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# Report of the Board of Directors

## Item 5 on the agenda

### **Proposal for settlement of the liability action brought against the former Chairman and the former General Manager of the merged subsidiary Banca Monte Parma S.p.A.**

Distinguished Shareholders,

in March 2014, Banca Monte Parma (BMP) brought a liability action against Alberto Guareschi and Roberto Menchetti, respectively the former Chairman and the former General Manager of BMP, merged into Intesa Sanpaolo in July 2015.

The defendants were accused of numerous breaches with regard to risk management, the internal control system and the correct assessment of the credit rating of several customers granted credit. These anomalies had been detected in 2010 by the Bank of Italy during an inspection. BMP therefore requested that the defendants be subject to a general order of damage compensation, with the payment of a provisional sum of approximately 15.3 million euro, equal to the loss due to the failure to fully recover the amounts of certain credit lines granted as a result of the above breaches.

Immediately after the proceedings were initiated, the Bank obtained a seizure order of 15 million euro on some of the defendants' properties and on some of Mr Guareschi's equity investments.

The defendants filed an appearance disputing the validity of the Bank's claims, arguing that their actions were correct, and also summoned Generali Italia S.p.A. to the proceedings, invoking the insurance cover of the "Directors & Officers" (D&O) policy taken out by BMP with a maximum cover of 5 million euro. The defendants also summoned some of the members of BMP's Board of Directors and Board of Statutory Auditors to the proceedings (who in turn summoned their insurance companies).

After filing the preliminary pleadings, the judge rejected the defendants' motions (including the hearing of witnesses and the performance of a court-appointed expert review), setting the hearing for the final decision at 25 June 2019.

#### **Remarks regarding the judgement**

With regard to the claims made against Mr Guareschi and Mr Menchetti, Intesa Sanpaolo's position is well-founded, because it has been thoroughly exposed with extensive evidence. In contrast, the defendants' arguments appear to be in conflict with the evidence presented by the Bank. Also, in view of the rejection of the defendants' motions and the outcome of the request for a seizure order, it is therefore considered likely that the claim will be upheld.

With regard to the policy issued by Generali, the company has contested its enforceability in various respects. There is therefore a risk that the policy will be considered to be inapplicable.

#### **Other out-of-court claims made against Mr Guareschi and Mr Menchetti**

By means of letters dated 23 October 2013 and 28 July 2014, BMP accused the two defendants of further unlawful conduct regarding relationships with and credit lines granted to companies other than those referred to in the liability action, requesting compensation for the related damage, amounting to several tens of millions of euro.

#### **Possible settlement solutions**

The Bank has received a settlement proposal involving the payment of 4.35 million euro by Generali, with Intesa Sanpaolo waiving in full all claims made against Mr Guareschi and Mr Menchetti both in and out of court. In addition, the settlement of the relations with the third parties summoned (former

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directors and statutory auditors and their insurance companies) would remain the responsibility of Generali and the two defendants.

**Remarks regarding the settlement solution**

As mentioned above, it is likely that the claims for damages made by the Bank against Mr Guareschi and Mr Menchetti will be upheld.

However, please note that the possibility of recovering a significant part of the amount owed from them is remote, given that the real estate owned by the defendants, subject to seizure, consists of shares in assets of low value, some of which are subject to mortgages. Likewise, the value of the equity investments held by Mr Guareschi and subject to seizure is substantially zero.

In addition, the possibility of recovery from Generali under the insurance policy is uncertain for the reasons set out above. Moreover, it is worth recalling that the maximum cover of 5 million euro also includes protection from other claims, and any coverage of such events would therefore limit the amount recoverable by Intesa Sanpaolo.

In light of the above, the settlement proposal set out above is considered reasonable.

**Proposed Resolution**

Distinguished Shareholders, you are therefore invited to approve the settlement, within the terms indicated above, of the liability action brought against Alberto Guareschi and Roberto Menchetti in their capacity as former Chairman and former General Manager of Banca Monte Parma, with proceeds of 4.35 million euro, authorising the Managing Director to sign the related deed, with the right to sub-delegate.

19 March 2019

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

*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.*