1.4. BANKING GROUP – OPERATIONAL RISK

QUALITATIVE INFORMATION

General aspects, operational risk management processes and measurement methods

Operational risk is defined as the risk of suffering losses due to inadequacy or failures of processes, human resources and internal systems, or as a result of external events. Operational risk includes legal risk, that is, the risk of losses deriving from breach of laws or regulations, contractual or out-of-contract liability or other disputes; ICT (Information and Communication Technology) risk; compliance risk and model risk. Strategic and reputational risks are not included.
The Intesa Sanpaolo Group has for some time defined the overall operational risk management framework by setting up a Group policy and organisational processes for measuring, managing and controlling operational risk.

With regard to operational risk, on 31 December 2009, the Group adopted the Advanced Measurement Approach (AMA - internal model), in partial use with the standardised (TSA) and basic approaches (BIA) to determine the associated capital requirement for regulatory purposes. The AMA approach was adopted by the main banks and companies in the Banca dei Territori, Corporate and Investment Banking, Private Banking and Asset Management Divisions, by the Intesa Sanpaolo Group Services consortium and by VUB Banka (including Consumer Financial Holding and VUB Leasing) and PBZ Banka.

The control of the Group's operational risk was attributed to the Board of Directors, which identifies risk management policies, and to the Management Control Committee, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and control system.
Moreover, the tasks of the Intesa Sanpaolo Group Internal Control Coordination and Operational Risk Committee include periodically reviewing the overall operational risk profile, authorising any corrective measures, coordinating and monitoring the effectiveness of the main mitigation activities and approving operational risk transfer strategies.

The Group has a centralised function within the Enterprise Risk Management Department for management of the Group's operational risk. This function is responsible for the definition, implementation, and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management.
In compliance with current requirements, the individual organisational units are responsible for identifying, assessing, managing and mitigating risks. Specific officers and departments have been identified within these organisational units to be responsible for Operational Risk Management (structured collection of information relative to operational events, scenario analyses and evaluation of the business environment and internal control factors).

The Self-diagnosis Process, conducted on an annual basis, allows the Group to:
- identify, measure, monitor and mitigate operational risk through identification of the main operational problem issues and definition of the most appropriate mitigation actions;
- analyse exposure to ICT risk;
- create significant synergies with the Information Security Governance and Business Continuity Sub-Department, which supervises the planning of operational processes, IT security and business continuity issues, with the Administrative and Financial Governance and with control functions (Compliance and Internal Auditing) that supervise specific regulations and issues (Legislative Decree 231/01, Law 262/05) or conduct tests on the effectiveness of controls of company processes.

The Self-diagnosis process for 2016 identified a good overall level of control of operational risks and contributed to enhancing the diffusion of a business culture focused on the ongoing control of these risks. During the Self-diagnosis process, the organisational units also analysed their exposure to ICT risk. This assessment is in addition to that conducted by the technical functions (ISGS - ICT Head Office Department, Market Risk IT Infrastructure Office of the ISP Financial and Market Risks Head Office Department and the IT functions of the main Italian and international subsidiaries) and the other functions with control duties (Information Security Governance and Business Continuity Sub-Department and the IT Security functions of the main Italian and international subsidiaries).

The process of collecting data on operational events (in particular operational losses, obtained from both internal and external sources) provides significant information on the exposure. It also contributes to building knowledge and understanding of the exposure to operational risk, on the one hand, and assessing the effectiveness or potential weaknesses of the internal control system, on the other hand.
The internal model for calculating capital absorption is conceived in such a way as to combine all the main sources of quantitative (operational losses) and qualitative (Self-diagnosis) information.
The quantitative component is based on an analysis of historical data concerning internal events (recorded by the organisational units, appropriately verified by the Head Office Department and managed by a dedicated IT system) and external events (by the Operational Riskdata eXchange Association).

The qualitative component (scenario analysis) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by management (subsidiaries, Parent Company's business areas, the Corporate Centre) with the objective of assessing the potential economic impact of particularly severe operational events.
Capital-at-risk is therefore identified as the minimum amount at Group level required to bear the maximum potential loss (worst case); Capital-at-risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-risk of operational losses), applied on quantitative data and the results of the scenario analysis assuming a one-year estimation period, with a confidence level of 99.90%; the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk level of the business environment (Business Environment Evaluation), to take into account the effectiveness of internal controls in the various organisational units.

Operational risks are monitored by an integrated reporting system, which provides management with support information for managing and/or mitigating the operational risk.
In order to support the operational risk management process on a continuous basis, a structured training programme was implemented for employees actively involved in this process.

In addition, the Group activated a traditional operational risk transfer policy (to protect against offences such as employee disloyalty, theft and damage, cash and valuables in transit losses, computer fraud, forgery, cyber-crimes, earthquake and fire, and third-party liability), which contributes to mitigating exposure to operational risk. At the end of June 2013, in order to allow optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly increasing the limit of liability, transferring the risk of significant operational losses to the insurance market.
The internal model's insurance mitigation component was approved by the Bank of Italy in June 2013 with immediate effect of its benefits on operations and on the capital requirements.

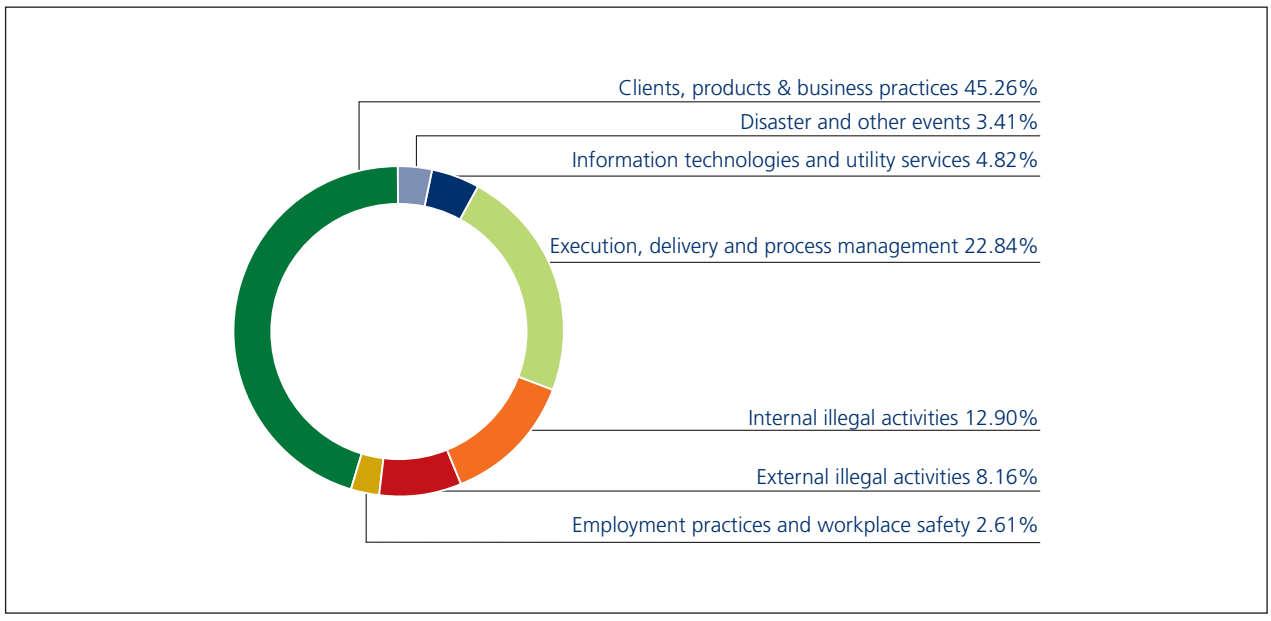
In addition, with respect to risks relating to real property and infrastructure, with the aim of containing the impacts of phenomena such as catastrophic environmental events, situations of international crisis, and social protest events, the Group may activate its business continuity solutions.

QUANTITATIVE INFORMATION

To determine its capital requirements, the Group employs a combination of the approaches allowed under applicable regulations. The resulting capital absorption was 1,563 million euro as at 31 December 2016, down compared to 31 December 2015 (1,652 million euro), with a significant decline in the AMA portion (-112 million euro, due to the update of the databases used to determine it, as regards both the prospective part - from scenario analysis - and the historical part - internal and external operating losses) and a lesser decrease in the TSA - standardised approach - and BIA - basic approach - components (-13 million euro, due to the annual update to the relevant indicator data used for this purpose).

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

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



LEGAL RISKS

Legal risks are thoroughly and individually analysed by the Parent Company and Group companies. Provisions have been made to the Allowances for risks and charges in the event of disputes for which it is probable that funds will be disbursed and where the amount of the disbursement may be reliably estimated.
As at 31 December 2016 a total of about 17,000 disputes were pending (excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo) with a total remedy sought of 6,682 million euro and provisions of approximately 744 million euro.
In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 467 million euro and allowances of 81 million euro;
- insolvency compensation disputes, with remedy sought of 496 million euro and allowances of 19 million euro
- disputes concerning investment services, with remedy sought of 410 million euro and allowances of 78 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 866 million euro and allowances of 134 million euro;
- disputes concerning bank products, with remedy sought of 225 million euro and allowances of 32 million euro;
- complaints concerning loan positions, with remedy sought of 2,143 million euro and allowances of 73 million euro;
- disputes concerning lease contracts, with remedy sought of 112 million euro and allowances of 6 million euro;
- other civil and administrative disputes, with remedy sought of 1,358 million euro and allowances of 105 million euro.

In addition to brief remarks on the litigation involving anatocism, other banking products and investment services, the following paragraphs provide concise information about the individual relevant disputes (indicatively, those with a remedy sought of more than 100 million euro and where the risk of an outlay is currently deemed probable or possible).

Dispute relating to anatocism and other current account or credit facility conditions – As is common knowledge, in 1999 the Italian Court of Cassation reversed its stance and found the quarterly capitalisation of interest payable on current accounts to be unlawful. Following this decision, a series of disputes emerged on the subject of the capitalisation of interest for contracts executed prior to that date, whereas the problem was partly resolved for contracts executed after the amendment of Art. 120 of the Consolidated Law on Banking introduced in the interim by Legislative Decree 342/99, which made it legal to capitalise interest payable and receivable, provided that both occur with the same frequency. In many cases, lawsuits pertaining to anatocism also concern other contractual current account or credit facility conditions, such as interest rates and overdraft charges (no longer applied).
The overall economic impact of lawsuits in this area remain at insignificant level in absolute terms. The risks related to these disputes are covered by specific, adequate provisions to the Allowances for risks and charges.

A new version of Art. 120 of the Consolidated Law on Banking banning the compounding of interest in banking transactions – without prejudice to the authority delegated to CICR (the Interdepartmental Committee for Credit and Savings) to establish the implementing provisions envisaged in the previous text – entered into force at the beginning of 2014. In 2015 the Consumers Movement Association (AMC) sued various banks, including Intesa Sanpaolo, claiming that the ban on compounding was immediately applicable, contrary to the position taken by the banking industry, i.e. that the implementing resolution by the CICR was necessary. During the trial, the Court of Milan handed down an order on 1 July 2015 against Intesa Sanpaolo enjoining it from compounding interest payable by its consumer customers.
In April 2016, Art. 120 of the Consolidated Law on Banking was amended again to permit annual compounding of interest with the customer's authorisation. The implementing resolution by the CICR was published in August 2016. According to the new provisions, it applies to interest accrued from 1 October 2016.
For the time being, the compounding of interest is not applied to consumer customers of Intesa Sanpaolo, since the above order of the Court of Milan is still in effect. A motion has been filed to quash the above order and a decision is pending.

The dispute regarding account conditions also includes the class action suit brought in 2010 by Altroconsumo against Intesa Sanpaolo concerning the illegal nature of overdraft charges. The Court of Turin ruled that overdraft charges were void according to the principle that, in the absence of a formal credit facility, any overdraft would not justify the application of additional costs to the account-holder. The decision was upheld in the second instance, but will be appealed before the Court of Cassation. In October 2012, the overdraft charge was replaced by the expedited approval fee.

Dispute concerning other banking products – In the context of the dispute relating to other banking products, which remained at normal, limited overall levels, in recent years there was an increase, with regard to consumer credit business, in requests from customers who repaid their loans in advance to obtain a partial refund of sums paid at the signing of the contract (by way of financial fees or insurance costs). In particular, the complaints revolve around an unclear distinction in contracts between fees for services rendered by the disbursing entity during the process of granting the loan, which thus are not eligible for a refund in the event of early repayment, and fees relating to management of the loan over time, which are therefore eligible for a pro-rated refund in the event of early repayment.
The contractual uncertainties in question relate to contracts entered into until 2010, in respect of which appropriate provisions have been set aside. In contracts entered into thereafter, the aspects outlined above have been clearly and explicitly stated. This was also acknowledged by an October 2016 decision by the Coordination Panel of the Financial and Banking Arbitrator, which supports the belief that there is not a significant risk for such contracts.

Dispute concerning investment services - In 2016 cases of this type of dispute continued to decline in absolute terms and (albeit marginally) by value. The risks related to this type of dispute are also covered by specific, adequate provisions to the Allowances for risks and charges.

Alis Holding lawsuit – At the end of 2014, Alis Holding S.r.l. in liquidation sued Intesa Sanpaolo, seeking compensation for damages of 127.6 million euro, on the grounds that the Bank allegedly breached an obligation to provide financing to its investee Cargoitalia without justification. In addition to objecting that Alis Holding lacked standing to sue, the Bank challenged the opposing party's claims from various perspectives, in particular due to the lack of a causal link between its actions and the alleged damages, the absence of any commitment whatsoever on the Bank's part to fund Cargoitalia and the improper representation and quantification of the alleged damages.

While the suit was ongoing, the claimant formulated an additional subordinate compensation claim (in the same amount as its principal claim), alleging that the Bank was liable on the basis of statements made by a Bank employee in the capacity of member of the company's Board of Directors. In its defence, Intesa Sanpaolo disputed this allegation and objected to the new claim.
Considering the large amount of the remedy sought and the risks that – despite the favourable scenario for the Bank – are inevitably associated with the outcomes of such complex litigation, negotiations have been initiated to seek a settlement of the overall matter.

ENPAM lawsuit - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan.
ENPAM's allegations concern the issuance and trading (in 2005) of several complex financial products known as "JP Morgan 69,000,000" and "JP Morgan 5,000,000" and the subsequent "swap" (held on 26 May 2006) of those products with other products known as "CLN Corsair 74,000,000", subsequently "restructured" in 2009 and 2010. In particular, the latter products were credit-linked notes, i.e. securities the repayment of whose principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses, for which compensation is sought.
In the writ of summons, ENPAM petitions the court to make inquiries and hand down rulings on the basis of various legal concepts (contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance). It also petitions the court to order the defendants to make restitution of the sum "of 222,209,776.71 euro, in addition to interest and additional damages, and compensation for damages to be paid on an equitable basis pursuant to Art. 1226 of the Italian Civil Code". The portion attributable to the position of Cassa di Risparmio di Firenze is argued to be 103,806,716 euro (in addition to interest and the 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 the framework of which the securities in question were subscribed.
At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (including a lack of standing to be sued and the time bar of the actions brought). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance indicated by ENPAM were not applicable and that there was no evidence of the damages. It also disputed the quantification of the damages by ENPAM and, alternatively, that it contributed to causing the damages in question. If an unfavourable judgment 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 indemnify it against any sums that it may be required to pay by the court in excess of its share of the liability, and that BNP Paribas be ordered to indemnify Cassa di Risparmio di Firenze against any sums that it is ordered to pay ENPAM.
After several procedural steps, the new first hearing in the trial has been scheduled for March 2017.
At present it is not possible to express a reliable assessment of the risk inherent in the trial since it is still in the initial phase.

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

Dealings with the Giacomini Group - In May 2012, the Public Prosecutor's Offices of Verbania and Novara initiated investigations of possible tax offences committed by the Giacomini family and their advisors, and the Public Prosecutor's Office of Milan launched an investigation of possible complicity in money-laundering by certain of the Giacominis' financial advisors and the former CEO of the Luxembourg subsidiary, Société Européenne de Banque - SEB (now Intesa Sanpaolo Bank Luxembourg S.A.) and the head of Corporate Division relations of Intesa Sanpaolo, as well as SEB and ISP for administrative liability pursuant to Legislative Decree no. 231/01.
In 2015 and 2016 all positions relating to the Intesa Sanpaolo Group were dismissed.

Administrative and judicial proceedings against Banca IMI Securities Corp. of New York – The SEC (the U.S. financial market supervisory authority) has launched an investigation concerning the dealings of certain brokers, including our subsidiary IMI Securities of New York, involving particular financial instruments known as "ADRs" (deposit receipts for shares issued by non-U.S. companies). IMI Securities discontinued this line of business in 2014.
In recent months, collaborative discussions have been held with the SEC to settle the proceedings.
In October 2016, the Antitrust Division of the Department of Justice (DOJ) of New York launched an investigation into such dealings in ADRs, and specifically into a possible cartel formed by certain participants, including IMI Securities. The proceedings are in the initial stages, characterised by requests for documents and information.

Administrative and judicial proceedings involving the New York branch - As already indicated in the chapter Executive summary, in December a final settlement was reached with the New York State Department of Financial Services (a New York State banking supervisor) in relation to a civil penalty imposed on the Bank following a public supervisory action related to certain weaknesses and deficiencies in the anti-money laundering controls, policies and procedures at the New York branch.
In the second half of 2016 the Supervisory Authority specified the alleged violations incurred by the branch.
Negotiations were then initiated between the Bank and Supervisory Authority, resulting in a penalty being imposed on the Bank. The penalty – expensed to the income statement in 2016 – was 235 million dollars (225 million euro). As previously disclosed, the supervisory action was initiated in 2007 and the Bank was also subject to a criminal investigation initiated in 2008 by the New York District Attorney's Office and the Department of Justice into the methods used by the Bank for clearing through the United States payments in dollars to/from countries subject to U.S. economic sanctions in the years from 2001 to 2008. The criminal investigation was concluded in 2012, when both law enforcement agencies determined to terminate their investigation and not to take any action against the Bank.

Potential assets

IMI/SIR dispute - In judgement 11135 filed on 21 May 2015, the Court of Rome ordered Giovanni Acampora and Vittorio Metta, the latter jointly liable with the Prime Minister's Office (pursuant to Law 117/1988 on the accountability of the judiciary), to pay Intesa Sanpaolo 173 million euro net of tax, plus legal interest running from 1 February 2015 to the date of final payment, plus legal expenses.

The above judgement followed on:

– judgement of the Rome Court of Appeal 1306/2013, which overturned, on the basis of judicial corruption, the judgement handed down by that same Rome Court of Appeal in 1990, ordering IMI to pay the heir of entrepreneur Nino Rovelli (who passed away in the interim) the sum of approximately 980 billion Italian lire;
– the compensation claim put forward by Intesa Sanpaolo (successor to IMI) on the basis of the judgements establishing the criminal liability of the corrupt judge (and his accomplices) and ordering the defendants to provide compensation for damages, referring the question of the amount of such damages to the civil courts.

The Court of Rome therefore proceeded to quantify the financial and non-financial damages due to Intesa Sanpaolo for a total of 173 million euro net of tax and after deduction of the amounts since received by the bank as part of the settlements with the Rovelli family and with the counterparties Previti and Pacifico.

Given that it was calculated net of tax, the award was grossed up and accounted for net of the amounts relating to: sums already recognised in the balance sheet (but not taken into account in the ruling by the Court of Rome) and to tax credits sold to Intesa Sanpaolo by the Rovelli family by way of settlement. These related to taxes previously paid by IMI as a result of the revoked, corrupt ruling, and the fiscal authorities have already been asked to pay them back. Consequently, 211 million euro has been booked in other operating income, along with the related taxes of 62 million euro.

The opposing parties have filed an appeal with a motion for a stay. The appeal briefs do not introduce any substantially new issues not already considered and deemed groundless by the court.

In July 2016 the Rome Court of Appeal stayed the enforcement of the judgment of the first instance with respect to the amount in excess of 130 million euro, in addition to ancillary charges and expenses. 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, for the time being only the exact amount of the decision, without applying the "gross-up", has been demanded and collected. The case has been continued until June 2018.

Labour litigation

There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2016. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION

The Group's tax litigation risks are covered by adequate provisions to allowances for risks and charges.

The Parent Company has 234 pending litigation proceedings (303 as at 31 December 2015) for a total amount of 240 million euro (847 million euro as at 31 December 2015, including three disputes in the settlement phase the value of which was 467 million euro), calculated considering proceedings in both administrative and judicial venues at various instances. As regards those situations, actual risk was quantified at 81 million euro as at 31 December 2016 (229 million euro at the end of 2015, of which 135 million euro relating to litigation being settled).

At the Group's other Italian companies included in the scope of consolidation (with the exclusion of Risanamento S.p.A., not subject to management and coordination by Intesa Sanpaolo), tax litigation totalled 198 million euro at year-end (217 million euro in 2015), covered by specific provisions of 35 million euro (27 million euro in 2015).

Tax disputes involving international subsidiaries, totalling 8 million euro (537 million euro in 2015), are covered by allowances of 3 million euro (10 million euro in 2015). The significant decrease in potential risks observed during the year is related to the settlement of the charge of illegal use of an offshore tax structure brought by the Italian tax authorities against the Luxembourg subsidiary Eurizon Capital S.A., as discussed in further detail below.

The main events affecting Intesa Sanpaolo in 2016 included the following.

On 22 March, by implementing the resolution of the Management Board of 23 February, the Bank finalised a framework agreement with the Italian Revenue Agency to settle three important disputes deriving from two reports on findings by the Guardia di Finanza (Italian Tax Police), served in September 2013 and February 2015, previously illustrated in detail in the 2015 Annual Report. Under the agreement, the above disputes, which represented approximately 55% of the total value of the pending litigation of Intesa Sanpaolo, were settled for a total payment of 125 million euro of principal and interest. No penalties were levied.

During the year, also the procedure was completed for the implementation of the framework agreements stipulated with the Italian Revenue Agency in 2015 for complete settlement of the charges concerning tax period 2005, resulting in a reduction of the revenue authority's claim from the original 376 million euro (including tax, penalties and interest) to approximately 6 million euro (so-called "Castello Finance dispute"). On 5 February 2016, the settlement led the repayment of 107 million euro, previously disbursed on a preliminary basis, and the related interest of 6 million euro.

The most significant aspect of the disputes still pending relates to recoveries of registry tax on company contributions and the subsequent sale of equity investments, which the revenue authorities have treated as sales of business units. Within this framework, there are currently 11 pending disputes involving a total of 59.5 million euro of additional taxes, in addition to interest of 11.2 million euro, with the application of penalties. Of these, six disputes (with a total value of 48.3 million euro, plus interest) are currently pending before the Court of Cassation, five on appeal by the revenue authority and one on appeal by the Bank. In the light of recent case law of Italy's Supreme Court, Intesa Sanpaolo has provisioned for potential charges, calculated on the basis of the clauses of the contracts of sale of the equity interests, according to which the taxes associated with the transactions may be passed on to the buyer.

In respect of those same contributions, the Italian Revenue Agency has assessed a greater value of the companies than indicated in the purchase and sale agreements for the equity interests, also for the purposes of registry tax. In this context, there are two pending disputes with a total value of approximately 33 million euro, in which the risk of an unfavourable outcome is considered remote. One of the two disputes (total value of 1.8 million euro, in addition to interest) was initiated in 2016 and concerns the contribution of bank branches by ISP, Cariveneto and Carifirenze to Cariparma and Friuladria.

In 2016 four cases of litigation with a total value of approximately 22.2 million euro (taxes, interest and penalties) were brought to a positive conclusion. The cases concerned registry tax paid on certain rulings of the judicial authority rendered in favour of a

number of financial institutions in respect of pool loans to the Costanzo Group.
In addition, in August and November 2016 two auditors' reports, dated 27 July 2015 and 29 March 2016, issued by the Italian Revenue Agency, Emilia Romagna Regional Office, concerning the corporate income tax (IRES) of the merged company Neos Finance in tax periods 2011 and 2012, were resolved by tax settlement proposal. The claims, concerning IRES and penalties of about 3.4 million euro, in addition to interest, concern the determination criteria of the threshold under which the impairment of loans covered by insurance policies contracted by customers could be immediately deducted. Since the effects of the tax claim were strictly temporary, as it concerned an issue of timing only, the total effective amount of penalties and interest was 0.7 million euro for the two years.
The most significant tax disputes of the former Centro Leasing, relating to the years from 2003 to 2007 (total value of approximately 41.7 million euro) and primarily concerning lease-back transactions, were resolved in December. Resolution of the cases entailed the payment of 1.8 million euro (taxes of 0.8 million euro, interest of 0.2 million euro and penalties of 0.8 million euro), covered in their entirety by previous provisions.
Turning to the other Group companies, an agreement was reached with the Italian Revenue Agency, Emilia Romagna Regional Office, to settle the claims concerning the tax treatment by Group banks based in the region (Cariromagna, Carisbo and the merged Banca Monte Parma) of the losses related to the transfer of loans to customers out of the performing category, subject to lump-sum write-downs, to positions subject to individual impairment testing, as a consequence of their involvement in insolvency procedures. The total risk associated with the claims in question, 61 million euro, was settled for a total charge of 3 million euro (taxes of 2 million euro, interest of 0.3 million euro and penalties of 0.7 million euro). Deferred tax assets were recognised on the basis of the tax charge, which may be recovered in tax periods after the periods of assessment, since they derive from a challenge of jurisdiction. Consequently, the actual charge in the income statement is represented by the interest and penalties only, for a total of 1 million euro.
In a case involving abuse of the law, Banca IMI was served an auditors' report by the Guardia di Finanza on 20 July 2016 concerning the reclassification as repurchase agreements of transactions in securities and single stock futures on regulated markets undertaken in tax periods 2011 and 2012. The Bank reached an agreement with the Italian Revenue Agency for 2011, under which it settled the claims for a total charge of 1.8 million euro, compared to total claims of 25.6 million euro. Negotiations to reach a settlement on the basis of the same criteria applied for 2011 (the total value of the dispute is 42 million euro) are also under way for 2012.
The dispute with the Italian revenue authority concerning the Luxembourg subsidiary Eurizon Capital S.A. ("EC LUX"), as set out in the auditors' report dated 10 February 2015 issued by the Guardia di Finanza, was settled in December 2016. Based on the claim (supported by documentation obtained by auditors while at the offices of Eurizon Capital SGR - "EC SPA") that the company is resident in Italy for tax purposes due to the alleged presence in Italy of its administrative office and primary place of business, the auditors' report charged the company with failing to report income of approximately 731 million euro for the periods from 2004 to 2013. In June 2015, EC LUX had received notices of assessment for the periods from 2004 to 2008 (total IRES due of 122 million euro, plus interest and penalties), which it appealed, providing evidence that it had operated in Luxembourg since 1988 with over 50 highly qualified employees primarily dedicated to managing, marketing and administering Luxembourg funds, it is subject to supervision by the local authorities and has always acted in full compliance with Italian tax law and the treaty for the avoidance of double taxation between Italy and Luxembourg.
In 2016 the Italian Revenue Agency, Lombardia Regional Office, which has jurisdiction over EC SPA, in coordination with Provincial Department 1 ("DP1"), reviewed the claims and conducted further inquiries concerning the relations between EC SPA and the Luxembourg subsidiary during the tax periods from 2011 to 2015. Following its review, the Regional Office concluded, in support of the soundness of the company's arguments, that during the periods 2003 to 2013 the Luxembourg company could not be considered to constitute an illegal offshore tax structure. However, according to the Regional Office, a part of the "profit" earned in the years in question by EC LUX should have been attributed to EC SPA, due to the alleged functional integration of the two companies and the contribution to management provided by the Italian parent to the Luxembourg subsidiary. According to a profit allocation model essentially based on a profit split, the Regional Office assigned EC SPA total taxable revenue for tax periods 2011 to 2015 of 102 million euro and total additional taxes due of 35 million euro, in addition to interest of 3 million euro, without any penalties. In addition, the Luxembourg company was permitted to file a petition (subject to review by the Luxembourg tax authority) to recover the taxes paid in Luxembourg on the taxable revenue attributed by the Regional Office to EC SPA, estimated at approximately 8 million euro.
Although EC SPA considers its position on transfer prices to be sound, a settlement was viewed in a favourable light due to the connection to the dispute concerning the illegal use of an offshore tax structure involving the Luxembourg subsidiary, which the Italian Revenue Agency simultaneously dismissed. In the agreement, finalised in December, the Agency thus acknowledges that it "considered the claims of illegal use of an offshore tax structure brought against Eurizon Capital SA in the auditors' report drafted on 12 February 2015 for the years 2004-2013 to be no longer current" and that it had "taken internal review measures with regard to the assessments issued to Eurizon Capital SA". In this framework, EC SPA has also filed a petition for an international transfer pricing ruling, so as to subject the adequacy of the transfer pricing system currently applied in dealings with foreign subsidiaries to more impartial, technical review. The ruling will enter into effect from the tax period in which the agreement is signed with the Italian Revenue Agency, but with possible retroactive effect, without the application of penalties, from the tax period in which the petition is filed (2016).
In November 2016, the Italian Revenue Agency, Lazio Regional Office, served Fideuram Vita with an auditors' report in which it proposed IRES and IRAP be levied on the additional sums of 0.75 million euro in 2012 and 0.01 million euro in 2013. Negotiations with the Italian Revenue Agency to settle the dispute are in progress.
In December 2016, an auditors' report issued by the Italian Revenue Agency, Lombardy Regional Office, in 2015 to Fideuram Investimenti SGR concerning IRES and IRAP for 2011, and specifically the fairness of the prices applied to outsourced management of investment funds on behalf of the Irish sister company Fideuram Asset Management Ireland, was settled. Resolution of the dispute entailed a total cost, by way of taxes and interest, of 2.3 million euro. An appropriate provision continues to be carried to cover the risk of a potential liability in connection with the same alleged irregularities in the subsequent periods of 2012 and 2013.
For Intesa Sanpaolo Group Services, the general audit by the Guardia di Finanza, which began on 26 November 2015 and concerned IRES, IRAP, VAT, other indirect taxes and labour regulations, was concluded in 2016. An initial auditors' report for 2011 was served in October and a second auditors' report for 2012, 2013 and 2014 in December 2016. The claims against the company concern the prices of services received from a Group company based in Romania. The greater IRES and IRAP assessed total 1.67 million euro, in addition to interest. No objections have been raised with regard to the suitability of the documentation submitted on the subject of the determination of intra-group prices, and thus the alleged irregularities will not result in the levying of penalties.
In October 2016, the Italian Revenue Agency, Veneto Regional Office, served the conclusive auditors' report in the audit of Cassa di Risparmio del Veneto launched on 22 January 2016 concerning tax periods 2011 to 2014. The claims related solely to the

fairness of the spread applied to Intesa Sanpaolo Bank Ireland on a subordinated loan and were resolved by levying IRES and IRAP on a total additional amount of 1.4 million euro for all of the tax periods considered. In the subsequent negotiations with the Agency, the Veneto-based bank was able to obtain recognition of the validity of the criteria used to price the disputed transaction and to have the charge for 2011 reduced to tax and interest of 0.02 million euro, without penalties. On this basis, 2011 was resolved through a tax settlement proposal. The same criteria will also be applied to the subsequent years, from 2012 to 2014, which will be settled in 2017.
For Mediocredito Italiano, on 29 June 2016, the Italian Revenue Agency, Lombardy Regional Office, served a report on findings relating to a tax audit launched on 9 April 2014 concerning direct taxes, IRAP, VAT and obligations of the tax collection agents relating to the 2011 tax period. The audit concluded without any findings against the Company. As for previous disputes, a dispute concerning VAT for 2007, involving allegedly non-existent transactions and boat leasing (6 million euro), was settled in a manner partially favourable to the Company.
Cassa di Risparmio di Firenze received a request for clarification, for the years 2011 to 2013, concerning the VAT deductibility regime applied to purchases of goods and services by the merged Immobiliare Nuova Sede s.r.l., the builder of a property complex intended for use as the Bank's new headquarters. At present, no assessment notices have been served.
In December, Intesa Sanpaolo Private Banking and Intesa Sanpaolo, as consolidating entity, were served assessment notices by the Italian Revenue Agency, Lombardy Regional Office, concerning claims involving 2011 IRES and IRAP. The notices claim that the tax realignment pursuant to Law Decree 185/2008 of the goodwill resulting from the contribution of business units by the Parent Company and by Cariromagna and the resulting deduction of amortisation charges were unlawful. Due to the inability to deduct the portion (one-tenth) amortised in 2011, amounting to 11.6 million euro, the Agency claimed additional IRES and IRAP of 3.8 million euro, penalties of 3.4 million euro and interest. After verifying that its behaviour was consistent with practice (Revenue Agency Circular 8/E of 4 March 2010), the Company decided to conduct a defence in the appropriate legal venues. No provision was recognised, since the risk of a tax liability was regarded as remote.
Intesa Bank Russia is a party to an ongoing tax dispute concerning 2010 and 2011. The local tax authorities have disputed the application of the withholding of 0% envisaged in the treaty for the avoidance of double taxation in effect between Russia and Luxembourg on the interest paid by the Russian bank to Intesa Sanpaolo Holding International S.A. ("ISPHI") in respect of certain financing contracts. According to the Russian tax authorities, the beneficial owner of the interest is Intesa Sanpaolo and not ISPHI, characterised as a mere "conduit company". As a result, the interest paid by Intesa Bank Russia should have been subject to the 10% withholding tax envisaged in the Italy - Russia treaty. The value of the dispute, approximately 1.6 million euro (taxes, interest and penalties), has already been paid in full to the local tax authority. The third instance of the dispute, as the first two, was unfavourable to the Company. The dispute in question could be extended to other years and financing transactions undertaken with other Group companies, but at present the risk of a potential tax liability is deemed remote in that no back-to-back loans have been issued since 2012.

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In connection with all of the ongoing tax disputes as at 31 December 2016, the Group had recognised receivables of 86 million euro to account for amounts paid on a provisional basis in cases of assessments (262 million euro in the 2015 financial statements), 57 million euro of which related to the Parent Company.
The share of the provision for risks that covers the disputes in question amounts to 57 million euro, of which 29 million euro relates to Intesa Sanpaolo (131 million euro as at 31 December 2015, of which 119 million euro for Intesa Sanpaolo).
The provisional payments in question were made in compliance with specific legal provisions, which mandate such payments based on an automatic mechanism independent of whether the related tax claims are actually founded and, thus, irrespective of the higher or lower level of risk of a negative outcome in the related proceedings. Thus, these payments were made solely based on the administrative deeds that set forth the related tax claim, which does not lose its effectiveness even when appealed, has no suspensive effect and does not add to the assessments of the actual risk of a negative outcome, which must be measured using the criteria set forth in IAS 37 for liabilities.