BANCA
SISTEMA
CONTEMPORARY BANK

# Group Profile

September/October 2016



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# Agenda

I. Overview of Banca Sistema

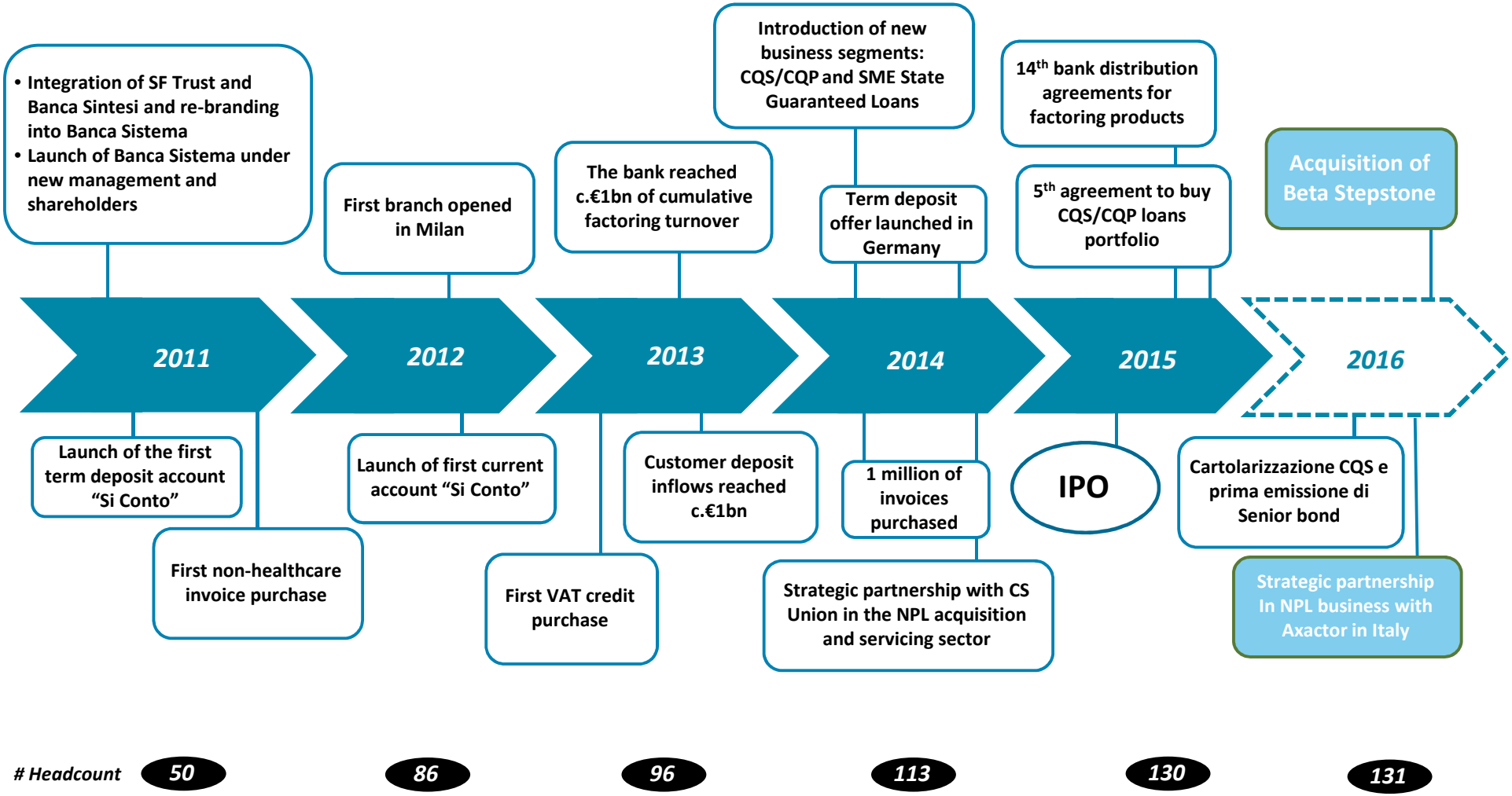
II. Focus on Factoring

III. 1H 2016 Results

*Appendix*

# I. Overview of Banca Sistema

# Key Stages of Banca Sistema's Development






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# 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<br>• Mission to support corporate entities in their business dealings with the Public Administration |
| ***A Large and Underpenetrated Market:***<br>***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)<br>• 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:***<br>***Key Core Expertise in Public Administration Receivables Factoring*** | • We specialize in the purchase at a discount to face value of healthcare, commercial and VAT receivables owed by Italian Public Administration to our clients<br>• Receivable payments from Public Administrations in Italy have consistently experienced long delays, despite the introduction of the EU directive on late payments<br>• 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:***<br>***A Clearly Defined Strategy Relying n a Stable Business Model*** | • We focus on building strong relationships with clients and PA obligors, adopting a non-confrontational and non-litigation focused approach to collections<br>• We do not rely on active collection of late payment interest ("LPI") from Public Administrations |

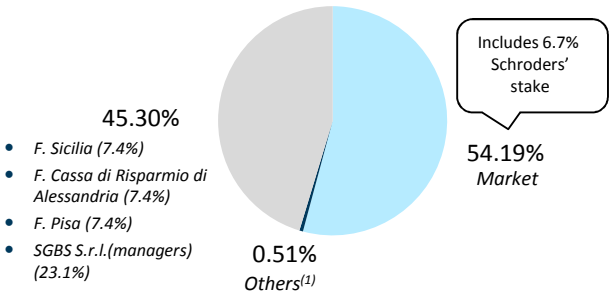
*Note: (1) Source: Factors Chain International.*

# Snapshot of Banca Sistema Today

## 1H 2016 Results

| | |
|---|---|
| **Factoring Turnover** | **€0.7bn (+16% y/y)** |
| **Net Income** | **€15.7m (+17% y/y)** |
| **Cost Income** | **44%** |
| **Leverage Ratio** | **6.3%** |
| **Total Capital Ratio** | **17.3%** |
| **ROAE** | **29%** |

## Shareholders Structure




- *Shareholder agreement between the three Banking Foundations and SGBS*
- *3 year lock up period for the remaining 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).*



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# What We Do

## Business Segments Overview

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**Core business**

### Receivables Factoring

- Public Administration and private clients
- Healthcare, Commercial, VAT receivables and VAT from insolvency proceedings
- Total turnover of €0.7bn as of 1H 2016

**Complementary businesses built on core expertise**

### Specialised Financing

#### CQS/CQP

- CQS / CQP (Salary and Pension Guaranteed Loans) through several agreements with third parties
- Total outstanding of €182m as at 30.06.2016

#### SMEs State Guaranteed Loans

- Loans to SMEs with State Guarantee (covering up to 80%)
- Total outstanding of €84m as at 30.06.2016

### 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

**Segments providing funding for core activities**

### Funding

#### Retail Banking & Other Corporate / Institutional Clients

- Current accounts and term deposits with c.15k customers for a total of €743m stock as at 30.06.2016
- Providing a stable funding base for the Bank's core business activities

#### Treasury Activities

- ALM / Liquidity
- €0.4bn of the securities portfolio comprised entirely of Italian T-bills

# 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**

| PA Suppliers (Banca Sistema Clients) | PA Obligors |
|---|---|
| **Leading multinationals and corporates**<br>Main Sectors:<br>• Utilities<br>• Telecom<br>• Healthcare<br>• Services<br>• Transportation | **Local Entities (regions and municipalities)**<br>**Local Healthcare Organizations ("ASLs")**<br>**State Central Administrations** |

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**Bridge between private and public sector**

- **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*

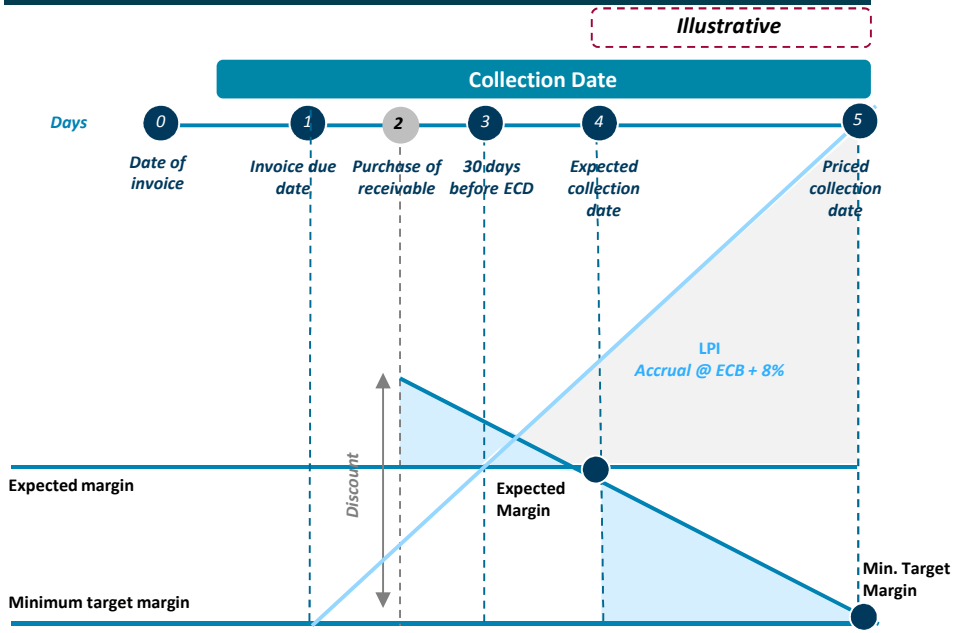
**Banca Sistema's experience and capabilities allow to accurately forecast the expected collection date for each receivable, thus allowing for precise pricing decisions**

### Receivables Factoring - Key Dates

Days Sales Outstanding (DSO) of the receivable

| | | |
|---|---|---|
| 0 | Date of Invoice | • Date of original invoice |
| 1 | Invoice Due Date | • 30/60 days after invoice[1] |
| 2 | Purchase of receivable | • Start of ordinary collection activities |
| 3 | 30 days before Expected Collection Date | • Start of accelerated collection activities |
| 4 | Expected Collection Date (ECD) | • Number of collection days estimated for each specific debtor based on company's proprietary tools, analysis and experience |
| 5 | Priced Collection Date (PCD) | • **Estimated conservative date of payment on which the pricing to the client and underwriting is based**; estimated for each debtor based on company proprietary tools and analysis |

### 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.*



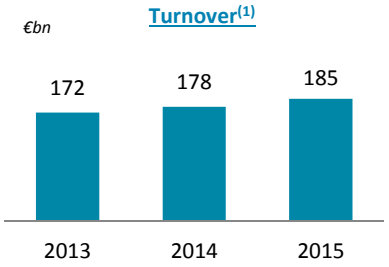
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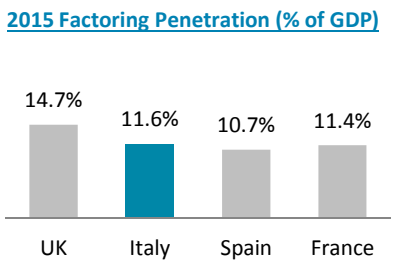
## II. Focus on Factoring

# An Attractive Market Opportunity

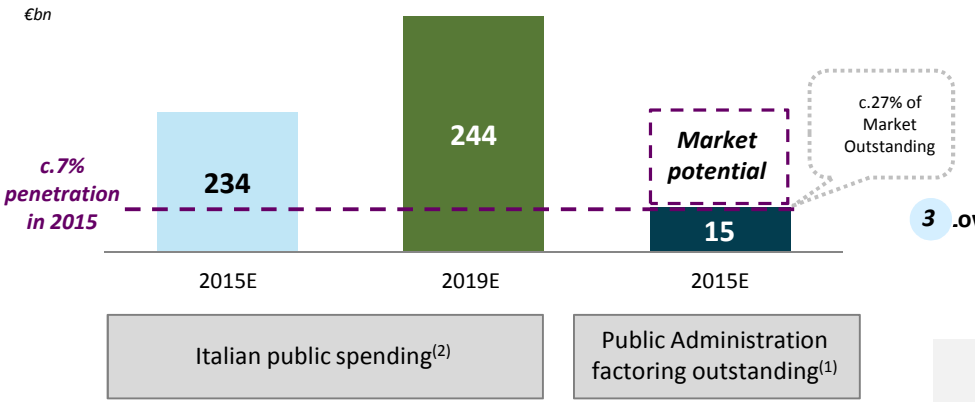
## Large and still underpenetrated market with significant growth potential..

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



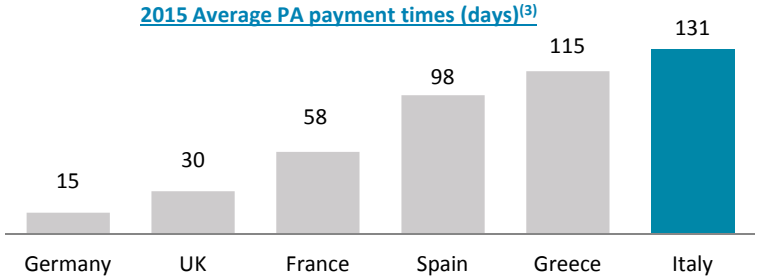




**As of 2015, Italy's annual estimated public spending amounts to c.€234bn and is expected to grow to c.€244bn by 2019(2)**

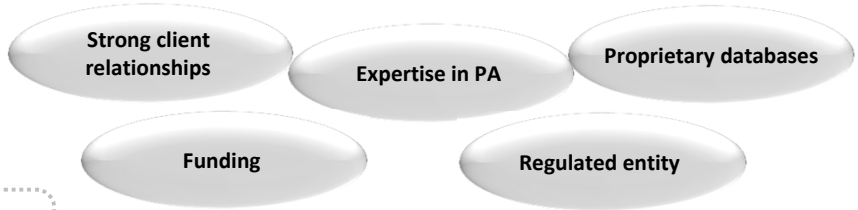



## ..With key market features highlighting a unique opportunity

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




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




**3** **Low risk business with credit exposure primarily towards public entities**

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

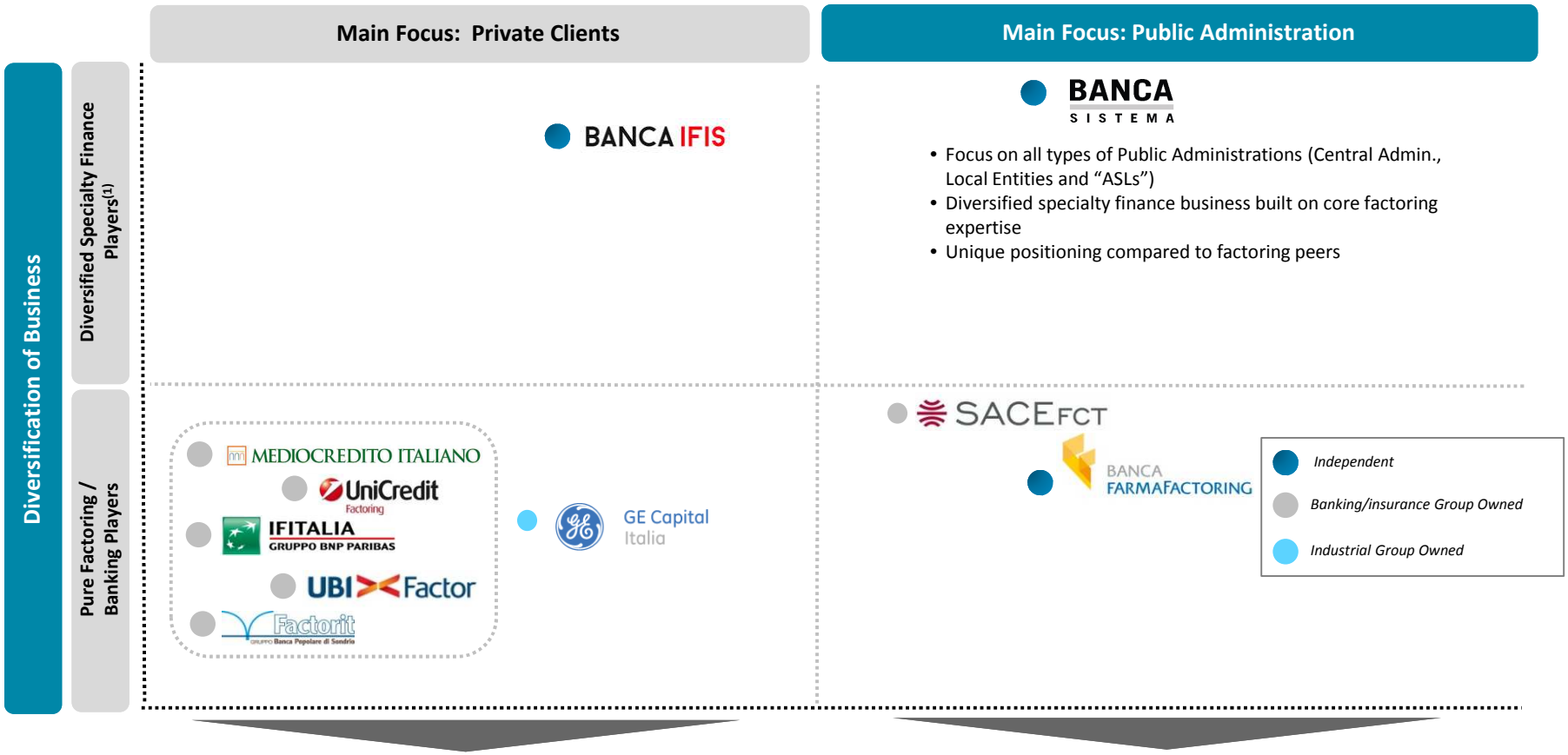
*Note: 1. Source: Assifact and Factor Chain International; 2. Source: MEF (Documento di Economia e Finanze 2015 – Analisi e tendenze della finanza pubblica). Including spending for goods and services and gross fixed capital formation; 3. Intrum Justitia as of 2016.*



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# Key Players' Positioning in the Italian Factoring Market

**Uniquely positioned to thrive in the factoring market**




*Note: 1. Operating in other segments apart from factoring and traditional retail deposits gathering.*



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# Factoring business leverage on a well balanced network

## Sales Team Members

- **14 Origination resources**
- **6 Relationship Managers**




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

## Diversified Distribution Channels

- **The origination team consists of 20 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<br>• **14 Commercial agreements** in place<br>• 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 |



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# Barriers to Entry

**High barriers to entry limit competition and new entrants in Banca Sistema core market**

| | |
|---|---|
| **Track Record, Experience and Network of Relationships** | • We have built a **strong track record** over the years as our core factoring business has been operational since 2007 (from 2007 to 2011, under the name "SF Trust")<br>• **We have established relationships** with more than **2,500** PA entities and almost **300** corporate clients |
| **Analytical Capabilities** | • **We have a proprietary database tracking more than 2,500 debtors payment times which dates back to 2002, constantly updated and improved** through information we receive from our clients when acquiring receivables |
| **Banks Might Have Internal Limits to Public Administration Exposure** | • **Italian Banks might have internal limits on the amount of exposure they might have towards the Public Administration**/ Public Sector, as such, expected competition by other banks is limited as they might exceed their target exposure<br>• Additionally, some of the leading Italian Banks perform treasury activities for the PA, thus embedding an internal conflict of interest vis-a-vis the collection / factoring activities<br>• **Loans and other financing products** (which might be a substitute of the factoring of PA receivables), **granted by Italian banks, are subject to a more penalizing risk weighting vis-a-vis the direct purchase of PA receivables**. Italian banks might be forced to reduce the financing of PA receivables, in order to minimise capital absorption |
| **Banking License** | • **Strong preference by factoring clients to deal with a banking entity**<br>• A **banking license is necessary to access the funding sources at sustainable prices (Retail Deposits and Interbank / ECB) required** for the acquisition of factoring receivables<br>• **Obtaining a banking license in Italy is a lengthy process limiting potential initiatives for new entrants** |
| **Collection Network** | • **We currently have 17 employees fully dedicated to the collection of receivables, with team members having more than 20 years of experience in the field**<br>• **We have built a nationwide network of 14 external collectors which are tied to us through commercial agreements and two Companies specialised in collections from PA** |

# III. 1H 2016 Results

# 1H 2016 Results at a Glance

## P&L

- **Net Income +17% y/y reached at €15.7m**, includes €6.9m gross for the accrual of the factoring LPIs and €2.3m gross for the sale of 15.8% stake in CS Union (NPLs)
- **€34.6m Net Interest income +20% y/y** including the accrual of the LPIs, factoring remains the main contributor with a weight on total for 88%
- **Stated ROAE 29%**

## Strong commercial performance

- **1H 2016 Factoring Turnover +16% y/y, targeting by year-end a +20% growth**
- **VAT Turnover** growing at > 60% y/y
- **CQS + SMEs outstanding** reached €266m, **+113% y/y**

## Balance Sheet

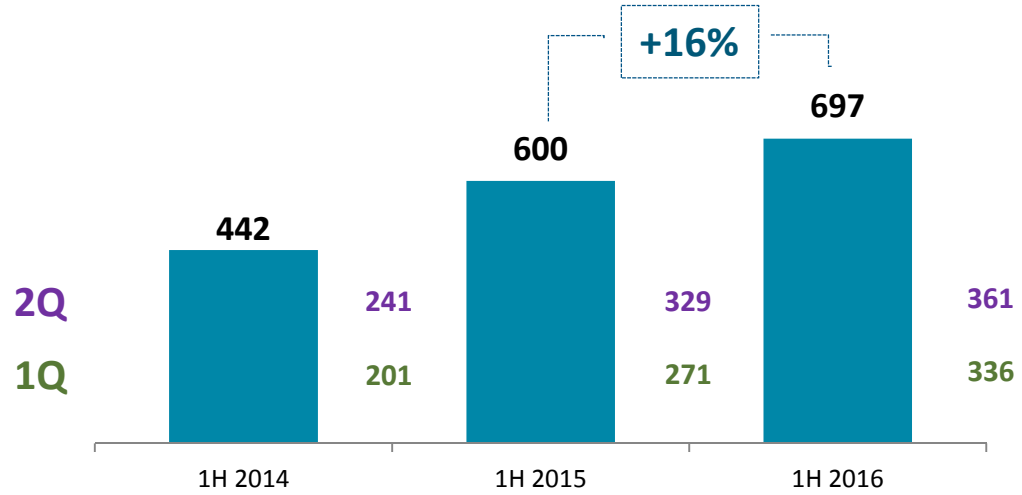
- Ahead of Brexit, reduction of the Italian T-bills ptf from €0.9bn in 1Q 2016 to €0.4bn
- Thanks to a well diversified funding **LCR** is far above regulatory threshold
- **CET1** and **TCR** reached respectively **14.4%** and **17.3%**; Beta Stepstone's acquisition finalized in July will absorb ~70bps

*Note: 1H 2015 Net Income does not include net non-recurring items related to the IPO (€4.7m).*

# Targeting a FY 2016 Factoring Turnover growth of 20%

## Factoring Turnover

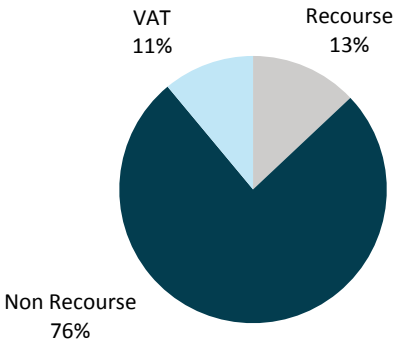
*€m*




Origination Banking Network represents 11% of 1H 2016 Turnover (5% in 1H 2015)

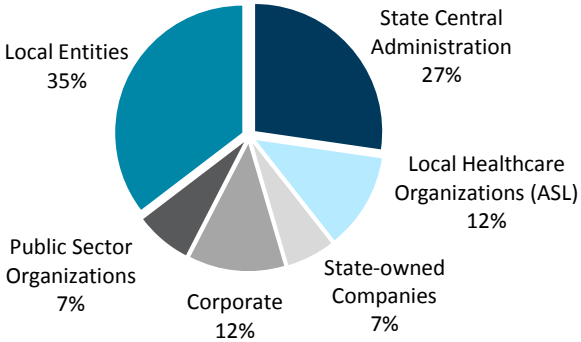
## Factoring Outstanding Breakdown - €997m (+11% y/y)

***By Type of Product***

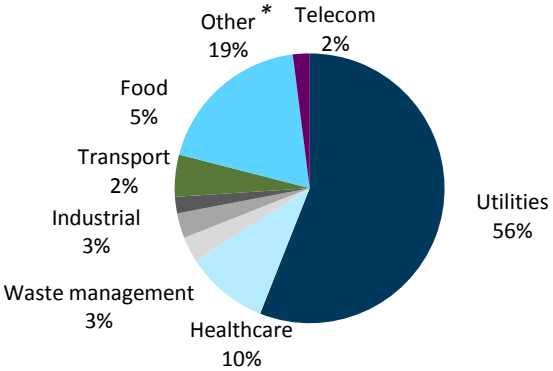



***By Obligor***

**PA accounts for 88%**




***By Client***



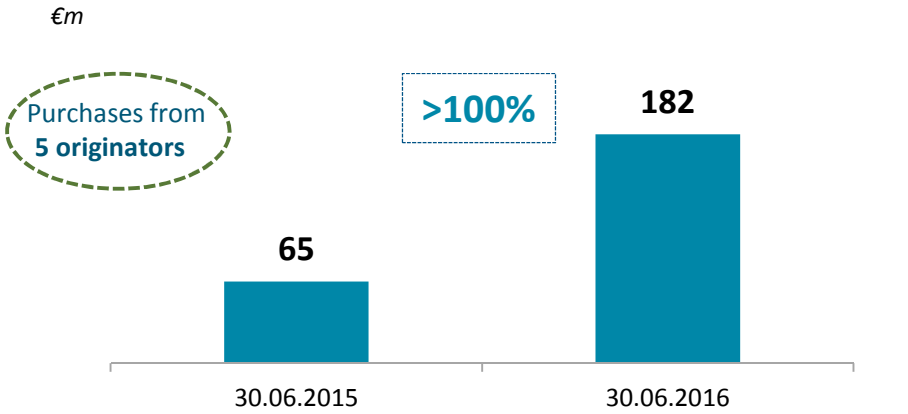

*Note: (*) It includes among others industries: services, entertainment, agriculture and IT.*



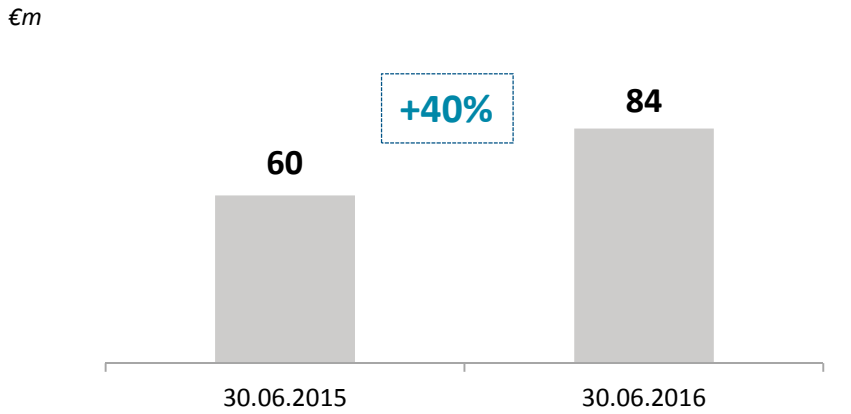
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# CQS/CQP and SME loans represent today 22% of Total Loans

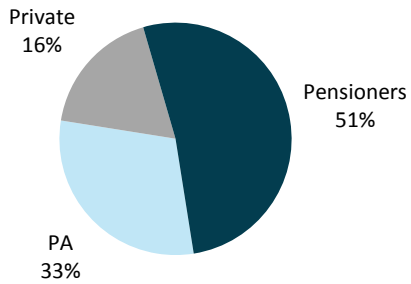
## CQS/CQP Loans outstanding




## SME State Guaranteed Loans outstanding



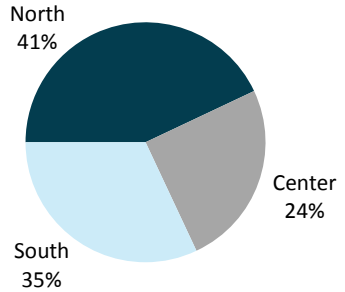

## Outstanding breakdown by Type (30.06.2016)




CQS:

- 84% Public (51% Pensioners)
- Average Gross Yield 4.1%, Q2 2016 in line with Q1 2016
- Average contractual duration of 9.6 years

## Outstanding breakdown by Geography (30.06.2016)




SMEs State Guaranteed Loans:

- More competition from commercial banks
- Average Gross Yield 6.6%, Q2 2016 in line with Q1 2016
- Average duration of 4.3 years



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# 1H 2016 – Income Statement*

*Figures in thousands of Euro*

| | 30.06.2016 A | 30.06.2015 B (Normalized) | Difference % A - B |
|---|---|---|---|
| **Net interest income** | **34,647** | **28,951** | **19.7%** |
| Net fee and commission income | 4,415 | 5,853 | -24.6% |
| Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value | 803 | 2,060 | -61.0% |
| **Operating income** | **40,092** | **36,864** | **8.8%** |
| Net impairment losses on loans | (3,130) | (2,091) | 49.7% |
| **Net operating income** | **36,962** | **34,773** | **6.3%** |
| Staff costs | (7,466) | (6,528) | 14.4% |
| Other expenses | (10,000) | (9,078) | 10.2% |
| **Operating expenses** | **(17,466)** | **(15,606)** | **11.9%** |
| Profits of equity-accounted investees | 2,241 | 221 | 914.0% |
| **Pre-tax profit from continuing operations** | **21,737** | **19,388** | **12.1%** |
| Taxes on income for the period/year from continuing operations | (6,052) | (6,029) | 0.4% |
| **Profit (loss) for the year/period attributable to the shareholders of the Parent** | **15,685** | **13,359** | **17.4%** |

- **NII includes** €6.9m of accrued LPIs, representing 15% of the LPIs due, on the legally actioned invoices (in the past booked on a cash based) €5m are related to prior years
- **NII has also been influenced by:** lower cost of funding; higher contribution from CQS/CQP and SME loans
- Lower contribution from our short term Italian Government **bond portfolio (-61%)**
- **Higher LLPs** as a consequence of the SMEs portfolio's deterioration and outstanding growth, stable cost of risk
- **Personnel expenses** reflect headcount growth y/y
- **Net Income** in 1H 2016 includes also the gain from the sale of CS Union gross of €2.3m

*Note: 1H 2015 Net Income does not include net non-recurring items related to the IPO (€4.7m).*

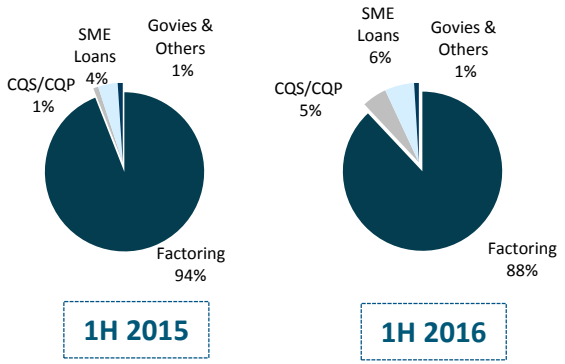
# 1H 2016 – Balance Sheet

| | 30.06.2016 A | 31.12.2015 B | Difference % A - B |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 90 | 104 | -13.5% |
| Available-for-sale financial assets | 411,422 | 925,402 | -55.5% |
| Loans and advances to banks | 49,701 | 2,076 | 2294.1% |
| Loans and advances to customers | 1,192,757 | 1,457,990 | -18.2% |
| Equity investments | 990 | 2,696 | -63.3% |
| Property, plant and equipment | 938 | 1,058 | -11.3% |
| Intangible assets | 1,846 | 1,872 | -1.4% |
| *of which: goodwill* | *1,786* | *1,786* | *0.0%* |
| Tax assets | 3,679 | 7,353 | -50.0% |
| Other assets | 17,216 | 13,119 | 31.2% |
| **Total assets** | **1,678,639** | **2,411,670** | **-30.4%** |
| **LIABILITIES AND EQUITY** | | | |
| Due to banks | 352,713 | 362,075 | -2.6% |
| Due to customers | 1,069,141 | 1,878,339 | -43.1% |
| Debt securities issued | 90,325 | 20,102 | 349.3% |
| Tax liabilities | 3,067 | 804 | 281.5% |
| Other liabilities | 57,291 | 55,317 | 3.6% |
| Post-employment benefits | 1,464 | 1,303 | 12.4% |
| Provisions for risks and charges: | 279 | 372 | -25.0% |
| Share capital, share premiums, reserves, valuation reserves and treasury shares | 88,674 | 75,751 | 17.1% |
| Profit (loss) for the year | 15,685 | 17,607 | -10.9% |
| **Total liabilities and equity** | **1,678,639** | **2,411,670** | **-30.4%** |

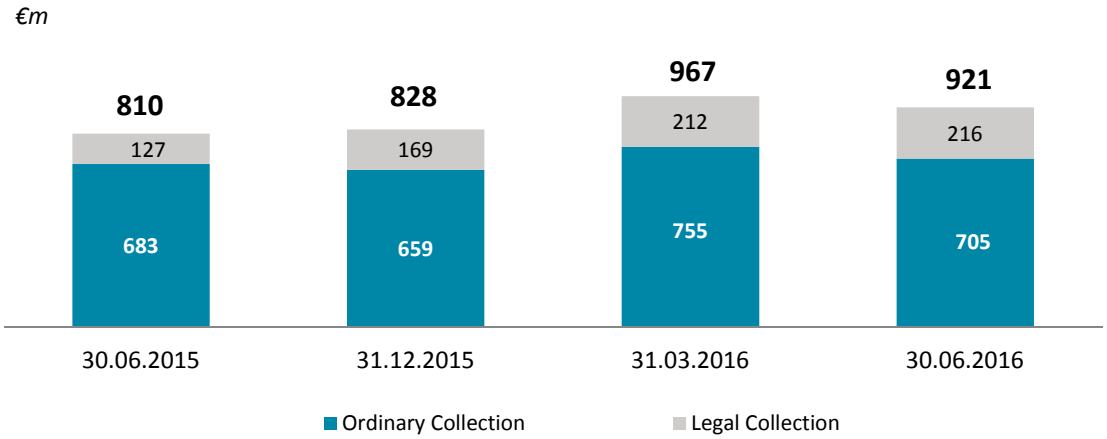
- **Govies AFS portfolio decrease from €0.9bn to €0.4bn** with a residual duration of 5 months
- Govies ptf reduction influenced as well as the reduction of REPO both on Assets side and Liabilty side of the Balance Sheet
- **Factoring receivables** slightly lower with yearly business growth and cyclical concentration of purchases in December
- **CQS/CQP** increase due to further loan purchases
- **Due to banks**: decrease on **Interbank** and increase on **ECB** funding (TLTRO II)
- **Lower Retail funding** in line with business needs and funding diversification
- **Total own funds at €119m (TCR 17.3%) and CET1 at €99m (ratio 14.4%)**

# Factoring represents the main source of revenues

## Net Interest Income Breakdown

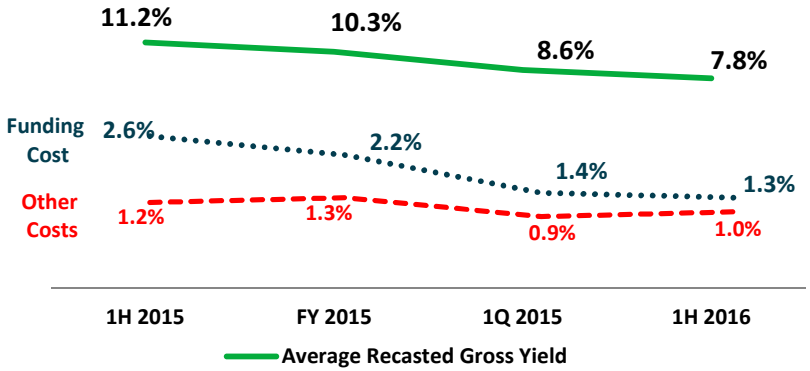



## Factoring Average Outstanding Evolution




- Factoring represents 88% of Net Interest Income

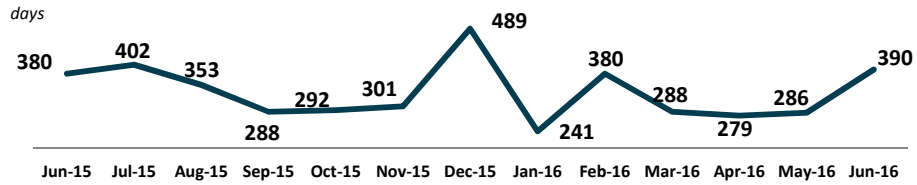
## Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



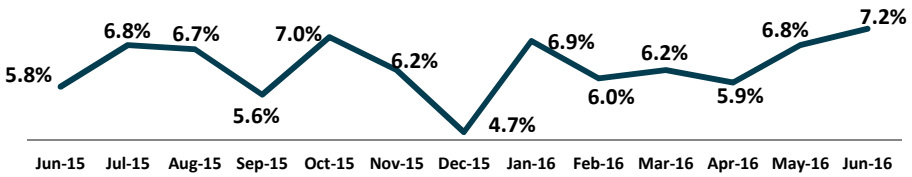

Gross Yield includes Commission Income: €4.6m in 1H 2016; €2.4m in 1Q 2016; €10.9m in FY 2015 and €5.8m in 1H 2015
Other Costs include among others Legal and Servicing expenses equal to: -0.5% in 1H 2016; -0.6:% in 1Q 2016; -0.9% in FY 2015 and -0.8% in 1H 2015

## How we originate new business:

### Priced Duration ("DFS")




### Factoring Priced Yield "DFS"




*Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk.*

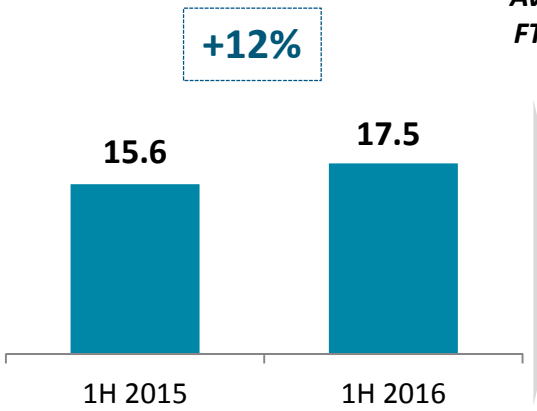


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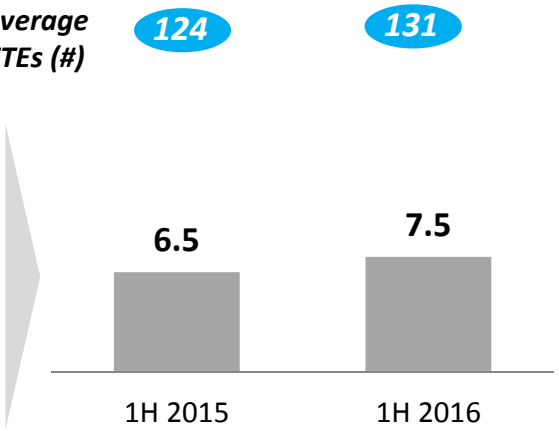
# Costs ex. some components in line with expectations

## Operating Costs*

€m



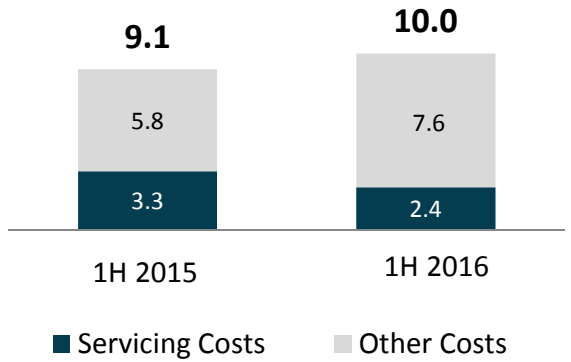

## Personnel Expenses*



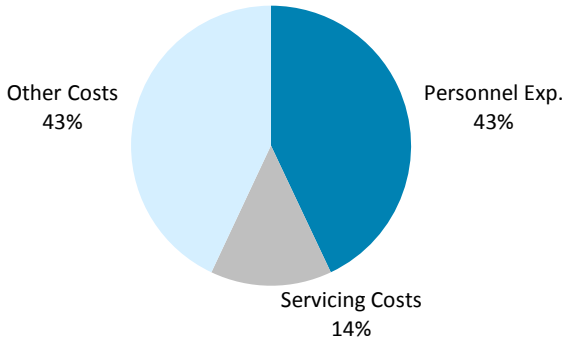

## Administrative Expenses, Net Provisions for risk, Servicing Costs, Other and D&A*

- -€0.6m contribution to National Resolution Fund and +€0.3m rebate from the Fund
- -€1m for M&A fees and CQS Sec.

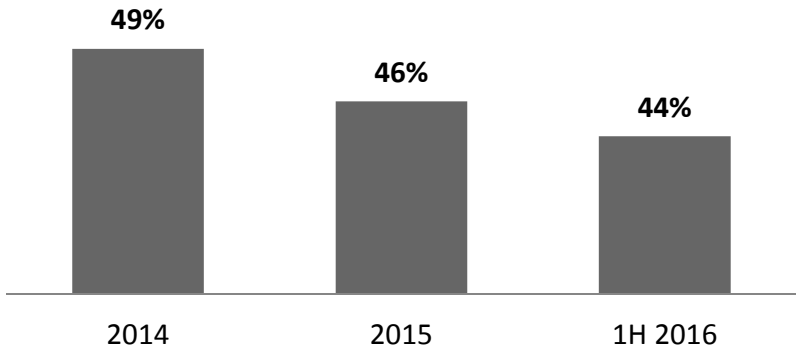
No further volutary contribution is expected




## Operating Costs Breakdown




## Cost Income Ratio*



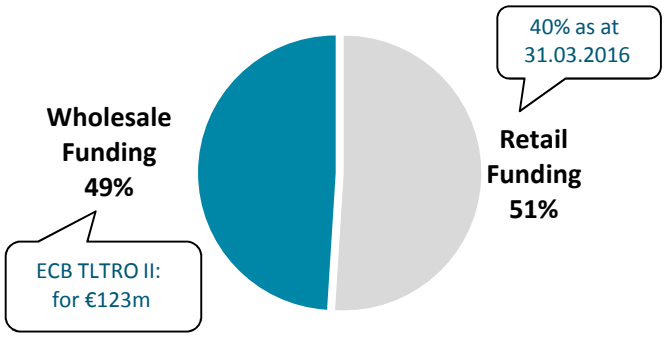

*Note: (*) 1H 2015 Costs and related ratios do not include non-recurring items.*



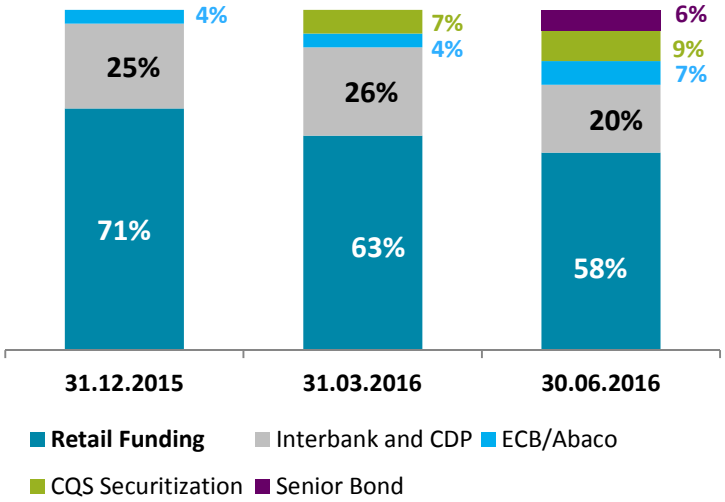
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# Funding strategy focused on diversifying

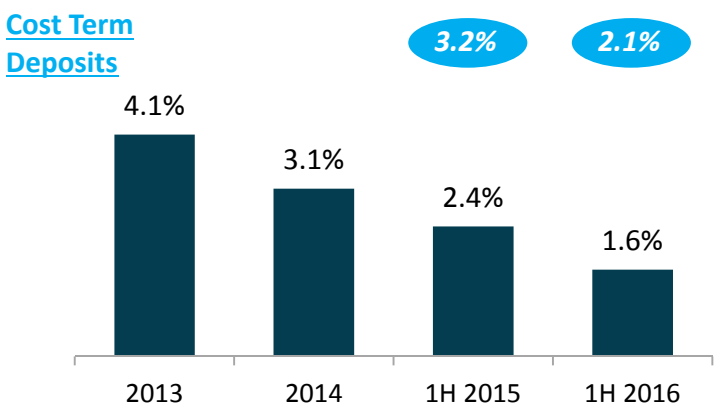
## Total Funding Breakdown



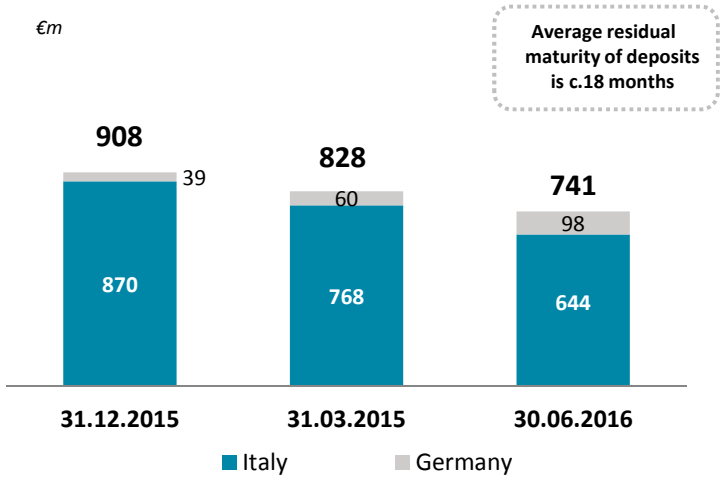

## Core Business Funding Breakdown




## Retail Cost of Funding




## Retail Funding




- **Higher diversification and better ALM**
- Term Deposits and Current Accounts have been reduced to allow additional funding: TLTRO, Securitization and a 2Y Senior bond
- 22% of term deposits from Germany/Austria
- Wholesale funding included the warehouse credit line related to the CQS securitization launched at the end of March 2016

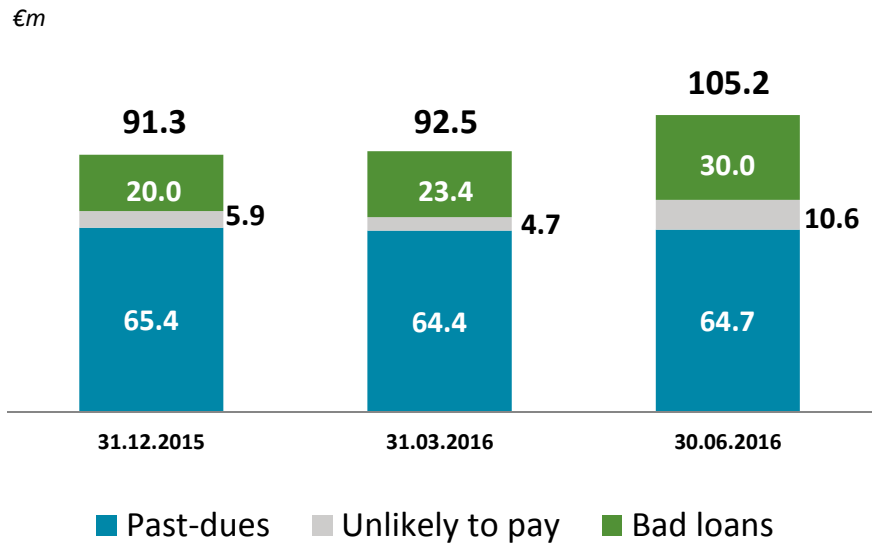
*Notes: Average cost of funding (current accounts and term deposits); CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).*



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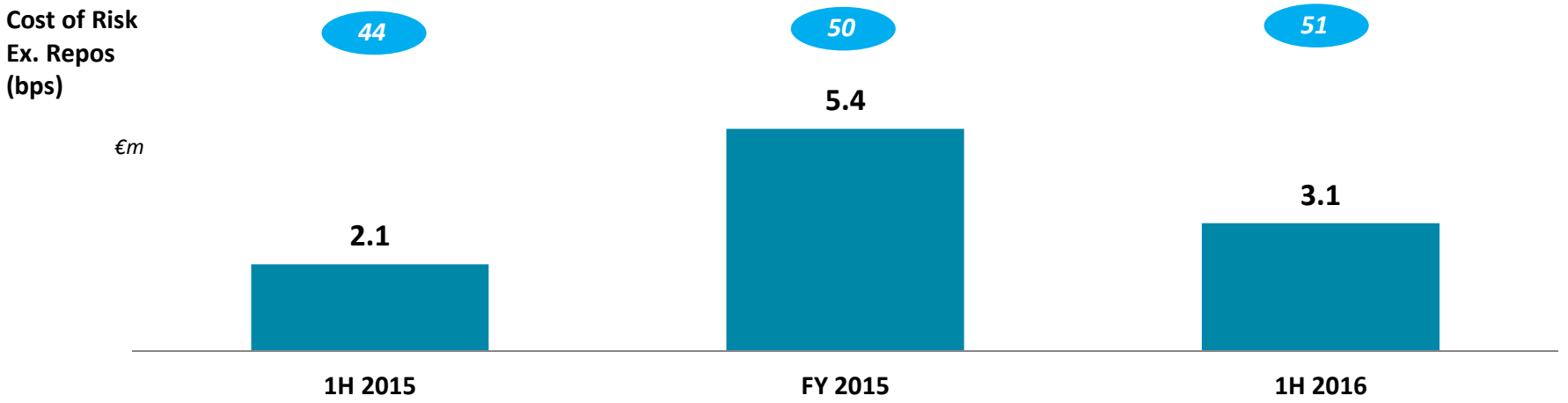
# Conservative risk policy in all the business lines

## Gross Non Performing Loans




- Net Bad Loans represents 1.8% of total loans as at 30.06.2016 ex. Repos (1.1% in 2015)
- Bad loans increase q/q was due to some deterioration of the SMEs State Guaranteed loans portfolio and factoring
- "Unlikely to pay" increase q/q was due to Factoring
- Stable Past-dues
- Loan loss provisions in 2Q 2016 €1.6m vs €1.5m in 1Q 2016, with a stable Cost of Risk

## Cost of Risk and Loan Loss Provisions



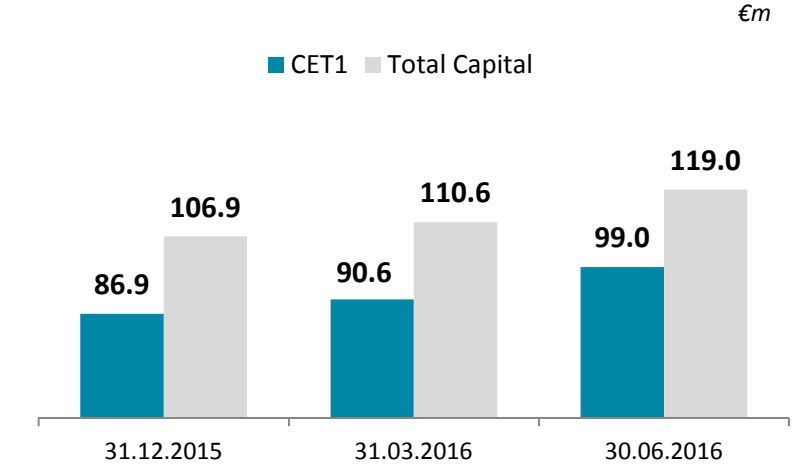



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# Appendix

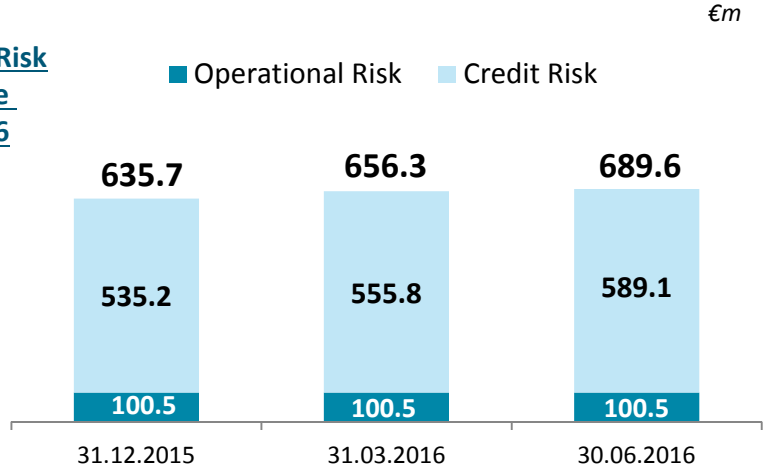
# Regulatory Capital

## CET1 and Total Capital



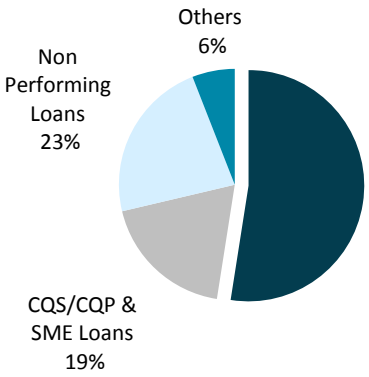

## RWA breakdown

Operational Risk will change in 4Q 2016

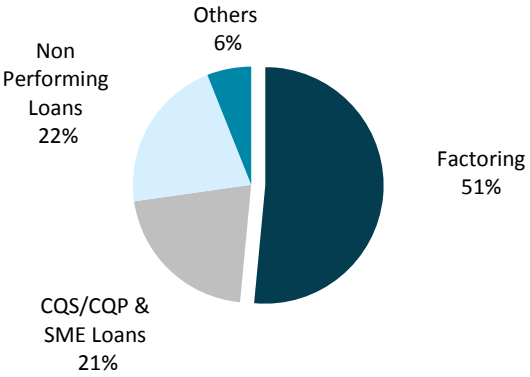



## RWA – Credit Risk

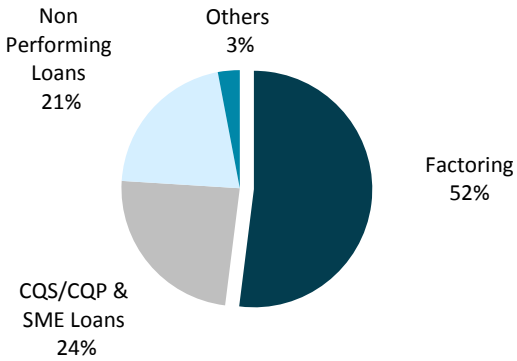
**31.12.2015**




**31.03.2016**




**30.06.2016**




*Note: CET1 and Total Capital, following CRR directive, are based on an estimated dividends pay-out of 15% (average effective pay-out of the last three years).*



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# Methodological notes - LPIs

After five years a the establishment of Banca Sistema, considering:

- the significant increase in purchased loan volumes;
- the experience accrued through the more systematic initiation of in-court and out-of-court recovery actions on defaulted loans;
- the more structured statistical information on the time to recovery of amounts due, for both principal and late payment interests (LPIs), as well as on the volume of recovered amounts;

**the bank updated its methodology for the LPI, by prudentially posting to the interest income 15% of the LPIs of invoices whose collection on the same date was reclassified from Regular to Lawsuit ("Ordinary Collection" vs "Legal Collection").**

**Previously the bank posted LPIs just after having collected it (Cash based accounting).**

The amount ensued from the accounting update was €6.9m and at 31.12.2015 the amount of late-payment interest that would have been reported based on this methodology would have been €5m.

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