

illimity Bank S.p.A.

"First Quarter 2019 Results Conference Call"

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the illimity First Quarter 2019 Results Conference Call. As a reminder, all participants are in listen-only mode. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Corrado Passera, CEO of illimity. Please go ahead, sir.

CORRADO PASSERA: Thank you very much and welcome to everybody for joining us today. Today is an important occasion for illimity, it's our first quarterly results presentation. So we start delivering what we promised in...when we presented our Business Plan in March.

As you might remember our Bank was born on March the 5th when SPAXS our SPAX and Banca Interprovinciale merged and the new illimity was listed on the MTA.

If we now move to Page 2; I have 2 very simple and straightforward messages. The first one is about the results. Our results after the first few months confirm in every respect our Business Plan targets. And the second message is that in building our bank we can say we are fully on track. We are meeting all the deadlines or the milestones and the competitive advantages on which we base our strategy are now quite visible.

Page #3, just to remind and to remember altogether the 2 sets of targets we set for our bank for 2020 and 2023. In 2020, we expect to be a bank with around €4 billion worth of assets, profit between €50 million and €70 million, and ROE between 9% and 10% and the Core Tier 1 above 15%.

For 2023, we will be between €6.5 billion and €7 billion worth of assets, €280 million or something around in terms of net profit, ROE will reach the cruising speed of 25% and we will keep our Core Tier 1 ratio above 15%.

Page #4, what can we say as of today after the first month of activity. Our results are very much in line with our targets. We say that we are very encouraging because both in terms of building a momentum and building pipeline, we will see in the next page that our volumes are very much in line with our best optimistic expectations. Our loss in the first quarter is let me say only €5.9 million and given that it is the first quarter, given that we have a number of extraordinary kind of cost, and we are not benefiting from any operating leverage and earn-out components, it is certainly in line with our best expectations. Both our capital requirements and the liquidity positions are quite solid.

Let me devote a few minutes on Page #5 where we have tried to give you an idea of our business momentum. In the first 3 columns you have the business we have originated up to April 30th...at the end of April. We will afterwards look at the accounting figure of the first quarter but we want to give you an idea of how our business is developing. Total originated business €750 million, and if you add a number of deals that have already been agreed upon and will be soon signed, second column and a part of our pipeline that we consider quite strong. You see that we are quite in line with 2020 targets altogether.

Some of the activities are even in...ahead of schedule and then with Enrico and Andrea we will go more in details but crossover and acquisition finance is well ahead of schedule. Turnaround is in line, invoice lending just started but we have created the conditions for meeting our targets. NPL investments certainly in line, senior financing ahead of

schedule and servicing activities in line with targets. So this is an important page.

And the following Page #6 have the list of all the deadlines we set for the bank that we have already met. One point that I want to remember is that the equity we raised €560 million is enough to fully fund our Business Plan until 2023. The bank we bought Banca Interprovinciale that now is...has been merged, has given us the possibility to start our [technical difficulty] business very rapidly and to get all the authorizations.

The team is stronger and stronger every day. We have more than 240 employees with us, and they come from more than 100 different companies and 10 different countries. It is a hell of a group of people with a very strong top management team.

The technology is clearly a competitive advantage we are building and both the credit machine we are building and the group of artificial intelligence we call them illimity credit machine and illimity artificial intelligence are really proving to be as I said, a competitive advantage not only in terms of making our job more efficient, but more than that to make our job more effective in terms of quality of the decisions and response time.

In the last few weeks, we launched the Neprix, our servicing platform. As you might remember we are totally focused and specialized in corporate NPL, a segment of the NPL market that is developing rapidly and where competition is not that strong.

And one very important piece of information has to be...has to do with our IT system. On Monday night last week, we completed the migration from the old core banking systems to the new open architecture IT systems

that is fully on cloud, clearly and certainly the first one in our country and one of the very first in Europe.

Page #7, we have three milestones in front of us. Actually, one was met today because as of today, our open banking platform we developed with rising is fully operational. That will allow us to raise deposits also outside of Italy and Francesco will elaborate on it.

June will be an important month for illimity, because the last two milestones the loan...the launching of the fully digital IT platform that is already in testing phase today. And the launch of the direct banking offer will be completed and we confirm that we will meet also these two deadlines.

Page #8, it's important that we remember that we share the list of competitive advantages we want to develop and we...that make our targets feasible. We are a no legacy bank, and we will remain a no legacy bank because the IT system that is fully modular will allow us to remain a fully no legacy bank quite an advantage. The kind of skills and expertise banking people and tutors coming from industry are certainly top of...are top of what is available on the market.

Technologies, as I said are making us strong both in terms of efficiency and in terms of decision-making processes. We already have and we will have much lower operating costs versus any incumbent bank on the market, and we will have by definition being a bank lower funding cost versus non-bank players. The very low level of complexity that we are embedding in our bank is making and will make our response time faster. And as you know, in working with SMEs response time is a crucial aspect.

Last Page #9, are the three areas of activity that we will describe a little bit more in detail in the next few pages. We are an SME specialist lender, quite a big market more than €300 billion for sure. And Enrico Fagioli will elaborate on our first results and on our first accomplishments.

We are and we will be a corporate NPL specialist. Andrea Clamer will elaborate on it, we expect our estimate of the transactions expected in the next few years to be at least €135 billion primary and secondary market together...market together and probably higher than that. We are...and we will be actually by the end of June, one of the best direct bank for both private and corporate customers on our market. Carlo Panella will elaborate on it. We target a quite a huge market because at least 20 million Italians, individuals and companies are potentially fully digital customers.

But before we move to the three divisions Francesco Mele will give you some more detail on our first quarter results.

FRANCESCO MELE: Thank you, Corrado. I will go straight to Slide 13 from our P&L for Q1 a couple reading instruction. First, as you can see, we compare our first quarter results with the last consolidated figure for SPAXS in 2018; this is the most comparable in terms of perimeter of businesses. Clearly, this result needs to be ready in conjunction with the broader trajectory of the Business Plan that has been just been summarize.

Looking at the number, total revenue for the quarter at €9 million it was €2.6 million in the last quarter of last year. Significant contribution from the NPL division which performed strongly in terms of cash collection on one side and also benefiting from the additional contribution from the value...periodic value adjustments from the review of the cash flow expectation of the portfolio acquired. We also benefited from around €1

million of net trading results deriving from the disposal of additional €65 million of sovereign debt which we executed in the first quarter.

In terms of operating costs, we are at €16.9 million, €6.5 million personnel costs in light of the increased headcount due to the new hiring's. The other operating costs include €2.6 million of one-off component related on one side to the migration to the core IT system and also the listing expenses in core...in connection with the moving to the MTA Stock Exchange section. We also charge around the €3,000 sorry €300,000 of annual contribution to the single resolution fund.

In terms of loan loss provision the charges for the quarter is €1.4 million. The net result of €6 million is ahead of the Business Plan and in line with the projection...the overall projection.

Slide 14, reclassified balance sheet, let me start with the cash and liquidity which is very important. We have €290 million of cash and net adjust interbank position plus additional liquidity buffer in the form of high quality liquid assets and other marketable security for €140 million which means a total buffer of €430 million of liquidity to be invested. Also very important, we enjoy a substantially unencumbered balance sheet which we can use in order to leverage additional funding in order to accrue new business.

In term of customer loan, the customer loan as of the end of Q1 is €513 million, essentially €156 million NPL division, €290 million SME division including the Banca Interprovinciale component which is in line with the target customer base of illimity Business Plan, plus €139 million of non-core former Banca Interprovinciale customer loan.

In terms of security portfolio, we are now at around €200 million, you can see...not just also the reduction, but you will appreciate in a couple of slide also the diversification which was implemented in the last quarter.

In terms of funding, there was an affected decline in customer deposits consistent with the transformation of the operating banking model in line with expectations. Another important step is that, today we are live with our pan-European open banking deposit platform partnership with Raisin. And in June we will launch with the Direct Bank also our digital deposits platform, all this clearly do not include any benefit from these activities.

Moving to Slide 15, main KPI or performance for the quarter, progressive normalization of cost-income, clearly this still surpassed KPI 187%, we commit to a target we see...we reconfirm 2020 of 50%, cost of risk of 124 basis points vis-à-vis a target of around 200 basis points in 2020. Gross organic NPE stable vis-à-vis at the end of the last year, this compared with a target 5% to 7%.

Common Equity Tier 1 ratio to 83%, this number reflect an increase in risk weighted assets on the one side, the loss for the quarter some intangible in connection with the capitalized IT cost and the conservative suspension of the inclusion of the €14 million special share which will be included, as soon as, the specific authorization from the regulator will be received. In terms of liquidity, we have an LCR in excess of 800%.

Slide 16, on this slide you can see our securities portfolio, on the left hand side our government bond portfolio, we are now in terms of total portfolio at around €100 million essentially fully in the held to collect format, on the right hand side you can see the entire portfolio we are €189 million notional amount. The Italian government bond moves from 78% to 58%,

as of the end of April, this is the latest snapshot of our portfolio. We have senior corporate bonds for around 13% and mutual funds for around 5%.

The new investment which were executed in the first quarter are for around €45 million, you can see we have around 7% of subordinated bonds core European government bonds for 6%, USA treasury for 3% and 8% of Italian state-owned entity bonds.

After the diversification, Slide 17, the portfolio has these features, we have first of all realized, mark-to-market for our overall portfolio of around €2 million equally split between held to collect and held to collect and sales portfolio, an average yield to maturity in excess of 2% with a duration of 3.2 years in terms of sensitivity to the credit spread, our portfolio has a sensitivity of around €100,000 [indiscernible] of widening of the credit spread.

Slide 18, last but not least, today our partnership with Raisin is live. Raisin is a leading pan-European Fintech, leading marketplace for online savings and particular investment products and deposit, with a local presence in the main European countries, especially Germany, Spain, the U.K. with over 175,000 clients.

Our agreement is for the initial distribution in Germany, but still we still consider extending in other European countries over time. This channel is a very important, first of all, it's a fully digital channel, so perfectly in line with our business model, it enjoy B2B and B2C channel, the B2C is WeltSparen, a marketplace of Raisin plus additional channel to other partners.

In our Business Plan, Raisin is expected to contribute to around 10% of total funding by 2020 increase to around 20% by 2023. So it's an important source of diversification of funding.

Let me now hand over to Enrico.

ENRICO FAGIOLI: Thank you, Francesco. Page 20, so we are in line, we are a bit ahead of schedule for crossover and acquisition finance. There are many opportunities in the market and invoice lending is gaining speed [ph]. I would like also to remind that the in our business, the transaction particularly in UTP and cross-over are complex and it takes time to execute them. So in my opinion, the best way to assess what we have accomplished so far, is to consider what has been originated together with this agreed, and together with the advanced pipeline to give...this gives in our view a better picture of what has been done up to now.

Now a quick focus on our 2-business going to Page 21, cross-over and acquisition finance. We are in an interesting market. We have actually an impressive advanced stage pipeline. And also in a few...in the few months of operation, we have become...we've already become a recognized actor in...particularly in the acquisition finance market. So we have 4 deals to be executed shortly. And as I was saying, an important additional pipeline at advanced stage.

Page 22 turnaround. So our...in turnaround business model, we confirm our business model. The business model is as anticipated, there are many, many opportunities and a lot of work is undergoing. More than 50% of what we call other opportunities, which are around more than €600 million are potential turnaround deals. We now have one deal, more an opportunistic one to be closed the shortly, another 3 deals forming the additional pipeline at an advanced stage.

Page 23, invoice lending or factoring. This is a business our team has been completed. And this is a business where we expect, we actually expect a kind of snowball effect because it is complex and time consuming to get started from an operational and an organizational point of view. But once you have started, the turnover is linked to the evolution of your client business in almost in an automated way. I also take the opportunity to remind that our business model contemplates the setting up of long-standing relationship with seller or buyers to better manage their working capital needs, not spot transaction as in the case for some new players in the market.

Going to Page 24, the organizational chart. This is a chart that we have put in the presentation only to stress the point that we have now have almost reached a let's say 8+4 tutors. And they are covering the sector that are listed in the page. And so, we are going on with getting industrial and segment and sector expertise and this gives us a real...a lot of value.

Page 25 just to spend a few moments on the credit machine. Credit machine is our credit department. And while what we have called and you see it on the right, illimity and division intelligence is the partner with roughly 20 computer scientists and they deal with competitive aspects and Big Data. What we try to do and what we are doing is to combine external data coming from public source with internal data coming from Tutors and third party due diligence and so on.

And we have statistical and quantitative approach. So we have a deterministic approach on the left side coming from the Tutor, a quantitative approach coming from the right side, and all of these together with data that we gathered from outside sources, produce in the elements that we use to have a proper credit evaluation, a credit monitoring that will

be very important that was why they are going on and also a value-added advisor to our customer.

We jump to one last remark, which is as you see the credit machine is shown as a lady with something in her head. And this is because we think that the ladies are smarter and also because in...because of that the person in charge of our credit machine is a lady. So I handover to Andrea for NPL

ANDREA CLAMER: Thanks, Enrico, and good afternoon, everyone. Slide 27, I would like to show you a brief summary of our numbers. We are substantially in line with NPL investments and ahead with the Senior Financing. From the beginning we analyzed almost €30 billion of the gross book value, €20 billion, have been mostly excluded and partially lost, €2 billion have been signed and the remaining €8 billion are currently under evaluation.

Up to now, we have originated €450 million of net book value of which €320 million in NPL investment, and €130 million in Senior Financing. Other €156 million signed in the next forthcoming weeks and additional €350 million are in advanced pipeline. [Technical difficulty] NPL investment of almost €1 billion with a target of €2 billion in 2020. In terms of servicing, we have almost €2 billion of assets under management. Additional €1.5 billion are in advanced pipeline for an expected total gross book value of almost €3.5 billion with a target of €5 billion to €6 billion in 2020.

Slide 28. By looking at our numbers in deeper detail, let's consider that €207 million out of €318 million of NPL investment refers to deals already signed between March and April that will be booked in the forthcoming coming months.

Slide 29. Our total portfolio so far has a gross book value of more than €1.2 billion and there's a composition in line with our Business Plan assumptions. Cash-on-cash is 1.77, higher than the Strategic Plan assumptions and the ERC is more than €190 million.

Slide 30, on April 16, we reached an agreement with Banco BPM for the purchase of an NPL leasing portfolio with a gross book value of €650 million. The portfolio is in line with our Strategic Plan. It's secured, recoverable always and guaranteed by industrial and commercial assets. The closing of the transaction will take place on multiple stages starting from June 2019 and will terminate by June 2020. The closing timeline of the 8 leasing portfolio is similar to other leasing portfolios. In the leasing segment, the onboarding period is longer than the credit portfolios but differently from the other portfolios, the time to asset reprocess [ph] is definitely shorter.

Slide 31, in this slide we want to give you both the cash flow and the accounting perspectives to show you how our NPL investments are performing so far. From a cash flow perspective since the acquisition, the booked [ph] portfolios registered a total collection of €8 million with an increase of almost €4 million with respect to the Business Plan.

On March 2019, we registered almost €3 million of cash flows with an increase of €2 million with respect to the Business Plan. From an accounting perspective, in the first quarter, we obtained revenues for €6.2 million of which €5.6 million from the NPL investment and €0.6 million for Senior Financing. Interest as already discussed are calculated multiplying the NBV by pro-rata gross IRR. In relation to the adjustment, please note that €1.4 million is due to the sum of the positive delta cash flow of €2.1 million and ERC compensation which comes from a review of the Business Plan.

Slide 32, in terms of people; we have almost 50 people already on board considering both the investment team and the servicing team.

Slide 33, as you know, will cover the entire NPL value chain, following the transaction for the investment phase to the servicing one. On April 5th, we presented Neprix as an innovative and technological servicer for the corporate NPLs and also a business partnership with it auction, a leading specialist in the management and disposal of property and institutional [ph] assets.

I will skip the next pages and leave the floor to Carlo Panella.

CARLO PANELLA: Thanks, Andrea and good afternoon, everybody. illimity's digital platform implementation is on track and in the next few slides I will give an update on where we are. And the beginning of May 2019 has been very important as we have activated the new banking platform and the developments have been planned giving priority to infrastructure and to business-related systems. The main achievements so far are; the transition to a New Open Core Banking System, the Data lake that is now up and running and this enables AI and machine learning programs using Big Data and external sources.

The API layer is in place and operational and this means that illimity can easily integrate FinTech and other third parties and the other business [ph] specifics terms have been deployed. So all the revenue sources have their own specific IT system running and the next steps will be the deployment of Direct Bank with a new frontend for retail and a SME market.

Going to Page 38, these are the four cornerstones around which we have built our platform and the road path for implementation that we have just

described to be fully digital, modular, open by design and fully on cloud, but I will elaborate on this in the next Slide. The result will be a data-driven platform easy to operate and maintain and supporting illimity's growth base.

Page 39, we can now say that we are the first Italian bank fully in cloud and this is very important because this enables a new approach to banking...an approach to banking as a platform, so we can integrate a different system being...having a platform that is being created with a security by design, for instance we have embedded more than 12 different solutions for security and many of them based on artificial intelligence and machine learning and this enables also the third-party integration strategy and orchestration in a safe and efficient way. Deploying the cloud infrastructure, we have partnered with Microsoft.

Going to Page 40, so to the Direct Bank that is the last, the third business line that we will launch. Although, it is the last to come, we have already started to work with the marketing department to create conditions to accelerate results and we think that we will be ready to start in June this year.

Going to Page 41, since January, we have been working to create a web community with a double objective. On one hand, [indiscernible] of online potential customers to create user experience, offering and easiness of the platform. On the other hand, to create the first community of [indiscernible] bank ambassadors to accelerate the acquisition of new customers. At the beginning of April, we have unveiled that this is related to illimity and we have over 30,000 people joined so far.

Going to Page 42, as described in the illimity Business Plan, that our bank with focus on target market of more than 20 million individuals, and need

to collect stable funds and gaining customers with payments and daily banking offering. To achieve the results we have worked on differentiating user experience with fast boarding and state-of-the-art mobile payments. Product offering will be easy and complete with comprehensive conditions of deposit.

We are integrating third-party loans and...for loans and insurances and we confirm that the Direct Bank offering for retail market will be on air by end of June 2019. And June 2019 will be the last important deadline in the construction of illimity that started a few months ago and today is already almost fully operational, the last component that will join the rest of the bank will happen as Carlo was saying at the end of June 2019 and perfectly on schedule with what we promised. We have tried to summarize the most important messages and we are now ready to accept any kind of questions you might have.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press "*" and "2", please pick up the receiver when asking questions. Anyone who has a question may press "*" and "1" at this time.

The first question is from Manuela Meroni with Banca IMI. Please go ahead, madam.

MANUELA MERONI: Yes, good afternoon. Three questions; the first one is on the Common Equity Tier 1, declined by €33 million quarter-by-quarter. I understood that there is an impact coming from the temporary suspension of the

special shares. So I am wondering, what is the reason and when you expect to restart accounting for [indiscernible]. The second question is on the one-off cost, you posted €2.6 million one-off cost in the first quarter, I am wondering what you expect in terms of one-off cost for the full year? And the last question, you are ahead of schedule in the crossover, in the near financing, so in the last conference call you said that you expect to reach with the...even in the last quarter 2019. I am wondering if you tend to reach the breakeven a little bit earlier than that?

FRANCESCO MELE: Okay. Let me start Manuela, it is Francesco. From Common Equity Tier 1, the reason we have excluded the special share is simply because we have not received the authorization to include them, they are more junior than ordinary shares, they don't benefit from dividend, they will be automatically converted into ordinary shares sold by any substance, they are clearly Common Equity Tier 1, they will be definitely included by year end. We have a number of process ongoing with the regulator. So we have prioritized for instance the composition and the creation of banking group. And as such, clearly, this will follow suit. But there is on our side no doubt they will be included in it. I remember it's €14.4 million, that's the main driver for the difference...the decline in Common Equity Tier 1, you consider it temporary reduction let's put it this way.

In terms of one-off costs, we had around €2.6 million in Q1, our costs will pick between Q2 and Q3 because it clearly reflect the complication of our infrastructure. So clearly, if you take on run rate excluding the one-off the remaining quarter will be higher. We confirm we expect to shift over breakeven in the last part of Q1. Overall, I think...Q4, sorry, in the last part of the year, between Q3 and Q4. In terms of one-off cost, there are no significant conditional one-off cost expected in the rest of the plan, they are related to the completion of the infrastructure, we have around another million coming for the completion of the IT one-off, consider we are

going to have around 300 people by yearend, so this is clearly going to benefit in terms of operating leverage going forward.

MANUELA MERONI: Thank you.

OPERATOR: The next question is from Giovanni Razzoli with Equita SIM. Please go ahead.

GIOVANNI RAZZOLI: Good afternoon. Two questions, on my side, the first one if you can provide us with an update, as far as, the completion of the creation of the servicing platform for the NPL business what is the state-of-the-art there and how do you expect it accelerate if any of the hiring's in next few quarters? And the second question is a clarification on Slide #28, I admit that I mostly concentrated into my analysis into the...in the growth of the gross book value. But from your explanation, if I look at Slide #28 you are basically showing us that with the deals in pipeline you have tripled the NPLs investment that from what I understood for the accounting of the revenues of this business is much more important than looking at the gross book values that if I got correctly it went up from €1.2 to €2 billion, so has doubled in a certain sense. So is my understanding correct, that we also look, should look at the kind of asset that you are buying and the amount invested to have a proxy of the acceleration of the revenues going forward? Thank you.

CORRADO PASSERA: Okay. The first question in relation to the servicing platform we reached 30 people in the servicing platform. The servicing platform as the first line completed we are managing with a servicing partner the €2 billion that bank bought. And we are...we think to reach 50 to 60 people by the AI and with the servicing platform. You remember that at the end of the Business Plan, the serving platform will have 160 people. In relation to what you [indiscernible] said, in terms of what you have to consider for

amounting revenues for the NPL division, you're correct. You have to look, pay attention to the evolution of the net book value and that is a simple answer to look at that, they are not at the gross book value.

GIOVANNI RAZZOLI: Thank you. Understood, well the gross book value.

FRANCESCO MELE: Yes, just in relation today obviously for the acquisition for the interests you have to look for the NBV. In relation to the servicing we have to pay attention to the gross book value for the servicing activities that is a separate business in that case.

GIOVANNI RAZZOLI: Thank you.

OPERATOR: Mr. Passera, gentlemen, there are no more questions registered at this time.

CORRADO PASSERA: Okay, we infer that our presentation was so clear and so explanatory that no further questions are needed. So thanks a lot to everybody and as...today we started our quarterly reporting and we are very proud of that. Thank you very much to everybody.