

illimity – 1Q23 Results

Corrado Passera – CEO

Good morning and welcome to our 1Q 20/23 results presentation.

We had a *positive* start to the year, achieving key strategic milestones.

I will discuss these milestones and the main trends, followed by our CFO, Silvia, who will provide more details.

Our division leaders are here to answer any questions during the Q&A session.

Let's move on to slide 2.

Slide 2 - Key strategic milestones driving a positive start to 2023

This quarter, was marked by dynamism and *solid* progress. Four highlights:

- Our robust liquidity profile, solid capital position, and diversified asset mix - enabled us to effectively address the concerns raised by the banking market turmoil at the beginning of 2023.
- The transformative long-term partnership we just signed with Engineering Group for the IT platform, will drive *substantial* profitability in 2023, and beyond.
- The Q1 core business trends - are in line with our expectations. The impact of the IT partnership deal makes this quarter *not* fully comparable with previous quarters.
- *All* our three tech ventures have made *important* progress in their own strategic development, and of great interest, a strategic partnership was signed in the real estate sector between Quimmo and Coima.

Let's review the milestones, beginning with our liquidity position on slide 3

Slide 3 - Robust Liquidity Position with positive inflow of Retail Deposits in 1Q23

We have a *very* robust liquidity position with:

- A liquidity buffer of nearly 900 million euro in cash and government bonds.
- LCR is *very high* exceeding 300%.
- NSFR at 114% is *well above* the minimum threshold
- illimitybank's online platform experienced more than *200-million-euro* growth in retail deposits during the quarter, with term deposits accounting for *84%* of total retail funding.
- Our goal has *always* been to maintain a mainly *balanced* asset and liability structure in terms of maturities.

Moving to capital, Slide 4

Slide 4 - Solid capital position supports future business growth

Our position is *rock-solid* and will support our growth pipeline:

- Core Tier 1 ratio is 15.6%, *exceeding* SREP targets by 650 basis points.
- Total Capital Ratio is *also* strong, standing at 20.3%.
- Moreover, the unrealised losses on the Hold to Collect portfolio are negligible, amounting to *less than* 15mln euro

Moving to slide 5

Slide 5 - Cyclical stability through asset diversification

Here is the breakdown of our resilient asset mix, demonstrating illimity's adaptability across the cycle:

- A *significant* portion of our assets are customer performing loans, with nearly *half supported* by public guarantees.
- The majority of the purchased UTPs are associated with going concern positions, either with well-defined repayment plans or undergoing restructuring to restore them to performing status.
- NPL purchases represent *less than* 10% of our total assets, distinguishing illimity from NPL players whom we are often compared to.
- The rest of our assets include liquidity, financial assets - such as government bonds - and other assets like tangible and intangible assets, as well as fiscal assets.
- Furthermore, our loan book is *well-diversified* across 30 plus economic sectors, with *no* sector comprising more than 10% of the total Growth Credit book.

Moving to slide 6 for asset quality.

Slide 6 - Expected Asset quality trend with contained cost of risk at 43bps

In 1Q23, our loan portfolio's asset quality *met* expectations with a contained cost of risk. Key points:

- 56% of our loans have public guarantees or insurance facilities.
- Stage 2 loans represent *only* 2% of the portfolio.
- The organic NPE ratio *increased, as anticipated*, to 3.7%, mainly due to some exposures moving to the UTP category.
- Excluding loans with public guarantees, our NPE ratio is 1.5%, that includes several exposures that are actively undergoing a restructuring process that could result in either being restored to performing status or having to repay the loan.

Moving to the strategic IT partnership on slide 7

Slide 7 - Game-changing partnership with Engineering Group to bolster 2023 and beyond

In April, we signed a *significant* long-term industrial agreement with Engineering Group, a global leader in digital transformation.

This *game-changing* move unlocks the *full* potential of our *advanced* IT assets, *propelling* our growth trajectory forward.

The pre-tax consideration of 55.5 million euros will be recorded in 20/23, along with an *additional* 4.5 million euros for platform upgrades over the next 9 years.

Additionally:

- We anticipate *substantial* royalties for at *least* 10 years from Engineering Group's IT platform offerings to third parties, bolstering the bank's profitability over the long term.
- As a preferred partner, Engineering Group will provide IT services to illimity for 10 years, with the cost *already* factored into our Plan.

Overall, this partnership adds *significant* value to illimity.
Moving to Slide 8 – to look at our Q1 net profit.

Slide 8 – 1Q23 trends as we expected, comparability affected by IT platform deal

Q1 results were in line with our expectations.

- In the first quarter, the distressed credit market remained soft, but we maintained a comparable origination volume to the previous year thanks to our diversification in other SME business segments. We anticipate an increase in business origination starting from the second quarter of 2023.
- Our net interest income and net commissions experienced *double-digit* growth in Q1 2023 compared to the same period last year, with a combined growth of *over 30%*. Core revenue is expected to continue growing in the upcoming quarters due to a strong pipeline and ongoing repricing actions.
- The YoY comparability of "other income" was affected by the termination of the previous IT agreement and lower revenue from closed positions, as 1Q22 had *particularly high* figures in this regard.

Our net profit for Q1 stood at 7.8 million euro – and also here - a direct comparison with the corresponding period last year is *not* feasible - due to the 8.5-million-euro pre-tax impact from the consensual resolution of our previous IT platform license agreement.

We expect profitability to accelerate over the next quarters.

Slide 9

Slide 9 – SME businesses profitability up 74% YoY

Our SME business has shown an *impressive* performance with *strong* contributions from both our Growth credit and Investment Banking divisions

- Net customer loans *surged* by an impressive 49% YoY to reach 2.3 billion euro. Despite some early loan reimbursements, the stock was up 4% on a quarterly basis.

- The Investment Banking division in Q1, originated *90 million* euro in new investments, *nearly half* of the total volume in 2022. The total investment volume reached *178 million* euro, showing a notable 33% QoQ growth.
- Overall operating leverage improved further. The increase in the investment banking division's cost-to-income ratio was driven by *considerably* higher volumes compared to Q1 last year
- The combined pre-tax profit increased significantly by 74% YoY.

Moving to Slide 10

Slide 10 - SME lending activity to accelerate further

Our SME business is expected to gain further momentum in the coming months, thanks to a *valuable* pipeline ahead

- The Turnover business achieved *consistent* and *robust* business origination, with a pipeline for the next months that is *twice the size* of 1Q22.
- Cross Over & Acquisition Finance is also expected to accelerate with a pipeline *above 130mln euro*.
- The factoring business saw a turnover *doubling* year-on-year (YoY). This drove the Q1 volumes *even* higher than the seasonally high fourth quarter of last year.
- Regarding the Investment Banking activity, we anticipate *further* growth in both the corporate solutions and structuring businesses. This is based on the *remarkable* pipeline we currently have in place.

Moving to Slide 11

Slide 11 – Anticipated soft market start with strong pipeline ahead

In our Distressed Credit Division, the NPE transaction market had limited activity in the first months of the year. As a result, both investments and disposals were affected, leading to lower pre-tax profits for the quarter, in line with our expectations.

However, the market has gained momentum since April, and we are currently involved in a pipeline valued at *200 million* euros.

The notable volume of Stage 2 loans at the system level presents a *continuous* and *profitable* opportunity. Our asset quality has shown *good* resilience, with *strong* cash collections.

Moving to Slide 12

Slide 12 – P&L contribution from distressed credit business supported by high level of collections

A question that often arises concerns the stability of the P&L contribution from our Distressed Credit business.

As evident here, the P&L contribution is not reliant on model revaluations but is supported by a robust and reliable cash flow generation that exceeds twice the amount, bolstered by various workout strategies aimed at maximising revenue and minimising recovery time.

Moving to slide 13

Slide 13 – Highly collateralised and diversified Distressed Credit investments

The distressed credit portfolio maintains *strong* asset quality due to our asset mix and prudent pricing models.

- 84% of our total investment is secured with *well* diversified real estate collaterals.
- The net book value of our assets, at 700 million euro, is *significantly* lower than the judicial value of real estate collateral, which is close to 1 billion euro, and the open market value, which amounts to 1.7 billion euro. Consequently, we possess a *substantial* buffer, exceeding twice our net book value

Let's look now at ArecNeprix on slide 14

Slide 14 – Leading market operator with end-to-end asset management services fully operational

Last year, the merger between Neprix and AREC - with approx 10 billion in assets under management - resulted in the creation of Italy's *third-largest* player in the industry of corporate UTP credit management. ARECneprix is a trusted partner for banks and investors in managing large-scale real estate-backed credit portfolios. It offers end-to-end support, from origination to due diligence and asset management for secured and unsecured corporate assets

In terms of Q1 figures, we reported:

- Revenue of 8.4 mln euro
- EBITDA margin of 23%,
- Pre-tax profit of 1.7 mln euro.

The profitability in 2023 is expected to benefit from an *important* pipeline of third-party mandates

Slide 15 illimity SGR

Slide 15 – Momentum of our SGR accelerates. Total AUM up to ca. €440mln

We established our SGR to enhance our business capabilities and optimise capital utilisation. Through the SGR illimity essentially became “limitless”.

In April 2023, we introduced our third fund, "illimity Selective Credit," targeting the financing of performing companies dedicated to: sustainable growth, development, digitalisation, and internationalisation.

We achieved a *successful* first closing with 90 million euro, attracting various investors, including the Italian Investment Fund as an anchor investor.

Since the creation of our SGR, our total assets under management have grown to around *440 million* euro in just two years. This growth is expected to continue as we launch new funds - in the near future - and leverage the increasing synergies with our Growth Credit Division and Distressed Credit Division.

And now, let's move to

On slide16 our tech initiatives

Slide 16 - Tech initiatives advancing toward high value creation

Our three tech initiatives are gaining traction:

- Quimmo - the leading proptech in the Italian real estate brokerage market - is accelerating its entry into the free market, through the strategic partnership we just announced with Coima
- Bilty - the first Italian fully-fledged digital bank for small corporates - is now fully operational from Q1.
- Hype - the Italian retail fintech leader - is advancing its journey towards breakeven

The combined negative contribution to the group's P&L - that was 20mln euro pre-tax in 2022 - is expected to *reduce significantly* in 2023, to then become profitable from 2024.

These tech initiatives will boost new equity creation for the illimity Group, and it is important to acknowledge that the *true* value of such assets is *not* solely determined by short-term financial performance.

Slide 17 moving to Quimmo and the Real Estate partnership

Slide 17 – Quimmo: equity partnership in real estate to accelerate open market strategy

As announced last week, our proptech, Quimmo, has formed an important equity partnership with Coima, a leading player in property asset investment and management of property assets for institutional investors.

This partnership *accelerates* our strategy to enter the open market and *expand* our portfolio in the real estate sector.

Under the agreement, Coima will acquire an 18% stake in Abilio/Quimmo by transferring 100% its *fully-controlled* company Residenza Porta Nuova (“RPN”), a prestigious Milan agency that specialises in marketing and leasing high-end residential properties.

Quimmo is already the *top* digital brokerage platform for the judicial real estate market, managing assets and capital goods worth *2.4 billion* euro, with 94% coming from non-captive business.

Assets under management will further expand due to a pipeline *exceeding 1 billion euro* in residential properties, resulting from the partnership, as well as new third-party mandates

Quimmo is *nearing* breakeven, and with the addition of this new partnership, will *accelerate* towards profitability in 2023.

Slide 18 b-ilty

Slide 18 – b-ilty: Business up and running from 1Q23 and already gaining momentum

Our investment in B-ilty combines our expertise in SME lending with advanced technologies to address the underserved market of over *one million* small corporates in Italy alone.

In 1Q23, B-ilty launched its commercial activity after investing over a year in developing its AI credit engine. Customer loans have *already* reached €70m with a promising pipeline of more than €150m.

We anticipate *further* volume growth in 2023, driven by expanded commercial distribution agreements.

All customer loans are backed by public guarantees

Slide 19

Slide 19 – Hype: Top retail finech in Italy is well above the minimum threshold

Hype is the *leading* fintech for retail clients in Italy with 1.7 million users.

Unlike other international operators in the sector - that expanded into multiple markets without establishing any national leadership - our platform retail model focuses on achieving *absolute* leadership in a significant market, before considering selective geographical expansion.

In Q1, Hype reported an *11%* YoY increase in its customer base, with *22%* paying subscriptions.

- Transaction numbers grew by *36% to 29 million*
- The first contribution margin is steadily moving towards breakeven.

With our new CEO, Hype's growth strategy is set to accelerate.

Moving to slide 20

Slide 20 – Significant achievements driven by strong commitment to ESG values

As a native ESG company, sustainability is the cornerstone of our operations, *penetrating* our targets, processes, and governance rules. Our ESG-centered approach has resulted in *further remarkable* rating improvements on last year.

Here are just a few of our notable achievements:

- We obtained carbon neutrality in both Scope 1 and Scope 2 emissions.
- Our gender pay gap is among *the lowest* in the sector at just 4.6%.
- We are proud holders of Gender Equality certification and have been named *Best Workplace* for four consecutive years.
- We recently became signatories of the Principles for Responsible Investments through our SGR.
- Moreover, we launched the illimity Foundation, supporting urban regeneration projects.

Moving to slide 21 – Our outlook

Slide 21 – Outlook: 2023 Net profit with progression skewed towards second half

Considering the anticipated revenue from the new IT platform deal and the *robust* pipeline of business origination, we expect a stronger quarterly net profit progression in the second half of the year.

We are confident in announcing that we project to book a net profit of over 100 million euro in 20/23: for the time being we limit ourselves to say “over”.

Silvia will now provide a detailed overview of our Q1 20/23 results.

1Q23 Results Presentation

Silvia Benzi – CFO

Thank you, Corrado, and good morning, everyone.

Let's move straight ahead to the Balance Sheet figures on SLIDE 23.

Slide 23: Steady volume growth

Total assets in the first quarter remained broadly stable, firmly above 6 bn euro. Our **liquidity** is robust with a buffer of 900 million.

Net customer loans increased further, by 4% qoq and by a strong 39% yoy. The growth in volume this quarter was driven by our performing loans business. The Growth credit division posted a *nice* 4% progression qoq, with strong business origination partly offset by early repayment. Bilty and the Investment Banking divisions reported a *remarkable* growth, 44% and 33% respectively, confirming - their momentum is taking off.

Distressed Credit loans and investments remained broadly stable in Q1.

All our businesses - present a solid pipeline for the coming quarter.

Our **securities portfolio** remained *largely* stable in this quarter.

Looking at the liability side of our balance sheet, **customer funding** increased further in the quarter, driven especially by the retail component, while wholesale funding posted a 15% decline - as a number of short term financing came to maturity.

Moving to Profit & Loss on SLIDE 24.

Slide 24: Core business in line with budget

First of all, let me remind you that Q1 results are not fully comparable with the same period last year – because of an €8.5mln negative pre-tax impact, from the termination of the previous licence agreement on the illimity IT platform, that was effective from December 2022.

Excluding this component, core business trends were in line with the projected trajectory.

Looking at the key drivers in details:

Net interest income - is up by 5% qoq and by a strong 34% yoy. This trend is the result of two components.

- **First.** Interest income advanced strongly qoq - driven mostly by business origination, and partly by better market rates;
- **Second.** Interest expenses reported a step up in Q1, due to a sizeable wholesale term funding issued in December last year, and also higher rates on new funding. From now onwards, we expect growth in this component to be more gradual.

Net fees advanced double digits yoy with all divisions contributing to the trend. Quarterly comparison is affected by seasonality.

Other income comparability with the first quarter last year is affected by the above mentioned IT termination.

Profit from closed position came in a *bit* soft this quarter, and this is due to the limited dynamism of the distressed credit market, which curtailed opportunities for investments and disposals.

Operating costs have decreased by 6% QoQ, while increasing by 11% YoY. This trend can be attributed to the annualisation of costs - related to the completion of the operating structure, and IT investments made throughout 2022. From 2023 our operating structure will largely stabilise.

Asset quality, as expected, showed some signs of worsening. Nonetheless, our **cost of risk** remained contained - supported by the high share of loans with public guarantees.

Finally, we booked a one-off negative component - as a consequence of the settlement related to the mutual resolution of the previous IT platform agreement.

Let's now have a look at segment reporting on SLIDE 25

Slide 25: Core businesses drive profitability

Distressed Credit had a *soft* start in 2023, as expected, due to transactions in distressed credit tending to be seasonally low at the beginning of the year. Revenue of 42m euro is down 22% on Q1 last year, which benefited from a couple of very large NPE disposal transactions. Cost income remains solid at below 50%.

Growth Credit was the *key* driver of profitability at the group level, with revenue doubling - and costs declining - compared to a year ago, thus leading to visible operating leverage gains. The pre-tax profit stood at 18mln euro, nearly doubling the level recorded in Q1 22.

Investment Banking posted a 2.1mln pre-tax profit, in line with Q1 last year. Revenue increased by 11% yoy. The increase in costs is linked to the new business origination, with large transactions structured at the end of the quarter, whose relevant revenue will be visible in Q2.

Altogether, the SME business made up of Growth Credit and Investment Banking generated a combined pre tax profit of 20mln euro, up 74% yoy.

B-ilty. 1Q results clearly show the activity has kicked off. Revenue has visibly increased, while costs are down compared to Q1 last year as 2022 was the set-up year. Loan loss provisions are mostly related to the initial lending exposures - which were underwritten before the fine tuning of the automated credit engine.

Our **asset management company** benefited from the launch of new funds.

Results at the **CIO division** are difficult to read, as comparison with the first quarter last year is affected by the termination of the previous IT platform license agreement. It is worth reminding - that the significant revenue and royalties generated by the agreement with Engineering - will be booked in forthcoming quarters.

Finally, **Corporate Centre** came largely in line with Q1 last year. The headquarter set-up and control functions are now largely completed, and from 2023 these costs will be highly scalable.

Let's now move to our KPIs on slide 26.

Slide 26: KPIs

First - **Cost income ratio**. 1Q print is affected by the deal on IT platform, and by a softer distressed credit market. We expect cost income ratio for the Full Year 2023 to fall well below the level recorded in 2022, as the result of improving profitability at our core businesses, coupled with the significant revenue related to the contract with Engineering.

Second – **Asset quality**. As expected, some of our organic exposures moved to non performing, bringing the organic NPE ratio to 3.7% (4.7% including the former Banca Interprovinciale's loan book). Nearly 80% are classified as past due or unlikely to pay, and are currently undergoing a restructuring process. Given the high share of guaranteed or insured loans, our **cost of risk** remained contained to an annualised 43bps.

And thirdly – **Capital ratios** and **liquidity** are very solid. Looking at them in more detail on the following slides.

Starting from capital, on slide 27

Slide 27: Robust CET1 Ratio at 15.6%

Our capital base is very robust, with Common Equity Tier 1 ratio phased-in of 15.6% - more than 650bps above our SREP - and **Total Capital ratio above 20%**.

The decline in Common Equity Tier 1 Capital this quarter - is entirely due to the removal, as of the first of January 2023, of the positive prudential filter on the negative valuation reserve of our securities portfolio.

Risk Weighted Assets remained largely stable in the quarter.

Let's move to our funding, on SLIDE 28

Slide 28: Well balanced funding sources with increasing retail component

Since the beginning of our journey, we have deliberately accessed all funding sources, resulting in a well-diversified funding mix.

During the first quarter, we successfully recorded further growth in the high quality retail funding component, which at the end of March stood at approximately 2.6bln euro.

The wholesale funding component declined in Q1 as we reimbursed some short-term financing, mostly ECB.

As a result of these moving parts, total funding decreased by 6% in the quarter.

Retail funding represents more than half of illimity's overall funding, and will play an increasingly important role in 2023. Let's have a closer - look at it.

SLIDE 29: New retail banking

Retail funding advanced by 3% in 1Q, but this is the result of two very different trends.

Net funding from our domestic platform – mostly [illimitybank.com](https://www.illimitybank.com) - advanced by over 200mln euro, a remarkable double-digit progression, while funding from the German pan-European platform - Raisin - declined, in execution of our strategy.

84% of retail funding stock is term funding.

We recently launched our new retail banking offer. It entails new current account products and, for the first time, we introduced a remuneration on sight deposits. We expect over time this feature to become the new normal - in a world with structurally high interest rates. It reflects our commitment to customers' satisfaction, and we wanted to anticipate the new trends - at the beginning of a quarter - that will see a likely acceleration in volume growth - based on a strong pipeline.

Let me conclude with a quick snapshot of our securities portfolio, on slide 30.

Slide 30: Prudent strategy on our securities portfolio

We aimed at a prudent strategy for managing our securities portfolio. This is confirmed as follows.

The portfolio we hold for liquidity purposes amounted to 787mln as of the first quarter, and represents a touch more than 90% of the Bank's shareholders equity, among the lowest in the Italian banking system.

Unrealised losses on securities accounted for in the Hold To Collect strategy - are negligible: less than €15mln, below 2% of our equity, while the bulk of securities - accounted for in the Hold To Collect and Sell strategy - is under hedge accounting, which largely mitigates interest rates risk.

Lastly, we keep an average duration relatively low at three years.

I now hand back to Corrado, so we can begin the Q&A.

Q&A

FINAL REMARKS

The first months of the year demonstrate, I believe, the resilience of illimity but even more its ability to continually respond to market opportunities.

At present, we have communicated that our projected profit for 2023 will surpass the previously stated guidance of 100 million. However, we believe it prudent to await further developments before disclosing the exact extent of this increase.

We are confident, this is very important because it is not only 2023 but our business plan targets, to achieve our long-term profitability targets.