

Investor Presentation
Milan, 20 July 2018
Corrado Passera – CEO Speech

CORRADO PASSERA: Thank you, Silvia. Silvia is very good and one of the pillars of our team.

So, let me start by thanking all the people here, people who are connected to us in different technological ways.

SPAXS: SPAXS today is a reality, no longer just a business idea.

I am very proud of what we are about to present to you because it is a unique investment case. We have learnt a lot from a number of very strong, smart institutions around the world, but our offer is certainly unique. We have identified clear, strong, interesting, profitable market segments in the Italian banking industry that are not properly served today. And we have developed a unique business model around them.

We will be a fully digital bank, but that will be only one aspect of what sets us apart, because while technology is important, skills and experience are even more so, even in one of our country's most state-of-the-art banks.

With the rest of the team we will present our targets. These are ambitious, but our presentation today will prove, I hope, that they are achievable and probably beatable.

And if we reach those targets, we will create a lot of value, not only for the shareholders of this bank, but also for our country and for many other industrial and service companies in Italy.

But the real reason for my pride is not the business plan or model, it is something else: our team. We put together a group of partners that, let me say, is second to none.

The bank will be managed not by one person, but by this team. Its members have different skills that complement each other and reflect the same values. The bank's top team consists of the people you see on my left.

Francesco Mele will be CFO and also in charge of the headquarters functions. Carlo Panella will be in charge of the Retail Division and all the digital operations of our bank. Enrico Fagioli will be in charge of one of the two large business divisions: SMEs. Andrea Clamer will lead the other large division – in charge of corporate NPL.

Let's quickly move to the business plan and the reason why we launched this project.

We decided to create this new bank because we want to be among the new winners in the industry. Our industry, the banking industry, is reshaping itself for a number of reasons – but mainly because four strong forces are pushing in the same direction.

New digital technologies: you know about them, and you know how pervasive and disruptive they are. Powerful new entrants: competition from a number of other industries is also creating new opportunities. Regulation is reshaping our industry and monetary policy has pushed down margins for everybody within it. These are the main reasons why we will have new losers, possible winners... and sure winners.

Losers will be small or mid-sized banks that want to keep doing things the old way. Banks who want to do everything, be generic and serve everybody by traditional methods. No way. That will

be a recipe for disaster.

The very large banks, on the other hand, will be able to put so much money and so much investment into redesigning their activities that they will probably not only survive but be among the new winners.

And we will have a new category of winners. Banks that are specialised and focused, rather than generic: banks who will devote themselves to servicing specific segments of the market. Banks who will do so with new paradigms, in new ways – totally new ways. We want to be, we will be and we already are a specialised new paradigm bank.

Specialised because we'll focus on three main activities.

SMEs that are not well served in our country. It happens in other countries as well, but in Italy today second-tier SMEs do not receive the kind of support they might need to grow further. Turnaround SMEs are almost pushed out by the banking industry. These are two huge segments of the market. SMEs in those categories represent a potential market of several hundred billion euros, between 300 and 400 billion euros worth of stock of loans to customers.

The NPL market has been growing and will do so even more in the future. I will give you some figures, but the corporate NPL market will be a very dynamic and interesting one in the next few years.

Direct banking is a no-brainer. The number of users, the number of customers in this kind of banking is set to explode and we will be operating there very rapidly with the best offers.

As I said, the amount of credit to SMEs is huge and the non-prime part of this market is enormous. Among these companies we will take care of the BB and B rated ones with potential, because they are not receiving enough money to grow.

We will also be focusing on the area of the unlikely to pay (UTP). It is already quite a big stock – more than €100 billion – and within the €100 billion, at least 30 per cent of them, €30 billion, will be priority targets for us: companies that are over-indebted but can be fixed since they have a good industrial performance, or companies that need restructuring, also from an industrial point of view, but have the potential to get back to performing status. We expect UTP transactions to grow significantly in coming years.

All these SMEs segments are not only big and growing but they are also profitable if properly serviced. And competition is relatively low.

The NPL market: as I said, we expect a huge amount of transactions in the next five years, probably close to €200 billion as a whole and €135 billion for the corporate part of the NPL market. We will concentrate on corporate NPL because we don't expect good margins in the retail part of the market. The corporate NPL segment is under-serviced and certainly not crowded – very few players are focusing on corporate NPLs and we expect the market to mature in the sense that a very active secondary market is likely to be created.

The number of digital banking users is obviously going to explode in size.

So, three segments, four actually, but let's say three: SMEs, NPLs and digital users; huge, growing, dynamic, as yet not well serviced and certainly profitable.

A specialised bank, but also, as we said, a new paradigm bank. Being a new paradigm bank means that we must have clear advantages to find our way into the market. The targets set out in our business plan would not be justifiable without clear competitive advantages, and our bank will have at least six: it will be a zero-legacy, fully digital bank, with top integrated skills (this is a phrase

that you will hear several times in our presentation), new customer channels (you can't serve these markets in the old way), with lean and fast operations (customers need rapid responses) and clear cost advantages – ultimately why we will make more money than others.

What do I mean by a zero-legacy bank? Most incumbents, i.e. traditional banks, are involved and will remain involved in activities that have nothing to do with development. They have to deleverage, they have to cut costs, they have to close branches, they have to redesign their IT systems, they have to merge with other banks so they are totally distracted from servicing customers, which should be the main mission of a bank.

This new bank, our new bank, will start from scratch and we will be able to use anything that is available today without any constraints from the past, without cannibalising anything, without being delayed by costly IT systems or by structures that are not fit for purpose any more. Zero legacy is the number one advantage.

Fully digital bank: a lot of banks talk about it, but very few – probably none – are yet fully digital. We will be one of them, maybe the first. What do I mean by a fully digital bank? Open platform: we will not have a big IT system where you need to wait months to make a change. It will be a sort of patchwork. We will build our IT systems with different modules, which is possible today in a way it was not a few years ago. We will be able to continuously upgrade our system very rapidly: quite a competitive advantage.

We will create very few products internally and will offer other products to our customers through partnerships. The “not-invented-here” syndrome that most banks suffer from is a real disaster because if you want to develop everything in-house, you will not be the best on any one product. We will be very good at selecting, attracting and integrating the best available products and services into our offer.

“Everybody's digital” approach: what does it mean? It means that the five of us, and the other friends who will join us, the Chief Risk Officer first of all, all the top people and their own teams will have to be fully responsible for the digital quality of the bank. We will not have a department that will take the separate responsibility of supplying IT systems to the rest of the organisation. We will all be digital people. We will launch products and services only when they are fully digitalised, and the owners of the different divisions will be responsible for them.

Data driven: obviously this is the future. It is not the case today in most banks, but everything will be data driven in our bank: our products, our services, our organisation and our learning – because we will be quite a learning organisation.

I mentioned technology, but skills are even more important. Companies that are restructuring themselves, that are launching new products, that have to save themselves, need lending skills, obviously, but also equity skills, legal skills, restructuring skills, industry skills, real-estate skills. Most of these skills are not available in the majority of banks. Obviously, they are available in a number of banks, but very few banks have all of them and very few integrate them. In most cases, as you know, these skills are blocked in silos inside the organisation and are not used in an integrated way. We will be just one integrated team and will make all these skills available to all our customers.

So, technology and skills, but a bit more than that: experience. Experience is another concept you will keep hearing from us because technology is not enough, skills are not enough if you want to support SMEs with problems, or if you want to take value out of NPLs: you also need experience. We have a position in our organisation that we consider one of our killer applications. Our customers will be identified, serviced and guided through their projects by people with a lot of

experience. We call them tutors; people with a lot of experience – grey-haired people as we say – and they are generally former industry executives or former top managers of local banks. They are people who know their industry, districts and markets very well, and they will have the responsibility of identifying and developing opportunities. They will share the value that they will create for the bank.

Even the customer care will be human, not just machine-based. We want our customers always to be able to interact with professional humans – and that will be another of our bank's excellent qualities.

Lean and fast: very rapid response time. But if you want to be rapid, you have to be flat. The five of us will comprise the decision engine and no decision will be left waiting, not even for a single week. Clear responsibilities: that's not the case in most big organisations. In our case it is very clear what each of us does, but we are all responsible together for the overall results.

Costs: in the end, as you all know, making money is a matter of revenues and costs, and we will have clear cost advantages versus both old and new competitors. Traditional banks are competitors of ours, but we will have a cost/income much lower than theirs and it will be very difficult for them to match our target of 30 per cent. You could say the new players have lower operating costs, but they will have much higher cost of funding, while as a bank, we will have lower cost of funding and higher leverage. We will have a structural advantage in terms of operating costs versus the old incumbents and we will have a structural financial cost advantage versus the new players.

We will be a specialised bank and we will have strong competitive advantages: the combination of the two will bring us to our targets. We want to build a €7 billion bank in five years, but already be a €4 billion asset bank in two years. We want to show material net profit in two years and we target €300 million for 2023. We will already have an acceptable return on equity in 2020, and we target 25 per cent in 2023.

These targets have a constraint: we will always have to keep a Common Equity Tier 1 ratio above 15 per cent. Thanks to this decision, together with a number of others, we will keep the risk of our bank relatively low. We will not have mismatch of maturities between assets and liabilities, nor any of the consequent financial gains or losses, and we'll always have very strong liquidity ratios. We count on the fact that on our Board we will have very strong, independent members and we will benefit from their wider experiences and skills in our decision process.

These are our targets. We have not embedded in them all the reserves and I will elaborate further on that. These are our targets and we consider them beatable.

Investor first: the shareholders, the investors of SPAXS, have to be sure that all the interests of the employees, managers, top managers and sponsors are aligned with their interests. Actually, they are all aligned because, as you know, the sponsors, myself and Andrea, will be able to convert 80 per cent of our special shares into ordinary shares only when shareholders have reached a 60 per cent return on their investment.

At the same time, I will personally take care of the top managers' long-term incentives with my special shares. So, no additional dilution, no additional costs will be imposed to our shareholders to serve the long-term incentive programmes of the top managers. In terms of the rules of the game inside the bank, nobody will get any incentive until we reach break-even at group level and we have found a way to extend the shareholding approach to everybody in the bank in the sense that all managers and all employees will also be shareholders.

As I said at the beginning, we are not just a business idea any more. We are already a real thing.

We are already on the market, we already own a bank – a very nice bank, a small bank as agreed with the investors, but the best we found and probably the best available in our country. We bought it a few months ago. We agreed with the management and shareholders of that bank to join our forces in the SPAXS project and we succeeded in doing it.

IT systems that are generally the longest and hardest part of launching a new venture are already available. We will have the BIP IT systems properly upgraded by the end of the year and we will be a fully digital bank by the second quarter of next year.

Key managers are already fully engaged. I will show you the organisational chart. It is not only the fivetop people, but each of them has already created their own team ready to start. And as they will tell you, market opportunities, portfolios and customers to be served have been identified and in a number of cases real contracts have already been agreed.

These are the figures of Banca Interprovinciale, a very good bank located in the right place and in the right region of Italy where SMEs are very important. Banca Interprovinciale has a track record of very good growth, very good cost income, very good NPE ratio, very good Common Equity Tier 1 ratio. Those are the reasons why we selected it and we did our best to convince its shareholders to join our project.

The organisational chart: very easy. Everybody will be able to interact with us because it is designed around five people: myself, the CFO, the three Division Heads (the Retail Division Head is also in charge of Digital) and the CRO who has already been identified, but he is not official yet. Internal Auditing will report directly to the Board. Each of these five people, these partners of mine, will have designed their own teams and most of them are already on board. Quite an achievement if we remember that we started from almost zero at the beginning of February.

Last page, the investment case. You will have to decide whether or not it is worth investing in our bank. In summary, we will be a bank with €7 billion worth of assets, €300 million worth of net profit, with €1.2 billion worth of equity, with a return on equity of 25 per cent.

This will be the overall picture of the bank as a whole, but actually you are investing in three leaders: a leader in web banking, a leader in SME speciality lending and a leader in corporate NPLs both secured and unsecured. The sum of the parts, in my opinion, is an even more convincing way to look at the value of this bank.

I promised earlier to mention at least some of the reserves we have not embedded in our plan.

One: no equity capital gain on UTPs has been embedded. With a person like Enrico Fagioli we cannot even imagine we will not make capital gain on UTPs.

Two: very limited benefits from partnerships have been included. We will have a number of partnerships, but we have been very prudent in estimating their positive effects inside the business plan.

Three: as you will see in Francesco's presentation, at the end of 2023, in our accounts, we will still have a Common Equity Tier 1 ratio of 20 per cent. Since we have an objective of 15 per cent, the difference of five per cent gives room for further growth in terms of volume and also margin.

Many of the people listening today have known me over the past two decades, but for those who do not know me I repeat that I always like to keep some reserves aside. If there is nothing unexpected, perfect, we will achieve better results. If there is some accident – and in five years something may always happen – we know how to cope with it.

So that is about it in presenting the bank as a whole. Now you will listen to the presentations of

each of the other functions, of each of the divisions. You will get from the head of each of them their single strategies, what we are going to do, how we will serve our customers, how we will report quarter by quarter on our results, how we are going to make money in the different asset lines – and you will also get the feeling that we are already up and running. That is the objective.

I keep using the word SPAXS, but obviously at a certain point, very soon, our name will become a new brand. For obvious reasons, we decided to launch the new brand only on the occasion of the shareholders' meeting. At the end of the shareholders' meeting we will announce the new brand.

And you will forgive us if we don't give all the details of all the marketing initiatives we will launch in the next few months. We don't want our competitors to know them in advance.

So back to the team, the real strength of this bank. We will start with Francesco Mele, who will go into a bit more in depth on the bank's figures.