
BANCA

S I S T E M A
SPECIALTY FINANCE

GROUP PROFILE

February/March 2017

Agenda

I. Overview of Banca Sistema

II. Focus on Factoring

III. FY 2016 Results

Annexes

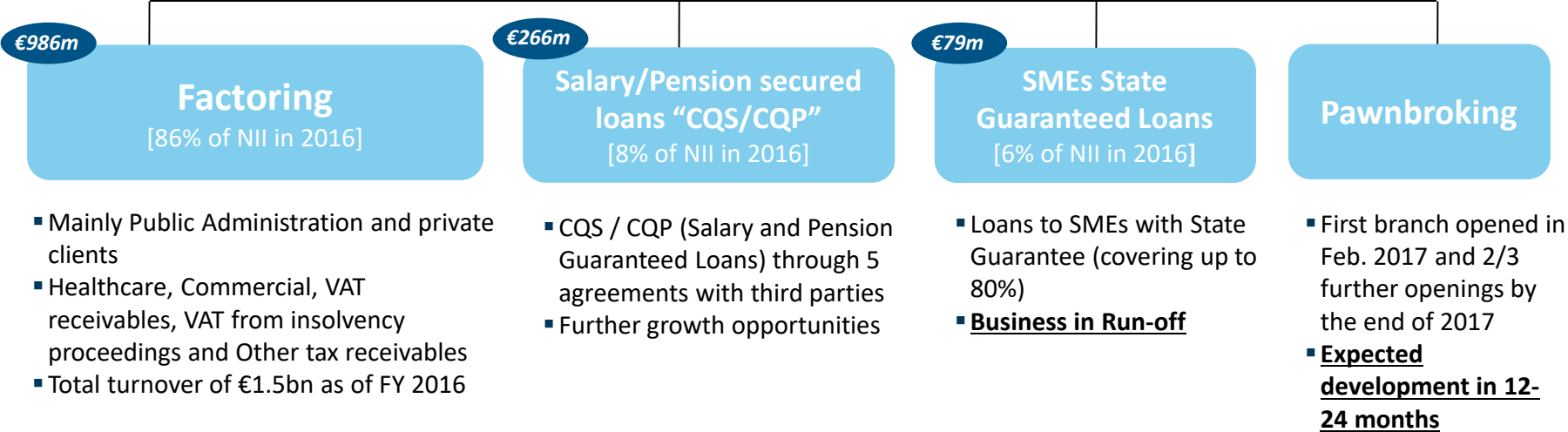
I. Overview of Banca Sistema

Business Overview (1/2)

Outstanding
as at 31.12.2016



COMMERCIAL BANKING PRODUCTS



Other business

Debt Collection and Credit Management Services

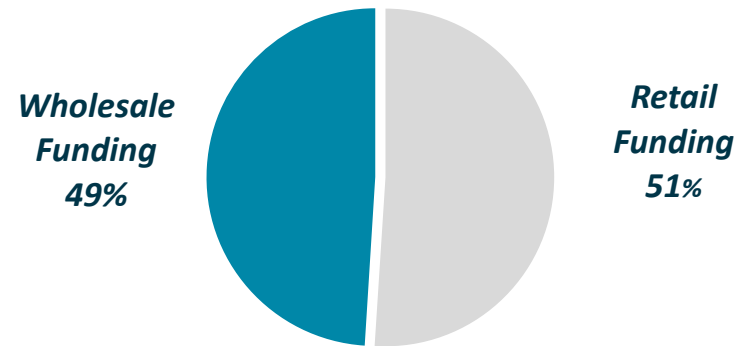
- For third party Public Administration receivables

NPL Acquisitions and Servicing

- Strategic partnership with Axactor through a minority stake in CS Union

Business Overview (2/2)

2016 Total Funding Breakdown



Wholesale

- ALM/Liquidity on REPO market
- CQS/CQP securitization
- ECB TLTRO II
- Interbanking
- Senior Bond

Retail Banking

- Current accounts: more than 4,000 customers of which c. 90% Retail
- Term deposits: more than 11,000 customers, for a total stock of €443m as at 31.12.2016 and an average residual maturity of c.20m
- 27% of the term deposits are originated in Germany/Austria

Further Treasury Activities

- Managing a securities portfolio of Italian T-bills

Banca Sistema: A Successful Growth Story

Vision and Mission

- Vision to become the leading independent specialty finance player in Italy and the pre-eminent public sector factoring provider
- Mission to support corporate entities in their business dealings with the Public Administration

A Large and Underpenetrated Market: A Sustainable Growth Opportunity

- The Italian Factoring Market is the 3rd largest in Europe by Turnover and 2nd largest as a percentage of GDP⁽¹⁾
- As we operate with a focus on Public Administration (“PA”) receivables, our reference market is the Italian Public Spending, a large and underpenetrated market with significant growth potential

What We Do: Key Core Expertise in Public Administration Receivables Factoring

- We specialize in the purchase at a discount to face value of healthcare, commercial and VAT/Other tax receivables owed by Italian Public Administration to our clients
- Receivable payments from Public Administrations in Italy have consistently experienced long delays, despite the introduction of the EU directive on late payments
- We deploy data and analytics as well as sophisticated collection services to create a valuable proposition for all parties: us, our customers and PA obligors

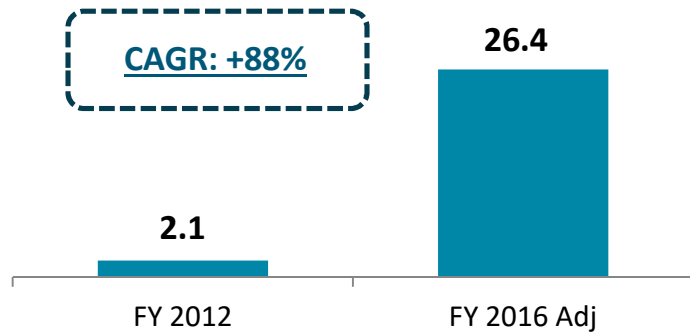
Our Strategy and Business Model: A Clearly Defined Strategy Relying on a Stable Business Model

- In factoring we focus on building strong relationships with clients and PA obligors
- We focus on collection of late payment interest (“LPI”) from Public Administrations when appropriate
- We have added niche businesses that compliment our factoring base

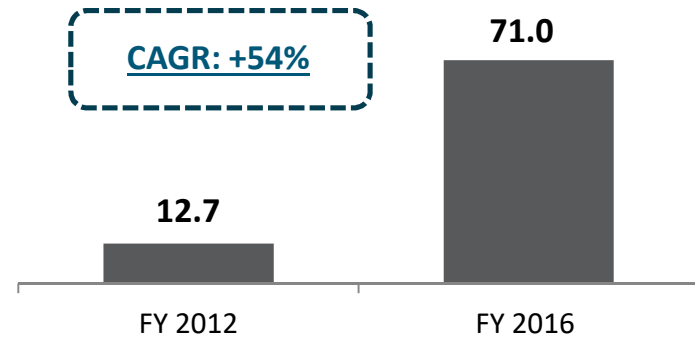
Note: (1) Source: Factors Chain International.

Our track record of the last 5 years

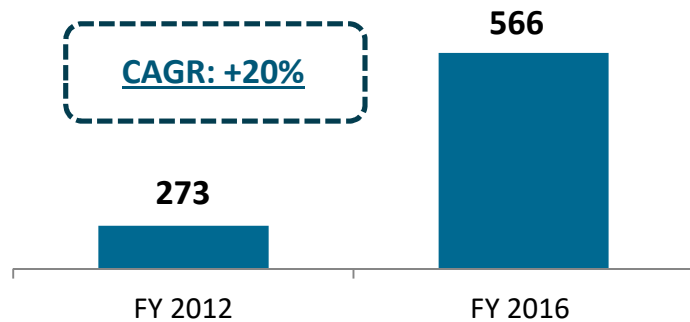
NET INCOME



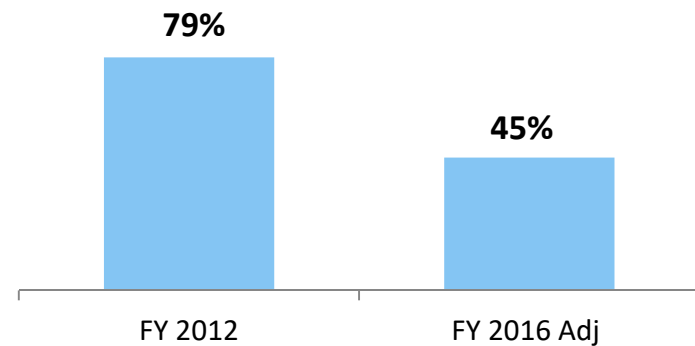
NET INTEREST INCOME



TOTAL INCOME PER HEADCOUNT - €'000



COST INCOME

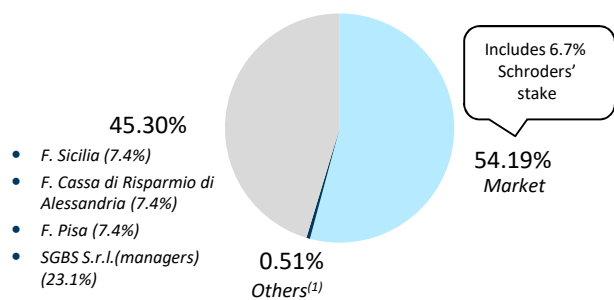


Snapshot of Banca Sistema

FY 2016 Results

Factoring Turnover	€1.5bn
Adj. Net Income	€26.4m (+11% y/y)
Cost Income	45%
CET1	13.3%
Total Capital Ratio	15.8%
ROAE	25%

Shareholders Structure



- Shareholder agreement between the three Banking Foundations and SGBS
- 3 year lock up period for the core shareholders post IPO

Note: 1. Garbifin S.r.l. holding 0.51% stake (also subject to lock up).

Our Key Strengths

Strong analytical capabilities

- **Disciplined underwriting process supported by accelerated collections**, relying on active LPI collection when it become necessary
- **Proprietary database** of payment times of Public Administration obligors, supporting our underwriting capabilities and pricing models for individual invoices

Compelling collection strategy with excellence in collections

- **Preferred non-litigation focused approach to collections**, building strong relationships and partnerships with both **Public Administration obligors** and our clients
- Strong performance due to **excellence in collection versus suppliers**, generating high margins through accelerated recovery periods

Low risk counterparty exposure

- **The majority of our credit exposure is towards the Italian Public Administration**, with low risk underlying credit exposure comparable to a **Government Bond**

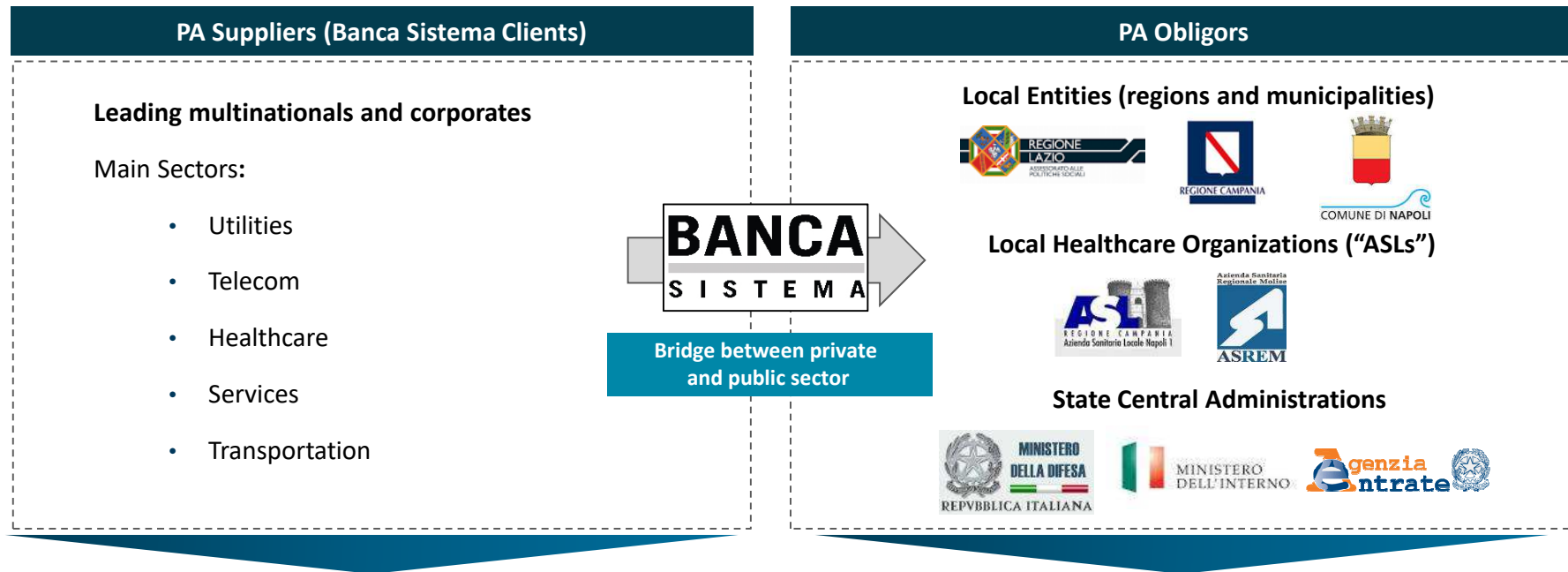
A Winning Business Model

- Providing **liquidity solutions** and **sophisticated collection services** to our clients **at an attractive cost** compared to the outsourcing of the collection or internal management of the receivables
- **Clients benefit** from an **improvement of their financial position** and from **cash flow optimization**
- **Our extra margin from accelerated collections is not considered an additional cost by our clients**

Receivables Factoring

A Strong Network of Relationships with Clients and PA Obligors

Recurring business with a strong network of multinational and corporate clients, and established relationships with all types of Public Administration entities



• Multinationals and corporate clients:

- ✓ Benefit from certainty of payment times
- ✓ Benefit from collection specialism and expertise at an attractive effective rate
- ✓ Outsource the collection service without jeopardizing relationships with PA clients
- ✓ Optimize working capital and improve balance sheet positions
- ✓ Access liquidity
- ✓ Free up resources to be reallocated to the business

• Public Administration:

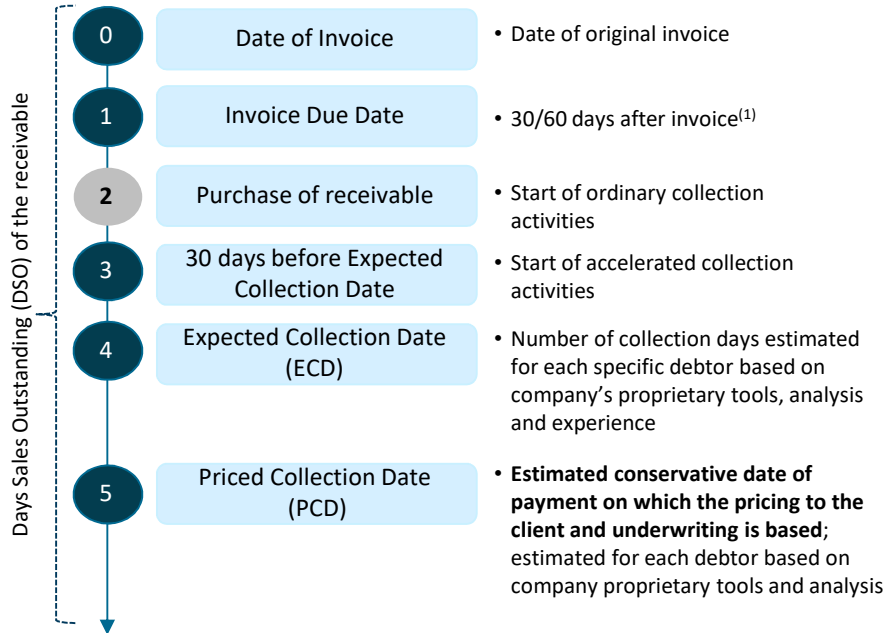
- ✓ Benefit from dealing with a specialized player with PA knowledge “speaking the same language”
- ✓ Single point of contact for multiple suppliers
- ✓ Banca Sistema does not seek to proactively collect Late Payment Interest as opposed to other PA factoring players

Factoring Business

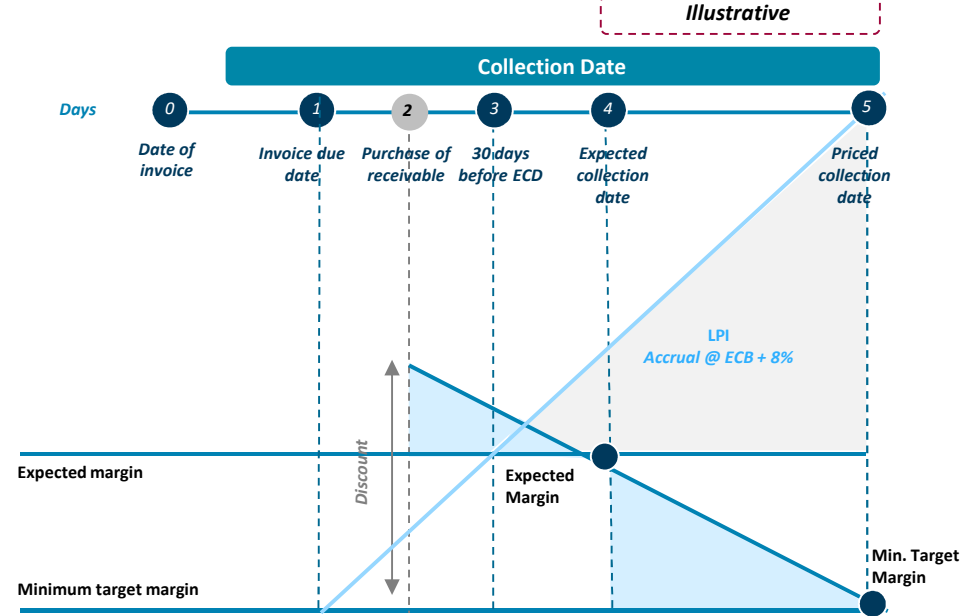
Overview of Key Dates for Pricing and Collection

Banca Sistema's experience and capabilities allow to accurately forecast the expected collection date for each receivable, thus allowing for precise pricing decisions

Receivables Factoring - Key Dates



Collection Dates and Contribution Margin Overview



Interest Margin – Illustrative

	Priced collection date	Discount to face value	Min. target gross yield
Client effective cost	11 months	5%	5.8%
	Payment Date (ECD)	Months of anticipated collection	Actual gross yield
Banca Sistema gross interest yield	7 months	4 months	9.0%

- High profitability resulting from (i) accelerated recovery period due to excellence in collection practice and (ii) disciplined underwriting process and pricing of receivables acquired
- Strong collection performance resulting from deep analytical capabilities and PA expertise
- Since 2011 the vast majority of the total collections occurred both before the expected collection date and before the priced collection date
- The residual portion of receivables collected after the priced collection date, is collected using legal actions which include claim of LPI

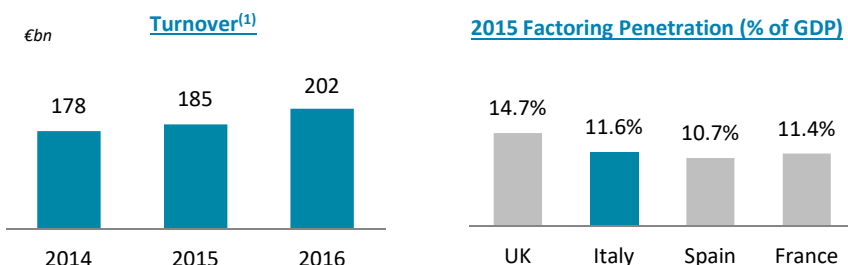
Note: 1. 60 days for healthcare related receivables.

II. Focus on Factoring

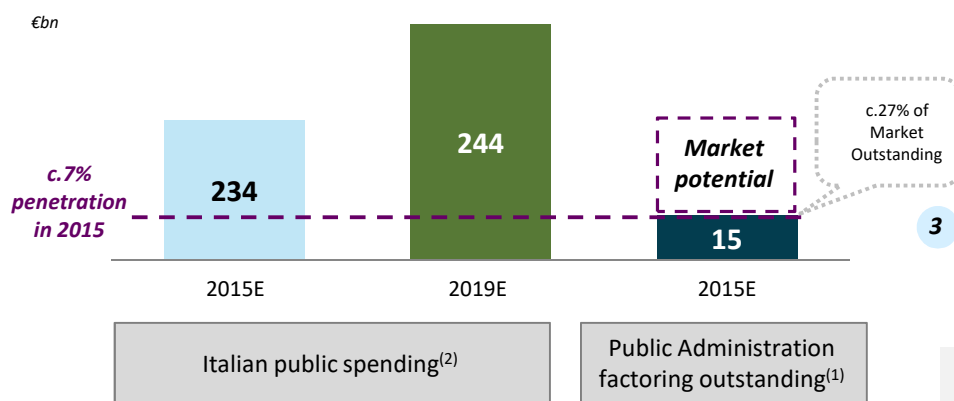
An Attractive Market Opportunity

Large and still underpenetrated market with significant growth potential..

The Italian factoring market is the 3rd largest in Europe, (2nd largest compared to GDP) with a clear growth trajectory⁽¹⁾

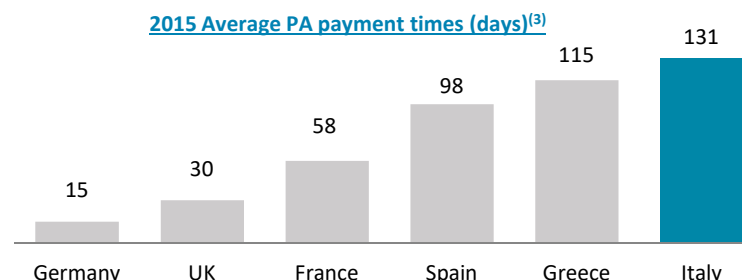


As of 2015, Italy's annual estimated public spending amounts to c.€234bn and is expected to grow to c.€244bn by 2019⁽²⁾

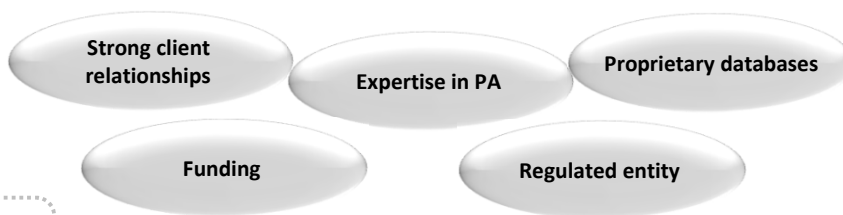


..With key market features highlighting a unique opportunity

1 Italy is characterized by structurally high Public Administration payment times compared to other European countries



2 High barriers to entry and limited number of players able to compete in the market



3 Low risk business with credit exposure primarily towards public entities

Unique opportunity to exploit the potential of a large and under-penetrated market

Note: 1. Source: Assifact and Factor Chain International; 2. Source: MEF (Documento di Economia e Finanze 2015 – Analisi e tendenze della finanza pubblica). Including spending for goods and services and gross fixed capital formation; 3. Intrum Justitia as of 2016.

Factoring business leverage on a well balanced network

Sales Team Members

- 14 Origination resources
- 5 Relationship Managers



Distribution also through ~1,110 branches of the bank's partners branch network

Diversified Distribution Channels

- The origination team consists of 19 dedicated sales resources which have multiple years of experience in factoring and origination at both Banca Sistema and leading factoring institutions

Direct Marketing

- The Bank uses its own knowledge and relationships to originate business

Banks Distribution

- We have signed commercial agreements to provide factoring products to third party banks
- **14 Commercial agreements** in place
- Partner selection criteria based on potential to grow the strength and depth of commercial relationships

Non Financial Intermediaries

- We only work with supervised intermediaries on OAM ("Organismo agenti e mediatori") and with top accounting firms in Italy to originate VAT deals

III. FY 2016 Results

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

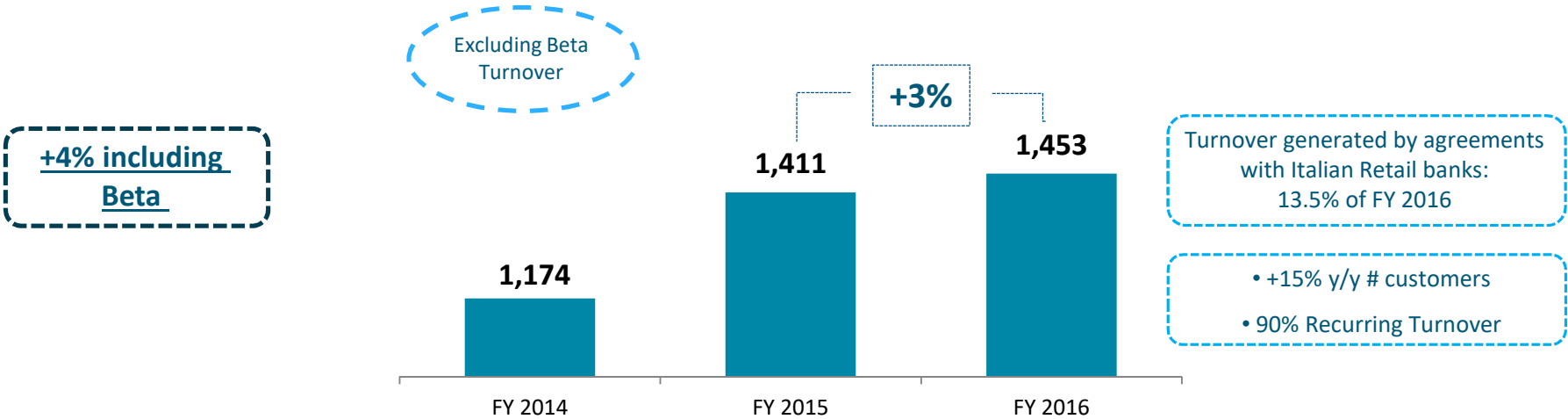
- **LCR and NSFR well above regulatory requirements**
- **Retail funding represents 51% of Total Funds** with a stable cost q/q
- **CET1 and TCR** respectively **13.3%** and **15.8%**

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

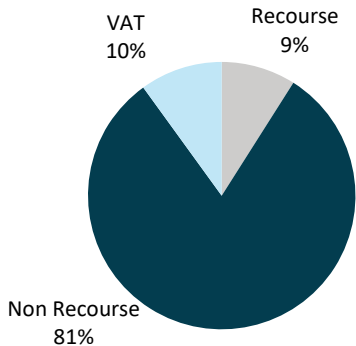
FY 2016 Factoring Outstanding Breakdown - €1,039m

By Type of Product

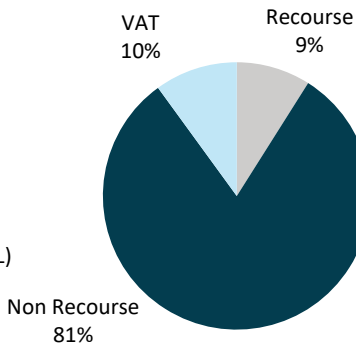
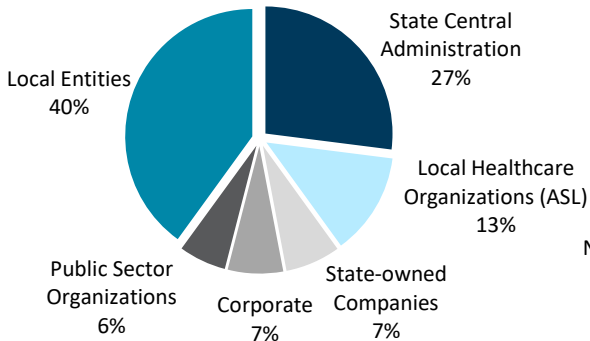
By Obligor

By Type of Product *Including Beta*

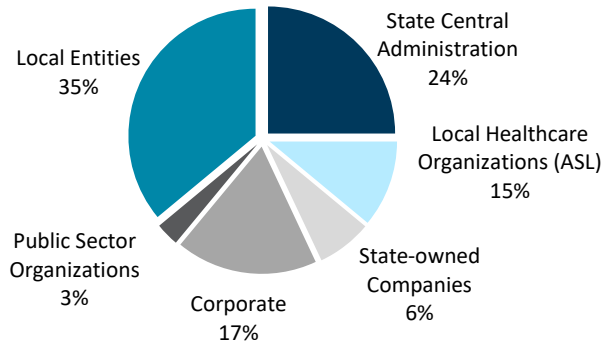
By Obligor



PA accounts for 93%



PA accounts for 83%

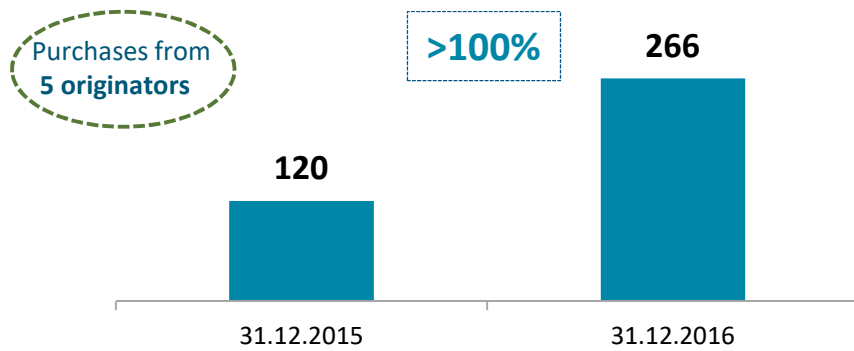


Note: Outstanding management account.

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

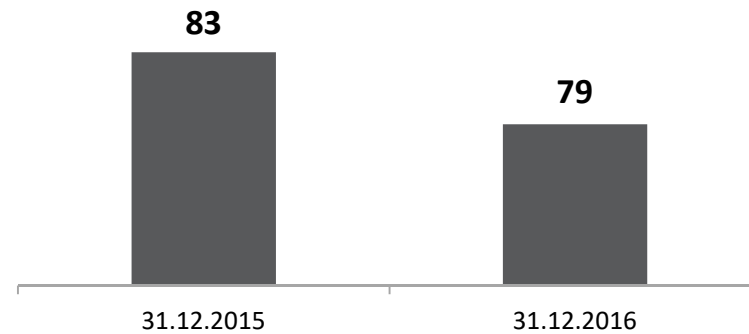
CQS/CQP Loans outstanding

€m

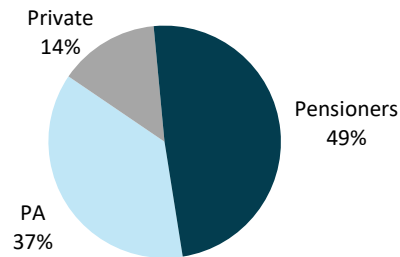


SME State Guaranteed Loans outstanding

€m



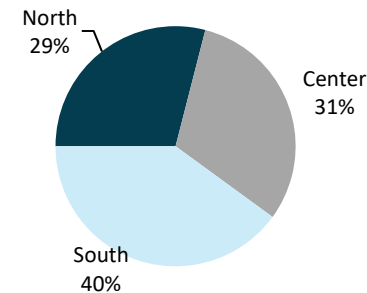
Outstanding breakdown by Type (31.12.2016)



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

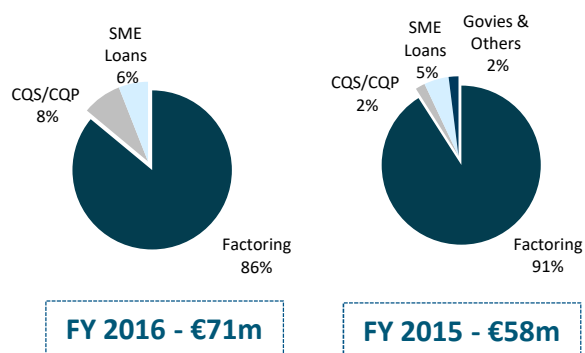
FY 2016 – Income Statement

Figures in millions of euro

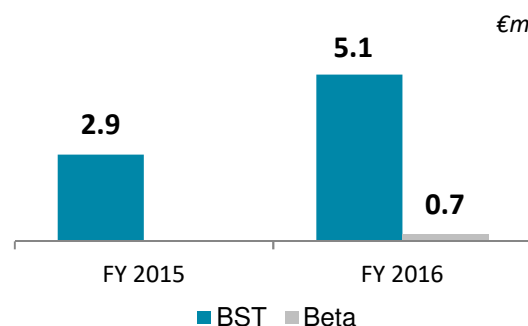
	31.12.2016 A (Adjusted)	of which Beta Stepstone	31.12.2015 B (Adjusted)	Difference % A - B
Net interest income	71.0	2.6	58.0	22%
Net fee and commission income	9.1	0.4	11.2	-19%
Dividends and similar income	0.2	-	-	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities 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.15.

FY 2016 – Balance Sheet

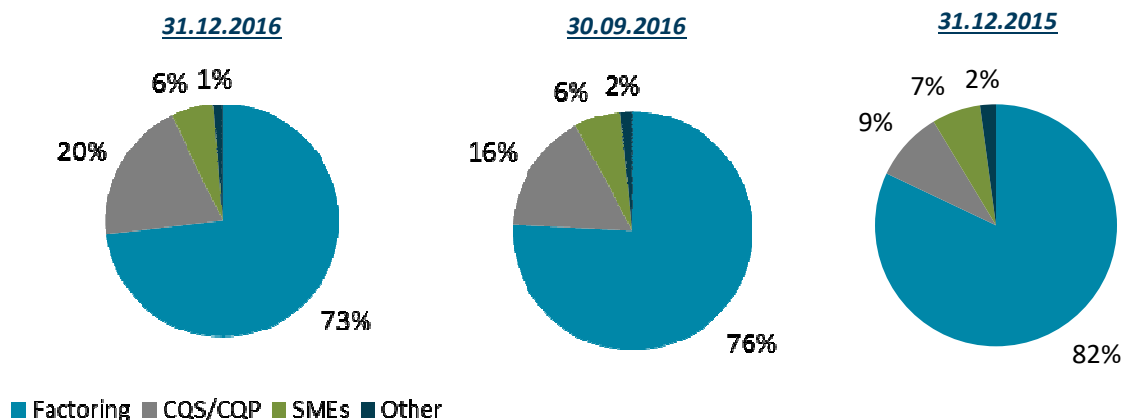
Figures in millions of euro

	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).

- 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

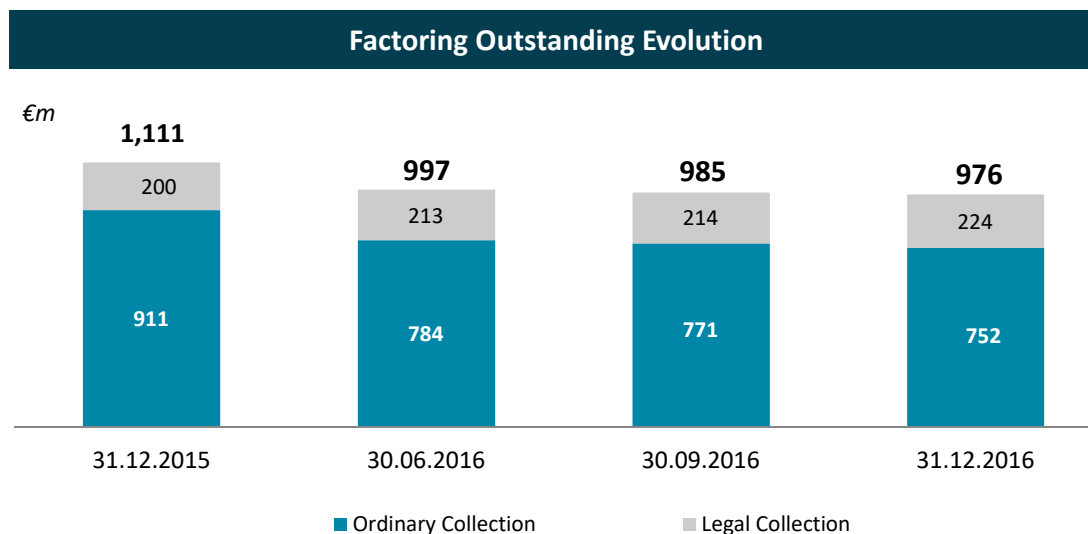
Loans to customers Breakdown ex. Repos



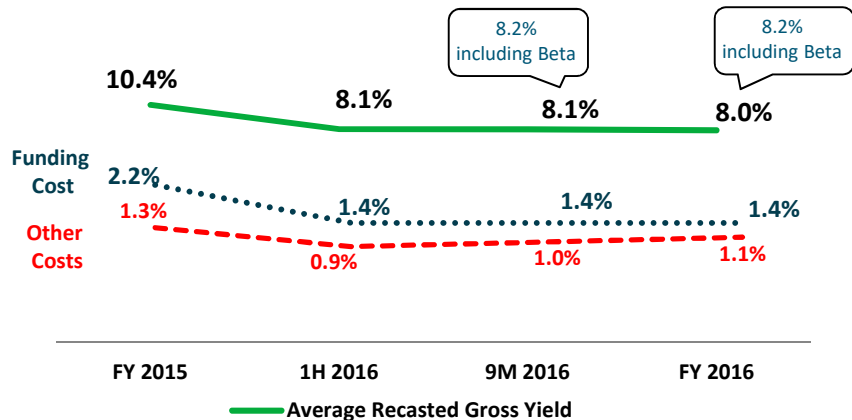
Note: 0 Assets Repos as at 31.12.2016 and 30.09.2016; €178m Assets Repos as at 31.12.2015.

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)

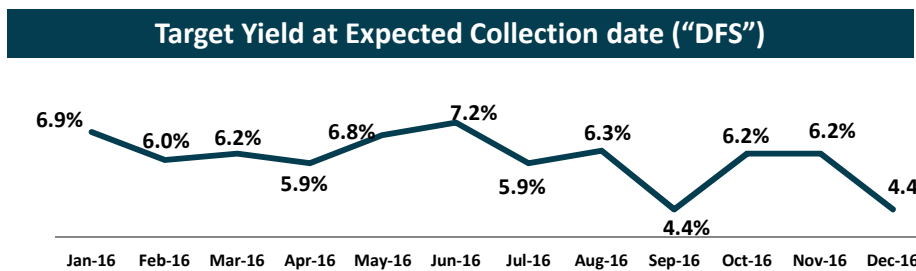
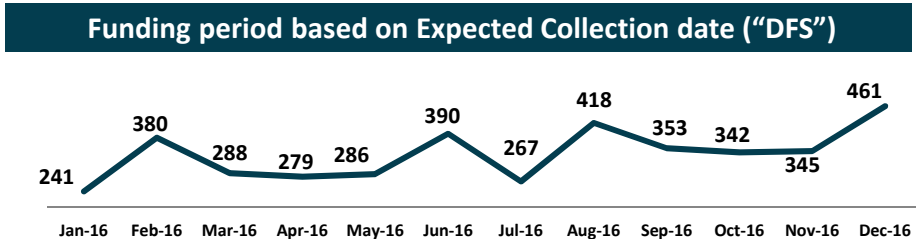


Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



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:

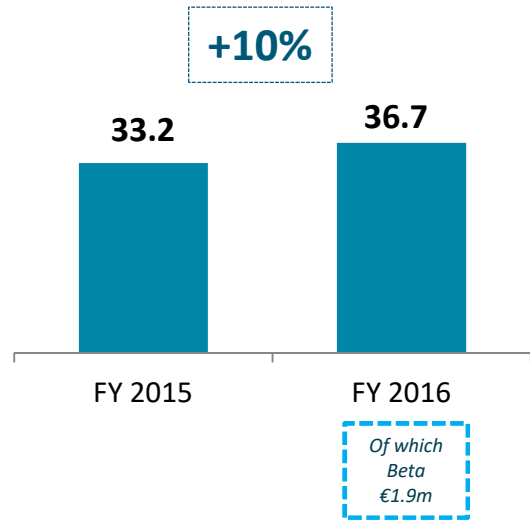


Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data.

Costs in line with expectations

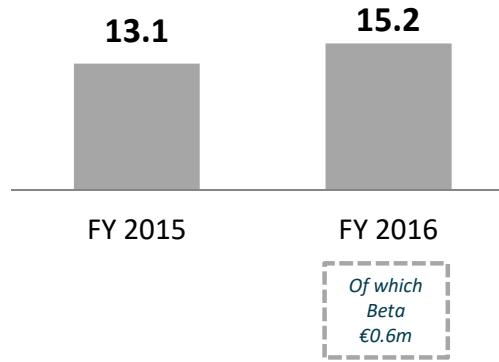
Operating Costs

€m



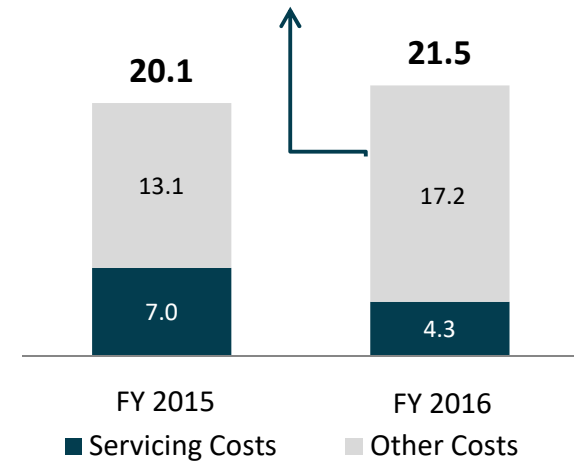
Personnel Expenses

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

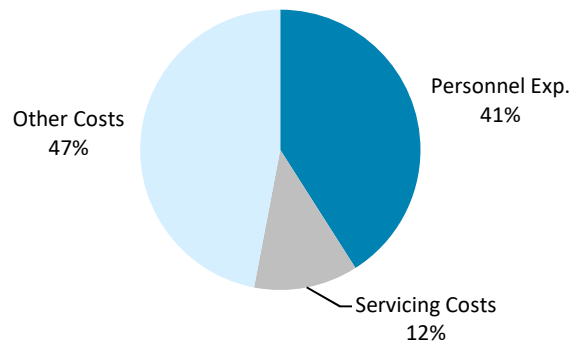


Administrative Expenses, Net Provisions for risk, Servicing Costs, Other and D&A

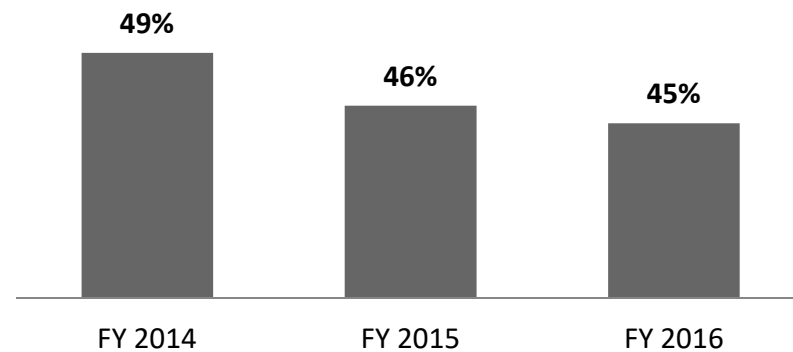
- €1.3m Securitization expenses
- €0.9m Advisory fees, including those for Beta



Operating Costs Breakdown



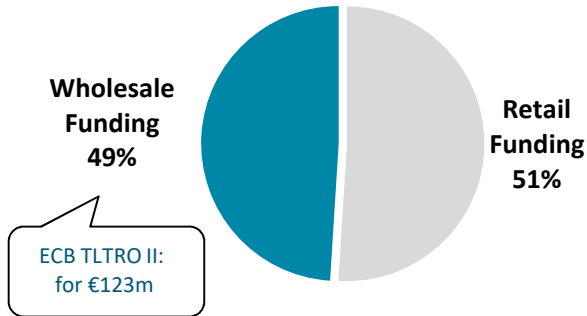
Cost Income Ratio



Note: FY 2015 and FY 2016 Operating costs and related ratios do not include non-recurring items; See the Notes of Slide n.15 and n.18..

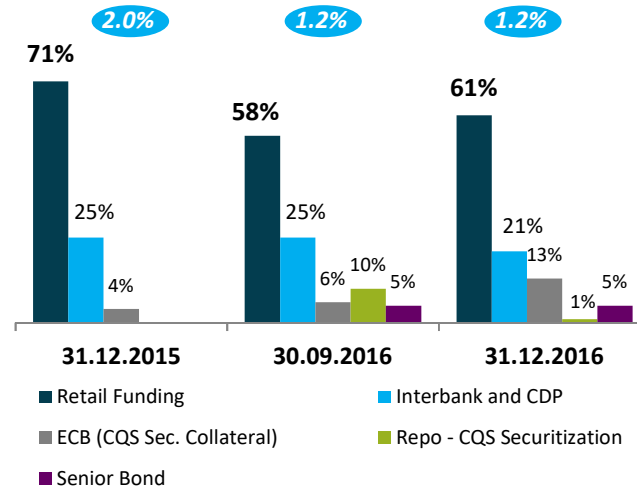
Funding strategy focused on diversifying (ex. Beta)

Total Funding Breakdown



Core Business Funding Breakdown

Core Funding Cost

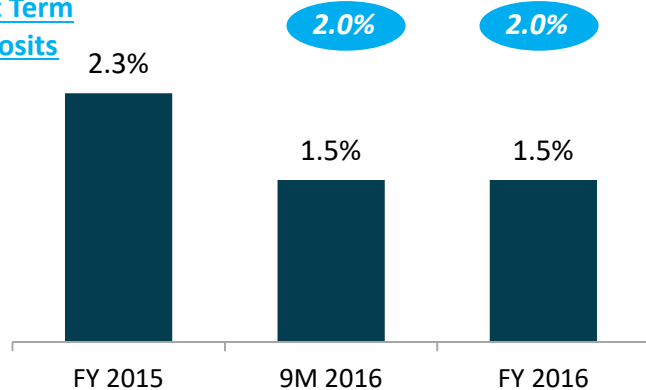


- Term Deposits stock is lower y/y, but higher q/q due to higher rates offered to customers since mid-October. Although average cost has not changed q/q

- Current account stock q/q increase is due to better penetration among corporates

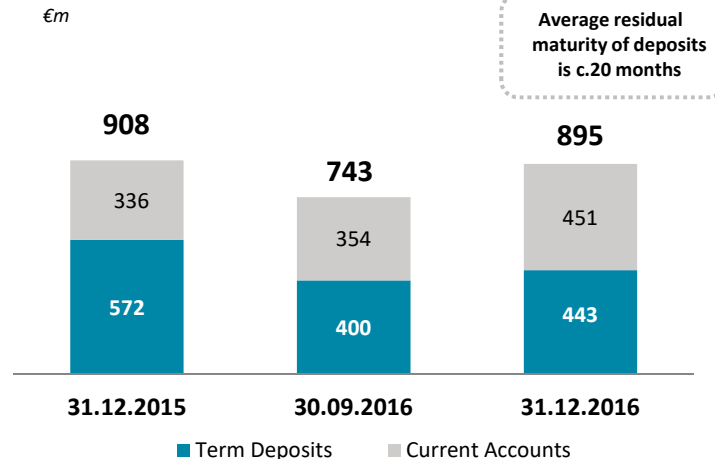
Retail Funding Cost

Cost Term Deposits



Retail Funding

€m

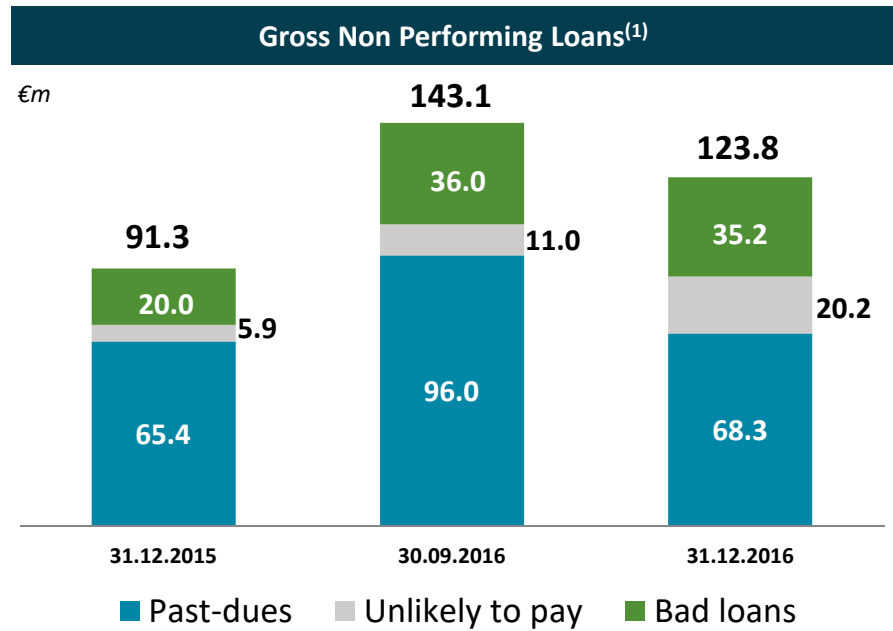


- 27% of term deposits from Germany/Austria

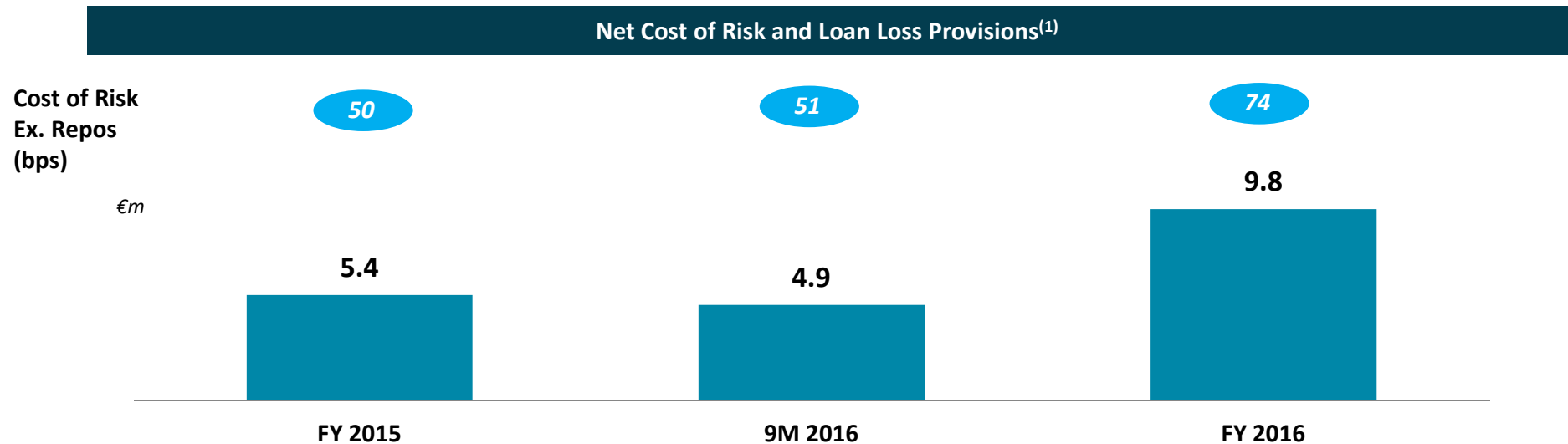
- Wholesale funding includes CQS securitization used as collateral for the €123m of ECB TLTRO II

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



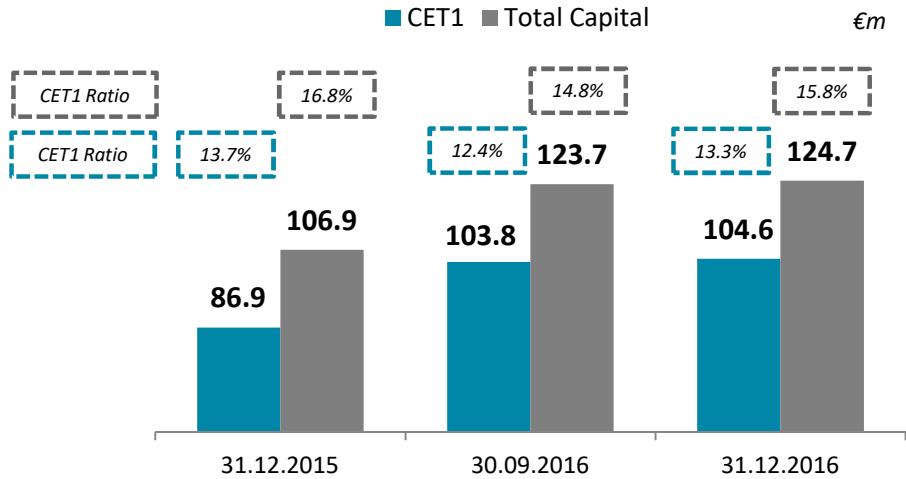
- Net Bad Loans represents 1.7% of total loans as at 31.12.2016 ex. Repos (1.1% in 2015)
- Unlikely to pay increase q/q and Past-dues decrease q/q were both due to factoring segment
- Unlikely to pay increase y/y is mainly due to factoring, in particular a specific position
- Bad loans increase y/y is 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



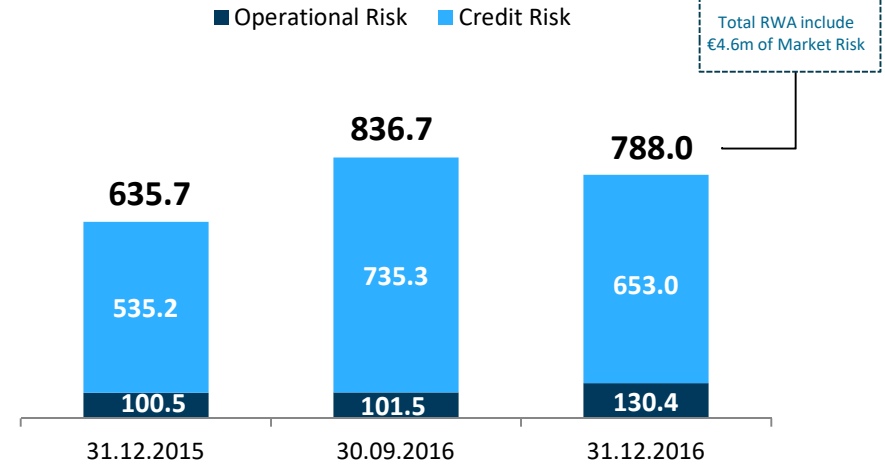
Note: (1) 2016 figures include Beta contribution.

Regulatory Capital

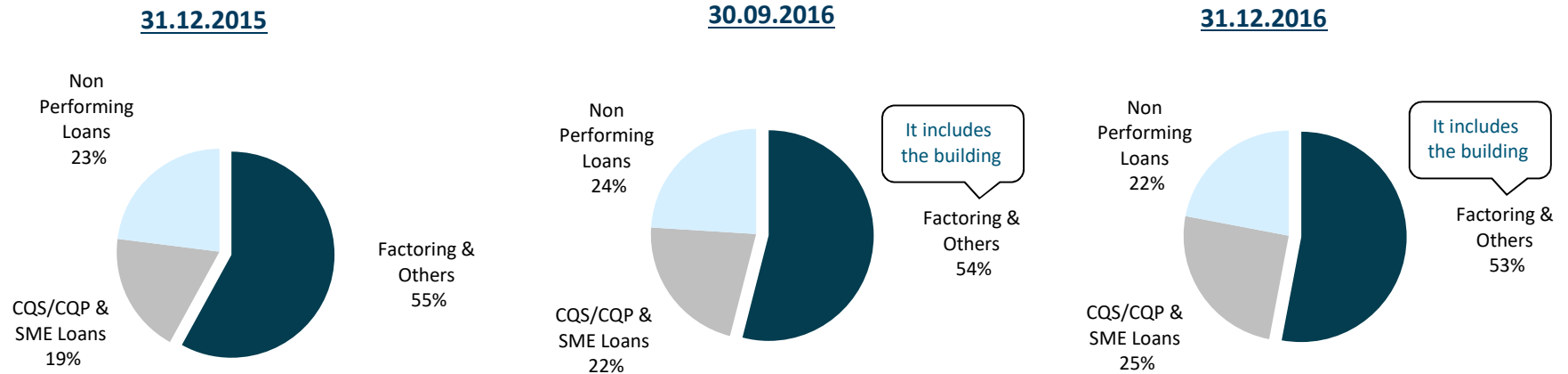
CET1 and Total Capital⁽¹⁾



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.

Annexes

Pawnbroking Market in Italy

Italian Market

The pawnbroking is a business **anticyclical**, compared to the “traditional lending”. For its nature, it is also addressed to individuals with low creditworthiness and pending debts

According to Bank of Italy, the average estimated volume per year is around **€800m**, with more than 30,000 loans issued each month.

Most of pawns are paid back at the expiration date: **between 5% - 8% is sold at auction**

Main market players: Italian commercial banks and independent broker networks

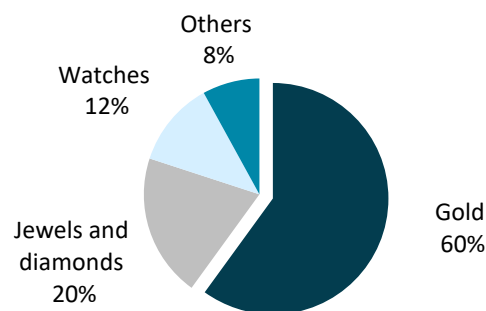
First pawn shop («Monte di Pietà») was established in Perugia in 1462

Revenues/ Loan **15 - 18%**

Interest/ Revenues **60/70%**

Gross Annual Rate **12 - 14%**

Yearly Turnover Breakdown



Main Features of the Product in Italy

- The pawn loan is a particular form of short-term loan with a collateral on property goods which is based on the existence and value of assets pledged and not on the assessment of the creditworthiness of the borrower
- The pawn loan consists of a main contract (policy of payment) and an ancillary contract (pledge)
- Renewal of the loan for a maximum period of **3 Years**
- The loan amount is commensurate with the estimated value of the goods offered as collateral, while respecting the limits set by law:
 - **4/5** of the estimated value in case of a pledge of precious goods
 - **2/3** of the estimated value in case of a pledge of other goods
- Pawn Loans loan are directly governed by the main following provisions of law: Legge 10 maggio 1938, n. 745 , Regio decreto 25 maggio 1939, n. 1279, Legge 4 febbraio 1977, n. 20, D.lgs1°settembre 1993, n. 385, D.lgs 231/2007

Banca Sistema Pawnbroking business

BANCA SISTEMA STRATEGY

Product

- Initial focus on GOLD
- Fast loan procedure
- Offered loan durations: 3/6/12 months



Operations

- First branch opened in Milan (February 2017)
- 3 Further branch openings in 2017
- Hiring of specialized valuers

Profitability

- Short term secured financing
- Margins above average other retail banking products
- Commission contribution
- Further revenues in case the good is sold in auction

*No relevant impact
on 2017 P&L*

Funding/ Regulatory Capital

- Fit with Banca Sistema actual diversified funding base
- Zero RWA absorption

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