Investor Presentation

Milan, 20 July 2018

Q&A

CORRADO PASSERA: It was a long presentation, a number of long presentations, but we believe it was worth giving you all the details of our start up plan. Even if we can count on a reliable bank platform and a lot of experiences, this is a large, very skilled, but almost unique kind of start-up.

I tried to anticipate some questions that might arise after such a presentation and I tried to respond.

Execution risks: since we are building something very new almost from scratch, how high is the execution risk? I must tell you that having gone through a number of projects, I trust this is not a high execution risk project. We are already a bank up and running, we are a team of people that knows almost everything about their market segments and field of activity. We have chosen to focus on very few segments. We will not do everything. We will just do what the five of us have explained to you.

Our results will be attractive because we will not dilute our efforts in tens or dozens of different products. We will just do those things, those businesses that we deem as profitable, with limited level of competition and we will do it with no dispersion of effort. Furthermore, the market shares we have to reach in order to deliver our results are quite tiny. For all these reasons I would not consider the execution risk of this project very significant.

Rapid deployment of capital. During the fund raising one question was: why did you raise 600 million? Why didn't you plan a number of subsequent smaller fund raising? The reason is that we will use most of the equity in the first two years, that equity will be rapidly invested at the beginning, by purchasing portfolios of UTP and NPL - that have already been identified, by the way. So, there is no problem in terms of the speed of deployment.

Resilience: resilience is a concept that is important when you launch a new company, as well as when you manage a company. It is the right question to ask in the case of a start-up in a "strange" period of time like the present one. We believe that the mix of businesses makes this bank quite resilient. The choice we have done in terms of which businesses to concentrate on, will make our bank very resilient and let me tell you, we have hinted a large amount of prudence in our business plan.

The stress tests we have gone through have proven our resilience. In that respect I must, I want to emphasize the value we got from the Bank of Italy in the authorization process we have gone through. Our business plan was assessed under three stress test scenarios that would have killed anyone. And as a result, we received a number of interesting, useful suggestions that made our plan even stronger. No matter what happens – macroeconomic shock, idiosyncratic shock, a combination of both scenarios - whatever we have imagined, our bank will be there, resilient, strong.

Ahead of schedule: this is something we are proud of. Only three months ago we were an idea, just a project. Today, we are a reality. I said it at the beginning: it was not obvious to reach this level of reality in such a short period of time. The merit goes to the four people that are here today with me. It goes to the quality of the bank we bought (Banca Interprovinciale) and to the trust we got from so many shareholders, many of them being international, that have demonstrated trust in us by giving us 600 million euro.

We are at the end of the presentation. Each of us – I mean the five partners - until a few months ago had different professional objectives. We were working on different objectives. We all decided to change our professional life when we realized how strong this project is and how this project can be profitable for the shareholders and useful for our country.

So now the questions, whatever you want to ask. We will start with the people here in the room and then we will move to the people that are connected via webcast, really many, and some question is already on our desk. So, who wants to start here?

GUEST: Hi, everybody, Christian Carrese from Intermonte. I would like to understand the business plan in terms of cost of funding under the assumptions underlying your business plan and in particular in terms of the ECB rates, the rate that you have embedded in the plan in 2020, 2023.

Then another question is on the SMEs segment: you assume to lose money on 3 out of 10 SME exposures. What are the GDP projection that you have in the plan to assume this kind of danger rate?

And finally, on the SMEs segment division and on the NPL division, if you can give us the breakdown between secured and unsecured loans that you are planning to buy in the business plan?

CORRADO PASSERA: Obviously, I know everything, but I will leave the answers, especially to Francesco for the scenario assumptions and then we will move to SMEs. 30 percent rate is only turnaround, very conservative by the way. But Enrico will also elaborate.

FRANCESCO MELE: In terms of scenario assumptions, we have a GDP rate moving from 1.5 percent in 2018 to 1.1 percent in the following years. In terms of Euribor rate assumptions, we assume negative Euribor rates for 2018 and 2019, and marginally positive in 2020 – let's say around 20bps, and then 50bps in 2021, and then 1 percent in growing gradually to slightly above 100bps in 2023.

In terms of cost of funding, we have essentially a cost of funding for the retail part, which is between 2.5 and 3 percent. Essentially, the reduction in spread over time is consistent with the development of our digital platform.

The European deposit platform is at a cost between 1 and 1.5 percent, corporate cost is around 40 to 50bps and wholesale costs are assumed around 3 percent.

CORRADO PASSERA: Enrico? The danger rate estimate is?

ENRICO FAGIOLI: The assumption we made is that 30 percent of the turnaround exposure we invest in, will go badly. We have assumed the fact that we will have many opportunities and that, in most cases, when we will decide to invest in one transaction, we will buy a part of the existing bank debt and we will also provide new finance. In these cases, we have assumed that, out of 10 investments, seven will go through and our investments will become, again, performing exposures, while the other 3y will deteriorate to NPLs. Of those becoming organic NPLs, we have assumed a loss of 90 percent, either for the loans we will have bought or for the new finance loans.

The forecasted GDP evolution does not impact this assumption. We have made our scenario in term of GDP, which has been the one that has been presented by Francesco. While we consider a 30 percent deterioration rate over the lifetime, which typically compares with 60 percent in traditional banks' businesses, we must bear I mind that it is not a rate coming from loans that go from performing to UTP and then from UTP to NPL. This is what happens in a bank that has a loan that was performing up to a certain moment, before its deterioration. We are talking about loans that, when we buy them, are already classified as UTP. And we will have the opportunity to choose between various situations and decide to invest only in those exposures that, after deep analysis, we evaluate could return to a performing status. In addition, we believe we are conservative as we assume that we are going to lose everything. This sounds conservative also if you consider that in a typical UTP loan, there could be a 60 percent secured part (for example a mortgage loan) and a 40 percent unsecured debt, split between a 20 percent current account overdraft and 20 percent working capital financing. Based on our assumptions of losing everything in case of deterioration from UTP to NPL, we consider not so much important to see the GDP trend, which is more relevant in estimating NPL recovery rates.

ANDREA CLAMER: On NPL, the mix secured versus unsecured is quite clear: 50 percent secured and 50 percent unsecured. In relation to the secured topic, please bear in mind that we will invest in single names and in portfolios.

CORRADO PASSERA: Did you get all the answer to your question? Anybody else?

GUEST: Paolo Basilico. First of all, congratulation for your delivery rate, which is outstanding and frankly very rare in our business, unfortunately. One question; I have read at a certain point “acquisitions”: in which of the three areas will you be prepared to raise additional money?

CORRADO PASSERA: You are very right, and I could have elaborated more when the word acquisition was mentioned. We would not look for any other acquisition of banks. We have one. We wanted to have a license. We don't need anything else and we will not buy any other traditional bank.

We might find little bolt-on acquisitions, maybe to speed up the creation of our servicing unit, companies that have some sort of special skills, are good at some special kind of credit, but we are talking about very limited, instrumental acquisitions to speed up the process of creating the bank. Acquisitions will not be a significant element of the equity deployment.

Other capital raises? No: with the 600 million we will deliver the plan.

GUEST. Good morning: Michele Milla from Momentum. I have a couple of questions for Andrea. The first one, which are your assumptions in the business plan regarding pricing for NPL? I mean we have seen that the regulator is putting a lot of pressure on banks to dispose significant stocks of NPLs in the next couple of years. This was mirrored by the spike in the country risk because of the new government being definitely not a positive piece of news for banks.

Second, are you already playing an active role in negotiations for disposal of these NPLs? Or are you obliged to wait for the regulatory authorization to look for these options? Thanks.

ANDREA CLAMER: I start from the first question. The Business Plan takes into account the evolution of the competition and the consequent evolution of the prices. I will just make an example in relation to the secured part. In the Business Plan the prices will increase throughout the five years from 34 percent up to almost 36 percent. As a consequence, there will be a reduction of the IRR. And all these assumptions are already in our business plan. We foresee an evolution of competition. We foresee an evolution of prices and then a reduction of margins. And we put all these assumptions in our business plan.

In relation to the second question, if we are active now, yes, we are. And this is quite an achievement if you consider that it was not easy to participate without the possibility to pay or to propose a binding offer.

CORRADO PASSERA: We have one, even if it is subject to business combination, but we are already potential owner of a portfolio.

ANDREA CLAMER: We have an off-market portfolio of about 300 million that is within what we targeted as acquisitions. And we are ready to reach an agreement with the seller and sign the agreement that will permit us to buy the portfolio as soon as the business combination will be completed. It is a very clear initial sign about capacity to implement our strategy

CORRADO PASSERA: Next?

GUEST: Corrado, thank you for your presentation. I want to ask a couple of questions on the UTP division. If you can give us more information about the process of UTP management.

I mean can you briefly summarize, which are the steps you have to follow to make these exposures come back to performing, and in particular I want to ask you, which are the conditions under which you will provide new finance and if there will be situations for which there could be a conversion from debt to equity. And if there is some business sector on which you will focus the most.

And then a question on the banking; you probably will say I have said this in my presentation, but I want to ask you what effectively are the advantages that you have on other direct banks, digital platforms that we are thus seen in the market and that differentiates you from competitors. Thank you.

CORRADO PASSERA: Obviously, I will leave it to Enrico and Carlo and especially on UTP, you can start.

ENRICO FAGIOLI: Let’s make an example of a turnaround process. Let’s assume we have in front of us a turnaround situation where a company is planning an industrial restructuring of its business which has to be consistent with the financial restructuring, and in this case, as it normally happens, the existing banks have to agree on a complex agreement to be enforced for a certain number of years. Before the new agreement is signed, we will negotiate the possibility to buy a part of the bank's existing financial debt. And we will buy it for sure at a discount.

Either one or more banks are going to sell their exposures to us and are interested to sell those particular loans either because they are not confident in the turnaround, while we are, based on our analysis, or they must sell as they have a too high NPE ratio.

In both cases, we are buying the loans at a discount. As an example, there could be a situation where there is a partial write off of the debt together with a debt to equity swap. Starting from 100 gross book value of the existing loan, assuming a 20 percent write off and then a 20 percent debt to equity conversion ratio, the loan will have a remaining gross book value of 60 percent and we imagine to buy that loan at 40. So, it means that we will have on our books a net value of 40 with a gross value of 60, this is the remaining part of the loan in the view of the borrower, and then we also have the equity, normally as participating equity-like instruments.

Buying the loan, we will end up owning also financial instruments (equity-like), but it is clear that we will never pay for a financial instrument because these are coming as part of the restructuring agreement.

In addition, in our example, there is also the possibility to grant new finance. New finance could be a working capital facility or it could be a term loan. New finance lending is usually generating a lot of discussion among the existing lender banks as in many cases they have no appetite to provide it.

And so, in our view, our intervention could also facilitate the acceleration of the decision that the other banks have to take. Just being there and ready to extend some new finance instrument. New finance instruments are generally senior loans, independently from their technical characteristics. And so, we will have a super senior new finance and a certain part of the existing debt.

In the process of financial restructuring, the fact that we bought existing debt will put us in the same position as any of the other lender banks and this, in our view, could produce a friendlier situation in comparison with what other type of investors who just grant senior new finance with often very high interest rate. In buying out a portion of the existing debt and mixing it with new finance instruments, we could have also allowed the new finance to have a lower level of interest rate.

CORRADO PASSERA: You should admit you did not expect such a UTP management textbook

I will obviously leave the rest to Carlo but what is nice about the moment we have chosen to enter the market, and that is true for all the segments and certainly for direct banking, is that today, and only today, are available instruments, technologies, devices that were not available until a few, very few years, or months ago.

And if you enter at such a stage, you have a competitive advantage that other banks do not have. And what probably is most important, we don't have legacies here. So many direct banks are part of the big groups and are paralyzed in terms of interest rates, policies, because they have to defend a customer base of hundreds of billions, maybe, while we will be totally free. But please, Carlo, go ahead.

CARLO PANELLA: Yes. Going to the strategy that we have for online banking I will tell you something only about the retail segment, as for the SME it will be just an interaction channel. We will be two different challenger banks in one: on one side we will provide deposits as Corrado was saying. We will have competitive rates to attract new customers. On the other side, we will provide payment systems and customer experience, and this will make customer loyal staying with us for a long time. And that is why their deposit will be stable with us.

To get customers, the bank will focus on specific segments, so we will target different customers with different strategy. I have shown some synthetic numbers, but the 200.000 customers will be addressed thinking about their profile and they will be split in two main segments: a big portion will be on deposits, mainly on deposits. And the other will be on payments. There will be, of course, a significant part of customers using both payments and deposits.

We will use different techniques to acquire customers: for deposits, competitive rates; and for payments, customer experience. For payment systems we will compete against some newcomers like N26 for example, but with an important difference: being a bank we will be able to provide all of the banking services that a bank's user needs, and there is not such a model in Italy so far. There are similar models in the UK. So, we are following a pattern set by others, but outside Italy. This is why we think we can be successful.

CORRADO PASSERA: Did you get all the answers? Who else? Please. Here.

GUEST: Good morning, Manuela Meroni from Banca IMI. I have two questions, one on NPL and one on SME. On NPL direct investment, you say that you expect to complete your collection in seven years. If I look at the main NPL players, it looks to me quite longer than this. So, I would like to understand if there are some differences in terms of the business model or acquired portfolios.

And you also said to expect cash on cash multiple of 1.6. On the side it looks to me quite prudent because if I look at others it seems to be higher. So again, I am wondering if there is some difference in terms of business model of products, or if this is just a prudent assumption?

CORRADO PASSERA: Anything else?

GUEST: On the SME.

ANDREA CLAMER: I think the main reason of the difference versus the other NPL players is the asset class on which we will focus on. If you consider the retail unsecured NPL business, you have definitely a longer collection curve, and definitely a higher cash on cash multiple. We will focus on Corporate NPL and we have a collection period that is shorter. Seven years. It is prudent. And it is definitely marketable because we have information about the collection curves by the seller.

CORRADO PASSERA: That is in relation to the NPL. Your second question is?

GUEST: On the SME, the turnaround business, in your business plan you expect to double the margin. Could you explain what are the movers behind this strength?

ENRICO FAGIOLI: It is produced by what I was trying to explain before. We are extending new finance, but also buying existing credit, existing loan from banks. If we buy at a discount it means, in the example I made before, that we book the loan on our balance sheet at 40 with a gross book value for the end customer of 60, thus the customer pays interest on 60. Once this position returns to a performing status, we will have the possibility to account the loan at 60 with an increase of value of 20. And so, at some point we will have a kind of a jump up from 40 to 60 and this income will be accrued as revenues. Naturally we are going to account for this 20 increase in value only at the moment of the return to a performance status.

CORRADO PASSERA: Is that the answer you expected? Anything else from the room? If not, I will go through the questions we received from other parts of the world. Obviously, you are free to add other questions afterwards.

The first question is “What will be your focus on Banca Interprovinciale. Is it an interesting territory for you?” Of course, it is an interesting territory. Even if our bank will be a nationwide company, one of the reason why we selected Interprovinciale is exactly that. I mean they are leader in a region that in terms of SMEs, in terms of development, in terms of investment and innovation is second to none. So, we will keep, we will use, we will make the most out of this thanks to Banca Interprovinciale.

The second question is “Will you keep the Banca Interprovinciale Brand?” No. We will not keep SPAXS or Banca Interprovinciale. We will have another brand and this brand will be announced on the day of the shareholders meeting.

The third question “Can you make an example of the CV of a typical tutor?” Maybe Enrico will elaborate even more, but a typical tutor is a grey haired, former executive, a successful manager in one of the industries where we are interested. We are talking about CEOs or CFOs of industrial or service companies in industries where we are interested. We are also talking about managers, top managers of local banks, area managers of a big banks. So, people that have the experience and the attitude that we want to have with this bank.

ENRICO FAGIOLI: I can only add one point. We need people with experience, but we also need people with a reputation. So, we need people that are easily accepted by our customer, even by the most difficult ones.

CORRADO PASSERA: That is very important. Because in the companies we want to support, opening the door is not always easy and sometimes when you open the door, it is too late, while the tutors that we already hired and the people we have in mind have already the trust of those entrepreneurs, they already know the situation. They don't have to go through the selling process because they are part of the industry and they know what they have to propose.

Question number 4: “The NPL market is very hot at the moment. Example of transactions you are evaluating at the moment?” I think Andrea wants to add something. We have already answered to the implicit question which is “have you already bought some portfolio”? And the answer is yes. As I was saying before, I don't know if Andrea wants to add some colour about the kind of negotiation or analysis that we are doing?

ANDREA CLAMER: Yesterday we had on our desk four billion of NPL. Today, probably we will have something like five. That means that there is a continuous flow of portfolios. And these portfolios are market portfolios, banks that are selling with typical amount, 500 million, 600 million, typically unsecured with an average ticket of 400, 500K. Or single position of 20, 30, 40 million backed by some assets.

That is what we are evaluating at this moment. And, for as long as I can remember, there has never been such a strong momentum in terms of flow of potential acquisition in the market.

CORRADO PASSERA: Next question has to do with the digital bank and the question is "building a new digital bank from scratch is quite a lengthy process. How will you reduce the execution risk?" Obviously, I will leave that to Carlo, but the real answer is: we are already a running bank. We don't have to wait for a new system to be developed. We are ready and fully operational, we will upgrade the present systems gradually and we have already identified how to upgrade the present systems. And in parallel, we will create the new system, the new system that will create probably the very first fully digital bank. In building the fully digital bank, we have chosen how to proceed, as Carlo was describing before, and we have taken a number of decisions that are wise and prudent. We are using pieces of the patchwork that are already very stable. We have the possibility to change whenever it is necessary the components of the patchwork because it will be a fully modular kind of architecture. And we have not selected suppliers, but partners developing the new systems that are top class. Anything else Carlo?

CARLO PANELLA: I think you answered everything.

CORRADO PASSERA: The next question: "How cyclical is your business?" It is an important question. We have chosen a mix of businesses that in our opinion is very balanced. UTPs, NPLs; they are very countercyclical. Invoice lending: not cyclical, low cyclical for sure. Crossover is certainly a bit more cyclical, but target market shares are very low. This is a very important point I want to stress and maybe we have not stressed it enough. In all our activities, the market shares we have to reach to get to the results we have in mind is very, very low, at least the crossover market share, I mean, it is probably below 1 percent of the market. The deposit market shares are probably below one tenth of a percentage. Crossover is cyclical, but at the same time, not difficult to reach the market shares we have in mind given the size of the market.

Last component that affects the potential cyclicality of the bank is the sovereign risk. We made it very clear that the sovereign exposure will be always below 10 percent of the total assets and within this 10 percent, no country will represent more than 3-4 percent: so, a very limited vulnerability to any kind of stress.

And that is about it in terms of funding. Most of our deposits will be midterm, long-term, and the equity component, especially at the beginning, will be very significant.

Any other question from outside? From inside? No? Zero? Okay.

What else? The 8th of August: that will be the real starting point even though we have already started. Thank you for your patience with our presentation. As I said it was very long, but now you have all the elements to make up your mind, to take your decisions. It is a prerequisite for a very unique business case and all the relevant information are now disclosed and available. Thank you very much.

(Applause)