
BANCA

S I S T E M A
SPECIALTY FINANCE

1Q 2018 RESULTS

11 May 2018

1Q 2018 Results at a Glance

Commercial performance

- **Factoring Turnover +24% y/y** equal to €504m
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS/CQP outstanding reached €526m, +68% y/y**

P&L

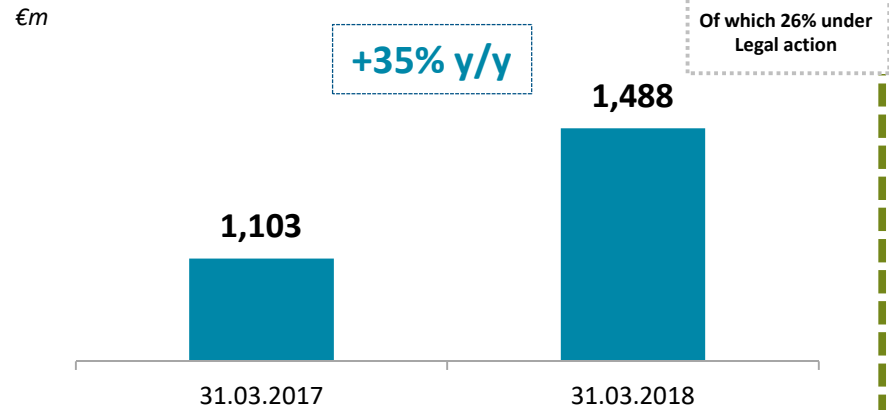
- **Net Interest Income equal to €13.7m, +10% y/y** and lower q/q
- **Cost of funding stable y/y and q/q**
- **Total Income equal to €18.1m, +21% y/y**, driven by last 12 months turnover growth
- **Total operating costs +8% y/y**, almost stable q/q and **Cost of Risk** at ~22bps
- **Net Income up 7% y/y, at €4.7m**

Balance Sheet

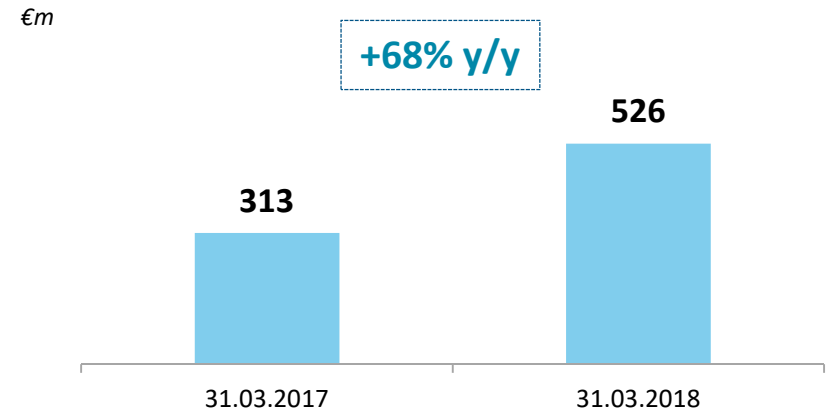
- **Total funding well balanced between Retail and Wholesale**
- **LCR and NSFR above regulatory requirements**
- The impact from the **IFRS 9** introduction equal to **-2bps** on CET1 and TCR
- **CET1 ratio and TCR** respectively **11.8%** and **15.0%**

Core business assets outstanding is growing

Factoring outstanding

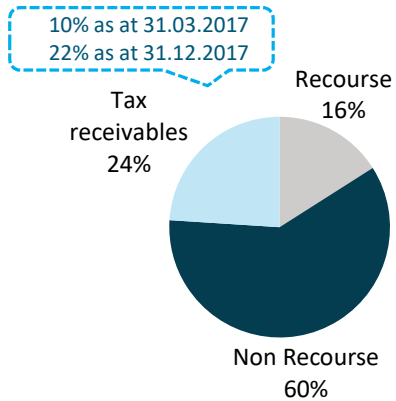


CQ Loans outstanding

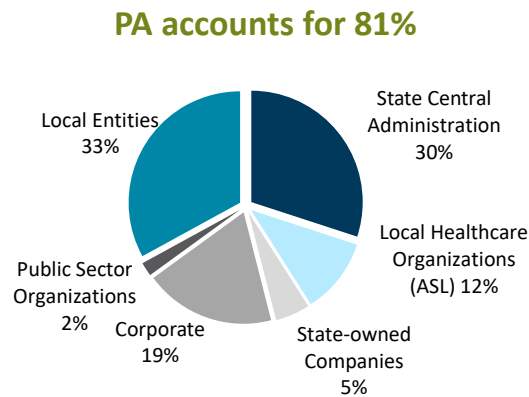


Outstanding breakdown (31.03.2018)

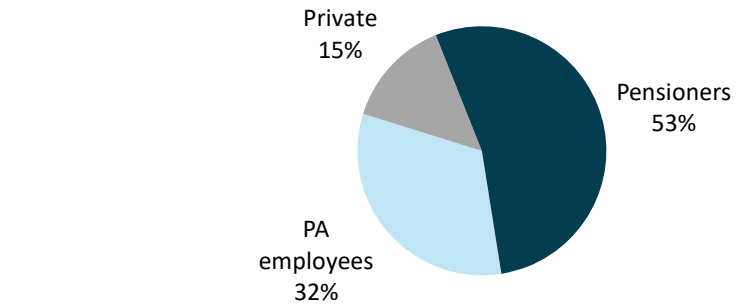
By Type of Product



By Obligor



Outstanding breakdown by Type (31.03.2018)



- €40m turnover in 1Q 2018
- 85% PA risk exposure

Note: Factoring outstanding management account.

1Q 2018 – Balance Sheet

Figures in millions of Euro

	IAS39 31.12.2017	IFRS9 31.03.2018	Change in %
ASSETS			
Financial assets at fair value through P&L [Held to Sell]	1	1	nm
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	286	454	59%
Loans at amortized cost	1,886	1,944	3%
<i>Factoring</i>	1,286	1,302	1%
<i>CQ</i>	500	526	5%
<i>SMEs State Guaranteed loans</i>	56	48	-15%
<i>Other</i>	44	68	54%
Securities at amortized cost	84	121	43%
Tangible and Intangible assets	26	27	2%
Equity investments	1	1	nm
Other assets	25	24	2%
Total assets	2,309	2,572	11%
LIABILITIES AND EQUITY			
Due to banks	518	566	9%
Due to customers	1,284	1,477	15%
Debt securities issued	282	283	nm
Other liabilities	90	107	19%
Shareholders Equity	135	139	3%
Total liabilities and equity	2,309	2,572	11%

- **Loans at amortized cost up 3% q/q (€1,944):**
 - **Factoring receivables up +1% q/q at €1.3bn**, thanks to the turnover originated in 1Q 2018
 - **CQ loans (€526m) +5% q/q**
 - **SMEs State Guaranteed loans in run-off**
- **Govies' portfolio (€568m) is ~€200m up vs 2017 year-end** following the increase of the HtCS component and the Securities at amortized cost component (former HtM)
- **Due to banks up q/q** mainly for higher Interbanking component
- **Due to customers increase** is driven by the combination of higher Repos, related to the increase of the Govies' ptf and lower current accounts (-€24m). Term deposits always stable in last quarters
- **Shareholders Equity includes €6.9m dividends** paid on the 09.05.2018

Note: Comparatives simply reflect the statutory data as at 31 December 2017 based on the previous accounting standard IAS 39, therefore they do not represent restated balances resulting from the retroactive adoption of the new accounting standard IFRS9.

1Q 2018 – Income Statement

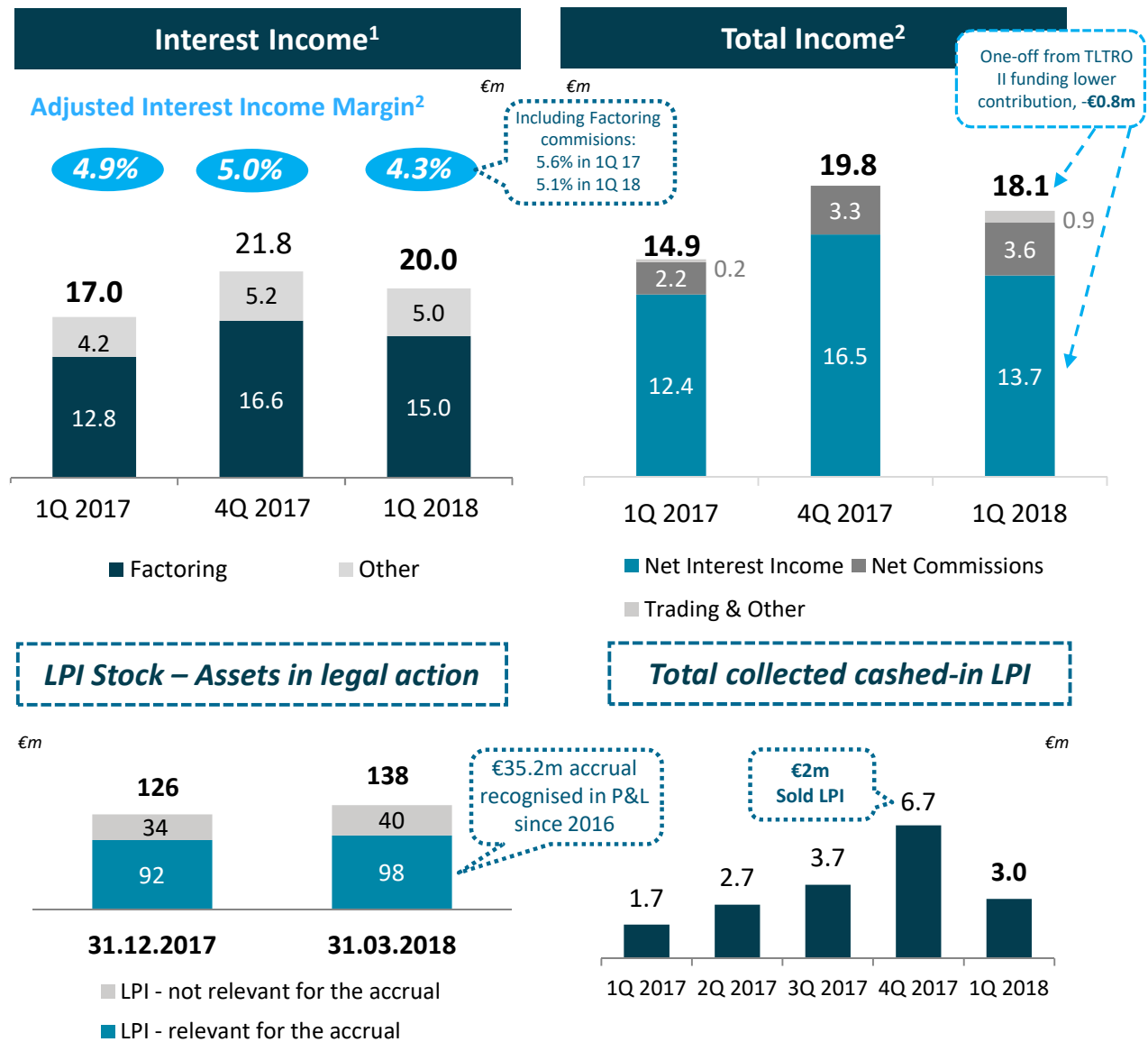
Figures in millions of Euro

	IAS39 31.03.2017	IFRS9 31.03.2018	Change in %
Interest income	17.0	20.0	18%
Interest expenses	(4.6)	(6.4)	40%
Net interest income	12.4	13.7	10%
Net fee and commission income	2.2	3.6	58%
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.2	0.9	nm
Total income	14.9	18.1	21%
Net impairment losses on loans	0.5	(1.1)	nm
Net operating income	15.4	17.0	11%
Personnel expenses	(4.3)	(4.8)	11%
Other expenses	(4.9)	(5.1)	5%
Operating expenses	(9.2)	(9.9)	8%
Pre-tax profit from continuing operations	6.2	7.1	14%
Taxes on income for the period/year from continuing operations	(1.8)	(2.4)	32%
Profit (loss) for the year/period attributable to the shareholders of the Parent	4.4	4.7	7%

Note: Comparatives merely reflect the statutory data as at 31 March 2017 according to IAS 39, therefore they do not represent restated balances resulting from the retroactive adoption of the aforesaid accounting standard, and as such are not fully comparable.

Total Income y/y and q/q in line with expectations

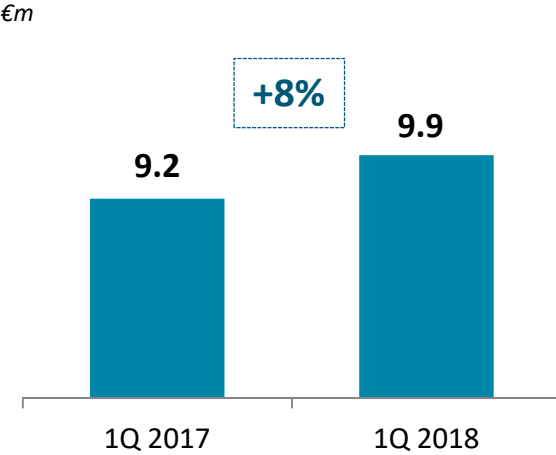
- 1Q 2018 Interest Income y/y growth is driven by higher factoring and CQ contribution
- Factoring represents 75% of Total Interest Income
- Factoring LPIs from legal action in 1Q 2018 represent 24% of total Interest Income, equal to €4.8m (€3.1m in 1Q 2017):
 - of which accrual €2.9m (€2.0m in 1Q 2017)
 - of which “extra collection” €1.9m (€1.1m in 1Q 2017)
- LPs in 1Q 2018 were lower than 4Q 2017 equal to €7.6m, of which accrual €3.9m
- Interest Income Margin reduction y/y and q/q was mainly driven by factoring profitability and higher weight of CQ on total stock. Lower factoring profitability, although with a higher stock, was due to a combination of lower Priced Yield (Target Yield at Expected Collection Date) and also higher weight of Tax Rec. on total stock
- Total Income y/y increase is driven by NII although the negative €0.8m one-off of higher interest expenses, and also by Net Commissions and Trading Income. Net Commissions y/y and q/q growth is exclusively driven by factoring commission income (respectively +€1.3m and +€0.2m). Factoring Interest Income and Commission Income represent overall factoring profitability



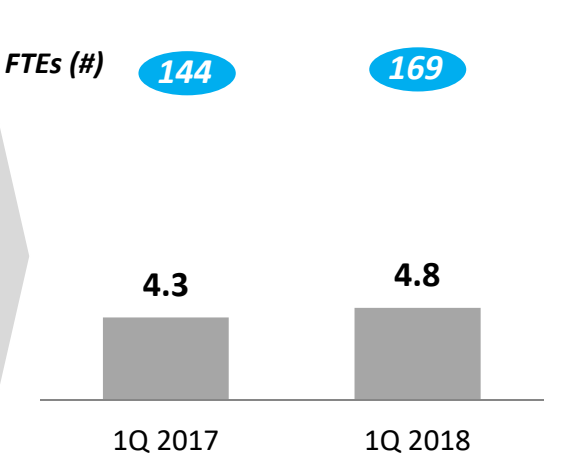
Note: (1) 1Q 2017 Interest Income does not benefit from -40bps ECB TLTRO II funding, while FY 2017 does for a total amount of €0.8m; (2) Calculated as [Period Interest Income] / [Average end of period net customer loans] - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

Operating costs slightly higher y/y, but in line with expectations

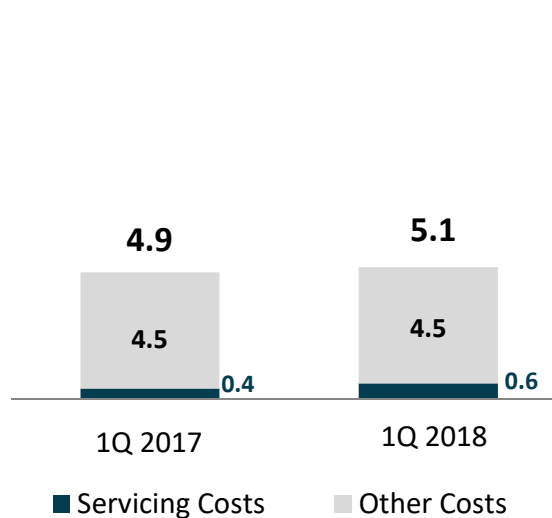
Operating Costs



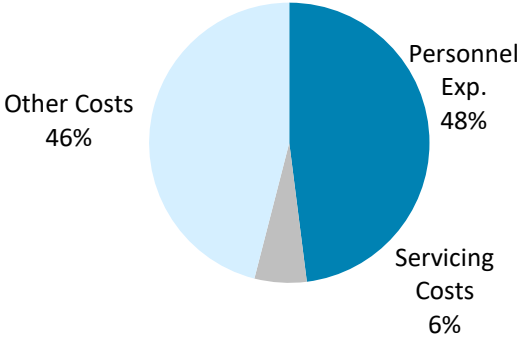
Personnel Expenses



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



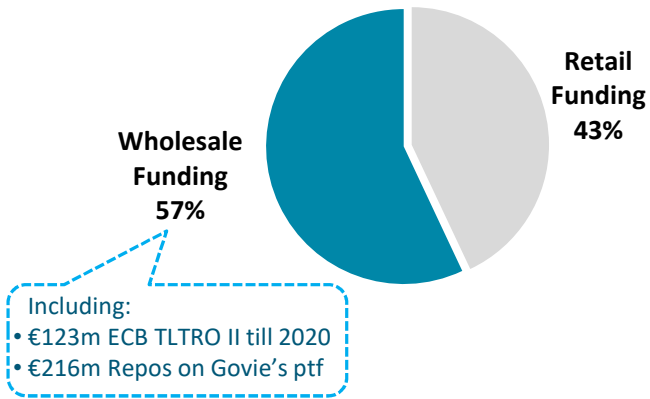
Operating Costs Breakdown



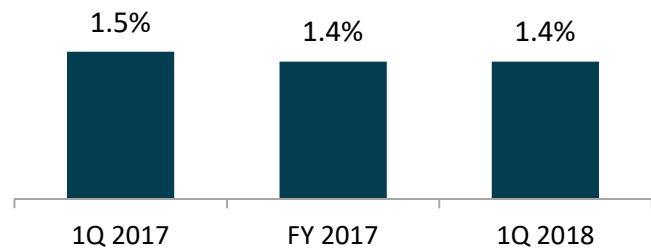
- Personnel Expenses increase due to more headcount (169 FTEs as at 31.03.2018 vs 144 as at 31.03.2018)
- Other costs, excluding Servicing costs, are flat y/y with a different mix:
 - higher expenses for the branch openings and IT
 - lower advisory fee
 - slightly higher expenses for rents

Higher diversification and almost stable cost

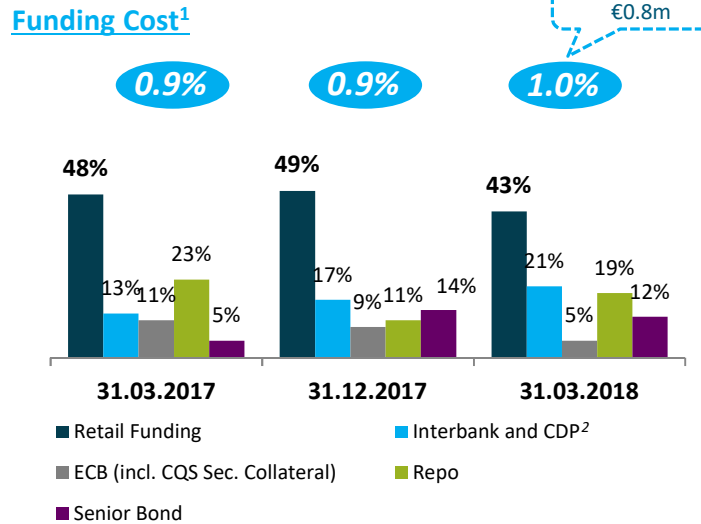
Total Funding Breakdown



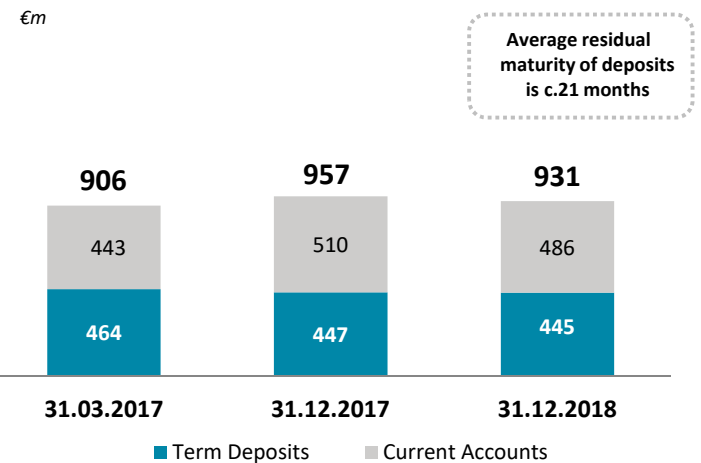
Retail Funding Cost



Total Funding Breakdown



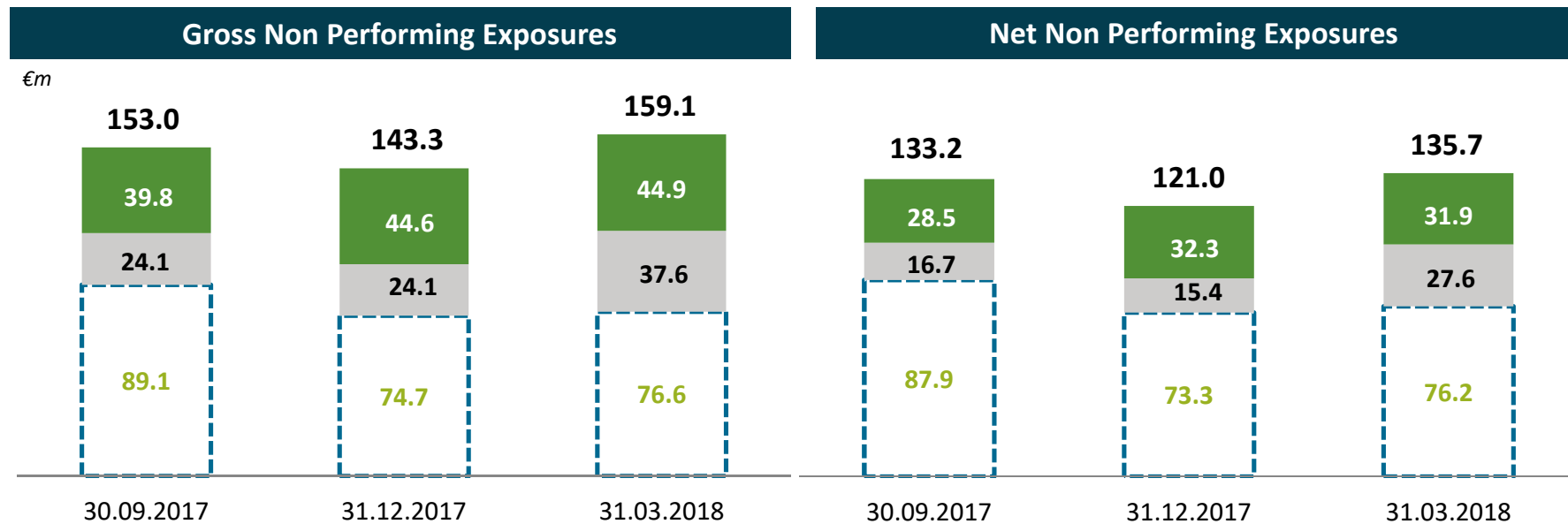
Retail Funding



- Cost of funding almost stable y/y and q/q excluding the €0.8m one-off, deriving from TLTRO II cost increase from -40bps to 0bps
- Term Deposits stock is stable q/q and down y/y, average cost was also stable q/q and y/y
- Current account stock up y/y and down q/q, compensated by an increase q/q of Interbank
- Wholesale weight q/q increase is driven mainly by higher Repos related to the Govie's ptf increase
- 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: (1) 1Q 2017 Net Interest Income does not benefit from -40bps ECB TLTRO II funding, while FY 2017 does for a total amount of €0.8m; (2) CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

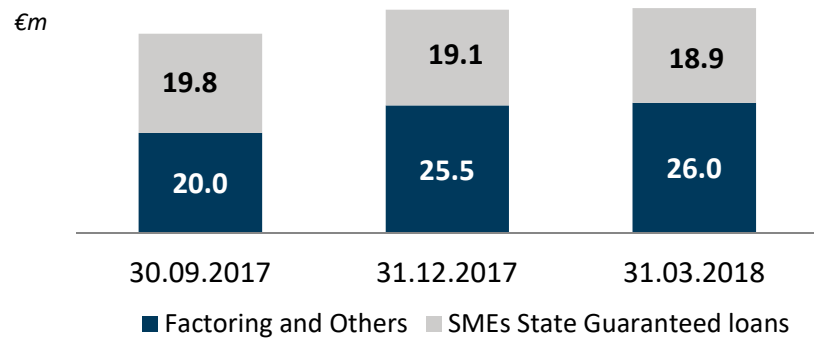
Asset Quality driven by factoring business



□ Past-dues
 ■ Unlikely to pay
 ■ Bad loans

PA exposure deriving from ordinary business

Gross Bad loans breakdown



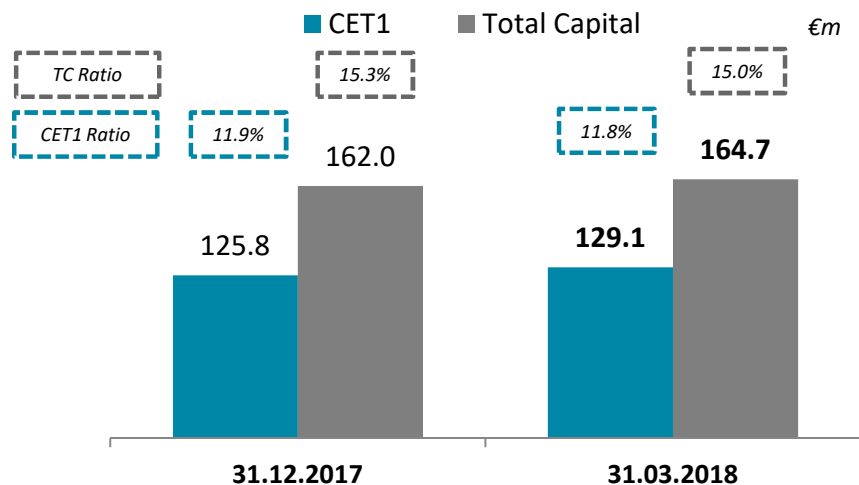
■ Factoring and Others
 ■ SMEs State Guaranteed loans

- Net Bad Loans represents 1.7% of total loans in line q/q
- Bad loans stable q/q, slight increase in factoring partially compensated by SMEs decrease
- UtP q/q increase is driven by factoring
- 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
- Loan loss Provisions comparison y/y is not significant because the first quarter of 2017 was influenced by the write-backs (€3.9m) on factoring bad loans (Municipalities), LLPs were lower q/q
- Cost of risk, 22bps, in line with expectations

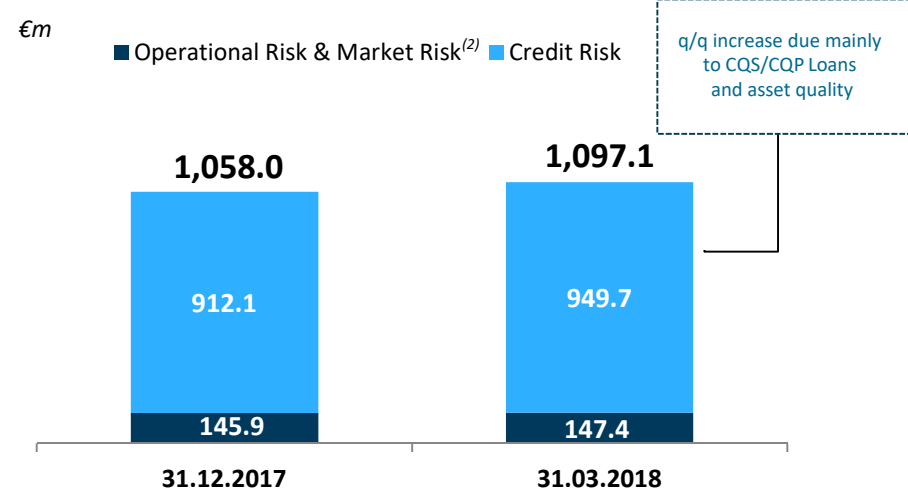
Note: NPE analysis is referring exclusively to the former Balance Sheet item, "Customer loans", that based on new scheme, following the introduction of IFRS 9, is part of the Balance Sheet item "Loan at amortized cost".

Regulatory Capital well above minimum requirements

CET1 and Total Capital⁽¹⁾



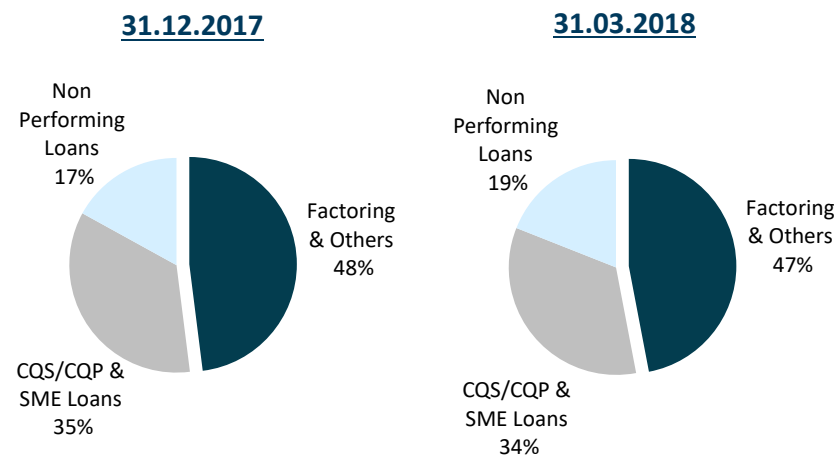
RWA breakdown



IFRS 9 impact:

- CET1 ratio and TC ratio: -2bps

RWA – Credit Risk



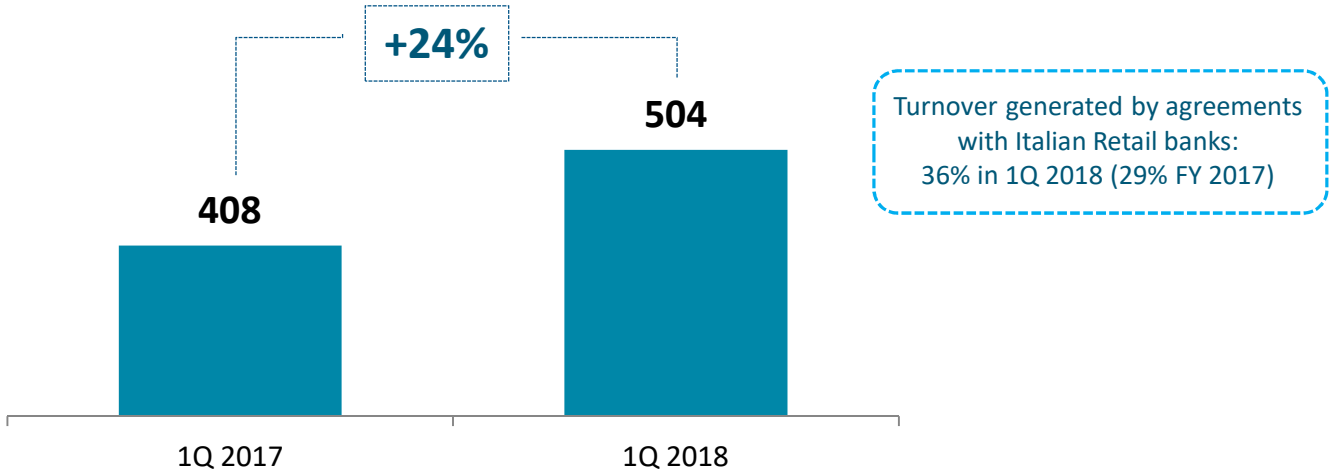
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €3.9m as at 31.03.2018 and €2.4m as at 31.12.2017.

Appendix

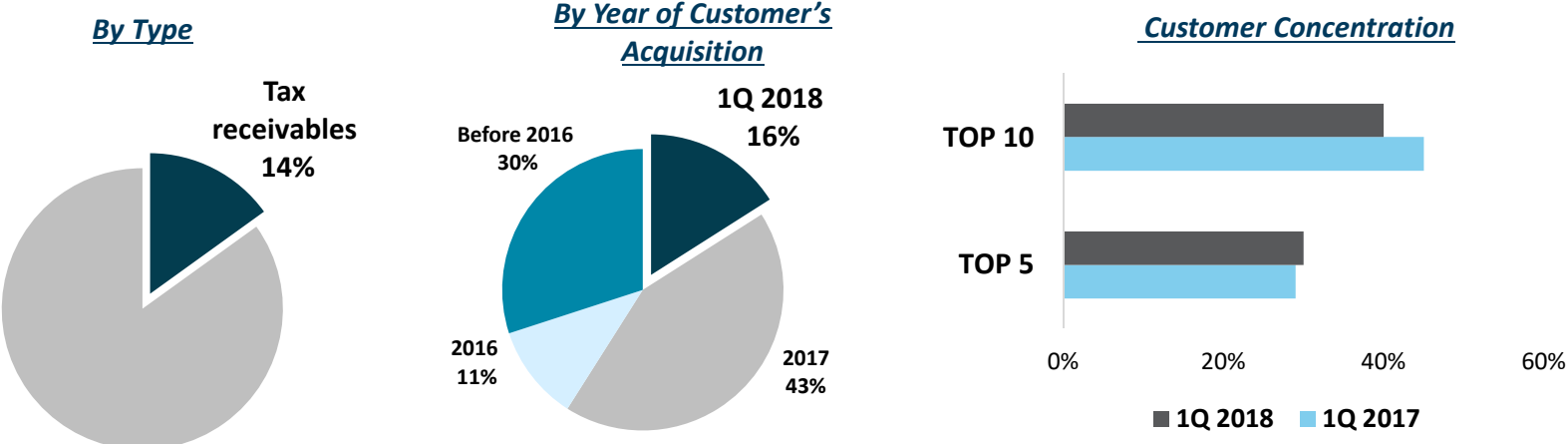
Factoring Turnover

Factoring Turnover

€m



1Q 2018 Factoring Turnover breakdown



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