UBI Banca Presentation

Consolidated 1H2008 Results

in

CONFERENCE CALL

on

Wednesday the 27th of August 2008

at

15:30 Continental European Time

2:30 p.m. UK Time

Mr. Giampiero Auletta Armenise, C.E.O.
and Mr. Victor Massiah, General Manager
represented the company

Giampiero Auletta Armenise - Unione de Banche Italiane Scpa - CEO

Yes, good afternoon and thank you for participating to the presentation of our UBI first half 2008 results. We start with an executive summary that highlight the following. Net profit for the first half of this year reached EUR519 million with an increase of 44% on a stated basis.

Normalized profit reached EUR411 million, with a decrease of 7.9% compared to the normalized data of last year and it was affected as for the other competitors, I would say maybe in a lesser way, by unfavorable financial market conditions. I'm referring specifically to impact on financial results, trading results specifically, and assets under management that obviously caused a contraction of net commission.

Operating income was stable thanks to strong growth in net interest income which generated over EUR166 million of additional revenues, able to fully compensate for weaker trading results, I'm referring to EUR63 million of lower revenues for this item, and the net commission minus EUR55 million compared to year 2007.

Staff costs and other administrative costs show contained growth in normalized terms plus 0.7%. I'm referring to the aggregate of staff costs and administrative expenses. If you include also the depreciation and amortization, the cost increase reaches 1.7%.

Normalized cost/income net of purchase price allocation has been 56% in first half of year 2008 despite the crisis in the market, in the financial market, as I mentioned affecting the trading results heavily. Credit quality is confirmed good. Net non-performing loans on total loans are confirmed at 0.77%.

loan loss provision on total loans were 32 basis points on annualized basis, lower then industrial plan target that set the target for the year at 35 basis point, so 3 basis point less, despite a certain deterioration of the, let's say, macroeconomic environment.

Positive evolution of net operating income in normalized terms when netted of results from trading and hedging activities, as you can see, net operating income grew by over 5% if you don't consider on a normalized basis and if you don't consider result from trading and hedging activities. And this also is related to the 3% growth that was achieved in operating income if you don't consider the reduction of trading and hedging activities.

Positive contribution from main non recurring items: in 2008 we benefited from two positive, major positive contributions, EUR79 million from disposal of equity and other investments, I'm referring to UBI Pramerica and UBI Assicurazioni Vita sale to our partners respectively Prudential and Aviva, and I'm referring to EUR73.8 million of benefit, non recurring benefit from tax redemption. The negative one-off effect is related to integration costs that net of the fiscal effect account for minus EUR28.5 million.

Tax rate in normalized term has been 39% as of June 2008 compared to 41.2% in the last year. So with the reduction in normalized basis of 2%, 2 full percentage points. Volumes, our evaluation of the evolution of volumes is positive, strong growth in loans to customers up by 7.7%, but more important than this by 12.9% net of large corporate exposure.

Those who are familiar with our situation condition knows that we have in 2008 reduce the so-called hot money exposure towards large corporate and this has quite a significant impact on nominal growth of volumes, of lending volumes, while in my opinion substantial terms is important to notice that core lending grew by a percentage close to 13%.

Direct funding was up by 5.9%, of which 5.4% growth from ordinary customer spending and 8.7% from institutional investor funding. Net interbank exposure, a data that is particularly important in this phase, was down to EUR3 billion from EUR7.6 billion as of last year, a reduction also compared to last March EUR5.4 billion. Indirect funding was down by 12%, assets under management down by 17%, assets under custody down y 5.4%.

Capital ratio. I am concluding the executive summary and then we will go on looking at the different detailed information. Capital ratio, Basel II standardized to date estimates show a Core Tier 1 and a total capital ratio above industrial plan targets. You remember that our industrial plan targets are respectively 6.5% for Core Tier 1 and 10% for total capital.

So the initial estimates show data exceeding these two target. We will provide the market with a detailed disclosure by the end of October when we will present our report to the authority on capital ratio. That is due for the 25th of October, as you may already know.

Integration process. 65% of integration activities are already completed. 58% was the forecast so we are in advance significantly, as you can see, 65% compared to 58%. In terms of IT, three banks out of four already successful migrated on the IT target platform, fully in line with the industrial plan forecast. In terms of synergies, we achieved EUR53.5 million in the first half compared to EUR49.7 million targeted in the industrial plan, with an advantage of 8% entirely achieved on the cost side of the synergies.

Looking at the detailed information and specifically to assets and liability evolution, page seven, you can find a comment on growth in lending that, as anticipated, lending loans grew by 7.7%. If you look at core lending growth, excluding large corporate, the growth rate reached almost 13%, as you can see in the slide.

Large corporate disposals was down compared to June 2007 by EUR2 billion in average terms and EUR2.9 billion in punctual terms. Net of that exposure, as I said, we had a growth of 13%. You can see from the slide that in terms of average monthly volume, we achieved a very nice growth in small business, 12.6%, and in core large -- and in core corporate, sorry, core corporate segment 9%.

Looking at funding activity, direct funding from ordinary customer was up by 5.4%. At network banks' level in terms of average volume the growth was 8%, institutional funding was up by 8.8% to EUR15 billion. Looking at what happen in the core banking perimeter activities, right hand side of the slide, direct funding from customers, as you can see in terms of average monthly volume, the growth was 8%, as anticipated in the headlines. As you can see in retail, we grew by 8.3%.

In corporate, the reduction was 15%, entirely related to the reduction of large corporate funding, EUR850 million less than the last year. In private banking, there was an increase of 25%. This is related obviously to the preference of the liquidity and the adversion for risk that characterized private customers in this space as a consequence of the crisis. Net of large corporate, the average growth of direct funding was 10%. So if you don't consider the reduction in large corporate that is also related to the reduction of loan in large corporate, the growth was 10%.

In terms of institution funding, we were able in the first six months to compensate for the suspension of the EMTN programme related to the unfavorable market condition with the issuance of certificate of deposit and commercial paper that reached EUR1.9 billion in the first half. As I already mentioned, net interbank position went down to EUR3 billion in very significant reduction compared to the previous quarter results.

So the liquidity position of the bank in the short term segment is evolving, I would say, very positively considering, especially considering unfavorable market condition. Also, we were successful in increasing assets eligible for refinancing with the ECB that went from EUR1.4 billion to EUR3.4 billion in the first half of this year.

Indirect funding decreased by 12%, driven by unfavorable market condition. My comment is specifically, one, less than market average unfavourable evolution of volumes. As you can see from the comment, UBI Pramerica mutual funds were down by EUR1.8 billion in terms of negative net inflows, representing 7% of the stock against the performance of Assogestioni’s sample negative by EUR70 billion, representing over 12% of the stock.

Income statement, net profit was EUR519 million with an increase of 44% compared to EUR360 million achieved in the first half of last year. We have provided a recap on the right hand side of the slide of the non recurring items that have affected our both 2008 and 2007 results.

Staff costs, obviously everybody remembers that in the last year there was a new methodology determining the staff severance provision that created a benefit for UBI, EUR49.4 million in the first half of 2007, reducing the cost of personnel for the same amount. And this year obviously we do not benefit from this one-off effect so this data needs to be normalized in order to be compared on a meaningful basis.

Second non recurring effect related to capital gain achieved from the sale of the stakes in UBI Pramerica and UBI Assicurazioni Vita, EUR79 million in 2008 compared to EUR21 million achieved in 2007 related to the listing -- the capital gains connected to the listing of IW Bank.

Taxes, the third element to be normalized, as you can see, we achieved a significant reduction in the fiscal burden for this year. This is related mainly to the EUR74 million of lower taxes that following a one-off positive effect due to tax redemption.

In the same period, we have had a recurring negative effect due to the indeductibility of interest expenses according to the new tax law, income taxes law, the so-called “manovra d’estate”, that in the case of UBI accounted for EUR19 million higher taxes in the first half and also the taxation of intergroup dividends that accounted for EUR22 million of additional taxes. The net effect is positive so we pay less taxes but is a result of some evolution of different sign, some positive and some negative.

Integration costs is the fourth item that needs to be considered in terms of normalization. We have sustained EUR28 million net of taxes of the fiscal impact of integration costs in the first half of this year compared to EUR146 million in the last year that was the year of the presentation of the industrial plan and obviously it was the year more affected by these items.

Looking in the page to the income statement, page 12, net interest income continues its very positive evolution. recording a 12.8% growth year-on-year, while net commission decrease due to unfavorable indirect funding performance with the negative -- with a contraction of 8%. So looking at net interest income, the growth, as I said, was 12.8%.

This growth is related to both a very strong and very positive volume evolution, especially on the loan side but also on the deposit side but obviously the most important volume effect is related to loan evolution, and both widening of spread by 8 basis point related to improvement in mark up, which is something that, in my opinion, was a positive achievement of UBI that was able to manage appropriately the pricing in a very unfavorable context. Strong contribution was also deriving from product companies. Interest margin at product company's area level grew by over 27% in the first half.

Net commission decreased by EUR55 million, minus 8%, and this is entirely related to lower commission from indirect funding minus EUR57.5 million. So minus EUR55 million was the total decrease, minus EUR57.5 million the decrease in commission related to indirect funding. So this means that the net of this we were able to compensate for the relative weak evolution of traditional commission on traditional banking product, with the growth in innovative products commission, such as CPI, non-life insurance product and so on and so forth.

Results from trading and hedging activity recorded in the first half a positive result of EUR10 million. But this is a very obviously limited result compared to the EUR74 million contribution of the previous year. The reduction of contribution was EUR63 million and EUR70 million on a normalized basis. Then the slide provides also an explanation, a detailed explanation for this.

We remain a banking group mainly devoted to commercial retail banking activities. Our exposure towards financial activities is very limited, despite this limitation, obviously when markets perform in a very negative way we feel, let's say, a little bit affected.

Page 14, cost. This is a very important item to be correctly understood. All together, total staff costs and other administrative expenses in the first half of this year were in line with 2007 figures, as you can see, plus 0.7% on a normalized basis. The composition is 0.5 plus on staff costs and 1.2 plus on other administrative expenses.

This 0.7% growth rate is fully coherent with year-end forecast. This is a very important element because if you look at quarterly results that, as I will explain in a minute, are highly volatile, you might sometime be very happy and sometime be very unhappy.

But this has been happiness and unhappiness and is not, let's say, fully reasonable. Is better to operate on, let's say, more -- on a wider timeframe that allows for a better understanding of underlying activity. So the target for the year-end in terms of both staff costs and other administrative expenses aggregated figure is fully in line with the 0.7% that we have achieved in the first half of this year.

Quarterly volatility is related, as explained in the slide, to a number of elements. For instance, looking at -- looking at other administrative expenses, as you can see, we have high seasonality and volatility due to, for instance, we mentioned three elements, specific initiatives that varies from quarter to quarter, such as advertising campaigns and marketing costs, integration process, increase for in temporary support from external providers to cover peak in activity integration activity or migration activity, mobility costs that are also volatile quarter-on-quarter, and also indirect taxes that are concentrated in some quarters. And so these affect the quarterly results.

We are devoted to strong control of cost evolution that also in the integration year and this year please remember something that always underlines, this year is affected by the presence of two IT platform -- co-presence of two IT platform in operation so it is an unfavourable year.

Also -- and it is also mentioned in this slide because the inflation rate is about 4% and the unitary cost of personnel is growing by over 3.6% on average. So achieving a 0.7% growth on an aggregate basis for both staff costs and other administrative expenses is reflecting, I think, our effort to maintain under control costs.

If you consider depreciation and amortization you have a growth of 18% -- so sorry, 11%, slightly below what was the target for the year and it is entirely related to the investment, the additional investment upgrading of our IT platform. So it's a cost but more than a cost; is an investment that increases the competitiveness of the bank in the -- from a structural point of view.

An additional comment regards the staff costs, left hand side of the slide. I wanted to underline that we have decreased the average number of human resources in the first half of 2008 compared to the first half of 2007 by 370 people, definitely below our industrial plan target, as confirmed by the staff . Sorry. What I am saying is that we have reduced by 370 people in the first half of 2008 the average number of personnel. And we have over-succeeded, let's say, in reducing our number of personnel compared to the industrial plan. This is reflected, as we'll see in a minute, in higher than expected staff cost revenue synergies. So, positive evolution because we are offsetting the unitary cost of personnel growth with a structural reduction of number of personnel.

Credit quality. Non performing loans on total loans at 0.77% and net impaired loans at 0.89%. Net non performing loan ratio is stable quarter-on-quarter at EUR740 million in the second quarter and EUR734 million in the first quarter of 2008. Our performance, the performance of UBI is confirmed to be better than the system.

You can see this in the right hand side part of the slide, a ratio that is very important that between inflows of the new nonperforming loans from performing and impaired loans remains in the first quarter of 2008 at 0.12% compared to 0.24% for the banking system and the evolution in the second quarter is at 0.13% for UBI.

Unfortunately, we do not have the date for the system for the second quarter. But as you can see, the advantage remains quarter by quarter at a good level and so we expect in the second quarter we will -- our data will be beat the data at system level.

Growth in gross impaired loans needs to be understood. The increase includes the impact of stricter group classification criteria adopted in 2008 by the network banks, which provides for the automatic classification to impaired loans of past due once 60 days have elapsed. Net of this impact, inflows from performing and past due to impaired and non performing loans for the first two quarters of 2008 amounted to 0.3% compared to a quarterly average of 0.27% in 2007.

So what does this mean? It means that in our perception, yes, there is some deterioration in asset quality. As you can see, 0.3% is higher than 0.27%, the average of 2007. The average of 2007 is, I would say, a peak in terms of asset quality over the cycle. Everybody knows that in commercial banking activity in Italy, 2007 was a very, very good year. So it is true that we are seeing some deterioration. This deterioration, in our perception, is not such as to divert us from achieving our industrial plan target in terms of asset quality and cost of credit.

So we were expecting some deterioration. This expectation were coherently reflected in our industrial plan target, 35 basis point cost of credit for this year. We believe looking also toward the end of the year that in this year, for the full year, we will be able to beat the business plan, the industrial plan target, and so to remain below 35 basis points, despite some asset quality deterioration.

If you look at the sources of this deterioration, for sure the main sources of deterioration is related to the small business segment. You know that when the macroeconomic evolution turns to negative in Italy, the first impact is obviously affecting the small business segment and this is no exception in this case. But we had to consider it in our industrial plan in our perception adequately this and so we are, let's say, confident that we can respect the 2008 target, as indicated in slide 16.

Cost of credit is coherent with year-end forecast, which remains below industrial plan -- below industrial plan target that I repeat is 35 basis points, regardless of quarterly volatility. Why I say quarterly volatility? Because the]first quarter 2008 results with the cost of credit at the 26 basis point was an exceptionally good quarter considering that the cost of credit in the first quarter was below the average of the normalized data, quarterly data of 2007, and I have already pointed out that 2007 is obviously the big -- representative big in terms of asset quality. So in the first quarter of 2008 we did better than the average quarterly result in the best ever year.

So obviously if you look and you should compare the first quarter with the second quarter, the increase is very significant. But in my view, you have to look at a more ample timeframe to get significant data. In addition, as I have mentioned already, the results of second quarter was influenced by the standardization of criteria related to the centralization of management of non performing loans in the parent bank and this accounted for 5 basis points on a quarterly basis.

So the two first quarters of 2008 were affected, the first one by, let's say, positive element, the second one by negative element. What is more important is the forecast for the whole year that, as I said, remains below, in our expectation, business plan target, so below 35 basis points.

Progression on integration process, integration activities. As you can see from slide 18, we have achieved -- we have completed as of the end of June 65% of integration activities compared to 58% that was our target. So we are running overall in advance compared to business plan target.

By year-end we confirm our expectation to complete over 80% of integration activities.

Synergies achieved during the first half of the year, EUR53 million, 80% over industrial plan target for the period, so EUR53 million compared to EUR49.7 million weaker than expected the revenue synergies, EUR12.3 million compared to EUR14 million that was the target.

Positives and negatives, positives good results from the commercialization of existing product in the area of personal loans, mortgages and in higher penetration of CPI and personal loans. So retail segment, private retail segment is, let's say, the driver for revenue synergies.

Negatives, delays in the commercialization of some product in retail segment, OTC and CPI mortgages, and lower volumes of factoring and industrial loans in corporate segment. But in this area, in corporate banking we are catching up.

Cost synergies, plus 15% compared to target, EUR41 million compared to EUR35 million, EUR20 million achieved in terms of staff costs synergies plus EUR15 million thanks to early exit of permanent staff achieved in the first half, 320 people in advance compared to the original target, and lower than expected increase in temporary staff, 90 people less in this respect compared to the original target. EUR20.7 million of other administrative cost synergies minus the EUR9.9 million compared to the original target due to higher than expected staff mobility costs and IT costs already budgeted for in 2008.

For the whole year, what we expect is the substantial achievement of the year-end target of EUR100 million. We've identified a range of 97% to 104% for the achievement of synergies for the whole year. So we except to achieve the target synergies even if with a different composition, more staff cost synergies, a little bit less revenue and other administrative expenses synergies.

Conclusion. In a difficult market context, the main driver remains core traditional banking activities, lending, funding and, as you know especially, retail banking where it remains the bulk of our activities. Careful management of both components, lending and funding, and also of pricing with customer has boosted the net interest income, which fully offset the weakness of other revenues. So this is the first comment. The second comment is that we confirm our solid conservative risk and capital profile.

Third comment, we confirm our strong control of costs regardless of quarterly volatility. In the forecast for the full year 2008 the aggregate staff costs and other administrative expenses is expected fully in line with the first half results. So this means on a normalized basis a growth of around 0.7%, below 1% in our expectation.

Despite the fourth comment, despite the increase due to a less favorable macroeconomic environment, cost of credit that in the first half was 32 basis points is lower than in industrial plan target, 35 basis points, and is expected to remain below that target at year-end.

Results were boosted, fifth comment, by non recurring items deriving from both the rationalization of the group and the release of deferred taxes due to the new tax legislation opportunities. Integration process, final comment, are well in advance compared to industrial plan target.

So thank you for your attention.

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