1.5. OPERATIONAL RISK

QUALITATIVE INFORMATION

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

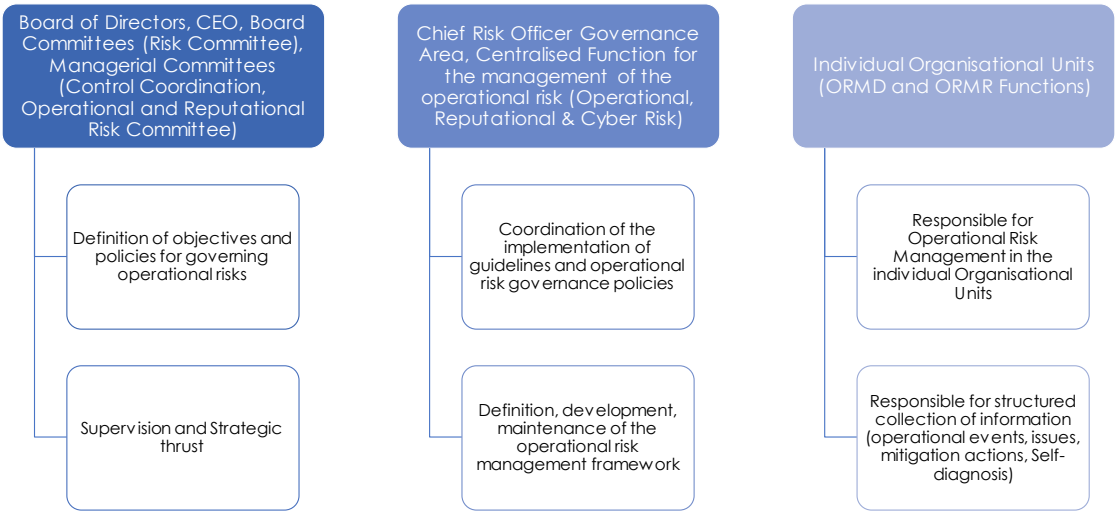
Operational risk is the risk of incurring losses resulting from inadequate or failed internal processes, people and systems or from external events[49].
The Intesa Sanpaolo Group adopts an undertaking and management strategy of operational risk based on prudent management principles and aimed at guaranteeing 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 Private Banking and Asset Management Divisions, as well as by VUB Banka, VUB Leasing and PBZ Banka.
Following the acquisition of UBI by Intesa Sanpaolo, the former UBI Group companies also participate in determining the Intesa Sanpaolo Group's capital requirements[50].

Governance Model
An effective and efficient framework for managing operational risks must be fully integrated into decision-making processes and management of business operations. Accordingly, the Intesa Sanpaolo Group has chosen to involve the organisational units (business units, central/support structures) of the Parent Company, the Banks and Group companies with direct responsibility in the operational risk management process.
The operational risk governance model has been developed in view of:
– optimising and maximising organisational safeguards, interrelations and information flows between the existing organisational units and integration of the operational risk management approach with other company models developed for specific risks (business continuity, IT security, etc.);
– guaranteeing transparency and spread of the models, methods and criteria of analysis, assessment and measurement

[49] As far as the financial losses component is concerned, the Operational risk includes: legal and compliance risk, conduct risk, IT and Cyber risk, physical security risk, business continuity risk, financial crime and financial reporting risk, third-party and model risk. Strategic risk and reputational risk are not included.

[50] In particular, the former UBI Group adopts the Advanced Measurement Approach in partial use with the standardised approach (TSA) and basic indicator approach (BIA) to determine its regulatory capital requirement for operational risks. The former UBI Banca Group was authorised to use its AMA model with effect from the June 2012 regulatory calculation for the following companies: UBI Banca, UBI Sistemi e Servizi and IW Bank Private Investments.

criteria used to facilitate the process of cultural diffusion and comprehension of the logic underlying the choices made.



ICT risk

In line with the methodological framework established for the governance of operational risks, the ICT Risk management framework has been developed with a view to integrating and coordinating the specific expertise of the structures involved.
ICT (Information and Communication Technology) risk means the risk of economic, reputational or market share losses related to the use of information and communication technology. In the integrated view of corporate risk for supervisory purposes, this risk is considered, according to specific aspects, as operational, reputational and strategic risk.
ICT risk includes:

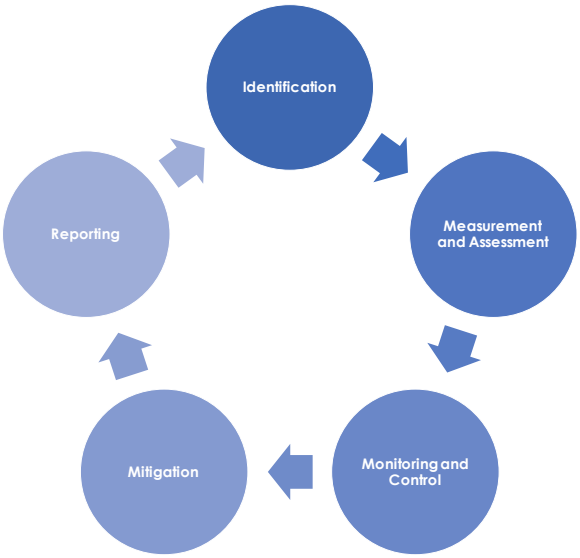
- cyber risk: the risk of sustaining economic loss, reputational damage or loss of market shares due to:
  - any unauthorised access or attempt to access the IT system of the Group or the data or digital information it contains;
  - any event (intentional or unintentional), favoured or caused by the use of technology or related to it that has or could have a negative impact on the integrity, availability, confidentiality and/or authenticity of company data and information, or on the continuity of business processes;
  - the improper use and/or dissemination of data and digital information also not directly produced and managed by the ISP Group.

  Cyber risk includes information security risk.
- IT risk: the risk of sustaining economic loss, reputational damage or loss of market shares in relation to the use of the corporate IT systems and related to malfunctioning hardware, software and networks.

The Intesa Sanpaolo Group considers its information system a tool of primary importance to the achievement of its strategic, business and social responsibility objectives, including in the light of the critical nature of the company processes that depend on it. Accordingly, it undertakes to create a resilient environment and to invest in assets and infrastructure designed to minimise the potential impact of ICT events and to protect its business, image, customers and employees.
The Group has therefore adopted a system of principles and rules intended to identify and measure the ICT risk to which company assets are exposed, assess the existing safeguards and identify adequate methods of managing such risks, in accordance with the operational risk management process.

Group Operational Risk Management Process

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



Identification

The identification phase includes the collection and classification of qualitative and quantitative information that allows to identify and describe the Group's potential areas of operational risk. In particular, it involves:

- the collection and updating of data on operational events (Loss Data Collection), decentralised to the Organisational Units;
- identification of the company processes and components of the IT system at highest potential risk;
- determination of the applicability and relevance of the operational risk factors defined;
- identification of projects that will involve relevant changes to the IT system or changes to critical components of the IT system;
- identification of significant risk scenarios, also based on the external context (e.g., external loss data, regulatory development, emerging trends, strategic and threat intelligence);
- identification and analysis of issues affecting the Group's areas of operation.

Measurement and assessment

The measurement and assessment phase includes the process of qualitative and quantitative determination of the Group's exposure to operational risks.

It includes:

- at least annual performance of the process of assessing the exposure to operational and ICT risk (self-diagnosis: combination of the Operational and ICT Risk Assessment processes);
- performance of preventive analyses of operational and ICT risks deriving from agreements with third parties (e.g., outsourcing of activities), business operations or project initiatives, introduction or revision of new products and services, launch of new activities and entry into new markets;
- the definition of the relevance of identified issues;
- transformation of the evaluations collected (e.g., internal and external operational loss data, management levels of risk factors, probability and impact in the event of occurrence of risk scenarios) into synthetic risk measures;
- determination of economic and regulatory capital for operational risk, through the internal model and the simplified methods defined by the regulations.

Monitoring and control

The purpose of the monitoring phase is to analyse and monitor on an ongoing basis the development of the exposure to operational risks on the basis of the structured organisation of the results of the identification, assessment and measurement processes and the observation of indicators that represent a valid proxy of the exposure to operational risks (e.g., limits, early warnings and indicators established within the RAF).

Mitigation

The mitigation phase includes activities aimed at containing the exposure to operational risks, defined on the basis of the results of the identification, measurement, assessment and monitoring phases. It includes:

- identification, definition and implementation of the corrective measures (mitigation actions) necessary to solve the identified gaps or to bring back the relevance of the identified issues within the defined risk tolerance;
- promotion of initiatives designed to spread a culture of operational risk within the Group;
- definition of strategies for transferring operational risks, in terms of optimisation of insurance coverage and any other forms of risk transfer adopted by the Group from time to time.

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.

Reporting
The communication phase includes the preparation of appropriate information flows associated with operational risk management, designed to provide disclosures useful, for example, for:
- analysis and understanding of any dynamics underlying the trend in the level of exposure to operational risks;
- analysis and understanding of the main issues identified;
- defining the mitigation actions and intervention priorities.

Self-diagnosis
Self-diagnosis is the annual process through which the Organisational Units identify their level of exposure to operational and ICT risk. It includes the Operational Risk Assessment and ICT Risk Assessment, in turn consisting of:
- Business Environment Evaluation (VCO): activities used to identify significant risk factors and assess the related management level[51].
- Scenario analysis (SA): a method of prospective analysis that takes the form of a systematic process, which is typically repeated at predefined intervals, but which may also be conducted on an ad hoc basis, and which consists in imagining the occurrence of particular situations (or scenarios) and imagining their consequences. Once scenarios have been identified and appropriately characterised, they must be assessed: i.e., one must determine the probability of occurrence (frequency) and potential impact (average impact and worse case) in the event of occurrence of the situation described in the scenario.

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, estimates deriving from the Scenario Analysis) and qualitative information (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.

Impacts from the COVID-19 pandemic
From the outset of the emergency the Group decided to adopt preventive initiatives to ensure business continuity, while also maintaining the maximum level of safety for its customers and employees. This was also done in the light of the rapid development seen in the realm of cyber-threats, which seek to exploit for fraudulent purposes the fears and sense of urgency of individuals and the opportunities offered by the remote-banking solutions adopted by financial institutions. In particular, the business continuity plan was activated and additional actions were immediately identified to respond effectively to the extensive spread of the pandemic (e.g., extension of remote working to almost all head office personnel, online branch personnel and part of the physical branch personnel, enhancement of IT infrastructure for remote connectivity), the digital transformation process was expedited, moving forward significant investments intended to develop methods of interaction with customers (e.g., expansion of the services offered via Internet and mobile banking), security infrastructure for access to the company network and data and information protection measures were progressively enhanced to increase the ability to respond to the sharp rise in cyber-threats and attacks (e.g., distributed denial of service and malware), and numerous training and communications initiatives were launched to raise awareness amongst customers and employees of growing social-engineering and phishing campaigns. The long-term sustainability of the solutions of the most critical suppliers was also verified.
With regard to measures to protect the health of employees and customers, protective devices such as masks and gloves were purchased and distributed, sanitising gel was supplied and company premises were periodically sanitised. Among the various mitigation measures described above, only this latter component was considered for the purposes of calculating the operational risk capital requirement.
In addition, from the very outset of the emergency, access to the branches has been organised in accordance with precise rules on social distancing and the number of employees and customers in the premises, to ensure the protection of their health. This approach was adapted over time based on the different government measures and the course of the contagion.
A contagion risk model was also developed to protect personnel; it supports the decision-making for the measures to be adopted, such as plans for the return of head office personnel able to perform their duties remotely to company offices in accordance with safe distance regulations. A medical questionnaire was developed for employees to complete before they are authorised to return to the office, in addition to a tool that can be used to plan the presence of personnel in the office; this tool ensures centralised monitoring of total presences in the head offices.
At the end of 2020 a voluntary vaccination campaign was launched to provide flu and pneumococcal vaccines to employees.

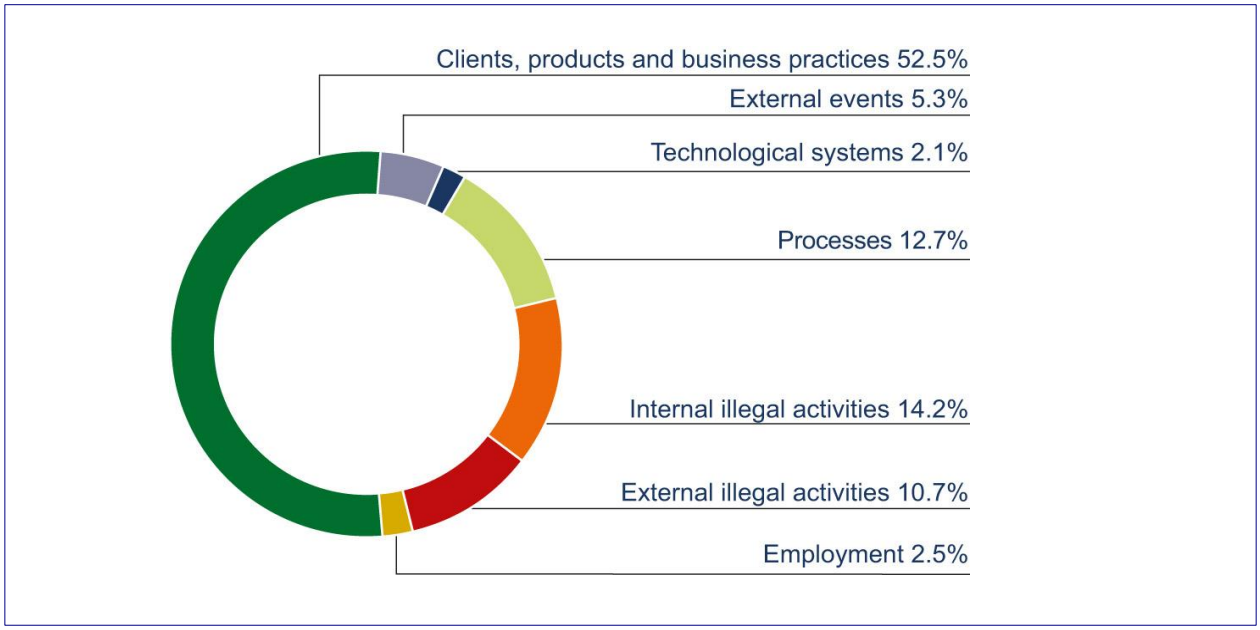
[51] The applicability and significance of risk factors are assessed, in the case of ICT risk, by the technical functions, cybersecurity functions and business continuity functions, and, with regard to operational risk, by the Decentralised Operational Risk Management functions.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group uses a combination of the methods (AMA, TSA and BIA) allowed under applicable regulations.
The capital requirement amounted to 2,205 million euro as of 31 December 2020, up from 1,697 million euro of 31 December 2019. The increase in the requirement is mainly due to the addition of the UBI Group's operational risk requirements (417 million euro at 31 December 2020).

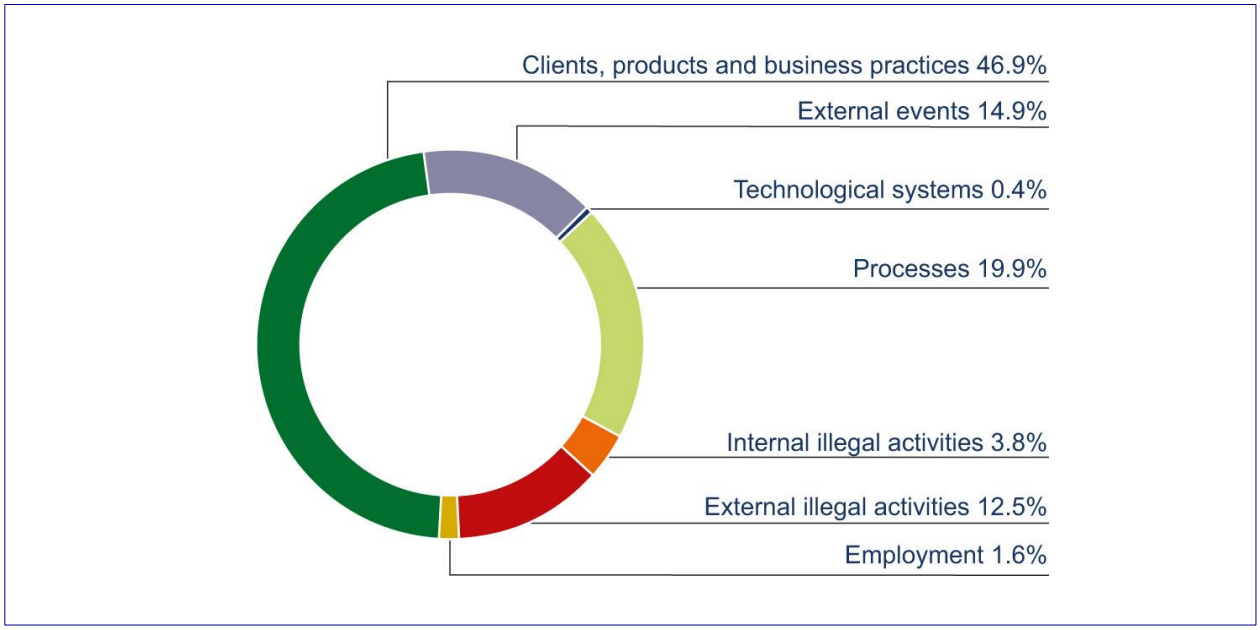
The following shows the breakdown of the capital requirement relating to the Advanced Measurement Approach (Intesa Sanpaolo and UBI AMA) by type of operational event (Event Type).

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 2020, 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.

Breakdown of operational losses recorded in 2020, by event type



LEGAL RISKS

As at 31 December 2020, there were a total of about 26,300 disputes (of which 3,300 pertaining to the UBI Group), other than tax disputes, pending at Group level (excluding those involving Risanamento, not subject to management and coordination by Intesa Sanpaolo) with a total remedy[52] sought of around 4,100 million euro (of which 1,224 million euro for the UBI Group). This amount includes all outstanding disputes, for which the risk of a disbursement of financial resources resulting from a potential negative outcome has been deemed possible or probable and therefore does not include disputes for which risk has been deemed remote.

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). Without prejudice to the uncertainty inherent in all litigation, the estimate of the obligations that could arise from the disputes and hence the amount of any provisions recognised are based on the forward-looking assessments of the outcome of the trial. These forward-looking assessments are, in any event, prepared on the basis of all information available at the time of the estimate.

Disputes with probable risk amount to around 18,300 (of which 2,100 for the UBI Group) with a remedy sought of 2,250 million euro (of which 348 million euro for the UBI Group) and provisions of 765 million euro (of which 144 million euro for the UBI Group). The part relating to the Parent Company Intesa Sanpaolo is around 4,950 disputes with a remedy sought of 1,500 million euro and provisions of 469 million euro, the part relating to other Italian subsidiaries is around 2,540 disputes (of which 2,100 for the UBI Group) with a remedy sought of 619 million euro (of which 348 million euro for the UBI Group) and provisions of 233 million euro (of which 144 million euro for the UBI Group), and the part relating to the international subsidiaries is around 10,850 disputes[53] with a remedy sought of 129 million euro and provisions of 63 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 77% of the remedy sought and 71% of the provisions. The remaining disputes mainly consist of other civil and administrative proceedings and labour disputes or criminal proceedings or proceedings related to operational violations. The number of ongoing disputes is strongly affected by several cases of "mass" disputes present in Italy with regard to issues relating to anatocism and other conditions of accounts/credit facilities and investment services and at the international level, also relating to conditions of accounts/credit facilities and loans in currencies other than the local currency. Such disputes total more than 14,000.

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

During 2020, the disputes of this type – which for many years have been a significant part of the civil disputes brought against the Italian banking industry – did not change significantly either in number or in total value of claims made compared to the previous year. Overall, the number of disputes, including mediations, with likely risk amounted to around approximately 3,800 (of which 900 for the UBI Group). The remedy sought amounted to around 637 million euro (of which 108 million euro for the UBI Group), with provisions of 199 million euro (of which 47 million euro for the UBI Group). 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 showed a slight downtrend 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 number of disputes with likely risk for this type of litigation amounted to around 580 (of which 180 for the UBI Group). The total remedy sought amounted to around 272 million euro (of which 87 million euro for the UBI Group) with provisions of 129 million euro (of which 49 million euro for the UBI Group). 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. The disputes to which the UBI Group is a party also include approximately 173 disputes with a remedy sought of 146 million euro initiated by "wiped out" shareholders and subordinated bondholders of the former "Old Banks" of Banca delle Marche, Banca Popolare dell'Etruria e del Lazio and Cassa di Risparmio della Provincia di Chieti, deemed to be of

[52] 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.

[53] These include approximately 8,300 disputes (of which approximately 6,000 arising in 2020) relating to the subsidiary Banca Intesa Beograd and concerning actions brought by customers challenging the validity (1) of certain charges provided for in loan agreements and (2) of charges relating to insurance for real-estate loans (both types of dispute are common with other banks in the country). Although numerically significant, the average value of the claims is quite modest: overall, the remedy sought relating to the two types of disputes is slightly more than 1 million euro.

possible risk[54].

Judgement of the Court of Cassation on derivatives with local entities – By way of judgement no. 8770/2020, handed down by its Joint Sections on 12 May 2020, the Court of Cassation affirmed the nullity of several OTC derivative contracts (Interest Rate Swaps with upfront payments) entered into by an Italian bank and a Municipality, essentially establishing that: 1) the upfront payment was a type of new debt resulting in long-term expenditure borne by the entity and, therefore, derivative contracts that comprise an upfront payment require the authorisation of the Municipal Council (not the Municipal Executive Committee), which, if lacking, shall invalidate the derivatives; 2) swap contracts constitute a "*legal bet*", permitted only in the amount in which these contracts acquire the form of a "*rational bet*", concluded in terms which enable both parties to understand the risks underlying the contract, which thus, must indicate the mark to market, implicit costs and probabilistic scenario.
The decision has been criticised by many authors and several lower courts have already deviated from the principles confirmed by the Court of Cassation.
Nonetheless, in September, two decisions unfavourable to the Bank in this sense were issued: 1) the Court of Pavia ordered the Bank to refund approximately 9.3 million euro, in addition to ancillary charges, to the Province of Pavia, stating the grounds for the ruling of the Court of Cassation, word-for-word; 2) the Court of Appeal of Milan rejected the appeal lodged by the Bank in the proceedings promoted by the Municipality of Mogliano Veneto. That ruling (which is only partially based on the arguments of the Court of Cassation) confirmed the first instance ruling which had ordered the Bank to refund the Municipality 5.8 million euro, a payment made in 2018. Both decisions were appealed.
Moreover, despite referring to a Municipality, the decision contains some general principles on the case and the subject-matter of the swaps, which could be deemed applicable to all derivative contracts.
Within this framework, in order to assess the impact of the decision of ongoing disputes in light of the evolution of case-law, a specific reassessment was conducted of risks connected with the proceedings regarding derivative contracts entered into with local entities, companies controlled by entities and private parties and, where deemed appropriate, specific provisions were allocated.

Disputes relating to loans in CHF against the Croatian subsidiary Privredna Banka Zagreb Dd – As already noted in the previous financial statements, 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, which rejected the claim at the beginning of 2021.
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).
In March 2020, the Croatian Supreme Court, within model case proceedings (a Supreme Court proceedings with obligatory effect on lower instance courts with the aim of unifying/harmonising case law), ruled that the conversion agreements concluded between banks and borrowers under the Croatian Conversion Law of 2015 produce legal effects and are valid even in the case when the provisions of the underlying loan agreements on variable interest rate and currency clause are null and void. Such decision will positively impact the individual proceedings related to converted loans in Swiss francs (or indexed to that currency), which should ultimately be settled, then, in favour of the Croatian subsidiary.
In 2020 the number of individual lawsuits filed against PBZ increased; anyhow, at the end of 2020 the total pending cases still amounted to a few thousand. 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 2020 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

[54] It should be noted that the acquisition agreement for the New Banks provided for certain representations, warranties and obligations to indemnify by the Seller (National Resolution Fund) for the benefit of UBI Banca [the warranty and indemnity provisions also refer to the period prior to the date of establishment of the "Bridge Entities" (23 November 2015) and therefore also cover any liabilities arising from the activities carried out by the Banks (the "Old Banks") before they were subject to the resolution procedure], in relation to, inter alia, relations with REV Gestioni Crediti Spa and the Atlante II Fund [as transferees of the loans of the Banks classified as bad loans and unlikely-to-pay exposures (the loans were transferred without recourse and the transferee therefore assumes all risks and rewards of the transferred loan, IAS 39 – Derecognition)], risks of a legal nature or generally related to ongoing or threatened disputes, violations of the law and any potential liabilities.

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).

At the end of the expert review process the judge advocated the settlement of the dispute. A settlement agreement involving payment to ENPAM was finalised between the parties in November 2020; Intesa Sanpaolo's share was fully covered by the amount that had been set aside the previous year precisely in view of a possible settlement. The case was declared dismissed at the hearing on 2 December 2020.

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.
In the technical document filed recently by the court-appointed expert, the sum to be reimbursed with regard to the claim relating to the contractual terms was quantified as modest in amount. On the other hand, it is unlikely that the claim for compensation for the damages in question will be granted as it is devoid of evidence. The case was declared ready for decision in December 2020 after the final expert's report filed was examined.

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 (of which one against the former Cassa di Risparmio di Firenze), 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.
The lawsuit brought by Alitalia Linee Aeree was won in the first instance and is in the appeal phase, whereas the lawsuits brought by Alitalia Express and Alitalia Servizi against the former C.R. di Firenze were favourably concluded in the first two instances and a time period has been set for appealing to the Court of Cassation.
For Alitalia Airport, which was also won at first instance, the favourable judgment has become final.

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 trial involving the former Banco di Napoli, on the other hand, the final arguments were filed in December and the judgment is pending.

Selarl Bruno Raulet (formerly Dargent Tirmant Raulet) dispute – The claim was filed before a French Court in 2001 by the trustee in bankruptcy for the bankruptcy of the real estate entrepreneur Philippe Vincent, which made a request to the Bank for compensation of 56.6 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, in May 2018, ordered the Bank to pay compensation of around 23 million euro. The Colmar judgment was appealed before French Supreme Court of Cassation, which in January 2020 overturned and quashed the decision of the Court of Appeal of Colmar and referred the matter to the Court of Appeal of Metz.
Consequently, in the first quarter of 2020, the Bank obtained the refund of the around 23 million euro paid according to the ruling of the Court of Appeal of Colmar in 2018.
At the end of July, the bankruptcy receiver referred the dispute to the Court of Appeal of Metz, requesting payment of 55.6

million euro (equal to the entire amount of insolvency liabilities, minus the amount obtained from the sale of the property whose purchase was financed by the Bank). In turn, the Bank filed an appearance and challenged the opposing party's claims. Last November, the Court set the date of the hearing for March 2021, to be preceded by an additional exchange of filings, and the court will then decide the case (estimated to occur by summer 2021).

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 approximately 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.
In November 2019, the Court of Florence, before which the trial is currently pending, handed down a non-definitive judgment rejecting some preliminary arguments/arguments as to jurisdiction raised by the banks, while reserving the parties' preliminary applications for decision. The banks appealed the judgment before the Florence Court of Appeal in respect of the rejection of the argument as to lack of jurisdiction, finding there to be solid arguments for the judgment in question to be overturned; the first hearing for appearance has been set for May 2021.
The judge of the first instance lifted the reserve to decide the preliminary applications and admitted the court-appointed expert witness testimony requested by the Foundation on exceeding the debt limit set by the Articles of Association when the loan was granted. The trial was then declared stayed due to the death of one of the defendants; the hearing for continuation of the trial has been set for April 2021. The expert witness testimony is necessary for a thorough assessment of the risk of the case. At present, the risk may be considered possible.

Gruppo Elifani – Lawsuit brought in 2009 by Edilizia Immobiliare San Giorgio 89 S.r.l., San Paolo Edilizia S.r.l., Hotel Cristallo S.r.l. and the guarantor-shareholder Mario Elifani seeking compensation for damages suffered due to alleged unlawful conduct by the Bank for having requested guarantees disproportionate to the credit granted, enforced pledge guarantees, applied usurious interest to mortgage loans and submitted erroneous reports to the Central Credit Register. The initially claimed amount was approximately 116 million euro and the dispute refers to the same circumstances mostly already cited in the disputes regarding anatocism and interest in excess of the legal amount brought by the aforementioned companies in 2004 and settled in early 2014. The lawsuit had a favourable outcome for the Bank in both the first and second instances. By order of 27 December 2019, the Court of Cassation partially granted the adverse parties' petition, with referral of the matter. The adverse parties resumed the lawsuit before the Milan Court of Appeal, quantifying the claim at approximately 72 million euro, in addition to interest and inflation, and thus at a total of approximately 100 million euro. The hearing for the submission of final arguments has been set for June 2021. The Bank also has a valid basis for its defence in this stage of the dispute, given that in the previous instances of the trial the disputed conduct was essentially found to be correct. At present, the risk of a lawsuit is deemed possible, whereas further elements may emerge from the upcoming hearing.

Energy s.r.l. **–** Energy s.r.l., to which the bankruptcy receiver of C.I.S.I. s.r.l. transferred all its rights towards third parties, brought a claim before the Court of Rome against Intesa Sanpaolo seeking to quash the revocation of the subsidised loan of approximately 22 million euro granted to C.I.S.I. s.r.l. in 1997 pursuant to Law 488/92 and a judgment ordering the Ministry of Economic Development, Intesa Sanpaolo (as the concessionaire for the procedural application process) and Vittoria Assicurazioni (guarantor of the payment of the second instalment of the loan), jointly and severally between them, to provide compensation for damages allegedly incurred, quantified at a total of approximately 53 million euro. The company justified its claim by citing a favourable judgment rendered in criminal proceedings originating from a complaint filed against C.I.S.I. and its director alleging grave irregularities and breach in the execution of the business plan to which the loan referred – proceedings that had led to the revocation of the subsidised loan. Intesa Sanpaolo entered its appearance, denying that there was any basis for the adverse parties' claims, arguing that all claims for compensation against the Bank had become time barred, the claims were groundless on the merits and the damages had been represented inappropriately. The first hearing was held and the preliminary statements were exchanged; the hearing for the entry of conclusions has been set for March 2021. Previous legal initiatives taken by C.I.S.I. and then by its bankruptcy receiver before the administrative and ordinary courts were rejected with regard to Intesa Sanpaolo's position (in particular, a claim for compensation against the Bank for alleged damages). Despite the favourable outcome of the previous disputes and the defences presented, the risk of the lawsuit is currently deemed possible.

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.
Following the unlawful actions, the company received a total of 276 compensation claims (including complaints, mediation proceedings and lawsuits), for a total amount of approximately 62 million euro, mostly based on alleged embezzlement, losses due to disavowed transactions in financial instruments, false account statements and the debiting of fees relating to advisory service.
There are currently 173 pending claims, with a present value of approximately 51 million euro, following the resolution of 103 positions (34 settled and 69 withdrawn or resolved by virtue of commercial agreements).
The total amount of 4.2 million euro was recovered from the improperly credited customers (and already returned to the customers harmed) and there are pending attachments of approximately 4 million euro.
A precautionary attachment was ordered against the private banker for an amount equal to the balance found in the accounts and deposits held with credit institutions and the social-security position with Enasarco. In the ensuing case on the merits, the former private banker filed a counterclaim in the total amount of 0.6 million euro by way of non-payment of indemnity for termination of the relationship.
Another lawsuit was also brought against former private bankers to recover the claims arising from withdrawal from the agency contract, in the total amount of 1.6 million euro, in addition to interest by way of indemnity in lieu of notice, penalty relating to a loan agreement and reimbursement of advances of bonuses.
The company has set aside adequate provisions for the risks associated with the unlawful conduct discussed above, in the light of its foreseeable outlays, without considering the cover provided for in the specific insurance 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, in 2020 the 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 general negative outcome of this type of disputes will be likely.
In 2020, 1,062 suits were brought concerning early termination of salary-backed loans (417 for the UBI Group), for a total remedy sought of 2.6 million euro (of which 1.1 million euro for the UBI Group). In 2019, 924 suits were brought (382 for the UBI Group), for a total remedy sought of 2.4 million euro (of which 1.1 million euro for the UBI Group).

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 2020.
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 2020, a total of 6,725 repurchase requests had been received from customers and met by the Bank, for a total value of 114.3 million euro, with the flow of requests steadily decreasing in 2020. 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 October 2019, 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.
In September 2020 the Bank learned from press sources of the conclusion of the preliminary investigations by the Milan Public Prosecutor's Office within the framework of an additional pending criminal proceeding relating to this affair, in which neither the Bank nor its management board members and key function holders/employees have been involved to date.

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 Law Decree 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 and Banca Apulia (subsequently merged by incorporation into Intesa Sanpaolo) 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 90 disputes (for a total remedy sought of around 94 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 case law regarding such transactions is still very limited and does not provide a basis for inferring the destiny of the loans in question for Intesa Sanpaolo. Among the few judgments that have been rendered to date, four voided the loan sold to Intesa Sanpaolo in respect of the part intended for the purchase of shares and were or will be appealed. In six cases, the decision was favourable to Intesa Sanpaolo, which proved that there was no effective correlation between the loan and equity investment, or successfully claimed that it was not liable, since the disputes began after the sale but referred to events pre-dating it.

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 actions, 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 Intesa Sanpaolo 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, on several occasions, at the request of the Banks in compulsory administrative liquidation, Intesa Sanpaolo granted extension (with respect to the contractual provisions) of the deadline for contesting the claims made. The period is currently set to end on 30 September 2021.

The indemnity claims relating to the Previous Disputes and Excluded Disputes, for the charges accrued through 30 June 2020, were submitted to the Banks in compulsory administrative liquidation on 22 January 2021.

No disputes have emerged with regard to the claims already served, nor is there any reason to fear that the passage of time will weaken our claims

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 Law Decree 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 Law Decree 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.
After the case documents were forwarded to the Public Prosecutor's Office of Treviso, the former Managing Director of Veneto Banca, Vincenzo Consoli, was committed to trial for the offences of market-rigging, obstructing banking supervisory authorities and financial reporting irregularities.
The Judge for the Preliminary Hearing rejected the motion to authorise the summons of Intesa Sanpaolo as civilly liable party.
A similar motion was rejected in the criminal proceedings before the Court of Vicenza against management board members and key function holders and executives of Banca Popolare di Vicenza.

Metropolitan City of Rome the Capital (formerly the Province of Rome) – Criminal proceedings are pending before the Rome Public Prosecutor's Office against a former Banca IMI manager for co-commission of aggravated fraud against the Metropolitan City of Rome Capital (formerly the Province of Rome).
The proceedings relate to the overall transaction for the purchase by the local authority, through the real estate fund Fondo Immobiliare Provincia di Roma (fully owned by the Province of Rome), of the new EUR premises.
The real-estate transaction received financing of 232 million euro from UniCredit, BNL and Banca IMI (each with 1/3).
The former Banca IMI employee is accused of having misled – with three other managers of the two other lending banks, seven managers of the asset management company that manages the provincial fund and two public officials – the fund's internal control bodies and representatives of the Province, allowing the lending banks to obtain an unjust profit and thus causing significant damages to the public authority. In addition, the Public Prosecutor claims that the lending banks and the Fund entered into a loan under different, more burdensome conditions than those provided for in the call for tenders held by the public entity for the transaction.
ISP (as the company that absorbed Banca IMI) is investigated in the criminal proceeding pursuant to Legislative Decree 231/01 together with the other two lending banks and the real-estate fund management company.
Based on early reconstructions, there is reason to believe that the correctness of the Bank's actions will be confirmed.

Significant disputes involving the UBI Group

Oromare Bankruptcy – The bankruptcy receiver for Oromare società consortile a r.l. sued UBI in October 2018, claiming that banking credit had been unlawfully granted and maintained by the bank to the bankrupt company, seeking compensation for damages of 22.5 million euro.
The defence counsel of UBI argued that the bankruptcy receiver lacked standing to sue, citing the position in case law according to which it is individual creditors, not the body of bankruptcy creditors, who have standing to bring an action. It was also emphasised that the disputed loan was granted to support the company at a moment of particular growth and balanced financial performance.
An adverse outcome to the proceedings, which are in the preliminary phase, is possible.

Eugenio Tombolini SpA bankruptcy receiver and others – In 2016, Eugenio Tombolini SpA and its shareholders and guarantors sued Nuova Banca delle Marche[55], claiming that it had not fulfilled a restructuring agreement pursuant to Article 182-*bis* of the Bankruptcy Law and that it had applied unlawful interest on current accounts and loans, quantifying its claim at 94 million euro.
The bank entered its appearance, objecting that some of the claimants lacked standing to sue and that it lacked standing to be sued in respect of some of the disputed relationships, since they were outside the scope of the acquisition. In addition, it was argued that some claims had become time barred and that the reconstruction of the facts by the adverse party regarding the restructuring agreement pursuant to Article 182-*bis* of the Bankruptcy Act was groundless, as were the claims regarding the interest applied. Nuova Banca delle Marche thus requested the authorisation to summon the third party REV Gestione Crediti S.p.A. (fully owned by the Bank of Italy) to the proceedings, as it is party to some of the disputed relationships.
The trial, which was suspended due to the bankruptcy of Eugenio Tombolini Spa and of some of the other claimants, was resumed. UBI Banca SpA appeared in lieu of Nuova Banca delle Marche and Rev Gestione Crediti S.p.a. In June 2020 the Court ordered an accounting expert review, which is still ongoing. An adverse outcome to the proceedings is possible.

[55] See the previous note.

Engineering Service Srl – In 2015, Engineering Service Srl brought a civil suit against the Ministry of Economic Development, BPER and UBI regarding the granting of public subsidies to businesses. The claimant accuses UBI (and BPER) of delays in managing the approval procedure and disbursements – delays that allegedly resulted in a liquidity crisis for the company and the consequent loss of the public contribution.
A claim for damages for approximately 28 million euro has been brought against UBI.
UBI's defence underscored that the bank was the leader of the temporary consortium formed by BPER and that the approval times depended on the latter. UBI then claimed indemnification from BPER. The trial is still in the preliminary phase. The risk of a negative outcome is deemed possible.

Fondazione Cassa Risp. di Pesaro – In 2018, Fondazione Cassa di Risparmio di Pesaro brought a compensation claim against UBI Banca (as the alleged successor-in-interest to Banca Marche S.p.A.[56]) and PwC (the auditing firm that certified all the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and position of Banca della Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. The value of these shares then fell to zero, resulting in a loss quantified at approximately 52 million euro.
During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche. The Court rejected all preliminary applications filed and adjourned the case to 8 June 2021 for the entry of conclusions.

Abba' Andrea + 207 – This is a dispute pending before the Court of Milan, Business Section, initiated in 2019 by Mr. Abbà and 207 subordinated bondholders of Banca delle Marche[57]. The claimants seek a declaration voiding the bonds and compensation for the damages suffered. The claim has been quantified at approximately 31 million euro.
The bank entered its appearance, objecting that it lacked capacity to be sued, arguing in particular that the bonds in question were outside the scope of the sale by the Old Bank to the Bridge Entity. UBI also argued that the claimant's claims had become time barred and that the adverse parties lacked capacity, since they were not the "first borrowers" and thus by law were not entitled to claim that the original bonds were inherently flawed. Finally, the lack of grounds to void the bonds and of evidence of the causal relationship between the bank's conduct at issue and the damages was underscored.
As the manager of the National Resolution Fund, the Bank of Italy intervened in the proceedings, upholding the arguments and conclusions formulated by UBI.
The trial is still in the initial phase, since the preliminary phase has yet to be held.

Terni Reti srl – Lawsuit initiated in July 2020 before the Court of Terni by Terni Reti Sud s.r.l., with share capital wholly held by the Municipality of Terni, seeking a declaration voiding the collar derivative contract entered into in August 2007 due to the alleged breach of the disclosure obligations applicable to the intermediary (former Banca delle Marche[58]). The plaintiff also alleges a lack of abstract and concrete cause of the contract at issue, since the Bank purportedly did not share with the Company information regarding the mark-to-market and probabilistic scenarios relating to the derivative, but instead allegedly also suggested an inefficient derivative, in view of pursuit of hedging goals in relation to the underlying debt, with the consequent deviation from the 'concrete cause'.
The bank entered an appearance promptly, arguing on the merits that the plaintiff's claims were baseless since the bank had provided extensive information regarding the characteristics of the derivative in question, enabling the customer to make an informed choice of the product subscribed. The claims that the contract was allegedly ineffective were also challenged on the basis of the results of the technical expert report requested by UBI in conducting its defence.
The lawsuit is in the initial phase, since the first hearing was held on 15 December 2020.

Ac Costruzioni s.r.l. **–** Proceedings brought by AC Costruzioni S.r.l. (subsequently declared bankrupt) and Cava Aurelio (deceased during the trial) against Banca Carime Spa seeking a declaratory judgment establishing contractual and/or extracontractual liability of the bank for the revocation of the credit facilities on 28/05/1998 and a judgment ordering the bank to provide compensation for the damages resulting from revocation, quantified at a total of around 33 million euro.
The adverse party's claims were rejected in full by both the Court of Cosenza and the Catanzaro Court of Appeal, which upheld the arguments made by the defendant. The judgment of the second instance was appealed by Cava's heirs and then by the receiver to AC Costruzioni by counter-appeal and cross-appeal. The proceedings before the Court of Cassation are still in the initial phase, since the hearing has yet to be scheduled.

Mariella Burani Fashion Group S.p.A. in liquidation and bankruptcy ("MBFG") **–** In January 2018 the receiver to Mariella Burani Fashion Group S.p.a. sued the former directors and statutory auditors of Mariella Burani Fashion Group S.p.A, its auditing firm and UBI Banca (as the company that absorbed Centrobanca), seeking a judgment ordering compensation for alleged damages suffered due to the many acts of mismanagement of the company while in good standing.
According to the claimant's arguments, Centrobanca, which was merged into UBI, continued to provide financial support to the parent company of the bankrupt company (Mariella Burani Holding S.p.A.), despite the signs of insolvency that began to show in September 2007, causing damages quantified at approximately 94 million euro.
On a preliminary level, the bank argued that the receiver lacked capacity to sue since the disputed loan had been disbursed to the parent company of Mariella Burani Fashion Group S.p.a.; moreover, the alleged damages for which the receiver claims compensation were argued to have been in fact sustained by the company's creditors (and not by the procedure).
As regards the merit of the claims, the bank stressed that it had acted properly and the borrower in good standing was solely liable since it bore exclusive responsibility for preparing the untrue financial statements, circulating the misinformation and

[56] See the previous note.
[57] See the previous note.
[58] See the previous note.

continuing to operate the company in an alleged situation of insolvency.

Fondazione Cassa Risparmio di Jesi – In January 2016, Fondazione Cassa di Risparmio di Jesi brought a compensation claim against UBI Banca (as the alleged successor-in-interest to Banca Marche S.p.A.[59]) and PwC (the auditing firm that certified all the financial statements and the figures presented in the Prospectus) alleging that the defendants published data and information regarding the financial performance and position of Banca della Marche S.p.A. that later proved to be totally incorrect and misleading. This information, contained in the financial statements as at 31 December 2010 and 30 June 2011 and included in the Prospectus, is claimed to have led the Foundation to subscribe for the bank's shares issued as part of the capital increase in March 2012. The value of these shares then fell to zero, resulting in a loss quantified at approximately 25 million euro.
During the trial the Bank of Italy joined the suit, upholding the lack of capacity to be sued invoked by UBI, by virtue of the provisions of Legislative Decree 180/2015 governing the resolution procedure for Banca delle Marche.
By judgment rendered on 18 March 2020, the Court of Ancona granted the objection of lack of capacity to be sued raised by the bank, rejecting the claims lodged. The appeal filed by the Foundation is currently pending before the Ancona Court of Appeal.

Melania Group S.p.A. **–** Proceedings brought by Melania Group and its guarantors in 2015 claiming unlawful suspension of credit and improper reporting to the Central Credit Register and seeking compensation for damages suffered quantified at 38 million euro. The claimants also sought the reversal of the interest accrued on the current accounts held by the company due to exceeding the "threshold rate". When entering its appearance, the bank motioned the court to reject the claims formulated and lodged a counterclaim by virtue of the debt balances in the Melania Group's name. By judgment of December 2019, the Court of Ancona rejected the compensation claims formulated by the adverse party, granting the bank's counterclaim in a lesser amount than sought. The appeal initiated by UBI (which absorbed Banca Adriatica[60]) is pending, with the first hearing scheduled for April 2021.

Isoldi Holding bankruptcy receiver **–** The receiver to Isoldi sued UBI (which absorbed Nuova Banca Etruria[61] and Centrobanca) and five other banks in June 2020, claiming that they were liable, jointly and severally with the management body of Isoldi Holding, for a series of acts of diversion of assets that are claimed to have contributed to the company's artificial survival in the period June 2011 – June 2013. The scheme is claimed to have been implemented by preparing a turnaround plan pursuant to Article 67, para. 3, letter d), of the Bankruptcy Law based on unlawful acts and a connected agreement governing the disbursement of new finance, acts that are argued to have artificially deferred the company's crisis and concealed the irrevocability of its default. The total damages claimed amount to approximately 33.5 million euro.
UBI Banca entered its appearance, claiming that it lacked capacity to be sued with regard to the claims bearing on Banca Etruria, since the circumstances in question are excluded from the sale. REV Gestione Crediti (fully owned by the Bank of Italy) joined the proceedings.

Labour litigation
There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2020. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

Contingent assets
As for contingent assets, and the IMI/SIR dispute in particular, it should be recalled that following the final judgement establishing the criminal liability of the corrupt judge Metta (and his accomplices Rovelli, Acampora, Pacifico, and Previti), the defendants were ordered to pay compensation for damages, with the determination of those damages referred to the civil courts. Intesa Sanpaolo then brought a case before the Court of Rome to obtain an order of compensation for damages from those responsible.
In its ruling of May 2015, the Court of Rome quantified the financial and non-financial damages for Intesa Sanpaolo and ordered Acampora and Metta – the latter also 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 accruing from 1 February 2015 to the date of final payment, plus legal expenses. The amount ordered took account of the amounts received in the meantime by the Bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.
In July 2016, the Rome Court of Appeal stayed the enforcement of the judgment of first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses, and adjourned the hearing of the final pleadings to June 2018. As a result of this decision, in December 2016 the Office of the President of the Council of Ministers credited Intesa Sanpaolo with the sum of 131,173,551.58 euro (corresponding to the 130 million euro of the order, in addition to legal interest and reimbursement of expenses). To avoid dispute, only the exact amount of the order, without applying the gross-up, was demanded and collected. On 16 April 2020, the ruling of the Court of Appeal of Rome was filed, which essentially upheld the Court's ruling, while reducing the amount of non-financial damages to 8 million euro (compared to 77 million euro that had been quantified by the court of first instance), and set the amount to be paid at 108 million euro, to be considered net of tax, plus legal interest and expenses.
In the second quarter of 2020 the bank filed a petition for the correction of a material error contained in the finding regarding the calculation of the damages liquidated; the Court of Appeal rejected the bank's petition by ruling filed on 7 December 2020.
Intesa Sanpaolo will therefore file an appeal to the Court of Cassation against the decision of the Court of Appeal in regard to the quantification of the non-financial damage and the erroneous calculation of the financial damage, for which an application for correction was filed.

[59] See the previous note.
[60] See the previous note.
[61] See the previous note.

TAX LITIGATION

At Group level, the total value of the claims for tax disputes (taxes, penalties and interest) was equal to 211 million euro as at 31 December 2020, which represents an increase compared to 175 million euro as at 31 December 2019.
The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges (74 million euro in 2020 compared to 62 million in 2019).
As at 31 December 2020, the Parent Company had 687 pending litigation proceedings (612 as at 31 December 2019) for a total amount claimed (taxes, penalties and interest) of 139 million euro (111 million euro as at 31 December 2019), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 57 million euro as at 31 December 2020 (54 million euro as at 31 December 2019).
Compared to 31 December 2019, the main events that gave rise to significant movements for the Parent Company in 2020 consisted of:

- on the increase (approximately +42 million euro), the transfer to the Tax Litigation team of the Parent Company of a long-standing dispute in Brazil dating back to 1995, which until 2019 was taken care of by the Legal Litigation team of the Parent Company, amounting to 35 million euro (the dispute is related to the guarantees provided by ISP to Banca Santander in connection with the sale of the former subsidiary Banco Sudameris), and new disputes relating to the municipal property tax ("IMU") and registration tax for a total amount of 5.4 million euro, in addition to interest accrued on the existing disputes;
- on the decrease (approximately -13.8 million euro), the resolution of the Infogroup claim amounting to 7.3 million euro, the favourable resolution of disputes regarding substitute tax on loans, registration tax, property value increase tax ("INVIM") regarding a long-standing dispute over contributions of real estate assets made in 1997 by Carical to Carime, and municipal property tax ("IMU") for a total amount of 4.5 million euro and, finally, the resolution of the former Centro Leasing dispute involving the payment of registration tax on the leased property located in Rome at Via Tuscolana, amounting to approximately 2 million euro.

The main differences in the provisions booked by the Parent Company compared to 31 December 2019 related to:

- on the increase (approximately +13 million euro), tax disputes relating to the municipal property tax ("IMU"), discussed further below, the transfer of the aforementioned tax dispute in Brazil and the interest accrued on the pending disputes;
- on the decrease (approximately -10 million euro), the resolution of the Infogroup claim, involving the use of approximately 7.3 million euro for VAT and direct taxes (IRES and IRAP), the resolution of the aforementioned dispute known as "Immobiliare Tuscolana" amounting to approximately 2 million euro, and the resolution of the INVIM dispute relating to contributions of real estate assets by Carical, amounting to approximately 0.8 million euro.

During the year, 212 disputes were closed at the level of the Parent Company for a total of 13.8 million euro with a disbursement of around 9 million euro.
A the level of the Italian subsidiaries, tax disputes totalled 63 million euro as at 31 December 2020 (53 million euro as at 31 December 2019), covered by specific provisions amounting to 10 million euro (1 million euro in the 2019 financial statements).
The figures presented also include the disputes in which UBI Banca and its subsidiaries are defendants. Compared to 31 December 2019, the main events that gave rise to significant movements of the total amount of both the claims (+10 million euro) and the provisions (+9 million euro) were as follows:

- inclusion of the UBI Group companies (total claims of 9.9 million euro and provisions of 2.7 million euro);
- with respect to Intesa Sanpaolo Provis, an increase of 0.6 million euro in the total claims and an increase of 1.5 million euro in the provision for numerous cases involving modest individual amounts. The change in the provision is due to the controversial issue of the liability for municipal property tax ("IMU") in respect of property lease contracts terminated without repossession of the assets, for which it was deemed appropriate to provision in full for the risk;
- with respect to Banca Fideuram, a prudential provision was recognised following the most recent unfavourable judgment of the Regional Tax Commission of Lazio No. 3417/16/20 filed on 11 November 2020 in respect of pending claims concerning the failure to withhold a withholding tax of 27% on 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 Banca Fideuram was only the placement bank and correspondent bank (total value of the disputes of 9.3 million euro).

Tax disputes involving foreign subsidiaries amounted to 9 million euro at year-end (11 million euro at the end of 2019), covered by provisions of 7 million euro (in line with 2019). The decrease in the claimed amount was mainly due to the disputes involving Intesa Sanpaolo Bank Albania, which were settled, and the reduction in the value of the lawsuits involving Intesa Sanpaolo Brasil S.A. and Alexbank due to the use of the exchange rate at year-end. The provisions from the previous year were confirmed.
There were no new disputes of significant amounts initiated during the year.
However, it should be emphasised that due to the extension of the terms of forfeiture and time bar, imposed by the various legislative measures pertaining to the COVID-19 pandemic, the notices of tax assessment, payment due, claims and penalties, expiring between from 9 March and 31 December 2020 and issued by the tax authorities by 31 December 2020, will be validly served on the taxpayers during the period from 1 January to 31 December 2021.
In the following paragraphs, information is provided regarding the most important ongoing disputes (including those that arose prior to 2020).

Parent Company

Disputes regarding registration tax, with a total remedy sought of 38 million euro, on the reclassification of business contribution and subsequent sale of the participations as sale of business and the consequent assessment of a higher business value

These are disputes concerning the recovery of registration tax paid on the contributions of business units and the subsequent sales of the participations, which were reclassified by the tax authorities as sales of business units, with the consequent assessment of a higher value for the business units. These disputes were not settled under the tax amnesty pursuant to Article 6 of the tax decree connected to the 2019 Budget Law (Decree-Law 119/2018), either because the Bank had already paid the full amount assessed and as a result of settlement would not have been entitled to the repayment of the sums in excess of the amount due for settlement, or because there were sound prospects of a favourable outcome to the trials pending before the Court of Cassation.

Those disputes also include the dispute (remedy sought of 8 million euro) pending before the Court of Cassation on petition of the Attorney General against the judgment of the second instance favourable to the Bank, regarding the registration tax due further to the reclassification as a sale of a business unit of the overall transaction whereby Manzoni s.r.l. transferred a private equity business unit – that it had acquired through two different contributions of business units by Intesa Sanpaolo and the former IMI Investimenti – to Melville S.r.l., through a partial, non-proportional demerger. The Bank has appointed a major law firm to represent it at trial.

Dispute regarding the municipal property tax ("IMU") on real estate not repossessed following the termination of the related lease contracts

There is longstanding discussion regarding the identification of the taxpayer liable for the municipal property tax in relation to real estate assets owned by the leasing companies and leased out to third parties, where the lease was terminated early due to default by the lessee, or as a result of insolvency proceedings involving the lessee, but without the lessee having returned the asset to the lessor. Over the years a tax dispute arose on this matter (also affecting the former Mediocredito Italiano and Provis) relating to whether the lessee is (still) liable for the municipal property tax rather than (already) the leasing company in the period between the date of termination (or dissolution) of the lease and the date of physical return of the asset to the lessor. Until 2019, the position adopted by Intesa Sanpaolo – in line with that of all the other Italian leasing companies and the recommendations from ASSILEA (Italian association of leasing companies) – had been that over the period in question the lessee should continue to be liable for municipal property tax. In late 2019, the position of the Court of Cassation on the matter was still undefined, but in 2020 the Court of Cassation settled on the view that the leasing company was liable for municipal property tax from the date of legal termination of the contract, regardless of repossession of the asset. In addition, the 2020 Budget Law provided for the abolition of the single municipal tax (IUC), with regard to its components relating to IMU and TASI, and the unification of the two taxes into the new municipal property tax (IMU). On 18 March 2020, the Ministry of the Economy and Finance – Finance Department – Tax Legislation and Tax Federalism Unit, with circular no. 1/DF, commenting on the latter changes, provided precise indications regarding the liability for the new municipal property tax with regard to the date of termination of the lease agreement in accordance with the prevailing case law. Accordingly, starting from 2020, the bank decided to proceed with the payment of municipal property tax for all leased real estate assets with terminated contracts, regardless of repossession of the asset, seeking recovery from the former users, where possible. It was also decided to gradually withdraw from all pending disputes (over 300 for the Parent Company) on assessments relating to years up to 2019, following an attempt at settlement with the interested municipalities to quash the penalties and offset trial fees.

The total remedy sought is 11 million euro, fully provisioned for.

Dispute regarding VAT on boat lease transactions

On 17 April 2019, the Milan Tax Police (Guardia di Finanza) initiated a general audit of the former Mediocredito Italiano (now merged into Intesa Sanpaolo), concerning tax years 2014 and 2015 for VAT purposes and tax years 2015 and 2017 for direct tax purposes. The audit was concluded on 13 October 2020.

With regard to tax year 2014, the Tax Police served a tax audit report on 31 July 2019, contesting: i) the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases, and ii) the VAT exemption established in Article 7-bis of Presidential Decree 633/72 for the buyback of a vessel. The total amount of claimed VAT amounted to 2.3 million euro (of which 1.7 million euro on the first charge and 0.6 million euro on the second). The Lombardy Regional Tax Office thus served a notice of assessment (with interest and penalties), against which an appeal was lodged. The hearing of the appeal, originally set by the Milan Provincial Tax Commission on 24 November 2020, was postponed until 24 March 2021. On this dispute, the bank made provisions with regard to the former claim, solely for the risk of tax and interest, and not also for the risk of penalties, whereas for the latter claim, the potential tax liability is believed to be borne contractually by the customer.

With regard to tax year 2015, the Tax Police served the tax audit report on 13 October 2020, contesting, as done for the previous year, the VAT exemption applied, in accordance with Article 8-bis of Presidential Decree 633/72, by the company to the nautical leases. The total amount of claimed VAT amounts to 0.9 million euro. The related notice of assessment has yet to be served. For this dispute as well, in the previous year the bank booked a provision corresponding to the portion of the dispute relating to the risk for tax and interest, as it did in 2014.

With regard to tax years 2015 and 2017, the audit was concluded without detecting any irregularities in the field of direct taxes.

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With regard to the merged company Banca Nuova (formerly a member of the Banca Popolare di Vicenza Group), discussions are in progress with the Sicily Italian Revenue Agency for the settlement of the tax audit report relating to tax period 2015 served on Intesa Sanpaolo, as the surviving company, on 20 December 2019 and containing findings for a total of 1.6 million euro of greater taxable profit and IRES and IRAP taxes for a total of 0.46 million euro, in addition to penalties and interest. The dispute was notified to Banca Popolare di Vicenza (in compulsory administrative liquidation) - and to the Ministry of the Economy and Finance for their consideration and in view of the guarantees provided under Art. 2, paragraph c), of Ministerial

Decree 187 of 25 June 2017, in accordance with Art. 4, paragraph 1, letter c), of Decree-Law 99 of 25 June 2017 - which has the obligation to indemnify ISP against any liability, pursuant to Article 11 of the agreement entered into on 26 June 2017, for the acquisition of assets, liabilities and legal relationships. After the audit is resolved in 2021, a formal indemnity request will be submitted for the amount definitively due to the tax authorities.
With regard to the disputes involving Intesa Sanpaolo and settled during the period, mention should be made of the favourable ruling by the Court of Cassation concerning the former Cassa di Risparmio di Piacenza e Vigevano regarding the registration tax due on the capital increase based on the incentives under the Amato Law and amounting to around 0.8 million euro. In addition, the Court of Cassation ruled against the notice of payment of registration tax of approximately 2 million euro issued against the merged company Centro Leasing in relation to the sale of a leased property in Rome, in Via Tuscolana.
Finally, it is worth highlighting the dispute between the Provincial Tax Office of Florence and Engineering – Ingegneria Informatica S.p.A on the VAT treatment applied in 2014 by Infogroup Informatica e Servizi Telematici S.c.p.A.
With regard to the Intesa Sanpaolo branches located abroad, it should be noted that: i) a VAT audit on the London branch is in progress for the years 2016, 2017 and 2018; ii) three tax audits concerning direct taxes of the New York branch for the tax periods 2015, 2016 and 2017 are in progress; and iii) a fourth audit conducted by the IRS of the income tax return filed for tax period 2018 by the New York branch is in the early stages. Finally, the audit at the Frankfurt branch with regard to the following areas relating to the tax periods from 2016 to 2018 was concluded in November 2020: i) income taxes; ii) VAT; iii) withholding taxes; iv) tax losses carried forward; v) transfer pricing; and vi) German trade tax. The German tax authority presented a single finding relating to head office expenses, assessing greater tax of 1.2 million euro overall for all years, without levying any penalties. On the basis of the external advisor's opinion, the branch decided to settle the claim.

Group Companies

For Banca Fideuram, mention has been made above of the dispute concerning alleged failure to withhold the withholding tax due on interest accrued on foreign bank accounts held at Fideuram Bank (Luxembourg) by two "historic" Luxembourg mutual funds. In further detail, the second instance judgement in November 2020 was unfavourable to the bank, including with regard to 2011, as in the case of 2009 and 2010. Accordingly, it was decided, after consultation with the consultant engaged to assist the bank in the cases pending before the Court of Cassation, to set up a provision for risks, including penalties and interest.
Intesa Sanpaolo Private Banking has long had pending IRES and IRAP disputes relating to the deduction (in 2011 and the following years) 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 2009, Banca di Trento e Bolzano and Cassa di Risparmio di Firenze in 2010 and Cassa di Risparmio Pistoia e Lucchesia and Cassa di Risparmio dell'Umbria in 2013, realigned by the transferee in accordance with Article 15, paragraph 10, of Law Decree no. 185 of 29 November 2008.
With regard to the disputes, please note the following:

- year 2011: 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 (total claim amount of 7.9 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 realignment of 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 case is pending before the Court of Cassation on appeal by the Attorney General and a counter-appeal has been prepared by the external advisor appointed by the bank;
- year 2012: unfavourable rulings no. 5172/2019 and 5173/2019 by the Lombardy Regional Tax Commission, which granted the appeals by the Italian Revenue Agency (total claim amount of 8 million euro, of which 3.9 million euro for taxes and 3.5 million euro for penalties). The appeal before the Court of Cassation has been entrusted by the bank to the same advisor;
- year 2013: the proceedings are pending before the Lombardy Regional Tax Commission on appeal by the Italian Revenue Agency (total claim amount of 10.2 million euro, of which 4.9 million euro for taxes and 4.4 million euro for penalties). The appeal was discussed in a public hearing on 20 October 2020. The judgment is pending;
- years 2014 and 2015: the Second Division of the Milan Provincial Tax Commission, by judgment no. 504/2/2020 of 7 February 2020, filed on 13 February 2020, granted the IRES and IRAP appeals for both years (joined proceedings). The tax claim amounts to 16.1 million euro (of which tax of 7.9 million euro and penalties of 7.2 million euro), plus interest. The appeal of the Italian Revenue Agency against the aforementioned judgment was served on 12 November 2020. The bank entered its appearance through the internal structures.

The total amount claimed against Intesa Sanpaolo Private Banking, including taxes, penalties and interest, amounts to 42.2 million euro. The risk of liability has been assessed as remote, because the legitimacy of the impairment of the goodwill arising ex novo in the hands of the transferee – also implemented at the time by other Group companies but not disputed in respect of any of them – has been expressly acknowledged by the Italian Revenue Agency in its Circular no. 8/E of 2010.
The tax disputes pending at 31 December 2020 involving UBI Banca S.p.A. and its subsidiaries as defendants primarily derive from the former "Good Banks" acquired in 2017. The total value of the disputes for the Group is 9.9 million euro (of which 6.5 million euro for UBI Banca) and the provisions amount to 2.7 million euro (of which 1.1 million euro for UBI Banca).
The tax claim against UBI Banca S.p.A. is largely attributable to two disputes originating from the former Banca delle Marche S.p.A. Due to operational decisions made by the bank in question at the time of the events, the payments made pending the trial were largely taken to the income statement (3.5 million euro), whereas just 418 thousand euro was recognised as assets subject to provisional collection, covered in full by a provision for risks. The bank has engaged an external legal advisor to prepare an appeal before the Court of Cassation against the unfavourable judgment in the appeal proceedings.
Due to the foregoing, and considering also the definitive additional payments for UBI Banca pending the trial of 0.3 million euro and payables for disputes recognised of 0.2 million euro, the potential liability at 31 December 2020 on disputes involving UBI Banca S.p.A. and its subsidiaries as defendants amounts to 3.1 million euro (without considering provisional payments made by other co-obligors and any indemnification).
The following should be noted regarding the two most significant disputes, both attributable to the merged company Nuova Banca delle Marche S.p.A. (which in turn absorbed Medioleasing S.p.A.).

One dispute concerns the application of substitute tax pursuant to Presidential Decree 601/1973 in relation to a loan agreement by Banca delle Marche S.p.A. to Medioleasing of 400 million euro entered into on 27 December 2007 in the Republic of San Marino (value of the dispute of 2.2 million euro, in addition to interest). Both companies appealed the payment notices from the Italian Revenue Agency before the competent tax commissions with unfavourable outcomes in the first and second instances (Marche Regional Tax Commission no. 499/2020 and no. 500/2020 filed on 10 September 2020). The term for lodging an appeal before the Court of Cassation is pending. Pending the trial, Medioleasing paid 1.7 million euro, charged directly to the income statement, and the former Banca delle Marche paid approximately 0.4 million euro on a temporary basis, recognised as an asset and covered by provision.
The other dispute relates to VAT for the year 2005 (value of dispute of 1.6 million euro). On 2 December 2010, the Italian Revenue Agency – Ancona Provincial Office served Medioleasing with a notice of assessment demanding greater VAT of 0.7 million euro, in addition to interest, while also levying an administrative fine of 0.9 million euro. The claim was based on presumed reclassification of nautical leasing contracts (with an initial balloon payment) as purchases of the asset, in addition to property sale-and-lease-back transactions. The outcome was unfavourable to Medioleasing in the first and second instances: the latter lodged an appeal before the Court of Cassation in November 2013. The date of the hearing has yet to be scheduled. Meanwhile, the company made payment in full, directly recognized in the income statement.
Finally, Provis has municipal property tax ("IMU") and TASI claim procedures that are pending or about to commence with a total value of 1.9 million euro.
The following is an account of the developments relating to the foreign subsidiaries during the year.
The three disputes (total remedy sought of 0.5 million euro) involving the subsidiary Intesa Sanpaolo Bank Albania as the absorbing company of Veneto Banka were settled. The outcome was unfavourable, but without adverse effects on the 2020 income statement, since the Albanian bank considered the payment of the full claimed amount made in 2019 to be definitive.
Intesa Sanpaolo Bank Albania is also involved in two disputes (total amount 2.3 million euro) both pending before the Court of Cassation on appeal by the bank: i) the first concerning the write-off 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 for the years 2003 to 2007 (1.3 million euro); and ii) the second 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). The audit was followed by a notice of assessment for direct taxes for the years 2015 and 2016. This dispute concerns the improper use of carried forward tax losses, which could not be used, in the opinion of the Brazilian tax authorities, because they were generated before the reorganisation of Intesa Sanpaolo Brasil S.A. - Banco Multiplo, which would have modified the business activities carried out and the corporate structure. The RFB's claim amounts to 1.7 million euro, against which the company has not made any provision, considering the risk of losing the case as remote, also based on the assessment of the local consultant. The first instance yielded an unfavourable outcome for the Bank, which lodged an appeal on 14 December 2020. The amount sought was reduced by approximately 0.6 million euro compared to 31 December 2019 due to the depreciation of the local currency.
Alexbank has two tax pending audits concerning corporate income tax, referring to tax period 2019, and stamp duty, referring to tax period 2019. At present no claims have been put forward. In addition, there is a pending dispute involving non-payment of stamp duty by the bank's branches for a total value of approximately 4.5 million euro at the exchange rate 31 December 2020 for tax periods 1984 – 2008 (86.8 million Egyptian pounds).
A dispute is pending involving the Ukrainian subsidiary Pravex Bank relating to the disavowal of tax losses of approximately 4 million euro carried forward in 2018 from previous years. The claim has no effects on the 2018 income statement, since the company did not recognise the deferred tax asset and has a tax situation that in any event does not allow this loss to be used. In 2019, an appeal was also lodged against another assessment by the local tax authorities regarding VAT with a value of approximately 20 thousand euro.
In March 2020, Exelia was subject to a VAT audit by the Romanian tax authority (ANAF) with regard to tax periods 2014 - 2019. This audit has been concluded and ANAF has determined that the services rendered by Exelia may be classified as services of a financial nature for VAT purposes and are thus exempt, resulting in the full non-deductibility of the VAT on purchases of goods and services. The revenue authority thus claimed non-payment of VAT for 369 thousand euro, in addition to penalties of 146 thousand euro, for the tax periods subject to audit. It should be clarified, with regard to the amount of the penalties, that the company, by paying the full amount of the taxes requested, obtained the full cancellation of the penalties, thus benefiting from an order of the government issued for cases of full payment of taxes due for previous years.
The following should be noted with regard to the ongoing assessments/inquiries by the local tax authorities.
In February 2020, PBZ CARD O.O.O. was subject to a tax audit by the Croatian tax authority with regard to profit tax relating to tax period 2018. The company still has yet to receive any formal findings. 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.

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In connection with all the tax disputes outstanding as at 31 December 2020, for a total value, as stated above, of 211 million euro, of which 139 million euro relating to Intesa Sanpaolo, the Group has recognised receivables of 45 million euro in its balance sheet assets to account for amounts paid on a provisional basis due to tax assessments, of which 27 million euro related to the Parent Company.
The portion of the allowance for risks which relates to provisional tax assessments amounts to 28 million euro, of which 25 million euro 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 is measured using the criterion set forth in IAS 37 for liabilities.