
BANCA

S I S T E M A
SPECIALTY FINANCE

1Q 2019 RESULTS

10 May 2019

1Q 2019 Results at a Glance

Commercial performance

- **Factoring Turnover +27% y/y** equal to €639m
- **Tax receivables represent 23%** of 1Q 2019 factoring outstanding
- **CQS/CQP outstanding** reached €708m, **+35% y/y**

P&L

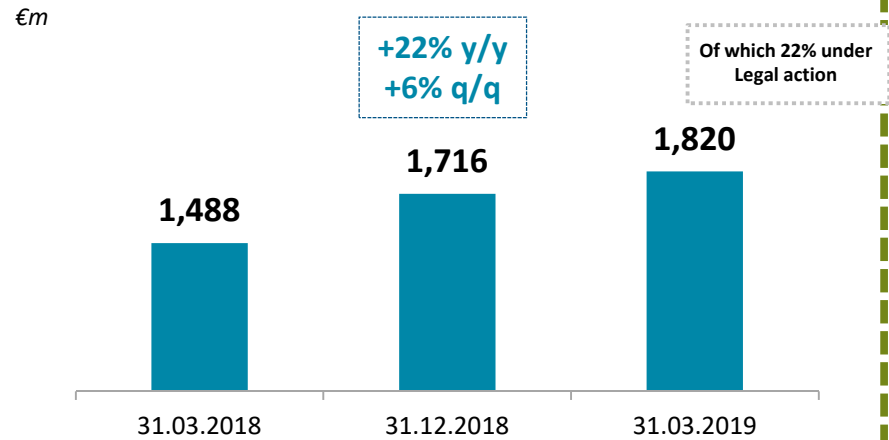
- **Interest Income** equal to €21.6m, **+8% y/y**
- **Cost of funding lower y/y at 0.8%**
- **Total Income** equal to €19.3m, **+7% y/y, driven by higher core business growth**
- **LLPs equal to €2.6m higher y/y** and in line with 4Q 2018
- **Total operating costs +9% y/y**
- **Net Income** equal to €4.5m

Balance Sheet

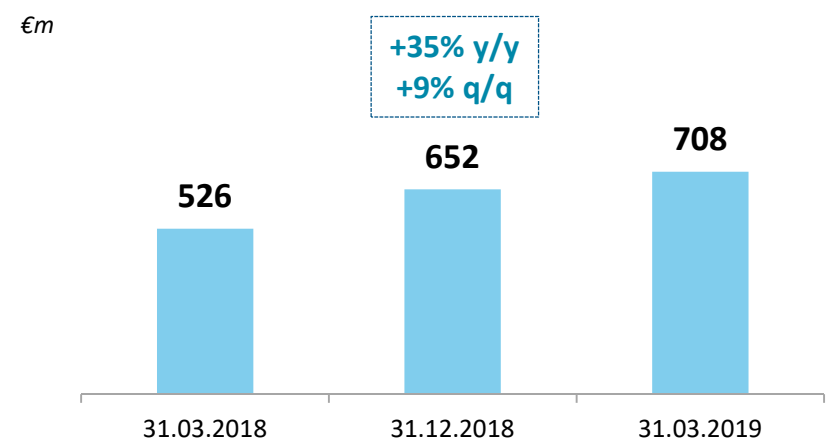
- **Term deposits:** Strong growth since 3Q 18 in particular from the foreign component
- LCR and NSFR above regulatory requirements
- **CET1 ratio at 10.6%, pro-forma with lower CQ RWA at 12.2%**
- **Atlantide will be fully integrated in the next 2/3 months**, with an overall weight in terms of 1Q 2019 proforma CET1 ratio of **-14bps** (incl. the sale of two minority stakes)

Core business assets outstanding is growing

Factoring outstanding

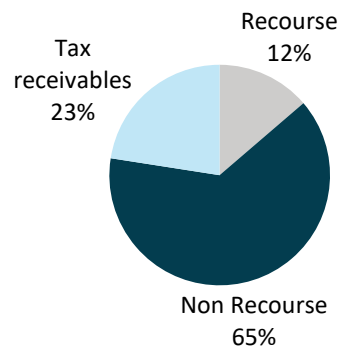


CQ Loans outstanding

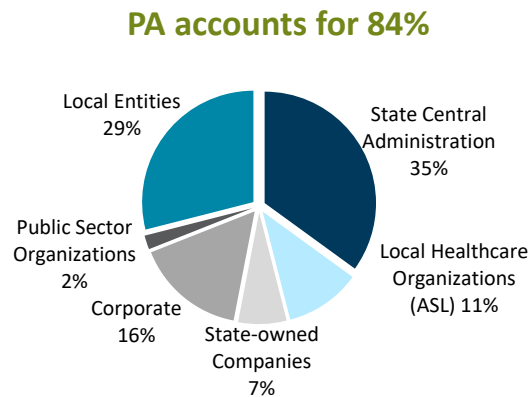


Outstanding breakdown (31.03.2019)

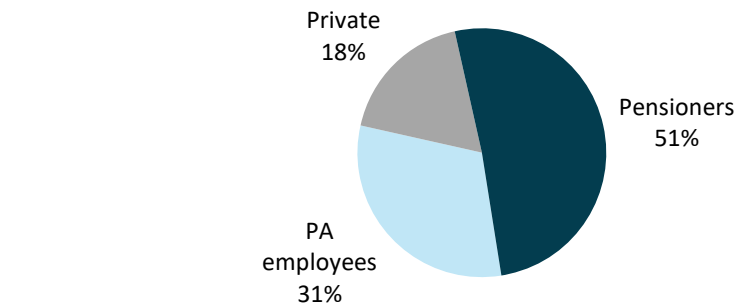
By Type of Product



By Obligor



Outstanding breakdown by Type (31.03.2019)



- €67m turnover in 1Q 2019
- 82% PA risk exposure

Note: Factoring outstanding management account. Factoring customer loans, item of the Balance Sheet (slide 4) differ from management account for the following elements: Recourse factoring non-financed portion; Provisions; LPI; deferred income.

1Q 2019 – Balance Sheet

Figures in millions of Euro

	31.12.2018	31.03.2019	Change in %
ASSETS			
Financial assets at fair value through P&L [Held to Sell]	-	262	nm
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	304	541	78%
Loans at amortized cost	2,352	2,569	9%
<i>Factoring</i>	1,567	1,704	9%
<i>CQ</i>	652	708	9%
<i>SMEs State Guaranteed loans</i>	28	23	-15%
<i>Other</i>	105	134	28%
Securities at amortized cost	435	435	nm
Tangible and Intangible assets	30	31	5%
Non-current assets held for sale and discontinued operations	2	-	nm
Equity investments	1	1	nm
Other assets	21	21	nm
Total assets	3,145	3,860	23%
LIABILITIES AND EQUITY			
Due to banks	695	515	-26%
<i>of which ECB exposure</i>	413	433	5%
Due to customers	1,899	2,774	46%
<i>of which term deposits</i>	958	1,156	21%
<i>of which current accounts</i>	657	563	-14%
Debt securities issued	305	307	1%
Other liabilities	93	106	14%
Shareholders Equity	153	158	3%
Total liabilities and equity	3,145	3,860	23%

- Govies' portfolio (€1,233m) up q/q and y/y, with an average residual duration of 14 months (21 months as at 31.12.2018), includes €262m 'Held to Sell' with an average residual duration of 4 months

- Loans at amortized cost up 9% (€2,569m):

- Factoring receivables up 9% at €1.7bn (€1.3bn as at 31.03.2018), thanks to the turnover originated in 1Q 2019

- CQ loans +9% q/q

- Equity investments include the minority stake (19.9%) of ADV Finance and Procredit, which will be sold in 2Q 2019

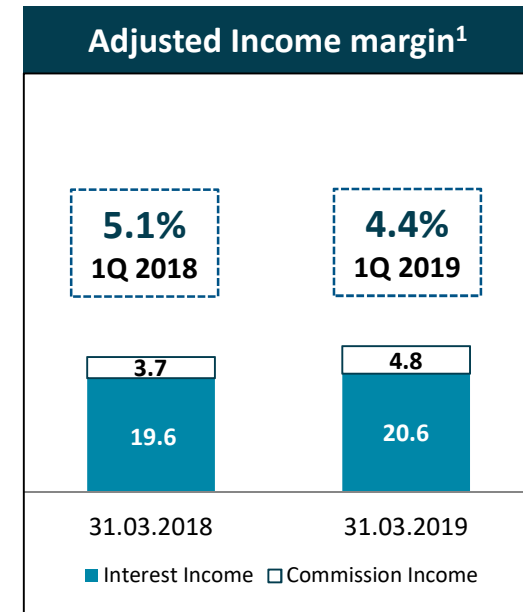
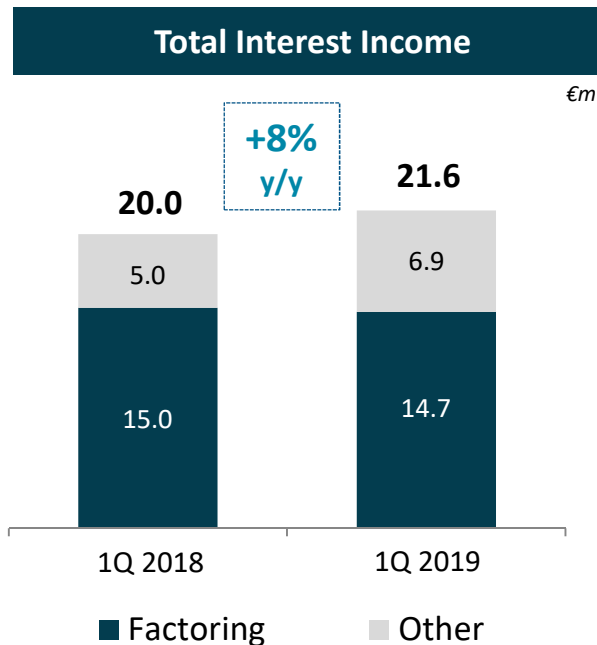
- Due to banks decrease is driven by lower interbanking funding

- Due to customers increase is driven mainly by repos following higher Govies' ptf and also higher term deposits that have more than compensated lower current accounts

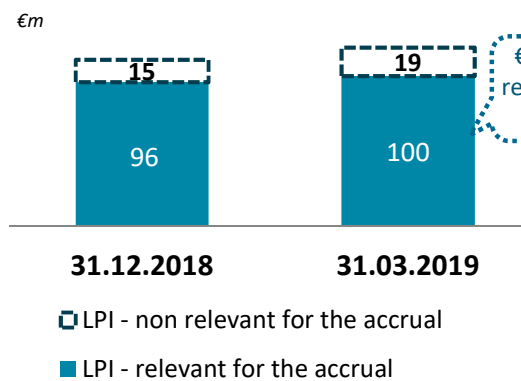
- Shareholders Equity includes dividends paid on the 8.05.2019

Interest Income growth driven by higher assets

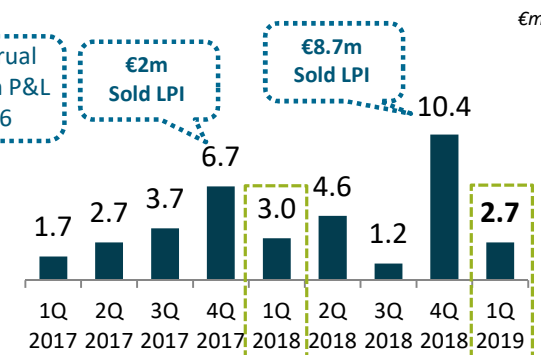
- 1Q 2019 Interest Income is up 8% y/y, growth is driven by higher assets, in particular CQ and Govies' ptf
- Factoring represents 68% of Total Interest Income
- Higher y/y Interest Income is driven by CQ and Govies' ptf higher contribution that have more than compensated factoring and other assets slightly lower contribution
- Factoring LPIs from legal action in P&L in 1Q 2019 equal to €4.0m (€4.8m in 1Q 2018):
 - of which accrual €3.0m stable y/y (€2.9m in 1Q 2018)
 - of which "extra collection" €1.0m lower y/y (€1.8m in 1Q 2018)
- Adjusted Income margin y/y reduction is mainly driven by lower LPI and the higher weight of CQ on total customer loans
- CQ profitability is stable y/y, but slightly lower vs FY 2018



Due LPI Stock – Assets in legal action



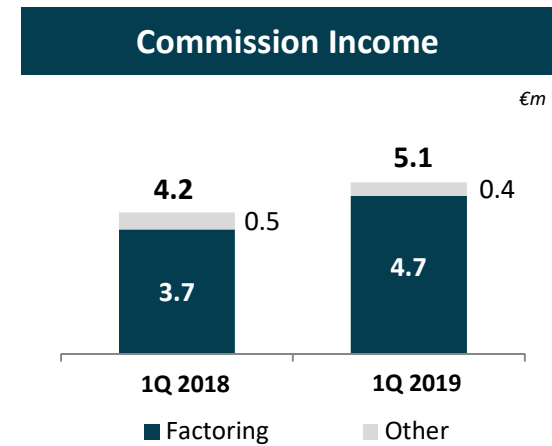
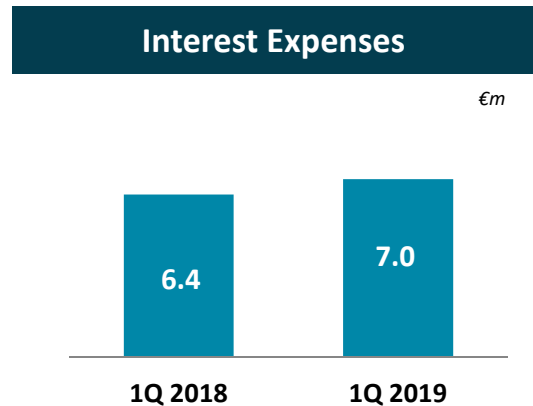
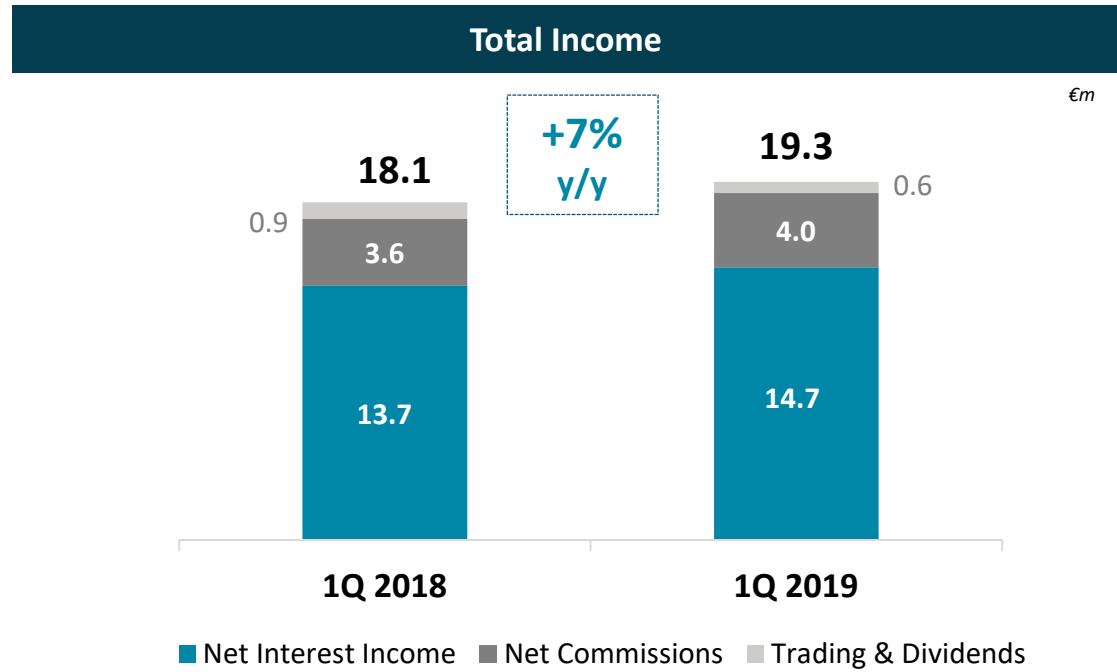
Total collected cashed-in LPI



Note: (1) Calculated as [Period Interest Income + Commission 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).

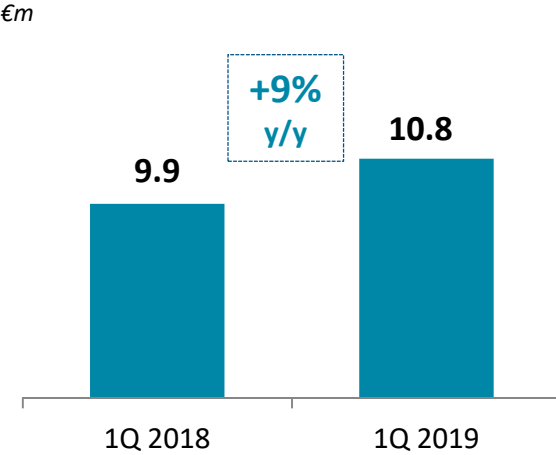
Total Income supported by business growth

- 1Q 2019 Total Income is up 7% y/y, growth is driven by higher Net Interest Income (NII) and higher Net Commissions
- NII y/y increase is driven by Interest Income increase that has more than compensated higher Interest Expenses. Cost of funding is lower y/y (0.8%) and slightly lower also vs FY 2018
- Net Commissions increase y/y is due to higher Commission Income driven by factoring turnover growth. Higher Commission Expenses are due to the strong growth of the term deposits raised abroad through online platforms
- The contribution of the Govies' portfolio vary from quarter to quarter because the low residual duration of our ptf, as at 31.03.2019 average residual duration of HTS component is 4 months and the average residual duration of HTCS component is 11 months

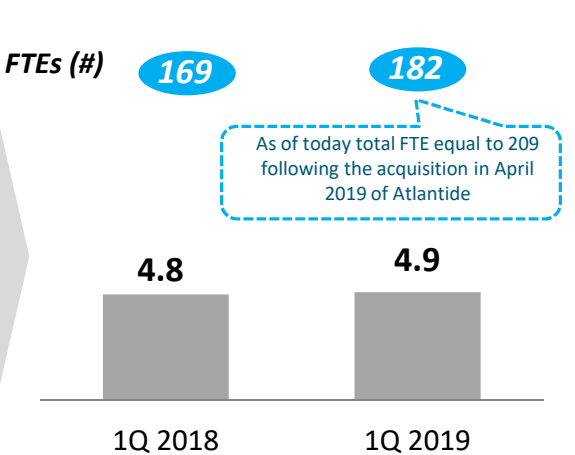


Operating costs up y/y for business growth

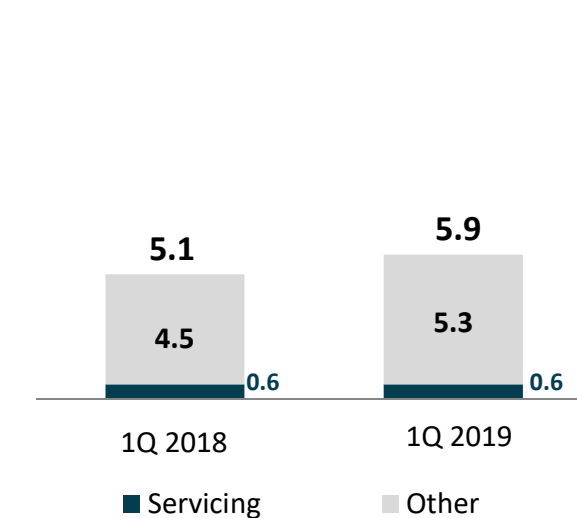
Operating Costs



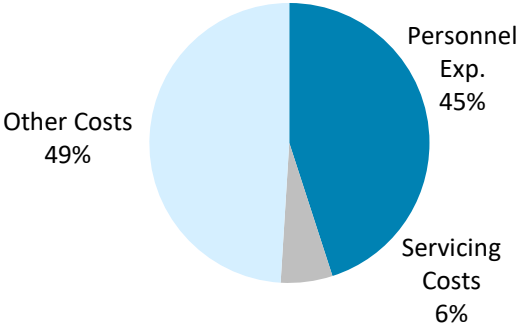
Personnel Expenses



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



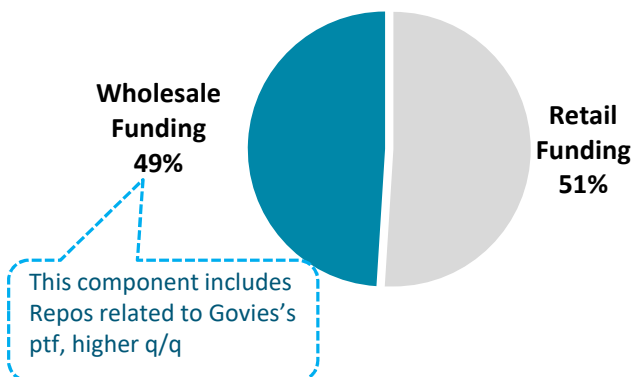
Operating Costs Breakdown



- Other costs are higher y/y for:
 - Slightly higher Admin expenses (including €0.8m contribution to the National Resolution Fund), due to legal and consultancy fees
 - Higher 'Net Provisions for risk and charge' related to a tax receivable

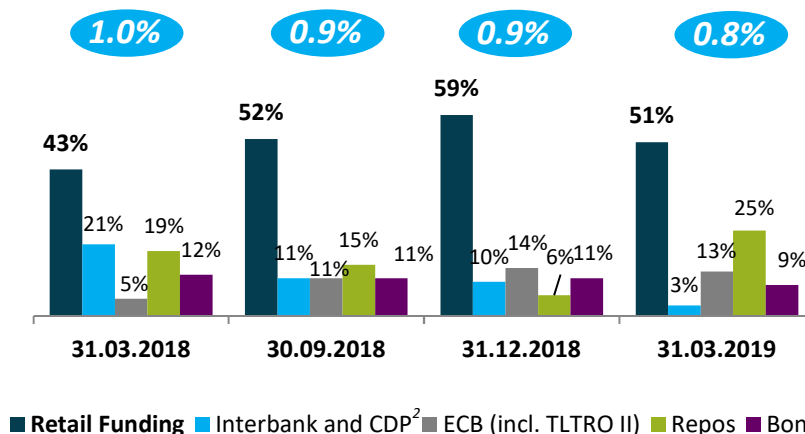
Lower funding cost y/y

Total Funding breakdown



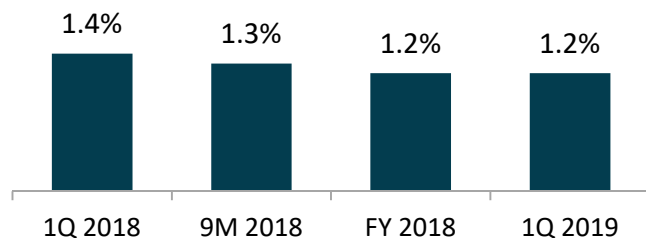
Total Funding breakdown

Funding Cost¹

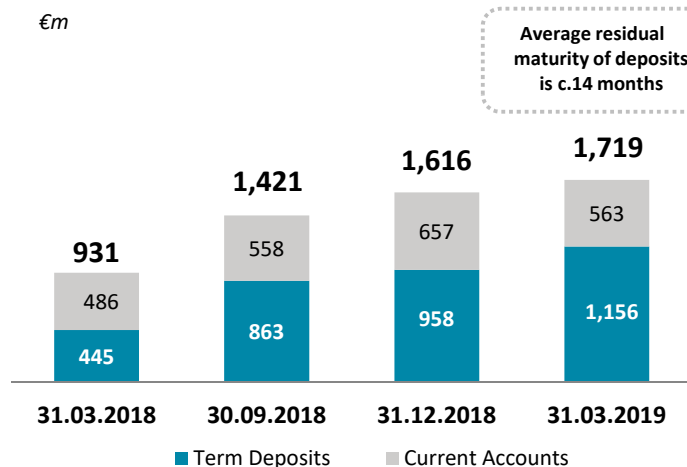


- Cost of funding lower y/y and slightly lower vs FY 2018
- Wholesale q/q increase is due mainly to Repos related to the increase q/q of Govies's ptf. While ECB financing, equal to €433m is slightly higher q/q, interbanking is lower q/q

Retail Funding Cost



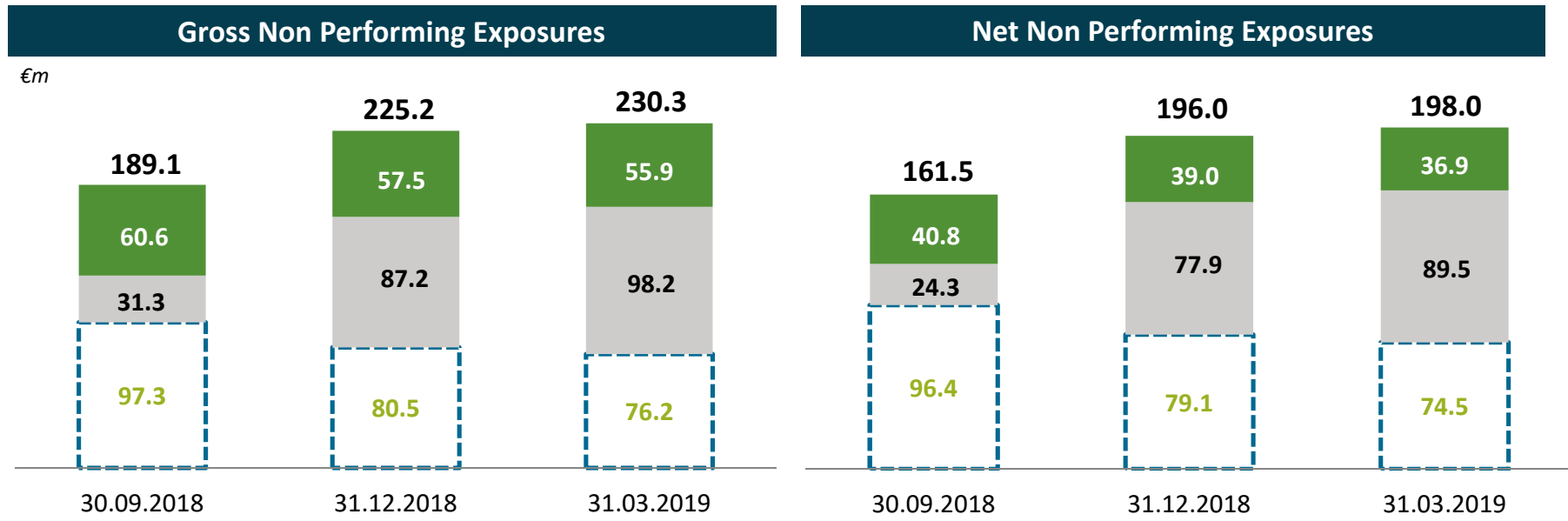
Retail Funding



- Term Deposits stock has registered a strong increase during the last three quarters, due to the growth of the foreign component (as at 31.03.2019, 58% of total term deposits)
- Current accounts stock is slightly down q/q
- No wholesale funding maturities in 2019

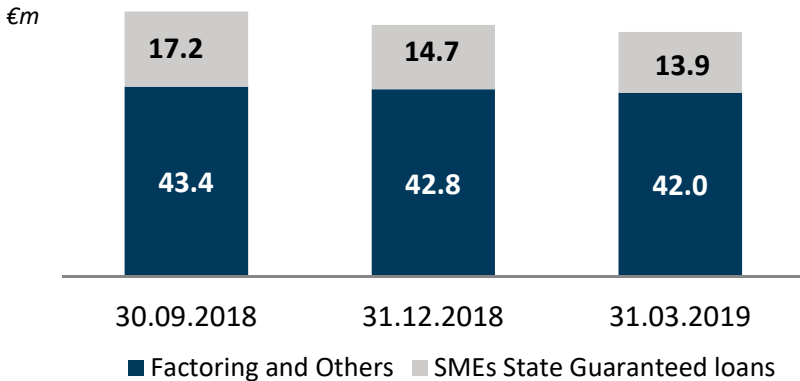
Notes: (1) 2018 funding cost figures do not benefit from -40bps ECB TLTRO II funding; (2) CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Asset Quality driven by factoring business



□ Past-dues □ Unlikely to Pay ■ Bad loans
PA exposure deriving from ordinary business

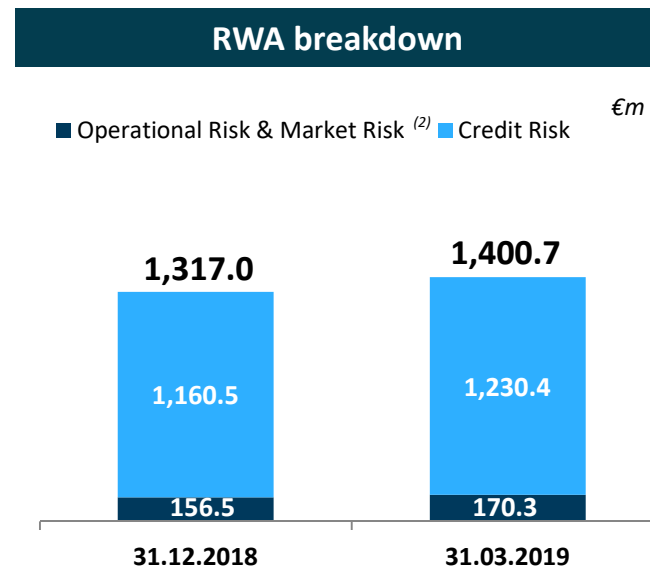
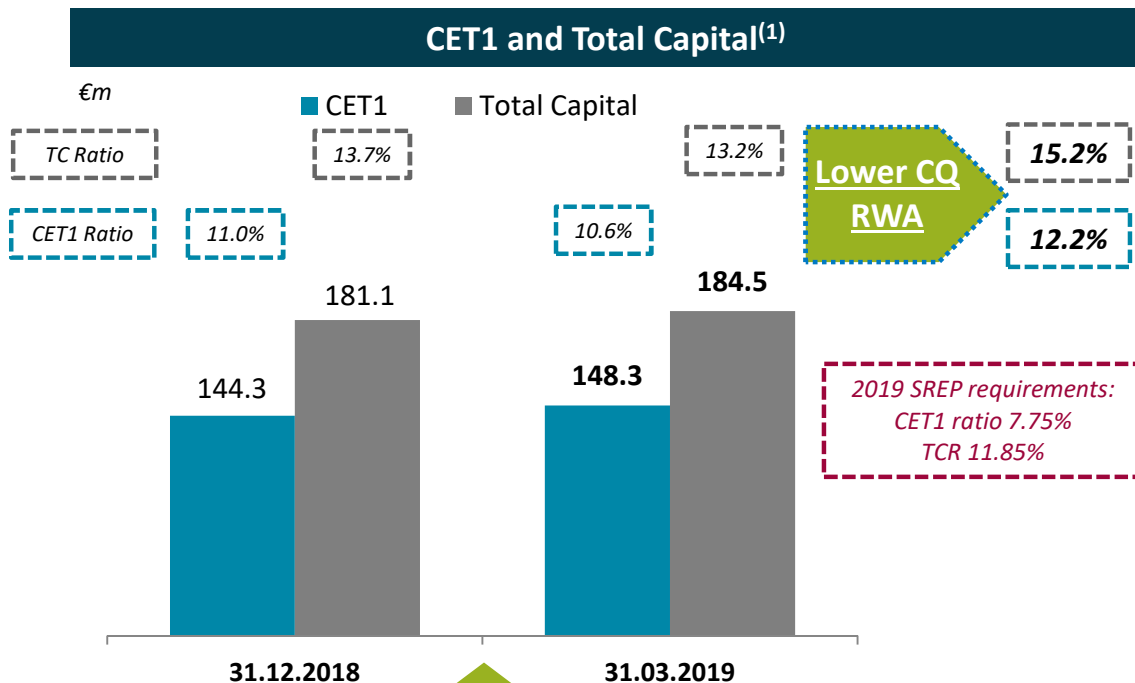
Gross Bad loans breakdown



- Net Bad Loans represents 1.5% of total loans lower q/q
- Unlikely to Pay increase q/q is due to factoring to PA
- 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
- 1Q 2019 Cost of credit risk is up at 42bps, due to higher y/y Loan Loss Provisions (€2.6m) of which factoring represents €2.2m

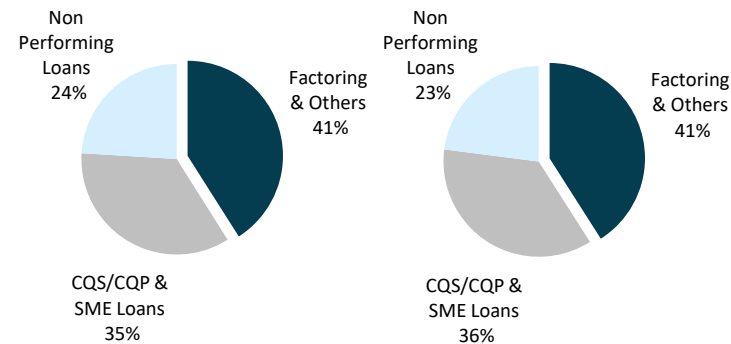
Note: NPE analysis is referring exclusively to the former Balance Sheet item, "Customer loans", that based on new scheme, following the introduction of IFRS 9, is part of the Balance Sheet item "Loan at amortized cost".

Regulatory Capital well above minimum requirements



RWA – Credit Risk

31.12.2018 31.03.2019



Key items of the quarterly trend:

1. (+) **€4.5m Net Income**
2. (-) higher RWA, mainly due to CQ growth
3. (+) lower 'Held to Collect and Sell' reserve from Govies' ptf, equal to -2bps in terms of CET1 ratio (-7bps as at 31.12.2018)
4. (-) lower contribution of a T2 bond at TCR ratio level

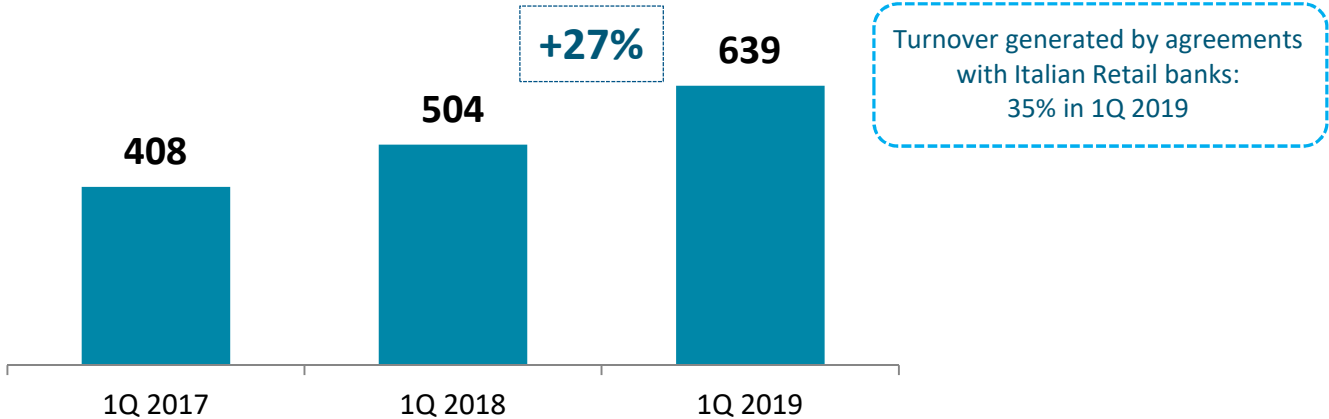
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €13.8m as at 31.03.2019 and almost 0 as at 31.12.2018.

Annexes

Factoring Turnover

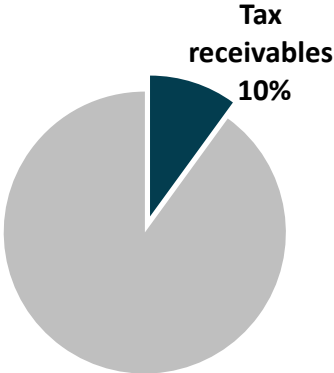
Factoring Turnover

€m

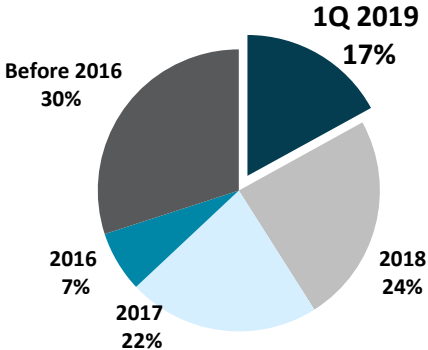


1Q 2019 Factoring Turnover breakdown

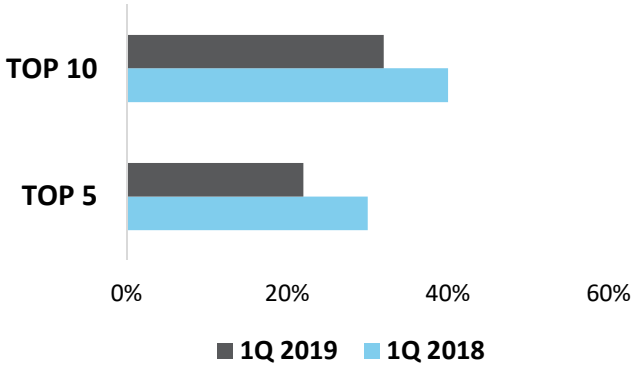
By Type



By Year of Customer's Acquisition



Customer Concentration



1Q 2019 – Income Statement

Figures in millions of Euro

	31.03.2018	31.03.2019	Change in %
Interest income	20.0	21.6	8%
Interest expenses	(6.4)	(7.0)	10%
Net interest income	13.7	14.7	7%
Net fee and commission income	3.6	4.0	12%
Dividends and similar income	-	-	
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.9	0.6	-26%
Total income	18.1	19.3	7%
Net impairment losses on loans	(1.1)	(2.6)	nm
Net operating income	17.0	16.7	-2%
Personnel expenses	(4.8)	(4.9)	3%
Other expenses	(5.1)	(5.9)	16%
Operating expenses	(9.9)	(10.8)	9%
Pre-tax profit from continuing operations	7.1	5.9	-16%
Taxes on income for the period/year from continuing operations	(2.4)	(2.0)	-16%
Profit after tax from discontinued operations	-	0.6	nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	4.7	4.5	-4%

Gain from the sale of the 10% stake in Axactor Italy

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