BANCA SISTEMA
SPECIALTY FINANCE

9M 2018 RESULTS

31 October 2018

9M 2018 Results at a Glance

Commercial performance	• **Factoring Turnover +29% y/y** equal to €1.7bn • **Tax receivables represents 17%** of 9M 2018 factoring turnover • **CQS/CQP outstanding reached €609m**, +44% y/y
P&L	• **Adjusted Interest Income Margin in line with the Strategic Plan** • **Net Interest Income equal to €53.0m**, almost stable y/y excluding one-off from TLTRO II funding lower contribution • **Cost of funding stable y/y and q/q** • **Total Income equal to €64.5m, +3% y/y**, driven by higher factoring commissions income • **Total operating costs** +9% y/y and **Cost of Risk** at 28bps in line with expectations • **Net Income at €19.1m**, with a ROAE at~18% in line with the target of the period
Balance Sheet	• **Strong growth** in 3Q in particular in **term deposits** component • **LCR and NSFR above regulatory requirements** • **CET1 ratio** and **TCR** respectively **11.1%** and **14.2%** in line with the Strategic Plan • **Not relevant impact from our short term Govies' ptf**

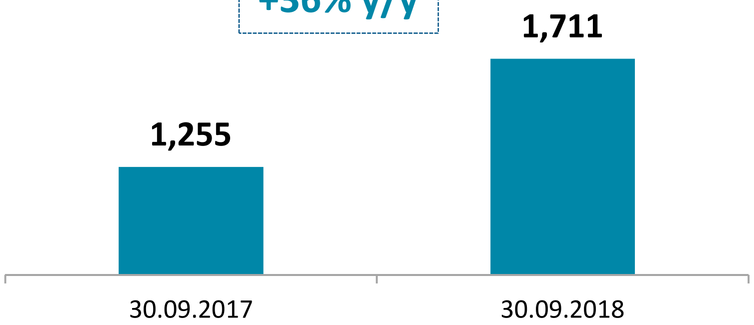
Core business assets outstanding is growing

Factoring outstanding

€m

Of which 21% under Legal action

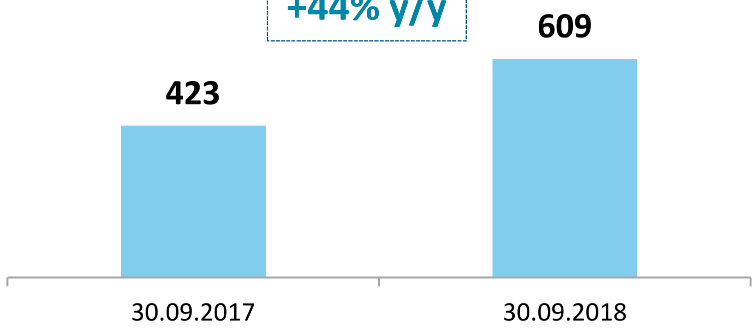
+36% y/y



CQ Loans outstanding

€m

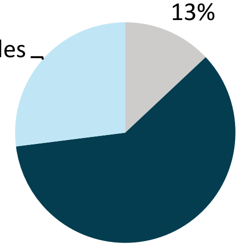
+44% y/y



Outstanding breakdown (30.09.2018)

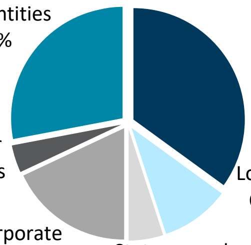
By Type of Product

13% as at 30.09.2017
22% as at 31.12.2017

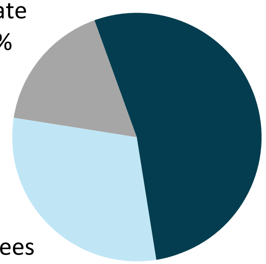


By Obligor

PA accounts for 82%



Outstanding breakdown by Type (30.09.2018)



- €152m turnover in 9M 2018
- 83% PA risk exposure

Note: Factoring outstanding management account.

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9M 2018 – Balance Sheet

Figures in millions of Euro

	IAS39 31.12.2017	IFRS9 30.09.2018	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	242	-15%
Loans at amortized cost	1,886	2,322	23%
Factoring	*1,286*	*1,576*	*23%*
CQ	*500*	*609*	*22%*
SMEs State Guaranteed loans	*56*	*34*	*-39%*
Other	*44*	*103*	*nm*
Securities at amortized cost	84	436	nm
Tangible and Intagible assets	26	29	11%
Equity investments	1	2	83%
Other assets	25	22	-6%
Total assets	**2,309**	**3,153**	**37%**
LIABILITIES AND EQUITY			
Due to banks	518	609	18%
Due to customers	1,284	1,986	55%
Debt securities issued	282	308	9%
Other liabilities	90	106	17%
Shareholders Equity	135	144	7%
Total liabilities and equity	**2,309**	**3,153**	**37%**

- **Loans at amortized cost up 23% (€2,322m)**:
  - **Factoring receivables** up +23% at~€1.6bn, thanks to the turnover originated in 9M 2018
  - **CQ loans** (€609m) +22% vs 2017 year-end and up also q/q
- **Govies' portfolio (€777m) stable q/q with an average residual duration of 1.9y**, includes **€100m** 'Held to Sell' expiring in April 2019 and **€242m** 'Held to Collect and Sell' with an average residual duration of 1.6y
- **Due to customers increase** is driven by higher Repos, related to the Govies' ptf and higher term deposits; q/q change is mainly driven by term deposits growth. Current accounts stable vs 2017 year-end and slightly higher q/q
- **Due to banks** increase is driven by higher ECB funding vs 2017 year-end and q/q, thanks to higher available collateral from CQ securitization
- **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.

9M 2018 – Income Statement

Figures in millions of Euro

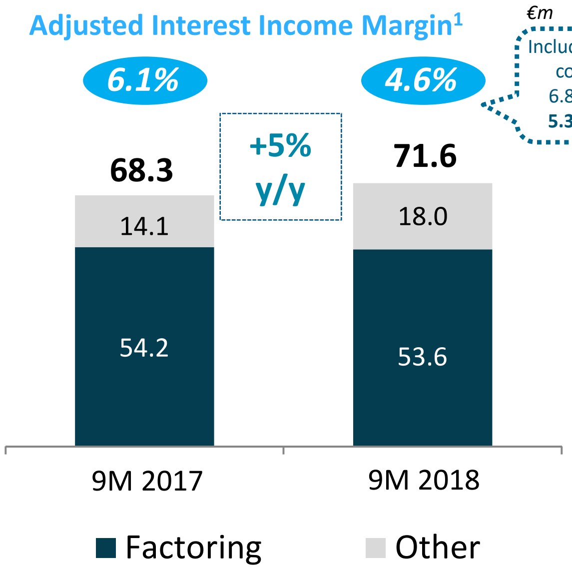
	IAS39 30.09.2017	IFRS9 30.09.2018	Change in %
Interest income	68.3	71.6	5%
Interest expenses	(14.2)	(18.5)	31%
Net interest income	**54.1**	**53.0**	**-2%**
Net fee and commission income	7.4	10.6	45%
Dividends and similar income	0.2	0.2	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.9	0.6	-31%
Total income	**62.6**	**64.5**	**3%**
Net impairment losses on loans	(3.1)	(4.3)	42%
Net operating income	**59.6**	**60.2**	**1%**
Personnel expenses	(12.8)	(14.4)	13%
Other expenses	(15.6)	(16.4)	5%
Operating expenses	**(28.4)**	**(30.8)**	**9%**
Profits from equity investments	(0.1)	(0.4)	nm
Pre-tax profit from continuing operations	**31.2**	**29.0**	**-7%**
Taxes on income for the period/year from continuing operations	(9.3)	(9.9)	6%
Profit (loss) for the year/period attributable to the shareholders of the Parent	**21.8**	**19.1**	**-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.

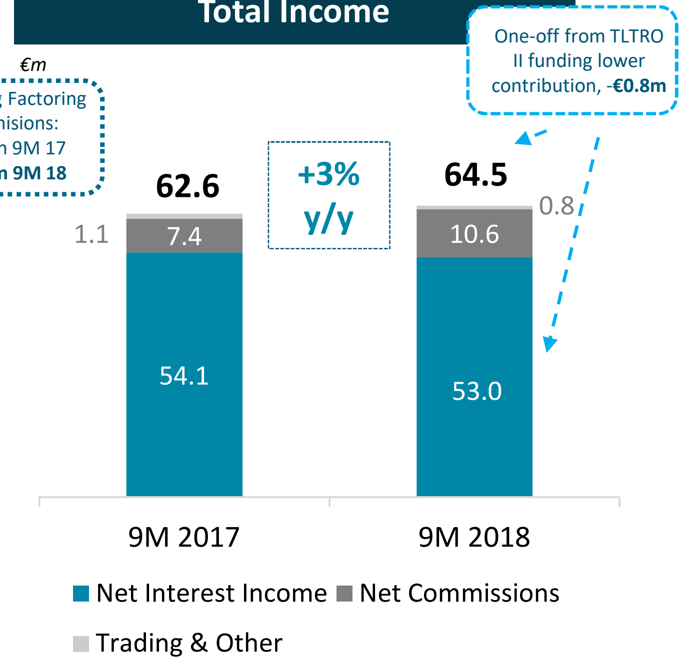
Total Income y/y and q/q supported by business growth

- **9M 2018 Interest Income y/y growth is driven by higher CQ contribution**
- **Factoring represents 75% of Total Interest Income**
- **Factoring LPIs from legal action** in P&L in 9M 2018 equal to €20.1m (€19.1m in 9M 17 excluding the contribution of the transaction related to Beta Stepstone's acquisition equal to €2.8m):
  - of which €6.6m related to the change of accrual rates, following the update of the collection rates which feed the statistical model, of which €4.9m related to previous years (€9.0m in 9M 17, of which €3.7 related to previous years)
  - of which accrual constant rates €9.3m, lower q/q (€4.7m in 9M 17)
  - of which "extra collection" €4.2m, lower y/y and q/q (€5.4m in 9M 17)
- **Interest Income Margin reduction y/y is mainly driven by factoring profitability and higher weight of CQ on total stock**
- **Total Income y/y increase, +3%, is driven by lower NII** (also due to €0.8m one-off effect on Interest expenses) **more than compensated by higher Net Commissions**. Net Commissions y/y growth is exclusively driven by factoring commission income (+€3.5m), q/q net commissions decrease is exclusively driven by not yet spread commission expenses related to foreign term deposit funding

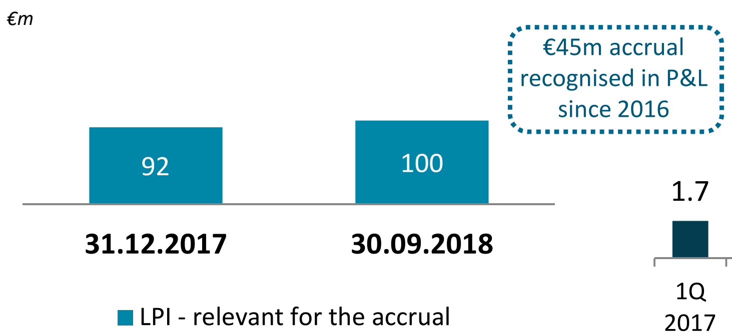
Interest Income



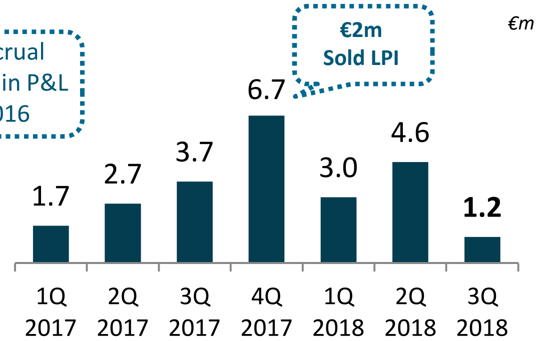
Total Income



LPI Stock – Assets in legal action



Total collected cashed-in LPI



Note: (1) 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).

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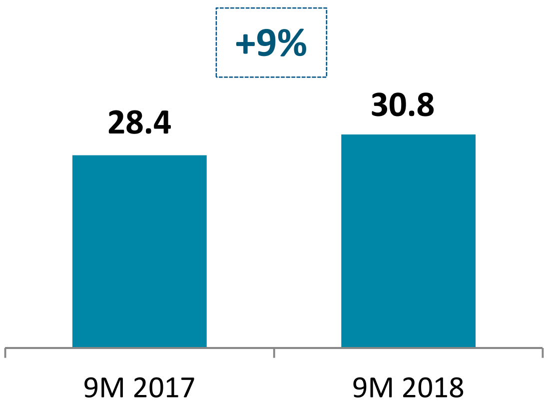
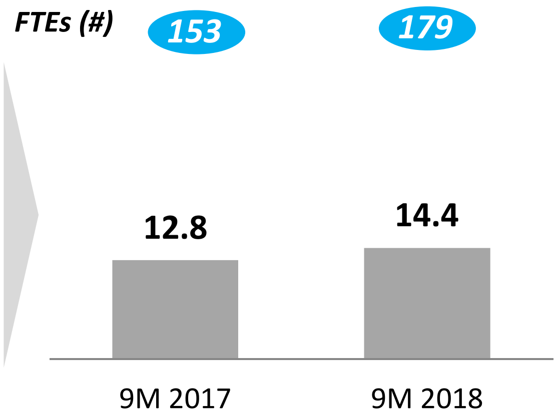
Operating costs slightly higher y/y, but in line with the Plan

Operating Costs

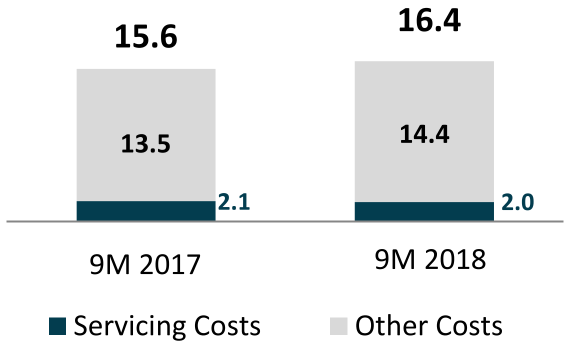
€m



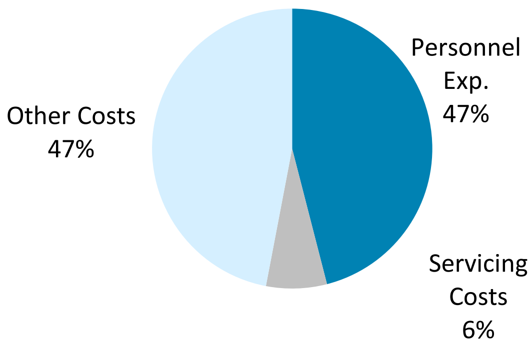
Personnel Expenses



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 slightly higher y/y for:
  - Rating on CQ securitisation
  - Expenses for the branch openings and IT
  - Factoring legal action activity

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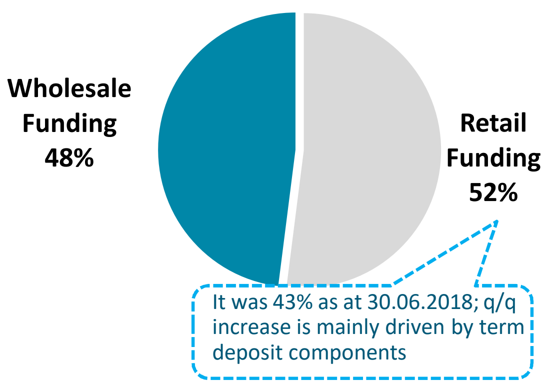
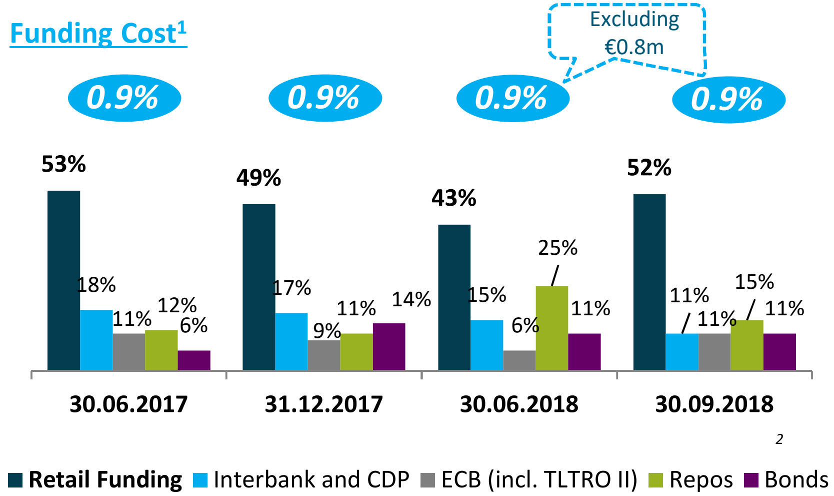
Higher diversification and stable cost

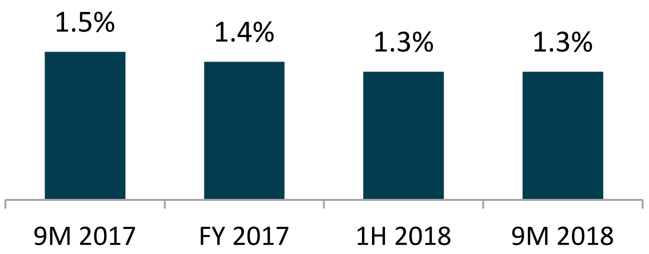
Total Funding Breakdown



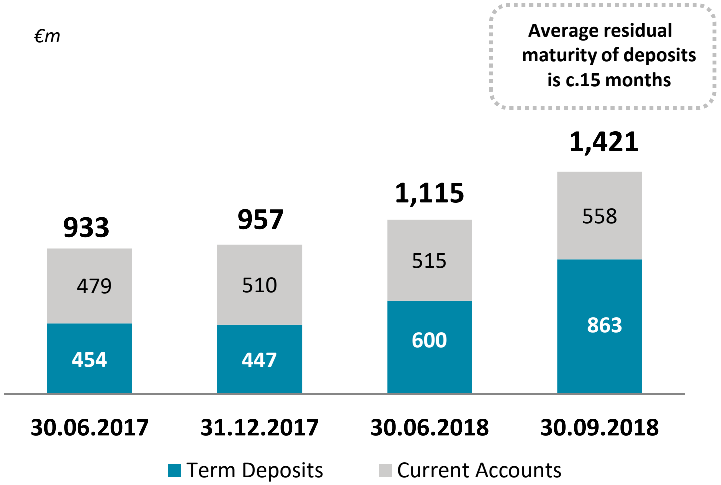
Total Funding Breakdown



Retail Funding Cost



Retail Funding



- Cost of funding stable y/y including the €0.8m one-off, deriving from TLTRO II (€123m) cost increase from -40bps to 0bps
- Term Deposits stock is up q/q, y/y and vs 2017 year-end and it is expected to grow till 2018 year-end also
- Foreign component of term deposits increased more than €100m q/q
- Current accounts stock up y/y and vs 2017 year-end, slightly higher also q/q. We expect an increase on this components also for the next two months
- ECB financing higher vs 2017 year-end and q/q thanks to higher available collateral from CQ securitization

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).

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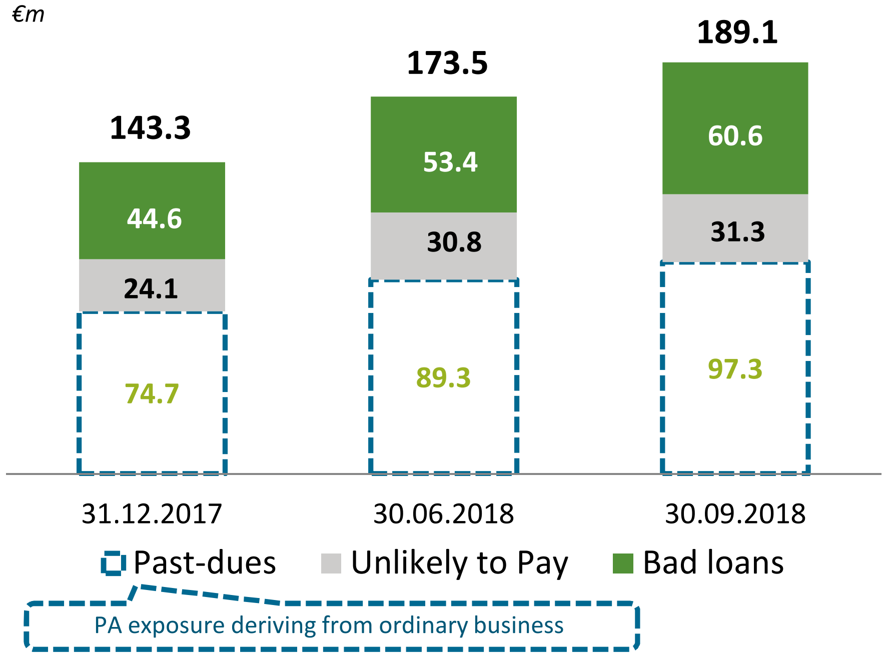
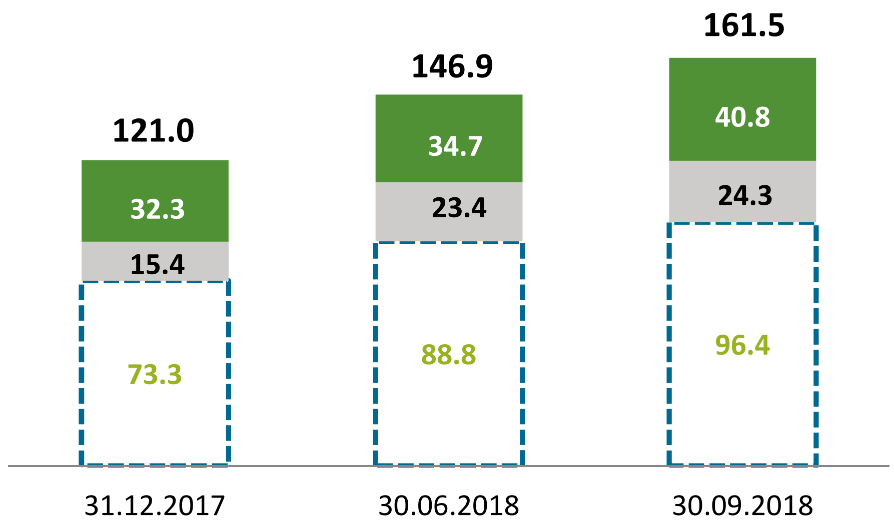
Asset Quality driven by factoring business

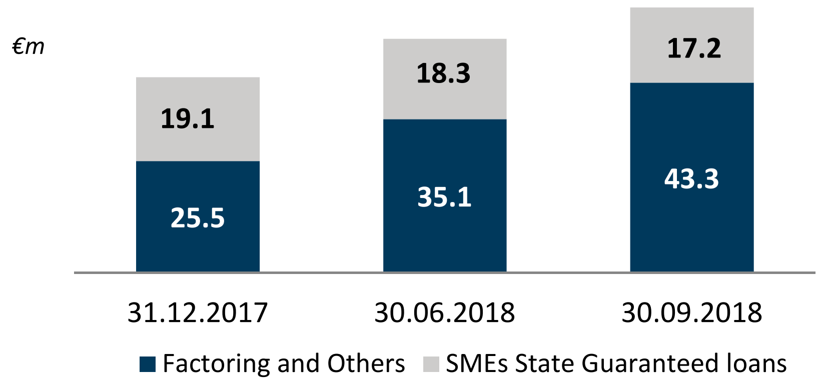
Gross Non Performing Exposures



Net Non Performing Exposures



Gross Bad loans breakdown

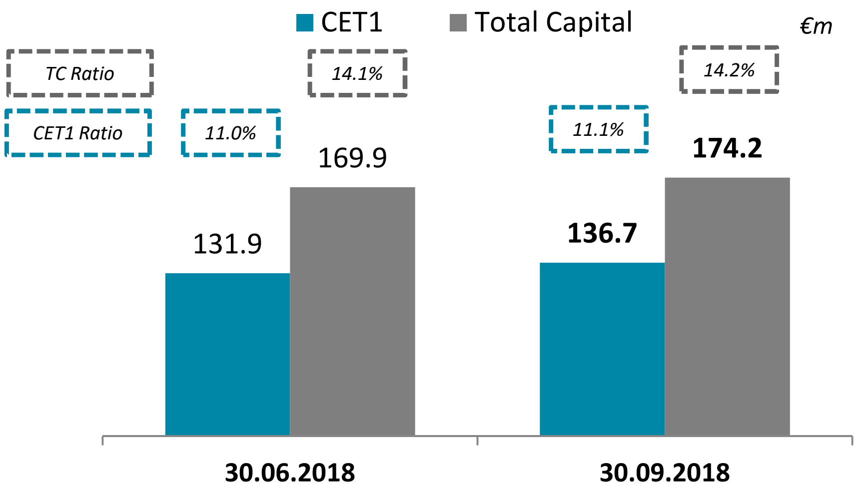


- Net Bad Loans represents 1.8% of total loans higher q/q
- Bad loans increase q/q is due to factoring, in particular one private exposure and municipalities under financial distressed (following a purchase in 3Q of a ptf with municipalities already under financial distressed)
- Past-dues is mainly attributed 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, 28bps, 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

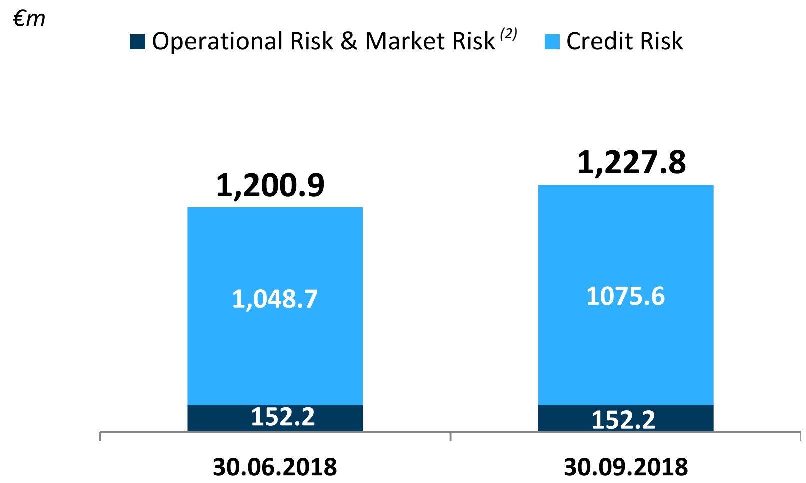
CET1 and Total Capital[1]



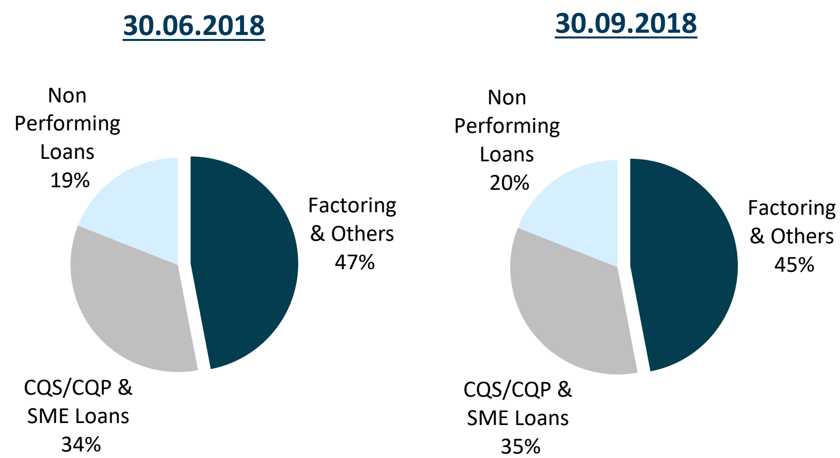
Weight of 'Held to Collect and Sell' reserve on 9M 2018 CET1 ratio: -24bps

Impact on CET1 for 2019 merger with Atlantide~15bp

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 30.09.2018 and €8.8m as at 30.06.2018.

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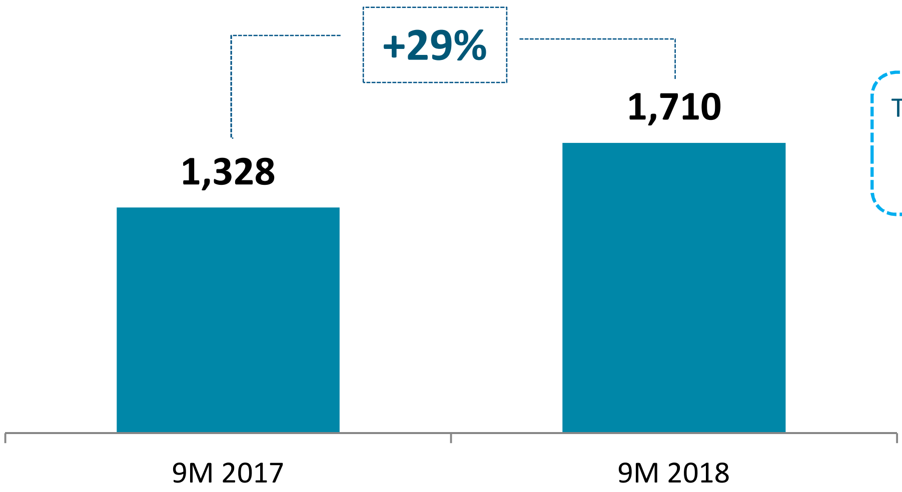
Appendix

Factoring Turnover

Factoring Turnover

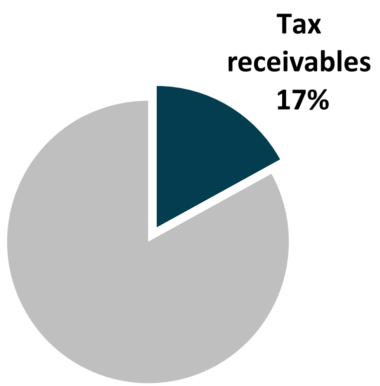
€m



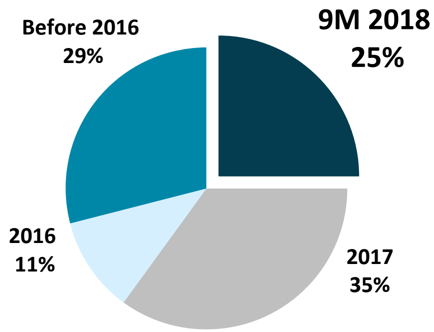
Turnover generated by agreements with Italian Retail banks:
29% in 9M 2018 (29% FY 2017)

9M 2018 Factoring Turnover breakdown

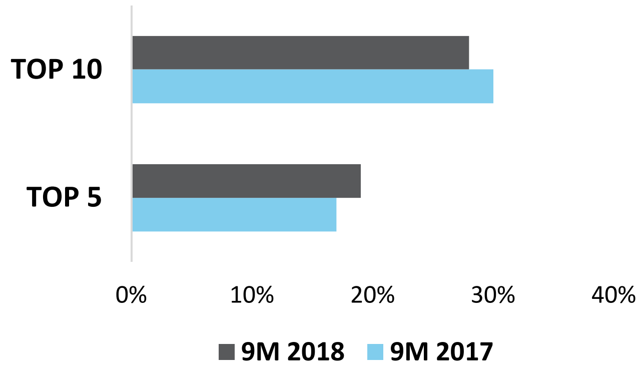
By Type



By Year of Customer's Acquisition



Customer Concentration



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