

# **UBI Banca**

**“Presentation of Consolidated Results”**

**“As of 31, December, 2010 Conference Call”**

**March 28, 2011**

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 31<sup>st</sup> December, 2010 Conference Call. 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: Good afternoon to everybody. We apologize first for the delay of 15 minutes, and we are ready now to start. As you can read from the title of this presentation, we are now delivering a double message this year. We are going to present first our consolidated results as of 31<sup>st</sup> of December, and then to explain why we are going to launch a capital increase. The title of this presentation, I think is symbolic. It says new positioning after new rules in a new environment. Let's go first to the executive summary of the results.

This year, the 2010, has been characterized by low profitability, but with all revenue items recovering on the fourth quarter over the third quarter. Operating expenses are under control and cost of credit is in sharp reduction fully in line with guidance. You can see what is the stated profit for this year, i.e. 172 million euro, but please let's focus on what's going on in the last quarter. As promised, the interest margin is increasing compared to the third quarter and is bypassing the first and the second quarter.

Commissions are increasing too. They are 298 million euro, much above the third quarter, even if we consider them not including, as they are not including, performance and upfront fees. We see net results from finance positive again and a stable profitability compared to the third quarter. Staff costs are diminishing as expected while other administrative expenses are substantially in line with seasonality of those expenses. I can tell you that these are anyway lower than the same quarter of the previous year.

Altogether, we have the net operating income at this level being the highest of the four quarter of this year. So, what we are saying with this is that we are having an exit speed out of 2010 that is much higher on the revenue side than it would have been expected only at mid-year.

Cost of credit guidance has been confirmed and cost of credit is 69 basis points versus 88 in 2009, and let me stress comparing with all the presentations that profit is net of PPA.

Let's go now on the lending side of the story. Lending is up by 3.9% year-over-year. This growth in 2010 has been focused on core segments. Retail has performed plus 3.9% and residential mortgages were up by over 10% and core corporate was up by 4.8%. Year-on-year growth confirmed in medium to long-term component, while short-term component shows contained evolution.

On the direct funding side, the total year pro forma has been plus 9.8%. This has been driven mostly by the securities and the institutional in general term, but let me say also that medium to long term funding has been growing albeit an additional plus of stabilization to our deposit strategy. The retail bonds as you can see in the bottom part of the slide grew from 25.9 to 27.6 and they also have been sustained by Centrobanca issues from 2.9 to 5.2. These issues have been delivered to serve the third party mostly actually all Italian banks that we are using this paper for their structure issuing.

In terms of institutional funding, we have seen a growth in covered bonds from €2 to €3.8 billion and in the short term component CD and ECP grew from €2.4 to €3.4 billion. The Interbank exposure is 2.3 in line with 2009, but we also anticipate to all of you that in terms of bond issuing there has

been a strong placement power with 39% of 2010 maturity already replaced mostly within February. In particular we have been replacing more than 90% of all expiring institutional bonds for this year and we have been placing €2 billion out of 8.7 of what was the expiring total amount of retail bonds and maturing this year. So I think we can say that also for this year, that we do not appear to have particular problems in reissuing what is maturing. Actually, we expect and we probably will be able to reissue more than is expiring to let's say stabilize more our equilibrium in terms of deposit and loans.

The indirect funding evolution has seen a slight decrease in asset under management although affected by adverse financial market condition, especially in fourth quarter, but with a better mix and you can read by yourself how the mix, in particular in mutual funds, has been improving in terms of profitability, semester by semester.

We wanted also to stress on Page 9 and actually to be very transparent to stress test times and we wanted to be very transparent in terms of the composition of our portfolio. In terms of type of financing instruments, in 2009 we had 60% of our portfolio invested in government bonds; today, they were 80% in 2010-- Corporate bonds, mainly bank issue changed from 30 to 15.9%, hedge funds from 2.8 to 1.3, ABS from 3.4 to 0.8, funds, shares and derivatives 1.7 now.

In terms of financial profile, we have floating rate of 63.4, fixed 26.8, structured securities 6.7%, the shares, funds and convertible bonds 3%. By currency 98.8% are securities in euro, by geographical distribution 95.2% euro area, USA securities 2.9%. By ratings investment grade, 97.8% and the average rating is A2.

As at December 31, 2010, €11.6 billions were invested in bonds, €9.6 billions in Italian government securities, 83% booked in AFS, Banking book with a duration of 1.7 years and 17% booked in held for trading, trading book, with a duration of 0.4 years. There is no exposure to government securities in countries at risk by meaning PIGS and Northern Africa et cetera, no exposure at all.

As we have been anticipating, interest margin has been rebounding in the second half of this year, and in particular we have seen an encouraging rebound in the last two quarters. This has been driven by the repricing activity notwithstanding the important increase in the cost of funding, in institutional market. You can see that we have issued €1.5 billions of covered bonds at 120 basis points in mid September...it's 120 basis points spread in mid September and €1 million at 3 months of EURIBOR plus 130 basis points in October still it is, the interest margin...the net interest margin is up. This is due to the pricing measures that we had been promising and executed in August, mid September and mid December.

Sensitivity to a 100 basis point shift is approximately €70 million. We also wanted to share with you how the Network Banks spread has been moving during this different quarters this year and again you may appreciate that there has been as a matter of fact repricing activity was a reason of success.

Net commission down by 1.8% year-on-year excluding performance fees contribution but fourth quarter benefits from new measures implemented and we wanted also to share with you the view in terms of how this is changing in the last quarters. If you can have a look at the bottom right of the Slide 12, you may appreciate that there has been a rebound in management trading and advisory services, in particular portfolio management has been up, placement of securities has been up.

Collection and payment service has been up, services for transactions up, current accounts management up, other services up. So, I think that this is showing how we are improving in the repricing activity.

Total operating costs have been declining by 1.8%, you may appreciate and focus on staff costs and how this is being declining during the last few quarters.

Page 14; cost of credit at 69 basis points versus 88 in 2009. Let me say that what is relevant in my opinion is what is written on the top right of the slide in a bubble, i.e. inflows from performing to non-performing and impaired loans amounted to €1.7 billion euro in 2010 down by minus 23% compared to the €2.2 billion euro in 2009. So, we are looking at the following situation, we see the non-performing loans that are increasing but increasing at a much slower pace and we see some additional slowing in the beginning of this year due, thanks God, to some rebound in the economy. We think also we did a good job in cleaning up our books and you may appreciate also a final take of the write-backs in the exhibit on the bottom left on Page 14, and at the same time you may appreciate how conservative we have been in the evolution of collecting impairment that is worsening the cost of credit that we are publishing.

On Page 15, you can also appreciate the good job in my opinion has been done on the single networks. You may see that the single banks in particular the ones that were critical in our opinion and were completely out of the average of Group, i.e. Banca Popolare Commercio Industria and Banca Popolare di Ancona, have done a very, very good come back in the year 2010. At the same time, you may appreciate that what we said regarding our consumer credit, how Banca 24-7 said has been going from 170 to 134 basis points of cost of credit in the consumer credit part of the

Group, how Centrobanca has been growing from 159 to 94. The only one that today that has been actually going through a reverse type of pace is UBI Leasing; the reason why we wanted to think on this issue is that we have a different view, probably much higher prudential view on the valuation...the market valuation of real estates and industrial buildings in particular. So that's why we have been increasing our prudential adjustments in the fourth quarter on the lease. Even including the important increase in the collective and this maneuvering...the prudential maneuvering in the leasing side, we are respecting the guideline to be in the 70 areas, actually we are at 69 bps at the end of the year.

Coverage of deteriorated and performing loans. The non-performing loans increase in collateralized position, needing lower coverage, so again we have been increasing in collateralized positions needing lower coverage 1.7 as we said before in 2010 versus €1 billion in 2009, 43.9% of gross non-performing loans versus 35.2% in 2009.

Taking account of increase in collateralized positions and of positions sent to losses re bankruptcy procedures, the total coverage increased to 80.1%; we wanted to present both ways or presented coverage. Let's say the traditional one and if we have to be compared this is an 80%, the other e way of presenting it that is 48.7%; same type of approach is readable for impaired loans and the total coverage of performing loans has been increasing to 0.54%.

What is the outlook for 2011? The substantial increase in the cost of funding should not compromise the effect on interest income. Repricing action are already put in place from the second half of 2010. The general level of operating income is expected to improve as a result, amongst other things, of repricing action taken on commission items, partly inherited from the last quarter of 2010 and partly introduced in the first

quarter of the current year and actually let me also add to that starting the 1<sup>st</sup> of April second quarter there will be also an additional effect of maneuvering of the mutual funds in UBI Pramerica. This has been already published and sent to the customer but for regulatory reasons we have to wait until 1<sup>st</sup> of April to be acted on this.

As improvement...an improvement is also forecast on the quality of credit which should enable an annual level for the cost of credit to be achieved that is lower than that recorded in 2010, but which will still be conditioned by the unfavorable economic situation. In terms of operating expenses as a whole, we are expected to fall slightly compared to 2010, but let me also stress that it should nevertheless be considered that the achievement of this forecast is dependent on the outcome of national labor contract negotiation. Constant measures are being taken to contain administrative expenses. Putting all these things together an improvement in profits on ordinary activity is expected for 2011.

Now, usually this would be the end of the conference. Today we have an additional part of the conference. Now everybody could say, "Hey, what's going on? Is there anything that is going wrong? Why is this bank, that has always being perceived as a solid bank, with a solid capitalization, considering to increase capital?"

First of all, have a look at where we are today. On Page 19, and at the 31<sup>st</sup> of December 2010, we have a 6.95% core Tier 1, 7.47% Tier 1. Total capital ratio is at 11.17% not including obviously neither the potential advantage coming from the advanced model adoption - that is foreseen to be authorized hopefully by the Bank of Italy within next year -, neither the potential conversion of the convertible bond issued and which will expire in mid 2013. But, the point today is that we have been studying a lot in

the last couple of months, and we think there is a clear change in the structure of the market.

Let's go to Page 20, let me introduce this page by making a statement that is not written. We have a view of polarization in the market. There will be two types, two positions more and more polarized during times. There would be a group of banks that are solid in terms of capital, stable, good funding, able to support the growth, able...capable to grow endogenously, let me stress endogenously not claiming any acquisition. There will be a group of banks that will suffer more by lower capitalization that so will have to pay a much higher cost for deposit, much higher cost of funding on the institutional markets, less able to follow the growth of the economy. We obviously want to be on the positive side of this polarization and this is why we are talking about a new positioning, after news in a new environment. This is something that is positive and it's thought to position our bank amongst the "best in class."

Let's go through the Page 20. New rules objective is clearly to drive to an almost "all common equity" Tier1. Cost of hybrid instruments is anticipating this trend. Tier1 hybrid estimated price is higher than 10%. Under the new environment, stronger capital will mean better cost of funding than in the previous context. Under these premises, UBI Banca has decided:

- to position itself among the "best in class" with a higher than average level of capital, and in a way we think to anticipate the market.to achieve a further improvement in the mix and quality of the Group's capital by further strengthening its common equity. Moreover, once the increase in the share capital is completed, and taking into account the evolution of liquidity, the Group will consider the possibility, subject to authorization from the competent authorities, of calling the outstanding

innovative capital instruments for a nominal amount of €453 million euro, which presumably will cease to be included in the Tier 1 capital from the end of 2012 (on a yearly base, a saving of approximately €36 million in interest expenses);

- to avoid issuing, in the short term, new capital instruments, which will have high costs and for which uncertainties remain over their future eligibility for inclusion in capital;
- to support (Page 21), strengthen ratings assigned by international rating agencies with positive impacts on the international perception of the Group and on the cost of funding;
- to continue issuing covered bonds without limits on the allocation of assets to the cover pool (Tier1 at least 7%, Total capital ratio at least 11%), in the most advantageous position permitted by the regulations;
- to be able to grasp, under the business plan, all the opportunities for endogenous growth which may arise in coming years, pursuing at the same time a sustainable dividend policy. The amount of the proposed increase in the share capital is such as to allow to achieve, over the period covered by the business plan, a remuneration of capital consistent with its cost.

The transaction is expected to take place shortly, presumably within the summer, if market conditions allow it and subject to the authorizations by the relevant authorities. UBI Banca also informs that the new Industrial Plan will form part of the prospectus relating to the capital increase.

This will mean that we are acting to be delegated by the General Meeting to be able to call for an increase of capital. But we won't call, the increase of capital, without first publishing to the market at the Industrial Plan and demonstrating and I want you to stretch what I am going to say "demonstrating" - that our Industrial Plan will be able to cover the expected cost of capital, i.e. total capital that we will have after the potential increase, raise in capital.

Let me also say on Page 22, that the new shares will be offered in option to shareholders and holders of bonds under the "UBI 2009/2013 Convertible con facoltà di rimborso in azioni" convertible bond. The Convertible Bond Regulations Article 5 provide for bondholders to be able to participate in the share offer by attributing 1 option right for every bond held. Again based on data as of 31<sup>st</sup> December 2010, the capital increase I want to say that we are going to ask to be delegated for the capital increase up to €1 billion euro would mean, in the case of €1 billion euro, an additional of 106 basis points of core Tier 1, Tier 1 and total capital ratio.

Let me also stress that the Group still will have full availability of its capital buffers: both convertible bond and adoption of Basel II advance model. This will mean that, given today, we will have 8.01 in terms of core Tier 1, 8.53 in Tier 1, 12.23 in total capital ratio again with still full availability of the capital buffers mentioned in the bubble.

Mediobanca acts as a sole Global Coordinator, Bookrunner and Guarantor and let me say that I have been authorized to say that Mediobanca will guarantee the full total amount of capital.

Thank you for your attention, and I will be ready from now on to answer to your questions. Please.

## 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 of Autonomous. Please go ahead.

GIOVANNI CARRIERE: Yes hi, good evening Mr. Massiah, two questions regarding the capital increase. I was a bit...a bit surprised that you didn't decide to call the convertible maybe separating shares before actually doing an outright rights issue, as well as maybe you didn't wait to get approval to use advance model. What is that drove the sequence of your decision as you...if you could expand a little bit on that? And obviously, I mean, the question is probably natural: in which way is it related to the stress tests upcoming, and to basically request by the Bank of Italy as of course, to just basically your decision that's going to be the best for your funding cost and everything else. Thank you very much.

VICTOR MASSIAH: Okay. The reason for this decision is the following. We have through the convertible bond, as a matter of fact, a good funding at a reasonable pricing today. And it's also buffer. On the other side, by raising this capital, if our shareholders will authorize us to do it, we will position ourselves as I said before, in a position that is still much, much, much stronger compared to other competitors. And again, it will position us in a situation to have also a buffer, but the buffer that if it is not used is still a good and reasonable, today, way of funding ourselves till 2013.

Regarding stress tests of Bank of Italy: Bank of Italy, has not requested us to make this increase of capital, this €1 billion increase of capital. This has been our decision, but we all know that the Governor of Bank of Italy has said in public situation that he was recommending to announce a capital increase, but this is a different story. For ourselves this €1 billion increase

in capital is a decision of the bank. Third regarding stress tests this decision is not at all correlated to the stress tests exit.

GIOVANNI CARRIERE: Okay, thank you and regarding the advance model you still foresee approval is coming within this year.

VICTOR MASSIAH: Well this is left in our hands. What I said until now, is that definitely we expect if Bank of Italy will authorize us, to be able to be authorized within 2012. If we will have a good surprise from the authority this is only partial in our hand, but we will respect what the authority says, what is important is to have this authorized maybe end of 2012 for obvious reasons. But we are not stressing the point with the authority and we are very disciplined in it; we will wait what the authorities decision will be and we will respect it in terms of timing.

GIOVANNI CARRIERE: Great, thank you very much.

OPERATOR: The next question is from Mr. Marcello Zanardo of Sanford Bernstein. Please go ahead sir.

MARCELLO ZANARDO: Yes good evening Mr. Massiah and colleagues, just a question on this on the rights issue. Since you are clearly anticipating the market you have a vision of polarization, which you explained clearly. My questions would be the following: what are you noticing in terms of banks struggling both on the funding, on the asset quality? And when do you think you could go out and use this right issue, not only in an organic way to improve your cost of funding but also actually to improve your cost of equity via un-organic acquisition, which I think are becoming more appealing in the new environment, and I guess that you are looking mainly at the Northeast and other region? If you could also explain a bit more where, should opportunities arise, you want to grow and why. Thank you.

VICTOR MASSIAH: It's really not more...good evening Mr. Zanardo first of all, and it's really not more than what I said. We don't think to make any type of acquisition today, and we just think that there will be at least two categories of banks and they would be polarized. And we think this is good timing even if we are...it's very clear to us that we came with a surprise to the market. And we respect the judgment of the market. But we deeply think this is the right time to do it. This is the right time to position ourselves in the strongest situation, including the fact that this is also in our opinion helping us as a matter of fact to have...to minimize the cost of equity and the cost of funding. So, this is also endogenous reasons, obviously we will be much more crystal clear after the publishing of our Industrial Plan and again let me stress that we will communicate to the market before going for the real implementation of the Plan. We think this is...must be respectful of the market. But again endogenous, no acquisition, strengthening, new polarization, this is the slang of the new...of this new position.

MARCELLO ZANARDO: Okay. Just if I can...if you could try to answer I am sure with the Industrial Plan a lot of question will be answered and you will give details but by doing this clearly the market will...and the analysts and the market I guess will, for one side you get the benefits of what you said, there were funding costs, better capital ratio you anticipate, you are not a struggling bank, so expectation on these were very low. On the other side, you will receive an M&A discount, so if I could ask you, given that the share is trading at let's say not a great multiple or similarly to other Italian banks, should you have some M&A, would you consider the cash, a cash deal more likely than shares?

VICTOR MASSIAH: But this is a different question. I have to answer in two times.

MARCELLO ZANARDO: Yeah.

VICTOR MASSIAH: First of all, again we are not going to increase capital for M&A reasons, again no. Second, the market may discount for sure because it's in the right of the market. But let me say it in a way would indicate that we have not ever done something that's different from what we said. We said always what we have done. And so, we would obviously in this moment just look for and forcing the bank to have an endogenous growth. However, if you are asking me as in a conceptual way - which is a different thing - if acquisitions should be made today by exchange of shares or by cash, the answer is very obvious. So, it's, you know and I know, that it's better to do by cash. But, I wanted to respect your question and answer. But again, even if I bore all of you after having answered that, we are not going for any M&A, no.

MARCELLO ZANARDO: Okay and just one question on the operations, if I may. With a significant change in the rhetoric from the central bank on the interest rate expectation, now unfortunately Japan has put...has changed things a bit but I just wanted to know if you are noticing, in your competitive market, changes in the pricing by competitors on the asset side, on the asset spread considering that expectations on the deposit spreads should have improved, if you are noticing something or the beginning of some changes?

VICTOR MASSIAH: Definitely, definitely, we are seeing an increase in the demand for deposit and in the price of deposits, in particular if I may call long-term deposits or whatever is above a certain number of months, definitely there is an increase in price. There is also an increase in loans and what is relevant is to see if, at the end of the day, the endgame is to have a higher and markup with more than compensate the decrease in markdown. And this will be the end of the game. But again, it's not anymore a place where you can

raise deposit, in particular in the institutional market, at the same price. And the price difference that's coming is...and again this is why...one of the reasons why we are doing it.

MARCELLO ZANARDO: Okay, thank you. Buona sera.

VICTOR MASSIAH: Buona sera.

OPERATOR: The next question is from Mr. Alessandro Roccati of Macquarie. Please go ahead.

ALESSANDRO ROCCATI: Good evening Mr. Massiah, two quick questions from me. The first one is again on the capital increase. You said you want to decrease the funding cost, I am just wondering whether you will have a competitive advantage and then you will push on the loans growth, it seems to me the consensus is in looking at the domestic growth of around 5%, 6%; what is your estimate for your Group going forward? And the second question is on the commissions: they were very strong on portfolio management, I am just wondering whether this area is going to see a strong performance into the first quarter as well. Thank you.

VICTOR MASSIAH: Yeah. So, I am not ready to make any anticipation regarding the first quarter, I just can say that for the moment it is not too bad, that is the only thing I can say. Second, in terms of funding cost, if I am not wrong, and what...and in terms of increase in loans, we are not ready to make...to publish any single figure regarding this growth. But let me say that we are not ready to unbalance the bank. So, we are going not only to have a strong positioning on capital, but we want also to be very balanced between deposits and...between funding and lending. That means that we would tie, in a way, lending to funding. But I think this is not a must for UBI, this is a must for the whole market. And this is another mega trend,

in my opinion the market should consider in making differences between the different banks.

ALESSANDRO ROCCATI: Are you expecting to increase your market share in loans or is it going to stay roughly the same?

VICTOR MASSIAH: What I can say is that we have increased, as you have appreciated in the presentation, our market share in loans. But we have already increased that and our bank was declared...at summer time we declared that we wanted them to increase pricing that we have done and not losing market share and frankly speaking we have retained, we have defended our market share. So it's important now to finalize because it's still not over. There is still some room, the revisiting of the pricing and looking at what is our capability to defend our current market share that's already increased. Because it was phase one of the strategy, we were already coming from a stronger capitalization compared...in relative terms compared to others. We didn't have to call for Tremonti bonds and for any state help and we could increase. Then we are today in the mood of re-pricing defending our market share, then we will see after the re-pricing. But the re-pricing is still in place and the re-pricing activity will be leading our first half of this year. Then we will see how we will go in terms of growth. Definitely we are trying to position ourselves again in a situation where number of ceilings, number of limits is limited.

ALESSANDRO ROCCATI: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Mr. Konstantin Knieriem from Pactum Asset Management. Please go ahead sir.

KONSTANTIN KNIERIEM: Yeah, good afternoon. This is obviously very disappointing, I mean you are making sort of a 1.4% return on equity this year or anyway under 2%. You promised us that you would fight for the tax deductibility of loan losses to be increased and now you come up with a capital issue which will make it even more difficult for this bank to return to profitability. And now you are very proud of your loan quality. But what's the point if you cannot make any money; I mean if you are dribbling around of less than 10% return on equity without giving us any guidance, you are saying profits might be up a little bit this year. But this is not very encouraging and I find it very unprofessional, I have to say. So what kind of guidance can you give us on profitability and how are you going to get to a decent 12% return on equity like a normal bank?

VICTOR MASSIAH: Okay, thank you for your comment. First of all, this is Italy, this is the Italian market and unfortunately today there are no banks that are repaying the cost of capital and this is because of the cruel situation of the retail banks in Italy. So everything is relative to its own market and unfortunately I am not proud of that at all and I try to be as professional as I can, unfortunately there are limits that are part of the environment in Italy. Again, going back to the possibility of increasing profitability, we are saying there is room for increase in profitability, which is anyway tied to the environment and the environment of the interest rates. In terms of credit deduction, tax deduction, I am not completely sure that I understood your comment in the sense that we have been in a way delivering a definite increase of about...excuse me for a second. Oh yeah if you are relating to the fact that there would be a change in the regulation in terms of cost of credit deduction, actually there has been a change in the DTA in the way it is considered as deductible and in a way computable in the core Tier 1 and in Tier 1 and this is already in place. The change in the regulation has been made if I understood what you are talking about to this DTA, then the deductibility in terms of profit and loss year-by-year is a

different story. This has been a regulation that came out saying that what is in the DTA in this is computable in the core Tier 1.

KONSTANTIN KNIERIEM: No, you know, okay. I was referring to the fact that only 30 basis points of loan losses are tax deductible if I am correct.

VICTOR MASSIAH: It is true.

KONSTANTIN KNIERIEM: And I thought you would lobby for something higher, because you cannot run a bank profitably, this is... and I can't see why one should now throw more money into this bank, if your return on equities it is not going anywhere.

VICTOR MASSIAH: Yeah this is a.....

KONSTANTIN KNIERIEM: And you have to talk with the Italian politician's may be, but then you are all in the same boat. Mediobanca, you have chosen as an underwriter, I don't know why, but hopefully they can help in the lobbying process. I mean you need to demonstrate to investors, to tell them that banks can be run profitably.

VICTOR MASSIAH: We've lost shares lets say I mean I cannot be more, I cannot agree more, but I have to play with regulation, I have to play with parliament and this is what it is today. What we have promised to lobby and we obtained was the DTA. Now regarding the profitability we are not going to be unprofessional, we are going to present our Industrial Plan before raising money and this will mean that you will be able to evaluate if what we are going to promise is going to be feasible. And so I think we could postpone this discussion until mid-May when we will, we are promising to publish our Industrial Plan, before any eventual capital rising.

KONSTANTIN KNIERIEM: Okay, thank you.

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

DOMENICO SANTORO: Sì, Buona sera Dottore. A number of questions actually. This move is a little bit weird in my view especially considering that you have the convertible and actually it seems to me that you are protecting more your clients, but not your shareholders and calling back the convertible would have been, I mean, less dilutive in my view. Anyway let's start from the point 1. I see your NII sensitivity going down to €70 million. If I am not wrong, it was around €100 million. So my first question is what has changed so far. The second is on a lower loss provision, because your message on credit quality was quite good, but actually I see right down going up, I see also collective impairment and when I look also the data at system level, non-performing loans are going up. So I am just wondering how can we reconcile the...your comment with the data actually that you are showing us today. The third question is at this point you are going to raise €1 billion capital, you have still most €600million convertible bond. You are going to get also the benefit from migration to Basel II advance if I am not wrong you were talking about a ROE for your business sustainable of more than 10%. What could be right now the ROE sustainable for your bank going forward? Thank you.

VICTOR MASSIAH: First of all, the interest of dilution of the shareholders: I would encourage all of you to make an arbitrage between the dilution that would come from issuing hybrid instruments and the dilution that would come by increasing capital. Please consider the new cost of hybrids, please consider what would come in terms of dividends, even in case of higher dividends. Please consider that in case of hybrids, you have to pay anyway, in case of dividends you pay when you earn and then we will discuss again what is

more dilutive. The fact is that we cannot think the same way we were used to think in a different environment. The new prices, new regulations, new type of instruments, and this is clearly a different game and please let's be innovative in the way we think because it's been changing and if hybrids cost more than 10% we have been asking ourselves what was more dilutive and we had a different answer and this is why we think we are actually respecting our shareholders. It doesn't appear in your way of thinking that I feel there is a new way of thinking that is considering data, it is considering facts. Second, on the non-performing loans data on credit: first, the fourth quarter has always been, in our bank, a seasonal one that means that includes everything that happens in January; this through many years. So you wouldn't deduct the trend by the first quarter. Actually if you compare the first quarter of 2010 with the fourth quarter of 2009, you will find out that, in terms of cost of credit, we are decreasing and not increasing in absolute terms, in basis points. In terms what was the..., excuse me, what was the return...

DOMENICO SANTORO: Was it sorry was it NII sensitivity first?

VICTOR MASSIAH: NII sensitivity: again, it is 70 million euro and I don't know if Ms. Leidi wants to add a little bit more. Please... the €70 million effect.

MAURO SENATI: Yeah, the €70 million effect. It's decreasing compared with previous number because we have improved our methodology and calculation on the lending side. Now we can manage option component, in particular the cap on loans, and second we have the effect of in that on average three months or six months average, so repricing takes, let's say time, three or six months, before we have the effect on net interest margin. So these are basically the two main reasons why we have this decrease.

VICTOR MASSIAH: Lastly regarding profitability: we have definitely again... we are going to present our Industrial Plan by mid-May and you will be able to appreciate what is the pace of the coming back to profitability. Obviously if we think that there is a possibility to pay the total amount to pay... let's say to repay the total amount of new capital by relevant return on equity consistent with the cost of capital, this is why we are doing this. But as I said it would be unprofessional to target in qualitative term today, well let's talk in quantitative term the day we will present our plan.

DOMENICO SANTORO: Well, thank you. Thank you for your answers.

OPERATOR: The next question is from Ms. Francesca Tondi of Morgan Stanley. Please go ahead.

FRANCESCA TONDI: Mr. Massiah good evening. First of all, I would actually be less critical than how my colleagues have been. I think you have done well to go ahead, because I think more will come and I think I actually believe that you are going to be benefitting from a, you know, more of first mover advantage, so actually well done for taking the courage, it's not an easy decision and you probably were, you know, even a little bit less under pressure if you want. I am sorry, that I am going to ask questions that perhaps some colleagues have asked already. I came in a little bit late in the call. I understand it was not a stress test, it was not the Bank of Italy, if you don't mind mentioning again what actually made you take that decision now and also, you know, the timing. And I would actually, you know, share the view of my colleagues that having replenished capital to a good level at this point, we're put in a better position in the domestic market. I would love to hear a little bit more of how you are thinking of using it and actually using the benefit, clearly potentially funding will be an offset, how well do you think you will be using the new cash that you will be, you know, taking up. But also more importantly, I know you have

an Industrial Plan in May, but how do you think about your profitability? You have just said, this is not to do some M&A necessarily but do you think that actually this, you know, the size of UBI Banca is actually the right size to achieve a higher level, don't you need at some point a bigger size over which to be able to spread costs more? Or a bigger size to allow, you know, more flexible and cheaper funding sources, and even from a...really thinking from a strategic point of view, are you rethinking along any of these lines and if not and why not? We don't necessarily wanting to you know, rerun your Investor Day, but I think you know, on the capital raising I think some of your thoughts on this point would actually be very valuable? Thank you.

VICTOR MASSIAH: Thank you for your comments, I would try to summarize very quickly. We think, first of all that in terms...if we take the total capital, the mix of the total capital, the quality of the total capital is clearly going in favor of a higher composition of common equity.

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: Because what is not common equity is going and it is already because it's not just a hypothesis, it's happening in the market, it's going to cost as much as equity. And so, why having something that is not equity, if you can have equity at the same price.

FRANCESCA TONDI: Yeah.

VICTOR MASSIAH: Second this is going to go for...in our opinion for a virtual cycle because it will position us in a better position in the view of the rating agency, in the view of investors that have to subscribe our institutional funding, and in a way, why not also, in the view of our customer. Is it bad for our shareholders? If we think, that the cost of the hybrids is as much if not

higher at the end of the day, compare...and anyway it's fixed compared to the cost of capital. In our opinion it's even a good thing for our shareholders in the long term. Now, how fast are we going to recover in terms of profitability? This is something that obviously is part of the Industrial Plan, we are finalizing. It is obvious that we do not do miracles but at the same time we never behave like crazy and if we think we can repay in the appropriate way this increase of capital, this is the reason why we have done it, if not, we wouldn't because as it was clearly said we are not in the immediate need of that, actually all the criticism is coming because we...somebody thinks we don't need it, and if we do it it's because again, I am sorry to repeat it, we have a view of the polarized market and we want to be in the right side of this polarization.

FRANCESCA TONDI: Yeah. But I totally agree with you and in fact as I said...you know, well done for going ahead and taking the courage and doing it. Inevitably once you solved one thing then you know, one points then the...the focus shifts, and I think naturally it will shift the profitability. What I was interested in hearing from you is, how do you think about the banks profitability in the medium term, given the size and the market share and the way, you know, the market...business and markets is changing?

VICTOR MASSIAH: We think that it is not...we are not obviously out of the crisis, definitely this is for sure and we think that we have been learning unfortunately many times during these years that something new happens very often and I don't know if it was a minister of economy but somebody has said it's like being in the video game, and every sometime a new monster appears in the game. However, in general trend we see something improving in the economy, we see more stabilization in the interest rates and in a way it's time to think fresh new...anytime to be a little bit more optimist. How much optimist is obviously something we are still finalizing but again we

think that the worst year most probably has been the last one. And it's time to think in a new way, it's time to think a little bit more optimistic.

FRANCESCA TONDI: But you still think that actually your size of the mid-sized bank is a still viable proposition? This is very challenged, you know, to be fair not just to you, not just to you by all means?

VICTOR MASSIAH: Yeah, I see your challenge but I actually...there is not, at least in my experience, a crystal clear correlation within dimension of the bank and profitability of the bank. We have seen very big banks are going bankrupt and small banks are doing pretty well. And there is not a clear correlation. So I think that dimension is just one of many factors and not necessarily the most important. This does not mean that dimension doesn't count, but I think there are at least three or four other factors that at least count as much as dimension and again, it's important to be focused... we never had the philosophy of being big just for the sake of it. We don't think that being big is just good, there is a way to be big and if it is not achievable, it's better to be average but performing well.

FRANCESCA TONDI: Thank you. Thanks very much, look forward to you also in Investor Day to hear a little bit more about how you are thinking on the banks profitability. Thank you.

VICTOR MASSIAH: Thank you so much.

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

ALBERTO CORDARA: Good afternoon, I have four questions. The first one is, if you can quantify, if you can give us a number for the loss on AFS government bonds, and also how much it amounts in terms of basis points. The second

issue is related again to these AFS government bond positions that you have been building through the year, if you can let us know how much the NII sensitivity has been reduced by running this position, and how is...it is to unwind this position? And the third question is related to the capital increase, you mentioned in the slide, the possibility to call back the soft convertible, which would give you a save in pretax of €36 million a year. Now, I am not sure I understand the logic of it because the coupon on this stock convertible is 5.75%.

VICTOR MASSIAH: Excuse me, excuse me sir. May I interrupt you not to leave you to ask...excuse me, a wrong question? We have been talking about preferred shares, not about convertible... to recall the preferred shares. Excuse me, if I interrupt you.

ALBERTO CORDARA: Okay, okay very clear okay the preferred shares. Okay, so it not the soft convertible okay.

VICTOR MASSIAH: Oh, no, no I am sorry to interrupt you but there is a good reason for that.

ALBERTO CORDARA: Clear very clear. So the fourth question, thank you very much for this. Well, I think I don't know if you can give us a bit more clarity on Basel III because I think if you are raising capital it is important that you address also this specific issue. And in the presentation, I have not seen any mention to this. So, I think that the issue for me is to understand to what extent your minorities are going to be deducted in the final version of Basel III, and if you want, from here to 2013, what is going to be the negative impact on capital from the increasing risk weighted assets. So if you want to...we have a true offsetting element on one hand, possibly the positive effect that you have from the move to Basel II advance, but then on the other hand, we have Basel 2.5 and the..., you know, the initial stage of application of Basel III in 2013. So, you know, again forgive me for

the third question, but if you can clarify the, you know, the other three: on AFS government bonds, NII sensitivity and Basel III please.

VICTOR MASSIAH: Sure. So, first of all, regarding the last question: there were two major points uniquely that were relevant for advanced (model) and they were in DTA and minorities. DTA is solved apparently thanks to the government new regulation. Regarding minorities, we said that we think... first of all, let's not forget, the minorities will disappear, will fade during the years, and so it's not a one shot. Second, we do not expect the minorities to be... this is a generic answer I understand, but this is what we can give today. When we hire, then the advantage of that we will get from shifting to the advanced. So we think that, shifting to the advanced will at minimum cover the effect of the minorities that will be anyway during the time. Then in terms of loss on government bonds that are in the AFS, this is €250 million net of tax, so it's more or less 35 basis points in terms of capital. So it's not...it doesn't have anything to do with...as you may appreciate, with our decision to address capital need or it's a huge worry on the first step, which by the way won't count this, because they won't count the AFS. Excuse me, there was the preferred shares, I don't remember the other question. Is there any other question that you want...

ALBERTO CORDARA: No, it's related to this, I know that it doesn't count as AFS, but let's say rates start going up and you want to unwind this position to get some sensitivity out of rates. If you are running €250 million loss, it seems to me that is not very easy to unwind this position. So, I think that the...the point that I just wanted to ask you is, a colleague before mentioned that your rate sensitivity has reduced through the year to another big shift, how much of this reduction has been affected by these positions, that you've..., by this carry trade that you have been envisaging?

VICTOR MASSIAH: Let me stress the point first of all that the duration of this portfolio is 1.5 because it's all assets swapped.

ALBERTO CORDARA: Okay.

VICTOR MASSIAH: And so, we are counting a certain number of days, the possibility to, ...excuse me 1.7 to be precise, if you can look at Page 9 of our presentation, 1.7 years and so it's not an incredible number of days if we want to get out from that positioning, which again that we stress is asset swapped.

ALBERTO CORDARA: Okay, thank you.

VICTOR MASSIAH: Thank you.

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

RICCARDO ROVERE: Yes, good evening to everybody. Sorry, Mr. Massiah, I didn't get what the guidance was on Basel...on Basel III in terms of basis point, if you can give us an idea because I am sorry may be my line was disturbed, but I didn't get it. And the second question I have is on the size of the capital increase, why €1 billion, is there any particular reason for that? Or you are just saying, can you explain why - this is something that former colleague may have mentioned -, why not convert in the convertibles, why this convertible is still there? Thank you.

VICTOR MASSIAH: Starting from the last question, the convertible is still there because it's also a good way of funding and it's now at a reasonable price 5.75 in absolute terms.

RICCARDO ROVERE: Okay.

VICTOR MASSIAH: And lasting until mid 2013, it's a good tool anyway, if anything dramatic happens or - and I said dramatic - and it's a good way of funding. In terms of the amount of €1 billion please consider that for example if, if authorized in terms of by Bank of Italy, thanks to a reasonable level of liquidity, calling back the preferred shares would consume let's say already...almost half of it and there is also some growth to be taken into account.

RICCARDO ROVERE: Okay.

VICTOR MASSIAH: And so altogether I think it makes a lot of sense. Obviously you are never incredibly precise but...an up to €1 billion look to us very reasonable. B3: I would say again that in terms...we have two issues one was DTA and this is being solved by the Italian government and the second one was minorities and we think that minorities will be, let's say, more...at least covered in the minimum scenario by the advanced model gains in terms of basic model. So at the end of the day advanced will...should have a good room to absorb the negative effect.

RICCARDO ROVERE: Okay.

VICTOR MASSIAH: But, let me also add there something please: that the advance will be a much sharp gain. There would be some fears, maybe, but at the end of the day it's clearly a one shot game, while minorities and a new regulation will fade away year by year, so it won't be one shot. So, please also consider this.

RICCARDO ROVERE: Yeah just a follow up on this, if I remember correctly in your...some of your previous presentations you mentioned IRB models to give benefit of

at least 50 basis in a conservative way. So when you say something like we believe IRB models will offset or more than offset the impact of the minorities shall I understand that the minorities is something in the region of 50 bps in your mind?

VICTOR MASSIAH: Yeah.

RICCARDO ROVERE: Okay.

VICTOR MASSIAH: It's something very close to that.

RICCARDO ROVERE: Okay, thank you.

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

GIOVANNI RAZZOLI: Good evening to everybody. Sorry Mr. Massiah I don't want to bother you again with the questions about the profitability, but and I want to anticipate anything about the business plan, I would be very interested in hearing what you are going to say, but you understand it's also crucial for us to understand what's going to be the returns of the capital you are asking to your shareholders. Let's put my question this way, I wonder what the level of short-term rates, that is necessary for your business model for your business mix, to achieve if possible a single digit return on equity, if this is a figure that you can, let's say, agree on? Thank you.

VICTOR MASSIAH: Sure. I am not...obviously if I say that I am not going to...we had not finalized our....

GIOVANNI RAZZOLI: No absolutely, but generally speaking let's say I mean...

VICTOR MASSIAH: Yeah it's not...it's not a science fiction interest rate, because we are not something that is unpredictable, actually it's probably already within the market pricing of today curve. And the reason why it's very simple; it's not only interest margin. We had been analyzing what was, for example, the delta in terms of costs of credit in 2007, before the crisis and 2011 for our Bank even if we performed, it has been €460 million only on costs of credit. We had been analyzing what is the room for additional cost cutting. We had been analyzing what is the room coming from the pricing. So there are different things that are potential supporters of an increase in profitability not including the interest margin. I am not going to deny that the interest margin is relevant, I would be crazy to say that, but again it's not 80% of this rebound in profitability, it is much less. Hello?

GIOVANNI RAZZOLI: Yes, got your question, got your point. My point is that you have more control probably on the cost cutting and perhaps cost of risk whereas this is why I was wondering about the return on tangible equity and the net interest income, which is impacted you know by the short-term rates, which are less under your control, so this is ...was the reason of...

VICTOR MASSIAH: No, no. I totally share your view. As a matter of fact, I am not thinking about something that is, let's say very high and inconsistent with what the market expects. Actually we think we are very, very consistent with today's market expectation for the following years.

GIOVANNI RAZZOLI: Okay. Thank you.

OPERATOR: The next question is from Mr. Carlo Digrandi from HSBC. Please go ahead sir.

CARLO DIGRANDI: Yes good evening. One question on the core business: you did speak before about rising cost of funding that's what we had also from your competitors, you also said that it seems that retail deposits are getting harder to get or more expensive to get. So I would like to know what is your view given the slides that you presented on margins as far as net interest margins do go going forward, now regardless of the rights issue I would say if you do think that the trend going forward is towards a pressure on this I am not talking about deposit war, but probably something of that range or you do think that we are seeing just the tail of something that it was already occurring towards the end of last year and going forward toward the end of this year is something that should be easing, if you can provide some colors on this respect that that would help all of us? Thank you very much.

VICTOR MASSIAH: Sure. No, I am not going to say that I forecast a freezing of, let's say, the increase or anyway the current level of cost of deposits in particular of long-term deposits. I think this is here to staying for some time again because of the polarization of the banks. Banks that cannot go on institutional markets must find a way to get funding from the retail market and this is obviously driving the cost of deposits up or if you wish the markdown down. The real issue is, are we going, all of us, to be able to re-price the markup in a way that altogether the interest margin would go slightly up, which is the big bet of this year? And what I can say is that, our observation was that we have done a little bit better than others on the last couple of quarters and most probably because we have more room to re-prices not that we are better than anybody else, it's just a question of having more room. The reason we had more room for re-pricing again was that this was Phase 2 of a strategy that was not aggressive on pricing in the 1st Phase.

CARLO DIGRANDI: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Mr. Domenico Vinci of Goldman Sachs. Please go ahead sir.

DOMENICO VINCI: Good afternoon. Just a couple of questions. It seems to me one of key rationale is still improving your access to funding, I mean if the ratio of the capital increase will improve the access to funding and the cost of funding. Now, when I look at your funding structure, most of it relates to retail funds, the retail bonds or deposits where the price seems to be driven by the competition in the market and also the government bonds is going up, so not really much related to your core Tier 1, so I was wondering if you can explain to us what makes you confident that higher or better capital position will help you in having a better funding cost and if you are basically planning to switch from retail bonds to the institutional going forward, and also if you can give us an idea what kind of benefit you are expecting in terms of funding costs? And then just a clarification on the Basel II advance model, can you tell us, maybe I missed it if you said before, when did you initiate the approval procedure with Bank of Italy, if you have already officially required it and when, because for what I know other banks took several years to get the approval after they required it? Thanks.

VICTOR MASSIAH: Hi. First of all, regarding the last question, this validation process has been already initialized for some of the chapters of this validation. Although we are in pre-validation, altogether let me say that by spending to end of 2012 deadline we think we are conservative, then never say never because you know that is not all in our hands, but we think - to use a word that has been used already in this conference call -we think it's in the

professional category to make a statement that we expect to be validated by end of 2012 anyway working plan is consistent with this deadline.

In terms of...we did not say that it's just for the cost of funding first of all capital rising, but going through the point... your point, it is true that there is a very important part of our funding that is not institutional, but more or less 25% of it is institutional. So if we look at that and let's say that we have more or less €20 to €25 billion of institutional funding, I think everybody could see what could be the impact of having just 10 basis point or less...of cost of...advantage of cost of funding on the institutional market. Not only, but let me stress again the difference we have between hybrids and other forms of capitalization. So it's an advantage on this one and on arbitrage within hybrids and non-hybrids, i.e. common equity. It's an advantage if the market will appreciate it in terms of institutional cost of funding. And but not only, sorry to bore all of you, but again this is not just for that, this is to support growth, this is to support Industrial Plan that will be published.

DOMENICO VINCI: Thank you.

OPERATOR: The next question is from Mr. Eugenio Cicconetti of UniCredit Group. Please go ahead sir.

EUGENIO CICCONE: Buona sera Dott. Massiah. Hi, Mr. Massiah. I have a simple question. I am trying to understand what is the rationale of the capital increase? If I look at your answer during the conference call, actually you are referring to a return on tangible equity within two or three years around 10%, and you were already at 7% with the equity Tier I ratio, and on top of that, you have 70 basis onto the convertible. So I'm wondering, where do you think from the operating point of view... you think to get the margin and the return on this capital that you adding on top of these instruments that

you already have from the operating business. So I am struggling to understand if we need really to believe that this capital is not put aside to be ready to get any opportunity that might be available on the market in the short-term or the medium-term?

VICTOR MASSIAH: I see that I am not a 100% convincing that we are not going to make M&A. I am ready to make any procedure that you would see...you would consider credible on that, but I really don't know after all this question, how to convince all of you. We are not going for that. We are...again we think that there is...there are few enabling factors to grow: one is capital, the second is funding. And again please consider that if you think that is not anymore 7% the core Tier 1 ratio of a strong bank, if you do not...if you consider this is being met... this is still what it was until now the core Tier 1, for a strong bank what we are going to say is irrelevant and if you think that the new core Tier 1 is much higher and if you think that you need to have some reserves in core Tier 1 to support endogenous growth, please keep in mind that... I want to make a very simple exercise. We have let's say we have 100 loans, if we increase by 5% loans, this makes a 105 and to increase 5% loans if we divide let's say by 7, we still need how much, something like €600, €700 millions of, excuse me, 7%, €250 millions of additional capital which is as at today 25 basis point a year. So let's not forget that capital is important and we are not coming from years of profitability that generated auto-financing. So miracles do not happen in one or two years, so anyway if you want to support growth, you must consider... and if you don't think anymore that 7% is the benchmark, you must consider a way to enforce your capital, then obviously you must find a way - and this is what we are going to foresee - how to repay, how to remunerate in an appropriate way your capital, on which we will also share some view. The question is, when we will see together, how we will go...to verify if this is credible or not, but the major question is, in my opinion again, is it 7% of profit or not?

EUGENIO CICCONE: And you are answering “no”, basically.

VICTOR MASSIAH: Obviously yes. I would answer this is not anymore.

EUGENIO CICCONE: Yeah, if I can follow up a little bit... but M&A it's not always negative because you are painting the M&A activity as a negative one. It depends upon the price.

VICTOR MASSIAH: I totally agree and I have already answered this question that somebody was asking if this is to pay in cash is better than pinch a paper if prices are very low... yes pay in cash is good, because certainly we had no problem and we are coming from an M&A that was made only on year 2007. So it would be ridiculous from us. This is the way we were born, so how can we be against M&A? We are just saying that we want to be transparent with the market. The market is asking us, are you guys doing this raising because you want to do M&A? And the answer is “no”, which is not any type of comment or the judgment about M&A. M&A can be good, M&A can be best. But the question was, is this capital raising decided to go for M&A? And the answer is no, it's not.

EUGENIO CICCONE: Okay, thanks. I have another question if possible. You mentioned to us that the negotiation with union about the contract, the renewal of the contract for the next year for the Italian banking system, would that been a critical point for the system as a whole. Can you give us an update of what kind of, I mean where the negotiation are going and if there is still a wide discussion or if you are reaching a kind of agreement on what could be the increase on the contract, I mean giving some color to us in order to understand what could be the outcome there?

VICTOR MASSIAH: No unfortunately, unfortunately I don't have much color to add to what is your information is. Let me my comment is that there is going to be...still going to be a long term negotiation and it will take time and we are not seeing the end or the light at the end of the tunnel. It's still something that takes time and something that is so relevant for the system and so difficult because everybody is right. Banks are right, unions are right, everybody is right. It's a difficult moment and even here my...I don't have any particular suggestion, but I think that even here some lateral thinking will be needed. We were thinking lateral, they are right or wrong, time will tell... Some lateral thinking will be needed also for that negotiation but it will take time.

EUGENIO CICCONE: Thank you very much.

VICTOR MASSIAH: Thank you.

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

CHRISTIAN CARRESE: Good evening Mr. Massiah, just a follow up on the capital increase. I want to just to be sure, let's say: we saw a capital consumption of around 50 basis points year-on-year due also to some new legislations. If you look at the 2011 without the advanced model, at the end of 2011 due to the low interest rate and, you know, the low profitability that we expect also for 2011, did you expect the core Tier 1 to be lower than this year?

VICTOR MASSIAH: Not necessarily, because you are starting from the assumption that the 50 basis point decrease was mostly due to regulation. No, actually it was totally due to regulation. There is nothing else than that, why? Because we always work on our mix of risk weighted assets to minimize the impact in terms of capital. How? By changing the mix, by using more guarantees

than collateralized lines of credit. So it's something that is leading things that can be influenced by the way we deliver our loans, by the way you take guarantees, by the way we minimize the operational risk. So altogether, this is a living life it's not something that is stocked somewhere in a black obscure warehouse. It's something that we maneuver every single day and this is why we were able to, for example this year, to increase our loans without increasing our risk weighted assets, if not only by because of the change in regulation.

CHRISTIAN CARRESE: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: There is a follow up question from Mr. Domenico Santoro of Nomura. Please go ahead sir.

DOMENICO SANTORO: Yes, good evening. Thank you for answering all the questions and the patience. I just have a follow up on the stake in Intesa. Are you going to reconsider, I mean the participation in Intesa, or you are going to continue to consider it as a sort of dividend stream going forward because I think that also part of the capital is allocated there. Thank you.

VICTOR MASSIAH: It's a very good question, thank you for asking it. We've already said and I want to stress it that we have all the degree of freedom regarding the Intesa stake: it's not something that we consider as untouchable, with management and the Boards have all the flexibility that they will decide to have in terms of the way the Intesa stake is going to be managed.

DOMENICO SANTORO: Okay. Thank you. Thank you very much.

VICTOR MASSIAH: Thank you.

OPERATOR: There is a follow up from Mr. Riccardo Rovere of Mediobanca. Please go ahead sir.

RICCARDO ROVERE: Yeah sorry, sorry again. Just on the cost of credit of Q4; basis points assumed in slide 14. Basically the cost of risk doubles from 53 to kind of 99 basis point, I was just wondering whether there is any one-off or if these have been cleaned numbers. Thank you.

VICTOR MASSIAH: Oh yes, could you please, if you may, look here at slide 14 also look here and the patterns of the previous year. As you may appreciate, it was 82 on the third quarter and it was a 111 on the fourth quarter, here we have a 53 growing to 99. So first of all, in relative terms, we are anyway cruising at lower level quarter-by-quarter than the previous year. Second as I said before, the only thing, the only movement we have was on the valuation of the industrial buildings in the leasing company. This was the only let's say non-normal move that we made in terms of cost of credit. But nothing special actually and as I was stressing already, this is just the seasonality of the fourth quarter, the way we will behave with the exception of the leasing that was published where you see on Page 15, the following page.

RICCARDO ROVERE: Okay, okay. Grazie.

VICTOR MASSIAH: Thank you.

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

VICTOR MASSIAH: I would like to thank everybody for the participation to the conference and for the patience and I wish everybody to have a good evening. Thank you to all of you.