fondazione Monte dei Paschi di Siena (FMPS) **–** In 2014, FMPS brought an action for compensation for the damages allegedly suffered as a result of a loan granted in 2011 by a pool of 13 banks and intended to provide it with the resources to subscribe for a capital increase of MPS. The damages claimed were allegedly due to the reduction in the market value of the MPS shares purchased with the sums disbursed by the banks. In the proceedings, FMPS summoned 8 former directors of the Foundation that were in office in 2011 and the 13 banks in the pool (including Intesa Sanpaolo and Banca IMI). The banks have been charged with non-contractual liability due to their participation in the alleged violation by the former directors of the debt-equity ratio limit set in the charter. The claim for damages has been quantified at around 286 million euro, jointly and severally for all the defendants.
The defence adopted by the banks included the argument that the alleged breach of the aforementioned charter limit did not apply, because it was based on an incorrect valuation of the Foundation's balance sheet items. In addition, in the loan agreement, FMPS itself assured the banks that the charter limit had not been breached and, therefore, any breach of the charter would at most give rise to the sole responsibility of the former directors of the Foundation. And, lastly, there was no causal link between the alleged misconduct and the damaging event.
In November 2019, the Court of Florence rejected a number of the preliminary objections made by the banks and scheduled a hearing for March 2020 to decide on the petitions for preliminary rulings. To be able to make a risk assessment of the proceedings, we need to wait for the court's decision on the matter, as well as the completion of any preliminary investigation.

Private banker (Sanpaolo Invest) – An inspection conducted by the Audit function identified serious irregularities by a private banker of Sanpaolo Invest.
The checks carried out revealed serious irregularities affecting several customers, including misappropriation of funds and reports with false incremental amounts. On 28 June 2019, the Company terminated the agency contract with the private banker due to just cause and communicated the findings to the Judicial Authority and the Supervisory Body for financial advisors, which first suspended and then removed the private banker from the Register of Financial Advisors in

December 2019.
The Judicial Authority, at the Company's request, confiscated a total amount of around 7 million euro from several customers that had unduly benefited from the sums misappropriated by the private banker from his other customers. At the same time, the Company initiated out-of-court and legal actions against the unlawful beneficiaries for the recovery of the amounts misappropriated.
As at 31 December 2019, as a result of the offence, the Company had received 56 claims of misappropriation for a total remedy sought of around 15 million euro, and the checks conducted by the Internal Audit Department and the Legal Department found that the amounts misappropriated totalled 12 million euro. The Company has already taken action for the initial refunds and, as at 31 December 2019, around 1 million euro had been accepted and recognised under costs for claims management. The Company also received another 195 claims for around 18 million euro relating to false accounting and unauthorised transactions, as well as requests for reimbursement of fees for the advanced advisory service.
The Company had made a provision at the end of 2019 for the risks associated with the aforesaid offence, for a total amount of around 11 million euro, which also took into account the legal costs indicated by the customers. This amount was determined based on the claims for misappropriations confirmed at the end of 2019, without taking into account the recovery actions already initiated and the discovery orders issued, or the cover provided by the specific insurance policy that the Company promptly implemented for the refund due under the terms of the policy.

Ruling of the EU Court of Justice of 11 September 2019 on credit agreements for consumers - so-called Lexitor ruling – Article 16, paragraph 1 of Directive 2008/48 on credit agreements for consumers states that in the event of early repayment of the loan the consumer is "*entitled to a reduction in the total cost of the credit, such reduction consisting of the interest and the costs for the remaining duration of the contract*". According to the Lexitor ruling, this provision must be interpreted as meaning that the right to a reduction in the total cost of the credit includes all the costs incurred by the consumer and therefore also includes the costs relating to services prior to or connected with the signing of the contract (upfront costs such as processing costs or agency fees).
Article 16, paragraph 1 of Directive 2008/48 has been transposed in Italy through Article 125 sexies of the Consolidated Law on Banking, according to which in the event of early repayment "*the consumer is entitled to a reduction in the total cost of the credit, equal to the amount of interest and costs due for the remaining life of the contract*". On the basis of this rule, the Bank of Italy, the Financial Banking Arbitrator and case law have held that the obligation to repay only relates to the charges that have accrued during the course of the relationship (recurring costs) and have been paid in advance by the customer to the lender. In the event of early repayment, these costs must be repaid in the amount not yet accrued and the obligation to repay does not include the upfront costs.
Following the Lexitor judgment, the question has arisen as to whether Article 125 sexies of the Consolidated Law on Banking should be interpreted in accordance with the principle laid down therein or whether the new principle requires a legislative amendment.
According to the EU principle of "consistent interpretation", national courts are required to interpret the rules in their own jurisdiction in a manner consistent with the European provisions. However, if the national rule has an unambiguous interpretation, it cannot be (re)interpreted by the court in order to bring it into line with the various provisions of a European directive: the principles recognised by European Union law prevent the national court from being required to make an interpretation that goes against the provisions of the domestic law. In this regard, we note that Article 125 sexies of the Consolidated Law on Banking is clear in its wording and its scope: it states that, in the event of early repayment, the obligation to repay relates only to recurring costs and therefore does not include upfront costs. The unambiguity of the scope of the provision is confirmed by the fact that – as stated above – it has always been interpreted and applied in this way.
However, in December 2019 the Bank of Italy issued "*guidance*" for the implementation of the principle established by the EU Court of Justice, to the effect that all costs (including upfront costs) should be included among the costs to be refunded in the event of early repayment, both for new relationships and for existing relationships.
Intesa Sanpaolo has decided to follow the Bank of Italy "*guidance*", even though it believes that the legal arguments set out above regarding the fact that Article 125 sexies of the Consolidated Law on Banking cannot be interpreted in a manner that complies with the Lexitor ruling are well founded. Accordingly, Intesa Sanpaolo reserves the right to reconsider this operational stance in the light of future developments. A provision has therefore been made in the Allowance for Risks and Charges corresponding to the estimated higher charges resulting from the decision to follow the Bank of Italy "*guidance*".
With regard, on the other hand, to disputes relating to terminated relationships, the few court decisions have been discordant and no prevailing case-law has emerged. In view of this and in the light of the legal arguments set out above (which will be broadened and included in the defences presented in the above-mentioned disputes), at this stage there is no evidence to consider that a negative outcome will be likely.

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. 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 recommendation activity was carried out primarily in 2016, with a significant decline 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 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 2019.
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;
- 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 31 December 2019, a total of 6,595 repurchase requests had been received from customers and met by the Bank, for a total value of 111.9 million euro, with the flow of requests steadily decreasing in the second half of 2019. The valuation of the repurchased diamonds is carried out using the values provided by the IDEX Diamond Retail Benchmark, one of the main online trading platforms used in the main markets by over 7,000 traders.
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.
In early October, the notice of conclusion of the investigation was served, which stated that two of the Bank's operators were currently under investigation for alleged aggravated fraud (in collusion with other parties to be identified) and other persons are being identified for allegations of self-laundering, while ISP is being charged with the administrative offence pursuant to Italian Legislative Decree 231/2001 in relation to this latter predicate offence.

Disputes arising from 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 – We remind you first of all that:

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 have been 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 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;
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) and the agreements signed with the Banks in compulsory administrative liquidation and in compliance with the European Commission provisions on State Aid (Decision C(2017) 4501 final and Attachment B to the Sale Contract of 26 June 2017), which prohibit Intesa Sanpaolo from taking responsibility for any claims made by the shareholders and subordinated bondholders of the former Venetian Banks;
   - 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;
   - the Banks in compulsory administrative liquidation have contractually acknowledged their capacity to be sued with respect to the Excluded Disputes, such that they have entered appearances in various proceedings initiated (or re-initiated) by various shareholders and convertible and/or 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 above-mentioned provisions and based on the criteria set out in the retransfer agreements signed on 10 July 2017, as subsequently supplemented).

The above-mentioned disputes in the Excluded Disputes include 63 disputes (for a total remedy sought of around 87 million euro) involving claims relating to loans sold to Intesa Sanpaolo and deriving from so-called "*operazioni baciate*"; this term refers to loans granted by the former Venetian banks (or their Italian subsidiaries Banca Nuova/Banca Apulia) for the purpose

of, or in any case related to, investments in shares or convertible and/or subordinated bonds of the two former Venetian Banks.
The most recurrent claims relate to:
- the violation by the former Venetian banks (or their subsidiaries) of the requirements of the rules on investment services; the customers claim that they were induced to purchase the shares on the basis of false or misleading information on the product's risk characteristics;
- the invalidity of the "*baciata*" transaction due to the breach of Article 2358 of the Italian Civil Code, which prohibits companies from granting loans for the purchase of treasury shares, except in certain limited cases.

The first ruling on this matter was issued in early 2020, which declared that the loan sold was invalid; an appeal will be filed against this ruling. Since this is the only decision on this matter for the time being, it is not possible to draw any legal conclusions regarding the validity of this type of loan sold to Intesa Sanpaolo.
With regard to the risks arising from these disputes, it should be borne in mind that the Sale Contract establishes the following:
- that any liability, charge and/or negative effect that may arise to Intesa Sanpaolo from shares, disputes or claims made by shareholders and subordinated bondholders constitutes an Excluded Liability under the Contract and, as such, must be subject to indemnification by the Banks in compulsory administrative liquidation;
- the obligation of each Bank in compulsory administrative liquidation to indemnify ISP against any damage arising from, or connected to, the violation or non-compliance of the Representations and Warranties issued by the two Banks in compulsory administrative liquidation with respect to the Aggregate Set transferred to Intesa Sanpaolo, and, in particular, those relating to the full propriety, validity and effectiveness of the loans and contracts transferred.

On the basis of these provisions, Intesa Sanpaolo is entitled to be indemnified by the Banks in compulsory administrative liquidation against any negative effect incurred if these loans are totally or partially invalid, unrecoverable, or in any case not repaid as a result of legal disputes.
Intesa Sanpaolo has already made a formal reservation in this regard to the two Banks in compulsory administrative liquidation for all the loans acquired and arising from loans potentially qualifying as "*operazioni baciate*", even if they have not (yet) been formally contested by customers (see below "Initiatives undertaken with respect to the compulsory administrative liquidations").

In 2019, Intesa Sanpaolo sent several claims to the Banks in compulsory administrative liquidation containing requests (or reservations of the right to make subsequent requests) for reimbursement/indemnification of damages already incurred or potentially incurred and violations of the above-mentioned Representations and Warranties, in relation to Previous Disputes and Excluded Disputes, as well as in relation to the value and recoverability of several assets transferred to Intesa Sanpaolo.
To enable the Banks in compulsory administrative liquidation to perform a more thorough examination of the claims made, Intesa Sanpaolo granted an extension (with respect to the contractual provisions) of the deadline for contesting the claims made up to 22 November 2019. Subsequently, upon request from the Banks in compulsory administrative liquidation, Intesa Sanpaolo granted a further extension of this deadline up to 31 March 2020.
In this regard, it should also be noted that Paragraph 11.1.9 of the Sale Contract establishes that "*the precise and timely payment of any obligations and liabilities assumed in favour of the ISP by BPVi and/or VB shall be guaranteed by the Issuing Body [i.e. the Ministry of the Economy and Finance]: (i) with regard to the indemnification obligations assumed by BPVi and/or VB and relating to the Previous Disputes, up to the maximum amount of the remedy sought for each of the Previous Disputes as indicated in the case documents, net of the specific risk allowances transferred to ISP with the Aggregate Set; and (ii) with regard to the remaining obligations and liabilities assumed by BPVi and/or VB, up to the maximum amount of 1.5 billion euro*" (the "Indemnification Guarantee").
This provision is consistent with and implements Article 4, paragraph 1, letter c) of Law Decree no. 99/2017: the Ministry of the Economy and Finance "*grants the Government independent first demand guarantee on the performance of the obligations of the entity in liquidation arising from commitments, representations and warranties issued by the entity in liquidation in the sale contract, for a maximum amount equal to the sum of 1,500 million euro plus the result of the difference between the value of the past disputes of the entities in liquidation, as indicated in the case documents, and the related risk provision, up to a maximum of 491 million euro*".
The Indemnification Guarantee is therefore an essential prerequisite of the Sale Contract. To date, this guarantee has not yet been formalised by a specific Decree from the Ministry of the Economy and Finance. The issuance of the guarantee by the government is a required procedure that is envisaged, not only by the Sale Contract of 26 June 2017, but also by the above-mentioned Law Decree 99/2017.

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. According to the judge, the exclusion from the sale to Intesa Sanpaolo of the debts, responsibilities and liabilities deriving from the sale of shares and subordinated bonds – envisaged by Decree Law 99/2017 – would not be objectionable by third parties, while Article 2560 of the Italian Civil Code would be applicable in the case in question and Intesa Sanpaolo should therefore take on those liabilities.
As a result of this decision, more than 3,800 civil plaintiffs holding Veneto Banca shares or subordinated bonds joined the proceedings. Intesa Sanpaolo therefore 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 with regard to the operation relating to the former Venetian banks. In turn, 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.

It should be noted that, in a criminal proceeding before the Court of Vicenza against the directors and executives of Banca Popolare di Vicenza, the preliminary hearing judge rejected the request for authorisation to charge Intesa Sanpaolo with civil liability, arguing on the basis of the provisions of the sale contract of 26 June 2017 and the special provisions contained in Law Decree 99/2017.

Labour litigation

There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2019.
In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

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.

TAX LITIGATION

At Group level, at the end of 2019 the total value of the claim for tax disputes (tax, penalties and interest) was 175 million euro, a significant decrease on 365 million euro as at 31 December 2018.

As at 31 December 2019, the Parent Company Intesa Sanpaolo had 612 pending litigation proceedings (246 as at 31 December 2018) for a total amount claimed (taxes, penalties and interest) of 111 million euro (222 million euro as at 31 December 2018), considering both administrative and judicial proceedings at various instances. Compared to the previous year, the figure as at 31 December 2019 also takes into account the disputes and the related allowance for risks "inherited" from the merged companies Carifirenze, Carisbo, Banca Apulia and Mediocredito Italiano (MCI).
In relation to these proceedings, the actual risks were quantified for Intesa Sanpaolo (including those originating from the merged companies) at 54 million euro as at 31 December 2019 (47 million euro as at 31 December 2018).
The main events that gave rise to significant movements during the year consisted of:

- increases, due to the mergers, during the year, including Cassa di Risparmio di Firenze, Cassa di Risparmio in Bologna, Banca Apulia, and MCI, which led to an increase of approximately 35 million euro in disputed tax claims (23 million euro relating to MCI) and 21 million euro in the allowance for tax litigation (16 million euro relating to MCI), in addition to the ordinary recognition of interest expense;
- decreases, due to the effect of the settlement of numerous significant disputes through the so-called "tax amnesty", which had a positive impact on the contested amount, which decreased by 162 million euro, of which 7 million euro relating to the merged company MCI, against a charge of 15 million euro, which resulted in a release of around 4 million euro from the provision for disputes, in addition to the net release of around 14 million euro already recorded in the last quarter of 2018.

In total, 177 disputes for ISP (including MCI) were closed during the year for a total of 172 million euro with a disbursement of around 18 million euro.

At the Group's other Italian companies, tax disputes totalled 53 million euro as at 31 December 2019 (139 million euro as at 31 December 2018), covered by specific provisions of 1 million euro (47 million euro at the end of 2018).
For the Italian subsidiaries, the decrease in both claims and provisions was partly due to the merger of the above-mentioned banks into Intesa Sanpaolo and mostly due to the use of the so-called "tax amnesty" by Banca IMI, MCI and Intesa Sanpaolo Vita, as well as the settlement by Fideuram of its dispute relating to Euro-Trésorérie.

Tax disputes involving international subsidiaries, totalling 11 million euro at year-end (5 million euro as at 31 December 2018), were covered by allowances of 7 million euro (4 million euro as at 31 December 2018).

With regard to the new claims arising during the year, the following were the most significant.
On 5 March 2019, the Provincial Department of Florence sent a questionnaire to Engineering - Ingegneria Informatica S.p.A. with requests for clarification on the VAT applied in 2014 by Infogroup Informatica e Servizi Telematici S.c.p.A., a consortium company wholly represented by Intesa Sanpaolo Group companies and sold to Engineering - Ingegneria Informatica S.p.A. on 28 December 2017. The assessment arose from the Tax Audit Report of 20 December 2018, which claimed the unlawful application by Infogroup, for the year 2015, of the VAT exemption for postal expenses incurred on behalf of customers (VAT due in the amount of 370,000 euro plus penalties and interest) but, above all, the alleged unlawful application of the VAT exemption to services provided to the consortium companies because – in the opinion of the auditors – they had been charged for an amount exceeding the costs incurred, in violation of the principle of Article 10, paragraph 2, of Presidential Decree 633 of 1972 (VAT recovery claimed of 5.8 million euro, plus penalties and interest). The VAT taxability of the services provided to the consortium members allegedly automatically resulted in the tax deductibility and, as a result, the non-deductibility of the deductible VAT of 4.7 million euro, which no longer constituted a deductible cost for the company (higher IRES and IRAP of 1.5 million euro plus penalties and interest).
Following complex negotiations, in December an agreement was reached with the Italian Revenue Agency which provided for the settlement of all the open tax periods (2014-2017) with: a) the cancellation of the claim relating to the postal expenses; and b) a very significant reduction in the number of transactions to be made subject to ordinary VAT and interest and penalties.

For all the open years, the agreement was definitively reached with a total net cost for the Bank of around 8 million euro, of which 2 million euro has already been paid for 2014 in 2019, while for the years 2015-2017 the settlement has been deferred until 2020 through the use of a specifically established allowance.
With regard to the merged company MCI, we remind you that the Milan Tax Police (Guardia di Finanza) initiated a general

audit of direct taxes for the tax years 2015 and 2017 and of VAT for the years 2014 and 2015, which ended with a Tax Audit Report that, for the year 2014, contested the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases, and of the exemption established in Article 7-bis of Presidential Decree 633/72 for the buyback of a vessel. In December 2019, an appeal was filed against the assessment notice regarding VAT for the year 2014 (value of the claim 5 million euro).
With regard to the Intesa Sanpaolo branches located abroad, tax audits are underway in relation to: i) VAT on the London branch for the years 2016, 2017 and 2018; and ii) federal direct taxes at the New York branch for the tax periods 2015, 2016 and 2017. No claims have been made for the time being.
With regard to Fideuram, detailed information was provided in the notes to the 2018 financial statements regarding the claims for the years 2014 to 2017 arising from the tax audit report served on 11 October 2018 by the Tax Police (Guardia di Finanza), following similar claims previously made for the years 2012 and 2013. Between April and June 2019, the Bank signed settlement agreements with the Italian Revenue Agency, Lazio Regional Office, for all the years indicated above as final closure of each claim.
Specifically, the agreements concerned the reclassification of the claims made by the Tax Police as follows:

- with regard to the transfer prices of the transactions with Euro-Trésorérie (Financiére Fideuram from 2016, following a merger by incorporation), a significant reduction in the taxable income was obtained by using the comparable uncontrolled price method instead of the profit split method;
- for travel and conventions of private bankers, the existence of training activities was recognised and therefore deductible from the company income, except for the part relating solely to two events, net of the amount already subject to tax charged to the private bankers;
- lastly, the deductibility of the cost of the advisory services provided by a leading company was recognised.

In short, all the annual periods and all the claims were settled with a total disbursement of 21.5 million euro.
For Fideuram, as at 31 December 2019, there were still pending claims concerning the failure to withhold 27% of the interest accrued in 2009, 2010 and 2011 on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds (Fonditalia and Interfund SICAV), for which Fideuram was only the placement bank and correspondent bank (total value of the disputes of 9.1 million euro). The risk has been assessed as being remote.
For Intesa Sanpaolo Private Banking, with regard to the disputes relating to the deduction of the amortisation charge for the goodwill arising from the transfers of the private banking business lines of Intesa Sanpaolo and Cassa dei Risparmi di Forlì e della Romagna, in the years 2009 and 2010, as realigned by Intesa Sanpaolo Private Banking in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008, the following is noted:

- the favourable ruling no. 2763/2019, filed on 26 June 2019, by the Lombardy Regional Tax Commission, which rejected the main appeal by the Italian Revenue Agency against the ruling no. 7028/2017 by the Milan Provincial Tax Commission, which had in turn upheld the (combined) appeals against the 2011 IRES and 2011 IRAP assessment notices (total claim amount of 7.3 million euro, of which 3.8 million euro for taxes and 3.5 million euro for penalties). The court of second instance also upheld the company's cross-appeal on the preliminary matter of the lapse of the tax administration's power of assessment: the release of the goodwill had been reported in the tax return for the 2010 tax year, and the notices were served in 2017, i.e. beyond the time limits laid down in Article 43 of Presidential Decree 600/73;
- the notification, in October, of the appeal to the Supreme Court of Cassation by the Italian Revenue Agency against the above-mentioned ruling no. 2763/2019 of the Milan Regional Tax Commission relating to the year 2011. The defence in the proceedings before the courts have been entrusted to a leading law firm;
- also in October, the ruling of the Lombardy Regional Tax Commission, which was contrary to the previous rulings and upheld the appeals of the Italian Revenue Agency, with rulings no. 5172/2019 and 5173/2019 relating to the year 2012, declared that the IRES and IRAP assessment notices were legitimate. An appeal will be lodged with the Court of Cassation.

Also in relation to this dispute, on 8 and 10 April 2019 the Italian Revenue Agency, Lombardy Regional Revenue Office - Large Taxpayers Office, served assessment notices on Intesa Sanpaolo Private Banking and the Parent Company, as the consolidating entity, for IRES and IRAP for the tax years 2014 and 2015.
The amount deducted by the company and now contested by Lombardy Regional Revenue Office concerns:

- for the year 2014, the same amount already adjusted for the years 2012 and 2013, equal to 11.9 million euro, corresponding to a higher IRES of 3.3 million euro and a higher IRAP of 0.6 million euro;
- for the year 2015, the same amount already adjusted for previous years plus the amortisation deriving from the deeds of transfer of the business lines of Cassa di Risparmio di Pistoia and Casse di Risparmio dell'Umbria, amounting to 12.1 million euro, which correspond to a higher IRES of 3.3 million euro and a higher IRAP of 0.7 million euro.

The total amount claimed against Intesa Sanpaolo Private Banking, also including the claims made in 2011, 2012 and 2013, amounts to 42.3 million euro for tax, penalties and interest. The risk of liability has been assessed as remote, because the legitimacy of the exemption of goodwill that is newly generated by the transferee has been expressly acknowledged by the Agency in its Circular no. 8/E of 2010.
For Banca IMI, as at 31 December 2018, the remaining tax dispute related to proceedings pending before the Court of Cassation against assessment and adjustment notices for the years 2003, 2004 and 2005 (total remedy sought of almost 20 million euro for tax, penalties and interest). Following the unfavourable decisions in the proceedings on the merits before the Tax Commissions, payments of around 16 million euro had already been made on a provisional basis for this dispute.
As a result of these outcomes, an in-depth examination was conducted with a view to settling the disputes through the so-called "tax amnesty", and the bank decided to exercise this option, also because it would not result in any disbursements (other than those already made during the provisional tax collection) and would avoid the risk of a negative outcome and therefore of additional potential charges for 2004 for IRES (3 million euro) and VAT and IRAP (0.5 million euro), as well as costs for the reimbursement of litigation expenses.
Intesa Sanpaolo Vita also made use of the "tax amnesty", through which it settled disputes regarding VAT on the services provided via contracts between insurance companies classed as co-insurance contracts (remedy sought of around 8 million euro for tax, plus penalties and interest), with a total payment of 5.8 million euro. In relation to that cost a receivable of around 5 million euro has been recognised for the right of recourse against the following counterparties: Poste Vita, Reale Mutua

Assicurazioni, Unipol Assicurazioni and Cardif Assicurazioni.
With regard to the former Banca Nuova, the tax audit by the Sicily Regional Office of the Italian Revenue Agency - Large Taxpayers Office on IRES, IRAP and VAT for the tax year 2015 that began on 12 June was concluded with the notification of a Tax Audit Report on 20 December 2019. The Tax Audit Report contains claims for a total taxable income for IRES purposes of 1.7 million euro, mainly due to accounting errors and violation of the criterion of pertinence of costs and expenses.
For the international subsidiaries, a tax audit is underway on IMI SEC for the years 2015 and 2016. In 2019 the audit was also extended to 2017. No claims have been made for the time being.
Three disputes are pending (total remedy sought of 0.5 million euro) for the subsidiary Intesa Sanpaolo Bank Albania (as the absorbing company of Veneto Banka) and the Albanian bank is involved in two other disputes (total amount 2.3 million euro): i) a pending dispute being appealed by the bank concerning the elimination of loans that were no longer recoverable that, according to the tax authorities, led to an unjustified reduction in the taxable amount for direct tax (1.3 million euro); and ii) a dispute pending before the Court of Cassation on appeal by the bank relating to errors made in the tax return for the 2011 tax year (1 million euro).
Intesa Sanpaolo Brasil S.A. - Banco Multiplo, was audited by Receita Federal do Brasil (RFB), which was followed by a notice of assessment for direct taxes for the years 2015 and 2016. This dispute concerns the improper use of past tax losses, which could not be used, in the opinion of the Brazilian tax authorities, because they were generated before the reorganisation involving Intesa Sanpaolo Brasil S.A. - Banco Multiplo, which changed its business activities and corporate structure. The RFB's claim amounts to 2.3 million euro, against which the company has not made any provision, because, also based on the assessment by the local adviser, the risk of a negative outcome is remote.
Alexbank has a material claim involving various branches of the bank in Egypt concerning the non-payment of stamp duty amounting to approximately 4 million euro for the tax periods from 1984 to 2006. The potential liability arising from the litigation has been fully provisioned.
Lastly, with regard to relations between the international subsidiary banks and Italian customers, we remind you that during the year a new investigation was started by the Italian tax authorities concerning the tax treatment of the interest arising from the disbursement of loans to individuals resident in Italy and received by banks resident abroad without a permanent establishment in Italy. This matter involved the Group's subsidiary banks resident in Switzerland (Intesa Sanpaolo Private Bank (Suisse) Morval) and in Luxembourg (Intesa Sanpaolo Bank Luxembourg) first through questionnaires and then through formal notices of assessment for the years 2013 and 2017. A dispute is also underway regarding one of the Swiss banks with registered office in the Cayman Islands. For Intesa Sanpaolo Morval, the audit was concluded with total costs of around 70,000 euro for the years 2013-2017, whereas, for Intesa Sanpaolo Luxembourg, the costs amounted to around 30,000 euro for the same years. For the Cayman-based bank, it is estimated that there will be a claim for a few thousand euro.

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In connection with all the tax disputes outstanding as at 31 December 2019, for a total value, as stated above, of 175 million euro, of which 111 million euro relating to Intesa Sanpaolo (365 million euro as at 31 December 2018, of which 222 million euro for Intesa Sanpaolo), the Group has recognised receivables of 39 million euro in its balance sheet assets (68 million euro as at 31 December 2018) to account for amounts paid on a provisional basis due to tax assessments, of which 28 million euro (37 million euro as at 31 December 2018) related to the Parent Company.
The portion of the allowance for risks, which relates to provisional tax assessments, amounts to 25.5 million euro (73 million euro at 31 December 2018), of which 25 million euro (in line with 31 December 2018) 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.