UBI Banca SpA

“Presentation of Consolidated Results as of the 31st of December 2015”

Thursday, February 11th, 2016

MODERATOR: 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 31st of December 2015. 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: Thank you, madam. Good afternoon to everybody. I'll start from Page 3 of the presentation in terms of executive summary. We have seen the profit net of non recurring items increased by 33%, to €195 million versus €146 million last year. We have a proposal, subject to General Meeting approval, for a dividend of €0.11 per share, which is an increase of 37%, consistent with the 33% of increase in ordinary profit and consistent with the sequence of dividend payments that has characterized our bank in every single year of this century, let me say.

In terms of main evidences, we compared the volumes as at December 2015 with December 2014 and September 2015.

We've seen that on a yearly base the loans to customer have decreased by 1.2%, but they have increased in the last quarter by 0.9%. Direct funding from ordinary customers decreased on a year-year basis by 1.9% but actually increased by 2.3% in absolute terms, i.e. 1.6 billion euro in the last quarter. And let me say that this inflow of new deposits has continued in the beginning of this year in what I assume to be a flight-to-quality behavior.

Asset under Management and Bancassurance have increased on a yearly base by 12% and by 2.8% in the last quarter. The Stock of gross NPEs has increased by 3% on a yearly basis, but decreased by 1.6% in the last quarter; the stock of net NPEs has increased by 1.9% on a yearly basis but decreased by 1.9% on a quarter basis.

Inflows from performing to NPEs has decreased by 7.5% on a yearly basis, but has decreased by 15% in the last quarter versus the previous quarter or by 25% compared to the last quarter of 2014.

Now let's talk about the strength of capital ratio.
We have a CET 1 ratio phased-in of 12.08% in December 2015, and a CET 1 ratio fully-loaded of 11.62%. Now the 11.62% would have been anyway the landing position at the end of the year, because of the right of withdrawal. So this cannot be a surprise to the market just because it was mathematics. This is exactly where it should have gone anyway due to the fact that there was the right of withdrawal.

Now, what happened on a structural base?
First of all, we had a negative impact of 55 basis points as the ordinary update of credit risk parameters, in terms of historical series, included in internal rating models, to fully include 2014. What did we have last year? We had an update to fully include 2013. So again this is not a surprise, it's just standard behavior.

Second. Financing and extraordinary contribution to the Resolution Fund. As a matter of fact, this is different from last year; thank God we don't have a extraordinary contribution to the Resolution Fund every year. Why do we have at the same time financing and extraordinary contribution?
The extraordinary contribution is obvious because it was what we had to pay in addition to the standard because of the Resolution of the four banks. The financing is the effect on the risk-weighted assets of the additional financing that we have to give, together with Intesa and UniCredit, to

allow the Resolution Fund to act, since the original resolution fund did not have enough liquidity at the moment that they had to act.

Market risk impacted for -11 basis points , substantially due to the fact that, consistently with instructions of the ECB aimed at differentiating the proprietary portfolio, we have been disinvesting. We will see later, we have sold some Italian govies and started to buy some corporate bonds which obviously have a different weight and so this has an influence on the parameter.

Lending volumes effect was 6 basis points. Impairment of AFS securities 1 basis point.

Only 2 basis points were left for the withdrawal right.

Just to remind to everybody, first of all, in terms of historical series, the retail has a historical horizon that goes from 2009 to 2014 since it was certified by the authorities in 2009, while corporate from 2007 to 2014. So we include in our model – which is very conservative - all the years of the crisis.

Going back to the withdrawal right, I am sure we need to have a recap of the history of this withdrawal right.

The withdrawal right is obviously a right that is part of our civil law. At the same time, when the Popolare law was established by the government, the authorities established that, in order to stabilize the market, and to assure the stability of the banking system, the Boards of the different banks under transformation were authorized to set a floor to the withdrawal right.

We set a floor with a particular formula which is written in the bottom part of Page 4.

It was the latest SREP requirement for UBI plus 150 basis point, considered as a buffer, plus the latest European average CET1 recorded by the ECB, all divided by two.
This goes to the 11.62% which we are talking about.
What is the equivalent CET1 due to the natural effects that we have described. ? Right now is at 11.64%, so the difference is 0.02%.

Are we changing the rules in the meanwhile? Not at all.
This rule was published a month before the General Meeting. Everybody could read the rule. Everybody was conscious that they had to lock-up the shares for the period of the withdrawal bureaucracy - that is established by the Italian Law - and unfortunately this is the end of the story. There cannot be a surprise: it's a rule that was set and a rule that was respected.

Page 5, high quality performing loan portfolio implying lower deterioration risk. We have a portfolio that has a risk profile like that: 73.6% low risk, high risk only 4.5%. So it is a very low risk portfolio. The concentration of this portfolio, as you can appreciate on the bottom left of the table, is very low. The geographical distribution is mostly concentrated in the richest regions of the country. And in terms of total gross deteriorated loans on total gross loans, UBI Banca is among the major banks, the best bank still today.

In terms of lending market share, we have seen it's slightly up after the rebound in the fourth quarter. So that in December 2015, we see a 5.68% versus 5.67% in September 2015. Long term lending is stable in the fourth quarter, notwithstanding competitive pressure; there is a slight increase in short term lending in the fourth quarter of 2015, also net of CCG, mainly due to good performance of UBI Factor, plus 0.3 billions in the quarter. So altogether, I think you may appreciate that most of the reduction on the yearly base is mainly explained by the 0.8 billion euro of stocks in run-off that we do have every single year.

This is confirmed also on Page 7 by the improvement in the new medium long-term lending, which has driven the ratio between new origination and reimbursements (replacement rate) above 100% in the network banks. This ratio for the product companies is really getting close to 100%, while last year it was only half of it. Altogether, we have seen an increase of 56% of new originations this year compared to last year.

On Page 8, you may appreciate what I was saying in terms of inflows of new deposits. If you look at current accounts and deposits in September and December 2015, you can see that an important increase has been happening in the last quarter in a flight-to-quality situation.

On Page 9, you can see that also in terms of total indirect funding, we have seen an increase and there has been also a shift in the mix of the UBI PRAMERICA Asset under Management composition. Such shift has allowed a more profitable mix and consequently an increase in the commission income.

On Page 10, you may appreciate what I was talking about when I was saying that we reshaped the portfolio; in terms of Italian govies, they have been reduced from 21.9 billion euro in December 2014 to 18.3 in December 2015. This has accounted, let's say, for more than half of the decrease in the net interest income, as we will see later. The composition of Italian govies in terms of entire portfolio, it's the one described in the centre of the slide: AFS is at 14.4 billion, HTM at 3.5 billion and HFT at 0.4 billion. The maturity profile of the portfolio is well explained in Page 10. As you may see, we won't see particular impact on 2016 because of no particular maturity occurs in this year.

On Page 11, I think you may find something else that is important in this very volatile period. Not only, net stable funding ratio and liquidity coverage ratio are above 1, and loan to deposit ratio is at 92.4%, but it's important to say that total eligible assets are 55% of current accounts and deposits. You may see the composition and the usage of the eligible assets in the bottom part of the slide Let me only stress that unencumbered assets are above €13 billion.

I'll leave to your reading Page 12 and Page 13.
Let me stress only on Page 12 that among the extraordinary parts of the results, there was a negative contribution of €26 million that are non-recurring, following settlement with the fiscal authorities of large part of the Group fiscal risk. We have reached a settlement with them, all the remaining part of the story refers to things where we have won until now in the judiciary process, whatever has been contested. So we are pretty clean in terms of, let's say, settlements with fiscal authorities.

On Page 13, I'd like to only stress the fourth quarter net of non-recurring items, in the right column . As you can see, this was a positive fourth quarter in terms of ordinary items, and this had not happened for many years.
This can give you an idea of the direction where we are going.
So it was a complex year, but the final quarter was in a way better than expected.

Page 14 shows the net interest income.
You can see now in figures why I was saying, that half of the decrease of the net interest income on a yearly basis was due to the financial assets, the proprietary portfolio in particular. The real decrease of the business with customers net interest income was 5.8% or in absolute amount

approx. €83 millions of which €35 millions are due to the portfolio in run-off.

On the bottom part of the slide, you may see that the floor was touched in the fourth quarter 2015. I am pretty confident that the first quarter 2016 will be better in terms of net interest income than the fourth quarter of 2015.

Net commission income is explained on Page 15. I can only stress that there has been an important contribution in terms of growth by Management, Trading and Advisory Services, while the contribution from more traditional banking has seen a stable performance.

On Page 16, I would like to clarify what appears to be a misunderstanding or something confusing on the cost structure. As a matter of fact, the costs have been going down. We have seen only a reclassification due to the instructions of Bank of Italy in terms of how the Resolution Fund expense has to be classified. It was originally, until the third quarter 2015, in a line that was a kind of a provision to risk and charges fund. Then it has been reclassified to costs, but this happened only in the fourth quarter of 2015. This has nothing to do with the real trend of the costs, which actually are as a matter of fact decreasing notwithstanding the new ordinary contribution to the Resolution Fund and to the Deposit Guarantee Scheme. So including these new contributions, total costs are flattish, or slightly negative. If we compare the same perimeter of recurring costs year on year, so if we compare 2015 with 2014 not including the mentioned ordinary contributions,, we have even a decrease of 1.7%.

The same concept is stressed on Page 17, giving a time horizon. Not including the Resolution Fund and DGS contributions, this would have been a minus 20.4% decrease from 2007. So above -20% of the total cost base; if we include the ordinary contribution to the Resolution Fund and to the Deposit Guarantee scheme we have a -19.1%. Staff costs have been decreasing by 18.5%, while other administrative expenses have dropped by 14.5%. And what is important also is that we have signed at the end of the year- using in a way the financing coming from the special transaction on Istituto Centrale Banche Popolari Italiane (ICBPI) -, …we have used this special inflow to sign a new agreement with the trade unions for the exit of 410headcounts on a voluntary basis, of which 80% had already exited by the end of January this year.

On Page 18, the total stock of non-performing exposures went down both in gross and net terms, in particular in the last quarter. We have seen for the first time a decrease in gross deteriorated loan stocks by 1.6% and by 1.9%in terms of net volumes.
You may appreciate that the level of gross deteriorated loan stocks has been stable after the end of 2013, more or less, and we are now seeing an important first sign of decrease. This is true also in terms of new inflows coming from performing loans which are described on Page 19. In particular let me stress that fourth quarter 2015 versus fourth quarter of 2014, we have seen an additional minus approx. 25%.

On Page 20, you can also see that we have had an increase in coverage of NPEs compared to both December ‘14 and September ‘15. And let me also stress that on the one side the bad loans *("sofferenze")* including write-offs are covered by 52.5%. On the other side, on the right part of the slide, secured NPEs versus total NPEs are now 84% of the total amount. This is very important, because we decided to dedicate Page 21 to share with you an example of what was a sale of bad loans in 2015.

In 2015, we sold 463 positions consisting of mortgages, and 16,612 uncollateralised positions. The gross book value of the mortgages was a

156 million of euro, the gross book value of the unsecured was 371 millions. Respectively gross loan value at 125 and 164 million euro; net loan value at 74 and 11 million euro, and disposal prices at 60 and 14 million euro.

So on one side, on the mortgages, the 39%, as a percentage of gross book value, has obviously nothing to do with the 17/20% that we are hearing from the market. This was a real life sale. On the other side, we had also a sale at 4% of gross book value, but the 4% was generating even a profit. It means that it was covered better than the price of sale. So to me it's always important to stress, it depends on what we are talking about in terms of type of non-performing.

Loan loss provisions have been reducing by 13.6% in the year, and this was mostly in the fourth quarter, but continuing quarter-after-quarter as you may see. Let me also remind you that we didn't have to do anything last year in terms of AQR results. And so, we didn't have any peak before in 2014. This is well represented in terms of the average of the Italian peers, where our base in terms loan loss rates in basis points is a quite continuous, a quite regular line, versus the peak of the Italian peers that is now coming back to almost our figures. Obviously, with some exceptions: somebody better, somebody worse, but on average peers altogether are at 103 bps versus our 95 bps .

In terms of outlook; as I said before, the last quarter performance of net interest income of 2015 is considered the floor, and in 2016 net interest income is forecast to grow, on Page 23, compared with the minimum recorded during the last quarter.

Net fee and commission income is forecast to benefit again in 2016 from the re-composition process of total funding in favor of assets under management, and from the gradual recovery in lending to customers. In the context of a start to the year characterized by greater volatility on markets, profit-taking on positive fair value reserves relating to the security portfolio should make it possible to offset the forecast lower contribution from trading and hedging activity compared with 2015.

The continuous optimization of other administrative expenses and the recent trade union agreement should - I remind you we have agreed a 410 headcount cuts, of which 80% already out -, should make it possible to maintain operating expenses in line with those of 2015, notwithstanding the increase in costs relating to the contribution to the European Resolution Fund and the Deposit Guarantee Scheme.

Then last but not least, the particularly prudent approach to the performing portfolio and the reduction in progress of new inflows to non-performing status should make it possible to reduce loan losses in the coming year, also gross of any extraordinary components resulting from a possible acceleration of the process to dispose of bad loans.

Let me stress that we wanted to add “also gross” compared to the press release published this morning, because we received questions on whether we were forecasting some additional sales which would have driven the total cost at level above the one of 2015. Not at all, this is why we are substantially saying this.

Thank you for your attention and we are ready 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 Mr. Christian Carrese of Intermonte. Please go ahead sir.

CHRISTIAN CARRESE: Yes. Good afternoon, everybody. I have a couple of questions. The first one is on capital, UBI has always been perceived as a very solid bank with excess capital in the past. And we saw the major improvement in terms of capital in 2012 and 2013, thanks to a quite strong deleverage and also the IRB model validation. Now, it is two years in a row that we see ratios going down. I think that this is due, of course, to the update on the internal model, but maybe also to a different mix of the assets, because in the past, you reduced loans and you increased Italian Govies portfolio. Today, I see on the slide, that you had a negative impact of 11 basis points for market risk, because you are increasing corporate bonds in your portfolio. So I was wondering, going forward, in 2016, how should we look at capital ratio for your bank, because loans are increasing and maybe you could increase corporate bonds as well to support net interest income. So do you expect the capital position to improve in 2016 or still there could be some adjustments? And also if you can give us an idea on internal model, if there could be an additional negative impact in 2016?
Second, on net interest income: what are you seeing in terms of loans, do you see any rebound of the loans demand? You said that next quarter you're expecting some increase in net interest income, if you can give us an outlook for a guidance for 2016? Thank you.

VICTOR MASSIAH: Sure. I will start from the last one. As I said one minute ago we see an improvement in the net interest income starting from the floor of the fourth quarter 2015. As I said, we expect this improvement already starting on this first quarter. And obviously, we hope to increase that in the following quarters.

It is true on one side that we see the impact of additional lending that could and probably will increase the risk-weighted assets by definition, by mathematics. But at the same time, there is also the auto financing. If you do more lending hopefully you do more revenues, and if you do more revenues and you have stable costs, you do more profit.

So we always are very focused on trying to evaluate lending by lending. , and what we do is generating not destroying capital. So we are very focused on capital. We did not change our idea. We are exactly the same bank. This year there were some strong impacts coming from 2014 for obvious reason, because 2014 - don't forget - was a year of peak in the cost of credit.

Look at the peak of the cost of credit in 2014, and look at the cost of credit in 2015. There is obviously an impact coming from an addition of one year in historical series, but let's not forget what kind of year was 2014, and what kind of year was 2015. So there will be an impact that probably will be lower than 2014. The more we enter in a normal year, the lower the negative impact from adding a year, and hopefully year-after-year we could even see some positive impact by adding to the historical series.

It's going to take years, obviously, but this is part of the model. This should not be a surprise to the market. Why is anybody surprised? This is mathematics.

On the other side, we have to see that the important part of this story is the generation of additional profitability. So to have new lending is good news.

I would not over evaluate the corporate bonds part of the story. We want to differentiate, but we are not differentiating only in corporate govies, for example. we have bought a few days ago some US treasuries. We are differentiating. Don't think it's going to be only corporate bonds.. We have differentiation, as everybody else, with different strategies depending on the market situation, but believe me this is a bank that has made the capital ratio a cornerstone of its strategy. We stick to that, don't worry, it is the same management.

CHRISTIAN CARRESE: Excuse me, just one more question on net interest income, if I may a follow-up. Do you have any comment on Bank of Italy statements that banks should apply negative interest rates on loans mortgages for example?

VICTOR MASSIAH: My reading was the following: Bank of Italy has said that you are allowed to apply floors only if you have written ahead that there was a floor. They didn't say it's forbidden. They just said, you have to be transparent, if you have written it, you can apply. If you haven't written it, you cannot apply.

CHRISTIAN CARRESE: So what about you?

VICTOR MASSIAH: Surprise, surprise… we didn't have, unfortunately for the whole year, the floor. But if it is allowed, as we think we are allowed, we could consider the floor now, but we have been even too correct anyway.

CHRISTIAN CARRESE: Thank you.

OPERATOR: The next question is from Mr. Domenico Santoro of Autonomous. Please go ahead, sir.

DOMENICO SANTORO: Hi, good afternoon. Thanks for the presentation and all the details. About the NII, I was just wondering what's your assumption here, in terms of funding cost and whether you are worried of what is happening in the credit market right now? The second question is on the restructuring of the bank, and the minorities buyout. I remember that you didn't want to do this in the past because the stock was trading at penalizing multiples and you didn't want much of a dilution from you know, exchanging, swapping the foundation stakes in the regional banks with UBI shares. Has it changed anything now that your stock is back to a more penalizing level, shall we expect, I mean, the buyouts of minorities to go ahead? And if yes, can you give us a little bit more details in terms of cost synergies that you expect from this project? Then I understand about the withdrawal right, you're right, in the sense that the rules were fixed in stone and there was not much degree of uncertainty. But just to understand a little bit how you fix these limits in terms of core Tier 1, this 1.5% for example that you add to the SREP, is it something that comes from Bank of Italy, is it a management buffer, is it a domestic buffer? That would be very useful. And then, thank you…well, actually thanks for the clarification, for . your change in the wording on the loan loss provision vis-à-vis the press release of this morning, this is "also gross" just to give us clarity. My question is considering what is happening…

VICTOR MASSIAH: Excuse me, Domenico.

DOMENICO SANTORO: Yes.

VICTOR MASSIAH: Domenico, excuse me. I didn't get the last one regarding the non-performing loans, could you restate that please?

DOMENICO SANTORO: Yes, exactly. The one on the guidance that you give us on the loan loss provision, thanks for, you know, you changed the wording vis-à-vis the press release…

VICTOR MASSIAH: Yes, thank you.

DOMENICO SANTORO: So basically we get clarity on this, but given what is happening now on the market, you know, I mean, there are the ECB eyes on these non-performing stocks right now. Not that…nobody is going to force you to sell overnight, but there is, of course, more attention from the regulator. And given that you are selling non-performing, but at a loss, and your coverage has been gradually decreasing, when you sold these non-performing. How should we look at these and at the loan loss provision guidance that you gave us in the context of the coverage? Do you think that at some point you will need to do some top-up, you know, if you want to accelerate the sale and this is the question. Thank you.

VICTOR MASSIAH: Okay, many questions. Regarding the NII, if I well remember your first question, you were asking, if there was also an influence coming from the cost of funding? The answer is, yes. The cost of funding will decrease in the first quarter.

In terms of restructuring, it is obvious that, as I said before in other situations, we have an open dossier with the Fondazioni in terms of buying the minority shares that they do have in two banks of our group. It is obvious that the current market price of the shares is not helping. We are trying to use our brain to see if there is alternative ways to do it, if there are we will do it. If there are not, we will wait for the market to come back to some wisdom.

In terms of guidance on NPLs and potential loan sales, we are going to be very, very opportunistic. You mentioned ECB, but at least on our side we didn't receive any letter by the ECB as I said before. And so, at the moment we don't have any pressure at all. We didn't even receive a letter. On the other side, in terms of timing, we tend to be very opportunistic. As we represented before in one single slide, we wanted to be very open on the sales that we have made in 2015, just to be very transparent with the market. There was the opportunity to sell those loans. We were also ready to do some losses on the mortgages because we thought they were reasonable. We did some profit on the other side, and it's business as usual. If there is some help from the regulators or from the government, we will piggyback on that. If not, we are very patient. We have the capital and time to manage it in the most appropriate way.

DOMENICO SANTORO: Okay. Thank you. Well, first of all, a follow-up on this cost of funding. Is it realistic at this point, you know, to envisage a reduction in cost of funding when, I mean, what is happening in the credit market is something which is a bit worrying in my view. And second about the way that you fixed the limit for the withdrawal right, as I was asking before. Where does this 1.5% buffer come from?

VICTOR MASSIAH: The 1.50% buffer was coming from the Board, as the hypothesis that we made at that time was of an increase of 5% of lending and a devaluation of 5% of the proprietary portfolio. It was a buffer in terms of a potential either positive, an increase of 5% of lending, or negative, a decrease of 5% of the AFS reserve valuation, that the Board considered conservative.

DOMENICO SANTORO: So it's a management buffer in reality, correct?

VICTOR MASSIAH: Yes. About the cost of funding, your question was is it realistic, given the credit conditions? Don't forget that we are receiving a lot of new inflows coming from new deposits. This obviously is a help. So it minimizes the need for external markets. This is not necessarily a strategy that we will follow, it will be done in the most opportunistic way, because anyway we want to have some medium term funding.

So don't think that we will zero the issuing , but it allows us to be opportunistic and, more important, to be patient waiting for the market to calm down, also thanks to the inflows that we are receiving.

DOMENICO SANTORO: Okay. Thank you very much.

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

GIOVANNI RAZZOLI: Good afternoon. I have three questions, actually two, sorry. The first one is on the evolution of the common equity Tier 1 on a quarter-on-quarter basis. First of all, can you please clarify, in the previous answer you gave us regarding the pro-criticality of the models. You suffered a 55 basis points quarter-on-quarter in common equity Tier 1, and your answer led me…

VICTOR MASSIAH: Excuse me, Razzoli.

GIOVANNI RAZZOLI: Yes.

VICTOR MASSIAH: Just to…I interrupt you, but only because I think it's important to clarify. The 55 bps is not on a quarterly basis. It's just that we happen to update the series once a year, and it happens in the fourth quarter. So sorry, I wanted to interrupt you because, if not, it could be very confusing.The 55 bps is on a yearly basis it's not on a quarterly basis.

GIOVANNI RAZZOLI: Okay, so these 55 basis points anyway embrace the 2014 historical data. I was wondering whether I got your comments correctly that in the future the improvement in the historical data will be slow, so that it's not automatic that we will see part of this 55 basis points reverted in the next year. So this is my first question. The second one, again on the indication you gave about the decrease of the common equity Tier 1: the 17 basis points related to the Resolution Fund. I don't know whether I get this explanation correctly, but is this 17 basis points of decrease related to the loans that you've made to the Resolution Fund for €500 million resulting to a similar increase in risk-weighted assets? Is this correct or is this not the case as the loan that you've made to the Resolution Fund has the guarantee of the Cassa Depositi e Prestiti? And the third question is a more general comment I've seen in Bloomberg headlines quoting you saying that there are not the market conditions for M&A at present. I wonder what would be in your view the change in these conditions. Is it an issue of pricing, is it an issue of relative valuation of risk perception, what are the main elements that may change your view if Bloomberg has quoted you correctly? Thank you.

VICTOR MASSIAH: Let us clarify, first of all, the capital story. First of all, I want to be sure that everybody agrees on the fact the updates of the model are mandatory. It's not a choice of the management. Year-after-year, we are requested by the rules to update. Somebody takes more time. We love to be updated as much as possible, and we have updated and we are updated at the end of 2014.

Every bad year that you add has a negative impact. It can be higher, it can be smaller, but it has a negative impact that you can offset by having more profitability and more self- financing. Just for you to know, in the previous year, so in 2014 , the increase was 80 basis points. So you can appreciate that there is already a lower impact, but it's an impact. This is for every bank, because you had a negative year. In a way, this is also the philosophy of the mechanism, in a way it's establishing a kind of anti-buffer, anti-cyclical buffer. As a matter of fact, we are entering in years where obviously there is a much lower impact of the negative, of the bad loans, but since you are updating with the previous year the historical figures, you generate an anti-cyclical buffer, as a matter of fact. This is what's happening, but this is mathematics. This is not a choice.
This is discipline. It's a different story.

Then regarding the specific question of the lending to the Fondo di Risoluzione, it's weighted 100% We had a talk with Bank of Italy and it's weighted 100%. So we had €470 millions that are there. Having said that, if your question is: then sooner or later the Resolution Fund will give you the money back? Yes, when they give us the money back, we will have a decrease of the impact, correct.

Third, my comment on mergers in general, not only on Monte Paschi. In my opinion, this is my opinion obviously, I don't see today for our bank the condition to think about doing mergers. In this moment, the market conditions are such, the share prices are such that today we had better identify synergies internally to the bank. For example, as we said, by starting the process of going to a single bank generating the synergies coming from that, and we will wait for new market conditions.

But as per today, the more the market shorts the bank on the basis of that the "white knight" is going to save the ladies in a dangerous situation, the more this is unlikely to happen.

To me that is over for the very simple fact that there are not the conditions, in absolute terms, to make any type of transaction on this, given the current market prices. This is like taking a short position against themselves in a way. I don't want them to finish as the "*recesso*" (withdrawal) story. And it's a question of understanding that there must be the market conditions, end of the story.

GIOVANNI RAZZOLI: Sorry, the clarification on the amount of the loan to Resolution Fund, you said its €470 million, right, and you have…

VICTOR MASSIAH: It's the part left in terms of amount to be given back by the Resolution Fund.

GIOVANNI RAZZOLI: And, sorry to ask you for this clarification, does this 100% risk-weighting imply that you still bear the credit risk on it or do you have the Cassa Depositi E Garanzia guarantee?

VICTOR MASSIAH: We had a conversation with Bank of Italy and we were advised to weight it at 100%.

GIOVANNI RAZZOLI: But there is on that, the risk on it, right?

VICTOR MASSIAH: In a way, we don't have any risk, but it was something we don't want to discuss too much. It was a 24 hours decision. We take it. It comes and it goes, so not a big issue.

GIOVANNI RAZZOLI: Okay, thanks.

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

RICCARDO ROVERE: Yes, good morning to everybody. A couple of questions from my side. First of all, we read in the press that the government may add further initiatives to speed up foreclosure procedures, bankruptcy procedures and so on. What do you think would really be here a game changer? What in your mind would make…really make the foreclosure procedures much, much easier and much, much quicker than they are today? This is the first question.

The second question is on the risk-weighted assets again. One of your competitors , which updated the models as well, managed to - kind of let's say - mitigate the impact from the update of update of IRB, LGB, and NPDs through actions on the standardized exposure default. Do you think there is room in UBI to kind of, I don't want to say, optimize the risk-weighting in standardized assets, and if I may just ask some quick follow up on a previous question? The comments, Mr. Massiah, you gave before on what we read on the press with regard to Monte Paschi, the comments you gave were not just relating to the specific situation. It was a more generalized comment. Am I right in saying so? Thanks.

VICTOR MASSIAH: That's correct.

RICCARDO ROVERE: Okay, okay. Thanks.

VICTOR MASSIAH: On the foreclosure, what should be done? In theory it should be a simple thing, but this is a complex country, so probably the simplest thing is not feasible. The simplest thing would be, in terms of foreclosure procedures, that you should have a - let me say - a cap to the time: no more than three years, no more than two years, no more than one year. And then, everybody implied in the process would have to find the way to optimize. This would be close to a dictatorship, obviously, so it's not easy at all, but it's the only thing.

What has been done? I think the government is doing its best. We've seen incredible ceilings coming from everywhere, coming from the European governance, coming from internal bureaucracy, coming from everywhere. Now, the only thing that would be a real market changer would be to have a certainty about the final time of the procedure. If to repossess a guarantee won't take more than three years, then the time that will be applied in terms of valuation of a guarantee will be three years, end of the story. But this is today impossible, so you are asking me what would be the miracle, this would be the miracle. By defining it as a miracle, I am defining the difficulty of implementing.

RICCARDO ROVERE: Yes. Pretty clear.

VICTOR MASSIAH: In terms of risk-weighted assets, maybe we are less skillful than somebody else, who knows? I think I have thought until now to have the best people and I still will pray them to stay with us. Some of them have been continually courted by other competitors and I have to raise salaries that cost me a lot, but however I still think I have the best people.

RICCARDO ROVERE: Great. Thanks, very clear.

OPERATOR: The next question is from Mr. Andrea Vercellone of Exane BNP Paribas. Please go ahead, sir.

ANDREA VERCELLONE: Good afternoon, still a few questions on my side.

The first question is on the very interesting Slide 21. I was just wondering if you can give us some color on the mortgages that you highlight in the slide. I see from the note that these are mainly SME and corporate loans. I was wondering if the collateral backing these positions was partially residential or a lot of it was industrial and commercial. If you can give us some color around this point.

Second point is on the guidance on net interest income: I was wondering if what assumption on Euribor you have made in order to give us such guidance, because obviously Euribor rates we see them every day and they keep dropping. The third question is on the ongoing process of potentially buying out the minorities, you said in the call that you are investigating also other alternatives and not just giving them shares. I was just wondering whether in your view the foundations will be willing to take cash, and if you would be willing to pay cash. And the final question is on your capital stock, as equity investors so far we've always focused a lot on Common Equity Tier 1 rather than the other elements of the capital stock AT1or Tier 2. And there isn’t much clarity on these points, I must be honest. And I was wondering whether you have any legal constraints that would force you to issue AT1 over the next three to four years let's say and/or and also what strategy do you intend to follow vis-à-vis the gradual replacement of Tier 2, in particular, whether you are planning to continue issuing to your retail investors. And also a curiosity, the Italian banks including yourself, have all disclosed the SREP requirement this year and also last year. Last year there was also a Total Capital SREP requirement. I was wondering whether there was one also for this year and it just wasn't disclosed or if the ECB simply hasn't set one. Thank you.

VICTOR MASSIAH: The easy answer is on the last one. The last year, there was, but this year there was not.

ANDREA VERCELLONE: Okay. So this year you have not been communicated anything on that front from ECB?

VICTOR MASSIAH: Exactly, exactly. In terms of AT1, no, we don't foresee for the moment. Never say never, well, we don't foresee for the moment any issue of AT1. While in terms of Tier 2 obviously, we will have some strategy regarding that. I don't think honestly this will be to the retail even if the one on the secondary in the retail are not performing badly at all. But we will focus mostly on to the investors.

In terms of minorities, I exclude cash for a very simple reason that this will be capital destroying. So I would see something else, but definitely not cash. Regarding the components of the mortgages collateralizations: they were substantially offices or residential, a mix of the two, but there were also offices and not only residential.

ANDREA VERCELLONE: And on the NII?

VICTOR MASSIAH: On the NII, it's true that there is a negative EURIBOR which is planned in our forecast, but let me say that I am making the statement also having in mind our result of January, Mr. Vercellone.

ANDREA VERCELLONE: Okay. Thank you very much.

OPERATOR: The next question is from Mr. Carlo Digrandi at HSBC.
Please go ahead, sir.

CARLO DIGRANDI: Good afternoon. A very simple question, your guidance on the net interest income is quite clear. I was wondering, if you can give us an idea about the mix, am I correct in assuming that you probably take into consideration, the fact, that you are stabilizing your securities portfolio or we should expect a rebalancing between loans deposits and the security portfolio. Therefore there will be lower contribution going forward replaced by the loans on the other hand. Thank you.

VICTOR MASSIAH: Regarding the proprietary portfolio, it is not over. It's stabilizing. It could be something marginally negative, but we have made a big step in the fourth quarter and that's why we have been in a way so negative. We understand your reaction, but we hope we explained. On the other side, on the lending activity there is a contribution, but again, there is also a contribution from the funding cost component, so it's a mix of the two as a matter of fact.

CARLO DIGRANDI: Thank you.

OPERATOR: The next question is from Mr. Hugo Cruz of KBW. Please go ahead, sir.

HUGO CRUZ: Hi, two questions, if I may. Some banks have given the split of the collateral, of the real estate collateral, between resi and non-resi, either for their total loan book or just for the NPLs. If you could give some color on that would be great? And second, it's probably a very minor question in this kind of environment, but can you put forward your dividend policy? Is it a progressive DPS or is it a pay out? Can you tell me how you think about it? Thank you.

VICTOR MASSIAH: Regarding the mix it was more or less 60:40 regarding residential and offices. In terms of dividend policy, we have been consistent with the ordinary level of our results. So you can see that, in a way, we are more or less in the area of 50%, 60% of the ordinary profit net of non-recurring items. We have an 11 cent dividend, on 900 million shares, drives to more or less a dividend payout of 100 millions. We have a recurring profit of 195 million euro, so more or less, you can see us very, very close to the more or less 50% pay-out.

HUGO CRUZ: Okay, can you just clarify the 60:40 resi offices, is that for the total book, for the total NPLs or just for this transaction.

VICTOR MASSIAH: No,, I answered to the question having in mind the portfolio that we sold.

HUGO CRUZ: An idea, we would like to know for your entire stock of NPL?

VICTOR MASSIAH: In terms of the entire stock, the entire stock is, if I am not wrong, the two thirds are made of residential and one third of non-residential which are either offices or commercial, I am sorry I misunderstood the question.

HUGO CRUZ: No, that's very helpful. Thank you.

VICTOR MASSIAH: Thank you.

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

ALBERTO CORDARA: Hi, on this first point that you were mentioning the two thirds the one third, it seems to me that this is pretty much in line with the Italian Banking System; I don't know if you can give me a comment on that. And secondly with respect to loan losses…

VICTOR MASSIAH: Excuse me, Mr. Cordara, I really couldn't hear you. Could you repeat the question, sorry, I am sorry.

ALBERTO CORDARA: Sorry, I do apologize. Now on this last point, the two-thirds, one-third, just for the clarification. I think this is pretty much the situation of the Italian banking system, because I think as you know, which is good for you, but is not even better for the other banks, because I think that people are reading a bit too much into this NPL situation. So just wanted to clarify this point? And then the second issue, when we are talking about reduction in the cost of credit in the next year, can you be a bit more specific? Do you have in mind some bps or some euro amount that you can think you can achieve in 2016? Thank you.

VICTOR MASSIAH: Honestly, I cannot comment the first part of your statement. I really ignore what is the situation of the other banks. So it would be unfair to comment, I really do ignore.

On the comment about the reduction in the cost of credit, I can tell you the following. The previous year, I gave the guideline of a slight decrease. For 2015, I talked about a decrease, and I am talking about a decrease again for 2016. So when we talk about a slight decrease, we are talking about few millions. When we talk about a decrease, we are talking about, a measure of 100 or more than 100 millions.

ALBERTO CORDARA: Okay, thank you very much.

OPERATOR: As a reminder, if you wish to register for a question, please press "*" and "1" on your touchtone telephone. Once again, if you wish to ask a question, please press "*" and "1" on your telephone. For any further questions, please press "*" and "1" on your telephone.

We have a question from Ms. Azzurra Guelfi of Citi. Please go ahead madam.

AZZURRA GUELFI: Hi, good evening. Azzurra from Citi. Sorry, I joined the call late, so maybe you have answered this during the call. Just two quick questions, one is on the withdrawal right. Could you give us the split, if available, of the breakdown of the shareholder that had withdrawn? How many in percentage terms were retail and how many were institutional? And another question, if you could have a wish list for the government, what would you like them to do to facilitate the NPL disposal within, of course, the limits that they might have? Thank you.

VICTOR MASSIAH: The first one, I didn't answer before. The second one, yes, but I will do it for you.

AZZURRA GUELFI: I am sorry, I can read the transcript, sorry.

VICTOR MASSIAH: No problem, Azzurra. On the first one, what is the split on the withdrawal? It was only 10% in terms of volumes coming from what I would call retail or small firms. While 90% were institutional, of which a Bulgarian majority composed by arbitrage funds that were not historically our investors. They entered at the announcement and tried to exit with the withdrawal action.

Regarding the second one, the miracle in my mind - but I define it as miracle, because it's too difficult - is to have an established deadline in terms of time horizon for the foreclosure procedure. So for example, to repossess the guarantee no more than 3 years, end of the story. If the government would be able - but in my opinion it's a miracle, I am not complaining because it's very, very difficult to do it - …if the government was able to establish a time horizon, a defined time horizon for every procedure, this would be by definition implied in the valuation and obviously the shorter the time horizon the higher the valuation.

AZZURRA GUELFI: Yes, this is a miracle, but something more likely, more realistic, sorry not that because that's….

VICTOR MASSIAH: I'll take it Azzurra, but I defined it as a miracle.

AZZURRA GUELFI: No I agree that.

VICTOR MASSIAH: No, what is more realistic is more or less what the government is doing. The government is trying to do some incremental steps one by one. The guarantee, n the last decision, the tax issue on ReoCo companies, but these are single steps. Every single step is a little step, it is incremental. It is positive, but is not a game changer. Probably the sum of all of these will be a game changer in one or two years from now, but they cannot be a game changer per se. And by definition it's not that the government is wrong, it is what they can do.

AZZURRA GUELFI: Thank you.

VICTOR MASSIAH: Thank you, Azzurra.

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

VICTOR MASSIAH: Thank you. Thank you everybody for listening to the questions and have a good end of the week. Thank you.