UBI Banca

"Presentation of Consolidated Results as of 31st December 2014"

February 12, 2015

MODERATOR: VICTOR MASSIAH, CHIEF EXECUTIVE OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the UBI Banca Presentation of Consolidated Results as of the 31st of December 2014.

At this time, I would like to turn the conference over to Mr. Victor Massiah, Chief Executive Officer of UBI Bank. Please go ahead, sir.

VICTOR MASSIAH: Good afternoon to everybody. Thank you for attending this conference. I will go through the presentation as usual.

Page 3 Common Equity Tier 1 phased-in 12.33%, Pro forma Common Equity fully-loaded 11.5% and Basel 3 leverage ratio 5.78% fully-loaded 5.42%. We confirm also this year a dividend. We are increasing it to 0,08€ per share.

Growth in core revenues and operating income in 2014 compared with 2013. First of all, consolidated profit net of non-recurring items of €146.5 million, this is up 46% compared with the €100 million of last year. In terms of analytical results, operating income at 3.4 bln€ which is minus 0.8% year-on-year, but this is a much better distributed operating income compared to last year because we have a growth in net interest income of 3.9%, net fee growth 3.3%, while we have a decrease from €325 million to about €200 in finance results.

We continued our tradition of capping expenses; this is the sixth consecutive year of reduced costs, operating expenses down by 1.6%. So net operating income goes up 0.5%, annualized loans loss rate of 108 bps substantially stable compared to the previous year and inclusive of the result of the AQR. I will explain later the deepness of this.

Net inflows from performing loans to deteriorated status is down significantly by 36.2%, profit on continued operations before tax + 57.4% YoY. The consolidated loss of the Group of €725.8 million compared with the profit of €250 million stated in 2013, following approximately to the €883 millions of net impairment losses on goodwill and intangible assets, obviously this has no impact at all on real profitability, but actually generates for tax reasons an increase of 32 basis points on CET1.

This also would drive to a lower PPA in the following year of about €6 million. In terms of redundancies planned under the Framework Agreement signed with the trade unions on 26 November of about a total of 500 workers, 80% has been completed by the end of January. Loans are up in the final result of the year compared with September of 0.8%, direct funding went up 6.1% in the last quarter.

CET1: first, we were at 13% in September 2014, we are down 12.33%, why? Risk parameters PD and LGD have been updated. I want to stress the point that we update every year, the last year updated is 2013, let me stress it 2013, and from this year we have a full historical series of only crisis years. So this means that we have in terms of historical series the most conservative situation that you could have. All the years are crisis years in the model.

We had a negative effect also from the repurchase of minorities in Commercio e Industria, Ancona, and Carime and a positive effect from the reduction in equity investments (mainly insurance companies) . Then there was the deferred tax recognized in income statement following impairment which was a plus. Altogether, this leads to 12.33% - fully-loaded 11.5% -, proportionally the logic is the same.

In terms of total capital ratio, you all know because of previous communications made by all the banks that there has been a very recent more restrictive interpretation of rules by authorities regarding subordinated debts, and this has been a driver of the reduction of the total capital.

Page 5, we are trying to use the last quarter's results to last month's results, to identify a potential trend for the future. And apparently there is a message of hope, why? On the blue line, you have the total performing loans that appear to be rebounding from the mid of the previous quarter. End of October, there was a kind of a floor then through November, we touched the floor and went up. This has been continuing during January .

On the other side, on the red line, total deteriorated loans as you can see are going down. So for the first time, we have a double message that goes in the right direction, increase in performing lending and decrease in deteriorated loans.

In terms of additional good news on the lending part of the story, we have a confirmation of a message that we had been delivering through the quarters in terms of network banks, a very good rate of substitution in terms of new origination over reimbursements which went up by the last quarter of the year to a 112% and to 101% for the full year , which is much better anyway than the previous year 2013. Now naturally in my opinion the very good news is the one regarding the product companies. They are still far away from the 100% level of substitution, but I think that in terms of rate of substitution, the acceleration from the first quarter was very good news from 48% to 64%, it's a very good increase in the replacement rate.

We always remind you that we have a portfolio in run-off that now is in the area of €6.4 billions.

The only figure that I would like to comment on , on Page 7 is the detail regarding what's happening in terms of retail bonds on one side, and current accounts and mutual funds on the other side. S Retail bonds went down through the year by 3.9%. On the other side, we have an increase in Assets under Management of 2.4% which is good news in terms of potential increase of the Asset Management contribution in the future. And the other one is increase in the current accounts and deposits quarter-on-quarter and year-on-year.

Now, if you go to Page 8, you can see that in terms of retail bonds, we have…even if we hit a 100% rate of substitution, still we have a very important decrease of the spread, and this is very good news in terms of the cost of these bonds in the following couple of years. We have also the distribution of the maturity profile year-by-year and you can see the 2015 will be a relatively easy year. And on the other side, also in terms of institutional bonds, the level of maturity for 2015 is in the lower level. And so this year 2015 is not going to be worrying at all in terms of funding on both sides.

In terms of Govies portfolio, it's important to understand the distribution and we are publishing it as usual. Two messages here, one, don't get too much in love with the €21.9 billion figure on the upper one because it's in terms of IAS. Actually, the real increase in nominal amount has been by only €400 million, from 19.5 bln€ to 19.9 bln€. In terms of the maturity on the lower part of the slide, as you can see also in terms of maturity 2015 in the Govies bonds is very marginal.

On page 10, you have also the analysis of the unencumbered part of the portfolio: as you may see is still very high at 32% of short-term deposits; TLTRO and LTROs are €8.3 billions and by the way, the €5 billion remaining of the previous LTRO will be reimbursed by February 26 th.

I'll leave to your reading Page 11. On page 12, just an ultimate analysis on the behavior of the net interest income year-on-year, as you may see, as we explained in the other quarters, the major reason for the improvement is the funding cost that we have been able to reduce in a significant way, while obviously on the other side, the lending activity unfortunately is delivering a lower contribution.

This has been accelerated in a way in the last quarter; the lending part of this story has been the most negative contribution to the decrease in the net interest income.

On Page 13, you may see that the growth of net interest income from business with customers, thanks to the widening of customer spread and notwithstanding lower average lending volumes year-on-year. Better markdown related to lower cost of funding and stable markup, thanks to substitutions of expiring loans at higher spreads. Obviously, as was previously announced, the lower contribution from financial assets has been the main driver for the quarter-on-quarter dynamics; in particular, there was a very special situation with almost €5 billions of govies expiring. They represent as you know 25% of the whole portfolio. Bonds e expiring had a much higher level of interest rate.

To summarize in a way the moving parts of net interest income in terms of lending, we have long-term loans down of about €62.4 billions, more or less €7 billions are expiring every year of which €6.3 billions may be replaced with new loans at higher spreads (the annual change in average spread has been increasing by 17 basis points at a substitution rate that was almost perfect, 100%).

The other remaining part of the story 0.5, 0.6 bln€, they are run-off of the higher priced portfolio, third parties' lending, so no replacements and no re-pricing.

Short-term loans amount to about €23 billion: spreads on new loans was affected by the competition; you all know the effect that the TLTRO is having in terms of shrinking the spreads on short-term loans.

In terms of funding, we have €23.6 billion retail bonds; nearly one third of the stock expires every year , and we have already explained so many times the good contribution coming from the much lower level of spread that we are paying on the recent issuing. Institutional bonds: we will have opportunistic recourse to covered bonds, EMTN, and lower Tier 2. We have as a matter of fact, today, a much better market . On deposits, there is a limited re-pricing that's still possible, but that's very limited due to the fact that this current interest rates on deposits are very close to zero. In terms of financial assets, we have already said that there is a lower contribution for the reason that we have already shared with you.

On Page 16, net commission income is really up 3.2% mainly thanks to good performance of securities-related business, but also to careful management of assets. Let me say that in perspective what will be important will be the evolution of the lending activity because most of what we are missing in the fee-based business is what is related to the lending activity.

In terms of assets under management, there has been a positive evolution Page 17, on both year-on-year and quarter-on-quarter. I think it's also of interest to have a look at the distribution of asset between bond, balanced, equity, flexible and cash. As you can see, as you can appreciate there is still room for improving the mix in term of a better contribution to the profit and loss.

I am not going to bore you every single quarter on the efficacy of cost evolution. I just would like to stress something that maybe…has been less stressed during the previous conversation…the previous presentations, which is, the fact that anyway we are not saving at all in terms of investments: €8.1 million referring to new IT projects implementations relating to Digital Bank project, merger between IW Bank and UBI Private Investment, et cetera, have been booked in the last quarter. And IT projects…I am referring to IT projects, and not also to other types of project that are still investments, but just focusing on the IT projects, we have €85.5 million investment this year versus €75.3 million in 2013, so a very important level of investments. So the fact that we are saving on costs does not mean that we are retrenching at all from investments. Actually, we are enforcing our level of investment in terms of new research, new solutions, and new projects.

On Page 19, we are giving you a summary of what you know, in terms of evolution of operating costs, staff costs, other administrative expenses, staff headcounts, and the number of domestic branches. You know all this.

I will focus now on Page 20, on credit. First of all, we would like to share with you on the upper right what has been the AQR request and how we have reacted to the AQR request. The analytical provisioning coming from the AQR request was €366 million, distributed in terms of credit file review perimeter, €199 million, and projection of findings perimeter, €167 million.

Well, LLPs on portfolio in scope, the Analytical Provisioning has been €539 million versus €366 million requested: €193 million in the same perimeter of the credit file review and €346 million in the projection of findings. Also in terms of collective provisioning it was €23 million and we have delivered €70 million. So I think we have a very, very, very conservative approach to AQR request than we can confirm what we told you before, that we consider this perfectly in line with out usual way of behaving. There was no special action in the fourth quarter.

In terms of stocks of deteriorated loans, on Page 21; you may appreciate that, consistent with what we have seen, the stock of gross deteriorated loans has been stabilizing, and actually the net-deteriorated loan stock is almost stabilizing too, and there has also been an activity of disposal of highly provisioned positions. : in 2011 €219 million, in 2012 €108 million, in 2013 €103 million, and in 2014 €304 million of disposals. So, as you may appreciate, we are not making a big noise about it, but we are continuously selling deteriorated loans.

On Page 22, more encouraging signs in terms of evolution of the quality of credit. First of all, the important retrenchment, shrinking of the total inflows from performing loans. They have been reduced by 36.2% in year 2014, but then we would like also to share with you the distribution in terms of risk profile of our portfolio.

As you may see as at the end of the year, the high risk part of the total portfolio is only 5.5% reducing from 6.4% in the year 2013. And on the opposite part of the story, the low risk part of portfolio has been increasing from 67.2% to 71%. So let me define without having any type of arrogance, that I think the quality of the performing portfolio is really pretty high.

To finalize this presentation, in terms of the outlook for the year, I will share with you…read with you the Page 23.

Net interest income will be affected in 2015 by a lower contribution from the securities portfolio, mainly as a result of positions that matured in the held-to-maturity portfolio in the last months of 2014.

A recovery in volumes of business with customers should make it possible to increase net interest income from business with customers, even in the presence of strong competition on pricing, and help offset the lower contribution forecast from the securities portfolio.

Net fee and commission income should benefit from positive trends expected for assets under management and insurance and possible growth in fees and commissions associated with lending.

A further decrease in sovereign debt risk could allow positive results to be achieved for trading and hedging activity again in 2015.

The recent trade union agreement will help compensate for the automatic increases in staff costs, the overall performance of which will in any case depend on the final outcome of the renewal of the national trade union contract.

The downwards trend for other administrative expenses is forecast to continue.

The slowdown in the pace of new defaulted loans recorded in 2014 is expected to continue in 2015 and could favour an improvement in loan losses compared with 2014.

The starting of the year has been reasonably encouraging. Obviously we expect a scenario that should help us to deliver better results in 2015 but it is also obvious that we are running in a very volatile world. We hope everything will go smoothly this year. One thing that is for sure, the level of bad news compared to other years has really shrunk.

Thank you for your attention, we are now ready to answer to your questions.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. The first question is from Ms. Azzurra Guelfi of Citi. Please go ahead, madam.

AZZURRA GUELFI: Hi, good afternoon. It is Azzurra from Citi. I have three quick questions, one is on the NPL.

VICTOR MASSIAH: Excuse me, Azzurra, good afternoon. Could you speak a little bit closer to the microphone, I have some problems to hear you.

AZZURRA GUELFI: Yes, can you hear me better now?

VICTOR MASSIAH: Much, much better. Thank you, Azzurra.

AZZURRA GUELFI: Excellent. So the peak on NPLs: when do you expect the NPL to peak at a system level, and for you, of course? Now, banking fees, I've seen that has been pretty strong this quarter and you had only 1% volume growth. Is there any particular activity there that you are putting in place? And the third one is on the NII, you gave us lots of detail on the spread, and that's great. And I just wanted to understand, going into 2015, the contribution from the financial portfolio is likely to be down year-on-year. But would the component of the commercial part be enough to offset this, so we could hope for a kind of flattish NII or that is too optimistic? And the competitive pressure that you see mostly, if I understand good, in the short-term lending, is it something that you expect to get stronger in 2015, given the wider liquidity available or to stabilize at this level? Thank you.

VICTOR MASSIAH: Okay, the question on the net interest income is very clear to me. I have…and could you please again restate the first two, because I had a problem again to hear you. On the NPLs what was the question, excuse me, Azzurra?

AZZURRA GUELFI: No, no problem sorry. The peak of NPLs?

VICTOR MASSIAH: Peak, okay. Yes.

AZZURRA GUELFI: And the other one is on banking fees, they have been pretty strong this quarter, and loans went only up 1% in the quarter. And of course, you are coming back to lending now. Is there any particular activity that you are putting in place, so there is some concentration in the quarter? Thank you.

VICTOR MASSIAH: Okay, clear. Okay on the NPLs peak, we have to be analytical. In terms of new inflows of deteriorated loans, I think, yes, we already touched the peak. And cross our fingers, the peak is over. In terms of going from impaired to non-performing loans, the peak in my opinion will be crossed during this year. Why? Because you all know that from impaired to non-performing it takes anything between 12-months and 24-months. Now, since the peak of the inflows has been in 2013, still in 2015 you will see an important level of transition from impaired to non-performing. So sorry, but I have to be analytical in my answer. Is it clear?

AZZURRA GUELFI: Yes, thank you.

VICTOR MASSIAH: Okay, on banking fees…on banking fees, yes, definitely it was a good quarter. Obviously, we don't have to forget that it's also a quarter where we have a good boost also from the performing fees coming from the asset management company, which had delivered very good result this year. Definitely something is happening: still, I think that we have a lot of room to improvement coming from the lending activity. I am very keen on that, I hope that this will come.

So entering the answer of the net interest income; let me give you some guidelines. If we are talking about a GDP that is going to grow 0.5%, 0.6% plus level of inflation of 0.5%, 0.6%, we could have, let's say, nominal GDP, not real, nominal GDP growth in the area of 1.1%, 1.2%. Usually, in the normal world, the level of lending growth is reasonably consistent with the nominal growth of the GDP. So we could expect 1% / 2%, in that case, with this type of growth, yes, the commercial contribution to the net interest income will increase, not necessarily will be able to fully compensate the reduction on the performance of the govies portfolio. If we will be able to grow more than 2%, which I am not promising, in that case there is a good probability that we can compensate. Obviously, there is the other part of the story which is maybe heavier, in terms of pricing. It's obvious that if aggressive pricing will accelerate, what I am saying is not true anymore. .I hope obviously that let's say the fever of the TLTRO is already over. If this is not true, we could have additional pressure on pricing, which obviously won't be good on the net interest income. Let me say, that I have not seen acceleration in the pressure in January, still too early to say for the full year.

AZZURRA GUELFI: Thank you.

VICTOR MASSIAH: Thank you, Azzurra.

OPERATOR: The next question is from Mr. Domenico Santoro of Autonomous. Please go ahead, sir.

DOMENICO SANTORO: Yes, good afternoon. Four questions on my side. I'll try to be very quick. The first one is Page 7, when I see that, I don't know whether there was…that was a deliberate strategy. You focused more on the direct deposits in the quarter, which is a little bit counterintuitive considering that basically other competitors of yours, they focus more on the asset management. So just wondering whether there was…that was a deliberate strategy or maybe this trend is going to reverse over the next quarters. Then on Page 14; a question very similar to that probably…on the margin side, a question very similar to that of Azzurra, because I have seen in the quarter minus €23 million of compression or contraction, let's say, of NII due to lending, which is probably even worse considering that the lending growth was positive in the quarter. What is basically behind that, whether it's going to be in a way also the run rate over the next quarters? On non-performing, you are right, you are basically getting rid of a lot of non-performing and I assume these are high covered non-performing. So, just wonder which kind of position they are and I see also your coverage basically going down quarter-by-quarter. So I was just wondering what is going to happen this year and whether you might probably, lets say do some more provisioning in order to keep it stable in 2015. And then, the capital, same question that I asked to your colleagues. You've started basically to talk with the new regulator right now, right. And probably it's a couple of months. I just wonder whether from the conversation that you had, you are seeing the regulatory focusing on some specific capital item. Because I asked the same question to your colleagues over the last two-three days and it looks like the regulator is quite accommodating in a way, but we hear everyday that they are looking at the quality of capital, the DTA specifically, the Danish compromise, this is not concerning you, of course. But also the risks related to it and so and so, I just want to have your opinion about this. Thank you very much.

VICTOR MASSIAH: Thank you. I will start with the last one saying it's difficult to comment something that is volatile and it's moving. We have to understand that this is a kind of a start up of the European supervisory situation, a European ruling. We have to accept that the ones that have the mission to normalize the regulation must have also the time to do their work. So, yes, we have some volatility and, yes, we have some changing rules even last minute, the subordinated lower Tier 2, it was a case study in this sense. However, we must understand it's not easy, they are trying to put together many different rules by many different countries and start to normalize and there is pressure from everybody. But don't ask me to comment more than that because obviously it's too early to comment.

We can contribute if asked to define the regulation, if asked obviously, but we cannot comment that much while work is in progress. And let's take the point, as simple as it is. It is a work in progress situation. Obviously, if we were commenting this type of issues in 2017 with the same problems, well, that would be a problem, but it's a start up. And we must understand.

DOMENICO SANTORO: Sorry, just to follow-up on this, I understand that it's just the beginning of conversations. What do you expect in case there is some focus, and hypothetically, on the regulator on some specific item, would you expect basically the regulator to apply sort of a buffer from the conversation that you are starting to have? Would you expect basically the regulator to be a little bit more rigid, let's say, in terms of dividend distribution?

VICTOR MASSIAH: The approach of the regulatory in term of increasing capital is obvious. I mean it's clear, sharp clear. I think that this has been a trend in the last years, not one year, and even with the national regulator. Actually, we have to understand also that there is not a national and a European regulator in the case of banks like us. We have a mixed team that is formed both by national and European staff. I think that Governor Visco was very clear in the last speech during the FOREX event.

So the point we have to make is the following. We have a trend towards a strongest possible level of capital. Then, what is capital, what is common equity, what is total capital, what is subordinated, how do you count? It's a regulation in progress. The trend is clear; the trend is towards a strong capitalized bank. But at the same time, we have no problem as we are today paying a dividend of €0.08, which is a 50% payout given our situation. So I would not make it too dramatic in a way. You can always work with the rules, if the rules are stable. We must have well stabilized rules.

Regarding your…the other questions you asked me, in terms of NPL coverage what I can I say, it's very well known music. We are alltogether increasing our coverage, I don't know why you are talking about decreasing our coverage. Then if you will come from the total coverage to single aspects and in particular non-performing loans, in this case, you have to understand that the new inflow in the non-performing loans has been important. More recent non performing loans have a lower coverage level by definition. There is also a much, much higher level of loans with physical guarantee that has been inflowing. And this obviously influences the coverage. After the exit of the AQR I think there is no doubt now on the way we cover. And this also in my opinion demonstrated by the way we have been selling some of our positions. Anyway, you will have additional details on Page 29, in the annex of the presentation.

Lending activity and lending spread you were referring on Page 14. Now, it is not true that we had a stable lending in terms of the average lending. You have to keep in mind that during the fourth quarter, lending volumes went down before going up. So the average is not increasing. So its really a price effect in a way, but it also comes with the lending activity that only went up in the second part of the quarter, (go back to Page 5 to see that the dynamics of the quarter). The punctual, end of the quarter was at higher level of lending, but it had not t been consistent during the quarter. So there has not been any type of volume contribution to the net interest income in 4Q2014.

DOMENICO SANTORO: So, basically it is…

VICTOR MASSIAH: Last on cash, we have the difference and excuse me, current account differentiation with other competitor on this subject. We are different from other competitors. It's true, and there is a good reason for that, that we have stressed more than others on the retail bonds because we have a much higher level of medium, long-term funding. Now, the first move from the retail bonds when they are not renewed by a customer, they go first on the current account, and then to Assets under Management. So this is exactly what's detailed in this table

DOMENICO SANTORO: So, to summarize…sorry, just a follow-up. I'm sorry if I take more time. I was actually referring at Page 12 where I see €23 million of reduction of NII due to lending. Basically you….

VICTOR MASSIAH: But you you said this is wore because there was an increase in volume, and so, no, it's not true because there was no real volume contribution to the net interest income because of the average volumes evolution.

DOMENICO SANTORO: So, basically margin compression is less than €23 million. This is what you say.

VICTOR MASSIAH: What I'm trying to say is that there was a pressure on pricing due to TLTRO and we are seeing some improvement in January. Again, it's a matter of fact that there has been higher competition coming from TLTRO, while volumes on the last quarter are not a key factor.

DOMENICO SANTORO: Okay, thank you. Very good, thank you very much.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Mr. Giovanni Razzoli of Equita SIM. Please go ahead, sir.

GIOVANNI RAZZOLI: Good afternoon. I have two quick questions; the first one is on Slide #15 where you say that competition is mostly affecting the short-term segment of the loan book. Can you share with us also some evidence of the degree of this competition so that we can have an understanding of the magnitude of this effect? And the second question, a clarification on what you just said in terms of your commercial policy for 2015. You have €7.3 billion of retail bonds maturing. Can you share with us what's the substitution rate that you would assume there, as a part of these bonds may be switched to the assets under custody and then to Assets under Management products? Thank you.

VICTOR MASSIAH: Keep in mind that we are able during the years to go up above €8 billion per year and even €9 billion per year of bonds expiring and being replaced. So we have, first of all, a year that is not a heavy year in terms of maturities. On top of that, I think we don't have the necessity to do 100% this year in terms of rate of substitution. So you can understand that there is an important room for a shift to Asset under Management, also including as I said before, some money in the current accounts that is probably only transitional.

And third, I don't want to answer to the anecdotal question not because I hate you, but because the real final answer is on Page 32… I mean that short term mark up went from 347 bps in the third quarter to 335 in the fourth quarter. So you can appreciate what was the big hit given to the short-term from competition .

GIOVANNI RAZZOLI:

thank you. I missed Slide #31.

VICTOR MASSIAH: Sorry about that. I personally didn't present that, maybe next time we'll put it in the main part of the presentation.

OPERATOR: The next question is from Mr. Riccardo Rovere of Mediobanca. Please go ahead, sir.

RICCARDO ROVERE: Good afternoon to everybody. Three questions from my side, first of all, on the shortfall to expected loss, if you can give us a number for the end of 2014. And still on this topic, can you explain to us why you did not use the possibility of eliminating the shortfall and increasing the coverage, given that this, like the goodwill, would….

VICTOR MASSIAH: Riccardo, sorry, I couldn't hear the last part, to me the shortfall question is clear, then I couldn't understand.

RICARDO RODRIGUEZ: Yes, I just was wondering why you did not decide to eliminate the shortfall, as this would have had no impact on the capital like writing off the goodwill, so increasing the coverage like one of your peers announced a few days ago. The other question I was interested in, if I look at the reporting under the Bank of Italy scheme, the revaluation reserve goes down in December versus September. And I was wondering why, because this is a little bit counterintuitive, given that the sovereign spreads have actually improved. So I was wondering, what is behind that? Thank you.

VICTOR MASSIAH: Okay. First of all, the level of shortfall is still in the annex on the Page 26, and its 518 mln€ in CET1, 37 in AT1 and 370 in T2. So altogether it is more or less 920.

Regarding the question of using the coverage to cover and closing the shortfall. My answer is always the same, it's a question of how you manage your bank in terms of managing the single loan positions, not always, not everything is managed in the headquarters. Actually, it is normally very well distributed in the different areas, in the different territories, in the different branches.

Now, if you cover more in a way than you think is needed, and then if the senior account person has to make a transaction with the customer or sell the position, he will behave consistently with the level of coverage. So sometimes, missing the control of the coverage could exit in transactions that are actually destroying value of the bank. So it's very nice and really convenient in a way to make a write-off., but actually it's not necessarily good management.

Obviously, there could be different opinions. What I know, is that, for the moment, we have been year-by-year consistently doing our job in terms of cost of non-performing loans, and that you also have never had any type of surprise in that. I don't want to comment on others.

RICCARDO ROVERE: Okay. Thanks, and on the revaluation reserve?

VICTOR MASSIAH: We have sold some govies. . And we have taken some profit from the sale of these govies.

RICCARDO ROVERE: But, you sold and then you bought them again because the AFS assets are approx. stable.

VICTOR MASSIAH: Yes.

RICCARDO ROVERE: Okay. So you sold what, you know, okay, got it. Okay.

VICTOR MASSIAH: Yes. Thank you, Riccardo.

OPERATOR: The next question is from Mr. Ignacio Cerezo of Credit Suisse. Please go ahead, sir.

IGNACIO CEREZO: Yes, hello. A couple of questions from my side. The first one is on cost of risk, obviously, I mean it's been a bit of a messy year actually in terms of provisions across the sector. You put on the slide actually there is like €600 million provisions throughout the year which relate to AQR. So I was basically wondering, whether you can give us a little bit of guidance of what you think the underlying cost of risk in the year has been, and what should we expect basically for 2015. And the second question is a bit more some sort of technical, if you can explain actually why RWAs are up 4% in the quarter? Thank you.

VICTOR MASSIAH: What was up 4%?

IGNACIO CEREZO: Risk-weighted asset number.

VICTOR MASSIAH: Risk-weighted asset up by 4%. Okay, sorry.

IGNACIO CEREZO: Yes.

VICTOR MASSIAH: Okay. Thank you. In terms of risk-weighted assets, it's a question of PD and LGD. The reason is very simple. Don't forget in the last quarter we have updated our historical series. And again, let me stress the discipline that we have in this bank to include up to 2013 in our historical series. This is a strong discipline in our bank.

IGNACIO CEREZO: Okay.

VICTOR MASSIAH: Second, in terms of the cost of credit guideline. For year 2015, I can only confirm the guideline that we gave of reduced cost of credit for the full year. If you ask me a target, in the following years, what will be a normalized cost of credit for a bank like UBI Banca? My answer is, half or what it is today, half. So in the area of 50 basis points, keeping in mind that I am not promising this for 2015; I said in a normalized situation. Why? Because before the crisis, the level of LLPs in terms of basis points was 30 basis points. So by giving you a 50 basis point which is anyway actually less than half of what it is today. It is still a conservative estimate of what LLPs could be.

IGNACIO CEREZO: Okay. And sorry, a follow-up question on the P&L as well, if you can give some guidance on the tax rate for 2015, please.

VICTOR MASSIAH: Well, tax rate, I don't see any particular shift between 2014 and 2015. I don't see big changes…

IGNACIO CEREZO: So it's still around 40.

VICTOR MASSIAH: Maybe…obviously, it could be a little bit down in terms of tax rate, and the more we go towards a normalized word, but I don't see revolutions in the 2015.

IGNACIO CEREZO: Okay, excellent. Thank you.

OPERATOR: The next question is from Ms. Marta Bastoni of Barclays. Please go ahead, madam.

MARTA BASTONI: Hi, good afternoon. I have a couple of questions. First of all, I was wondering if you can give us your opinion on the change in law on the Popolari Banks, both from the point of view of UBI and as well for the system. And then also on the bad bank, on the news flow on the bad bank, what is your opinion? And I was curious to hear whether you would consider something useful for UBI. And the third question would be on commissions. What part of the securities management advisory fee is due to upfront products in the quarter, what percentage or if you can give a little bit of color on this? Thanks.

VICTOR MASSIAH: Okay. I will ask my colleague to give me the percentage of the securities upfront on the total for the last question. In the meanwhile, I will comment on Popolari law and bad bank. Popolari law is difficult for me to comment, because obviously in every single Popolare bank there are shareholders with different opinions about this law. So for me as a CEO, it's difficult to synthesize this. And I will like not to comment in terms of, is it right or is it wrong. It is what it is, it's a law that at the moment it is under approval… And this has been a decision that was not expected, as it took as a surprise the whole system.

The Popolari Banks are dialoguing with the government, from what I know. And in my opinion, this probably is going to happen, , and we're trying to reach an agreement for example on the maximum level of possession, it's an hypothesis. But, it's something that is really work in progress. So it's very difficult to comment something that is work in progress.

Definitely, I don't think I am going to tell anything surprising. Definitely, if at the end of this process there will be a more or less an automatic conversion into joint stock companiesi(spa), it will be for the Top 10 banks a radical change, which could obviously transform some of us or all of us as also more contendible companies. . I would recommend to wait and see the…if the conversion happens and how this will be finalized.

MARTA BASTONI: Sure.

VICTOR MASSIAH: On the bad bank, again, here we have even less information ... There was an announcement made today, if I understand well, that this will be brought to the next government meeting, but that I don't have enough color on that., Is it a kind of guarantee by the state? Obviously, this will be helpful. Is it a guarantee by the state that we pay?, I assume so because obviously this cannot be just a state help;, it must be something that we pay? But again, I'm really…unable to comment something that I don't know.

Conceptually, in theory, it can help, obviously.

As concerns the question on upfront fees, it is 3.4% of total assets under management fees in the quarter, and while in terms of insurance, it's 4.4% in the quarter of the total fees driven by the insurance activity.

MARTA BASTONI: Sorry, so 3.4% management fees, these are the up fronts?

VICTOR MASSIAH: Yes.

MARTA BASTONI: Okay. Thanks. Thank you very much.

OPERATOR: The next question is from Jaime Hernàndez of Nomura. Please go ahead, sir.

JAIME HERNÀNDEZ: Hi, good afternoon, Mr. Massiah and team. I was wondering, if you can please give us some color…additional color on the maturities of sovereign bond maturity in this quarter, because if I look to Slide 12, it looks like the contribution from the debt portfolio this quarter was not the main driver for the net interest income decline, which was more related to lower lending deals. So I was wondering if you can confirm if most of the bond maturities were close to the end of the year or to the end of the quarter rather than to the beginning of the quarter. In order to see, if in the first quarter, we could expect an additional impact from these lower contributions?

VICTOR MASSIAH: Yes, you made exactly a perfect analysis Jaime. It's exactly what it is. It happened in the last part of the quarter, so we had a marginal impact on the last quarter, it's going to have more impact in 2015, which is exactly why we are talking about higher and more difficult time on 2015 because of the lower contribution from the govies bond portfolio. On the other side on Page 15, keep in mind that there has been a one off event of minus 5, that was due to new methodology of accounting interest on claims in Prestitalia. This has been a one off. So, on one side, you cannot take as a full impact what happened to the govies bonds contribution in the fourth quarter. On the other side, add five millions that are a one-off just for the quarter.

JAIME HERNÀNDEZ: Thank you very much.

VICTOR MASSIAH: Okay. Thank you.

OPERATOR: The next question is from Mr. Christian Carrese of Intermonte. Please go ahead, sir.

CHRISTIAN CARRESE: Hello. Can you hear me?

VICTOR MASSIAH: Not so well. Can you go closer to the microphone, please?

CHRISTIAN CARRESE: Hello. Can you hear me now?

VICTOR MASSIAH: Much better. Thank you, Christian.

CHRISTIAN CARRESE: Okay, I have few questions. The first one is on trading income. What should we expect in 2015? I mean, the level registered…booked in the fourth quarter should be seen as the run rate…quarterly run rate for 2015? The second question is on loan loss provisions, your guidance is quite clear. I was wondering if you can give us the magnitude of the improvement in 2015, assuming your nominal GDP assumption of year-end consensus assumption of a nominal GDP growth of 1%. The third question is on tax rate, a clarification. You said that you are not expecting any particular improvement in 2015. I was wondering, the regional IRAP tax should not give some benefit in 2015? And finally, on bad bank, you said that it could be welcome by the bank, but I didn't understand if you are prepared to sell some NPLs to the bad bank. I know that we don't know yet the details, but you could be involved in this process or you want to work out NPLs by yourself? Thank you.

VICTOR MASSIAH: I'll start from the last one. As for the moment, we are doing, in my opinion, reasonably fine by ourselves. It's not my approach to have any type of prejudice. So I am not going to say, of course, yes, and I am not going to say, of course, no. I will use a much more conservative , "it depends". It depends on the mechanism of the bad bank and the mechanism for the setting of pricing that will come out from the mechanism. It's difficult again for me to comment more than that, because I don't think none of us knows the mechanism of the bad bank. So I don't feel comfortable to comment on what I don't know.

On the tax rate, yes, the IRAP on the regional basis, it could help in terms of a couple of points. But as I said, it's not a revolution, it could be a couple of points of help.

In term of loan losses, no, we are not used to give a precise figure. So I am sorry not to answer your question. But this is part of our policy on this, and the same on trading income. So I can give a generic comment on that. The new year start was very positive. But honestly speaking, we have seen also an incredible volatility. Give me some , Ukraine, you mix it with Greece, and give me some additional bad news from the Middle East, and I can have hell in a minute. So we want to be conservative. Also in the trading income notwithstanding what frankly speaking was a good start.

CHRISTIAN CARRESE: Very clear. Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Mr. Riccardo Rovere a follow-up of Mediobanca. Please go ahead, sir.

RICCARDO ROVERE: Yes. Thanks again for taking the question. Just one thing, can you please remind us the amount of people that should leave under the so-called early retirement in 2015 and 2016. And on top of what you have already disclosed in terms of headcount reduction, is it possible to have a rough idea of the people that might eventually be involved or have the requisites to be involved in the so-called early retirement that are not part of the plan currently underway? Thank you.

VICTOR MASSIAH: As we said at the beginning of the presentation.. we have 80% of the 500 already leaving the bank. So 80% is already been delivered and are sure all the 500 will be out. So the whole target is mathematically already hit. We have a couple of additional good news. The first one, I think we have a number , almost the double of it, so much closer to 1,000 than to 500, that has asked for early retirement . So that means that in theory we have an additional potential number of people that would like to leave. The point is that they are far away, many years away from natural retirement, and so this would be very costly. This by the way means that one year after, two years after, this could be a window that we can reopen. So yes, we have additional potential for that. Third, good news is that, we have more than expected people asking for part time solutions. And this has an additional positive influence on the cost of people. What we are not able to foresee on the other side, would be the impact of the national labor contract, this is where we are blind. Unfortunately, and really unfortunately, I am not happy at all with the situation; there is a situation where it is very difficult to have a negotiation. And because of many reasons, it's very hard time, it's hard for everybody to identify solutions, and this is the part of the story where we are blind, Riccardo.

RICCARDO ROVERE: Okay, just to be sure I understand correctly. When you said to double the amount of the people that will leave, it means 1,000 people of which 500 have already left will leave the next few months, so 500 left.

VICTOR MASSIAH: To be picky , I said a little bit less.

RICCARDO ROVERE: Fair enough.

VICTOR MASSIAH: So maybe it's an important dimension.

RICCARDO ROVERE: Okay. So 500, on top of the 500 that have already left or will leave in the next few months?

VICTOR MASSIAH: Yes.

RICCARDO ROVERE: Okay, thanks.

OPERATOR: The next question is from Mr. Alberto Cordara of Merrill Lynch. Please go ahead, sir.

ALBERTO CORDARA: Hello, Mr. Massiah. Now, my question is, I just saw now a news on Bloomberg, and I wanted to see what would be your take on it. So this is referring to a competitor of yours that has just sold a portfolio of NPLs of €2.4 billion. And it looked like the price paid by this counterpart has been 10%. So I mean, there is a very strong discount in the European market right now. And I am looking at this deal also because it was a deal when they sold NPLs but also they structured servicing agreements, so there was a situation, so they had a capital gain on one side and a loss on the other. So I mean, I'm just thinking about this bad bank and transfer price. I mean, do you think that…and how is it possible that the state goes around this state aid issue? And maybe the question to you is that, if you look at your own NPLs, what is the level of markdowns that you need to take your NPLs to generate some kind of yield, maybe, I don't know, 3%, 4%, something like that. So sorry if it is a very broad question? And the second point is about something that was discussed in the call, i.e. the reform of the Popolari may generate interest in Italian banks from potential buyers. I mean, you have a federal model, so you have a lot of banks that are part of UBI Banca. Just a question for you is, if you can give us an idea over the past, I don't know one or two years, how many times have you been approached by international buyers for some of these banks? Because potentially you could be a seller also on this.

VICTOR MASSIAH: To buy these banks, there was not one single buyer. Nobody has approached us.

ALBERTO CORDARA: Okay.

VICTOR MASSIAH: We are not appealing, we are not so nice, yes, but there is…

ALBERTO CORDARA: But you are a good banker, you know you are one of the best banks with asset quality and what not, so…

VICTOR MASSIAH: No, no there was nobody, because everybody knows that this is just an organizational structure and if there is a solution, we consider the whole Group. Let me remind you that it's a federal integrated model if I may define it this way, because we have a centralized logistic, a centralized purchasing center, a centralized software, a centralized management, a centralized marketing, a centralized anything you can mention…

ALBERTO CORDARA: So but you have also minorities.

VICTOR MASSIAH: Yes, but the minorities are now very limited…we've brought back many minorities, now tjhere are just the two foundations, one for Banca Regionale Europea and one for Commercio e Industria. So it's really a centralized model with federal distribution, what is federal, as a matter of fact, it's the distribution. However, on the bad bank, on the bad bank I cannot say more than what I said before in the sense that, yes, of course, a guarantee from the government with no payment for the guarantee, would be state help. If there is a level of payment, a fee to pay for the guarantee to the state, this would justify a situation which is not state help; anyway I'll leave this to the government, and I'll leave this to the persons that are specialized for this type of issue. And about ourselves, can we be interested or not, it depends, as I said before.

ALBERTO CORDARA: Thank you.

VICTOR MASSIAH: Yes please.

ALBERTO CORDARA: If you think also, for instance, let's say you want to…I mean, you have recoveries and you have write-offs. And I don't know what is the time horizon of when you finally clean up this, maybe seven or eight years. Let's say you want to generate a yield of, I don't know, 3% or 4%. What is the level of write-offs that you need to take to generate a positive yield so that you can pay…?

VICTOR MASSIAH: It is single situation by single situation. This will be a negotiation.

ALBERTO CORDARA: Sure, sure.

VICTOR MASSIAH: I am not going to be so transparent, because if I have to sell, it's my price versus somebody else's price.

ALBERTO CORDARA: Understood yes, okay. Okay, many thanks

VICTOR MASSIAH: Many thanks, Alberto.

ALBERTO CORDARA: Many thanks, you've been always helpful. Thank you very much.

VICTOR MASSIAH: I see Riccardo Rovere back too….

OPERATOR: We have a follow-up question here from Mr. Riccardo Rovere of Mediobanca. Please go ahead.

RICCARDO ROVERE: Yes, in theory, but Alberto just asked it. So I am happy with that. Thanks.

VICTOR MASSIAH: Okay, okay, thank you again.

OPERATOR: Gentlemen, at this time, there are no questions registered.

VICTOR MASSIAH: So let me, madam, thank everybody for attending this conference and I look forward to seeing you again in one-to ones. Thank you to everybody.