UBI Banca

"Presentation of Consolidated Results as of December 31st, 2011 Conference Call"

March 28, 2012

MODERATOR: MR. 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 December the 31st, 2011. After the presentation, there will be an opportunity to ask questions.

At this time, I would like to turn the conference over to Mr. Victor Massiah, CEO of UBI Banca. Please go ahead, sir.

VICTOR MASSIAH: Thank you madam. Good afternoon to everybody, welcome to the conference. I will start with Page #3, where we tried to summarize the main ratios that indicate the solid fundamentals, the balanced financial structure, the low risk and the improving productivity that characterize our bank.

First of all, structure ratios: core Tier 1 ratio has reached 8.56% starting from 6.95% 2010. I would like to stress that this result, 8.56% is still under standardized computation.

Leverage is declining. It was already low, 19.3x, it is now 18.5x. We have a very rigorous and very conservative risk weighted asset computation, as you can appreciate. We have improved from 72.3% to 70.1%. I think and I've read on many independent studies that this is probably the heaviest and most rigorous, not in Italy, but in Europe. Financial assets on total assets: 8.5% from 10.1%, the percentage of Italian Govies on total assets is 6%.

In terms of liquidity ratios: net stable funding ratio is already above 1; liquidity coverage ratio computed under the current regulation is already above 1.

Retail funding on total funding has increased from 68.9% up to 73.2%. Total liquid assets - that means eligible -, under the ECB regulation already net of haircut at €24.5 billion.

In terms of productivity ratios, we have increased the retail funding per employee from €3.7 to €3.878 million per employee. I think this is #1 position in Italy among the main banks. Core revenue: again, I think this is #1 position: €173,000 per employee, increasing from 172 thousand euro. Total costs per employee: €119 thousand, declining from €121.5 thousand of the previous year. I think this snapshot gives you an idea of the solidity of the bank.

Is the bank doing something, given the current situation, which is obviously very, very difficult in terms of revenue?

Well, we wanted to summarize for you what we have done from the beginning, from the birthday of UBI, the first birthday was 1st of April, 2007. We were born actually 1st of April, 2007, so almost reaching the 5th year of business.

What have we done?

In terms of number of branches, we have reduced the number of branches by 5% until 31st of December, not only… you may appreciate that in the first two months of this year, we have already closed 32 branches and 46 mini-branches. And we are still optimizing the network. This is an activity that will go ahead. Obviously, it's not just a paradigm; it's a clever understanding of what is a profitable branch and what is not a profitable branch. And sometime, it is closing, sometime it is repositioning. We wanted to give you a summary of what we had already done.

In terms of headcounts, unfortunately, again, this recession, this huge crisis, is driving a cost reduction also in terms of headcounts. This is not something we are happy of, but it's something that is due in terms of identifying all the resources to counterbalance the effects of the revenue reduction. And we wanted to summarize that from the peak of the 1st of April, 2007, we have reduced by 11% the headcount.

In terms of organization, just to remind you, in 2010 we optimized the brand presence in terms of one brand per province. Today, we are processing the merging of Banco di San Giorgio in Banca Regionale Europea and we are working on the incorporation of Banca 24/7 and Centrobanca in UBI Banca.

Let's go now to one of the most relevant subjects of today's presentation, which is the capital ratios situation.

The ratios that I have already read in the main chart - an 8.56% in Core Tier 1 and 9.09% of Tier 1, 13.5% of Total capital ratio - allow us to propose a dividend, which is not big, it's not huge, but I think that it's symbolic; it shows the strength of the bank. If I am not wrong, within the top Italian banks, we are the only two with Intesa, to propose a dividend.

Obviously, these ratios were reached also by piggybacking on the €1 billion capital increase, but we have also to keep in mind that we do not include in these ratios, again, all the benefits of the advanced model. And here, I would like to be clear on the timing of the validation of the advanced model.

First of all, we are now focusing on the corporate risk management and so, on the corporate risk validation, the corporate model validation.

We are under the process of validation. In this phase we are speaking with Bank of Italy inspectors who are here in our buildings and are talking with us. Our expectation - obviously, we cannot say something for Bank of Italy, it's just the expectation of this bank - is to be validated definitely in this first half of the year.

So we will have the additional benefit - which is important. What does it mean? I mention this in terms of EBA. And I would like to share with you what is our feeling. The results in terms of ratios are the clear demonstration of the success of a multi-year policy pursued to strengthen the balance sheet. You know that, since the very beginning of this crisis, we have been saying it's very, very important to work on the balance sheet first.

Based on the most rigorous weighting criteria, it's obvious that we have room for improvement that are higher than other banks around Europe. And it's also shown in recently published independent studies. Some of these independent studies have shown that we had risk-weighted assets that are double than some of German banks and sometimes triple than some well known French banks.

The Group, therefore, excludes any new capital increase operation on the market. So nothing new will come to you. Any capital shortfall of a material nature - that means something that is a significant number -, which may remain on the basis of assessment to be made as at 30th June 2012 to reach the core Tier 1 ratio objective of 9% recommended by the EBA, will be met by the partial conversion of the outstanding convertible bond.

What does that mean in clear words? We have a gap that is not particularly relevant. If you start from what we had presented today, it's not particularly relevant. It's obvious that this gap is reachable by the contribution of three factors.

First factor is the reduction of risk-weighted assets coming from the validation of the model. My estimate is that, this can contribute something about 50% of the gap. The other two factors are additional risk-weighted assets optimizations of different nature and auto-financing. It's obvious that today we cannot say definitely there is no gap, but we cannot say that because we have to wait for the final period of the validation. Obviously, we know what we have done in the first quarter, and we have done well, but we don't know what the second quarter will be. And no way to make any type of forecast in such a volatile situation.

And third, we are optimizing risk-weighted assets with additional actions. Obviously, we have to finalize them before spending them. We are confident to have a good possibility to reach the target. If not reached, we will reduce it, but we are talking about a very, very…how can I say? A short gap.

Page 7, lending is at € 99.7 billion, following optimization carried out in the fourth quarter. This means that we have aggressively reduced the last quarter's credit; in detail, that type of credit that was not particularly efficient in terms of margins. And we have also retrenched - as it was anyway in our strategy - from non-captive customers of private companies.

If we exclude for a sec the effects of these two actions, actually we have increased by 2% lending on core customers year-on-year. And you will see that what we are saying here is not only demonstrated by the figures - that you can read by yourself -, but also by the fact that the interest margin in the last quarter increased notwithstanding this action that was obviously non-producing interest margin on the last quarter and on the non-captive customers.

On Page 8, you may appreciate that direct funding from ordinary customers is up both year-on-year and compared to the third quarter, 2.3% increase on yearly base and 1.3% on quarterly changes.

Something more on funding on Page 9.
On Page 9, we split the funding between the institutional funding on the upper side and the retail funding on the bottom side of the slide. Year 2011: maturities expiries were €2.7 billion, the new issuances were €3.9 billion. We were lucky or good enough to anticipate the market and we did that in the first two months of the year.
This has allowed us to have a replacement rate on the institutional market in 2011 of 144%.

You may appreciate that on the top right of the exhibit, the amount of maturities in institutional funding is not as big as many others: €4 billion, €3 billion and €2 billion altogether from 2012 to 2014.

You will see in the next page that our LTRO funding has been €12 billion. So you may appreciate that, even in the most worrying situation of a complete closing of the institutional market for two or three years, we will have no problems.

On retail bonds, we had maturities in 2011 for €8.7 billion and issuances for €9.4 billion, that means that we had a replacement rate of 108%. In the first two months of this year, we had even a higher replacement rate.

I will also like to stress on Page 9, that the following three years of retail bonds expiring are of a much lower amount than in 2011. And I think this is very important to stress. So the solidity on funding is, in my opinion, very, very demonstrative.

Notwithstanding that, learning from the crisis: we have decided to increase significantly eligible assets. What we have done is to increase up to - as at the 20th March - €24.5 billion of eligible assets. As per today - as per the 24th March, but I would say as per today more or less - , we have €12 billion of free eligible that can be put on the market. Again, given the current interbank situation - that as per the 31st of December was in the area of €3.6 billion -, you may appreciate that there is a very, very solid eligible amount to intersect any possible problem also on the short-term part of the funding.

On Page 11, what you see is the portfolio dynamics of our financial assets. As you may see, we have retrenched from the Italian Govies from €9.65 billion (as at 31st December 2010) to €7.84 billion, following more or less what was expiring and not renewing. Our mood has changed, and in my opinion, we had good timing and we entered again, it was a solid position in the market. This has been taken at the beginning of the first quarter, with a position of an additional €5 billion in government bonds, three of them as HTM, two of them as AFS with a three year maturity to support obviously also the net interest income, no mismatching compared to the LTRO.

We were lucky enough to have a very excellent timing. We have an implicit capital gain of €100 million. This just for an exercise of computation, as per today, this would reduce by 30%, the…let's say the "AFS sovereign assets filter" that could be used in EBA exercise.
I am not saying the EBA is changing the rules, I am just giving this is an information.

In terms of income and yearly evolution on Page 13: Operating income was down by 1.7%, due mainly to the net interest income decrease of 1.1%. But I would also like to say, that all four quarter revenue items show improvement compared to the previous three quarter, which I think is very important.

There has been a cost reduction, this time by 3.2%, for the third consecutive year. We will see then an additional exhibit that will better illustrate this phenomenon. The cost of credit significantly lower than in 2011, and if I may say, perfectly in-line with the guidelines that we gave to go close to the 60 basis points. As a matter of fact it's been 61 basis point. The pre-tax profit from continuing operations is up, as a matter of fact, 19.5%, if we exclude the non-recurring items.

In terms of total stated profit, we almost doubled from a €177 million to €349 million. But also in terms of profit net of non-recurring items, you will see an increase that, in a year like this, I think, is significant.
We said something about the income statement quarterly evolution. As you may appreciate, the net interest income has been increasing significantly quarter-on-quarter and more significantly if we consider how much was the decline of volumes in terms of loans.

I think it's also relevant the important growth of net commissions.

In terms of operating expenses, the increase quarter-on-quarter was seasonal. This occurs every single fourth quarter, but also, let me say that, compared to the operating expenses of the previous year, this is perfectly in-line.
In terms of cost of credit, again, this is pretty consistent in terms of seasonability of the fourth quarter. And again, also here we have a reduction compared to the last quarter of the previous year.

I will leave to you the reading of the non-recurring items, so I will skip Page 15.

In terms of Page 16, the impairment exercise that we have done, this is something that you know very well because all the main Italian banks have done this exercise. So, I won't explain too much, I would like only to stress that the impairment exercise that we have done was based on paper on paper transactions. We had substantially no cash transaction. So again, I will not stop to say that the principle to have this devaluation going through the profit and loss is a strange principle for the paper on paper transactions, but this is it. We work with this.

We have a detail on the intangibles, and in terms of goodwill and other intangibles. We had other intangibles that go from €1,059 million to €449 million, while the goodwill is going from €4.4 billion to €2.5 billion. This obviously will have an impact also in terms of lower PPA that for the 2012 is estimated in the area of €20 million net after-tax, as additional explicit profit. It's not something that was not with us before, but this will become explicit after the reduction of the need for the PPA.

How it was possible that we have increased the interest margin even in the fourth quarter? It is well visible on the Page 17. You see that the customer spread is increasing. I will like to raise your attention on the bottom right of the exhibit. For the first time, in order to help you to compare with other bank that explicit only the bank aggregate, we have shown a focus on just the bank aggregate spread, versus the total spread, which is on the blue line: 2.12%. So you see that quarter-on-quarter, there has been an increase on the network banks spread. The increase in the aggregate is less evident, but let me give you an example: if I have the leasing and most of my stock are long-term contracts with a fixed spread, there is no way to increase that part of the story. So that's why, it's a little bit different between the more manageable spread - at least on the short part of the curve - related to the loans in the network banks and the less manageable spread on the product companies.

In stated terms on Page 18; net commission income is up by 0.7% in year-on-year. Net of performance upfront and depository bank fees - we sold the depository bank last year -, net commission actually are up 4.3%. And I would like to say something here. We have said year-after-year that we were not in love particularly with the up-front policy.

I think now, it's coming very clear that it's possible to increase the commission base in a sound way, if you don't have to compare yourself with very aggressive up-front policies of previous years. We have the detail and you will see the different types of commissions. I would be ready obviously to answer to any questions the details are in the table.

Page 19 shows - again with the philosophy of giving you and understanding of what we have done through the years -, what was the evolution of the total operating costs, including PPA effect. And you may see that the only thing that doesn't decline is the D&A evolution. But please keep in mind that D&A evolution are the investments of the bank: we invested in software, we invested in solutions, and it's important. Think for example of the on-line evolution to the multi channel platform.

What we have done in terms of staff costs and other administrative costs, it's a policy of continuous and constant reductions. And you may appreciate that, both in terms of figures on the headcounts. and also in terms of total operating costs. Year-on-year, our total operating cost expansion was only in the first year: that was the year of the merger, that was the year of the migration to the target IT platform of all the banks.

Page 20. Here are some detailed operating costs components evolution in terms of staff costs, administrative costs and D&A, quarter-by-quarter. I think again, you will appreciate the regularity and the consistency of the work we have done quarter-by-quarter.

Page 21; evolution of credit quality; It was a difficult year. Now, it's very clear to everybody. Still if we look at gross inflows from performing loans on the bottom right, you see that, there has been a reduction, a progressive trend, with progressive lower amount of the inflows, mainly due to past due and restructured loans.

Also in terms of asset quality ratios, we had a benchmark in what was published in terms of comparable system data. The only indicator we have available is net non-performing loans on net total loans. And you may see that this has been unfortunately increasing from 1.91% to 2.49% for UBI. But in relative terms, the UBI's advantage versus the system data has increased from 52 basis points to 60 basis points.

What about the coverage of deteriorated and performing loans?
First of all, we had a sale of approximate €200 million - let me remind to you, in the second quarter 2011 and fourth quarter 2011, with a modest gain - but this obviously influenced the data in terms of coverage. You may see - in terms of coverage of non-performing loans, impaired loans and performing loans - that we have two figures: the stated coverage, which is in the blue color, and the coverage of unsecured loans, that is the second one (in white).

And I would like to stress the point that if we take in account also personal guarantees - that let me remind to you, we do not include them in the coverage ratio - if we add them (you may find them on the right part, the middle of the slide), then only 11% of non-performing loans do not have any kind of guarantee. So, while you compare us with somebody else, please keep in mind how much - that is a very marginal part - is not guaranteed at all, only 11%.

And on Page 23, you will see that for another year it is confirmed the fact that the write-backs have increased. It's regular, it continues the decreasing in write-downs and the increasing in write-backs.

On Page 24, we wanted to share with you, unit by unit, what was the cost of credit in terms of basis points. I was saying something about the fact that we've been retrenching some type of credits in Banca 24-7. Look please at the 134 basis points in 2010 that become 100 in 2011. As I said, during the whole year, we still have an issue on the leasing part of the story, and you may say this is the one not declining. Still we are working on that, but this means that we will have room for additional internal improvement in the cost of credit. UBI Factor is just a single position and it's I think a very exceptional year, so again; we have room for improvement also in this sense.

Let me finish with the outlook, very difficult outlook because it's a very complicated situation. The background environment (economic recession, low short-term interest rates, constraints resulting from EBA recommendations/indications, competitive pressure on the cost of retail funding) obviously will condition revenues in the financial year 2012. However, this year will benefit from commercial actions already undertaken in 2011 that you have appreciated in the dynamics of the fourth quarter. And also from the positive results expected from the active management of the financial structure of the Group, we already presented some actions.

Operating expenses are forecast to fall for another competitive year compared to 2011, as a result of continuing action to contain them. This should make it possible to offset increases resulting from automatic contractual clauses, inflation, the full application of the increases in indirect taxation and the announced operations to streamline the Group.

Also the action undertaken to monitor credit quality should enable impairment losses on loans to be maintained at levels close to those recorded in 2011. Consequently, a positive even if modest growth in profits on ordinary operations is forecast for 2012.

It's quite a brave statement, but we are reasonably optimistic, obviously under the same economic conditions. Are the impairment decisions influencing the strategic plan? What we are saying is that for the moment the strategic stances of the strategic plan are confirmed. It's obvious that nobody knows what will be the end result of this huge and long crisis. And obviously, we will revisit what we have done, and we consider what we have done only in presence of a more stable environment.

I thank you for the attention, and I am ready to answer to all 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 Azzurra Guelfi of Citigroup. Please go ahead.

AZZURRA GUELFI: Hi, good afternoon. I have a couple of questions, mainly on NII and lending. And on lending in the first quarter, you increased significantly the pace of deleveraging; total lending went down roughly 3%. What surprised me, looking at the slide you propose, is that even in core customer, lending decreased by roughly 7% quarter-on-quarter. Is this due because you had to be - if you want - more careful on capital or also because the demand was weaker or was it a combination of these two factors?

And on NII, you showed quite a strong performance relative to peers. And I was wondering whether you could provide us the split of the mark-up and mark-down quarter-on-quarter. And also if you can elaborate a bit on the competitive pressure because in your outlook for 2012 slide, you mentioned that you fear there could be further competitive pressure on retail funding. And historically you have been a management team that's quite been conservative and always anticipating the trends. I want you to elaborate a little bit more on this, if this is your main worry as well for 2012 in addition to weaker GDP growth and capital constraints. Thank you.

VICTOR MASSIAH: Thank you Azzurra. First of all, in terms of the lending. It is true that there has been some reduction also in the first quarter, also in the core customers, but in relative terms, I am using Page 7, you may appreciate that it's been very much different from what has been done on the large corporates.

AZZURRA GUELFI: Yeah, absolutely. It's just that it is different from what you have done in the past.

VICTOR MASSIAH: It is true, it is true and this is a combination of two things. It's a combination of some starting declining in the demand, because we must be also very clear about this. There is a recession and under the recession the good customers unfortunately ask less, do not ask more, because unfortunately there is less working capital need. Still, obviously we do also some cautious management on the most risky customers. And so, the combination of the two can glide to this type of results. And then I wouldn't be surprised if this trend were confirmed at least in the first half of the year, because we are seeing that for the moment, the good demand for credit has definitely not increased.

So this goes together with the second part of your question regarding the cost of funding. It's also true that we had been financing some of the marginal demand for lending with marginal funding at a very high cost, at least for what we like to pay. I think we are still paying less than some of our competitors, but it's too high for what we like to pay. So in terms of the impact on the interest margin, we must consider the two factors. On one side, there is something that is going away, but on the other side, there is still also something expensive that is going away. So the end result will depend, but I don't want you have in your mind that it's only bad, and it's only less profitable to go out from the marginal part of the loans. Let's make an example, if we go with a very good large corporate and we get, let me say, a 100 basis points of spread - I am just shooting a figure as an example don't take it too seriously - and on the other side, I have marginal corporate funding from more or less the same type of customer at 200 bps, thus, frankly speaking, I am doing a good business not to have additional activity on both sides. If this also is using less capital, not too bad. But first of all, given the current situation, let's not forget all of you where we are in terms of CDS of the bank and of CDS of corporates**.**

The world has been going the opposite way, upside down. And so, we have to keep in mind that we have two phenomena coming together. But I don't want to go out and not to answer your question about our expectations as to the cost of funding. I think that, as always, there is a delay between what happens in the institutional market and what happens in the retail market. Now, definitely on the institutional market something not too bad is happening. It's not a paradise, but we are not seeing any more of those incredible spreads that we've seen before. So there would be a delay most probably. Obviously there is a recession, people are less rich, so it's not a huge supply of funding. But I would just say something like: there is a delay. Don't ask me how much is the delay to reach the reduction also because of timing, but definitely there would be a delay. I hope I have answered.

AZZURRA GUELFI: Yes thank you. And sir, one more thing on the LTRO, you explained that you have roughly €12 billion of LTRO; I mean in another slide you mention that you have invested roughly €5 billion in government bond in the first quarter.

VICTOR MASSIAH: Correct.

AZZURRA GUELFI: What are you planning to do with the difference of roughly €7 billion? Is there any plan of apart from the wholesale maturity refinancing?

VICTOR MASSIAH: Let's not forget that we have been financing some position with marginal high cost funding that we have substituted with the LTRO. So it's very important, for example the *Cassa di Compensazione e Garanzia* is a very good example of that. And we have to keep in mind that this has enabled us to substitute long-term high-cost or even short-term high-cost funding with more profitable -from our point of view funding. It's obvious that let's say, after we reach all the target that have to be reached and whatever, we will have a higher degree of freedom of what to do with that. And I don't buy the fact that - let me say in a very demagogic way - I hear very often that banks have an advantage to just invest in Govies. I don't think this is true because you may get on the Govies spread, I don't know, 2%, and you may get a spread of 3% or 4% on the loans. And you have a cost of credit of 60 basis points, and also you can have indirectly also additional commission. I don't think it's a good deal to invest in Govies instead of lending. And this is a different story. I don't want to open debate now during the conference. But we have to have a very pragmatic and moderate approach to that, and we have to put together all the different things: the solidity in terms of the Core Tier 1, all the liquidity and net stable funding ratios and the profit and loss- That it's a solution of all these things together.

AZZURRA GUELFI: Okay, thank you.

OPERATOR: The next question is from Ronny Rehn of KBW. Please go ahead.

RONNY REHN: Good afternoon. Thanks for taking time to have the call with us. And a few questions, first on the asset quality. I just want to get a better understanding of the macro scenario that you have in mind when you guide for roughly stable loan loss provisions in 2012, and sort of where you see the key sensitivities? That's the first question.

The second question would be: could you give me a feeling in terms of the sort of loan or lending spread differential that you have between the book that you are exiting for the large corporates and the one that you are keeping. And thirdly, when you guide for slightly improved profit from ordinary operations, what is the equivalent number in 2011 in euros that we use as a reference here? Thank you.

VICTOR MASSIAH: Let me first apologize, I won't use a figure for the third question. I am sorry, but a guideline is a guideline. It's a forecast, not a precise figure. I don't want to have misunderstood the question. On the first two, asset quality and lending spreads. Asset quality: a macro scenario, I think that this is going still to be a very difficult period. So if we didn't have internal room for improvement, I wouldn't give a guideline of slight improvement. The point is that we have, as I said before, additional internal room for improvement coming from again the consumer finance, which we are retrenching, coming from the leasing where we have had two years of very problematic customer credits. So we are obsessive in doing as much as possible internally, that this is the most what we are thinking for. So if there is I think a problematic year, the difference is made by what we can do internally on ourselves.

RONNY REHN: May I ask one clarification question here?

VICTOR MASSIAH: Sure.

RONNY REHN: Assuming say the 2011 macro scenario would be unchanged going forward, so the outside world would not change and you would just put through the internal improvements, how much would the cost of risk change in that case, it would go down by how much?

VICTOR MASSIAH: Again, it's a guideline and so my rule of the game is that I don't give a figure on the guidelines.

RONNY REHN: Okay, understood.

VICTOR MASSIAH: It wouldn't be a dramatic revolution. I would consider success to have few basis points of improvement. I want to be very clear. It's not a dramatic improvement. Obviously I would give a completely different guideline, if it were very clear that we were coming out from the recession. It is still not clear at all.

In terms of your second question, if I go out from a very, very high performing large corporate with a very, very good rating, and I make, let's say an internal arbitrage with a medium rating corporate, there could be a different even up to 250, 300 basis points of spreads.

RONNY REHN: Understood.

VICTOR MASSIAH: I don't know, if I'm still…

RONNY REHN: No, no it's fine, I mean if you can't provide the numerical number for the third question.

VICTOR MASSIAH: I am very sorry, but I am on the guideline side of the story.

RONNY REHN: Okay, clear. Thank you.

VICTOR MASSIAH: Thank you.

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

GIOVANNI RAZZOLI: Good afternoon, two questions. As for the first one, it's a clarification on the 50 basis points of guidance that you….but I don't call it guidance to today's rule…no guidance, but you mentioned 50 basis points of expectation from the migration to IRB, I was wondering if you can give us an idea of what….

VICTOR MASSIAH: Now, excuse me if I interrupt you, but if it is all your question based on that… I said half of the gap, I didn't say 50 basis points.

GIOVANNI RAZZOLI: Okay.

VICTOR MASSIAH: Sorry to interrupt you, but I thought it was important.

GIOVANNI RAZZOLI: Okay, so half of the gap is going to be filled with the migration to internal models, I was wondering if you can give us an idea of what assumptions in terms of floor to the risk-weighted assets is underlying these assumptions. So this is the first question, if you may answer to this. And the second one is, let's say in terms of net interest income, it's a nice surprise to have increased the carry trade exposure by €5 billion in Q1. You had a very excellent timing I would say. In 2012 clearly there will be a lot of moving parts in net interest income. I was wondering if, given the increased carry trade exposure on which we can assume a nice return, if this can - let's say - drive low single-digit increase in net interest income for 2012. Thank you.

VICTOR MASSIAH: Regarding the last one, I am not ready to give this type of guidelines because it's very important to understand where the short-term reference rates are going. Don't forget that it's not good for a retail bank to have a very low level of interest rates in terms obviously of mark-down. Now, these rates are still not completely market rates because you may appreciate the fact that since we don't have a real open inter-bank market, we have - I can't say it's official, but definitely - not perfect pricing of the short-term rates. It's very important to understand when - and I am not sure it will, the market completely reopen on the inter-bank, because there are signs of that what will be the evolution of this rate. And this would drive significantly for the good and for the bad what would be the performance of the net interest income. For the remaining factors, whatever has justified the fourth quarter is justifying the following quarters of this year. But the real guess is the short-term interest rates for the mark-down. On the qualification floor, unfortunately the rules of the game was Bank of Italy does not allow me to comment anything about the floor.

GIOVANNI RAZZOLI: Okay, thank you.

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

ALBERTO CORDARA: Hi good afternoon. I just want to pick up on this last question on net interest income and the declining rates; if you can give us an update or your sensitivity to 100 bps parallel shifts downward on rates, I think this is an information that you used to provide, thank you.

VICTOR MASSIAH: Sure, just one second, we are looking for the figures. For a reduction of 100 basis points, we will have a 134 sensitivity.

ALBERTO CORDARA: Thank you.

VICTOR MASSIAH: Thank you.

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

RICCARDO ROVERE: Good afternoon to everybody. I have a couple of questions. The first one is on the EBA; I just want to be sure I am not misunderstanding your words. What I understand from what you said is that some of IRB models on corporate plus earnings and retention, plus some RWA optimization will cover the majority of the shortfall, but not all of it. Is it right what I understand?

VICTOR MASSIAH: Not exactly. I said that it could cover everything or it could cover the majority. If it covers the majority and the difference is material, we do something, we convert…

RICCARDO ROVERE: Okay, okay.

VICTOR MASSIAH: A small piece of it. Otherwise, we don't but literally we cannot say.

RICCARDO ROVERE: Sure.

VICTOR MASSIAH: Worse or better, I consider rigorous and conservative not to bet on anything until I am sure.

RICCARDO ROVERE: I understand. And a follow up on this, if I may, would you be able to quantify what material is?

VICTOR MASSIAH: No, because again this will be something that is not in our judgment, and obviously we are not the final judges. But I hope not to have the problem, what can I say^

RICCARDO ROVERE: Okay, that's fair. That's an answer.

VICTOR MASSIAH: I would like not to have.

RICCARDO ROVERE: Okay, that's an answer. Okay, thank you.

OPERATOR: The next question is from Andrea Vercellone of Exane. Please go ahead.

ANDREA VERCELLONE: Hi, just one question, and it's on IRB. I appreciate you don't want to give us a number, so I am just going to formulate the question in a different way. At the time of the business plan last year, you told us that the benefit from the migration from standardized to IRB of the corporate portfolio would have been in the order of 50 basis points. The current statement that you made is that this migration would fill 50% of the EBA capital gap. Does it imply, a similar or a higher benefit from this migration? I appreciate you don't want to quantify, I just like to know, if it's higher or if it's similar. And second point, still on the EBA, in case there was to be a gap relative to the 9%, and the rules were not to change, between now and then, are you still hopeful as some of your competitors are, that you may compute rather than convert the convertible bond? Or you have written conversion because of discussions you have had with the Bank of Italy? Thank you.

VICTOR MASSIAH: Regarding the first part my answer would be a little bit byzantine. And my answer would be: we usually tend to be very conservative in our estimates.

Second regarding conversion or not conversion: it is obvious that we wanted…I would like to answer in an indirect way. We have paid a dividend, and there were rules to pay or not to pay dividends. And this means, that we would like to have a clear and net resolution of the problem, and not to have again byzantine discussion on what is computable, not computable et cetera. Then if a computable rule comes out, happy to have it, no problem. But we would like to solve at the roots the problem.

ANDREA VERCELLONE: Thank you very much.

OPERATOR: The next question is from Anna Benassi of Kepler. Please go ahead.

ANNA BENASSI: Good afternoon. Sorry to stay again on the issue of capital because of the EBA requirement. Can you give us your idea of the timetable of that? Because we see you are talking about having the final check at the end of June, actually the understanding was that much earlier than that Bank of Italy first and EBA after would have said something about the plan you presented in January. So when we will hear next some news on the issue? Then another question relate to two opposite things. On one side, it's BiverBanca. We heard that asset is up for sale and could also fit well with your network. So have you looked into that and find it interesting? Whatever you can say on the matter given the chains they have, they look interested apparently. And the opposite side is: I suspect that in your plan presented in January it could be the opposite. So some asset disposal, maybe. Is there any area in which you think you could do without? We are seeing you are trying to sell, and is also unclear how you are going to sell the stake in Arca, but is there something else maybe joining forces in the online banking or things like that?

Another point relate to the business plan, you said you confirm the strategic guidelines while waiting for a more normal environment to review it. But in the meantime you confirm that your lay-off program, which actually is surprising, given the pension reform and other banks comments that they had to change their plan. Can you explain how you can deliver on that different from the others? Thank you.

VICTOR MASSIAH: Sure. First of all, regarding your last question, until 2013 which is what we can see before the new labor reform, we confirm the plan, 2013.

ANNA BENASSI: Is it only until '13?

VICTOR MASSIAH: Until 2013, for 2012 and 2013 the cost headcount reduction is fully confirmed.

ANNA BENASSI: Okay.

VICTOR MASSIAH: Regarding Arca, we have already communicated to the market that we sold and we have…

ANNA BENASSI: It was a *"recesso"*, so who is going to pay you for that?

VICTOR MASSIAH: Arca, Arca had in his general meeting the authorization to buy….

ANNA BENASSI: Okay, that was what….

VICTOR MASSIAH: So, this will be one of the things that we had to finance us, this is now a little bit more clear at least on the first quarter. So thank you, for your question. Regarding the BiverBanca story, I read the newspapers that's writing on us. And regarding always, but not commenting BiverBanca, but commenting in general terms, I always have said, and I will continue to say that something like this first you do then you announce it. I forgot something regarding your…

ANNA BENASSI: The EBA, the timetable and…

VICTOR MASSIAH: Oh yeah, excuse me. EBA, excuse me, the timetable is the following. We don't have to confuse steps where authorities check the plan, and verify the feasibility of the plan, with checks that identify if the plan has been successful or not, because plans are made of actions, actions can be delivered, sometimes something unlucky happens, sometimes something lucky happens, but it's a difference between the verification of the feasibility and the verification of the real end product of the action plan. So, I will start here, with the end product of the action plan. Feasibility, obviously we are talking, I am not saying everyday but very frequently.

ANNA BENASSI: Thank you. May I ask, if I you know think on the goodwill impairment? You wrote in the press release that you're…the impact of PPA will come down to €20 million.

VICTOR MASSIAH: No, I said…no excuse me..

ANNA BENASSI: At least €20 million.

VICTOR MASSIAH: No, no, no Anna, I said something different. I said the PPA benefit, not will come down, benefit the profit is €20 million.

ANNA BENASSI: That's why I was asking, because it wasn't clear to me the wording. Perfect.

VICTOR MASSIAH: Excuse me. I wasn't…I probably wasn't very clear myself.

ANNA BENASSI: Okay.

VICTOR MASSIAH: Thank you, Anna.

ANNA BENASSI: Thank you.

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

CHRISTIAN CARRESE: Good afternoon everybody, Christian Carrese from Intermonte. I have two questions. One on net interest income, is this right to assume…am I right assuming that in the first half 2011 loans should go down further? Maybe the trend of the third quarter should continue in the first half. And assuming this trend, could it be right to give a guidance of net interest income almost flat net of additional carry trade operation for 2012? The second question is on commission, could you give us an idea of what could be the impact of the first Monti maneuver in December on commission, the impact for 2012, if there is any. Thank you.

VICTOR MASSIAH: Regarding the last question, there was a first maneuvering in the legislation that has been counterbalanced in the last minute on Friday last week by a counterbalancing maneuvering that as a matter of fact for banks like us completely counterbalanced what was written in the *Liberalizzazioni* maneuvering. So, the only thing that we know, the decisions is that for the moment we have to have pension, retirement, current accounts for free, dedicated for free for retired people, that did not have a current account before. But this is something, probably - if I interpret correctly, because they couldn't actually understand - an additional flow of business that is coming, which would be for free, but not zeroing or diminishing current commissions. If I interpret it well, because this is something that is new. In terms of the remaining…

CHRISTIAN CARRESE: Net interest income.

VICTOR MASSIAH: Net interest income, again as I was saying before it's very important to understand what will be the evolution of the short term rates. In terms of loans, definitely this recession is not guiding up the volumes of loans. So I will see something either flat or diminishing, probably diminishing. But the impact on interest margin I said is very hard to calculate not because of volume per se, but because again there was a counterbalancing on the deposit side but because of the short term interest level.

CHRISTIAN CARRESE: Okay, just a follow up if I may on Arca. But Arca has bought more than 25% in treasury shares. Your stake, they bought all of your stake, I thought that they could just buy up to 10%.

VICTOR MASSIAH: I don't know, they are ready to buy. The transaction has been authorized, this transaction obviously must be finalized. If Arca will buy itself the whole bunch or if some members of Arca would buy some of that, it's…if I may say something that does not compete with us. We have sold as a matter of fact. Whenever it will be finalized it will be posted in our books. If it's been finalized before the end of this month, I don't think, in terms of execution of the transaction, this will be in the first quarter, if not it will be in the second quarter.

CHRISTIAN CARRESE: Okay, thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is from Fabrizio Bernardi of Fidentiis. Please go ahead.

FABRIZIO BERNARDI: Hi everybody. I have another question on the capital position of UBI Banca. I have heard a few colleagues asking about the capital deficit according to the EBA in the way to let's say find business points in order to avoid to convert even partially the soft mandatory. On the other side, I have UBI Banca that is one of the few Italian Banks paying a dividend. Okay it is small, but it is a dividend, which is very, let's say good in my opinion. If I look at the Italian Banks like from UniCredit to Cassa di Risparmio di Genova, so banks that are completely different in terms of business structure, coverage and so on, I see all these banks having a ratio between RWA and total assets of about 50%. If I apply 50% ratio to UBI Banca there is a lot of let's say capital that can be used to fill the gap else calculated by the EBA. So as a rule of thumb, I am asking, if you are confident about your capital position according to the…let's say EBA requirements or not. I just want a qualitative let's say statement, if it is possible. Thank you.

VICTOR MASSIAH: I can only answer by stressing what you said regarding the rate of risk weighted assets on total assets of our bank compared not only to the Italian Banks, but to all the European Banks- hat's the only answer I… If you run for the election I will vote for you, because obviously, obviously it's something that doesn't make me very happy in terms of rigorous competition in different countries, but this is a long story.

FABRIZIO BERNARDI: Yeah, but my point is that I want to keep my feet on earth, and let's say instead of comparing UBI to Deutsche Bank or any, let's say, a Scandinavian Bank. I am simply let's say, I struggle to understand why we are here talking about the capital given that room for benefits is not huge, is incredibly huge according to let's say this kind of rule of thumb that maybe is not very precise, but it's very pragmatic?

VICTOR MASSIAH: I am proposing you for the election.

FABRIZIO BERNARDI: Okay, thank you, thank you very much.

VICTOR MASSIAH: But, you know let me add something, the reason why…the reason why I was stressing at… If I may take one minute of all of your time, what I would like to say is a very, very provocative exercise which is following. If we look at the risk weighted assets of other countries,- I share with you the fact of internal comparison within the Italian Banks but if you look at the comparison with other countries, that means, - that if I could say with, let's say a German way of weighing the asset I would need half of my capital. And if I need half of my capital, I would have the double return on equity being the same bank. If we then did not have 63.7% of tax rate - no questions on that guys? But we have 63.7% of tax rate, and I say that's not 40% - my return on equity would be 10% without moving one finger.

FABRIZIO BERNARDI: Yeah.

VICTOR MASSIAH: So, that's what I am trying to stress, obviously this is satisfaction, but this is also reality at the same time.

FABRIZIO BERNARDI: Okay, thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone.

Once again, if you wish to ask a question, please press “*” and “1” on your telephone.

For any further questions, please press “*” and “1” on your telephone.

Mr. Massiah, there are no more questions registered at this time.

VICTOR MASSIAH: I will like then to thank everybody, and have a beautiful week, all of you. Thank you.