BANCA SISTEMA
CONTEMPORARY BANK

1H 2016 Results

29 July 2016

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1H 2016 Results at a Glance

P&L

- **Net Income +17% y/y reached at €15.7m**, includes €6.9m gross for the accrual of the factoring LPIs and €2.3m gross for the sale of 15.8% stake in CS Union (NPLs)
- **€34.6m Net Interest income +20% y/y** including the accrual of the LPIs, factoring remains the main contributor with a weight on total for 88%
- **Stated ROAE 29%**

Strong commercial performance

- **1H 2016 Factoring Turnover +16% y/y, targeting by year-end a +20% growth**
- **VAT Turnover** growing at > 60% y/y
- **CQS + SMEs outstanding** reached €266m, **+113% y/y**

Balance Sheet

- Ahead of Brexit, reduction of the Italian T-bills ptf from €0.9bn in 1Q 2016 to €0.4bn
- Thanks to a well diversified funding **LCR** is far above regulatory threshold
- **CET1** and **TCR** reached respectively **14.4%** and **17.3%**; Beta Stepstone's acquisition finalized in July will absorb ~70bps

Note: 1H 2015 Net Income does not include net non-recurring items related to the IPO (€4.7m).

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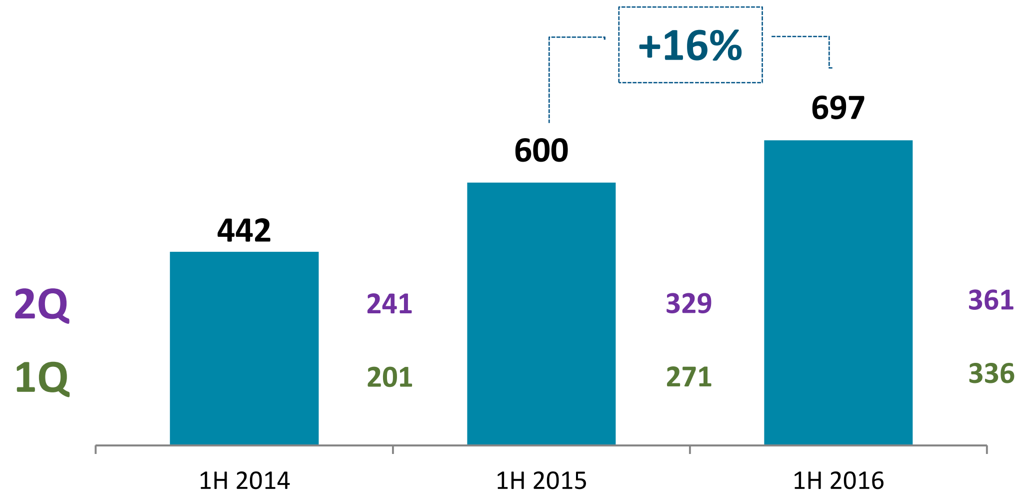
Targeting a FY 2016 Factoring Turnover growth of 20%

Factoring Turnover

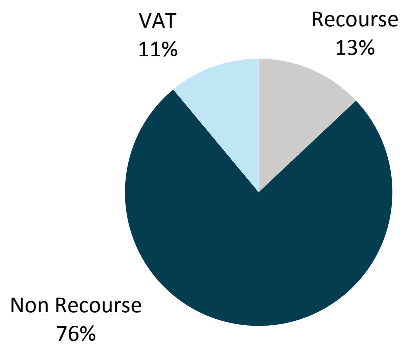
€m



Banking Network represents 11% of 1H 2016 Turnover (5% in 1H 2015)

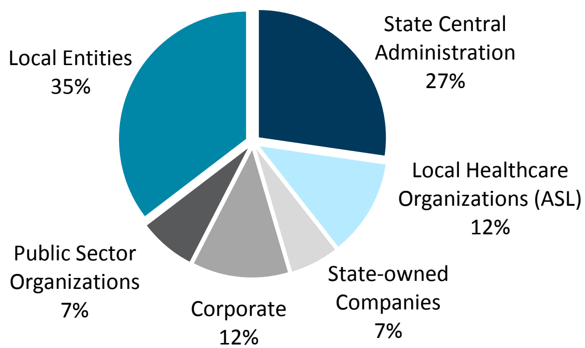
Factoring Outstanding Breakdown - €997m (+11% y/y)

By Type of Product

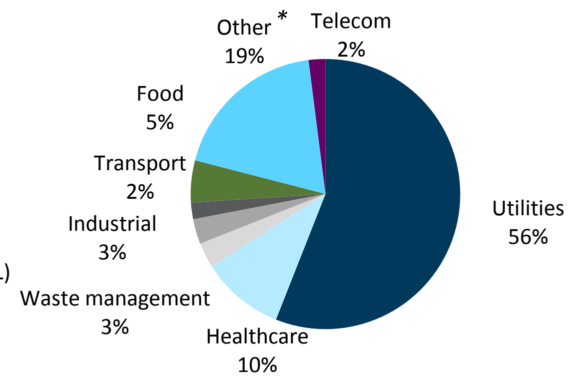


By Obligor

PA accounts for 88%



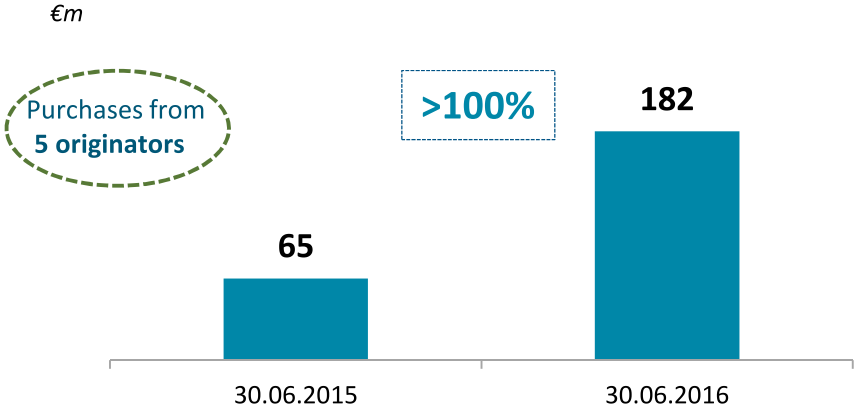
By Client



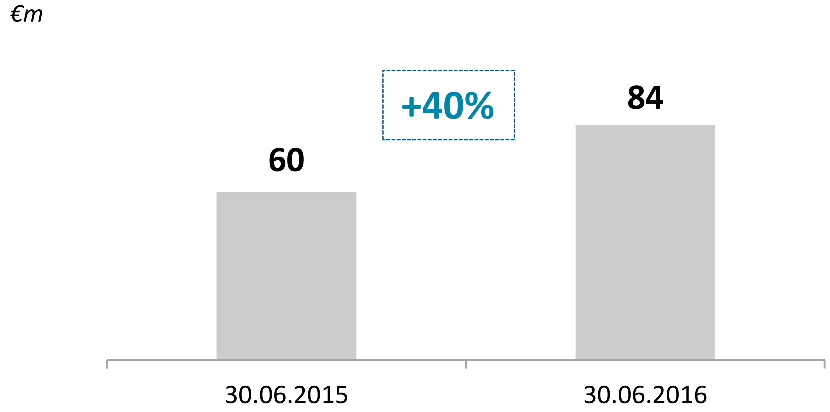
Note: (*) Including services, entertainment, agriculture and IT, among others.

CQS/CQP and SME loans represent today 22% of Total Loans

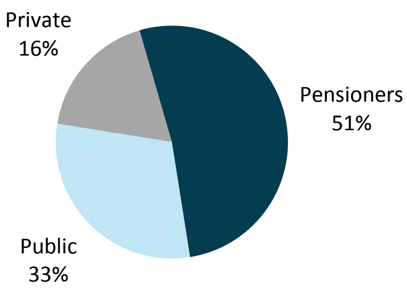
CQS/CQP Loans outstanding



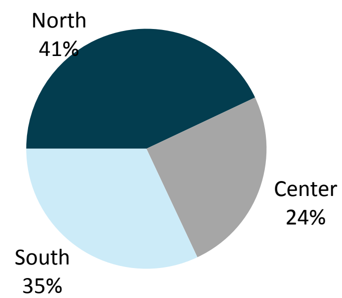
SME State Guaranteed Loans outstanding



Outstanding breakdown by Type (30.06.2016)



Outstanding breakdown by Geography (30.06.2016)



CQS:

- 84% Public (51% Pensioners)
- Average Gross Yield 4.1%, Q2 2016 in line with Q1 2016
- Average contractual duration of 9.6 years

SMEs State Guaaranteed Loans:

- More competition from commercial banks
- Average Gross Yield 6.6%, Q2 2016 in line with Q1 2016
- Average duration of 4.3 years

1H 2016 – Income Statement*

Figures in thousands of Euro

	30.06.2016 A	30.06.2015 B (Normalized)	Difference % A - B
Net interest income	**34,647**	**28,951**	**19.7%**
Net fee and commission income	4,415	5,853	-24.6%
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	803	2,060	-61.0%
Operating income	**40,092**	**36,864**	**8.8%**
Net impairment losses on loans	(3,130)	(2,091)	49.7%
Net operating income	**36,962**	**34,773**	**6.3%**
Staff costs	(7,466)	(6,528)	14.4%
Other expenses	(10,000)	(9,078)	10.2%
Operating expenses	**(17,466)**	**(15,606)**	**11.9%**
Profits of equity-accounted investees	2,241	221	914.0%
Pre-tax profit from continuing operations	**21,737**	**19,388**	**12.1%**
Taxes on income for the period/year from continuing operations	(6,052)	(6,029)	0.4%
Profit (loss) for the year/period attributable to the shareholders of the Parent	**15,685**	**13,359**	**17.4%**

- **NII include**s €6.9m of accrued LPIs, representing 15% of the LPIs due, on the legally actioned invoices (in the past booked on a cash based) €5m are related to prior years
- **NII has also been influenced by:** lower cost of funding; higher contribution from CQS/CQP and SME loans
- Lower contribution from our short term Italian Government **bond portfolio (-61%)**
- **Higher LLPs** as a consequence of the SMEs portfolio's deterioration and outstanding growth, stable cost of risk
- **Personnel expenses** reflect headcount growth y/y
- **Net Income** in 1H 2016 includes also the gain from the sale of CS Union gross of €2.3m

Note: 1H 2015 Net Income does not include net non-recurring items related to the IPO (€4.7m).

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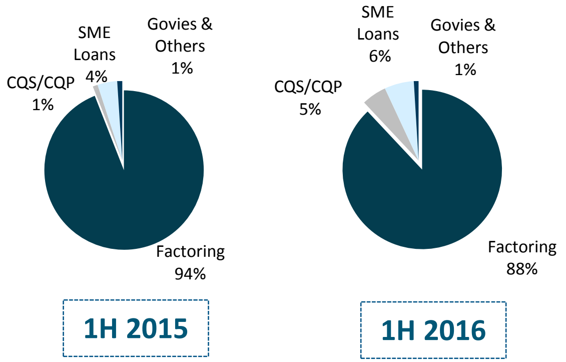
1H 2016 – Balance Sheet

	30.06.2016 A	31.12.2015 B	Difference % A - B
ASSETS			
Cash and cash equivalents	90	104	-13.5%
Available-for-sale financial assets	411,422	925,402	-55.5%
Loans and advances to banks	49,701	2,076	2294.1%
Loans and advances to customers	1,192,757	1,457,990	-18.2%
Equity investments	990	2,696	-63.3%
Property, plant and equipment	938	1,058	-11.3%
Intangible assets	1,846	1,872	-1.4%
of which: goodwill	*1,786*	*1,786*	*0.0%*
Tax assets	3,679	7,353	-50.0%
Other assets	17,216	13,119	31.2%
Total assets	**1,678,639**	**2,411,670**	**-30.4%**
LIABILITIES AND EQUITY			
Due to banks	352,713	362,075	-2.6%
Due to customers	1,069,141	1,878,339	-43.1%
Debt securities issued	90,325	20,102	349.3%
Tax liabilities	3,067	804	281.5%
Other liabilities	57,291	55,317	3.6%
Post-employment benefits	1,464	1,303	12.4%
Provisions for risks and charges:	279	372	-25.0%
Share capital, share premiums, reserves, valuation reserves and treasury shares	88,674	75,751	17.1%
Profit (loss) for the year	15,685	17,607	-10.9%
Total liabilities and equity	**1,678,639**	**2,411,670**	**-30.4%**

- **Govies AFS portfolio decrease from €0.9bn to €0.4bn** with a residual duration of 5 months
- Govies ptf reduction influenced as well as the reduction of REPO both on Assets side and Liabilty side of the Balance Sheet
- **Factoring receivables** slightly lower with yearly business growth and cyclical concentration of purchases in December
- **CQS/CQP** increase due to further loan purchases
- **Due to banks**: decrease on **Interbank** and increase on **ECB** funding (TLTRO II)
- **Lower Retail funding** in line with business needs and funding diversification
- **Total own funds at €119m (TCR 17.3%) and CET1 at €99m (ratio 14.4%)**

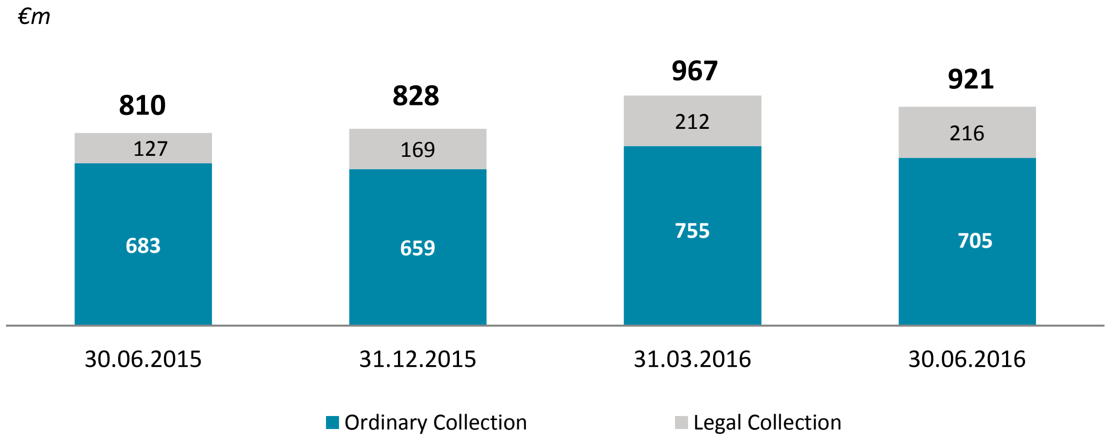
Factoring represents the main source of revenues

Net Interest Income Breakdown

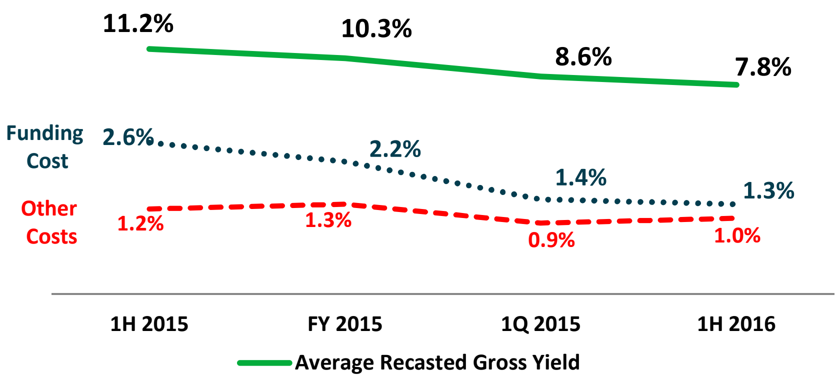


- Factoring represents 88% of Net Interest Income

Factoring Average Outstanding Evolution



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

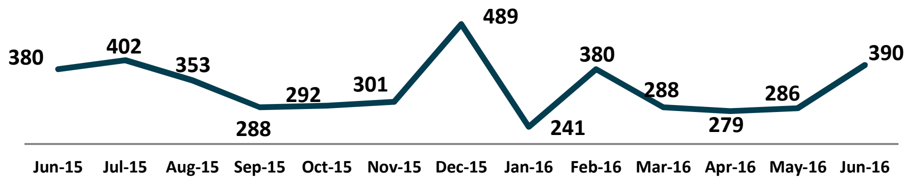


Gross Yield includes Commission Income: €4.6m in 1H 2016; €2.4m in 1Q 2016; €10.9m in FY 2015 and €5.8m in 1H 2015

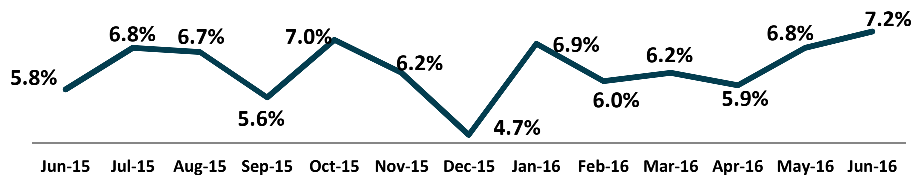
Other Cost s include among others Legal and Servicing costs equal to: -0.5% in 1H 2016; -0.6:% in 1Q 2016; -0.9% in FY 2015 and -0.8% in 1H 2015

How we originate new business:

Priced Duration ("DFS")



Factoring Priced Yield "DFS"



Note: Priced DFS includes also commissions components. Other Costs include also Cost of Risk.

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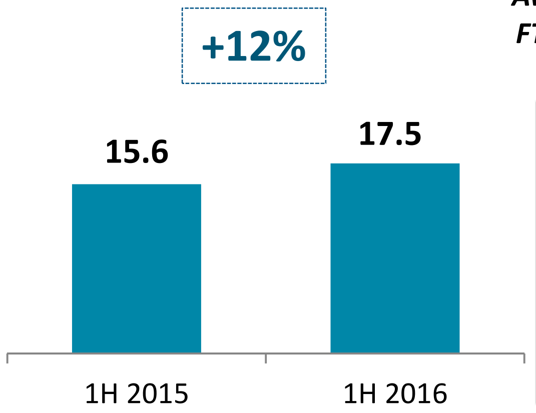
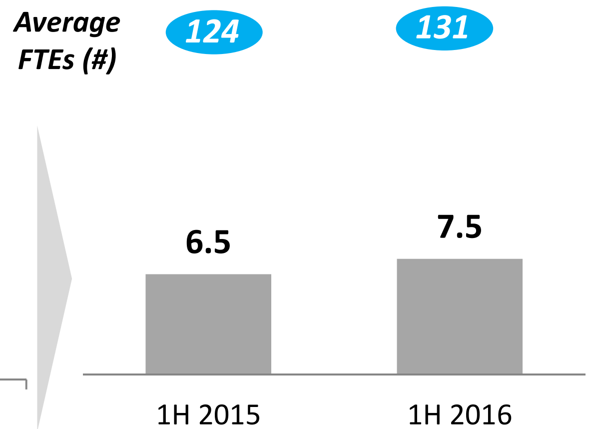
Costs ex. some components in line with expectations

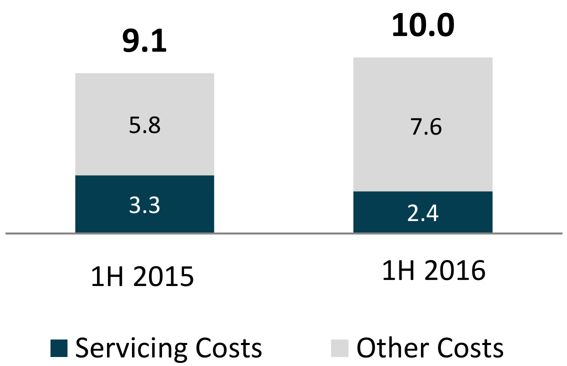
Operating Costs*	*Personnel Expenses*	*Administrative Expenses, Net Provisions for risk, Servicing Costs, Other and D&A**

€m

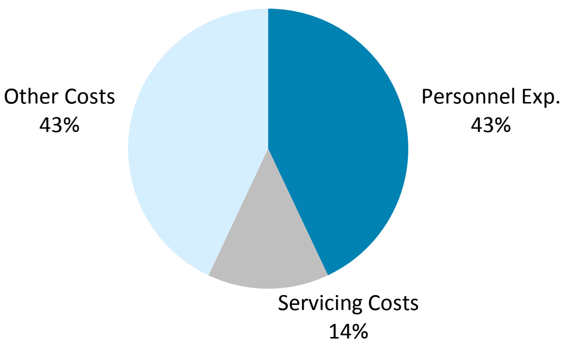


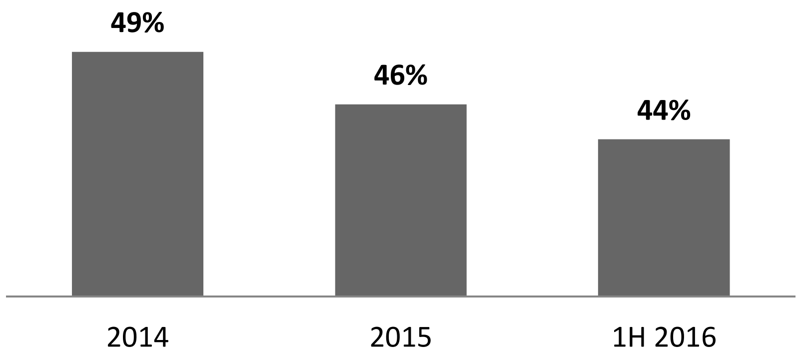


- -€0.6m contribution to National Resolution Fund and +€0.3m rebate from the Fund
- -€1m for M&A fees and CQS Securitization



Operating Costs Breakdown	Cost Income Ratio





Note: (*) 1H 2015 Costs and related ratios do not include non-recurring items.

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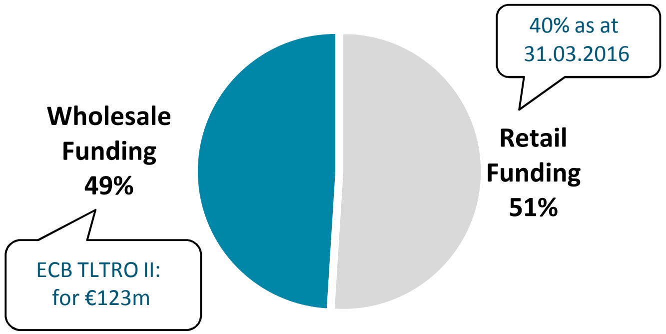
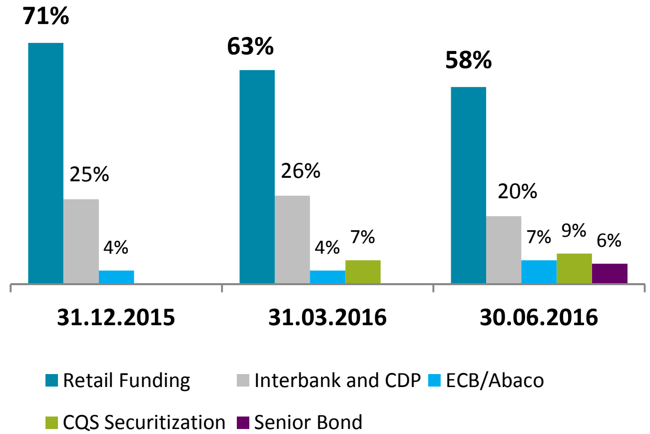
Funding strategy focused on diversifying

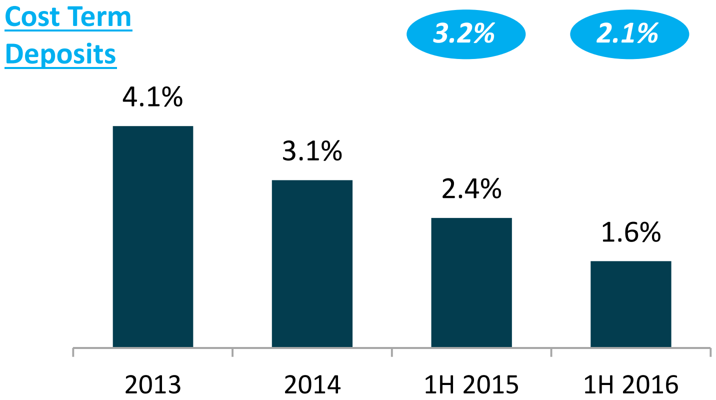
Total Funding Breakdown



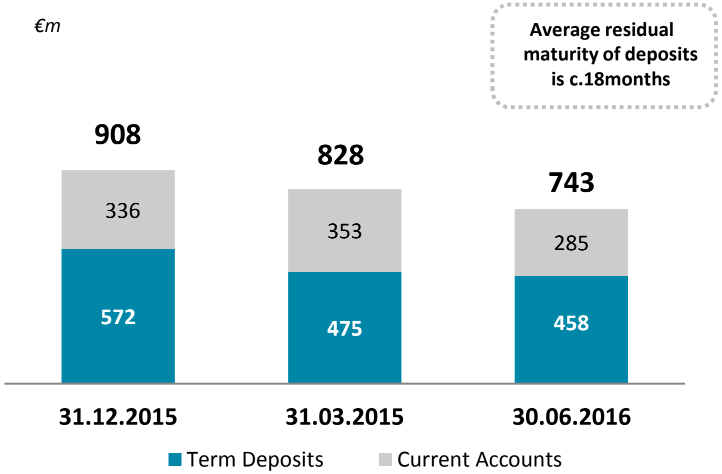
Core Business Funding Breakdown



Retail Cost of Funding



Retail Funding



- **Higher diversification and better ALM**
- Term Deposits and Current Accounts have been reduced to allow additional funding: TLTRO, Securitization and a 2Y Senior bond
- 22% of term deposits from Germany/Austria
- Wholesale funding included the warehouse credit line related to the CQS securitization launched at the end of March

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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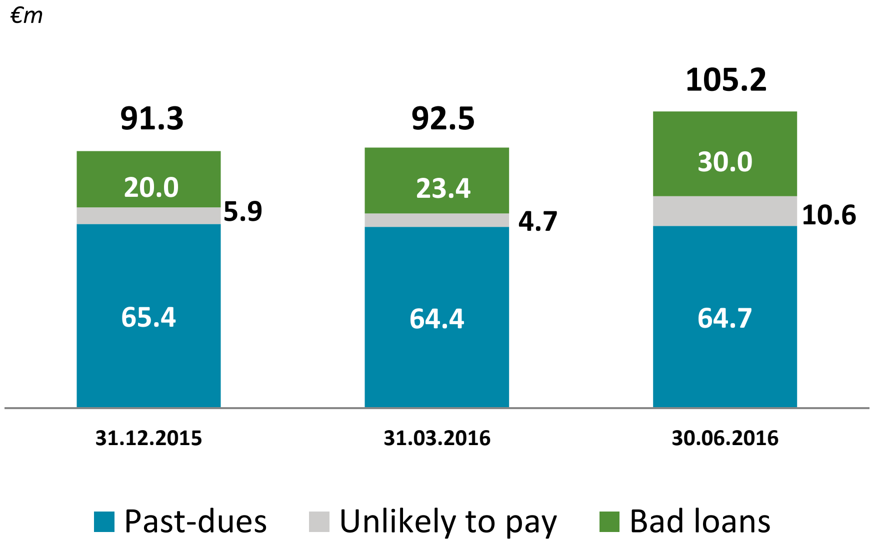
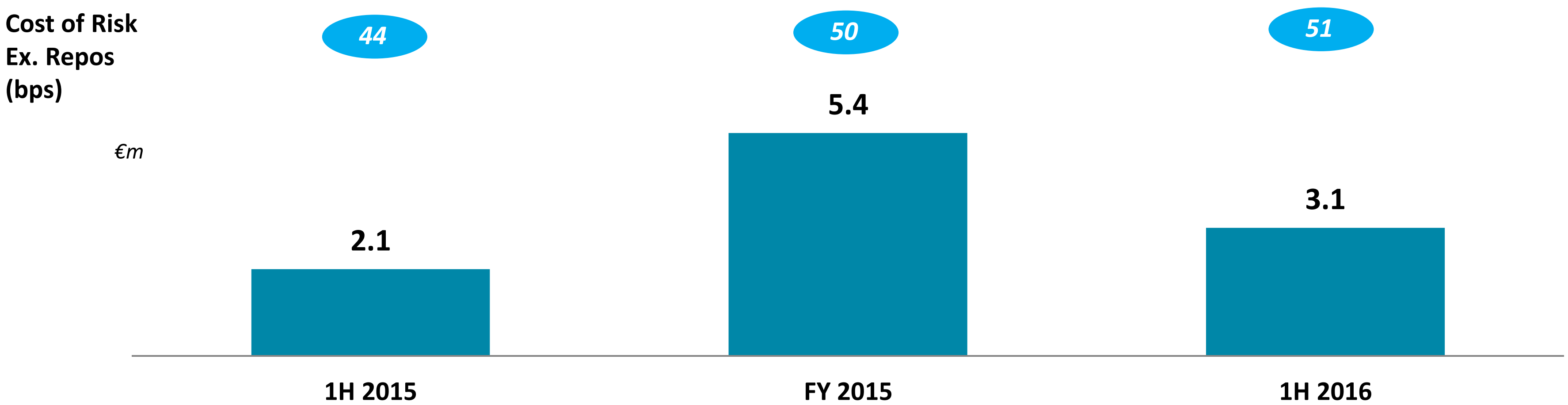
Conservative risk policy in all the business lines

Gross Non Performing Loans



- Net Bad Loans represents 1.8% of total loans as at 30.06.2016 ex. Repos (1.1% in 2015)
- Bad loans increase q/q was due to some deterioration of the SMEs State Guaranteed loans portfolio and factoring
- “Unlikely to pay” increase q/q was due to Factoring
- Stable Past-dues
- Loan loss provisions in 2Q 2016 €1.6m vs €1.5m in 1Q 2016, with a stable Cost of Risk

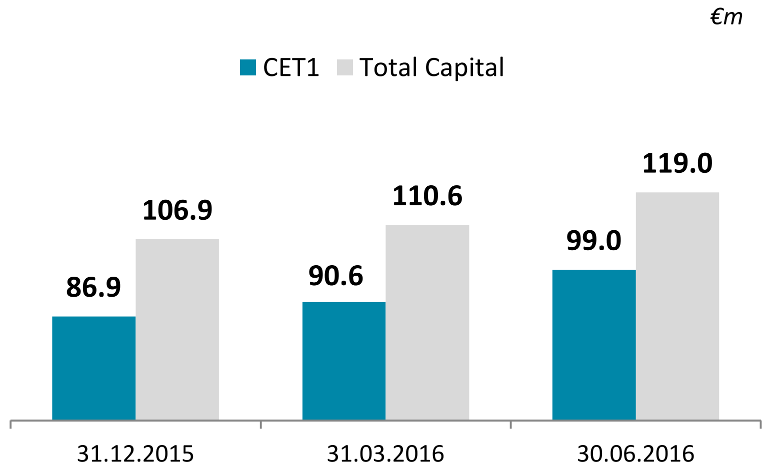
Cost of Risk and Loan Loss Provisions



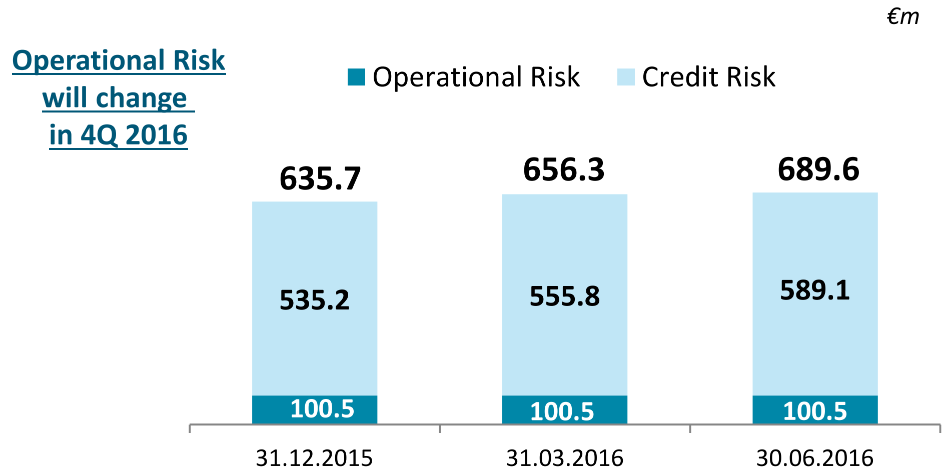
Appendix

Regulatory Capital

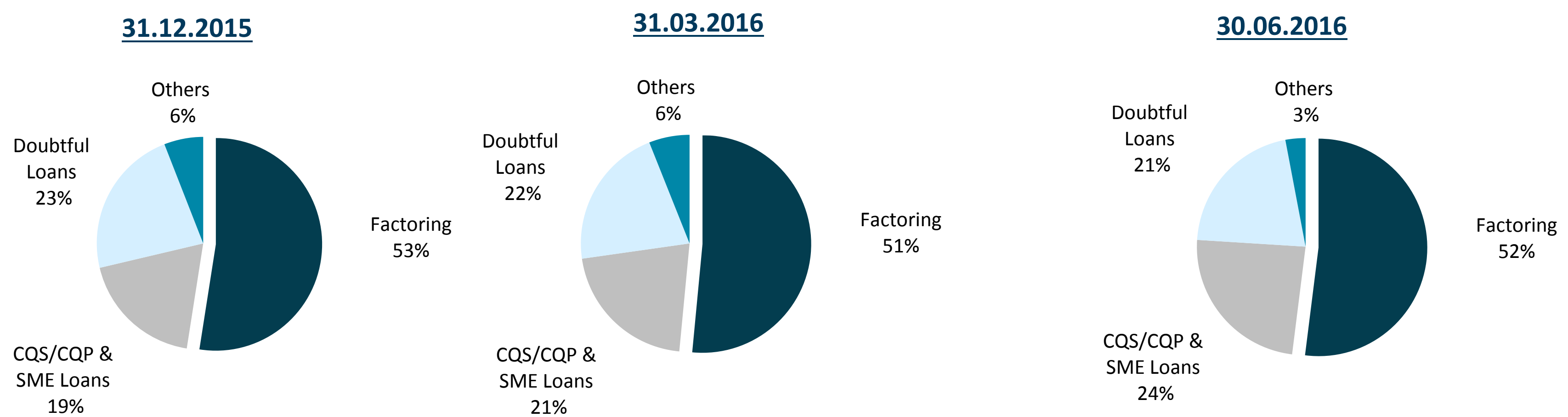
CET1 and Total Capital



RWA breakdown



RWA – Credit Risk



Note: CET1 and Total Capital, following CRR directive, are based on an estimated dividends pay-out of 15% (average effective pay-out of the last three years).

Methodological notes - LPIs

After five years a the establishment of Banca Sistema, considering:

- the significant increase in purchased loan volumes;
- the experience accrued through the more systematic initiation of in-court and out-of-court recovery actions on defaulted loans;
- the more structured statistical information on the time to recovery of amounts due, for both principal and late payment interests (LPIs), as well as on the volume of recovered amounts;

the bank updated its methodology for the LPI, by prudentially posting to the interest income 15% of the LPIs of invoices whose collection on the same date was reclassified from Regular to Lawsuit ("Ordinary Collection" vs "Legal Collection").
Previously the bank posted LPIs just after having collected it (Cash based accounting).

The amount ensued from the accounting update was €6.9m and at 31.12.2015 the amount of late-payment interest that would have been reported based on this methodology would have been €5m.

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