
BANCA

S I S T E M A
SPECIALTY FINANCE

GROUP PROFILE

May 2017

Agenda

I. Overview of Banca Sistema

II. Focus on Factoring

III. 1Q 2017 Results

Annexes

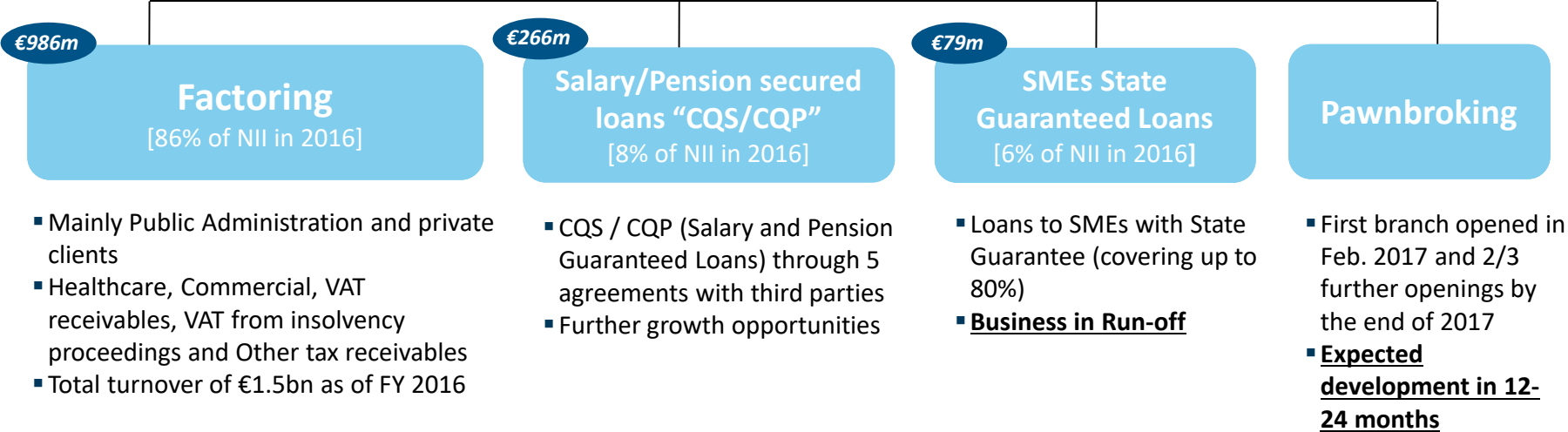
I. Overview of Banca Sistema

Business Overview (1/2)

Outstanding
as at 31.12.2016



COMMERCIAL BANKING PRODUCTS



Other business

Debt Collection and Credit Management Services

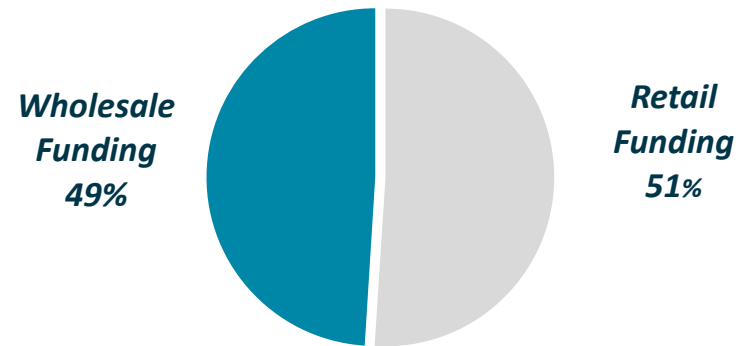
- For third party Public Administration receivables

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

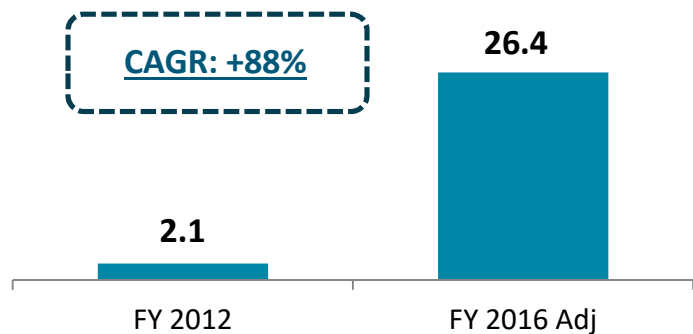
Our Strategy and Business Model: A Clearly Defined Strategy Relying on a Stable Business Model

- 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

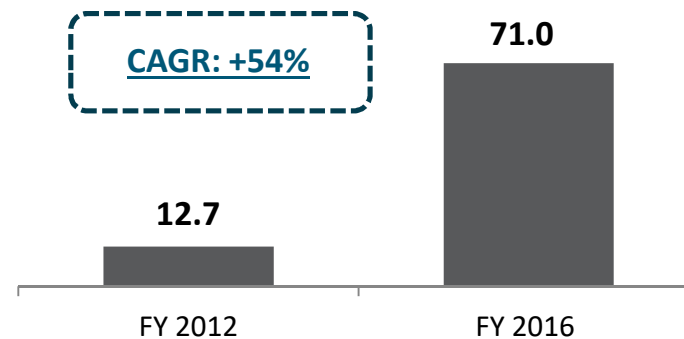
Note: (1) Source: Factors Chain International.

Our track record of the last 5 years

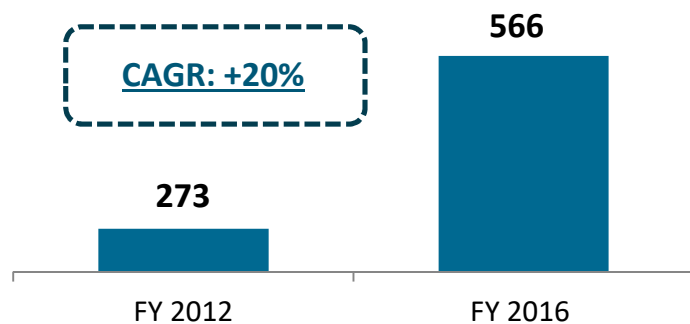
NET INCOME



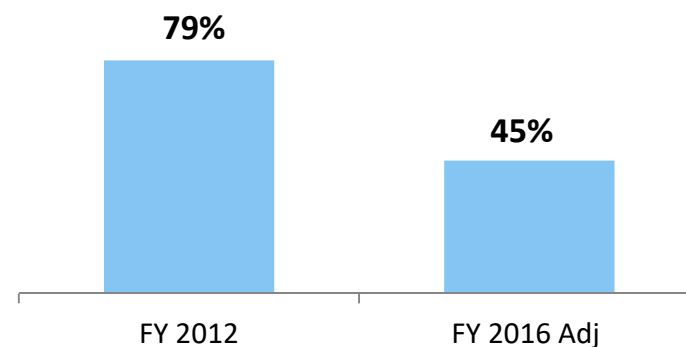
NET INTEREST INCOME



TOTAL INCOME PER HEADCOUNT - €'000



COST INCOME

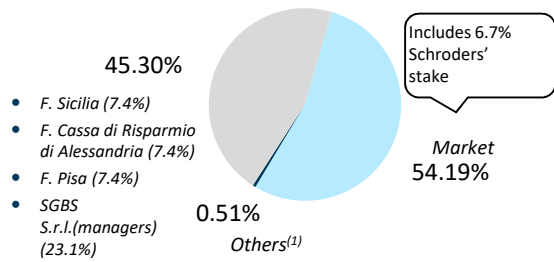


Snapshot of Banca Sistema Today

1Q 2017 Results

Factoring Turnover	€0.4bn
Net Income	€4.4m
Net Interest Income	€12.4m
CET1	12.6%
Total Capital Ratio	16.6%
Total Asset	€2.2bn

Shareholders Structure



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

Our Key Strengths

- Strong analytical capabilities**
 - Disciplined underwriting process supported by accelerated collections without relying on active LPI collection
 - 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**
 - 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

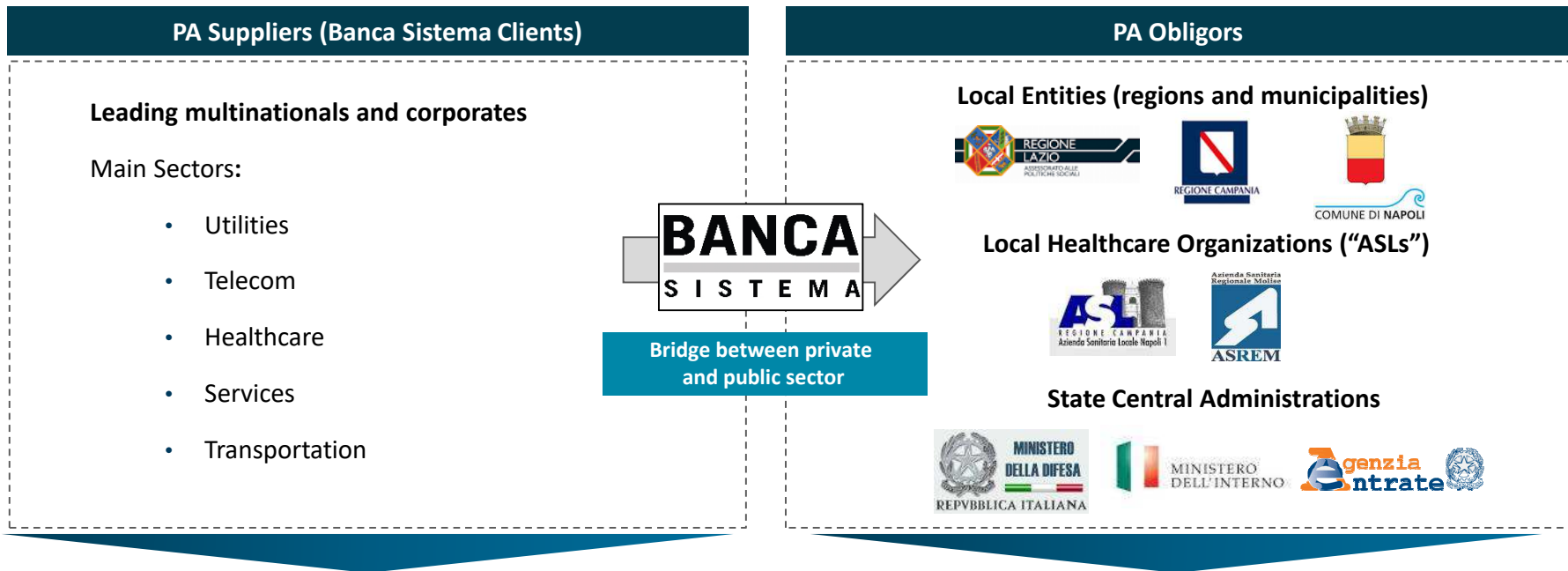
- Providing liquidity solutions and sophisticated collection services to our clients at an attractive cost compared to the outsourcing of the collection or internal management of the receivables
- Clients benefit from an improvement of their financial position and from cash flow optimization
- Our extra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

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

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

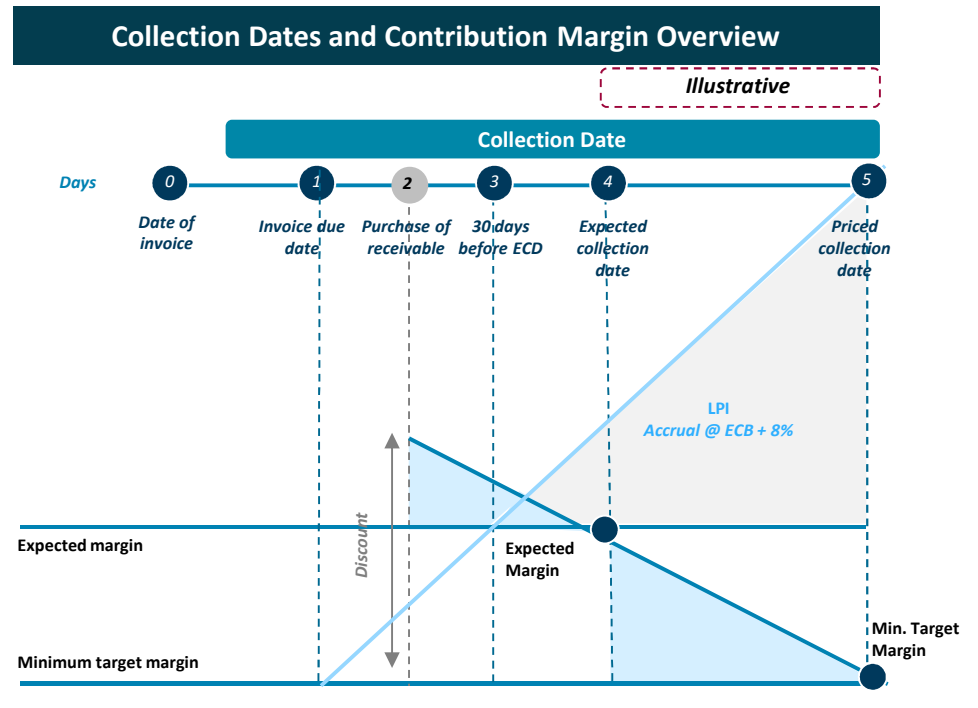
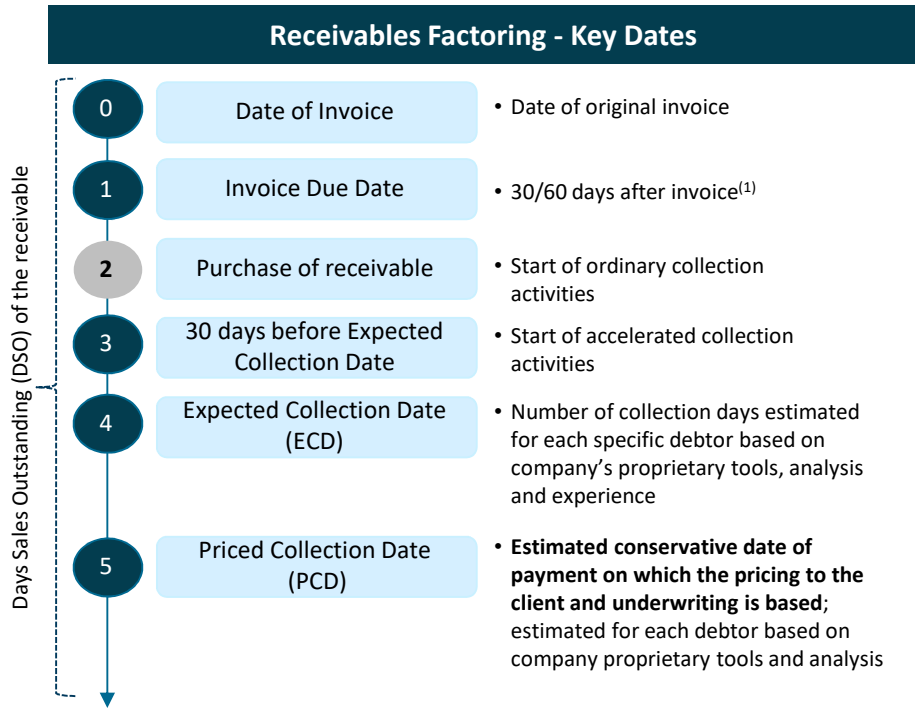
• Public Administration:

- ✓ 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



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

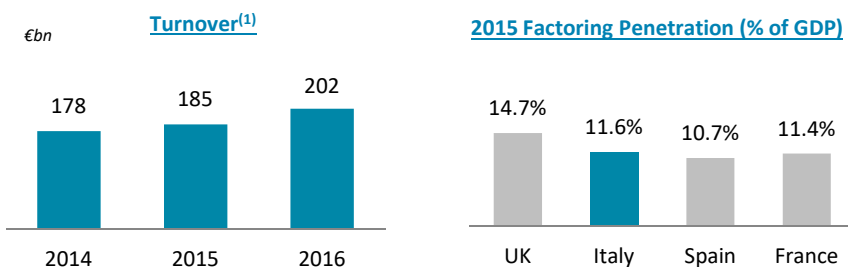
Note: 1. 60 days for healthcare related receivables.

II. Focus on Factoring

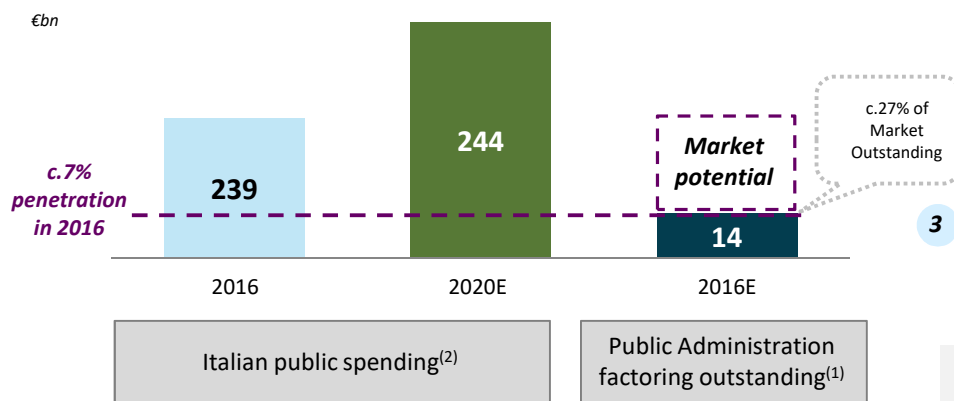
An Attractive Market Opportunity

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⁾

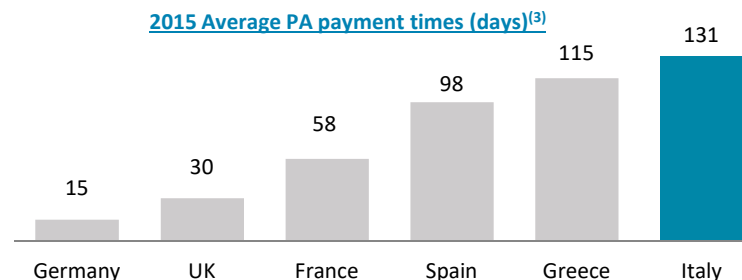


As of 2016, Italy's annual estimated public spending amounts to c.€239bn and is expected to grow to c.€244bn by 2020⁽²⁾

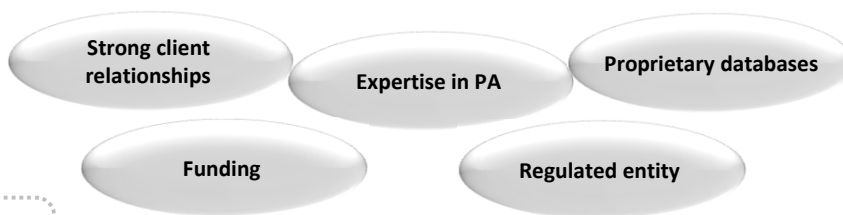


..With key market features highlighting a unique opportunity

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 2017 – 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. 1Q 2017 Results

1Q 2017 Results at a Glance

P&L

- **Net Income at €4.4m** including yearly contribution to the National Resolution Fund
- **€12.4m NII**, influenced y/y by lower factoring turnover of 4Q 2016 vs 4Q 2015 and by an earlier than expected collection of a receivables in 1Q 2016
- **Total operating costs +4%**, y/y in line with expectations of 2017
- **LLPs** impacted by extraordinary write-backs and provisions on SMEs portfolio
- 1Q 2017 ROAE 15%, **2017 ROAE TARGET >20%**

Commercial performance

- **1Q 2017 Factoring Turnover +21% y/y**
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS outstanding reached €313m**, > +100% y/y

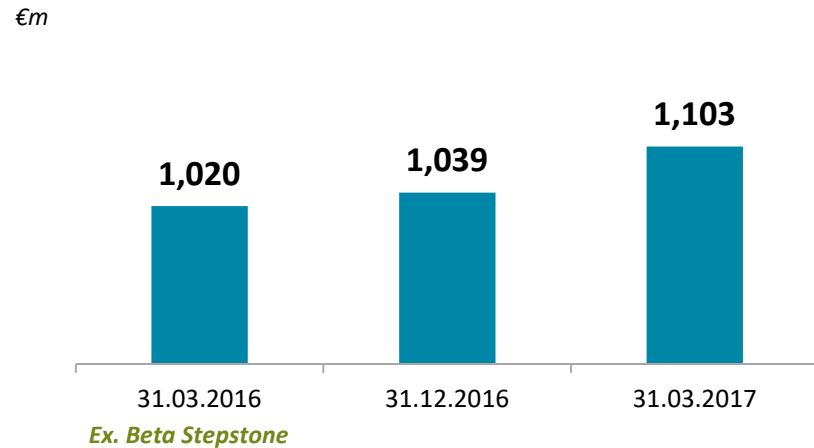
Balance Sheet

- **Sale of “Quinto Sistema Sec 2016”** securitization scheduled for 2Q 2017
- **Core business funding cost stable q/q**
- **Retail funding 48%** of Total funds
- **LCR and NSFR well above regulatory requirements**
- **CET1 and TCR** respectively **12.6%** and **16.6%**

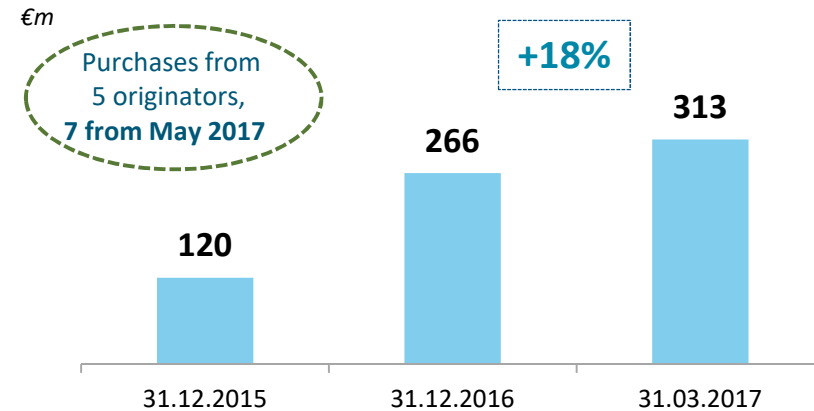
Note: 1Q 2016 figures do not include the contribution of Beta Stepstone (purchased on the 01.07.2016 and merged in BST on the 01.01.2017).

Core business assets outstanding

Factoring outstanding

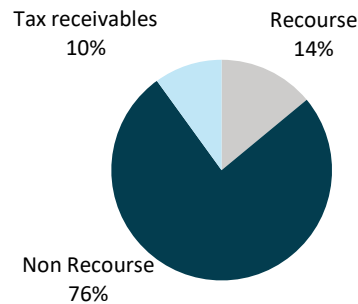


CQS/CQP Loans outstanding



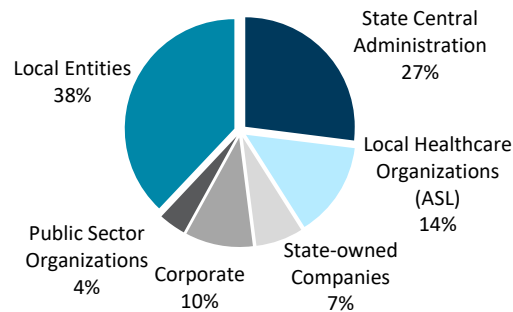
Outstanding breakdown (31.03.2017)

By Type of Product

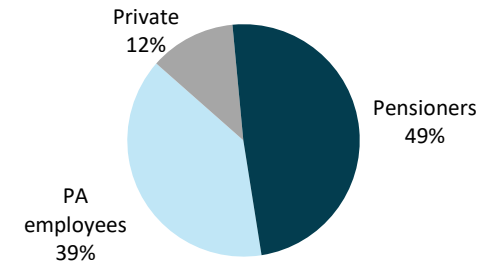


By Obligor

PA accounts for 90%



Outstanding breakdown by Type (31.03.2017)



- €56m volume purchased in 1Q 2017, >100% y/y
- 86% PA/State risk exposure
- Average contractual duration of 9.6 years
- ~€46m transferred to the SPV for the new securitization

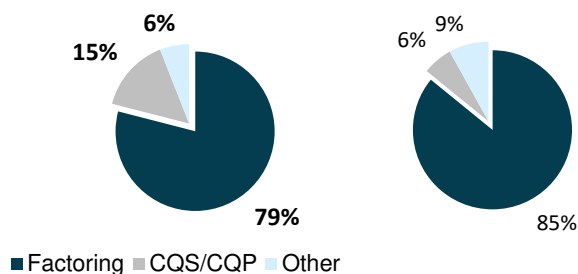
Note: Factoring outstanding management account.

1Q 2017 – Income Statement

Figures in millions of euro

	31.03.2017	31.03.2016 Excluding Beta Stepstone	Difference %
Net interest income	12.4	16.1	-23%
Net fee and commission income	2.2	2.3	-6%
Dividends and similar income	-	-	
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.2	0.6	-64%
Operating income	14.9	19.1	-22%
Net impairment losses on loans	0.5	(1.5)	nm
Net operating income	15.4	17.6	-13%
Staff costs	(4.3)	(3.6)	19%
Other expenses	(4.9)	(5.3)	-7%
Operating expenses	(9.2)	(8.9)	4%
Profits from equity investments	-	-	
Pre-tax profit from continuing operations	6.2	8.7	-29%
Taxes on income for the period/year from continuing operations	(1.8)	(2.8)	-34%
Profit (loss) for the year/period attributable to the shareholders of the Parent	4.4	6.0	-26%

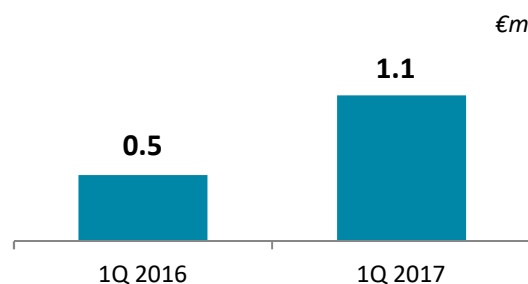
Net Interest Income Breakdown



1Q 2017 - €12.4m

1Q 2016 - €16.1m

Cashed-in Factoring LPIs



- **Factoring contribution to NII represents 79% of the total**
- **1Q 2017 NII includes €3.1m of factoring LPIs from Legal actions of which €1.1m cashed-in**
- **NII decrease y/y has been influenced by lower factoring turnover in 4Q 2015 vs 4Q 2016 at lower margin, earlier than expected collection of a factoring receivable in 1Q 2016 and lower carry trade on Govies' ptf, not compensated by the higher contribution from CQS/CQP loans**
- **Lower contribution from our short term Italian Government bond portfolio (-64%, trading revenues)**
- **LLPs mainly influenced by write-backs on the factoring and higher generic provisions on SMEs portfolio's**
- **Personnel expenses** reflect headcount growth following Beta merger and slightly higher average salary
- **Other expenses** include €0.6m contribution to the National Resolution Fund

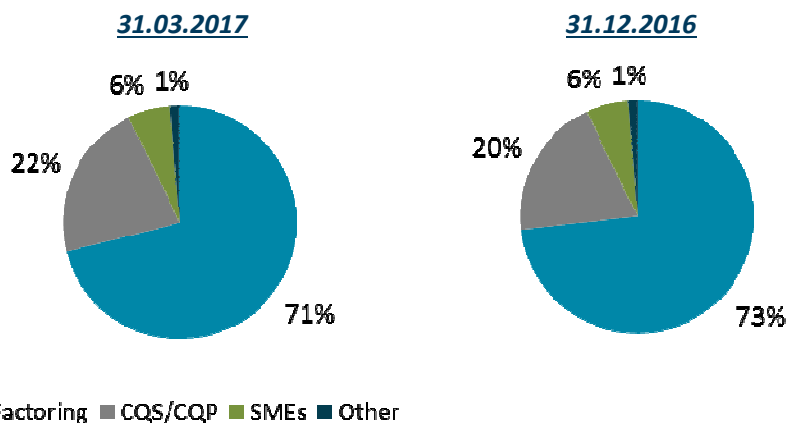
Note: see Note of Slide n.2.

1Q 2017 – Balance Sheet

Figures in millions of euro

	31.03.2017	31.12.2016	Difference %
ASSETS			
Available-for-sale financial assets	572	515	11.1%
Held to maturity	84	-	nm
Loans and advances to customers	1,414	1,348	5%
Tangible and Intangible assets	26	25	2%
Other assets	191	111	72%
Total assets	2,202	1,999	10%
LIABILITIES AND EQUITY			
Due to banks	457	458	nm
Due to customers	1,438	1,262	14%
Debt securities issued	105	90	17%
Other liabilities	83	75	11%
Shareholders Equity	119	114	4%
Total liabilities and equity	2,202	1,999	10%

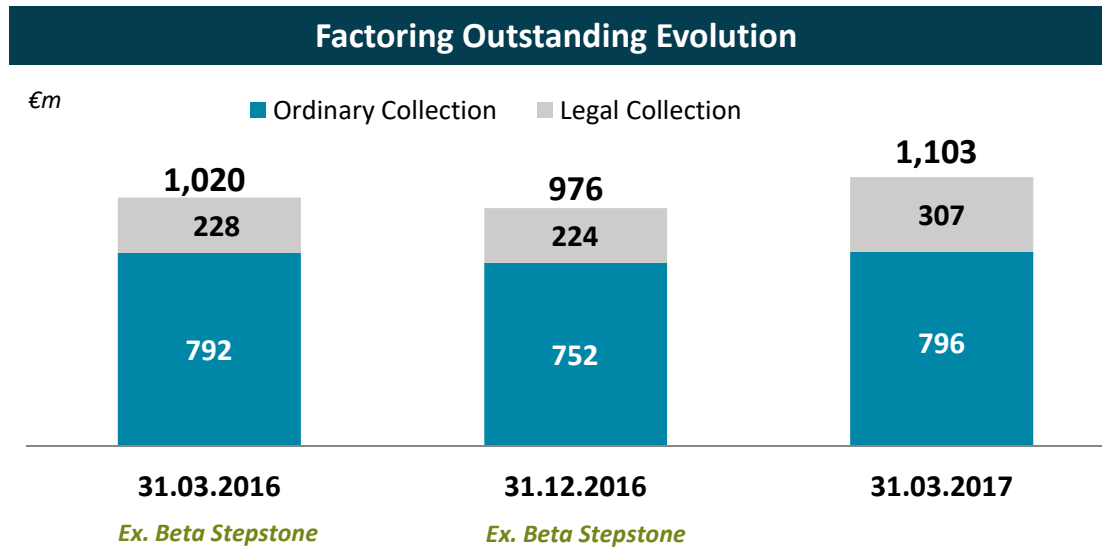
Loans to customers Breakdown



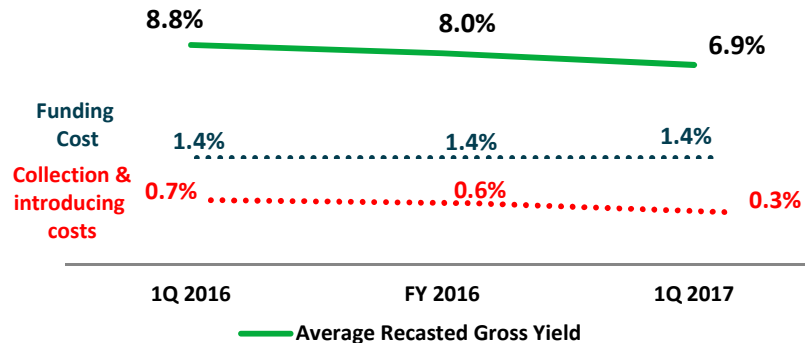
- **Govies' portfolio (€649m) up q/q** following the purchased of €84m of Italian 'BTP' with an average duration < 3 years, classified as Held To Maturity and a slightly higher AFS ptf (€565m) with an average residual maturity of 7 months
- **Loand to customers:**
 - **Factoring receivables** up q/q, thanks to the turnover originated in 1Q 2017
 - **CQS/CQP** increase due to further loan purchases
 - **SMEs State Guarantee loans** stable q/q (run-off ptf)
- **Due to banks** stable q/q as a combination of higher ECB funding and lower interbanking
- **Due to customers** is higher q/q mainly for the increase of the Repos (+€148m) related to the increase of the Govies' ptf and for the increase of the term deposits
- 2017 figures of the item **Debt securities issued** include €14m TIER II Subordinated bond issued this year
- **Shareholders Equity** in both period include €6.1m dividends to be paid on the 4.05.2017

Focus on Factoring

- Outstanding trend influenced by:
 - Quarterly turnover, strong volume in March 2017
 - the portion of the outstanding in Legal Collection (y/y and q/q)
- Target Yield in line with expectations with higher competition at quarter-end
- Average Gross Yield in line with expectation of lower contribution from LPI in the first part of 2017 vs 2H 2017



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



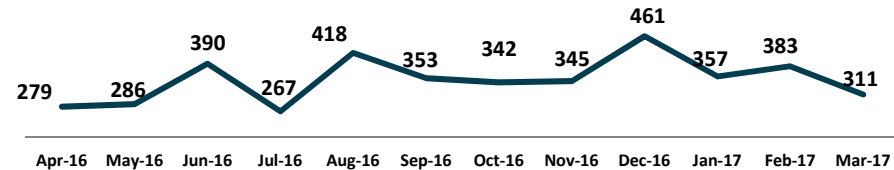
Gross Yield includes Commission Income: €2.4m in 1Q 2017; €9.1m in FY2016; €2.4m in 1Q 2016

FY 2016 and 1Q 2016 figures do not include Beta Stepstone.

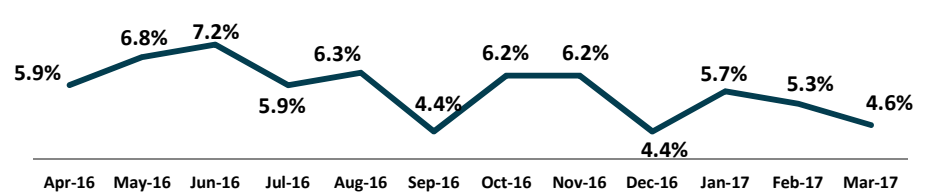
Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data.

How we originate new business:

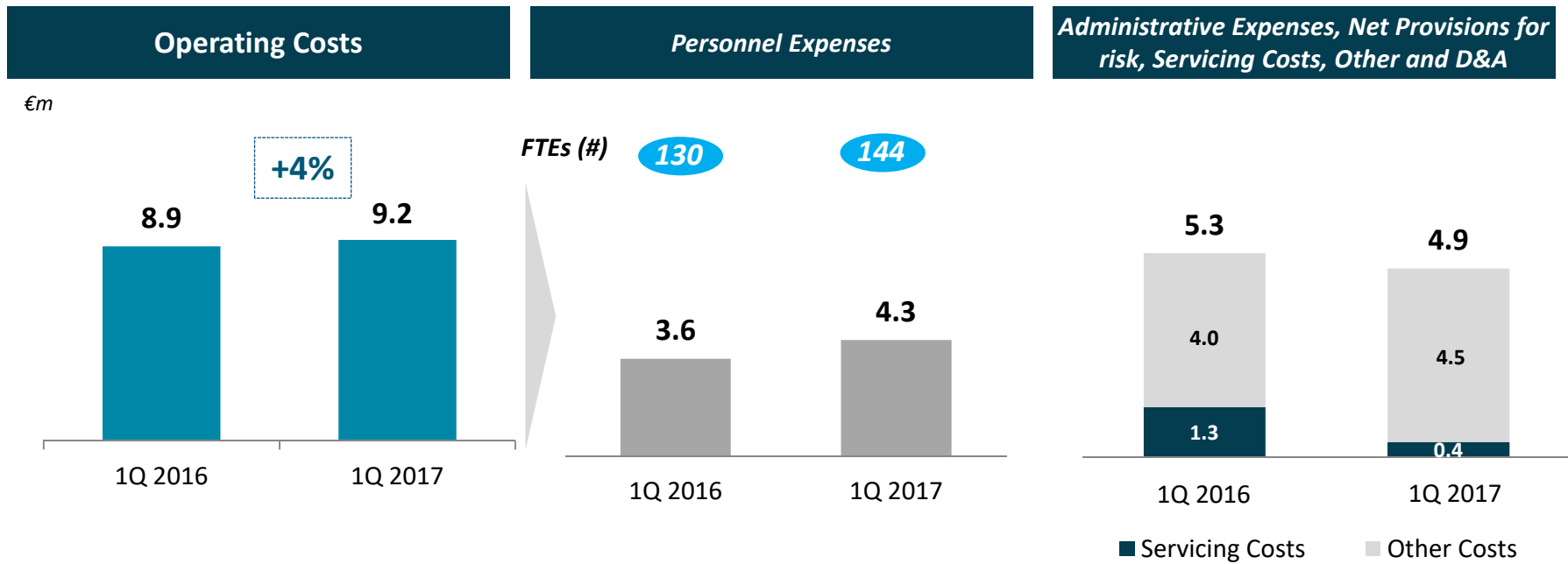
Funding period based on Expected Collection date ("DFS")



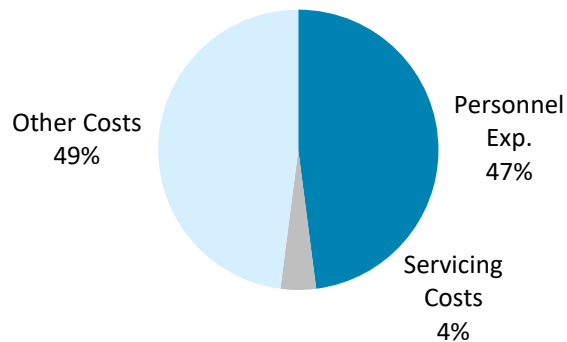
Target Yield at Expected Collection date ("DFS")



Costs in line with expectations



Operating Costs Breakdown

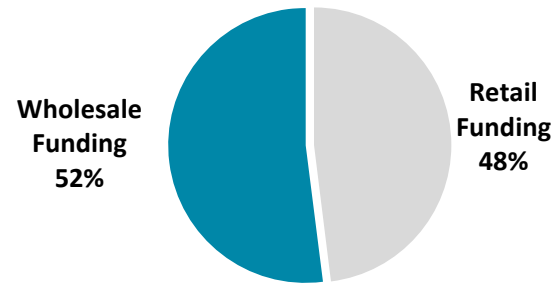


- Personnel Expenses increase due to higher headcount following the acquisition of Beta Stepstone, higher average salary and a new no-competition agreements
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.6m yearly ordinary contribution to the National Resolution Fund
- ~€1m expected cost for the recently launched process for the second CQS securitisation

Note: see Note of Slide n.2.

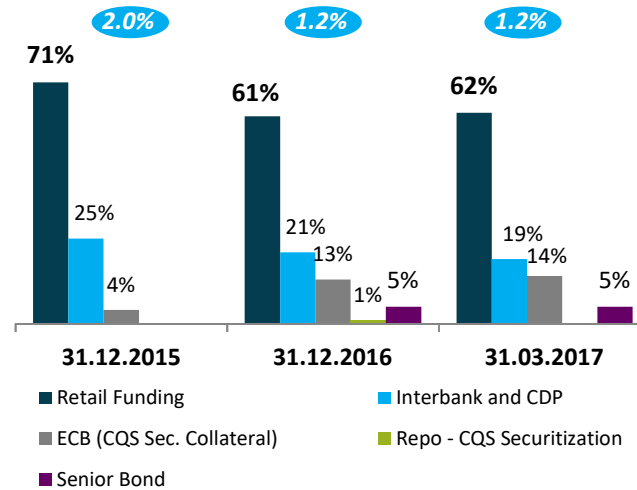
Stable funding cost with slightly higher Retail funding stock

Total Funding Breakdown



Core Business Funding Breakdown

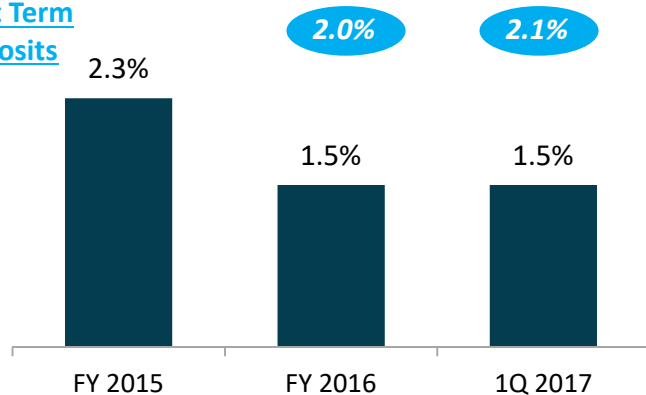
Core Funding Cost



- Term Deposits stock is up q/q, due to higher rates offered to customers since mid-October. Although average cost was almost stable q/q
- Current account stock q/q stable
- ~30% of term deposits from Germany/Austria

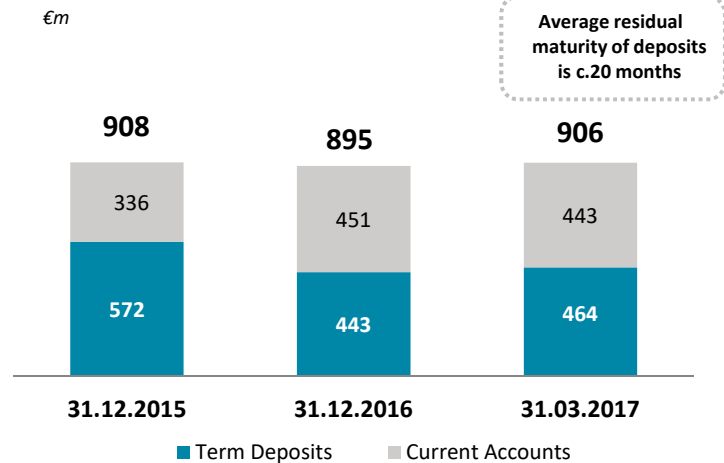
Retail Funding Cost

Cost Term Deposits



Retail Funding

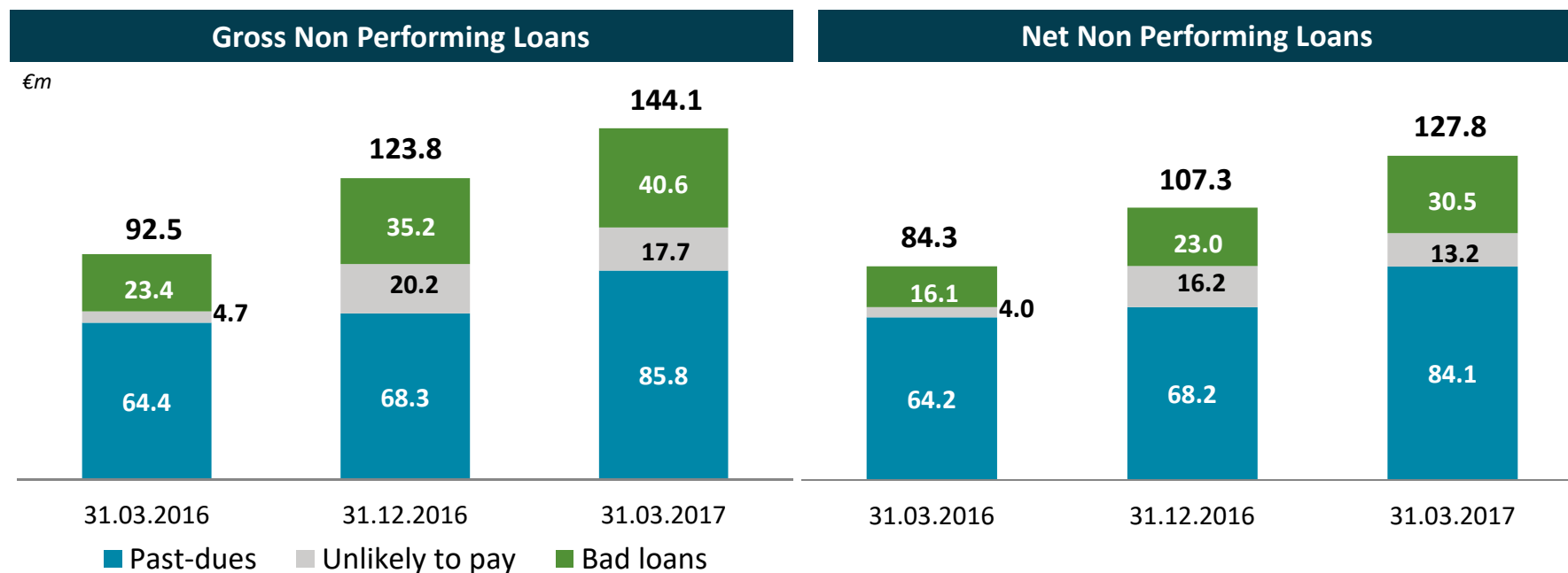
€m



- Wholesale funding includes CQS securitization used as collateral for ECB funding and further changes are expected following the sale of the first securitization and impact of the recently launched new securitization

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). 2015 figures do not include Beta Stepstone contribution.

Conservative risk policy in all the business lines

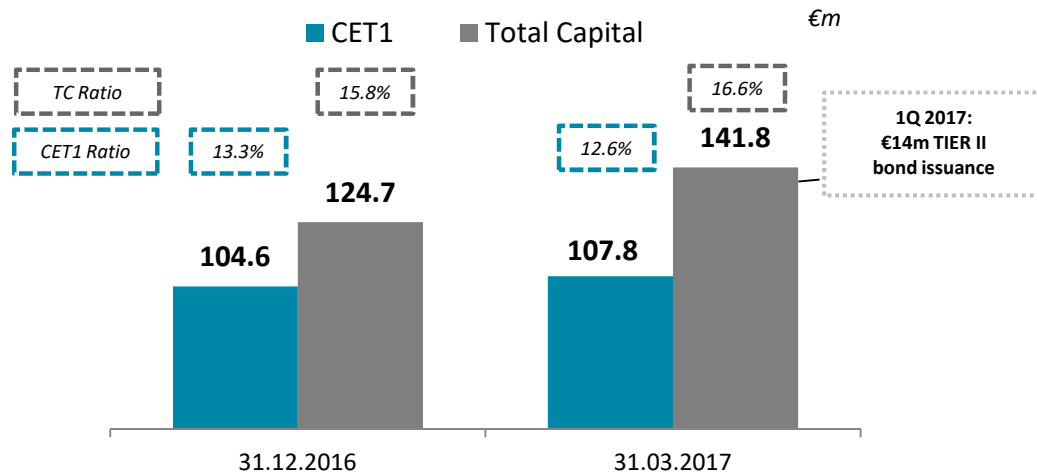


- Net Bad Loans represents 2.2% of total loans as at 31.03.2017
- Bad loans increase q/q was due to some deterioration of factoring positions (new Municipalities under ‘Distressed procedure’) and the SMEs State Guaranteed loans portfolio
- Factoring Bad loans represent 51% of the total as at 31.03.2017 (47% as at 31.12.2016)
- Unlikely to pay decrease q/q was mainly due to further deterioration of SMEs State Guaranteed loans moving to Bad loans
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection
- Loan loss provisions in 1Q 2017 were influenced mainly by:
 - net write-backs on factoring for ~€2.3m
 - higher provisions on SMEs State Guaranteed loans

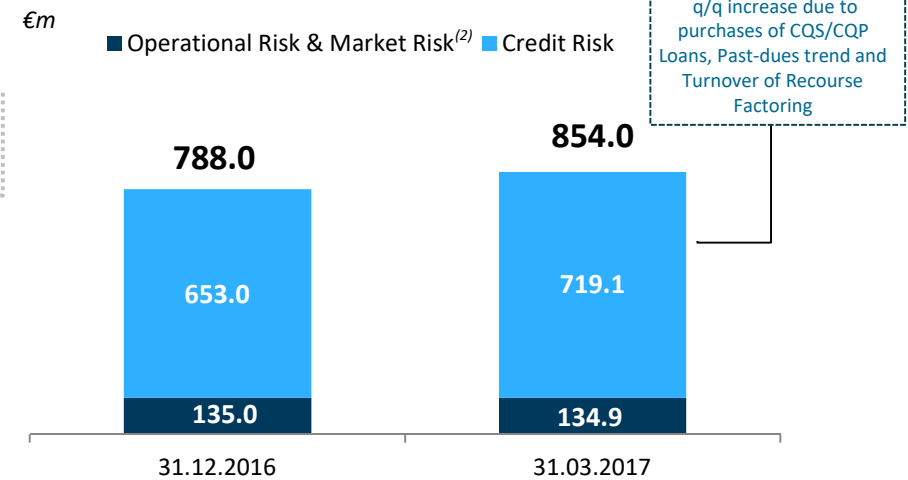
Note: see Note of Slide n.2.

Regulatory Capital

CET1 and Total Capital⁽¹⁾

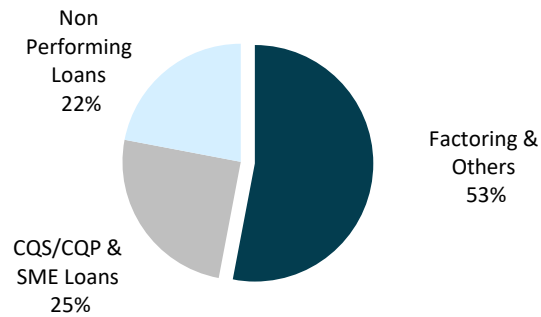


RWA breakdown

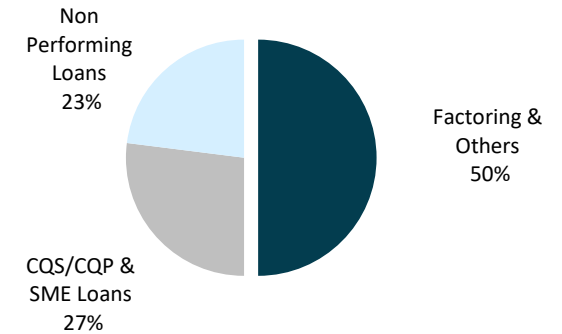


RWA – Credit Risk

31.12.2016



31.03.2017



Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €5m.

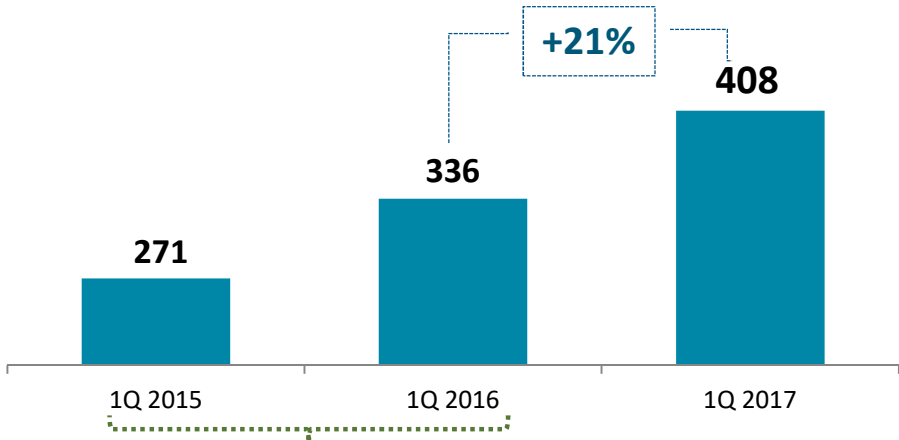
Annexes

Factoring Turnover

Factoring Turnover

€m

+19% including Beta in 1Q 2016

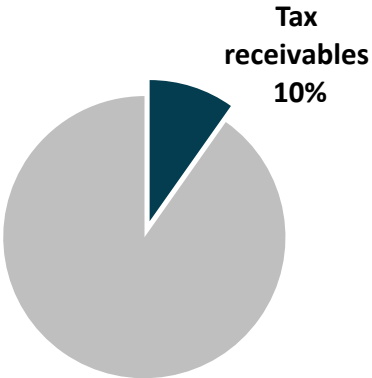


Turnover generated by agreements with Italian Retail banks: 28% of 1Q 2017 (13.5% FY 2016)

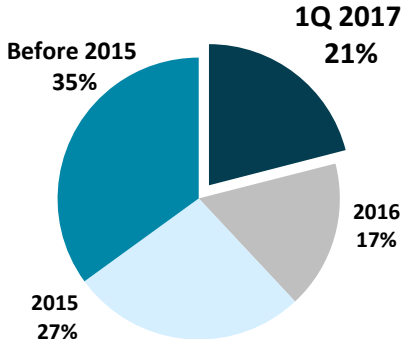
Ex. Beta Stepstone

1Q 2017 Factoring Turnover breakdown

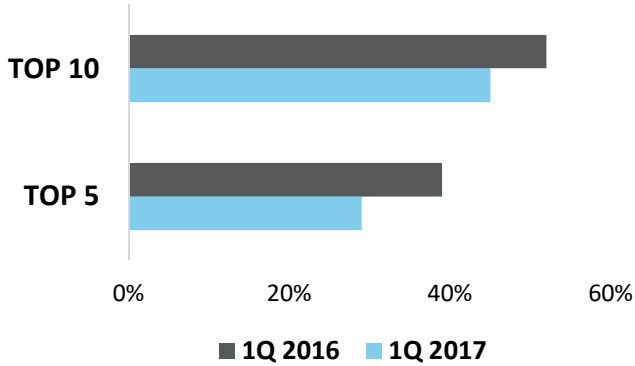
By Type



By Year of Customer's Acquisition



Customer Concentration



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

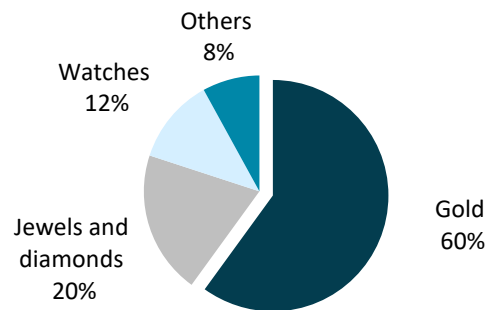
First pawn shop («Monte di Pietà») was established in Perugia in 1462

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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