

# **UBI Banca**

**Consolidated Results as at 30 June 2009**

**MODERATORS: 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 the 30<sup>th</sup> of June 2009. After the presentation there will be an opportunity to ask questions.

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

VICTOR MASSIAH: Good afternoon to everybody. Welcome to our First Semester Results Presentation. I will follow through our presentation and then I will leave it to your comments and questions.

In executive summary you will find out that we have Core Tier 1 up to 7.24%, Tier 1 up to 7.76% and total capital ratio up to 11.5%.

Net profits were of €25.9 million in stated terms and €130 in normalized terms. This is a net improvement compared to second semester, which you can remember was negative due to the valuation of Intesa participation.

Operating profits were €2,000 million...€2 billion, up 8.6% versus second semester of 2008 and minus 10.9% year-on-year. Total operating costs were down by 3.9% versus second semester and 5.5% year-on-year down to €1,244 million. Cost of credit 82 basis points of total loans, it was 86 in the second semester of year 2008 and 32 in first semester of 2008, confirming advantage compared to average of the 6 major banks; we calculate ourself that the average was 116 basis points on a normalised basis.

Net non-performing loans but on total loans...on net total loans as this first semester of 1.14%, it is 1.53% at system level and the

coverage of non-performing loans including collateral, of 79.65% as at June 2009 versus 78.14% as of March. Progressive Increase in performing loans coverage from 0.35% in June 2008 to 0.47% in March 2009 to 0.53% in June 2009. Lending was slightly up 0.3% and funding up to 2.7%. Loans/funding ratios 100.7%, it was 103.1% as at June 2008. We see first signs of recovery in assets under management compared to December of 2008.

We carried out and closed successfully in June and July two capital management initiatives announced, public exchange offer with a €41 million net capital gain plus 5 basis points Core Tier 1. €50 million EMTN issue and second convertible bond issue a 100% subscribed of €639 million.

As of 30<sup>th</sup> June 2009 cost synergies above expectations, 102% of expected synergies achieved. Revenue synergies impacted by economic situation 57% of expected synergies achieved, 21.9 versus 38 expected, the difference is also linked to indirect funding lower performance and to lower penetration of CPIs linked to mortgages.

I am going now into Page #5 and I will comment lending. Lending shows a slight increase compared to December '08 and June '08. I would like also to stress that we, as you all know, decided more than one year ago to retrench a little bit from large corporate segment for obvious reason. So if we do not include the large corporate actually the lending is up 2.8% year-on-year, you have on the table the details, segment by segment and I will leave it to your reading.

At consolidated level good evolution of the medium to long-term components plus 6% year-on-year, which represents today 65% of total loans. Centrobanca was up by 4.6% to Centrobanca €7.2 billion also thanks to an increasing cooperation with the network banks, leading to a significant growth in new business developed with captive customers, 64% of loans granted through the Group Banking Channel and it is more than double compared to the 30% of June 2008

Product companies, which are not included in the above table, serving both Corporate and Retail show a positive evolution. Leasing is up by 7.6% ranking third in Italy. UBI Factor up by 4.6% ranking fifth by total outstanding with a market share of approximately 6% while UBI leasing and market share is 7.8%.

Page 6, total direct funding, we have strong growth both in current accounts plus 10% in bonds plus 8.3%. You will see the details in terms of customers and security issues on the table that again I will leave to your reading. Current account and deposits, which are 46% of the direct funding shows constant growth. Securities in issue 44.2% of direct funding are flat and slightly decreasing versus December 2008, minus 2%.

Strong Placing power of the Group with significant bond issuance activity carried out in the first part of 2009. The EMTN program €3 billion issuance inclusive of the €850 million relating to the public exchange offer versus €3.5 matured over the six months period on top €5.4 billion bonds placed on ordinary customer, this means that more or less we have almost €1 billion per month capacity in terms of issuing and placing to retail customers. €4.3 of this are plain vanilla bonds issued by the network banks versus

€3.9 expired and €1.1 billion Lower Tier 2 bonds issued by UBI Banca still through our network. So the total network placement capacity is very strong.

In July issue of a convertible bond, fully subscribed which already commenced. I would like to stress and you will see later why that we have almost 86% of total funding from ordinary customer base compared to a 100, 14% only from institutional EMTN, CDs, CPs, and other type of issues. Net Interbank exposure is €2.9 billion which is very stable compared to June 2008 and assets eligible for refinancing amount to €9 billion.

Indirect funding performance reflects a slight recovery compared to year-end. All components of the indirect funding show a slight recovery compared to year-end. Net inflows in mutual funds for UBI Banca Group were positive by €83 million in second quarter. Again in July 2009 net inflow of funds are positive by nearly €190 million. According to Assogestioni our current market share is 4.98, it was 4.52 at June 2008 and 4.87 in December 2008.

Let me now go to Page 9 where we can comment our profit and loss. In terms of stated, we had a decrease in the net interest income of 7.9%. In terms of net commissions, we had a minus 19.1%, altogether operating income down by 10.9%. Operating costs were down by 5.5%, altogether we have a net operating income declining by 18.5%.

In terms of net impairment losses on loans, this is an important increase of 158% on the first semester of the year 2008. In terms of profit on continuing operation before tax, we have a decline of 63.4%, then due also to the peculiar possibility of another...a bit of

deducting only partially the cost of credit we have a decline of 75.7% in net profit after-tax, including also the affect of not having this year dividends that in particular come from Intesa that almost goes straight to the net profit.

If you want to comment in the same page, the comparison with the second semester of the year 2008 so, we are comparing now the current semester with the second semester when the real impact of the crisis on retail bank, you will see that actually the decline in net interest income is higher 11.3, because the second semester was the highest ever of in terms of interest margin in the history of the Group.

Net commissions actually are not any more 19.1% but only 9.6% because on the opposite commissions were declining quarter-by-quarter last year consistently with the decline in terms of market performance. So, altogether if we include also the fact that in this current semester results from finance are positive while they were negative last semester, we have an increase in operating income of 8.6% and increase in net operating income of 38.3%. So you can also notice net impairment losses on loans are substantially consistent, slightly lower than the second semester of last year.

I will leave to your reading Page 10 and I will start to comment the net interest income decrease by 7.9%. As you may see, it is pretty obvious that we are particularly influenced in absolute terms the level of interest rates. And I think it could be very interesting to comment on the analysis on the bottom left of the slide which shows you in absolute term quarter-by-quarter the level of interest rate. And you may see that current level is obviously...is significantly declining. But having to do let me say with an

interest rate level of 1.75 or 0.96 as an average of the first and second semester, we are talking about EURIBOR one month. Same variable in the first and second quarter year 2007 was 3.75 and 4.01 and you can compare that with a completely different level of interest rates more or less the bank is delivering the same level of interest margin. That's obviously due to the growth of volumes that we have performed during year 2007, year 2008 but still in my opinion, its very interesting because it shows very clearly what is the potential of the growth in the interest margin if interest rates will increase.

But we would like also to stress and then I will comment that this performance in terms of decline of interest rates is also influenced by something that is in a way a characteristic of the soundness of the bank. The composition of direct funding is obviously influencing the level of interest margin. If you have a higher retail deposit base and lower institutional base, you have an important handicap in a way, in terms of how you manage, how index you are to...correlate to the level of interest rates. For the moment it's not paying in the sense if the rate declines in absolute terms this influenced in a negative way, but let me say also that whenever the interest rates increase this immediately is influencing in a positive way the level of interest margin and obviously the same for higher capitalization. We will comment this in a quantitative analysis in a couple of slides.

We also have to share with you that we have offset partially the decreasing interest margin by prudent increase in asset and liability sensitivity and re-pricing of risk carried out from 2008 even if we had obviously to take account of the role of the bank in the territory. And also we have to keep in mind in terms of future

evolution, that in the second semester we won't have any more the the maximum overdraft commission but we will have the commitment fee booked in the commission item.

We have seen a slight rebound in the second quarter in terms of net commission. Obviously the general decline was affected by the contraction commission on the indirect funding but we are seeing some slight bouncing back and in particular I think it's very well connected also to the performance in mutual funds that we've seen before and obviously the market performance.

Let me stress also that and again we will focus also on this part, our upfront fees were at the moment €17 million compared to €57 million in the first quarter 2008. We will then comment to the positive and negative of not having upfront fees but let me stress that €40 million of difference is justified by a very, let me say, customer friendly upfront policy.

Page 13, I would like to comment a point. Yes we have seen declining interest margin, we have seen slightly declining...yes, we have seen declining in the commission fees, where we in terms of comparison with the other six big players in the market? We are still #1 in loans per employee. The second, we have an advantage of plus 3.8% versus the #2 and 27% in terms of loan per employees versus the average of this for the top seven banks.

Direct funding, plus 1.3 versus the second and 18.7 versus the average if we take in consideration only core business revenue. So, by this we mean net interest income plus net commissions divided by employee, we have a plus 5.4 percentage advantage on the second one and plus 16% advantage versus the average. I think



this is very significant and when commenting our revenue performance we should keep in mind where we are today.

Page 14, results from finance positive by €67 million in first semester 2009 also thanks to the success of Public Exchange Offer ,I won't comment to single digits. I just would like to comment that in terms of our hedge funds portfolio that at the peak was €800 million in terms of level of investment. Today, well NAV portfolio at 13 of June is €276 million, today NAV is €215 due to the progressive inflows from redemptions and so we've been significantly decreasing our investment in hedge funds for the Group...for the bank.

I was saying before that there is a cost that's being handled. There is a cost of being solid and I also was saying that there is an important impact of the dividends coming from Intesa San Paolo and other players when we analyze the decline in revenues. And we made an effort on this Page, Page 15 to let me say try to help you and help ourselves to compare the decrease in operating income with other players. We have a net decrease in absolute terms of €244 million year-on-year in terms of operating profits, which as we have seen before was minus 10.9.

Intesa San Paolo dividend and other dividends accounts for €65 millions in absolute terms. Second, there is affect of higher Core Tier 1 and higher funding from ordinary customer base that we estimate of €35 million. How do we calculate this \$35 million. A different composition funding, we have, as you have seen before 86% in terms of customers, direct deposits, and 14% in terms of institutional deposit.

What if we have, let me say an average to be good 20:80. It would have meant a reduction of 1.7% in terms of lower reduction of net interest income 1.7%. This 1.7 compares to 7.9% that was the actually the percentage decline. That means that we would have had a lower decline in net interest income of something like a 6.2, instead of 7.9%.

The equivalent of having 50 basis point more of Core Tier 1. So what if instead of having 7.2 we had 6.7 in terms of Core Tier 1 would amount another 0.4%. Let me play with this for a sec. What does it mean? Every 100 basis points of Core Tier 1 is more or less a little bit less than 1 billion. Imagine that 1 billion remunerated at 4.25, 4.3 as it was just 1 year ago at the average of EURIBOR one month and imagine the same remunerated at 1.3 something now. And you can understand the difference in terms of interest margin that is generated. So please keep in mind that there is also a cost of solidity, a cost of soundness. When interest rates, in absolute term, declined. If I add the two things together, this would have meant that the decline in interest margin would be much more in the area of 5, then in the area of 7.9.

In absolute terms we have calculated this as 35 million for this semester. So if you accept this all together that means that a comparable decline would be more than 144 than 244. That (Ph) would have meant that a decline in operating profit year-on-year of 6.4 instead of 10.9. We can debate in absolute term, but we all have to keep in mind there is a cost of soundness when interest rates, in absolute terms, are so low.

On Page 16, I am going to analyze the cost. Cost apparently was reasonably satisfying performance down 5.5% year-on-year to

€1.243 million compared to €1.316 million in first semester of which there was an excellent performance of staff cost, minus 8.1% the lowest level recorded since the merger, and well below 2008 average. There was clearly a positive impact by staff decrease, on average in the second quarter minus 229 resources compared to 30<sup>th</sup> June of 2008, and compression in variable remuneration due to the difficult economic context.

In end of period terms, on going reduction on “interinali” staff on leasing contract, following completion of IT migration, minus 580 units or minus 48%. Permanent staff down by another 93 units year-on-year, temporary staff minus 147 units.

Other administrative expenses, we have to analyze this data keeping in mind that from 1<sup>st</sup> of January we have the new Intragroup VAT, if we didn't have this we will have seen a decline of 2.2% in terms of administrative expenses. And this is because indirect taxes went up from €13.5 to €12.7 million. This is again this is with mainly due to the introduction of VAT.

Depreciation and amortization cost benefiting from completion of IT Migration. We're talking about a minus 13.5% in terms of decrease year-on-year, we are as we always been a still anyway investing in the new IT platform. We believe that retail bank has a way to invest in IT. So, its not that we have stopped our investment in IT, it's just we are taking benefit from the synergies and the shutting of one of the two platforms.

Cost of credit 82 basis points reflects the deterioration of the economic context, but it's lower than the average of the six major Italian Banking Groups. Actually in a way we have increased in

absolute terms the advantage versus the others and anyway this is consistent with the second semester year's...the second semester of year 2008, where we had a cost of 86 basis points.

Can we keep on this? Is it going to deteriorate or not, in a way it's now even more difficult to make an estimate because we don't know the effects of the new moratoria that is coming with the new agreement between the Italian Banking Association and the single banks and Entrepreneur's Association and all the other associations. We consider stable costs in the second semester if we won't see any additional deterioration in the market condition, or any events that are not predictable today.

In terms of coverage, as you can see on Page 20, I will comment just the bottom line, bottom last line, you see that in terms of coverage of non-performing and impaired loans including collateral we have a non-performing loans plus impaired that is altogether 64.85% and non-performing loans per se that is 79.65%. Let me stress that we are not including personal guarantees on this, if we included the personal guarantees we would be near 100%.

Page 21, we have already stressed that Core Tier 1 is even increased in the second quarter. Altogether we are now 7.24% and above 11% in terms of total capital ratio. We have lower risk weighted assets mainly related to loan composition, modest increase in loans, lower hedge fund exposure, and increase accountability of mortgage guarantees.

Let me stress also, for your information the capital ratio level as of 30<sup>th</sup> June 2009 allow within the group's 10 billion Covered Bonds Program, the assignment of assets to the covered pool with no limit

according to the Bank of Italy Supervisory Regulation, there's no limit assignment...is assigned when total capital ratio is higher of 11% and Tier 1 is higher than 7%.

We have a very low leverage of balance sheet. Core Tier 1 capital, on page 22, Core Tier 1 capital divided by tangible assets is 5.5% Tier 1 is 5.8% of tangible assets. Maybe even more important, tangible equity is 6.3% of total assets and tangible equity is 6.5% of tangible assets.

Closing consideration before leaving to your question and answer. We are #1 among comparables by core revenues per employee, customer deposit per employee, and customer loans for employee. Revenues are focused on recurring items adverse to risk taking. Maybe this is the good, this is bad in a shortened period, we think it's very good in long-term period and we stick to that.

Sustainable cost control from full success in integration and measures adopted to face the crisis. As I was saying before if not further economic deterioration or unexpected events occur, UBI Banca will maintain its structural advantage in terms of quality of credit compared to the average of the system and strong capitalization and low leverage of balance sheet.

In a word, in a statement, UBI Banca faces the crisis by increasing its structural soundness. Thank you and I am ready for all your questions.

Q&A

OPERATOR: Excuse me. This is the Chorus Call Conference Operator. We will now begin the question and answer session. The first question is from Marcello Zanardo of KBW. Please go ahead.

MARCELLO ZANARDO: Yes good afternoon Mr. Massiah and colleagues. The first question is on net interest income. Could you specify the amount of overdraft fees recorded in the first half of the year and what's your opinion of how much you can recover with the change in the law of this item by switching them into overdraft fees into the fee income line for the second half? On NII also we've seen clearly EURIBOR three months or one month keep falling again, which you spent quite sometime describing how painful it is. I was wondering, are you starting to be a little bit more pushy on volumes in the third quarter just to offset what I believe is going to be another painful quarter. So if you could give us some clarity there and do you think that Q3 is probably going to be lower NII than Q2, I mean leaving aside that the overdraft fees I am just talking about core business? The second question you gave on the asset quality, on the provisions, you gave an outlook but you also said how difficult it is at this point to estimate. I was wondering how have you based the outlook of provisions stable second half or first half, I am just looking at "sofferenze", "incagli" non-performing loans watch list restructured and past due loans. I know that I am not going to judge your bank on two quarters but the speed of deterioration in the second quarter '09 or first quarter '09 is above Q1 on Q4. So may be you've got some extra data which refer to July and August inflows are slowing down also and that is why you are giving a cautious but still a stable outlook. So if you could give us a bit of color there as well please? And third and final question is on the capital, you defined in the call the cost of solidity, I think you are right when the crisis was deeper clearly

having such a high capital level was better remunerated share price wise. Now, I am not saying the crisis is over but it's clearly better than a year ago, this is impacting you. So I was wondering what is your mental...your approach to capital considering Core Tier 1, 7.24% you will not take any Tremonti bonds, you don't need it, Tier 1, is 11.6, is there room here to be more generous with shareholders clearly that will be the case versus many other Italian banks who are lower capitalized but or are you keeping a cushion to take advantage of some potential acquisitions even very small banks or branches or a combination of the two. So I just would like to have your idea on when you think you could lower the amount of capital maybe in a year, in half a year, in two years or maybe this is actually where you want to be going forward. But to me, as you've said it's definitely costly, so maybe you can find a better way to remunerate this capital? Thank you.

VICTOR MASSIAH: Thank you Mr. Zanardo. Let me first of all...and then I will immediately answer to the question, apologize with all our colleagues that are based in London. We realized only two weeks ago that we have done that had shouldn't been done. However, the 31<sup>st</sup> of August, sorry with all of you that came back from your long weekend, having said that and first of all non-interest in terms of bonds, in terms of overdraft commission and everything. In terms of overdraft commission, the figure in the first semester was €78 million coming from the overdraft commission. How much can we replace this thanks to the alternative commission that we have identified, again very difficult, let me say that is anything between 50% and 65% anything between this range. Let me say again very, very difficult to make a forecast. I am not prepared to say that this is going to be a 100%, I think it's very, very difficult.

Second, in terms of how is it going to be in the third quarter in terms of net interest income? Obviously it's going to be even more difficult independent from the overdraft commission for obvious reason. The level of interest rates in the third quarter is even lower than the average of the second quarter. I see an increase in volumes, this is where we are trying to work. We...I don't think we have a real issue in terms of pricing, we have worked pretty well in my opinion, I am sure in terms of pricing even if we have still some room for replacement in particular in the long term part of loans. However...however, we are not using enough our strength in terms of capitalization to increase the volume of loans. Please, at the same time understand that it's very difficult to give new loans consistently with maintaining an important advantage in terms of quality of credit. Let's not forget, all of us that by being at plus 0.3% which is flat, in absolute term it means in real terms with national product of minus 6, actually to deliver a real growth of 6% in loans. I have seen the other...in particular smaller banks have seen an important increase in loans, but obviously if you grow by 10% in loans with a minus 6% in national product you take your risks with all the good and the bad of that. However, this is...where we have to work and we are trying to work in the...in the third quarter. In terms of asset quality outlook, yes of course as we always do at the end of the quarter we take account also what we see already happening for example in the month of July and what was interceptable we have put it already in the month of June. And so, if I had to judge just on what is coming from July and from August I would even have to say there may be...we need an increase in quality but this is not the statement I want to make because we have to wait really not more than a couple of weeks to understand which factors are opening, which factors are not opening. Commenting with our people in the territory, maybe he



is going to be a little less than the person I was expecting but too early to say. For sure there must be some positive influence by the moratoria. How positive this is going to be is what stops me by making a strong comment. I have not seen this before in my life so I don't want to comment that, it's too difficult to say. But at least we have some slight positive sign, not positive let's say less negative and at the same time something positive that we cannot estimate enough well coming from the moratoria. And this is the reason why I was commenting in that way the possible evolution of the credit quality. In terms of strength in capital which is costly, well I am not ready to say the bad is over, I am not ready. Maybe yes, and obviously I hope so too early to make brave moves on capital, but still again as I wanted to stress what is the cost of soundness. I also want to make a strong statement from the strategic point of view, all my life I want to stay in this position and not the opposite, because we have not seen still the cost of Tremonti bond from whoever takes Tremonti Bonds. We have not seen what is going to be at the end as obviously we are saying before of the cost of credit and this before making any comment in terms of potential acquisition which again we are not starting. It's always possible to then give a extraordinary dividend if we realize that the crisis is over and then don't need capital, it's all you can give a special dividend with one decision in one minute. It's completely different in this business to raise capital. So again we take this on our shoulder, its part of the cost of being sound, all my life I take it, instead of being in the opposite position.

**MARCELLO ZANARDO:** Just a final clarification on asset quality, which part that was performing versus performing better, just by network banks is it Popolare di Ancona, is it BPCI? And of customer loans

typology such as the small business, the SME's, what are you seeing?

VICTOR MASSIAH: In terms of companies, you remember that we were working on Ancona and on BPCI in terms of improving the credit quality and we are seeing some signs in terms of lower deterioration than before. But in term...if you ask me in terms of who is weaker, who is better; let me say that the weaker segment is still the small business, there are no surprises on that.

MARCELLO ZANARDO: Okay, thank you.

VICTOR MASSIAH: Thank you Mr. Zanardo.

OPERATOR: The next question is from Annamaria Benassi of Banca Leonardo. Please go ahead.

ANNAMARIA BENASSI: Good afternoon. Thank you for the comments on the effort you made in improving the capital ratio also through rationalizing your risk weighted asset. My question is, what about the second half, is there more room to reduce them further and then your comment on the possible extraordinary dividend related in fact to the strength of your capital ratio. Is that a theoretical comment or you think that that could happen in a reasonable amount of time that means next year or the year after? Then on trading, most of the Italian Bank surprises at least me with very high trading income, that didn't happen to you and actually I was surprised that excluding the €60 million gain on the exchange offer on your own instruments you ended with a loss in the second quarter and basically break-even in the first half of the year? What about that, why is that and what is your view in the second half...for the second half of the year given

the recovery of the financial markets is still going and there should be some opportunities there given your very cautious security portfolio? Finally, on the net interest income, in fact the decline was pretty substantial but more or less expected, I am more interested in your new comments that even in the second half there is not much room of recoveries, if I understood correctly, even including some volume pick up. So, does that mean that your guidance of high single-digits or maximum 10% decline on net interest income for the full year is not any more conservative enough, if we had to include in that the exclusion of the overdraft, maximum of that overdraft commission? I want to understand better your guidance on that? Thank you. Finally...sorry also a comment on ARCA because we heard your colleagues, other bankers are becoming much colder on the potential closing of this transaction...reorganization; call it, as you prefer. So, any comments on ARCA? Thank you.

VICTOR MASSIAH: Okay. I hope I remember all the question if not, Anna please interrupt me...

ANNAMARIA BENASSI: Come back to you, yeah.

VICTOR MASSIAH: Yeah, in terms of capital, I have not made a statement that we are going to give any special dividend for the moment. I just said that I prefer to have higher capital and then being able to give up this capital in a special dividend distribution then being in the opposite position of having the need of additional capital and which it takes more than one minute decision to execute.

VICTOR MASSIAH: I am not...I am not saying any...then time will tell if we had too much capital, we will manage that. Secondly in terms of trading,

again we are...we have said very...from the very beginning that we don't think that from our finance, from our proprietary trading should come more than 3% of total revenues. So this is not exactly what's happened with the other competitors and I fully respect that. I still prefer to have maybe a little bit lower operating profits coming all from core business than having 20%, 25% of my operating profit coming from something that is not necessarily stable during the years. Again, this means, I have no problem to admit that maybe sometime we've missed something and today we definitely missed something compared to others in the first six months. This is due to the fact that obviously interest rates went in a certain direction. From now on I don't think it's so easy to make any forecast on where and with which speed interest rates will go. So, again if we take a decision now, I don't think we should piggy back on additional let's say profits coming from finance, given the current situation. Maybe we are wrong but again, also on this side, all the way conservative.

In terms of total rationalization of risk-weighted assets, this is subordinated to the authorization from Bank of Italy to adopting internal rating system. As you all know, we are on standardized and we will see when and how authorities will validate the models, you know, that this is not only for UBI there has been something...there has been a slow down by the consequences of the Basel II models and...how you say, the pro-cyclicality of these models. So, we have to wait for what will be the final decision of the authorities. This is not only Italy; actually this is international. But we have room thanks to the possibility to adopt the internal rating system. This is not including obviously and all the figures that we have delivered do not include the effect of the convertibles, do not include the effect of conversion of warrants. So, there is

some factors let's say, that we can use in the wintertime if this storm is not over.

In terms of net interest income; first of all average rates quarter-by-quarter will be going down again in the third quarter because the easing...the liquidity easing maneuvering of the ECB has obviously been as a matter of fact a reduction of 50 basis points in the real interest rate market, officially it is 1% but actually it is 0.5% after that easing. So this has been occurring at the end of the last quarter and so obviously it's influencing this quarter, decreasing in absolute terms and so influencing negatively the net interest income. And as I was saying before, you can try to partially or totally offset...we'll see that probably partially offset by increasing volumes we will be able to do. And again this is not including the overdraft commission, which again is going to influence in a negative way things. So at the end of the day, I am expecting a lower interest...net interest income for the third quarter. Most probably the only good news I have on this subject is most probably the third quarter would be the floors, if they do not invent another additional easing to help the investment banking and kill the retail bank this would be the floor of that and from the last quarter we will see again an increase. Did I forget anything, Anna?

ANNAMARIA BENASSI: It's only on ARCA.

VICTOR MASSIAH: ARCA. ARCA, we have not changed at all our position. I mean we are ready to sell. We are ready to sell, there is a price for that and actually there has been no negative change in the matter.

ANNAMARIA BENASSI: Thank you.

OPERATOR: Next question is from Giovanni Razzoli of Equita. Please go ahead.

GIOVANNI RAZZOLI: Good afternoon to everybody. Question #1 is on the cost of credit. You are running with 82 basis points on the first half and then I would like to have, let's say if possible, the breakdown between retail SME's and corporate. I ask you this because we've seen at your competitors some very different provisioning level among these segments ranging from 150 to 370 basis points, so it would be definitely good to have more clarity on that? And my second question is on the fees looking at the breakdown of your net fees on the first half level, if we do exclude the contribution of the commission on indirect collection, there is clear a decrease also on let's say in the traditional banking fees which is related, I think to the lower activity on behalf of your clients. I wonder if other than that the results were pricing issue also on the traditional banking fees apart from as I said the lower activity on behalf of the client. And the final question is on the UBI Assicurazioni, if you can give us a little bit of clarity in terms of timing of the disposal of the minorities as we have read something on the newspaper recently? Thank you.

VICTOR MASSIAH: Okay, if we open 82 basis points, I will do this way, this is first of all, this is our...the detail of our commercial networks. So we are summing, adding up together, all the banks of the group and so you can compare easily with others. If we take just the private sector it's 26. Anything between private and corporate, so the SME is 131 and corporate is 67. In terms of commission, in terms of fees, yes, there could be a pricing issue and most probably there is a pricing issue and again this is a question of how friendly we want

to be with our customers and what is the limit of that. We are analyzing it but let me say that this has an influence but if you compare with other I think I can be wrong but I think the real difference is the usage or not of the upfront. This makes most probably 80% of the difference. If...let's say, in an 80/20 approach, 80% is the upfront. Regarding UBI Assicurazioni, we are still not ready to make any comment but let me say just that there is a process. And there is more than one company ready to analyze the package with us. But I'm not ready to make an official statement for the moment.

GIOVANNI RAZZOLI: Thank you.

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

EUGENIO CICCONE: Good afternoon Mr. Massiah. A very simple question, can you elaborate a little bit more on your mark-up and markdown trends. I mean, if it is possible to have the breakdown in terms of basis points, what you lost in this quarter versus last quarter of what you gained last quarter versus this quarter?

VICTOR MASSIAH: Okay, what I am going to give you is, this is again the summing up all the single commercial banks. And it's benchmarked with EURIBOR one month.

EUGENIO CICCONE: Okay.

VICTOR MASSIAH: We had on total loans, so short-term and long-term, we have a mark up of 322 basis points that went down to 302.

EUGENIO CICCONE: So 20 basis points.

VICTOR MASSIAH: So, yeah.

EUGENIO CICCONE: Okay, okay. That's it from me. Thanks.

VICTOR MASSIAH: Thank you.

OPERATOR: As a remainder if you wish to register for a question please press "\*" and "1" on your telephone. Next question is from Laura Paterno (Ph) of Arizona (Ph). Please go ahead.

ANALYST: Yes good afternoon to everybody, sorry just following up on the last question, maybe I didn't understand it correctly, are you saying that the mark-up went down from 322 in the first quarter to 302 in the second quarter?

VICTOR MASSIAH: Yes.

ANALYST: Yes, no. And what about the mark-down?

VICTOR MASSIAH: The mark down went down 5 basis points.

ANALYST: Okay, so do you actually, so if I see these two numbers then the first thing I can think of is that the re-pricing of risk is actually finished.

VICTOR MASSIAH: Not necessarily true, Ms Spotorno, for a very simple reason that you have to consider that mortgages are indexed. And so as a matter of fact if I take only the long-term, of which the mortgages are an important part, the mark-down...mark up went down, by 41



basis points. But this is because they're indexed. And so the point is that actually as you can appreciate, we even did a reasonable good work on the short-term. The point is that altogether this has an influence on the mix but let's not forget that there are some valuable mortgages that obviously pay, let's say the factor of being indexed to the EURIBOR one month or EURIBOR of two months.

ANALYST: Okay, thank you.

VICTOR MASSIAH: You are welcome. And if I can add before the next question, there is also a short delay in re-precipitation obviously, because they usually are indexed to the average of the previous period, whatever is the period, one month, three months, six months, but we have to keep in mind this delay in the indexation of this mortgages. Thank you.

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

ANDREA VERCELLONE: Good afternoon, I have got two questions, the first one is on capital, the second one is on dividend. On capital could you just clarify whether you have accrued any dividend in the Core Tier I ratio of 7.24% that you state is of H1? And the second is on dividend, this year obviously it's a challenging year, you are making a slightly lower bottom line that you might have been expected earlier on. But also by working a lot on risk weighted asset, reduction and so on, you have got a much stronger than expected capital position. So if you could just elaborate qualitatively a little bit of what you have in mind, in terms of dividend policy for this year. Thank you.

VICTOR MASSIAH: Well, first of all we have included proportionally the...let's say what, we have obviously a certain amount in our mind, and we have posted in proportion, so half of it in this first semester. So it is included half of it in the calculation of the Core Tier I. Then obviously and we are not ready to disclose this amount, the only thing I can say is that obviously we all will think about the dividend, because in the history of this bank we have never, never, skipped a single year's in distribute dividend. Then for the amount of that, it's too early. But we have in mind a certain amount and we have posted half of it and it is so considered in the Core Tier I. In general terms, in terms of strategy of capital, all of you know that we are probably the most conservative. But we don't think that winter is over. And anyway if the winter is over we will again be happy to have happy hour with everybody using a part of our capital. But let's wait first of all that the winter is over.

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

CHRISTIAN CARRESE: Yes, good afternoon to everybody. Just a question on indirect deposits, could you give us an idea of what do you expect from next tax year in terms of inflows of your bank? And on the tax rate if you can give us an idea of a normalized tax rate for the full year?

VICTOR MASSIAH: Sure, for the first part, are you meaning the Tremonti?

CHRISTIAN CARRESE: [Multiple speakers].

VICTOR MASSIAH: I think it's very, very early to make any estimate. I'm sorry, but I'm not ready to give an answer. From what I'm hearing, you will have let's say some minority that desperately need some capital

back that we will immediately do something. But from my...let me say chatting, and not even conversation, chatting, my understanding is that people will wait until first quarter next year to really understand all the consequences of this move. If I'm not wrong, we can, people can wait until end of April next year. And I don't think a lot will happen before that. The second question was in terms of tax rate and we unfortunately are in the area of 50 something and again there are two reasons for that, first of all we definitely missed in terms not only of profitability, but also tax rate. The dividends that were taxed only 5%. And secondly you know perfectly well how losses and credit are treated. And you know perfectly well how IRAP bites you in the almost independently from the profitability of the bank. So altogether this is a desperate higher than 50% tax rate and which obviously we don't like but we honestly don't know how to reduce. Thank you.

CHRISTIAN CARRESE: Thank you.

OPERATOR: Ms. Massiah there are no more question.

VICTOR MASSIAH: Let me thank all of you, and in particular our London based colleagues and look forward to meet you soon. Thank you.