Binding offer approved for the purchase of the "Target Bridge Institutions": *Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti*

12th January 2017

UBI Banca
UNIONE DI BANCHE ITALIANE

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All numbers in this presentation are estimates on current assumptions and do not represent a new Business Plan

The Binding Offer

- **Purchase by UBI Banca of 100% of the share capital of Nuova Banca delle Marche, Nuova Banca dell'Etruria e del Lazio and Nuova Cassa di Risparmio di Chieti from the National Resolution Fund,**
- **after disposal without recourse** by the three banks of approx. **€2.2 billion of gross NPEs** (€1.7 bln of bad loans and €0.5 bln of unlikely-to-pay loans)
- at a symbolic price (1 Euro)
- subject to strict financial conditions
- with contractual risk limitations

The offer is valid till the 18th of January 2017 included

Key Relevant Parameters to be satisfied by the Target Bridge Institutions (with a tolerance threshold of 5%)

- **Net Equity book value** on the Closing date of at least **€1,010 million**, including:
  - ✓ an **average coverage ratio of at least 28.28% for gross unlikely-to-pay loans** and at least of **60% for gross bad loans**
  - ✓ recognition of **restructuring costs** amounting to **€130 million**
  - ✓ a **provision** representing the fair value of contracts connected with real estate property Transactions*, quantified at a maximum of **€100 million**
  - ✓ **additional provisions** for **risks and impairment of asset components** of the Target Bridge Institutions, the outcome of due diligence investigations carried out, quantified at **€100 million**
- **RWAs** (Pillar 1) not greater than **€10.6 billion**
- average weighted **Liquidity Coverage Ratio** greater than **100%**
- average weighted **CET1 ratio** at least of **9.1%**

Also to meet the parameters mentioned above, **the Seller has made a commitment to recapitalise the Target Bridge Institutions** prior to the Closing date for an amount estimated at **€450 million**

* Consorzio Palazzo della Fonte and Fondo Conero

The perimeter of the transaction

An increase in UBI's overall market share of over 1%

(both in terms of lending to businesses and households – net of bad loans – and in terms of direct funding)

Dimension of the Transaction:

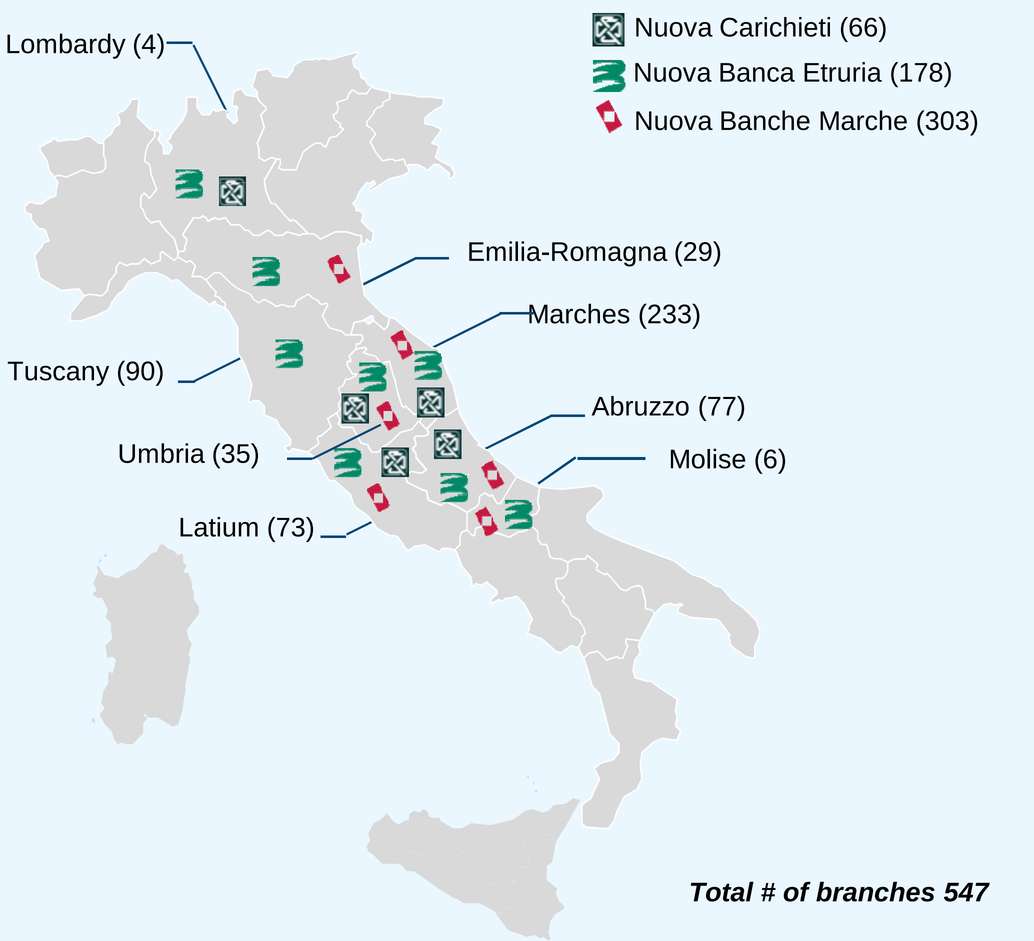
- ✓ over 900,000 customers
- ✓ over 500 branches
- ✓ 5,000 employees
- ✓ € 14.2 billion of gross loans (following the agreed disposal of Bad Loans and UTP*)
- ✓ € 18.5 billion of direct funding (of which €14.5 billion of customer deposits
- ✓ € 7.5 billion indirect funding (of which €3.9 AUM)

Loan to direct funding ratio ~70%

* And the transfer of 1.7 billion to REV

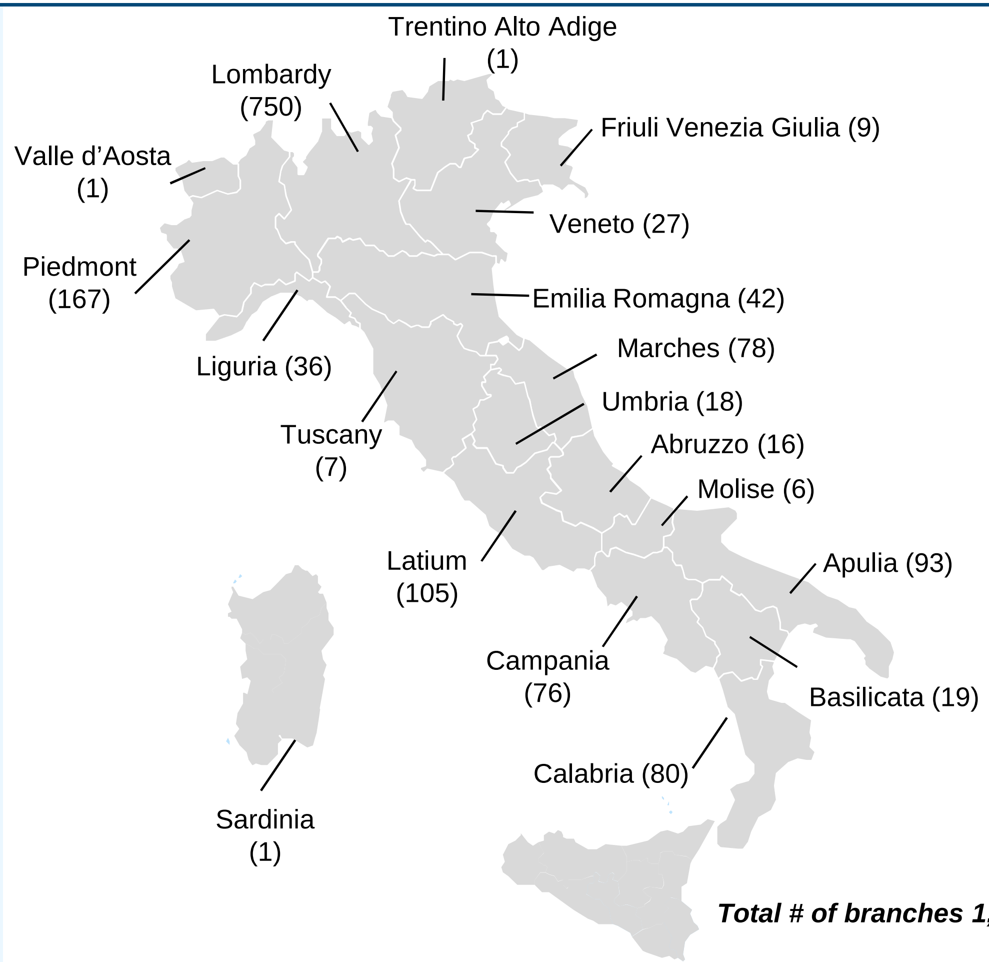
Consolidation of the Group’s market coverage in geographical areas in which it is not present or is only partially present

Target Bridge Institutions (# of branches as at 30 Sept 2016)



Total # of branches 547

UBI Banca (# of branches as at 30 Sept 2016)



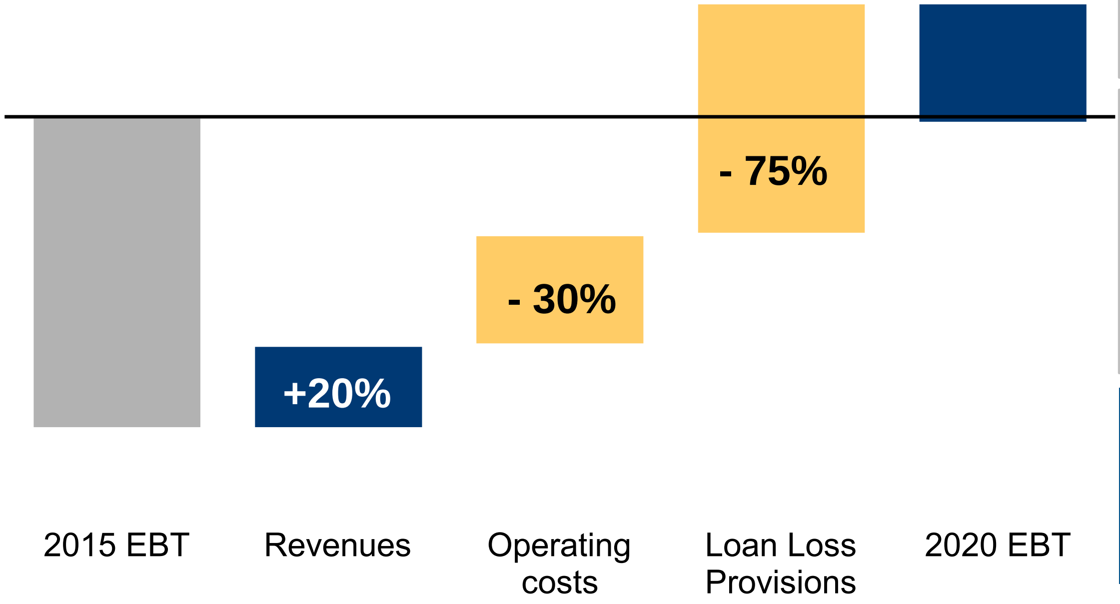
Total # of branches 1,532

Sound business rationale

A positive impact on the Group's <u>ordinary profitability</u> mainly linked to Synergies with UBI Banca :

estimated contribution to profits by the Target Bridge Institutions in the **financial year 2020 of over €100 million** in terms of **ordinary net profit (badwill reversal not accounted for)**

Target Bridge Institutions – % change 2020 vs 2015 in main Income Statement items before taxes



approx. **-75% estimated lower losses on loans**, as a result of a substantial reduction in the non-performing loans (remaining NPEs are mainly unlikely-to-pay loans)

approx. **-30% estimated reduction** in **operating costs**, thanks to:
- ✓ **rationalisation** of the **workforce**;
- ✓ **rationalisation** of **branches** in areas of overlap;
- ✓ **Integration** of the **IT** system;
- ✓ **renegotiation** of existing **contracts** with suppliers.

approx. **+20% estimated higher revenues** linked to **lower cost** of **funding** and **higher commission** revenues related to the inclusion of the TBI into UBI Banca's product companies system

UBI Banca

Use by UBI Banca of DTAs relating to prior year tax losses of the Target Bridge Institutions

- Recent Tax ruling from Tax Authority **confirmed** that UBI Banca would be allowed to use DTAs on prior year tax losses incurred by the Target Bridge Institutions in the context of a possible merger of these institutions into UBI Banca. **No time limit** to use these DTAs

- **Profit Sharing Mechanism** with the Seller:
  - according to the amount of cumulative financial benefit recognised to UBI
  - payable when the benefit is achieved
  - to be deposited in an **escrow account** and paid to the Seller following satisfaction of any contractual indemnity obligation

DTA amount	Amount recognised to the Seller
up to € **600 million**	**10%**
Amount in excess of € **600** million	**80%**

Accounting effects of the Transaction
The difference between the price paid and the positive value of Net equity at fair value gives rise to Badwill

Through the initial Purchase Price Allocation process, on the basis of a preliminary analysis, badwill will be:

- partly allocated to the fair value of assets and liabilities acquired (40% to 60% of total badwill)
- partly recognised as a positive component of the income statement and of regulatory capital

Following the initial process of the purchase price allocation, the fair value allocated to assets and liabilities will be <u>progressively recognised through profit and loss</u> with a positive impact on the basis of a release plan that is consistent with an estimate of the <u>maturity of the items to which it relates</u> (i.e. “badwill reversal”).

UBI Banca's Share Capital increase

Premises:

- the Target Bridge Institutions CET1 Level set in the Relevant Parameters is 9.1%, lower than UBI Banca's current levels (11.68% transitional and 11.28% fully loaded)
- badwill is not immediately fully recognised through Income statement and regulatory capital

To maintain the fully loaded CET1 ratio of the Combined Entity at a level greater than 11%, consistent with the current level, immediately from 2017, the transaction involves an increase in the share capital by up to a maximum of €400 million

The capital increase will be effected by way of a pre-emptive issue of equity to existing shareholders

Capital increase pre-underwritten (at terms and conditions in line with market practice for similar transactions) **by Credit Suisse and Morgan Stanley**, acting as Joint Global Coordinators and Joint Bookrunners, **for a maximum amount equal to the size of the capital increase**

The Share Capital increase remains in the Bank, strengthening prospective capital position

The expected profitability of the target institutions alone (over €100 million) represents a return of 25% on the amount of the capital increase

Following :

- the progressive release of the badwill through profit and loss
- the expected profitability of the Target Bridge Institutions, driven by synergies from the transaction
- the use of tax assets
- the expected roll-out of internal models to the Target Bridge Institutions perimeter

✓ **from 2019 the fully loaded CET1 ratio will be greater than the targets set in the UBI Business Plan, estimated at 13.5% in 2020 compared with a target of 12.8%.**

✓ **That level implies a generation of CET1 capital that is greater than the share capital increase.**

Risks limited contractually

a) The Target Bridge Institutions were **newly formed** following the intervention by the Resolution Fund in November 2015 which, amongst other things, involved the **transfer of bad loans on the books of the original banks to REV – Gestione Crediti SpA.**

b) In addition, as part of the Transaction:

- **Verification that the Relevant Parameters are satisfied**, in the absence of which UBI Banca has the right to withdraw from the purchase agreement ✓
- **Credit risk:** ✓

  - disposal without recourse of approximately €2.2 billion of gross NPEs (more than halving the level of the Target Bridge Institutions' NPEs)

  - NPEs remaining are <u>mainly Unlikely to Pay of recent origination</u>

  - **Coverage of the remaining unlikely-to-pay loans will be at least 28.3%, which will become 60% if they are transferred to bad loan status before the closing date**
- **adequate additional provisions posted** to meet risks detected in the due diligence (assets write downs, restructuring costs, real estate transactions, etc) ✓
- **adequate guarantees and waivers for possible risks of a legal, tax, accounting and labour law nature also in relation to past management of Target Bridge Institutions** ✓

Main indicators in 2020

	2020 Forecast	
	UBI 2019/2020 Business Plan	**Combined entity (UBI + Target Bridge Institutions)**
CET 1 Fully loaded	12.8%	13.5%
Net result	0.9 billion/€	1.2 billion/€*
ROTE	10.6%	12.7%
Cost/Income	~52%	~52%
Loan loss rate	~50 bps	54 bps
Bad loans coverage *(excluding write-offs)*	46.3%	47.5%

* Includes expected Target Bridge Institutions results + DTAs + badwill reversal

Annexes

Target Bridge Institutions: main balance sheet items as at 30 Sep 2016

Figures in euro million	Target Bridge Institutions aggregate
Net loans to customers	**15,501**
Amounts due to customers	14,588
Debt securities issued + financial liabilities measured at fair value	3,955
Total direct funding from customers	**18,543**
assets under management	3,913
assets under custody	3,530
Total indirect funding	**7,443**
Financial assets (net of BancAssurance Popolari Spa)	2,192
BancAssurance Popolari Spa financial assets	1,686
Loans and advances to banks	975
Interbank funding	318
Total assets	**23,309**
Equity (excluding profit/loss for the period)	**1,618**
Profit (loss) for the period	**(201)**

Target Bridge Institutions: asset quality focus

In million €

LOANS AS AT 30/09/2016	Gross loans	Net loans	Coverage
Performing	**12,428**	**12,325**	**0.83%**
Past Due	270	204	24.19%
Unlikely-to-pay	3,098	2,209	28.70%
Bad loans	2,414*	763	68.40%
Total non-performing	**5,782**	**3,176**	**45.07%**
Total	**18,210**	**15,501**	**14.88%**

** Gross Bad loans:*

- *include 1.8 billion of Bad Loans still to be transferred to the Bad Bank REV S.p.A*
- *do not include amounts which will be reclassified to bad loans in 4Q2016*
- *do not include 0.7 billion which will be transferred from UTP before closing of the transaction*
- *still include 1.7 billion to be sold before the closing of the transaction*