
BANCA

S I S T E M A
SPECIALTY FINANCE

FY 2016 RESULTS

8 February 2017

FY 2016 Results at a Glance

P&L

- **Net Income +11% y/y reached at €26.4m** excluding non recurring items
- **€71m Net Interest income +22% y/y**, including €11.3m accrued LPs
- **Total operating costs** in line with expectations excluding the contribution to the National Resolution Fund and Beta's integration expenses
- **LLPs** impacted mainly by extraordinary provisions on SMEs portfolio
- **25% Adjusted ROAE and Dividend distribution of €0.076 per share**

Commercial performance

- **FY 2016 Factoring Turnover +3% y/y**
- **# factoring customers + 15% y/y**
- **CQS outstanding** reached €266m, **+121% y/y**

2016 Special Projects

- **Acquisition of Beta** with a contribution to the P&L in 2H 2016 better than expected
- **Partnership with Axactor for the NPL market** through the partial sale of the stake in CS Union, with a gain of €2.3m

Balance Sheet

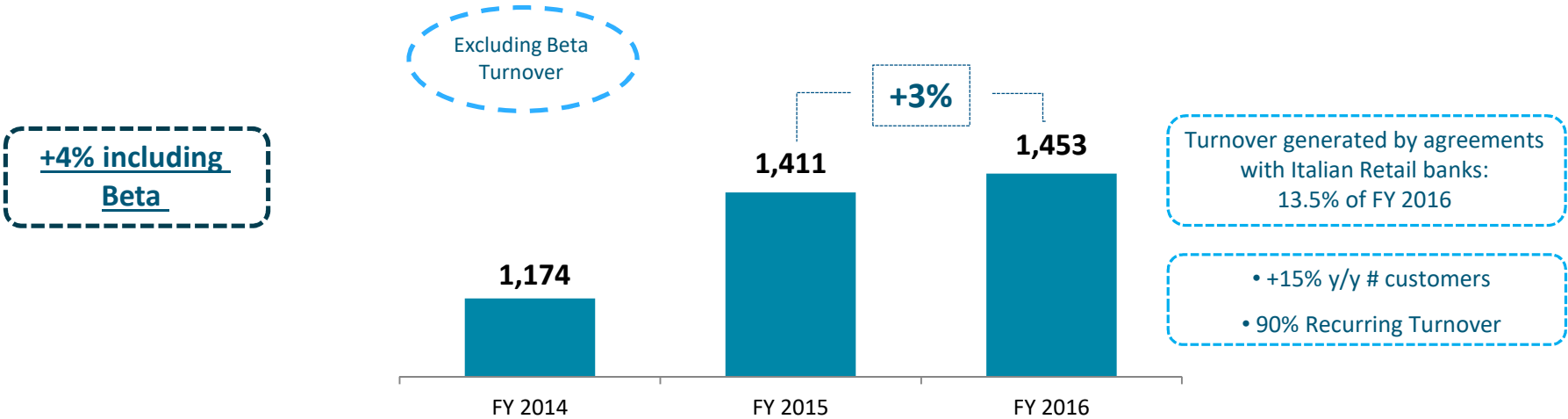
- **LCR and NSFR well above regulatory requirements**
- **Retail funding represents 51% of Total Funds** with a stable cost q/q
- **CET1 and TCR** respectively **13.3%** and **15.8%**

Note: 2016 adjustments are the extraordinary contribution to the National Resolution Fund (€1.3m gross) and integration expenses for the merger of Beta Stepstone (€0.3m gross).

Factoring Turnover/Outstanding

Factoring Turnover - €1,469m

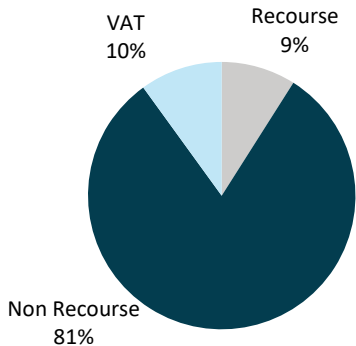
€m



FY 2015 Factoring Outstanding Breakdown - €1,111m

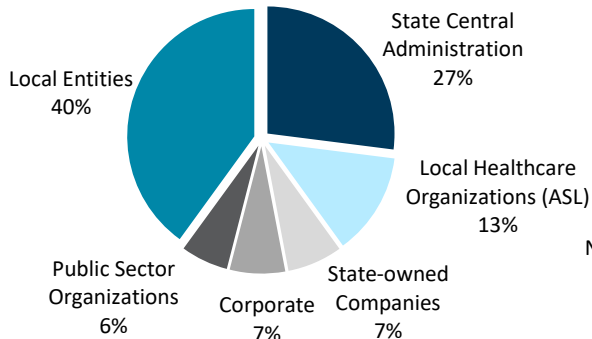
FY 2016 Factoring Outstanding Breakdown - €1,039m

By Type of Product



By Obligor

PA accounts for 93%

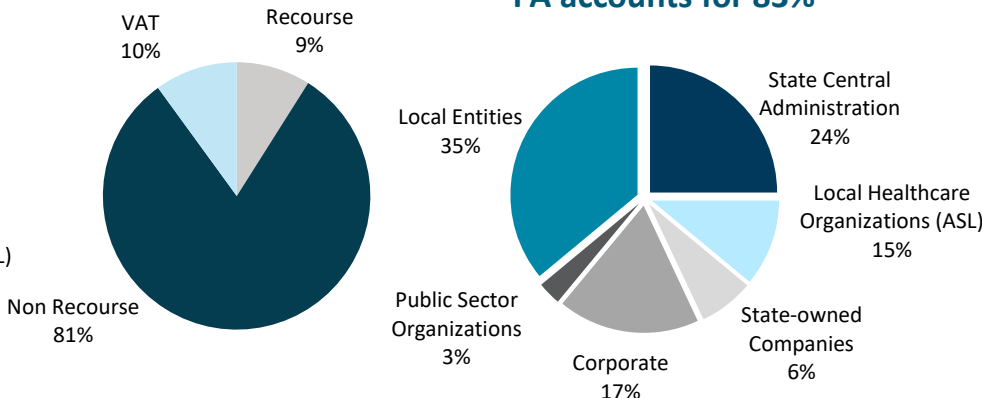


By Type of Product

Including Beta

By Obligor

PA accounts for 83%

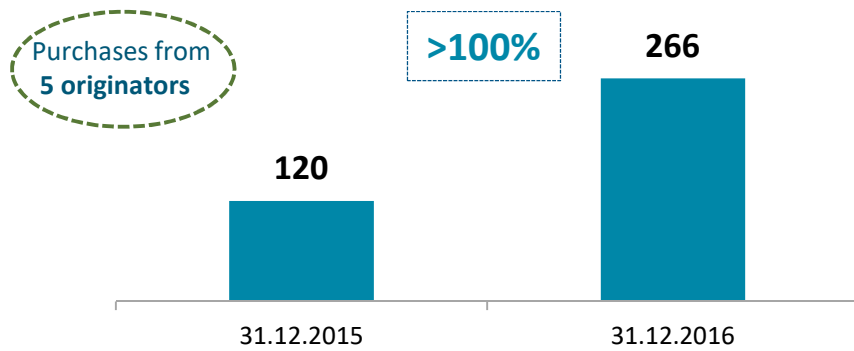


Note: Outstanding management account.

CQS/CQP and SME loans represent today 26% of Total Loans

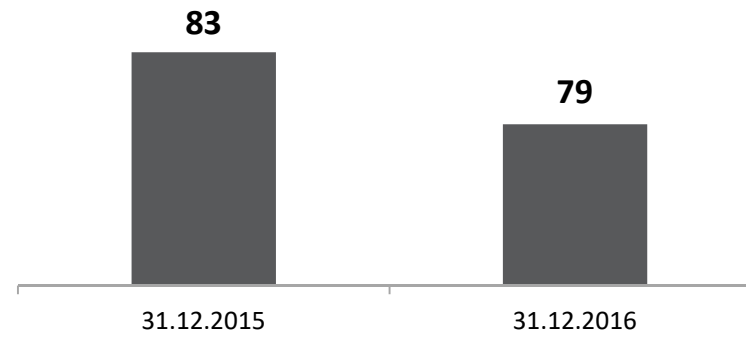
CQS/CQP Loans outstanding

€m

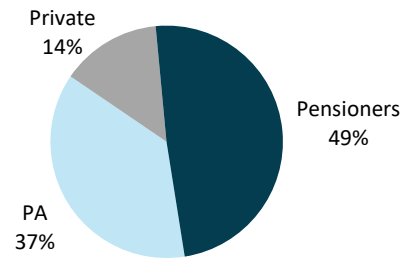


SME State Guaranteed Loans outstanding

€m



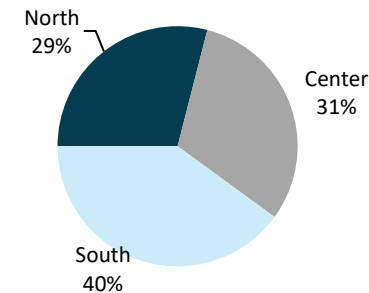
Outstanding breakdown by Type (31.12.2016)



CQS:

- 86% Public (49% Pensioners)
- Average Gross Yield 4.0%, Q4 2016 in line with previous quarters
- Average contractual duration of 9.6 years

Outstanding breakdown by Geography (31.12.2016)



SMEs State Guaranteed Loans:

- More competition from commercial banks
- Average Gross Yield 6.2%, Q4 2016 lower than previous three quarters
- Average duration of 4.2 years

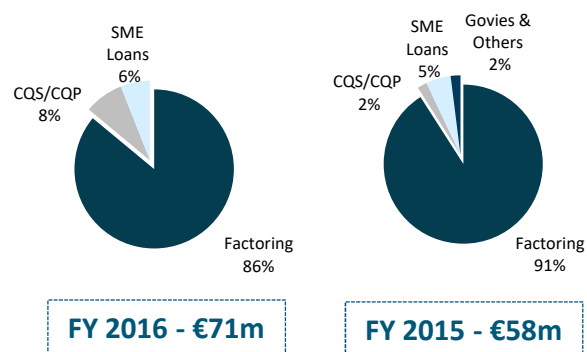
FY 2016 – Income Statement

Figures in millions of euro

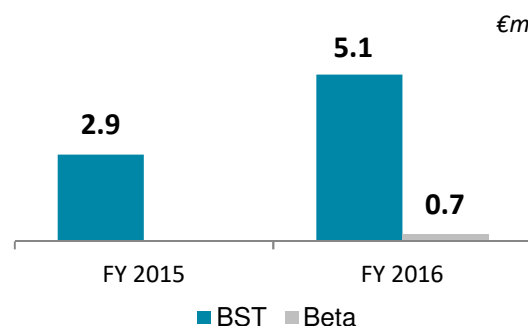
	31.12.2016 A (Adjusted)	of which Beta Stepstone	31.12.2015 B (Adjusted)	Difference % A - B
Net interest income	71.0	2.6	58.0	22%
Net fee and commission income	9.1	0.4	11.2	-19%
Dividends and similar income	0.2	-	-	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1.2	-	2.6	-55%
Operating income	81.5	3.0	71.8	13%
Net impairment losses on loans	(9.8)	0.5	(5.4)	80%
Net operating income	71.7	3.5	66.4	8%
Staff costs	(15.2)	(0.6)	(13.1)	15%
Other expenses	(21.5)	(0.4)	(20.1)	7%
Operating expenses	(36.7)	(1.9)	(33.2)	10%
Profits from equity investments	2.3	-	0.9	nm
Pre-tax profit from continuing operations	37.3	1.6	34.1	9%
Taxes on income for the period/year from continuing operations	(10.9)	(0.4)	(10.4)	5%
Profit (loss) for the year/period attributable to the shareholders of the Parent	26.4	1.3	23.7	11%

- **Factoring contribution to NII represents 86% of the total**
- **NII includes €11.3m of accrued LPIs for BST, on the legally actioned invoices of PA (in 2015 booked on a cash based) of which €5.7m are related to prior years. Following the adoption of a statistic model, it is now accrued 65% of the LPIs due from entities part of National Healthcare System and 15% for the other PAs**
- **NII growth has been influenced by:** lower cost of funding; higher contribution from CQS/CQP, Factoring VAT and SME loans, Beta Stepstone contribution in the 2H 2016
- Lower contribution from our short term Italian Government **bond portfolio (-55%)**
- **Higher LLPs** as a consequence of the SMEs portfolio's deterioration and factoring position
- **Personnel expenses** reflect headcount growth y/y
- **Other expenses** include fees for M&A advisory and CQS securitization
- **Adjusted Net Income** of the FY 2016 includes also gain from the sale of CS Union gross of €2.3m. **Stated Net Income** reached €25.3m, +44% y/y (€17.6m in 2015)

Net Interest Income Breakdown



Cashed-in Factoring LPIs



Note: FY 2015 figures do not include non-recurring items related to the IPO (€6.7m gross), the extraordinary contribution to National Resolution Fund (€1.9m gross) and Beta contribution. FY 2016 figures do not include non-recurring items, see Note of Slide n.2.

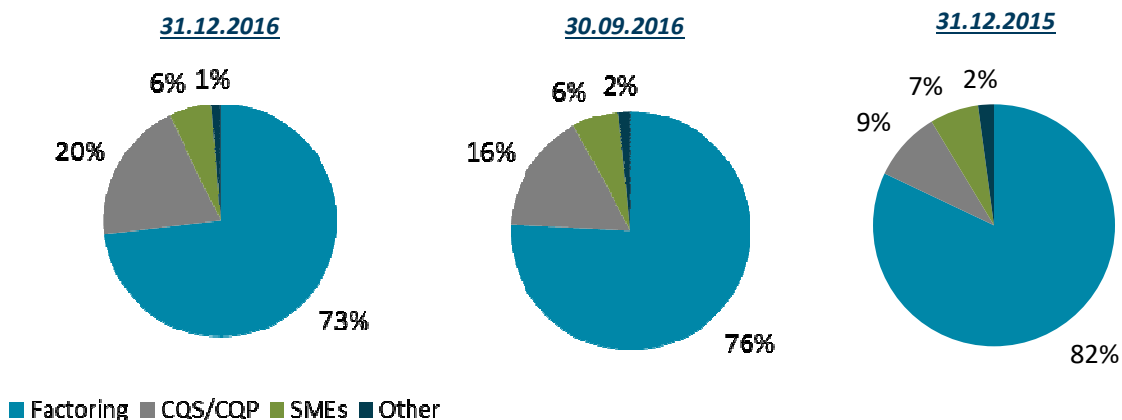
FY 2016 – Balance Sheet

Figures in millions of euro

	31.12.2016 A	30.09.2016 B	31.12.2015	Difference % A - B
ASSETS				
Available-for-sale financial assets	516	435	925	19%
Loans and advances to customers	1,348	1,297	1,458	4%
Tangible and Intangible assets	25	25	3	nm
Other assets	110	54	25	104%
Total assets	1,999	1,812	2,412	10%
LIABILITIES AND EQUITY				
Due to banks	458	435	362	5%
Due to customers	1,262	1,101	1,878	15%
Debt securities issued	90	91	20	-1%
Other liabilities	75	75	59	nm
Shareholders Equity	114	110	93	4%
Total liabilities and equity	1,999	1,812	2,412	10%

Note: FY 2016 figures include the contribution of Beta Stepstone (purchased in July 2016).

Loans to customers Breakdown ex. Repos

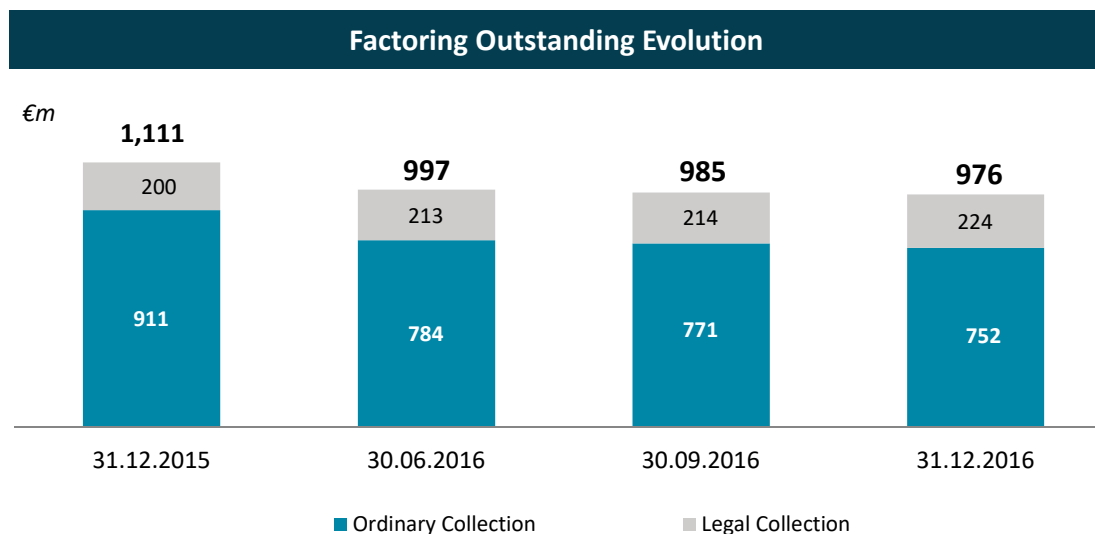


Note: 0 Assets Repos as at 31.12.2016 and 30.09.2016; €178m Assets Repos as at 31.12.2015.

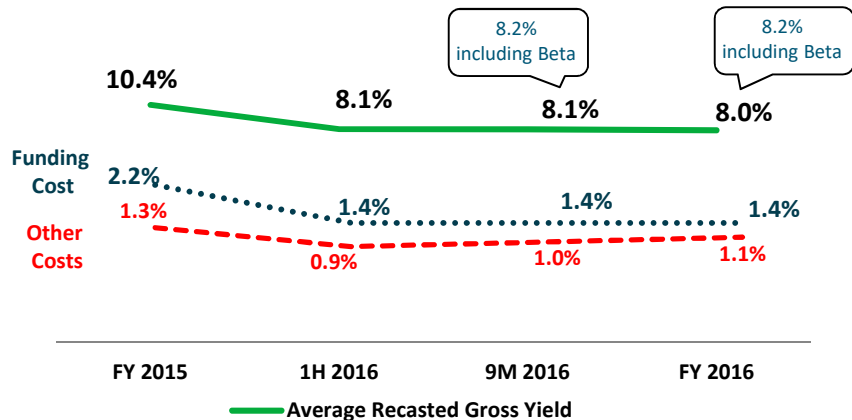
- **Govies AFS portfolio slightly higher q/q** with a residual duration of 7 months
- Govies ptf reduction vs 31.12.2015 influenced as well as the reduction of REPO both on Assets side and Liability side of the Balance Sheet
- **Factoring receivables** down y/y, excluding the contribution of Beta Stepstone, mainly as a consequence of a lower turnover than expected in December 2016
- **CQS/CQP** increase due to further loan purchases
- **Tangible assets** increase y/y due to the contribution of the €22m purchase of a building in Milan, new head quarter
- **Due to banks** increase y/y and q/q is mainly due to ECB funding (including TLTRO II)
- **Due to customers** is lower y/y mainly for the reduction of the Repos related to the decrease of the Govis ptf and for the reduction of the term deposits, not entirely compensated by the increase of the current accounts
- 2016 figures of the item **Debt securities issued** include the issue of the €70m 2Y wholesale Senior bond

Focus on Factoring (ex Beta)

- Average Outstanding trend influenced by:
 - Quarterly turnover, with December contribution lower than expected (q/q)
 - the portion of the Outstanding in Legal Collection (y/y and q/q)
- Target Yield in line with expectations with higher competition at year-end
- Stable Recasted Average Gross Yield since June 2016 (Recasting with a contribution from accrued LPs in 2016 of €6.2m and in 2015 €4.1m)

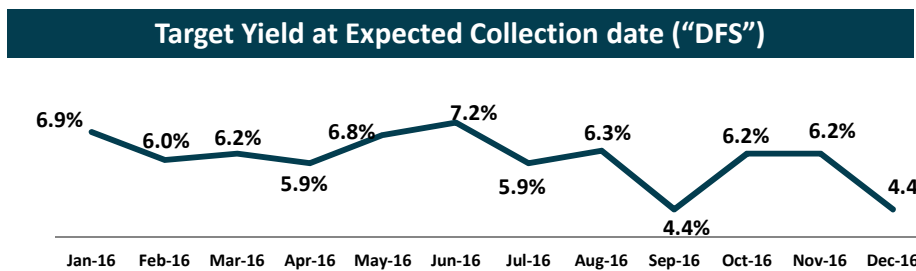
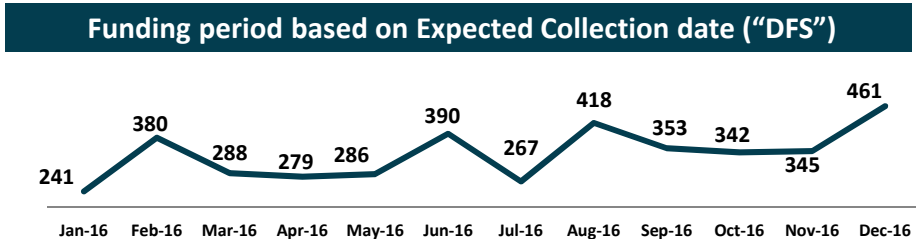


Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



Gross Yield includes Commission Income: €8.7m in FY 2016; €6.8m in 9M 2016; €4.6m in 1H 2016; €10.9m in FY 2015
 Other Costs include among others Legal and Servicing expenses equal to: -0.5% in FY 2016; -0.5% in 9M 2016; -0.5% in 1H 2016 and -0.9% in FY 2015

How we originate new business:

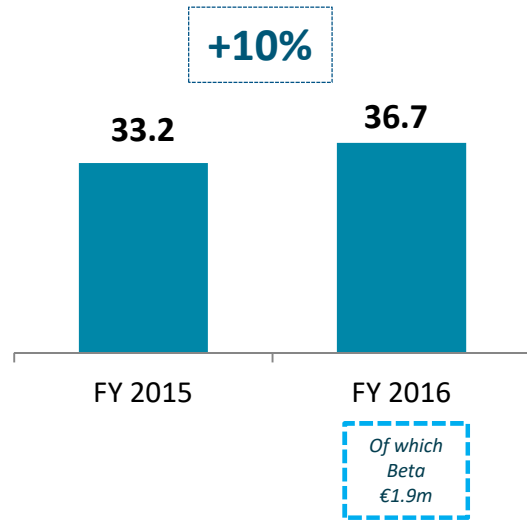


Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data.

Costs in line with expectations

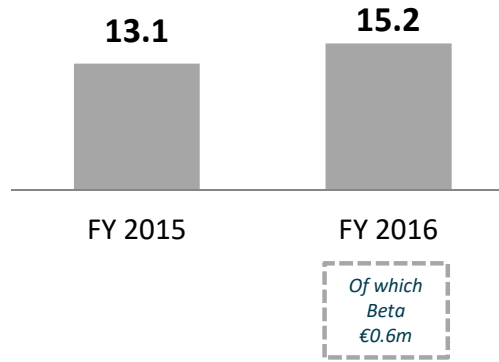
Operating Costs

€m



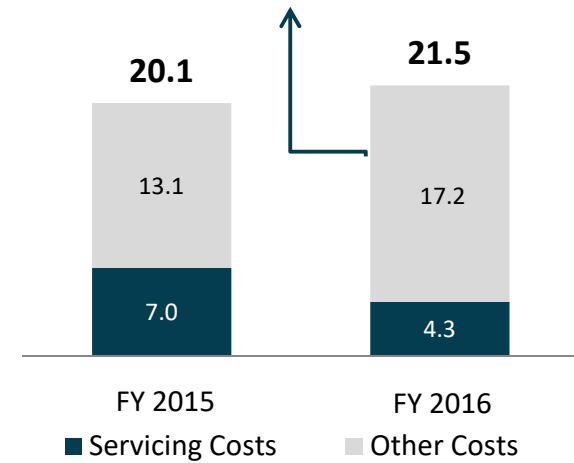
Personnel Expenses

FTEs (#) **130** **144**

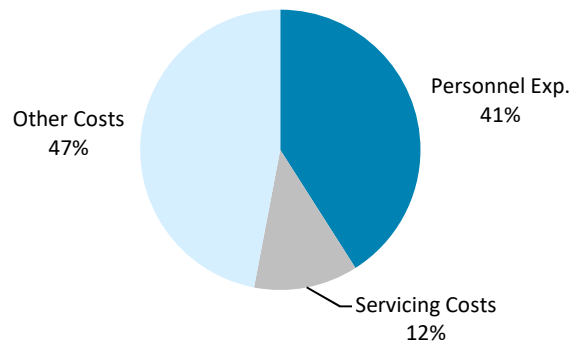


Administrative Expenses, Net Provisions for risk, Servicing Costs, Other and D&A

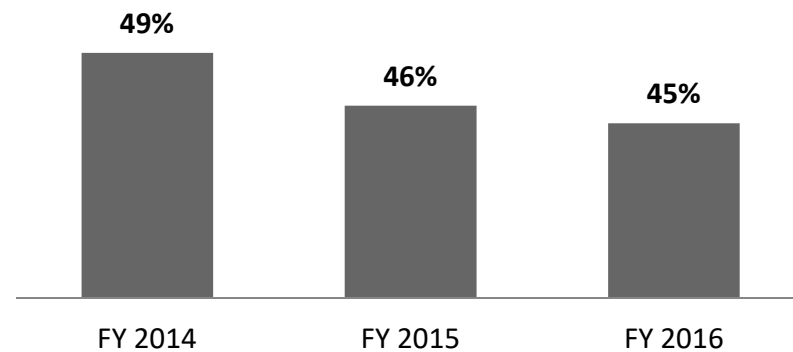
- €1.3m Securitization expenses
- €0.9m Advisory fees, including those for Beta



Operating Costs Breakdown



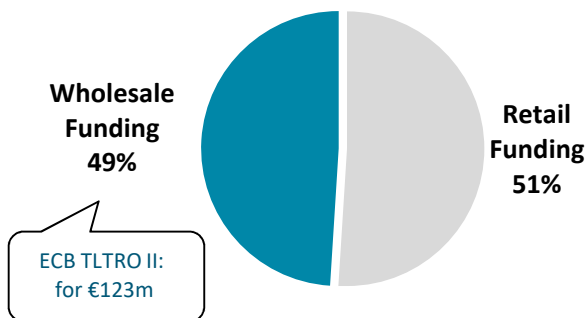
Cost Income Ratio



Note: FY 2015 and FY 2016 Operating costs and related ratios do not include non-recurring items; See the Notes of Slide n.2 and n.5..

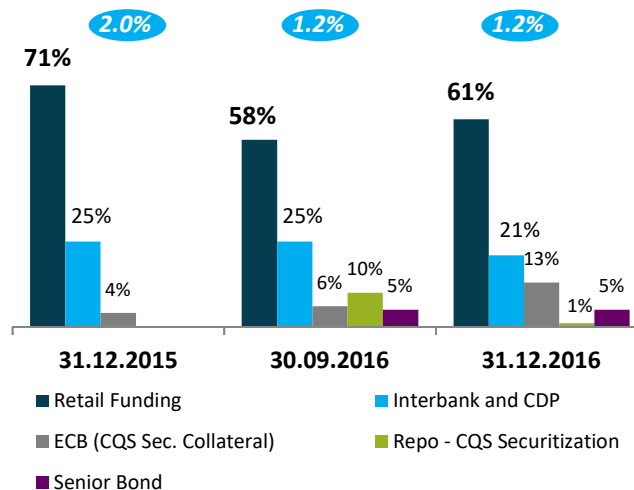
Funding strategy focused on diversifying (ex. Beta)

Total Funding Breakdown



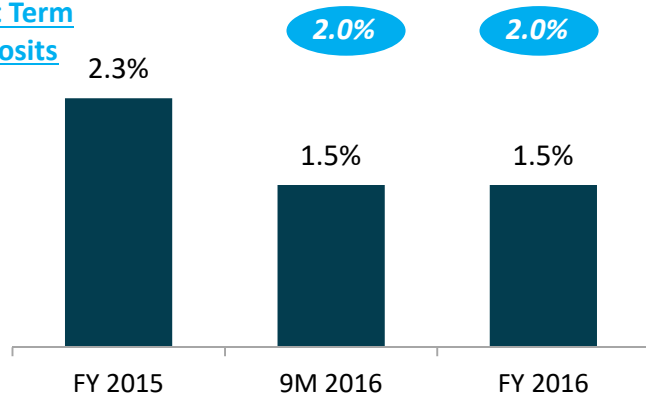
Core Business Funding Breakdown

Core Funding Cost



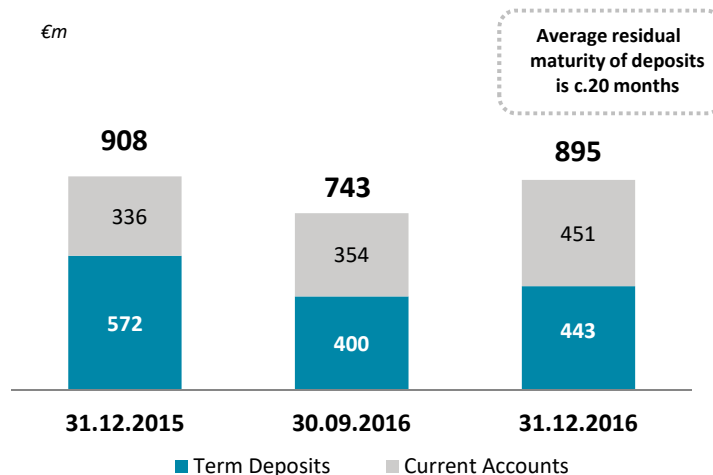
Retail Funding Cost

Cost Term Deposits



Retail Funding

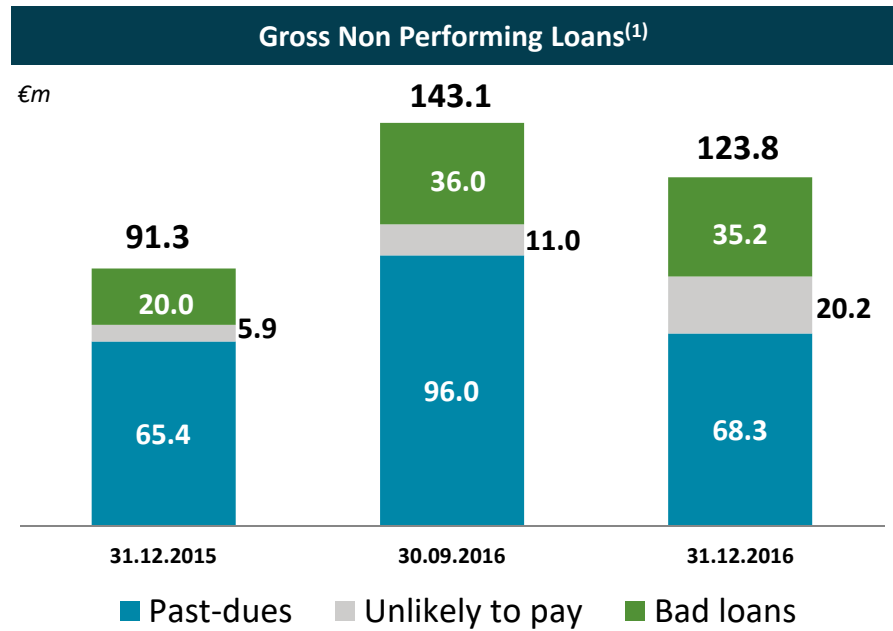
€m



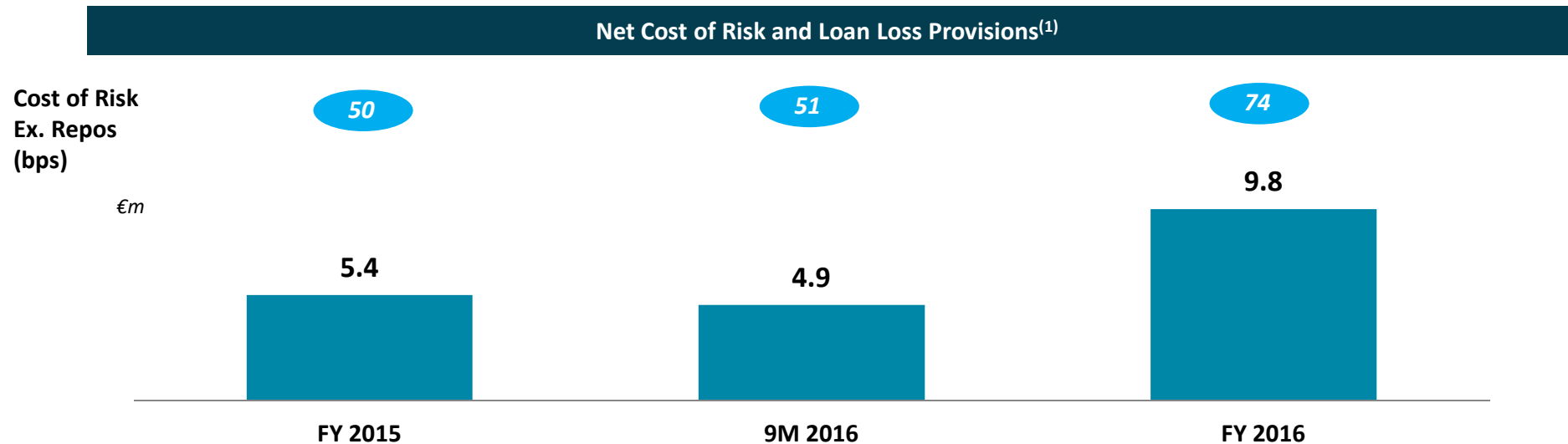
- Term Deposits stock is lower y/y, but higher q/q due to higher rates offered to customers since mid-October. Although average cost has not changed q/q
- Current account stock q/q increase is due to better penetration among corporates
- 27% of term deposits from Germany/Austria
- Wholesale funding includes CQS securitization used as collateral for the €123m of ECB TLTRO II

Notes: Average cost of funding (current accounts and term deposits); CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Conservative risk policy in all the business lines



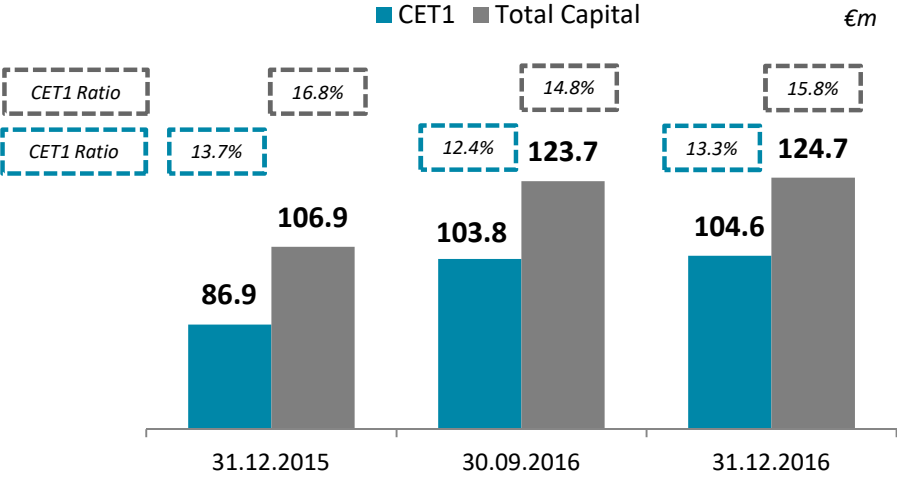
- Net Bad Loans represents 1.7% of total loans as at 31.12.2016 ex. Repos (1.1% in 2015)
- Unlikely to pay increase q/q and Past-dues decrease q/q were both due to factoring segment
- Unlikely to pay increase y/y is mainly due to factoring, in particular a specific position
- Bad loans increase y/y is mainly due to the deterioration of the SMEs State Guaranteed loans ptf
- 4Q 2016 Loan loss provisions have been influenced by the decision to conservatively increase the cash coverage of the SMEs bad loans to 100% and increase the coverage of a specific factoring position already classified as unlikely to pay
- Cost of risk (74bps) increase y/y is mainly due to SMEs ptf deterioration



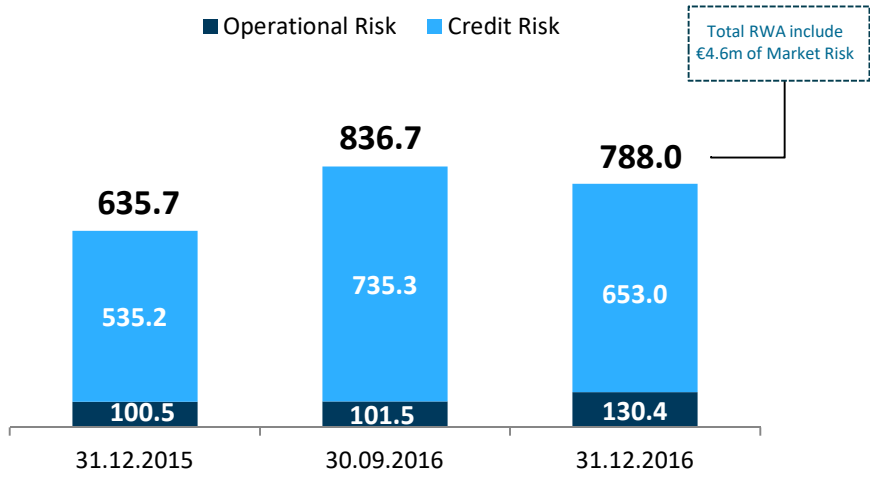
Note: (1) 2016 figures include Beta contribution.

Regulatory Capital

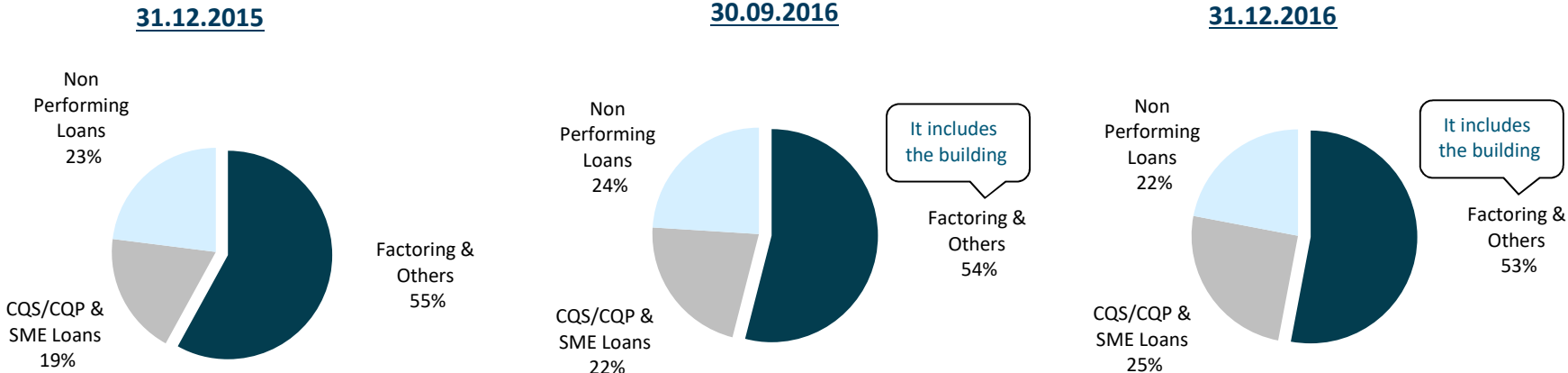
CET1 and Total Capital⁽¹⁾



RWA breakdown



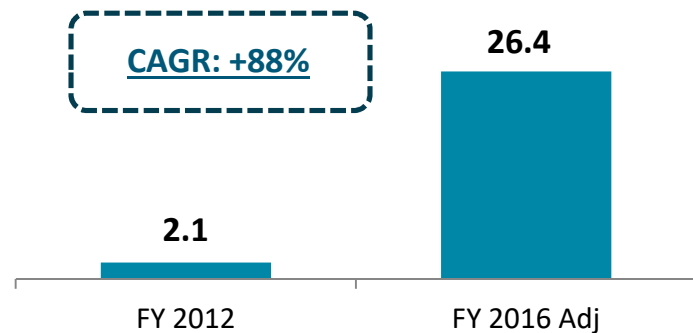
RWA – Credit Risk



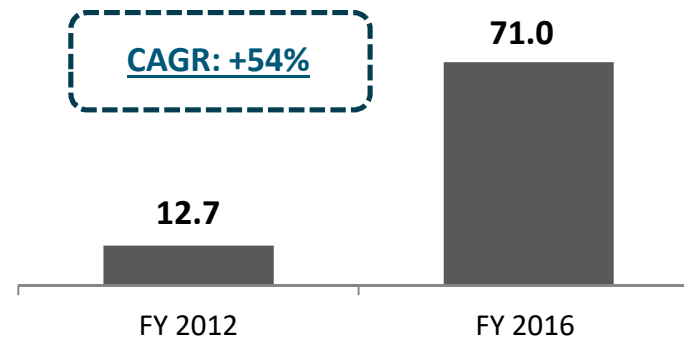
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividends pay-out of ~25% of the 2016 Banca Sistema Holding Net Income; 2016 figures include Beta contribution.

Our track record of the last 5 years

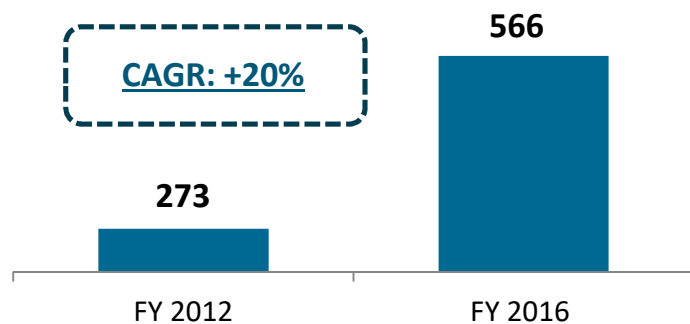
NET INCOME



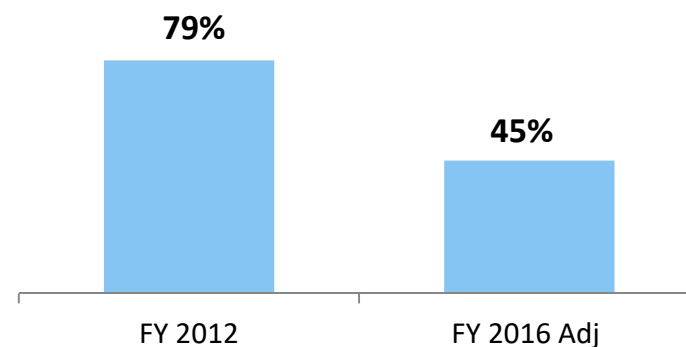
NET INTEREST INCOME



TOTAL INCOME PER HEADCOUNT - €'000



COST INCOME



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SPECIALTY FINANCE

Carlo Di Pierro

Head of Investor Relations

carlo.dipierro@bancasistema.it

+39 02 80280358

+39 3355288794