UBI Banca

“Consolidated Results as at 31 December 2013 Conference Call”

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VICTOR MASSIAH, CHIEF EXECUTIVE OFFICER.

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the UBI Banca Presentation of Consolidated Results as at December the 31, 2013 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: Thank you and good afternoon to everybody. Thank you for attending the conference. I will start with slide no. 3; we'll focus first on capital and balance sheet.

We have a Core Tier 1 that has reached 12.6%; fully loaded Basel III common equity tier 1 *(fully loaded CET 1)* of above 10%, the total capital ratio of 18.9%. This allows us to propose an increase in our dividend from €0.05 to €0.06.

Liquidity coverage ratio and net stable funding ratio are both significantly above 1, and the latter will remain above 1 also not including the LTRO. Leverage Basel III is, in my opinion, world-class, reaching 5.16%. Loan-to-deposit ratio is substantially below 100%, and it reached 95.5% at the end of this year.

In terms of profit and loss, we have increased net profit reaching €251 million. Same quarter last year it was a minus €140 million, this quarter it is €149 million profit.

Net interest income year-on-year is declining at minus 6.1%, and we will focus on that in the following presentation slides. I can already say that this is still increasing quarter-over-quarter and by making a comparison between the last quarter 2013 and last quarter 2012, we have an increase of 10%.

Net result from finance increased , reaching €325 million; total operating income, it's minus 2.5% year-on-year but again increasing quarter-on-quarter and the net operating expenses is minus 5.5% on a yearly basis and minus 6% fourth quarter 2013 on fourth quarter 2012.

Net operating income consequently increases by 2.8%, and it's 30% increase quarter-on-quarter (4Q/4Q). LLPs have increased by 11.3% from €847 million to €943 million, and it's a 4% increase fourth quarter 2013 on fourth quarter 2012.

I'd like also to stress some announced actions that will support future profitability.

1. The first one is further staff optimization, another 183 units exit to be implemented within June 2014, enabled by €26 million net leaving incentives booked in the fourth quarter of 2013. This will entail €15 million savings at regime which will be structural.
2. Reimbursement of Tier 1 instruments in February/March 2014 (€340 million at the cost of 595 basis point spread); it's another €22 million structural increase in NII.
3. Early reimbursement on 7 of March 2014 of €3 billion state guaranty bonds (€2 billion expiring in January/February 2017, and €1 billion in February 2015). This again will be an additional €20 million structural.

On Page 6, you have an evolution of lending volumes; we can confirm the first signs of progressive improvement in new origination inflows of medium/long term lending, but at the same time, let me say, that we still have room for improvement. This room for improvement is significant both, on network banks and on product companies.

On network banks perimeter, where we are definitely increasing the new origination , whose rate versus reimbursement reached 86% in comparison with 81% that characterized FY2012.

The main factor of this increase is new mortgages loans, granted to private customers and corporate sectors. And let me say also that the year-on-year statistics do not really indicate the strong dynamic on these mortgages. In particular in the private sector, we have reached in the second part of the year a number close to 40% of increase. While on the other side, we have still some decrease on the small business sector which is still down by approximately 5%.

On product companies- I mean UBI Leasing, Prestitalia, former Centrobanca and captive consumer finance, we still have a percentage that is much lower at 38%. Let me say that, in particular on leasing, this business usually comes back with a delay and with the bouncing back of the economy, so we expect to have some improvement in the next future also in this ratio of substitution with new origination and reimbursement.

So let me stress that the results that we are doing on the net interest income are still improvable, because there is still not enough support from the volumes. If we got more support from the volumes, thanks to a modest but continuous improvement in our economy, we could probably do better.

On Page 7, we have also the evolution of the direct funding; here you can appreciate why we had anyway an improvement in the net interest income even if it was not supported by the volumes. This was due to a very accurate pricing policy on the deposit side of the story. We could eliminate some very highly priced term deposits and short-term deposits that allowed us to significantly improve the mark down.

Let me also stress that we have the possibility in 2013 to redeem the soft mandatory convertible bond while on the other side we issued €2 billion in covered bonds and EMTN.

More important on Page 8, the maturities of the securities in issue of network banks, UBI Banca and the former Centrobanca.
You may appreciate that we have dimension of maturities that is significant in absolute amount but still definitely within the range of our possibility of 100% replacement rate. But what is more important in my opinion, is the right part of the exhibit, where you can appreciate that while in the year 2012, we had an average pricing of a 150 basis points. Here now, on the fourth quarter of 2013, we have 108 bps, and it's a continuous retrenchment in terms of price and very important shrinkage of the negative markdown. We also are having quite a success in what is, let me say that, our part of corporate social responsibility, i.e. in terms of social bonds. They are becoming in my opinion an intriguing successful case study.

On Page 9, you have the maturity from the institutional point of view.
I think that it's pretty evident that we don't have a worrying profile of expiring institutional EMTNs and covered bonds. On the contrary, this is very sustainable and we already have issued in the first quarter of 2014 - as you may appreciate on the right part of the slide - €2 billion that, as a matter of fact, already fill what is expiring in 2014. So this is at the moment a very relaxed, comfortable position. You have also a map of covered bond and EMTN recent placements, both in terms of geography and in terms of type of investors on the right part of Page 9.

Page 10; it is our Govies proprietary portfolio, which is stable. The evolution of our AFS reserves: let's say we calculate the EBA shortfall, but this is not anymore an EBA shortfall. However, you may say that even if it was still with us, and calculated the same way, our shortfall would be substantially be zeroed; we are at the moment minus €21 million. The profile of our classification and the maturity profile are represented on the right side of Page 10; I will leave it to your reading.

On Page 11, you may appreciate the fact, that even if we have reimbursed some of the government guaranteed bonds we do still have a very important amount of eligible assets of which €18.8 billion are unencumbered. They correspond of almost half of the short-term deposits; this is again in my opinion quite a safe position.

On Page 12 and on Page 13, there are the details of our profit and loss. I will leave it to your reading to dedicate more time to Q&A part of the session.

And I would focus on Page 14; where you have a higher detail of the evolution of the net interest income. As you may appreciate, there is a continuous and solid increase quarter-by-quarter. And it's also important for us to stress the role of the business with customers contribution to the net interest income is on the bottom left of the slide. We want also to present what is the evolution of the network banks customers spread. You may see in the last row in red: network banks customer spread evolved from 168 to 194 basis points. And this is, thanks also to the evolution of the new origination and the medium long-term which has an average of 410 basis points in terms of new origination versus 235 in terms of basis point on the average stock.

On Page 15, there is an evolution on the net commissions.
They are pretty stable. My only comment is that, as a matter of fact, the possibility for a bounce-back of this net commission income in the following years - is pretty tied to the evolution of the lending part of the

operations, since as you can see the asset management part of the activities gives solid and continuous commissions. It's the lending part of the story where, now, it's very important to have an additional growth. And so, this is very consistent with the first part of this presentation where I commented the volume potential in terms of growth of lending.

Discipline in cost containment. I won't bore you too much. In my opinion what is important is that we have a regular path and that the evolution of the reduction is very well spread above each single component.

In my opinion, what is really relevant is on Page 17; I think that you may allow us to make a first balance of our few years of history as UBI Group. And I think it's very important to stress that we have achieved structural savings for €457 million in six years. They would probably correspond to almost €700 million of structural saving, if you take into account the inertial growth. In my opinion, having achieved this result in a period of difficult years contributes to consider these important savings as a benefit from the merger through which UBI Group was created.

On Page 18, evolution of the distribution network reflects changing banking behaviors. The 2007/2013 evolution of the traditional banking in terms of number of branches recorded minus 12.4%, while, in terms of innovative banking, online banking customers have grown by 190% from 400,000 to 1.2 million of clients.

Employees: minus 15.5% 2007/2013, but let me also stress that the incidence of commercial staff in the network banks was 37.9% at the 1st of April 2007, while we are today at 46.9%. I think this is again quite an achievement.

Page 19, we registered a lower growth in deteriorated loans stocks in 2013 versus 2012, i.e. €1.7 billion versus €2.4 billion. I think that the additional information to focus on is the inflows and outflows. Our focus is now on the top right part of the slide. The inflows from performing loans to deteriorated loans are down by 4.2%, but in my opinion even more significant is the increase of deteriorated loans returning to performing which in this year has been +22.8%.

We wanted also to open this information in terms of inflows and outflows in the table on bottom right of the slide. And again, it is important to note that the inflows from performing to non-performing *(or "Sofferenze")* have almost halved in 2013 versus 2012. Impaired loans *(or "Incagli")*, have reduced. While, the increase has been on the past due loans because of the change in our internal regulation; this on the other side has been perfectly counterbalanced by the outflows to performing loans.

As you may appreciate, the past due going back to performing loans have doubled year-on-year. And it is important that also we have a solid flow from *"Incagli"* back to performing loans, which in a way historically characterises our bank. So apparently, we do quite a timely adequate classification that allows us to have a good outflow back to performing in the *"Incagli"* part of the story.

Page 20, you may appreciate the coverage evolution of deteriorated loans. Let me stress a couple of things. First on the bottom right, you may see that the coverage of non-collateralised deteriorated loans has increased by 218 basis points from 21.3% to 23.5% in terms of impaired loans and up by 69 basis points from 71.8% to 72.5% in the non-performing loans or *"Sofferenze"*.

The only thing I would like to say is that in the non-performing loans (or among *"Sofferenze"*), there is one single position that in my opinion has a bias in a way. It implies a bias when reading the statistic because it's an important position, whose amount is more than €100 million and it's substantially not covered. It must be classified in this way for regulatory reasons, but we have almost the certainty to write back this position and it influences in a way the statistic. Without this, the non-performing loans coverage would have been increased, and also the total deteriorated coverage would have been increased more than how it has already increased.

In terms of Page 21, you have the LLPs analysis. We have an increase of €96 million, but out of this only €26 million arise from analytical impairment; this is very consistent with what I have said before. There has been an increase of €70 million, explained by the net collective write-downs. This obviously happens because of the new years entering into the historical series that obviously - given the current market situation - are worse than those of the previous years. This obviously influences the statistics of the models and the exits of collective impairment.

Last page: outlook. The forecasts of all the major study centers, show Italy exiting from recession. However, the growth forecast is very low. As concerns the UBI Group, under current market conditions, net interest income is expected to continue to improve, benefiting on the liabilities side from a reduction in the pressure on the cost of funding and on the assets side from the progressive replacement of medium to long-term loans, made in the past at lower spreads than those practiced at present.

Fee and commission income is expect to be resilient. A further decrease in sovereign debt risk could allow positive results to be achieved for trading and hedging activity again in 2014, although the magnitude is not

easy to predict, obviously. I am saying the very obvious, i.e. the trend of the spread and the evolution of rates is the key point to understand well.
But for the moment, I would say, as a starting of the year, we have nothing to complain.
The downward trend for administrative expenses will continue, while the performance of personnel expense will also depend on the final outcome of the renewal of the national labor contract already elaborated.
My colleague have elaborated on that, so I won't elaborate more.
Even if economic recovery remains rather weak, loans provisions should show sign of improvement compared to 2013.

Thank you for your attention. We are ready now for Q&A.

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 Aldo Comi of Main First. Please go ahead.

ALDO COMI: Good afternoon, Mr. Massiah. Thank you for the presentation, congratulations for the results. I have two questions, one is on the capital and the other one is on the AQR. On capital, your competitors are publishing their new business plans detailing among others, new capital ratio targets. I would say while the sectors approach on the matter is quite mixed, a large bank targets a 10%, common equity Tier I ratio, while smaller institutions are targeting common equity Tier I ratios above 11%. It would be very useful to hear your thoughts on the sector's capital targets first of all. And also maybe you could share with us what would you expect to have in terms of common equity Tier I ratio fully loaded in the next few years. The second question is on the asset quality. The positive one-offs for the quarter could have maybe given the option to increase the cash coverage ratio somewhat more. This should mean you are very confident regarding your collaterals and the way the AQR will treat them. I would like to hear your thoughts on this. Thank you.

VICTOR MASSIAH: Thank you, Mr. Comi. On capital ratio, as we have stressed, our common equity fully loaded Basel III above 10% is without any type of additional action. We don't need additional action; I obviously want to stress this point, no capital increase. No capital increase. But obviously there are additional actions that can improve this ratio. In a way, we are in between the major players and the smaller players. And so it's good, we are really in between also in these ratios in a way. What I can say is that, I wish to have a problem, in the sense that, my problem would come from a stronger than expected increase in the lending which would be a very nice problem to have. On the other side, if had this problem, and lending was growing, this would lead to very strong auto-financing, that would allow us to solve very nicely the problem. So frankly speaking, at the moment, we are relaxed. At the moment because never say never, we are not out of the crisis; it's still a very very volatile environment. But, you know perfectly well that this matter has been historically our main focus and we don't want to be out of the first quartile in terms of quality.

In terms of asset quality, in a way you made a very scientific but appreciable analysis, because as a matter of fact, as you said, we had the opportunity to do more. We are as relaxed as anybody that has done a professional job. Then we know that the AQR is something where there is a new rule, where there is a regulator that is different from the traditional regulator, even if it is as a matter of fact the same regulator with the European regulator. But I obviously cannot make a strong assessment of that because this is a new territory for us. But as I said before, we think we have always behaved in a professional manner, and we hope to have done the same also this time. LLPs have increased because €943 is higher than €847 million. As a matter of fact, you know, that my first guidance was a little bit lower. I was wrong, and I have no problem to admit; we were expecting a better environment in the first quarter of 2013. However, we did our professional posting, and in my opinion, the fact that we have also such an increase in the outflows from non-performing to performing is a good sign. Then never say never, I would be arrogant to make a stronger statement than this.

ALDO COMI: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Jean-François Neuez of Goldman Sachs. Please go ahead. Hello, Mr. Neuez, your line is open.

JEAN-FRANÇOIS NEUEZ: Yes, can you hear me now?

VICTOR MASSIAH: Yes, I can hear you sir.

JEAN-FRANÇOIS NEUEZ: So I just wanted to ask you a question on the Core Tier I. It's been I think a couple of quarters now, that you have been stating that you are above 10% on Core Tier I ratio in Basel III. I just wanted to know whether you could provide the number actually…your ratio…because obviously - even 100 bps off - can make a big difference for the appreciation of the balance sheet strength? And my second question on capital was only that, I saw in your slide that you have updated your parameters for your credit risks in particular that have send them slightly higher this quarter. I suppose it's probably due to the recent deterioration in asset quality and so on. And I just wondered whether you are expecting your risks weights to continue migrating upwards or it was just a one-off, sort of tweaking of the model? Thank you.

VICTOR MASSIAH: I will answer first to the second one. Every single year we obviously inject one additional year and until we inject years that are in the peak of the crisis, by definition we have some additional worsening. On the other side, it depends also on the mix of the inflows. So you cannot give a strong answer. But let me put this way, if I had exactly the same stock, and I had to add every year an additional year until we don't have a clear exit from the crisis in terms of the statistic, you will have a worsening of this. On the other side, this is let me say quite anti-cyclical. So the way I look at it as a good news for the future in the sense we are building up a buffer in a way. On the first question, no I'm sorry, I don't want to be un-polite, but we are not ready to publish the exact number. But, I'm ready to make a comment; this is a solid 10%.

JEAN-FRANÇOIS NEUEZ: Okay, but it's not an 11%?

VICTOR MASSIAH: Well, if it is well an 11%, I would have said an 11%.

JEAN-FRANÇOIS NEUEZ: Okay, excellent.

VICTOR MASSIAH: But, it's a very solid 10%.

JEAN-FRANÇOIS NEUEZ: Thank you.

VICTOR MASSIAH: Thank you.

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

RICCARDO ROVERE: Good afternoon to everybody. I have another question on capital; does this above 10% include any other feature like the SMEs support factor, the potential filter on AFS? And if is not, would you please quantify what is the…what could be the impact of this? And the second question I have is on the floor, if I remember correctly you have a floor of 87.5%, what is going to…what is happening there, it's going to go down, it's going to stay where it is for let's say for the foreseeable future? And last but not least, on the minority side, we know you have a pretty chance of deduction related to that. Is it something that you are working on, should we expect anything let's say in the foreseeable future? Thank you.

VICTOR MASSIAH: Excuse me, Riccardo. I could not hear your last question, foreseeable future what type of action…?

RICCARDO ROVERE: On the minority side because we…

VICTOR MASSIAH: Okay, I got you. Thank you, Riccardo. I will try to answer all these questions. First of all, support factor, yes, it is already in. But it's a very, let me say, very slight change, it's not a radical change. On the 87.5%, yes, we do still have floor on 87.5%, whenever the authorities will decide to allow us to have a better floor, we will be happy, but it's in the hand of the authorities.

The third one, obviously we wanted to work on, so on the minorities we are not ready to make any declaration today. But the figure we have published does not include an optimization of minorities. So an optimization of minority would be an additional improvement in a way in the long-term. Obviously, it depends also on the timing by the minorities, but this will be elaborated more if and when we will do that.

RICCARDO ROVERE: Okay. I understand. And if I may, again on the floor, would you be able to quantify what the impact could be if the floor reduced to something like

85%, where I think all the other…all your peers are more or less positioned?

VICTOR MASSIAH: No, not immediately. Not immediately, but it really depends on some conditions because it's a question of where we are at that eventual time in terms of the whole environment. So it's a very complex statement to be made, but anyway as you said, we have a higher floor than some of our competitors.

RICCARDO ROVERE: Okay, thank you.

OPERATOR: The next question is from Luigi Tramontana of Banca Akros. Please go ahead.

LUIGI TRAMONTANA: Yes, good afternoon, Sir. Good afternoon to everyone. My question is on your tax position. If I am right, once you exclude your one-off tax benefit last year and excluding also the additional IRES, the recurring tax rate should be 47.7%. Can we assume this is the tax rate for 2014? And second question also on 2014, will you agree with a guidance in terms of cost of credit risk between 75 and 80 bps? Thank you.

VICTOR MASSIAH: I'll answer the first question then I'll ask you to restate the second one. We have not a perfect sound unfortunately in this conference. Regarding our tax, you will see in the slides about the net profit on Page 12 that we have a normalized tax rate, i.e. not including the special actions is at 52%. Then if you ask me a different question on what would be a normal tax if credit conditions were different, this will be in the area of 40% more or less.

Could you restate the second question because sorry I could not hear you very well?

LUIGI TRAMONTANA: Yes sure, thank you for the clarification on the tax rate. And my second question was on the cost of credit risk, will you agree with guidance for this year of 75 to 80 bps?

VICTOR MASSIAH: We are not ready to make a disclosure of that. The only comment I can make is that, this year it was at 107 bps, but let me elaborate on that. We have a 107 bps because we had also an important decline in the stock. So the lending, i.e. the denominator of the fraction, was declining. So it's not really that I don't want to share our forecast, but it's also a question of where the volumes will go, because obviously, this is a little bit sometime misleading when the volumes are volatile. Let me say that anyway in absolute terms, we obviously are giving a guideline for a potential slight reduction of that. Then it would really depend in terms of basis points also on the evolution of the volumes.

LUIGI TRAMONTANA: Okay, fair enough. Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Ignacio Cerezo of Credit Suisse. Please go ahead.

IGNACIO CEREZO: Yes, hello. I have only one question on net interest income. If you can give us an update in terms of the contribution from the €20 billion government bond portfolio, and future prospects, how do you expect this to evolve in the future? Thank you.

VICTOR MASSIAH: Yes, you are talking about the additional €12 billion that we have taken as the LTRO, is that what you are talking about or…

IGNACIO CEREZO: No, it's just the net interest income contribution from the €20 billion government portfolio.

VICTOR MASSIAH: Okay, the net interest income is on a yearly basis €350 million *(securities portfolio net of interbank activities)*. But let me say, that at the same time, what I would look at, if I were you, is the additional one coming from the LTRO because obviously, we don't expect to be zero in terms of proprietary. And so, we have historically anything between €8 and €10 billion of govies as a normal situation in the bank. And the additional boost is as per today the €12 billion that we do have. Then obviously, it will depend on type of analysis you are doing.

IGNACIO CEREZO: And in terms of future, I mean reimbursement risk or the trade off…the typical trade off between net interest income and trading income coming from these portfolios. I mean, obviously, we are one year ahead of the LTRO repayments, how do you plan actually to work with this.

VICTOR MASSIAH: Yes, in terms of the LTRO repayment, as we said we…I didn't understand your question, how do we plan the LTRO repayment?

IGNACIO CEREZO: No, I mean the…how do you manage basically the…I mean, in terms of the €10 billion incremental govies versus historical figures. I mean, you have probably possibility to sell some of those bonds with a gain of the LTRO repayment.

VICTOR MASSIAH: Sure.

IGNACIO CEREZO: So how do we have to think about net interest income versus trading income in the last…?

VICTOR MASSIAH: We are very opportunistic on that. Normally the reality is not obvious, but the obvious answer is, that if we have a structural trend towards shrinking of the spread, we should be opportunistic and then to sell towards the second half…within let's say the second half of the year, not in the first half. However, we have seen some volatility in the previous years in the market, so you cannot give a strong statement on this. But we are very focused, and I think we have demonstrated in the last couple of years a good balancing between taking trading opportunities and at the same time not jeopardizing the contribution to the interest income, that it's a clear trade off as you described that.

IGNACIO CEREZO: Okay, thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your telephone. The next question is a follow-up from Riccardo Rovere of Mediobanca. Please go ahead.

RICCARDO ROVERE: Yes, thanks. Thanks again for taking the question. I was flipping through the presentation, and I noticed in your slide a very detailed…the composition of the capital that you have, if I remember correctly 400…more than €400 million of shortfall of stock of provisions to expected loss about, so the total amount doubling this would be kind of €800 and €850 million. Are you planning to…are you planning to use this to improve the coverage ratio in the foreseeable future?

VICTOR MASSIAH: Well, my interpretation of the shortfall, just to share with you. Actually thank you for the question; it gives me the opportunity to debate with you at least my interpretation of the shortfall. Given that the advanced model must be - if appropriate - a little bit more conservative, I expect the shortfall to be a natural status in a bank reasonably well managed. What we do have in terms of shortfall is such that it could allow us to have the full year of additional one-off special costs of credit and still not jeopardize our capital ratio. So this is in my opinion a clear demonstration of strength. It is obvious at the same time, that I do not consider shortfall per se, just a tool to be used. In my opinion it's a natural status, but I mentioned that depends on the evolution of single years, but I don't have a target of a shortfall zero. Actually, I am happy to have a conservative advanced model.

RICCARDO ROVERE: Okay, well but sir but what is the point…this is a kind of, let's say, off balance sheet provisions that impact your capital without being visible on balance sheet. What's the point on having it just let's say off balance sheet?

VICTOR MASSIAH: The way I consider it is as a kind of buffer, and my point is that if it were implicit in the statement the fact that there is no additional…not enough coverage, obviously it would be a completely different story. But if we consider to have done a professional job on the coverage part of the story, that's it, I mean, we have a buffer. And in my opinion, this is one of the good things coming from Basel, in the sense that this is a buffer, it is good to have a buffer; never-say-never.

RICCARDO ROVERE: Okay, thanks.

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

VICTOR MASSIAH: Okay, apparently we have been very boring. So I apologize for being boring. And thank you actually everybody for attending this conference and all the best to everybody. Thank you.