

2020 2022

"The Business Plan confirms Banca IFIS's role as a bank for the real economy, focused on SMEs, generating sustainable profits and creating value for all its stakeholders and shareholders.

This is a plan that calls for a significant increase in the profit target over the three-year period in view of the sharply reduced contribution of extraordinary business in the coming years.

Over this three-year period, the Bank seeks to further strengthen its leadership in the sectors in which it already operates with a strong competitive advantage.

We will continue to operate as a primary investor in the NPL segment, leveraging on the strength of our servicer, one of Italy's top servicers. From 2020 to 2022 we estimate that we will acquire 8.5 billion Euro of new non-performing loans".

Luciano Colombini, Banca IFIS's CEO

Banca IFIS: Three-year business plan

**Net profit of 147 million Euro in 2022 with significant growth in core businesses and less extraordinary business
Investments of 60 million Euro and 190 new employees**

FINANCIAL TARGETS FOR 2022

- Increase in sustainable profit to 147 million Euro to further improve financial solidity and support growth, whilst also ensuring payment of a significant dividend to shareholders;
- ROTE to climb to 8.9%, indicating that the Group is well positioned in the most profitable segments of the market;
- CET 1 ratio of 12% in 2022, exceeding the current SREP threshold¹ of 8.12%;
- Investments of approximately 60 million Euro in support of organic growth and business stability;
- Stable operating costs due to monitoring and efficiency gains, despite significant investments;
- Pay-out ratio for Banca IFIS shares of 40%-45%, corresponding to a yield of over 7% at current market prices.

Profitability of all business units, with greater competitive advantage in the NPL and Factoring units; revenue growth is expected to amount to 602 million Euro, driven by:

- purchases of non-performing loans of 8.5 billion Euro (nominal amount) in the three-year period for the NPL segment;
- increase in the volumes of loans to customers during the three-year period of 1 billion Euro in the *Commercial and Corporate Banking* segment, driven by digital innovation, the new market coverage model and the new communications and marketing strategy.

¹ On 28 January 2019, the Bank of Italy asked the Banca IFIS Banking Group to adopt a common equity tier 1 (CET 1) capital ratio of 8.12%, with a required minimum of 5.62%, in 2019.

Milan, 14 January 2020 – The Board of Directors of Banca IFIS met under the chairmanship of Ernesto Fürstenberg Fassio and approved the 2020/2022 Strategic Plan.

“The new Plan confirms Banca IFIS’s role as a specialist bank in support of the real economy with the primary goal of generating increasing, sustainable profit by replacing the financial component deriving from the PPA with recurring business profit, whilst also distributing value to its shareholders,” explained **Luciano Colombini, Banca IFIS’s Chief Executive Officer**.

“Today we are presenting a business plan in line with the Bank’s core businesses. A plan that represents maximum transparency in the face of the market and which will lead Banca IFIS to further increase its commitment in the coming years to exploit all opportunities offered by the market in accordance with its stated objectives. The plan will be implemented by a management team of professionals with extraordinary track records, offering proven experience and complementary specialisation. We are a unique group in the banking industry due to our competitive positioning in the various markets and our distinctive business model, which we will continue to refine in order to strengthen our leadership.

The analyses of our strategic positioning and cost and capital allocation that we have conducted have shown that all our business areas remain profitable: in particular, NPLs and Factoring show the greatest competitive advantage. Diversification thus currently ensures the bank’s stability and reduces its enterprise risk. Our advantage is that we operate in segments of the market with ample room for growth and we have better management skills than our competitors, in addition to exclusive know-how.

Within the Commercial and Corporate Banking business, we will further increase our presence in the SMEs segment, which has always been integral to this Bank’s identity. We will do so by developing our model for serving this market through new investments in digital innovation and a marketing and communication strategy aimed at increasing the recognisability of Banca IFIS’s brand. A broader product range, along with a constantly evolving distribution and operations model, will allow us to expand our customer base, including in currently less served but high-potential areas.

The plan also calls for considerable improvement in asset quality, with a reduction in the loss rate to 75 basis points in 2022, through careful management of the concentration risk and reinforcement of the loan disbursement, management and monitoring process, in addition to recovery of non-performing positions.

In the NPL segment, we will continue to operate as primary investors, leveraging on the strength of our servicer, one of Italy’s top servicers: from 2020 to 2022, we estimate that we will purchase 8.5 billion Euro of new non-performing loans. Our medium-term strategy will be based on purchasing portfolios of unsecured loans by participating actively in all sale processes on the market, expanding the characteristics of the non-performing portfolios purchased to include the secured and corporate segment and constantly increasing the efficiency of the recovery process for non-performing loans.

We do not expect calendar provisioning to have substantial effects over the three-year period. Afterwards, from 2023 onwards, when the portfolios purchased subject to calendar provisioning have reached a more significant scale, the strategy will be to serve as co-investor for NPLs, while continuing to act as a primary player for the asset classes of reference.

Within the plan, a great deal of attention has been devoted to regulatory capital performance, with the CET1 ratio rising to 12% by 2022, exceeding the current SREP threshold of 8.12%, due to the increase in profits,” concluded **Luciano Colombini, Banca IFIS’s Chief Executive Officer**.

Guidelines and goals

The main goal of the business plan is to increase the Bank's sustainable profit in order to further improve financial solidity, fund growth in business and provide shareholders with attractive returns by distributing dividends.

In 2022, **profit** is expected to rise to 147 million Euro, with a ROTE of 8.9% at the end of the plan. An ambitious target has been set for sustainable profit, i.e. net of the extraordinary effect of the reversal of the PPA², which is set to rise from 82 million Euro in 2019³ to 142 million Euro in 2022 due to the management actions described in the Business Plan.

Revenues are expected to rise for both the Non-Performing Loans Division, driven by the purchase of 8.5 billion Euro (nominal amount) of new NPLs, and the Commercial and Corporate Banking Division, due to the increase in disbursements, which will be supported by a new market coverage model, greater integration between business units and considerable investments in digitalisation and marketing.

Operating costs are expected to remain essentially stable over the 2020-22 period, despite significant investments in IT, digitalisation and marketing, due to careful monitoring and efficiency gains. The headcount, expected to be 1,688 at the end of 2022, reflects a natural turnover performance estimated to give rise to 67 departures through the use of the solidarity fund, but above all the **hiring of 190** capable, dynamic, young, new employees.

The improvement in **asset quality**, through a reduction of non-performing loans from 654 million Euro in 2019³ to 496 million Euro in 2022, reflects the reinforcement of the credit risk management process during the disbursement, management and monitoring of loans and recovery of non-performing positions, a reduction in concentration risk and the disposal of NPLs, primarily deriving from the former Interbanca Group.

Considerable attention has also been devoted to **regulatory capital** performance, with the **CET1** ratio rising from 11% in 2019³ to 12% in 2022, exceeding the current SREP threshold¹ of 8.12%, driven by the rise in profit.

The pay-out ratio is estimated to be 40%-45% over the plan period; at current share price levels, this percentage would ensure a 7% yield on current exchange prices.

The funding strategy calls for **funding** of 10.5 billion Euro by 2022, of which 5.5 billion Euro from retail customers, 1.4 billion Euro of TLTROs, 3.3 billion Euro of debt instruments and 0.3 billion Euro of other debts. The Business Plan envisages a more diversified funding mix, involving the issuance of bonds of 1.7 billion Euro over the three years, to be implemented in the light of volume trends and the market scenario, whilst also reducing the cost of funding.

Cost and capital allocation to the business units

Competitive positioning and capital and cost allocation to the various business units were analysed as part of the process of preparing the Business Plan to define the Group's strategy and to be increasingly transparent in the face of the market.

The following were analysed for each business unit: the market of reference, competition and the competitive positioning of the products/services, the price system, distribution channels, financial policy, commercial organisation and commercial strategy.

¹ On 28 January 2019, the Bank of Italy asked the Banca IFIS Banking Group to adopt a common equity tier 1 (CET 1) capital ratio of 8.12%, with a required minimum of 5.62%, in 2019.

² The term "PPA reversal" refers to the reversal over time of the difference between the fair value as measured in the business combination and the carrying amount of the receivables of the former GE Capital Interbanca Group, acquired on 30 November 2016.

³ The figures relating to 2019 are to be regarded as merely indicative estimates, and as such are subject to change and modification following completion of the closing procedures for the financial statements.

The cost and capital allocation indicates **that all business units remain profitable and continue to represent positions of leadership in their markets of reference.**

In particular, the NPL and factoring business present the best competitive positioning and the highest sustainable profitability. **Accordingly, the Bank will continue to invest mainly in these two segments, which represent its historical core business and ensure an excellent level of diversification in profit generation.**

FOCUS ON THE MAIN LINES OF BUSINESS: NPLs

Banca IFIS: competitive positioning in the NPL market

Banca IFIS is the fourth largest NPL operator on the Italian market in terms of volumes managed (24.4 billion Euro of NPLs) and is the leader in the unsecured non-performing loan segment. Banca IFIS was among the first companies to enter the non-performing loans market, and since 2011 it has purchased over 22 billion Euro of non-performing loans by nominal amount, recovering over 1 billion Euro in cash from its proprietary NPLs.

Banca IFIS operates on the non-performing loans market as a primary investor and owns one of the top servicers currently operating in Italy. The Bank's main competitive advantage is its ability to purchase and manage NPL portfolios, paired with a proprietary database of over 1.2 million Euro of debtors, organised into uniform groups by type, age, residence, amount due, profession, recovery times and guarantees.

Even more than the secured segment, the unsecured non-performing loans segment presents barriers to entry due to the considerable investments required in terms of personnel and IT, the achievement of economies of scale, an efficient organisation to manage internal and external recovery personnel and an extensive, detailed database. However, the unsecured market is a relatively mature segment, with prices and margins expected to remain essentially stable in the coming quarters.

In terms of transactions, we expect the non-performing loan market to remain dynamic over the next three years, with an increase in transactions on the secondary market.

In fact, in the three years from 2020 to 2022, the market is expected to see **84 billion Euro of new sales** of non-performing loans, of which approximately **20 billion Euro of unsecured NPLs**. Of the total transactions, 70% is expected to occur on the primary market and 30% on the secondary market, driven by sales organised by securitisation vehicles, including those that have benefited from government guarantees (GACS) and are seeking to improve cash generation.

The strategy

Banca IFIS's strategy for the medium term is focused on continuing to purchase unsecured loan portfolios by participating actively in all processes on the market, progressively expanding the characteristics of the non-performing portfolios purchased to include the secured and corporate segment and constantly increasing the efficiency of the recovery process for non-performing loans.

Over the three years, strategic actions will primarily be based on:

- **Expediting the integration of FBS into the Group** to take full advantage of complementary expertise offered by Banca IFIS in the unsecured segment and by FBS in the secured and corporate segment, and thus to position itself on the market as a truly integrated Italian operator. To this end, a minority interest in FBS S.p.A. was acquired in October 2019, bringing Banca IFIS's stake in the company to 100%;
- **Reorganising the corporate structure** in the NPL segment by concentrating purchase and investment activities within IFIS NPL and all servicing activities within a newly formed company, IFIS NPL Servicing, a wholly-owned subsidiary of IFIS NPL;
- **Increasing the efficiency of the recovery system** by cutting costs, achieving operating synergies and simplifying and digitalising processes;
- **Expanding the characteristics of the portfolios** purchased in the secured and corporate segment through partnerships with niche servicers/investors and hiring specialised teams.

From 2020 to 2022, Banca IFIS estimates **new NPL purchases of 8.5 billion Euro** in terms of nominal amount, for a total investment of approximately 0.8 billion Euro. **Development of servicing activity** on account of third parties will be selected and reserved to various market niches. Assets under management are expected to increase to **9.1 billion Euro by 2022**.

The long-term strategy, from 2023 onwards, i.e. when it is estimated that non-performing loan purchases will be more affected by the calendar provisioning rules, is to act as a **co-investor for NPLs** while remaining a primary player for the asset classes of reference and turning the effects of the new regulations into opportunities, given that:

- there will be an extended period of low rates, in which NPLs may prove a new, attractive asset for investors, and Banca IFIS may play a leading role, enabled by its brand and track record;
- in view of the opportunities to reduce capital absorption and funding for all new NPL portfolios that will be exposed to calendar provisioning, the Group will constantly increase its ability to attract investors directly to act as co-investors in the purchase of portfolios from the outset or to purchase new NPL portfolios transformed into paying plans (by monetising capital gains, without having to further expand the operating machine).

Within this scenario, Banca IFIS may sell part of such vehicles' junior or senior notes on the basis of its financial needs, by forming specific investment vehicles, whilst continuing to service the portfolios concerned.

The project is not aimed at proprietary NPL portfolios, the loans in which are not subject to the application of calendar provisioning.

FOCUS ON THE MAIN BUSINESSES/COMMERCIAL AND CORPORATE BANKING

Banca IFIS: competitive positioning in the SME credit market

Banca IFIS markets itself as a specialised operator in support of small and medium enterprises. It is the number-four operator in factoring in terms of turnover with a market share of 5.7%; it has a market share of 1.8% in leasing and engages in the purchase of tax credits on the structured finance market.

The level of concentration of the customer portfolio is quite modest due to a sound level of fragmentation of exposures in the face of customers, represented primarily by small and medium enterprises.

The Bank has approximately **80,000 customers**: approximately 9,000 companies in factoring and 16,000 in leasing (in addition to 55,000 VAT-registered self-employed customers), with strong diversification by sector and a concentration primarily in northern Italy.

The strategy

The strategy is focused on profitable growth, expanding the customer base and strengthening cross-selling through the following management action:

- **Evolution of the commercial model** in the medium enterprises segment, with the introduction of relationship managers who will offer customers the full range of Banca IFIS products (factoring, leasing, structured finance, corporate finance, working capital management and import/export services), while promoting cross-selling and up-selling to the customer portfolio. Local coverage is planned to be improved in areas with the greatest density of businesses (Lombardy, Emilia Romagna and the Northeast), alongside expansion of the range of value-added products and services, with a particular focus on products in support of companies that operate outside Italy and structured finance transactions of modest amounts;
- **Digital innovation and new online hub** for customers, with custom-tailored business services and private profiles that may be personalised according to a "self-service" approach. The new online hub will primarily be used to manage back-office processes so that personnel may focus on marketing and advisory activities. Investments of 18.3 million Euro in IT and digitalisation are planned for the development of the new online hub;
- **Strengthening of credit risk monitoring**: over the three-year period the loss rate is expected to decline by 18 basis points from 101 basis points in 2019³ to an estimated 83 basis points in 2022, due to the constant enhancement of non-performing loan disbursement, monitoring and management processes.

In factoring the loss rate will fall from 131 basis points in 2019³ to 90 basis points in 2022.
In leasing it will fall from 81 basis points in 2019³ to 75 points at the end of the Plan.

- **New communications and marketing strategy** with the aim of supporting the new commercial model. In 2020, a rebranding plan will be presented for the entire Banca IFIS Group, entailing a new corporate identity and redefined integral and external strategic communications by the Group in support of a renewed marketing approach. After years of a multi-logo approach adapted to each service or product, the bank will present itself to the market with a single, simplified Banca IFIS brand and strong positioning in the enterprise segment.

Thanks to these actions, we estimate an increase in the volumes of loans to customers during the three-year period of **1 billion Euro** in the Commercial and Corporate Banking segment.

IMPROVED OPERATING EFFICIENCY

The Business Plan calls for a reduction in the cost/income ratio from 56% in 2019 to 52% in 2022, to be achieved in part through containment of operating costs. Efficiency will be improved through numerous management actions aimed at achieving the following goals:

- **Containment of personnel costs**, which are expected to remain essentially in line during the plan period, rising from 130 million Euros in 2019³ to 133.5 million Euros in 2022, despite the increased costs for the negotiation of the national collective contract (estimated at 5 million Euro) and a natural increase in the cost of resources tied to the planned hiring of 190 new employees and departures through the solidarity fund;
- During the plan period, **investments in personnel training** of 3 million Euro are planned, mostly in the areas of training and digital learning. The Business Plan calls for the introduction and/or extension of all those activities that aim to reconcile work/life balance for the purposes of the well-being and quality of life of the resources employed within the Group: flexible working is planned to be introduced, together with an expansion of part-time work, where requested and possible;
- **Administrative expenses** are expected to remain essentially stable, rising from 156 million Euro in 2019³ to 159 million Euro in 2022, despite the investments and greater direct costs incurred in order to grow the business. The rationalisation of the IT platform, optimisation of logistics, optimisation of licences and renegotiation of contracts will result in a reduction in costs of 15 million Euro, which will offset the increase in NPL recovery costs, the greater VAT costs for the formation of IFIS Servicing of approximately 3 million Euro and the greater IT/digitalisation and communication costs of 5 million Euro;
- **Optimisation of the real-estate portfolio** with the construction of a new property alongside the historic Mestre office in which to concentrate all personnel currently based in offices in central Padua and Porto Marghera (Venice), and with the sale of the property on Corso Venezia in Milan, closed in 2019, with the concomitant centralisation of personnel at the property in the nearby Via Borghetto, which will be renovated and modernised. The sale will be completed in early 2020 and will result in capital gains before taxes of 25 million Euro and cost savings of 1.5 million Euro;
- **Optimisation of the organisational structure** with a reduction in reports to the Chief Executive Officer and the formation of four major departments, already realised and implemented;
- **Compliance with ESG (environmental, social and governance)** requirements both in terms of the Group's own operations, through the use at all Group facilities of energy from 100% certified renewable sources and the implementation of "plastic-free" company behaviour and culture, and in terms of the use in its activities on the market and offer to customers of specific green products and financing programmes focused on support for activities and investments for corporate environmental sustainability.

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Group's main financial targets

	2019 ³	2020	2021	2022	CAGR 19-22
Net banking income	557	575	589	602	2.6%
- o/w PPA	58	35	18	8	-47.8%
Loan loss provisions (LLP)	-85	-65	-65	-66	-8.2%
Net banking income – LLP	473	510	524	537	4.3%
Operating costs	-312	-332	-320	-314	0.2%
- o/w personnel costs	-130	-137	-135	-134	1.0%
- o/w other costs	-182	-196	-185	-180	-0.3%
Extraordinary Items	18	-22	0	0	
P/L from sales of investments	-1	25	0	0	
Pre-tax profit	177	181	203	223	8.0%
Net income	123	125	135	147	6.1%
- o/w PPA	41	24	12	5	-49.0%
Customer loans	7,668	8,378	8,941	9,654	8.0%
- o/w IFIS NPL	1,350	1,584	1,787	1,936	12.8%
Total assets	10,412	11,299	12,196	12,730	6.9%
Direct funding	8,339	9,191	10,014	10,463	7.9%
- o/w customer deposits	5,139	5,071	5,217	5,467	2.1%
Shareholders Equity	1,540	1,597	1,674	1,759	4.5%
Cost/income	55.9%	57.8%	54.4%	52.1%	
Cost/income (excluding NPL)	49.7%	52.6%	49.6%	47.1%	
Cost of credit (excluding NPL)	-1.20%	-0.84%	-0.79%	-0.75%	
ROE	8.2%	8.1%	8.3%	8.6%	
ROTE ⁴	8.5%	8.3%	8.6%	8.9%	
ROA ⁵	1.2%	1.2%	1.2%	1.2%	
Return on allocated capital ⁶	13.3%	12.2%	12.2%	11.8%	
CET1	1,036	1,141	1,229	1,350	
CET1 ratio	11.0%	11.3%	11.5%	12.0%	
Tangible equity	1,472	1,533	1,610	1,700	
RWA	9,446	10,099	10,667	11,223	
LCR	900%	600%	550%	350%	
NSFR	110%	110%	110%	110%	

³ The figures relating to 2019 are to be regarded as merely indicative estimates, and as such are subject to change and modification following the completion of the closing procedures for the financial statements.

⁴ Net profit on average equity excluding intangible.

⁵ Net profit on average of total asset.

⁶ Net income on allocated capital. Where allocated capital = RWA credit risk * CET1 ratio.

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This press release defines the main guidelines of economic and financial development of Banca IFIS Group considering the bank’s market potential in a positive and ordinary macro scenario. All forecast contained herein are based on 2019 year end preview: we underline that all data referred to 2019 are the best estimate at the current date and are purely indicative. At the date of this Presentation all accounting procedure are in process and will be concluded in accordance with the financial calendar of the Company. Every preliminary results and any other figures related to 2019 included in this document are therefore subject to changes and amendments

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