BANCA SISTEMA
SPECIALTY FINANCE

FY 2017 RESULTS

8 February 2018

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

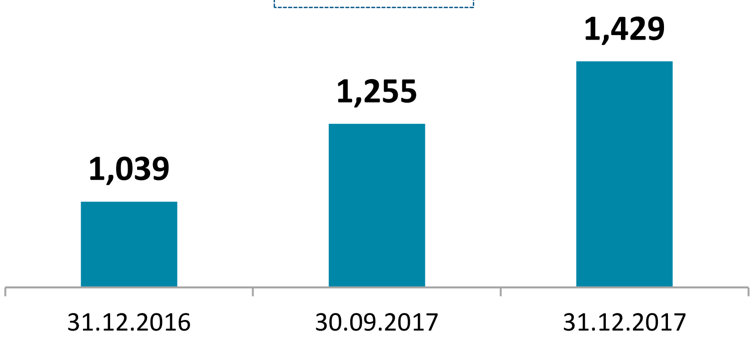
- **Total funding well balanced between Retail and Wholesale**
- **LCR and NSFR above regulatory requirements**
- **CET1 ratio** and **TCR** respectively **11.9%** and **15.3%**
- **Dividend distribution of €0.086 per share (+13% y/y)**

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

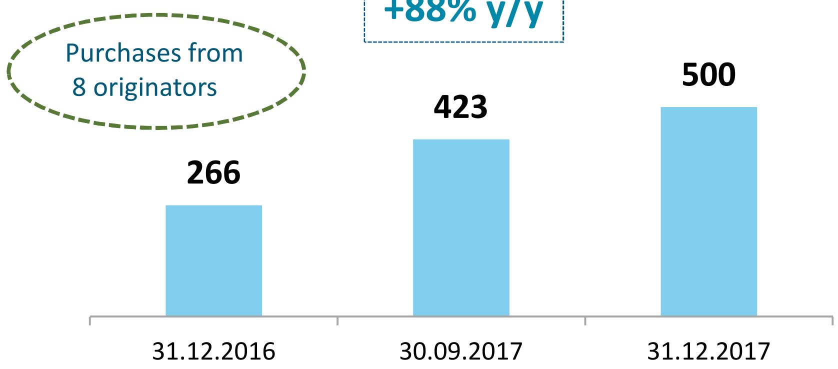
Note: FY 2016 figures include the contribution of Beta Stepstone from 01.07.2016 to 30.09.2016 (Beta Stepstone has been purchased on the 01.07.2016 and merged in BST on the 01.01.2017). 2016 P&L figures have been adjusted for the contribution to the National Resolution Fund (€1.3m gross) and integration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

Core business assets outstanding is growing

Factoring outstanding

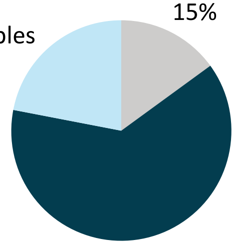


CQ Loans outstanding



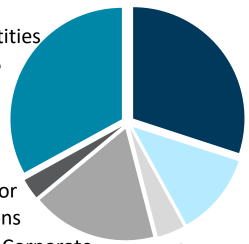
Outstanding breakdown (31.12.2017)

By Type of Product

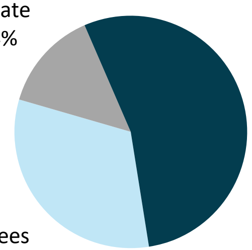


By Obligor

PA accounts for 82%



Outstanding breakdown by Type (31.12.2017)



- €258m volume purchased in 2017, +64% y/y
- 86% PA risk exposure
- Average contractual duration of 9.2 years

Note: Factoring outstanding management account.

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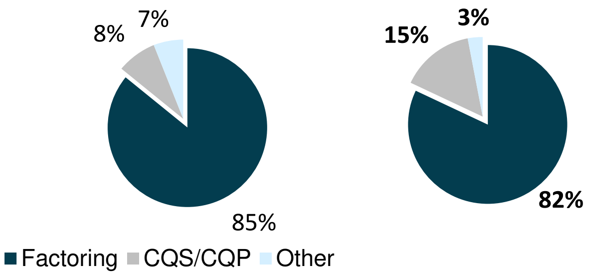
FY 2017 – Income Statement

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%**

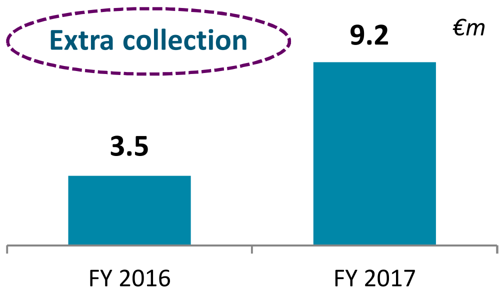
Net Interest Income Breakdown



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.2.

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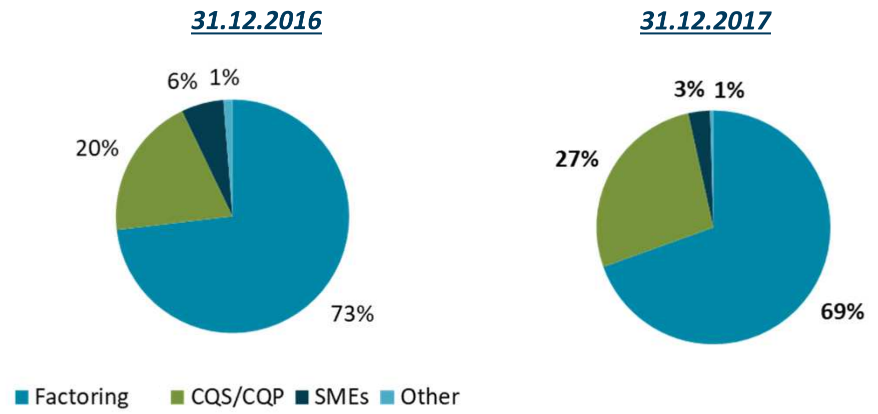
FY 2017 – Balance Sheet

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 Intagible 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%**

Loans to customers Breakdown



- **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

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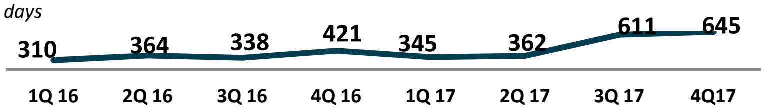
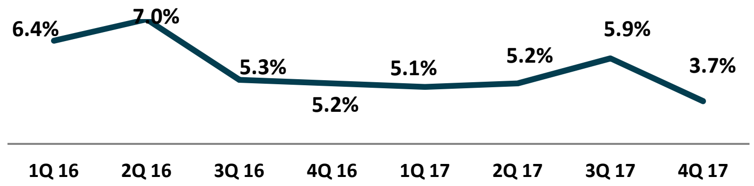
Stable factoring profitability

How we originate new business:

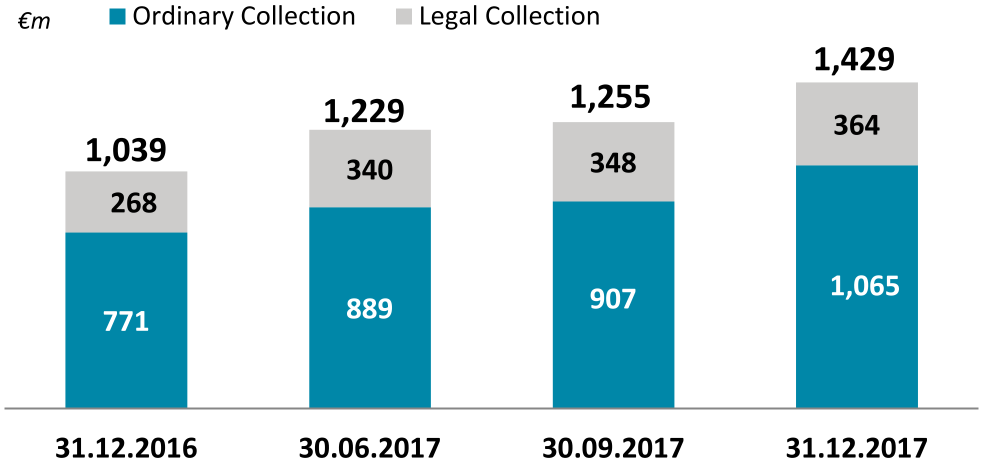
Funding period based on Expected Collection date ("DFS")



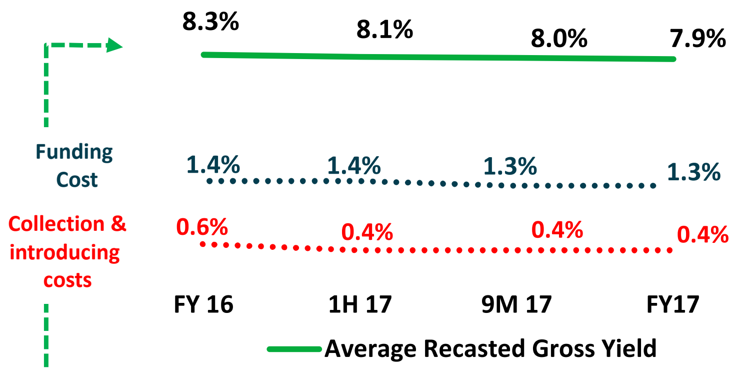
Target Yield at Expected Collection date ("DFS")



Factoring Outstanding Evolution

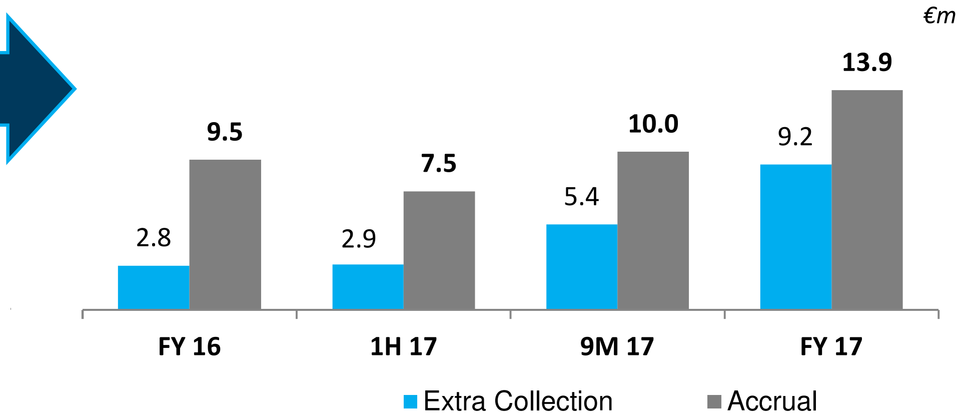


Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



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

LPIs Recasted with the same % of accrual



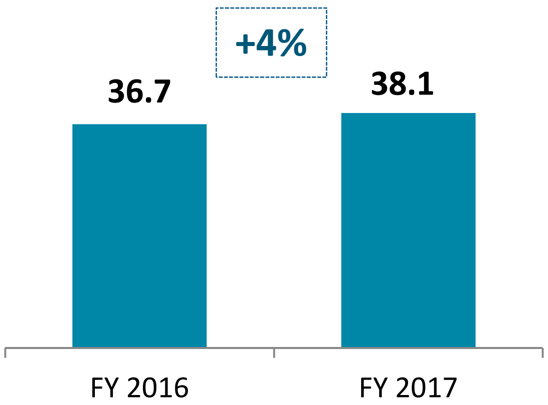
FY 2016 do not include Beta Stepstone.

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 LPIs.

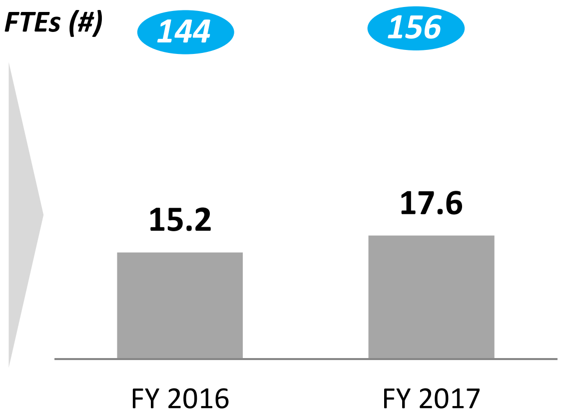
Operating costs slightly higher y/y, line with expectations

Operating Costs

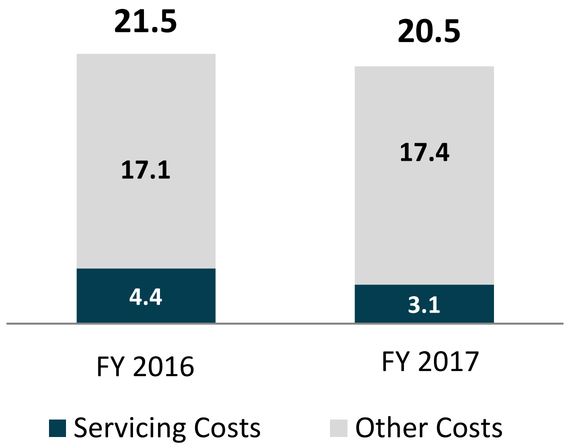
€m



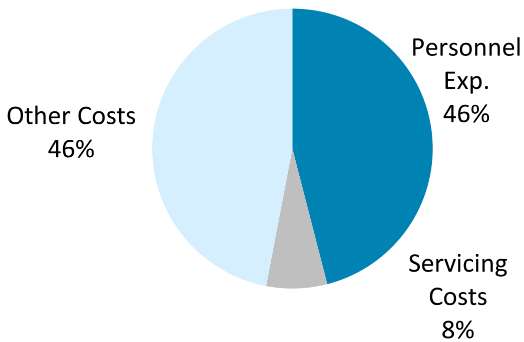
Personnel Expenses



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



Operating Costs Breakdown

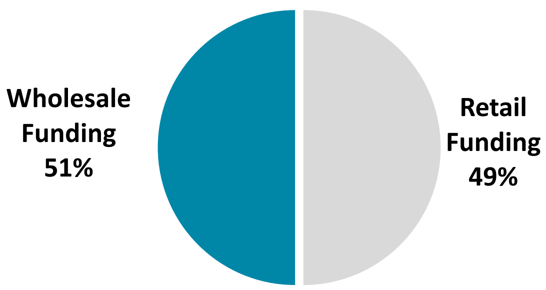


- Personnel Expenses increase due to higher average salary, higher headcount and a new no-competition agreement (€1m in 1H 2017)
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution 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%

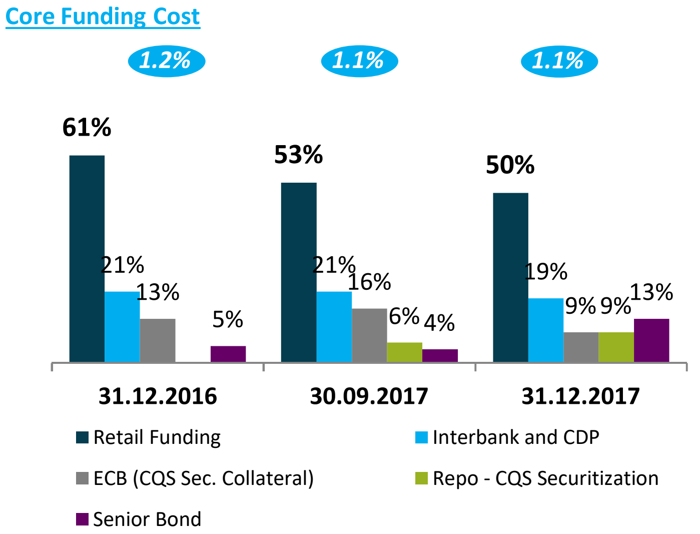
Note: see Note of Slide n.2.

Higher diversification and stable cost

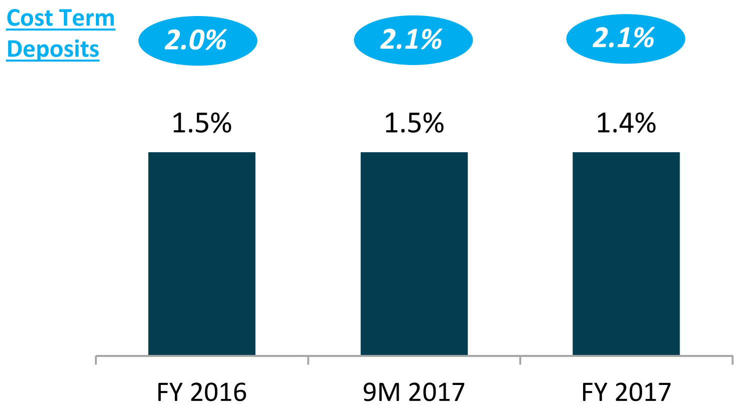
Total Funding Breakdown



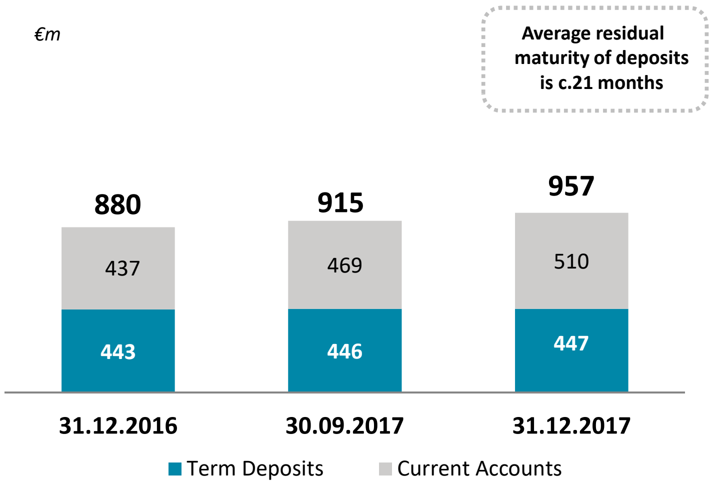
Core Business Funding Breakdown



Retail Funding Cost



Retail Funding



- 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
- 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).

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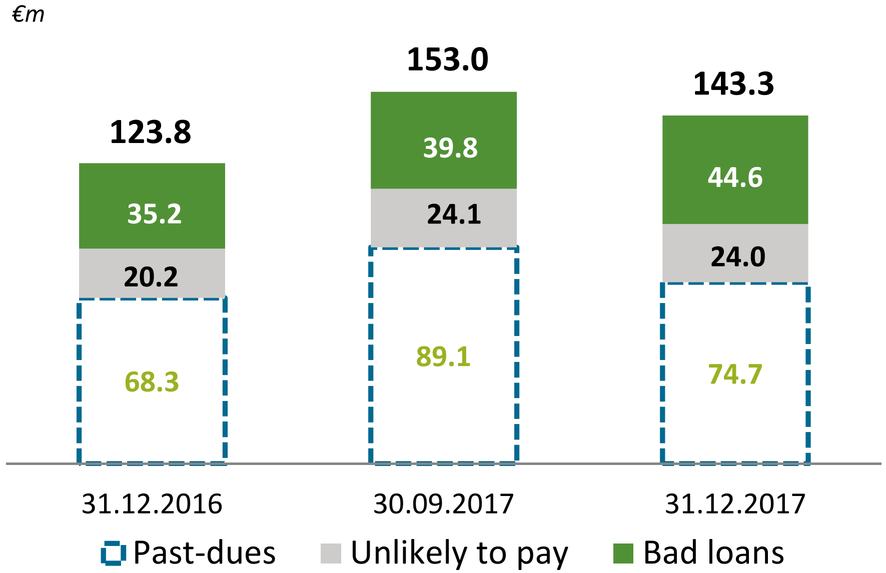
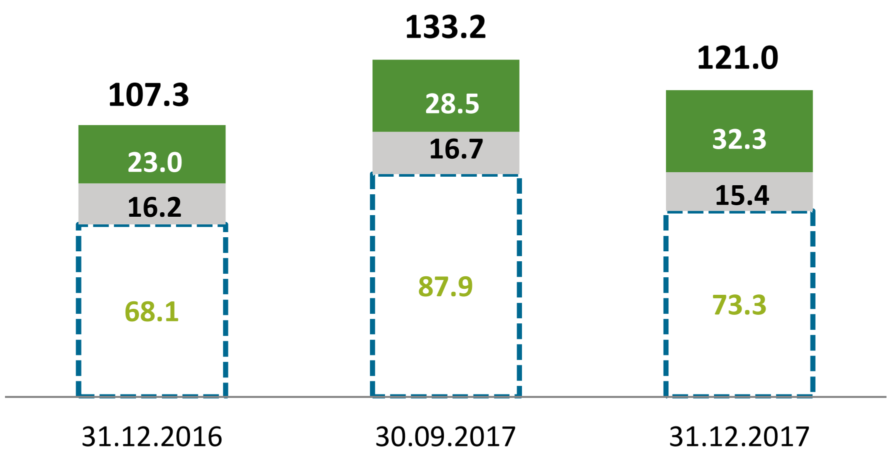
Asset Quality driven by factoring business

Gross Non Performing Loans

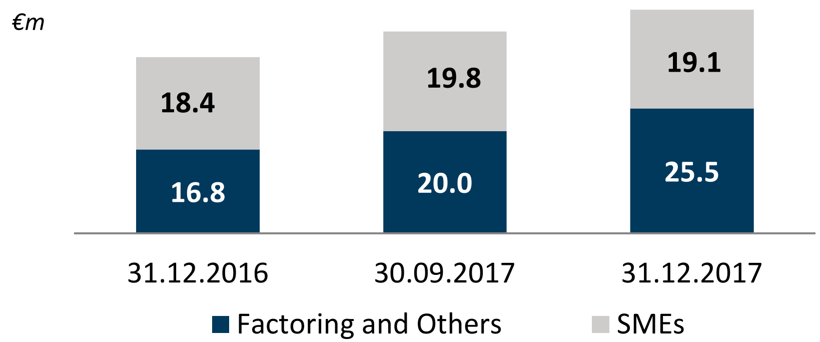


Net Non Performing Loans



PA exposure deriving from ordinary business

Gross Bad loans breakdown



- Net Bad Loans represents 1.7% of total loans in line
- 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

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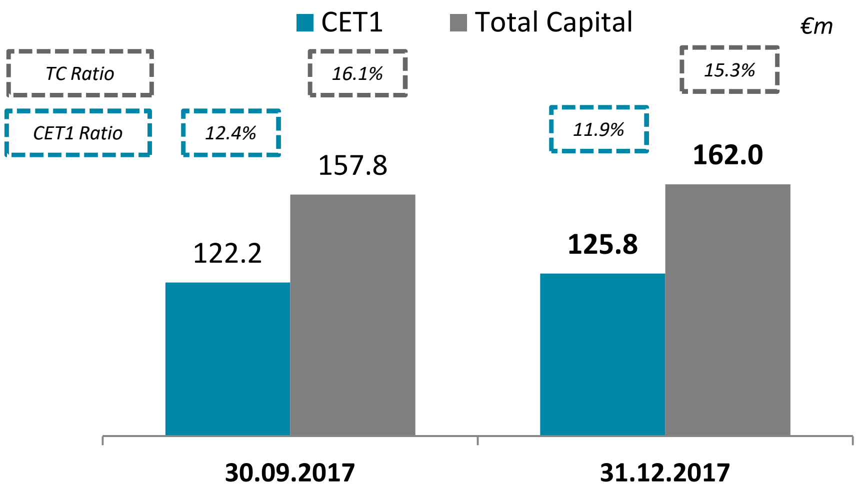
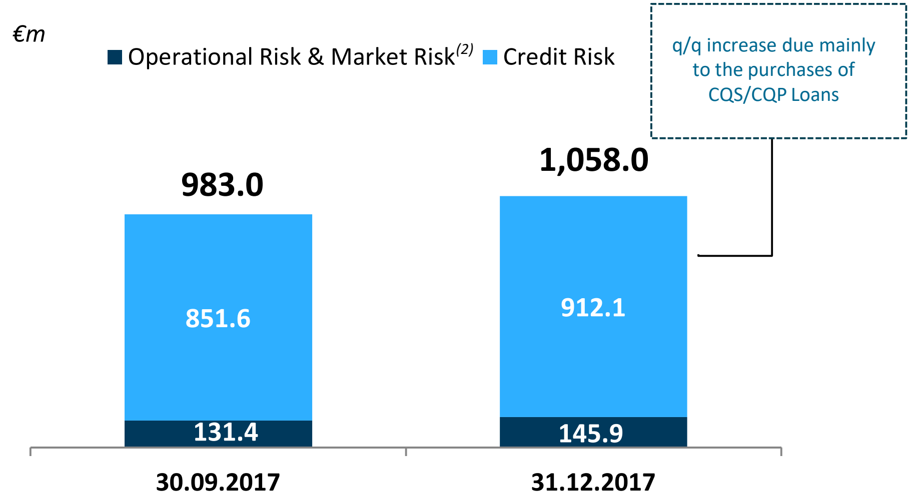
Regulatory Capital well above minimun requirements

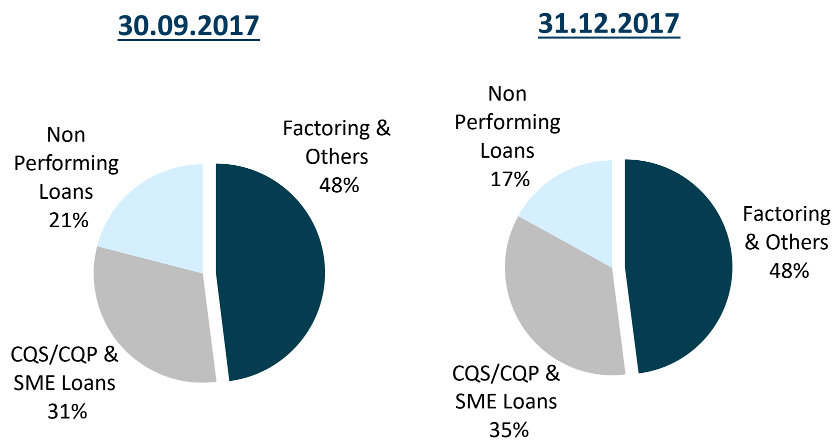
CET1 and Total Capital[1]



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.

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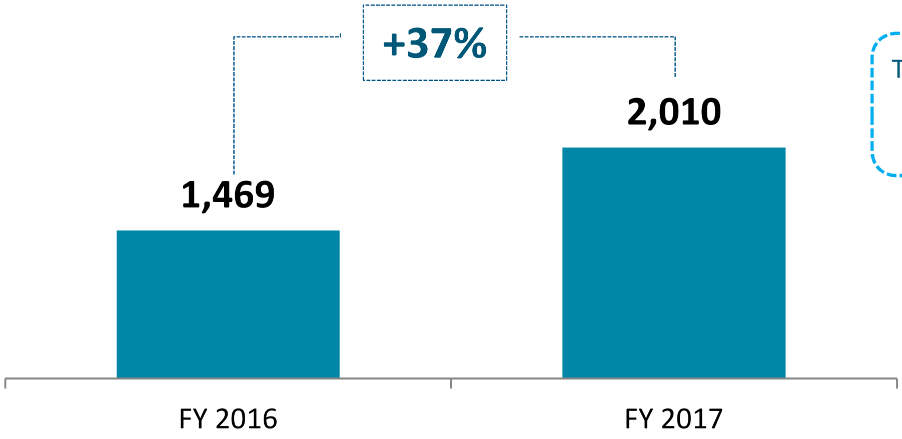
Appendix

Factoring Turnover

Factoring Turnover

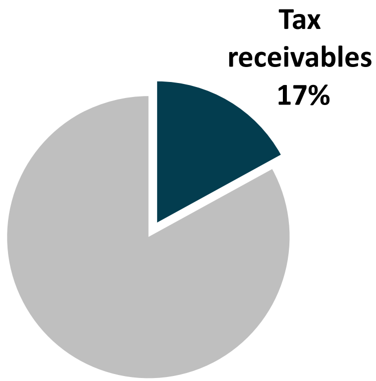
€m



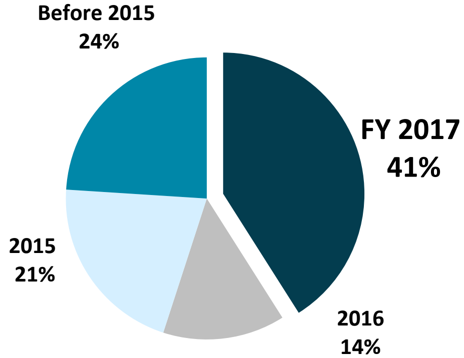
Turnover generated by agreements with Italian Retail banks: 29% of FY 2017 (13.5% FY 2016)

2017 Factoring Turnover breakdown

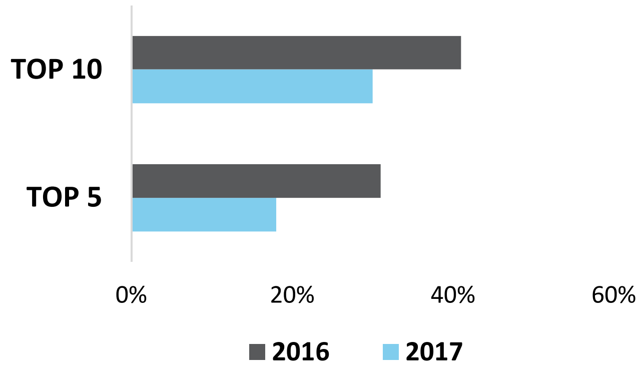
By Type



By Year of Customer's Acquisition



Customer Concentration



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Carlo Di Pierro
Head of Investor Relations
carlo.dipierro@bancasistema.it
+39 02 80280358
+39 3355288794