illimity Bank S.p.A.

"2Q20 results Conference Call"

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MODERATORS:	CORRADO PASSERA, CHIEF EXECUTIVE OFFICER
	FRANCESCO MELE, CHIEF FINANCIAL OFFICER AND HEAD OF CENTRAL FUNCTIONS
	ENRICO FAGIOLI, HEAD OF SME DIVISION
	ANDREA CLAMER, HEAD OF DISTRESSED CREDIT INVESTMENT AND SERVICING
	CARLO PANELLA, HEAD OF DIRECT BANKING AND DIGITAL OPERATIONS

CORRADO PASSERA, CHIEF EXECUTIVE OFFICER

Good morning everyone and thank you for your time.

Here with me is:

- Francesco Mele CFO & Head of Central Functions
- Enrico Fagioli Head of SME Division,
- Andrea Clamer, Head of Distressed Credit Investments and Servicing Division,
- Carlo Panella, Head of Direct Banking & Digital Operations

I am pleased to say that our results for the second quarter are even better than the first quarter, which already demonstrated a strong start. This quarter has exceeded our initial expectations, proving the resilience of our business model.

Let's get started with slide 2.

Slide 2 - 2Q20: a resilient quarter

illimity has proven to be resilient in all crucial areas:

- We delivered good **economic results**, with a net profit in excess of € 10mln in 2Q – double what was reported in 1Q and confirming a clear trend.
- **Business origination**: our customer loans and investments have advanced by 9% on 1Q20 on a proforma basis, despite the difficult climate and our increasingly selective approach. We will see later that we also have a robust pipeline for the second half of 2020, and we have already booked quite a few deals in July.
- The **quality of the existing business** confirmed to be sound: we see no deterioration in the SME Division's loan book, and we continue to enjoy strong gross cash flows in our Distressed Credit Division.
- Lastly, **resilience of our capital and liquidity position**, with a CET1 ratio of approximately 18.3% as of the end of June. Approximately 19.5% if adjusted, to include special shares, and positive effects deriving from the European Parliament banking package: both effects will become visible in our accounts before the end of the year. Our net liquidity position stands at around 500 million euro.

All in all, we are very satisfied with the results achieved in the first half of 2020.

Slide 3 - Resilience driven by diversification and fast decision-making process

illimity has a diversified business, grounded on three pillars: the SME Division, specialised in lending to high potential corporates, the Distressed Credit Division, focused on purchase, financing and servicing of corporate distressed credit, and our Digital direct bank, illimitybank.com. The three divisions are complementary to each other.

Such diversification contributed to this quarter's good results.

In addition, thanks to our business model, featuring a lean structure, fast decision-making processes and a fully digital open IT platform, we have been able to react proactively to this difficult environment.

Enrico, Andrea, and Carlo will talk about the results and the trends of each division. I would just like to point out a few aspects.

The activity in our **SME business** has recovered since June, following a slowdown at the beginning of the quarter, due to Covid-19. July was a very encouraging month. Notably in factoring, also during the lockdown, we were able to attract and onboard new clients through our fully digital remote onboarding process.

The governmental support measures are proving effective as they make viable and attractive deal opportunities by reducing risks - also for existing positions - and optimising capital use.

The **Distressed Credit division** has posted another strong quarter: despite the lockdown and Tribunal closures, gross cash flow outperformed initial plans for the third quarter in a row.

The market remains very dynamic with opportunities also in new asset classes like **UTP portfolios**. Our ability to combine the expertise of the SME Division and the Distressed Credit Division represents a significant competitive advantage on the market of UTP portfolios. Our pipeline in this new area of activity is already robust.

In our **direct banking platform** – illimitybank.com – we have invested heavily in generating a strong user experience. Later on, Carlo will show you the related data, and it will be clear to see we are well ahead of all other direct banks. With the launch of the **illimityHub** we created a new frontier, opening the illimity platform also to non-financial partners. This marks a further step in our path towards being a unique open banking player. There are new important initiatives in this area around the corner.

We have decided not to push on deposits gathering this quarter, as we are already nearing the funding target for the year, specifically after the TLTRO intake.

Slide 4 - Good progress in business origination

You can appreciate from this slide that our business origination shows good progress in both Divisions, despite being very selective in our approach.

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

Since inception, the originated business – including both the business already booked and the business signed, which will be booked in the following months - exceeded €2bn (column A).

On top of this figure (column B) there is over €230mln worth of business referring to transactions where we are negotiating the final terms of the agreements and almost €700mln worth of transactions in the advanced pipeline (column C).

A+B+C makes around €3bn of customer loans and investments, that is close to our initial targets range for 2020.

Finally, our servicing platform: neprix. Assets under management reached 8.6 billion euro including both loans and assets, well above our planned targets.

Slide 5 - Outlook for full year 2020

Let's look at the outlook for the remainder of this year.

A few of our goals pre-COVID will be delayed but the year looks certainly more promising than it was initially feared.

As of today, we aim at reaching a profit in the range of €30mln for FY2020. This would be equal to a Return on Equity of more than 5%.

This figure is particularly satisfactory because it includes costs to the value of 5 million euro which we have advanced, in order to lay foundations for a number of strategic initiatives, which will start paying off from next year. To give you some insight, we are building a team and an IT platform to play an important role in the emerging UTP portfolio segment, together with some other strategic projects.

A final word on our Long-Term Business Plan.

As previously announced, we will refine it and we will present it to the market along with the 2020 results.

The scenario has certainly changed since we first presented our 2019-2023 Business Plan. Thanks to our flexible business model we believe we can manage the unexpected risks that have emerged during the first two years of our existence. We are adding several strategic projects to capture all opportunities in our core markets. Most of our businesses are now even more attractive than previously expected, and new markets are emerging.

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

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FRANCESCO MELE, CHIEF FINANCIAL OFFICER AND HEAD OF CENTRAL FUNCTIONS

Slide 7 – Doubled net profit without trading contribution

Thank you Corrado and good morning everyone.

I am now on slide 7.

Let me start saying that illimity's strong performance in 2Q was driven by its resilient business model, which allowed us to double our net profit, despite a very complex environment and without any contribution from trading.

I would like to highlight the following trends for the quarter:

- despite an even more selective approach in origination and underwriting, customer assets grew around 9% quarter on quarter. The growth was concentrated in the last part of the quarter, as activities started to gradually return to a more ordinary level;
- recurring revenue made further progress, driven by solid net interest income, and despite the temporary slowdown of the commission income, mostly due to tribunal inactivity. Total revenue didn't benefit from any contribution from trading;
- SME Division delivered a resilient performance, including the first recognition of a credit revaluation event in turnaround, a key component in the turnaround revenue model;
- despite tribunal inactivity, DCIS Division had a solid performance with cash collections exceeding expectations, and steady streams of profits from closed positions;
- provisions are stabilising following the conservative stance adopted in the first part of the year.

Let's now dive deep into the figures.

Slide 8 – Steady growth despite selective approach

… starting from the balance sheet on slide 8 …

Total assets increased to €3.2bn, with a slightly different asset mix resulting from activities performed over the last few months.

Our liquidity remained robust at €500mln between cash, net adjusted interbank position and liquidity buffers. Such liquidity remains available, to be redeployed into new loans and investments. Also, our interbank exposure remained stable in order to minimise any negative carry.

Turning to business volumes, customer loans adjusted for repossessed assets – a workout strategy for secured positions - are up 9% quarter on quarter to €1.8bn. Looking at our business lines, DCIS investments are up 14% on a pro forma basis to €724mln. This result is even more impressive, as it was achieved using a very selective approach in origination and underwriting consistent with the overall scenario.

SME is up 10% to €613mln: crossover/acquisition financing grew 13%, factoring 5% (reflecting turnover bouncing back in June, following a couple of months of subdued activity) and turnaround remained stable due to the lack of visibility required to proceed with any restructuring plan.

During the quarter we toned down our financial portfolio to €286mln, and its negative mark to market was significantly reduced from €11mln to €4mln.

Retail and corporate funding increased 3% quarter on quarter to nearly €1.8bn, mostly driven by our digital platform illimitybank.com.

Finally, CET1 capital is up to €466mln, mostly due to quarterly profit, the effect of the buyout of 30% of IT Auction and reduction in the negative mark to market of the securities portfolio. RWA are up 9% to €2.5bn.

Slide 9 – Doubled net profit without trading contribution

Moving to profit and loss on slide 9 …

Net interest income further accelerated in 2Q, posting a 11% progression quarter on quarter. We expect further benefits in coming quarters, due to growing volumes in June and July, and funding cost optimisation. It is important to note that during the quarter we recognised, for the first time, a credit revaluation event in connection with a turnaround position.

Net commissions decreased 15% quarter on quarter to €2.1mln mostly due to tribunal inactivity. Commissions are expected to rebound in coming quarters, when activities return to a more normal level. A dynamic management of distressed credit positions led to a steady stream of profits from closed positions (mostly through DPO strategies), equal to €7.9mln. Such a result proves our ability to swiftly and effectively adapt our strategies to different scenarios.

Overall, operating income decreased by 7% quarter on quarter but remained stable on a recurring basis. Operating costs were largely flat at €28mln. They include €0.9mln in connection with the Employee Stock Ownership Plan which is typically booked in the second quarter of the year.

Following a very conservative approach in the first quarter, and supported by thorough and continuous monitoring, which confirmed a negligible deterioration of the portfolio until now, loan loss provisions decreased to €1.2mln.

In relation to DCIS Division, €4.6mln of positive value adjustments are mostly driven by actual cash collections in excess of expectations.

Profit before tax was up 40% quarter on quarter to €10mln and to €10.3mln after tax, thanks to the positive impact of goodwill tax recognition for €3.7mln.

Slide 10 - KPIs confirming strong asset quality and liquidity

Let's move to KPIs on slide 10 ...

Cost income marginally increased to 82% but, was substantially stable if one-off items are excluded.

Cost of risk on loans to customers, excluding lending to financial institutions, is down to 52bps in 2Q to reflect lower collective provisioning. Coverage of the performing portfolio remains very prudent, and excluding factoring is 1.6%.

On the other side, to confirm there was negligible deterioration of the portfolio, the gross organic NPE ratio remained stable at 4.2%.

LCR stands in the thousands' area confirming ample liquidity buffers.

Lastly, CET1 ratio remains very robust at 18.3%. In the next slide, I will explain how we expect this ratio to improve on a like for like basis in coming quarters.

Slide 11 – Building up CET1 capital

Moving to slide 11 let me give you a few data points on CET1 capital evolution ...

During this quarter, we started building up our common equity, through accrued earnings in line with our business plan expectations.

Regulatory capital increased by over €25mln to €466mln, with the main contributions coming from 2Q net profit for €10mln, impact of IT Auction 30% buyout for €8mln and reduced negative mark to market of the securities portfolio for €7mln. We also benefited from the IFRS9 prudential filter, introduced with the recent EU Banking Package for €3.6mln and from the use of DTA which was partially offset by an increase in intangible assets due to capitalised costs.

RWA increased during the quarter to €2.5bn - in light of assets growth and certain temporary inefficiencies due to revert in 2H20 – for a CET1 ratio of 18.3%.

On a like for like basis (which means before any capital being absorbed by new business) we expect our capital position to be 19.5% due to:

- the inclusion of €14.4mln of illimity special shares, following completion of EBA approval process, and;
- other measures introduced by the EU Banking Package, which are due to become effective by year end (in particular in connection with IT intangible assets).

Even if not included here, we will also count on additional contributions from retained earnings, reduction of interbank exposures as liquidity is redeployed, and capital optimisation initiatives, which we expect to generate around €200mln in RWA reduction.

Slide 12 – Securities M-t-M moving in right direction

Moving to our securities portfolio on slide 12 …

During the quarter we fine-tuned our portfolio, in order to reduce its exposure to market volatility. Such an exercise – performed without any trading losses - allowed a reduction of the negative mark to market from €11mln to €4mln (and it is currently in the region of €2mln).

At €286mln our financial portfolio currently represents around 9% of total assets, in line with the 10% target for year end.

In terms of asset mix, 61% is invested in Italian sovereign debt, 29% in senior corporate and 10% in subordinated debt.

Slide 13 – Balanced and inexpensive funding

Proceeding with cost of funding on slide 13 …

In developing our funding, we targeted a balanced mix with a stable component, consistent with our business mix and duration.

At the end of the quarter our total funding increased to €2.5bn, with good progress across all funding lines.

Term funding represents 70% of the total, and the maturity of the medium to long term funding component is over 3.5 years to ensure consistency with asset duration.

Average cost of funding is stable at 1.5% with a slightly different mix of products and maturities.

As anticipated, in light of its favourable terms and conditions we drew from the latest TLTRO lending facility for €185mln.

Slide 14 – Looking positively at full year 2020

Let me close with a few remarks on the outlook, for the entire 2020 on slide 14.

Looking at our pipeline we expect significant volumes in the last part of 2020, with SME more concentrated in 3Q, and DCIS in the seasonally stronger 4Q.

Net interest income progression will be underpinned by new business and lower cost of funding, due to cheaper maturities and mix.

We also expect commission income to rebound on revitalised SME deal flow in acquisition financing and factoring, as well as on revamped IT Auction business.

Turning to operating costs, we have decided to anticipate certain strategic investments in connection with new business opportunities – some of which will bear fruit as early as 4Q - hence costs are expected to increase in the second half of the year.

In the last part of the year, we also expect to benefit from some of the recently adopted public measures, which should be helpful in terms of stabilising provisions and contributing to capital optimisation strategies.

All in all, we are confident we can achieve healthy results for the entire 2020 period. These results, despite being below the expectations embedded in the original business plan, confirm how resilient our business model is and pave the way for even stronger results in years to come.

I will now hand you over to Enrico who will provide detailed information on the development of the SME businesses.

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ENRICO FAGIOLI, HEAD OF SME DIVISION

Thank you, Francesco. Now moving onto the SME division.

Slide 16 - Specialist partner of Italian SME

This opening slide of my presentation is just a reminder of what we do. We are a specialist partner for SME, and we serve a relevant and growing market with a full range of lending facilities.

Slide 17 - Growth and pipeline with a selective approach

First: business origination. June, and even more July, showed visible signs of recovery in business origination, after some inevitable slowdown, due to Covid 19, in April and May and this, combined with a strong pipeline, led us to be confident in the second half of the year.

Second: public guarantees. We completed the first few deals with public guarantees, more transactions were agreed and booked in July, and we confirm that these are attractive measures as they offer risk mitigation – also on existing credit exposures - and interesting returns on capital. We exploited public guarantee opportunities, also in the Turnaround business.

Third: new business idea. We launched a desk dedicated to investment in high-yield corporate bonds, as a way of diversifying our business mix and boosting profitability.

Last point: revenue. This quarter we booked the first revenue upside we embedded in our turnaround business, as a result of a credit revaluation.

Slide 18 – Originated business: selectiveness and return on capital

We present here the evolution of the originated business, with the caveat that over time, the gross origination tends to diverge from the value of the outstanding loan book, due to loan repayments.

Overall, our business origination, since inception to the end of July, amounts to €760mln, with a good progression in the second quarter.

There is an additional €215mln worth of deals, where terms and conditions have already been agreed upon, of which factoring granted credit-lines of €115mln.

Our pipeline exceeds €270mln.

As you can see on the left side of the slide, we remain very selective in terms of business opportunities. Since the start of our operations, we have analysed nearly 400 Crossover and Turnaround deals and signed only 50.

Slide 19 – Cross-over & Acq. Finance: solid business origination and de-risking

Let's start with the Crossover & Acquisition Finance business.

Business origination in 2Q20 has been solid and has continued into July, driven largely by activity with new customers.

We have also completed some transactions with public guarantees, also with existing customers, and we confirm that these measures are attractive, as they reduce risk, optimise the capital allocation and enhance return on capital.

Between transactions with terms agreed ready to be signed, and the pipeline, we are confident we will be able to generate strong business in the second half of the year, still remaining extremely selective in our approach.

The credit quality of our portfolio, including the former Banca Interprovinciale legacy book, has so far remained stable, and we see no significant risk of material deterioration in the near future. Furthermore the extensive use of public guarantee instruments, will allow us to structure financial solutions, consistent with the new scenarios our clients will face. We will provide you with more details later.

Slide 20 – Bond desk: an extension of our Crossover activity by capitalising our industry expertise

This quarter, we have set-up a desk focused on investment in high yield corporate bonds, listed on the secondary market of Italian exchanges.

With this initiative, we aim at taking advantage of our extensive market knowledge in credit assessment, to invest in corporate bonds – with the goal of holding the investment till maturity – where we see an arbitrage opportunity, between the interest rates that the company would pay, in a primary market or in a private debt transaction, compared to the yield of the bond in the debt capital market.

As of today, we have invested €23mln (actually €27mln of notional amount) with a yield to maturity in excess of 10%. This initiative will add diversification and provide a kick to the profitability of the SME Division.

Slide 21 – Turnaround: ready to acquire going-concern UTP portfolios

During the second quarter, the single name turnaround market has slowed down significantly: few initiatives have been taken by the relevant players in this market and we also lost an important deal, due to our focus on obtaining a proper return on the risks we are taking.

In the single name market, we have identified opportunities arising from the application of public guarantees. These are mainly financing transactions with companies almost at the end of their financial restructuring plan which, as a result of Covid-19, have suffered from a renewed fragility in their financial structure, hence our intervention.

In July, immediately after these measures became fully effective, we executed the first two transactions of this kind, allowing us to sit down with the company's other creditors, at a later time, and propose credit purchases or other restructuring interventions.

At the same time, we have worked during the quarter, together with the DCIS division, to buy UTP portfolios. This is an emerging segment of the distressed credit market, attractive in terms of returns, where illimity is positioning itself as a leading player, by capitalising on the strong complementarity in organisation and competences with the DCIS division.

In the 2Q we have also booked a credit revaluation of €0,8mln.

Slide 22 – Factoring: strong recovery from June

In the first quarter of this year, factoring had embraced a really strong momentum. Then Covid-19 occurred and slowed down corporate activity in April and May, thus our volumes for these 2 months were significantly reduced. This trend didn't happen only to us – but to the whole Italian factoring market, which for the first time in the last 12 years, posted a visible decline in 2Q.

Turnover volumes recovery started in June, and July was also an encouraging month. Notably, during lockdown, we were able to acquire and onboard new supply chain customers, through a fully digital, remote onboarding process, and this has contributed to a boost in activity. Today we have more than 100 clients and nearly 500 debtors.

Slide 23 – First impact from significant public measures and guarantees

Let me conclude my presentation with a final word on the public measures. The Italian Government has enacted several legislative packages, to support the economy and Italian businesses. These measures contain provisions that could also lead to a significant risk reduction on the existing loan portfolio.

Let me walk you through it.

Moratorium: we have entered into loan moratorium agreements, for a gross nominal amount of €86mln. More than a third are related to positions where we have already structured a refinancing transaction with public guarantees. The legacy Banca Interprovinciale portfolio, which accounts for less than a half of total requests, consists of very granular positions. All the exposures have been attentively and continuously monitored. We do not expect any particular deterioration of these positions.

With regards to other instruments, made available by the Government measures, in 2Q we booked €10mln with the public guarantee FCG scheme.

A further €78mln has been approved, of which €41mln with SACE guarantee scheme and these are transactions with terms agreed to be signed. Overall, we expect to grant between €150 and €200mln of financing with public guarantees by the end of the year.

That's all for SME and I now hand you over to Andrea.

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ANDREA CLAMER, HEAD OF DISTRESSED CREDIT INVESTMENT AND SERVICING

Thank you Enrico and good morning everyone. I'll go through this presentation of a very positive 2Q in the Distressed Credit Investment & Servicing Division

Slide 25 - Building the Italian Corporate Distressed Credit champion

Since many of you are already familiar with us, I will be brief: we are a leading player in corporate distressed credit, with a specialization in some attractive segments of the market. We are a fully integrated operator, covering the entire value chain of distressed credit, from investment to financing, servicing and remarketing.

Since we focus only on corporate distressed credit, we do not invest in retail non-performing exposures: in the case we buy them as part of a mixed portfolio, we then sell those positions.

Slide 26 - A very positive 2Q20 with limited impact from COVID-19

Both the first and second quarter of 2020, have certainly been positive periods in many respects.

Despite the impact of Covid-19, currently in 2Q the Division has confirmed a good trend in cash flow outperforming the relevant collection plans.

This has also been possible thanks to a dynamic approach to portfolio management, which appeals to credit disposals. These credit disposals are not just occasional transactions: their recurring nature suggests that they are part of a broader, emerging market of credit solutions.

In terms of market outlook, we are experiencing intense market activity, characterized by the birth of several new opportunities, combined with lower competition than in the recent past. An important wave of new distressed credit is expected next year from originator banks.

Slide 27 - Outperformance of cash flow continued despite lockdown

The left side of the slide shows collection-performance during the Quarter and since the beginning of our activity, with respect to credit collection plans.

As we all know, Covid-19 has caused a standstill for many activities, including Law courts, preventing us from carrying out legal actions. Nevertheless, the booked portfolio had a total collection of €28.5mln, with an overperformance of almost €10mln during 2Q20. Since our inception, we have collected €139mln and the overperformance has reached €60mln.

Let’s go through the right side of the slide: the reported table highlights the increasing importance of the so-called “adjustments”, that reached €12.5m in 2Q20. Around €7.9m out of €12.5m has been generated thanks to credit disposals and other “fast-closing” strategies, with even a slightly positive impact on our ERC – Estimated Remaining Collection. This confirms the recurring nature of these solutions, that always add value with respect to the initial business plan.

Slide 28 – Revenue from closed positions are core to the DCIS business model

On the following slide, 28, we will explain with examples why revenue from closed positions are a core revenue stream of our DCIS business model

We highlighted earlier that for the third quarter in a row we generated profit from closed positions.

On this slide, we provide two emblematic examples-of atypical “fast closing” strategy to confirm that what happens with these strategies is repeatable and so is the related revenue.

We have two main situations.

In the first, the typical gain from credit disposal happens when the credit exposure we buy, represents a small share of the wallet in the overall debtor’s exposure to the banking system; in these cases, we sell to creditors, or to investors, who pursue debt consolidation strategies.

The second typical transaction is a win-win workout strategy with the debtor. In these transactions, the debtor is willing to pay the residual debt in advance, at a discount, thus preserving collateral that can be instrumental to its core business.

Slide 29 - Strong out-of-court workout component drives cash flow performance

First of all, as represented by the chart on the left, the pricing approach is mostly based on judicial strategies, where real estate asset value is 50% below market value, on average. However, actual workout strategies are increasingly skewed towards out-of-court settlements, thus with a shorter time frame of collection and higher cash flows than foreseen in the pricing phase.

Secondly, let me emphasise again that we are a corporate distressed credit player. Retail represents a very small portion of our assets, and we tend to sell whatever is granular. As a result, our portfolio is made of large-ticket borrowers. To give you an idea, approximately 40% of our Gross Book Value is represented by positions larger than 2.5m.

Large-tickets usually own significant underlying assets that can be leveraged to set up consensual solution strategies. These solutions are usually quicker and more effective than a judicial workout.

Slide 30 - A resilient business origination combined with pricing discipline

Numbers confirm that our business origination was in line with our assumptions for the first half of 2020.

Our approach remains very selective – we are very disciplined in terms of how we approach expected returns: considering a total GBV of approximately €50bn of analyzed deals, only €6bn have been signed since inception, and approximately €40bn have been declined or lost so far.

Acquisition and financing continued during Q2, allowing our Originated Business to exceed 1.3bn. Moreover, a robust pipeline originated during this first half, deals already agreed and pipeline at an advanced stage of development worth roughly €400mln.

Assets Under Management of our Servicing Units are already largely above targets, and we expect further volumes to be onboarded.

Slide 31 – Diversified growth

This slide, as many of you may already know, focuses on the temporal distribution of our investments and senior financings inception-to-date.

Firstly, business origination of DCIS Investments doubled with respect to 2Q19. Despite the general uncertainty in the financial market, our investments' trend has not decelerated.

On top of that, we have seen a growing business for the so-called "special situations real estate".

Slide 32 - Portfolio growing steadily

Let me close my presentation with the usual picture of our distressed credit portfolio.

Moving left-to-right, the first chart shows a slight increase in unsecured positions in terms of Net Book Value, mainly due to the repossession and *datio in solutum* of real estate assets occurred in 2Q, for a total amount of almost €49mln.

Asset repossession is not an extraordinary solution, but part of the workout strategy.

Estimated Remaining Collections (or "ERC") have now surpassed €1bn, this excludes expected cash flows from sale and rents of repossessed assets. The cash-on-cash multiple remained stable at 1.4x.

To conclude, the Division has performed very well this quarter, as well as in the whole first half. I am very satisfied with the milestones we have reached so far, and the positive economic results that the Division has been realizing.

I am now happy to give you Carlo Panella so he can deliver his first-half news. Over to you Carlo.

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CARLO PANELLA, HEAD OF DIRECT BANKING AND DIGITAL OPERATIONS

Thank you Andrea and good morning everybody.

Let's move to slide 34 to talk about our Digital Platform first.

Slide 34 – IT Infrastructure leverage

illimity has the most advanced IT Platform in Italy, and possibly, in Europe.

Such a platform, represents a strong competitive advantage thanks to its distinctive features

- Fully in cloud, enabling fast evolution
- API Based: allowing easy integration of third parties
- Modular by design: all components are independent and can be plugged in and out, without affecting the whole architecture.
- Cost effective thanks to AI and Cloud solutions

The tick boxes on each and every item, highlight that Phase 1 is completed. We are now ready to take advantage of data and digital platforms, to create specific, exclusive solutions to support business and compliance.

Just a few examples:

- a single integrated solution to manage NPL, covering the end – to – end value generation process: from due diligence to asset management
- a new system to manage complex credit solutions with more flexibility
- a system to support the management of UTP portfolios, as described by Andrea and Enrico

As a final remark, I'd like to confirm that we have fully passed the smart working test. Thanks to our architecture, we didn't suffer any operational slowdown during lockdown.

Moving onto slide 36 on Direct Banking,

Slide 36 – Combined features of ilimitybank.com make it unique

Let me take a moment to remind you why our Direct Bank illimitybank.com is unique

Our direct bank is:

- Fully fledged: part of the offer is internally developed, part of it is outsourced through partnership. We do not suffer from a “not-invented-here” syndrome
- PSD2 native: the very first on the market
- Open by design also to non-financial products and services
- Digital, but with a strong human touch thanks to very professional Contact Center
- A lot of personalized AI services…

There is no other bank that has all these unique, customer serving and innovative features, which are also very competitive in terms of pricing and conditions

Let’s move on to the results on page 37.

Slide 37 - illimitybank.com now a benchmark in customer engagement

This slide is especially important, as it shows that we are becoming a sort of benchmark in terms of customer engagement

- 83% active customers
- 26% of customer base choose illimity as primary bank
- 15% of customers already using the account aggregation services recently made available

There are no other digital banks with these kind of figures

Looking at funding, we have recorded some excellent outcomes

- Steady and progressive growth in deposits, in line with the Group’s needs and with durations matching our assets durations
- Cost of funding decreasing (-20bps vs end 2019) and in line with our Business Plan

We are building a sound customer base, made of high value customers, who appreciate our digital services for a range of everyday needs

Slide 38 – What do they say about us…

Turning to market positioning, I am happy to report, we achieved strong results

- The Brand Awareness Index is growing month on month, allowing illimity to be recognized as a leader and a pathfinder of digital banking.
- NPS: as you can see, ambassadors, the satisfied customers, are stable above 50% vs an average of 35%, across the banking sector.
- In June, ABI, the Italian Banking Association, recognized illimity as the most innovative retail bank for families and young people.

Let me say thanks to the team who worked on this project. We are very proud of this important recognition.

Let's now move to the last slide and take a quick view of our strategy in this area.

Slide 39 – The path towards an API-based economy

According to our Business Plan, our Digital Bank was designed as a funding engine for the two credit and investment divisions. This mission has been accomplished.

Now, that illimitybank.com is recognized as a market leader in engagement, we are considering the possibility of going beyond the ancillary role I just described.

We are working on an enhanced growth strategy, based on a wider product offering and on a target volume of customers, much higher than initially planned. Provided, obviously, a satisfactory profit margin can be rapidly achieved.

Hopefully, we'll have already delivered something interesting by the second semester of this year. And it will be something very significant.

This ends my presentation, thanks to everybody for your attention.

I will now hand it over to Corrado for the Q&A session.