BANCA
SISTEMA
SPECIALTY FINANCE

1H 2018 RESULTS

26 July 2018

1H 2018 Results at a Glance

Commercial performance	• **Factoring Turnover +29% y/y** equal to €1,136m • **Steady contribution on factoring turnover** from the agreements with bank, **31%** • **CQS/CQP outstanding reached €571m**, +60% y/y
P&L	• **Adjusted Interest Income Margin in line with the Strategic Plan** • **Net Interest Income equal to €32.6m**, **+9% y/y** and higher q/q • **Cost of funding stable y/y and q/q** • **Total Income equal to €40.9m, +16% y/y**, driven by last 12 months turnover growth • **Total operating costs** +8% y/y, slightly higher q/q and **Cost of Risk** at 29bps • **Net Income up 12% y/y, at €11.2m**
Balance Sheet	• **Total funding well balanced between Retail and Wholesale** • **Recent new agreement to raise term deposits in Germany** • **LCR and NSFR above regulatory requirements** • **CET1 ratio** and **TCR** respectively **11.0%** and **14.1%** in line with expectations

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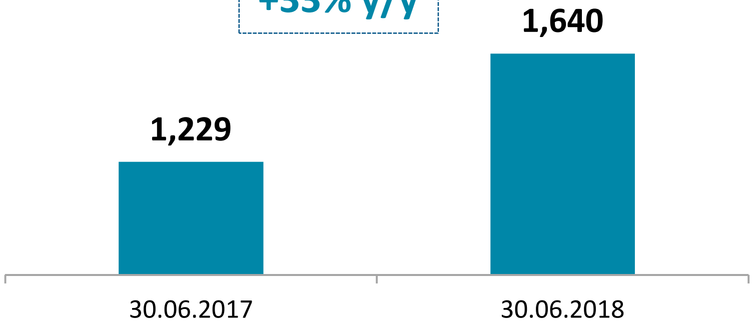
Core business assets outstanding is growing

Factoring outstanding

€m

+33% y/y

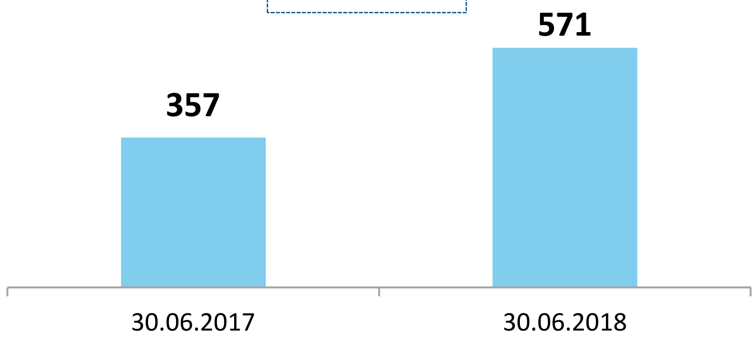
Of which 23% under Legal action



CQ Loans outstanding

€m

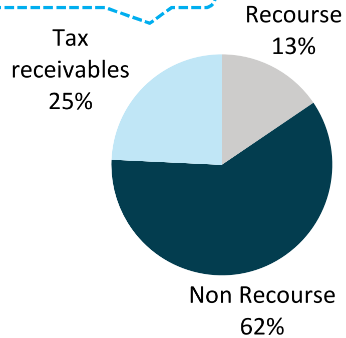
+60% y/y



Outstanding breakdown (30.06.2018)

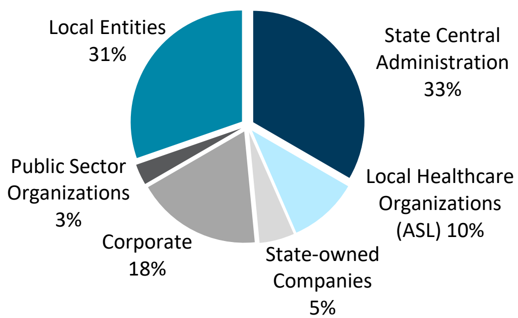
By Type of Product

12% as at 30.06.2017
22% as at 31.12.2017

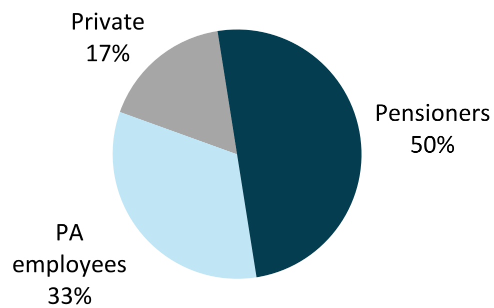


By Obligor

PA accounts for 82%



Outstanding breakdown by Type (30.06.2018)



- €97m turnover in 1H 2018
- 83% PA risk exposure

Note: Factoring outstanding management account.

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1H 2018 – Balance Sheet

Figures in millions of Euro

	IAS39 31.12.2017	IFRS9 30.06.2018	Change in %
ASSETS			
Financial assets at fair value through P&L **[Held to Sell]**	1	100	nm
Financial assets at fair value through Other Comprehensive Income **[Held to Collect and Sell]**	286	267	-6%
Loans at amortized cost	1,886	2,180	16%
Factoring	*1,286*	*1,492*	*16%*
CQ	*500*	*571*	*14%*
SMEs State Guaranteed loans	*56*	*40*	*-28%*
Other	*44*	*77*	*77%*
Securities at amortized cost	84	435	417%
Tangible and Intagible assets	26	28	7%
Equity investments	1	2	nm
Other assets	24	21	-19%
Total assets	**2,309**	**3,033**	**31%**
LIABILITIES AND EQUITY			
Due to banks	518	561	8%
Due to customers	1,284	1,926	50%
Debt securities issued	282	306	9%
Other liabilities	90	103	14%
Shareholders Equity	135	137	1%
Total liabilities and equity	**2,309**	**3,033**	**31%**

- **Loans at amortized cost up 16% (€2,181m)**:
  - **Factoring receivables** up +16% at~€1.5bn, thanks to the turnover originated in 1H 2018
  - **CQ loans** (€571m) +14% vs 2017 year-end and up also q/q
  - SMEs State Guaranteed laons in run-off
- **Govies' portfolio (€799m nominal value) is €436m up** vs 2017 year-end following the increase of the HtS component and the Securities at amortized cost component (former HtM), that more than compensated the HtCS component reduction
- **Due to banks** up mainly for higher Interbanking component
- **Due to customers increase** is driven by higher Repos, related to the increase of the Govies' ptf and higher term deposits (+€153m). Current accounts stable vs 2017 year-end
- **Debt securities** increase is driven by the issue of a senior bond in 2Q 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.*

1H 2018 – Income Statement

Figures in millions of Euro

	IAS39 30.06.2017	IFRS9 30.06.2018	Change in %
Interest income	39.3	44.7	14%
Interest expenses	(9.4)	(12.1)	29%
Net interest income	**29.9**	**32.6**	**9%**
Net fee and commission income	4.6	7.4	60%
Dividends and similar income	0.2	0.2	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.4	0.7	52%
Total income	**35.2**	**40.9**	**16%**
Net impairment losses on loans	(1.4)	(2.9)	nm
Net operating income	**33.7**	**37.9**	**12%**
Personnel expenses	(8.9)	(9.6)	8%
Other expenses	(10.3)	(11.1)	8%
Operating expenses	**(19.2)**	**(20.7)**	**8%**
Profits from equity investments		(0.2)	nm
Pre-tax profit from continuing operations	**14.5**	**17.0**	**17%**
Taxes on income for the period/year from continuing operations	(4.6)	(5.8)	26%
Profit (loss) for the year/period attributable to the shareholders of the Parent	**10.0**	**11.2**	**12%**

Note: Comparatives merely reflect the statutory data as at 31 June 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.

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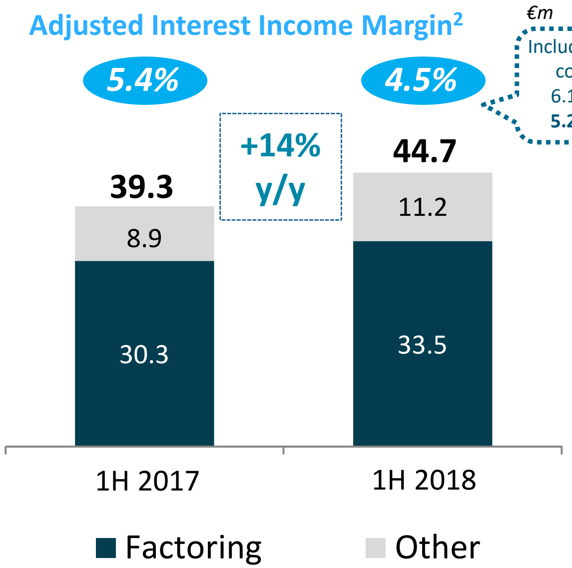
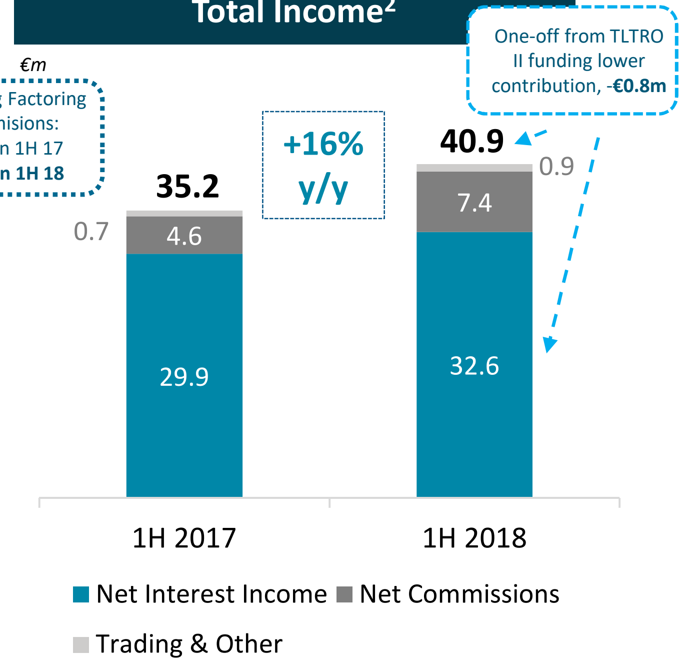
Total Income y/y and q/q in line with expectations

- **1H 2018 Interest Income y/y growth is driven by higher CQ contribution and factoring** (both on Commercial and Tax receivables) **contribution, +14% y/y**
- **Factoring represents 75% of Total Interest Income**
- **Factoring LPIs** from legal action in 1H 2018 P&L represent 24% of total Interest Income, equal to €10.7m (€6.3m in 1H 2017 excluding the contribution of the transaction related to Beta Stepstone's acquisition equal to €2.8m):
  - of which accrual €7.3m (€3.4m in 1H 2017)
  - of which "extra collection" €3.5m (€2.9m in 1H 2017)
- **Interest Income Margin reduction y/y 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 and also higher weight of Tax Rec. on total stock
- **Total Income y/y increase, +16% y/y, is driven by NII despite the negative €0.8m one-off effect on Interest expenses, and also by Net Commissions.** Net Commissions y/y growth is exclusively driven by factoring commission income (+€2.5m). Factoring Interest Income and Commission Income represent overall factoring profitability

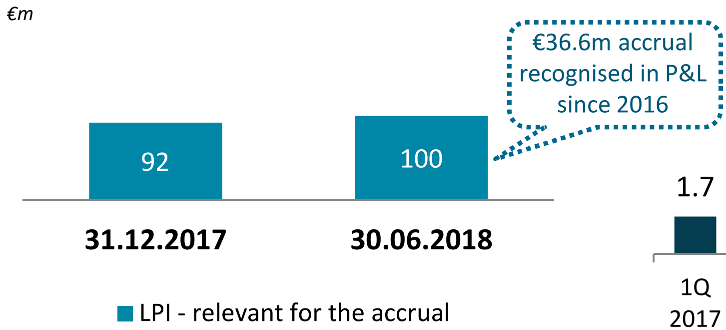
Interest Income[1]



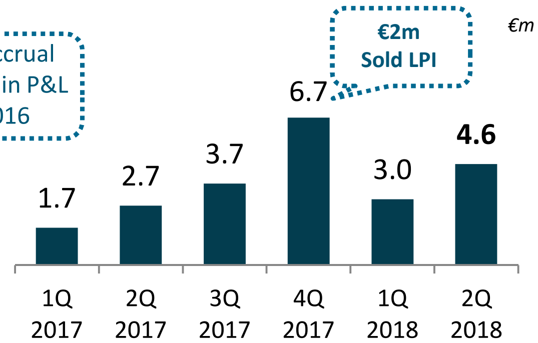
Total Income[2]



LPI Stock – Assets in legal action



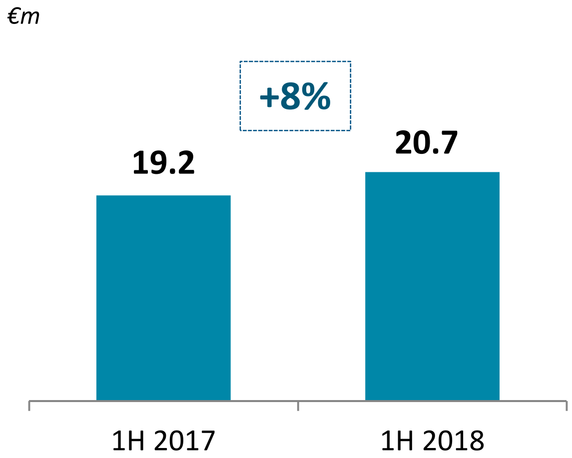
Total collected cashed-in LPI



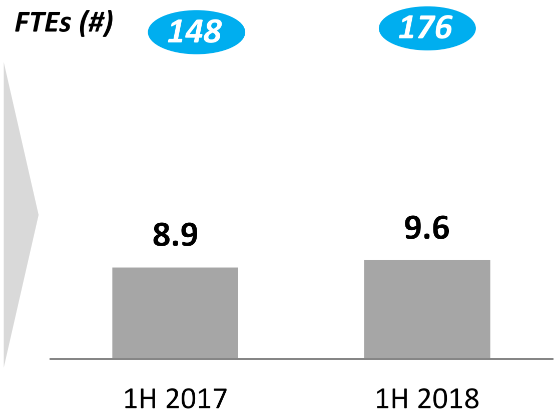
Note: (1) 1H 2018 Interest Income does not benefit from -40bps ECB TLTRO II funding, while 1H 2017 does for a total amount of €0.6m; (2) Calculated as [Period Interest Income] / [Average end of period net customer loans] - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

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

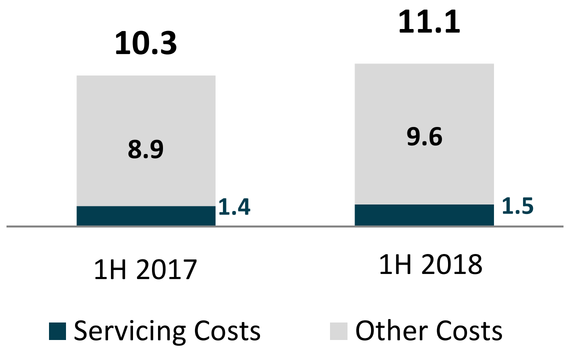
Operating Costs



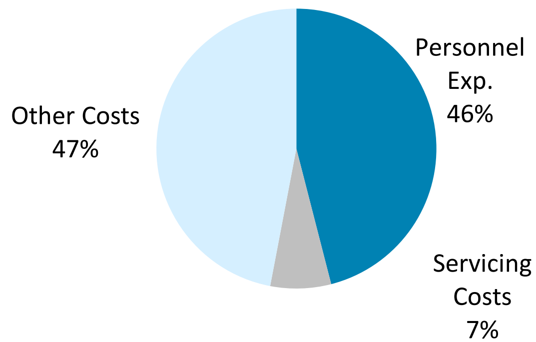
Personnel Expenses



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



Operating Costs Breakdown



- Personnel Expenses increase due to FTEs increase
- Other costs, excluding Servicing costs, are almost flat y/y with a different mix:
  - higher expenses for the branch openings and IT
  - lower advisory fee

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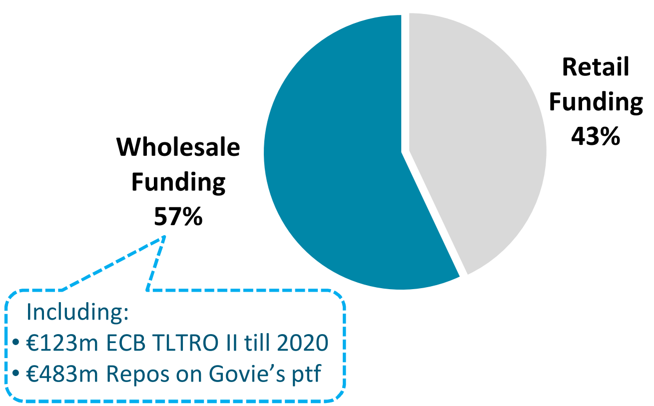
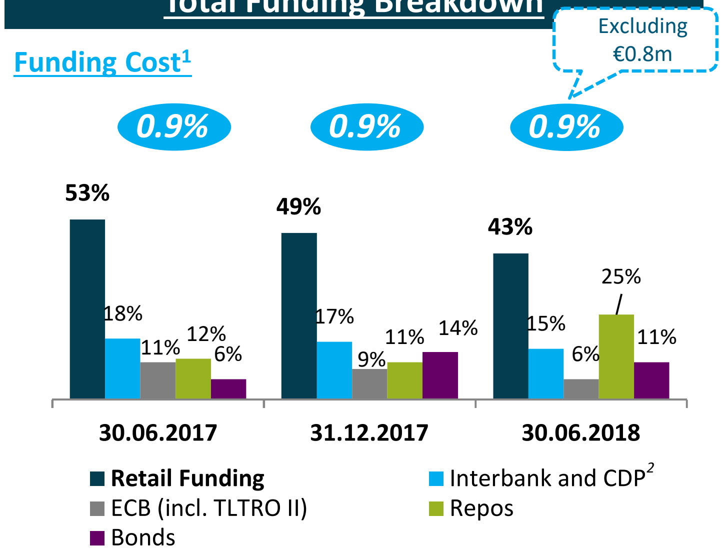
Higher diversification and almost stable cost

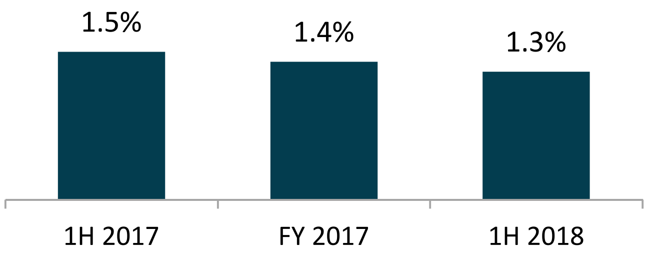
Total Funding Breakdown



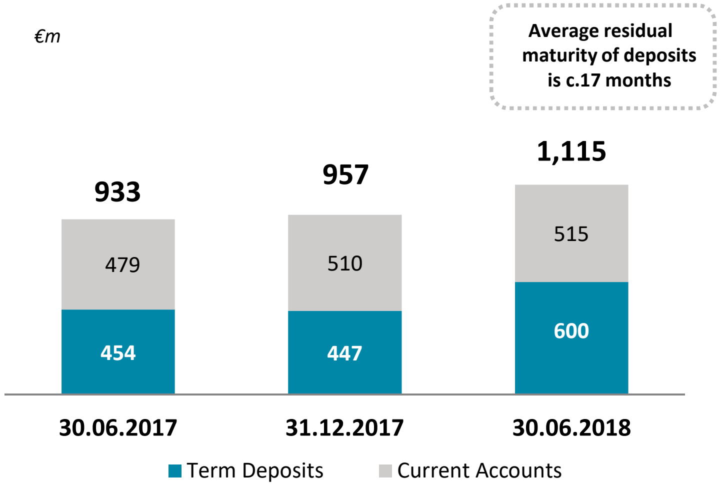
Total Funding Breakdown



Retail Funding Cost



Retail Funding

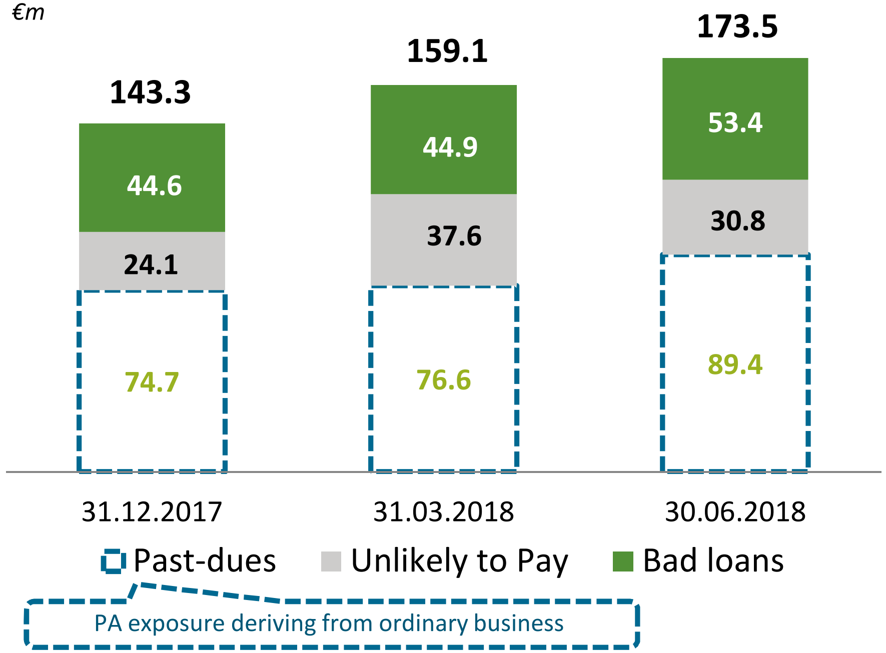


- Cost of funding stable y/y including the €0.8m one-off, deriving from TLTRO II cost increase from -40bps to 0bps
- Term Deposits stock is up q/q, y/y and vs 2017 year-end, thanks to the contribution of new term deposits
- Current accounts stock up y/y and stable vs 2017 year-end
- Wholesale weight y/y increase is driven mainly by higher Repos related to the Govies' ptf increase
- Wholesale include €90m 3Y Senior non preferred bond issued in 2Q 2018 (private placement) that refinanced the €70m 2Y Senior non preferred redeemed in May 2018

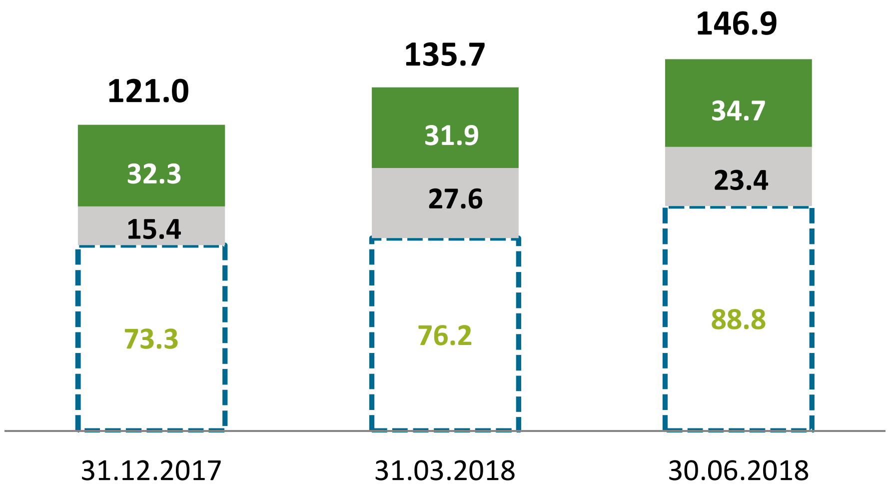
Notes: (1) 1H 2018 Net Interest Income does not benefit from -40bps ECB TLTRO II funding, while FY 2017 does for a total amount of €0.8m;
(2) CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Asset Quality driven by factoring business

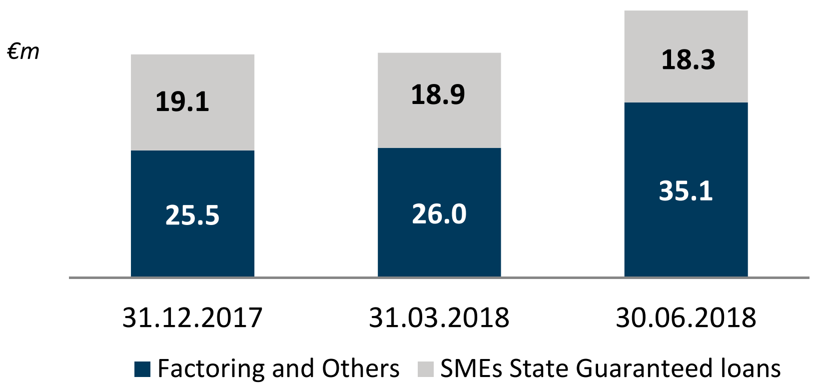
Gross Non Performing Exposures



Net Non Performing Exposures



Gross Bad loans breakdown

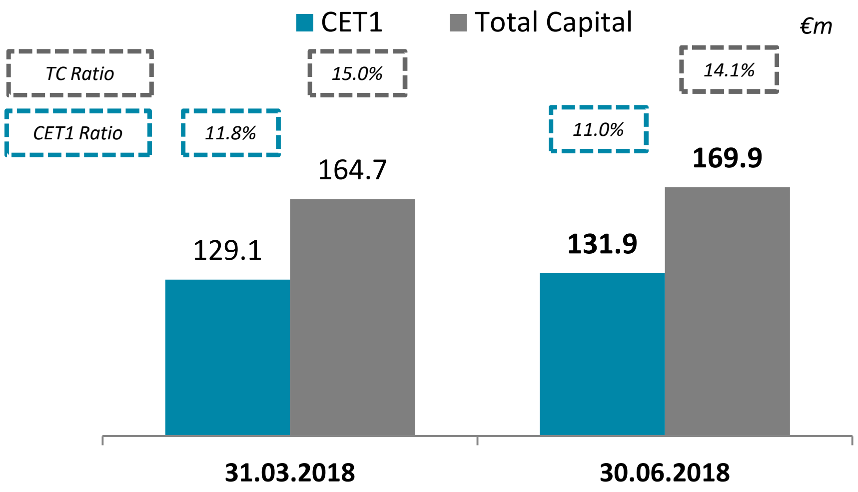


- Net Bad Loans represents 1.6% of total loans lower q/q
- Bad loans increase q/q is due to factoring (consortium and municipalities under financial distressed) and is partially compensated by the decrease of UtP
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection
- Cost of credit risk, 29bps, 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".

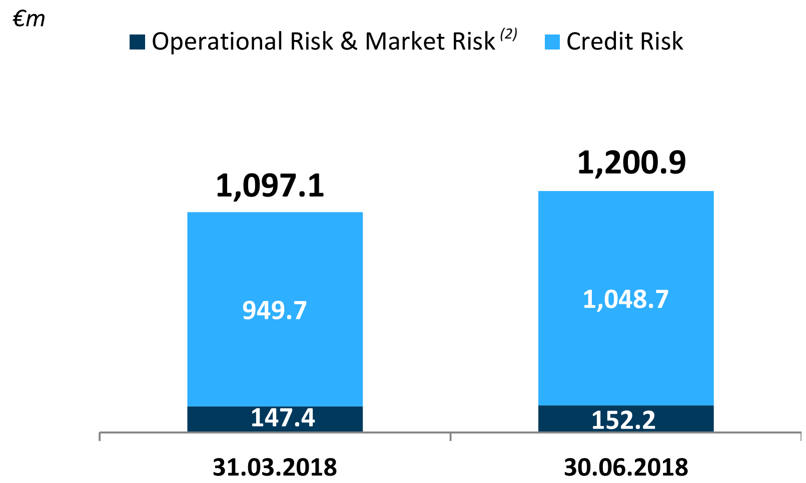
Regulatory Capital well above minimun requirements

CET1 and Total Capital[1]

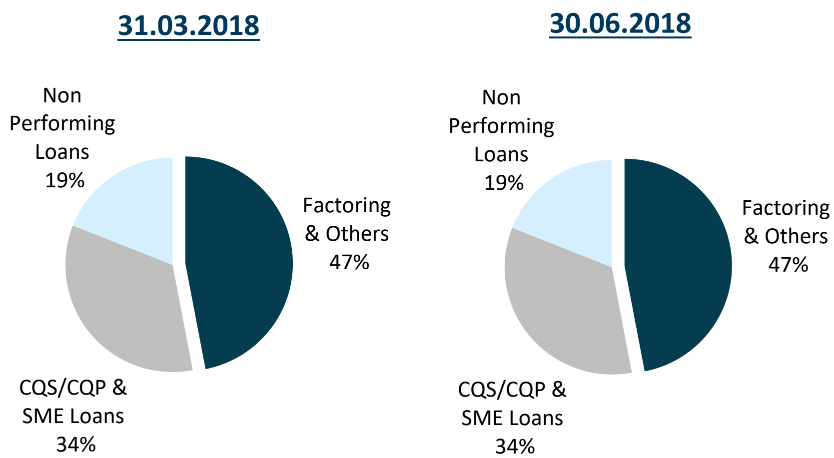


Δ HtCS Reserve impact on 1H 2018 CET1 ratio: -18bps

RWA breakdown



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. €8.7m as at 30.06.2018 and €3.9m as at 31.03.2018.

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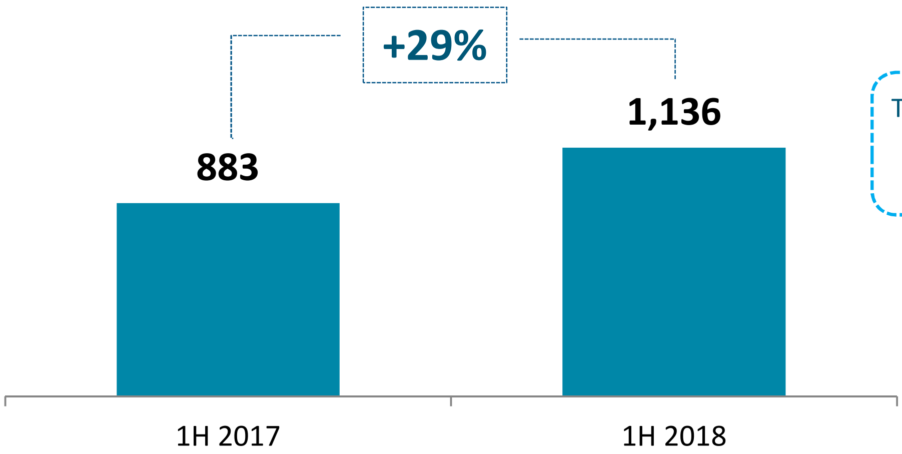
Appendix

Factoring Turnover

Factoring Turnover

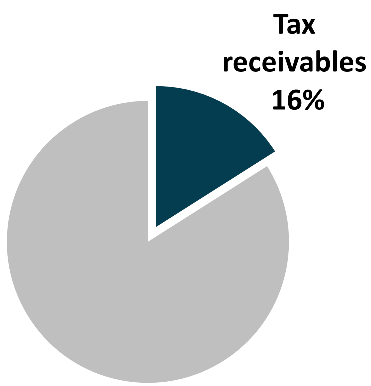
€m



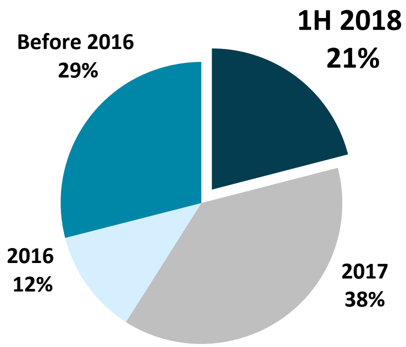
Turnover generated by agreements with Italian Retail banks:
31% in 1H 2018 (29% FY 2017)

1H 2018 Factoring Turnover breakdown

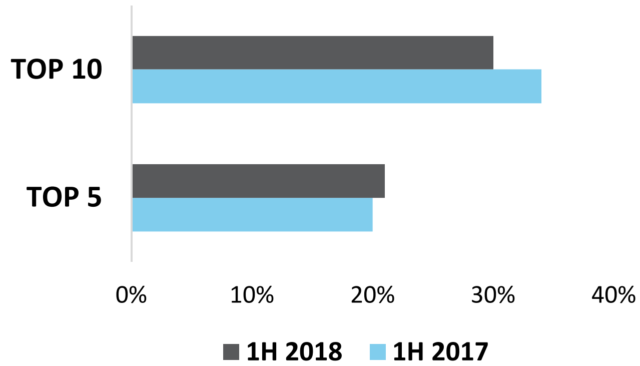
By Type



By Year of Customer's Acquisition



Customer Concentration



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