illimity Bank S.p.A.

4Q23 & FY23 Results Conference Call

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

Corrado Passera – CEO

Good morning! Welcome to the presentation of illimity's 2023 full year results.

Let's start from slide 3.

Slide 3 – Uninterrupted growth story

illimity's journey is a story of *continuous* growth. Over our five years of existence, we've encountered several unexpected challenges, but our commitment to growth *has never wavered.*

- Our asset size grew from virtually *nothing* at the start of 2019 to 7.3 billion euro.
- Profitability was reached almost *immediately* in 2019, *exceeding* 100 million euro by 2023.

During the whole period, our balance sheet has always been *very strong,* and we've *never stopped* our commitment to investing in technology.

Moving to our full year results. Slide 4

Slide 4 - FY23: Very good numbers

2023 shows *very good* results from every angle.

- Q4 posted a net profit of *29 million euro* up *30%* quarter-on-quarter, taking our full year results to *104 million euro.* This is a 40% growth year-on-year, *in line* with our guidance.
- The corporate and investment banking business hit *record profits and volumes.*
- *The Distressed Credit business* also performed very well amid a challenging scenario.
- Capital position remained solid with a CET1 ratio at 14.7%, *well-above* our SREP 2024 requirement.
- Asset quality remained under control, with a gross organic NPE ratio at 1.3% and cost of risk at *just 43 basis points*.
- Our tech ventures made *significant* profitability progress, with breakeven projected in 2024.

In addition to these results, 2023 saw *three crucial strategic developments, as we can see in Slide 4*

Slide 5

Slide 5 – Key strategic advances

- We partnered with Engineering, leveraging our technology with a positive impact, already in 2023, and setting the stage for future sustainable revenue.
- In the challenging NPE market, we decided to accelerate portfolio value creation to capitalise on opportunities, and strategically *shifted the main focus of our Distressed Credit Division* to asset-based financing. Consequently, we decided to rename the division from Distressed Credit to Specialised Credit.
- Finally, our proptech quimmo *accelerated* its entry strategy into the non-judicial real-estate brokerage market through a partnership with COIMA.

Moving to slide 6

Slide 6 – FY23 net profit €104mln on target

- As just mentioned, net profit of the year reached *104 million euro*, up almost *40%* from the previous year.
- Our revenue *rose by nearly 30%*, driven by: higher Net Interest Income, Net commissions, NPE-related gains and the new IT partnership.
- Staff and administrative costs increased by 10%, excluding scope changes and one-offs. The increase is mainly due to 2022 hirings, national labour contract renewals, non-recurring marketing expenses, and MBO. We anticipate lower total costs next year.
- Loan loss provisions came in at 14 million euro reflecting a cost of risk at 43 basis points.

Slide 7

Slide 7 – Solid capital position

- Our capital position remains very *solid* and we expect it to remain *firm* at a high level.

- Core Tier 1 ratio stands at 14.7%, *exceeding* 2023 SREP targets *by over* 510 basis points.
- Total Capital Ratio is *also strong*, standing at 18.7%.
- The unrealised losses on the Hold to Collect portfolio are minimal, amounting to *just 1.8 million euro*.

Slide 8

Slide 8 – Sound liquidity profile

- We maintained a *sound liquidity profile* with well-matched asset and liability maturities.
- We have a liquidity buffer of approximately *1.1 billion euro.*
- LCR is *very high* at almost 300%.
- NSFR at 120% is also *well-above* the minimum threshold.

Slide 9

Slide 9 – Corporate & Investment banking posted strong profitability and volumes growth

- Corporate and Investment Banking divisions achieved *its best-ever year* with a combined full-year pre-tax profit *of 90 million euro,* marking *a remarkable 47% year-on-year growth.*
- Net customer loans *surged by 24%* YoY, driven by SMEs lending.
- Investment Banking more than *doubled its volume,* thanks to strong business origination, in particular, in structuring and capital market activities.
- The overall operating leverage was *very low* at 24%.

Slide 10

Slide 10 – Significant volume progression with high diversification

- illimity has become a *well-know* and trusted specialist partner for Italian SMEs.
- Since 2019, volumes have been *steadily growing* across all desks.
- From the start, we've effectively maintained a low concentration of risks.
- Our *robust pipeline* still suggests *significant potential ahead*.

Slide 11

Slide 11 – Asset quality in SME lending under control

- Our asset quality remained *resilient with a* cost of risk at 43 bps.
- *54%* of our loans are *backed by public guarantees or credit insurance*.
- Stage 2 loans represent *3.8%* 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 5.0%.
- It is important to underline that most of our organic NPE's are UTPs in active restructuring, *with very few positions classified as bad loans.*

Let's move to Slide 12

Slide 12 – Distressed credit division delivered high profits also in 2023 despite very challenging market

- Our Distressed Credit Division is undergoing *a strategic shift* - as we've been discussing in recent presentations - and from today will be named *Specialised Credit Division.*
- The division has always played a *crucial role in our Group,* booking more than *430 million euro in profit before tax* over the last four years.
- During the past 6 months, *we've accelerated our shift* to a new mix of activities in response to an *increasingly challenging* NPE market outlook. Higher funding costs, reduced NPE inflows, and potential regulatory changes have made NPL investments less attractive.
- Given these challenges we've chosen to *maximise returns* from our existing portfolios.
- In contrast, asset-based financing, has become even more attractive due to its *size and profitability,* making it *our preferred choice as a specialised banking operator.*

Moving to Slide 13

Slide 13 – From Distressed Credit to Specialised Credit focusing on asset-based financing

- Looking ahead, this division will maintain a *key role* in our future, just with a new focus.
- We've already reduced NPE portfolio investments to just 4% of our Total Assets.
- We'll concentrate on asset-based financing, leverage our *strong in-house expertise* and *shift from gone concerns to going concerns.*

While we expect lower revenue from portfolio disposals in 2024, it will be compensated by higher revenue from asset-based financing in the following years.

Slide 14

Slide 14 – Arecneprix: Strong profitability increase (+38% Y/Y) despite challenging servicing market

- In Q4, EBITDA reached *11 million euro*, *five-fold* from the previous quarter. This led to a full-year result of 16 million euro, marking a *38% year-on-year growth,* despite market challenges.
- In 2023, Arecneprix further consolidated its position as *Italy's third-largest corporate UTP asset manager.* Total assets now amount to almost *11 billion euro* with *68% captive.*
- Toward the end of the year, ARECneprix became the sole asset manager and credit servicer for the newly formed Olympus fund, *one of Italy's largest, with an initial Gross Book Value of approximately €2bn.*

Slide 15

Slide 15 – illimity SGR: Profits rise with +52% AUM growth

Our SGR recorded *significant improvements* in both profitability and volumes of assets under management.

- Pre-tax profit came in at €1.7 million, marking a *notable increase* from the breakeven point achieved in 2022.
- Profitability growth was driven by AUM growth, reaching *five-hundred-and-twenty million euro up 52% year on year*.

Moving to our technology - Slide 16

Slide 16 - Unique IT architecture boosted by partnership with Engineering in 2023

- From the very beginning, we've been developing *an innovative and industry-recognised IT architecture*: *a state-of-the-art, fully cloud-based, modular system free from legacy.*
- This architecture supports illimity Technology, our Digital Division, in *continuously improving* our banking IT system through artificial intelligence and open banking principles.
- illimity Technology, *not only* enhances our efficiency, but generated a one-time revenue of *54 million euro* in 2023 and sets the stage for *continuous revenue growth* starting in 2024.

Now, let's move from our core businesses to our other activities, our "tech ventures."

Slide 17

Slide 17 – Leveraging tech for further core business growth

- On the left-hand side, you will see our core business activities.
- In the center you'll see our Digital Division, illimity Tech, that we just looked at.
- To the right we have our main tech ventures.

In 2023 all our Tech Ventures made *financial and strategic advancements.* We expect some of them will generate capital in the very next years to support our growth.

Starting with Hype on slide 18

Slide 18 – HYPE: Steady profitability improvement

- Hype is *Italy's leading retail fintech* with *1.8 million accounts,* and on the rise.
- Transactions *grew by 29% to* 132 million on an annual basis.
- Contribution margin increased significantly to *19.8 million euro*, from *4.7-million-euro* last year.
- Profitability is improving, *with 60% lower losses in 2023* compared to 2022. In 2023 our share of the loss was 3.1 million euro, and we target at least breakeven in 2024.

Moving to b-ilty on slide 19

Slide 19 – b-ilty: Acceleration toward breakeven

- b-ilty is our dedicated lendtech for small corporates.
- Since the beginning of 2023, it has been fully operational, offering a unique digital solution for transactions and lending, setting it apart from other providers of credit to small corporates.
- Profitability is on an upward trajectory. In 2023, our net loss nearly halved compared to 2022, with Q4 showing a positive trend toward breakeven.
- Net customer loans reached 309 million euro, with a steady quarterly increase, in both loan value and the number of accounts. Just remember, all of these loans are backed by public guarantees.

Slide 20 quimmo

Slide 20 – Proptech quimmo leader in judicial market sets pace for open market strategy

- quimmo, Italy's leading proptech innovator, offers a *very competitive* end-to-end digital solutions for real estate brokerage.
- It’s *already the leader in the judicial market*, managing 2.2-billion-euro assets, with growing market share year after year.
- Through the partnership with Coima, quimmo *accelerated its entry* into the non-judicial market, bringing a pipeline of more than *1 billion in luxury residential properties*.
- In 2023 our profits were affected by *historically low national bankruptcy figures* and *high interest rates.*
- However, as the year came to an end, we noticed a reversal in the bankruptcy trend, and it's likely that interest rates have reached their peak. As we step into 2024, we expect increased profitability ahead.

Moving to our ESG achievements in 2023 - Slide 21

Slide 21 – Strong sustainability commitment drives ESG achievements

- We are committed to incorporating sustainability across our goals, operations, and governance.
- In 2023 we *successfully achieved* additional ESG targets, leading to further improvements in our ratings.
- MSCI upgraded our ESG rating to a double AA, promoting us from '*Average' to 'Leader'.*
- Standard Ethics also recognised our progress, upgrading 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.

Silvia will now provide a comprehensive review of our FY2023 results.

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: Loan mix refocusing on SME lending

We continued our growth into the last part of the year. Total assets reached 7.3 billion euro, up 6% quarter-on-quarter and 14% on a yearly basis.

As Corrado already explained, we accelerated our strategy to divest from distressed credit direct investments, a process that will continue into 2024.

In 2023, we executed this strategy through a few large transactions, that are now reshaping our balance sheet.

Point 1, the **net customer loans**. We are shifting our focus towards asset-based financing and SME lending. Direct distressed credit investments are down 39% in the quarter, and 46% year-over-year.

Excluding this component, net customer loans would have increased by 6% quarter on quarter, and by 27% year on year. This number is even *more impressive* if you consider we had nearly *300 million* early repayments this year. All our SME lending desks contributed to this growth with notable performance in factoring, b-ilty and Investment Banking.

Point 2, **financial assets at Fair Value** increased *substantially* this quarter. Here we account for the NPL portfolio that we contributed to the Olympus fund – a transaction signed in the third quarter and executed in October.

Point 3, Our **funding** also increased this quarter, by 8%, driven by the retail component. We will provide more details shortly.

Moving to Profit & Loss on SLIDE 24.

Slide 24: Strong profitability growth

Our strategy in distressed credit investments is also reflected in our P&L dynamics.

Point 1. Net interest income was down quarter-on-quarter due to the shrinking book of direct distressed credit investments, and the expected increase in the cost of funding. On an annual basis, NII showed a 19% progression, benefiting from higher business volumes and repricing of our SME performing loans.

Point 2. Net fees showed a *robust* 38% growth quarter-on-quarter driven by an increase in the investment banking activity, and new third-party mandates received in the servicing business. The yearly progression stands at 25%, with positive contributions from all our businesses.

Point 3. Other income in the full year includes the revenue generated by the partnership of our IT platform, accounted for in the second quarter.

Point 4. Operating costs uptick in Q4 reflects mostly seasonality and some non-recurring components.

In detail:

- staff costs compare with a seasonally low Q3, includes the increase in national labor contract and the yearly incentive scheme.
- other operating expenses include nearly 4 million in costs related to very specific initiatives, such as the retail banking marketing campaign, which will not be repeated.

On an annual basis, the costs dynamic was affected by the completion of staff hiring, IT investments, and changes in the Group's perimeter.

Operating costs are set to *decline* in 2024.

Point 5. Loan loss provision charges on the organic loan book increased in the quarter, leading to a cost of risk of 43bps for the full year. This increase was affected by the reinforcement of our generic provisions and a few analytical impairments.

Lastly, **point 6**, In the last quarter, we recorded additional positive **value adjustments** related to transactions on our existing NPE portfolios.

Now, let's move to SLIDE 25.

Slide 25: Core business and technology boost profitability increase

This slide illustrates the contributions of the different business units to the Group's performance. Corrado has already covered the main business trends, so I'll focus on a few key points.

The SME business continued to grow strongly across all segments, with further progress for the operating leverage.

The Distressed credit division posted a record year, driven by our ability to create value from the existing NPE book, and has already started to reinvest in asset-based financing.

Our tech ventures are progressing as planned - and have reduced their negative contribution to this year's results.

The overall operating structure is completed and highly scalable.

Let's now move to our capital trends on slide 26.

Slide 26: Solid CET1 Ratio at >14.7%

Our capital base is robust, with Common Equity Tier 1 ratio at 14.7% and Total Capital ratio at nearly 19%.

The increase in the last quarter came from the profit generated during that period, and by risk weighted assets optimisation initiatives.

Our capital ratios remain well above our regulatory threshold.

Finally, let's move to our funding, on SLIDE 27

Slide 27: Direct banking leads funding advance

Funding dynamics in the last part of the year were driven by retail funding.

As a reminder, in September, we revamped our current account and deposit offerings, with a specific focus on term deposits, aiming for a balanced duration profile between assets and liabilities.

Our campaign proved successful despite the unstable and highly competitive market. We gathered around 500 mln net new funding on illimitybank.com, bringing the overall stock to above 2.8bln.

In addition, the strategy supported the acquisition of more affluent customers, and this will support the funding plan for 2024.

Combined with Raisin, overall retail funding increased by 18% in the quarter.

Other funding sources experienced a 9% decline following the repayment of a senior bond, and a reduced reliance on ECB and interbank sources.

Our blended average cost of funding stood at 3.2% for the full year 2023.

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

CEO - FINAL REMARKS

As we conclude let me close by saying:

- In 2023, we *delivered strong results*, driven by *increased profitability* in our core businesses and the revenue generated by our *unique* technology.
- We are *very well-positioned* to adapt to the changing landscape.
- We will review our strategic plan over the course of this year.

Thank you for your attention and let's now move to Q&A