

# **UBI Banca**

**“Consolidated Results as of June 30<sup>th</sup>, 2011 Conference Call”**

**August 30, 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 Consolidated Results as of June 30<sup>th</sup>, 2011 Conference Call. After the presentation, there will be an opportunity to ask questions. At this time, I would like to turn the conference over to Mr. Victor Massiah, Chief Executive Officer of UBI Banca. Please go ahead sir.

VICTOR MASSIAH: Good afternoon to everybody. We follow the presentation that is published. And I will start by from the executive summary on the Page 3. First of all, we start with solidity and soundness of our balance sheet: capital strength core Tier 1 has reached 8.2%, total capital ratio is 13.02%. Let me anticipate that this has been achieved in presence of the increasing risk weighted assets. They have increased by 1.5% and I will follow at this point.

Strong structural balance in a context like the one we are crossing. We have an interbank position of just €600 millions, leverage ratio that has decreased down to €15.5 and decreased loan to deposit ratio by 4.2. percentage points.

Net interest income is apparently down by 0.9% (i.e. minus €9.7 millions), but this is due to change in the perimeter of activity of Banca 24/7. We are retrenching from personal finalised loans to non captive customers; this means a decrease in the perimeter estimated in €17.9 millions, and this actually means that we have increased, as a matter of fact, at comparable perimeter by 0.8%.

Let me stress again this point, because it was not understood in the first quarter: we have retrenched from this activity or we are retrenching on this activity, so the real comparison is actually showing a slight but positive increase in the net interest income.

Net commissions went down by 3.5%, i.e. by €21 millions due to lower up-front fees on third parties bonds by €25.1 millions, and change in perimeter in terms of depositary bank line of business (we exited in May 2010). Comparing on the same perimeter actually net commissions increased by more than 2%.

Operating costs went down to 1.6%. Cost of credit annualized is 51 basis points, and let me remind you that the same semester of last year we were at 64 and at the end of year we were at 69.

Net profit is €251.7 millions from €102.1 millions in first half of 2010. Both years include positive and negative one-offs. In 2011, positive is tax relief on goodwill and negative is impairment on some product companies and on the Intesa stake. I will elaborate it in detail during the presentation.

Net profit excluding non-recurring items is €70 millions compared to €63.5 first half 2010. By normalizing also the IRAP effect, actually it would be €78.1 versus €63.5 millions so this will mean a 23% increase in the ordinary profit and loss.

I would start with the core Tier 1. Let me tell you why - I have been saying from many years, and I will like to stress again that - these are times when banks should be analyzed on both balance sheet and profit and loss: it's the clear correlations between profitability, solidity and soundness. And it's important to me that when we evaluate the performance of the bank we should put together the plus and the minus in the balance sheet, with the plus and the minus of the profit and loss. So, this is why in a symbolic way we are starting with the balance sheet.

Core Tier 1 ratio has increased to 8.2%, Tier 1 ratio is 8.71%, Total capital ratio is 13.02%. You can appreciate that these results are achieved under Basel II standardised, so we still have room for improvement with advanced methodology that we are still targeting within year 2012. And at the same time this has not been reached by decreasing the risk weighted assets. Actually the risk weighted assets have increased by 1.5%.

Obviously, this has been influenced also by: the increasing in share capital, the impairment of goodwill (that we will see later, it has no effect on capital ratios since goodwill is already fully deducted in our calculation from core Tier 1) and the tax relief on goodwill. A hypothesis of dividend is also included in the calculation.

Let me also stress that leverage has significantly decreased and it is reaching, let me say, the European Class Levels, i.e. 16.5x in terms of 30<sup>th</sup> of June. As a reminder, highlighted in red, let us also again consider that, in terms of stress tests, we have been evaluated as one of the most sound banks in the banking sector. Let me also compare this evidence to the effective actual results - because I think it's very important to compare them to the results of the stress test - it was 7.4% after the stress versus the 8.2% that we have been reaching here in real life as at the end of June.

On Page 6, you can appreciate that, even in a difficult context like the one we are operating here, we have been increasing the lending operation, because we have been increasing in retail with a plus 3.7%, driven both by Network Bank's private customers and the evolution of the small business. We have repositioned, as I said before, by retrenching from the finalised non-captive personal loans by 39% or almost €1 billion, other loans on the opposite have been increased by 5%.

On Corporate, we have been increasing the core corporates at +5.3%. Centrobanca mainly reflects the fact that we have been changing the model and “plain vanilla loans” are performed by the single banks and not by Centrobanca.

On the direct funding, we see I think a quite interesting 6.7% increase net of Cassa Compensazione e Garanzia. Cassa Compensazione e Garanzia is a kind of repos that we do to finance the government bonds positioning, and so, that we think it’s an item not to account in terms of statistics: so we have a 6.7% increase. Anyway even including CCG we had a reasonably good +2.7%.

You can see that there is an increase in current accounts and deposits by 1%, an increase of term deposits and other payables of almost 22.8% while the repos, the position with CCG (or Cassa Compensazione e Garanzia) has decreased by 26.7%. I think it’s also interesting to appreciate the fact that, in securities in issue, we are significantly increasing positions by 11.5%. Altogether, in total, this means that we have direct funding up by 2.7% or 6.7% not including the Cassa Compensazione e Garanzia.

I would like to stress another aspect that is on the bottom right of the exhibit: we have been both increasing bonds placed with ordinary customers - we have replaced 117% of bonds matured on retail customers; on wholesale funding, we have been issuing a 130% of bonds expiring for the full year. And we’ve been also lucky enough to do this at the very beginning of the year at a price that appeared at that moment to be quite expensive, but today seems to be quite cheap, fortunately in the current situations.

Anyway, going ahead on page 8, we have a strong placement panel that confirms, as presented, that we have been already replacing, as a matter of fact, some of what is expiring next year. Altogether we have €4 billions of EMTN and almost €5.9 billions retail bonds expiring next year. You know perfectly well that we have a power of placement of retail bonds that is higher than the one expiring in year 2012. So frankly speaking, let me anticipate the question: is the bank able to live on itself, on its own customers in case the EMTN market remains closed for the whole year 2012? The answer is yes.

Page 9, structural balance: we have reduced our interbank exposure. We have assets eligible anyway for €8 billions. We have a loan to deposit ratio that has decreased from 108.4 to 104.2, and let me say the fact that we had, in the first half of 2011, no use at all of the ECB, not three months, not six months, not weekly. Is there a possibility that we use it in the second half of 2011? Obviously yes, there is a possibility but we will do it in an opportunistic way, not because of a special need, as you can appreciate by putting together the interbank position and what I have presented before on the whole long term funding situation.

In terms of financial assets, you can appreciate that the debt instruments have been replenished during the period between first half 2010 and first half 2011. We are today at about €10 billions of debt instruments, obviously Italian government securities are more than 80% of debt, i.e. €8.2 billions. Equity instruments about €600 millions, units in collective investment instruments € 572 millions, others € 480 millions. Altogether, € 11.785 billion. Most of it is on AFS. As a matter of fact, today debt instruments -which I think are very interesting in this period- include €9.6 billions that are AFS, out of 10.1 billions. Of the Italian government notes amounting to €8.2 billions, 7.8 are under AFS classification.

Of those €8.2 billions, we said that the 94% are under AFS, over 2 billions will expire within September 2011, actually 2.3 billions. We have no exposure to Portuguese, Greek, Irish government securities and we wanted to be very very very precise, we have refinanced a very immaterial €2.5 millions in Spanish bonds.

On page 12, you have a summary of our income statement. I think the value of the comments could be on the extraordinary items, in the portion on the right of the exhibit. We have summarized what were the non recurring items in 2010 and in 2011. First, let me stress the point that in both years the non recurring items were posted in the second quarter. So I think it's comparable also in terms of quarters. However, more or less there is a statistically interesting almost consistency in the impairment loss on the AFS securities, mainly due to the Intesa Sanpaolo. We have had impairment on product companies goodwill (Centrobanca, UBI Leasing, By You, Banca 24-7).

We have had a one-off tax relief on goodwill and intangibles. This is something that was spread into main Italian banks during 2008 and this has been reopened as a window in the last government financial maneuver and we used this opportunity which I think is very interesting. Altogether, this justifies the € 182 millions on impairment that we are presenting in the statement.

In terms of discussing the single items, let me drive you to Page 13.

Page 13 is more or less telling you what has really happened in a real perimeter in interest margin. We can appreciate also the quarterly evolution; second quarter on second quarter at the same perimeter we have an increase of 0.9%. I think it is very important to assess the fact that this has been done by taking incredible care of the structural balance. I think it's obvious to all of you that it's impossible to, let's say, make a profit at

the same time from interest margin and from the structural balance. It's obvious that if we are more conservative in terms of liquidity, this implies some sacrifice. So, my comment is that I think that what we are doing on the interest margin should be appreciated, if we consider the discipline we are having on the liquidity part of the story and on the structural balance.

Last thing that we wanted to stress is that, notwithstanding the important increase in the cost of deposits that is happening in the market, we've been increasing spreads by 5 basis points year on year, and second quarter on second quarter by 12 basis points and there are some maneuverings still in place. Making an exception to our usual way of presenting, this time we anticipate you that July has an interest income that shows growth compared to the average monthly amount of the last quarter just to demonstrate again that something is happening, re-pricing is ongoing and it was not just a one-off.

On page 14, net of upfront fees and depository bank fees, net commission income actually increases. On page 14, in the light blue part of the table, you can appreciate that, cleaned of upfront fees and depository bank activity, net commission income in first half 2010 was 551 and in first half 2011 563.3 millions of euro. Also I think you can appreciate that the positive trends comes from ordinary banking business: collection and payment services and current account management. There is also a positive trend in portfolio management commission; obviously a lower commission from third parties bonds, but this is for obvious reasons.

Page 15, total operating costs. Staff costs decreased by 1.3%, or increased by 3.3% net of non recurring items (€33.2 millions re trade union agreement in 2010).

2011 actually includes provisions for variable part of wages and renewal of the National Labour contract. This was not present in 2010. In 2010

the intention was to pay a premium, a variable part on the over budget, which was not paid. This year we are implying something in the budget. So the figures are actually not completely comparable. If you compare the normalised amount net of the variable part of wages and the renewal of the National Labour Contract, the level of cost reduction would have been over 3%. This means altogether that, as a matter of fact, we are actually delivering exactly what we said last year. It's just a question of normalizing the perimeter in terms of comparison.

Other administrative costs have been decreased by 7.4%. It's true that there is also certain seasonality, but it's also true that the minus 7.4% is true for second quarter 2011 on second quarter 2010, and first half 2011 on first half 2010. In terms of D&A, it should be normalized by the €20 millions of the write down of intangible assets related to By You, which goes here because they are intangible assets. So, it's posted here. So, as a matter of fact, D&A on the second quarter is actually substantially consistent with the first quarter, it's not increased. So, altogether it's very regular.

On the top-line of Page 15, just for your memory, we wanted to summarize what was the trend in cost reduction during the last three years: 2009 on 2008 it was much higher, minus 3.7%, but this was also due to the migration of information system and so there was the one-off shutdown of the information system. Then we think we are running quite a peculiar - and as you can see - a regular pace of cost reduction during the years.

On Page 16, I think this is again one of our strength point: pretty good cost of credit, we reduced to 51 compared to 64 basis points. So, we publish write downs and write backs on the bottom left to demonstrate through the write back that again the way of posting is regular and consistent. We think also that this is a type of trend that with the seasonality - because

let's not forget that the first quarter in our tradition is very poor in terms of cost of credit because January is posted on the present annual balance sheet - and so given some seasonality we still think we maintain the guideline that the total cost of credit this year will be lower than the cost of credit of last year.

We are presenting on Page 17 a clear history map of the cost of credit unit-by-unit. We appreciate that there are some banks, some retail banks, that are very close to the previous level of cost of credit that is almost comparable to the times before the crisis. We have one exception: Banca di Valle Camonica. In the footnote you can appreciate that in absolute terms we are talking about €4 million or €5 million, so this is not relevant at the consolidated level. Let me also say that Banca 24/7, as you can appreciate, is landing to a very safe position of 104 bps. Centrobanca, even with some cleaning, is still landing towards a much more economic level of cost of credit.

Leasing, as we said also in the previous quarters, is on the opposite cleaning its house. Obviously, we think that this is something that takes some time given the characteristics of the leasing operations. But again, we are optimistic as clearly demonstrated by this table of the business unit to land on a very good level of cost of credit.

We also wanted to share with you the gross and net statistics for all the different types of loans categories. I wanted, on the bottom left of the exhibit, to stress the point that the ratio of total doubtful loans on total loans is anyway 5.65%, which I reckon is one of the best levels at least of the major banks. And something that I think it is also important to share with you is the level of the risk categories: it's on the bottom right. You may appreciate that the low risk category have increased from 52.1% of our total composition portfolio to 54.9%, medium risk have decreased,

high risk has decreased and no rating is a marginal thing. So altogether, we are shifting from higher to medium/lower risk classification.

Also let me stress that in terms of coverage, we have to consider, in terms of gross amount evolution, the sale of our unsecured loans for a €129 millions. 99% of these loans were impaired; this generated a capital gain of €400,000 but also this is obviously influencing the level of coverage (this was probably 100%). So, when you analyze the level of coverage, please keep in mind that we have done also this type of operation.

On Page 19, we take again this point when we analyze on the top left the coverage of non-performing loans, as you may see the comment they decrease as of 30<sup>th</sup> of June following the sale of unsecured loans. You may appreciate also in the bottom left the level of collateralised position of non performing loans has increased from 54% point something of December and March to 58.8% in June and the same for impaired loans from 60% to 63% and 64.5% in June. So altogether, I think that this again stresses the point of the level of quality of what we are doing in the credit part of the operation.

You have the detail of how the €352 millions of tax relief one-off is coming out from this table. I won't take the time of this conference to comment on it, but I leave it to your reading. What is the outlook for 2011? Let me share this with you by reading it. This is the only part I am going to read. The trend for operating income will continue to be influenced by the sovereign debt crisis with consequent pressures on financial markets and on interest rate levels. Commercial action has nevertheless been taken. This is designed to achieve a higher rate of operating income in the second half than that recorded in the first part of the year. So, as the translation of this: July showed a good sign of

increase in the interest margin and hopefully by working hard, it will also occur in the commissions level.

Operating expenses, which already include a hypothesis of provisions in relation to renewal of the National Labor Contract and to variable remuneration (which were again not present last year) are expected to fall as a whole compared to 2010, partly as a result of the effects of the trade union agreement signed in May 2010. So we confirm what's already in place in the first half and at the end of the year costs will be down.

As concerns credit quality, despite the unfavorable economic background, current trend should allow an annual level of write downs against net loans lower than that recorded in 2010.

If current stock market trading prices are confirmed, it will be necessary to recognize further impairment losses on the stake held in Intesa Sanpaolo. This is pretty obvious, this is a very transparent market price. The current level on June it was €1.80 per share, and this means that if we don't have €1.80 by the end of the year, we have an additional impairment.

Net of non recurring items, an improvement in profits on ordinary activities is expected for the full year 2011 compared to 2010, in absence of a further deterioration of the economic financial context, what does that mean? If the current situation remains the same as today, which is deteriorated, still we can confirm what we have been saying during the whole page. It's obvious that if there is an additional economic stress, it will depend on what type of stress is coming in addition. From an organizational point of view. Let me stress that we are going to do some additional simplification actions, some of those are already planned. We will publish obviously additional communication at the appropriate time when these decisions will be completely finalized. But we will do

something in terms of additional simplification. This is what I had to share with you on the occasion of the first half results conference. Thank you for your attention.

## 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 Research. Please go ahead sir.

GIOVANNI CARRIERE: Yes, hi good afternoon Mr. Massiah. The first question is on the small transaction of the sale of non-performing loans that you have realized this quarter. Could you provide more details specifically to what kind of buyers you have sold the NPLs, what type of loans they were, whether you had to provide funding or financing. I believe this is the first NPL sale we have seen for quite a while for Italian banks. So this could be pretty meaningful for some of you. And the other one specifically on Slide 15: just to make sure that I completely understand on staff costs, last year you had 33 million in Q2, you had 33 million this quarter, you have 373 million of the staff costs, are you saying that you accrued some expenses in advance in this quarter, because otherwise if I just look at this slide it would seem like that the recurring is little higher than last year. Thank you.

VICTOR MASSIAH: I will answer to obviously both. Let me start with the second one. What I was saying...thank you again for the question obviously, I was not clear enough. If you take apart the 33 mln/€ it appears to compare 343 mln/€ versus 373 mln/€, but the 343 mln/€, again, did not include any type of accrual for potential incentive plans, for potential premiums to the labor, or any type of provisions related to variable part of the wages. On the other side, 373 mln/€ actually include both. This type of provisions relate

to variable part of the wages and some addition accrual on the National Labor contract. So the answer is yes. We are accruing currently an amount that maybe we will pay, maybe we will not pay. So this had not already, let me say, a cash cost, there is some accrual. If we normalize actually we will see a decrease. This is what I am saying.

GIOVANNI CARRIERE: Okay. So in H2 you are saying that the average should be lower than what we have seen in H1?

VICTOR MASSIAH: Obviously, but let me say that on one side I hope that the National Labor Contract will be very reasonable. So we will see, I cannot make any type of additional comment for obvious reasons. On the variable part of wages let me say that I would be very happy to have an increase of that because that would mean that we have very, very sound results. So but as per today, this is just an accrual.

GIOVANNI CARRIERE: Perfect. Clear. Thank you.

VICTOR MASSIAH: I still have to answer to your first question which is: what type of company has made an acquisition? Not obviously investment banks. These are types of very niche companies, very specialized companies in recovering non-performing loans. I am not ready to say the name of the company, but it's very, very niche, very, very highly specialized company.

GIOVANNI CARRIERE: Alright. Thank you very much.

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

MATTEO RAMENGI: Yes, good afternoon to everyone. If I look at UBI results, particularly for this quarter, I think that what has been done in terms of strengthening the

balance sheet has been impressive and in terms of putting the capital and the funding of the bank in a very safe place. Yet the profitability for retail banks - particularly for the mid size retail banks and that includes also obviously bank like UBI - remains inevitably low in an environment where volumes are growing very slowly, interest rates are still quite low and the severance stress remain quite high. So I was wondering if you see the probabilities of more consolidation among the Popolare banks increasing and not necessarily for UBI that can remain a standalone for the whole sector. Thank you.

VICTOR MASSIAH: Well, first of all, thank you for saying, for confirming the point that we have to analyze together the balance sheet and the profit&loss; I cannot share more your view and again thank you for saying that. In terms of consolidation, in terms of what's going on. The only thing I can say and I am very sorry because I know I am becoming very boring with this image, again sorry, sorry, sorry but let me repeat this is a marathon. This is not a short race and we are seeing how important is to have oxygen for the marathon. Then I cannot comment on other players, but I can only say you must have a lot of oxygen to go, to run the whole marathon.

MATTEO RAMENGI: Thank you.

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

GIOVANNI RAZZOLI: Good afternoon. Three questions. The first one is on your funding plan for the second half of the year. I've seen that you have reached the €6 billion of retail issues as at August I wish to know what are the plans for the rest of the year. The second question is on the net interest income, if you can give us an update on the contribution in the first half and the second quarter would be ideal of the carry trade portfolio what's being the

contribution in the Q1 and Q2. And the third and the very last question relates to the bullet, the very last bullet of your outlook for 2011, when you talked about the change in the organization. At a sector level, we are seeing a clear trends at all an increasing integration in Group structure, we have seen Monte dei Paschi, UniCredit and more recently also Popolare Milan and Banco Popolare without let's say revealing anything, I wonder if the...we should take these indications that you put here as let's say a structural change in a certain sense of your distribution model or more to a fine tuning. Thank you.

VICTOR MASSIAH: Okay. First question excuse me just one second I have to clarify one thing just one second. Okay, thank you. Funding plan in terms of retail: keeping the same pace, I mean we have a strong pace. We have been having years with regular issuing bonds in the range between € 7 to 10 billions of retail bonds. I think that current statistics are pretty consistent with this type of pace. If we have € 6 millions in August, we expect to have more or less something between that range by the end of the year. And again I think this is very safe, very interesting. One thing that must be said is that obviously there is a change in the tax arbitrage between retail bonds and the other type of time deposits, I am not able to tell you what will be the distribution between time deposits and other type of long-term bonds like the classic retail bonds. But definitely I don't have any doubt about the fact that they will be anyway deposits with duration, to identify a general description of this type of issuing that will go regularly. We don't see any type of problem at this moment and this is very, very, very important going back to the oxygen part of the story. In terms of carry trade, the contribution has been €30 millions in the first quarter and €21 millions in the second quarter, the carry trade of the government bonds for contribution to the profit and loss. Third, you were asking about the integration. Let me say that the word that has been thought before

publishing is “simplification”, we are not using today “integration”, we are using “simplification” and there are reasons for that.

GIOVANNI RAZZOLI: Okay, very clear.

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

FRANCESCA TONDI: Hi, good afternoon. Couple of questions from my side as well. You have been indicating since the beginning of the year that you have been quite active on re-pricing some of your loan portfolio, yet we are struggling to see any evidence here, do you think that actually, given the amount of pre funding you have done in Q2, you have been offsetting that and then from Q3 we could see a little bit more of the benefit, or is it going to take longer? In other words, do you think you can have a bit of a recovery in net interest income from Q3? On a broader point on funding structure, you have done a great work, but unfortunately it's as if one keeps running against the tide. I know, you mentioned, you've funded 130% for the year, yet if I see you have issued €2 billions of security year-to-date, you know, in excess of what you had but then your other funding due to customers (or various form) has actually fallen €2.5 billions again year-to-date. You've actually had a bit of loan growth of €1.5 billion, so is it correct to look at it as you have over funded or effectively you have just been funding more through securities having reduced some other sources and also you still have some loan growth coming. So effectively, is it fair to say you will need to issue more between now and the end of the year? How do you look at that in terms of pricing impact on margins and so on? Thank you.

VICTOR MASSIAH: Excuse me, Francesca. Can you a little bit clarify your question. Because I am not sure I understood. On Page 7, can we share together Page 7, because I am not sure I understood what you said.

FRANCESCA TONDI: I am trying to understand that to what extent... you mentioned that you have 130% funded for the year, and includes not only the bonds expiring but also any other movement in your balance sheet. For example, loan growth will require more funding and also the fact that some other sources of funding, for example some of the repos, have actually been coming down?

VICTOR MASSIAH: Yes, let's go to the analysis then on Page 7.

FRANCESCA TONDI: Yes.

VICTOR MASSIAH: First of all, the 130% on the bottom right is applied to the wholesale funding. You can see that we are saying on the bottom right.

FRANCESCA TONDI: Oh, it's only wholesale yes.

VICTOR MASSIAH: This is wholesale. On the retail, a little bit up on the same area let's say of the slide.

FRANCESCA TONDI: Yes.

VICTOR MASSIAH: You may read that there is a 170% of bonds matured that they have been replaced. So we are both replacing more than the whole year expiries for the wholesale and 170% of what was expiring in 1H2011 in terms of bonds.

FRANCESCA TONDI: First half.

VICTOR MASSIAH: First half. Deposits, let's say current accounts and deposits have been anyway increasing by 1%, I am reading now the detail of the table on the left.

FRANCESCA TONDI: Yes, I am looking more on the changes, you know, year-to-date because I find that, you know, what has happened one year ago is already in the numbers so more looking at the incremental change for this year.

VICTOR MASSIAH: I see what you are saying, but on this side let's also keep in mind that we are regularly renewing the retail bonds because let's not forget the retail bonds are expiring. They have a duration usually of two years. So this could be done to some renewal of what we are doing. But anyway in terms of the other figures, I would like to stress that replacing 170% means that actually we are doing a reasonable good job, so this could be to a temporary situation but, as a matter of fact, as at 31<sup>st</sup> of December, the ordinary customer base in terms of network banks plus UBI issues had €22.4 billions and today they are €23.8 billions. What has been going down is Centrobanca issue, but Centrobanca issue is on third parties. This means that other banks are not placing anymore the Centrobanca issue, but this very understandable because other banks are placing their own paper, instead of third party paper.

For the remaining part of the story, I see only thing going up with the exception of CDs but which are more than compensated by the ordinary customer base. So, again, I don't see that as a problem at all and actually we are financing more with our own customer base than with third parties, we are becoming even more independent.

In terms of the possible evolution, obviously - and this allows me also to answer to if we are we seeing or not really a re-pricing only on the loan

part of the story: just to give you an idea, at least in our statistics the average EURIBOR one month, that we use it for internal use to calculate mark up and mark down, was 0.4...0.43 in first half of 2010 and 1.05% in first half 2011 - so there has been an average increase of 62 basis points. Notwithstanding 62 basis points, let me say in normal times, you leave something to the customers - obvious for negotiations et cetera et cetera - you leave an important slice of this increase to the customer while you take more mark down. Well on the short term, we kept more than 90%...more than 90% of this increase on the short term, which is where we can move because on the long term it's a long term movement.

FRANCESCA TONDI: Yes.

VICTOR MASSIAH: Short term is where we can play more. More than 90% it's very very important, I have never seen this before in my life, in my experience. Obviously these are different times, but also very aggressive way of pricing. Can we be more aggressive? Maybe, but I would say yes, we will see that. Obviously in the second quarter it's even increasing, it's accelerating compared to the first quarter, and we expect more in the third quarter. Obviously, what is working against this is the mark down, mostly the mark down obviously of the let's say the wholesale then on...in the retail we have an important increase, but still we are gaining some and this means that at the end of the day, as we said before, we have been increasing the spread and we have been increasing the spread on the second quarter more than on the first quarter.

FRANCESCA TONDI: Just to understand - because I want to make sure that I understand this correctly - when you said that EURIBOR has moved from 45 basis points to over 100, you passed on that increase to your clients on the lending side, but that has been simply passing on market rates which you are also, you know, receiving on your liability side. And this is not exactly

increasing the actual spread on which you do your business, is that my understanding correct or not?

VICTOR MASSIAH: No, no, we have published, this has been published, we have been increasing the spread by 5 basis points on average on the first half and on the second quarter we have been increasing by 12 basis points.

FRANCESCA TONDI: Okay.

VICTOR MASSIAH: So, the 5 basis point increase is made by second quarter of almost 12 on our customer base again. Then you have obviously some wholesale funding but this goes - again this is what I was saying - in terms of ability to balance the balance sheet needs with the profit and loss needs. Again if you trust us on the contents, we are presenting some figures regarding the consistency of the perimeter; how could the interest margin, at consistent perimeter, go up if we did not have some marginal effect also on the prices side and notwithstanding the increase...important increase in the funding cost? Again, we are trying to put together a sound balance sheet with reasonable profit and loss. Can we do better? Yes, we can. Not becoming President of United States, but this can be done by what we have been doing in terms of an additional maneuver here in the pricing, and this additional maneuver in the pricing is giving already some results in the net interest margin on July, fully also in the following months.

FRANCESCA TONDI: Perfect. So, to go back to my point, is it fair to say that in the second quarter net interest income has seen the bottom and it should get a little bit better from here, notwithstanding that you have to continue issuing funding? And I don't question, for a moment, your ability to issue funding. I am just doing more of an analysis of pricing here?

VICTOR MASSIAH: Obviously we expect the third quarter to be better than the second quarter. But I am saying that as at the 3:55 P.M. because things are changing every 2 hours. So, given the condition at 3:55 P.M. yes, but again we've seen the whole world saying that we were looking at some light out of the tunnel in the first three months, then we've seen a completely different situation in the second quarter and some hell in July and August. Given the current conditions, yes, anyway.

FRANCESCA TONDI: Very good. 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: Hi, everybody. I have got a question on asset side: I would like to understand what are your expectation on loans by year-end? I mean you think to continue the rebalancing between asset and liability, so by year-end do you expect loans to be higher than the average you registered in the first half or even lower than first half? On the...

VICTOR MASSIAH: Please.

CHRISTIAN CARRESE: Okay, on the funding side if you can give us some color on the high...on the increase of funding costs, mainly on time deposits and retail bonds; if you can give us some numbers year-on-year and year-to-date? And finally, on the...I was surprised on the net interest income... your indication for the third quarter, because I expect that net interest here should be higher than the second half because you raised €1 billion through the capital increase, so it could be strange to see a lower net interest income quarter-on-quarter?

VICTOR MASSIAH: Excuse me, I don't want to interrupt you, but and excuse me, I just said the opposite. I said it is potentially higher not lower?

CHRISTIAN CARRESE: Oh, yes okay but you were not so sure. I mean, no okay, you are sure?

VICTOR MASSIAH: I recommend anybody not to be sure during this period....

CHRISTIAN CARRESE: Okay, okay. And finally if you can give us an update on the convertible bond that will expire in 2013: what is your idea on that instrument, what are you going to do? Thank you.

VICTOR MASSIAH: Okay. The last one is easy. Convertible bond: as per today, given the current levels of core Tier 1 and Total Tier 1, it is just an insurance policy and not more than that. On funding, the increase of funding cost of retail bonds and term deposits: it is something slightly below 40 basis points as increasing cost year-on-year. Regarding rebalancing loan-to-deposit ratio: obviously we will try to do as much as possible. At the same time, we have to be cautious also of the profit and loss. I have been saying many things regarding the importance of the balance sheet, but I don't want you to come out of this conference with the thinking that we do ignore the profit and loss. Obviously, we have to balance also this side of the story. But obviously, given the new regulation, given the new rules, we have to be as balanced as possible. We are trying to be as balanced as possible on both sides of our balance sheet and profit and loss.

CHRISTIAN CARRESE: Excuse me. If I may, just a follow-up on net interest income. I missed the answer on the carry trade contribution for second quarter?

VICTOR MASSIAH: Yes, it was, if I am not wrong, €30 millions on the first quarter and €21 millions on the second quarter.

CHRISTIAN CARRESE: Okay. Thank you very much.

VICTOR MASSIAH: Thank you.

OPERATOR: Mr. Massiah, there are no more questions registered sir.

VICTOR MASSIAH: I would like to thank everybody for the time and the interesting questions and good luck to all of us. Thank you.