BANCA
SISTEMA
SPECIALTY FINANCE

STRATEGIC PLAN: 2018-2020

CONSOLIDATING OUR LEADERSHIP IN ITALIAN SPECIALTY FINANCE

11 APRIL 2018

OUR MISSION…

"Providing the liquidity to facilitate client transactions with Italian PAs, acting as a bridge between the Public and Private sectors, as well as offering corporates and private customers easy access to up-to-date and simplified banking services, geared to an economy returning to growth."

OUR JOURNEY TO 2020…

WHERE ARE WE TODAY…

To date we have **worked diligently to**…

- Build a low risk business with high returns
- Strengthen our competitive position
- Establish and continually enhance our strengths
- Transition the business from private to public

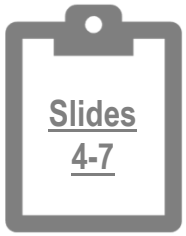
LOOKING TO THE FUTURE…

A clear plan **to consolidate our leadership in Italian speciality finance**…

- Drive evolution of our factoring business to support delivery of more sophisticated transactions
- Reinforce our salary- and pension-backed loans business (CQS/CQP) as one of our core business lines
- Diversify our business by seeking and investing in new opportunities that provide attractive returns and match our risk appetite
- A clear divisional model to support efficient execution of our strategy and enable achievement synergies

…as we **look ahead to 2020** we have carefully assessed **our success to date** and **the favourable environment in which we operate** to establish **a clear strategic plan** for the next 3 years…

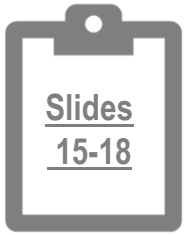
AGENDA



Leveraging our strengths to deliver attractive returns at low risk… operating in an **attractive, large and growing market…** with a **favourable legal framework**… Delivering **sector leading profitability**



A **strategy** facilitating delivery of **tailor-made, innovative solutions to customers**…with a **divisional model** to drive business momentum …We will focus on **shaping our factoring business** for further success… **exploiting the potential of our consumer finance business**…and seeking **new opportunities to diversify**…maintaining our **asset quality, funding and cost efficiency**…and achieving our **financial targets for 2018 - 2020**…



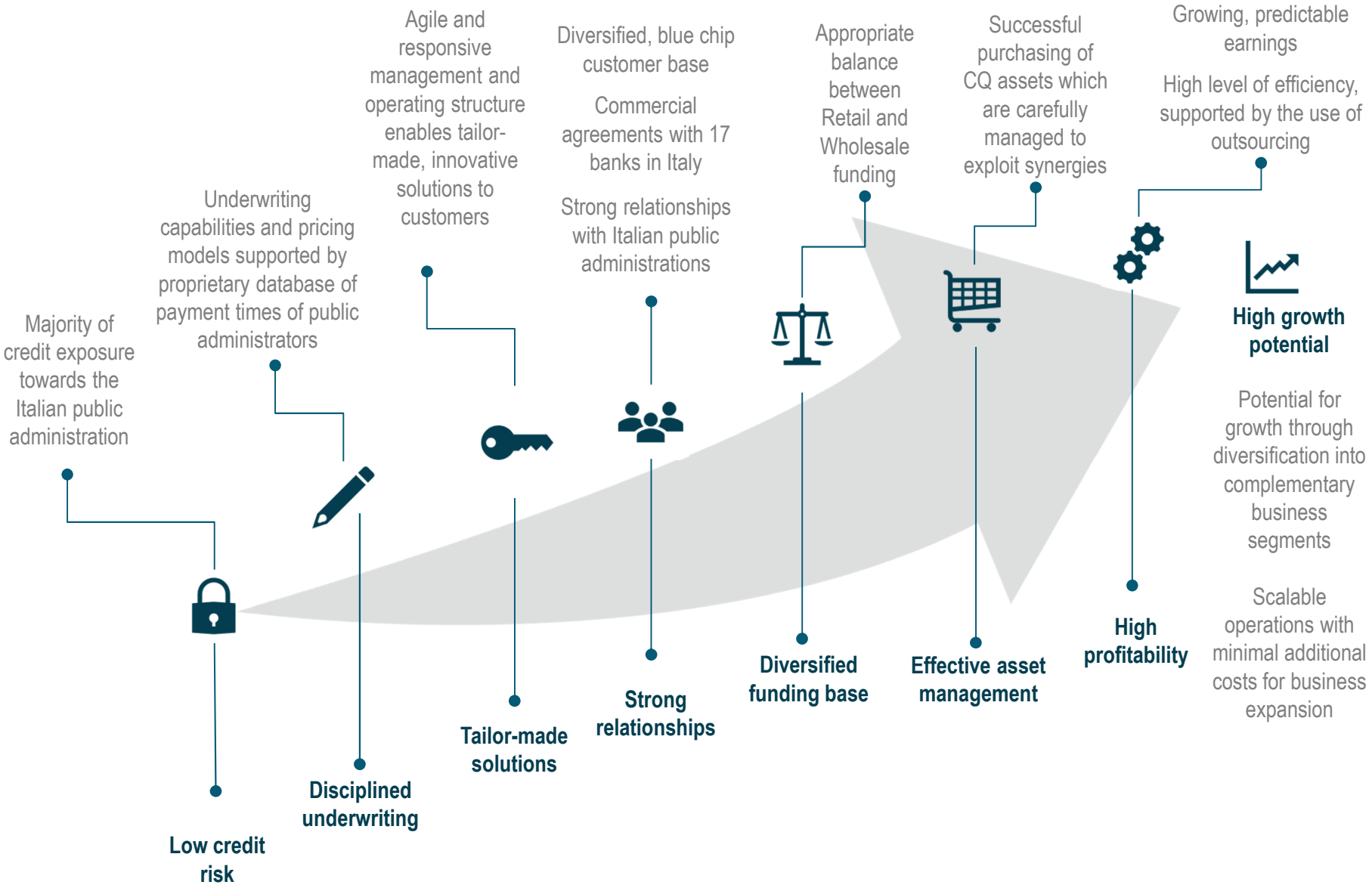
Key takeaways

Q&A

Your investor contact

BANCA SISTEMA

LEVERAGING OUR STRENGTHS TO DELIVER ATTRACTIVE RETURNS AT LOW RISK

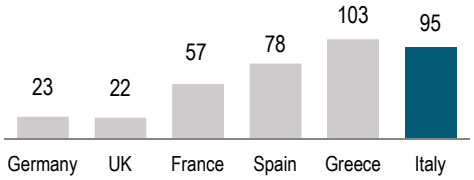


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OPERATING IN AN **ATTRACTIVE, LARGE AND GROWING MARKET**…

Payment times in Italy amongst the longest in Europe

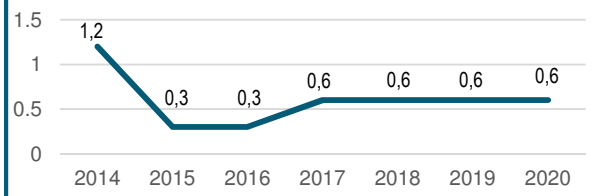
2016 Average PA payment times (days) [1]



…expected to remain stable to 2020…

Italian public spending in line with general Eurozone recovery

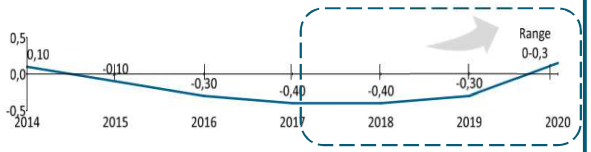
Italia Public Spending (YoY%) [2]



…this is expected to continue…

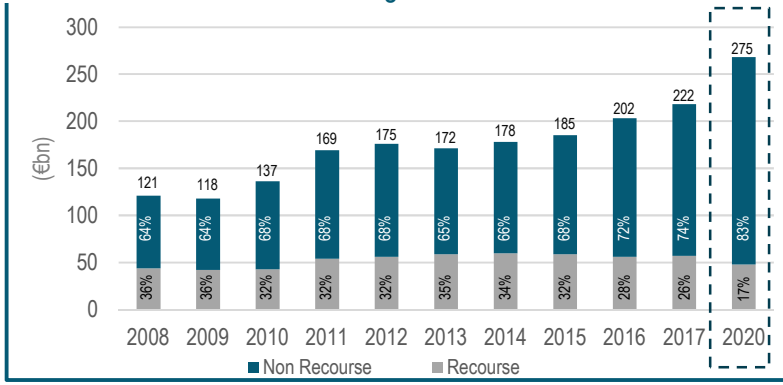
Gradual recovery in interest rates

Euribor 1M (annual average %) [3]

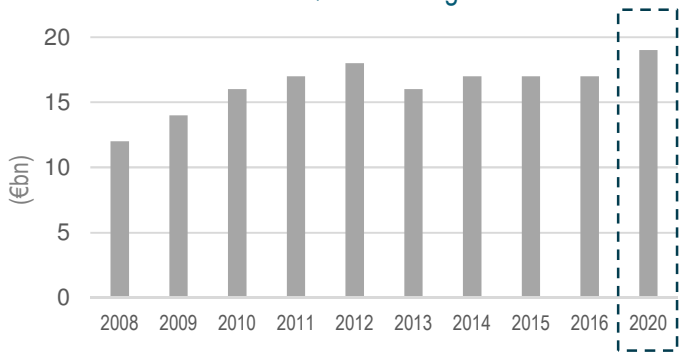


…supported by a gradual reduction in ECB monetary stimulus from 2019…

Factoring turnover [4]



CQ outstanding [5]



Sources:[1] Intrum Justitia 2017 European Payment Report; [2] Bain & Company analysis on ISTAT (the national institute for statistics) and IMF; [3] Strategic plans of the main banking players; [4] Assifact and Bain & Company estimates; [5] Assofin and Bain & Company estimates.

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WITH A **FAVOURABLE LEGAL FRAMEWORK**…

European Late Payment Directive
(EU Directive 7/2011)

1. Aims to protect European businesses against late payment and improve competitiveness
2. Companies legally entitled to late payment interest ("LPI") from the day following the terms of contractual payment – statutory interest of 8% above the ECB reference rate
3. Average payment times by Public Administration Entities to businesses in the sector continue to exceed the limits set by the European Late Payment Directive

Split Payment / VAT Decree
(Decree Law of 24 April 2017)

1. Relates to the extension of the Italian Split Payment regime impacting more than ~200,000 companies
2. Expected to drive growth due to beneficial effects on the market of VAT receivables
   - Need to accelerate VAT credits
   - Increased volume of requests for VAT refunds expected to lead to additional delays to payment
   - Overall size of the eligible VAT turnover
3. Direct exposure to Italian State risk

CQS/CQP products regulated by law instituted in 1950

1. CQ loan is repaid directly by State pension body ("INPS") or PA/ private employer
2. Protected by mandatory insurance that covers critical scenarios such as unemployment or death
3. CQS partial collateralisation by company severance plan (whereby funds are used as collateral)

…PROVIDING **UNIQUE OPPORTUNITIES** FOR BANCA SISTEMA…

DELIVERING **SECTOR LEADING PROFITABILITY** IN 2017…

…OUR 2017 FINANCIAL PERFORMANCE AT A GLANCE…

€87.2m
Interest Income
Adjusted Interest Income Margin ~550bps[1] including factoring commission income 630bps

€26.8m
Net Income

22%
Return on Average Equity

+12%
Factoring customers (YoY)

11.9%
CET1 Ratio
Regulatory minimum = 6.5% in 2017

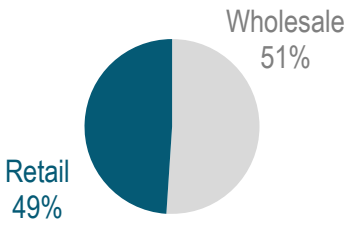
€0.086
DPS
~25% pay-out

+37%
Factoring Turnover (YoY)

+64%
CQ Turnover (YoY)

Total Funds

Diversified funding with the right balance between Retail and Wholesale



Geographic diversification within the retail customer base

Rise in **factoring turnover supported by growing contribution from commercial agreements with banks**

Strong diversification on factoring customers

Higher contribution from CQ

Higher contribution of factoring LPI[2]

Total cost of funding stable YoY at ~1% and cost of risk at 30bps

Total **operating costs +4% YoY** mainly driven by personnel expenses

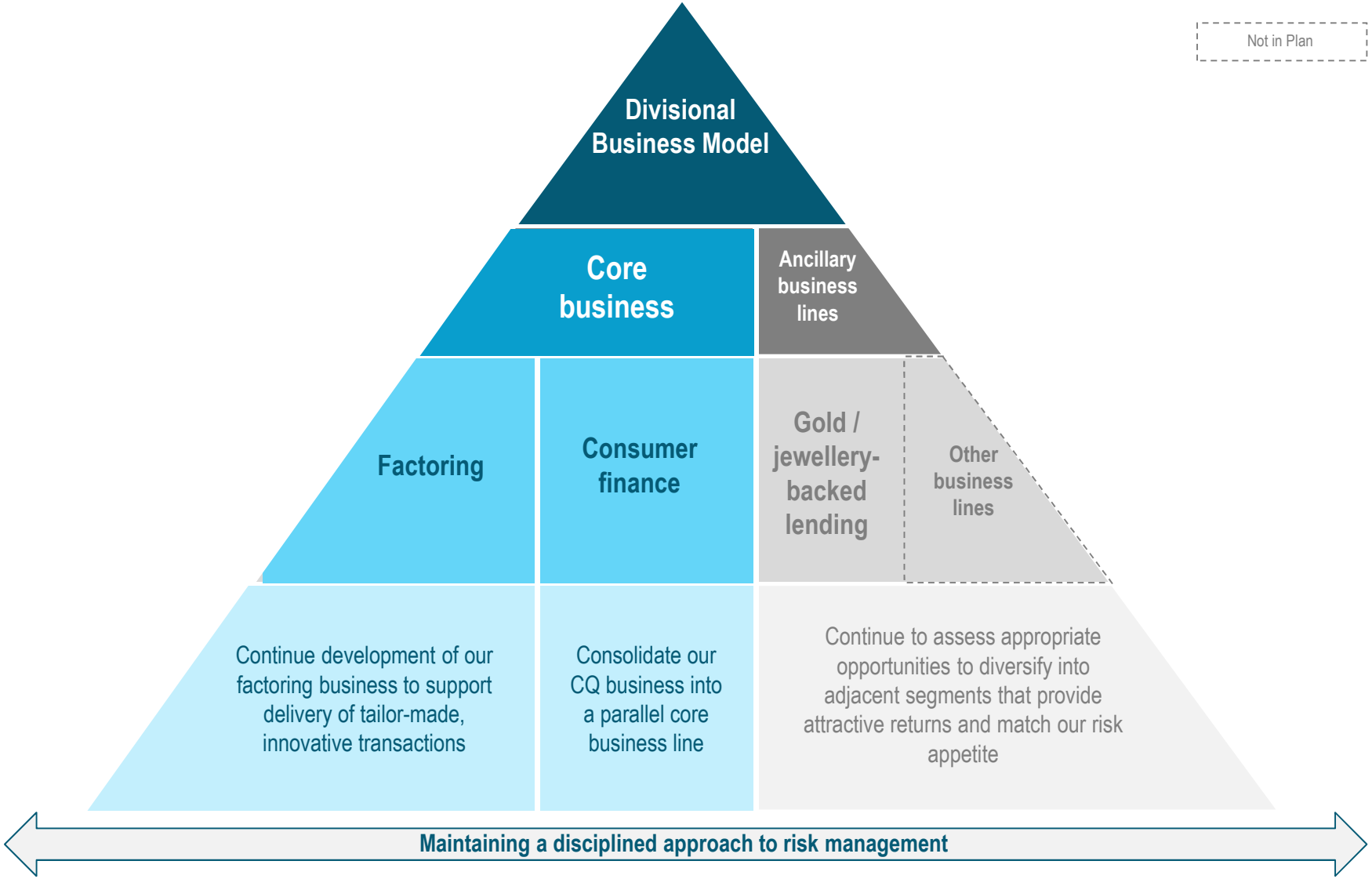
Liquidity Capital Ratio (“LCR”) and Net Stable Funding Ratio (“NSFR”) **well above regulatory requirements**

[1] Calculated as [Period Interest Income] / [Average end of period net customer loans], excluding, in both items, the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).
[2] As at the end of 2017, total stock of factoring LPI was €126m and 37% average accrual recognized on P&L since 2016, for a total of €33.5m

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A **STRATEGY** FACILITATING DELIVERY OF **TAILOR-MADE, INNOVATIVE SOLUTIONS** TO CUSTOMERS

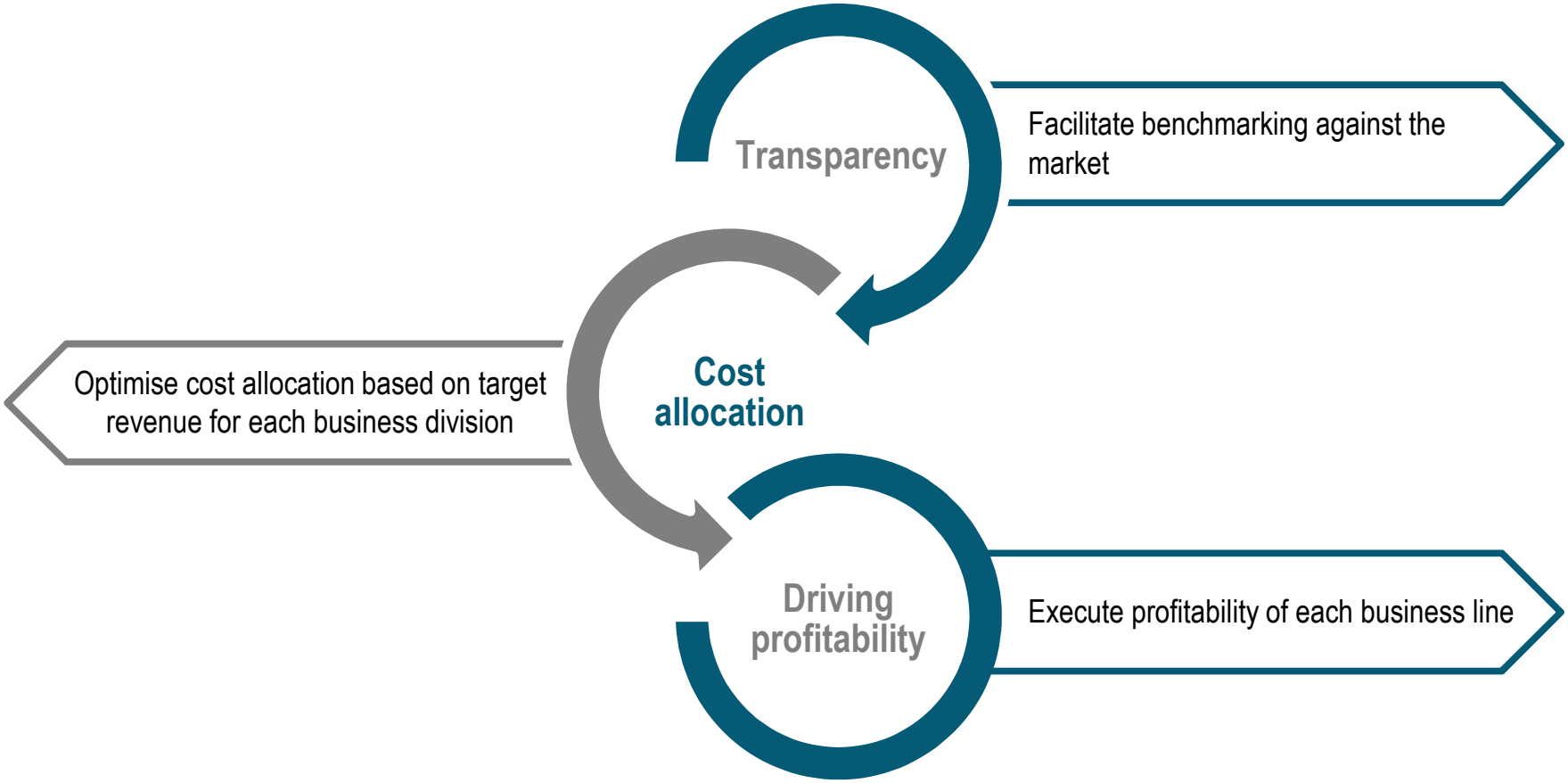
…CONTINUING TO **BUILD ON STRONG FOUNDATIONS IN OUR CORE BUSINESS** WHILST **DEVELOPING NEW REVENUE STREAMS** IN LINE WITH BANCA SISTEMA'S OVERALL RISK APPETITE….



BANCA SISTEMA

A **DIVISIONAL MODEL TO DRIVE** OUR BUSINESS **MOMENTUM**

…SUPPORTING EFFICIENT EXECUTION OF OUR STRATEGY…



…AND ENABLING ACHIEVEMENT OF SYNERGIES AND GREATER ECONOMIES OF SCALE…

BANCA SISTEMA

SHAPING OUR **FACTORING BUSINESS** FOR FURTHER SUCCESS

A FAVOURABLE MARKET BACKDROP FOR FACTORING…

Operating in an environment with rising interest rates - larger clients expected to return to factoring market to improve their net financial position.

Estimated market growth of ~7% factoring turnover per annum[1].



The extension of the Italian VAT "Split Payment" regime is expected to impact approximately 200,000 companies predicted to increase factoring volumes – estimated market opportunity of additional €15bn[2].

…BANCA SISTEMA'S FACTORING BUSINESS IS WELL POSITIONED IN THIS MARKET TO EVOLVE TO PROVIDE INNOVATIVE, TAILOR-MADE SOLUTIONS. KEY AREAS OF FOCUS INCLUDE…

Factors enabling Banca Sistema to provide innovative, tailor-made solutions…



We continue to embrace opportunities for diversification within our factoring business to allow it to continue to evolve…

KEY TRENDS IN FACTORING SHAPING THE STRATEGIC CONTEXT….

7%

Estimated market growth in terms of turnover per annum[1]

€15bn

Estimated market opportunity derived from the Split Payment extension[2]

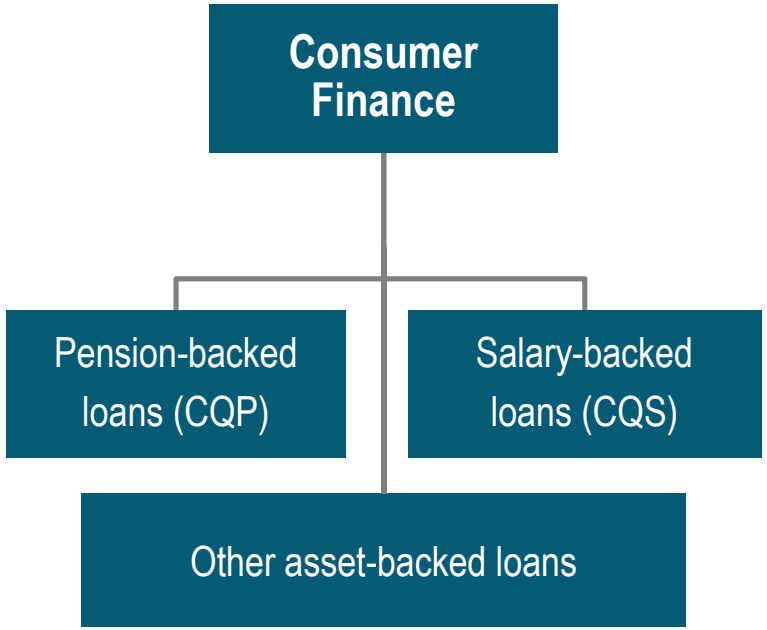
~€35bn

Estimated increase, 2017 vs 2020, Total public spending[3]

Sources: *[1] Assifact and Bain & Company estimates; [2] Bain & Company estimates; [3] Ministry of Economy and Finance (MEF), "Documento di Economia e Finanza 2017 – Analisi e tendenze della finanza pubblica".*

EXPLOITING THE POTENTIAL OF OUR CQS/CQP **CONSUMER FINANCE BUSINESS**…

- Further consolidate growth of our CQS/CQP business into a parallel **core business line**
- Further expand our position and leadership in a niche market with low risk and high returns
- To **develop** the Bank's **commercial network** and **exploit synergies** to further improve returns



1. Business model based on third party origination to remain the key growth driver
2. Favourable market conditions to drive origination volumes
3. Large proportion of assets can be securitised
4. Superior asset quality compared to other consumer finance segments
5. Benefit of potential reduction in RWA density

BANCA SISTEMA

SEEKING **NEW OPPORTUNITIES TO DIVERSIFY…**

…TO DIFFERENTIATE AND FURTHER ADVANCE OUR BUSINESS…

Over the years, Banca Sistema has **diversified its business model** by **exploring opportunities** in adjacent and complementary sectors **that offer** the same combination of **high yield and low risk** as seen in its core businesses…

Exploring opportunities

We will continue to pursue **diversification** of the business

Investing in new business lines that provide attractive returns

We continue to be an **incubator for new opportunities** in specialty finance

Continuing to monitor **M&A opportunities**

EXAMPLES

Gold/jewellery-backed loans

2016 – Test

2017 – First two dedicated branches

2018 – Two more dedicated branches and extension to jewellery

- ✓ Very high returns
- ✓ Low capital absorption
- ✓ Superior asset quality
- ✓ Short term loans

NPL portfolio servicing

2014 – Acquisition of a minority stake in two service platforms (Candia and Sting)

2015 – Merger of these two service platforms to form CS Union

2016 – CS Union sold to Axactor holding. Banca Sistema retains 10% stake today in Axactor Italy and a minority stake in Axactor holding, listed on Oslo Stock Exchange.

- ✓ A profitable opportunity

SMEs State Guaranteed Loans

2014 - Opportunity arose to pursue SME lending in a favourable regulatory environment

2017 - Due to regulatory changes at a later date, Banca Sistema withdrew from this area despite the returns generated from this business

- ✓ Demonstrates agility to exploit market opportunities
- ✓ Illustrates Banca Sistema's pragmatic approach

A prime example of how Banca Sistema's approach has led to success…

Following initial establishment of the CQ business, experience was gained. This business has now achieved a level to enable it to be incorporated as a core business line…

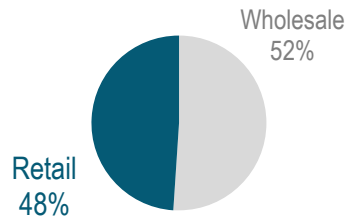
Maintaining a disciplined approach to risk management

BANCA SISTEMA

MAINTAINING **ASSET QUALITY, FUNDING** AND **COST EFFICIENCY**

FUNDING

2020 Total Funds



Total funding costs broadly stable

~1%

- Continue geographic diversification within the retail customer base (term deposits) when efficient
- Funding mix based on asset duration
- Take market opportunity to obtain funding from institutional investors
- Efficient usage of securitised assets to obtain cheaper funding (including TLTRO from ECB)

COST OF RISK

- No major impacts on asset quality from regulatory changes

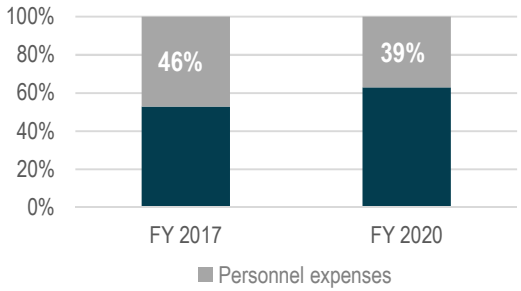
Expected cost of risk below

30bps

- CQ has a negligible cost of risk
- No impact from Tax Receivables
- High level of coverage on corporate NPE in 2017

TOTAL OPERATING COSTS

Total Operating Costs



Cost Income Ratio

~47%

- FTEs increase from 2017 to 2020 to sustain planned growth
- Other expenses expected to grow in line with Business Plan volume growth

Average 2018 - 2020

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AND ACHIEVING OUR **FINANCIAL TARGETS…**

	CAGR 2017 – 2020 (%)	2020	CAGR 2015 – 2017 (%)	2017
1 Factoring	Turnover: **~18%** Outstanding[1]: **~28%**	Turnover: **€3.3 bn** Outstanding[1]: **€3.0 bn**	Turnover: **19%** Outstanding[1]: **13%**	Turnover: **€2.0 bn** Outstanding[1]: **€1.4 bn**
2 Consumer Finance	Outstanding: **~25%**	Outstanding: **€1.0 bn**	Outstanding: **104%**	Outstanding: **€0.5 bn**

	2018 – 2020
3 Return on Average Equity (RoAE)	RoAE within a range of **[18% - 24%]** per annum
4 CET1 Ratio	CET1 ratio of **~10.5%** over the period, **>11% by** 2020[2], with on average ~38% RWA density[3]
5 Adjusted Interest Income Margin	Adjusted Interest Income Margin within a range of **400bps – 450bps**[4], including factoring commission income 440bps – 490bps
6 Cost of Funds	**~1%** on average
7 Cost of Risk	Below **30bps** on average
8 Cost Income Ratio	**~47%** on average

[1] Management data; [2] Excluding any RWA reduction expected on CQ business; [3] RWA desity = [end of period Total RWA] / [end of period Total Assets]; [4] Calculated as [Period Interest Income] / [Average end of period net customer loans] - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

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KEY TAKEAWAYS

A clear plan **to consolidate our leadership in Italian speciality finance**...



A favourable market backdrop…

- ✓ Operating in an attractive, large and growing market
- ✓ A favourable legal framework

Within which we are well placed…

- ✓ Excellent reputation
- ✓ Low credit risk
- ✓ Disciplined underwriting
- ✓ Tailor-made solutions
- ✓ Strong relationships
- ✓ Diversified funding base
- ✓ High profitability
- ✓ High potential growth

With a clear strategy…

- ✓ Drive evolution of our factoring business to support delivery of more sophisticated transactions
- ✓ Reinforce our CQ business as a core business line
- ✓ Diversify our business - seeking and investing in new opportunities within our risk appetite
- ✓ A divisional model

…to achieve our financial targets

- ✓ Clear financial targets demonstrating delivery of new strategy by 2020

… CONTINUING TO **BUILD ON STRONG FOUNDATIONS** IN OUR CORE BUSINESSES WHILST **DEVELOPING NEW REVENUE STREAMS** IN LINE WITH BANCA SISTEMA'S OVERALL RISK APPETITE

Q&A

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