BINDING OFFER APPROVED FOR THE PURCHASE 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 (the "Target Bridge Institutions")

THE OFFER ADDRESSED TO THE NATIONAL RESOLUTION FUND ("the Offer) THAT OWNS THE TARGET BRIDGE INSTITUTIONS, WILL BE VALID TILL THE 18 JANUARY 2017 INCLUDED

THE OFFER ENVISAGES THE DISPOSAL WITHOUT RECOURSE OF APPROXIMATELY €2.2 BILLION OF GROSS NON-PERFORMING LOANS BY THE TARGET INSTITUTIONS (APPROX. €1.7 BILLION OF GROSS BAD LOANS[1] AND €0.5 BILLION OF GROSS UNLIKELY-TO-PAY LOANS) TO BE COMPLETED BEFORE THE CLOSING FOR THE TRANSACTION

THE 3 TARGET BRIDGE INSTITUTIONS MUST PRESENT THE FOLLOWING RELEVANT PARAMETERS ON AN AGGREGATE BASIS (WITH A TOLERANCE THRESHOLD OF 5%)

- net equity book value on the reference date of at least €1,010 million, that factors in the following:
  - a coverage ratio of at least 28.28% for gross unlikely-to-pay loans and 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 ("Consorzio Palazzo della Fonte" and "Fondo Conero"), quantified at a maximum of €100 million, subject to potential reassessment;
  - additional provisions for risks and impairment of components of the Target Bridge Institutions' assets, quantified at €100 million.
- RWAs (Pillar 1) not greater than €10.6 billion;
- an average weighted Liquidity Coverage Ratio greater than 100%;
- an average weighted CET1 ratio not lower than 9.1%.

Abiding to the Offer, moreover, it is envisaged that the Seller makes a commitment to recapitalise the Target Bridge Institutions for an amount estimated at €450 million prior to the Closing date.

PRICE: €1

[1] Of which approx. 0.7 billion Euro are being transferred to bad loans from other deteriorated loans

THE TRANSACTION FOR UBI BANCA

- **Share capital increase**

In order to maintain the fully loaded CET1 ratio of the Combined Entity at a level greater than 11% immediately from 2017, consistent with the current level, the transaction involves an increase in the share capital by up to a maximum of €400 million designed to meet the temporary requirement resulting because the "badwill" (defined by convention as the difference between the price of one euro and the positive equity, calculated at fair value[2]) is not fully eligible.

Following the progressive release of the badwill through profit and loss, the expected profitability of the Target Bridge Institutions, the use of tax assets and the expected roll-out of internal models, from 2019 the fully loaded CET1 ratio will be greater than the targets set in the UBI Business Plan, standing 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.

The capital increase will be effected by way of a pre-emptive issue of equity to existing shareholders. Credit Suisse and Morgan Stanley will act as Joint Global Coordinators and Joint Bookrunners (the "Joint Global Coordinators") in the context of the capital increase. The Joint Global Coordinators have entered into a pre-underwriting agreement with UBI Banca pursuant to which they have undertaken, on terms and condition in line with market practice for similar transaction, to enter into an underwriting agreement for the subscription of any newly issued shares that remain unsubscribed at the end of the auction period of the offering, for a maximum amount equal to the capital increase amount.

- **Sound business, operating and financial rationale**

1) an increase in 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), corresponding to a market share higher by 20% compared to the current one, also consolidating the Group's market coverage in geographical areas in which it is not present or is only partially present (as at 30 September 2016, approximately 900,000 customers, €14.2 billion of gross loans (net of the disposal of non performing loans before the closing date), €18.5 billion of direct funding, €7.5 billion of indirect funding);

2) as a consequence of the expected reduction in loan losses, of operating cost synergies and of lower funding costs, a contribution of over €100 million in terms of ordinary net profit is estimated in the financial year 2020 by the Target Bridge Institutions, with an expected positive impact on the Group's ordinary profitability and a **return of 25%** on the maximum amount of €400 million for UBI Banca's share capital increase.

3) further benefits resulting from:

[2] On the basis of preliminary analysis effected in the due diligence, the so-called "badwill", defined according to convention as the difference between the price of €1 and the positive equity, measured at fair value, on the basis of the purchase price allocation process, would be partly allocated to the assets and liabilities acquired (identified and measured at fair value) and partly recognised as a positive component of the income statement and as a positive item of regulatory capital. As an indication, on the basis of those preliminary analysis, an amount estimated preliminarily in a range of between 40% and 60% of "badwill" will be allocated to the fair value of the assets and liabilities acquired.
Following the initial process of the purchase price allocation, the fair value allocated to assets and liabilities will be progressively recognised through profit and loss with a positive impact on the basis of a release plan that is consistent with an estimate of the maturity of the items to which it relates (i.e. "badwill reversal").

- UBI Banca's eligibility to use the deferred tax assets (over €600 million of DTAs) on the prior year tax losses of the Target Bridge Institutions: on this matter, a recent tax ruling confirmed that UBI is allowed to use such deferred tax assets;

A profit-sharing mechanism has been agreed in relation to that use which involves payment to the Seller of total amount equal to 10% up to €600 million and to 80% for the part above that amount. The profit sharing only becomes payable when UBI Banca achieves the actual cumulative financial benefit. The relative amount will be deposited in an escrow account and will be paid to the Seller following satisfaction of any indemnity obligations;

- badwill reversal[3]

- the roll-out of advanced models on the Target Bridge Institutions perimeter;

4) as a result of the transaction, the ROTE of the Combined Entity (UBI Banca + Target Bridge Institutions) is estimated to rise, in 2020, from 10.6% to over 12.5%.

- **low risks**

- the Target Bridge Institutions have been 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.

Furthermore, as part of the Transaction:

- there will be a precise verification that the Relevant Parameters mentioned above are satisfied, in the absence of which UBI shall have the right to withdraw from the purchase agreement according to the provisions of the Offer;
- the disposal without recourse of approximately €2.2 billion of gross non-performing loans is envisaged before the Closing, which will more than halve the level of the Target Bridge Institutions' non-performing loans. Coverage of the remaining unlikely-to-pay loans will be at least 28.28%, and that of bad loans at least 60%;
- further provisions have been posted to meet risks detected;
- specific obligations have been set to discipline terms and modalities for the transfer of risks and benefits connected to loans pertaining to the REV perimeter and to actual or potential litigation relating to those loans;
- adequate guarantees and waivers have been granted, also by drawing, amongst other things, on the escrow account mentioned above, for possible risks of a legal, tax, accounting and labour law nature, ecc..

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CONFERENCE CALL: a conference call is scheduled for 3 p.m. CET, Thursday 12th January 2017, to present the Offer and the Transaction. The Call will be held by Victor Massiah, CEO of UBI Banca. The details to access the call are reported at the foot of this press release.

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[3] Please see note 2

Milan, 12th January 2017 – on the basis of a proposal made by the Management Board, UBI Banca's Supervisory Board resolved to make a binding Offer (the "Offer") to the National Resolution Fund (the "Seller") to purchase 100% of the share capital of Nuova Banca delle Marche S.p.A., Nuova Banca dell'Etruria e del Lazio S.p.A. and Nuova Cassa di Risparmio di Chieti S.p.A., inclusive of the relative subsidiaries, (hereinafter the **"Target Bridge Institutions"**), under the terms and conditions given below (taken as a whole the **"Transaction"**).

The Offer will be valid till the 18th of January 2017 included and, if accepted by the "Seller", the Transaction is expected to be completed indicatively within the first semester of 2017 (the **"Closing"**) once the conditions precedent for the Transaction are satisfied.

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THE MAIN TERMS AND CONDITIONS OF THE TRANSACTION ACCORDING TO THE OFFER

1. The perimeter of the Transaction

The Offer regards the purchase by UBI Banca of 100% of the share capital of the Target Bridge Institutions, subject to the prior disposal without recourse, to be completed <u>before</u> the Closing date of the Transaction, of approximately €2.2 billion of gross non-performing loans (€1.7 billion of gross bad loans[4] and €0.5 billion of gross unlikely-to-pay loans).

2. Price and conditions for the Transaction

The purchase price for the entire share capital of the Target Bridge Institutions is set in the Offer at €1. The Transaction is subject to the essential condition that, on an aggregate basis, the Target Bridge Institutions report the following Relevant Parameters approved by the respective Boards of Directors:

- net equity book value on the reference date of at least €1,010 million, that factors in the following:
    - a coverage ratio of at least 28.28% for gross unlikely-to-pay loans and 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 ("Consorzio Palazzo della Fonte" and "Fondo Conero"), quantified at a maximum of €100 million, subject to potential reassessment;
    - additional provisions for risks and impairment of components of the Target Bridge Institutions' assets, quantified at €100 million, following due diligence results.
- RWAs (Pillar 1) not greater than €10.6 billion;
- an average weighted Liquidity Coverage Ratio greater than 100%;
- an average weighted CET1 ratio not lower than 9.1%.

The Offer, moreover, provides for <u>the Seller to make a commitment to recapitalise the Target Bridge Institutions prior to the Closing date, estimated at €450 million.</u>

[4] Of which approx. 0.7 billion Euro are being transferred to bad loans from other deteriorated loans

3. Verification of the Relevant Parameters and the Expected Provisions

Verification of compliance with the Relevant Parameters, inclusive of the provisions mentioned above, must be completed by the parties to the contract before the Closing date and on the basis of the consolidated financial position of the Target Bridge Institutions as at the Reference Date, it being agreed that:

(i) where the consolidated financial position of the Target Bridge Institutions shows net equity **greater** than that envisaged for the Relevant Parameters, and provided that a minimum CET1 ratio of 9.1% is maintained, a sum corresponding to that excess will be deposited by UBI Banca on the Closing date in an escrow account, in favour of the Seller, but also in its own interest, to guarantee the contractual indemnity commitments of the Seller;

(ii) where, on the other hand, the consolidated financial position of the Target Bridge Institutions shows a **negative** difference even for only one of the Relevant Parameters, not compensated by the Seller:

- in the event of a negative difference that is greater than 5% with respect to the thresholds identified above, UBI Banca will have the right at its sole discretion to withdraw from the contract to purchase the Target Bridge Institutions, with no rights or claims held by either of the parties with respect to the other;
- should the CET1 ratio be less than 8.5%, if an agreement is not reached the within ten business days between the parties concerning the possible adoption of appropriate compensatory measures, UBI Banca and the Seller will automatically be released from the obligation to proceed to the Closing.

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THE VALUE OF THE TRANSACTION FOR UBI BANCA

The completion of the Transaction, following the acceptation of the Offer, offers the Target Bridge Institutions the guarantee of ongoing operations as part of a solid and complementary Group and represents for UBI Banca a significant business, financial and operating rationale – with risk items minimised under the contracts – designed to further improve profitability and capital ratios with respect to those published in the 19/20 Business Plan.

a) The UBI share capital increase

In order to maintain the **fully loaded CET1 ratio of the Combined Entity (UBI Banca + Target Bridge Institutions)** at a level **greater than 11%** immediately from 2017, consistent with the present level, the Transaction involves an increase in the share capital by up to a maximum of €400 million designed to satisfy the temporary requirement resulting because the "badwill"[5] is not fully eligible for recognition through the income statement at the time of the Transaction.

Following the progressive release of the badwill through profit and loss, the expected profitability of the Target Bridge Institutions, the use of tax assets and the expected roll-out of internal models, from 2019 the fully loaded CET1 ratio will be greater than the targets set in the UBI Business Plan, standing at 13.5% in 2020 compared with a target of

[5] Please see note 2.

12.8%. That level implies a generation of CET1 capital that is greater than the share capital increase.

The capital increase will be effected by way of a pre-emptive issue of equity to existing shareholders. Credit Suisse e Morgan Stanley will act as Joint Global Coordinators and Joint Bookrunners (the “Joint Global Coordinators”) in the context of the capital increase. The Joint Global Coordinators have entered into a pre-underwriting agreement with UBI Banca pursuant to which they have undertaken, on terms and condition in line with market practice for similar transaction, to enter into an underwriting agreement for the subscription of any newly issued shares that remain unsubscribed at the end of the auction period of the offering, for a maximum amount equal to the capital increase amount.

b) The rationale for the Transaction

The perimeter of the Transaction comprises the following (figures as at 30th September 2016):

930,623 customers

547 branches

5,010 employees

~€14.2 billion of gross loans to customers (after the disposal of bad loans and unlikely-to-pay loans)[6], of which €1.8 billion non-performing loans (primarily unlikely-to-pay loans)

~€18.5 billion of direct funding (of which €14.5 billion of customer deposits)

~€7.5 billion of indirect funding

The UBI Group estimates that it will achieve the following goals through the Transaction to purchase the Target Bridge Institutions:

1. increase its overall market share (both in terms of lending to businesses and households – net of bad loans – and in terms of direct funding) by over 1%, also consolidating the Group’s market coverage in geographical areas in which it is not present or is only partially present;
2. generate a positive impact on the Group’s ordinary profitability, with an estimated contribution to profits by the Target Bridge Institutions perimeter in the financial year 2020 of over €100 million in terms of ordinary net profit, through a significant contribution by synergies with the Group, implying a **return of 25%** on the maximum amount of €400 million for the increase in UBI Banca’s share capital increase.

   That estimated result is mainly attributable to the following:

   - expected lower losses on loans, as a result of the substantial reduction in the non-performing loans (indicatively –75% compared with the aggregate for the Target Bridge Institutions in 2015) of the Target Bridge Institutions and an improvement in their quality (primarily unlikely-to-pay loans);
   - the creation of substantial economies of scale, with an estimated reduction in operating costs on the Target Bridge Institution perimeter of 30% in 2020 compared with 2015, the result of the following:

[6] The figure does not include €1.8 billion of bad loans which will be transferred to REV

- rationalisation of the workforce, to be agreed with trade union organisations. The relevant cost is included, among other, in the above mentioned provision of €130 million for restructuring costs. Integration with the UBI Group is expected to generate further rationalisations;
- rationalisation of branches mainly in areas of partial overlap;
- integration of the Target Bridge Institutions onto the UBI Banca IT system with completion of migrations expected within one year also thanks to the putting forward of all the remaining migrations planned as part of the UBI Banca Single Bank Project to the end of February;
- renegotiation of existing contracts with suppliers;
- reduction of corporate governance costs;

- reduction in direct funding costs, as a result of inclusion into the UBI Group and of the liquidity position of the Target Bridge Institutions (over €18 billion of direct funding against approximately €13 billion of estimated net loans, with a loan to direct funding ratio of approximately 70%).

3. Finally,

- greater expected ordinary profitability, thanks to expected synergies;
- positive transfers to the income statement resulting from releases on maturity of items recognised at fair value at the time of acquisition ("badwill reversal"[7]).
- UBI Banca's ability to use the deferred tax assets (DTAs) on prior year tax losses of the Target Bridge Institutions. In this respect, we inform that UBI Banca submitted a private letter application to the tax authorities for tax clearance concerning the possibility of carrying forward prior year tax losses incurred by the Target Bridge Institutions in the context of a possible merger of these institutions into UBI Banca. The reply received from the tax authorities was positive;

  A profit-sharing mechanism has been agreed in relation to that use which involves payment to the Seller of a total amount equal to 10% up to €600 million and to 80% for the part above that amount. The profit sharing only becomes payable when UBI Banca achieves the actual cumulative financial benefit. The relative amount will be deposited in an escrow account and will be paid to the Seller following satisfaction of any indemnity obligations;
- the roll-out of advanced models on the Target Bridge Institution perimeter.

all lead to a pro forma estimate of the expected fully loaded CET1 ratio for the Group of 13.5% compared with 12.8% under the 19/20 Business Plan presented in June 2016.

c) Low risks, limited contractually

- the Target Bridge Institutions have been 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.

Furthermore, as part of the Transaction:

- there will be a precise verification that the Relevant Parameters mentioned above are satisfied, in the absence of which UBI shall have the right to withdraw from the purchase agreement according to the provisions of the Offer;

[7] See note 2

- the disposal without recourse of approximately €2.2 billion of gross non-performing loans is envisaged before the Closing, which will more than halve the level of the Target Bridge Institutions' non-performing loans. Coverage of the remaining unlikely-to-pay loans will be at least 28.28%, and that of bad loans at least 60%;
- further provisions have been posted to meet risks detected;
- specific obligations have been set to discipline terms and modalities for the transfer of risks and benefits connected to loans pertaining to the REV perimeter and to actual or potential litigation relating to those loans;
- adequate guarantees and waivers have been granted, also by drawing, amongst other things, on the escrow account mentioned above, for possible risks of a legal, tax, accounting and labour law nature, ecc..

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THE CONDITIONS PRECEDENT FOR THE CLOSING OF THE TRANSACTION

According to the Offer, the obligation of the parties to arrive at the Closing of the Transaction will be subject to the occurrence of determined events.

More specifically, in addition to the usual conditions precedent for similar transactions (ECB, Anti-trust and European Commission authorisations), certain specific conditions precedent have been set which include:

(i) implementation and completion of the recapitalisation of the Target Bridge Institutions by the Seller for an estimated amount of €450 million;

(ii) completion of the disposal of the non-performing loans not included in the perimeter of the transaction (a total of approximately €2.2 billion gross as stated above);

(iii) approval by the shareholders' meeting of the increase in the share capital of UBI Banca for a maximum of €400 million.

In the definition of the legal terms of the Transaction, UBI Banca was supported by Pedersoli Studio Legale.

Credit Suisse and Morgan Stanley are acting as financial advisors to UBI Banca to provide a fairness opinion in connection with the acquisition of the Target Bridge Institutions.

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The Offer and the Transactions will be presented to the market in a conference call by the Chief Executive Officer of the UBI Banca Group, *Dott.* Victor Massiah, at 3 p.m. CET on Thursday 12th January 2017 and it can be attended by dialling the following numbers:

Italy: 02 8020911

UK: +44 1212818004

USA: +1 718 7058796

Digital playback until 16/1/2017: +39 0272495, +44 1212818005, +1 718 7058797

Playback code number: 702#

ATTACHMENT

Aggregated figures for the Target Bridge Institutions as at and for the period ended 30th September 2016

Aggregated figures for the Target Bridge Institutions as at 30th September 2016 were as follows:

Balance sheet

millions of euro	30/09/2016 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
Loss for the period	(201)

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[1]	2,414	763	68.40%
Total non-performing	5,782	3,176	45.07%
Total	18,210	15,501	14.88%

1. This figure is inclusive of the loan exposures classified as bad loans as at 30th September 2015 which will be transferred to the Bad Bank REV S.p.A. in the next few months. These positions, with a gross value of approximately €1.8 billion and a net value of approximately €0.5 billion, are therefore still recognised within the balance sheet items as at 30th September 2016.

Income statement

(millions of euro) BANK OF ITALY PRESENTATION	Final figures 9M 2016 Aggregate
Net interest income	165.6
Net fee and commission income	135.7
Other income	20.3
of which AFS disposals	*22.9*
of which dividends	*5.5*
of which other	*(8.1)*
Net insurance income	6.8
Gross income	**328.4**
Net impairment losses/reversals	(145.7)
Net financial and insurance income	**182.7**
Administrative expenses	**(427.2)**
staff costs	(239.3)
other administrative expenses	(187.9)
Impairment losses/reversals on property, plant and equipment and intangible assets	(15.9)
Net provisions for risks and charges	2.3
Other operating costs/income	57.4
Operating costs	**(383.4)**
Other components of income	0.2
Restructuring costs	0.0
Pretax loss	**(200.5)**
Taxes on income for the period	(0.3)
Net loss	**(200.8)**

For further information please contact:
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