UBI Banca

“Consolidated Results as at June 30, 2012”

August 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 at June 30, 2012. 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. Good afternoon to everybody. Thank you for attending this conference. I will go through the presentation slides.

First of all, Page 3: better solidity. We are happy to announce that we exceeded the 9% EBA exercise benchmark and we have a final figure of 9.24% which, in my opinion, is fully satisfactory, given the fact that we are the only one - within the top five banks in Italy - that still has room to improve in a significant figure thanks to the potential validation of AIRB on retail credit risk. We can announce that we will apply for validation within first half of 2013 and then, obviously, as usual, it will depend on the approval to be granted by our central authority.

I think that also the pace that we have followed through the last year is interesting. Even without using the EBA standard exercise and by using the usual computation, as at 30 June 2011, we stood at 8.20%, while we are now at 10.24% which is an important increase in terms of Core Tier 1 ratio. I think the total capital ratio is also fully satisfactory , where we achieved an above 15% ratio.

It's obvious that the validation of AIRB on corporate credit risk has impacted the ratio of risk weighted assets on total assets which has decreased down to 57.3% still having - if I am not wrong - the most heavy weightings in terms of RWAs within the European market.

Our traditional low leverage is confirmed. We are in the area of 18x.

On Page 4 we can appreciate that, notwithstanding the effort that has entailed an important decrease in terms of total loans, we have been able to reach an important improvement in operating income.
Let me comment and then I will go into additional detail.
In my opinion this improvement is satisfactory because it is structural in a way. It is true that - as we will see - there has been a more than important contribution by the trading side in this semester but, even if you do not include the trading side, we still have more or less flat operating income which, given the fact that the loans have been so much decreasing is, at least in my opinion, an important achievement.

Operating expenses are, in my opinion, again fully satisfactory with a very important achievement: a decrease in normalised terms of more than 6%.
Net operating income has an important boost by both revenues and expenses with a total improvement of above 33% year on year in stated terms.
Even pre-tax profit is still in the area of plus 28%, notwithstanding that - as we will see - we have to digest an additional increase in cost of credit, driving to a normalised profit that has increased by 72% year on year, from 70 to 121 million euro.

I won't elaborate on Page 5, which I leave to your reading, while on Page 6 we have focused on the different items that have driven the results from 70 to 121 million euro.
There is a lower contribution by net interest income and, again, let me stress that this is anyway a really important achievement, given the fact that the loans contribution has been obviously much less than the full potential. Net commissions have been stable.
A very important contribution from net results from finance; let me say that we have been very, very lucky or appropriate, in terms of timing and

in catching market opportunities. So let me congratulate publicly the people who have managed this.
Other income items have been slightly improving.
Very, very good contribution from operating costs is coming from many different items: staff headcounts reduction, continued control of other administrative expenses and obviously lower PPA which is a result of the impairment that we have booked at the end of last year.

Net impairment losses on loans have been increasing by above 70 million euro. We are running now a cost of credit of 70 basis points annualised versus 51 bps in first half 2011.
Let me just make a small comment. I’ve seen some of our analysts commenting that the cost has been increased between the first and second quarter. Let me also remind everybody that, for our group, the first quarter accounts for two months, while the second quarter accounts for three months, that is because in January we tend to attribute all the cost to the end of the previous year income statement.
So it’s true, as a matter of fact, that this cost has been increasing but it’s also true that some of the increase would have come anyway, even in normal conditions. Thus, due to seasonality, our normal trend of cost of credit in the second quarter is higher because again: the first quarter books two thirds (or months), the second and third quarter book three thirds and the fourth quarter four thirds because it includes January.

Further differential contributions: other impairments -13.5 million euro, taxes -13.2 million euro, non-controlling interests +2.9 million euro.
All together they drive to 120 million euro of net profit excluding non-recurring items.

All the details about institutional funding are in Annexes 9 and 10, but I would like to focus - in this exhibit on Page 7 - on the important achievement of increase in Direct Funding from ordinary customer up by 2.2% in a market like this current one. Take into account that this obviously implies a lower contribution from the corporate deposits because of the retrenchment from loans. So in my opinion, not only per se, but also considering the scenario that we have been running, it is a very important achievement to run at +2.2%.

It's also important to stress the point that in terms of securities placed with ordinary customers we are running at a replacement rate of 135% and they are anyway up 1.1% year on year. It's important to say that because the *loan to deposit* ratio is now 93.2% and the *loan to direct funding from ordinary customers* ratio is at 118.6% coming from 130.8% as at one year ago, which again enforce our stability and our solidity in terms of balance sheet. We will elaborate later about how important this is in terms of independence from the market volatility.

I won't elaborate again in this presentation but let me stress here that net stable funding ratio and liquidity cover ratio are above 1 in this half year as they were in the first quarter.

I was talking about how we could be as much independent as possible from institutional markets in terms of funding. We have wanted to run a very simplified stress exercise. Let me apologise if it's in a way too simplifying, but I think it gives you an interesting view of how we are running the funding issue.

We have, as per the 30 of June 2012, €95 billion of loans and €80 billions of direct funding both from ordinary customers. So the funding gap from ordinary customers is €15 billion.

Given the fact that in terms of loans we have more or less two-thirds medium/long term and one-third short-term, we have to fund €5 billion in short-term and €10 billion in long-term. How do we finance the €5 billion short-term? We can go short-term on interbank market because we are supported by €11.6 billion of unencumbered eligible assets which are free. The total eligible assets are up to €23.6 billion: €12 billion are running with the LTROs, €11.6 billion are free *(or unencumbered)*. As a matter of fact, the real interbank position grows because of the LTRO, otherwise it would have a zero impact. And we can frankly finance easily the €5 billion gap through this.

In terms of long-term, there is a €10 billion gap. We have €7.1 billion of tangible equity and €6.3 billion of outstanding covered bonds. And I am not talking, as you can see, about all of the outstanding EMTN that we have as a matter of fact. The stress test we are doing to ourselves is: *How would we live with zero EMTN new issuances? Could we survive?* The answer is yes.

What are we doing with the LTROs? We are financing the investments in Govies *(i.e. Government bonds)*; these investments in Govies can obviously be financed through repos with anybody. So as a matter of fact, after going through the exercise, even in a simplified way, we can make the statement that the Group is substantially independent from the institutional funding and the LTROs reimbursement is not a issue.

We have received different questions regarding the behaviour of withdrawals from current accounts during the time of the crisis, the time, in particular, when the markets were asking about the Italian market conditions. Here you have a plain operation of transparency regarding cash withdrawals from current accounts and the cash withdrawals from ATMs. So you can appreciate the fact that we have nothing to say in terms of cash withdrawals and deposit withdrawals. And, as a matter of fact, this is coming together with the plus 2.2% in direct funding from ordinary customers that we have mentioned one minute ago.

On Page 10, we wanted to analyse the lending trend. As you can see, the minus 7.2% has been running year-on-year, and in particular in the last quarter it was minus 1.8% at the end of period. You can also see the quarterly average of volumes.

There is a lower concentration of risk: 4% last year, 3% this year. How did we do this?

De-risking of the loan book, in terms of performing loan., i.e.:

- decreasing in riskier positions from 10.6% of loans in December 2010 and 9.4% in December 2011 to, as per June 2012, at 8.5%, so much less risk;
- increasing the relative collateral from 60.6% in December 2010 up to 66.8% in June 2012, and this obviously will have also implication on coverage. We will talk later about this;
- reduction of customer credit risk concentration, the 10 largest positions represent 3% of the loan book and the 50 largest 8.3%.

You remember also that we had announced that we were exiting from non-strategic business. There is Annex 4 for breakdown, but in particular non-captive business and higher risk lending: year-on-year minus €2.3 billion (re: Banca 24/7 and UBI Leasing).

And the merger of Banca 24/7 into UBI Banca, as announced, has been completed on 23rd July. We have also reduced large corporates by €3 billion from 30 June 2011, and obviously there has also been a part of the market condition with low demand due to deteriorated economic condition. I am talking of, obviously, the low demand of good quality credit.

Another issue can be the financial assets: where are we as per today? The total portfolio of debt instruments - I am on Page 11 has been or is of €20 billion, of which almost €18 billion, so almost 90%, is composed by Italian Govies.

Let me stress again, there are no sovereign bonds, so zero amount, of any country at risk. The rest is detailed in equity, instruments, collective investments units and others.

What have we done in the last six months?

There have been, first of all, new investments. In the first quarter the investment was of €6 billion with a maturity up to three years *(in HTM and AFS portfolio)* or lower *(in HFT portfolio)*. And in the second quarter, we added an additional €3.6 billion *(€ 2 in AFS and 1.6 in HTM)* with maturity below one year.

So let me say again, €6 billion maturing in three years purchased in the first quarter, consistently with second LTRO, and in the second quarter additional €3.6 billion invested.

There has been somebody saying that maybe the interest margin has been supported by the additional investment in Govies. This is true in a way but also, please, keep into consideration that this, together with repricing done, was not enough, as we will see, to compensate completely the decrease in loan volumes.

And just to give an idea, I want you to have the details that the contribution spread by the new investments in Govies has been of 2.09%, while the lending re-priced spread in the last consistent period of first half was 4.24%. So we are giving out with a double spread for 4.24% to run a spread of 2.09%. So, when analysing the interest margin don't think that it was completely compensated by just the Govies support.

We can appreciate that also on Page 12, where we can see that with loans at constant volume compared to the third quarter 2011, when we started the retrenchment from the loans market, the net interest margin would have had an additional contribution - upper left of the table - of €110 additional million. That would have driven the total performance of the interest margin from minus 1.5% to plus 9%.

How can we prove that we have re-priced? It is on the right upper part of the slide. You can appreciate that, while the EURIBOR was around minus 27 basis points quarter-on-quarter, minus 82 basis points year-on-year, we have run our spread of minus 16 basis points quarter-on-quarter and minus 16 basis points year-on-year. This can, I think, prove a 100% the effort that has been done to, in a way, defend as much as possible the net interest income. And in a way it can give you also maybe the potential of bouncing back with the market.

You have the details of quarter evolution in the bottom left, and also the details of the government bonds contribution. Obviously while analysing the Govies, please keep in mind this is the total net contribution, so €159 million is the contribution of first half of 2012. Not only the additional investment, but the whole thing, while €74 million was the same contribution first half of 2011.

You have all the details of net commissions, but why are we using the word *"resilient"* to describe the net commission income? I would focus on the red statement on the right part of the comments, where we say that these commissions are also influenced by the fee that we have to pay for the state guarantee on the bonds issued in January and February of this year. If we've excluded this effect, as a matter fact, on total commission, we would have seen an increase of 3.2% YoY. This is why we are talking about resilience then. I think in your analysis you should consider that there is also this is part of the story.

On Page 14, we have recast a slide that you have seen also in the previous quarter presentation. Anyway, this is the trend of the operating costs year-by-year. Since when we were born, first of April 2007, you can see that there has been a consistent reduction in costs and in an unfortunate way consistent reduction in headcounts.

On the following Page, on Page 15, you may appreciate that notwithstanding there have been already important efforts, we have in a way accelerated in this period, with a very important decrease of 6.2% very well spread among the different items of total operating costs. For anybody who doesn't have it in mind, the PPA differential impact on first half D&A costs is €25 millions.

Obviously, we have additional room for cost reduction. We have announced an additional organisational structure rationalisation. We are opening- literally in these days - our interaction with the trade unions . Whenever there will be any type of news, we will obviously announce that to the market. Please consider what we are talking about in terms of additional savings, that are literally "*additional*" compared to the industrial plan.

Now, on Page 16, I would like to present the asset quality. Now, I think it's important to make a focus on this part. 82.7% of our customers loans are granted in Northern Italy, approximately 76% in Lombardy and Piedmont. These are areas that, as you know, generate around 30% of the Italian GDP.

De-risking of performing loan book has been happening, as we said, from some of the higher-risk areas. And there have been a progressive reduction of risk concentration, and more importantly, an increase in guaranteed positions. We have among the lowest deteriorated loans ratios incidence in Italy and highest level of secured loans among the major Italian peers, coupled with very low loan-to-value and constant presence of significant write backs. These are the reasons that drive to an historically contained provisioning level.. But these are statements. Let's put figures behind statements.

Page 17, in terms of ratio on net amounts, we have an advantage of non-performing loans on total loans compared to the system of 47 basis points. Our ratio is 2.89% vs. the system's one at 3.36%. But it's important also, in my opinion, quite interesting, to go to the bottom part of the exhibit, where we wanted to give transparency to what were the inflows, but also the outflows from performing loans to non-performing loans or impaired loans, in first half of 2011 and in first half of 2012. But there is also the bouncing back from non-performing loans or impaired loans to performing loans, which is even important again to understand how well we treat the coverage and how well we analyse and how well we manage the whole issue.

Let me stress the point that in terms of impaired loans, we have €777 million of inflow from performing loans in first half 2011, together with €123 million back from impaired loans to performing loans.

In 2012, we have an increase in performing loans becoming impaired loans, i.e. from €777 to €818 million, but even a higher increase of the bouncing back from impaired loans to performing loans of €259 million (from €123 million).

The amount of performing loans outflows to non-performing loans was €179 million in the first half 2011 and decreased to €149 million in the first half of 2012. Notwithstanding this decrease, the bouncing back was from almost €0.3 million in the first half 2011 to €41 million in the first half of 2012. So both the non-performing loans and impaired loans had important increases of bouncing back. That says something about, also, how conservative or not conservative we are when we post the non-performing loans or the impaired loans in the first account. So this tells me in a way that we are pretty severe, pretty rigorous in the first call and then sometimes they bounce back.

Second, secured loans. What were respectively system's and UBI's conditions referring to the ratio of secured loans on total loans in 2007? Page 18, left side: we were below the peers' average in 2007. We had the 31% of ratio, while the peers' average was 65%. What's happened in 2011? The peers' average is 57%, while we have more than doubled, up to 77%.

If we open this ratio in *secured performing loans on total performing loans* and *secured deteriorated loans on total deteriorated loans*, we see that the phenomenon is confirmed in both the categories.

From 31% to 76%, while peers' average decrease for performing loans and from 51% to 82%, while our peers' decreased from 80% to 71% for deteriorated loans.

Page 19. Loan-to-value, this is an analysis on performing loans. We have a loan-to-value as per today of 41.5% on retail mortgages, 45.5% on commercial mortgages and Banca 24/7 at 60.4% (on retail mortgages). You can appreciate that if we analyse what we know to be on present mortgages, an important measure which is the retail mortgages covered bond pool, we have the lowest loan-to-value that is published at 45.9%, among the current Italian issuers. The issuers have a LTV average of 52.6%, so, 7 percentage points of advantage for UBI, which is very much. At the same time, in terms of new production, using the Bank of Italy statistics in terms of market, UBI had a 58.1% loan-to-value as a new production, while the Italian average of our competitors in the Italian statistics was 66.9%. So we have much more secured loans and at the same time, it's a multiplying factor, not an additional factor. Keep in mind, there is a multiplying factor. A loan-to-value that is much lower.

How do we see this in terms of effects? Let's go on the impaired loans, or what we call *"Incagli"*. As a matter of fact, we have 10.9% coverage in June 2012. It was 10.7% in March 2012 and 10.9% at December 2011. High percentage of impaired loans is assisted by real estate collateral, which is as per today at 64.4%. It has decreased, but not that much because, if we exclude new inflows of unsecured loans for Banca 24/7, it would have been 67%.

We have a loan-to-value of impaired loans that is very low, 48.6% on retail mortgages and 54.9% on commercial mortgages.

What is the coverage of impaired loans net of position assisted by real estate collateral? So if we put aside the majority, which is secured and we stick only to the unsecured, obviously we don't have anymore a 10.9%, but the 17.9% *(pro-forma excluding new inflows of unsecured loans from Banca 24/7)*. So it is true that the secured loans have a lower coverage, but there is a lower coverage for a good reason: collateral is much higher and loan-to-value is very lower. So in a way, let me make an example: consider a loan-to-value that is below 50% or let's say 48% and a coverage of 6% or 7%; this means that altogether, the original value of the house was 100 obviously. We can sell in a way the house at down to 45% of the original price and still not have any problem. And for the moment, I don’t see a bubble of the price in Italy. There has been some decrease, but not 55%.

In terms of non-performing loans, or *Sofferenze*, you see that the pro-forma stated coverage is 41.5% or 42.8% if we include the effect of a sale of some non-performing loans. But again, with the same reasoning, we can see that if we consider the coverage of non-secured loans or non-collateralised positions, we would have a coverage of 76.8% or 77.3% *(pro-forma.for NPLs disposal).*

Last but not least, in the bottom right, there is evidence from non-performing loans closed in 2010 and in 2011. This shows that the total coverage of those loans was 70.7% that more than covers the losses on the carrying values that was 53.7%,   so generating the write-backs that we have seen always in our presentations. For all the lovers of this type of analysis, Annex 6 gives additional details.

So, if we can summarise the first half 2012 in a snapshot:

- there has been a further strengthening of Core Tier 1, let me say an historical strengthening of Core Tier 1, very important for our bank
- EBA Core Tier 1 targeted ratio achieved
- we have further capital buffers: advanced model on retail credit risk, and as a final assurance, a convertible bond. This is expiring nine months from now, so the probability of converting these bonds, how can I say? It is very, very, very, very, very, very low, but never say never because of market conditions... who can say?

Further strengthening of balance sheet structure: we have low leverage, we have Basel III liquidity ratios already achieved, we have an improvement in loan to deposit ratio and as we have seen, the Group is substantially independent from institutional markets.

Good half year results contributing to capital, strong interest margin performance if weighted by the strong decrease in lending, and - as we’ve seen - not completely compensated just by the trading activity and the ALM activity. And important decreasing in cost structure. Thank you for your attention.

We are ready now to answer to your questions. The last slide. I have seen somebody saying: *"Well that's not a forecast for the future"*, but after five years of forecasting something that is so volatile, we are getting tired and we will say that we prefer not to make too much forecast. However, we are saying something that is important, i.e. that we will continue to use all the means available in order to exploit the advantage that we have gained with respect to the normalised profit of 2011. Ready for your questions, thank you.

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 Mr. Giovanni Carriere from Autonomous Research. Please go ahead, sir.

GIOVANNI CARRIERE: Hi. Yes, good afternoon Mr. Massiah thanks for the presentation. Two questions. The first one, on the coverage ratio: I completely understand your reasoning regarding the adequacy of your coverage ratio and the collateral. I was just wondering out of the drop in covered ratio of total impaired loans this quarter: how much is due to the sale of NPLs - because it's very small? And if it's a small part of the change, why…are there reasons why the coverage has dropped? Separately on costs, obviously it's been a very good performance, very impressive. That said, I know that there are no one-offs, but to what extent is this sustainable or recurring or we should expect it to be repeated? And in other words, would this be a base to which we should apply the further savings that you are discussing and guiding to for next year and 2013, should trade unions agree to it? Thank you.

VICTOR MASSIAH: Okay. On the first part of your question, it was a €108 million, figure on page 21. Did I understand that 108 for you is low?

GIOVANNI CARRIERE: No, no that's a million... it's a small number, yeah I understand is the coverage ratio overall right I think it dropped and I don't know if it's only due to the sale or if it's…

VICTOR MASSIAH: No yeah, it dropped also because of the sale, yes. So normalising excluding the sale, more or less, it's comparably slightly up.

GIOVANNI CARRIERE: Okay, so it's slightly up compared to the sale. Okay, so the coverage ratio of what you sold was very high correct?

VICTOR MASSIAH: That's correct, yes, that's correct.

GIOVANNI CARRIERE: Okay alright.

VICTOR MASSIAH: Second, regarding the cost part of the story. Obviously we had some very marginal parts of one-offs, but let me say that, to be conservative, that more than 90% of that is repeatable and can be a baseline for you guys to build up on the additional advantages that could come from the potential benefit coming from interaction with trade unions.

GIOVANNI CARRIERE: Okay, very clear. Thank you.

VICTOR MASSIAH: Thank you.

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

CHRISTIAN CARRESE: Good afternoon everybody. Congratulations for the second quarter results, especially in terms of cost control. However, I am a bit confused by the revenues trend, in particular on net interest income. I am wondering how sustainable this kind of business model is, looking at the increase of your Govies and the contribution of carry trade. What should we expect for the second half 2012 and 2013? And in terms of loans, should we expect a growth in the second half or is there any kind of capital constraint that will bring almost flat loans quarter-on-quarter or by year-end? So the carry trade contribution, if I am right, should have been around €80 million in the quarter? Could you give us the right number on that, please? Thank you.

VICTOR MASSIAH: In the quarter it's… I will give you the exact figure in a moment. I will answer to your…

COMPANY REPRESENTATIVE: €87 million.

VICTOR MASSIAH: Second quarter…you were right, 87, exactly, on the second quarter, in terms of what is the total contribution of the total portfolio. Keep in mind not just the additional one that we invested, it's the total one.

CHRISTIAN CARRESE: Yeah, yeah.

VICTOR MASSIAH: Okay. Now, in terms of revenues, first of all, we are not a bank that is going to play with carry trade for long. This was an exercise that we were doing as I said in the first quarter because we thought that the market was…how can I say, too pushy with Italian risk. And right or wrong, in this case we were lucky that we were right.

Now second, we had obviously to - …how can I say - clean up the desk to exceed the benchmark of EBA. So, this was a very rigorous exercise. From now on, we don't have particular ceilings, but at the same time, it's more complicated than just growing volumes. It's a question of identifying the type of loans that have a very good balance between quality - because of the cost of credit - and at the same time, reasonable margins, reasonable spread, reasonable markup - and at the same time filtering, in a way, the type of deposits that cost too much. The second part of this war in my opinion, will be how well we select within the market And there is room in this exercise to improve the interest margin.

Second effect, time after the time, the long-term loans with very low spread, semester after semester are paid back, and are declining. And so, we have the opportunity to increase also spreads. Just to give you an idea, for a bank like us in a year this is something like €7 billion of loans "liberated", in a way and available for better margins.

So if you ask me a long-term view, I want to overstress that we are not going at all to play this kind of trading. We are a retail bank; we definitely want to stick to our job. We see potential growth in the market in terms of volumes when obviously they are following a reasonably solid demand for credit, but again filtering for the best opportunities.

This may sound obvious but it's one of the most difficult exercises. Having said that, so I don't see a decline in loans, not necessarily a decline in loans, but I don't see a bounce back for the sake of it I see a very selective action in the market on both loans and deposits. In a way you are still - all of you in a way - ...if I may be a little bit aggressive - stress on getting a lot with the carry trade part of the contribution, I would get more in love for the future with the re-pricing exercises we've been able to do; because this is what is our future, what is the solid part of our future.

CHRISTIAN CARRESE: Just a quick follow up, could you give us the number on the AFS reserve related to the Italian Govies in the first half of 2012?

VICTOR MASSIAH: On the first half 2012, I will give you the exact number in a second. You are talking about the Italian Govies?

CHRISTIAN CARRESE: Yes.

VICTOR MASSIAH: It's about €1 billion *(negative)*.

CHRISTIAN CARRESE: Thank you.

VICTOR MASSIAH: This is first half, 30 of June. We are ready for the next question.

OPERATOR: The next question is from Francesca Tondi from Morgan Stanley. Please go ahead, madam.

FRANCESCA TONDI: Hello, good afternoon. Couple of questions from my side as well. Looking back at your cost base and the great work you've managed to do in terms of bringing the costs down, - given that it's based on your organisational structure, people exiting - should we actually consider then thiscost base in the second quarter as another run rate at least for the next couple of quarters or are we going to see any further bounce back element? If you can give us a little bit more colour on this... I know that you are talking of further savings in line with the plan, does that mean that costs then can even go down from here? If you could just elaborate a little bit on that...

On net interest income and net interest margin, if I am going back to your Slide 12, and I try to look at the difference between net interest income in first half 2012 and first half 2011, which is a down of €15 million. You say there is a €110 million positive on asset re-pricing. I make a difference of about an €85 million as higher impact of the property portfolio of the financials, that gives me a net negative impact of €210 million, which I guess is mostly markdown. If you could just confirm those impacts and what has been changing. And could you elaborate a little bit going forward? The interest rates continue to go down, there is a possibility of the ECB cutting, do you think you can continue in your markup or do you see the potential for additional investment in financial assets to, in a way, also partly support net interest income? How are we going to be looking at the net interest income from here? Thank you.

VICTOR MASSIAH: Okay. If you analyse the markdown, the markdown year-on-year, it's even worse than that in absolute terms...

FRANCESCA TONDI: You probably have some volumes, yeah

VICTOR MASSIAH: Yeah, in absolute terms, the effect…- I can be completely transparent with you - the markdown effect is €435 million.

FRANCESCA TONDI: My God, okay.

VICTOR MASSIAH: "My God": this is exactly the reason why. It's that €435 million is the effect of just interest rates going down so much. And obviously some… - and we didn't have an incredible war on deposits, imagine a war on deposits! Then if you want to have the contribution on the other side on the markup: we had €341 million of additional markup.

FRANCESCA TONDI: So €110 million, what is it then?

VICTOR MASSIAH: Now, €110 million was a hypothesis of the potential additional interest margin that we could have achieved if we could stick to the volumes of the third quarter of 2011. Why the third quarter 2011? Because it was the moment when we had to freeze and retrench because of the EBA recommendation. And we are saying, what if we had sticked to those volumes, not increasing the volumes, just sticking to those volumes, applying the markup that we have now? This would have driven to €110 million. If we could have used that €110 million, we would have had a plus 9% of interest margin, notwithstanding the real €435 million minus on the markdown. So that's why…excuse me if I am so pushy, that's why I am stressing so much: that there is an effort on the commercial part that should deserve much more focus from you guys.

FRANCESCA TONDI: So how should we be looking at this going forward? I mean clearly, the markdown impact on declining rates has been very large, there will be some more from here, especially if interest rates get cut again. What is going to be in your view, if there is another 50 basis points of interest decline? And will you be able to continue to recover that and more through your markup or will you make more investment in Govies?

VICTOR MASSIAH: Now, first of all, I am not going to declare any type of ceilings on Govies, but let me stress the statement that, again, we are not a bank that likes to play too much with Govies. So do not expect particularly aggressive policies. In terms of what you say regarding interest rates, what you are saying would have been 100% true, until maybe one, two years ago. Now, we are in a limited situation...Let's say that the European Central Bank reduces an additional 25 basis points, I will say that EURIBOR declines 25 basis point going minus 12...

FRANCESCA TONDI: And but yeah, effective negative rates are still a possibility?

VICTOR MASSIAH: Not, exactly. I mean, theoretically or academically, yes. But the point to be stressed is that there is a clear decoupling now between EURIBOR and rates, but unfortunately, in a way most of the contracts. mortgages (mainly loans) are indexed on EURIBOR .

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: So even if there is a in a way a ceiling to the reduction, so it can be in theory worse, but not that worse, because it's at least unexpected to have a negative EURIBOR.

FRANCESCA TONDI: And do you think you will be able to continue to re-price upwards on the loan side?

VICTOR MASSIAH: It's a combination of re-pricing, and again, as I said before, of working very well on the mix. It's also the mix, and again, do not forget that every single year, more or less €7 billion of long term loans are paid back, and they are at very low margins, low spreads, and new mortgages can come in. Just to summarise old mortgages are at 100-150 basis points, new mortgages are at 300 bps.

FRANCESCA TONDI: So…do you see then, on the back of that, the possibility of improving net interest income from here? Do you think this will be the bottom?

VICTOR MASSIAH: It's very difficult as I said to make a forecast for the second half. Long-term for sure…long-term for sure. We are at the limits of the limit, if I may say. And we have long-term, a new situation, new world, where risk is priced in, as we are all learning. So the loans are pricing now correctly in a way, the risk. And on the other side, there will be much more room on the markdown, whenever coming back from the crisis we will see sooner or later market price, in terms of interest rate going to a reasonable level. Because, again, it's unreasonable that, in historical terms, EURIBOR is lower than the REPO rate. This is not usual, we are getting used to the unusual, but historically EURIBOR has always been higher than the REPO rate. So if the REPO rate is 75, EURIBOR will be above 75. So these are exceptional conditions.

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: And in my opinion, having such results in exceptional conditions, it's something to think about.

FRANCESCA TONDI: I am just wondering whether, there is a risk of another one or two quarters of still relatively exceptional conditions......

VICTOR MASSIAH: Oh yeah….

FRANCESCA TONDI: ….to lower the base, yeah.

VICTOR MASSIAH: You are perfectly right, but this is exactly why I refused this time to make any type of forecast.

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: My point is: we can say anything and then the decision of the the High Court in Germany, etc.. will be much more important

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: No, it's true, it's exactly that. So, I don't even think it's professional now to make, in a way a forecast. You have read…we decide to give you all the perspective, you have all the data.

FRANCESCA TONDI: Yeah, that's very helpful. Really it is very helpful and then…yeah.

VICTOR MASSIAH: And so with data we can work, and we can brainstorm . But I don't want to put in black ink any type of forecast now, because literally, I am tired of that. We are living day-by-day, we are doing a good job of living day-by-day, but this is what it is, I mean it can change immediately in one second.

FRANCESCA TONDI: So on the area where you do have control, which is costs, than could we see then the second quarter cost base as the new base for the next couple of quarters? Could we see even lower, given that you have more of the cost saving initiatives, and coming through this year and next? How should we think about it?

VICTOR MASSIAH: I think you should see it more or less as I said before it's a new base line. I don't think that the additional initiatives will drive benefits within this year. But they will drive very important benefits next year and the year after. I think that two-thirds or even more of the benefits will come from next year and the total full potential of the benefits will come for 2014.

FRANCESCA TONDI: And should the second quarter base then be the base for the rest of the year or is it possible…there is a possibility that cost may have to go up slightly again in the second half?

VICTOR MASSIAH: No, as I said, a colleague of yours before has asked this…

FRANCESCA TONDI: Yeah, sorry I didn't catch that answer.

VICTOR MASSIAH: No, no, no I said more than 90% of the achievement is structural; obviously we would struggle to make a 100% structural.

FRANCESCA TONDI: Yeah, okay.

VICTOR MASSIAH: But as per today, more than 90% is structural.

FRANCESCA TONDI: Okay. Okay, that is great. Thank you so much for your answer and your patience.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Mr. Matteo Ramenghi from UBS. Please go ahead sir.

MATTEO RAMENGHI: Yes, good afternoon to everyone. I just have a one quick question left, which is about lending. Clearly your capital position is now strong; the EBA issue is definitely off the table, which is a very positive development. And you already comply with the funding ratios imposed by Basel III already, whereas there will be a big headache in my opinion for a lot of European banks. Thus your deposits are growing, so funding doesn't seem to be an issue. Given what you have been doing and what has been going on in the sector, in terms of markup, and asset spreads, is this time to start refocusing on loan growth, although not aggressively, given the recession? But is this an opportunity to refocus a bit on market share when some of your competitors perhaps are not in a good shape as you are? Thank you.

VICTOR MASSIAH: The focus on market share for us is important obviously. And if I may use your question…your question is very clever and I use…I can use it to stress the point that we said from the very beginning: that we were working first on the balance sheet and then on the profit and loss. I never say never on the balance sheet, but I think that really now it's very very sound…thank you for the comments on the capital, let me stress as you did also the point on the funding, so it is a pretty solid balance sheet.

Now it's the time for the profit and loss, we have to struggle with a very stressed market condition as we said before. But I think that we have in mind the right actions to achieve also that target. We don't achieve it in a quarter, we don't achieve it in a semester, but in our point of view now it is time to go in an aggressive way. But, again, in a selected aggressive way, not volumes, just because of volumes, but in a selective aggressive way, because now we have all the ammunitions to do that. But this is going to take 18 months, 24 months; no miracles.

MATTEO RAMENGHI: Thank you very much, very clear.

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

RONNY REHN: Good afternoon. I have four questions. The first one is on the lending spread or the markup, as you called it. This quarter it stayed flat, despite large reduction in your corporate loan book and a rather significant spread difference between the loan categories, why is that? The second question is on property prices: you highlighted, you have probably the best collateralised book in Italy, and what is the latest property price trend in retail or residential and commercial in your key areas? And also if it is said that property prices were to drop by 10%, would this have a direct impact on your loan loss charges on the existing non-performing loans? And then the last two questions are just two numbers, basically. The first one, what's the average yield you currently pay on your retail bonds? And what's the upside we could expect from the internal models for your retail portfolios in the first half of next year? Thank you.

VICTOR MASSIAH: Okay. The first one: you made a very bright observation regarding the fact that there has been no additional upside on the markup, but you should also say that most of the reduction was not in the second quarter. As a matter of fact, if you analyse the last six months we went from 2.42% to 3.01%, so and because most of the quickest loan reduction was done in the large corporate, then we had to work on other types of reduction. And so, I don't see any problem having flat in this second quarter because most of the reductions were done in the first quarter, and again 2.42% up to 3.01% in the first half.

Second, regarding the price of the houses in Italy. I am not the top expert of the market, but I feel confident to say that, depending on the area, we have seen between minus 5% and minus 10%, so nothing to do with minus 50%. It can be applied such an exceptional…a very high rate, only for very low quality buildings, going for a builder under legal procedures, but on a average…big average of the market anything between 5% and 10%.

RONNY REHN: May I ask a very quick question just here? Sorry to interrupt. Since when have you seen this deterioration? Is it fair to say that is it only has happened since basically first quarter 2012, and nothing last year? So that's more like a recent thing?

VICTOR MASSIAH: No, no, no, no, no, no I don't feel like that. At least in the areas where we are operating. No, it's a very…very small decline, and yeah, possibly somebody is saying that, obviously the number of transactions has been significantly reduced. If you are talking about the number of transactions, it was significantly reduced. A proof of that is also the number of mortgages in the market, which is almost half. But one thing is that the number of transactions has reduced and other thing is that there is a strong decline of the price. In my opinion, there has been a very conservative approach by potential new investors, let me say, private or corporate in the building area.There is a crisis and we may say no doubt, but if I may say, it has nothing to do with the Spanish or the Irish type of the situation.

RONNY REHN: Okay.

VICTOR MASSIAH: Regarding the total costs of the stock of the retail bonds, it is 1.86 percent . In terms of new issues, it is in the area of more or less 2%, or 2.30%, we have on avergae a negative markdown of 1.41%. So depending on the period, a little bit below or above 1.80.

RONNY REHN: Okay, thank you.

VICTOR MASSIAH Which obviously, as you may appreciate, it's pretty much more competitive from our point of view, compared to what would be the costs today unfortunately in the institutional market, that's why in a way we are becoming autarchic . This gives me…if I may also the opportunity to say - I am not saying that so we are never going again to make any type of institutional issuing - it's just saying that it's out call, it's our choice, and not…we are not obliged to do anything, which it's a nice feeling. I am sure I am missing still one question, but I am sorry I forget.

RONNY REHN: Yeah, the last one, it's just on the…on capital. You've seen obviously a major uplift of the capital ratios, this quarter following the corporate models approvals, what's the upside that is to come from retail modelling?

VICTOR MASSIAH: We are not ready, we have not published and we are not ready to publish this. However, you have in a way or in order, if I may suggest, the total performance in terms of additional basis points of capital, that all our competitors have had, so you may have a range from that, if I may suggest, but we are not ready to deliver for the moment this type of information. I apologise…

RONNY REHN: No, worries, no worries. And then maybe if I could just one last follow up on this retail bonds in the new issuance, basically you said the cost is 2 point something percent?

VICTOR MASSIAH You mean, no, I said that it's below 2%. We may have some exceptional issues, for example, sometimes we may have a new issue just for new money, and we can go in the area above that. More or less we are definitely lower than the system.

RONNY REHN: Than the system, because generally the indication or the reference rate would be two or three year government bonds, right?

VICTOR MASSIAH: No, we are lucky enough to price below.

RONNY REHN: To price below. Okay, thank you very much.

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

GIOVANNI RAZZOLI: Good afternoon, a very quick question on the cost of risk. I've seen you are running in the second quarter with provisioning level in the region of 85 basis points. And since the last crisis you have significantly, let's say de-risked your loan book as the corporate loan has decreased, the collateralisation has increased. And in 2009 you were running with the cost of credit in the region of 95, 110 basis points. So shall we assume that all has been equal, and I mean, I don't want the guidance, but just to share with you these comment... Shall we take the second quarter cost of risk of 85 basis points as more or less; let's say mid point for the next few quarters? And my second question is a clarification on the capital ratios, am I correct saying that the Basel III compliant core Tier 1 ratio is still in the region of 9 point something percent? Thank you.

VICTOR MASSIAH: Okay. Regarding, the cost of credit, I don't want to make forecasts, and you guys one-by-one are asking me to forecast it item-by-item, I won't do it. No, no, it's fair, it's in your role. What I can say is that the second quarter has been pretty severe for example in the leasing area, just to give you an idea. Now, we are working on that since last year. Let me say that, having the second quarter confirmed as a benchmark for the second half or less, it will depend on some good job that we could do in the more risky part of the area. So, I would like to say that, I would consider…I would like to consider the second quarter as a peak in a way, but again, this is not a general statement.

GIOVANNI RAZZOLI: Okay. Thank you.

VICTOR MASSIAH: But please keep in mind one thing, that is -not to have a misunderstanding - that the basis point of the second quarter have been computed on the new benchmark of lower loans.

GIOVANNI RAZZOLI: Sure, so would have much lower base…

VICTOR MASSIAH: Exactly, so also…let's not have misunderstanding on the baseline, because this would be okay. Excuse me, your second question was…

GIOVANNI RAZZOLI: So, if you do have any indication on the Basel III compliant Core Tier 1 ratio, the full load impact of the Basel III, if you do have it. I guess, this is more or less consistent with the EBA, more or less?

VICTOR MASSIAH: I would be a little bit more conservative, why? Because it can be consistent, obviously is anyway in a range between 8% and 9%. And so, there is no question that we are much, much above the 7% of the Basel III new regulation. So, we are talking about anything between 8% and 9%. The way we treat some of the minorities, and more important the evaluation of AFS can completely change the number within this range, because you may say this range is very high. Please consider that, just to give you an indication, if the spread BTP-Bund, goes back where all of us - and I think many of the economists think it could be appropriate, so in an area close to 250 bps - this will mean to zero the AFS buffer; this will mean to have a very important impact on the Basel III. So it's also depending on what type of hypothesis we are doing. So, the statement I can make is that the ratio can be definitely above 8%; it could be even the EBA ratio as of today depending on the valuation of the AFS and obviously the way we treat minorities and how we can manage that part.

GIOVANNI RAZZOLI: Okay, it's more than clear, thank you.

VICTOR MASSIAH: Thank you.

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

RICARDO ROVERE: Good afternoon to everybody. I have a couple of questions; the first one is the core capital. What is the number on which you are managing the bank? It's the 7% Basel III, it's the 9% EBA? Because that's what makes a difference, between one case you could push a little bit on growth given that you are running well ahead of that. In the second case, it would not be the case, so what is the number you are looking at there?

VICTOR MASSIAH: You are doing that. You are pushing on me, I like you.

RICARDO ROVERE: I don’t know, I don’t know.

VICTOR MASSIAH: I am just joking.

RICARDO ROVERE: I don’t know, I think we are all confused or at least I am. So what number should I look at? And the second question is somehow related to what Giovanni was asking before. Am I right in saying that you are a little less confident on the guidance of our cost of credit this year, more or less aligned to what you reported last year? Because if I remember it correctly, that was the guidance you provided…you gave us three months ago well, in the previous set of numbers. Am I right or wrong?

VICTOR MASSIAH: Well, you are a 100% right.

RICARDO ROVERE: Okay.

VICTOR MASSIAH: We were more optimistic three months ago on the cost of credit. We felt that the market conditions could be a little bit better than today. Obviously as you know, traditionally September is a very important month to understand how the second part of the year will come because companies and factories are reopening. And it’s very important to understand what will be the impact on the cost of credit. I am becoming more conservative, sure you’re perfectly right. My first statement, my first guidance wasto go even. And now, I am a little bit more pessimistic. I hope to be wrong, but this September would be a key on that subject.

Regarding what type of figure am I using, in terms to run the bank, I don’t know. What I said from the very first beginning regarding UBI’s size is that I was going to comply and then complain. So we complied, now let me complain, in the sense that we think this exercise is a little bit aggressive. However, we have it. Now, since I don't have any sign of saying that the temporary, it is temporary now, and we have no instructions about how temporary it is, and actually my understanding of the trend is that the authorities will be conservative on that. So I think that I have to run the bank now on a baseline of 9%. And this is for the good and for the bank. However, as I said before, I was going to complain, but comply, I complied, we complied; now we can complain, but still we have to run. And we have to take it as it is.

RICARDO ROVERE: But 9% is including the full current markdown of the sovereign exposure, or just 9%,? So the EBA, you are basically telling us the EBA, so you can continue to keep an eye on this number.

VICTOR MASSIAH: Yes, you are perfectly right. I will stick to keep an eye because we don't have for the moment, additional instruction on what would be the new Basel III because the Basel III per se, is a Basel III with 7% - well, starting from 7% in theory for a bank like us that computes the AFS. And definitely we are above that, as I said before.

Now, and I would like to be above the 7% anyway. I don't want to have any surprise, you know we are still conservative, and that's why when I was answering to the previous question, I was saying anyway between 8% and 9%. Then, I was saying that the authorities are thinking now of a 7% plus, I don't know enough. I want to be conservative, I had already enough surprises in the last couple of years. So I will be very conservative on that.

RICARDO ROVERE: Okay, very clear. Okay, thank you.

OPERATOR: The next question is from Domenico Santoro from Nomura. Please go ahead, sir.

DOMENICO SANTORO: Hello, hello everyone and good afternoon. Just a clarification, first of all, thank you for all the details about credit quality, all those slides are very useful and also thanks to Laura for the level of detail. Just a question, but they are more a follow-up rather than questions here. On the NII, I agree with a colleague…with the question of a colleague before, about the increased contribution from the sovereign. We are not arguing here with the quality of results, but maybe more on the volatility. So I understand from your answer that here it's more a trade off between results and credit quality. So is my understanding correct that you might probably accept lower NII going forward with the main goal of preserving credit quality? So this is the first question. The second is on Basel III, again you said before that the Basel III fully loaded is around 8% and 9%, just wondering whether this includes also the modern migration pertaining to the retail part of the portfolio, which probably is around a 100, 120 bps if I benchmark with Banco. On costs again, just a little bit more of sense on what could be the decline in costs in 2013/2014 taking maybe as a reference the inflation rate maybe below 2%, 3%, a bit of sense here. And as I see watchlists *("incagli")* going up by 8% in the second quarter, I wonder whether there is something specific there, anything one-offs, and maybe you want to comment more on this. Thank you.

VICTOR MASSIAH: Sure. On the watchlists, as I said before we've seen a second quarter with additional deterioration. And there was also something in particular in leasing that we didn't like, but as I said before, also we have seen that watchlists enter, but sometimes also exit. It will depend on the…as I said before, on the developments in the second half.

On the net interest income, I understand your point. I understand very well what you are saying, but what I was saying is that there is not only the arbitrage between cost of credit and interest coming from loans, but there is also a kind of…I don't know how to define it, but a cherry picking in both cost of deposits and price of lending. We think we have areas, specific, very specific areas where we are paying too much for deposits and there are very specific situations where we are not the getting right sort of price in lending.

So we are shifting now from massive to very, very specific customer-by-customer actions. So that's what I was trying to say. And obviously, this is something that is relevant. Regarding the fact that, is it sustainable or not sustainable, the carry trade, as I said before, the interest part contribution from carry trade, let me say something that can be obvious. But I think it's important: If the interest rates market bounces back, I don't see the problem: less carry trade, because more comes from the structural interest margin. If the market is frozen to this very low limit, I don't see the issue on the stability of the carry trading.

So obviously, you don't want to play with too much portfolio because we have seen - and I won't go in additional details -, if you exaggerate on the portfolio, something could happen to you anytime. So very, very short-term investments and always with a ceiling because it's very important to have ceilings on that. Regarding the credit quality, as I said before, that's something that is a tradition for us and I hope we gave enough details explaining why we think it's still quite a top level quality.

DOMENICO SANTORO: Sorry, about the Core Tier 1 again, the 8%-9% that you said before you mentioned before, Basel III, yes. Sorry about that?

VICTOR MASSIAH: As I said before, not ready to give any guideline on the retail. I don't know about Banco Popolare, I know the total figure is 185 bps, but that's all I know, I don't know the splitting, and it's obviously not my business. In terms of the figures that I gave: I gave a guidance that includes the contribution from the advanced model. And I said: including the contribution from retail advanced model, our guideline is, in a very conservative way, anyway above 8%, and if it helps in terms of AFS valuation, whatever even above 9%. And above 9%, for a bank like us, we are not a SIFI; we mean to have a SIFI Basel III, being a super regional Italian bank.

DOMENICO SANTORO: Sorry, so it does include the retail component right?

VICTOR MASSIAH: Yes, yes.

DOMENICO SANTORO: It does. Okay, thank you.

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

ALBERTO CORDARA: Hi, good afternoon, a couple of questions. The first one, on new conditions on retail bonds. I am slightly confused because you mentioned that, if I understood correctly, that new retail bonds are issued at 2%, but how is it possible, because if I look at the yields on two years government bonds, we are at 3%. So you are issuing at 100 bps less than the government bonds? Just wanted to have a clarification on that, because it seems a bit aggressive to me. And the other issue is in the past you, I think you made a point on the fact, that you are reducing your exposure with the Italian Clearinghouses, i.e. with the *Cassa di Compensazione e Garanzia*, but we saw that in the quarter there was a very strong pick up, you went from €2.4 billion in the previous quarter to €7.2. So what we should expect from this line?

VICTOR MASSIAH Excuse me for interrupting you. But I missed…excuse me, I missed the second question. Could you say it again, please? I am sorry.

ALBERTO CORDARA: Yeah, of course. Well, I think in the past you remarked in some of your presentation that you are reducing your funding with the Italian Clearinghouses, i.e. with the *Cassa di Compensazione e Garanzia*, but then in this quarter we saw that there was a very strong spike, I mean, it went from €2.4 billion in March all of a sudden to €7.2. So my question is how are we going to see this line, what is the optimal level? and if you want to relate it to this, we saw that the Bank had you know, a very good increase in unencumbered eligible assets, which I think follow the change in ECB rules regarding the use of collateral, but then in this quarter, they came down a bit, we are at €11.6 billion, I think we were over €13 billion on the previous quarters. So again, the question is, what in your view is the sustainable level, what is the optimal level on in terms of free eligible assets? Thank you.

VICTOR MASSIAH: Thank you, I answer the first the last question. First of all, the quality of unencumbered is always stable, and it's original so it's not at all using any additional potential usage coming from the new regulation. The detail of the unencumbered is on Annex Page 32, so you have total transparency on the characteristic of these unencumbered assets.

Second, we gave a guideline that more or less we want to have total eligible, more or less the double of the position of interbank, since we have a position at interbank including LTRO of about €12 billion. We have unencumbered assets of €24 billion, more or less this is just to give you a growth guideline of everything. The fact is we are having a repo additional position with *Cassa di Compensazione e Garanzia* is consistent with the fact that, as we said before, we increased our investments in Govies short term, in particular almost €4 billion in the second quarter. So it's pretty consistent with that. So, it can go up, it can go down very easily, because it's just a repo financing…

ALBERTO CORDARA: Sorry, just €4 billion…sorry for interrupting you, €4 billion which is the average duration on these €4 billion?

VICTOR MASSIAH: Low, below one year.

ALBERTO CORDARA: Okay, thank you.

VICTOR MASSIAH: There is Page 11 for any detail.

ALBERTO CORDARA: Yeah, yeah, sorry.

VICTOR MASSIAH: No, no, problem. Regarding the *"tasso finito"* or the absolute rate of the issue on the two years and three years, I have an average in the last periods of the bond issue of 2.1%, and rate, I mean the absolute rate. So this is evidently much lower, but you may say it's not possible but that is exactly what's happening, and which is as a matter of fact one of the strength of our network. For a reason, and although we are still able to sell this type of loans to our customers, which I know is lower than most of the competitors, but this is why I am stressing so much that we are doing a good job on the way we sell. A two year is below 2%.

ALBERTO CORDARA: Sorry for this, maybe it's not a pertinent question, but…you don't see that there is any risk of possible or regulatory pressure, because also I am thinking about the increase in markup, I mean an issue that is concerning the Italian bank system and not specifically UBI. But is that, if you look over the past years, there has been a pretty sharp increase in interest rate charge on new origination mortgages, when in fact EURIBOR has been coming down, and if I look at the European average, interest rate on mortgages, have been coming down, so I mean again, so far…

VICTOR MASSIAH: We have a little secret, we buy back those bonds a 100%.

ALBERTO CORDARA: okay.

VICTOR MASSIAH: So there is no problem in terms of regulatory.

ALBERTO CORDARA: So you offer an option to repay clients. Okay clear. Okay, thank you very much.

VICTOR MASSIAH: This is a transparency day today. Please next question.

OPERATOR: The next question is from Anna Benassi from Kepler Capital Markets. Please go ahead, madam.

ANNA BENASSI: Very long conference call, many many questions. That's good I think for the interest on UBI Banca. From my side, the question starts from the leasing business.You have been mentioning the problems in the leasing two three times in the conference call, but then we have seen also you acting on the goodwill of the leasing business in the past quarter and we hear more and more in the market other banks thinking what to do with this leasing business given the difficult funding long term of this type of business. Can you tell us if you have in mind like I hear maybe from others, to join forces in this business in a way to at least find a more efficient way to run the structure of the business and then trying to find also a way to fund this type of business? This is my first question. The second question relates to the fiscal benefit that you booked in the second quarter, one had to do with the end of last year new decree, but the other one is talking about, fiscal credit on a past book. Can you explain me where they come from, and if there is something else we should expect in the second half of the year? The third question is on the Italian Govies, you are giving full details. Thank you for that, at the end of June. Can you let us know how much they are now and where they are available for service stand at this point? And final question, now the capital is actually well above 8% including in the difficult EBA requirements. And you still have this €639 million of convertible bond that will expire in the middle of next year. What are your ideas of…on your side, on what to do with this bond? Thank you very much.

VICTOR MASSIAH: Thank you, Anna. Leasing is obviously very... you made a perfect description of the difficulties of the business in the leasing. We have two types of difficulties, one regard to the interest margin because obviously we have long term lease that were signed…subscribed at a very low spreads given the market condition, and obviously there is no consistent deposit in terms of length. And the second, this is one sector where we are suffering more than we were used to in terms of credit quality. First of all, we will clean our house, before any type of idea on extraordinary transactions. Aactually we started last year if you remember cleaning up the house, it takes time, because it's a long-term cleaning.

The new leasing is subscribed at radically different spread, so we are very selective, and it's in the area of 400, 450 bps; there is a much lower level of new loans but with a much, much different price, we are in a completely different situation. So clean up the house, start to build up a new situation with much, much, much higher spread and then we would see, obviously it's…as you said perfectly well, it's a very common problem I heard from some friends that this is not only Italy, it's a European-wide problem. However, we'll see, obviously we cannot speak about extraordinary transactions for the moment.

In terms of Govies the situation is stable today, we did not increase, and I was saying we don't want to exaggerate at all with this story.

Third regarding the convertible bond for the moment we expect this bond to expire, as I said, it is an insurance policy. We tend to like an insurance policy, that's the only thing that I can say, we like to play a very safe game, and so if needed, we will use an additional insurance policy in the future. But for the moment the only thing I could say, as I said from the very beginning that given current market conditions, we expect this to expire end of the first half next year. I hope, I answered to all your questions, I don't remember if I have anything else.

ANNA BENASSI: Yeah, well the available for sale reserves on the Govies, is the same amount, still around €1 billion.

VICTOR MASSIAH: As I said before, it's in the area of, how was, 1 billion. Yes, it's a little bit…it's a little bit below on the 30 of June.

ANNA BENASSI: Okay.

VICTOR MASSIAH: But more or less like that…

ANNA BENASSI: Okay.

VICTOR MASSIAH: It obviously, it's very much driven from the spread…

ANNA BENASSI: Day-by-day.

VICTOR MASSIAH: Yeah, it is little day-by-day, and if I may make a consideration, Anna, we all have to get use to a volatility in capital which we were not used to before. As a matter of fact, we are now running an internal report on risk-weighted asset on a monthly basis, and of course, we were not used to before, given literally the volatility that is characterising now the market.

ANNA BENASSI: Don't tell us that we are equity analysts. So in doing valuation, to have the the equity going here and there, it's getting very difficult with the rate of Govies…

VICTOR MASSIAH: Sorry, you have been asking a very embarrassing question to me for almost two hours, I cannot say that to you?.

ANNA BENASSI: It's difficult, that's why we ask so many questions. You have to find new arguments.

VICTOR MASSIAH: I am obviously joking. Thank you, I say thank you for all your questions.

ANNA BENASSI: Thank you.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. The next question is from Andrea Unzueta from Credit Suisse. Please go ahead, madam.

ANDREA UNZUETA: Hi, good afternoon. I just have a quick question on costs. The good portion of the savings you have done so far and most of the savings that you expect are done through the reduction of employees, and that usually comes together with an upfront cost that I haven't seen. And so, I was wondering if we should expect something in the coming quarters or…

VICTOR MASSIAH: Yeah. Now, we obviously want to get a cost reduction, not necessarily we want to see many exit of employees. The balance of a cost reduction is not necessarily coupled with the real exit of employees, it will depend on the interaction with the trade unions. We have seen a very good lateral thinking in the new national level contracts. We hope to have very good lateral thinking also in this negotiation. Obviously, the way we come out with the solution will drive the one-off. And this is exactly why we cannot give you at all a guideline on the one-off, because it can be anything depending on the exit of this negotiation. It can be really anything.

So that's why I was stressing - because obviously we respect the market - we want to be transparent. Immediately after the end of the negotiation, we will communicate if there is a one-off and how much this one-off will be.

ANDREA UNZUETA: Thank you.

VICTOR MASSIAH: Thank you too.

OPERATOR: The next question is from Azzurra Guelfi from Citigroup. Please go ahead, madam.

AZZURRA GUELFI: Hi good afternoon, Mr. Massiah. I just have a quick question on deposits. The data you showed as of June show that deposits are broadly flat, if you exclude the repo increase. Well, could you share with us if you have any flavour for what happened in July and August as well, because we have seen some ECB data that shows some pressure especially on the corporate side today? Thank you.

VICTOR MASSIAH: For the moment, we see a very stable one. One thing we must say is always remember that July is a very heavy month structurally for deposits because there is a tax payment, and you know that so…and now obviously, it's bouncing back, but I have no significant messages to give you in the last two…we would see the usual pattern at the moment. So going down in the second half of July and then bouncing back in August, a bit of the usual pattern that happens every single year.

AZZURRA GUELFI: Okay, thank you.

VICTOR MASSIAH: Thank you, Azzurra.

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

VICTOR MASSIAH: Let me thank everybody for attending and the questions, it was a very long one, I hope very satisfactory too. I wish you a very good evening and all the best to everybody. Thank you again. Bye.