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# Report of the Board of Directors

## Extraordinary Part - Item 1 on the Agenda

**Proposal to grant the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, with the power, to be exercised by 31 December 2020, to increase the share capital of the Company, in one or more tranches and in a divisible form, without pre-emption right pursuant to Article 2441, paragraph 4, first sentence, of the Italian Civil Code, and with issuance of maximum no. 1,945,284,755 ordinary shares, with no par value, having the same characteristics as the outstanding shares, whose issuance price shall be determined by the Board of Directors pursuant to the provisions of law, to be paid up by way of contribution in kind functional to a prior public exchange offer (*offerta pubblica di scambio preventiva*) for all the ordinary shares of Unione di Banche Italiane S.p.A.; subsequent amendment of Article 5 of the Articles of Association; related and consequent resolutions.**

### **NOTICE**

*Following the Recommendation of the European Central Bank dated 27 March 2020 regarding dividend policy in the aftermath of the COVID-19 epidemic, the Board of Directors, at its meeting of 31 March 2020, modified the proposals to the Shareholders' Meeting in respect of the allocation of the net income resulting from the Financial Statements as at 31 December 2019, that had been previously approved on 25 February 2020, as shown on page 591 of the "Annual Report 2019" of Intesa Sanpaolo. Any information contained in this report relating to allocation of net income for 2019 has not been updated.*

Distinguished Shareholders,

in this report, drafted pursuant to art. 70 of the Issuers' Regulation (the "**Report**"), the Board of Directors of Intesa Sanpaolo S.p.A. ("**ISP**" or the "**Company**"), parent company of Intesa Sanpaolo Group, enrolled with the Banking Group Register under no. 3069.2 ("**ISP Group**"), illustrates the proposal set out in the sole extraordinary item on the agenda of the Shareholders' Meeting convened for 27 April 2020, in single call, as shown above.

### **1. Rationale of the proposal to grant a delegation and destination of the share capital increase**

The proposal to delegate the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, to increase the share capital of ISP (the "**Delegation**") – which constitutes the subject matter of this Report – is functional to the voluntary public exchange offer (*offerta pubblica di scambio volontaria*) (the "**OPS**" or the "**Offer**"), pursuant to arts. 102 and 106, paragraph 4, of Italian Legislative Decree No. 58 of 24 February 1998 (the Italian Consolidated Financial Act, or "**TUF**") on all of the ordinary shares of Unione di Banche Italiane S.p.A. ("**UBI Banca**"), announced and promoted by ISP as per ISP's notice dated 17 February 2020 pursuant to art. 102, paragraph 1, of the TUF and art. 37 of the Issuers' Regulation (the "**Notice of the Offer**") and the subsequent press release issued by ISP on 6 March 2020 pursuant to art. 37-ter, paragraph 3, of the Issuers' Regulation.

As more extensively explained in the Notice of the Offer (to which reference is made in full: see in particular paragraphs 1.2 and 1.3), the launch of the OPS is aimed at further consolidating the leadership of ISP in the Italian banking sector. In particular, the OPS has the purpose of allowing an aggregation between ISP and UBI Banca enabling the full enhancement of the potential of the two groups through the creation of an entity able to strengthen their respective stakeholders, including the Italian component,

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in the European banking system, and to consolidate the leadership in the Corporate Social Responsibility, with the aim of becoming a point of reference for individuals and companies in Italy, as well as creating value for their shareholders through the distribution of dividend flows that are sustainable over time also by means of the synergies deriving from the aggregation: this, considering that, currently, ISP pay-out ratio is already among the highest in the banking sector in Europe and it exceeds that of UBI Banca.

ISP will offer to UBI Banca's shareholders tendering in the OPS, for each no. 10 UBI Banca shares tendered - and as a consideration thereof - No. 17 newly issued ordinary shares of ISP having the same characteristics as the outstanding ordinary shares of ISP: this corresponds to a ratio of 1.7000 newly issued ordinary shares of ISP for each UBI Banca share tendered in the OPS, without prejudice to Paragraph 7 below.

As specified in the Notice of the Offer, the OPS may be start only subject and subsequently to (i) the approval, by the extraordinary Shareholders' Meeting of ISP, of the proposal of Delegation to increase the share capital functional to the OPS (the "**Share Capital Increase for the OPS**") and (ii) the resolution, by the Board of Directors, upon the aforementioned share capital increase; all the above, subject to the obtaining of the authorizations detailed in paragraph 1.4 of the Notice of the Offer (and see also Paragraph 12 below).

The proposal to grant a Delegation to the Board of Directors is based on the fact that this instrument is more appropriate to guarantee flexibility, compared to a resolution to increase the share capital directly taken by the Shareholders' Meeting, in determining the terms and conditions of a share capital increase functional to a public exchange offer, also considering the need to better coordinate, on the one hand, the requirements provided for by the applicable rules concerning the execution of the capital increase to be paid up by way of contribution in kind and, on the other hand, the regulation applicable under the TUF and the Consob implementing regulations for the promotion and execution of a public offer; the above, with specific reference to the possible use of the Delegation also for the fulfilment of the sell-out obligation under article 108, paragraphs 1 and 2, of the TUF and/or the potential exercise of the squeeze-out right on the remaining shares of UBI Banca pursuant to article 111 of TUF, if applicable.

The proposal of Delegation provides for that the Share Capital Increase for the OPS may be resolved by the Board of Directors within 31 December 2020, possibly in one or more tranches and in a divisible form (*in via scindibile*), in an amount of share capital equal to Euro 0.52 for each newly issued share (amount corresponding to the implied par value, rounded to the second decimal place, of the currently outstanding shares of ISP) <sup>(1)</sup> and, thus, in a maximum share capital amount equal to Euro 1,011,548,072.60, plus share premium. The proposed Delegation provided for the exclusion of the pre-emption right pursuant to art. 2441, paragraph 4, first sentence, of the Italian Civil Code, since the newly issued shares of ISP to be offered in exchange are reserved to UBI Banca's shareholders tendering in the OPS and they will be subscribed and paid up by way of contribution, in favour of ISP, of the UBI Banca shares tendered in the OPS.

The Board of Directors has determined that the maximum number of ordinary shares of ISP to be issued in the context of the OPS is equal to No. 1,945,284,755 shares, on the basis of the above-mentioned exchange ratio. As disclosed to the market on 6 March 2020, such maximum number of new shares has been amended, with respect to the number previously notified, as a result of the reduction of UBI Banca's shares held by Intesa Sanpaolo Group in its portfolio (and consequent increase of the maximum number of shares of UBI Banca, which can be tendered in the OPS) deriving from transactions carried out or to that could be carried out upon clients' order in the context of the ordinary activities of Intesa Sanpaolo Group and related to agreements existing until the date of the Notice of the Offer.

Upon exercise of the Delegation, the Board of Directors will determine, in compliance with the exchange ratio identified for the OPS (see paragraph 8), the unit issue price of the new shares of ISP determined pursuant to art. 2441, paragraph 6, of the Italian Civil Code.

As a consequence, upon exercise of the Delegation, the external auditor of ISP, KPMG S.p.A. ("**KPMG**"), will issue, pursuant to art. 2441, paragraph 6, of the Italian Civil Code and art. 158 of the TUF, the fairness opinion on the issuing price (*parere sulla congruità del prezzo di emissione*) relating to the

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<sup>1</sup> The implied par value is calculated by dividing the current share capital of ISP by the number of shares currently outstanding.

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shares of ISP to be offered in exchange in the context of the OPS. Notwithstanding the above, upon request of the Board of Directors of ISP and on a voluntary basis, KPMG has prepared a report for the Shareholders' Meeting in relation to the reasonableness and non-arbitrariness of the methods used by the same Board of Directors to determine the exchange ratio in the OPS, in compliance with ISAE "3000 revised". For any further information, please see the paragraphs 8 and 9 below.

As provided for by the applicable provisions of the Italian Civil Code concerning the contributions in kind, the value of UBI Banca shares that will be contributed to ISP in the context of the OPS must be assessed by the expert valuation. As already specified in the Notice of the Offer, the Board of Directors has resolved, pursuant to art. 2440, paragraph 2, of the Italian Civil Code, to avail itself of the provisions of art. 2343-ter (also to the purposes under art. 2343-quater and art. 2443, paragraph 4) of the Italian Civil Code; such provisions allow the Board not to require a sworn assessment of the contributed assets by an expert appointed by the Court where the transferring company has its registered office, provided that, pursuant to art. 2343-ter of the Italian Civil Code, "*the value attributed, for the purposes of determining the share capital and any share premium, to the assets in kind [...] to be contributed is equal to or lower than [...] the value resulting from an assessment referred to a date not exceeding six months prior to the contribution and in compliance with the generally accepted principles and criteria for evaluating the assets to be contributed, provided that such assessment is prepared by an expert independent from the contributing entity, the company and the shareholders that severally or jointly exercise control on the contributing entity or on the company itself, having an adequate and proven expertise*". The Board of Directors has already appointed Pricewaterhouse Coopers Advisory S.p.A. (the "**Independent Expert**") which, on 13 March 2020, has submitted its report, made available to the public pursuant to the requirements of law for a better information of the Shareholders. For any further information, please see the following paragraph 10.

Any additional document required pursuant to the applicable law and regulations in relation to the transaction described above will be made available within the terms and in the forms provided for under applicable law.

## **2. Information on the results of the last financial year and general information on the management performance and outlook for the end of the current financial year**

On 27 April 2020 the Shareholders' Meeting of ISP is convened, in ordinary session, to approve the financial statements relating to the financial year ended on 31 December 2019.

Please refer to the report of the Board of Directors as to the first item on the agenda of the Shareholders' Meeting (ordinary session), and the relevant annexes – made available to the public in accordance with the applicable law – for an exhaustive information on the results (including consolidated results) of ISP in the financial year ended on 31 December 2019, as well as for information on the management performance of the current financial year and an outlook for the end of the latter, also to the purpose of Scheme No. 2 of Annex 3A of the Issuers' Regulation (and, in particular, item 1.3).

## **3. Tax effects of the transaction on ISP**

The contribution of UBI Banca shares in the context of the OPS does not result in any tax burden on ISP as transferee.

## **4. Structure of financial indebtedness as a result of the transaction**

The contribution of UBI Banca shares in the context of the OPS will not give rise to impacts on the financial indebtedness structure of ISP.

## **5. Guarantee and/or placement consortia**

Since it is an increase in share capital functional to a public exchange offer, no guarantee and/or placement consortia are envisaged.

## **6. Shareholders who have expressed their availability to subscribe to the newly issued shares**

The subscription of the Share Capital Increase for the OPS may only take place as a result of UBI Banca shareholders' tendering in the OPS, once the offer period has started.

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## **7. Number, category and date of dividend entitlement (*data di godimento*) of the newly issued shares. Issuing price of the new shares**

As described in the preceding paragraph 1, the Share Capital Increase for the OPS – that the Board of Directors will be entitled to resolve in execution of the Delegation, if granted – will concern a maximum of no. 1,945,284,755 ordinary shares to be issued and paid up by way of contribution in kind in favour of ISP of UBI Banca shares tendered in the OPS, on the basis of the exchange ratio of no. 1.7000 newly issued ordinary shares of ISP for each UBI Banca shares.

If the result of the application of the exchange ratio indicated above is not a whole number of newly issued ISP shares (i.e., if a participating shareholder of UBI does not offer at least no. 10 UBI Banca shares, or a number of UBI Banca shares equal to a whole multiple of 10), it is envisaged that the intermediary appointed to coordinate the collection of the tendered shares in the context of the OPS shall aggregate the fractional parts of ISP shares pertaining to the participating entities, proportionally to their respective fractional parts, and the subsequent sale on the MTA of the whole number of ISP shares resulting from such aggregation. The cash proceeds deriving from such sales will be credited to the relevant participating entities proportionally to their respective fractional parts; all the above, according to the terms that will be detailed in the offer document.

The ordinary ISP shares to be issued following the exercise of the Delegation will have the same dividend rights as the ordinary ISP shares outstanding at the date of the relevant issuance.

The issue price of ISP shares that will be offered in the context of the OPS (including the relevant share premium) will be determined by the Board of Directors in execution of the Delegation, pursuant to Article 2441, paragraph 6, of the Italian Civil Code.

## **8. Criteria for determining the exchange ratio between ISP shares and UBI Banca shares and the resulting maximum number of newly issued ISP shares**

### **8.1 Introduction**

The Board of Directors of ISP, with the advice and cooperation of Mediobanca S.p.A., has carried out the assessment of UBI Banca shares with a view to express an evaluation of such shares, on the basis of publicly available data and information. Therefore, the remarks and assessments expressed in the evaluation must be regarded in relative terms and limited to the OPS only. The evaluation methods and the consequent economic values of UBI Banca shares have been identified for the purpose of determining the maximum number of ISP shares to be issued in the context the OPS. In no case are such evaluations to be considered as possible indications of any current or prospective market price or value in a context other than the present one.

**8.2 Overview of the valuation approach utilised by the Board of Directors to determine the Consideration**  
For each UBI share tendered to the Offer ISP will offer a consideration per share, not subject to any adjustment, equal to no. 1.7000 ordinary shares of ISP (the “Consideration”), issued by virtue of the Share Capital Increase reserved to the Offer.

The Consideration has been determined by the Board of Directors of ISP on the basis of its own assessment and analyses, carried out with the assistance of its financial advisor.

Given the nature of the Consideration, the evaluation analyses performed by the Board of Directors to determine the exchange ratio, were carried out on the basis of a comparative prospective and focusing on the principle of relative homogeneousness and comparability of the valuation methodologies applied.

The valuations performed by the Board of Directors of ISP are referred to the macroeconomic and market conditions as of 14<sup>th</sup> February 2020 (the trading day prior to the announcement date of the Offer).

Without prejudice to what will be indicated in the offer document submitted for approval by CONSOB, the Board of Directors of ISP has established to apply:

- as principal valuation methodologies: (i) the Market Prices Valuation method, (ii) the linear regression method between the price to the tangible equity multiples of comparable listed

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- companies and the related expected profitability levels and (iii) the trading multiples method in the exception of price to expected earnings multiples of comparable listed companies;
  - as control valuation methodologies: (i) the target prices method provided by the equity research analysts and (ii) the Dividend Discount Model method in the so-called variant of the Excess Capital.

The choice to use the market methods highlighted above as principal valuation methodologies is driven by their capability to represent the economic value of ISP and UBI Banca on the basis of the market capitalization of the securities traded on regulated stock markets, whose prices express the value attributed by investors taking into account the growth perspectives, risk profile and profit generation of the two banks (based on publicly available information) and, as such, representative of their economic value. The choice to use the control valuation methodologies highlighted above is driven by the reason that their underlying valuation criteria are based on forecasts provided by equity research analysts - and not on the basis of detailed industrial plans elaborated by the companies, as better described below – which, by their nature, present a high degree of variability and limited consistency.

It should be noted that the valuation analyses used to determine the Consideration presented certain limitations which have been underlined by the advisor and recognised by the Board of Directors, including:

- (i) ISP did not carry out any due diligence activity on UBI Banca, as such ISP relied exclusively on publicly available information to elaborate its own findings and on its own experience to estimate the potential synergies;
- (ii) absence of an industrial plan providing a detailed annual evolution of the main financial metrics for UBI Banca. As a consequence, the projections utilised have been based on the estimates of the equity research analysts' reports, published following the release of the banks' financial results as at 31<sup>st</sup> December 2019;
- (iii) absence of detailed accounting and financial information on the branches network and the insurance activities to be disposed as part of the agreements signed by ISP on 17 February 2020 relatively with BPER Banca S.p.A. and UnipolSai Assicurazioni S.p.A. (see in particular paragraph 1.3 of the Notice of the Offer);
- (iv) limited information to estimate the synergies and the related integration costs as well as the additional provisions necessary for UBI Banca impaired loans portfolio.

It is worth mentioning that the methodologies taken as a reference for ISP, UBI Banca and the selected comparable companies are based on market prices and estimates of equity research analysts as of 14<sup>th</sup> February 2020, which are by their nature uncertain and volatile, especially in the current macro context. Therefore, the outcome of the valuation analyses could vary also significantly in relation to market trends and the expectations of equity research analysts subsequent to that date.

Below it is outlined a brief description of the valuation methodologies applied for the purpose of the determination of the Consideration:

(a) Principal valuation methodologies

- (i) *Market Prices method*: the Market Prices method utilises market prices of the shares of listed companies as relevant information to estimate their economic value. For the purpose of the valuation, the stock prices referred to different time frames construed relevant for the analysis have been utilised, under the assumption that there is a degree of correlation between such market prices and the economic value of the companies object of the analysis. The main contribute of this methodology lies in its ability to represent, in relative terms, the relationship existing between the values of the companies in question as perceived by the market.  
To the extent of this analysis, it has been considered appropriate to adopt for such method the following valuation criteria: (x) official market prices of ISP and UBI Banca shares as at 14<sup>th</sup> February 2020; (y) average of official market prices of ISP and UBI Banca shares weighted for the traded volumes (so called Volume Weighted Average Price) as of 1 month, 3 months and 6 months before the 14<sup>th</sup> February 2020.
- (ii) *Linear regression method*: according to the linear regression method, the economic value of a company shall be determined on the basis of parameters identified through the correlation (if statistically significant) between price to tangible book value multiples ("Price/TBV") of a sample of listed companies considered comparable and their future

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profitability represented by the return on average tangible book value for the period (RoATE).

To the extent of this analysis, it has been performed (1) a linear regression using the historical Price/TBV (latest available) and the expected RoATE for 2020 and to (2) a linear regression using the expected Price/TBV for 2020 and the expected RoATE for 2021.

- (iii) *Trading multiples method:* according to the trading multiples method, the economic value of a company shall be determined on the basis of economic criteria recognised by the market as value drivers for listed comparable companies.

This methodology is based on the application of multiples to be computed, for a sample of selected comparable companies, as the ratio between the market capitalization and certain selected economic parameters of the selected peers. Such multiples shall be applied, with any add-on or adjustments deemed appropriate, to the relevant economic parameters of the company being valued in order to determine a valuation range. For this transaction – taking into account the specific characteristics of the banking sector and the common market practice – the Price/Expected Net Income 2020 and Price/ Expected Net Income 2021 have been selected as reference trading multiples.

The degree of reliability of the linear regression and the trading multiples methodologies depends on both the appropriateness of the methodology itself compared to the specific features of the valuation analysis and, above all, on the comparability, from an operational and financial standpoint, between the companies included in the reference sample and those object of the valuation. For the purpose of the valuation analysis and given their comparability with the companies object of the analysis in terms of business model, geographical presence and/or size, the following sample of Italian and European medium and large sized listed companies has been selected:

- for the Italian listed companies, the following sample of peers has been selected: UniCredit, Banco BPM, BPER Banca, Banca Monte dei Paschi di Siena, Credito Emiliano, Banca Popolare di Sondrio and Credito Valtellinese;
- for the European listed companies, the following sample of peers has been selected: BNP Paribas, Crédit Agricole, Société Générale, Santander, BBVA, CaixaBank and Commerzbank.

(b) Control valuation methodologies

- (i) *Target prices method:* the method of the target prices identifies the economic value of a company based on the company's target valuations pointed out by equity research analysts. Target prices are price indications which express an estimate of the market price that a stock could reach and are determined based on certain valuation methodologies identified by each equity research analyst at his sole discretion.

- (ii) *Dividend Discount Model method in the so-called variant of the Excess Capital:* the Excess Capital version of the Dividend Discount Model is based on the assumption that the economic value of a company is equal to the net present values of the algebraic sum of:

- the cash flows related to potential future dividends generated in a selected time frame which are distributable to shareholders without reducing the capital position required to maintain a pre-set target level of regulatory capital in the long term. Such cash flows shall be estimated regardless of the forecast or the companies' management dividend policies;
- the Terminal Value, which is the long-term value of the company computed as the net present value of a normalised distributable cash flow in perpetuity to be sustainable from an economic point of view and coherent with the long term growth rate of the business.

As previously mentioned, the projections utilised for the application of this methodology have been derived from the consensus estimates of the reports redacted by equity research analysts following the release of financial results as of 31<sup>st</sup> December 2019.

At first, the valuation methodologies described above were applied on an individual and going concern basis for both ISP and UBI Banca, and, only subsequently, factoring in the value creation deriving from the combination of the two entities.

As a result of the above and on the basis of the valuation approach used, the Board of Directors of ISP has been able to determine, within the valuation range identified by the application of the methodologies previously described, an exchange ratio equal to 1.7000x ISP shares for each UBI Banca share,

therefore in n. 1,945,284,755 the maximum number of ISP ordinary shares that will be newly issued in the contest of the Offer. Based on the official share price of ISP as at 14<sup>th</sup> February 2020 (equal to Euro 2.502), the exchange ratio identified by the Board of Directors expresses a value equal to Euro 4.254 (rounded to the third decimal place) for each UBI Banca ordinary share and, therefore, incorporates the following premiums on volume weighted average official prices of UBI Banca in the periods indicated below:

Reference date	UBI Banca VWAP	Premium
14 <sup>th</sup> February 2020	3.333	+27.6%
Last 1 month from 14 <sup>th</sup> February 2020 (included)	2.968	+35.7%
Last 3 months from 14 <sup>th</sup> February 2020 (included)	2.939	+36.0%
Last 6 months from 14 <sup>th</sup> February 2020 (included)	2.743	+38.6%

It is worth mentioning that the Board of Directors has granted KPMG a mandate to prepare, on a voluntary basis, a report concerning the fairness and non-arbitrariness of the valuation methodologies used by the Board of Directors itself for the determination of the Consideration as described above, in compliance with ISAE "3000 revised". Concurrently to the publication of this document and in a similar way, the report redacted by KPMG is also made publicly available on a voluntary basis.

#### **9. Determination of the issuing price of the new ISP shares**

The issuing price of the ISP shares to be issued in the context of the Share Capital Increase for the OPS will be determined by the Board of Directors upon exercise of the Delegation, pursuant to and in compliance with art. 2441, sixth paragraph, of the Italian Civil Code.

Furthermore, upon exercise of the Delegation, it will be determined the allocation of the issuing price in terms of share capital (*capitale sociale*) and premium reserve (*riserva sovrapprezzo*), it being understood that: (i) as regards the portion of the issuing price to be allocated to share capitale, it will be equal to Euro 0.52 per share, which – as indicated above (see paragraph 1) – corresponds to the implied par value (rounded to the second decimal place) of the currently outstanding shares of ISP; and (ii) the remaining portion of the issuing price will be allocated to the premium reserve.

Please note that, in compliance with the applicable international accounting principles, the increase of the net assets (*patrimonio netto*) of ISP that will be registered in accounting terms will not be based on the issuing price determined by the Board of Directors upon exercise of the Delegation, but will correspond to the fair value of the ISP shares that will be assigned to the UBI Banca's shareholders tendering in the OPS; such fair value will correspond to the trading price of the ISP share at the date of execution of the exchange of the UBI Shares tendered in the OPS.

KPMG, in its capacity as external auditor of ISP, will render the fairness opinion on the issuing price (*parere sulla congruità del prezzo di emissione*) relating to the shares of ISP to be offered in exchange in the context of the OPS, pursuant to art. 2441, sixth paragraph, of the Italian Civil Code and art. 158 of the TUF. As anticipated, pursuant to art. 70, seventh paragraph, of the Issuers' Regulation, such opinion will be published in accordance with the terms and modalities set forth under applicable law.

#### **10. Assessment of the assets to be contributed as per valuation report pursuant to articles 2440, paragraph 2, 2343-ter, paragraph 2, letter b), and 2343-quater, of the Italian Civil Code.**

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The report of the Independent Expert – appointed by ISP on 5 March 2020 – is published concurrently with this Report, with the modalities set forth under applicable law, for the purposes of a more complete and precise information to ISP shareholders ahead of the Shareholders' Meeting. In such report – to which we refer you entirely – the Independent Expert concluded that the fair price per UBI Banca share as at 17 February 2020 is not lower than Euro 3.447.

Having said the above, the current situation, characterized by remarkable uncertainty is at the root of the substantial volatility in financial market prices, further stressed by the current COVID-19 emergency. It is not possible to exclude that the persistence of the current emergency and its evolution (that, at present, is not predictable) may have impacts, even significant, on the national and international economic context and, specifically, on UBI Banca's fair value. In consideration of the current situation characterized by remarkable uncertainty and the consequent substantial volatility in financial market prices – and also for the purpose to ensure that the Independent Expert's report referred to a date not exceeding six months prior to the contribution date, pursuant to art. 2343-*ter*, second paragraph, letter b), of the Italian Civil Code – it is not possible to exclude that, ahead of the resolution of the Share Capital Increase for the Offer, upon execution of the Delegation, and in relation to the relevant timing, the Board of Directors of ISP may request to update the above report in order to reflect in our valuation analysis updates on UBI Banca's information and on economic and market situation.

For all the other aspects relating to the modalities of execution of the contribution in kind and the Independent Expert's report, please refer to the statutory applicable regulation and, in particular, to arts. 2343-*ter*, 2343-*quarter* and 2443, fourth paragraph, of the Italian Civil Code.

#### **11. Shareholding structure of ISP as a result of the Share Capital Increase for the OPS. Effects on any shareholders' agreements.**

In consideration of the nature of the Share Capital Increase for the OPS and the contingencies connected to the results of the OPS itself, it is not possible to envisage the shareholding structure of ISP following the execution of such share capital increase.

The percentage of dilution of the existing shareholders in ISP share capital depends on the result of the OPS, as the amount of new ISP shares to be issued as part of the Share Capital Increase for the OPS will depend on the number of UBI Banca shares tendered in the OPS itself.

In the event that all shareholders of UBI Banca, to whom the OPS is addressed, tender in the OPS, ISP will issue No. 1,945,284,755 new shares to be exchanged with the UBI Banca shares. Such new ISP shares represent approximately 10% of ISP share capital on a fully diluted basis.

On the basis of the available information, on the date hereof, no shareholders' agreement pursuant to art. 122 of TUF has been disclosed in relation to ISP.

#### **12. Authorizations**

The effectiveness of the Shareholders' Meeting's resolution to grant the Delegation to the Board of Directors, referred to in this Report, (and the consequent filing with the Companies' Register of Turin of the relevant amendment to ISP's Articles of Association) is subject to the positive completion of the proceedings with the European Central Bank pursuant to arts. 56 and 61 of Italian Legislative Decree No. 385 of 1 September 1993 ("CBA") aimed at assessing that the amendments to ISP's Articles of Association referred to in this Report do not conflict with the sound and prudent management of ISP.

On 6 March 2020, ISP filed the relevant authorization request with the European Central Bank, also requesting such Supervisory Authority to issue its authorization for the classification as Common Equity Tier 1 instruments of the new shares to be issued in the context of the Share Capital Increase for the OPS, pursuant to arts. 26 and 28 of (EU) Regulation No. 575/2013 of the European Parliament and of the Council of 26 June 2013.

Please note that in the event that the ECB's decision on the proposed amendments to ISP's Articles of Association (as required under arts. 56 and 61 of the CBA) is not issued by the date of the Shareholders' Meeting's resolution, the effectiveness of such resolution will remain subject to the issue of the mentioned assessment decision by ECB.



### 13. Term for the execution the Share Capital Increase for the OPS

Subject to the issue of the authorizations under paragraph 12 above (as well as the other authorizations and clearances requested in relation to the OPS, as specified in paragraph 1.4 of the Notice of the Offer), the exercise of the Delegation by the Board of Directors will occur before the publication of the offer document, filed on 6 March 2020. Considering the requirements under the regulations applicable to public exchange offers, it is envisaged that the Share Capital Increase for the OPS will be executed by 31 December 2020, subject to the fulfilment of the conditions precedent to the OPS set forth in paragraph 1.5 of the Notice of the Offer, as well as in the offer document submitted to Consob's approval.

### 14. Amendments to ISP's Articles of Association

The attribution of the delegation for the share capital increase proposed by the Board of Directors entails the amendment of art. 5 of ISP's Articles of Association, which, as mentioned above, is subject to the successful completion of the ascertainment procedure with the European Central Bank pursuant to arts. 56 and 61 of the CBA. Below is a comparison of the aforementioned art. 5 in the current and proposed text. The proposed text is highlighted in bold type.

<b>Art. 5. Share Capital</b> ( <i>version in force</i> )	<b>Art. 5. Share Capitale</b> ( <i>amendment in bold</i> )
5.1.- The Company's subscribed and paid-in share capital amounts to 9,085,663,010.32 euro, represented by 17,509,728,425 ordinary shares without nominal value.	(Unchanged)
5.2.- - The Extraordinary Shareholders' Meeting may resolve upon the allocation of net income to the employees of the Company or of its subsidiaries by issuing financial instruments in accordance with the applicable legislation.	(Unchanged)
	<b>5.3. - The Extraordinary Shareholders' Meeting held on 27 April 2020 conferred to the Board of Directors, pursuant to article 2443 of the Italian Civil Code, the power, to be exercised within 31 December 2020, to resolve upon a share capital increase for a consideration, to be carried out on one or more tranches and in a divisible manner, without pre-emption rights pursuant to article 2441, paragraph 4, first sentence, of the Italian Civil Code, up to a maximum total amount of Euro 1,011,548,072.60, in addition to any share premium (<i>sovrapprezzo</i>), for a maximum number of 1,945,284,755 ordinary shares of the Company, without nominal value, with regular economic rights (<i>godimento regolare</i>) and having the same characteristics as the ordinary shares of the Company already outstanding at the date of issuance, to be paid up through contribution in kind, being reserved to the public exchange offer on all of the ordinary shares of Unione di Banche Italiane S.p.A., launched by the Company on 17 February 2020 with notice pursuant to Article 102, paragraph 1, of Legislative Decree no. 58 dated 24 February 1998.</b>

### 15. Right of withdrawal

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The proposed amendments to ISP's Articles of Association do not imply any right of withdrawal under applicable law.

## 16. Resolutions submitted to the Extraordinary Shareholders' Meeting

Distinguished Shareholders,

In consideration of the above, the Board of Directors invites you to approve the following proposed resolutions:

*"The Extraordinary Shareholders' Meeting, having examined the report of the Board of Directors and the proposals illustrated therein,*

### **resolves**

- 1) *to grant the Board of Directors, pursuant to article 2443 of the Italian Civil Code, with the power, to be exercised within 31 December 2020, to increase the share capital of the Company for a consideration (aumento del capitale sociale a pagamento), to be carried out on one or more tranches and in a divisible manner (in via scindibile), without pre-emption rights pursuant to article 2441, paragraph 4, first sentence, of the Italian Civil Code, up to a maximum total amount of Euro 1,011,548,072.60, in addition to any share premium (sovrapprezzo), with issuance of a maximum number of 1,945,284,755 ordinary shares of the Company, without nominal value, with regular economic rights (godimento regolare) and having the same characteristics as the ordinary shares of the Company already outstanding at the date of issuance, to be paid up through contribution in kind, being reserved to the public exchange offer on all the ordinary shares of Unione di Banche Italiane S.p.A., launched by the Company on 17 February 2020 with notice pursuant to art. 102, paragraph 1, of Legislative Decree no. 58 dated 24 February 1998;*
- 2) *to grant the Board of Directors with the power to set, from time to time, in exercising the above described delegation and in compliance with the applicable laws and regulations: (i) the amount of the share capital increase to be resolved upon, even in a divisible manner, within the limits set forth under paragraph 1) above; (ii) the issuance price of the new shares, including the share premium (sovrapprezzo), taking into account the provisions of art. 2441, sixth paragraph, of the Italian Civil Code; and (iii) any other terms and conditions of the delegated share capital increase within the limits and in compliance with applicable law and this resolution;*
- 3) *to consequently amend art. 5 of ISP's Articles of Association by inserting the following third paragraph:*  
***"5.3. - The Extraordinary Shareholders' Meeting held on 27 April 2020 conferred to the Board of Directors, pursuant to article 2443 of the Italian Civil Code, the power, to be exercised within 31 December 2020, to resolve upon a in share capital increase for a consideration, to be carried out on one or more tranches and in a divisible manner, without pre-emption rights pursuant to article 2441, paragraph 4, first sentence, of the Italian Civil Code, up to a maximum total amount of Euro 1,011,548,072.60, in addition to any share premium (sovrapprezzo), for a maximum number of 1,945,284,755 ordinary shares of the Company, without nominal value, with regular economic rights (godimento regolare) and having the same characteristics as the ordinary shares of the Company already outstanding at the date of issuance, to be paid up through contribution in kind, being reserved to the public exchange offer on all of the ordinary shares of Unione di Banche Italiane S.p.A., launched by the Company on 17 February 2020 with notice pursuant to Article 102, paragraph 1, of Legislative Decree no. 58 dated 24 February 1998."***
- 4) *to determine that the effectiveness of the resolutions under paragraphs 1) and 2) above, as well as the amendments to ISP's Articles of Association under paragraph 3) above, are subject to the positive completion of the proceedings pursuant to arts. 56 and 61 of the Italian Legislative Decree no. 385 dated 1 September 1993, n. 385, should such positive completion not have occurred prior to the date of this resolution;*
- 5) *to grant the Chairman of the Board of Director and the Chief Executive Officer of the Company, on a several basis and through possible appointment of special attorneys, with the power to do whatever required, necessary or useful to execute the above resolutions, including - without limitation - the power to fulfil any requirement for the admission to listing of the newly issued shares, as well as to carry out any related and necessary formalities, including the registration of the above resolutions in the Companies' Register and the filing therewith of the updated Articles of Association, and also granting them with the faculty to introduce possible non-substantial amendments as they may be required, and in general, anything that could be*

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*necessary to complete the execution of the above resolution, with any necessary and opportune power, in compliance with applicable laws”.*

17 March 2020

For the Board of Directors  
The Chairman - Gian Maria Gros-Pietro

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*This is an English translation of the original Italian document. In cases of conflict between the English language document and the Italian document, the interpretation of the Italian language document prevails.*