
BANCA

S I S T E M A
SPECIALTY FINANCE

GROUP PROFILE

March 2018

Agenda

I. Overview of Banca Sistema

II. FY 2017 Results

Annexes

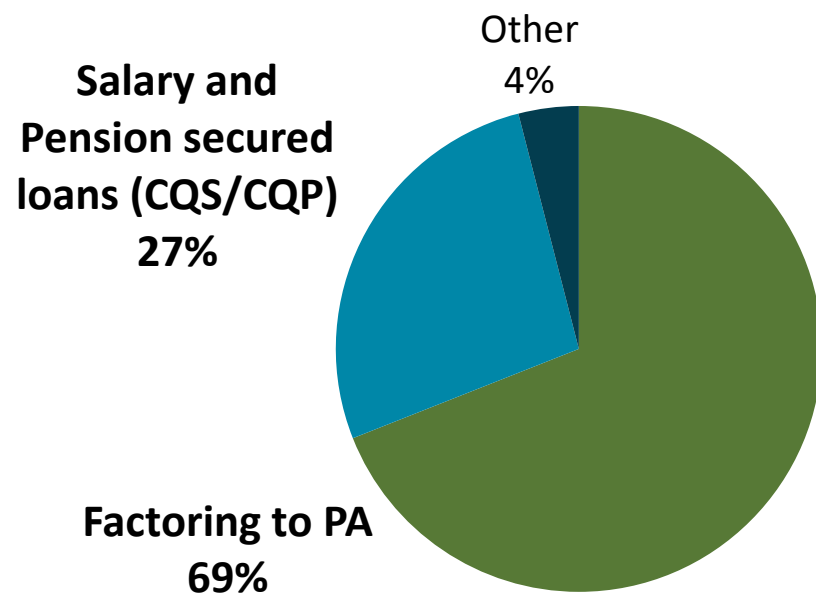
I. Overview of Banca Sistema

Among the top Italian specialty finance

What we do

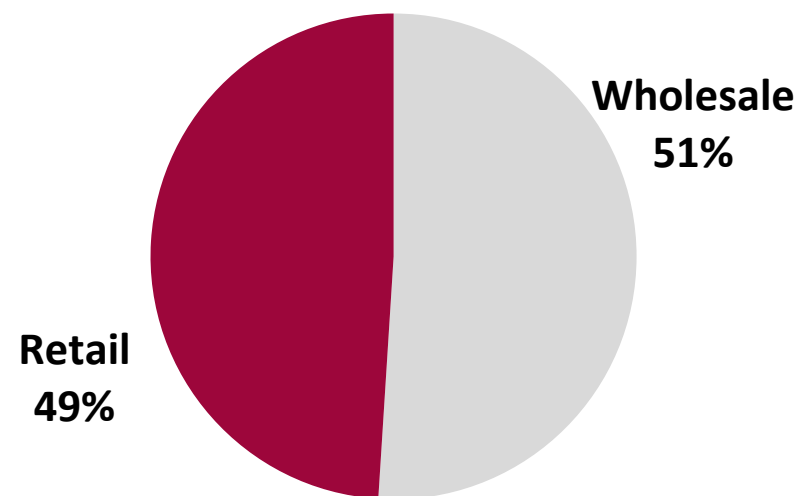
Total customer loans

€1,850m (+37% YtD)



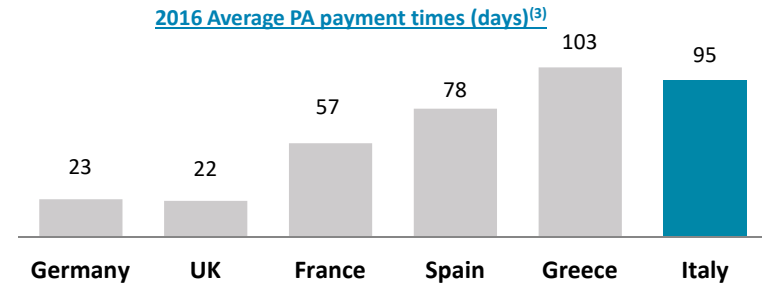
Total Funding

€2,084m (+15% YtD)

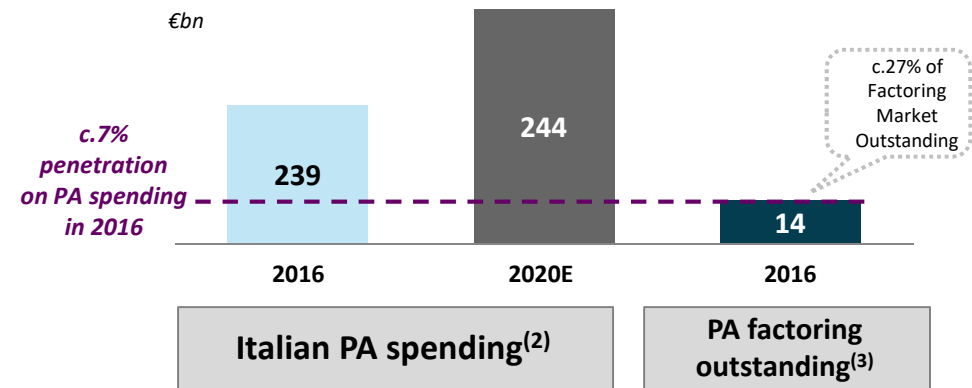


Delay and PA spending are the drivers of this attractive Market

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



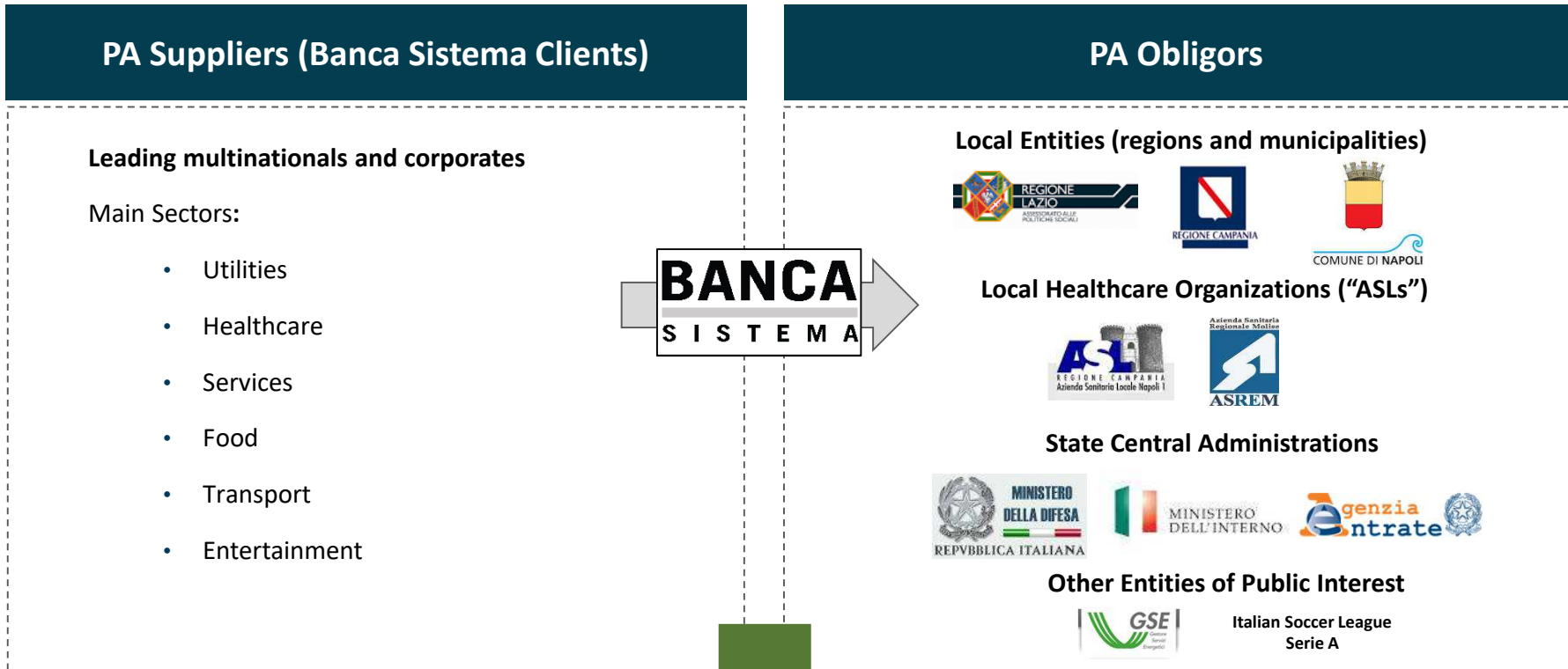
As we operate with a focus on Public Administration receivables, our reference market is the Italian Public Spending, a large market with significant growth potential. As of 2016, Italy’s annual estimated PA spending amounts to c.€239bn and is expected to grow to c.€244bn by 2020⁽²⁾



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



FY 2017 Turnover
breakdown by product
(€2bn, +37% y/y)



61%

22%

17%

Factoring business leverage on a well balanced network

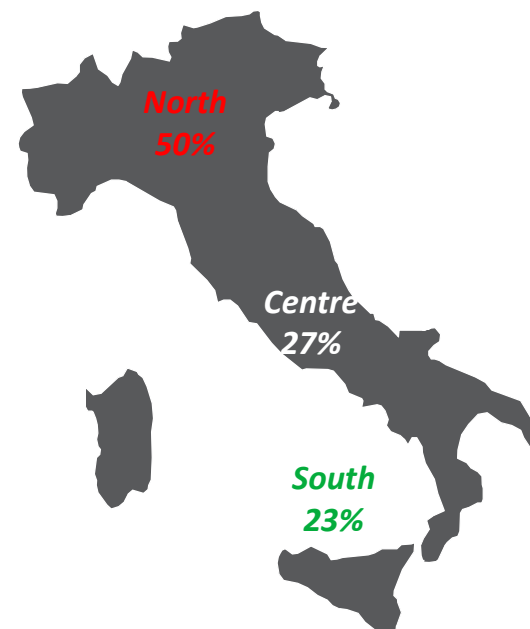
DIRECT CHANNEL

- 13 Origination resources
- 7 Relationship Managers



INDIRECT CHANNEL

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



FY 2017 Turnover
breakdown by channel
(€2bn, +37% y/y)

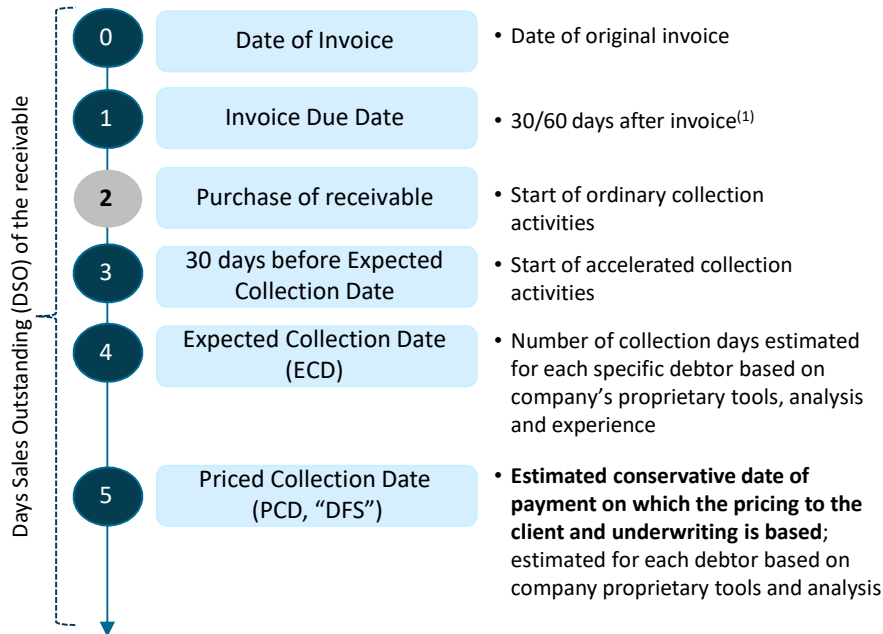
71%

29%

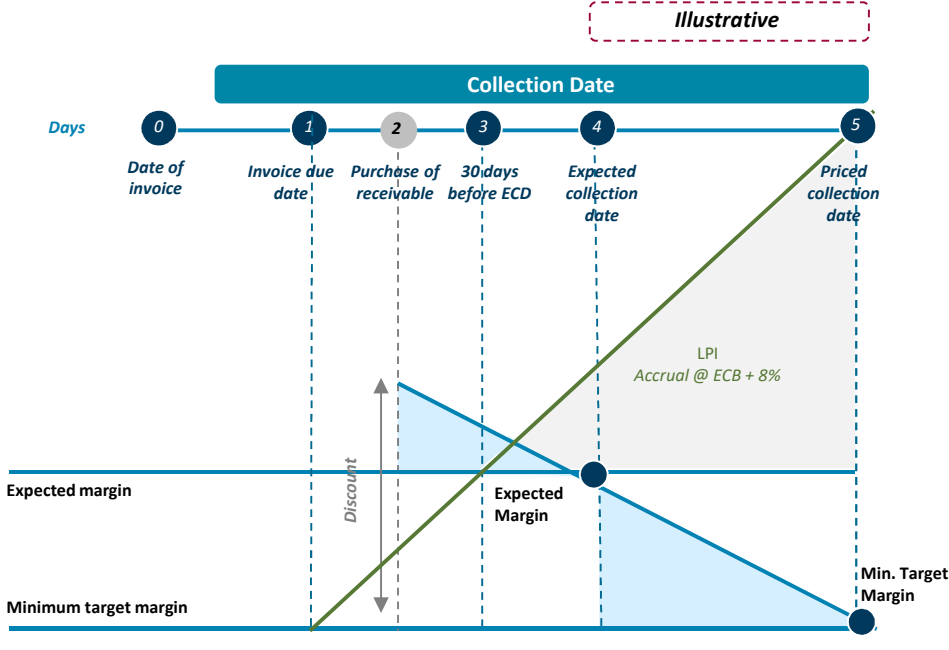
Factoring Business

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

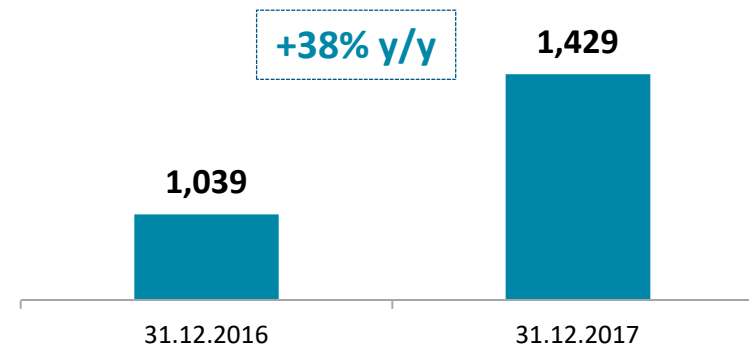
- **The collection leverages** on the strong relationships with PAs and is focused on the **late payment interest ("LPI") when it is necessary**
- Strong performance due to **excellence in collection versus suppliers**, generating **high margins through accelerated recovery periods**

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**

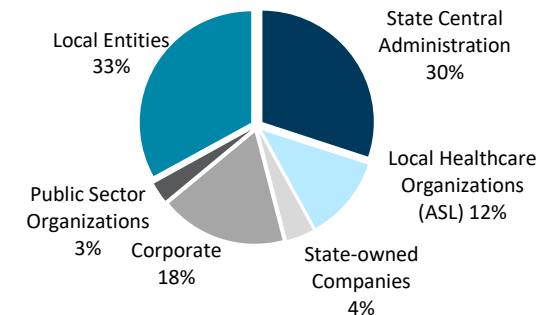
Factoring outstanding

€m



Outstanding breakdown by Obligor (31.12.2017)

PA accounts for 82%



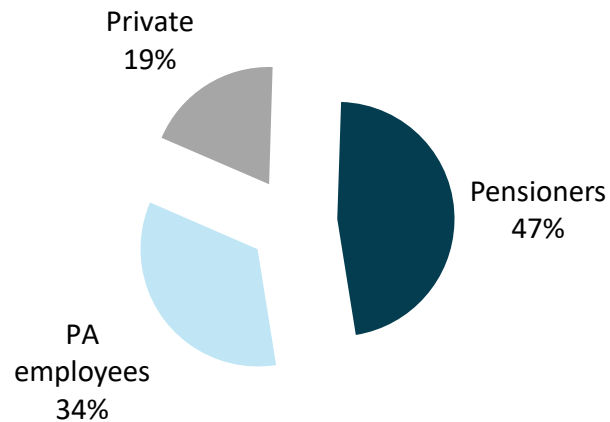
Note: Factoring outstanding management account.

Italian CQS/CQP market: Low risk Business

Key product items

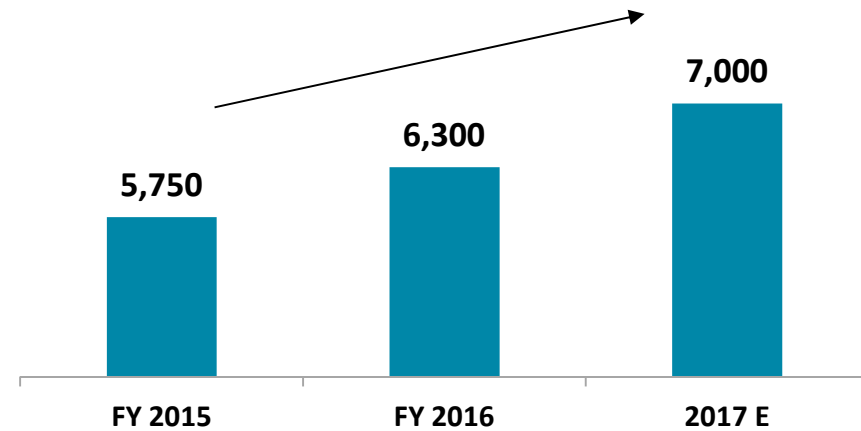
- A product established by the law of the 1950s
- The borrower's loan is repaid directly from their salary/pension, by the employer/INPS (Italian pension institution)
- Monthly installment cannot exceed 1/5 of the salary/pension
- The loan takes precedence over any seizure of salary/pension amounts
- 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

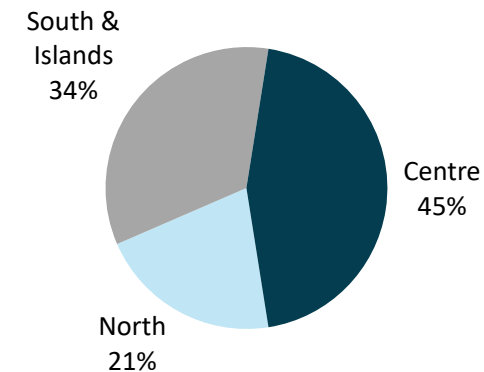


Volumes/ New production¹

€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 €258m in 2017, and we purchase monthly or bi-monthly
- Lower exposure to the Private component vs Market

Dedicated funding

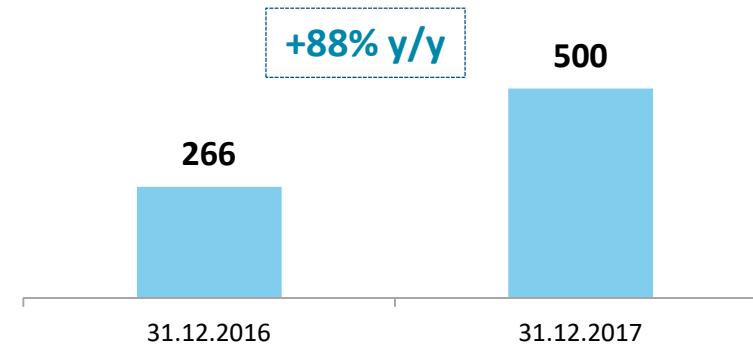
- A good portion of the assets is securitized, but consolidated in BST Balance Sheet
- Securitizations allow to get a cheaper funding through Repos (ECB and banks)

Low risk asset

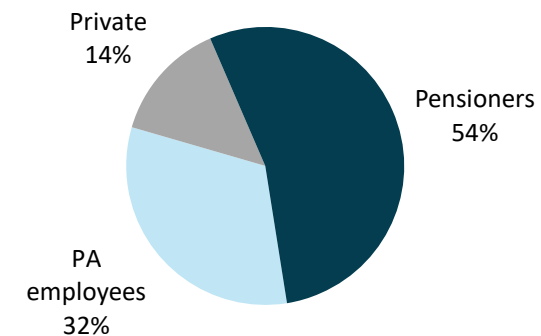
- CQS/CQP historically have registered very low PD and almost 0% LGD also thanks to the insurance

CQS/CQP Loans outstanding

€m



Outstanding breakdown by Type (31.12.2017)



II. FY 2017 Results

FY 2017 Results at a Glance

Commercial performance

- **FY 2017 Factoring Turnover +37% y/y, +27% y/y 9M 2017 vs. 9M 2016**
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS/CQP outstanding reached €500m, +88% y/y**

P&L

- **Net Interest Income equals to €70.7m**
- **Cost of funding stable y/y and lower LLPs y/y**
- **Total operating costs +4% y/y, in line with expectations for 2017**
- **Net Income at €26.8m**
- **2017 ROAE 22%, 19.5% excluding €3.7m gross LPIs not related to 2017**

Balance Sheet

- **Total funding well balanced between Retail and Wholesale**
- **LCR and NSFR above regulatory requirements**
- **CET1 ratio and TCR respectively 11.9% and 15.3%**
- **Dividend distribution of €0.086 per share (+13% y/y)**

Today the Board of Directors decided to approve the Business Plan before next AGM

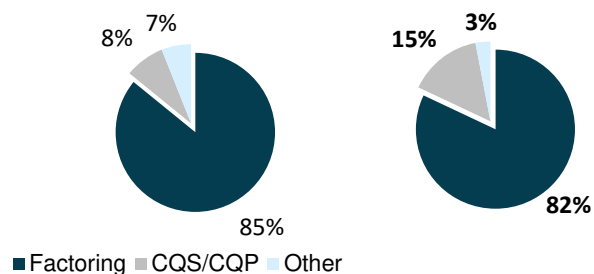
Note: FY 2016 figures include the contribution of Beta Stepstone from 01.07.2016 to 30.09.2016 (Beta Stepstone has been purchased on the 01.07.2016 and merged in BST on the 01.01.2017). 2016 P&L figures have been adjusted for the contribution to the National Resolution Fund (€1.3m gross) and integration expenses for the merger of Beta Stepstone (€0.3m gross).

FY 2017 – Income Statement

Figures in millions of Euro

	31.12.2016	31.12.2017	Difference %
Net interest income	71.0	70.7	-0.5%
Net fee and commission income	9.1	10.7	18%
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	1.2	0.9	-12%
Operating income	81.5	82.5	1%
Net impairment losses on loans	(9.8)	(5.4)	-45%
Net operating income	71.7	77.1	8%
Personnel expenses	(15.2)	(17.6)	16%
Other expenses	(21.5)	(20.5)	-5%
Operating expenses	(36.7)	(38.1)	4%
Profits from equity investments	2.3	(0.1)	nm
Pre-tax profit from continuing operations	37.3	38.9	4%
Taxes on income for the period/year from continuing operations	(10.9)	(12.1)	11%
Profit (loss) for the year/period attributable to the shareholders of the Parent	26.4	26.8	2%

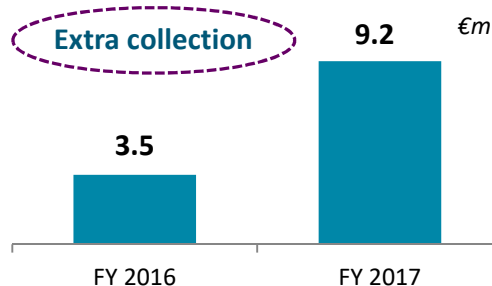
Net Interest Income Breakdown



FY 2016 - €71.0m

FY 2017 - €70.7m

Cashed-in Factoring LPIs



- **Factoring contribution to NII represents 82% of the total**
- **FY 2017 NII includes €9.6m of higher factoring LPIs** (from legal actions) following an accounting update of the accrual on non-Healthcare exposures (finalized in 3Q 2017). Accrual, on average is c.37% in 2017 and lower than LPI's collection historical evidence >80%
- **NII in FY 2017 includes €29.6m (€19.0m in 2016) factoring LPIs from legal actions of which:**
 - €9.6m LPIs accrual from the update of accounting, of which €3.7m are not related to this year
 - €11.9m LPIs extra collection (€6.8m in 2016), including €2.8m of a transaction in Q2 2017 (€3.3m in 2016)
- **Net Interest Income in 2017 has been influenced by** higher contribution from CQS/CQP loans (+€5.9m y/y), lower contribution from SMEs ptf (run-off business) and factoring, 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)
- **Net commission +18% y/y**
- **LLPs in 2017** mainly influenced by 1Q 2017 write-backs on factoring
- **Personnel expenses** reflect headcount growth, higher average salary and no-competition agreement
- **2017 Net Income, equal to €26.8m, is higher than that the 2016 stated Net Income, equal to €25.3m (2016 Normalised Net Income, €26.4m)**

Note: see Note of Slide n.13.

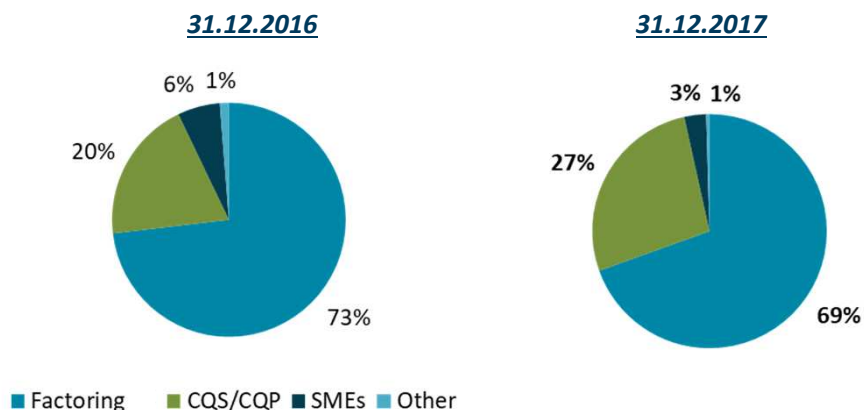
FY 2017 – Balance Sheet

Figures in millions of Euro

	31.12.2016	31.12.2017	Difference %
ASSETS			
Available-for-sale financial assets	515	286	-44%
Held to maturity	-	84	nm
Loans and advances to customers	1,348	1,850	37%
Tangible and Intangible assets	25	26	3%
Other assets	111	63	-43%
Total assets	1,999	2,309	16%
LIABILITIES AND EQUITY			
Due to banks	458	518	13%
Due to customers	1,262	1,284	2%
Debt securities issued	90	282	212%
Other liabilities	75	90	22%
Shareholders Equity	114	135	18%
Total liabilities and equity	1,999	2,309	16%

- **Govies' portfolio (€363m)** lower vs 2016 year-end following the decrease of the AFS component not compensated by the HtM position built in 2017
- **Loans to customers, +37%:**
 - **Factoring receivables** up +30% y/y, equal to €1,286m, thanks to the turnover originated in 2017
 - **CQS/CQP loans (€500m)** increase y/y is due the loan purchases in 2017
- **Due to banks** up y/y mainly for higher Interbanking (with a ~2 months residual maturity), with a lending from ECB stable vs year-end and q/q
- **Due to customers** stable vs 2016 year-end due to the combination of less Repos (-€80m) related to the reduction of the Govies' ptf and of higher current accounts (+€73m). Term deposits are stable y/y and q/q
- 2017 figures of the item **Debt securities issued** include €16.5m TIER II bond and €175m Senior bond

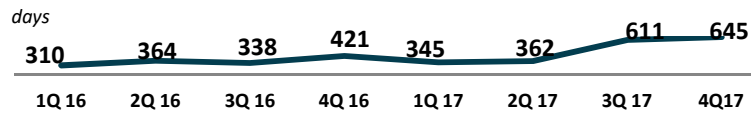
Loans to customers Breakdown



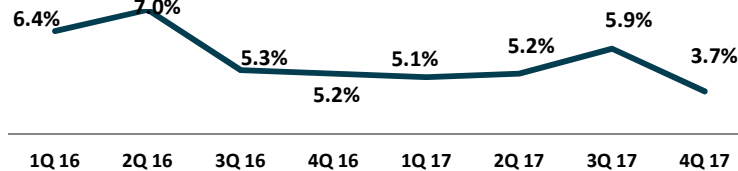
Stable factoring profitability

How we originate new business:

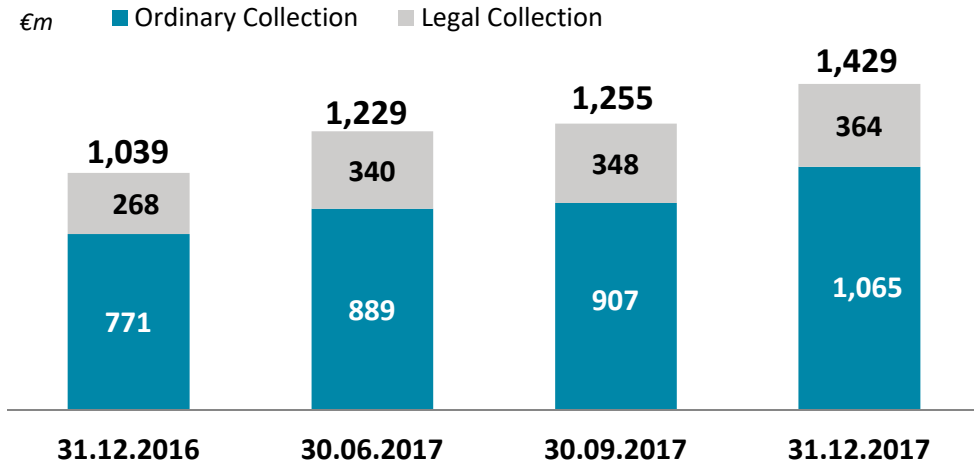
Funding period based on Expected Collection date ("DFS")



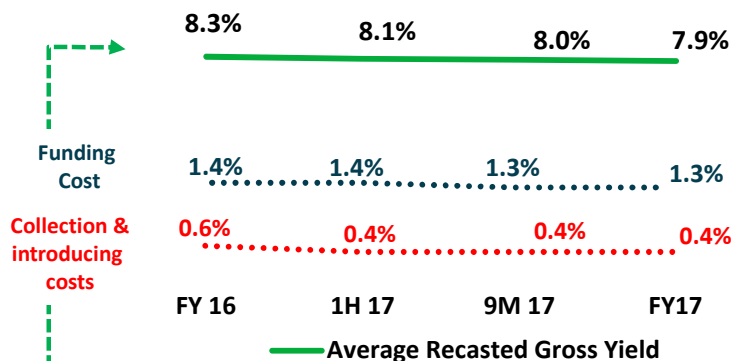
Target Yield at Expected Collection date ("DFS")



Factoring Outstanding Evolution



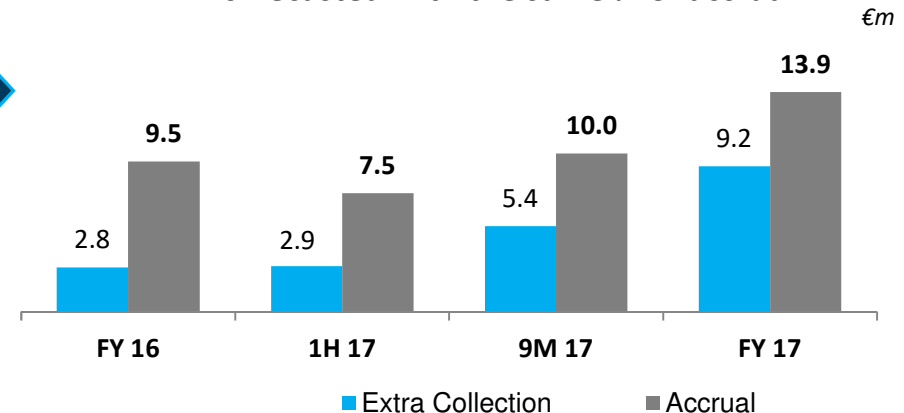
Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



Gross Yield includes Commission Income: €11.5m in 2017; €8.0m in 9M 17; €4.9m in 1H 17; €9.1m in FY 16.

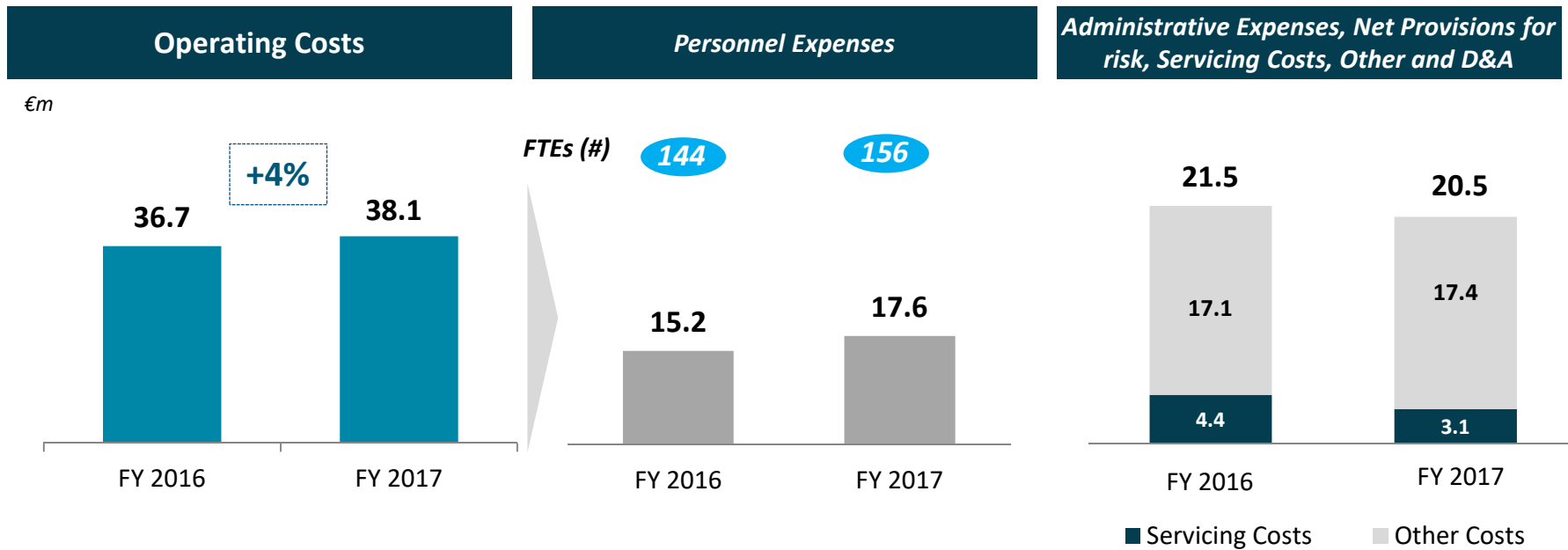
FY 2016 do not include Beta Stepstone.

LPIs Recasted with the same % of accrual

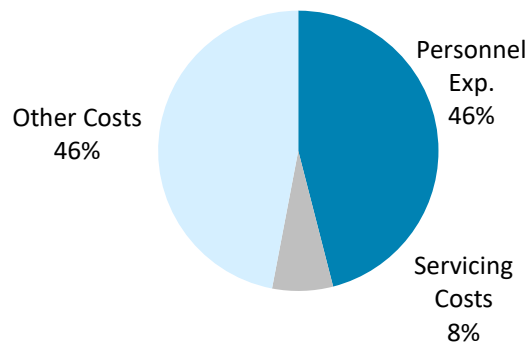


Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data and the component under legal collection include also deteriorated exposure that do not generate LPIs.

Operating costs slightly higher y/y, line with expectations



Operating Costs Breakdown

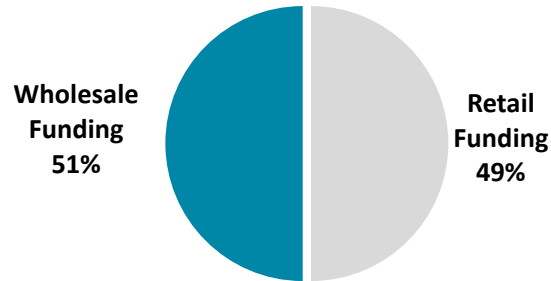


- Personnel Expenses increase due to higher average salary, higher headcount and a new no-competition agreement (€1m in 1H 2017)
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution Fund (in 1H 2017) and €0.4m for the Deposit Scheme (in 4Q 2017)
- Other Costs growth y/y mainly driven by IT expenses
- FY 2017 Cost Income equals to 46%

Note: see Note of Slide n.13.

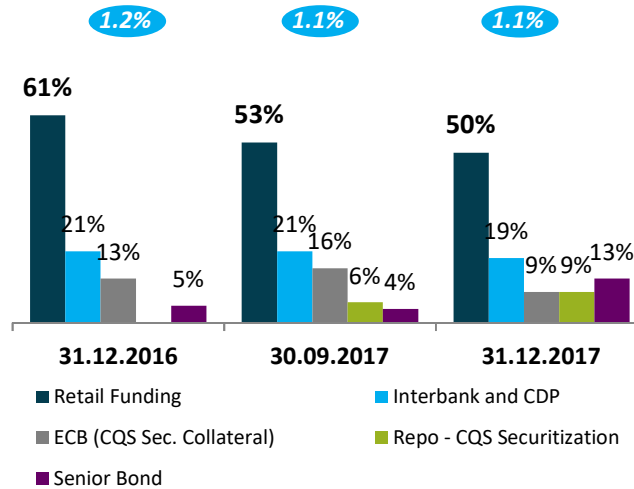
Higher diversification and stable cost

Total Funding Breakdown



Core Business Funding Breakdown

Core Funding Cost



- Term Deposits stock is stable q/q and up y/y, average cost was also almost stable q/q and y/y

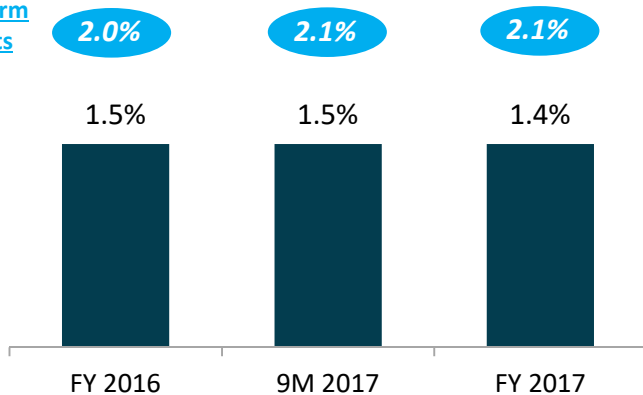
- Current account stock up y/y and q/q

- ~30% 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

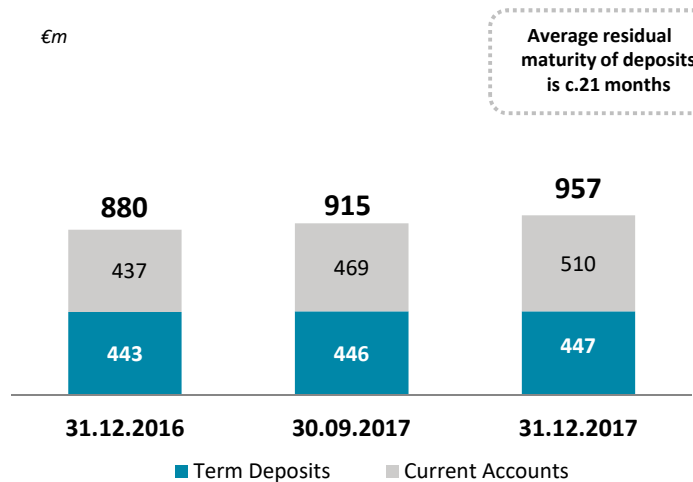
Retail Funding Cost

Cost Term Deposits



Retail Funding

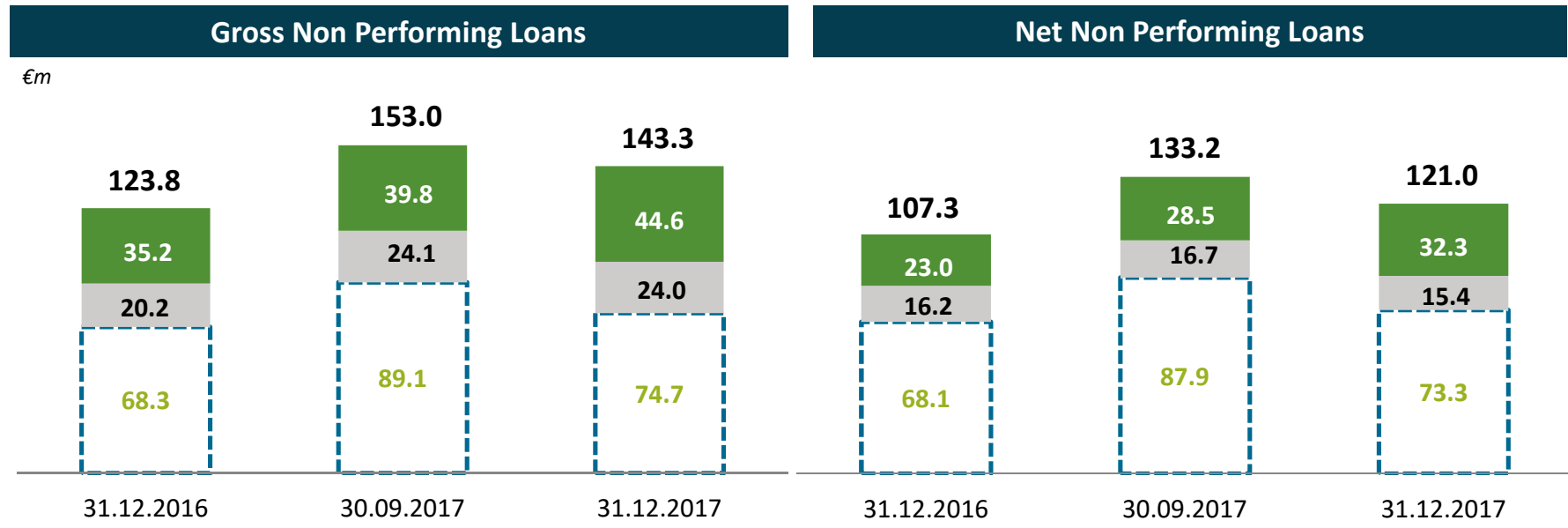
€m



- 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 financial institution

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).

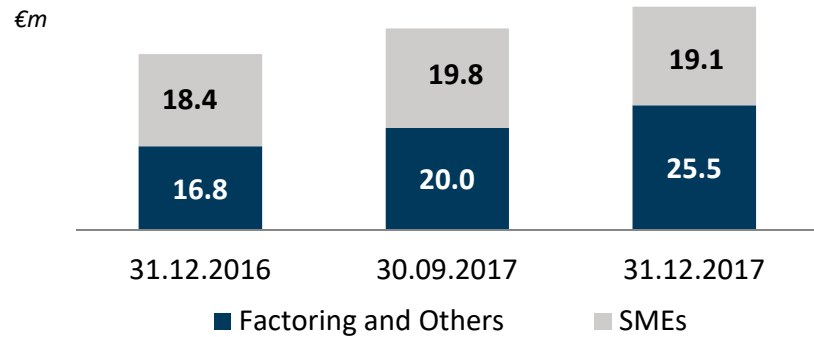
Asset Quality driven by factoring business



□ Past-dues
 ■ Unlikely to pay
 ■ Bad loans

PA exposure deriving from ordinary business

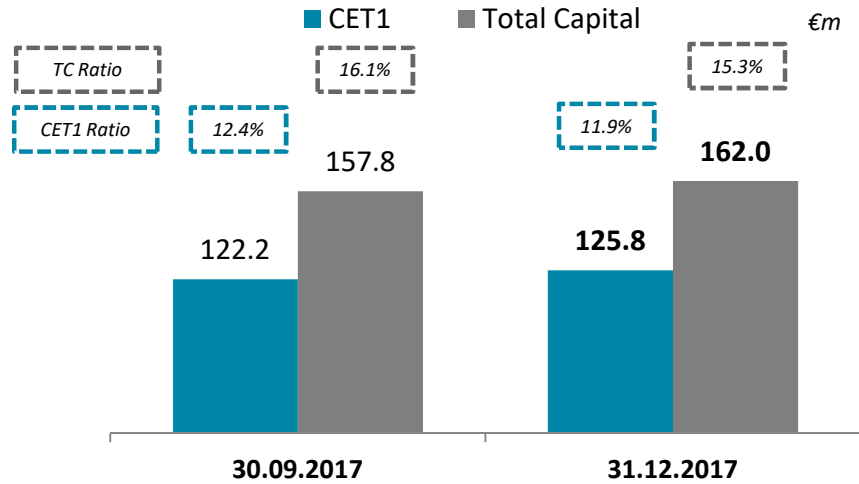
Gross Bad loans breakdown



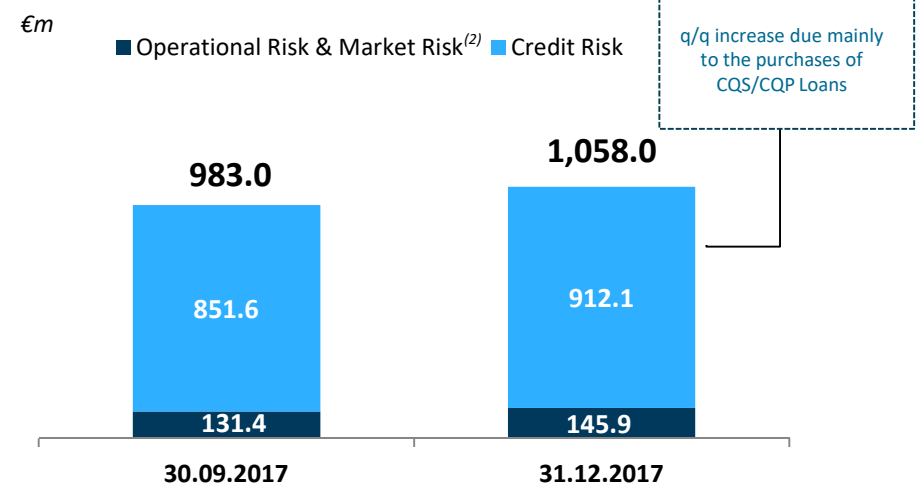
- Net Bad Loans represents 1.7% of total loans in line q/q
- Bad loans slight increase q/q was due to some deterioration of factoring positions (Municipalities)
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection
- FY 2017 Loan loss provisions lower y/y, including factoring release of the 1Q

Regulatory Capital well above minimum requirements

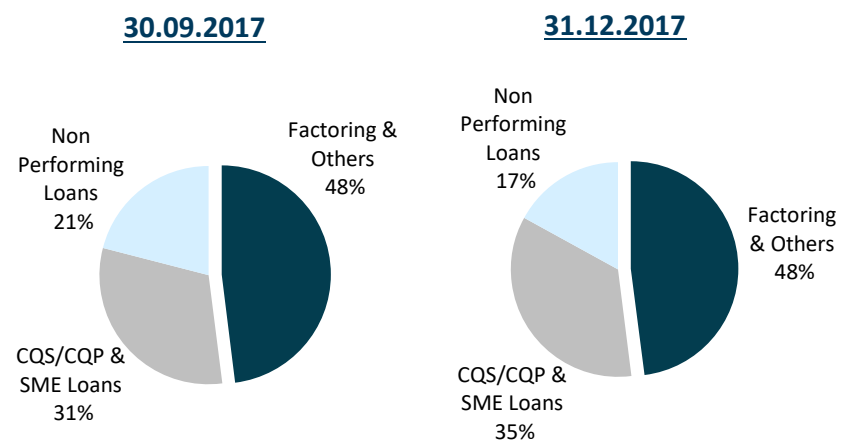
CET1 and Total Capital⁽¹⁾



RWA breakdown



RWA – Credit Risk



2018 SREP requirements:

- CET1 ratio: 7.125%
- TC ratio: 11.225%

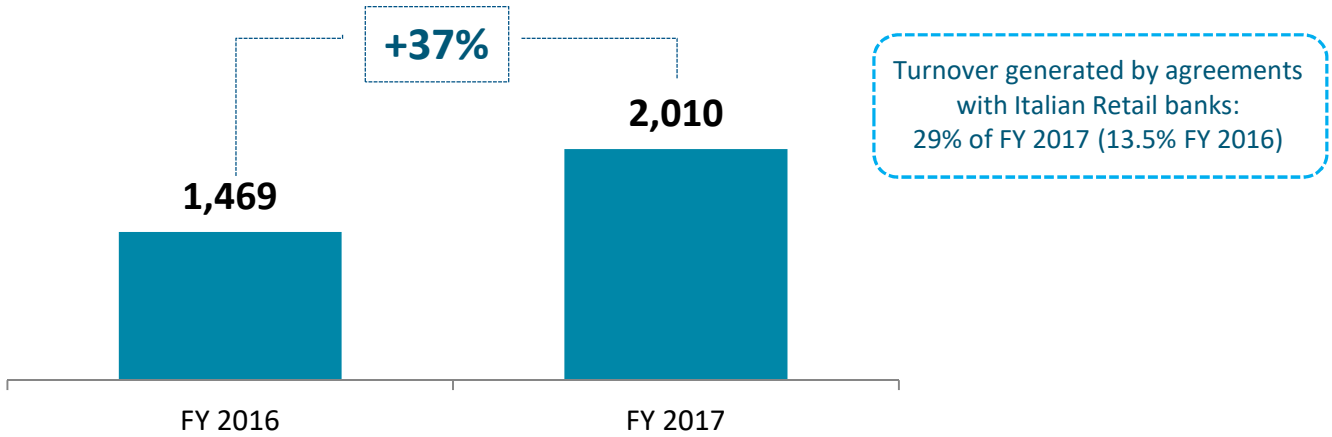
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €0.9m as at 30.09.2017 and €2.4m as at 31.12.2017.

Annexes

Factoring Turnover

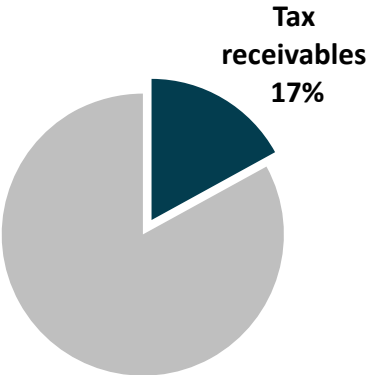
Factoring Turnover

€m

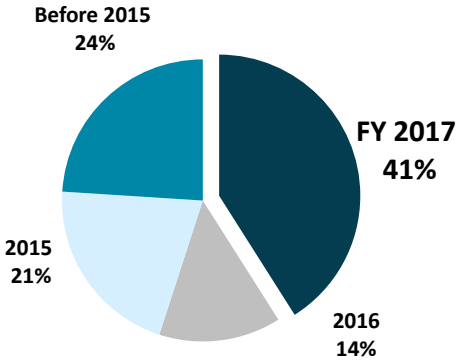


2017 Factoring Turnover breakdown

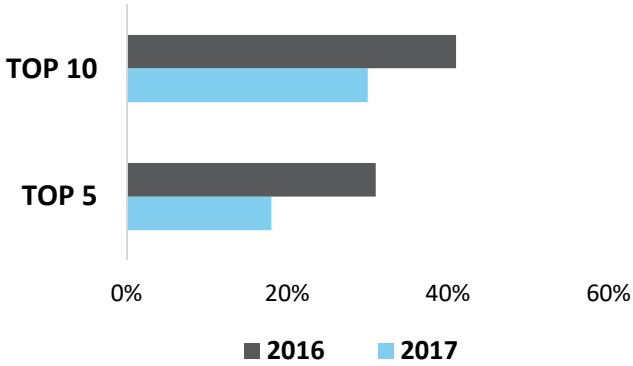
By Type



By Year of Customer's Acquisition



Customer Concentration



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%

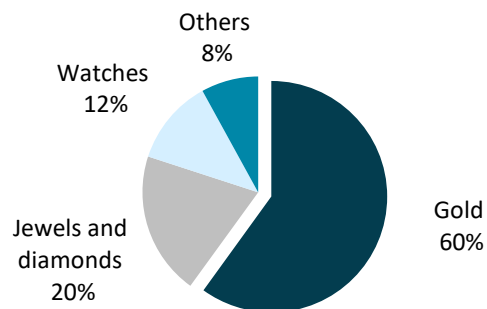
Interest/ Revenues

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 1H 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

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