Investor Presentation
Milan, 20 July 2018
Francesco Mele – CFO & Corporate Functions Speech

Our business plan: Income statement (slide 2)

Moving to the business plan key projections, let's start with the income statement. Our guidance is based on intermediate targets for 2020 (in the form of a narrow range as we are a start-up bank) and run-rate results for 2023.

Due to the lean structure of the bank and the predominantly variable nature of our cost base, we expect to reach break-even very rapidly (in 2019) and to achieve a meaningful level of profitability in 2020.

By 2023 we expect our bank to be running at full steam and achieve our financial targets.

In 2020 we expect revenues of between 215 and 260 million euros, a gross operating profit between 105 and 125 million euros and net profit between 40 and 50 million euros.

In 2023 we expect revenues of 710 million euros, gross operating profit of 560 million euros and net profit of 300 million euros.

Our business plan: Balance sheet (slide 3)

Our balance sheet will reflect on one side the different development and cycles of our core businesses – which will be a very balanced mix of activities – and on the other side, a conservatively diversified funding mix.

Total assets are expected to grow from 3.8 to 4.6 billion euros in 2020 to nearly 7.0 billion euros in 2023, with an evolving contribution from our different activities over time.

The NPL division is expected to be the main contributor at the start, reaching 1.9 to 2.3 billion euros in 2020, while the SME division is expected to accelerate its contribution in the second part of the plan horizon, becoming the largest division in 2023 with 3.7 billion euros of assets.

RWA are expected to grow from 3.4 to 3.7 billion euros in 2020 to 6 billion euros in 2023, confirming a conservatively high RWA density.

On the liabilities side we expect to reach a diversified funding mix, with our platform retail deposits moving from 0.7 to 0.9 billion euros in 2020 to 2.1 billion euros in 2023, corporate and funds raised through the open banking European deposits platform are expected to grow from 1.2 to 1.3 billion euros in 2020 to 2.7 billion euros in 2023, while wholesale facilities will be reduced and replaced over time by institutional funding.

Equity is expected to double to 1.2 billion euros due to significant retained earnings, with a dividend policy triggering payments from 2022 onwards.

Our business plan: Key Ratios (slide 4)

Let's now move to the key ratios.

Cost of risk is expected to move from 170 to 180bps in 2020 to 220bps in 2023.

Organic cost of risk (i.e. cost of risk generated by performing exposures or, in other words, excluding cost of risk associated to the turnaround business) is expected to move from 130 to 140bps in 2020 to 125bps in 2023. This is because the cost of risk will benefit from our book moving from the dynamics of a start-up (accumulating loan loss provisions) to a steady state.

Cost income is expected to move from around 55% in 2020 to a best in class 30% in 2023.

ROE is expected to move from the high single digits in 2020 to around 25% in 2023.

Thanks to our stringent underwriting criteria, our gross NPE excluding the turnaround business is expected to be around 4% in 2020 and to remain in the region of 7% in 2023.

Our business plan: Divisional targets (slide 5)

As you can appreciate from the divisional targets, our bank is specialised yet at the same time diversified, with a fairly balanced contribution from our core businesses. This means we will be resilient and generate value across the cycle.

In light of the different cycle and speed of development, the NPL division is expected to represent the major contributor to pre-tax profit in 2020, which is going to decrease to 44% by 2023 thanks to the growth of the SME division.

SME cost of risk excluding the turnaround business is expected at 140 to 170bps in 2020 and due to decrease to 130bps in 2023.

Our group profitability is going to be driven by the SME and NPL divisions, with 2023 ROE at 24% and 25% respectively.

Organic NPE ratio (i.e. default of performing exposure, excluding the danger rate of the turnaround business) is expected to remain at a best in class level, reaching 7% in 2023 for the SME division based on conservative delinquency rate assumptions.

Robust capital position ensures strategic flexibility (slide 6)

We expect to run our bank with a robust capitalisation. The CET1 ratio is expected to be around 18% in 2020 and 20% in 2023 vs a managerial appetite of 15%.

The excess capital will allow our bank to maintain strategic flexibility leading to:

- faster business plan deployment
- the ability to execute bolt on strategic acquisitions to accelerate execution of the business plan
- a buffer for potential increases in the dividend.

Very conservative dividend policy subject to 2 requirements (slide 7)

Our dividend policy has been defined with a very conservative approach driven by 2 requirements:

- maintaining a CET1 ratio in excess of 15%
- maintaining equity in excess of 1 billion euros.

In light of the business plan projections such a dividend policy translates into a dividend pay-out of 20% in 2022 and 25% in 2023.

It is also worth noting that, once fully operational, our organic capital generation will exceed 200 bps per year from 2023.

Liquidity: a strong position carefully managed (slide 8)

We expect to maintain a strong liquidity position over the life of the plan. High quality liquid assets are expected to be maintained at around 600 million (with Government bonds portfolio at around 500 million) and – in light of the development of the business plan – to represent less than 10% of total assets in 2023.

More importantly, the securities portfolio will have a low duration at around 3 years and will be highly diversified with exposure to any single country not exceeding 3-4% of total assets.

… and plenty of room to extend further (slide 9)

We will maintain significant buffer in our liquidity with encumbrance ratio at 12% in 2020 and 8% in 2023 assuming only 5% encumbrance ratio for performing exposures. This will leave significant room for further liquidity.

Funding: well diversified and competitive …. (slide 10)

As you can see, our funding mix will diversify quite rapidly and become even more diversified over time.

Our funding strategy for the next 18 months will initially rely on open banking European deposit platforms and wholesale funding whilst deposits from our retail and corporate clients will increase over time consistently with the development of our digital platform.

Retail deposits are expected to grow from 18% in 2020 to 31% of total assets in 2023, consistently with the development of our digital platform.

Open banking European deposit platforms are expected to remain flat at 16% while corporate deposits are expected to grow from 15% in 2020 to 23% in 2023 thanks also to our broadened customer portfolio.

It is worth noting that our funding mix will be less dependent on interbank and central bank facilities, with their contribution expected to be reduced to 10% in 2023 from 32% in 2020.

Over time we will also tap the institutional markets with senior and subordinated bonds. Timing will depend on rating availability, progress in implementation of the business plan and market conditions.

Blended average cost of funding is expected to remain at competitive levels.

… with no asset and liability maturity mismatch (slide 11)

Our balance sheet and funding structure will allow us to have no ALM mismatch, high-quality liquid assets significantly covering short-term liabilities, long-term assets fully funded by stable and diversified sources.

Approximately 80% of our funding in 2023 is expected to be stable funding, including our equity. In particular almost 50% of total liabilities in 2020 are expected to have maturity over 3 years with the same figure expected to increase to approximately 70% by 2023.

Next steps (slide 12)

The project we present you here today will be proposed for approval at our shareholders meeting on the 8th August, with the aim at completing the business combination in early September. We will then immediately file with the Regulators the request for the approval of the merger between SPAXS and BIP and simultaneously file with Consob the request for the admission to the MTA, the main segment of the Italian stock exchange, which we expect to be completed by year-end or by Q119.