

illimity Bank S.p.A.

"Second Quarter 2019 Results Conference Call"

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CENTRAL FUNCTION
ENRICO FAGIOLI, HEAD OF SME DIVISION
ANDREA CLAMER, HEAD OF NPL INVESTMENT AND SERVICING
CARLO PANELLA, HEAD OF DIRECT BANKING AND DIGITAL OPERATIONS

CORRADO PASSERA, CHIEF EXECUTIVE OFFICER

Good morning everyone and thank you very much for being here today.

I am very proud to share this moment with you all and present illimity's second quarterly results.

Here with me is:

- Francesco Mele CFO & Head of Central Functions Division,
- Enrico Fagioil Head of SME Division,
- Andrea Clamer, Head of NPL Division, and
- Carlo Panella, Head of Direct Banking & Digital Operations Division.

Slide 2: The first Italian “New Paradigm Bank”

Let me start with a very quick recap on illimity.

Illimity is a new paradigm bank, built on genuine, robust experience.

We consider ourselves a new paradigm bank because

- We have no legacy – Nothing now, nothing in the future.
- We are fully digital: we use the most advanced technologies to guarantee new levels of service and quality but without losing the human touch.
- We have significant and sustainable cost advantages, unparalleled to commercial banks as far as operating costs are concerned and to new players – credit funds in particular – as far as funding costs are concerned

We don't believe in the universal bank model: we are a specialty bank. We are specialised in large underserved markets. We have identified evident, prosperous and profitable market segments, in the Italian banking industry.

These segments are not well served today, and we have developed a unique business model focused on them.

We are on our way to being:

- The Italian specialist lender to SME
- The Italian Corporate NPL player
- The state-of-the-art digital bank

I feel, the combination of our totally new business model, with a focus on evident and profitable market segments, will create value, well above traditional banking business models.

So, let's press on and look at the results we have already achieved.

Slide 3: Business plan targets affirmed

I am pleased to affirm we are on target with our business plan.

Just a reminder of the financial targets we set for 2020-2023

We are aiming for a 25% ROE and to reach 6.6bn assets in 2023, with meaningful Net Profit already in 2020, which may seem ambitious, but it's not particularly aggressive considering our business model, nor considering the dynamics of our target markets.

As you will appreciate in the following slide, the business originated up to the end of July across all business lines and the operating progress achieved so far are consistent with the targets

Slide 4: Second Quarter fully on target

This is our second quarterly report: our achievements this quarter have been remarkable!

I am especially pleased with the business momentum, carrying over into July and the pipeline for the next months is robust

The challenge in this second quarter was to execute the migration to the new IT core system, and to launch our totally new direct bank.

Both missions accomplished.

This confirms our operating execution capabilities

We also launched two strategic initiatives in this quarter – the acquisition of IT Auction and the partnership with Azimut – that will reinforce the execution of the business plan.

In conclusion the economic results for the first six months are overall in line with our plan. We have delivered on everything we promised.

Now let's look at all our accomplishments in further detail.

Slide 5: Business origination in line with target

This is a very detailed slide, please take a moment to view it, and then I will explain the most important aspects.

This is the same table we showed you in 1Q. First, I would like to highlight we want to give a completely transparent view of how the bank is progressing.

- You see there are 5 columns, and the first 3 are the business we have already originated and signed, the second one are deals already agreed upon that we are about to sign and the 3rd are deals that we are very confident will be signed soon
- Since inception, the originated business – including the business already booked or signed and ready to be booked exceeds €1bn: we are particularly satisfied with this number as we launched the bank only 9 months ago
- The fourth column is the sum of the first 3 columns: A plus B plus C, is the total business we have developed as of today. This has to be compared to the target of next year, the fifth column.
- So, if we take the first line - the combination of all the lending deals and all the investment deals of the 2 divisions - we get over 2.2 billion Euro that has to be compared with our target for the end of next year, of at least 3 billion.

You will recognize the results we have achieved so far, strongly confirm we are well on track with the volumes trajectory envisaged in the business plan

Slide 6: Realisation of the New Paradigm Bank accomplished on schedule

We realised the new paradigm bank, it's up and running!

Not only have we completed the mechanics of the paradigm bank, we have formed the heart and soul, which are the 300 illimiters.

Yes we are a digital bank, but we focus on the importance of human skills and experiences.

People make the difference for customers.

Top people, strong talent – financial, industrial, analytical - make the difference for our customer's business.

We've attracted top talent in such a quantity and in such a short period of time, due to our solid business idea.

We have finalized the migration to the new core banking system – which is fully digital, fully modular, fully on cloud. Very few banks in Europe can say the same!

We launched our digital direct banking services in June by invitation because we are going through the testing field.

It will be offered to the market, together with the first customer acquisition campaign by mid-September.

It's been a very complex task and we are all very proud of this achievement.

Technologies take center stage in our business model. They are crucial to the new business models.

We have further increased the intensity of the use of Artificial intelligence and Machine learning systems across our businesses.

The use of AI and Machine learning is not only about being rapid and innovative.

Data analytics improve our capability to evaluate credit to monitor the quality of our portfolio of investments and to provide new services to our customers. This is a key competitive advantage.

Slide 7: New strategic initiatives advance growth

In this quarter, we have signed two important partnerships. These partnerships were not included in our business plan and will be described by my partners.

The ITAuction acquisition and the strategic partnership with Azimut, have shown illimity is becoming very attractive, very rapidly, for companies, who want to be integrated in our platform. As well as for other players in the financial-services-industry, who want to collaborate with us.

The partnership with Raisin, went live at the end of May and is already up&running.

This partnership has begun generating very satisfactory results, with €110mln deposits already gathered

To conclude, we continue working on additional initiatives to further strengthen our action plan.

I am pleased with the results of this quarter; they are in line with our expectations and in many ways exceeding.

I would like to hand over to Francesco Mele who will give his report on the economic results.

FRANCESCO MELE, CHIEF FINANCIAL OFFICER AND HEAD OF CENTRAL FUNCTION

Slide 9: 2Q19 results confirm business plan trajectory

Thank you Corrado.

As you know well the first few quarterly results of a start-up are only somewhat meaningful and should be read together with the broader business trend. In that context I am happy to report significant business progress consistent with the business plan trajectory.

Key takeaways for the 2Q numbers are ...

Commercial momentum picked up in the last part of Q2 and even further in July. There are decidedly different paces of growth across our businesses, but the overall trend is in line with the business plan.

As a result of growing volumes, revenues increased visibly in Q2 but are due to accelerate much more in the following quarters when business originated year to date and that we expect to be generated in the next months will be booked.

Based on the revenue trajectory we expect from 3Q onwards and the operating costs required to complete the operating structure, we expect operating jaws to become more visible from next quarters.

Funding diversification has started with the launch of our partnership with Raisin, a leading pan-European deposit platform, in May. On the wholesale side we are about to finalise the EMTN programme which will be used to implement our institutional funding plan.

Let me briefly run through the numbers ...

Slide 10: Economic results in line with Plan

... starting from profit and loss ...

Considering illimity was born less than 12 months ago, we are comparing data quarter on quarter.

Interest income up 24% q/q to 8.9m euros with strong contribution from NPL division. You will see later that NPL cash collection were significantly higher than expected also in Q2. Interest income in 2Q reflected only partially the business originated in 2Q19 as it was booked at the end of the quarter

Acceleration in commission income (+216% q/q) driven by NPL senior financing and SME structuring fees.

Positive net trading results due to the disposal of 27m euros of sovereign debt.

Operating costs for the quarter include 1.1mIn euros of one-off items related mainly to the completion of the migration of the new IT system, branch closures and an additional 0.1m euros contribution to the Resolution Fund, bringing the total one-off component to 3.7m in the first six months of 2019.

Personnel cost up 37% q/q to 8.7m euros. This cost is directly related to the planned build up of the bank team and includes 0.4m euros of ESOP cost.

2.8m euros of loan loss provisions related to BIP legacy portfolio.

Lastly, net result includes 3.8m euros of one-off income from tax ruling on the possibility to use SPAXS tax loss carry forwards and ACE benefit.

All in all, the net result for Q2 and for the first half is in line with business plan target.

Slide 11: Business assets up 50% q/q

Moving to the balance sheet ...

We have 85m euros of cash and net interbank position: cash initially raised largely deployed in the business.

Other liquidity buffers available for ~95m euros of HQLA and other marketable securities.

Mostly unencumbered balance sheet.

Customer loans are up 50% q/q to 775m euros with significant acceleration in the last part of the quarter (and even more in July).

Stable securities portfolio at around 200m euros with additional diversification.

Direct customer funding, down in June 2019 on a qoq basis, is progressively stabilizing thanks to the contribution of pan-European open banking deposit platform of 107m euros at the end of July.

Funding diversification has started to become visible. In addition to Raisin, which as of July end contributes 8% to our funding, wholesale funding – excluding ECB – has risen to around 19% of total funding. CET1 capital of 480m and RWA up 66% to almost 1bn euros due to business assets growth.

Slide 12: KPIs in line with plan

In terms of KPI

Cost income at 184% vs 187% in 1Q with progressive normalization expected going forward in light of the different speed expected for revenues and costs.

Cost of risk at 190bps reflecting impairments on BP legacy portfolio.

Organic NPE ratio down to 6.2% thanks to increasing loan book.

CET1 ratio remains very robust at 48% in light of growing portfolio.

LCR at 210% confirming liquidity buffer.

Slide 13: Well diversified securities portfolio

As you may remember, between the last part of 2018 and the beginning of 2019 we significantly downsized and reshaped our securities portfolio. With 206m of nominal euros at the end of June we believe to be at an optimal level considering our current balance sheet.

In Q2 we further diversify our portfolio mix. Sovereign exposure represented 69% of the total portfolio at the end of Q1 and now accounts for 58.7% with the domestic component down to 53.4% vs 63.9% in Q1.

On the other hand, we increased exposure to senior corporate bonds (mostly eligible), now accounting for 17.4%.

In terms of relevant metrics:

- Combined mark-to-market as the end of June of the HTC and HTCS portfolio of 4.5m;
- Average yield to maturity at 2.1% and a duration of around 3 years.
- In summary I am pleased to report a positive and solid set of numbers. I would now like to hand over to Enrico who will provide detailed information on the development of the SME businesses.

ENRICO FAGIOLI, HEAD OF SME DIVISION

Slide 15: Building the Italian SME specialist lender

Thank you, Francesco.

We are building the Italian SME specialist lender by focusing on a large underserved addressable market worth €300-350bn

We want to help our clients to realize their hidden potential

We are focused on crossover and acquisition finance, turnaround and industrial supply chain financing through digital factoring

Slide 16: Encouraging volume

We made good progress in the second quarter in terms of originated business.

Since the start of our operations in late 2018, we have generated volumes for about €457mln, of which about €343mln in our specialized businesses.

There are additional almost €90mln worth of deals where we have already agreed upon terms and conditions, plus factoring granted credit-lines for about €140mln.

In the first half of 2019 we have worked very hard to build our pipeline, which is robust and has very high visibility (about €130mln in Crossover and Turnaround business areas); in the same period we have analysed more than 185 deals, of which 93 have been declined and, apart those declined and those executed or signed, we have identified relevant opportunities.

Based upon the volumes already developed and the pipeline, we are confident about reaching 2020 targets.

Slide 17: Crossover & Acq. Finance on track and robust pipeline ahead

The crossover segment is very dynamic and in July we booked about €43mln, particularly in Acquisition Finance. In this segment we have become in just a few months a recognized player and we have acted as mandate lead arranger on most of the deals we have executed.

There are many opportunities in the market, and we are analysing several dossiers at a time

Over the past few months we have continued to build our structure and will add more people in the next 6-12 months

Many of the crossover/acquisition finance operations have been disbursed only partially and we are just waiting to disburse the residual tranche of loans already signed: as of today, this component is worth about €91mln.

Our average ticket size is €5-10mln but there are a few deals exceeding €20mln and we have operated so far in different industrial sectors such as construction, food, mechanic, medical devices, beauty, shipping, fashion and services.

Slide 18: Ready to capture the robust pipeline in Turnaround

We are working on several transactions. The market situation has brought to our attention complex, important files, each worth up to €40mln and over. Those type of transactions take time to be executed as they involve several actors and there are normally many conditions precedent to be met before the closing may occur. We have just signed an important deal for a max amount €50mln, to be disbursed shortly, so Turnaround business originated is about €125mln.

There are on top additional deals worth more than €100mln which we are confident can be executed by the end of the year.

In addition to the single name business, which remain the key focus our activity, we are also pursuing initiatives on selected UTP portfolios, jointly with illimity NPL division. Some transactions on UTP loans now seen in the market include going concern positions that can be turned around through a restructuring process and we can bid jointly with the NPL Division. Acquisition of small Utp portfolios will speed up the building of our business.

Slide 19: Since July new platform accelerates Factoring business

In the past three months, we have made good progress on the Factoring business

We had started our operations at the end of last year through a partnership with Credimi. On July 1 we have switched to a new platform, which allows us to broaden the range of factoring products, in order to meet our clients' needs. We are now at the stage of customization of the front end having already broaden the products offering.

The move to a different platform was made possible by the choice we made on our core banking system; whose open architecture features enables the replacement over time of the IT modules dedicated to the various businesses

We have also arranged a credit insurance on factoring not recourse receivables with Euler Hermes (an Allianz group company). This agreement will allow us to cover any loan losses that may occur up to 90% of factoring receivables, with a significant reduction in the prospective cost of risk, thus strengthening the overall factoring profitability.

In 2Q the factoring turnover reached €58mln and the outstanding loans stood at €26mln; as of July 31, the overall turnover developed in 2019 reached €78mln with an outstanding exposure of E37mil.

Furthermore, we have already granted new credit line worth €143mln and there is an advanced pipeline of credit line for additional €94mln

Slide 20: A distinctive business model in SME: Top human expertise with top technologies

We believe we are building a unique competitive advantage in credit underwriting and monitoring as we combine banking expertise, industrial expertise, thanks to the Tutor network, and the use of the most advanced technologies regarding the use of data.

Based on the experience of these few months of activities, we can affirm with conviction that the central role of the Tutors is confirmed, particularly for the contribution they provide in the analysis of prospective deals, in the knowledge of the sectors and of the companies involved in the various transactions, across all our business lines. Tutors in fact challenge the business plan proposed by the entrepreneur, both in case of transaction aiming to support the growth and in case of the debt restructuring plans.

The credit machine unit is up and running and we are also developing a credit scoring tool which is scalable and can be particularly useful for standardised lending activity (as in factoring).

ANDREA CLAMER, HEAD OF NPL INVESTMENT AND SERVICING

Slide 22: illimity is building the Italian Corporate distressed credit champion

We are acting in the corporate distressed loan market through 3 businesses: Investment, Senior Financing and Servicing.

In details:

1. we buy distressed loans, secured and unsecured, focusing on corporate debtors;
2. we provide financing solutions to other NPL investors;
3. we manage captive and no-captive distressed credits and related assets through our servicing unit.

As already said, we will focus only on the corporate distressed market, which we consider attractive, profitable and dynamic given its large size of more than 135bln, a still immature servicing market and a limited competition.

Slide 23: We are rapidly building volume, even with a selective approach

I would like to show you a brief summary of our numbers. We are in line with NPL investments and ahead with Senior Financing.

Up to now, we have originated €735mln of Net Book Value. Other 130 will be signed in the next forthcoming weeks and 500 are in advanced pipeline for a total NPL investments of almost 1,3 bln, with a target of 2 in 2020.

In terms of servicing, we have almost 4,8 bln of loans and asset under management, considering also IT Auction, additional 2 are in advanced pipeline for an expected total GBV of 6 bln with a target of 5-6 bln in 2020.

Slide 24: Business momentum in the second quarter

By looking at our numbers in a deeper detail, let consider that 145 mln of NPL Investments refers to deals already signed, that will be booked in the forthcoming months.

Slide 25: We are a specialist player in Corporate distressed loans

Our total booked portfolio, on June, has a gross book value's composition in line with our business plan assumptions. The retail segment, strategically non-core, will be sold in the next months.

The cash on cash is 1.6 and the ERC is more than 250 mln.

Slide 26: We are building on revenue and cash collection

We want to give you both the cash flow and accounting perspectives to show you how our NPL investments are performing so far.

From a cash flow perspective, since their acquisition, the booked portfolios had a total collection of 11mln, with an increase of almost 5 with respect to the business plan.

From an accounting perspective, so far, we have reported revenues for 13.7 mln, of which 10.6 from the NPL investments and 3.1 from the senior financing.

Slide 27: we have created the first end-to-end corporate NPL player.

During the second quarter, we have launched Neprix, our servicing platform and today we are already considered one of the largest corporate servicers for distressed loans.

Moreover, we have signed an agreement for the acquisition of the majority stake in IT Auction, leading player in the management and the re-marketing of real estate and capital goods.

With Neprix and IT Auction, we cover the entire NPL value chain, following the transaction from the investment phase to the servicing and the re-marketing ones.

CARLO PANELLA, HEAD OF DIRECT BANKING AND DIGITAL OPERATIONS

Slide 29: IT architecture ready

Thank's Andrea for your introduction and good morning everybody.

As I oversee Operations and Direct Banking, in the next few slides I will drive you through the Digital Platform, giving an update about the level of completion, and the Online Bank, the last business to be launched by illimity.

In less than 10 months we have built illimity Digital Platform. The whole IT architecture is ready, and up & running and represents the state of the art of Banking IT solutions.

It is more than an IT System; it is a framework made with several independent tiles that we can manage to second business and evolution priorities. The areas in the slide represent only a small part of all the components.

Leveraging on technologies, every component can be plugged in or plugged out if something newer is needed.

To allow this, it has been built around four pillars:

- Enable integration of fintech solutions
- Open to customers and partners
- Fully digital, that means to be enabler for fast process and real time processing
- Data centric to support Artificial Intelligence and Advanced Big Data Analytics

It has been designed flexible to support business needs.

The framework is now complete, and the bank is running fully on cloud with its main business components:

- New core banking system coming from a leading open IT solution
- Invoice lending
- Leasing
- NPL IT system
- Front end for direct bank

All business applications are integrated around API Layer opening to integration with third parties, the data lake, allowing big data analytics, and micro services architecture, enabling flexibility and speed.

Slide 30: Direct Bank launch in September

Direct Bank: it is online. We promised to have it live by H1 2019 and now I can say that it is fully operational since June 2019.

And we will launch to the open market by mid-September.

The platform is complete and is composed by:

- Online banking, both web and mobile. Better say mobile first.
- Mobile payments systems and cards – with embedded Apple Pay and Google Pay
- Advanced AI enabled analytics
- Everyday savings with smart accumulation mechanism

And the human touch is live as well: the contact centre, that we will call smart care, is in place and answering with phone, chat, mail and will enhance by the launch date.

To maximize the initial boost, we planned the commercial launch in mid-September without giving disclosure to open market.

So far, the Direct bank is open on invitations only starting from community members.

It is available for households and companies.

Slide 31: Designed also with our web Community

We can proudly say that the Direct Bank has been designed with customers, and this is the home page of the community we have built and that counts over 43 thousand people that joined in the last 7 months.

As we were starting from a greenfield, we followed a prototyping approach to develop this business line.

Participants gave suggestions, answered to questionnaires and gave feedback about communication, products and pricing.

We collected over 5 hundred suggestions and over 70% have been embedded in offering already online.

The members of the community are the first adopters of the new direct bank.

Slide 32: illimity and Azimut a win-win partnership

While building the direct bank, we started to work to set some partnership that can boost hi quality results.

Thus, I am happy to say that Azimut, one of the main financial advisory firms in Italy, choose illimity ad banking partner for its customers.

It has been built on three main cornerstones:

- Openness of illimity platform
- Complementary offer
- Fully paperless, digital offering

And creates value for both parties: for Azimut it is an extension of financial services to state-of-the-art banking services, for illimity it is an opportunity to enhance service and customer base.

For customers the advantage will be a specific set of products and a dedicated customer center.

Slide 33: illimity & raisin. Partnership producing valuable results

We have already mentioned Raisin as an important partner for our growth path.

It is part of our retail banking strategy, and it is particularly important for funding mix: in less than three months, we are close to 1 hundred 20 million euros raised with the German platform.

The result is spread on over 4 thousand customers, that means granularity, and thus, stability of funds.

Also the cost of funding is low: it is about 1,2% with an average duration of 22 months.

This is only the beginning as we will open to other channels and countries in the next months.