UBI Banca

"Consolidated Results as of March 31st 2019 Conference Call"

Wednesday, May 08, 2019, 16:30 CET

MODERATORS: VICTOR MASSIAH, CHIEF EXECUTIVE OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the UBI Banca Group Consolidated Results as of March 31st 2019 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 the UBI Banca Group. Please go ahead, sir.

VICTOR MASSIAH: Good afternoon to everybody. Let's start from Slide #3, executive summary. Profit for this first quarter net of non-recurring items is up to €225 million compared with a €121 million of first quarter 2018 and €41.8 million in fourth quarter. Stated profit was 82 million, impacted by the trade union agreement; it was €117 million in first quarter 2018 and €215 million in fourth quarter 2018.

I think the most relevant component of this quarter has been the important growth of net interest income compared both the first quarter and the fourth quarter of last year and what is very relevant is that this is driven by the commercial activity. There has been a good resilience in terms of fee and commission income and further contraction - as it is in our tradition - of operating expenses and a containment of impairment losses on loans.

We have also, in terms of balance sheet, an increase in CET1 ratio fully loaded at 11.47%. This includes the rollout of internal models to the three banks acquired and other retail, updated parameters in the internal models and impact of IFRS16. Obviously the first two - three banks and other retail - are positive tail winds and the last two - parameters in the internal models and IFRS16 - are headwinds.

NPE stocks are under strong control, gross non-performing exposure is down by €258.4 million through internal work-out, so this is a continuous and consistent implementation of the strategy to manage by ourselves, and it's a minus 2.7 percent in the first quarter.

A very impressive annualized default rate of 0.79%, It's even more impressive considering the first quarter of last year was more than double at 1.85%, so quite an interesting data. We'll see next quarter if this is confirmed. Let me say that the first weeks of the new quarter are confirming this trend.

Coverage ratio increasing for all categories of NPEs. Texas ratio of 78.6%, it was above a 100 one year ago. Decrease in performing loans due to strategy to safeguard spreads, successful in boosting NII in first quarter; so as you remember and then I will explain to you later, what we have declared in the second half of last year, that we were ready to give up some volumes and to sacrifice volumes to re-price, this is exactly what's happening.

Total funding up significantly, thanks to increase in both direct and indirect funding; altogether liquidity coverage ratio and net stable funding ratio not a problem at all, and again, as we said in the previous call, even discounting the outflow of the TLRO2.

Page 4, I already explained the CET1 fully loaded. I will spend a few seconds on total capital fully loaded. We have issued in February a lower Tier 2 and this helps us to increase by almost a 100 basis points the total capital ratio from 13.44% to 14.39%. I leave to your reading the phased in CET1.

My opinion, congratulations to the commercial activity, to the people that have managed this, we have seen an increase in net interest income on both last quarter and first quarter of last year. In the upper part of the slide on Page 5, you see that even compared to last year the business with customers has been increasing in terms of NII. As you may also appreciate, the financial asset contribution is now stable, it was stable through almost the whole of last year and again stable in 1Q2019, so no additional contribution from our proprietary financial assets: IFRS9 and Interbank substantially regular. So increase is coming from the commercial activity.

We will explain a little bit more in the following pages, but the most relevant thing is that we see the commercial spread going up to 176, it was 170 last year same quarter, and as you may appreciate, the cost of funding notwithstanding the environment situation and issuing of an expensive lower Tier 2 is still being impacted very marginally and almost flattish.

How is it happening that notwithstanding a decrease in volumes of lending activity and an increase in deposit, we see an increase in the NII? The answer is in our configuration in a way. You don't have to forget that we are mostly medium term, and what is happening is that the reimbursement flows have declining markup spreads that are lower than the spreads of the new originations.

As you may appreciate, only third quarter last year the spreads of the new origination were 189, they went up to 196 in fourth quarter, but still you could not appreciate the impact because still the outflows, the reimbursements were a 198, now more and more the curve is declining, so 193 while on the other side we have re-priced at a spread of 243.

Is this sustainable in the future? Let me answer immediately to this question. Consider that this is in part re-pricing one-by-one, the contribution of a new maneuvering that has been starting to run in March. So this first quarter is impacted only by one third of the maneuvering in terms of timeframe. So next quarter will be fully impacted by the maneuvering, it's obvious that you may have some small decrease but this will never outbalance the one third effect of the first quarter.

On Page 7, you have the development of the total funding. I think that not only it's important to see a natural growth of all the components, but in my opinion given the fact that everybody remembers that the previous 6, 9 months have not been very easy in terms of institutional issuing, the fact that we see an important increase also in the institutional funding is quite important in terms of the trust of the market in UBI.

Also in terms of indirect funding, you can see how this has been strongly rebounding after the negative performance in particular in the market of the fourth quarter. It was 97.6 at the end of last year first quarter, today it's 98.7, but in between, we had a 94.74 so we have absorbed the effect of the negative performance of the market. Indirect funding increased in a positive way by 4.2% but also cleaning from the performance rebound, we have a plus 0.7% in just one quarter.

Also in terms of fees, I think we can have a common view that this has been solid why, because even if compared to the first quarter last year we see a 401 versus 407. Please have a look at the upfront and performance fee component; in particular upfront 70 million in 1Q2018 versus 54 in 1Q2018, so this means that 401 million is only €6 million below what was first quarter last year, but much more sustainable in terms of long term. Also banking related commissions appear to be more or less the same, 176 million versus 177 million, but the negative effect of the synthetic securitization fees was minus 4 million last year and it's minus 7.5 million this year. So even the very traditional banking related commissions are slightly going up.

On Page 9, you have an update on the composition of our financial asset portfolio, also here obviously we had a performance effect, but what is relevant to me is to give a detail of the Italian govies position net of the insurance portfolio which is 8.3 billion or including the insurance portfolio that is part of our life insurance company - which is an additional 1.250 million - up to 9.5 billion of total composition. We have been in the remaining let's say 50% part of the story been continuously differentiating the portfolio and you have details of the differentiation in the bubble on the right side.

I won't spend too much on the operating cost, still a good performance both on staff cost and other administrative expenses, of course, there are also some components in terms of IFRS principles, but altogether I won't bore you. We still have an additional minus 1.9% vs 4Q2018. As we all know, we had a special cost this quarter that was the union agreement with 300 additional exits starting from this month of May. This has been causing us an effect of more or less €42 million net. And the break-even of this effort is expected to be 2.5 years.

Another positive component in my opinion is what is happening in terms of new trends on Page 11, new trends of non-performing loans. One of the worries of the market was more or less this: there have already been 6 months, 9 months of a negative or let's say not encouraging situation in the Italian market from an economical point of view, what is happening let me say from the portfolio quality point of view? We see actually minimum inflows in absolute terms as you can see on the upper side of the slide: inflows were €165 million in the first quarter, the average per quarter of year 2007 and 2008 were simply €272 million and €548 million, so higher than this, and these were not including the three banks that we have absorbed. So actually the effective performance is even better than it appears. And this drives to a 0.79% default rate that is quite astonishing compared to the more than a double of first quarter last year and which was 1.85%.

Is it sustainable? First of all, it's an important record, because if we compare to the peak of the fourth quarter of 2012, it's a minus 87.5% or if you wish, it’s almost one-tenth of what it was at the peak of the crisis. Second, it’s sustainable or not? I obviously don't want to make a strong statement on that, the only thing I can share is that April has not been different, so still a positive month.

In terms of cost of risk, yes, we have a first quarter of 2019 that notwithstanding this much lower default rate has seen a 59 basis point versus 52 basis point of the first quarter of last year, but actually in terms of specific impairments, we have a lower cost of credit as you may see in the bottom right of this slide; the difference was the fact that last year first quarter we had a release in terms of collecting impairments and this year, we didn't, and second effect is the lower lending volumes compared to the previous year.

We wanted to give you on Page 12 both the information of higher coverage on every category of NPE, and it's on the bottom part of the exhibit, but also an additional confirmation, we made a specific analysis comparing with other banks operating in our country that are comparable with us. And again, we confirmed that also now in terms of gross secured

NPE on total gross NPE and net secured NPE on total net NPE, we have an advantage compared to the other competitors.

Texas ratio on Page 13, is in the area of 78.6% and this is very important. It's not that we consider 78.6% the end of the story, obviously we have a more ambitious target, but still it's already much, much better than the previous Business Plan target which was 87% for 2020 and actually 98% for 2019. So in my opinion, this is an important success. At the same time, we gave the information to the market that crossing 2019 versus 2020, we would have been reaching a level of gross NPEs on total gross loans lower than 10%. We have 10.36% and we are cruising in the right direction to hit the lower than 10% before the end of the year.

Let me also say that if we had stuck to the same volumes at the beginning of the quarter in terms of lending activity, the 10.36% would have been 10.10%, it's just a sensitivity not more than that. But just to give you an idea that actually in terms of absolute reduction, it was very well delivered and this is obviously another good news.

In terms of business outlook, it's only 3 months after our first declarations in the February call, so we just confirm what we have said in the previous call. So thank you very much for your attention. I'm ready to take 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 comes from Andrea Vercellone of Exane. Please go ahead, sir.

ANDREA VERCELLONE: Good afternoon, four questions. The first one is on capital. I was wondering if you are in a position to make some commentaries as to whether you expect or not any impact from TRIM this year, based on the inspections that have already taken place. And linked to this, on the update of the PD and LGD parameters data in your model, can you remind us at up to what year you are now at and whether a further update will be done at the end of the year?

VICTOR MASSIAH: Excuse me, if I interrupt you. I didn't get the last part, I was with the TRIM, the parameters, but I didn't get the last question.

ANDREA VERCELLONE: It's linked to the parameters. You usually just update your model in Q4. Since you've updated now in Q1, are you going to update it again in Q4. So that's the question.

VICTOR MASSIAH: Yes. Thank you. Yes I got you.

ANDREA VERCELLONE: The second question is on personnel, you have a target in the Business Plan to get to 19,500 employees by the end of 2020. Do you expect to be able to do this organically just through natural turnover or should we expect for next year another probably small restructuring charge?

The third question is on funding. Given that now we all know that the TLTRO is being renewed or will be renewed for a the period of time, do you need to be so conservative in issuing so much in the retail market or can you now pause and reap the benefits in terms of funding costs from doing so? And the final question is on the synthetic securitizations. Can you give us an idea of the maturities of these structures and whether you can pull out at any given moment should you choose to do so. Thank you.

VICTOR MASSIAH: Okay. Capital: TRIM, on this year no significant effect, update of the historical series in the fourth quarter, let me explain why we had an update in the first quarter instead of the last quarter. The only thing, the only situation where this happens at least for until now, that we do not update in the fourth quarter is if we are under a certain request or a certain change for whatever reason with the authority, which was exactly what happened this time, as you remember, we had from our point of view a delay, but as I told you it was coming anyway, the authorization on the exporting of the advanced model to the three banks. We had also the other retail, so altogether this was a situation where we decided to update in the first quarter.

Now the answer to your question is, it will depend if we have anything pending in the fourth quarter. So, common situation is we update in the fourth quarter, if we have something under whatever type of authorization validation, there is a possibility that history repeats, it's not that we are planning, I just wanted to give you the scheme, the methodology of the story. Then in terms of the real timing, it doesn't depend on us, it does depend also on the time of the authorities. And so altogether, I'm really not able to make such a detailed planning.

Personnel, to reach the 19.500, we don't need any additional charge. We don't need any additional charge. I would like also to say that if by any chance anything happens, some additional volunteers, or whatever, why not. But to your specific question, to hit 19.500, do we need any additional agreement? The answer is no.

Third, TLTRO and retail, in a way you are right. It is true that we have slowed down the retail part of the issue, it\s not that we are zeroing at all,

but if you ask me, is it the same level that it was in the second half of the last year ? The answer is no, it's much lower. So you are right.
And four, so in terms of average duration of synthetic securitizations, it is 3 years; I think you asked me something, if it is a callable or not, it was part of your question?.

ANDREA VERCELLONE: Yes, simply if you can break the structure ahead of time.

VICTOR MASSIAH: The answer from the team is that they are callable, but usually it is not efficient to call.

ANDREA VERCELLONE: Okay. Thank you.

OPERATOR: The next question comes from Azzurra Guelfi of Citi. Please go ahead madam.

AZZURRA GUELFI: Hi, good afternoon. I have a couple of questions on the NII and one on the asset quality. When you look at the spread evolution it is clearly encouraging. I have a question, would the upcoming renewal of the TLTRO with the TLTRO3 somehow affect your spreads, because maybe there is more liquidity and banks come back to be more aggressive in competition, which is what we have seen in the past run of the TLTRO2? And the second one is, if you can give us any indication on what is the amount of reimbursement that you expect in the medium/long-term for the remaining of 2019? And on volumes…

VICTOR MASSIAH: Azzurra, excuse me, if I interrupt you, but I didn't get your second question. I'm fine with TLTRO effect, and I will answer, I didn't get the second one, excuse me, Azzurra.

AZZURRA GUELFI: No, problem, sorry. The volumes, do we expect an ongoing, let's say, rebalance on the loan book to continue for a little bit longer than just the last months?

VICTOR MASSIAH: I got you.

AZZURRA GUELFI: And on the reimbursement, if you can give us some indication on what is the amount of reimbursement of medium/long-term loans that you still have in 2019 and then this is everything for NII. On the asset quality, I think that your coverage is drifting up a little bit. Is this something that we can continue to expect given that the asset quality environment might remain a little bit volatile despite the very good rating that you had on the inflows. Thank you.

VICTOR MASSIAH: Thank you. In terms of NII, I don't think we will have the same effect of distortion form TLTRO that we had in the current generation why? The duration is much lower anyway, and it’s something that has been already in a way understood by all of us, in the sense that, I think that it's not only us repricing, we could not reprice if we were the only one to reprice. Yes, of course, in a way we have been sacrificing something, but we would not be here if the others would not move up the pricing. So my expectation is that we won't see again that type of questions, obviously Azzurra, I'm not having any divine skill, so maybe I'm wrong. But if you ask me do you see serious probability of another price war? The answer is no.

AZZURRA GUELFI: Thank you.

VICTOR MASSIAH: In terms of volumes, I think that they have been quite significantly declining in this first quarter. This steepness, maybe it is going to be sweeter, we’ll see, it will depend also on the economic situation. Today, we don't change the policy since our policy is not to decrease the volumes, our policy is to stick to a price. So it would depend significantly on the other competitor's reaction and on the customer’s reaction; if a competitor more or less adapts to the new situation and the customers accept it, I don't see particular reasons for volumes to go down. It's obvious that anyway we will stick to our strategy.

Reimbursement, honestly, I don't see why there should be a difference reasonably in terms of reimbursement. If you have a look at what happened, we gave details of the 3 quarters and it's on Page 6. And as you can see the dimension of the flows is in a range among 3.1 and 3.4 in every single quarter, so more or less in this range, we don't have any reason to have a discontinuity in terms of this type of range.

Then, you had a question regarding the asset quality. As I already announced to the market, we are finalizing 2 potential sales. One is on factoring, one is on leasing. The one on factoring is not incredibly significant, but for reasons that we will see later, not today, it could help a little bit the coverage, because this one is something that we consider reasonably sellable and we're almost finalizing with a reasonable boost on the coverage part of the story.

Leasing, just to keep you updated, we are, let’s say, becoming nearer to the finalization of this transaction. Factoring, I'm not saying it will happen, I'm saying there are very high probabilities it will be finalized within this month. On leasing, I don't know, if it's going to be second quarter or third quarter. However, let's say, third quarter to be conservative. We see the probability increasing.

And this Azzurra would help, let’s say, altogether to go straight to very low 9% in terms of gross NPE. Please, next one.

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

ALBERTO CORDARA: Hi, good afternoon, I have 4 questions. The first one is…I'm looking at Slide 11, the default rate reached an annualized level of 79 bps in Q1. And yesterday, Intesa is at 90 bps. Now, this level of default, I don't think there is story for an entire year, they are exceptionally low? So the question for you is, are there some situations that, maybe, refer specifically to Q1 or this kind of very low default rate can be maintained and for how long this can be maintained?

The second question relates to the fact that you mention in the presentation the release of collective impairment by the tune of €49 million, again this doesn't come immediately as intuitive because one would have thought that under IFRS9, you need to take into account the deterioration of the credit cycle. So can you explain to us why there has been such a release?

VICTOR MASSIAH: So Alberto, sorry to interrupt you. You've got the release of collective was last year not this year.

ALBERTO CORDARA: I must apologize, okay. So it was my misreading, sorry for this.

VICTOR MASSIAH: No, we were just saying that it could have sound counterintuitive that we had a higher cost of risk notwithstanding a lower rate or default. But this was due to the release of the collective last year.

ALBERTO CORDARA: Sorry for this. So forget about this. So the third question is you talked to us about the TRIM, if you can give us some color - if you can - on EBA guidelines and Basel 4. And then the question is, is the MREL going to be an issue for you or not at all?

And finally, the very last question is, when I look at your P&L, there has been an increase in depreciation and amortization to €54 million from €41.6 million last year. So the delta is €13 million, this is due, I guess to IFRS16? Shall we consider this as an element that will take place also in future quarters i.e., should we model our D&A line has been €50 million higher on a yearly basis because of IFRS16? Thank you.

VICTOR MASSIAH: On the last one, Alberto it's fully compensated by a reduction in the other administrative, so it's just a question of where you classify, is no more than that. So the total expense is the same. It's just a question of where you put it. So actually there is no effect at obviously total profit and loss result.

I'm going from the last one up to the first one, MREL not an issue. In terms of guidelines consider that for EBA guidelines, it's more or less 30-40 basis points in 2021, so this is not happening now. And why is that? because we are including in a way, let's say, continuously absorbing this effect also in the update of the historical series in the parameters. So you won't see one single shot, you actually cannot see from outside that there is a component in the update of the parameters absorbing the EBA guidelines. And the remaining part that is not going to be absorbed, it will happen most probably 2021 but it will be 30-40 bps.

Default rate, it is a very good question. As I was saying before, this surprised us to obviously it's a nice surprise, but it's still a surprise. So as I was saying during the presentation, I asked to Carlo Re, who is the Chief Lending Officer, what happened in April, because I had this question as you perfectly asked, and the answer was nothing different from the first 3 months. Now we have 4 months out of 12. Don't ask me to promise. I would be not be scientific. The only thing is that also April was sticking to the same level.

ALBERTO CORDARA: Oh, this is great. Sorry, the very last point, I don't know if you have any consideration about this, but my last point was Basel IV, I don't know if you have any idea on how this can be.

VICTOR MASSIAH: On this one, it's more difficult for me to answer now.

ALBERTO CORDARA: Okay. No, worries. Thanks a lot.

VICTOR MASSIAH: Thank you.

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

GIOVANNI RAZZOLI: Good afternoon to everybody. A couple of clarifications also from my side, I was wondering if you are ready to share with us what is the actual impact of the migration of the 3 bridge banks to your IRB model? That's my first question. Then I'd like to focus on the Slide #6, where you show the effect of the repricing of the new originations. I was wondering whether there is also here a mix effect, because I think if I combine this trend in terms of increase in the spreads on the new production, with the decrease that you had in the short-term loans that I see somewhere in the presentations, it seems to me that the impact on the repricing of the medium long-term loan is very significant. So I was wondering if my understanding is correct on this reading and…

VICTOR MASSIAH: Frederik Geertman, who is the Chief Commercial Officer is congratulating you for the perfect analysis.

GIOVANNI RAZZOLI: It's just luck, as you know, it's just luck.

VICTOR MASSIAH: Don't say that.

GIOVANNI RAZZOLI: And sorry to bother you. The very final question, but it seems to me that the macro outlook is more or less stabilizing. So it seems to me that you had a very significant de-risking, you have also reduced the riskier component of your loan book in terms of short-term loans. So it seems to me that you can maintain more or less this rate in terms of cost of risk for the rest of the year, is this is something you may share with me?

VICTOR MASSIAH: I think it's not Mission Impossible, if you discount from this analysis the sales, because obviously the sales are the one-off, if you take off for the sales, this is very doable. But you have to accept that in factoring and in leasing, we will have some special situations, as we said, but this is inevitable, but if you're not looking for the special situations, but for the sustainable cost of risk, yes, absolutely, yes.

GIOVANNI RAZZOLI: Okay. Thank you.

VICTOR MASSIAH: Thank you.

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

CHRISTIAN CARRESE: Hi, good afternoon, everybody. The first question is on core revenues and in particular on commission, a positive trend in terms of quite also lower upfront fees in the quarter. I was wondering if this level is sustainable for the coming quarters or there was a specific commercial campaign in the first quarter. The second question is on NPE, in particular on unlikely-to-pay category, if you can share with us your strategy on unlikely-to-pay. We know for example, your peer Intesa Sanpaolo is looking for a deal on unlikely-to-pay. If you can elaborate a little bit on this category.

And finally, on Common Equity Tier-1 ratio still has to be improved. I think a more safe level should be to me 12%, I think. I was wondering if you can tell us the trajectory by year-end and in particular, in the slide you highlighted no pro forma DTA, something that other competitors include in the pro forma fully loaded ratio, if you can give us an idea of the ratio including DTA? Thank you.

VICTOR MASSIAH: If I include all the potential DTAs from now to whenever because you know, they do not expire, we have a more or less €1 billion of DTAs. If you divide €1 billion by €60 billions of risk-weighted assets, this means that I could publish an outstanding 13% now. But I think, we're here to publish what we have and not to what we wish to have. So, from this point of view, we have 11.5%. What is true? What is true, is that we are going to renew our insurance, life insurance contract. We have an expiring contract with Cattolica and Aviva. This is happening in the year 2020, obviously you start negotiations now because it takes time, we have to make a choice. Is it going to be a buy or is it going to be a make, if it is a make, it's going to consume capital, but it's obviously going to give us hopefully additional profitability. If it's going to be a buy, in that case we will have some benchmark in previous year deals that have not been irrelevant and those are the type of additional CET1 that are not maybe in the future but are possible today.

So, this has 2 situations, just to give you an idea of how different the situation will be. This is part of our Industrial Plan also to decide make or buy on this area or in other area. So just wanted to say that I we have said that we were going to re-price and we delivered the re-pricing. Now we have always been saying that our strategy was not to sell any jewel of the family, and we never sold. But the jewels of the family do have a value. And now we will see what type of value will be exploited. I'm talking about the life insurance; I could talk about China. China now is above €40 billion of assets managed, €42 billion to be exact, notwithstanding the not so positive development in the Stock Exchange in China, still asset managed have reached €42 billion. So just for you to know the company has a €30 million valuation in the balance sheet. Now you judge if the real valuation is €30 million or if it is more. So it's a new plan. We're going to deliver our conclusions, but just for you to know the jewels are not so bad.

CHRISTIAN CARRESE: And without assuming any capital management action or any new distribution agreement, the common equity fully loaded will still be a little bit lower than 12% by year-end, or do you expect…

VICTOR MASSIAH: By year-end, I assume, yes. Of course, if we are so good to even increase our profitability, maybe we can do better but as per today we wish to grow as much as we can, but I don't think it will be just reaching 12%. As you may see, we're doing I think a very clean job and this quarter has increased and let's see the next one. Never say never, you know, this is a quite an interesting science, because it will depend also very basically, on the development of the volumes to make an example. And again should I complain if the commercial will be coming with additional pricing and additional volumes? I can only thank…on the other side, it will be additional risk-weighted asset.

So listen, it's very difficult. Of course, we share. I don't want to have a misunderstanding, we should point that within the plan, the figure was 12 and not 11. So the plan, I can anticipate it right now, because it's a no-brainer, we cannot have the Industrial Plan with an 11. We must have it with a 12 to have all the degrees of freedom for a bank like us. At the same time, am I worried about the current level of CET1, not at all. So it's just a question of ambition. But I share with you the point that 12 would be safer. Did I miss any answer to you? I'm sorry, I just spoke so much about capital?

CHRISTIAN CARRESE: Commission?

VICTOR MASSIAH: Yes, yes.

CHRISTIAN CARRESE: How sustainable they are?

VICTOR MASSIAH: The commissions are sustainable. The commissions are definitely sustainable also because we have an additional maneuvering, during the year, so I think that for many reasons they are sustainable and let's not forget that we have done a very good job in terms of gaining market shares in the asset management part of the story and we could not piggyback too much on that because of the negative performance in the second part of the year in the markets. The markets have been rebounding, so let's not forget that it's the last point in time that in a way traces the trajectory for the second quarter and the price of assets in January was lower than the price of asset in March. Then if it comes to rain again, we have to open the umbrella, but as per today given the current situation, I am not worried about the fees.

CHRISTIAN CARRESE: And finally, on unlikely-to-pay?

VICTOR MASSIAH: On unlikely-to-pay in terms of strategy, if we tend not to sell the bad loans, we don't tend to sell the UTP because obviously UTP upside is even higher than the bad loans. But again, in the bad loans, we have been negotiating and almost finalizing something in special lending. I put no limit to that but it is not strategic. From the strategic point of view, I understand we are the only one remaining - but we stick to the point - to manage NPEs ourselves. On the other side, if I may say, I have seen some results already published and proportionately a 250 million reduction homemade and not so bad in this first quarter.

CHRISTIAN CARRESE: Thank you. Thank you very much.

VICTOR MASSIAH: Thank you.

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

RICCARDO ROVERE: Good afternoon to everybody. Three, four questions, if I may. The first one is on, in general one-offs. Excluding the restructuring charges related to headcount reduction. Is it fair to say that this set of numbers is not affected by any major one-off, would you agree with that? This is the first question. The second question I have is again starting with the level of staff cost that we have seen in Q1, given the number of people that should leave the group of the next few quarters, is it fair to assume that staff cost should go down on a quarterly basis in the rest of the year? And then I have another question…if I remember correctly, the Business Plan, which I perfectly understand the situation and conditions have changed since then, was embedding a decline in the total financial assets, so let's say fixed income securities whatever they are classified, while I see that they are actually going up. How should we think about your financial assets and fixed income securities, will that the amount still continue to go up to maybe support NII somehow?

VICTOR MASSIAH: I will answer immediately on the last one, starting from the very basic rules of that. In the previous plan, just to remind to ourselves, not including the insurance company, of course, because we talk about the proprietary financial asset portfolio, we were expected to be in the area of €15 billion, and half of them would have been Italian Govies and this was for 2020. If you take off the financial assets of the insurance company, we are close to 15 (15.1 billion as you may see on Page 9 on the right side). And yes, Italian Govies are not 50% but 57%. So no Riccardo the rebound is part of the rebound of the market, and this we do not control. We stick at the current dimension at a level of more or less 15, little bit up and down to allow us also some trades, small trades. But I was saying before we stick to the point to go more or less at 50% Italian Govies. So maybe there will be some some additional sales but substantially we are at 57% so it is not a big deal. The insurance portfolio is different, these are technical reserves as you perfectly know and they are there. It is a different management.

On the staff costs and the one-off, on the one-off for staff cost, we confirm that there won't be any additional one-off. In terms of cost of the staff, yes of course, there will be a continuous reduction of the staff cost. I have no problem to answer, yes, to your question. Just one little caveat, let's all of us not forget that there is a national labour contract under negotiation.

So it is obvious that everybody has his own points of view on the labour contract and I am sure the unions have quite an important one and they must be respected. So there is also a national labour contract under renewal, but excluding for a sec that part of the story as I was saying before, yes the answer to your question is, yes, and without any additional one-off.

RICCARDO ROVERE: On the one-off, if I may interrupt just one second, aside from the restructuring charges, in other lines of the P&L, I spot nothing particular, okay, or nothing sizable, nothing in P&L aside from IFRS16, is that the first comment…

VICTOR MASSIAH: In this quarter, the only thing I could talk about is if you wish NEXI, we were part of the story, it is in the attachments, on Page 16 and we had a fair value adjustment of 17.7, so if you want to take off this one net is more or less 12.

RICCARDO ROVERE: Okay. Now, if I take that out, the let's say the trading I would imagine that was included in trading would be €20 million…€20 million is something that one way or the other you should be able to replicate. Okay, fine that's fair. Okay. Thanks a lot.

OPERATOR: The next question is from Antonio Reale of Morgan Stanley. Please go ahead, sir.

ANTONIO REALE: Hi, thanks for taking the time. I have got 2 quick follow-ups, really as most of my questions have been addressed. One on the NII and the other on fees from asset management in particular. On the NII, I mean the repricing on the lending rates seems to have been quite material since Q3, and you have talked about a lot of it in the call and you mentioned MREL not being an issue but funding costs for the sector, maybe it is not evident in the quarter, but seem to be on upward trend. My question is, how much of this about 50 basis points increase in the markup on new flows that you show on Slide 6 you expect to give back in the form of higher funding costs down the line?

And the second question on fees from asset management, you had a positive inflows, net new money growth which has been quite impressive compared to the rest of the sector which has seen outflows. So you have been getting market shares at quite a steady pace and that's been the case for a few quarters, actually not just Q1. Can you share with us, what you are doing differently versus competition in terms of pricing and in particular which products you are placing. I remember historically, you have been particularly conservative in placing products, especially in tough market condition, so wondering just if anything has changed there. Thank you.

VICTOR MASSIAH: Actually, you asked the question and you also gave the answer. In the sense that it been relevant to be conservative with our customers, we have not been particularly aggressive on the asset management product and obviously this has been paying off in a market that was negative.

In general terms, there was also a mix with insurance product. We don't have to forget that part to, if you have a look, it was not only mutual funds but it was also insurance products and obviously insurance products have significantly protected our customer and at the same time they have been growing quite significantly as you may have seen in the exhibit.

On the NII and the cost of funding, listen, I would be less severe than you are in terms of increase in the cost of funding. It is true, of course, that we have for example issued a lower Tier 2, but it is also true that we have been slowing down quite significantly the retail bond exactly because of the previous question because anyway we are going up with the deposits and this is helping us, of course. In terms of short-term deposits we are talking about 7 basis points, relative long-term deposit some 10 basis point, retail bond 130-150, so it is not by chance that the increase in mark down, notwithstanding the more very important institutional funding issue that we made in the first quarter, is just 1 basis point. So no, I don't see a worry on the funding part of the story if this was at the end of your question.

ANTONIO REALE: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question is from Ignacio Cerezo of UBS. Please go ahead, sir.

IGNACIO CEREZO: Yes, hi good afternoon. Couple of quick follow-ups from me. The first one is on the net interest income on the volume side if you have made particular emphasis on consumer loans something we have heard from some of your competitors recently? And the second one is, we have seen one of your peers issuing AT1 recently, so asking if you have any plans to follow or is there any regulatory pressure to start filling some of the buckets on a total capital structure. Thank you.

VICTOR MASSIAH: I will answer first the second question. As per today, we don't have at all any need to issue an AT1. We can see the current market condition quite penalizing the issuing, and since we don't have a need, we don't issue. Of course, if we have a significant repricing of the market to more or less what were the condition at the beginning of year 2018, so more or less one year ago, we could arbitrage, but it would be an arbitrage not a need to issue. Because of course, we have seen as everybody that in the capital pyramid, if you are quite strong at the peak, the low part of the pyramid can be issued at a lower price. But this an arbitrage, it's an financial arbitrage, not a need. So the answer is, no, not today, not in the current condition, we will see if conditions go back to what it was at the beginning of 2018, we will make a financial analysis to see if this is interesting for us. I was so concentrated on AT1 that I forgot the question on NII, I apologize.

IGNACIO CEREZO: No, I was asking if you had made a specific emphasis on consumer lending to improve the mix, in the last couple of quarters?

VICTOR MASSIAH: Yes, consumer lending is not only in this last quarter. I mean consumer lending with Prestitalia, which is the lending against the back of the salary or pledge of one fifth of the salary and personal lending have been part of our strategy. So, this is not new…if you are looking for the answer in the mix, it's not that in particular, no. Honestly the reason why we are satisfied is that the spread is piggybacking on all the different sources. And of course, being spread on all the difference sources and since we have been re-pricing, volumes decline has not been concentrated just in one item. It's obvious that it's easier for a large corporate to say no to an increase in price, I must say more difficult for a small enterprise, but this strategy on the pricing has been applied to all the lending segments.

IGNACIO CEREZO: Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question comes from Domenico Santoro of HSBC. Please go ahead, sir.

DOMENICO SANTORO: Hello, hi, good afternoon. Thanks for moving the call to today, first of all.

VICTOR MASSIAH: Domenico, I am sorry to interrupt you. Could you be closer to the microphone, I really can't hear you.

DOMENICO SANTORO: Can you hear me now?

VICTOR MASSIAH: Yes so much, much better. Thank you, Domenico.

DOMENICO SANTORO: Thank you very much. A couple of follow-ups, first of all on MREL, when you said that you already comply, can I get some more color on this and assumptions on which the answer has been given to the colleague. Is that because this is sort of long-term target given that you are a top tier bank and the deadline for you is 2022. Is it based on 2017 policy given by the SRB, because my understanding is that based on the banking package that has been just approved, the SRB will finalize, you know, subordination requirement for you in the second part of the year. And there are some banks in Europe that are basically interpreting quite conservatively this requirements filling up only with the senior non-preferred. So, just to have an idea about this.

The second question is on the LGD waiver, the banking package is out, other texts are pretty clear. The impact is much less, so I was just wondering whether you can help us in understanding what could be the impact on you? Thank you.

VICTOR MASSIAH: The answer on the second one is very easy, we don't know. So we have an idea of the concept, we understand this will be anyway applied bank by bank on a single situation, of course we will do application. And by doing application, we will understand. The principle has been established. But, there is not a detail of its application and now our understanding is that it will be applied bank by bank on a single situation. So, we can understand it only applying. We are finalizing our application of course, as I think everybody else. And whenever we will get a better understanding we will share with you, no problem. But, today, we have not a clue.

On the MREL, I did not say we are already done, I said, we have no problem, no issue at all because our deadline is 2020. And as I said in the previous call, we will be compliant within 2019. By just with our normal funding plan of 2019 more or less.

DOMENICO SANTORO: All right. Thank you.

VICTOR MASSIAH: Thank you.

OPERATOR: The next question comes from Anna Adamo of Autonomous Research. Please go ahead, madam.

ANNA ADAMO: Hi, I have two questions please. The first one on NII, can you remind us what is the contribution to NII from the non-performing loans. And whether you expect a decline in NII from the sale of the NPL portfolios that you mentioned earlier, that’s my first question. The second one is just on the sensitivity of the CET1 ratio, can you update us on the latest sensitivity to 100 basis points spread widening? Thank you.

VICTOR MASSIAH: The sensitivity, excuse me, on the CET1 ratio to the Govies, excuse me, okay.

ANNA ADAMO: 100 basis points spread widening.

VICTOR MASSIAH: Okay, 100 basis point of sensitivity in terms of basis points of CET1 are going to be 48bps. In terms of NII NPL contribution, the only thing I can say is that it is a declining, so as you may perfectly understand, it's not at all the effect actually in terms of delta it's not a positive contribution in terms of positive increase of the NII. So the only thing I can share, this is a negative impact and the negative impact is obviously anyway declining because the stock is declining too.

ANNA ADAMO: Okay. Thanks.

VICTOR MASSIAH: And we are talking obviously, we are talking about UTP, of course.

OPERATOR: The next question is from Riccardo Rovere of Mediobanca, a follow-up. Please go ahead, sir.

RICCARDO ROVERE: Yes, thanks. Thanks for taking my question again. Correct me if I am wrong, in this quarter, the amount of gross NPEs have not been affected by any major disposal, I just wanted to be 100 percent sure about that. And the second follow-up I have is, before when you mentioned that we have always to remember there is the renewal of the labor, national labor contract. If I remember correctly, in one of your press releases in the past, you mentioned that the part times and all these kinds of initiatives could have brought some benefits; out of a theoretical 2% increase, wage inflation from the national labor contract, these kind of interventions like part-time, how much could they offset of the wage inflation related to the labor contract?

VICTOR MASSIAH: First of all, don't take as a given any type of inflation, not inflation in the labor contract, it's really an unknown solution. Today, nobody knows what will be the real solution of the labor contract. But apart from that, the story of the part-time is the story that we are already applying, and anyway we are not forcing anybody, this must be the clear understanding. But thanks God, the way we are doing the part-time which you remember very well, what we were proud of, is that we have been authorizing a very flexible approach to the part-time. This very flexible approach to the part-time has been let's say facilitating an important number of requests for the part-time. And it's true, I mean the number of headcounts and the number of FTEs are quite different because obviously that is an important factor of the part-time, but this is already here with us. This is not something that could add; there would be, but this my very personal opinion, an additional serious contribution if we had more marriages, more marriages making more kids, more kids, more mothers, more mothers more part-time from father or mother doesn't matter, increased demography. We definitely need increased demography. However, this is my very personal view. Apart from that, no, we in a way don't have so much room for additional part-time as per today, so this would not be a particular counterbalance.

On the other side, on the NPL, actually you see it's absolutely yes, the decrease was a normal decreasing, yes, there can be within that small sales, but there is no major sale and this is why I was so proud because obviously it always comes to doubt if we are doing wrong in sticking to our internal management while everybody else is outsourcing. But, apparently as per today, it's doing very well, so if I may congratulations also to the credit department because they are doing a very good job.

RICCARDO ROVERE: Okay, thanks.

VICTOR MASSIAH: Thank you, Riccardo.

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

VICTOR MASSIAH: So, allow me thank everybody. Very good afternoon to everybody and meet you soon. Thank you.