illimity Bank S.p.A.

"1Q20 results Conference Call"

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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

In the new context, illimity was off to a very strong start in this first 2020 Quarter.

This is a particular quarter due to Covid-19 which is impacting all of us and is expected to have major effects on the global economy.

Illimity is showing a good level of resilience, all our strategic projects are on schedule and new opportunities are arising.

Let's get started with slide 2.

Slide 2 - 1Q20: a strong start

<u>We had a strong start</u>

In the first quarter illimity reported very solid economic results with a satisfactory quarterly growth in revenue. Despite adopting an intentionally prudent approach, regarding loan adjustments, we closed the quarter with a pre-tax profit of €7.2mln (almost five times that of the fourth quarter Q4).

illimity has a robust capital base, with a CET1 ratio of approximately 19% as of the end of March (around 20% on a like-for-like basis).

illimity is also enjoying ample liquidity amounting to €750mln. This is further reinforced due to a large portion of deposits being term deposits.

In this first quarter the bank pursued a dynamic strategy in the management of its distressed credit portfolio. We adopted a more stringent-selective approach to business growth, consistent with the uncertainty that prevails in the current scenario and placing illimity in a better position to seize emerging opportunities.

All in all, we are very satisfied with the good start of 2020.

Slide 3 - COVID-19 prompt reaction

<u>COVID-19 – an unprecedented crisis</u>

illimity reacted immediately to the Covid-19 challenge: our highly flexible and robust architecture has safeguarded our employees and ensured business continuity since February the 24th. No need for additional investments or other measures: we simply switched to full smart working mode.

In addition to day to day operations, we have maintained timelines and delivery of strategic projects and initiatives.

illimity's digital DNA not only helped us tackle the immediate effects of the COVID-19 crisis, but it is proving to be a competitive advantage in scouting new projects across all our divisions. Our innate digital foundation is going to be an important enabler in the "new normal" that is gradually stablising.

Slide 4 - Opportunities & uncertainties call for selectiveness and capital optimisation

Not only did we react to the initial phase of the COVID-19 crisis, but we began developing strategic projects and identifying new opportunities.

The role of a bank such as illimity will become increasingly important over the next few months and years because of our focus on underserved growing markets: businesses with effective growth and restructuring plans, corporate distressed assets, and direct banking services.

In fact, we expect the size and the competitive dynamics of the markets in which our bank operates to become even more attractive in the future.

Just a couple of examples:

The UTP portfolio market is just starting and it is set to become much bigger. Our ability to combine the expertise of the SME Division and the Distressed Credit Division represents a significant competitive weapon. Being a full-fledged bank provides a further advantage over funds that are not in the position to support going concerns.

The lockdown imposed by Covid-19 is increasing, beyond our expectations, the demand for digital banking services, *illimitybank.com* will confidently ride this trend both directly and through partnerships.

Another advantage not yet settled in our accounts comes from the very sizable measures that are being taken at both a national and European level to support businesses. Enrico will go deeper into how we see these measures working to our advantage.

Selectivity and the right timing in underwriting, capital preservation techniques and development of capital light business will advance our results.

Slide 5 - Business origination: more selective and return driven

<u>Our volumes are for the time being in line with targets.</u>

This is the same table we show you every quarter. It shows the quarterly progression in our ability to originate business.

You can appreciate that we are growing steadily across all our business lines in each division

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 €1.9bn (column A), the relatively modest growth has to be evaluated in the light of the following elements:

- the first quarter is always the slowest season of the year for distressed credit investments,
- we successfully sold some distressed credit positions
- we decided to postpone a few transactions to take more advantage of the public measures being introduced
- and in general, to preserve capital for future opportunities.

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

A+B+C makes over €2.6bn, that is already not far from the €3bn target we set for credit and investment volumes in 2020 – with a partially different mix.

During the course of the year, depending on economic trends and the evolution of Covid-19, we will decide whether to postpone the volume targets for the year 2020.

Lastly, on the bottom of this table you can find an update regarding our servicing activity. Here we are already well beyond the 2020 business plan target, also thanks to the acquisition of IT Auction.

Slide 6 - COVID-19: limited impact expected

<u>We expect limited impact of COVID-19 on our activities</u>

At the end of March, we published a Letter to our Shareholders to demonstrate the importance we attribute to transparency in our relationship with our shareholders and investors.

To date, no significant additional elements have emerged.

Let me recap the main conclusions:

- **SME Division**: our outstanding SME loan portfolios show no major issues. Enrico will walk you through the details. Still, notwithstanding the limited current impact, we decided to strategically set aside a more robust collective provisioning in 1Q20 to factor in a further future asset quality deterioration
- In the **DCIS division**, we do not currently anticipate major risk based on the features of our distressed credit portfolio, as Andrea will explain to you, and the immediate impact from the inability to collect because of law court closure is going to be fairly limited.
- The activity of our **Direct Bank** has progressed further in 1Q20, gaining new customers with a strong increase in offline payment and in number of transactions. Carlo will provide more details.

Slide 7 - Outlook 2020

In Summary:

As of today, based on a scenario of deep recession in 2020 followed by a partial recovery in 2021, we expect to report a profit, even if below our 2020 targets.

This expectation does not include the positive advantages we will see coming from the new measures and initiatives in support of the economy and the banking sector.

We will update the market with new guidance for the 2020 profit outlook following the second quarter.

Going forward, we expect the markets in which illimity already operates to become even more attractive in terms of size and competitive dynamics.

In addition, new businesses are emerging and illimity is in a good position to capitalise on our digital DNA to develop new projects, not initially included in the business plan.

Based on 2020 results and of the new projects and opportunities, we will refine our long-term business plan.

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 FUNCTION

Slide 9 – 1Q20 off to a good start

Thank you Corrado and good morning everyone.

I am now on slide 9.

Despite the challenging environment 1Q results represent a solid start for 2020.

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

revenue progression continues on the back of business booked at the very end of last year;

in a quarter typically quiet for origination, the DCIS Division confirms its strong performance and starts benefitting from commission flow generated by IT Auction;

the SME Division keeps performing well and, among our business lines, factoring confirms its resilient nature;

coming to volumes, we intentionally adopted an even more selective approach in origination and underwriting particularly in the last part of the quarter;

consistently we have taken a conservative stance in terms of provisioning which makes the quarter on quarter almost 5 time increase in pre tax profit, an even more remarkable result.

Let’s now dive into the figures.

Slide 10 – Further progress on a strong YE19

… starting from the balance sheet on slide 10 …

Total assets marginally increased to €3.1bn with slightly a different asset mix resulting from activities performed over the last few months.

We have strong liquidity totalling €750mln between cash, net adjusted interbank position and liquidity buffers. Part of this has been reinvested into growing our financial portfolio, but the vast majority remains available to be redeployed into new loans and investments. You can also see we have switched part of our cash into interbank facilities, in order to minimise any P&L impact.

Coming to business volumes, customer loans are up 1% quarter on quarter to €1.7bn. Looking at our business lines, DCIS investments are up 1% to €674mln; growth would be around 6% taking into account disposal of non-core retail portfolios, as well as disposal of a few NPE positions. Volumes are in line with expectations and reflect the seasonality pattern of the distressed market which tends to be quiet in the first part of any calendar year.

SME is up 5% to €556mln with crossover/acquisition financing and turnaround growing 7% and 17% respectively, factoring decreasing 8% (which we consider a good and resilient result as it is compared to the typical year end seasonal peak and it is also confirmed by a significant increase in turnover), and non-core former BIP portfolio decreasing 4% in line with expected run off.

In the first part of the quarter we started rebuilding our financial portfolio which currently amounts to €335mln. In light of the recent market volatility at the end of quarter it had a negative mark to market of €11mln. We are confident such mark to market should be reversed during the course of the year, in light of its relatively short duration and limited risk.

Retail and corporate funding increased 7% quarter on quarter to €1.7bn, mostly driven by our digital platform illimitybank.com. Blended average cost of funding remained stable at 1.5%.

Finally, CET1 capital is down at €439mln mostly due to goodwill from IT Auction (€17mln) part of which is due to be removed in 2Q. RWA are up 9% to €2.3bn due to an increase in financial assets and interbank exposure which is going to be reversed as new investments will be booked.

Slide 11 – Recurring revenue and net profit advancing

Moving to profit and loss on slide 11 …

As a first comment I would like to highlight that in order to provide a more effective representation of DCIS performance we introduced from this quarter a more detailed breakdown and reclassification of DCIS revenue. In short, revenue includes gains from the definitive closure of non-performing exposures, through disposal to third parties or discounted payoff agreed with the debtor. These items, which are part of DCIS standard management strategies, remained accounted for under line item "130 loan loss provisions" but for presentation purposes we thought it was more effective separating certain and final items (such as gains from disposal or discounted payoff) from items related to valuation processes (such as loan loss provisions or write-ups). Therefore, 4Q19 data has been reclassified accordingly.

Interest income further accelerated in 1Q20, posting an 18% progression quarter on quarter, mostly driven by deals agreed at the end of last year (for around €160mln). We expect further benefits in coming quarters due to growing volumes and funding cost optimisation.

Net commissions grew 65% quarter on quarter to €2.5mln encompassing the first time consolidation of IT Auction, whose operating income was partially affected by law court inactivity. It is expected to rebound in coming quarters when activities resume to a more normal level.
Operating income decreased by 6% quarter on quarter but increased by 10% if non recurring components are excluded.

Operating costs are stable at €29mln (up 1% quarter on quarter). They include €1.8mln of costs related to IT Auction and €0.8mln of non-recurring components.

As already mentioned, we have taken a conservative approach consistent with the Covid 19 scenario resulting in €2.7mln loan loss provisions on the SME portfolio. As we have experienced a negligible deterioration of the portfolio until now, such an increase is entirely attributable to the collective provisioning estimated, in order to address a potential deterioration on certain positions.

In relation to DCIS, €2.8mln of positive value adjustments are mostly driven by actual collections in excess of expectations.

Profit before tax was up almost 5 times quarter on quarter to €7.2mln and to €4.5mln after tax.

Slide 12 - KPIs improving further

Let’s move to KPI on slide 12 ...

P&L KPI are compared consistently with the reclassification of DCIS gains. Cost income stands at 79% vs. 73% in 4Q19 but substantially stable at approximately 80% if one-off items are excluded.

Cost of risk on loans to customers, excluding lending to financial institutions, is up to 124bps to reflect conservative collective provisioning. It is worth reminding that cost of risk stabilised in the second part of 2019 following a couple of quarters with non recurring provisions in connection with the former BIP portfolio. Excluding factoring, coverage of the performing portfolio is up to 155bps compared to 109bps at the end of 2019.

On the other side, to confirm there was negligible deterioration of the portfolio, the gross organic NPE ratio is down to 3.9% despite a marginal increase of the loan book.

CET1 ratio remains very robust at almost 19%. I will shortly explain how we expect this ratio to improve on a like for like basis in coming quarters.

Lastly, LCR stands in the thousands’ area confirming ample liquidity buffers.

Slide 13 – CET1 Evolution

Moving to slide 13 let me give you a few data points on CET1 capital evolution during the quarter ...

Capital was mostly affected by the €17mln goodwill incurred in relation to the acquisition of IT Auction and by the €11mln negative mark to market of our securities portfolio.

Net of contribution of the 1Q positive result and release of relevant DTA, CET1 capital at the end of the quarter stands at €439mln.

Considering RWA of €2.3bn CET1 ratio is 18.7%.

On a like for like basis (which means before any capital being absorbed by new business) we expect our capital position to be around 20% for a number of reasons:

- around €8mln as a result of the 30% buyout of IT Auction to be executed through a reserved capital increase by June 2020;
- €14.4mln due to inclusion of illimity special shares following completion of EBA approval process.

Even if not included here, we will also count on additional contribution from retained earnings, reduction of interbank exposures as liquidity is redeployed, and capital optimisation initiatives. Lastly we are working to exploit the recent banking package promoted by the European Commission, as well as the Italian government guarantee schemes.

Slide 14 – Securities portfolio

Moving to our securities portfolio on slide 14 …

In the first part of the quarter we started growing our financial portfolio mostly through investments in short dated Italian government bonds. Our financial portfolio currently represents slightly more than 10% of total assets, in line with our target for year end.

In terms of asset mix, nearly 76% is invested in Italian sovereign debt, 16% in senior corporate and 8% in subordinated debt.

In reshaping the portfolio, we generated around €3.7mln of trading gains.

Slide 15 – Stable and cost-effective funding base

Proceeding with cost of funding on slide 15 …

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 was stable at €2.4bn, with a similar contribution by sight, short and medium to long term funding. Maturity of the medium to long term funding component is over 3.7 years to ensure consistency with asset duration.

Average cost of funding is stable at 1.5%, following a slight decrease at illimitybank.com (where the sight component increased) offset by a marginal increase in the wholesale channel. The increase was mostly due to a temporary decrease in specific funding (Cassa Depositi e Prestiti) which we expect to increase during the course of the year as we grow our SME loan book eligible for such funding. We also expect to take advantage of the revised TLTRO package.

Slide 16 – 2020 outlook

Let me close with a few remarks on the outlook for 2020 on slide 16.

First, we will be very focussed on capital preservation: optimising capital is key to ensure illimity's growth going forward. Internal capital generation through profit, IT Auction buyout and other initiatives are bound to restore our capital base. At the same time, we are working on tools to reduce RWA density potentially leveraging on government guarantee schemes.

In terms of P&L outlook, we expect revenue progression to continue in the next quarters as we book new business across all divisions, and we onboard portfolios already agreed but that normally require a certain timeline for completion (such as leasing). In light of the different environment we are facing, the pace of growth will be slower than expected.

In terms of operating costs, we expect a moderate increase and we are managing our cost base consistently with revenue expected progression.

Considering the conservative approach adopted and the resulting provisioning, at the moment, we remain confident in the remaining part of the year.
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 18 - 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 with a full range of lending facilities a relevant and growing market.

Slide 19 - COVID-19: limited impact expected

In this slide I will try to summarize the key messages of my presentation.

First: the Covid-19 emergency. What impact does Covid-19 have on the SME existing business?

We are expecting limited impact.

You will see in the next slides that we have good sector diversification in all business segments of the SME division.

Exposure to the sectors most affected by Covid-19 is limited, and recently announced public measures will play an important role in mitigating risk.

The Factoring business is also largely covered by credit insurance.

We have received a few requests for loan moratorium, which we have already granted – we are talking about 150 debtors for a gross loan exposure of €52mln - and from these, there is no economic impact on our P&L.

Second: how will Covid-19 impact our business prospects in the SME Division?

So far we are growing in all of our market segments and we have a healthy pipeline ahead.

Taking into consideration the possible government guarantees, we have begun evaluating all potential opportunities and have adopted an even more selective approach.

The Italian Government's public measures offer both risk mitigation and investment opportunities – and these will certainly have a considerably positive effect, not yet embedded in 1Q figures.

Slide 20 – More selective growth

For the sake of consistency with the figures as at year-end 2019, we present once again 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 because of loan repayments.

Overall, our business origination in 1Q20 amounts to €670mln.

There are an additional €200mln worth of deals where terms and conditions have already been agreed upon, of which factoring granted credit-lines of 85 mln euro.

Our pipeline exceeds €230mln.

We see in front of us the possibility to reach our goal.

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 325 Crossover and Turnaround deals, yet we have signed only 38.

Slide 21 – Cross-over & Acq. Finance: a well diversified loan book

Starting with the Crossover & Acquisition Finance business.

Allow me to remind you that in the Crossover/Acquisition Finance business our clients are performing, often highly successfully in their respective industries, and are pursuing growth strategies.

Furthermore, in our credit assessment we always involve experts in the sectors, we call them tutors or independent business advisors.

We have provided a breakdown of the portfolio by economic sector. As you can see, our assets in this segment are widely diversified, with exposures to more than 20 different industries.

The Bank's exposure to the economic sectors that we consider most impacted by the current situation – and we have identified a really wide cluster - is limited and amounts to less than 15% of total loans to customers of the SME Division.

It is important to stress here that this is just our nominal exposure by sector. The real risk for the bank may be reduced by debtors' specific features, such as their revenue diversification or business models.

In addition, on several clients operating in the industries most impacted, the adoption of public guarantee – such as those provided by Fondo Centrale di Garanzia – will significantly reduce the exposure to risk. We are already actively working on the implementation of such measures.

We also have over 13% of exposures towards low-cyclical or even non-cyclical sectors, such as pharma, medical, or health care services.

Notwithstanding the limited risk we currently see on our loan book, we decided to prudently increase the amount of collective provisions booked in 1Q20 under IFRS9 rules, as already highlighted in Francesco's presentation.

Slide 22 – Cross-over & Acq. Finance: selective approach

Business origination continued in the first quarter of 2020, with a more selective approach.

The pipeline in front of us is very healthy. Never before have we received so many loan applications. We credit this increase in loan applications to the reputation we gained on the market, as being a bank which can understand complex situations. illimity has become the preferred choice.

Slide 23 – Turnaround: limited impact on existing exposures

In this segment, the exposure by sector is less meaningful, because of the distinctive approach to underwriting and the capital structure of many deals.

Each transaction is evaluated on the basis of business plans. The business plans are analysed and reviewed by our tutors, who are experts in these sectors and also assessed through severe stress test scenarios.

illimity has been involved in business turnaround processes in all transactions, in some significant cases with a position of super seniority compared to the business's other creditors.

Our exposure is limited to 10 counterparties, which we monitor regularly.

In addition, initial evidence we have seen from specific deals which are still in progress, confirm a positive evolution of the turnaround process, with potential for partial reimbursements, or a return to performing status in the foreseeable future.

Slide 24 – Steady progression in Turnaround

In 1Q20, we made progress in the Turnaround business and, to date, the potential upside in terms of additional revenue is in excess of 20 million.

We are entering a new market: transactions in UTP portfolios are seeing strong growth potential. We believe we have a clear competitive advantage over many other players because we can benefit from integrated expertise in a joint effort with the DCIS division.

Being a bank, we can directly manage all types of exposure. The UTP portfolios will include a gone-concern portion, where the management strategy will focus on exploiting the liquidation value, and a going concern portion. The latter for us is like the sum of many single-name UTP positions, from which we can start building a strategy of restructuring and turnaround, to be executed also by buying incremental debt share wallet from other banks.

We will update you on this new opportunity in due course.

Slide 25 – Factoring covered by credit insurance

For the sake of accuracy in our disclosure to the market, we also present details of our factoring exposure by industry.

Approximately 50% of our exposure is covered by credit insurance.

We are insuring 50% of the debtors because we consider the risk for the remaining exposure to be limited in absolute terms, for example. debtors like banks, insurance companies, government agencies, public hospitals are excluded from the coverage.

Slide 26 – Strong progression in factoring

Factoring is the best performing business this quarter.

In the first 4 months of the year 2020 alone, turnover accounted for almost 2/3 of all business done in 2019.

In the 1Q20 the business origination was in line with our budget. In April, we experienced a slowdown, compared to our initial forecast, this slow down is strictly related to Covid-19, which impacted our clients' turnover. We expect this slowdown to continue for a few more months. In the medium-term factoring remains an important financing instrument for companies, and even more so during economic downturn and liquidity shortage. We expect to be able to close the year largely in line with our budget.

Slide 27 – Benefits of public guarantees yet to come

Let me conclude my presentation with a final word on the public measures. The Italian Government has enacted two legislative packages, and a third one is to be approved shortly, to support the economy and the businesses: Decreto Cura Italia, Decreto Liquidità and Decreto Rilancio. These measures contain provisions that, when properly adopted, will lead to a significant risk reduction on the existing loan portfolio. The measures can also provide a significant impact in terms of capital absorption by existing and new business. In turn, this will create reinvestment opportunities across all the businesses of the SME division.

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.

Slide 29 - Building the Italian Corporate Distressed Credit champion

This is a brief summary of our activity in the Distressed Credit Division. Many of you are already familiar with it, so I will be brief: we are a leading player on corporate distressed credit with a specialization in some attractive segments of the market. We are a fully integrated player covering the entire value chain, from investment to financing, servicing and remarketing.

Slide 30 - Business opportunities confirmed

This is a very important slide as it summarizes the key messages of this quarter.

1Q was off to a very strong start and the division performed very well.

Gross cash collection significantly outpaced the relevant collection plans.

Our dynamic approach generated over 9mln of cash profit from the anticipated exit of some positions at a higher value.

Moving to Covid-19. What does it mean for our division?

It means delay in collection due to the suspension of Tribunal proceedings. We estimated this delay, and it has a very minimal impact.

In addition, our approach to pricing is very conservative, and this further mitigates current and future potential risks.

Slide 31 - A significant player in the Corporate Distressed Credit sector

Here we have the numbers originated since the beginning of our activity, to the end of April 2020.

Following a strong 2019, our activity is continuing. The business origination exceeded 1.2bn and we have an attractive pipeline under evaluation.

With 8.5bn under management, between credits and assets, our servicing activity is already above target.

Overall, we are confident that our Division will be able to meet investment targets without losing attention to the solidity of our balance-sheet ratios.

Slide 32 – Investments in 1Q20 reflect seasonality and selective approach

Let me stress two concepts.

First, the distressed credit investment business is seasonal by nature. Investments tend to concentrate in 4Q, Following a light first quarter

Still, in 1Q20 we invested more than in 1Q last year.

Second, we have already mentioned how selective our approach to investment is. This quarter we have embraced an even more selective strategy. And you see, as a result, out of 48bn gross book value of deals analysed, signed deals were only 6bn. This means we decided to go ahead with just 1 deal out of 8.

Slide 33 - Strong outperformance in collection

This slide provides information about the cash flow and accounting perspectives in our division.

On this chart we will look at the cash flow on the left, and the economics on the right.

The actual cash flow is higher than expected. The booked portfolios had a total collection of 112mln with an overperformance of 58mln, to me it's a remarkable result. In other words, so far, we have strongly outperformed the business plan cash flow projections.

From an accounting perspective, in 1Q20 we recorded revenue of 37.8mln which compares to 22.6mln in the last quarter of the year. This number draws a trajectory for our revenue growth pattern in 2020.

We also recorded a profit of approximately 9mln by anticipating the exit strategy on some positions at a value higher than predicted in the relevant collection plan. We also booked an additional 3mln of positive net adjustment mainly referred to cash flows exceeding business plans' expectations.

Slide 34 - Portfolio in line with Business Plan

Before we talk about the Covid-19 issue in more detail, let me introduce a snapshot of our portfolio as of the end of March.

It is worth €674mln, with an ERC growing to approximately € 962mln and it is mostly corporate credit.

And as you see on the bottom right chart, the vintage is relatively young, and this is quite an important detail that I will discuss later.

Slide 35 - COVID-19: limited risk thanks to portfolio features

We have estimated the effect of Covid-19 on collections, assuming a relatively conservative scenario of 3 months of tribunal inactivity, followed by a restart of their work spread across the subsequent 12 months: in this scenario, the impairment to the carrying value of our portfolio would be a minor, less than 1% and we have already booked it in 1Q20 results.

80% of our portfolio has a judicial recovery strategy and we price most of our portfolio using that criteria. To give you a sense of the situation, collateralised assets receive a valuation under a judicial scenario that is on average 50% lower than its open market valuation, and to this we apply a heavy time value discount.

Our exposure to the real estate asset classes, considered most at risk from Covid-19 (such as Hotels and Retail distribution) is also limited to approximately 14% of assets' Open Market Value as of March 2020.

Most importantly – and this is a key concept – in our activity we buy distressed credits which have underlying real estate collateral. The liquidity event that will make us cash in the value of this collateral is not imminent – it will occur in the future, in 3-4 years on average from now, and this process is going to shield our portfolio from the near term volatility.

All in all, we deem the risk on our business as limited.

Slide 36 - Potential opportunities

We continue to see an attractive near-term pipeline. The benefit in terms of DTA for selling banks, introduced by recent public measures, is set to support transactions in 2020.

Over the medium term, we expect the competitive dynamic to ease.

As the economy worsens, we expect a renewed flow of non-performing exposures will hit commercial banks' balance sheets, fuelling the transaction market.

Furthermore, new markets are emerging, and will benefit especially player like us because of our business model. I am referring to the transactions in UTP portfolios. This is potentially a huge market, still at its infancy, and we expect it to grow faster in the next few years. The strong synergies between SME and DCIS Division, will certainly be a key factor to succeed in this market.

Finally, illimity's positioning in the distressed credit market has been strengthened by the full integration of the Servicing & Remarketing unit, throughout the acquisition of the remaining 30% of IT Auction approved by the Board during Q1-2020.

To conclude, the results have been very positive. This is the evidence that the work we have done over the past few months, and over the past year, is paying off.

I am now happy to give you Carlo Panella so he can deliver his fourth quarter 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 on to slide 38 to talk about Digital Operations first.

Slide 38 – IT Architecture: completed

This slide shows the fully, on cloud, open IT platform of the entire bank.

I won't comment on it in detail, but, I want to highlight that it has been designed and implemented fully on cloud, fully digital and paperless.

During this period of lockdown, we are experiencing the advantages of this architecture, let's go directly to slide 39 for some highlights on this.

Slide 39 – The Digital IT Platform supported full Smart Working

As the risks were increasing, our Cloud Architecture enabled us to switch the whole group to smart working in less than 12 hours

And we have possibly been the first company, at least in Italy, to enable smart working for the contact centre as well.

Therefore, the company had full business and operations continuity.

The graph shows the number of connections and virtual meetings over the last months. As you can see, since February 24th, the business continuity has worked effectively

Today, I can say that all projects are on time and the scheduled delivery won't have delays.

As a final remark, our Digital Architecture and Culture, really made the difference in this situation.

Slide 40

Let's now go into Direct Banking to have a view of the first Q. Once again, a very important quarter.

Slide 41 – Direct bank results beyond expectations

Robust, this is how I would define, in one word, our first Q results.

We started 12 months ago from a blank page, and after operating for only 6 months the figures demonstrate that the Direct Bank achieved the Business Plan Targets, and gained a **strong** position in the Italian market.

Thanks to our **great** team, we had an objective and we **achieved** it!

In this slide, you can see the main results: customers have grown steadily, reaching 32 thousand units, and deposits are over 800 million euros, while cost of funding of term deposits is constantly decreasing.

Given the current role of the Direct Bank was to focus on funding, we can say that the initial goals have been met.

Now we are working on stability of deposits and on cost of funding efficiency. To achieve this, we decided to slow down acquisition, focussing on CRM strategy rather than on customer base growth.

As a last comment on this slide, given the return in terms of positioning and quality of the customer base, we are convinced that we can extract even more value from Digital Business, switching its role from ancillary to primary. And we are working on it.

Slide 42 – Loyalty and engagement-driven results

Effectiveness, **engagement** and **relevance** are the keywords that better describe our achievements.

The KPIs in this slide show that the engagement and the operational excellence strategy are driving results.

I won't go into detail but let me highlight and comment on just the right-bottom portion: Value for customers, that we measure by the NPS Score, the customer experience index.
It is at 35, and it is still the highest in the market. As you can see the average in finance is at 7 and we are at +2% above the second best.

Moreover, in these times of isolation due to COVID-19, digital transactions have grown to double digits month on month: a demonstration that we are likely facing a change of mindset towards digital banking, and having a fully-fledged Digital Bank will be an advantage for us.

Slide 43 – At the height of innovation: first bank in Italy to launch Payment Initiator Services

I am pleased to announce that, once again, illimitybank.com has been the first to reach an important goal in innovation and open banking.

After being active with an account aggregator since our launch, we are the **first** Italian bank to launch a Payment Initiation Service. This means that illimity's customers can initiate transactions in the accounts they have with other banks.

A **real** disruption to the market.

illimity can now be, for its customers, the single point of contact to manage all banking accounts. This will enhance engagement, driving customers to choose illimity as main provider.

Leveraging these results, illimitybank.com is activating the new phase of its strategy: from open bank to open platform. Let's see how in the next slide.

Slide 44 – The new frontier: opening the platform to non-financial partners

We are talking about integration of financial and non financial services

I want to share the activation of a new generation of partnerships, based on **shared** services: **the concept delivers** new products that will **blend** financial and non-financial services based on customer behaviour

As you can see, partners include key players from utilities, culture, shared mobility and fitness. The first one to launch will be Mimoto, and other important names will come over in the next few weeks.

The common denominator is the Digital approach, while services will be diversified accordingly to each partner's business.

Slide 45 - Open platform increasingly attractive

Here you can see the new partnership architecture: products, services, distribution and non-banking synergies.

The Direct Bank is reshaping the approach to financial services: from product, to cross industry experience.

We believe, the power of a service depends on how comfortable the customer feels with the service. That's why we are surrounding our clients with the best partners providing high-end and innovative financial and ***non***-financial products.

This strategy will be boosted later this year.

This ends my presentation. Let me say, we are only at the beginning!

Thank you for your time.