PRESS RELEASE

UPDATE OF THE UBI BUSINESS PLAN TO INCLUDE THREE BRIDGE BANKS (NUOVA BANCA MARCHE, NUOVA BANCA ETRURIA AND NUOVA CARICHIETI)

- **Following the arrival of the authorisation for the purchase of the 3 Bridge Banks from the ECB and the signing at the closing which took place in the afternoon of 10th May, UBI presents an update of its Business Plan for the "Combined Entity" (UBI Banca + the 3 Bridge Banks)**

- **Business Plan projections for the Combined Entity confirm profit and capital ratios in 2020 and the creation of industrial value as follows**
  - **net profit of €1.12 billion approx.**
  - **ROTE of 12% approx.**
  - **a CET1 ratio higher than 13% (inclusive of €400 million from the UBI Share Capital Increase)**
  - **a cost/income ratio of 52.8% (inclusive of restructuring costs)**
  - **a Texas ratio of 86.8%**

- **An extremely rapid Merger Plan for the 3 Bridge Banks is planned, with the first migration by the end of October (Nuova Banca delle Marche and CR Loreto)**

- **The acquisition by UBI Banca of 3 Bridge Banks just concluded, constitutes the first transaction authorised by Brussels to manage crisis situations in Italy**

- **The purchase of €2.2 billion of non-performing loans is the first transaction of this type carried out by the Atlante Fund**

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- **The Business Plan leverages on a strong baseline starting point that enables the estimated target objectives to be achieved:**
  - **a UBI Stand Alone Plan currently being implemented, with many important initiatives already completed** (upfronting of almost all Business Plan costs, conclusion of the Single Bank Project with the purchase of minority interests, the absorption of the provision shortfall with an increase in loan coverage, new commercial and credit organisations, implementation of initiatives to support revenues, etc.)
  - **UBI's consolidated track record for IT integration**
  - **a solid baseline starting point for the Bridge Banks, following the implementation of all the contractual conditions set,** enabling factors for the turnaround business plan, also leveraging on synergies that can be created by belonging to the UBI Banca Group
  - the existence of **significant buffers in relation to deferred tax assets** arising from the Bridge Banks' prior-year losses, that can be used by the Combined Entity as a whole

The business model and strategic guidelines laid down in the UBI Stand Alone Business Plan presented in June 2016 remain in place and will be extended to include the Bridge Bank perimeter.

- **The objectives of the Plan are distributed over three expenses, revenues and loans components:**
  - growth in operating income from approximately €3.6 billion in the 2016 to €4.1 billion in 2019 and €4.5 billion in 2020, as a result of a reduction in interest rates on funding (improvement in mark down) and a positive contribution from fee and commission income
  - a further reduction in operating expenses (net of non-recurring items) down from €2.64 billion in 2016 to approximately €2.34 billion in 2020, notwithstanding significant investments made over the time frame of the Business Plan
  - strong generation turnover: approximately 3,000 staff leaving, as the result of:
    - the exit of approx 4,000 staff of which approximately 2,170 with access to the "solidarity fund" (for which costs have already been recognised for 1,300 staff in the UBI Banca perimeter and approximately 530 staff in the Bridge Banks perimeter)
    - the hiring of approximately 900 new staff recruited over the course of the plan (of which over a quarter already appointed in the first months of 2017) in addition to the approx. 200 resources hired in 2H2016.

    The Plan provides for a strong training programme, increased flexibility, a larger variable component of remuneration, etc.
  - streamlining of the distribution model enabled by the transition to a Single Bank and by greater multi-channel service provision, with the closure of around 370 banking facilities over the course of the plan (140 in the Bridge Bank perimeter)
  - the achievement of a cost/income ratio of 52.8% in 2020
  - a progressive reduction in loan losses as a result of a further decrease in new inflows from performing to non-performing loan status and a decrease in stocks outstanding
  - a loan loss rate falling from 2.62% in 2016, which included the absorption of the provision shortfall for UBI Banca and losses on the disposal of non-performing loans for the Bridge Banks, down to around 0.63% in 2019 and 0.57% in 2020
  - an increase in coverage for non-performing loans, inclusive of write-offs, from 44.3% in December 2016 to 46% in 2019 and 47% in 2020 (from 58.2% to approx. 60% for bad loans)

- **Expected growth in balance sheet items**
  - net loans to customers (excluding repos) up from around €94.2 billion at the end of 2016 to approximately €97.3 billion in 2019 and €100.1 billion in 2020 (CAGR: 1.1% and 1.5%)
  - total funding from ordinary customers up from €174.8 billion at the end of 2016 to around €189.9 billion in 2019 and €198.6 billion in 2020, within which migration is expected out of direct bond funding and assets under custody into assets under management
  - an increase in wholesale funding from approximately €14.8 billion at the end of 2016 to €23.7 billion in 2019 and to €27.8 billion in 2020, partly with a view to the progressive repayment of TLTROs.

- **The Combined Entity's growth Plan is supported by the consolidation of all capital strength indicators**

- the “fully loaded” CET1 ratio is expected to rise from the UBI Banca Stand Alone’s ratio of 11.2% at the end of 2016 to 12.3% in 2019 and to around 13.5% at the end of 2020 for the Combined Entity, due predominantly to the generation of profits over the course of the Plan
- the Total Capital Ratio rises from UBI Banca Stand Alone’s ratio of 14.1% at the end of 2016 to 15.8% in 2019 and to 17% in 2020 for the Combined Entity
- the UBI Banca Stand Alone’s fully loaded Leverage Ratio of 5.6% at the end of 2016, is confirmed in 2019 and at 6.2% in 2020 for the Combined Entity
- the Net Stable Funding Ratio and the Liquidity Coverage Ratio confirmed at >100%
- MREL for the Combined Entity of 27.1% in 2019 and 31.5% in 2020
- the Texas ratio for the Combined Entity is expected to fall to 98% in 2019 and to 87% in 2020

- **A strong dividend policy:** distribution of approximately 40% of recurring profits is expected

- **A management incentive scheme to support the execution of the Business Plan approved by the Shareholders’ Meeting on 7th April 2017, with co-investment mechanisms for management from the inception of the Plan.**

- **As a consequence of these actions, balanced and distributed over all components, profit for 2019 will be approximately €919 million with an ROTE of 11%, while profit for 2020 should stand at over €1.117 million with an ROTE of 12%**

The importance of these results, which show a growth in profitability, confirming at the same time capital strength, becomes even more relevant when considering the economic scenario used for the Plan period which forecasts negative market interest rates until 2019 and very moderate economic growth also due to the most recent developments

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Bergamo, 10th May 2017 – The Supervisory Board of UBI Banca has approved the Group’s Business Plan proposed by the Management Board containing strategic guidelines and the economic, financial and capital objectives updated for the period 2017-2020. The Plan includes the integration into the UBI Group of the 3 Bridge Banks (Nuova Banca Marche, Nuova Banca Etruria and Nuova CariChieti) for which the closing of the sale and purchase contract took place today.

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The 2017-2020 Business Plan

Introduction

Management employed the following rationale in drawing up the 2017-2020 Business Plan:

1) a revision of the UBI Group’s 2019/2020 Business Plan on the “stand alone” perimeter, presented in June 2016, in view of the following:
   - the different trends, including those for the performance of the economy, shown in the 2016 results, the baseline year for the Updated Plan (acceleration in the reduction of volumes of non-performing loans, acceleration in assets under management, subdued performance by loans, etc.);
   - the steps that UBI Banca has already taken both in terms of corporate structure (Single Bank Project) and in organisational terms in recent months, in line with or ahead of schedule with regard to Business Plan milestones;
   - the organisational and economic effort needed to integrate the Bridge Banks;

2) drawing up 2017-2020 projections for the Bridge Bank perimeter starting from the closing figures. As already reported, as at the closing date the Bridge Banks had book equity of €1,050 million, a CET1 ratio of 10.5%, RWAs of €9.816 billion and a non-performing loan portfolio amounting to approximately €1.8 billion (after the sale of around €2.2 billion of loans to the Atlante Fund) of which €1.7 billion of unlikely-to-pay/past due loans;
3) drawing up the UBI Banca Group's 2017-2020 Business Plan in its new configuration resulting from the integration of the Bridge Banks (taken together the "Combined Entity"), including revenue and cost synergies and the integration costs relating to the operation.

The strategic guidelines of the Business Plan

The new 2017-2020 Business Plan **confirms the strategic guidelines of UBI Banca's Stand Alone 2019/2020 Business Plan and it rolls these out on the Bridge Bank perimeter.**

More specifically the plan is based on four key cornerstones:

1) **the "Single Bank" approach contained in the 2019/2020 Business Plan is confirmed** on the entire perimeter of the Combined Entity, on the basis of which the Group's seven network banks have already been merged into UBI Banca in 2016 and during the first months of 2017, and the three Bridge Banks will also be merged into UBI Banca;
2) **evolution of the commercial approach by:**
   - confirmation of the integrated multi-channel approach (to be completed by the end of 2017), on the one hand to enable customers to access the bank continuously and operate without distinction on all the available channels and on the other hand to allow the bank to reach customers with targeted commercial proposals;
   - the formulation of a dedicated customer segment based strategy ("Individuals and Households", "Affluent and Private Banking" and "Business" segments), in consideration, amongst other things, of market trends, as described in the press release dated 27th June 2016;
3) **consolidation of structural strengths, by means of:**
   - confirmation of an asset quality amongst the best in the sector and adequate coverage for problem loans;
   - continuation and acceleration of activities to rationalise the cost base;
4) **maximisation of key profitability and efficiency indicators, consistently with a balanced capital and financial structure.**

Focus on the Bridge Bank perimeter

When drawing up the overall guidelines, **strategic integration rationales** were established, developed in the plan to evolve the **Bridge Banks**, that can be summarised as follows:

- completion of the IT migration to the UBI platform by February 2018 with the first migration planned for October 2017 (Nuova Banca Marche);
- roll-out of the UBI "stand alone" strategic and operational guidelines and business model on the Bridge Bank perimeter, leveraging also on the UBI Banca brand and reputation, and more specifically:
  - full integration of the Bridge Banks in the UBI Banca branch network (**-140 branches planned in the Bridge Bank perimeter over the course of the Plan**);
  - **repricing of short-term funding which accounts for approximately 90% of total Bridge Bank funding** to UBI Banca "stand alone" levels. The negative mark down on the Euribor one month rate is expected to reduce in the Bridge Bank perimeter from 172 bps to 12 bps;
  - a significant reduction in operating expenses (**-€200 million approximately in 2020 compared to 2016 in the Bridge Bank perimeter**) through an increase in overall productivity which will also

involve a reduction in staff numbers (**-1,569 staff, -32% compared with 2016 in the Bridge Bank perimeter**) and optimisation of other administrative expenses;

- a drive to reduce loan losses through the adoption of best practices and the employment of the UBI organisational model, starting on "day one" of the IT migration. **Bridge Banks loan losses are expected to fall to 87 basis points in 2020**;
- a request to **roll-out UBI Banca internal models** for credit and operational risk on the Target Bridge Institutions within 1H 2018.

The 2017-2020 Business Plan of the Combined Entity (UBI Banca+3 Bridge Banks)

The 2017-2020 Business Plan estimates **growth in net profit to approximately €919 million in 2019 and to approximately €1,117 million in 2020.** The value creation objective will bring **ROTE up to 11% in 2019 and to 12% in 2020**.

In terms of dividend, the Plan provides for the distribution of approx. 40% circa of the Combined Entity's recurring profits.

The growth in profitability forecast over the course of the plan is enabled by all the main components of the income statement (revenues, expenses and loan losses) and is based on the following cornerstones:

(i) **The evolution of the commercial approach on a customer segment basis and of the Group's distribution model as a consequence**, taking an integrated multi-channel approach, with consequent simplification of the geographical distribution network, enabled initially by the transformation into a Single Bank. In detail, the following is planned over the course of the plan:

- the closure of approximately 370 branches of which approximately 140 in the Bridge Bank perimeter;
- the refurbishment of approximately 700 branches and the implementation of precise formats ("Flagship", "Full" and "Light" branches) with specific targeted modules to improve local market coverage and the migration towards digital channels.

(ii) **Growth in volumes based on trends already in progress in 2016, estimated as follows:**

The balance sheet

Figures in €B	**2016**	**2019**	**2020**	**CAGR 16-19**	**CAGR 16-20**
Net loans to customers (net of the CCG)	**94.2**	**97.3**	**100.1**	***1.1%***	***1.5%***
of which performing loans (net of the CCG)	*84.9*	*88.8*	*92.0*	*1.5%*	*2.0%*
of which non performing exposures	*9.3*	*8.5*	*8.1*	*-3.0%*	*-3.1%*
Direct funding from customers	85.2	75.0	74.3	*-4.2%*	*-3.4%*
Indirect funding from customers	89.6	114.8	124.4	*8.6%*	*8.5%*
of which assets under custody	*30.8*	*26.6*	*26.7*	*-4.9%*	*-3.6%*
of which assets under management and insurance products	*58.8*	*88.3*	*97.7*	*14.5%*	*13.5%*
Total funding (direct + indirect)	**174.8**	**189.9**	**198.6**	***2.8%***	***3.2%***
Institutional funding	**14.8**	**23.7**	**27.8**	***16.9%***	***17.0%***
Interbank funding - (ECB)	**10.0**[1]	**10.0**	**8.5**	***0.0%***	***-4.0%***
Proprietary securities portfolio	**19.2**	**17.7**	**15.2**	***-2.6%***	***-5.7%***

1 – Increased to 12.5 billion value 29.03.2017

- growth in net loans (excluding repos with the *Cassa di Compensazione e Garanzia*) from €94.2 billion in 2016 to approximately €97.3 billion in 2019 and to approximately €100.1 billion in 2020 with a CAGR of 1.1% and 1.5% respectively, which reflects estimated growth in GDP of less than 1% over the course of the plan;
- in terms of financing growth, this will be supported by institutional funding in particular, envisaged over the course of the plan to rise from €14.8 billion at the end of 2016 to approximately €23.7 billion in 2019 and to €27.8 billion at the end of 2020;
- total funding from ordinary customers (direct and indirect) is expected to increase from €174.8 billion at the end of 2016 to approximately €189.9 billion in 2019 and to €198.6 billion in 2020. Within the item, assets under management and insurance products are expected to increase significantly from €58.8 billion in 2016 to approximately €88.3 billion in 2019 and to approximately €97.7 billion in 2020 enabled as follows:
  - by the partial transformation of direct funding (bank bonds) into assets under management, partly with a view to protecting customers, consistent with the bail-in rules, and by the conversion of assets under custody;
  - by an increase in distribution capacity in the "Affluent & Private Banking" segment as a result, amongst other things, of the recruitment of new private bankers;
  - by leveraging on the IW Bank Private Investments network, which will be strengthened;
  - by focusing on the insurance/pension component in the "Individuals and Households" and "Affluent & Private Banking" segments;
  - by accelerating the use of new technologies (big data and advanced analytics) to determine a targeted range of products and services.

(iii) An economic performance that reflects the Group's structural strengths

The income statement of the Combined Entity

Figures in €Mln	**2016**	**2019**	**2020**	**CAGR 16-19**	**CAGR 16-20**
Operating income	**3,592**	**4,102**	**4,459**	***4.5%***	***5.6%***
of which Net interest margin	*1,708*	*2,040*	*2,263*	*6.1%*	*7.3%*
of which Net fees and commissions	*1,523*	*1,790*	*1,912*	*5.5%*	*5.9%*
Operating expenses (stated)	**(3,166)**	**(2,445)**	**(2,356)**	***-8.3%***	***-7.1%***
of which Staff costs	*(1,914)*	*(1,471)*	*(1,404)*	*-8.4%*	*-7.5%*
of which other administrative expenses	*(1,006)*	*(801)*	*(780)*	*-7.3%*	*-6.2%*
Net operating income	**426**	**1,657**	**2,103**	***57.3%***	***49.0%***
Net impairment losses on loans	(2,471)	(612)	(567)	*-27.7%*	*-23.1%*
Net Profit[1]	**(1,861)**	**919**	**1,117**	***n.s.***	***n.s.***
Cost/income	88%	60%	53%	*n.s.*	*n.s.*
Cost of credit (bps)	n.s.[2]	63	57	*n.s.*	*n.s.*

[1] Inclusive of the absorption of the provision shortfall, the reversal of badwill arising from the purchase of the Bridge Banks and the use of deferred tax assets.

[2] The 2016 cost of risk of the combined entity would be 262 bps including shortfall absorption in UBI Banca and losses from the disposal of NPLs in the Bridge Banks

N.B.: the results take account of the new ACE (allowance for corporate equity) regulations

The increase in Group profitability will be achieved through the contribution of the three income statement components, revenues, expenses and loan losses, where the latter are expected overall to provide the greatest contribution in the improvement to ROTE as follows:

- growth in operating income is expected, and **growth in net interest income in particular is expected to result totally from a reduction in the cost of funding**, while the strong contribution from fee and commission income is to be interpreted mainly in relation to growth in indirect funding;

- as a result, amongst other things, of the transition to a Single Bank and the roll-out of that model on the three Bridge Banks, operating expenses are forecast to further reduce to approximately €2.35 billion at the end of the plan, notwithstanding the inclusion of a strong investment programme (integrated multi-channel services, new platforms for corporate clients and tools for private bankers, refurbishment of approximately 700 branches, etc.), most of which is already present in the UBI Banca stand alone plan.

  Net of non-recurring items, operating expenses will benefit from synergies amounting to over €300 million, falling from €2.64 billion in 2016 to €2.345 billion in 2020.

  In detail:

  a) staff costs are expected to fall constantly to a level of approximately €1.4 billion at the end of the plan.

     Strong generation turnover is planned, with approximately 3,000 staff leaving, as the result of:

     - the exit of approx 4,000 staff of which 600 released following the completion of the Single Bank project

     - the hiring of approximately 900 new staff recruited over the course of the plan - in addition to the approx. 200 resources hired in 2H2016 - to ensure an influx of new expertise to support the evolving commercial approach.

     Staff costs also include important action to enhance and develop human resources including, but not only, a drive on training (almost half a million man/days are planned over the course of the plan), an increase in flexible working already successfully experimented in recent years (smartworking and work-life balance measures) and an increase in variable remuneration in relation to the increase in the Group's profitability;

  b) other administrative expenses, also expected to fall over the course plan, will benefit from savings resulting from the Single Bank organisational structure, including those related to a reduction in branch numbers. In addition to this, savings will be made above all from the optimisation of operating processes and the renegotiation of supply contracts, which will offset natural growth in costs over the course of the Plan.

The combined effect of growth in revenues and reduced costs is expected to produce an improvement in the cost/income ratio to around 60% in 2019 and 52.8% in 2020.

- credit quality and loan losses

  The Group has high credit quality which will be further enhanced over the course of the plan as a result of:

  a) a focus on the organisational structure, enabled by the Single Bank Project, with a further improvement in credit recovery capacities:
     - with regard to bad loans, centralised management already in place since 2009 with over 130 staff is to continue

- with regard to the other problem loans, the Single Bank has enabled the organisational structure to evolve, with the centralised management of problem loans and the introduction of a problem loan account manager reporting directly to the Chief Lending Officer.

Overall, the structure is comprised of **around 400 staff dedicated to the management of problem loans and bad loans.**

b) the reinforcement of monitoring tools with the introduction of evolved performance information (e.g. big data)

c) the use of a ReoCo to support the realisation of the value of real estate collateral, already in operation at the end of 2016.

It is envisaged that these initiatives, together with the reduction in new inflows of non-performing loans, in progress for over four years in the Group, will lead to a further improvement in the already historically high level of credit quality to allow the following to be achieved during the Plan period:
- a reduction in gross non-performing loans to approximately €12.9 billion in 2020
- a decrease in the ratio of impairment losses on loans to total loans to the customers to approximately 0.57% in 2020
- expected coverage for non-performing loans of around 47% (inclusive of write-offs) in 2020
- a reduction in the Texas ratio to around 87% in 2020.

Badwill and the use of tax benefits arising from the prior year losses of the Bridge Banks will contribute to the result for the period.

In this respect we report the following:

a) with regard to the allocation of badwill:

On the basis of the international financial reporting standard IFRS3 (business combinations), “badwill” must be allocated within 12 months from the closing date;

For the purposes of drawing up this Business Plan, the preliminary estimate already made when the acquisition was announced has been updated;

The results of that update, although still preliminary, involve the recognition of badwill through profit and loss as at the acquisition date amounting to approximately €600 million, against book equity of the Bridge Banks, inclusive of an estimate of expected losses in 2017 up until the transfer of control, of approximately €1,010 million. The remaining portion, amounting to approximately €410 million, is expected to be allocated mainly to non-performing loans in order to bring their book value up to the presumed fair value and to other items, such as direct funding and provisions for risks and charges. The release of these items through profit and loss is assumed according to convention to be over a five-year period for loans and over three years for other items.

b) with regard to the use of prior-year tax losses:

As part of the acquisition operation, potential tax benefits were identified arising from the prior-year losses of the Bridge Banks, and transferred to the UBI Group on the basis of favourable replies received from the tax authorities.

As the deferred tax assets in question are not “qualified”, which means that their recoverability depends on the actual certainty of there being sufficient taxable income, an approach was adopted which involves recognition through profit and loss, limiting the analysis of the recoverability to a finite time frame. Over the course of the plan a total of approximately €550 million of deferred tax assets have been recognised in the income statement. For the purpose of regulatory capital, further fiscal benefits will be available after 2020.

(iv) Harmonious growth of profits and capital ratios and structural balance

The Business Plan presents harmonious growth of the Group also following the integration of the Bridge Banks and it confirms the industrial value of the acquisition.

The objectives of the Business Plan allow sustainable profitability over time and stronger capital ratios, contributed to, in the short-term, by the capital increase that will be carried out by UBI Banca and, over the course of the Plan, by growth in profits, with structural balance and risk indicators well above existing and expected regulatory requirements and the targets set by Group policies.

The Plan has a buffer consisting of the DTAs from the Bridge Banks.

The execution of the Plan is also supported by a medium to long-term incentive scheme approved by a Shareholders' Meeting of UBI Banca on 7th April 2017. This involves a direct investment by key management personnel, up to a preset maximum amount and consistent with defined "pay-mix" levels, by purchasing UBI shares with their own funds, 50% of which cannot be sold until 31/12/2019, while the remaining 50% cannot be sold until 31/12/2020. The bonus, paid in UBI shares, considered one of the most appropriate instruments for aligning the interests of shareholders with those of management, is calculated as a multiplier of the investment made on the basis of Group performance measured over the two reference periods to 31/12/2019 and to 31/12/2020.

Structural balance and profitability indicators

	2016 Stand Alone	**2019**	**2020**
CET1 ratio (fully loaded)	11.2%	12.3%	13.5%
Total Capital Ratio (fully loaded)	14.1%	15.8%	17.0%
Leverage ratio (fully loaded)	5.6%	5.6%	6.2%
MREL	33.4%	27.1%	31.5%
Net Stable Funding Ratio	>100%	>100%	>100%
Liquidity Coverage ratio	>100%	>120%	>120%
Texas ratio	109%	98%	87%
Return on Tangible Equity	n.s.	11%	12%

Note: CET1 ratios include impacts from IFRS9[1] implementation, model change, new regulations on write offs and defult interest, etc.)

For further information please contact:
UBI Banca – Investor relations – Tel. +39 035 3922217
Email: investor.relations@ubibanca.it

UBI Banca – Media Relations – Tel. +39 027781 4213 - 4936
Email: media.relations@ubibanca.it

Copy of this press release is available on the website www.ubibanca.it

[1] The Business Plan projections include the impacts resulting from the entrance into force of IFRS 9. On the date of first application (1/1/2018), a gross negative impact on capital of around €210 million gross is estimated. Following the application of regulatory measures, the impact on capital ratios will be negligible.