Investor Presentation

Milan, 20 July 2018

Andrea Clamer – NPL Division Speech

Slide 2: **our goals**

Our goal is to be a leader in the Corporate secured and unsecured NPL market, through a very strong acquisition capacity, an innovative servicing model and the widespread use of data across the entire NPL lifecycle process

Slide 3: new regulatory framework

The ECB, the EU Commission and the EBA have all issued directives to tackle NPL issues across Europe. These rules – and in particular the NPE addendum – are set to boost banks' incentive to dispose NPLs in coming years.

With over 60 billion euros in NPL transactions in 2017, the Italian NPL market has proved to be one of the most dynamic within Europe in recent years.

Slide 4: our focus will be on Corporate NPLs

We will focus only on the corporate NPL market – both on secured and unsecured NPLs. We consider the Corporate NPL market extremely attractive given:

- its size: with 130 billion euros of stock as of Dec-2017, the corporate NPL market is four times as large as the retail market;
- it is un-charted, with no information, no data, no pricing models, no servicers and no expertise, hence there is a lot to do;
- there is limited competition, with very few players, particularly in the unsecured segment;
- its servicing market is still immature with no servicers dedicated to unsecured loans.

Slide 5

We estimate a 90 billion-euro primary NPL transaction market and an additional 45 billion euro secondary market, for **a total 135 billion euro NPL deals market in the 2018-23 period.**

NPL transactions in the secondary market have just started to take off – YTD we have seen over 10 billion GBV of transactions in the secondary market.

Slide 6: our business idea

Our approach to the corporate NPL market:

- We will be investors, buying NPL portfolios
- We will provide senior funding to other NPL investors

- We will serve portfolios – both captive and non-captive

Slide 7 – An uncharted territory

There are three types of players in the NPL market. Banking investors and non-banking listed investors, which have a competitive cost of funding and a focus on granular portfolios, mainly characterized by low/medium-size tickets; and Distressed Funds, which focus their investments on large corporate secured NPLs and a higher cost of funding.

Spaxs will compete on the same territory of the Funds with the competitive cost of funding of banking players.

Slide 8: KSF n. 2: internal value chain

Being a bank, we will integrate over time the full value chain to buy and serve NPL portfolios + will partner with the best servicing players on selected asset classes. Our internal servicing platform will generate value through lower costs, faster collection and ultimately higher returns

Slide 9: KSF n. 3: proprietary pricing tools based on big data

We will have different information sources: Borrower's data, market data, unstructured data and ultimately data from the workout units. All this data will feed our enriched database, where we apply our proprietary algorithms.

We will create a unique, proprietary pricing tool and collection workflow which will become a source of competitive advantage over our competitors.

We will also apply our data-centric approach to the collection, creating a virtuous circle in which the data gathered in each phase will influence the following phase.

Slide 10: IT solution

We will use top market standard solutions for the traditional core system and will plug in customised tools for what we consider high value-added parts of the value chain – for example due diligence tool. The first release of the NPL IT system will be by end of Oct.

Slide 11: KSF n. 4: our people

We already have on board our first line managers for Acquisition and Servicing, top-level professionals with more than 10years of proven experience.

Slide 12: NPL accounting – 1/2

We would like to show you 4 easy steps to understand NPL portfolio accounting, according to IFRS 9

1. First, in terms of logic, the business itself is very different from the way it is accounted for: the NPL business is based on a 7-year lifetime and uneven recovery distribution, while NPL accounting requires annual reporting and even revenue distribution.
2. As the figure shows, cash flows are negative at year 1 when the NPL portfolio is acquired, then cash flows increase depending on collections. Typically, an NPL investment recovers the purchase price at year 4 and completes its collection process at year 7.

Slide 13: NPL accounting – 2/2

3. According to IFRS 9, we need to determine the portfolio IRR based on expected cash flows and to book the yearly P&L accordingly. IFRS 9 accumulated interest income is equal to the total expected cash flows minus acquisition price: this amount is evenly distributed during the 7 years.
4. To summarise, yearly interest income will initially be higher than yearly cash flow, but, at a certain point in time, the yearly values switch, with cash flow becoming higher than interest income.

Slide 14: our targets 2023

We target ~ €3 billion cumulative NPL net investments across the business plan. The bank will also provide NPL collection services for its direct NPL investments and to third-party investors, based on its proven expertise, for an overall value of €12 billion by 2023 in terms of gross book value of the NPL portfolio under servicing. We will also offer financing solutions to non-bank NPL investors for a total 1.3 billion gross origination.

We target 135 million euros net profit by 2023.

Slide 15: highly profitable business

Our NPL business will be profitable from year one, as we build our internal servicing platform gradually, in line with the growth in our NPL portfolio. This explains the cost income ratio, already low in 2020 at 45-55%, declining even further to less than 25% by 2023.

The lean cost structure, coupled with the contribution from the servicing business – which typically command very limited capital employed – will result in an ROE of 25%, in line with some of the best industry players.

Slide 16: toolkit to understand the NPL Division

Our business plan assumes that investment recovers the purchase price at year 4 and that the collection, completed at year 7, is 1.6 times the purchase price. We will provide you with regular information about our performance.

Slide 17: making this real

In October 2018 we will release our first pricing tool. We will hire 20 professionals with extensive NPL experience and will obtain the licence for the set-up of our servicing company. By H219 we expect the full architecture to be completed and to have hired 90 professionals. With such capacity, our servicing unit will then be ready for non-captive portfolios.