1.4. BANKING GROUP – OPERATIONAL RISK

QUALITATIVE INFORMATION

General aspects, operational risk management processes and measurement methods

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

The Intesa Sanpaolo Group 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 leading 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, 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, detection of critical issues and related mitigation actions, 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:

- estimate the exposure to potential future losses deriving from operational events (Scenario Analyses) and assess the level of control business environment (Business Environment Evaluation);
- analyse ICT risk exposure ;
- 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 2017 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

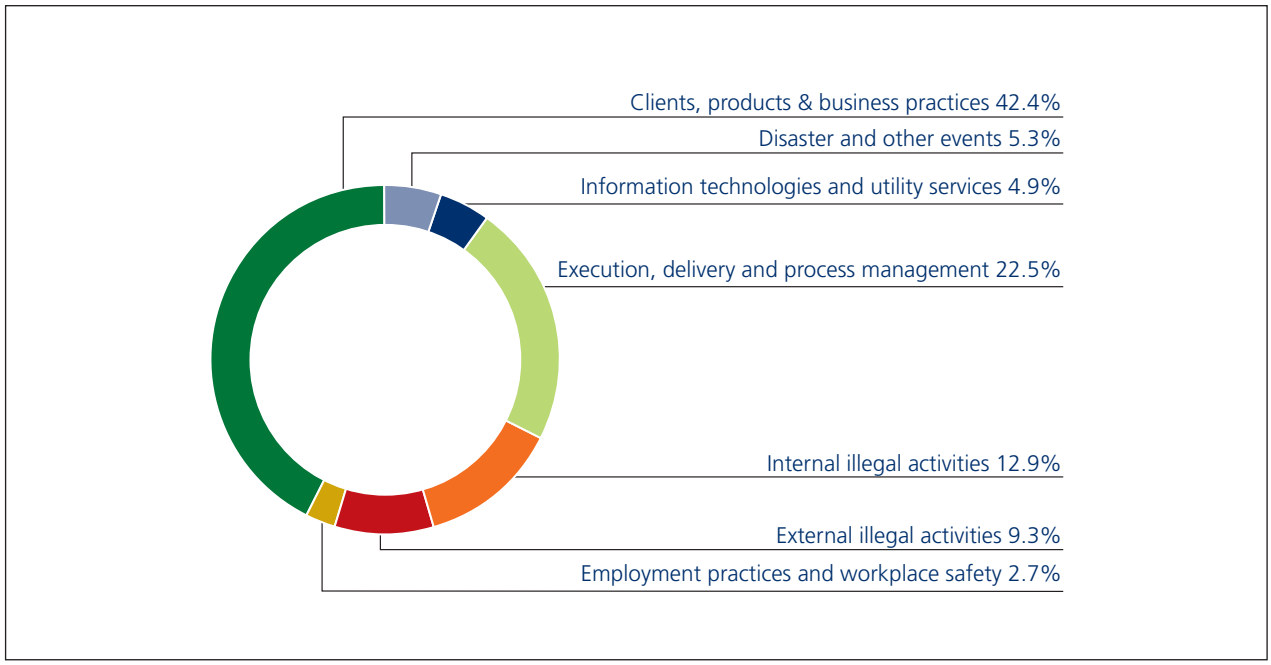
optimum use of the available operational risk transfer tools and to take advantage of the capital benefits, pursuant to applicable regulations the Group stipulated an insurance coverage policy named Operational Risk Insurance Programme, which offers additional coverage to traditional policies, significantly 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 methods allowed under applicable regulations. The capital absorption resulting from this process amounts to 1,488 million euro as at 31 December 2017, down on the previous year (1,563 million euro) due to the decline in the AMA and TSA components. The BIA component, on the other hand, increased due to the inclusion of Banca Nuova, Banca Apulia and Veneto Banka Croatia.

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 2017, there were a total of about 17,000 disputes pending, including the disputes relating to the Aggregate Set and excluding Risanamento S.p.A., which is not subject to management and coordination by Intesa Sanpaolo, with a total remedy sought of 5,917 million euro and allowances of approximately 650 million euro.
In further detail, the most important of these are:

- bankruptcy revocatory disputes, with remedy sought of 458 million euro and allowances of 56 million euro;
- insolvency compensation disputes, with remedy sought of 558 million euro and allowances of 10 million euro
- disputes concerning investment services, with remedy sought of 409 million euro and allowances of 68 million euro;
- disputes concerning anatocism and other conditions, with remedy sought of 980 million euro and allowances of 139 million euro;
- disputes concerning bank products, with remedy sought of 230 million euro and allowances of 27 million euro;
- complaints concerning loan positions, with remedy sought of 1,418 million euro and allowances of 36 million euro;
- disputes concerning lease contracts, with remedy sought of 110 million euro and allowances of 8 million euro;
- credit recovery disputes, with remedy sought of 175 million euro and allowances of 59 million euro;
- other civil and administrative disputes, with remedy sought of 1,243 million euro and allowances of 92 million euro.

In addition to brief remarks on the litigation involving anatocism 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).

Disputes relating to anatocism and other current account and credit facility conditions - For many years, this type of dispute has been a significant part of the civil disputes brought against the Italian banking industry and therefore also the Group banks. The overall economic impact of lawsuits in this area remains 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.
At the beginning of 2014, Article 120 of the Consolidated Law on Banking, which governs the compounding of interest in banking transactions, was amended with the establishment of the ban on anatocism and the delegation of the CICR (Interdepartmental Committee for Credit and Savings) to regulate this matter. In the absence of the CICR resolution, Intesa Sanpaolo considered this ban not to be applicable and that the 1999 provisions continued to apply, which allowed the compounding of debit and credit interest on debtors and creditors provided it was applied at the same frequency.
In 2016, Article 120 of the Consolidated Law on Banking was amended again. Without prejudice to the requirement of the same frequency of calculation of the interest, it was established that the frequency must not be "less than one year" (with calculation at 31 December of each year and, in any event, at the end of the relationship) and that debt interest accrued could not in general give rise to interest other than arrears interest. In addition, for current account credit facilities and overdrafts it was established that:

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

The implementing resolution by the CICR was published in August 2016. It establishes, among other things, that the new regulations apply to interest accrued from 1 October 2016.
In February 2017, the Italian Antitrust Authority initiated proceedings against Intesa Sanpaolo for alleged unfair business practices involving, among other things, the methods used to request the above-mentioned authorisation from customers for the charging of the interest to the account.
The Authority completed the proceedings in October 2017, ruling that Intesa Sanpaolo had implemented an "aggressive" policy aimed at acquiring the authorisation, by soliciting the customers through various means of communications and without putting them in a position to consider the consequences of that choice in terms of the interest calculation on the compounded debt interest. As a result, the Authority issued a fine of 2 million euro against Intesa Sanpaolo. Intesa Sanpaolo has submitted an appeal with the Lazio Regional Administrative Court, on the grounds that the ruling was unfounded.

Disputes relating to investment services - In 2017 the number of disputes continued to fall (particularly those relating to bonds in default). The risks related to this type of dispute are covered by specific, adequate provisions to the Allowances for risks and charges.

Alis Holding lawsuit - in July 2017, an out-of-court settlement was finalised between Intesa Sanpaolo and Alis Holding to close the action for damages lodged by the latter (with a claim of 127.6 million euro) for alleged liability of the Bank with respect to Cargoitalia (a company held jointly by Alis Holding, with 66.67%, and Intesa Sanpaolo, with 33.33%). The settlement was also made with the 'arrangement with creditors' procedure of Cargoitalia, which in 2016 joined the proceedings claiming compensation from the Bank. Thanks to the settlement, Intesa Sanpaolo paid a much smaller sum than the initial demand; the amount paid was completely covered by a provision.

ENPAM lawsuit - In June 2015 ENPAM sued Cassa di Risparmio di Firenze, along with other defendants such as JP Morgan Chase & Co and BNP Paribas, before the Court of Milan. ENPAM's allegations related to the trading (in 2005) of several complex financial products known as "JP Morgan 69.000.000" and "JP Morgan 5.000.000", and the subsequent "swap" (in 2006) of those products with other similar products known as "CLN Corsair 74.000.000"; the latter were credit linked notes, i.e. securities whose repayment of principal at maturity was tied to the credit risk associated with a tranche of a synthetic CDO. Due to the defaults on the CDO portfolio, the investment allegedly resulted in significant losses, for which compensation is sought.
In the writ of summons, ENPAM submitted several petitions for enquiries and rulings, in particular for contractual and tort liability and breach of Articles 23, 24 and 30 of the Consolidated Law on Finance, asking for the repayment of an amount of around 222 million euro and compensation for damages on an equitable basis; the part relating to Cassa di Risparmio di Firenze's position should be around 103 million euro (plus interest and purported additional damages).
Cassa di Risparmio di Firenze was sued as the transferee of the Italian branch of Cortal Consors S.A. (subsequently merged into BNP Paribas), which had provided ENPAM with the investment services within which the above-mentioned securities had been subscribed.
At a preliminary stage, Cassa di Risparmio di Firenze raised various objections (including a lack of standing to be sued and the time bar). On the merits, it argued, among other positions, that the provisions of the Consolidated Law on Finance cited were not applicable and that there was no evidence of the damages. It also disputed their calculation and, in the alternative, that ENPAM had contributed to causing the damages. If an unfavourable judgement is rendered, Cassa di Risparmio di Firenze has requested that the court determine its internal share of the total liability of the defendants and that the other defendants be ordered to hold it harmless.
During the proceedings, it emerged from the analysis of the 2016 financial statements of ENPAM that the securities subject of the allegations against Cassa di Risparmio di Firenze had been "sold back" to JP Morgan at a price of around 206 million euro. This circumstance was emphasised in further defence pleadings by Cassa di Risparmio di Firenze, highlighting the lack of the alleged damages and perhaps even the presence of a capital gain.
The case is currently pending in relation to the claimant's application for a court-appointed expert review. It is currently not possible to provide a reliable assessment of the risk inherent in the proceedings.

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 the financial situation at the time of the sale.
A technical roundtable has been formed with Equitalia in order to assess the parties' claims.

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

Offering of diamonds - In October 2015, the Bank signed a partnership agreement with Diamond Private Investment (DPI) governing how diamond offerings were made by that company to the customers of Intesa Sanpaolo and of the banks of the Banca dei Territori Division. The aim of this initiative was to enhance the range of products offered to customers, by introducing a diversification solution with the characteristics of a "safe haven asset" in which to allocate a marginal part of their assets over the long-term. Diamonds had already been sold for several years by other leading national banking networks.
This activity primarily generated purchase volumes in 2016, with a significant fall starting from the end of that year. A total of around 8,000 customers purchased diamonds, for a total of around 130 million euro. The marketing process was based on criteria of transparency, with safeguards progressively enhanced over time, including quality controls on the diamonds and the fairness of the prices applied by DPI.
In February 2017, the AGCM (the Italian Competition Authority) brought proceedings against companies that marketed diamonds, (DPI and other companies), for alleged conduct in breach of the provisions on unfair business practices. In April, those proceedings were extended to the intermediaries that carried out the recommendation of the services of those companies.
At the end of those proceedings, on 30 October 2017, the AGCM notified the penalties imposed for the alleged breach of the of Consumer Code through the conduct of DPI and of the banking intermediaries 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 diamond 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.
From November 2017, the Bank:

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

As at 31 December 2017, the Bank had received 1,287 requests for the resale of the diamonds, for a total amount of 23.9 million euro.
In this regard, Intesa Sanpaolo Considered it appropriate to make a prudential provision in relation to the potential risks of loss connected to the diamonds for which the Bank may be required to pay the original cost incurred by the customers for their purchase. The provision was determined by taking into account both the appraisal values collected over the years by the Bank on the diamonds sold (retail prices) and their estimated wholesale prices.

Potential assets

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

Labour litigation

There were no significant cases of labour litigation from either a qualitative or quantitative standpoint as at 31 December 2017. In general, all labour litigation is covered by specific provisions adequate to meet any outlays.

TAX LITIGATION

The Group's tax litigation risks are covered by adequate provisions to the allowances for risks and charges.
As at 31 December 2017, the Parent Company had 144 pending litigation proceedings (234 as at 31 December 2016) for a total amount of 214 million euro (240 million euro as at 31 December 2016), considering both administrative and judicial proceedings at various instances. In relation to these proceedings, the actual risks were quantified at 65 million euro as at 31 December 2017 (81 million euro as at 31 December 2016).
With respect to the other Italian companies of the Group included in the scope of consolidation (with the exclusion of Risanamento, which is not subject to management and coordination by Intesa Sanpaolo and in relation to which there are pending claims for 5 million euro), tax disputes totalled 139 million euro as at 31 December 2017 (198 million euro as at 31 December 2016), covered by specific provisions of 32 million euro (35 million euro as at 31 December 2016).
Tax disputes involving international subsidiaries, totalling 11 million euro at year-end (8 million euro as at 31 December 2016), are covered by allowances of 4 million euro (3 million euro as at 31 December 2016).

As regards Intesa Sanpaolo,, no new dispute for a significant amount was initiated in 2017.
The 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 (valued at a total of around 80 million euro), were subject to numerous favourable rulings by the tax commissions during the year. At present, many of the disputes are pending before the Court of Cassation further to the appeal made by the State's Attorney General. Even though the rulings of the lower courts have all been favourable except for one, Intesa Sanpaolo adopted a prudent approach by prudentially considering the unfavourable precedents in the case law of the Court of Cassation and therefore made provisions to cover potential costs. Moreover, such unfavourable precedents – which gave precedence to an alleged real and overall economic rationale of the transaction over the legal content of the single deeds – may be in conflict with Article 1, paragraph 87, letter a), nos. 1 and 2, of the Law no. 205 of 2017, which clarified the scope of application of Article 20 of the Italian Law on Registration Tax, reaffirming the supremacy of the legal effects of the single deed itself act presented for registration over other elements inferable from extratextual data and/or related deeds.
is The disputes regarding the registration tax applicable to the higher value of the business units involved in the reclassification – as assessed by the Italian Revenue Agency –(total value of 38 million euro) are also connected to the above pending disputes.
Overall, these cases represent more than 50% of the value of Intesa Sanpaolo's pending disputes.
With respect to tax credits (861 million euro as at 31 December 2017), reimbursements were received for a total of 128 million euro in 2017, of which 9 million euro related to temporary tax assessments.
On 15 May 2017, the Piedmont Regional Office of the Italian Revenue Agency initiated a tax audit covering the 2014 tax period. The inspection is being conducted in coordination with the Cooperative Compliance Office of the Italian Revenue Agency and to date no dispute has emerged.
On 27 December 2017, Intesa Sanpaolo submitted a request to the Italian Revenue Agency in order to apply for the cooperative compliance regime.
Turning to the other Group companies, the following significant events occurred.
As regards Intesa Sanpaolo Group Services, the claim made by the Piedmont Regional Office, which concerned the contribution of a business unit (branch of activity) from ISP to ISGS completed in 2012, was settled pursuant to Article 6 of Legislative Decree no. 218/97. The case concerned the VAT treatment of fees paid for the services provided by Intesa Sanpaolo to some of its subsidiaries through the said business unit in the part of the year prior to its contribution. Those fees had been invoiced by ISGS without VAT. The Italian Revenue Agency held that VAT should have been applied at the standard rate of 21% applicable at that time on the amount of fees paid by the subsidiaries – i.e. 34 million euro – for the services actually provided by ISP, and therefore assessed an additional amount of VAT due for the year 2012 of 7 million euro. The outcome of the dispute appeared to be strongly influenced by a recent ruling of the Joint Sections of the Court of Cassation, favourable to the Agency's arguments, on the grounds that the chargeable event as identified by Article 6 of the VAT Decree would only be relevant for the purposes of the chargeability of the tax, whereas the substantive rules should in any case be determined in relation to the status of the VAT taxpayer at the time of the material performance of the transaction. Accordingly, ISGS decided to settle the claim, without application of administrative fines, thereby also excluding from the outset the existence of any evidence of the tax offence of false VAT declaration. The settlement of the claim resulted in an outlay for ISGS corresponding to the additional VAT assessed plus interest, totalling 8.4 million euro. The VAT paid by ISGS for the settlement was charged to the individual Group companies that received the services from Intesa Sanpaolo. These companies, which cannot deduct at all their input VAT pursuant to Article 36-bis of Presidential Decree no. 633/1972, will treat this expense as a deductible cost for income tax purposes and will consequently be able to request a refund equal to approximately one third of the VAT they had to pay back. In summary, the expense for the Group resulting from the settlement – net of the aforementioned positive tax effects – can be quantified at 6 million euro.
As regards Banca IMI, the dispute involving the former Banca d'Intermediazione Mobiliare IMI for the years 2005 and 2006 – which started in 2007 when the Italian Revenue Agency performed a tax audit covering the tax period 2004 which was then extended to the tax periods 2003, 2005 and 2006 – was settled pursuant to Article 11 of the Law Decree no. 50. The elements of fact contested, in relation to which the lower court proceedings had been unfavourable, concerned the typical capital markets operations (investments in equity swaps and in equity instruments; securities lending with payment of manufactured dividends and transfer pricing matter with respect to cross-border intragroup transactions) and concerned both direct taxes and substitute / withholding tax requirements. Due to a potential liability of 17.2 million euro, the disputes were settled for a total cost of 8.6 million euro, without any impact on the income statement. The disputes are still ongoing for the periods 2003 (value of 4.4 million euro), 2004 (value of 8.5 million euro) and 2005 with respect to findings other than those relating to withholding taxes (value 4.1 million euro). The provisional payments made on the pending disputes amount to around 15 million euro. A possible negative outcome of the proceedings regarding the claims in question would not have any effect on the income statement, because it is covered by the allowance for tax litigations. Since 22 January 2018, Banca IMI is also subject to a general tax audit by the Italian Revenue Agency in relation to 2015 tax period. The inspections are still at the stage of the document collection.
As regards Fideuram Intesa Sanpaolo Private Banking, the Tax Police of Rome ("Guardia di Finanza") initiated on 26 January 2017 a tax audit for income tax purposes in relation to the 2012 tax year as well as, by virtue of a specific protocol between the *Guardia di Finanza* and AMA S.p.A., a verification of the regular payment of the Italian waste tax for the tax periods 2013 till 2016. The initial phase of the audit was completed on 11 October 2017, with service of an auditors' report containing solely the claim of non-deductibility of consultancy fees for IRES and IRAP purposes for an amount of 1.3 million euro – corresponding to a tax of 0.425 million euro – for alleged lack of pertinent link between those expenses and the company's business activity (the support documentation was considered insufficient to demonstrate the effective nature of the services received). Fideuram ISPB decided to resolve the claims through a tax settlement proposal, since the Italian Revenue Agency had recognised the deduction of the consultancy fees, albeit with half allocated to the Bank and the other half allocated to the subsidiary Fideuram Vita. On that basis, the settlement involved a total cost of around 100.000 euro for interest and fines, taking into account the recovery of taxes by Fideuram Vita.
The audit by the Tax Police of Rome is continuing for the tax periods after 2012, with additional investigations regarding some specific situations.
As regards Intesa Sanpaolo Private Banking, a claim has been lodged concerning the deductibility of a goodwill for IRES and IRAP purposes in relation to tax year 2012 by means of separate assessment notices served on 9 August 2017 and resulting from the tax auditors' report of 23 November 2012 issued by the Italian Revenue Agency - Lombardy Regional Office. The

above auditors' report alleged, pursuant to Article 103, paragraph 3-bis, of the Italian Income Tax Legislation (TUIR), the unlawful deduction of the amortisation charge (around 11.9 million euro) of the goodwill deriving from the value of the private banking business – contributed by Intesa Sanpaolo, by Cassa dei Risparmi di Forlì e della Romagna, by Banca di Trento e Bolzano and by Cassa di Risparmio di Firenze – as realigned by Intesa Sanpaolo Private Banking in accordance with Article 15, paragraph 10, of the Law Decree no. 185 of 29 November 2008. The additional taxable amount assessed in 2017 results in additional IRES of 3.3 million euro and additional IRAP of 0.7 million euro, plus penalties for the same amount and interest.
The same dispute, which had already been brought against the Company in respect of tax period 2011 by notices served in December 2016, was thoroughly discussed in last year's annual report. On 18 December 2017, the Milan Provincial Tax Commission upheld the joint appeals and offset the legal costs (value of the disputes: IRES of 3.2 million euro, plus interest, and a penalty of 2.8 million euro; IRAP of 0.6 million euro, plus interest, and a penalty of 0.59 million euro).
In view of the legitimacy of the conduct adopted by the Company and its consistency with the recommended practice (see Italian Revenue Agency's Circular no. 8/E of 4 March 2010), the risk of liability is considered remote and accordingly no provision was booked in both cases.
As regards Fideuram Investimenti SGR, on 27 October 2015, the Italian Revenue Agency - Lombardy Regional Office issued an auditors' report claiming additional revenues of 9.5 million euro in relation to tax year 2011 – corresponding to a total of 3.1 million euro of taxes for IRES and IRAP tax purposes – with respect to the remuneration of the outsourced management activity of investment funds made on behalf of the Irish sister company Fideuram Asset Management ("FAMI"). The company resolved the assessment through a tax settlement, achieving a reduction in the initial claim of 35% (additional taxable revenue of 6 million euro). The asset management company (SGR) then made the payment of the additional IRES and IRAP of 2 million euro, plus default interest of 0.3 million euro; no penalty was applied due to the existence of suitable transfer pricing documentation of the intragroup transactions with foreign subsidiaries (i.e. "Master File" and "Local file"). In the first half of 2017, the Italian Revenue Agency - Lombardy Regional Office completed a similar investigation on 2012 and 2013 tax periods and expressed its intention to challenge the value of the commissions paid by FAMI for those periods, on the same grounds as for 2011. The claims for those years were therefore also resolved via tax settlement, by paying additional tax of, respectively, 0.95 million euro and 1.4 million euro, plus interest for a total amount of 0.3 million euro. The settlement did not have any effects on the income statement, since a suitable provision had already been made in the books of the asset management company.
For Intesa Sanpaolo Vita, two disputes regarding VAT for the years 2003 and 2004 were concluded with a positive outcome for the company and the related rulings rendered at the second instance became final (value of the disputes: for 2003, 11.8 million euro and, for 2004, 6 million euro). The disputes were related to the VAT treatment of the co-insurance operations.

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In connection with all the tax disputes outstanding as at 31 December 2017, for a total value of 364 million euro, of which 214 million euro relating to Intesa Sanpaolo (446 million euro as at 31 December 2016, of which 240 million euro for Intesa Sanpaolo), the Group has recognised receivables of 75 million euro accounting wise (86 million euro as at 31 December 2016) to account for amounts paid on a provisional basis due to tax assessments, of which 45 million euro (57 million euro as at 31 December 2016) are related to the Parent Company.
The portion of the provision for risks, which relates to provisional tax assessments, amounts to 48 million euro (57 million euro at 31 December 2016), of which 26 million euro (29 million euro as at 31 December 2016) 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 enforceability nature of the administrative acts that set forth the related tax claim, which does not lose its effectiveness even in the event of an appeal (no suspensive effect) and has no impact on the assessment of the actual risk of a negative outcome, which must be measured using the criterion set forth in IAS 37 for liabilities.