

illimity Bank S.p.A.

"Third Quarter 2019 Results Conference Call"

Monday, November 11, 2019, 08:30 CET

MODERATORS: CORRADO PASSERA, CHIEF EXECUTIVE OFFICER
 FRANCESCO MELE, CHIEF FINANCIAL OFFICER AND HEAD OF
 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 in advance for your time.

This quarter is a very special quarter for illimity.

I am confident by the end of our presentation, it will be clear, illimity has set her sails and is heading out to sea.

Slide 2 - All strategic milestones met

We have successfully consolidated a number of important foundations and are confident all the main risks related to the start-up phase are now behind us.

The bank is starting to sail at full speed.

On slide 2 let me run you through these 5 foundations:

1. Money: from day 1 we have had the equity we need to fund our business plan.
2. People: One of the strengths of illimity and what gives us our edge is our people: a dynamic, strong and very cohesive team.
3. IT infrastructure: we have developed a fully digital, modular, fully in cloud-IT architecture. It has been tested. It is now fully operational
4. Volumes: You will see later in the presentation that our commercial momentum is moving with a positive trajectory. Enrico and Andrea will give you the details
5. Finally, the breakeven point: Now, we can see it. It is on our horizon.

Slide 3 - The first Italian “New Paradigm Bank”

Looking at slide 3 allow me to remind you, what makes illimity different from traditional banks.

ILLIMITY is a new paradigm bank for the following main reasons.

- We have no legacy – Nothing now, nothing in the future.
- We are fully digital, and we use the most advanced technologies.
- We guarantee new levels of service, and quality with a human touch.
- We have significant and sustainable cost advantages, and they are sustainable
- We have identified large and profitable market segments, in the Italian banking industry and we have developed a unique business model focused on them.
- We are an SME specialist; we are a corporate NPL specialist and we are a state-of-the-art digital bank.

Slide 4 - 3Q19 in full sail

As I mentioned a moment ago, illimity is in full sail. Let's look in more detail at this quarter.

Illimity bank.com, our digital bank, was successfully launched: the climax of our presentation today is our digital bank. Carlo is going to showcase our results, and I am proud to say, they are very positive.

Our business momentum is further accelerating: The business momentum continues to remain firm, both Enrico and Andrea will elaborate on it

Our 3Q economic results are in line with our plan, and Francesco will talk you through the numbers shortly

We have a new initiative to report. Enrico will share the details in his section. We are setting up an asset management company to boost our turnaround business. This booster has always been part of our strategy even if our BP targets do not include any potential profit coming from it.

Slide 5 - 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 a Net Profit close to 300 million.

We want to reach 6.6bn assets in 2023, which may seem ambitious but, as you will appreciate on the following slide, we achieved already strong business origination, up to the end of October, across all other business lines, and the trajectory so far is consistent with the targets.

Moving on to slide 6

Slide 6 - Business origination in line with target

Accelerated business momentum

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 after the First and the Second Quarter.

The results we have achieved so far positively confirm that the volumes trajectory envisaged in our Business Plan are well on track

Since inception, the originated business – including the business already booked and signed, which will be booked in the following months - exceeded €1.5bn; (column A)

We are particularly satisfied with this number, considering we launched the bank just a year ago

On top of this figure (column B) there is 280 mln worth of business where the final terms of the agreements are currently under negotiation but that we expect to sign shortly.

The advanced pipeline ahead (column C) is robust across all our business lines, adding a further 600 mln.

A+B+C makes 2.4 billion that is not far from the 3 billion targets for next year.

I am very satisfied with the results of this quarter; they are in line with our expectations and in many ways exceeded.

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

FRANCESCO MELE, CHIEF FINANCIAL OFFICER AND HEAD OF CENTRAL FUNCTION

Slide 8 - Accelerating economic trajectory in 3Q19

Thank you Corrado and good morning everyone.

I am now on slide 8. When we reported Q2 figures, we anticipated an acceleration in commercial momentum towards the end of the quarter. With our Q3 results, we can confirm such momentum continued throughout the quarter consistently with our business plan trajectory.

There are different paces of growth across our business lines, but the overall trend is in line with the business plan.

As a result of growing volumes, revenue increased visibly in Q3 but are due to accelerate again in the following quarters when business originated year-to-date and that we expect to be generated in the next months will be booked and start earning revenue.

On the other side – and as planned -, operating costs were affected by non-recurring expenses mostly in connection with the launch of the digital direct bank.

Based on the revenue trajectory (due to benefit also from business we reasonably expect to generate and book by year-end) and the costs required to complete the operating structure, we confirm break-even is on the horizon.

Lastly, funding diversification has further progressed, and maturities extended, thanks to a balanced funding mix progressively aligning to our targets.

Let me briefly run through the figures ...

Slide 9 - Total assets at 2 billion

Starting from balance sheet on slide 9. Consistently with the approach adopted for the previous quarters and considering illimity was founded less than 12 months ago, we are comparing data quarter on quarter.

Commercial momentum led to a significant increase of our balance sheet with 2bn of total assets at the end of the quarter (+56% q/q).

We have 67m of cash and net interbank position and other liquidity buffers available for ~340m of HQLA and other marketable securities.

On top of this, our balance remains mostly unencumbered.

Customer loans are up 62% q/q to 1,255m with strong contribution across all business lines (NPL investments up 209%, NPL senior financing up 38%, SME up 30% or up 65% if we consider only the new business on top of the former BIP component in line with illimity SME target clients).

Securities portfolio is stable at around 200m.

Direct customer funding accelerated exceeding 600m, thanks to a strong contribution from our pan-European open banking deposit platform, initial contribution from illimity digital direct banking launched

in mid-September as well as corporate and wholesale funding initiatives. This figure as of end October exceeded 1bn.

CET1 capital stands at 466m with RWA up 62% to over 1.6bn due to business assets growth.

Slide 10 - Steeper economic trajectory

Moving to profit and loss on slide 10...

All in all, economic results for Q3 and for the first 9 months are in line with business plan targets.

Net interest income was up 54% q/q to 13.8m with strong contribution from NPL division. You will see later that NPL cash collections were significantly higher than expected also in Q3. Again, interest income in Q3 reflected only partially the business originated in Q3 as it was booked throughout the quarter.

Acceleration in commission income (+33% q/q) was driven by NPL senior financing and SME structuring fees.

Operating costs for the quarter include 3.3m of one-off items related to the launch of illimity digital direct bank, bringing the total one-off component to 7m in the first nine months of 2019.

Personnel costs are down 16% q/q to 7.0m due to no ESOP cost in the quarter and increased component of capitalised staff costs. In the first nine months 1.3m of staff costs were indeed capitalised for IT-related projects in innovation, design and risk management to confirm relevance of R&D investments.

In Q3 we booked 3.9m of loan loss provisions of which 2.5m related to the build-up and calibration of the collective provisioning and to BIP legacy portfolio and 1.4m to periodic business plan review of NPL investments.

Slide 11- KPIs improvement

Let's move to KPI on slide 11.

Cost income is down q/q to 132% to confirm progressive normalization in light of the different speed of revenues and costs.

Cost of risk is down q/q to 138bps reflecting build up and calibration of collective provisioning and impairments on BIP legacy portfolio.

Organic NPE ratio is down q/q to 5% thanks to increasing loan book.

CET1 ratio remains very robust at 29%.

LCR stands at over 1,000% confirming ample liquidity buffer.

Slide 12 - Significant growth and diversification in funding sources

Let me now give you a few datapoints on funding on slide 12.

While cash raised during the IPO was being deployed into investments, we started diversifying our funding sources.

At the end of September total funding reached just over 1.3bn of which 4% (or 41m) generated by illimitybank, our digital direct bank, in less than 2 weeks, 22% related to other domestic and retail customers, 21% to the European Open Banking Platform and 53% to wholesale.

Our funding base further strengthened in October on the back of the launch of our digital domestic offer contributing almost 300m out of total funding of almost 2bn.

As you can see actual funding mix is progressively aligning to the 2020 targets with domestic direct funding at 39%, European Open Banking at 19% and wholesale at 42%.

Another funding tool which is now available is the EMTN programme which is now ready to be used to implement our institutional funding plan.

Slide 13 - Stable and cost-effective funding base

Proceeding with funding on slide 13 ...

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

Term funding represents almost 90% of total with medium to long term (i.e. maturity over 18 months) contributing to 42% of total.

Average maturity of the medium to long term component is over 3 years to ensure consistency with asset duration.

In terms of cost, our blended cost of funding is 1.3%, well inside business plan target.

Slide 14 - Well diversified securities portfolio

Lastly, moving to our securities portfolio on slide 14 ...

You may remember that we considered the downsizing reached at the end of Q2 optimal for the time being.

Consistently our securities portfolio was fine-tuned during Q3 remaining at 209m.

Sovereign exposure accounts for 58% with the domestic component at 53%. Exposure to senior corporate bonds (mostly eligible) was marginally increased to 21.9%.

In terms of relevant metrics:

- Combined mark-to-market at the end of September of the HTC and HTCS portfolio is equal to 13.6m;
- Average yield to maturity stands at 2% with a duration of around 3.3 years.

In summary, I am pleased to report a positive and solid set of interim results.

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

Thank you, Francesco.

The first two slides are just a reminder of what we do and how we do it.

Slide 16 - Building the Italian SME specialist lender

What we do it: we are building the Italian SME specialist lender by focusing on crossover and acquisition finance, turnaround and industrial supply chain financing.

Slide 17 - A distinctive business model in SME. Top professional expertise with top technologies

How we do it: we have chosen a business model which combines banking expertise, industrial expertise, thanks to the Tutor network, and the use of the most advanced data-use technologies.

Slide 18 – Promising volume growth

We made additional progress in the third quarter of the year in terms of originated business.

Since we began operating in late 2018, we have generated volumes of approximately €480mIn. Out of this figure, new business grew by 65%, while what we call the legacy BIP core portfolio, declined by over 10% quarter on quarter.

There are an additional €120mIn worth of deals where terms and conditions have already been agreed upon, plus factoring granted credit-lines for the same amount.

Our visible pipeline for Crossover, Acquisition Financing and Turnaround exceeds €240mIn.

All in all, the originated business and the pipeline amount to approximately €1bn.

As you can see on the left side of this slide, we remain very selective in terms of business opportunities, in particular regarding crossover and turnaround. Since the start of our operations, we have analysed 234 deals, more than 50% were declined at the very beginning of our evaluation process. So far, we have only signed 28 deals

Slide 19 - Crossover & Acq. Finance ahead of schedule

Crossover & Acquisition Finance business: we are ahead of schedule in terms of volumes, as of today we are already closely in line with the volume target set for the year 2020. Many of the crossover/acquisition finance operations have been only partially executed and we are waiting to disburse the residual tranche of loans already signed: as of today, this component is worth about €63mIn.

Our average ticket size is €5-10mIn but there are a few deals exceeding €20mIn and we have operated so far in different industrial sectors.

We have already agreed terms on an additional deal worth €90 mIn, which we expect to execute in the forthcoming quarters, and there are a further €80mIn worth of potential deals in advanced pipelines.

Slide 20 - Since July new platform accelerates Factoring business

Since the beginning of our activity, we have decided to operate our factoring services mainly as industrial supply chain financing.

In December 2018, when we began operating, we were in partnership with a fintech platform while we were setting up our own platform. The real difference was made when we switched over to our own platform in July 2019 as it offers higher flexibility and a wider range of products. Since then, the monthly turnover accelerated significantly, and further progression has been achieved in the month of October.

We have already granted a new credit line worth €120mIn and there is an advanced pipeline for an additional €86mIn credit line.

Slide 21 - Ready to capture the robust pipeline in Turnaround

In the Turnaround business we work on large and complex transactions that take time to be executed, as they involve several actors. To give you an example, during our 2Q results conference call, we announced we had just signed an important deal for an amount up to €50mIn; this transaction - or actually the bulk of it - was in fact disbursed in October rather than in 3Q as initially planned.

We also remind you that, in addition to the single name business, which remains the key focus of our activity, we are also pursuing initiatives on UTP portfolios, jointly with our NPL division. We executed a transaction of this kind in 3Q19 and as part of the UTP portfolio purchased by illimity, the SME Division selected a few going concern exposures which can be turned around through a restructuring process, worth 3mIn on aggregate, in terms of net investment.

All in all, since inception we have booked €121mIn volumes in Turnaround. There are an additional €42mIn worth of transactions to be booked.

We are also currently working on a pipeline worth more than €160mIn. Investments in UTP portfolios are not considered in the pipeline.

In this quarter we have also been busy adding a new strategic initiative to our Turnaround business. We are setting up an asset management company.

Slide 22 - Turnaround business booster

illimity SGR is an asset management company, fully owned by illimity, set up to manage the assets of closed-ended alternative funds. As Corrado said at the beginning, this is one of our core business Boosters.

The first fund will invest in large ticket unlikely-to-pay loans with turnaround capabilities.

The fund will have two-unit classes: credit and finance. Credit will be raised through sale or contribution in a kind of UTP loan by originating banks, while Finance is dedicated to institutional investors and illimity may contribute up to 20% of this unit.

We believe this project is a win-win situation for all the players involved, including debtors.

Banks will reduce their NPE exposures while participating in the eventual upside. Investors will have the opportunity to invest in an attractive asset class with potential high returns professionally managed. Finally, illimity will diversify its revenue stream into a capital-light income source, as the asset management company will earn management and performance fees.

In essence, while we have reached important goals on the Crossover & Acquisition finance area, at the same time we see increasing opportunities on the Turnaround market.

That's all for the SME division and now I hand over to Andrea Clamer.

ANDREA CLAMER, HEAD OF NPL INVESTMENT AND SERVICING

Thanks Enrico and good morning everyone. Moving forward onto slide 24.

Slide 24 - illimity is building the Italian Corporate distressed credit champion

Let me remind you how we operate in the market of corporate distressed loans.

This is done through 3 business: Investment, Senior Financing and Servicing.

In detail,

1. we buy distressed loans, secured and unsecured, focusing on corporate debtors;
2. we provide financing solutions to other investors;
3. we manage captive and non-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, a servicing market with limited competition and still growing.

Moving on to slide 25....

Slide 25 - - Our distinctive end-to-end business model in distressed credit

And coming back to our value chain, I want to remind you of our distinctive approach to credit servicing. Through Neprix we have the complete coverage of the acquisition and servicing processes and with IT Auction we are even able to re-market the real estate and capital goods assets, this allows a complete end-to-end approach.

Turning now to slide 26.

Slide 26 - Accelerating business momentum

We are rapidly building volume, even with a selective approach

We can see our booking evolution – the first message is, we reached 1 bln worth of NBV and we continue building volume, even with a very selective approach. Take into consideration that we signed contracts for 4 bn out of 38 effectively evaluated, as you can see on the left side.

With respect to the overall numbers we are in line with investments and ahead with Senior Financing.

Up to now, as already said, we have originated business of more than 1 bln. A further 350 are in the pipeline for a total of 1.35 bln, with a target of 2 in 2020 as represented in the table.

In terms of servicing, we are ahead of the 2020 target, with more than 6 bln of loans and assets under management considering also IT Auction. A further 2 billion are in advanced pipelines, with an expected total GBV of 8.6 bln and a target of 6 bln in 2020 - as you can see in the last row of the table.

Looking now to slide 27. Here, I'd like to say just a few words

Slide 27 – Strong volumes acceleration in 3Q19

Business momentum in the third quarter: looking deeper at our numbers, let's consider that almost 460 mln worth of Investment and financing refers to the third quarter originated business

Next on slide 28, we'll talk about our portfolio composition

Slide 28 - Portfolio size and quality in line

We are a specialist player in Corporate distressed loans

Our portfolio has a gross book value composition in line with our business plan assumptions.

The cash on cash is 1.5 and the ERC is more than 730 mln. Compared to the first quarter, the cash on cash slightly decreased due to having mainly invested in secured portfolios and single names, which typically feature a lower cash on cash, but carry a net IRR in line with our business plan

The retail segment, strategically non-core, has a weight of 10% in the overall GBV breakdown

Moving to the economics, slide 29

Slide 29 -Building on revenue and cash collection

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

From a cash flow perspective, since their acquisition, the booked portfolios had a total collection of 26mln, with an increase of almost 6 with respect to the business plan.

From an accounting perspective, so far, we have reported revenue of 25.1mln.

During the first 9 months, we had a positive adjustment of 0.1 mln, even if, in the third quarter we could see a negative adjustment of 1.4 mln. The adjustment volatility throughout the quarters is a typical feature of this business and we need to get used to it, it is neither positive nor negative.

To conclude, I am very satisfied with the volume acceleration and the economics results we reached so far. This is the evidence that the work we have done over the past few months is paying off

I am now happy to hand over to Carlo Panella so he can deliver the most important news of this quarter which is the launch of the digital bank. Over to you Carlo.

CARLO PANELLA, HEAD OF DIRECT BANKING AND DIGITAL OPERATIONS

Good morning everybody and thanks Andrea for the introduction.

Let's go on to slide 31, to introduce the last pillar of Illimity's strategy.

Slide 31 - Digital direct bank Up & Running

As Corrado mentioned at the start of the presentation, the most important achievement this quarter is the launch of the direct bank. One of the three pillars of Illimity's strategy.

As of September, the 12th illimitybank.com is officially live and open to customers.

Since that date, we have acquired 14 thousand new customers. And those customers brought in stable deposits to the value of more than 300 million.

These customers are actively engaged customers, having made over 30 thousand transactions in the first month. This means that we are acquiring real customers.

On the next slide, slide 32, I will cover the campaign launch and give you some details on our success there.

Slide 32 - Positive reaction from the market

The launch of the digital bank created a very positive reaction on the market. We are very happy with the strong interest received from the press and the business community. After analysing the sentiment, we can happily confirm a very positive response to the initiative.

Three quarters of the comments and articles around our launch came back positive.

We feel the reaction demonstrates the market was waiting for something exactly like Illimity in the banking sector, something new, something going beyond traditional banks.

Looking in detail at the feedback we received from the market you will see I have captured a few major successes:

1st of all, the financial community awarded illimitybank.com first prize in the Neo Bank & Specialized Players category at a Global Level by EFMA, European Financial Management Association.

And another success: Our customers are also appreciating us: in October, the NPS measured the customer experience index, and we scored a very positive 44! To give you an idea of how incredible that is: The banking sector average, in Italy is 9 and online banks just 21.

On the next slides, I will give you a high-level overview of the business model, features and unique selling proposition of illimitybank.com

Slide 33 - Unique and fully-fledged digital offer

I'm very pleased to announce that illimitybank.com is a fully-fledged bank.

It is complete. It covers all major financial needs via its current accounts, deposit accounts, mobile and standard payments - together with lending and insurance that will come-up in the next days.

It is fully digital, with no branches and no paperwork.

Customers can interact by mobile and web 24 hours a day

I do remind you, however, while customers can interact remotely, we have not lost our human touch. Real relationships are important for us.

Our customer-care is available across all channels from phone to chat and social media with extensive operational hours.

On top of this, by leveraging our business model efficiency, our customers can benefit from very competitive pricing and increased value.

Finally, I want to highlight the last two features that are the most innovative: PSD2 account aggregator and Personal Financial Management system.

The account aggregator – PSD2 compliant - gives retail customers the possibility to access bank accounts other than illimity accounts. This feature allows a single-glance view of their entire financial situation.

What is amazing about this tool, is that we have a view of the entire financial situation of the customer and the customer has a great service at the same time!

On the next slide I will describe the tools we provide customers for saving, starting from the PFM, so let's move on to slide 34.

Slide 34 - Positive reaction from the market

We focus on helping customers who are inexperienced spenders, those who don't have a savings plan, and are spending money, without understanding how to best manage their account.

This market is worth 1.5 trillion euros, lying in current accounts

In illimitybank.com the Personal Financial Management tool is helping customers save money, without impacting their daily spending habits.

So how does it work? In order to deliver personalized advice and services for each of our customers, we use Artificial-Intelligence analytics. We collect relevant data and we use it wisely. We curate interfaces to help our customers be conscious about how and where they spend their money. In turn our customers become better savers.

Everything we do is about helping our customers have an easy and complete banking experience.

Slide 35 - Open Bank by design: Partnerships ecosystem

Looking at slide 35, you can see we were able to build the bank in 9 months by working together with some important partners, and the whole ecosystem needed for phase 1 is almost complete.

Nexi as an advanced payment system provider.

Azimut as a distribution channel for value customers

And two more are on the way, we will announce shortly our partners for consumer credit and insurance.

Now let's have a look at the results moving over to slide 36

Slide 36 - Deposits ahead of plan

On this slide You can see the fantastic results.

In less than six months we reached 1.2 billion euro of deposits coming from customers.

And illimitybank.com had a very fast start: after only one and a half months, on October 31st we reached three-hundred-million deposits with an average duration of 4 years, matching asset duration.

And if we look at the total figures today, we are at 380 million!

I'm very happy with what we have achieved.