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**BANCA**

**S I S T E M A**  
SPECIALTY FINANCE

# GROUP PROFILE

October 2017

# Agenda

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I. Overview of Banca Sistema

II. Focus on Factoring

III. 1H 2017 Results

Annexes

## **I. Overview of Banca Sistema**

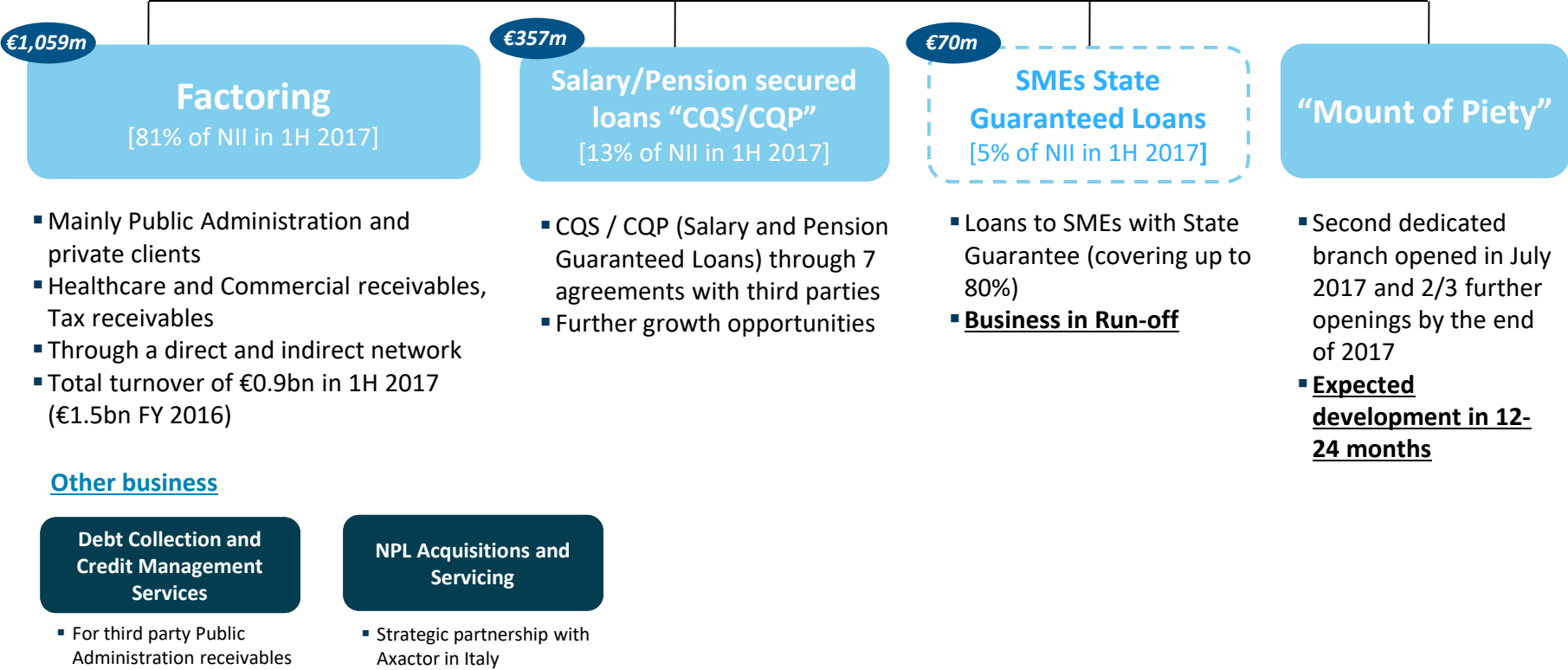
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# Business Overview (1/2)

Outstanding  
as at 30.06.2017

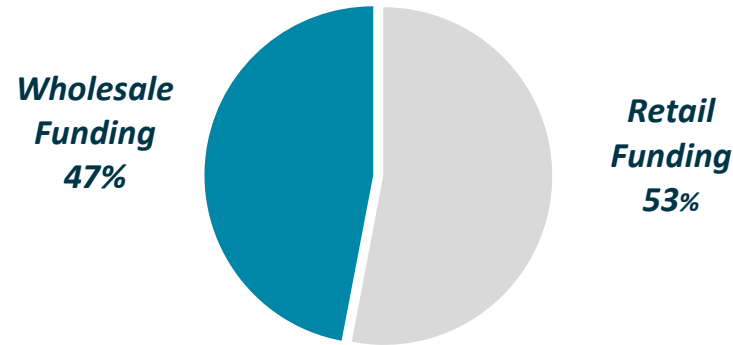


## COMMERCIAL BANKING PRODUCTS



# Business Overview (2/2)

## Total Funding Breakdown as 30.06.2017



### Wholesale

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

### Retail

- Current accounts: more than 4,000 customers of which c. 80% Retail
- Term deposits: more than 11,000 customers, for a total stock of €454m as at 30.06.2017 and an average residual maturity of c.22 months
- ~30% 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 3<sup>rd</sup> largest in Europe by Turnover and 2<sup>nd</sup> largest as a percentage of GDP<sup>(1)</sup>
- 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

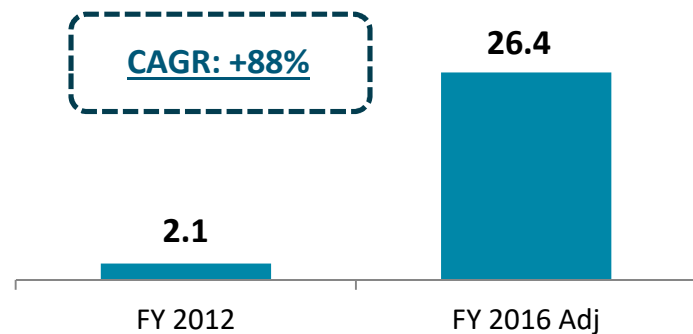
## *Our Strategy and Business Model: A Clearly Defined Strategy Relying on a Stable Business Model*

- 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

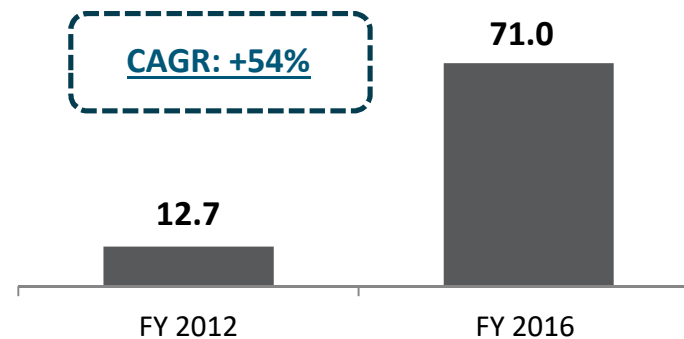
Note: (1) Source: Factors Chain International.

# Our track record of the last 5 years

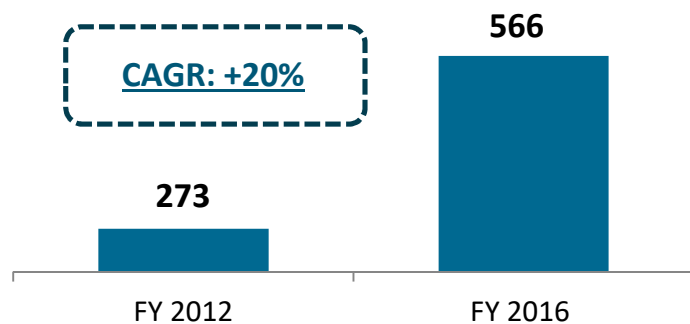
## NET INCOME



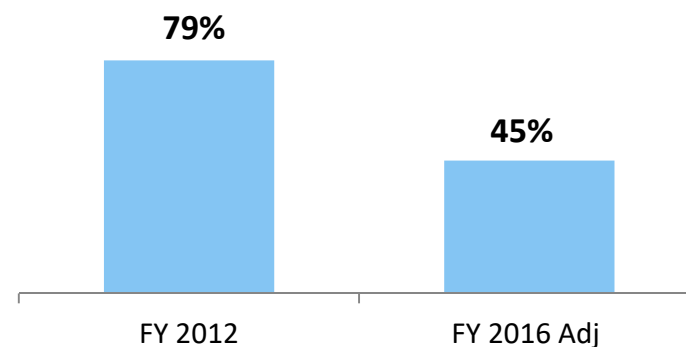
## NET INTEREST INCOME



## TOTAL INCOME PER HEADCOUNT - €'000



## COST INCOME

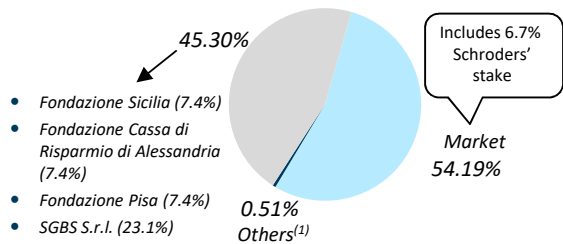


# Snapshot of Banca Sistema Today

## 1H 2017 Results

Factoring Turnover	€0.9bn
Net Income	€10.0m
Net Interest Income	€29.9m
CET1	12.6%
Total Capital Ratio	16.3%
Total Asset	€2bn

## Shareholders Structure



- Shareholder agreement between the three banking Foundations ("Fondazioni") and SGBS (of which the relative majority shareholder is Mr. Garbi, CEO of Banca Sistema)
- 3 year lock up period for the core shareholders (expiring in June 2018)

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

## Our Key Strengths

<b>Strong analytical capabilities</b>	<ul style="list-style-type: none"> <li>• <b>Disciplined underwriting process supported by accelerated collections</b> without relying on active LPI collection</li> <li>• <b>Proprietary database</b> of payment times of Public Administration obligors, supporting our underwriting capabilities and pricing models for individual invoices</li> </ul>
<b>Compelling collection strategy with excellence in collections</b>	<ul style="list-style-type: none"> <li>• <b>The collection leverages</b> on the strong relationships with PAs and is focused on the late payment interest ("LPI") when it is necessary</li> <li>• Strong performance due to <b>excellence in collection versus suppliers</b>, generating high margins through accelerated recovery periods</li> </ul>
<b>Low risk counterparty exposure</b>	<ul style="list-style-type: none"> <li>• <b>The majority of our credit exposure is towards the Italian Public Administration</b>, with low risk underlying credit exposure comparable to a Government Bond</li> </ul>

## A Winning Business Model

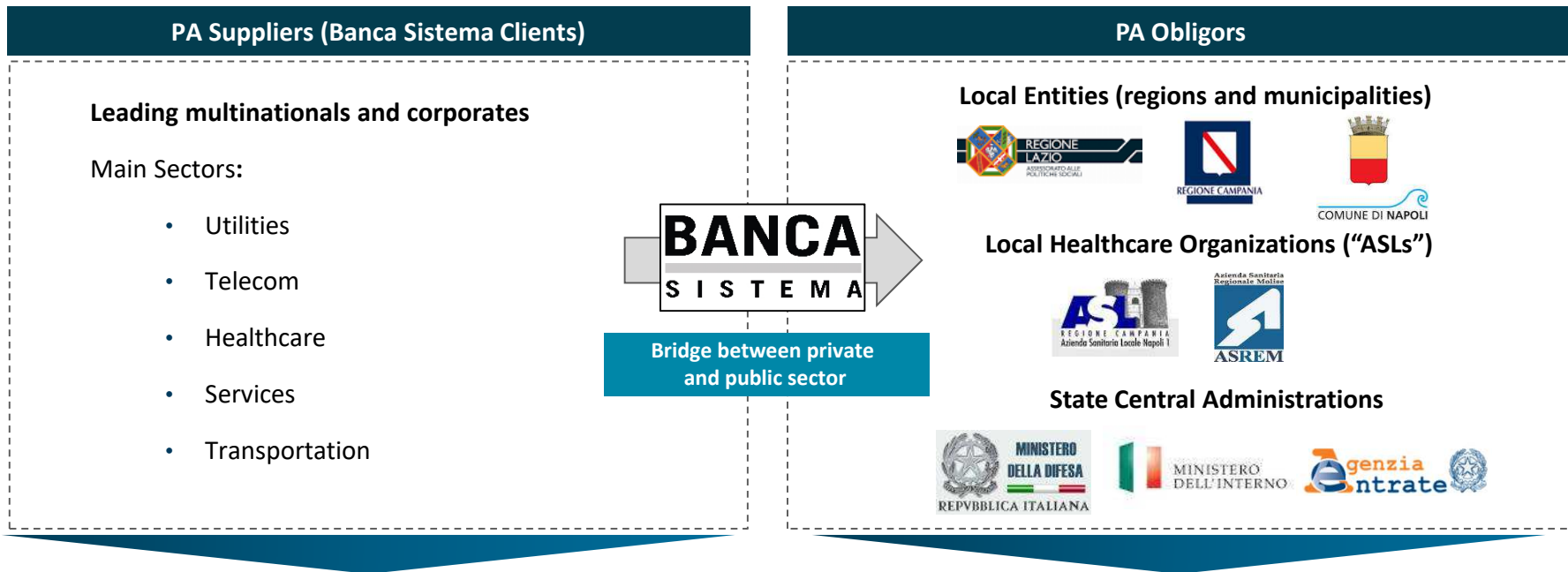
- Providing **liquidity solutions** and **sophisticated collection services** to our clients **at an attractive cost** compared to the outsourcing of the collection or internal management of the receivables
- **Clients benefit** from an **improvement of their financial position** and from **cash flow 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:**

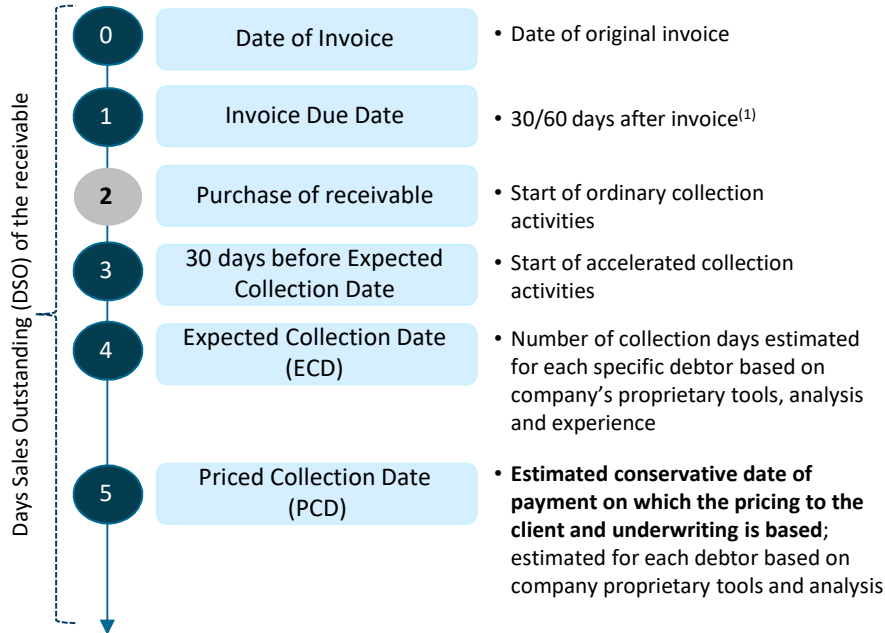
- ✓ Benefit from dealing with a specialized player with PA knowledge "speaking the same language"
- ✓ Single point of contact for multiple suppliers
- ✓ Banca Sistema does not seek to proactively collect Late Payment Interest as opposed to other PA factoring players

# Factoring Business

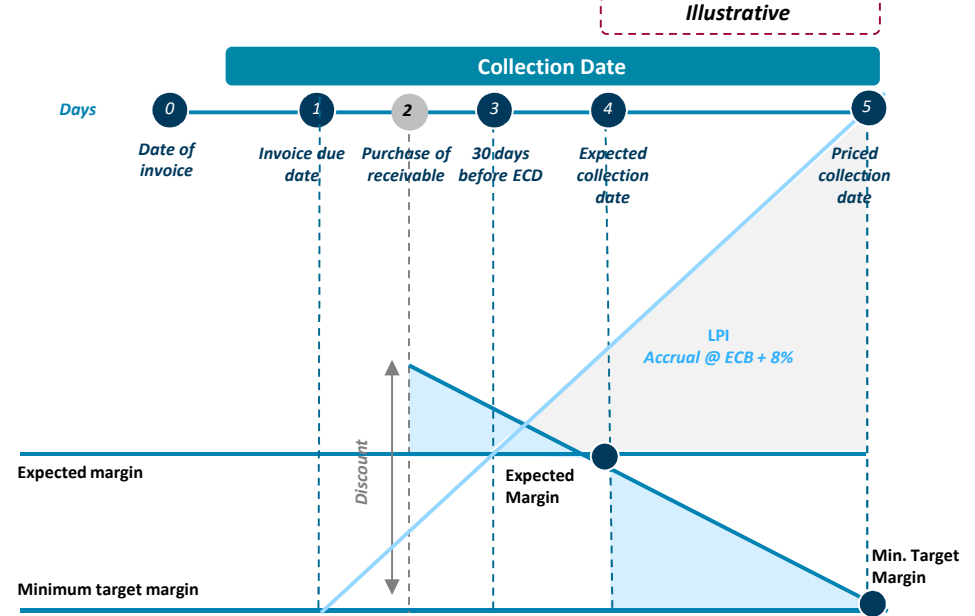
## Overview of Key Dates for Pricing and Collection

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.

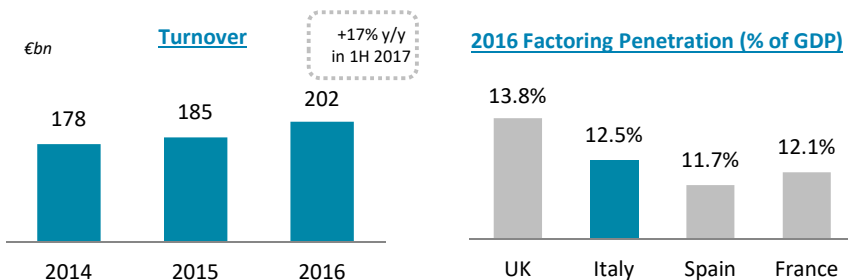
## **II. Focus on Factoring**

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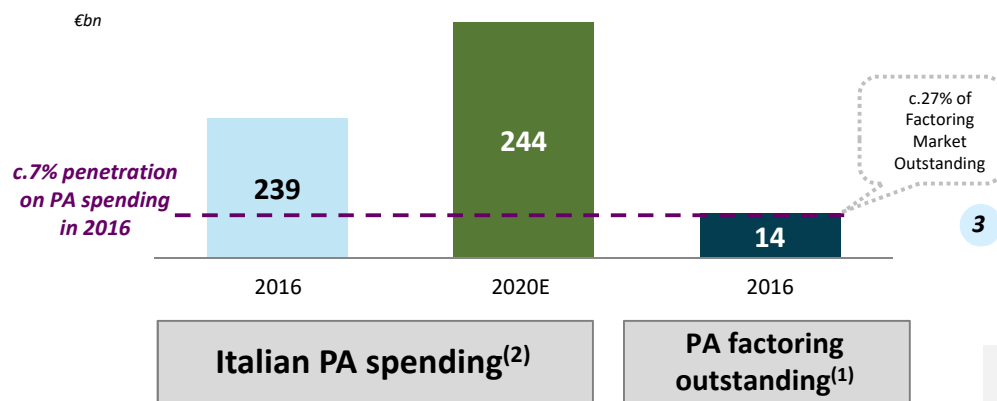
# An Attractive Market Opportunity

Large and still underpenetrated market with growth potential..

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



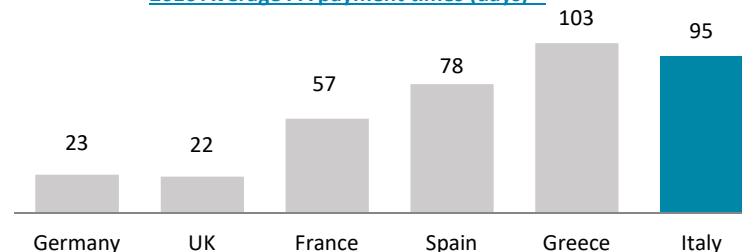
As of 2016, Italy's annual estimated public spending amounts to c.€239bn and is expected to grow to c.€244bn by 2020<sup>(2)</sup>



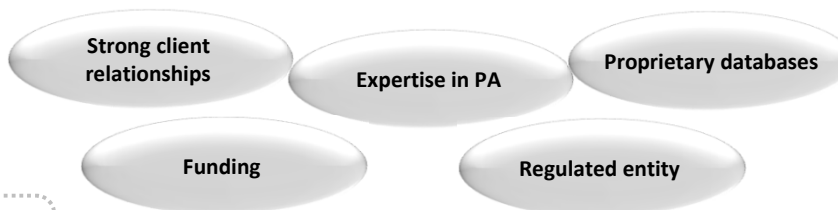
..With key market features highlighting a unique opportunity

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

2016 Average PA payment times (days)<sup>(3)</sup>



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
- 7 Relationship Managers



*Distribution also through c. 1,500 branches of the bank's partners branch network*

## Diversified Distribution Channels

- The origination team consists of 21 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
- **17 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. 1H 2017 Results**

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# 1H 2017 Results at a Glance

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## Commercial performance

- 1H 2017 Factoring Turnover +27% y/y
- Increasing contribution on factoring turnover from the agreements with banks
- CQS outstanding reached €357m, ~2x y/y
- Second dedicated branch to **Mount of Piety's business**

## P&L

- **Net Income at €10.0m**
- **NII equals to €29.9m** flat y/y excluding from 2016 figures €5m for the accrual of LPI, as a consequence of the new accountings started in 2Q 2016
- **Total operating costs +10% y/y**, in line with expectations for 2017
- **LLPs** impacted by extraordinary write-backs on factoring in 1Q 2017
- 1H 2017 ROAE 16%, **2017 ROAE TARGET >20%**

## Balance Sheet

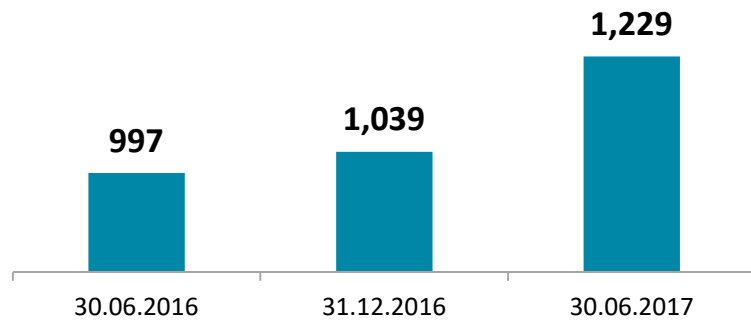
- **Core business funding cost stable q/q**
- **Retail funding 53%** of Total funds
- **LCR and NSFR above regulatory requirements**
- **CET1 and TCR** respectively **12.6%** and **16.3%**

*Note: 1H 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

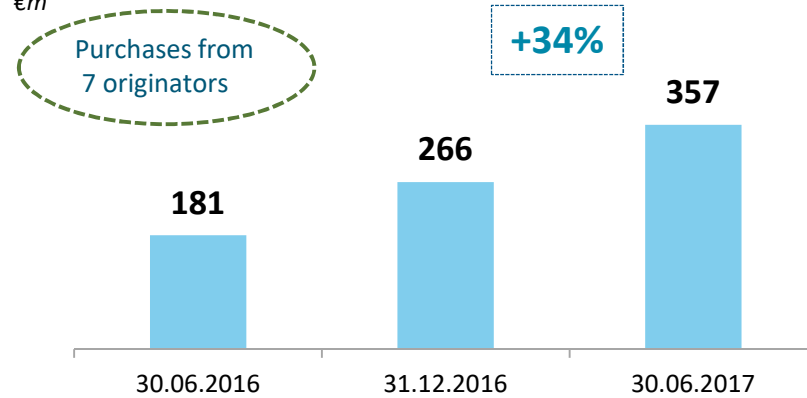
€m



Ex. Beta Stepstone

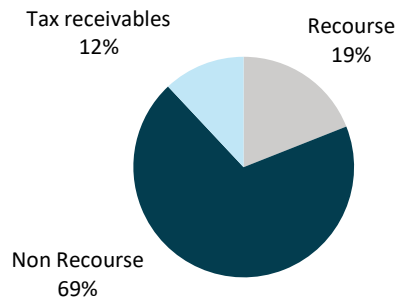
## CQS/CQP Loans outstanding

€m



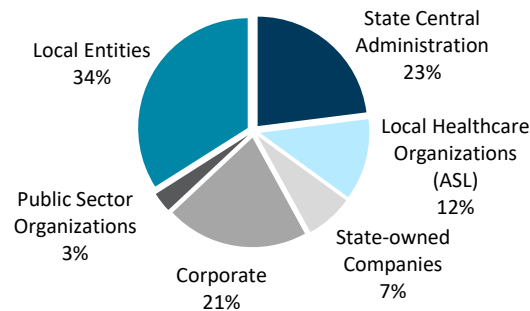
## Outstanding breakdown (30.06.2017)

### By Type of Product

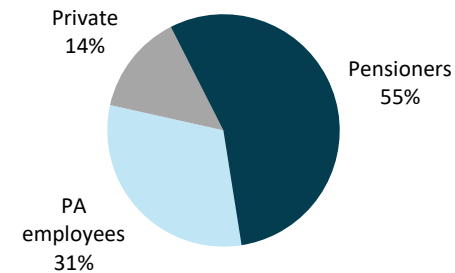


### By Obligor

PA accounts for 79%



## Outstanding breakdown by Type (30.06.2017)



- €105m volume purchased in 1H 2017, +60% y/y
- 86% PA/State risk exposure
- Average contractual duration of 9.6 years
- ~€100m transferred to the SPV for the new securitisation (Quinto Sistema 2017)

Note: Factoring outstanding management account.



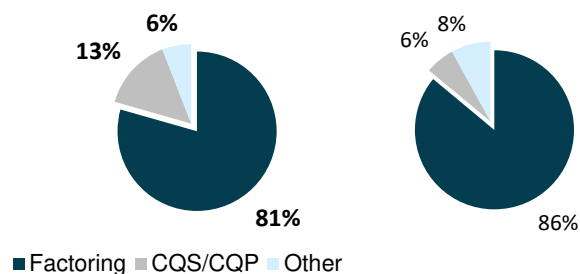
# 1H 2017 – Income Statement

Figures in millions of Euro

	30.06.2017	30.06.2016 Excluding Beta Stepstone	Difference %
<b>Net interest income</b>	<b>29.9</b>	<b>34.6</b>	<b>-14%</b>
Net fee and commission income	4.6	4.4	5%
Dividends and similar income	0.2	0.2	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.4	0.8	-50%
<b>Operating income</b>	<b>35.2</b>	<b>40.1</b>	<b>-12%</b>
Net impairment losses on loans	(1.4)	(3.1)	-55%
<b>Net operating income</b>	<b>33.7</b>	<b>37.0</b>	<b>-9%</b>
Personnel expenses	(8.9)	(7.5)	19%
Other expenses	(10.3)	(10.0)	3%
<b>Operating expenses</b>	<b>(19.2)</b>	<b>(17.5)</b>	<b>10%</b>
Profits from equity investments	-	2.2	
<b>Pre-tax profit from continuing operations</b>	<b>14.6</b>	<b>21.7</b>	<b>-33%</b>
Taxes on income for the period/year from continuing operations	(4.6)	(6.1)	-25%
<b>Profit (loss) for the year/period attributable to the shareholders of the Parent</b>	<b>10.0</b>	<b>15.7</b>	<b>-36%</b>

- **Factoring contribution to NII represents 81% of the total**
- **1H 2017 NII includes €6.3m** of factoring LPIs from Legal actions (€3m in 1H 2016 ex. €5m not related to the period), of which €2.9m cashed-in, and further LPI related to the closing of the guaranty agreement related to the acquisition of Beta Stepstone
- **NII in 1H 2017 has been influenced by** lower factoring margin, by higher contribution from CQS/CQP loans and at a lower extent by the cost of funding saving of -40bps accounting of the TLTRO II (of which €0.3m related to 2H 2016) and from a lower carry trade on Govies' ptf
- Lower contribution from our short term Italian Government **bond portfolio** (-50% trading revenues)
- **LLPs** in 2017 mainly influenced by 1Q 2017 write-backs on the factoring
- **Personnel expenses** reflect headcount growth following Beta Stepstone merger, higher average salary and no-competition agreement
- **Other expenses** include €0.8m contribution to the National Resolution Fund (+€0.2m q/q)
- **Net Income** in 2016 includes the contribution from the sale of ~16% in CS Union for €2.2m

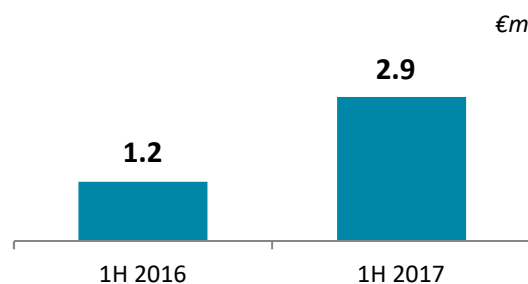
## Net Interest Income Breakdown



1H 2017 - €29.9m

1H 2016 - €34.6m

## Cashed-in Factoring LPIs



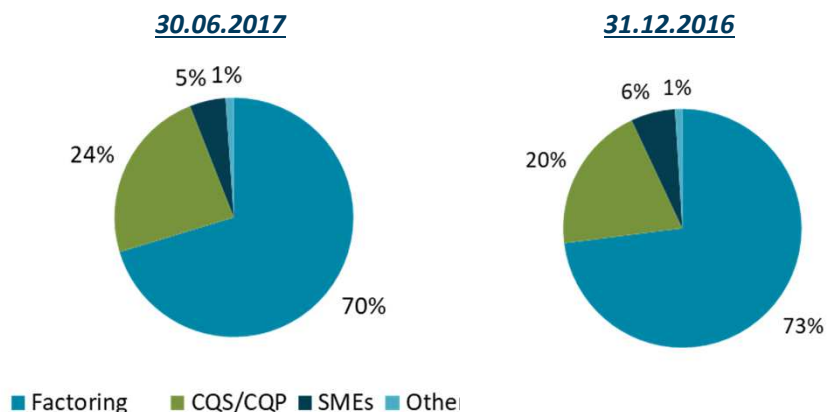
Note: see Note of Slide n.2.

# 1H 2017 – Balance Sheet

Figures in millions of Euro

	30.06.2017	31.12.2016	Difference %
<b>ASSETS</b>			
Available-for-sale financial assets	365	516	-29%
Held to maturity	84	-	nm
Loans and advances to customers	1,503	1,348	11%
Tangible and Intangible assets	26	25	2%
Other assets	61	110	-45%
<b>Total assets</b>	<b>2,039</b>	<b>1,999</b>	<b>2%</b>
<b>LIABILITIES AND EQUITY</b>			
Due to banks	513	458	12%
Due to customers	1,237	1,262	-2%
Debt securities issued	104	90	16%
Other liabilities	67	74	-9%
Shareholders Equity	118	114	4%
<b>Total liabilities and equity</b>	<b>2,039</b>	<b>1,999</b>	<b>2%</b>

## Loans to customers Breakdown

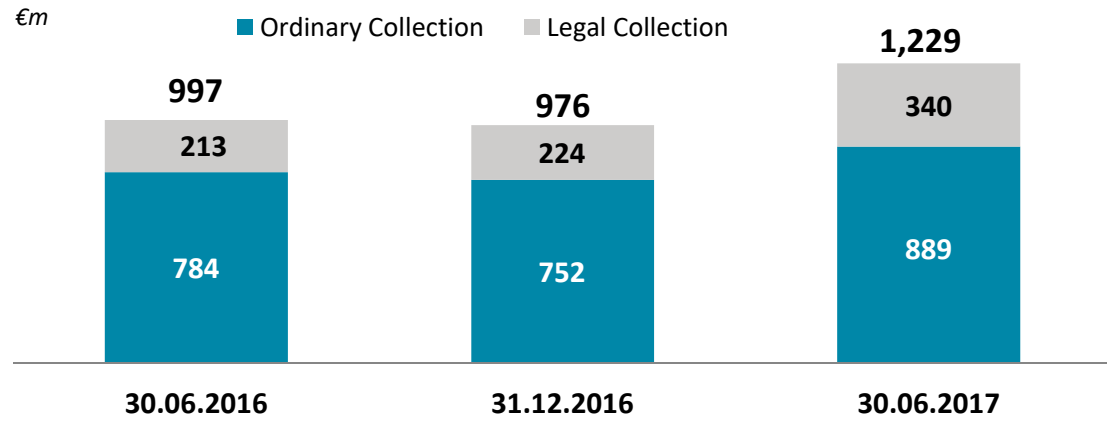


- **Govies' portfolio (€449m) down vs year-end and down q/q** following the reduction of the AFS component (equals to €359m, with a residual maturity as at 30.06.2017 of 5 months) as consequence of less attractive refinancing conditions, not compensated by the purchased in 1Q 2017 of €84m of Italian 'BTP' with an average duration ~2 years, classified as Held To Maturity
- **Loans to customers, +11%:**
  - **Factoring receivables** up vs. year-end and q/q, thanks to the turnover originated in 1H 2017 (€1,059m as at 30.06.2016 vs €986m as at 31.12.2016)
  - **CQS/CQP** increase due to further loan purchases
- **Due to banks** up vs 31.12.2016 mainly for higher Interbanking (with a residual maturity > 2 years), with a lending from ECB stable vs year-end and slightly lower q/q
- **Due to customers stable vs year-end** for the combination of lower Repos (-€65m) related to the decrease of the Govies' ptf and of higher current accounts. Stable term deposits vs year-end and q/q
- 2017 figures of the item **Debt securities issued** include €14m TIER II bond issued this year

# Focus on Factoring

- Outstanding trend influenced by:
  - 1H 2017 turnover growth, strong volume in March and June 2017
  - higher portion of the outstanding in Legal Collection
- Target Yield in line with expectations
- Positive inversion of the Average Gross Yield curve, in line with expectation. Higher contribution from LPI in 2H 2017

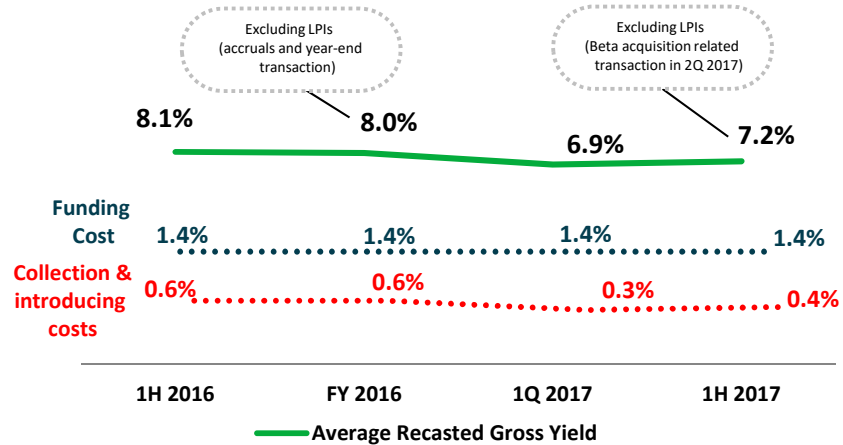
## Factoring Outstanding Evolution



Ex. Beta Stepstone

Ex. Beta Stepstone

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



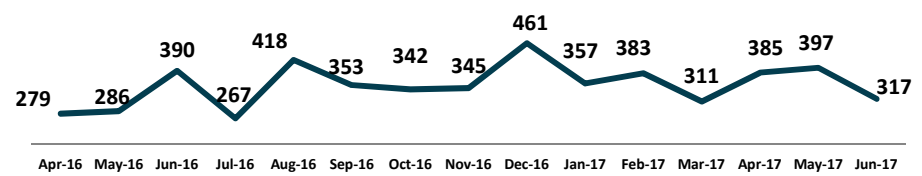
Gross Yield includes Commission Income: €4.9m in 1H 2017; €2.4m in 1Q 2017; €9.1m in FY2016; €4.6m in 1H 2016

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

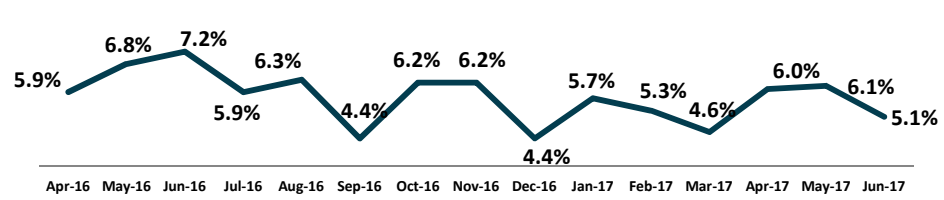
Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data.

## How we originate new business:

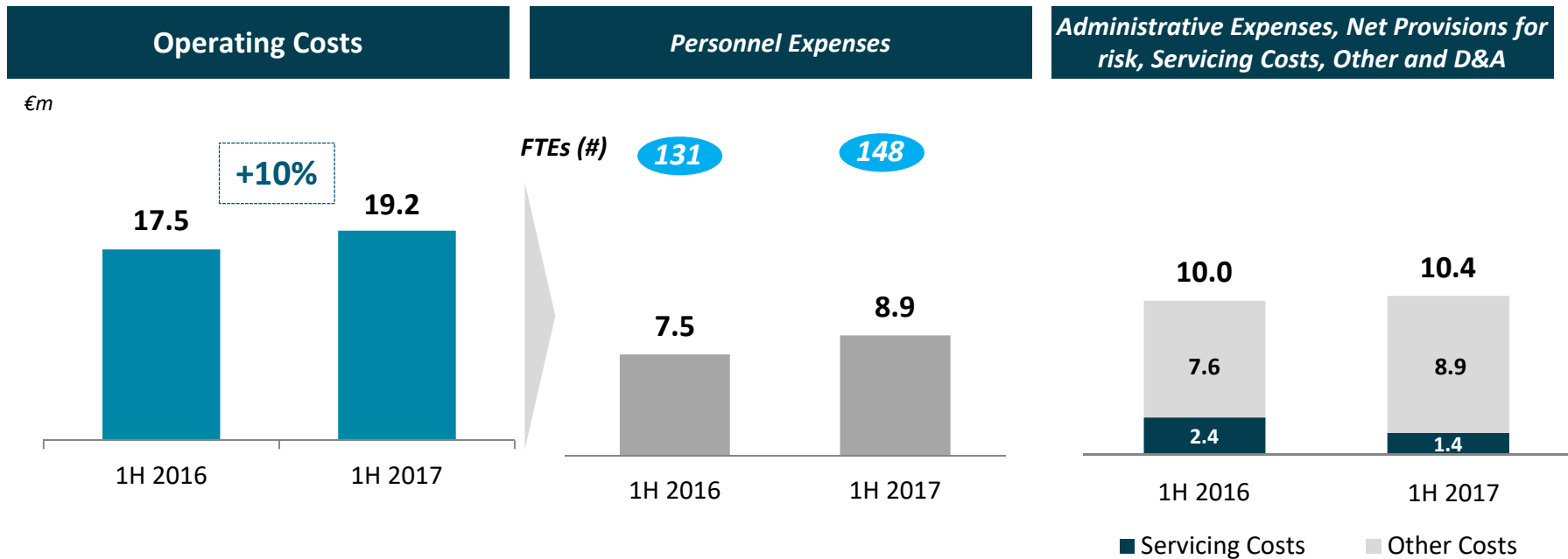
### Funding period based on Expected Collection date ("DFS")



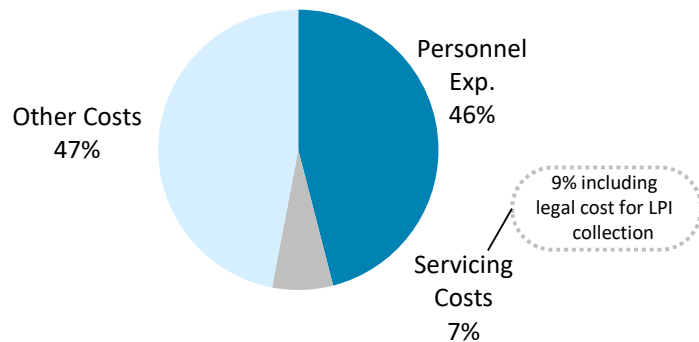
### Target Yield at Expected Collection date ("DFS")



# Costs in line with expectations



## Operating Costs Breakdown

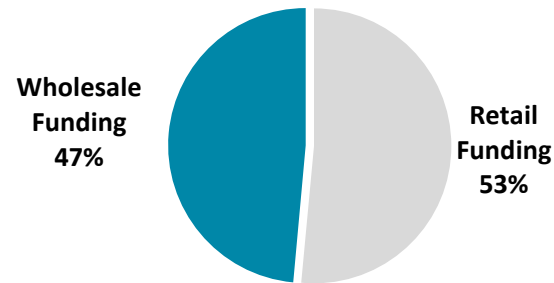


- Personnel Expenses increase due to higher headcount following the acquisition of Beta Stepstone, higher average salary and a new no-competition agreement
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution Fund (+€0.2m q/q)
- Other costs growth y/y mainly driven by IT expenses, legal cost for factoring LPI collection and at minor extent advisory fees

Note: see Note of Slide n.2.

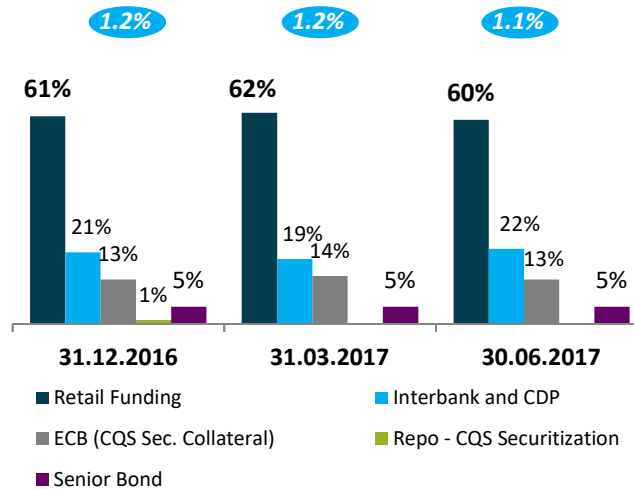
# Stable funding cost

## Total Funding Breakdown



## Core Business Funding Breakdown

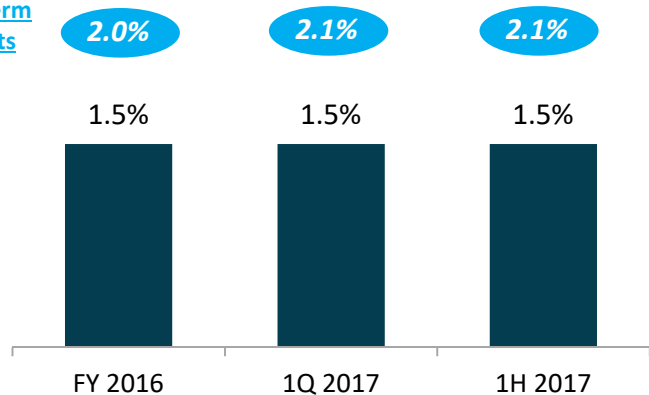
### Core Funding Cost



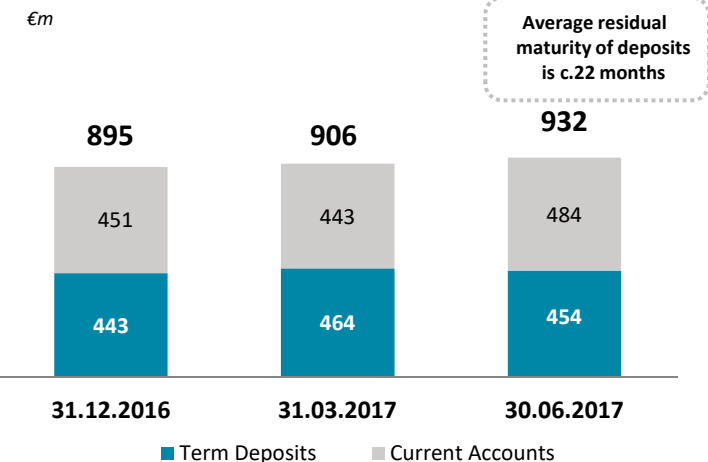
- Term Deposits stock is down q/q, due to lower rates offered to customers since mid-March. Although average cost was almost stable q/q
- Current account stock, of which 83% is corporates, slightly up q/q
- ~30% of term deposits from Germany/Austria
- Positive market conditions allow us to increase interbank stock q/q and y/y
- Wholesale funding includes the CQS securitization (Quinto Sistema 2016) used as collateral for ECB funding that we decided to not sell in 2Q 2017 because Investor request in terms of price on the Senior notes was higher than our economic incentive to deconsolidated the assets

## Retail Funding Cost

### Cost Term Deposits

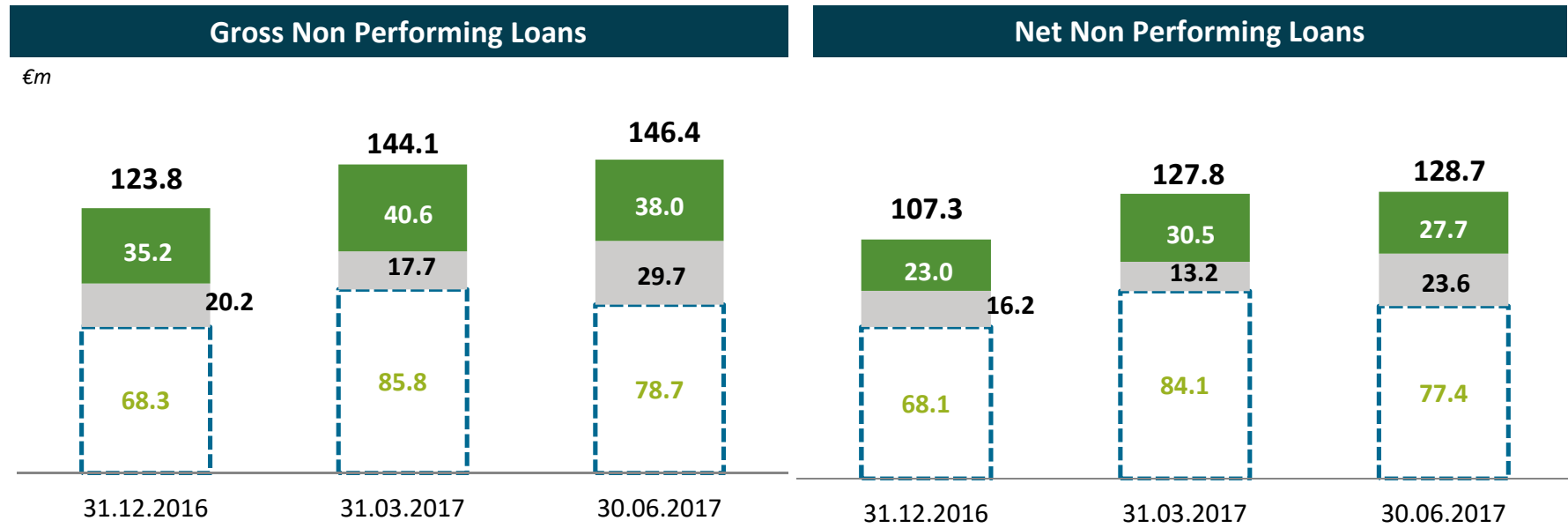


## Retail Funding



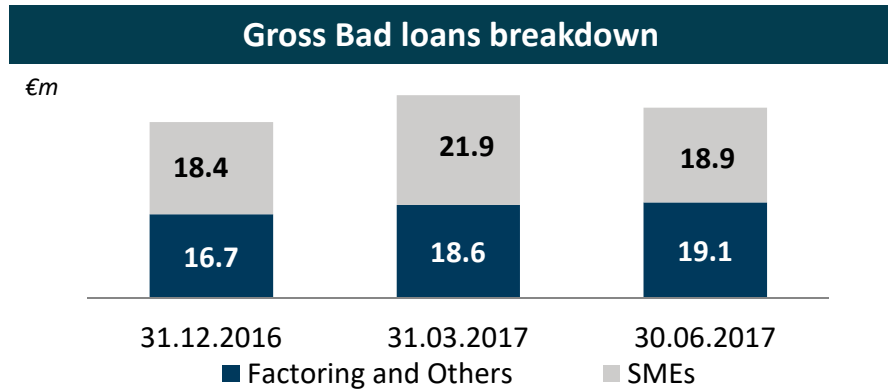
Notes: Average cost of funding (current accounts and term deposits); CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

# Conservative risk policy in all the business lines



PA exposure deriving from ordinary business

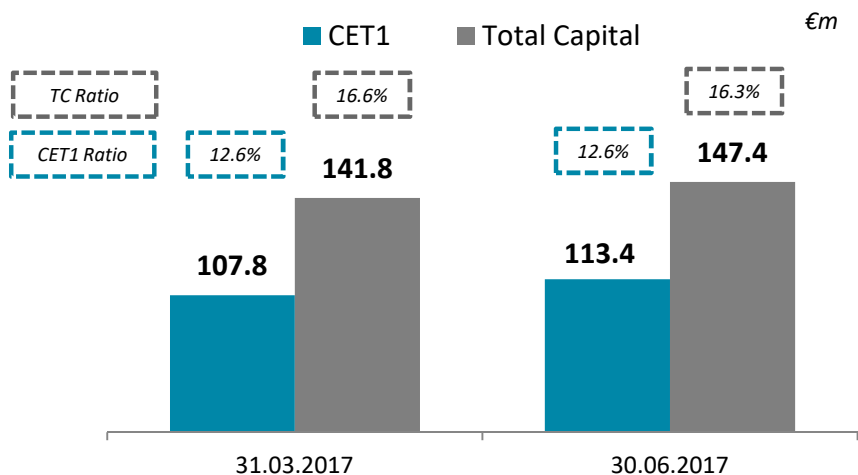
□ Past-dues    ■ Unlikely to pay    ■ Bad loans



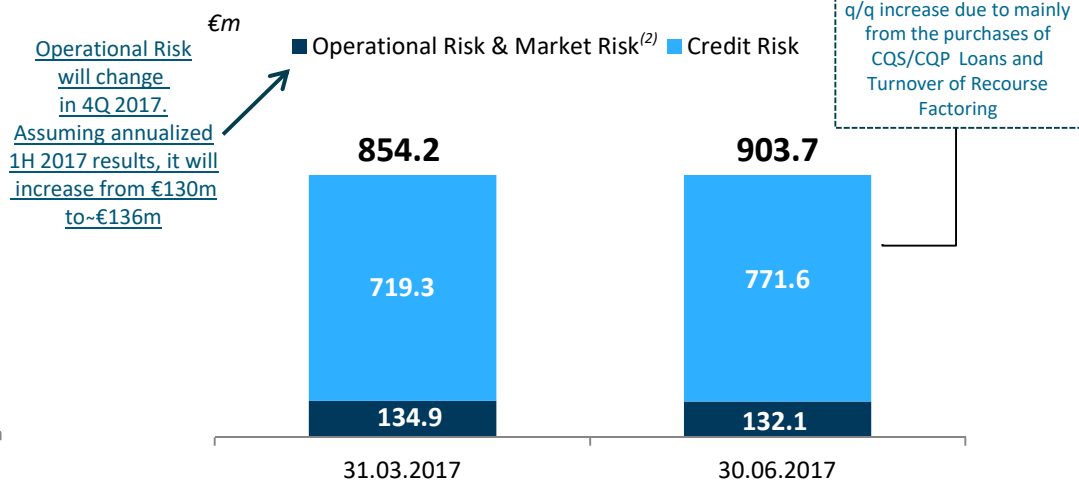
- Net Bad Loans represents 1.8% of total loans as at 30.06.2017
- Bad loans decrease q/q was due to some deterioration of factoring positions (2 new Municipalities under 'Distressed procedure') and decrease of SMEs State Guaranteed loans portfolio as a consequence of reimbursement of the guaranty
- Unlikely to pay increase q/q was mainly due to deterioration of factoring, in particular of a single exposure of Recourse factoring
- 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 1H 2017 were influenced mainly by:
  - provisions and write-backs on factoring (1Q 2017 and 2Q 2017)
  - higher provisions on SMEs State Guaranteed loans (1Q 2017)

# Regulatory Capital

## CET1 and Total Capital<sup>(1)</sup>

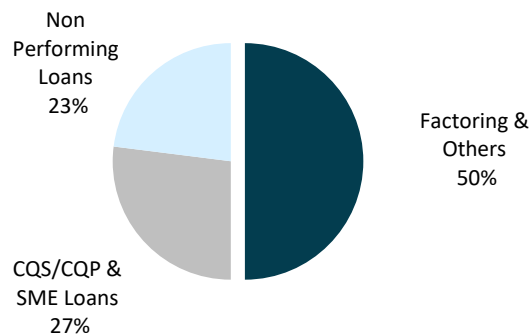


## RWA breakdown

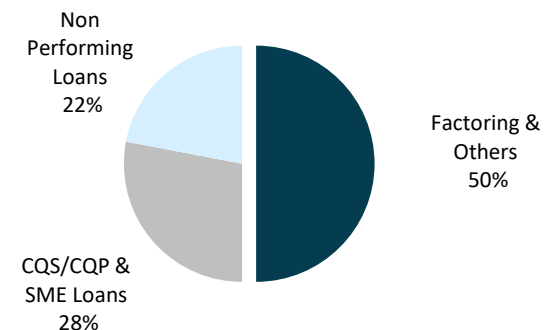


## RWA – Credit Risk

31.03.2017



30.06.2017



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 as at 31.03.2017 and €1.6m as at 30.06.2017.

## **Annexes**

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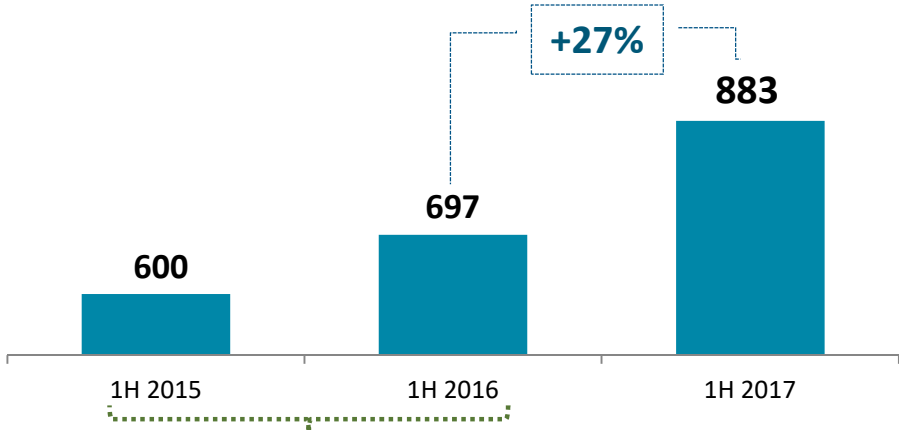


# Factoring Turnover

## Factoring Turnover

€m

**+23% including Beta in 1H 2016**

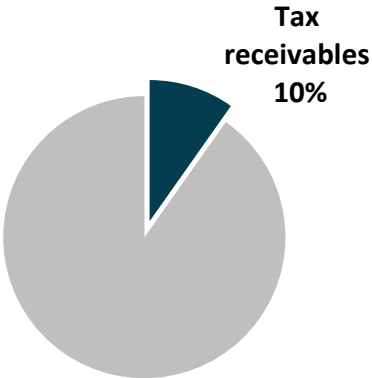


Turnover generated by agreements with Italian Retail banks: 32% of 1H 2017 (13.5% FY 2016)

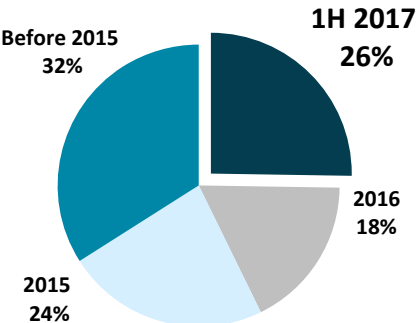
*Ex. Beta Stepstone*

## 1H 2017 Factoring Turnover breakdown

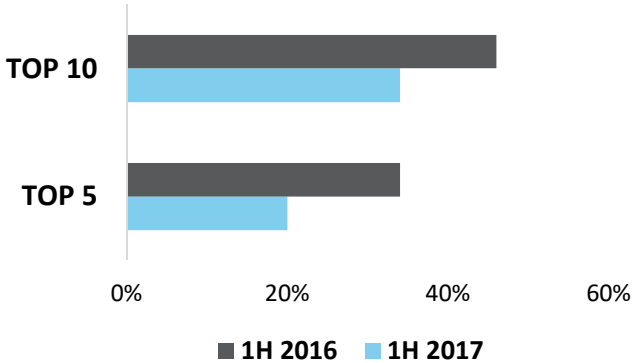
By Type



By Year of Customer's Acquisition



Customer Concentration



# Mount of Piety in Italy

## Italian Market

The Mount of Piety in Italy is the institutional pawnbroking business. This business is **anticyclical**, compared to the “traditional lending”.

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 Mount of Piety («Monte di Pietà») was established in Perugia in 1462*

Revenues/ Loan

15 - 18%

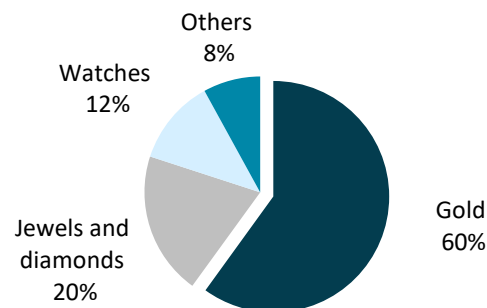
Interest/ Revenues

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
- 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

No relevant impact  
on 2017 P&L

# Banca Sistema Mount of Piety

## BANCA SISTEMA STRATEGY

### Product



- Actual focus on gold and in proportion of gold also on Rolex watches
- Fast loan procedure
- Marketing in different languages
- Offered loan durations: 3/6/12 months

### Operations

- First dedicated branch opened in Milan (02.2017)
- Second dedicated branch in Rome (07.2017)
- No-dedicated branch in Pisa (03.2017)
- 2/3 Further branch openings by the end of 2017
- Further hiring of 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

### Funding/ Regulatory Capital

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

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# BANCA

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