
BANCA

S I S T E M A
SPECIALTY FINANCE

GROUP PROFILE

November 2017

Agenda

I. Overview of Banca Sistema

II. 9M 2017 Results

Annexes

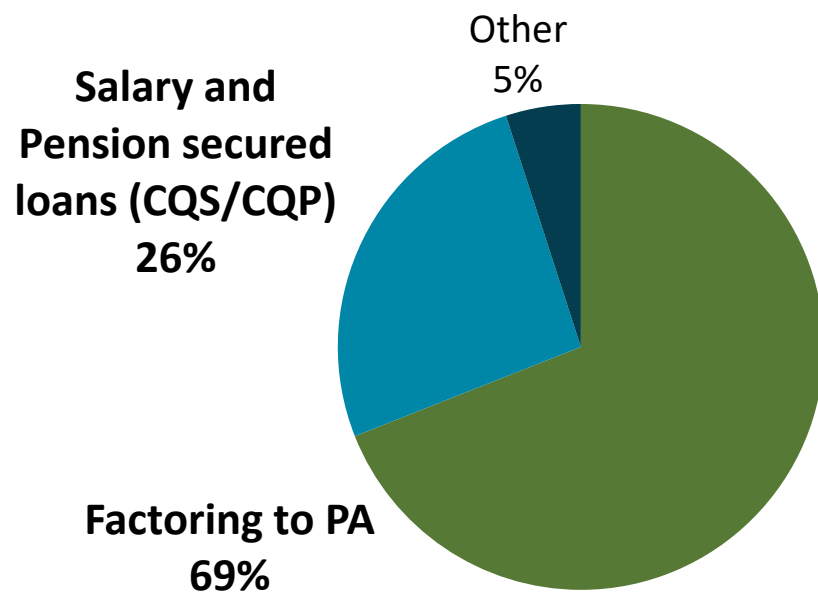
I. Overview of Banca Sistema

Among the top Italian specialty finance

What we do

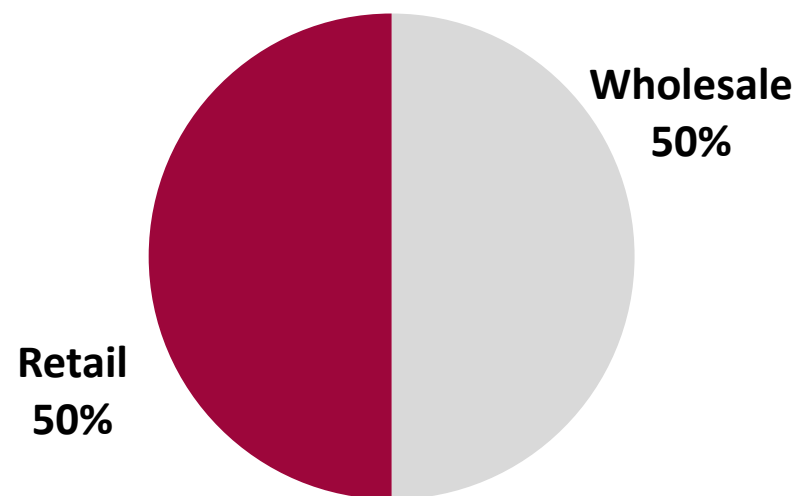
Total customer loans

€1,608m (+19% YtD)



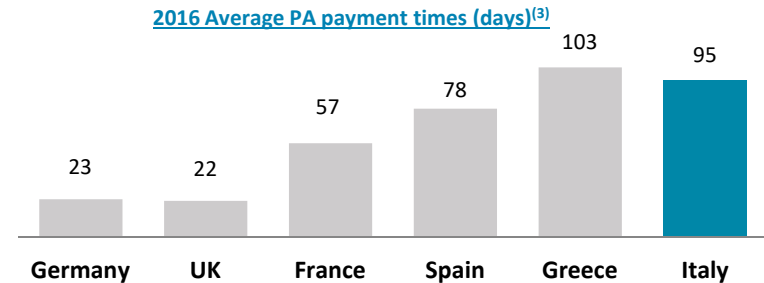
Funding

€1,973m (+9% YtD)

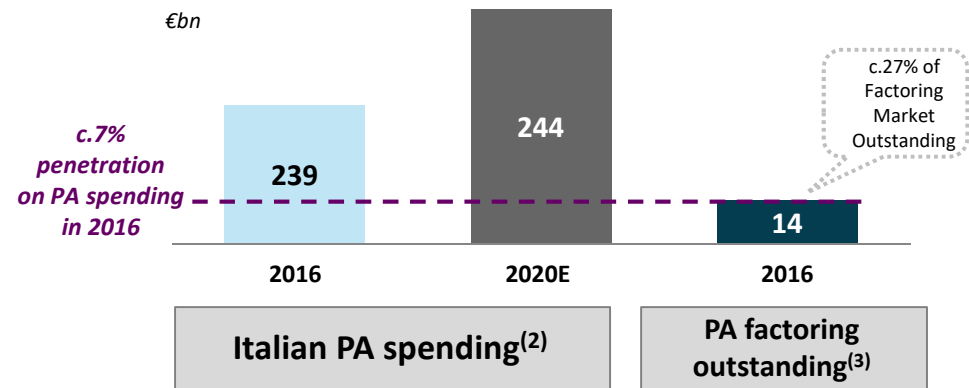


Delay and PA spending are the drivers of this attractive Market

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



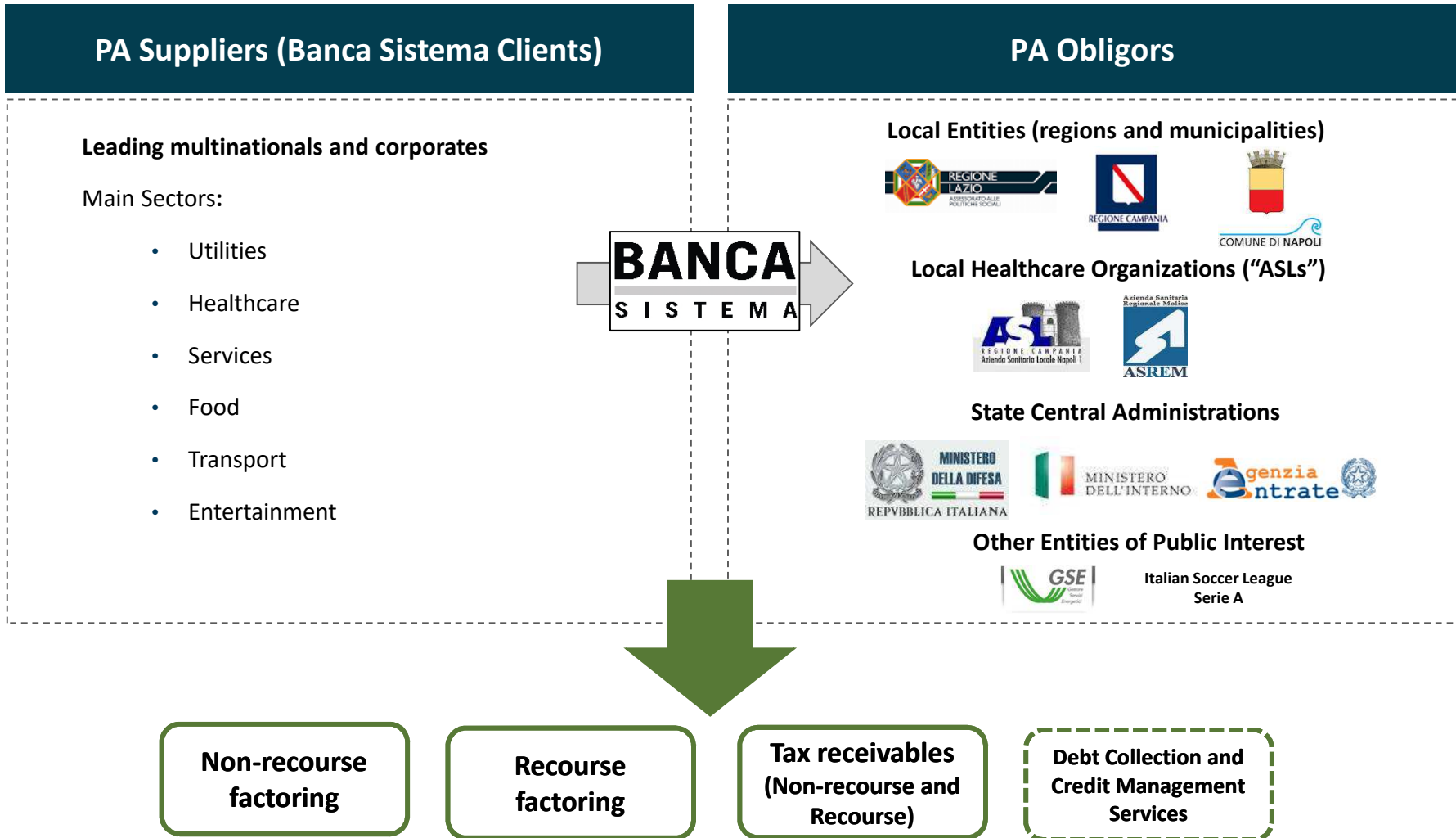
As we operate with a focus on Public Administration receivables, our reference market is the Italian Public Spending, a large and market with significant growth potential. As of 2016, Italy's annual estimated PA spending amounts to c.€239bn and is expected to grow to c.€244bn by 2020⁽²⁾



Banca Sistema through factoring is one of top players in Italy in the Tax receivables market (as at 30.09.2017 13% of Outstanding). Recent Law changes relatively to the so called “Split Payment” will generate corporate need to fund €18bn, as a cosequence of less compensation of VAT credits

Note: 1. Source: 1. Intrum Justitia as of 2016; 2. Source: MEF (Documento di Economia e Finanze 2017 – Analysis and trends in public finances). Including spending for goods and services and gross fixed capital formation; 3. Assifact.

Supporting corporate entities in their business dealings with PAs



9M 2017 Turnover
breakdown by product
(€1.3bn, +27% y/y)

72%

19%

9%

Factoring business leverage on a well balanced network

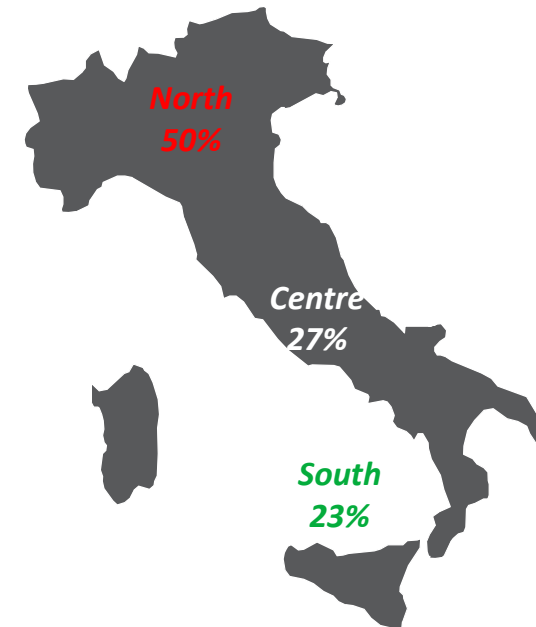
DIRECT CHANNEL

- 14 Origination resources
- 7 Relationship Managers



INDIRECT CHANNEL

17 commercial agreements to provide factoring products to third party banks in Italy, through c. 1,500 branches



9M 2017 Turnover
breakdown by channel
(€1.3bn, +27% y/y)

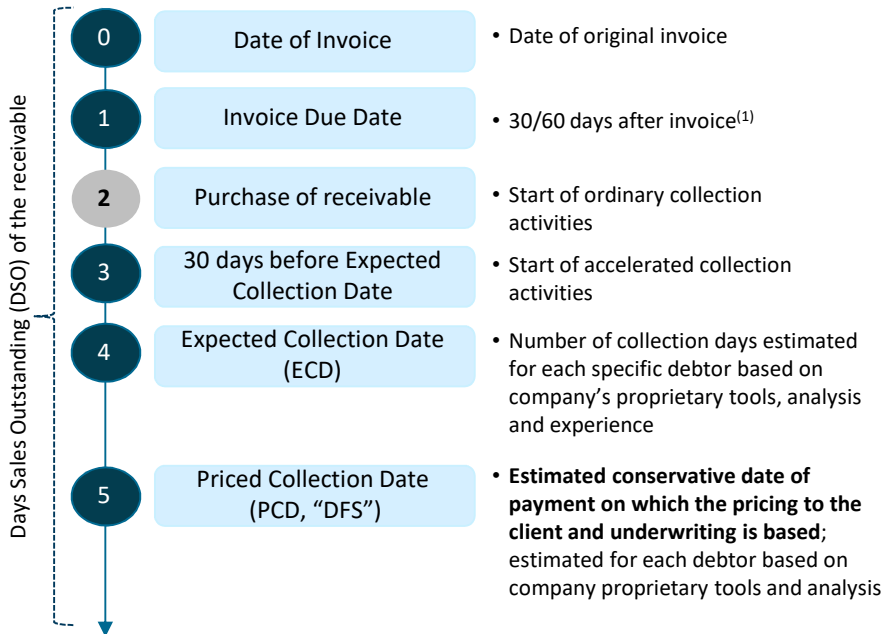
67%

33%

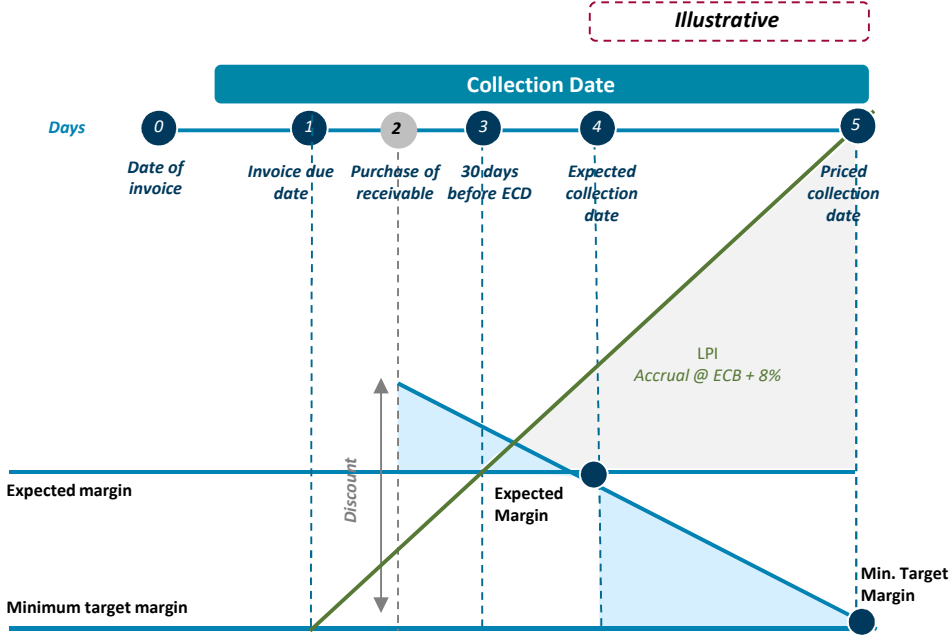
Factoring Business

Overview of Key Dates for Pricing and Collection

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%

Late Payment Interests:

- Try to collect without starting a legal action till 30 days before ECD
- From the start of the legal action we rely on due LPI at: 8% + ECB rate

Note: 1. 60 days for healthcare related receivables.

BST: Factoring outstanding

Our Key Strengths

Strong analytical capabilities

- **Disciplined underwriting process supported by accelerated collections** without relying on active LPI collection, up till 30 days before the ECD
- **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

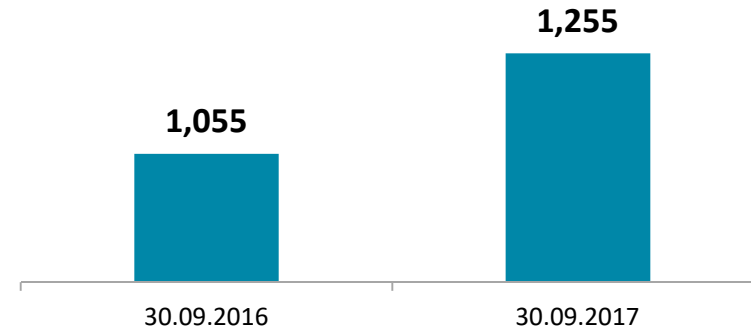
- **The collection leverages** on the strong relationships with PAs and is focused on the **late payment interest (“LPI”) when it is necessary**
- Strong performance due to **excellence in collection versus suppliers**, generating **high margins through accelerated recovery periods**

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**

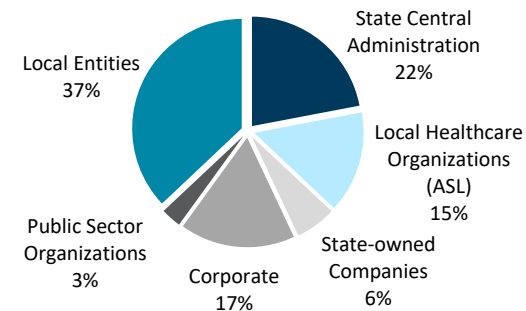
Factoring outstanding

€m



Outstanding breakdown by Obligor (30.09.2017)

PA accounts for 83%



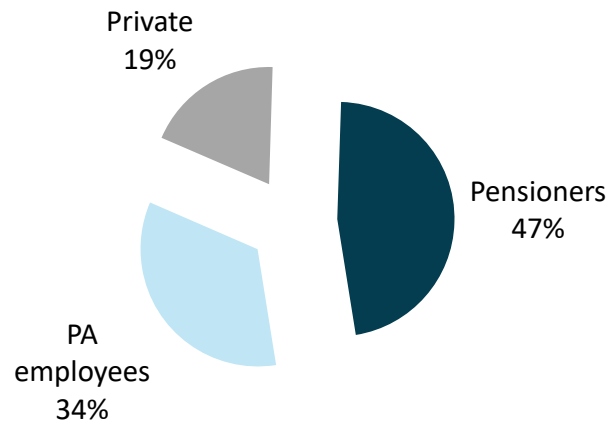
Note: Factoring outstanding management account.

Italian CQS/CQP market: Low risk Business

Key product items

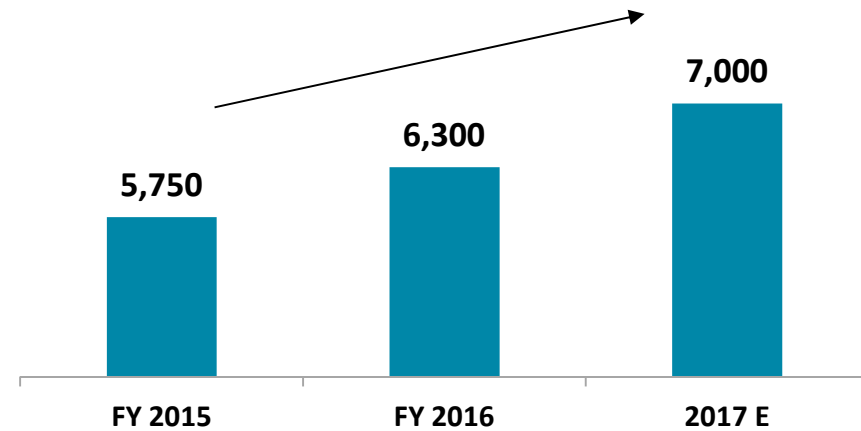
- A product established by the law of the 1950s
- The borrower's loan is repaid directly from their salary/pension, by the employer/INPS (Italian pension institution)
- Monthly installment cannot exceed 1/5 of the salary/pension
- The loan takes precedence over any seizure of salary/pension amounts
- Insurance is mandatory by the law and covers in case of death, disability and loss of job
- CQS is partly collateralized by the TFR (compulsory retirement/severance plan)

Outstanding as at 30.06.2017²

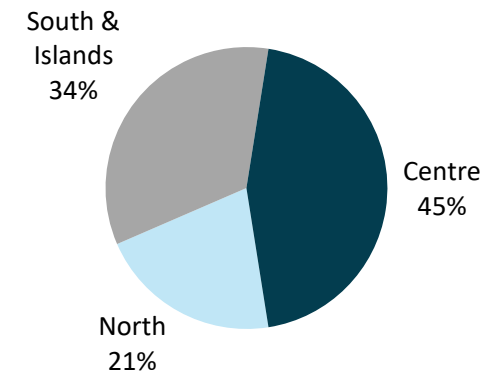


Volumes/ New production¹

€m



Geographic breakdown



Note: 1. Source: Cerved, August 2017; 2. Source: Assofin.

BST: CQS/CQP outstanding

Our Business model

Commercial capabilities

- Agreements with 8 Originators from which we have purchased €176m in the first nine months of 2017, and we purchase monthly or bi-monthly
- Lower exposure to the Private component vs the Market

Dedicated funding

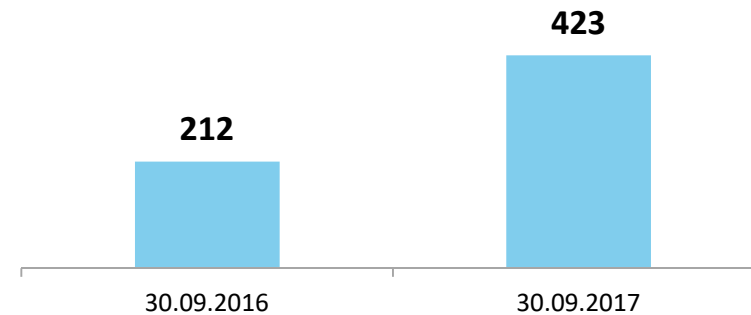
- A good portion of the assets is securitized, but consolidated in BST Balance Sheet
- Securitizations allow to get a cheaper funding through Repos (ECB and banks)

Low risk asset

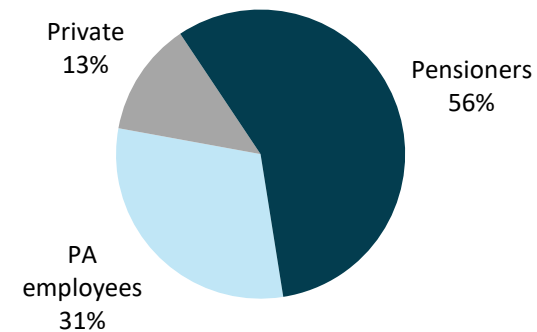
- CQS/CQP historically have registered very low PD and almost 0% LGD also thanks to the insurance

CQS/CQP Loans outstanding

€m



Outstanding breakdown by Type (30.09.2017)



Our track record of the last 5 years

Strong constant growth in factoring volumes in these 5 years (+27% 9M 17 vs 9M 16)

Total income per headcount above €0.5m

Well diversified funding

3Q 17 CET 1 ratio: 12.4%
3Q 17 TC ratio: 16.1%

3Q 17 Leverage: 6%

Good results from diversification strategy: CQS/CQP growth

2012 – Adj. 2016 Net Income CAGR: +88%

Low risk assets and strong asset quality (Cor FY 16 51bps)

FY 2017 Adj. RoAE target around 20%

Dividends paid during the last 5 years (25% in 2015 and 2016)

II. 9M 2017 Results

9M 2017 Results at a Glance

Commercial performance

- **9M 2017 Factoring Turnover +27% y/y**
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS outstanding reached €423m**, with a market share > 2% in terms of outstanding
- Opening by the 1Q 2018 of two branches dedicated to **“Mount of Piety” business**

P&L

- **NII equals to €54.1m** includes €9m in 2017 for the accounting update on LPIs, of which €3.7m not related to 2017
- **Net Income at €21.8m**
- **Total operating costs +7% y/y**, in line with expectations for 2017
- **FY 2017 ROAE TARGET around 20%** excluding €3.7m gross LPIs not related to 2017

Balance Sheet

- **Core business funding cost stable q/q and y/y**
- **Retail funding 50%** of Total funds
- **LCR and NSFR above regulatory requirements**
- **CET1 and TCR respectively 12.4% and 16.1%**

Note: 9M 2016 figures include the contribution of Beta Stepstone from 01.07.2016 to 30.09.2016 (Beta Stepstone has been purchased on the 01.07.2016 and merged in BST on the 01.01.2017).

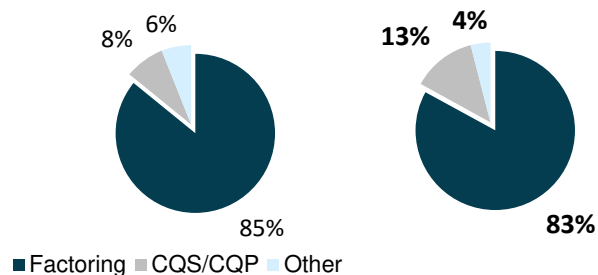
9M 2017 – Income Statement

Figures in millions of Euro

	30.09.2016	30.09.2017	Difference %
Net interest income	50.8	54.1	7%
Net fee and commission income	6.9	7.4	7%
Dividends and similar income	0.2	0.2	0%
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1.1	0.9	-12%
Operating income	59.0	62.6	6%
Net impairment losses on loans	(4.9)	(3.1)	-38%
Net operating income	54.0	59.6	10%
Personnel expenses	(11.1)	(12.8)	15%
Other expenses	(15.4)	(15.6)	1%
Operating expenses	(26.5)	(28.4)	7%
Profits from equity investments	2.3	(0.1)	nm
Pre-tax profit from continuing operations	29.8	31.2	5%
Taxes on income for the period/year from continuing operations	(8.4)	(9.3)	11%
Profit (loss) for the year/period attributable to the shareholders of the Parent	21.4	21.8	2%

Include €7.9m LPIs accrual of which €5m are not related to the period

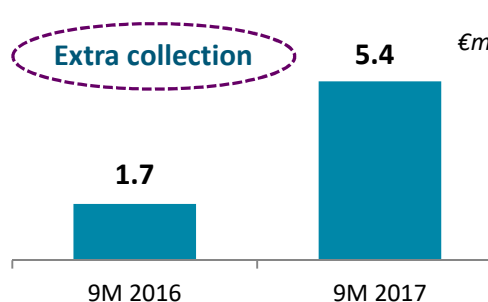
Net Interest Income Breakdown



9M 2016 - €50.8m

9M 2017 - €54.1m

Cashed-in Factoring LPIs



- **Factoring contribution to NII represents 83% of the total**
- **9M 2017 NII includes €9m of higher factoring LPIs** (from legal actions) following an accounting update of the accrual on non- Health care exposures. Accrual on non-Health, equals to 31% (15% before), increase for the evidence in the last 9 months of a LPI's collection around 80%. Remaining stable the % of accrual on Health care exposures, overall the accrual is 38%
- **NII in 9M 2017 include €21.9m LPIs from legal actions of which:**
 - €9m LPIs accrual from the update of accounting, of which €3.7m are not related to this year
 - €4.7m LPIs accrual based on previous accounting
 - €8.2m LPIs extra collection, including €2.8m of a transaction in Q2 2017
- **NII in 9M 2017 has been influenced by** higher contribution from CQS/CQP loans (+€4.1m y/y) 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)
- **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
- **Net Income** in 2016 includes the contribution from the sale of ~16% in CS Union (today Axactor Italy) for €2.2m

Note: see Note of Slide n.2.

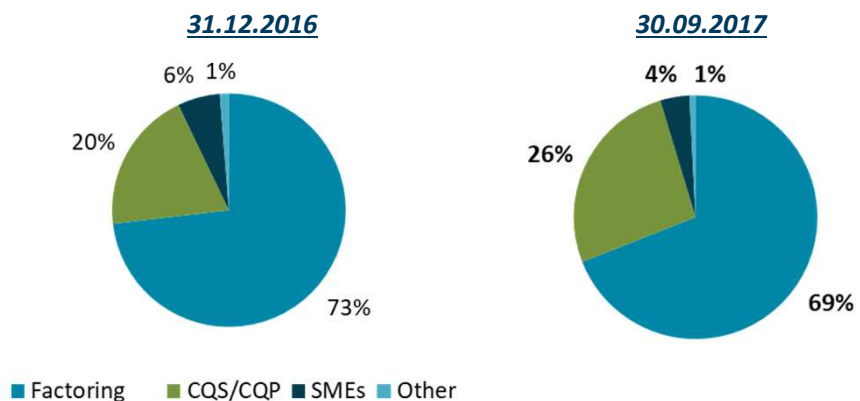
9M 2017 – Balance Sheet

Figures in millions of Euro

	31.12.2016	30.09.2017	Difference %
ASSETS			
Available-for-sale financial assets	516	424	-18%
Held to maturity	-	84	nm
Loans and advances to customers	1,348	1,608	19%
Tangible and Intangible assets	25	26	2%
Other assets	110	48	-57%
Total assets	1,999	2,190	10%
LIABILITIES AND EQUITY			
Due to banks	458	523	14%
Due to customers	1,262	1,343	6%
Debt securities issued	90	107	-18%
Other liabilities	74	87	17%
Shareholders Equity	114	130	14%
Total liabilities and equity	1,999	2,190	10%

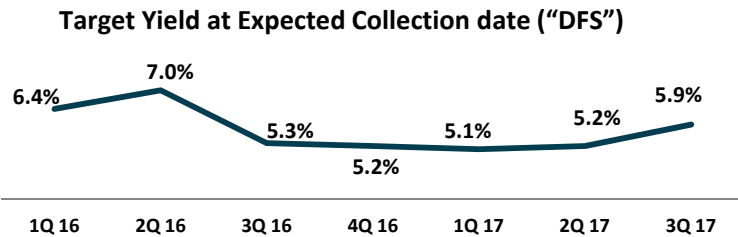
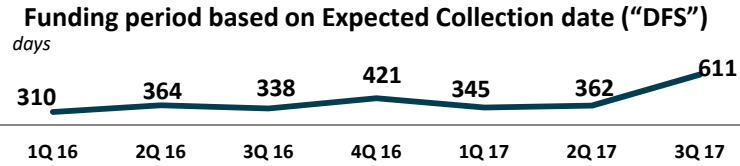
- **Govies' portfolio (€500m) almost stable vs year-end and up q/q** following the increase of the AFS component (equals to €416m, with a residual maturity as at 30.09.2017 of 8 months)
- **Loans to customers, +19%:**
 - **Factoring receivables** up vs. year-end (+12%) and q/q, thanks to the turnover originated in 9M 2017 (€1,109m as at 30.09.2016 vs €986m as at 31.12.2016)
 - **CQS/CQP** increase due to further loan purchases and reached €423m
- **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 q/q
- **Due to customers higher vs year-end** for the combination of higher Repos (+€24m) related to the increase of the Govies' ptf and of higher current accounts (+€32m). Stable term deposits vs year-end and slightly lower q/q
- 2017 figures of the item **Debt securities issued** include €15.5m TIER II bond issued this year and will in 4Q 2017 include:
 - €1m TIER II bond issued in October
 - €175m Wholesale Senior bond issued in October

Loans to customers Breakdown

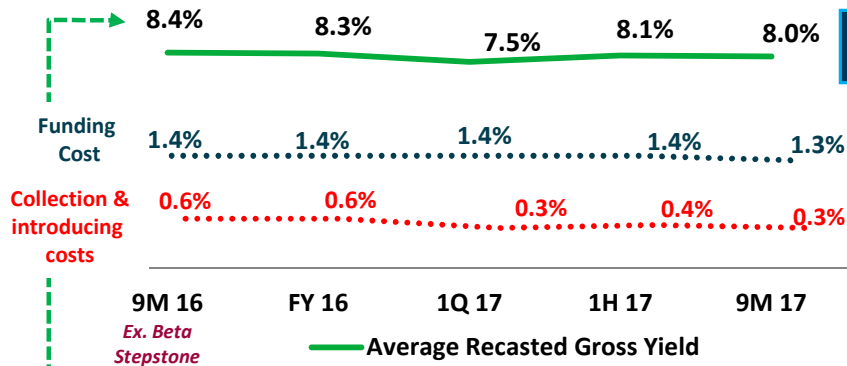


Focus on Factoring

How we originate new business:



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

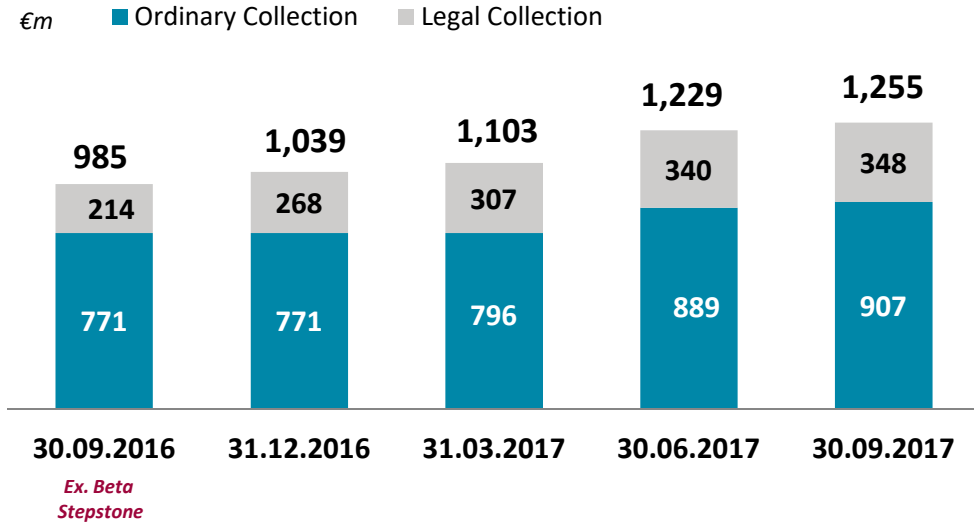


Gross Yield includes Commission Income: €8.0m in 9M 17; €4.9m in 1H 17; €2.4m in 1Q 17; €9.1m in FY 16; €7.0m in 9M 2017

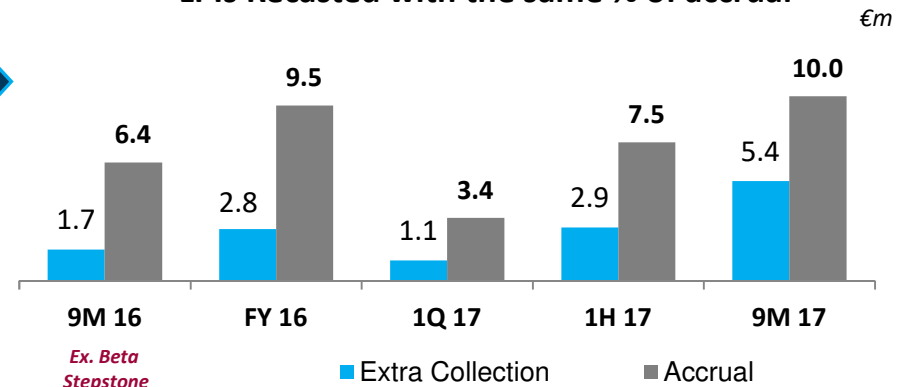
FY 2016 and 1H 2016 figures do not include Beta Stepstone.

Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data and the component under legal collection include also deteriorated exposure that do not generate LPs.

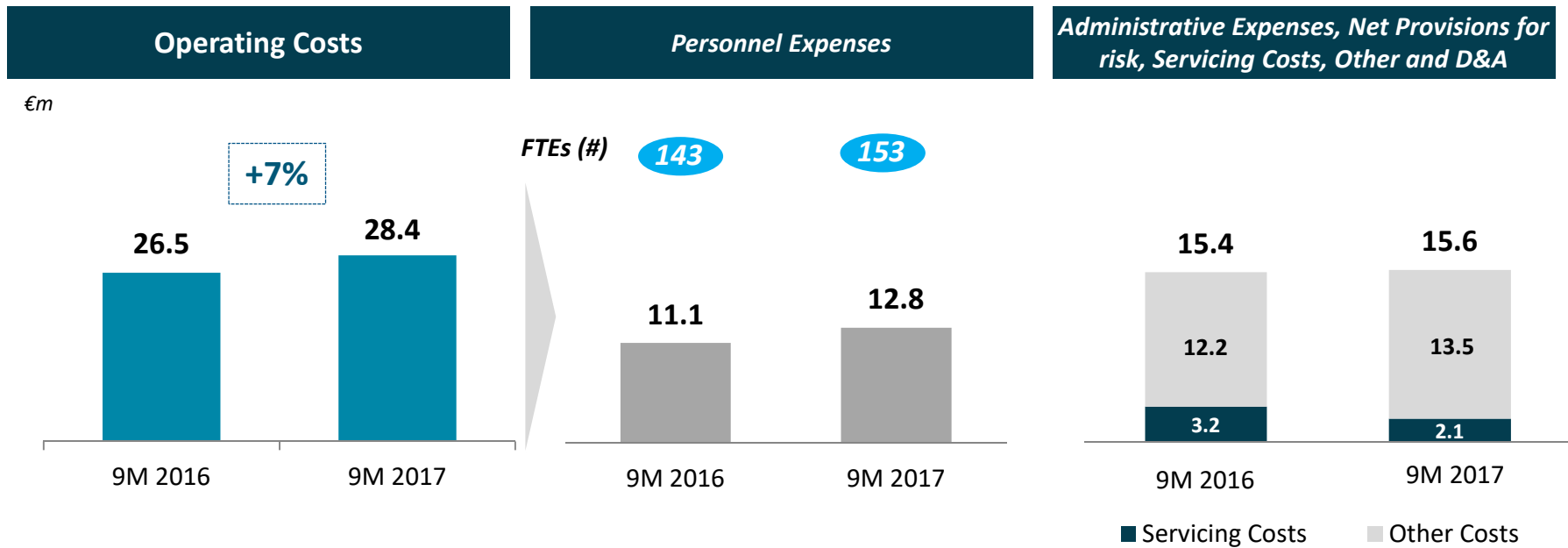
Factoring Outstanding Evolution



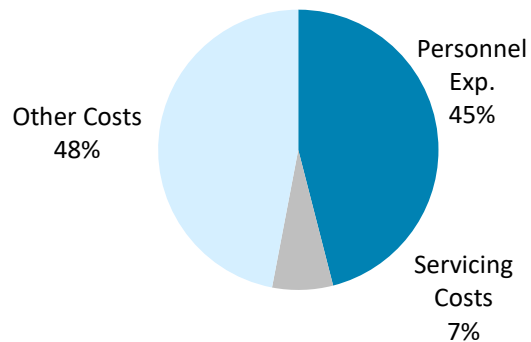
LPs Recasted with the same % of accrual



Costs in line with expectations



Operating Costs Breakdown

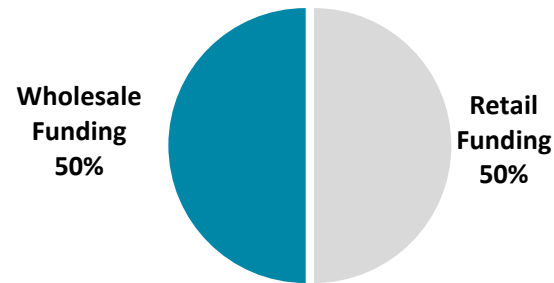


- Personnel Expenses increase due to higher average salary and a new no-competition agreement (€1m in 1H 2017)
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution Fund (in 1H 2017) and €0.3m provision for the Deposit Scheme (in 3Q 2017)
- Other costs growth y/y mainly driven by IT expenses and at minor extent expenses on new business opportunities

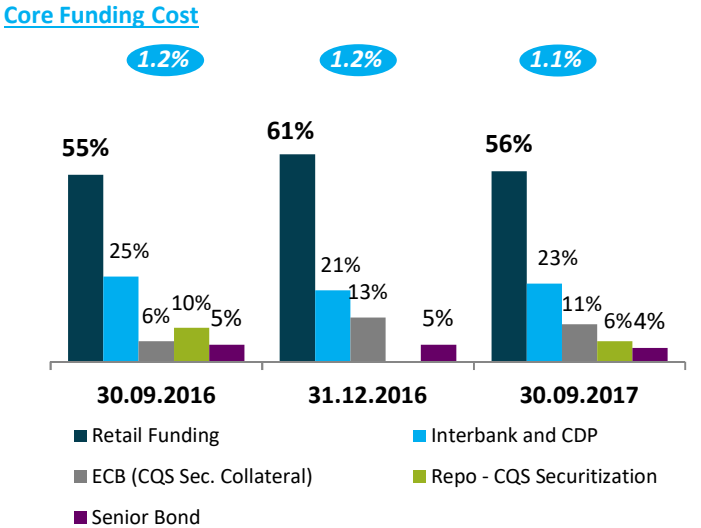
Note: see Note of Slide n.2.

Stable funding cost

Total Funding Breakdown

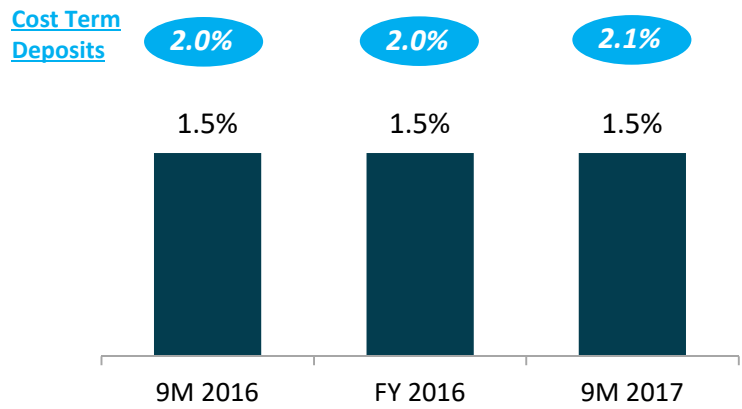


Core Business Funding Breakdown

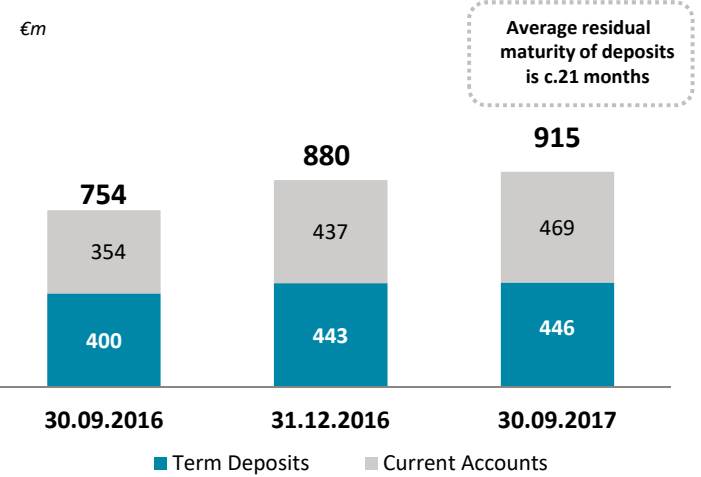


- Term Deposits stock is stable q/q and up y/y, average cost was also almost stable q/q and y/y
- Current account stock, of which 82% is corporates, slightly up q/q
- ~27% of term deposits from Germany/Austria
- In October 2017, has been issued the first Senior public bond to institutional investors: 3Y; €175m; Fixed rate 175bps

Retail Funding Cost



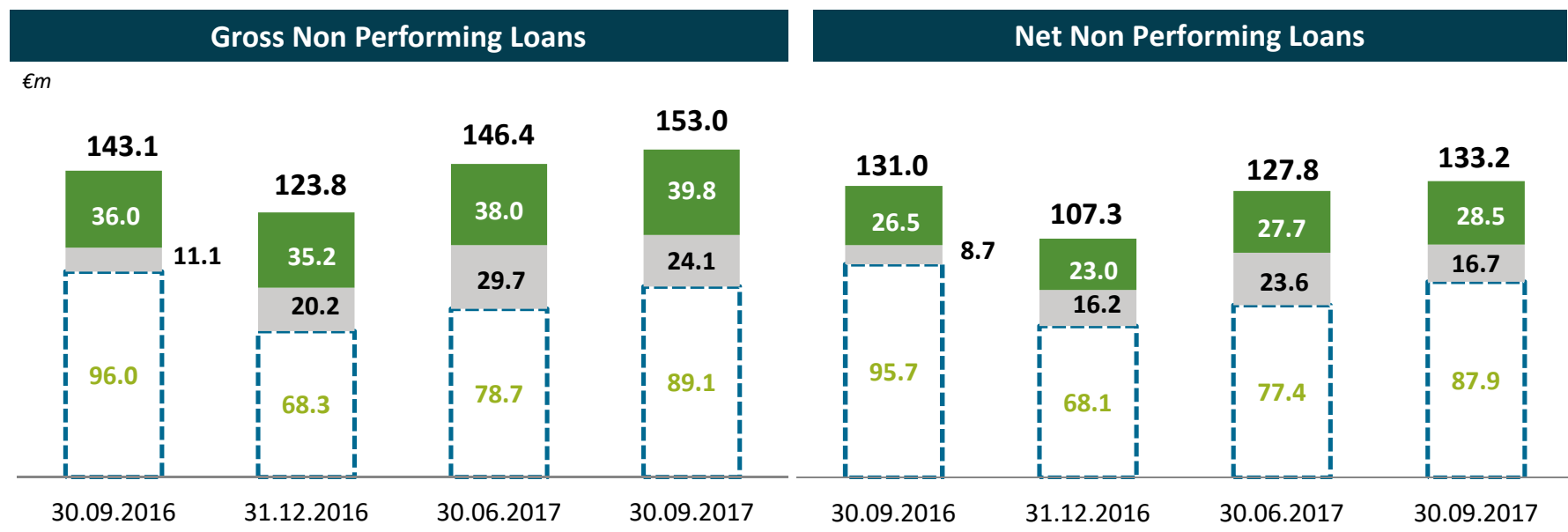
Retail Funding



- Positive market conditions allowed us to increase interbank stock q/q and y/y
- Wholesale funding includes the CQ securitizations, "Quinto Sistema 2016" used as collateral for ECB funding and "Quinto Sistema 2017" used as a collateral for a REPO with a bank

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).

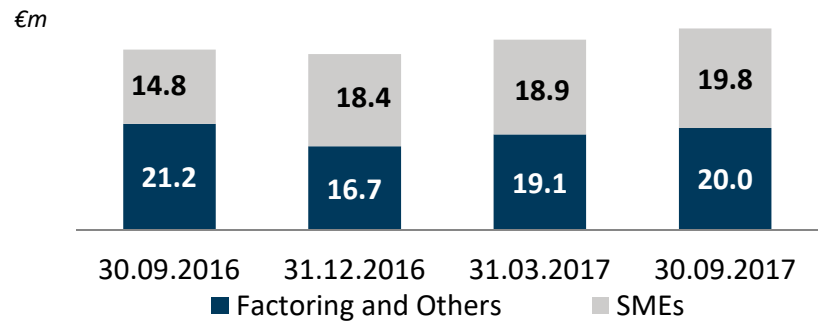
Conservative risk policy in all the business lines



□ Past-dues
 □ Unlikely to pay
 □ Bad loans

PA exposure deriving from ordinary business

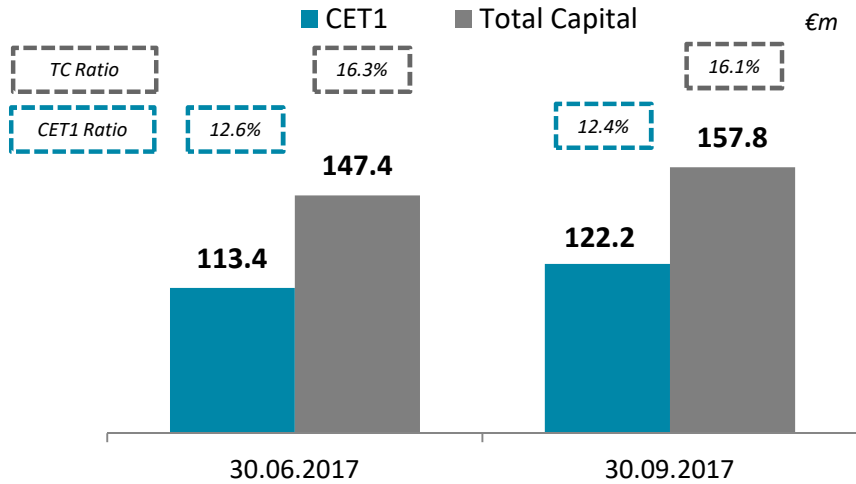
Gross Bad loans breakdown



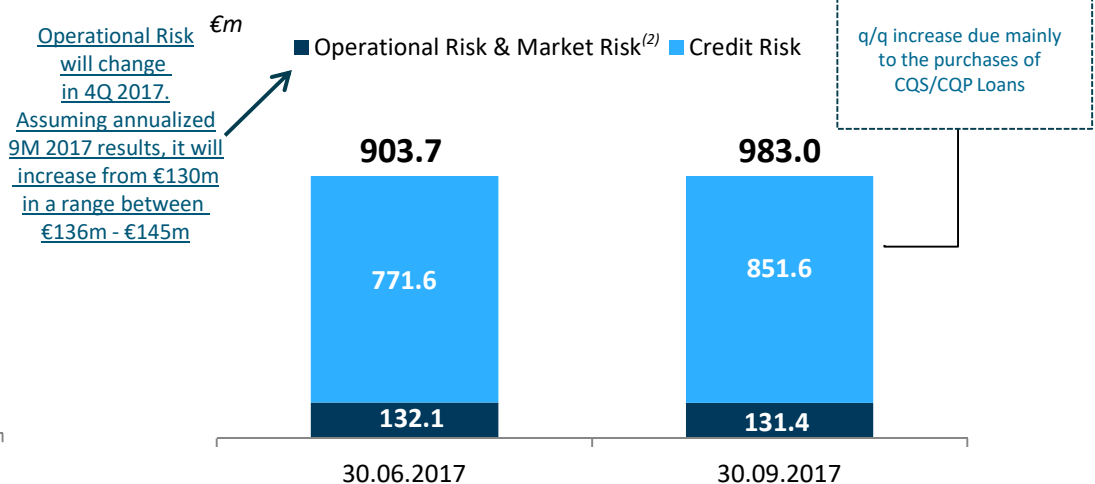
- Net Bad Loans represents 1.8% of total loans in line q/q
- Bad loans slight increase q/q was due to some deterioration of SMEs State Guaranteed loans portfolio and some factoring positions
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection
- 9M 2017 Loan loss provisions in line with expectations, in 3Q 2017 mainly on factoring

Regulatory Capital

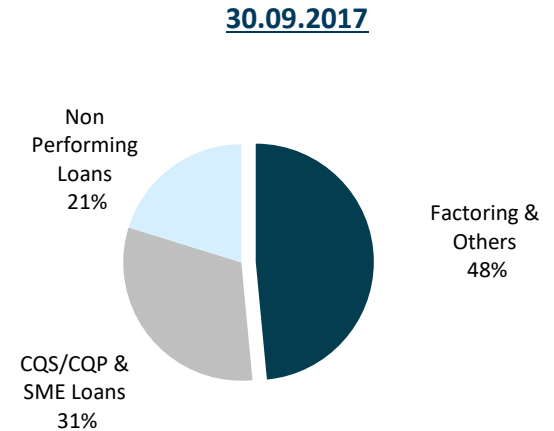
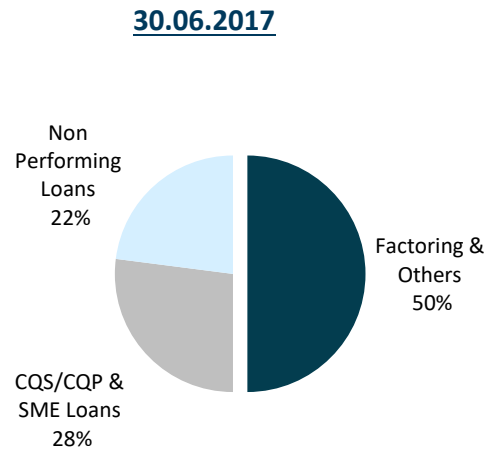
CET1 and Total Capital⁽¹⁾



RWA breakdown



RWA – Credit Risk

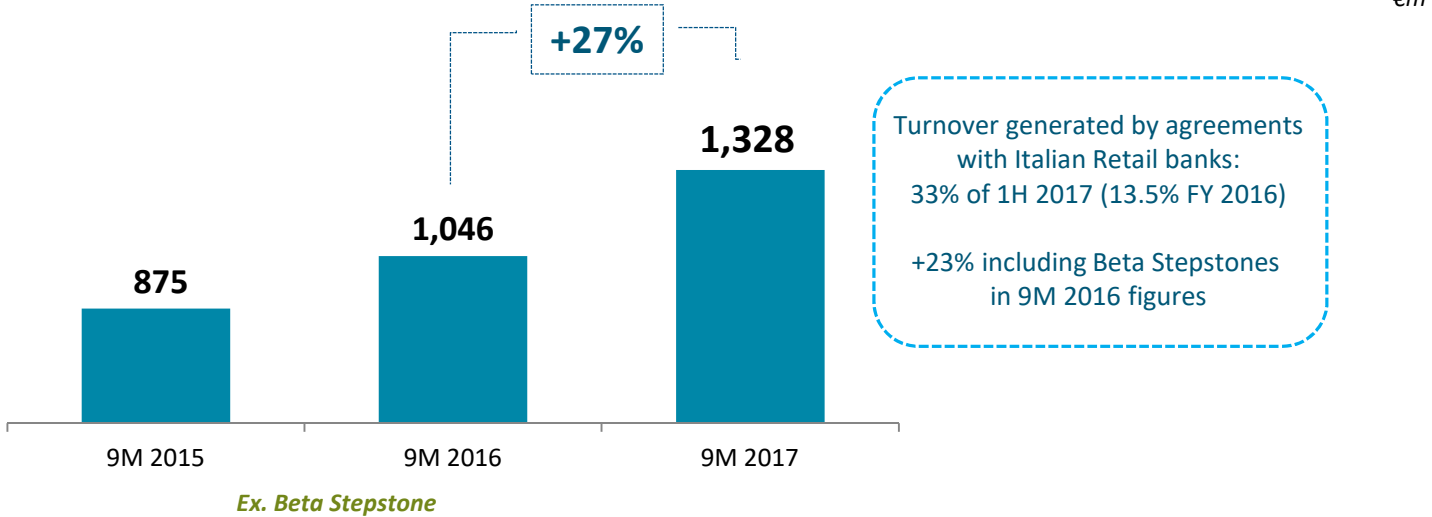


Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €1.6m as at 30.06.2017 and €0.9m as at 30.09.2017.

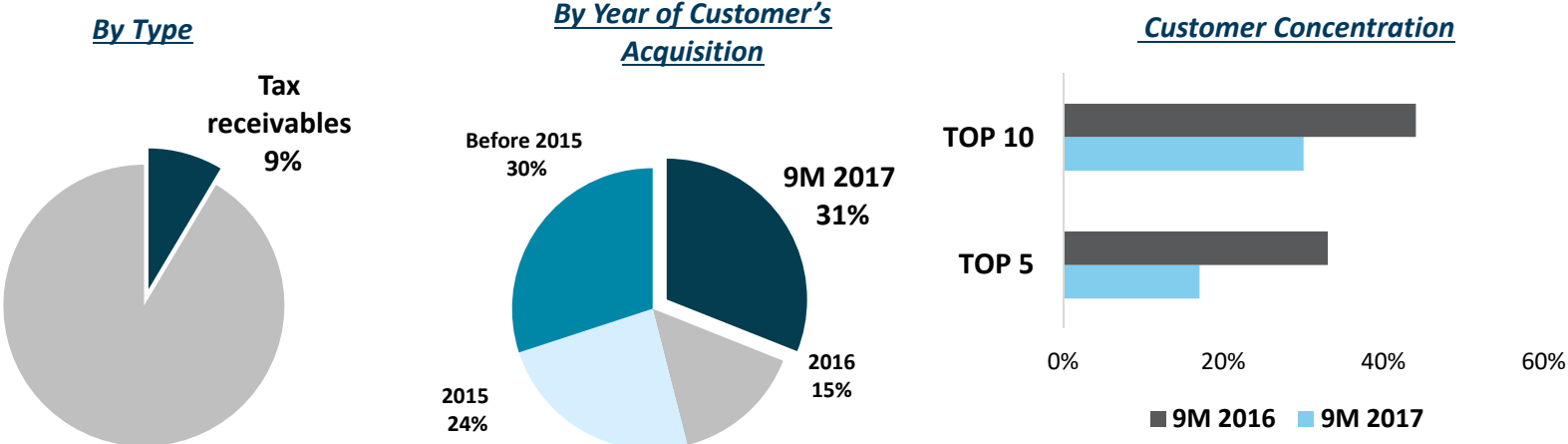
Annexes

Factoring Turnover

Factoring Turnover

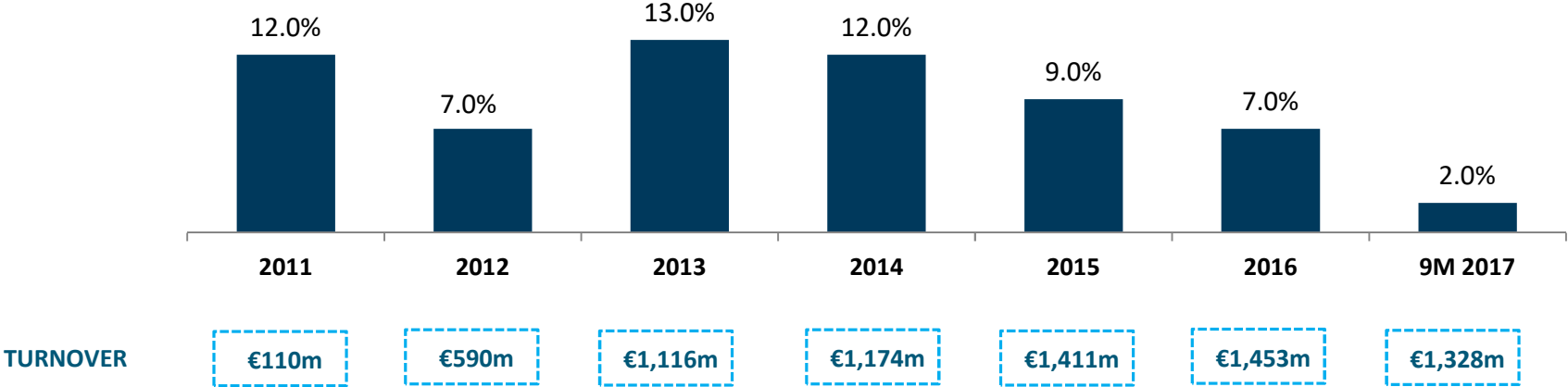


9M 2017 Factoring Turnover breakdown



Factoring LPIs

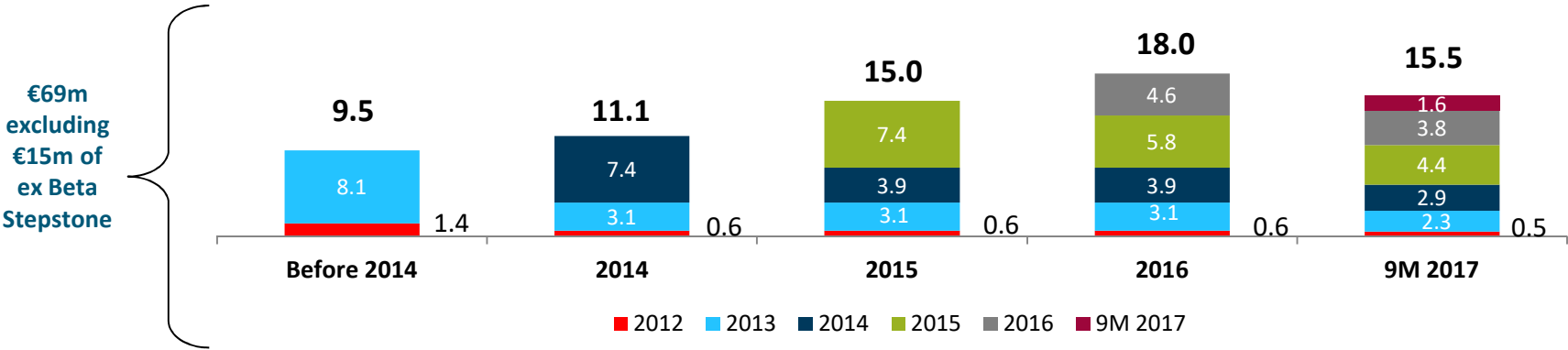
% of Turnover under Legal Collection, PER VINTAGE, as at 30.09.2017



Total factoring LPIs, PER YEAR, related to loans under Legal collection as at 30.09.2017

€m

Average LPIs accrual in 9M 2017 was 38%



Mountain of Compassion in Italy

Italian Market

The Mount of Compassion 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 Compassion («Monte di Pietà») was established in Perugia in 1462

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

Revenues/ Loan

15 - 18%

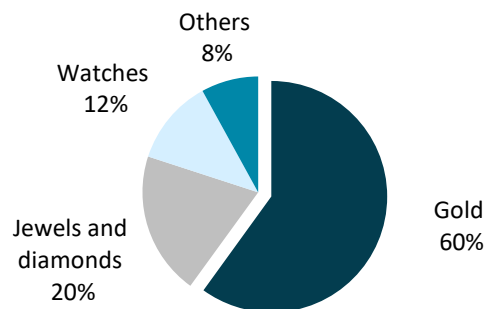
Interest/ Revenues

60/70%

Gross Annual Rate

12 - 14%

Yearly Turnover Breakdown



No relevant impact
on 2017 – 2018 P&L

Banca Sistema Mount of Compassion

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 Further branch openings by 1Q 2018
- 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

prontoPEGNO
el Monte de las Prendas de
BANCA SISTEMA

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Llámanos para pedir información
o para concertar una cita

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