BFF BANKING GROUP

Acquisition of IOS Finance

27 March 2019

A Bank Like No Other

IOS Finance overview

Overview

- IOS Finance is an *Establecimiento Financiero de Crédito* ("EFC"), a financial entity supervised by the Bank of Spain in which Deutsche Bank owns the majority of the share capital (55.3%), while the remaining 44.7% is owned by the three founders
  - Established in 2007 as a joint venture between Integral Outsourcing Systems and Deutsche Bank AG
- Mainly focused on the healthcare segment, IOS Finance offers tailor made solutions including:
  - **Non-recourse factoring, both one-off transactions and revolving agreements (€366m in 2018)**
  - **Credit management solutions (€273m in 2018)**
- **With offices in Barcelona and Madrid, it operates with debtors across all Autonomous *Comunidades* (i.e. Regions) in Spain:**
  - 375 Public hospitals managed, including platforms
  - 335 Private hospitals managed (credit management services only)
  - 70 Public Administrations (obligors)
  - 17 regional Governments in Spain

Key financials[1]

		2018
Business volumes (€m)	**Non recourse factoring**	**366**
	Receivables under management	**273**
Balance Sheet (€m)	**Loans to customers**	**97.8**
	Total Assets	99.5
	Shareholders' equity	44.5[2]
Income Statement (€m)	Interest income	7.4
	Interest expense	(1.1)
	Net banking income	**6.6**
	Operating costs	(2.6)
	Profit Before Tax	4.0
	Net Income	**2.8**
Other KPIs	FTEs (#)	23
	C/I[3] (%)	39
	NII / RWA (%)	23
	Adjusted RoTE (%)	19
	Tier 1	149%[4]

(1) Managerial figures according to IFRS standards (2) Equal to €18m pro forma for dividend distribution of excess capital (3) Computed as total revenue over operating costs including impairments (4) Equal to 50% pro forma for post dividend distribution of excess capital.

IOS Finance offers both non-recourse factoring and credit management solutions

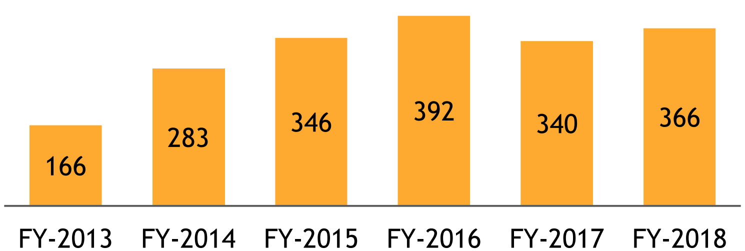
Non recourse factoring

- Non-recourse factoring to suppliers of goods and services to the Spanish Public Administration
  - Focused on healthcare
  - Recently started also to acquire receivables towards Spanish municipalities
  - Widespread geographical coverage, particularly strong in the Valencia and Andalucía region
- Assignments can be made following two type of contracts:
  - revolving basis, either monthly or quarterly
  - ad hoc non revolving transactions

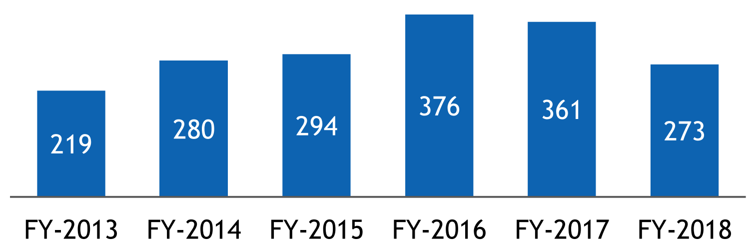
Credit management

- Servicing, management and collection of account receivables on behalf of suppliers to hospitals (both private and public) and other Spanish Public Administrations
  - Public Administrations: 375 public hospital and 87 regions and other PA entities managed
  - Private: 335 private hospitals managed
- c. €0.2m of revenue in 2018, equivalent to c. 9bps of management fee

Non recourse factoring new business volumes (€m)



Credit management new business volumes (€m)



Transaction strategic rationale

With IOS acquisition BFF confirms its role as leader in the Spanish P.A. factoring market

A **Reinforce BFF leadership in the Iberian market**

- Pro-forma new business volume of over €1.3bn in Spain (of which c. €1.1bn of purchased non-recourse receivables)

B **Gear-up the Group's growth in Spain**

- Underpenetrated market for NHS and PA factoring where the current political environment could result in lengthening of the DSOs

C **Increase the Group geographical diversification**

- Pro-forma 36% of total customer loans outside Italy

D **Expand BFF credit management offering to Spain**

- €273m of existing trade receivables managed by IOS on behalf of its clients

E **Integrate an experienced team**

- IOS Finance has 15 years of activity within the sector to help boosting BFF's growing Spanish business

F **Create value for the shareholders**

- Thanks to important potential synergies stemming from the integration of IOS Finance with the BFF's Spanish business

Summary of the key aspects of the Transaction

Transaction	▪ **All-cash consideration of €25.0m[1], representing a multiple pre-synergies of 8.3x[2] P/E 2018 and 1.6x[3] P/TBV for a business with high ROTE (c. 19%[2,3]), low risk, low capital absorption and strong potential synergies**
	  ▪ Consideration subject to a price adjustment mechanism (positive or negative) based on the Net Asset Value at closing calculated excluding the positive net profit generated in 2019 as it will accrue to the acquirer
	▪ As part of the Transaction, a pre-closing dividend up to €27m will be distributed to IOS Finance existing shareholders before completion thus reducing, by an equivalent amount, its tangible equity book value (equal to c. €43m as of 31st December 2018)
	▪ At closing BFF will reimburse IOS Finance's funding facility currently provided by Deutsche Bank AG (equal to €52m at YE2018 before the pre-closing dividend)
	  ▪ Both the price and the reimbursement of Deutsche Bank AG's financing facilities will be funded with BFF's exiting funding
	▪ Completion of the Transaction is subject to (i) non-opposition of Bank of Spain, (ii) notification to Bank of Italy, and is expected for 3Q 2019

Agreement	▪ BFF, Deutsche Bank AG ("DB AG") and two minority shareholders of IOS Finance (owning in aggregate 72.4% of the share capital) signed a binding agreement pursuant to which BFF is expected to acquire up to 100% of IOS Finance ▪ Under the bylaws of IOS Finance, any transfer of shares is subject to a right of first refusal ("ROFR") in favour of each of the non-transferring shareholders. The signing of the sale and purchase agreement ("SPA"), on the terms already agreed upon under the Agreement, remains subject to the expiry of a 30-day period under which such ROFR could be exercised by the third minority shareholders not participating to the Agreement ▪ Upon the expiry of the terms provided for the exercise and the following completion of the ROFR by the third minority shareholder, DB AG has undertaken towards BFF to exercise the drag along right provided for under the existing shareholders' agreements vis-à-vis the third minority shareholder, whereby also such shareholder shall be required to transfer its shares to BFF under the same conditions provided for in the SPA

Capital impact	▪ Expected capital absorption in 2019 of maximum c. €17m[4] largely related to:
	  ▪ €10m of goodwill
	  ▪ €5m of one-off negative impact (post tax) assuming the harmonization of IOS Finance's LPI accounting standards to that of BFF's. IOS Finance currently recognises LPI, on an accrual basis, assuming a 100% recovery rate vs. 45% assumed by BFF. Given that in Spain BFF collects 100% of the LPI due, such impact is expected to be fully offset in the following years by the LPI over-recoveries and will translate in higher earnings for the business in the future

(1) Subject to a price adjustment mechanism based on the Net Asset Value at closing; (2) Managerial figures according to IFRS standards. Net income adjusted for (i) cost of Deutsche Bank guarantee terminated in January 2019 and (ii) additional interest expenses (assuming current Target's cost of funding) in relation to the pre – closing dividend distribution; (3). Managerial figures according to IFRS standards. 2018 tangible book value pro-forma to exclude the pre-closing dividends of up to €27m; (4) The final impact from the transaction will ultimately depend on (i) price finally paid (which in turns depends on the price adjustment mechanism) and (ii) on the LPIs accounted as P&L as at the closing date

IOS Finance Pro-Forma Financials

Excluding the costs related to the credit guarantee from DB (terminated in Jan-19) and for the pre-closing dividend of up to €27m

IOS Finance P&L overview[1]

	€m	2018	2018 PF
A	Interest income	7.4	7.4
	Interest expense	(1.1)	(0.6)[2]
B	*o/w DB guarantee fee*	*(0.8)*	-
	Interest margin	**6.3**	**6.8**
	Commissions received	0.2	0.2
	Net banking income[3]	**6.6**	**7.1**
	Operating costs	(2.6)	(2.6)
C	*Personnel expenses*	*(1.8)*	*(1.8)*
	Other administrative expenses	*(0.8)*	*(0.8)*
	Profit before tax	**4.0**	**4.5**
D	**Net profit**	**2.8**	**3.2**

IOS Finance BS overview[1]

	€m	2018	2018 PF
E	Loans to customers	97.8	97.8
	PPE	0.2	0.2
	Intangibles	1.1	1.1
	Tax assets	0.1	0.1
	Total assets	**99.5**	**99.5**
F	Funding	53.9	80.9
	Shareholders' equity	44.5	17.5

Key comments

A IOS accounts LPIs on an accrual basis assuming a 100% recovery rate, whereas BFF accounts LPIs on a accrual basis assuming a recovery rate of 45% (while the over-recovery vs. the assumed 45% are accounted on a cash basis at collection)

- The harmonization of the LPI accounting standards to that of BFF's, would result in c. -€5m one-off impact (post tax). Given that in Spain BFF collects 100% of the LPI due, such impact would be fully offset in the following years by the LPI over-recoveries (i.e. higher earnings for the business in the future)

B Fees paid in relation to a credit guarantee provided by DB (terminated in Jan-19) and accounted as an interest expense

C Personnel expenses represents approximately two thirds of the total expenses and are related to the 23 FTEs

D 30% tax rate for EFC (vs. 25% tax rate for non EFC)

E Includes €11m of in-balance sheet LPI. Total stock of gross LPI equal to €12m

F €52m of intra-group funding provided by DB (€79m pro forma for pre-closing dividend)

(1) Managerial figures according to IFRS standards; (2) Adjusted for (i) cost of Deutsche Bank guarantee terminated in January 2019 and (ii) additional interest expenses (assuming current IOS Finance's cost of funding) in relation to the pre - closing dividend distribution; (3) Net banking income computed as sum of net interest income and net commissions. NBI 2018 PF adjusted for (i) cost of Deutsche Bank guarantee terminated in January 2019 and (ii) additional interest expenses (assuming current target cost of funding) in relation to the pre – closing dividend distribution