

# **UBI Banca**

**“2011-2013/2015 Industrial Plan”**

**“Quality matters”**

**May 16, 2011**

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VICTOR MASSIAH: Ladies and gentlemen good morning. Welcome to the presentation of UBI Industrial Plan. It took us many months to prepare this Plan. It was hard work by all the top management of the bank, and let me thank them for the work they have done. It's a work we are proud of, it's a work of brain, but it's also a work of heart. And I am very...I am very happy now to present that to the financial community.

Let me start with the title of the presentation: "Quality Matters".

We are going towards a completely different age for Retail Banking, and we think that quality would make the difference. We will see how we will put together the research for top quality banking and the research for revenues and profitability. We think you can mix and have a good result of the two things, which are very much correlated.

Let's start with the Plan.

There are several main ideas behind this Plan.

First is to identify the optimal capital structure. Many things have changed and we will see how they are changing and what work are they driving us to.

Second is the strengthening of asset and liability balances, again Basel III is driving us in a different world. We will see how it would drive us. Third, innovation or a distribution model, again something is changing the way Retail Banking is going to distribute products.

Fourth, the redefinition of the mission of the Product Companies: they would be reshaped and they would be made more consistent with what's going on in the new world.

Then we have to consolidate the current level of cost despite significant investments. This is again a major effort considering the natural growth, the natural growth of the cost base. We will confirm our low risk profile;

we would strengthen our already solid dividend policy. What does it mean in terms of real figures?

The return on tangible equity targeted for 2013 will be 10%, and it will get close to 15% by the end of 2015. Common equity will be 8.2% by 2013, 8.9% by 2015, let me stress that this is not computing...not computing the conversion of the convertible bond: without that conversion.

Loans to direct deposits ratio would be 100% at 2013 and 96% at 2015, minimizing our dependence on the institutional market. At the same time, net interbank position will be tending to zero, again minimizing our dependence from the short-term liquidity interbank market.

But since this is also looking for quality, that means that there will be also strengthening of our quality, in particular the strengthening of customer satisfaction, the strengthening of the dissemination of Group identity, the consolidation of the perception by customers, by our managers, by our shareholders, stakeholders of UBI Banca's quality. The slogan again is "Quality Matters", in Italian our new slogan from now on will be "Fare Banca Per Bene."

Just one exhibit about us, for the few that don't know us.

We are one of the main banking players, the fourth in terms of capitalization. We are:

- the second player in Lombardy, 21% of Italian GDP in this region
- third Italian player in Private Banking
- over 1,800 branches, half of them in Lombardy
- 83% of loans in Northern Italy, 70% in Lombardy and 6.4% in Piedmont.

Market shares are above 30% in some of the richest areas in the country. Solid and quality capital base, low leverage, below 20x already...starting from below 20x.

No exposure at all to any problematic government bond: we have zero exposure today to Greece, to Ireland, to Portugal, to Spain in terms of government bonds. We have focused...we are focused on core business, have a limited recourse to finance and very high asset quality.

Why are we stressing so much on quality? Because we think this: Retail Banking business is a mature business. There is no bank with a distinctive set of products; any type of new products is easily cloneable.

The whole legislation is such that put a lot of ceilings to the new...to the innovation in terms of products and anyway altogether the market is pretty mature. Being a type of market that is mature and being an industry...an industry of service, we think that the only distinctive way is to go for quality.

Now, quality is...could be such a generic statement, that we thought we would better have a clear solid touchable definition of quality for us. And we see four pillars: solid capital position, asset liability balance, simple and fast solutions and qualified personnel. Let's go through all of them and make them touchable.

What will be the development of Core Tier 1? We already said it: 8.9% by the end of 2015, let me stress again, not including the convertible bond. If we included the convertible, it would be 9.5% at the end of 2015, such as SIFI [*Systemically Important Financial Intermediaries*] should have.

The total capital ratio will be ...consistently over 11% which is very relevant in this country because this allows you to issue covered bonds,

and the leverage ratio will...we are already starting from a very good one, below 20x, we will be below 15x by the end of the Plan.

It is the first time we have been disclosing our Basel III requirements and impacts. The total impact of Basel III for us will be 15 basis points on Core Tier 1, in terms of negative contribution mainly from the minorities; you have the detail here [slide 11]. But at the same time, the adoption of the advance model- here we are presenting year-by-year the schedule -will give us more than 50 basis points.

In detail, 75 basis points of Core Tier 1 and 85 basis points of Total Tier 1. So just to put something behind our shoulders: many people were disappointed by the fact that we were not giving detailed numbers before. We just wanted to be sure about the regulation: now the regulation appears to us very clear and the total impact of Basel III for us is positive, considering the adoption of the advanced model.

Why are we raising capital? Many reasons:

- first: we want to take advantage of all the endogenous part of the story to grow and we want the support to grow;
- second: it's very relevant to improve the composition and quality of capital. Now, we do think strongly that there is a new paradigm of how to mix capital. Until...let's say until Basel III and in particular until the CoCos, it was better to issue as many lower Tier II as possible to get to the total capital. Today, this is right the opposite: you should actually minimize as much as possible, why? Because we think that the CoCos will be very expensive. And they are very expensive because of their bail-in clause ...and why is the bail-in here to stay? Because no government of any type of ideology has cash enough to support additional help, to any bail-out coming to save any type of bank.

And so the bail-in is going to stay. And if bail-in is going to stay, we will have a very expensive CoCo with us, and we think it's better to have a higher composition of common equity than to have CoCos that will cost us at minimum 10% regularly, every year, independently, from the end profit of the same year.

So, the paradigm is changing a 180 degrees and this is why...this is the strong reason why we think it's better to have higher common equity in the total composition of total capital.

Obviously, this helps us to have hopefully a better rating and definitely support a solid dividend policy.

Structural Balance: we already have explained the target in terms of loans to customers to deposits and net interbank position. We know, that there are two ratios, that are here to stay, coming from Basel III, which are liquidity and net stable funding. Liquidity coverage ratio is taking charge of the short-term liquidity, net stable funding ratio is from one year on.

These two ratios respectively will be part of the regulation in 2015 (liquidity coverage ratio) and in 2018 (net stable funding ratio). However, the sooner we reach...the sooner we touch base with the targets the better would be, and we are trying in our Plan to take into consideration to be compliant with those ratios departing from the end of the first part of the Plan, so from 2013, i.e. in advance to what is the expected regulation.

Another part of the regulation is to get a buffer of liquidity, in case of markets run another crisis. The characteristic of this buffer has changed: you cannot go anymore for internal capital securitization and you have to have a different type of buffer. *[In slide 14]*, the red bar represents the

declining internal securitization support, and the blue one is the growing buffer of liquidity that is coming with us.

So, we will be again compliant with the new regulation.

Again, in time, having the right new buffer: it is the buffer that can be presented to ECB in case of crisis.

So, very clean interbank position, very clean loans to deposits ratio, in advance with liquidity and net stable funding, ready with the appropriate buffer were the new characteristics.

The third component, third pillar of quality is simple and fast solutions. Here you may read by yourself all the different types of solutions already with us; let me give you one example for everything. We had until six months ago something like a 100,000 "*circolari*". "*Circolari*" are the little regulations that drive the behavior of the bank. And coming from different aggregations, different mergers, we had, level over level, 100,000 of these "*circolari*". Today we have 5,000 only. So we reduced by 95%, the complexity of our internal regulation, and for a single bank this is something about 1,000...1,100. So it's been incredibly simplified, this is internal. External, one example for all, we can answer to the request of our customers for a mortgage in 48 hours. So, quality of simplification as perceived from outside and from inside.

What is the quality perceived today? Is the quality mission something that is impossible for us? We are running since three years ago something like 150,000 interviews per year to our customers... Consider that an exit poll...a poll for political elections is based on 4,000 interviews. You can appreciate how strong is this universe of interviews, and this [*in slide 16*] is what's coming on out from those: the satisfaction index for our retail operations is higher than the benchmark, where the benchmark is the market. And on a scale 1 to 10, the relationship with the branch is rated

by our customers 7.8 and image is rated 8. These interviews are run from an external operator, they were not run from the bank. 93% of customers consider UBI Banca brand and image strong and going. So, betting on quality is not something new, it's the continuous evolvement of something we have been doing during all this period.

Personnel [*slide 17*]: not only we are going to invest 100,000 man-days every year in terms of staff training, but we have also decided to be more focused.

We think that focusing on 19,000 people every single year in terms of training is a wrong way to do it, so it's a mission impossible.

So, we are going to focus actually we are being focusing - because it's already in place, it's already running - on what we think as the main champions to train, who are the branch managers and the Territorial Managers with a leverage of 1 to 7, this will in our opinion enable us to hit something like 14,000 people.

We have been retraining... - this is done already all the Branch Managers and they have been retrained because they will have a more important role from now on. Is this a generic training? No, it's a mix of two things: the class room but also an analytical understanding for each of the Branch Manager of what his or her skills are and what can be improved. And then we had measured manager-by-manager and this is just a total result of it: which are the area, different manager-by-manager, where to focus and where to be tutored for his improvement, during his normal day work.

So, just to allow you to touch base on the...again on the fact that we are not talking about generic quality but we are talking about capital, we are taking about a balanced structure, we are talking about simplified processes, we are talking about evolved training of resources to go for quality.



Quality is not an end in itself. You are not here just listen to some rhetoric about quality, but we do think that the quality is a good driver to enhance profitability. If you have quality, you can have a better pricing because you are perceived as of a higher quality. If you have good qualified personnel you are more effective and efficient in terms of distribution. If you have quality and you have a good understanding of where you are going, you can be more focused on cost and investment. If you have quality you have more... higher possibility to have a lower cost of credit. And at the same time, if you have profitability you can invest more in quality. So it is a kind of a virtues circle that we want to enhance as much as possible.

Let's go for profitability now.

What is the macroeconomic scenario from which we are starting from? [Slide 22] Italian GDP: 1.2 in 2010, 1.3 in 2013, 1.3 in 2015. Euro-zone inflation: 1.6, 2.0 and 2.0 for 2013 and 2015, ECB reference rate: the one expected from the market no big difference, 1.0 in 2010, 2.5, 2013, 3.25 in 2015 and one month EURIBOR consistent with those ECB rates, nothing special.

What is different - let me say from other plans and from our previous plans - is that we are not starting anymore from loans. We are starting from deposits. Why are we starting from deposits? Because if you have to be balanced, if you have to have the liquidity ratio "okay" and, more important, net stable funding ratio "okay", you have to be driven by the growth of the deposit and not from the growth of loans.

As a matter of fact, you can appreciate [in slide 23] that in terms of direct funding growth - excluding the repos - we have a +4.2% and +4.8%,

which is the most important ratio that we do have in this Plan in terms of deposits and most aggressive.

Loan to customers are below those growths, +2.7% and +3.1%, but accepting to have a lower growth in terms of volumes allows us to do two things: be more balanced and be able to price better because this is not piggybacked on volumes and this is very important leverage to price better on the asset side.

Risk weighted assets are growing at the lower CAGR than loans for two reasons: because we are going to be even more selective and second, because of the advanced model adoption by the end of 2012.

What's the end game of this in terms of figure and then we will elaborate on that? *[Slide 24]* That's we are expecting to have a growth until 2013 of 6.6% per year driven, let me stress again, by re-pricing more than by volumes. Operating costs: substantially flat, net operating income: as a consequence growing significantly, cost to income: going below 60 by 2013 and below 50 by 2015, cost of credit: touching 45 basis points in 2013 and 40 basis points in 2015, starting from the 69 today.

In terms of net income: it will be higher than €600 million by 2013 and higher at about €1.1 billion by 2015. To be comparable with other industrial plans, to be comparable with other industrial plans, we have also presented it excluding the PPA effect, in that case it would be €700 millions in 2013 and higher than €1.1 billion at the end of 2015.

Return on tangible equity: including or excluding the PPA effect would be respectively 9% or 10%, so going back to what is the cost of capital in terms of remuneration and getting above 14% by the end of 2015.

In terms of dividend payout, it will be always be higher than 50% and the cumulative dividend within the timeframe of the Industrial Plan will be higher than €1 billion, so higher than the effort requested from the last...current capital raising.

Pillars *[Slide 26]*: pricing excellence, effective and efficient distribution, focused costs and investment, lower cost of credit. We have a development in continuity, which is driven mostly by the price excellence, but we have also strategic initiatives and we have the refocusing on product companies. The three things together will drive to €4.2 and €5.0 billions in terms of net operating revenues with a contribution of strategic initiative of respectively €100 million and €300 million within the revenue side.

Why do we have room for pricing improvement? *[Slide 28]* This is February data and it's comparing UBI versus the ABI...the ABI Sample. We are pricing loans to non-financial companies 29 basis points below the ABI Sample, and interest rates on loans to householders are 53 basis points below. So we have a very important room for pricing improvement.

What about the distribution model? Let me take one second to make a resume of the ages of the distribution model that we have seen. Before segmentation, we have an image where everything was pretty clear and very simple. There was a clear hierarchy. The hierarchy was: General Manager, Territorial Manager, Branch Manager; very simple. Customers knew exactly where to go.

Then a new age came during the 90s saying segmentation of customers is very important and different level of service too. We should segment everything which was a good thing with one exception: that you have to

link together with segmentation and geography and the end result of that was mostly a Matrix organization, and a Matrix organization is quite complicated.

Now, we are coming with a new solution that we are calling internally “Clessidra”, i.e. hour-glass and where we think we should have a new role for the territorial department; this new role is 360 degrees. So in the territorial department, they should have the responsibility for every segment. Not only, we are also going to change the logic of our segmentation, we will see that.

*[Slide 31]* Also in terms of number of branches and the role of branches, we are changing. Many of you, during our one-to-one meetings, were asking if we were going towards a retrenchment in terms of number of branches, and the answer is yes, but not only...it’s not only retrenchment, definitely the number of branches has been reduced already. The peak was 1,950 and now we are close to 1,850, but this is not only that, it’s the redefinition of the role of a branch. And all the small branches are falling either in the mini-branches category or in the aggregated branch category.

You may appreciate that the aggregated branches category is 391, what does it mean? This means this aggregated branches do not have a Branch Manager, but they aggregated up to an aggregating branch that is allowing them to serve at 360 degrees, but with a light organization. While the mini-branches are more focused in a certain type of activities not giving anymore the 360 degrees. So, it’s a mix of the two and so this allows us to have a lighter distribution without giving up the territory.

Putting together the simplicity in terms of hierarchy with this physical organization we will still need a piece in the new way of distributing. What is that lasting piece? the role of the mass market The role of the

mass market is relevant, let me explain here for a second. Segmenting mass market in our opinion was a mistake. Why? Because either it's not segmented... a segment with an average of one account and 1,500 to 2,000 customers, it's not true at all that the single account manager knows 1,500 or 2,000 customers.

We gave up in segmenting the mass market. The mass market will from now on will be served by a pool in the branch; it's not marginal. Why? Because if we say that we do not segment the mass market anymore - since for our bank the mass market are 2.5 millions out of 4 millions of customers - we are, as a matter of fact, reducing by 50% of segmentation.

And it means a lot of simplicity in terms of hierarchy, but also it means that we are segmenting only the type of customers that support a cost to serve and it means that we will be much lighter in terms of cost to serve to mass market. How? By using the cashier more than today, and why can we use the cashier more than today? Because internet banking is more and more growing and allows us obviously to be much, much more effective in that. By giving freedom, let's say, to all the account managers of the mass market together with what is coming from the multi channel activity, we have the possibility of having something like 700 additional commercial people that can go outside hunting for customers.

How much for a single hunter? Not that much, we think 30, 30 small business customers or if this is an individual one, something like 50 affluent customers per year, it is not a big figure. But if you put together these three figures, 700, 30 small businesses or 50 individuals affluent it makes something like 28,000 additional customers per year, we've solved the deposits and we've solved the loans that come with and we've solved the fees that come with. So, simplify hierarchy, having a small general manager for every single territory, having a different role for the branch

manager and giving up segmentation for mass market, altogether, this gives us more simplicity, lower cost to serve and, more important, 700 hunters to go for new customers.

Going back to...with that comes also some additional fixing in the segmentation. What we are doing, I am on Page 33, what we are doing is in this case for example to put lower corporate back to branch. Why we are putting the lower corporate back to branch? Because being in the corporate business unit has not enough attention from the corporate business unit manager, because he tends, he or her tends to serve more the largest customers, the larger corporate. And by repositioning it in the branch, we add quality of service and at the same time, we can price better because we found out that the lower customers in our bank were being priced much closer to the large corporate than to the small business, which obviously is not good.

Second very important change is on the SEO, the small economic operators: 50% of them do not have a line of credit and if they do not have a line of credit because they do not need it, why are they there? They are being managed by people having a line of credit and credit skills, while they should be segmented with people that do have investment management, asset management skills. So 50% of them will be repositioned in the affluent part, in the affluent segment. Altogether, the mix of all these things will drive us to something like €100 millions additional revenues within the end of the Plan.

Multi-channel contribution in terms of additional transition outside of the branch, is this something feasible? Yes, look at the figures already in place: this is very basic, 420,000 customers of Qui UBI in 2007, 640,000 in 2010. If you just project, we will be above 1 million of customers on

multi-channel by the end of the timeframe of the Plan and this is freeing a lot of resources in terms of additional support to the hunters project.

I won't position myself into...I won't bore you through many details, but those were the story about positioning back to the branch and serving in a different way the SMEs and the lower corporate is a driver of €60 millions of additional revenues for 2015 because of the different way of pricing, because of the different way of servicing these guys .

Affluent and private...affluent and private, it's a question of advisory services. We have a very good advisory service for High Net Worth individual, very successful it's called AWA and it's a question of piggybacking on these skills to enhance the High Net Worth individual service on one side and two, at the same time, go for a higher advisory fee also on the premium.

Corporate: corporate is a different story. We are too much having a lending-only-relationship with customers. We think that changing again the way we serve them, by behaving more if you wish like an investment bank, and coming with a team to the customer, what type of team? A type of team that will be composed not only by the account manager, but also by the leasing guy, the factor guy, the CENTROBANCA guy. It will enhance the level of service and will allow us to be more value-driven than just lending-driven.

Product companies. Product companies: I would like to focus your attention first, before any activity, on the figures. You may see that operating revenues will go from €600 to €800 millions with a growth that is definitely lower than others that we have seen in the retail part of the story. Why? Because we are refocusing them, but very important, the way we are refocusing them allows us to decrease significantly the cost of

credit by €200 millions, which is a lot of money. This refocusing in the mission is very relevant.

So having in mind what we are looking for, let's go through the different companies. BANCA 24/7 is the consumer lending company. We will be focusing on salary-backed loans, personnel loans and credit cards, no third party additional networks. We will cut every type of relationship with additional third party agents and we will focus only on these products. So, this is one of the reasons why you will see an incredible increase in the revenues, but very, very improved cost of credit. This is already with us, it's one of the reasons why we are...notwithstanding we are already with a good advantage in terms of cost of credit. We have been improving during the last quarter.

UBI Leasing: refocusing on the distribution channel network banks, again same type of value proposition, i.e. more focused, more selective, lower cost of credit. CENTROBANCA: focus on structured finance and development of M&A and Corporate Advisory, no more high plain vanilla mortgages, this is not...less interesting, they will go back to the Network Bank but much, much focused on the advisory and on the structured finance and on project finance.

UBI Factor: strong reorientation of business on Group customers. This is a very good company, it's doing very well, supporting very well also in international level. They should grow as they are doing now, very good shape.

IW Bank. IW Bank is a key factor of the success of our Plan. Why? Because we want to transform IW Bank in a not only a trading on-line bank, but on an on-line bank, i.e. general banking. It's very important for us because we want to get much more deposits than today. This will be



done by a much more aggressive campaign both in terms of advertising campaign and pricing campaign. And this will finance in our mind some of the growth of the lending. I won't go into many details, but just to give you an idea of what is the mission of IW Bank: it's for €1.5 billion of 2010 in terms of deposits, it will grow up to €7.4 billions by the end of 2015, very relevant growth.

Costs *[slide 50]*. Again, let's say a "normal" scenario of actions on costs of personnel plus contractual revisions and increased efficiency in purchasing and heavy investments. We will stick to the current level of costs or operating expenses, but we will be more focused both on personnel and on investments. Let's go through it.

*[Slide 51]* This is the way we are behaving in terms of personnel. In 2007 when the UBI venture began, we were 21,700, today we are 2,000 people less... and even more than 2,000 people less, actually we are 2,200 people less. Where are we going? We are going towards 18,700, how? First of all, again let me stress the dark blue, 36.8% of our human resources were 100% dedicated to the commercial activity. Today, they are already 40.3%; we want to bypass the 50% by the end of the Plan, again a 100% dedicated to the commercial part.

There will be some shrinking in the product companies, shrinking in the headquarters in UBI's personnel, shrinking in the operating staff in network banks, a lot of focus on the commercial part of it. Scenario includes the development of a new national labour contract. Personnel training expenses, again we stress that we are investing a lot of that and these costs are included in this scenario. What obviously is relevant is the reduction of about 1,000 resources of which 800 are in addition to those already planned for 2011. In 2011, we were anyway planning some

reduction which was more or less the end game of the previous union contract agreement. So it will be another 800.

We will anyway recruit 1,000 people, so the net end game would be minus 1,000, but this is not that we are stopping any type of recruiting. So we will manage the changing generation. What is happening? Something obvious in a way, first we are going not to substitute everybody; actually we have a ratio of substitution one to two. And second, in the second part of the Plan, we have some additional numbers of resources that we can manage the way we managed the previous agreement of 2010. So something that is feasible and less violent as possible.

*[Slide 53]* Cost control on other administrative costs with a reduction of almost a...more than €100 millions of costs. Different type of contracts, different type of optimization of the IT platform, and this please keep in mind that is with a scenario of 2% inflation. So, the real reduction is very high. This does not mean that we are not investing; actually we are investing anyway €700 millions during the timeframe of the Plan.

About 62% related to IT component and 37% to property and logistics, €220 millions of the total investment is attributable to commercial development. The whole scheme of the information system will be more and more dedicated to the multi-channel, to client facing, to work desk, digitalization of processes and effectiveness of governing systems. Altogether, the cost maneuvering has an impact of something like €300 millions, as a matter of fact.

*[Slide 56]* Collateralized loans of the total loans, this is something again I am going to the last part of the enhancements of profitability which is the quality of credit.

Many times, many questions about the level of coverage of our non-performing loans. May be it's time to make...to present clarity also on this part. Collateralized loans are in dark blue [*in page 56*]. The percentage of collateralized loans that we do have on total loans is 75.2%. Taking the average of all the other competitors to us, the ones we compare with, they do have 62.9% of collateralized loans. So, we think it's more than proportion to have 29.5% instead of 36.3%. This depends on the way on how much or what kind of percentage you have...as a collateralized loans. And net...total net problem loans versus net loans, we do have a strong advantage of 5.2% compared to 7.1%, these are today's figures.

We explained again: why we do have an advantage? And why we stick to the fact that we can improve more. Another way to see how...why we can improve more is to remember to everybody where we are starting from.

In 2007 we had 26 basis points of cost of credit normalized, we went up through the maximum of 88 to...and we are planning to land on 40 in 2015, that means that 40 bps is ambitious that is much higher than what it was before the starting of the crisis.

I wouldn't bore you with the evolution of the quality of credit and then we will go straight to the conclusion to go for...to allow you...all the questions that you need to ask.

First of all, back to value creation. [*Slide 60*] This is the absorbed capital of risk weighted assets plus components deducted from supervisory capital and EVA is negative obviously in 2010 bypassing the breakeven in 2013 with €110 millions, €580 millions by the end of thePlan. What is more important than the three years per se, is the fact that this is a very regular pace. You can appreciate there is no acceleration in the second part, this is very regular, first, second part very regular pace.

Going to make a summary of what we have said.

The Plan demonstrates that it is possible to return to adequate levels of profitability without giving up the pursuit of top quality. It is possible to return to adequate levels of profitability by growing volumes at a very low level. It is possible to return to adequate levels of profitability without increasing leverage, actually decreasing it. It is possible to return to adequate levels of profitability without raising the risk profile, including the use of finance. It is possible to return to adequate levels of profitability without any extraordinary transaction, with a mix of high level capital and respecting asset liability balance ratio much in advance of the timing required by Basel III. And it is possible to return to adequate level of profitability without sacrificing the traditional focus on dividends. Quality matters, we do want to Banca Per Bene; “Fare Banca per bene” is the summary of our Plan.

Thank you for your attention, ready for all your questions.

## Q&A

VICTOR MASSIAH: Mr. Rovere from Mediobanca.

RICCARDO ROVERE: Thanks. I have two/three questions, Mr. Massiah. The first one is on NII. The 7% projection that you have in the Plan, correct me if I'm wrong, comes 3% from loans, if I remember correctly?

VICTOR MASSIAH: Yes.

VICTOR MASSIAH: Then there is the margin effect which should be the residual 4%. This 4% could be divided in two, if I understand correctly; one, a portion is coming from the realignment of the rates on loans, retail and corporate; and the rest must be, I think, rising policy rates in your Business Plan. How much

is the portion, out of the 7%, how much is the portion coming out of the realignment on the loan rates to the system average? This is the first question. The second question I have is on the Basel III core Tier 1 and IRB model. The 75 basis points, if I understand correctly, is the total effect expected at the end of 2015, with the retail and corporate models validated to calculate the risk weighted assets. How much is the impact in 2013 when just corporate will be validated? And the other question I have is on loans. 3%, if...assuming rates do not come as expected, and no one knows at the end of the day, is loan growth something that you could eventually amend and eventually increase and push, and be a bit more aggressive? Or is it something that is totally completely driven by the funding structure, so whatever happens, this is the loan growth and that's it? And maybe the very final question; is it correct to say that the tax rate implied in this Business Plan is in the region of 45%? Thank you.

VICTOR MASSIAH: Tax rate is a little bit above 40%, something between 40% to 45% and the increase in... let's say the improvement in the tax rate in terms of tax rate reduction is coming obviously from the different influence of the credit cost. In terms of lending, this is something that must not be a taboo. Lending from now on will be driven by deposits because the regulation is pretty strict. It does not anymore tell you that within a timeframe of two or three years you must be balanced. This is a very important difference from what it was and what it is. For example, frankly speaking, we were comparing the Prometeia estimates... the ones we do have and it's difficult for us to understand how the system can grow higher than 5% on loans with deposits that cannot definitely grow by that, even not one year, but many years consecutively. And this is again something that I am saying that may not be very nice to say, but these are the new rules. And we have to have work with them , as it was not very pleasant to understand the fact the Core Tier I is more relevant and must be as much as possible. Bad news at the beginning then it comes as new rules, new way to work

with. In terms of Basel III, the adoption of the corporate advanced model for corporate and CENTROBANCA will make most of those basis points. Let's say, that we will breakeven already with the impact just with that one. And I have...I still have one, let me answer you with a general statement, I am...we've been...we are trying to be very, very, very transparent with this Plan, but there is a limit to share with our competitors. And let me tell you that the whole spread increase all together for the Group will be in the area of 50 basis points.

50 basis point increase in the spread, which is not mission impossible if you wish, if you think a little bit about it... given that we have anyway some advantage from the less remunerated deposits and from the fact that we have that gap in terms of pricing. I am sorry not to be 100% detailed, but we...it's a lot of transparency already. Please.

CARLO DIGRANDI: Good morning Carlo Digrandi from HSBC. Two questions on my side; the one on deposits, just to continue. On slide 23, you disclosed that you will be growing roughly at 2%, if we take the total of funding 4%. Just to follow up on what Riccardo said, if deposits will not be growing at 2%, say, it will be growing at half of that, what is that UBI plans to do? The four, as you just said, adequate business plan according to the new deposit growth, it could be higher, it could be lower; or eventually, going for market shares, and for getting more deposits with the implication that this implies with pricing; or any other strategy? And that's the first question. The second question is on slide 27. The...I don't know if they can put it on the screen? Yes. The net commissions, the growth of 5.7%, and 6.2% to the right, does imply that the margins on loans will be growing by 15% over the time horizon of the Plan. What is that 15% growth due to? Well, the simple calculation I made is 1.2 divided by the loans, and 1.6 divided by 118.5 of loans, so essentially a very rough margin. Yes, you did underline that assets under management will be growing. We all know that, in Italy, this is a very tough growth to achieve; it probably will

happen, probably it will not. So the question is margins will be growing due to the mix, due to the new products, due to the things that you've just explained to us, or there will be other effects that you have taken into consideration and you would share with us? Thank you.

VICTOR MASSIAH: Well, regarding your first question, in terms of growth of deposit, please consider that consistently with our style, there are many buffers in this Plan; one of the buffers is the way we price the marginal deposits which is a very high price. So it is true that if we don't get a certain figure in terms of growth of deposits, we will have to restrict a little bit the growth in loans, but also keep in mind that this won't have a heavy impact at all in the profitability, because the marginal ones are very, very heavily priced. And you can imagine how, because if the marginal price are coming from IW Bank, this is not exactly the most...the cheapest way to get addition of deposits. So, this is a buffer we do have. Why, you can answer...you can ask why then you are forecasting that. Exactly for the market share price of the story, because this is not going to last forever and since there won't be all the banks doing capital increase, there won't be all the banks really able - with the authority pressures on the net stability and on the liquidity ratio - to grow. So, if we can grow, it's an additional market share that we can get after the one that we have already gotten during the crisis. If we don't make it, fine, not bad for the profitability, just bad for the market share.

In terms of commissions: it's not only loans, its many things together. We have had a very strong impact coming from the checking accounts packages and the fact of going towards a modular checking account is changing a little bit of life. The important growth in terms for example of commission coming from the trading...export and import trading is growing significantly... it's already growing in this quarter.

Something coming also from asset management. But that one coming from asset manager is not only a question of volume but let's not forget

that we have re-priced rightly March this year. For the results of the impact, that is already in place thanks to the repricement that we have done. So many of the things we are estimating are already implied with what we have already done and will come out during the life-time of the Plan. Did I answer to all of your question?

CARLO DIGRANDI: Yes thanks.

ANALYST: Good morning.

VICTOR MASSIAH: Good morning.

VALENTINA ROMITELLI: Romitelli of UBS, I wanted to ask you something about your projected cost of credit: you pointed out that that's still well above your historical track, is that something that, you know, can be explained with more detail? Is it also related to the expected re-pricing? ...because that re-pricing on the loan is going to bring you quite a different client and related to this again there is the growth of loans and the re-pricing is going to get new clients share of wallets? ...Just, you know, to explain the link with the cost of this. Thank you.

VICTOR MASSIAH: Regarding the cost of credit, we have always been historically...we always have had historically a strong advantage compared to the average of the market. And we think that there is nothing incredibly special going on with one exception, that is the product companies. If you remember on the product companies there are consumer loans and leasing, we are forecasting a significant improvement in terms of quality of credit. Always it's been improving because of the internal benchmark we were doing, always been improving because of what we were doing on ourselves. It is true also that in terms of development, the fact that we can select more is going to help us. Why we can select more? Because we



expect altogether a lower level of supply on the loan side, because of the ceilings that are coming. And so, this means less competition on debt, more competition on deposits and less competition on loans that allow us not only to re-price, but also obviously to be more selective.

While you are thinking, let me share with you a table, a slide that I ask to my people, when the first results came out and the doubt was: is it really feasible? Is it feasible to go for this type of profitability, such a rebound during the crisis? And we did this exercise: 2013, 2007, 2015. Please have a look [at slide 63], can we...please have a look at how similar are this data. In '13, 2007 we think 2013 and 2015.

Operating income in 2013 will be anyway below 2007.

Costs, a little bit lower, net operating income very similar, net profit for the year, lower by €200 millions. Why? Because of the higher level of cost of credit. We were bypassing that by 2015, obviously the ROTE are different in 2013 and we will reach the level of ROTE only in 2015 because we are using a higher level of capital. But at the same time, cost/income is very similar. As I said again, cost of credit is completely different, but it's also true that we are going to play in our scenario with a much lower level of interest rate: 2.5% versus 4%. Why is it possible to go close with the operating profit? Because in that time we are going to have 25% more in terms of volumes, in terms of assets, both obviously on the loans and on deposit side. And it's quite an interesting exercise and it tells you in a way that you go back to the level of a year before the crisis after seven years. It has also some biblical implications, but this is different. But anyway, its seven years later, seven years later and this was something I wanted to share with you, because obviously coming from a low level of profitability always makes you ask "can we go back?" and we are coming back in a way. We are coming back already in this quarter and

we were coming back more during the period and this is something that is happening. Other questions please...

VALENTINA ROMITELLI: Just a further indication, is it possible to get your rule of thumb in terms of sensitivity to interest rates?

VICTOR MASSIAH: Yeah.

VALENTINA ROMITELLI: Thank you.

VICTOR MASSIAH: It's in the summary of the results. It's going to be anyway for an additional 50 basis points... in terms of increase of interest rates, if they were 50 basis points higher...slide 24, here we go.  
For an additional...it's on the bottom side on the left: additional 50 basis points... this is going to give us a €100 millions more in 2013 and 120 in 2015. This is because of the level of interest rates in that period and because of a different positioning in terms of our portfolio that this would be...in synthesis this will mean a €100 millions more after 50 basis points of additional increase of interest rates.

RICCARDO ROVERE: Sorry Mr. Massiah. Just another question still on net interest income, when we talk about re-pricing, I am talking about Slide 28, the 29 basis point let's say 30 for the sake of simplicity and the 50 basis points on the retail, is...are the spreads to be applied to the amount that you provide in the following pages which means €39.4 billions retail loans and €26 billions on corporate loans?

VICTOR MASSIAH: No, it's just an indicator of the room we do have.

RICCARDO ROVERE: Okay.

VICTOR MASSIAH: But it's not that you have just to multiply the interest rate. These are not an indicator of what we are going exactly to do, it's just an indicator - at February 2011, i.e. the last date available from the ABI champion to give us...give you...to share with you the room for improvement.

RICCARDO ROVERE: And in any case, this realignment, is it expected to materially...to be completed over the next year, two years, five years?

VICTOR MASSIAH: No, no it's much faster, it's much faster. This allows me to share with you one single point regarding the first quarter, may be it enable us. There is one only reason why we are not growing in the first quarter 2011 compared to the first quarter of the previous year, and it's been the acceleration that we have done in issuing all the new institutional funding as soon as possible in the first quarter. But as a matter of fact, we are already increasing the markup. The markup of this quarter is higher than the markup of the previous quarter.

RICCARDO ROVERE: Okay, okay. So this is to say that, I know it's not exactly the right numbers, but the 50 basis and the 30 basis are already visible in the current NII that you showed...reported this morning?

VICTOR MASSIAH: Yes in a way, I mean we would be able to share with you... and let me give you a different way of looking at it. It's incredibly high, the level of long-term deposit influence on the cost of interest margin. And again, let me give you the total one, it's more than €50 millions. Can you imagine that without having those €50 millions how much was the increase in the interest rate? Of those €50 something millions, a slice is literally depending on the fact that we wanted to accelerate immediately. Why we wanted to accelerate immediately? Because we don't want to have any type of problem in the starting of the Plan with what's happening around us including others. And this is something that we wanted to be pretty

safe and already more than 90% of the funding...institutional funding has been substituted, re-issued within this quarter.

RICCARDO ROVERE: Okay. Grazie.

VICTOR MASSIAH: There is a question from there?

PAOLA SABBIONE: Just a clarification, Paola Sabbione, Deutsche Bank, on the last point you mentioned on commissions, because probably the network has been working a lot on funding in Q1, and you also anticipated the institutional funding plan. So is it possible to see commissions growing faster by the end of 2011 already, not only due to seasonality?

VICTOR MASSIAH: Yes, and actually the fee base have been growing, because obviously you did not have time to read the whole thing, but actually the contribution of upfront in this quarter is lower than the contribution of upfront in the first quarter. If you clean up from those upfront actually the fee base part of the story is growing already this one.

PAOLA SABBIONE: Thank you.

VICTOR MASSIAH: I don't want to be, obviously I am...I don't want to be to sell too much and I never sell, I think, you should read better the first quarter in my opinion, all of you after the first reaction, because there are...if you normalize from a couple of phenomena, you see already something happening in revenues. It only takes time and I understand this is...was coming out at 8 O'Clock this morning.

Well, if there is no other additional questions, let me thank you for being with us and for every additional question Mrs. Laura Ferraris is for you. Thank you to all of you.