

illimity Bank S.p.A.

3Q23 & 9M23 Results Conference Call

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MODERATORS: CORRADO PASSERA, CHIEF EXECUTIVE OFFICER
SILVIA BENZI, CHIEF FINANCIAL OFFICER

Corrado Passera – CEO

Good morning and welcome to the presentation of illimity's 9 months results.

Let's start with the highlights on slide 2.

Slide 2 - 3Q23 highlights core profitability increase and resilient asset quality

- In Q3, core profitability saw a robust increase, with a net profit of 22.8 million euro. This takes our nine-month total to 75 million euro, a 48% rise year-on-year.
- Capital position remained solid with a CET1 ratio at 14.75%, well above our SREP requirement.
- Liquidity remains robust, enhanced by a rise in retail deposits, which saw a €755 million euro increase in the first nine months of this year.
- SME business continues to show robust earnings, marking its most successful quarter yet.
- Profitability of Distressed Credit business picked up in Q3, with a pre-tax profit of €32 million, a 47% increase quarter-on-quarter.
- Finally, asset quality remained under control with cost of risk decreasing to 34 basis points.

Slide 3

Slide 3 – Q323 shows overall improvement in core profitability

Q3 shows a marked improvement in underlying profitability.

- Pre-tax profit more than doubled from 13.7 million euro in Q2 to 34.3 million euro in Q3.
- Core revenue – net interest income and net commissions – up 3% QoQ despite early repayments.
- Costs – down by 9%
- Loan impairments down by 47% QoQ reflecting the resilient asset quality in both our SME and distressed credit loan book.

Slide 4

Slide 4 – 9M23 results in line with expectations

The 9 months results are in line with our expectations, with 75 million euro net profit up 48% YoY. In particular:

- Operating income increased to 282 million euro up 21%, driven by both Net Interest Income and Net commissions, as well as revenue from the new IT partnership.
- Staff and Administrative costs increased only 5% (excluding perimeter changes and one-off items). This was mainly due to staffing additions in the last part of 2022.
- The D&A increase was mainly due to investments in technology.
- Operating profit at 125.4 million euro up 35%, driven by revenue growth.
- Loan loss provisions at 7.6 million euro reflecting a contained cost of risk at 34 basis points.

Slide 5

Slide 5 – Solid capital position

- Our capital position remains very solid.
- Core Tier 1 ratio stands at 14.75%, *exceeding* SREP targets by over 560 basis points. Also, going forward, we expect it to remain well above SREP requirements.
- Total Capital Ratio is *also* strong, standing at 19%.
- The unrealised losses on the Hold to Collect portfolio are negligible, amounting to 14mIn euro.

Slide 6

Slide 6 – Robust liquidity bolstered by retail deposits

- We've upheld a strong liquidity profile, marked by a blend of diverse funding sources and a balanced duration between assets and liabilities.
- Retail deposits, representing almost 60% of total funding, continue to grow. In the first 9 months they increased by *755-million-euro*.
- 86% of total retail funding is represented by term deposits.
- We also have a strong liquidity buffer of approximately 900 million euro in cash and government bonds.
- LCR is *very high* at 235%.
- NSFR at 114% is *well above* the minimum threshold.

Slide 7

Slide 7 – SME profit climbs 78% Y/Y with record 3Q23

- SME business confirmed its impressive earnings trajectory, marking its *most* profitable quarter ever, driven by both the Growth Credit and Investment Banking divisions.
- Net customer loans *surged* by 37% YoY.
- The Investment Banking division *accelerated* in Q3 with business origination up 82% QoQ.
- The overall operating leverage remains *very low* at 22%.
- For Q3 the combined pre-tax Profit amounted to 29 million euro. This takes our nine-month total to €68 million, reflecting a 78% year-on-year growth.

Slide 8

Slide 8 – All SME desks report rising volumes

- illimity has become a well know and trusted specialist partner for Italian SMEs.
- Our accomplishments speak volumes: over the last two years, our customer loans have doubled in value.
- This is not by chance, but by design. Our dedicated approach to business origination across all sectors is evident, there is no concentration of risks.
- Moreover, our robust pipeline suggests significant potential ahead.

Slide 9

Slide 9 – SME lending: resilient asset quality with decreasing cost of risk at 34bps

- Our asset quality remains *strong*. For the first nine months, our annualised cost of risk stood at 34 bps down from 42bps at the end of Q2.
- 53% of our loans are backed by public guarantees or credit insurance.
- Stage 2 loans represent *only* 1.4% of the portfolio.
- The organic NPE ratio, excluding state guaranteed positions, remains low at 1.3%.
- The total organic NPE ratio, including those with public guarantees, is equal to 4.8% consistent with previous quarter figures.
- Most of our organic NPE's are UTPs in active restructuring, with very few positions classified as bad loans.

Let's move to our Distressed Credit and Asset based financing business

Slide 10

Slide 10 – Distressed Credit & Asset base financing: profitability and origination increase with focus on UTP

- While 2023 began on a quiet note, the third quarter marked a strong rebound with a significant uptick in profitability for this business area. Pre-tax profit rose by 47% QoQ.
- Business origination - mainly in UTP portfolios and asset-based financing - reached 232 million euro, increasing threefold QoQ.
- The division's book stands at 1.7 billion euro with an asset mix that is clearly evolving.
- Asset-based financing and UTP's are growing in importance.
- Investments in NPL portfolios are decreasing in weight and size and will continue decreasing.

Slide 11

Slide 11 – NPE investments backed by 2.8x buffer on collateral values and over performance in collections

- Our portfolio of purchased NPEs consistently demonstrates solid asset quality.
- 80% of our investment is backed by solid real estate values. The open market value of such collateral is 2.8 times more than our book value, further growing QoQ.
- We review the business plans for all our NPE positions, at least quarterly, and align them with current market conditions.
- Cumulated cash flows, year after year, consistently surpass our initial projections.

Slide 12

Slide 12 – ARECNEPRIX Strong acceleration in third-party mandates

- ARECNEPRIX ranks as Italy's third-largest corporate UTP asset manager, with 11 billion assets (34% non-captive – a notable rise from 27% in 2Q23.)
- Serving as the sole asset manager and credit servicer for the recently established Olympus fund – one of Italy's largest with an initial GBV of approximately €2bn – ARECneprix's stature in the UTP management sector has been further enhanced.
- In Q4 we expect to more than double the first 9 months pre-tax profit.

Slide 13

Slide 13 – ILLIMITY SGR: AUM +60% YoY driving profitability increase

- SGR posted a pre-tax profit of €1.3 million, marking a further notable increase from the breakeven point achieved in 2022.
- The profitability increase was driven by AUM growth, with stock exceeding €450 million, a 60% increase year-on-year.
- In Q2 we introduced our third fund "illimity Selective Credit," targeting single name performing businesses.
- We expect to launch new funds in the near future.

Having looked at core businesses, let's now turn our attention to our other activities.

Slide 14

Slide 14 – Leveraging tech ventures for core business equity

Let me use this slide to highlight the important role our tech ventures have in our strategy

- On the left-hand side we can see our core businesses that consistently drive our growth. Over time, we've progressively changed our focus, reducing the importance of NPL investments.

- In the center we can see Illimity Technology. The new partnership with Engineering repaid a large part of our IT investments and transformed our digital banking platform into a new revenue source.
- On the right-hand side we can see our tech ventures. They are not strategic diversifications from our core businesses but promising investments to foster our future growth. Moving forward, we expect them to amplify our equity and fortify our core operations.

Starting with Hype on slide 15

Slide 15 – HYPE: Profitability improvement and customers expansion

- Hype is Italy's *leading* retail fintech with 1.8 million customers.
- Transactions grew by 31% to 96 million in the first nine months.
- Contribution margin increased significantly to 12.3 million euro, from 1.5 million euro last year.
- It's worth noting that the loss in 2023 will be around half of what it was in 2022, and consequently, our share would be between 3 and 4 million euro. We expect this positive trend to continue into next year.

Moving to b-ilty on slide 16

Slide 16 – B-ILTY Further progression both in volumes and profitability

- b-ilty is the first complete digital bank for small corporates on the Italian market.
- Net customer loans increased to 217 million euro up 41% QoQ and all of them are backed by public guarantees.
- Profitability is on an upward trajectory: the net loss for the first 9 months of Q3 has reduced by nearly half compared to the same period in 2022. Breaking even is a plausible outcome as early as 2023.

Slide 17 Quimmo

Slide 17 – PropTech leader Quimmo leader on judicial market sets pace for open market strategy

- Quimmo, Italy's leading proptech innovator, offers an unparalleled end-to-end digital solution for real estate brokerage.
- Managing assets worth 2.2 billion euro, Quimmo dominates the judicial market where its market share grew to 17%.
- Quimmo is entering the open market, strengthened by a recent partnership with property giant Coima, which brings a pipeline of more than 1 billion in luxury residential properties.
- This year's profits were impacted by a continued drop in bankruptcies nationwide. As this trend starts to change and open market activities develop, we anticipate Quimmo breaking even in 2023.

Slide 18

Slide 18 - Unique IT architecture boosted by partnership with Engineering

- It's important to recognise the significant progress made by Illimity Technology as part of our growth journey.
- Illimity Technology serves as our technological powerhouse, having created the first comprehensive bank IT architecture and systems free from legacy constraints. These systems are modular and built natively for the cloud. Numerous artificial intelligence applications are currently in development.
- Illimity Technology is not just a strategic asset that enhances our efficiency and effectiveness, but it is also a new source of profit through our collaboration with Engineering.

Slide 19

Slide 19 – Strong commitment to sustainability led to important ESG achievements

- Our very essence is rooted in ESG principles. We consistently strive to incorporate sustainability into our goals, operations, and governance structures.
- We have already achieved important results, and in Q3 we saw additional improvements in our ratings, building on those received in 2022. MSCI upgraded our ESG rating to a double AA, moving us from 'Average' to 'Leader'.
- On top of that, Standard Ethics also recognised our progress, revising our outlook from 'stable' to 'positive'.
- We've proudly maintained our position in “Europe's Best Workplaces 2023”, standing as the sole bank among Europe's elite.

Slide 20, the last one

Slide 20 - Progression in volumes and profitability keeping low risk profile while investing for future

- Reflecting on our journey from 2019 to now, the evolution of our total assets and net earnings , tells a compelling story of growth and resilience.
- By just looking at the first nine months of 2023, we've already matched the net earnings of the entire 2022 period.
- Not only we have grown in profitability and volumes, but we've also successfully maintained a low risk profile.
- At the same time, we continued to invest in technology and in new promising ventures, positioning ourselves for sustained growth also in the coming years.

Silvia will now provide a comprehensive review of our 9-month results for 2023.

Silvia Benzi – CFO

Thank you, Corrado, and good morning, everyone.

Let's move straight ahead to the Balance Sheet figures on SLIDE 22.

Slide 22: Performing SME business drives growth

Total assets at the end of September slightly increased to 6.8 billion euro.

Liquidity remains robust, with buffers holding steady at approximately 900 million.

Net customer loans stabilized at 4.2 billion, representing a strong 27% year-on-year growth.

Our SME business experienced another robust quarter, driven by strong business origination, reaching nearly 300 million euro.

The Growth credit division continued its positive trend, particularly supported by the Structured finance desk, despite early repayment that in the quarter amounted to over 40 million euro.

A notable growth this quarter came also from B-ilty and the Investment banking desk, achieving a remarkable 40% and 24% quarterly growth, respectively.

The Distressed Credit division partnered with a leading Italian bank to create the Olympus fund, one of the biggest funds in Italy focused on large UTP portfolios secured by real estate collateral.

illimity allocated a portion of its current distressed credit investments to the fund, and, in return, acquired shares accounted for as other assets.

This transaction unlocks value from transferred loans. It will also benefit ARECneprix business, that will act | as the sole asset manager and servicer of the newly created fund.

During the quarter, our **securities portfolio** experienced growth. We maintained a highly cautious approach, with the vast majority of the portfolio invested in short-term Government bonds.

Lastly, our **funding** increased marginally by 1% this quarter, primarily driven by retail. We will provide more details shortly.

Moving to Profit & Loss on SLIDE 23.

Slide 23: Robust profitability despite challenging environment

Net interest income held up well in the quarter, primarily driven by the performing loans business-segment, which benefited from volume growth and additional repricing | based on rate reset dates. This balance offset the additional rise in funding costs. Net interest income demonstrated a robust 27% surge over the nine months, compared to the previous year.

Net fees showed a solid 9% quarter-on-quarter advancement, leading to a 22% yearly progression, with positive contributions from all our businesses.

Other income was influenced positively by the partnership on our unique IT platform, which was accounted for in the previous quarter. Results for the third quarter have returned to a more normalized level.

Operating costs decreased by 9% quarter-on-quarter. A comparison of staff costs reflects the positive seasonal effect typically seen in the third quarter, while other cost-dynamics demonstrate effective cost control.

Loan loss provision charges on our organic loan book decreased this quarter to 1.7 million. This improvement was supported by the extension of credit insurance on our factoring book, and solid asset quality trends overall. The annualized cost of risk for the first nine months declined to 34 basis points, supported by a substantial portion of public guaranteed loans.

Lastly, we recorded positive **value adjustments** in our distressed credit positions this quarter, based on binding offers received from third parties on some of our portfolios. This confirms the soundness of our book.

We have chosen not to pay the bank windfall tax by opting to allocate profit to reserves.

Now, let's move to SLIDE 24.

Slide 24: Several opportunities drive growth

This slide illustrates how various business units have contributed to the Group's performance over the first nine months of the year. Corrado has already highlighted the key trends of the main businesses, so I will not reiterate them.

The message I want to emphasize here is that we have substantial market potential, and we persistently channel capital into the most promising segments.

Despite a sluggish market for NPE transactions, the bank sustains its upward growth trajectory. This resilience is due to the robust momentum in our thriving SME business, and the strategic valorization of our tech advantages.

Our tech ventures are progressing as planned

and are expected to significantly reduce their negative contribution to this year's results. For instance, B-ilty has successfully halved its quarterly loss in Q3.

The overall operating structure is now completed and highly scalable moving forward.

Let's now move to our capital trends on slide 25.

Slide 25: Robust CET1 Ratio at 14.7%

Our capital base remains solid, with Common Equity Tier 1 ratio in the region of 14.75% and Total Capital ratio at 19%.

Our Capital increased driven by the profit generated in the quarter.

Risk Weighted Assets rose following the strong business origination, totalling over 500 million euro in the quarter, and the effect of the Olympus funds transaction.

Our capital ratios remain well above our regulatory threshold.

Finally, let's move to our funding, on SLIDE 26

Slide 26: Direct banking leads funding advance

Dynamics in the third quarter were largely driven by retail funding, with term deposits growing over time and representing the main source.

In September, we revamped our deposit offerings, with a specific focus on term deposits, aiming to maintain a balanced duration profile between assets and liabilities.

Our retail funding platform, illimitybank.com, successfully collected over 200 million euro in deposits during the third quarter. Combined with Raisin, overall retail funding increased by 10%.

Other funding sources experienced a 9% decline quarter-on-quarter. We reduced our reliance on ECB and interbank sources, and facilitated the repayment of certain corporate deposits.

Our blended average cost of funding stood at 3.1% for the nine months ending September 2023.

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

CEO - FINAL REMARKS

Let me conclude by saying that

- In the first nine months, we increased our core profitability and strategically strengthened the bank through the new IT partnership.
- SME business continued to grow both in profitability and volumes, recording the best quarter ever.
- The Distressed credit division also contributed significantly. Its business origination moving forward will be increasingly focused on UTP loans and asset-based financing.
- All Tech ventures are advancing according to plans and will generate tangible value for illimity and its shareholders

Let's now move to Q&A, thank you.