Supplement To The 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.

Distinguished Shareholders,

upon Consob's request received on 22 April 2020, Intesa Sanpaolo S.p.A. ("**ISP**", the "**Bank**" or the "**Company**"), parent company of the Intesa Sanpaolo Group, enrolled with the Banking Group Register under no. 3069.2 ("**ISP Group**"), supplements the report of the Board of Directors, published on 2 April 2020, relating to item 1 on the agenda of the extraordinary part of the Shareholders" Meeting (the "**Report**"), convened for 27 April 27 2020, in single call, mentioned above, as set forth therein.

Terms not otherwise defined in this Supplement to the Report have the same meaning attributed to them in the Report.

1. Evaluations, based on the elements currently available, regarding the impacts of the ongoing COVID-19 epidemic on the conditions precedent to the Offer and on the prospective profits of the ISP Group

On the occasion of the approval of the Group's results for the first quarter 2020, on 5 May 2020, information should be available in order to outline a scenario with a reasonable degree of reliability - even if susceptible of unpredictable evolutions taking into account the significant uncertainties surrounding the extraordinary nature of the COVID-19 event - allowing to express a founded assessment of the possible context following the pandemic and the potential effects on the ISP Group.

It has to be noted also that the ISP Group, towards the possible effects of the COVID-19 epidemic, has a solid capital base and liquidity position as well as a resilient and well-diversified business model. In particular, the proposal to allocate to reserves the net income for the financial year 2019, if approved by the Shareholders' Meeting, will further strength the Group's solid capital position: as at 31 December 2019, the pro-forma fully loaded Common Equity Tier1 ratio increases from 14.1% (around 4.6 percentage points above the SREP requirement comprising the combined buffer and with capital exceeding the requirement by over 13 billion Euro) to 15.2%, around 5.8 percentage points above the SREP requirement comprising the combined buffer and with capital exceeding the requirement by over 16.5 billion Euro [(1)].

[1] When excluding the expected absorption of deferred tax assets (DTAs), fully loaded from 13%, around 3.6 percentage points above the SREP requirement comprising the combined buffer and with capital exceeding the requirement by over 10 billion Euro,

The wide margin in respect of the requirement does not take into account the new regulatory measures introduced by the ECB as from 12 March 2020, which allow banks to operate below the combined buffer and establish the partial use of capital instruments that do not qualify as CET1 to meet the Pillar 2 requirement. Taking into account the latter measure and the concurrent revisions of the Countercyclical Capital Buffer by the competent national authorities of the countries where the Group operates, the aforementioned amount of the Group's CET1 capital exceeding the requirement would increase to around 19 billion Euro.

ISP does not currently have information on the possible impacts of the COVID-19 pandemic on UBI Banca, and therefore is currently unable to assess whether the epidemic has the effect to negatively impact the activity of UBI Banca and/or the financial, capital, economic or income situation of UBI Banca and/or the companies of the UBI Group and therefore to evaluate its implications on the basis of the related conditions precedent to the Offer, which - as indicated in paragraph 1.5 of the communication published by the Bank on 17 February 2020 pursuant to article 102, paragraph 1, of TUF and article 37 of the Issuers Regulation - must occur within the settlement date.

2. Description of the pro-forma effects of the business combination with UBI Group on the ISP Group's economic results and financial position

This paragraph contains the main pro-forma balance sheet and income statement items resulting from the combination of UBI Group and ISP Group as of 31 December 2019, as well as some explanatory notes.

The pro-forma effects of the business combination with the UBI Group on the ISP Group's economic results and financial position have been determined on the basis of CONSOB's communication No. DEM/1052803, dated 5 July 2001, and have been drawn up in order to simulate, in accordance with valuation criteria consistent with the historical data and in compliance with the applicable regulations, the effects of the transaction on the financial performance and financial position of the ISP Group, as if virtually executed on the 31 of December 2019, with respect to the effects on the pro-forma consolidated balance sheet, and on the 1° of January 2019 with respect to the effects on the pro-forma consolidated profit and loss account.

Pro-forma figures are derived from the Consolidated Financial Statements of both ISP Group and UBI Group, drawn up in compliance with IAS/IFRS accounting standards and by applying the pro-forma adjustments determined by simulating the application of IFRS 3 principle for the business combination transactions.

For the purposes of determining the pro-forma adjustments, the overall cost of the combination has been determined assuming a unit value per ISP's share equal to Euro 2.502 represented by the market closing price as of 14 February 2020, *i.e.* the last trading day before the date of ISP's announcement of the Offer (*i.e.* 17 February 2020) and assuming a total adhesion to the Offer by UBI's shareholders. It should be noted that, pursuant to IFRS 3, the final value of the cost of the combination will be determined on the basis of the market value of ISP's shares on the trading day immediately before the date of the consummation of the transaction.

The preliminary cost of the acquisition determined as per the above, equal to Euro 4,866 million, has been compared with UBI Group's consolidated net equity as of 31 December 2019, including the profit for the period. It should be noted that, for the purposes of determining the pro-forma adjustments, no assessment of the fair value of the assets has been carried out, including potential intangible assets previously undetected, liabilities and the identifiable potential liabilities of the entity acquired because such fair value, that will be determined at the date of acquisition and having obtained detailed information on UBI Group's accounting entries. For the purposes of determining the pro-forma adjustments, only the write-off of intangible assets of UBI Group has been performed, in line with the activities to be carried out in the context of the PPA process. UBI Group's consolidated net equity, determined according to the above, amounted to Euro 7,749 million.

The difference between the preliminary cost of the acquisition and UBI Group's consolidated net equity

---

to 14.1%, around 4.6 percentage points above the SREP requirement comprising the combined buffer and with capital exceeding the requirement by over 13.5 billion Euro. Taking into account the new measures in respect to the Pillar 2 and the Countercyclical Capital Buffer, the capital exceeding the requirement would increase to over 16 billion Euro.

amounted to Euro 2,883 million.

As previously mentioned, among the elements determining the difference between the final negative goodwill (or badwill) and the provisional amount indicated in the pro-forma financial information as of 31 December 2019, there is the market value of ISP's shares on the trading day immediately before the date of the consummation of the transaction. In this respect, it should be noted that for each variation of -20 cents between the unit value of each ISP's share equal to Euro 2.502 (taken as reference for the determination of the preliminary cost of the transaction) and the stock price of the shares on the day preceding the date on which the Offer becomes legally effective, the negative goodwill will vary by + Euro 389 million. It should be noted that, even in case there would not be a total adhesion to the Offer, without prejudice to the offer's conditions precedent, considering the possibility of measuring at fair value any non-controlling interest in the acquiree, in this case representing the eventual remaining UBI's shares not exchanged with ISP's shares, the negative goodwill amount recognised in ISP's Consolidated Financial Statements would be in any case determined with regard to all of UBI's shares, therefore having the same value as in case of total adhesion to the Offer.

Pro-forma figures also include eliminations of the most significant reciprocal balance sheet and profit and loss account items common to ISP Group and UBI Group, taking into account only data reported by ISP Group.

Finally, note that pro-forma adjustments include accessory costs related to the execution of the transaction estimated in about Euro 75 million, on the basis of the amount authorized by ISP Board of Directors on 17 March 2020. With regard to the above mentioned amount, on the basis of the preliminary information actually available, about Euro 10 million have been considered directly attributable to the issue of the shares reserved to the Offer and, on the basis of the IAS 32, attributed, net of the related fiscal effect, to capital reduction. The remaining part of the estimated accessory costs, equal to Euro 65 million, have been included in the profit and loss account, as set out in the IFRS 3, as pro-forma operating charges.

The main pro-forma statement of financial position and income statement items resulting from the combination of UBI Group and ISP Group as of 31 December 2019 are shown below.

(billion of euro)

Item / parameters	**ISP Group 31.12.2019**	**UBI Group 31.12.2019**	**Pro-forma 31.12.2019**
Balance sheet aggregates			
Net loans to customers	395.2	84.6	479.8
Net Non-Performing Loans	14.2	4.2	18.4
Gross NPE ratio	7.6%	7.8%	7.6%
NPE coverage	54.6%	39.2%	51.8%
Direct deposits from banking business	425.5	95.4	520.9
Indirect customer deposits	534.3	101.5	635.8
Economic results			
Interest margin	6.9	1.8	8.7
Net fee and commission income	7.5	1.7	9.2
Net interest and other banking income	20.5	3.6	24.1
Operating expenses	-10.2	-2.5	-12.8 (1)
Income (Loss) before tax from continuing operations	5.7	0.3	5.9
Net income (loss)	4.2	0.2	4.4
Negative Goodwill	n.a.	n.a.	2.9

(1) = pro-forma item takes into account 65 million euro of acquisition-related costs to be recognised into profit & loss based on the available information.

Finally, it should be noted that the above mentioned pro-forma figures do not include the effects of the transfer, respectively to BPER Banca and Unipol, of the Banking Branch and Insurance Activities because ISP currently has not detailed information and accounting data relating to the above mentioned branches and activites which could allow to identify and quantify the assets value in a precise, objective and verifiable manner. However, some broad estimations and assumptions about the composition of the Banking Branch have been made. It should be noted that, as anticipated, not having detailed information and accounting data, data relating to the Banking Branch have been estimated assuming that it is equal to about 25% of the corresponding data of UBI Group as of 31 December 2019, on the basis of the proportion of the estimate of the number of branches to be included in the Banking Branch compared to the total number of the branches of UBI Group. Finally, it is pointed out that the negative goodwill associated with the Banking Branch has been estimated in about Euro 0.7 billion, with consequent determination of a remaining negative goodwill for ISP equal to Euro 2.2 billion, compared to Euro 2.9 billion deriving from pro-forma figures.

It should be noted that pro-forma figures represent a simulation, provided for illustrative purpose only, of the possible effects that may derive from the acquisition. In particular, since pro-forma figures have been realised to retroactively represent the effects of subsequent transactions, notwithstanding the compliance with the rules generally accepted and the use of reasonable assumptions, there are some limitations related to the nature of the pro-forma figures and they cannot by themselves provide a prospective representation of the financial and economic situation of ISP Group. Therefore, in order to properly understand the information provided by the pro-forma figures, it is necessary to evaluate the following elements:

- considering that the representations are based on assumptions, if the acquisition would have really been carried out on the dates used as reference to draw up the pro-forma figures, the same results as those shown by the pro-forma figures would not necessarily have been achieved;
- pro-forma figures are not intended to represent in any way an estimate of future results and therefore shall not be used for this purpose: pro-forma figures do not represent forward looking data because they are drawn up in order to exclusively represent the effects of the acquisition that can be isolated and objectively measured, without taking into account the potential effects due to changes in market conditions and in management policies, as well as to operational decisions taken by ISP as a consequence of the results of the transaction. Therefore, pro-forma figures are not intended to represent the actual or prospective financial and economic situation of the effects related to the acquisition;
- taking into account the different purposes of pro-forma figures compared to the purposes of ordinary financial statements and since the effects are calculated in a different manner with reference to pro-forma consolidated balance sheet and pro-forma consolidated profit and loss account, the latter shall be read and interpreted separately, without making any connection from an accounting point of view.

It should be noted that, in compliance with CONSOB's communication No. DEM/1052803, dated 5 July 2001, pro-forma figures do not include neither the charges nor the synergies deriving from the envisaged transaction for the entity resulting from the aggregation of ISP Group and UBI Group.

Pro-forma figures have not been audited by an audit firm.

3. Description of the method applied to identify, within the range of results obtained through the valuation methodologies adopted, the exchange ratio of 1.7 shares of ISP for each UBI Banca share tendered to the Offer

The Board of Directors of ISP, with the advice and cooperation of Mediobanca – Banca di Credito Finanziario S.p.A., has established to apply:

- <u>as principal valuation methodologies</u>: (i) the Market Prices Valuation method, (ii) the linear regression method between the price to the tangible equity multiples of comparable listed 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 ("DDM").

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, based on known and publicly available information, and, as such, representative of the economic value of the two banks.

The choice to use the target prices method and the DDM as control valuation methodologies is driven by the reason that they – also factorizing past data and, if available, prospective data publicly available - are based on forecasts provided by equity research analysts and not on the basis of detailed industrial plans elaborated by the companies on which it has not been possible to carry out any due diligence or discuss with the management of the company about the correctness of the underlying assumptions. Moreover, such estimates, summarizing the market consensus on the real ability of the management to achieve the results and the proposed plans, generally present, by their nature, a high degree of variability.

The valuation methodologies described above were applied on an individual basis and for business continuity for both ISP and UBI Banca and led to the determination of a range of values within which, taking into account (i) the characteristics of the transaction as a whole and in particular of the achievable net synergies, (ii) the possibility of creating value for both ISP and UBI Banca shareholders, and (iii) the implicit bonus attributed with respect to the UBI Banca shares market price, it has been determined an exchange ratio of 1.7000x.

4. With regard to the determination of the badwill (i) description of the methodology and of the assumptions adopted for the estimate of the amount of the badwill; (ii) estimate of the amount of the badwill generated by the aggregation, based on the current stock market prices of ISP shares

The calculation of the badwill arises from the comparison between the tangible net assets of UBI Banca and the amount of the capital increase of ISP - including the share premium - recorded in the financial statements of ISP following the issue of the new shares actually given in exchange to the shareholders of UBI Banca; since the new shares are valued at the stock market prices at the time of the issue, considering the stock market prices of ISP's shares on 21 April 2020, equal to Euro 1.3366, the capital increase would result (purely by way of example) equal to Euro 2,6 billion.

From the gross amount determined by the comparison between the tangible net assets of UBI Banca and the capital increase of ISP, will be deducted the loss registered equal to the difference between the capitalization of the transferred branch network and the price paid by BPER Banca.

The badwill so determined, by making reference to the official market price of 21 April 2020, is equal to Euro 4 billion.

* * *

ISP has complied with the request sent by Consob in the morning of Wednesday 22 April 2020, notwithstanding the awareness of the awareness of the impending expiry of the term referred to in art. 135-undecies, paragraph 1, TUF for granting of the voting proxies to the Designated Representative (the only person entitled to attend the meeting in accordance with art. 106, paragraph 4, of Legislative Decree no. 18 of 17 March 2020): however, we believe that the content of the information set forth therein (mostly, if not all, relating to aspects of the conduct of the Offer) is not such as to be relevant for the assessment by the shareholders of the proposed capital increase.

23 April 2020

for the Board of Directors
The Chairman – Gian Maria Gros-Pietro