This is a courtesy translation from Italian to English of the Report titled "*Relazione ex art. 2343-ter, lettera b) del codice civile con riferimento a massime n. 1.144.285.146 azioni ordinarie di Unione di Banche Italiane S.p.A. oggetto di possibile conferimento in natura nell'ambito dell'Offerta Pubblica di Scambio volontaria totalitaria promossa da Intesa Sanpaolo S.p.A. in data 17 febbraio 2020, ai sensi e per gli effetti degli artt. 102 e 106, comma 4, del D.Lgs 24 febbraio 1998 n. 58 come successivamente modificato*" dated March 13th, 2020.
PwC does not assume or accept any responsibility for the correctness of the translation of the Report. The Italian text will prevail in case of any divergence with the English translation, or omissions in the same.

Milan, March 13th, 2020

Intesa Sanpaolo S.p.A.

Piazza San Carlo 156

10121 Torino

**Report according to article no. 2343-ter, letter b) of the Italian Civil Code with reference to maximum no. 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A. to be contributed in kind in the context of the Voluntary Public Exchange Offer launched by Intesa Sanpaolo S.p.A. on February 17th, 2020, pursuant and for the purposes of articles 102 and 106, paragraph 4, of Legislative Decree no. 58 dated February 24th, 1998, as subsequently amended**

Intesa Sanpaolo S.p.A. has engaged PricewaterhouseCoopers Advisory S.p.A. Deals Financial Services division ("PwC" or "PwC Deals") to issue a report according to article no. 2343-ter, letter b) of the Italian Civil Code with reference to the fair value of maximum no. 1,144,285,146 ordinary shares of Unione di Banche Italiane S.p.A. to be contributed in kind in the context of the preemptive Voluntary Public Exchange Offer, pursuant and for the purposes of articles 102 and 106, paragraph 4, of Legislative Decree no. 58 dated February 24th, 1998, as subsequently amended ("Testo Unico della Finanza" or "TUF") on all of the ordinary shares of Unione di Banche Italiane S.p.A, announced by Intesa Sanpaolo S.p.A. on February 17th, 2020 through a press release pursuant to article 102, paragraph 1 of the TUF, as well as to article 37 of the Regulation implementing the TUF, adopted by Consob with resolution no. 11971 of May 14th, 1999, as subsequently amended (the "Issuers' Regulation"), and promoted by filing the offer document with Consob on March 6th, 2020, as released on the same date pursuant to article 37-ter of the Issuers' Regulation (the "Engagement").

The structure of the report (the "Report") is as per overleaf.

This is a courtesy translation from Italian to English of the Report titled "*Relazione ex art. 2343-ter, lettera b) del codice civile con riferimento a massime n. 1.144.285.146 azioni ordinarie di Unione di Banche Italiane S.p.A. oggetto di possibile conferimento in natura nell'ambito dell'Offerta Pubblica di Scambio volontaria totalitaria promossa da Intesa Sanpaolo S.p.A. in data 17 febbraio 2020, ai sensi e per gli effetti degli artt. 102 e 106, comma 4, del D.Lgs 24 febbraio 1998 n. 58 come successivamente modificato*" dated March 13th, 2020.
PwC does not assume or accept any responsibility for the correctness of the translation of the Report. The Italian text will prevail in case of any divergence with the English translation, or omissions in the same.

**CONTENTS**

This is a courtesy translation from Italian to English of the Report titled "*Relazione ex art. 2343-ter, lettera b) del codice civile con riferimento a massime n. 1.144.285.146 azioni ordinarie di Unione di Banche Italiane S.p.A. oggetto di possibile conferimento in natura nell'ambito dell'Offerta Pubblica di Scambio volontaria totalitaria promossa da Intesa Sanpaolo S.p.A. in data 17 febbraio 2020, ai sensi e per gli effetti degli artt. 102 e 106, comma 4, del D.Lgs 24 febbraio 1998 n. 58 come successivamente modificato*" dated March 13th, 2020.
PwC does not assume or accept any responsibility for the correctness of the translation of the Report. The Italian text will prevail in case of any divergence with the English translation, or omissions in the same.

# 1. INTRODUCTION

## 1.1. Scope of the Report and terms of our Engagement

On February 17th, 2020, Intesa Sanpaolo S.p.A. ("ISP" or the "Offeror") announced that, pursuant to and for the purposes of article 102, paragraph 1, of the TUF as well as article 37 of the Issuers' Regulation, has adopted the decision to launch a preemptive Voluntary Public Exchange Offer pursuant to and for the purposes of articles 102 and 106, paragraph 4, of the TUF (the "Offer"), on all of the ordinary shares of Unione di Banche Italiane S.p.A. (the "Issuer" or "UBI Banca") – listed on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A. (the "Notice").

In particular, as subsequently announced by ISP on March 6th, 2020, the Offer was launched on maximum no. 1,144,285,146 ordinary shares, i.e. all the shares issued by UBI Banca, including the treasury shares held by UBI Banca (the "Issuer's Shares").

For each Issuer's share tendered to the Offer, ISP will offer a consideration, not subject to any adjustment, equal to no. 1.700 newly issued ordinary shares of the Offeror (the "Consideration"). Therefore, for each no. 10 (ten) Issuer's Shares tendered to the Offer, no. 17 (seventeen) newly issued ordinary shares of the Offeror will be paid.

In case of full acceptance of the Offer, the shareholders of the Issuer that accepted the Offer will receive a maximum no. 1,945,284,755 of newly issued ordinary shares issued by the Offeror as a result of a share capital increase reserved to the Offer (the "Share Capital Increase"). On February 17th, 2020, the Board of Directors of ISP resolved to submit at the extraordinary shareholders meeting of the Offeror – whose call is scheduled for April 27th, 2020 – the proposal to grant the Board of Directors of ISP with the power, pursuant to article no. 2443 of the Italian Civil Code (the "Delegated Powers"), to resolve upon and carry out the Share Capital Increase reserved to the Offer, which can be carried out on one or more occasions and also in one or more tranches, to be executed through (and in compensation of) the contribution in kind of the Issuer's Shares delivered in acceptance of the Offer (the "Contribution in kind"), without pre-emption rights pursuant to article 2441, paragraph 4 of the Italian Civil Code, by issuing maximum no. 1,945,284,755, as communicated on March 6th, 2020, ordinary shares of the Offeror, with ordinary rights and the same characteristics as the ordinary shares already outstanding at the date of the issuance.

The Offeror's Board of Directors also resolved, pursuant to article 2440, paragraph 2, of the Italian Civil Code, to avail itself of the provisions of articles 2343-ter and 2343-quater of the Italian Civil Code for the evaluation of the Issuer's Shares to be contributed.

In this context, the scope of our Engagement is to issue a report according to article 2343-ter, letter b) of the Italian Civil Code with reference to the fair value of an equity stake consisting of the Issuer's Shares to be contributed in kind within the Offer, pursuant to the article 2343-ter, paragraph 2, letter b) of the Italian Civil Code (the "Services").

The scope of this Report covers no. 1,144,285,146 ordinary shares of UBI Banca (including treasury shares), on which the Offer was launched and which constitutes, at the present date, the entire share capital of UBI Banca. This means that the valuation focus is represented by the total number of shares and not by a single share.

In the context of our Engagement, we will refer to the relevant valuation practice and applicable Italian valuation principles (PIV).

Our Engagement has been performed on the basis of (i) the last financial statements of the Issuer, prepared by- UBI Banca Management, approved by the Board of Directors on February 10th, 2020 and subsequently confirmed on February 28th, 2020, and (ii) additional UBI Banca public information.

The Issuer's Shares to be contributed were analyzed without taking into account any future extraordinary and not reasonably foreseeable events and on a going concern basis.

The Issuer's Shares were examined on a stand-alone basis, without taking into account any possible synergies and/or diseconomies coming from the acquisition and reflecting only the average premium paid in similar public tender offers.

The performance of the Services may not be considered as an involvement of PwC in the management and activities of ISP nor in the decision making in relation to the convenience and feasibility of the Offer.

We obtained written confirmation that, according to the management of ISP (the "Management"), no significant information essential to our work has been withheld.

### 1.2. Legal conditions and reasons for the Offer

As previously described, the Offer was launched on maximum no. 1,144,285,146 ordinary shares of UBI Banca, listed on the Mercato Telematico Azionario organized and managed by Borsa Italiana S.p.A., representing the total share capital of UBI Banca, including the treasury shares held by UBI Banca. The Offeror will pay to the shareholders of UBI Banca who will tender to the Offer the Consideration (equal to 1.700 newly issued ordinary shares of the Offeror in execution of the Share Capital Increase reserved to the Offer). On the basis of the official price of the Offeror's shares recorded at the market close on February 14th, 2020 (equal to Euro 2.502 *cum dividend*), the Consideration corresponds to a value equal to Euro 4.254 (rounded to the third decimal place) for each Issuer's share and, therefore, incorporates a premium of 27.6% with respect to the official price of the Issuer's Shares recorded at the market close on February 14th, 2020 (equal to Euro 3.333), or a premium of 38.6% with respect to the official weighted average price of the Issuer's Shares recorded 6 months prior to February 14th, 2020. Considering the distribution of dividends for the 2019 financial year (Euro 0.192 per share), the official price of the Offeror's shares recorded at the market close on February 14th, 2020, ex dividends (i.e. adjusted for in order to take into account the payment of the aforesaid dividends), would be equal to Euro 2.310. Therefore, in such case, the Consideration would correspond to a value equal to Euro 3.928 (rounded to the third decimal place) for each Issuer's share and, therefore, would include a premium of 22.6% compared to the official ex dividend price of the Issuer's Shares at the market close on February 14th, 2020 (equal to Euro 3.203, considering a dividend per share equal to Euro 0.130).

In case the Offer is entirely accepted, the Issuer shareholders will receive a maximum no. 1,945,284,755 of newly issued ordinary shares issued by the Offeror as a result of the Share Capital Increase.

Based on the official price of the Offeror ordinary shares recorded on February 14th, 2020 (equal to

Euro 2.502 *cum dividend*), the maximum aggregate amount of the Offer, in case of a full acceptance, will be equal to Euro 4,867,789,011.08, such amount being equal to the evaluation "in cash" of the Consideration (i.e. Euro 4.254 per share, as previously described).

The Offer is subject to the necessary authorizations from the competent authorities as illustrated in paragraph 1.4 of the Notice.

On March 6th, 2020, ISP announced to the market that it has filed with CONSOB - pursuant to and for the purposes of article 102, paragraph 3, of the TUF, as well as article 37-ter of the Issuers' Regulation - the offer document, intended for publication (the "Offer Document").

Regarding the terms of the Offer, its effectiveness is subordinated to the purchase of a stake at least equal to 66.67% of the Issuer share capital, as result of the Offer itself; such condition is partially waivable, provided that the equity stake the Offeror holds as a result of the Offer is, in any case, at least equal to the 50% plus 1 (one) ordinary share of the Issuer share capital, the latter represents a minimum threshold that cannot be waived.

### 1.3. Reference date

The valuation reference date is February 17th, 2020, which is the day in which the Notice was issued, coinciding also with the day on which UBI Banca released its 2022 Business Plan.

Financial and market parameters used in the context of the valuation analyses have been updated close to the issue of this Report.

The Report can be used for the purposes of article 2343-ter, paragraph 2, letter b) of the Italian Civil Code provided that the aforesaid reference date does not precede by more than 6 months the Contribution in kind of Issuer's Shares in the Offeror, in execution of the Share Capital Increase, without prejudice of any subsequent updates required by the Offeror's Board of Directors in exercising the Delegated Powers.

### 1.4. Sources of information

In drafting the Offer, the Offeror relied exclusively on information and data publicly disclosed by the Issuer. For the purposes of our Engagement, also PwC did not have access to privileged information and, therefore, analyses have been exclusively based on information and data publicly disclosed by the Issuer.

This aspect characterizes both contents and results of this Report, with regards to the methodological choices made, our findings and results.

For the purposes of the Report, the main sources of information used in our analysis are listed below:

- Press Release pursuant to article 102, paragraph 1, of the TUF, as well as article 37 of the Issuer's Regulation issued by ISP on February 17th, 2020;
- Press Release pursuant to article 37-ter, paragraph 3, of the Issuer's Regulation issued by ISP on March 6th, 2020;

- Document entitled "*Voluntary Public Exchange Offer for all UBI Banca Ordinary Shares – A European Leader to Enhance Value Creation through a Stronger Italian Footprint*" issued by ISP on February 18th, 2020;
- Document entitled "*Business Plan 2022*" issued by UBI Banca on February 17th, 2020;
- Consolidated and separate financial statements of UBI Banca as at December 31st, 2018 audited by Deloitte & Touche S.p.A. which issued the independent auditors' report on March 5th, 2019;
- Interim financial statements of UBI Banca as at June 30th, 2019 audited by Deloitte & Touche S.p.A. which issued the independent auditors' report on August 8th, 2019;
- Interim financial report of UBI Banca as at September 30th, 2019;
- Press Release on consolidated results as at December 31st, 2019 and presentation on consolidated results as at December 31st, 2019 of UBI Banca;
- Consensus of analysts' researches on UBI Banca shares, issued after the presentation of the consolidated results as at December 31st, 2019 and prior to the launch of the Offer.

For the purposes of our analysis, we used additional publicly available information sources to gather further information.

### 1.5. Assumptions and limitations

Our analyses were developed based on the assumptions and limitations set out below:

- By nature, valuation work is not the result of application of methods and formulas but rather the result of a complex process of analysis and estimation that in many cases is subjective;
- The analyses were based on information and documents publicly available related to UBI Banca. Management of the Issuer is responsible for the quality and correctness of data and information. We have only reviewed this documentation to check that it is reasonable;
- The valuation analyses were based on the last consolidated balance sheet of the Issuer as at December 31st, 2019, issued by UBI Banca on February 10th, 2020. In the context of our Engagement, we did not have access to the Management of UBI Banca nor to the independent audit company. The analyses assume that the independent auditors' report will express a positive opinion without exceptions and observations that could affect the amount of net assets of UBI Banca and its economic prospects. Our work did not include an audit conducted in accordance with generally accepted auditing standards on financial statements of UBI Banca nor any form of assurance on potential liabilities (tax, contractual or social security liabilities) not included in in the financial statements of the Issuer;
- The analysis of the Issuer's Shares has been developed on a going concern basis;
- UBI Banca has been analyzed without taking into account any future extraordinary and not reasonably foreseeable events, with reference to the current situation and to the expected development known at the date of this Report. In relation to forecasted financial and economic data of UBI Banca that were disclosed to the market on February 17th, 2020 ("Projections" or

"Prospective Information"), PwC did not perform any audit conducted in accordance with generally accepted auditing standards nor any due diligence activities. The Prospective Information is based on assumptions of future events and UBI Banca's actions, and is characterized by subjectivity and uncertainty and, in particular, by the risk that predicted events and actions by which they are originated may not occur or occur in different measure and timing from those predicted. Therefore, the differences between predicted and actual results may be material; it should be noticed that Prospective Information were published on February 17th, 2020, prior to the escalation of COVID-19 emergency. At this stage, it is not possible to assess with any certainty the implications of COVID-19 on UBI Banca, either in terms of how long the current crisis may continue or in terms of its impact, potential or actual, on UBI Banca's business. UBI Banca has not modified its Prospective Information to try and show a possible outcome. It also has not considered the potential impact on balance sheet items (such as impairment on tangible/intangible assets, investments, inventory, receivables), or liabilities and provisions (including potential claims). We note that the potential variation between projected and actual results is likely to be materially greater than it might otherwise have been. In the context of our analysis on Prospective Information, we take no responsibility for the achievement of projected or predicted results or balances;

- The performance of the Services may not be considered as an involvement of PwC in the management and activities of ISP nor in the decision making in relation to the convenience and feasibility of the Offer;
- The valuation methods used in our analyses required the application of a complex evaluation process, which involved, in particular, the choice of a plurality of financial market parameters, as for example: interest rates, volatility indexes, market multiples, transactions multiples and other data related to a financial market that is characterized by significant fluctuations. The last update of valuation and market parameters has been performed close to the issue of the Report. It cannot be excluded that the persistence of the emergency related to COVID-19 and its unforeseeable evolution, will affect the domestic and international macroeconomic outlook and, consequently, the fair value of UBI Banca;
- Given the scope of our Engagement, which exclusively coincides with the purpose of article 2343-ter, paragraph 2, letter b) of the Italian Civil Code, our Report does not intend to replace the independent judgement of UBI Banca shareholders regarding the conditions of the Offer launched by ISP, nor could in any way become a recommendation to accept the Offer itself;
- In the context of our work, we do not express our valuation opinions on the fair value of ISP shares, on the fairness from a financial point of view of the Consideration offered and on the issue price of the Offeror's new shares;
- The Services do not include an audit conducted in accordance with generally accepted auditing standards, nor an examination of internal controls nor other review. Therefore, PwC does not express any opinion or any other form of assurance on the financial statements of the Issuer or on any other financial information;
- The Services did not include the provision of legal and tax advices and therefore PwC does not assume any liability concerning legal and tax issues or contractual interpretation.

We obtained written confirmation that, according to the Management, no significant information essential to our work has been withheld.

### 1.6. Performed work

For the purposes of our Engagement we have performed the following activities:

- Analysis of gathered information and data;
- Analysis of the balance sheet of UBI Banca as at December 31st, 2019 and of the Prospective Information published on February 17th, 2020;
- Analysis of the reference market;
- Selection of the best valuation methodologies deemed applicable and able to capture the key value drivers of UBI Banca, considering also the doctrine and best valuation practice in the reference sector;
- Selection of the market and valuation parameters relevant to our valuation exercise;
- Building of valuation' models and sensitivity analysis with reference to valuation exercises, in order to verify potential impacts regarding some valuation parameters;
- Analyses of valuation results.

In order to fully understand the transaction, we discussed with the advisor of ISP, Mediobanca Banca di Credito Finanziario S.p.A., about the analyses performed in order to support the Board of Directors of ISP.

### 1.7. Restriction to the use of the Report

The Report cannot be used for purposes other than those stated in paragraph 1.1 "Scope of the Report and Terms of our Engagement" and in article 2343-ter of the Italian Civil Code. We do not accept or assume any liability for any damage deriving from any unauthorized or improper use of the Report.

### 1.8. Main difficulties encountered in estimating Issuer's Shares fair value

The analysis of the Issuer's Shares fair value and our conclusions must be interpreted according to the following difficulties encountered during our work:

- ***Use of Prospective Information.*** Issuer's Shares fair value was estimated using Prospective Information, which by nature contains elements of uncertainty. In particular, changes in the macro-economic scenario and/or in the specific market context may significantly affect the underlying hypotheses and assumptions, which in turn may have an impact on the Prospective Information. At this stage, it is not possible to assess with any certainty the implications of COVID-19 on UBI Banca, either in terms of how long the current crisis may continue or in terms of its impact, potential or actual, on UBI Banca's business. UBI Banca has not modified its Prospective Information to try and show a possible outcome. It also has not considered the potential impact on balance sheet items (such as impairment on tangible/intangible assets, investments, inventory, receivables), or liabilities and provisions (including potential claims). We note that the potential variation between projected and actual results is likely to be materially greater than it might otherwise have been;

- ***Complexity of the valuation methodologies and discretion in the choice of the applied valuation parameters***. The valuation methods adopted required the application of a complex and articulated evaluation process, which involved the choice of a plurality of financial market parameters which, by their nature, are subject to fluctuations, even significant;
- ***Uncertainty in the current economic situation and financial markets volatility.*** The current economic situation characterized by remarkable uncertainty is at the root of the substantial volatility in financial market prices, further stressed by the COVID-19 emergency. It is not possible to exclude that the current emergency and its unforeseeable future evolution may have impacts, even significant, on the national and international context and specifically on UBI Banca's fair value. To counteract on such difficulty, reference was made to financial market parameters which have been updated close to the issue of the Report and to averages of financial market prices measured with reference to one month and three months, in order to reflect the current market context in the valuation analyses, and, at the same time, in order to mitigate the effects of significant short-term fluctuations in stock market prices connected to extraordinary or speculative events. In view of the above, it is not possible to exclude that the Offeror's Board of Directors may deem appropriate requiring an update of the Report close to the date of execution of the Share Capital Increase, in order to reflect in our valuation analyses updates on Issuer's information and on economic and market situation.

## 2. DESCRIPTION OF THE ASSET TO BE CONTRIBUTED

### 2.1. UBI Banca Profile

UBI Banca is the parent company of an Italian banking group ("UBI Banca Group") established in 2007 as a result of the merger between Banche Popolari Unite and Banca Lombarda e Piemontese. UBI Banca is listed on the Mercato Telematico Azionario, organized and managed by Borsa Italiana S.p.A. and its shares are included in the FTSE/MIB index. UBI Banca represents the third Italian commercial banking group by market capitalization.

On the Italian territory, the bank operates through a network of over 1,600 multi-regional branches, using its own brand along with the brands of the banks incorporated between 2016 and 2018. UBI Banca is mainly active in the retail segment and has a 7% domestic market share (as of 2019), thanks to its widespread distribution network. Moreover, the bank is also active at an international level, through foreign banks, branches located abroad, representation offices and participations in foreign companies.

UBI banca operates also in the asset management, factoring and leasing industries through, respectively, Pramerica SGR S.p.A., UBI Factor S.p.A. and UBI Leasing S.p.A.. In addition, the bank is present in the bancassurance business through partnerships with Aviva Vita S.p.A. and Società

Cattolica di Assicurazione. Finally, IW Bank S.p.A. is also part of UBI Banca Group, an online bank integrated with a network of financial advisors.

UBI Banca's share capital is made of no. 1,144,285,146 shares without par value, of which no. 9,251,800 held by the bank as treasury shares. Shareholders' structure is fragmented and presented below:

- Fondazione Cassa di Risparmio di Cuneo, with a 5.908% stake in the Issuer share capital;
- Silchester International Investors LLP, with an 8.600% stake in the Issuer share capital;
- Fondazione Banca del Monte di Lombardia, with a 3.951% stake in the Issuer share capital;
- HSBC Holdings PLC, with a 4.890% stake in the Issuer share capital.

However, it should be noticed that, as at the Report issue date, three shareholders' agreement are in place with regard to UBI Banca and in particular: (i) the so-called "CAR" shareholders' agreement (collectively holding a 18.766% equity stake); (ii) the so-called "Patto dei Mille" shareholders' agreement (1.603%) and (iii) the so-called "Sindacato Azionisti UBI Banca S.p.A." shareholders' agreement (7.500%).

### 2.2. 2019 Consolidated UBI Banca income statement and balance sheet

UBI Banca's consolidated income statement and balance sheet for the period ended December 31st, 2019 together with the 2018 comparables are reported below.

This is a courtesy translation from Italian to English of the Report titled "*Relazione ex art. 2343-ter, lettera b) del codice civile con riferimento a massime n. 1.144.285.146 azioni ordinarie di Unione di Banche Italiane S.p.A. oggetto di possibile conferimento in natura nell'ambito dell'Offerta Pubblica di Scambio volontaria totalitaria promossa da Intesa Sanpaolo S.p.A. in data 17 febbraio 2020, ai sensi e per gli effetti degli artt. 102 e 106, comma 4, del D.Lgs 24 febbraio 1998 n. 58 come successivamente modificato*" dated March 13th, 2020.
PwC does not assume or accept any responsibility for the correctness of the translation of the Report. The Italian text will prevail in case of any divergence with the English translation, or omissions in the same.

UBI Banca Consolidated Income Statement

| **Consolidated Income Statement (€m)** | **FY 2018** | **FY 2019** |
|---|---|---|
| Interest and similar income | 2,220.1 | 2,180.4 |
| Interest and similar expense | (346.8) | (377.9) |
| **Interest margin** | **1,873.3** | **1,802.5** |
| Fees and commission income | 1,779.2 | 1,894.9 |
| Fees and commission expenses | (198.2) | (229.3) |
| **Net fee and commission income** | **1,580.9** | **1,665.6** |
| Other operating income/(expenses) | 28.6 | 115.4 |
| **Operating income** | **3,482.8** | **3,583.5** |
| Net losses/write-backs on credit impairment | (638.3) | (744.1) |
| Gains/(Losses) from contractual changes with no cancellations | (37.4) | (25.3) |
| **Net profit from financial activities** | **2,807.1** | **2,814.1** |
| Net insurance premiums | 373.8 | 314.3 |
| Other net insurance income/(expenses) | (396.1) | (337.2) |
| **Net profit from financial and insurance activities** | **2,784.8** | **2,791.3** |
| Personnel expenses | (1,545.9) | (1,561.3) |
| Other administrative expenses | (1,024.6) | (932.3) |
| Net provisions for risks and charges | 19.4 | (24.8) |
| Net value adjustments/write-backs on property, plant and equipment | (90.9) | (157.6) |
| Net value adjustments/write-backs on intangible assets | (75.6) | (77.6) |
| Other operating income/(expenses) | 293.5 | 283.1 |
| **Operating expenses** | **(2,424.1)** | **(2,470.5)** |
| Other non-operating income/(expenses) | 29.9 | 46.4 |
| **Profit (Loss) before tax from continuing operations** | **390.7** | **367.2** |
| Tax (expenses)/income for the year from continuing operations | 60.8 | (82.1) |
| **Profit (Loss) after tax from continuing operations** | **451.5** | **285.0** |
| Minority (profit)/loss for the year | (25.9) | (33.8) |
| **Parent Company's profit (loss) for the year** | **425.6** | **251.2** |

*Source: UBI Banca financial statements as at December 31st, 2019*

For the financial year ended December 31st, 2019, UBI Banca's operating income amounts to Euro 3,583.5m, recording an increase of approx. +3% with respect to FY2018 (equal to Euro 3,482.8m). Such increase is the result of a drop in net interest margin, equal to Euro 1,802.5m in FY2019 (versus Euro 1,873.3m in FY2018), more than offset by a rise in net fee and commission income, equal to Euro 1,665.6m in FY2019 (versus Euro 1,580.9m in FY2018), and of other operating income/(expenses) equal to Euro 115.4m in FY2019 (versus Euro 28.6m in FY2018).

Net losses/write-backs on credit impairment amount to Euro 744.1m in FY2019, recording a +16% increase with respect to FY2018 (equal to Euro 638.3m).

Operating expenses amount to Euro 2,470.5m in FY2019 and mainly include personnel expenses for Euro 1,561.3m and other administrative expenses for Euro 932.3m. Such expenses show a drop of approx. -2% with respect to FY2018 (equal to Euro 2,424.1m).

Based on the above results, net of tax (expenses) income and minority profit (loss) for the year, UBI Banca records a net profit for financial year ended December 31st, 2019 equal to Euro 251.2m (versus Euro 425.6m recorded in the previous financial year).

This is a courtesy translation from Italian to English of the Report titled "*Relazione ex art. 2343-ter, lettera b) del codice civile con riferimento a massime n. 1.144.285.146 azioni ordinarie di Unione di Banche Italiane S.p.A. oggetto di possibile conferimento in natura nell'ambito dell'Offerta Pubblica di Scambio volontaria totalitaria promossa da Intesa Sanpaolo S.p.A. in data 17 febbraio 2020, ai sensi e per gli effetti degli artt. 102 e 106, comma 4, del D.Lgs 24 febbraio 1998 n. 58 come successivamente modificato*" dated March 13th, 2020.
PwC does not assume or accept any responsibility for the correctness of the translation of the Report. The Italian text will prevail in case of any divergence with the English translation, or omissions in the same.

UBI Banca Consolidated Balance Sheet

| **Assets (€m)** | **31.12.2018** | **31.12.2019** |
|---|---|---|
| Cash and cash equivalents | 735.2 | 694.8 |
| Financial assets at fair value through profit or loss | 1,463.5 | 1,758.7 |
| *a) financial assets held for trading* | *405.7* | *428.0* |
| *b) financial assets designated at fair value* | *11.0* | *10.3* |
| *c) other financial assets mandatorily at fair value* | *1,046.8* | *1,320.5* |
| Financial assets at fair value through OCI | 10,726.2 | 12,221.6 |
| Financial assets at amortised cost | 102,798.6 | 101,736.3 |
| *a) due from banks* | *10,065.9* | *11,921.3* |
| *b) loans to customers* | *92,732.7* | *89,815.0* |
| Hedging derivatives | 44.1 | 35.1 |
| Fair value change of financial assets in hedged portfolios | 97.4 | 547.0 |
| Equity investments | 254.1 | 287.4 |
| Property, plant and equipment | 1,965.2 | 2,298.1 |
| Intangible assets | 1,729.7 | 1,739.9 |
| *of which: goodwill* | *1,465.3* | *1,465.3* |
| Tax assets | 4,210.4 | 3,740.0 |
| *a) current* | *1,376.6* | *1,084.4* |
| *b) deferred* | *2,833.8* | *2,655.6* |
| *- of which under Law 214/2011* | *1,805.0* | *1,794.3* |
| Non-current assets and disposal groups classified as held for sale | 3.0 | 265.4 |
| Other assets | 1,278.7 | 1,201.0 |
| **Total assets** | **125,306.2** | **126,525.3** |

*Source: UBI Banca financial statements as at December 31st, 2019*

UBI Banca's total assets as at December 31st, 2019 amount to Euro 126,525.3m, recording a slight increase (+1%) with respect to December 31st, 2018 (equal to Euro 125,306.2m). Total assets mainly include:

- Financial assets at amortized cost for Euro 101,736.3m (-1% decrease versus December 31st, 2018), which in turn include loans and receivables to customers for Euro 89,815.0m and loans and receivables to banks for Euro 11,921.3m. Considering non-performing loans, their gross book value as at December 31st, 2019 represents 7.8% of total loans to customers gross book value (in decline with respect to the same item recorded at the end of financial year 2018, equal to 10.42%);
- Financial assets at fair value through other comprehensive income for Euro 12,221.6m, recording an increase with respect to December 31st, 2018 (equal to Euro 10,726.2m);
- Financial assets at fair value through profit or loss for Euro 1,758.7m versus Euro 1,463.5m as at December 31st, 2018;
- Property, plant and equipment for Euro 2,298.1m, recording approx. a 17% increase with respect to December 31st, 2018 (equal to Euro 1.965,2m), as a result mainly of the adoption, starting from January 1st, 2019, of IFRS16 and the consequent recognition of leasehold

improvements among property, plant and equipment, leading to an increase of the value of the right of use to which they refer;

- Intangible assets for Euro 1,739.9m (substantially unchanged versus December 31st, 2018), including mainly goodwill (Euro 1,465.3m both at December 31st, 2019 and 2018);
- Tax assets for Euro 3,740.0m (versus Euro 4,210.4m as at December 31st, 2018), of which Euro 1,084.4m current tax assets and 2,655.6m deferred tax assets;
- Other assets for Euro 3,030.6m, among which:
    - Cash and cash equivalents for Euro 694.8m, decreasing with respect to December 31st, 2018, equal to Euro 735.2m;
    - Hedging derivatives for Euro 35.1m, experiencing a drop with respect to Euro 44.1m as at December 31st, 2018;
    - Fair value change of financial assets in hedged portfolios for Euro 547.0m, recording an increase with respect to Euro 97.4m as at December 31st, 2018;
    - Equity investments for Euro 287.4m, increasing with respect to Euro 254.1m as at December 31st, 2018;
    - Non-current assets and disposal groups classified as held for sale for Euro 265.4m, increasing versus Euro 3.0m as at December 31st, 2018;
    - Other assets for Euro 1,201.0m, decreasing with respect to Euro 1,278.7m as at December 31st, 2018.

| Liabilities and Shareholders' Equity (€m) | 31.12.2018 | 31.12.2019 |
|---|---|---|
| Financial liabilities at amortised cost: | 109,445.7 | 109,795.0 |
| *a) due to banks* | *17,234.6* | *14,368.0* |
| *b) due to customers* | *68,421.4* | *72,577.3* |
| *c) debt securities issued* | *23,789.7* | *22,849.8* |
| Financial liabilities held for trading | 411.0 | 555.3 |
| Financial liabilities designated at fair value | 105.8 | 197.6 |
| Hedging derivatives | 110.8 | 386.8 |
| Fair value change of financial liabilities in hedged portfolios | 74.3 | 145.2 |
| Tax liabilities | 162.3 | 170.9 |
| Liabilities associated with assets classified as held for sale and other liabilities | 3,092.9 | 2,738.1 |
| Provision for post-employment benefits | 306.7 | 289.6 |
| Allowances for risks and charges | 505.2 | 489.5 |
| Technical reserves | 1,877.4 | 2,210.3 |
| Valuation reserves | (298.6) | (79.9) |
| Reserves | 2,923.6 | 3,207.8 |
| Share premiums | 3,294.6 | 3,294.6 |
| Share capital | 2,843.2 | 2,843.2 |
| Treasury shares (-) | (25.1) | (28.1) |
| Profit (Loss) for the year (+/-) | 425.6 | 251.2 |
| **Parent Company's shareholders' equity** | **9,163.3** | **9,488.7** |
| Minority shareholders' equity (+/-) | 50.8 | 58.2 |
| **Total liabilities and shareholders' equity** | **125,306.2** | **126,525.3** |

*Source: UBI Banca financial statements as at December 31st, 2019*

UBI Banca's liabilities as at December 31st, 2019 mainly include:

- Financial liabilities at amortised cost for Euro 109,795.0m, showing an increase with respect to December 31st, 2018, when they amounted to Euro 109,445.7m. Such liabilities include deposits from customers for Euro 72,577.3m, debt securities issued for Euro 22,849.8m and deposits from banks for Euro 14,368.0m;
- Liabilities associated with assets classified as held for sale and other liabilities for Euro 2,738.1m, showing a decreasing trend with respect to December 31st, 2018 (equal to Euro 3,092.9m);
- Technical reserves deriving from insurance activities for Euro 2,210.3m, recording an increase with respect to December 31st, 2018 (equal to Euro 1,877.4m);
- Provision for post-employment benefits for Euro 289.6m and allowances for risks and charges for Euro 489.5m, versus Euro 306.7m and Euro 505.2m as at December 31st, 2018, respectively;
- Other liabilities for Euro 1,455.8m, among which:
    - Financial liabilities held for trading for Euro 555.3m, showing an increasing trend with respect to December 31st, 2018 (equal to Euro 411.0m);
    - Hedging derivatives for Euro 386.8m, showing an increasing trend with respect to December 31st, 2018 (equal to Euro 110.8m);

- Financial liabilities designated at fair value for Euro 197.6m, recording an increase with respect to December 31st, 2018 (equal to Euro 105.8m);
- Tax liabilities for Euro 170.9m, versus Euro 162.3m as at December 31st, 2018;
- Fair value change of financial liabilities in hedged portfolios for Euro 145.2m, recording an increase with respect to December 31st, 2018 (equal to Euro 74.3m).

UBI Banca consolidated shareholders' equity as at December 31st, 2019 amounts to Euro 9,546.9m, of which Euro 58.2m minority shareholders' equity. Therefore, parent company's shareholders' equity amounts to Euro 9,488.7m and mainly includes:

- Share capital for Euro 2,843.2m;
- Share premiums for Euro 3,294.6m and other reserves for Euro 3,127.9m;
- Treasury shares for Euro 28.1m;
- Profit for the year for Euro 251.2m.

Finally, UBI Banca CET1 Ratio as at December 31st, 2019 is equal to 12.3% (*fully loaded)* versus 11.3% as at December 31st, 2018, while its Total Capital Ratio is equal to 15.9% (*fully loaded*), showing approx. a +250bps increase versus December 31st, 2018 (13.4%).

## 2.3. UBI Banca Prospective Information

The UBI Banca Prospective Information, illustrated below, was disclosed to the financial community on February 17th, 2020.

Main economic and financial figures expected for the last year of the Projections (2022) and their comparables for the period ended December 31st, 2019, are presented below.

| Main economic & financial data (€m) | 2019A | 2022E | CAGR '19-'22 |
|---|---|---|---|
| Operating Income | 3,637.9 | 3,675.0 | 0.3% |
| o/w net interest income | 47.4% | 45.7% | |
| o/w net commission income | 45.7% | 47.6% | |
| Operating expenses | (2,368.5) | (2,235.0) | (1.9%) |
| o/w personnel expenses | (1,427.7) | (1,361.0) | (1.6%) |
| o/w other administrative expenses | (603.0) | (517.0) | (5.0%) |
| Cost/Income | 62.1% | 58.1% | (2.2%) |
| Stated net income | 251.2 | 665.0 | 38.3% |
| Normalised net income | 352.9 | 665.0 | 23.5% |
| ROTE normalised | 4.7% | 8.3% | 20.9% |
| Total financial assets (in Euro bln) | 196.0 | 209.0 | 2.2% |
| o/w direct banking funding | 95.0 | 93.0 | (0.7%) |
| o/w AUM and bancassurance | 73.0 | 88.0 | 6.4% |
| Net loans to customers (in Euro bln) | 83.7 | 83.7 | - |
| o/w net performing loans | 79.5 | 81.0 | 0.6% |
| Gross NPE ratio | 7.8% | 5.2% | (12.6%) |
| NPE coverage (incl. Write offs) | 50.9% | 51.5% | 0.4% |
| LLPs | (738.4) | (387.0) | (19.4%) |
| Cost of risk | 87bps | 46bps | (19.1%) |
| CET 1 ratio | 12.3% | 12.5% | 0.4% |
| Texas ratio | 55.6% | 32.6% | (16.3%) |
| RWA | 58,086.3 | 61,527.0 | 1.9% |
| Tangible Book Value | 7,498.0 | 8,056.0 | 2.4% |

*Source: UBI Banca Business Plan 2022*

According to UBI Banca Management expectations, in 2022 the following achievements are expected:

- operating income slightly up to Euro 3,675.0m (CAGR 2019-22: +0.3%) explained by a slightly lower interest margin (CAGR 2019-22: -0.9%) more than offset by the growth in net commissions (CAGR 2019-22: + 1.7%); and
- operating expenses down to Euro 2,235.0m (CAGR 2019-2022: -1.9%).

Due to the expected dynamics of operating income and expenses, UBI Banca expects to achieve a reduction in the cost/income ratio (excluding systemic contributions) from 62.1% in 2019 to 58.1% in 2022.

In addition, UBI Banca Management expects net losses on credit impairment to decrease to Euro 387.0m in 2022, from the value of Euro 738.4m in 2019 (which included the largest provisions related to massive disposals).

Based on UBI Banca Management estimates, net profit is expected to reach Euro 665.0m in the year 2022, compared to Euro 251.2m in 2019 (Euro 353m net of non-recurring items), resulting in the achievement of a normalized ROTE equal to 8.3% at the end of the forecast period.

Concerning shareholders remuneration, it is expected an average payout ratio over the 3-year plan of 40%, well balanced with the maintenance of a year-end CET1 ratio of 12.5%, with a possible additional dividend increase if CET1 ratio will be greater than 12.5%.

Note that any inconsistencies between the 2019 economic and financial data presented in section 2.2 and in this present section are exclusively due to different accounting reclassifications adopted by the UBI Banca Management.

## 3. ISSUER'S SHARES FAIR VALUE ESTIMATION

### 3.1. Introduction

The focus of this Report are no. 1,144,285,146 ordinary shares of UBI Banca (including treasury shares), on which the Offer was launched and that constitutes, at the present date, the entire share capital of UBI Banca. This implies that:

- The valuation focus is represented by the total number of shares which constitute the entire share capital of UBI Banca and therefore not a single share;
- The perspective to be adopted in this valuation matches with that of a market player who acquires the total number of UBI Banca ordinary shares. This perspective must consider the company being valued on a stand-alone basis and from a going concern perspective, thus excluding specific synergies achievable by a specific buyer through a possible integration, but still taking into account the value attributable to them by any market participant in favor of an acquisition.

On the basis of our Engagement, the scope of this Report consists in the expression of an autonomous and independent opinion, pursuant to the article 2343-ter of the Italian Civil Code and, therefore, aimed at verifying that the value of Issuer's Shares to be contributed is not less than the value attributed for the purpose of the share capital increase, inclusive of the share premium. The purpose of the valuation is to prevent that the value of the net assets of the transferee company is artificially increased due to an overestimation of the assets to be contributed in kind. However, the economic rationale of the Offer has also to be considered as it represents an offer for the acquisition of all UBI Banca shares. In this kind of transaction, the contribution in kind takes place at the consideration offered by the bidder, which must represent an adequate counterpart for the potential transferor, under penalty of not adhering to the Offer. Therefore, even if it is generally accepted that the valuations in the context of contributions in kind are inspired by the prudence concept, in particular with reference to the assessment of current value, and by limiting the recognition of components with a potential nature, in the context of public exchange offers, the prudence should consider the fact that the contribution in kind takes place only if the consideration is deemed convenient by both parties (offeror/transferee and shareholders/transferor). Therefore, prudence must be intended as the verification that the consideration recognized in the Offer is a recoverable amount, based on the information available and in accordance with reasonable and acceptable expectations, regardless of specific benefits coming from the integration, i.e., the consideration itself expresses, therefore, the recoverable amount for a generic market participant that acquires all UBI Banca shares.

Consequently, based on the aforesaid reasons, the valuation has been carried out regardless of the net synergies and specific integration costs communicated by ISP, considering instead appropriate to reflect the average premia paid in similar transactions.

### 3.2. Valuation methodologies

The valuation methodologies used to determine the economic value of a company may be summarized as follows:

- Methods based on expected dividends from the investments (Dividend Discount Model Method);
- Methods based on the expected financial return on the investment, i.e. the cash flows it is expected to produce in the future, from the reference date until its final liquidation (Discounted Cash Flow Method or "DCF");
- Methods based on the earnings the investment is expected to produce in the future (Earnings-Based Method);
- Methods based on the current "net asset value" (Assets-Based Method);
- Methods that combine the main elements of the Earnings and Assets-Based Methods ("Metodo misto patrimoniale-reddituale", Economic Profit Method);
- Methods based on the analysis of comparable companies (Trading Multiples Method, Regression Analysis Method and Transaction Multiples Method);
- Stock Market Prices Method and analysts' Target Price (methodologies considered relevant for listed companies).

The corporate doctrine and professional practice agree that the choice of the evaluation criteria depends on the purpose of the transaction that requires the assessment, the nature of the company, the business sector in which it operates and the quantity and quality of the available information.

In order to determine the fair value of UBI Banca ordinary shares we have selected the appropriate valuation methodologies by considering the scope of our Engagement, the distinctive features of the Issuer, the overall reference context and the available information.

In this context, the analyses were exclusively performed on the basis of public information. We have taken into consideration the historical economic and financial results achieved by UBI Banca, the Prospective Information, the estimates of UBI Banca future performances elaborated by financial analysts, as well as Stock Market Prices. Based on this information, in order to perform our analysis, we have considered appropriate to use a plurality of methodologies.

In particular, we have considered:

- Stock Market Prices Method;
- Market Multiples Method;
- Regression Analysis Method;
- Target Price Method; and

- Dividend Discount Model in its Excess Capital version (the "DDM").

The measurement of the fair value of the Issuer's Shares was carried out on an "ex dividend" basis as a consequence of the timing of the transaction which will be performed after the dividend payment. Therefore, the results obtained by applying the selected criteria have been reduced by the dividend per share of UBI Banca, equal to Euro 0.130 (communicated to the market on February 10th, 2020).

Furthermore, having regard to the economic substance of the proposed transaction as a whole which, as illustrated, represents an offer for the acquisition of the entire share capital of the Issuer, it was deemed appropriate to add, where applicable, a control premium to the fair value calculated on a stand-alone perspective in order to take into account the surplus value that can be generated for the majority shareholder, quantified on the basis of empirical evidence of similar transactions and of doctrine studies.

A brief description of the adopted methods as well as their application is provided below.

## 3.3. Stock Market Prices Method

The Stock Market Prices Method consists in recognizing a company's share value equal to the one attributed by the stock market where shares are traded.

According to this method, stock prices of a company's liquid equity securities listed on efficient markets represent a reliable indicator of the value of that company, since they tend to reflect all the existing public information related to the company itself. The level of stock prices expresses the result of a systematic negotiation process between market operators and, thus, reflects their vision regarding the profitability, financial strength, risk and the expected growth of the company being valued.

In this context, share prices of a company are considered to be significant when the markets in which are traded are characterized by a high level of efficiency, the liquidity of the share is high and when the reference period is such as to neutralize possible exceptional events which produce short-term fluctuations or speculative tensions.

In this specific case, the method has been applied by considering:

- the average closing market prices of UBI Banca's share respectively for the one month and the three months prior to February 17th, 2020, the announcement date of the launch of the Offer. This time period choice is motivated by the desire to incorporate into the valuation sufficiently updated information on the company framework and on the main financial market trends;
- the application of a control premium to the results obtained with reference to the stock market calculations within the time period described above, in order to consider that these prices express a value per share from a minority stake perspective. Such premium was considered net of a haircut associated with the current uncertainty in the economic situation and with the significant volatility in the stock market prices observed during the last month.

## 3.4. Market Multiples Method

The Market Multiples Method is based on the analysis of the stock market performance of comparable listed companies and the subsequent application of the multiples deriving from this analysis to the corresponding financial figures of the company to be valued.

Market Multiples are calculated as ratios between the market capitalization of the comparable listed companies and the relative earnings, asset and financial values deemed to be significant.

This method comprises the following steps:

- Identification of comparable companies: the selection of an adequate sample of comparable companies represents one of the main steps of this method. The relevance of the results is strictly linked to the consistence of the sample. In selecting the comparable companies, different factors, such as reference sector, operating risk, company size, geographical diversification, profitability, financial data reliability and the relative trading volume on stock markets are usually considered.
- Determination of the reference timeframe: the determination of the reference timeframe has the purpose to neutralize extraordinary events, short-term fluctuations and speculative market tensions. At the same time, it has the purpose of reflecting information available to the market. This phase involves, in particular, the choice between the use of an average value for a specific time period or the application of a punctual value. In this case, reference was made to the average stock market prices observed in the last month and in the last three months prior to the issue date of this Report, in order to reflect in our valuation current financial market trends.
- Identification of the most relevant market multiples: there are several ratios that can be used for application according to the market multiples method. The choice of the most appropriate multiples is done on the basis of the characteristics of the industry and of the sample to be examined.
- Application of multiples to the examined companies: the multiples obtained from the analysis of the sample of peers are applied to the corresponding earnings, assets or financial items of the company to be valued.

For the purposes of Market Multiples application, the multiple used is Price/Earnings ("P/E"). This multiple represents a commonly accepted and used indicator both nationally and internationally and is in line with professional practice applied in bank valuation.

Given the availability of Prospective Information, the multiple P/E was applied to FY2022 UBI Banca Group expected net profit.

## 3.5. Regression Analysis Method

The Regression Analysis Method (hereinafter also "Value Map") estimates the equity value of a company on the basis of the existing correlation between the foreseen profitability of net equity and the relative premium or discount shown by stock prices compared to the shareholders' equity ("Book Value") of comparable listed companies.

This method consists in the analysis of the existing correlation between the profitability of a company (expressed, in this specific case, in terms of Return on Average Tangible Common Equity, "ROATE") expected by the market and the ratio between the market capitalization and the tangible common equity of a sample of comparable listed companies ("P/TBV" multiple). This ratio can be approximated through a regression analysis of the ROATE and the P/TBV multiple for a significant sample of companies. Having calculated the parameters of this ratio and assessed if they are statistically significant, they can be applied to expected ROATE and to the tangible common equity of the company to be valued in order to calculate its theoretical market value.

The application of the Regression Analysis Method involves the following key steps:

- selection of a sample of companies for the regression analysis;
- determination of the time period to be considered for the ROATE;
- calculation of the ROATE and the P/TBV multiple for each sampled company;
- choice of the statistical regression to be applied;
- calculation of the ROATE and the tangible common equity related to the bank to be valued;
- application, if statistically relevant, of the statistical regression parameters to determine an indicative market value for the bank to be valued.

As anticipated, in consideration of the operational and business characteristics of UBI Banca, the Value Map was applied, therefore, by relating the multiple P/TBV to the ROATE.

Given the availability of economic and financial forecast data for the selected comparable companies and for UBI Banca, the regression line was estimated taking as reference the multiple P/TBV expected in 2021 and the ROATE expected in 2022.

Even for the purposes of Regression Analysis Method, reference was made to the average stock market price respectively, one month and three months prior to the issue date of this Report, in order to reflect in our valuation analyses the current financial markets trends.

### 3.6. Target Price Method

The main feature of this method lies in the possibility of identifying the value attributable to the companies to be valued, which is considered reasonable by the market and disclosed in research studies published by specialized operators.

In particular, we considered the equity researches published by equity analysts after the disclosure of the balance sheet and income statement as at December 31st, 2019 and prior to the disclosure to the market of the launch of the Offer.

## 3.7. Dividend Discount Model – Excess Capital

The DDM assumes that a bank's economic value is equal to the sum of the:

- present value of future dividend flows potentially distributable to shareholders, for a predetermined time horizon, consistent with maintaining an adequate level of regulatory capital; and
- present value of the terminal value calculated assuming a perpetual constant growth rate for dividend flows beyond the projected time horizon.

The DDM methodology therefore estimates the value of a bank's economic capital based on the following formula:

$$W = DIVa + TVa$$

where:

- W: represents the economic value of the bank to be valued;
- DIVa: represents the present value of dividends potentially distributable over the predetermined time horizon, maintaining an adequate level of regulatory capital;
- TVa: represents the determination of the bank's terminal value.

The DDM methodology has been applied on the basis of:

- Shareholders' equity and capital requirements of UBI Banca at December 31st, 2019;
- Economic and financial cash flows and risk weighted assets for the period 2020-2022 derived from the Prospective Information.

The application of this method involves the following steps:

<u>Phase 1. Identification of the dividend flows potentially distributable over the explicit forecast period</u>

For the determination of cash flows for the period 2020-2022, reference was made to the Prospective Information of UBI Banca.

Furthermore, for the estimation of the maximum distributable cash flows, we defined a minimum level of capitalization necessary to guarantee bank's operativity corresponding to a CET 1 Ratio Target of 13.9% in line with the average of the CET 1 Ratio derived from the sample of comparable banks used for the estimation of the discount rate as well as for the application of the Market Multiples and Regression Analysis methods illustrated above.

<u>Phase 2. Determination of the discount rate</u>

The discount rate ("Cost of Capital" or "Ke") represents the expected return of the industry in which the company operates, and it is calculated using the Capital Asset Pricing Model, though the following formula:

$$Ke = Rf + \beta \times (Rm - Rf) + \alpha$$

where:

- Rf: represents the "risk-free rate", i.e. the 10-year Italian government bonds yield (in this case, reference was made to the gross yield on the 10-year Italian BTPs measured on March 10th, 2020 and equal to 1.4%);
- ß: represents the correlation factor between the effective return of an equity security and the overall return of the reference equity market (measuring the volatility of the share with respect to the market portfolio). The ß factor used is equal to 1.3 and was determined on the basis of historical data from a sample of listed Italian and European companies operating in the banking sector. In particular, we adopted the 5-year coefficient calculated on a monthly base, measured on March 10th, 2020;
- Rm - Rf: represents the "market premium", i.e. the premium for the risk of investing in shares compared to a "risk-free" investment (in this case, the risk premium applied is equal to 5.7%);
- α: additional risk premium reflecting the so-called execution risk. This is an additional coefficient applied in order to consider the risk associated with the achievement of the objectives of UBI Banca's Prospective Information. Such coefficient was estimated to be equal to 1.7%.

By applying the methodology shown, the discount rate obtained is equal to 10.2%.

<u>Phase 3. Determination of the Terminal Value</u>

The Terminal Value was calculated by applying the Gordon formula, assuming a long-term growth rate of 1.5%, equal to the long-term expected inflation rate for Italy (source: International Monetary Fund) and a Ke equal to 10.2%, as mentioned above.

The fair value of UBI Banca was determined adding the Terminal Value to the value of the 2020-2022 distributable cash flows.

## 4. SUMMARY OF RESULTS OBTAINED FROM THE APPLICATION OF VALUATION METHODOLOGIES

Following the application of the selected valuation methodologies, the fair value range per share for the Issuer's Shares (ex dividend and including the control premium) is included in the range Euro 3.447 and Euro 4.498. Therefore, it is possible to confirm that UBI Banca fair value, with reference to every single share (ex dividend and including the control premium) is not lower than Euro 3.447.

## 5. CONCLUSIONS

Taking into account the scope of our Engagement, as outlined in paragraph 1.1, the assumptions and limitations in paragraph 1.5, the difficulties encountered in our work in paragraph 1.8 and considering the results obtained with the application of the valuation methodologies summarized above, it is possible to conclude that UBI Banca fair value per share as at February 17th 2020 is included in the range between Euro 3.447 and Euro 4.498. Therefore, it is possible to confirm that the fair value per share of each of the Issuer's Shares (ex dividend and including the control premium) that may be contributed in kind in the context of the Share Capital Increase reserved to the Offer is not lower than Euro 3.447, lower bound of the determined fair value range.

Milan, March 13th, 2020

PricewaterhouseCoopers Advisory S.p.A.

Gian Luca Di Martino

(*Partner*)