illimity Bank S.p.A.

2Q22 & 1H23 Results Conference Call

Friday, 4 August 2023, 09:00 a.m. CEST

MODERATORS: CORRADO PASSERA, CHIEF EXECUTIVE OFFICER

SILVIA BENZI, CHIEF FINANCIAL OFFICER

Corrado Passera – CEO

Good morning and welcome to illimity's first-half 2023 results
Let's start with the highlights on slide 2.

Slide 2 - Significant increase in profitability despite challenging scenario

- We observed a *robust* increase in our first-half profitability, despite *unforeseen* market challenges.
- Some of the external challenges that affected our first half results, are expected to be short lived.
- We confirmed our solid capital position and *highly* robust liquidity profile, *further* strengthened by retail deposit growth.
- Our SME lending business had a *very* strong performance in both volumes and profitability.
- Our Distressed Credit Division has effectively *defended* its NII, despite the higher cost of funding amid an *exceptionally* soft NPE market.
- We secured a *long-term* partnership with Engineering on our IT platform that will *unlock* new revenue streams.

Slide 3 – **Progressing towards yearly profit guidance**

- In the first half, we reported a *significant* increase in profitability with a net profit of 52.2mln up *66%* YoY.
- This places us on track to meet our *full-year* guidance of over *100* million euro.
- Net Interest income up *32%.*
- Net Commissions and fees up *17%.*
- Other Net Operating Income up *28%: this includes* the revenue from the new IT partnership with a 45.5 million net effect on first-half revenue. Last year's figure also included several sizeable transactions.
- Staff and Administrative costs increased *only 4%* (excluding perimeter changes and one-off items). This was mainly due to staffing additions during 2022.
- Operating profit is up 50%.
- Cost of risk is at *42 bps*, with an asset quality *under control* as we will see later.

Slide 4 – Some external challenges impacting 1H23 expected to be temporary

- During the first half, we faced challenges *significantly* beyond our initial projections.
- Some of the impact is expected to be temporary, allowing for *an improvement* in our operational profitability during the second half of the year.
- The NPE market was *very* soft, resulting in only a few transactions. We expect a comeback in the second half, also following the typical seasonal trend and considering a robust pipeline.
- Our funding costs rose faster than anticipated, especially for term deposits, which is most of our funding. We expect to *offset* this with *volume* growth and full repricing of our loan book.
- *Soft* capital market activity and the deferment of some deals to the second-half affected our investment banking profitability. We will recover in the next quarter thanks to our robust pipeline.

Slide 5 – **Solid capital position with CET1 ratio at 15.4%**

- Our capital position is *rock-solid* and will support our growth pipeline.
- The Core Tier 1 ratio is 15.4%, *exceeding* SREP targets by more than 600 basis points.
- Total Capital Ratio is *also* strong, standing at nearly 20%.
- The unrealised losses on the Hold to Collect portfolio are negligible, amounting to *less than* 11mln euro.

Slide 6 – Robust liquidity profile boosted by 1H23's retail deposit growth

- We maintained a *very* robust liquidity profile with *balanced* asset and liability structure in terms of maturities.
- We have a liquidity buffer of approximately 1 *billion* euro in cash and government bonds.
- LCR is *very high* at 276%.
- NSFR at 116% is *well above* the minimum threshold.
- Retail deposits grew by *390-million-euro* in the first half, also benefiting from the launch of a new current accounts offer.
- And *85%* of total retail funding is represented by term deposits.

Slide 7 – Strong performance in SME lending business

- Our SME business *continued* to perform *very* well, *above* expectations.
- Net customer loans *surged* by *44%* YoY to reach *2.5 billion euro*, despite some early loan reimbursements
- The Investment Banking division, which works very closely with our Growth Credit Division, generated new investments for a total of *145 million* euro, not far from the whole 2022
- Overall Cost/Income further down at 25%
- The combined pre-tax profit increased *significantly* by 56% YoY

Slide 8 – SME business: Strong pipeline ahead

- Business origination with SME business gained *further* momentum with a strong pipeline ahead.
- Turnaround new origination increased *57%* QoQ with a strong pipeline.
- Cross Over & Acquisition Finance volumes *doubled* in the second quarter and are expected to *further* accelerate in the second half.
- Factoring business continued growing with a turnover up *21%* QoQ
- Investment Banking volumes are expected to pick-up further, thanks to a strong pipeline in corporate solutions and structuring activity.

Slide 9 – SME business: Asset quality remains under control with cost of risk at 42bps

- Our asset quality *continues* to remain *strong*, with a cost of risk at 42 bps.
- 55% of our loans benefit from public guarantees or insurance facilities.
- Stage 2 loans represent *only* 0.8% of the portfolio.
- The organic NPE ratio excluding state guaranteed positions stands at 1.3%, down from 1.5% of the previous quarter.
- Most UTP exposures – guaranteed and non-guaranteed - are actively undergoing a restructuring process.

Slide 10 – Resilient NII of DC investment business, amid very soft NPE market

- In the first-half of the year, our Distressed Credit Division's investment and disposal activities were hampered by the virtually stagnant NPE market
- NII is up 2.2% despite the increasing cost of funding showing good resilience.
- Pre-tax earnings decreased to 42.6 million euro, hindered by first semester market conditions that prevented disposal transactions similar to those of last year.
- Profitability is expected to improve in the second-half thanks to a *robust* pipeline ahead, with €100 million euro already secured.

Slide 11 – Asset quality underpinned by cash flows and prudent pricing model

- Our distressed credit portfolio consistently demonstrates excellent asset quality.

- *85%* of our investment is *secured* with *solid* real estate values, thanks to a *very* prudent pricing model allowing a *substantial* buffer on open market values.
- The cumulated cash flows continued to stay *well above* the initial plan.

Slide 12 – ARECNEPRIX Profitability to benefit from back-book and new third-party mandates pipeline

- Today ARECneprix is Italy's *third-largest* player in the industry of corporate UTP credit management with €10 billion assets, approximately one third are non-captive
- ARECneprix moved from a traditional servicing role to an *end-to-end asset management, creating value across the entire value chain.*
- Yearly profitability is set to benefit from back book revenue in the second half, on top of a *strong* pipeline of new third-party mandates.

Slide 13 – ILLIMITY SGR: Profitability up driven by AUM growth

- Our very young SGR reached profitability according to plans
- The profitability increase came from AUM growth, with stock at nearly 460 million euro, more than doubling YoY.
- This year in Q2 we launched our third fund "illimity Selective Credit," aimed at financing performing companies
- This growth is expected to continue as we launch new funds, in the near future.

Moving to slide 14

Slide 14 – Strategic partnership on IT platform with Engineering with 2023 and long-term benefits

- On June 30th, we signed a strategic partnership with Engineering, a *leading* digital transformation company, which provides for an immediate consideration of 55.5 million euro and will also enhance our long-term profitability over the next 10 years.
- This partnership affirms our innovation in creating a *fully digital*, *modular, cloud-based* platform using state-of-the-art models, and standards.

Moving ahead to our 3 tech initiatives on Slide 15

Slide 15 – Tech initiatives advancing toward high value creation

- All our tech initiatives are set to *generate* s*ubstantial* value for our Group.

Starting with Hype on slide 16

Slide 16 – Top retail fintech with unique offer in Italian financial services market

- Hype is Italy's *leading* fintech with 1.8 million retail customers.
- The management team was strengthened by appointing a new CEO at the beginning of the year.
- Customer base grew *9%* YoY, with *22%* paying subscriptions.
- Transactions grew by *33% to 60 million,*
- Gross revenue, inclusive of Net interest income, doubled YoY
- Contribution margin increased to a notable 7.2 million euro.
- And, in July, Hype enhanced its commercial offer with new products from leading partners in credit and insurance.

Moving to b-ilty on slide 17

Slide 17 – B-ILTY volumes more than doubled in 2Q23

- b-ilty, the first fully fledged digital bank for small corporates, has gained momentum in Q2. Customer loans more than doubled to *154 million euro* from the previous quarter and are *all* state guaranteed.
- Its *unique* digital offer – transactions and lending - , distinguishes it among small corporate providers.
- B-ilty's credit engine, *continuously* evolving via machine learning, is further enhancing the creditworthiness assessment process.
- The expansion of the commercial distribution agreements will drive business origination acceleration in the second half of the year.

Slide 18 Quimmo

Slide 18 – Leading proptech in the judicial market ready to accelerate in the open market strategy

- Quimmo, manages assets worth 2.2 billion euro and leads the judicial market with a *growing* market share.
- In April, Quimmo sped up its plans to enter the open market through an equity partnership with property asset leader, COIMA.
- The AUM will further expand thanks to a pipeline of high-end residential properties worth *1 billion euro*.
- Profitability is expected to accelerate in 2H23.

Slide 19 – Remarkable results in Sustainable strategy with further strong improvements

- We are a native ESG company, and we make every effort to incorporate sustainability into our targets, processes, and governance protocols.
- Our approach won us *remarkable* ESG ratings.

During the first half of the year, we made further steps. In particular:

- In our credit granting process, we introduced a comprehensive Green, Social & Sustainability-linked Loans Framework
- In our proprietary securities portfolio, we approved an ESG Investment Policy and an ESG due diligence process.

Slide 20 – Strong asset diversification to remain key strength to adapt to evolving scenario

- We enjoy a *strong* diversification across both assets and economic sectors.
- This asset mix provides us with the flexibility to *swiftly* adapt to changing market dynamics – a key strength that we continually utilize and plan to leverage further into the future.

Silvia will now provide a detailed overview of our first-half-year 20/23 results

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: Lending growth accelerates

Total assets at the end of June stood at 6.7 billion, up 10% on the previous quarter.

Growth was *fueled* by interest earning assets.

First, our **liquidity** buffer grew to around 1 billion euro, a very solid number.

Second, **net customer loans** advanced by 7% QoQ, and by a strong 32% YoY. Volume growth accelerated in the quarter bolstered by strong business origination, which surpassed 450 million euro.

Volume growth was largely driven by our performing loans business.

The Growth credit division posted a *robust* 8% progression QoQ, with strong contributions from Turnaround and Factoring. Particularly notable was b-ilty, which experienced a significant acceleration this quarter.

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

And finally, the quarter saw growth in our **securities portfolio**, also following the addition of some green bonds in line with our new ESG investment policy.

Looking at the liability side of our balance sheet, this quarter we reported a 12% rise in **customer funding** across all sources. We will come back to this topic shortly.

Moving to Profit & Loss on SLIDE 23.

Slide 23: Robust profitability despite challenging environment

Net interest income - is up by 2% QoQ, a satisfactory trend considering the increased cost of funding due to current interest rates, and was driven by volumes. Net interest income saw a robust 32% surge in the first half, compared to a year earlier.

We expect growth in *interest income* to continue in the second half of the year backed by further volume growth and additional loan book repricing, thus offsetting the expected rise in funding cost.

Net fees advanced double digits QoQ, especially driven by new business origination and third-party servicing mandates.

Other income, as already mentioned, benefited from the partnership with Engineering on our unique IT platform.

Profit from closed position improved on 1Q23, although it was lower compared to last year. This was partly due to the sluggish distressed credit market, and partly because last year recorded several sizeable transactions.

Operating costs typically peak in 2Q, reflecting our annual ESOP plan, which amounted to 1.6 million euro. We also recorded some one-off components of around 1mln. All in all, cost growth in the first half versus the same period last year was largely driven by technology investments, and by the expansion following our acquisition of AREC in July 2022.

Loan loss provision charges stood this quarter at 6 million euro. This brings **cost of risk** for the first half of the year to around 42bps annualised, still contained and in line with 1Q23, supported by substantial portion of public guaranteed loans.

Let’s now have a look at segment reporting on SLIDE 24

Slide 24: Strong SME and technology contribution

Distressed Credit had a soft start this year, impacting profit from closed positions. Costs partly reflect the acquisition and initial integration of AREC. Still, overall, Cost income remains below 50%. The robust pipeline supports our expectation for acceleration in profitability in forthcoming months.

Growth Credit was a *major* driver of profitability at the group level, with revenue up 50% - and costs declining – compared to a year ago, thus leading to visible operating leverage gains. The pre-tax profit stood at around 37mln euro, nearly doubling the level recorded last year.

Investment Banking posted a weak result in 2Q, impaired by a muted capital market, the shift of a few deals, and the negative value adjustments on some securities portfolio investments, closing the 1H with 1.8 million pre-tax profit, lower than last year's 4.4 million. A robust pipeline indicates strong potential for profitability recovery in the second half.

b-ilty. The strong pick up in volumes in the first half drove a significant progression in revenue, coupled with reduced costs versus last year, leading to a progressive improvement in operating profitability.

Profit of our **asset management company** advanced further, thanks to the launch of new funds.

Results at the **CIO division** benefited from the IT platform partnership. It is worth reminding that significant royalties generated by the agreement with Engineering are expected to be booked in forthcoming years.

Finally, **Corporate Centre** was largely in line with last year. From 2023, the headquarter and control function costs will be highly scalable.

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

Slide 25: Robust CET1 Ratio at 15.4%

Our capital base is very robust, with Common Equity Tier 1 ratio of 15.4% - well above our regulatory requirement - and **Total Capital ratio close to 20%**.

The increase in Common Equity Tier 1 Capital was underpinned by the net profit generated in the quarter.

Risk Weighted Assets increased by 6%, almost entirely driven by growth in business volumes, while RWA density remained largely stable.

Let's move to our funding, on SLIDE 26

Slide 26: Well-balanced growth in funding

Our funding strategy aims at optimising funding diversification.

During the second quarter, in anticipation of rising interest rates and business expansion in the second half of the year, we did some pre-funding which can be remunerated whilst waiting to be deployed in business volumes. We also revamped our current account product and deposit offerings, and debuted in the retail bond market with an initial 60 million euro issuance.

Overall, we recorder further growth in the high quality retail funding component, up 14% QoQ to nearly 3 billion euro at the end of June, with 85% in term funding. Our illimitybank.com platform also grew by 200mln in the quarter.

A boost in wholesale funding was driven by collateralized repo transactions, while we repaid our TLTRO funding, that was limited to 185 million euro.

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

FINAL REMARKS

- Illimity continues to grow in terms of volumes, revenue, and profits despite a more challenging external context than expected.
- In the last quarter, financing to SMEs has particularly increased, driving interest and commissions, with a good resilience of operational costs and provisions.
- Distressed Credit NII showed resilience despite the increase in the cost of funding amid an almost stagnant market.
- The strategic partnership with Engineering Group has been established, showing benefits already in the first half and creating new opportunities for future revenue.
- Our tech ventures – Hype, b-ilty and Quimmo - are on track. We expect these autonomous entrepreneurial initiatives to add significant value to Illimity.
- Finally, capital and liquidity remain very robust, also thanks to the success of our new Premium Account that has brought retail collection to 3 billion euros.
- We therefore feel able to confirm our guidance of at least 100 million euros in net profit for 2023.

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