BANCA SISTEMA
SPECIALTY FINANCE

9M 2019 RESULTS

30 October 2019

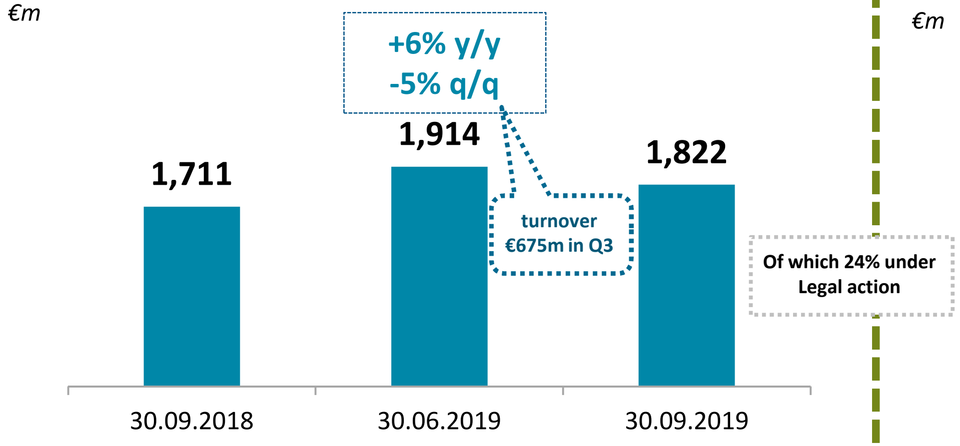
9M 2019 Results at a Glance

Commercial performance	• **Factoring Turnover +22% y/y** equal to €2.1bn • **CQS/CQP outstanding** reached €767m, +26% y/y • **Gold/ jewellery backed loans outstanding** at ~€10m, with >8k underlying contracts
P&L	• **Interest Income** equal to €58.4m, **+10% y/y** • **Stable Cost of funding y/y and q/q at 0.8%** • **Total Income** equal to €73.1m, **+13% y/y, driven by higher core business growth** • **Cost of risk equal to 35bps**; €6.4m LLPs • **Total operating costs +14% y/y, following Atlantide acquisition** • **Net Income +12% y/y**, equal to €21.4m • **Net Income adjusted for Atlantide merger equal to €21.8m**
Balance Sheet	• **Term deposits:** Strong growth since 3Q 18 in particular from the foreign component • **Wholesale Funding** (35% of Total Funds): Lower ECB funding with TLTRO equal to €133m, of which TLTRO III equal to €10m • Total Capital at €205.5m, includes €12m TIER2 bond fully eligible issued in Q3 • **CET1 ratio pro-forma at 13.4% and TC ratio pro-forma at 17.2%, both higher q/q**

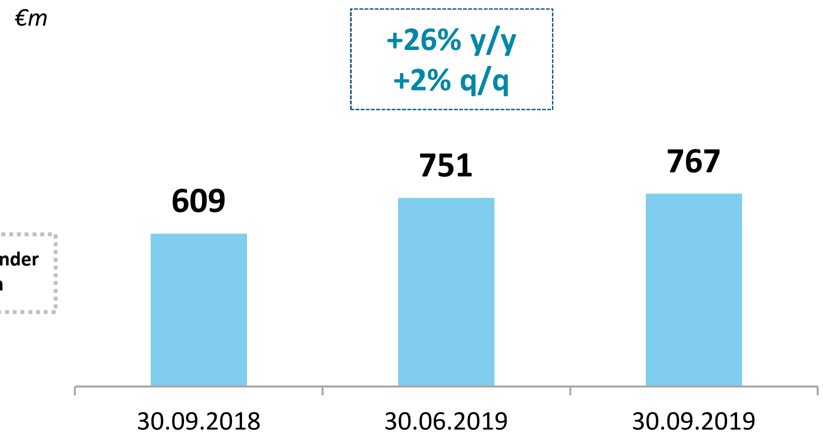
Note: CET 1 ratio pro-forma is based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to regulation 876/2019 to be applied starting on 28 June 2021. The regulatory CET1 ratio on the same date came in at 11.4%, higher q/q.

Core business assets outstanding is growing

Factoring outstanding

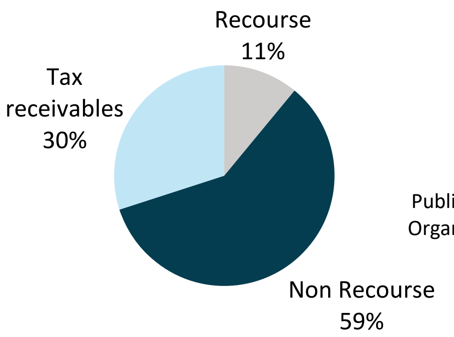


CQ Loans outstanding



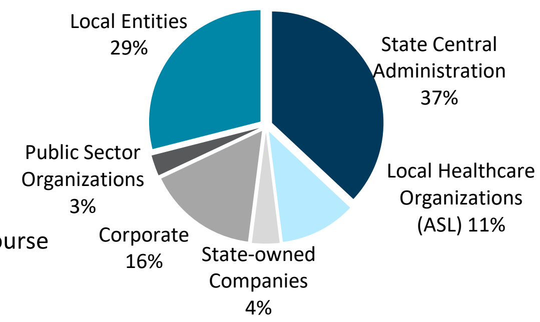
Outstanding breakdown (30.09.2019)

By Type of Product

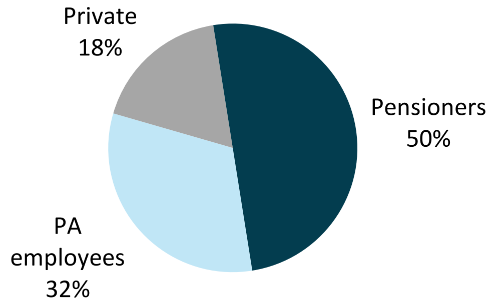


By Obligor

PA accounts for 84%



Outstanding breakdown by Type (30.09.2019)



- €186m turnover in 9M 2019 (since April including also Atlantide/direct origination)
- 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.

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9M 2019 – Balance Sheet

Figures in millions of Euro

	31.12.2018	30.06.2019	30.09.2019	Change in % 31.12.2018 vs 30.09.2019
ASSETS				
Financial assets at fair value through P&L **[Held to Sell]**	-	-	-	-
Financial assets at fair value through Other Comprehensive Income **[Held to Collect and Sell]**	304	361	374	23%
Loans at amortized cost	**2,352**	**2,672**	**2,639**	**12%**
Factoring	***1,567***	***1,791***	***1,738***	***11%***
CQ	***652***	***751***	***767***	***18%***
SMEs State Guaranteed loans	*28*	*20*	*16*	*-43%*
Other	*105*	*110*	*118*	*12%*
Securities at amortized cost **[Held to Collect]**	435	435	435	*nm*
Tangible and Intangible assets	30	33	33	10%
Non-current assets held for sale and discontinued ope	*2*	-	-	nm
Equity investments	1	-	-	nm
Other assets	21	22	23	10%
Total assets	**3,145**	**3,523**	**3,504**	**11%**
LIABILITIES AND EQUITY				
Due to banks	695	527	213	-69%
of which ECB exposure	*413*	*418*	*143*	*-65%*
Due to customers	**1,899**	**2,418**	**2,551**	**34%**
of which term deposits	*958*	*1,226*	*1,345*	*40%*
of which current accounts	*657*	*587*	*623*	*-5%*
Debt securities issued	305	313	426	40%
Other liabilities	93	107	145	56%
Shareholders Equity	153	158	169	10%
Total liabilities and equity	**3,145**	**3,523**	**3,504**	**11%**

- **Govies' portfolio (€803m) almost stable q/q**, with an average residual duration of 16.6 months (18 months as at 30.06.2019), it includes €368m 'Held to Collect and Sell', with an average residual duration of 15.5 months
- **Loans at amortized cost up 12% (€2,639m)**, slightly lower q/q:
  - **Factoring receivables** up 11% at ~€1.7bn (~€1.6bn as at 31.12.2018), thanks to the turnover originated in 9M 2019. Slightly lower q/q
  - **CQ loans** +18%
- **Intangible assets increase is due to the goodwill from Atlantide acquisition/merger (€2.1m)**
- **Due to banks** q/q decrease is mainly driven by lower ECB funding
- **Due to customers increase q/q** is driven mainly by term deposits and current accounts, that has more than compensated q/q repos decrease
- **Debt securities** up q/q due to the new CQ Securitization financing

Interest Income growth driven by higher assets

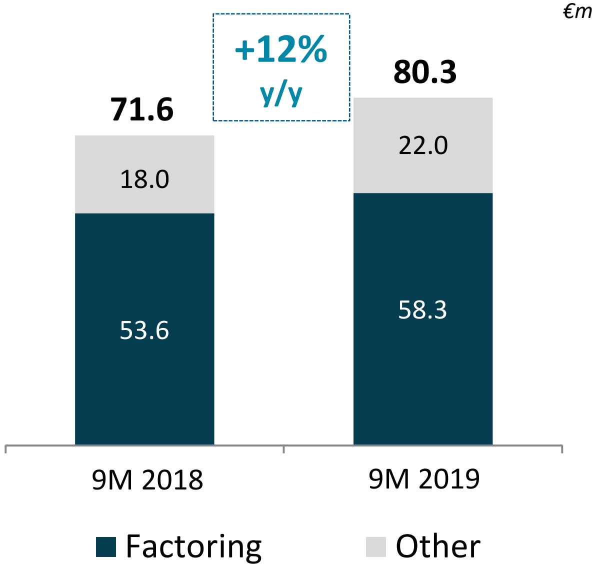
- **9M 2019 Interest Income is up 12% y/y, growth is driven by higher assets, Factoring, CQ and Govies' ptf.** Q/q higher contribution is driven by factoring

- Factoring represents 73% of Total Interest Income

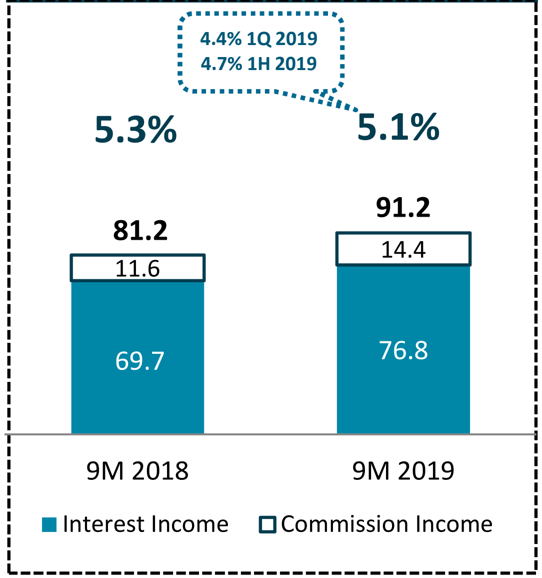
- **Factoring higher contribution y/y on P&L is significantly driven by LPIs from legal action**, in 9M 2019 equal to €24.3m (€20.1m in 9M 2018):
  - <u>of which €4.8m related to the change of accrual rates, following the update of the collection rates which feed the statistical model (€6.6m in 9M 2018)</u>
  - of which accrual at constant rates €11.0m higher y/y and q/q following a significant new legal actions in Q3 2019 (€9.3m in 9M 2018)
  - of which "extra collection" €8.5m higher y/y and q/q (€4.2m in 9M 2018)

- **Adjusted Income margin higher q/q, driven by factoring.** Y/y reduction is mainly driven by factoring margin and the higher weight of CQ on total customer loans

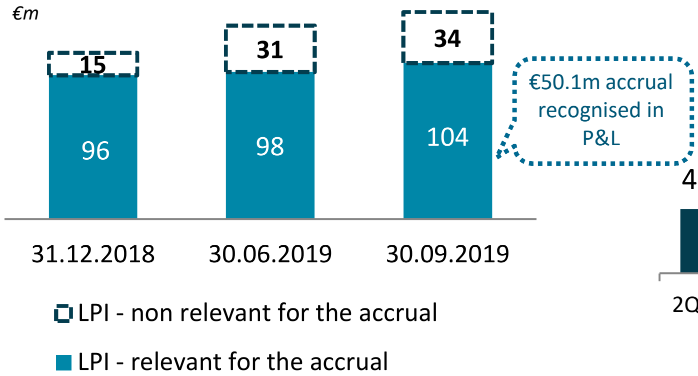
Total Interest Income



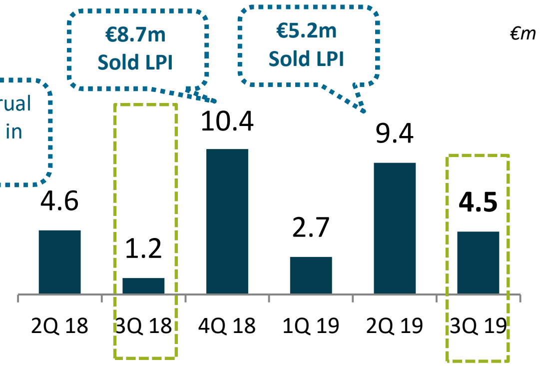
Adjusted Income margin[1]



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

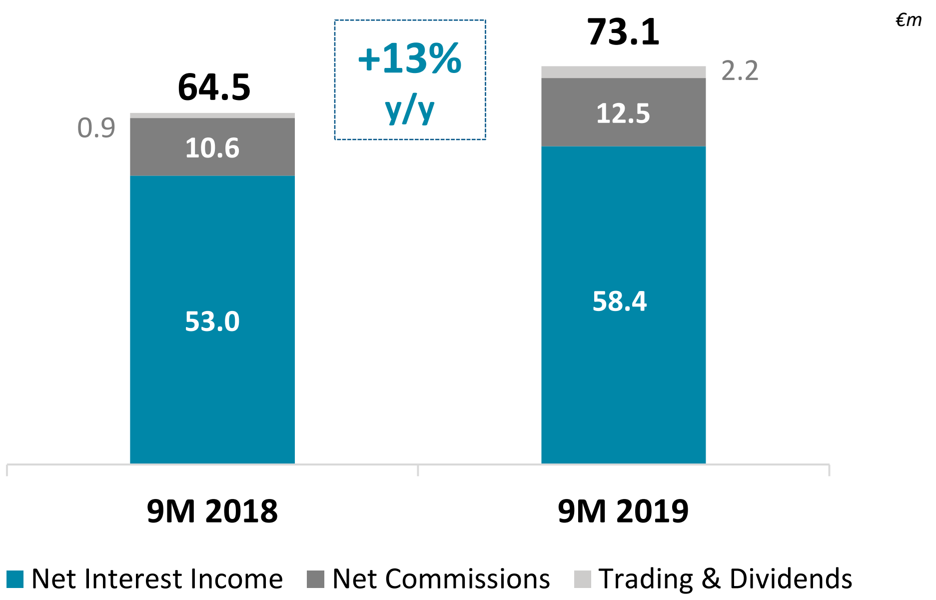
- **9M 2019 Total Income is up 13% y/y, growth is mainly driven by higher Net Interest Income (NII) and higher Net Commissions**

- **NII y/y increase is driven by Interest Income increase** that has more than compensated higher Interest Expenses. **Total Cost of funding (0.8%) is slightly lower y/y and FY 2018 (0.9%)**

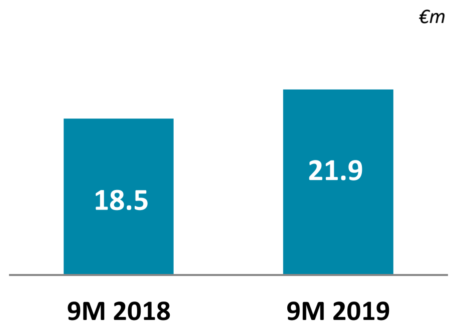
- **Net Commissions increase y/y is due to higher Commission Income driven by factoring turnover growth.** Higher Commission Expenses are due to the strong growth of the term deposits raised abroad through online platforms. Since Q2 2019, commission income and expenses include CQ component from direct origination

- Positive contribution of the **Govies' portfolio**

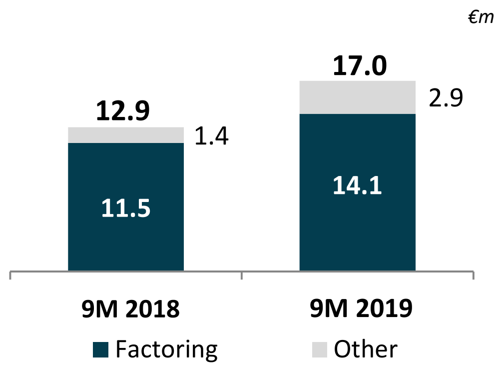
Total Income



Interest Expenses



Commission Income



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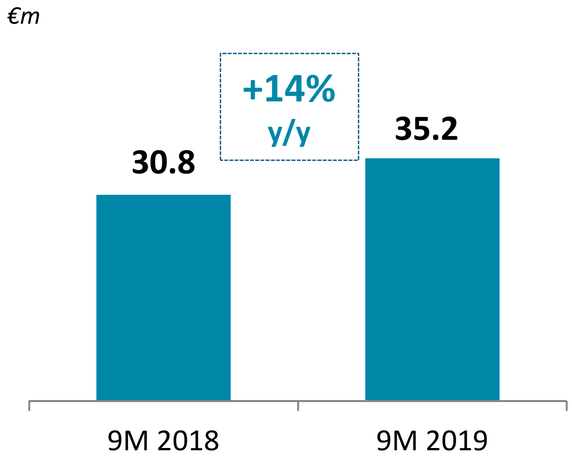
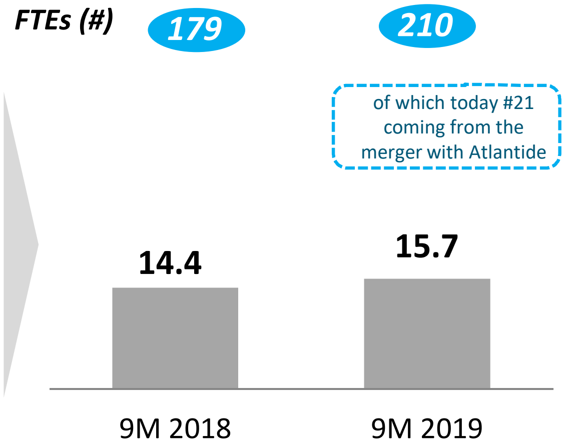
Operating costs up y/y for business growth and Atlantide

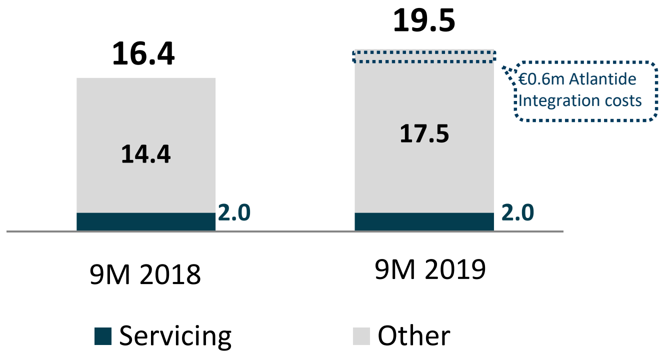
Operating Costs



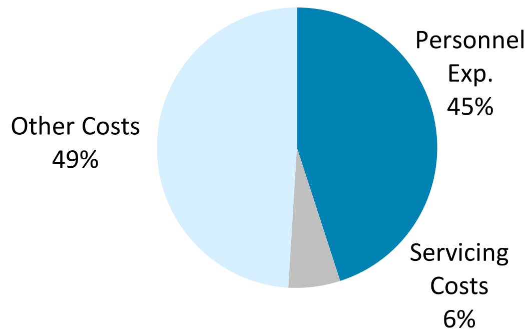
Personnel Expenses



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



Operating Costs Breakdown



- Other costs are higher y/y for:
  - <u>One-off integration costs for Atlantide merger of €0.6m (net of taxes €0.4m)</u>
  - Slightly higher Admin expenses due to National Resolution Fund (€1.1m in 1H 2019 and €0.9m in 1H 2018), to legal fees, to IT expenses and also to the consolidation of Atlantide cost base
  - Higher ‘Net Provisions for risk and charge’ related to a tax receivables and risk for ongoing litigations (+€1.3m y/y)

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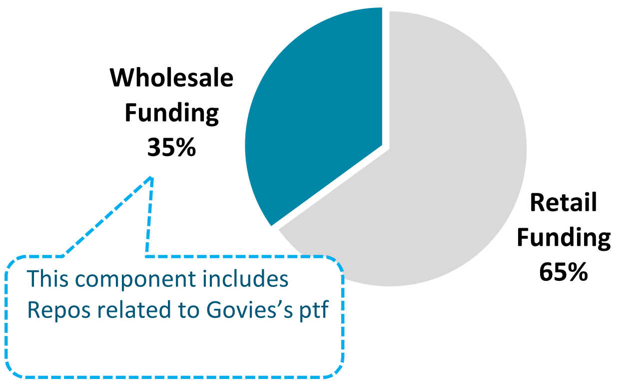
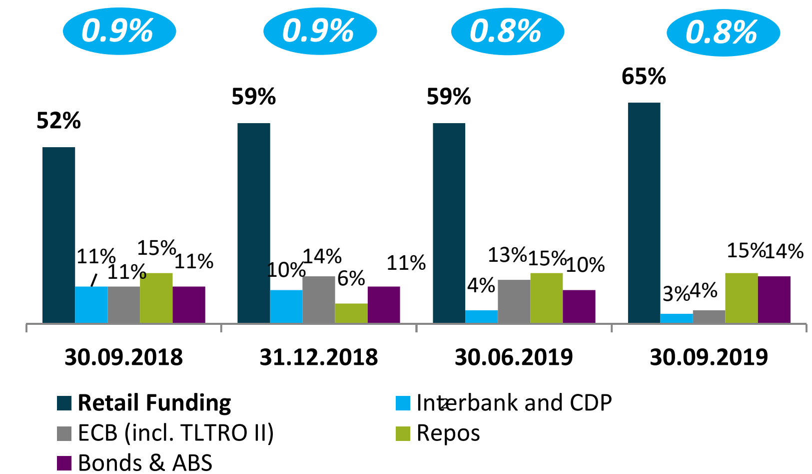
Lower funding cost y/y

Total Funding breakdown

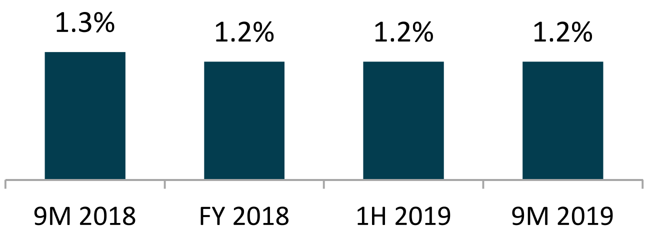


Total Funding breakdown

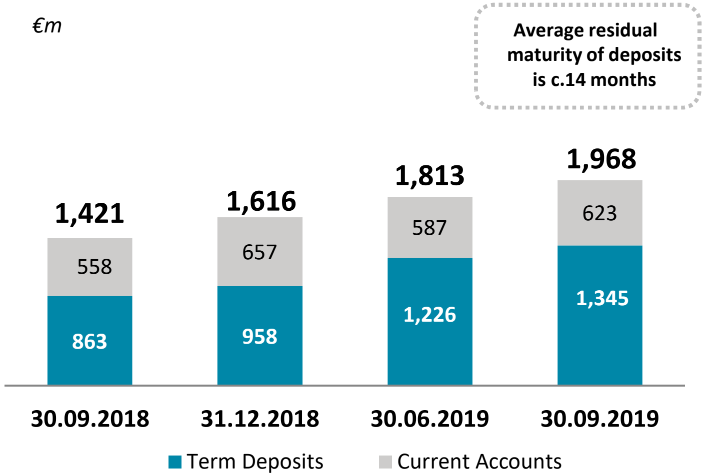
Funding Cost[1]



Retail Funding Cost



Retail Funding



- Cost of funding slightly lower y/y and stable q/q
- Wholesale component q/q and y/y decrease is due mainly to lower ECB funding equal to €143m (€418m as at 30.06.2019) of which TLTRO III €10m and TLTRO II stable at €123m (max TLTRO III allowance €295m); interbanking is also lower q/q
- Term Deposits stock has registered a strong increase during the last five quarters, due to the growth of the foreign component (as at 30.09.2019, 64% of total term deposits)
- Current accounts stock is slightly up q/q
- No wholesale bond maturities in 2019 and not expected issuance till December 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).

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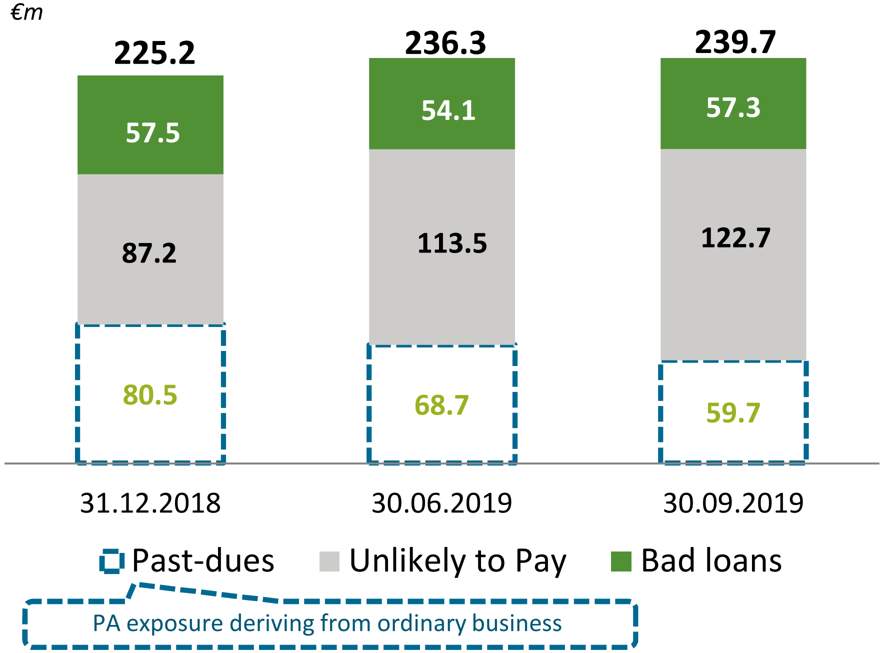
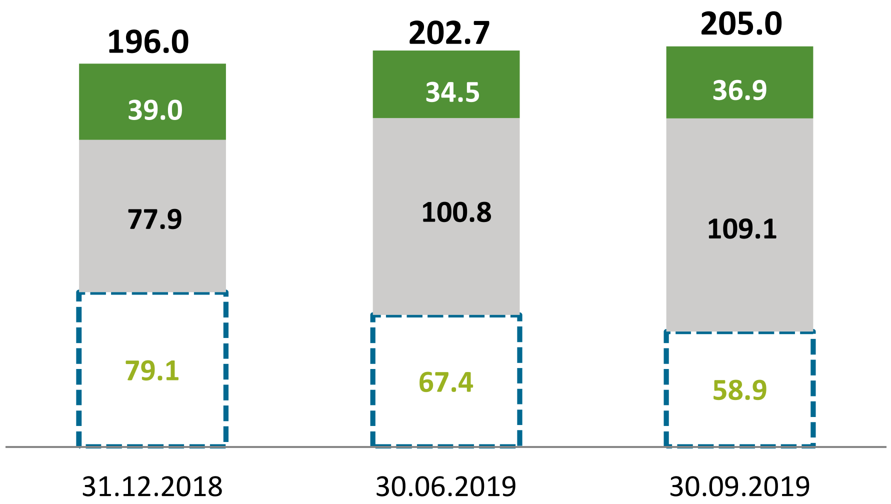
Asset Quality driven by factoring business

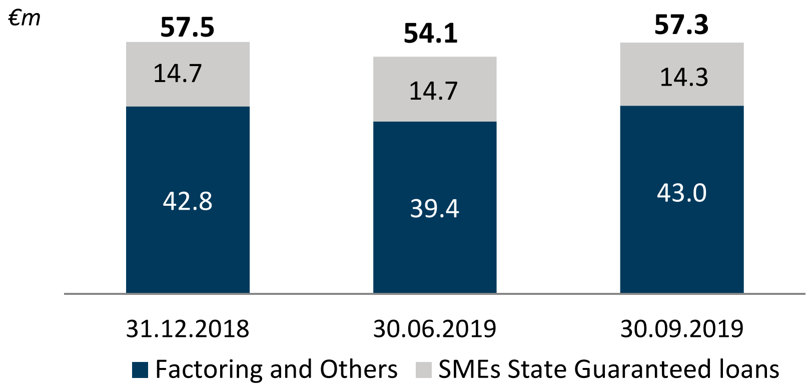
Gross Non Performing Exposures



Net Non Performing Exposures



Gross Bad loans breakdown



- Gross Non Performing Exposures substantially stable in the last q/q
- Net Bad Loans represents 1.4% of total loans lower vs year-end
- Unlikely to Pay increase is due to factoring to PA and corporates
- 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
- 9M 2019 Cost of credit risk at 35bps, lower vs 1H 2019

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".

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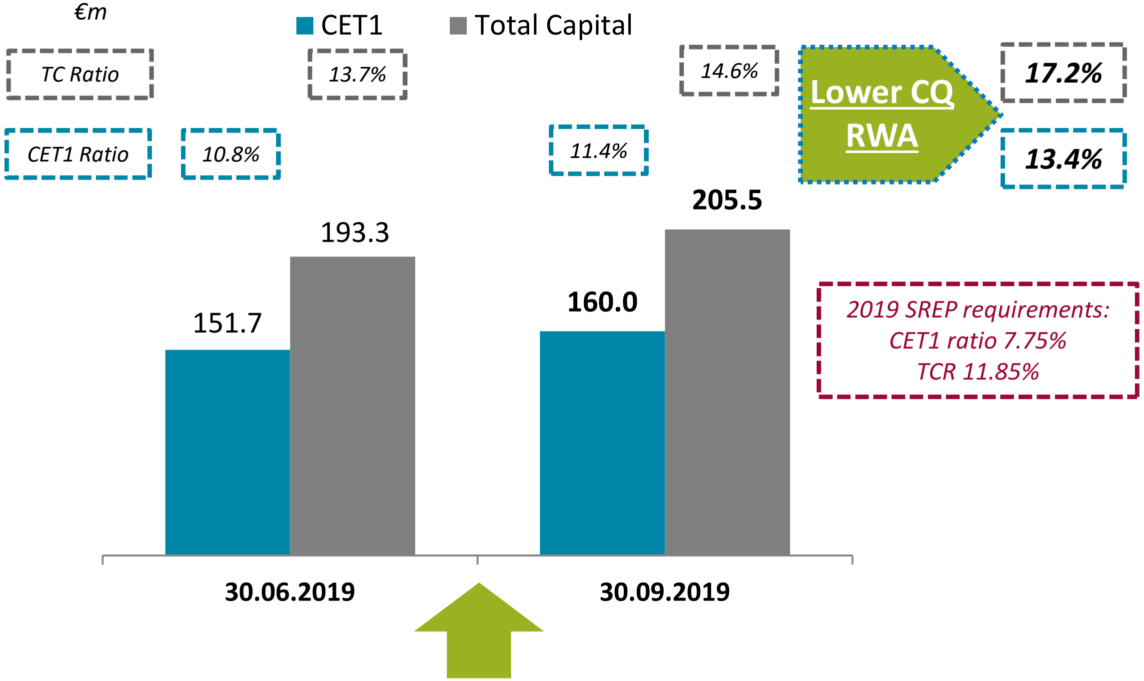
Regulatory Capital well above minimun requirements

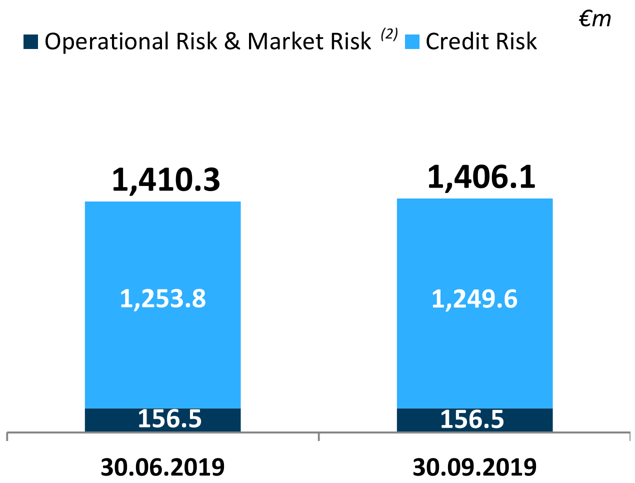
CET1 and Total Capital[1]



Key items of the quarterly trend:

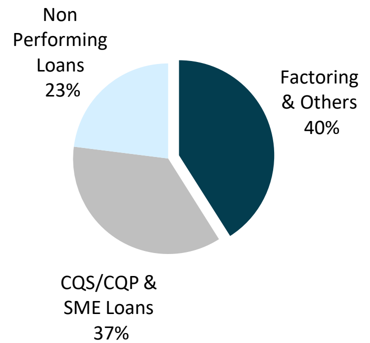
1. (+) €10.3m Net Income
2. (=) substantially stable RWA
3. (+) €12m T2 bond fully eligible for Total Capital

RWA breakdown

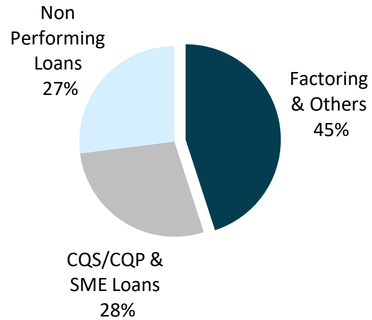


RWA – Credit Risk

30.09.2019



30.09.2019 Pro-forma with Lower CQ RWA



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 0 as at 30.06.2019 and 30.09.2019.

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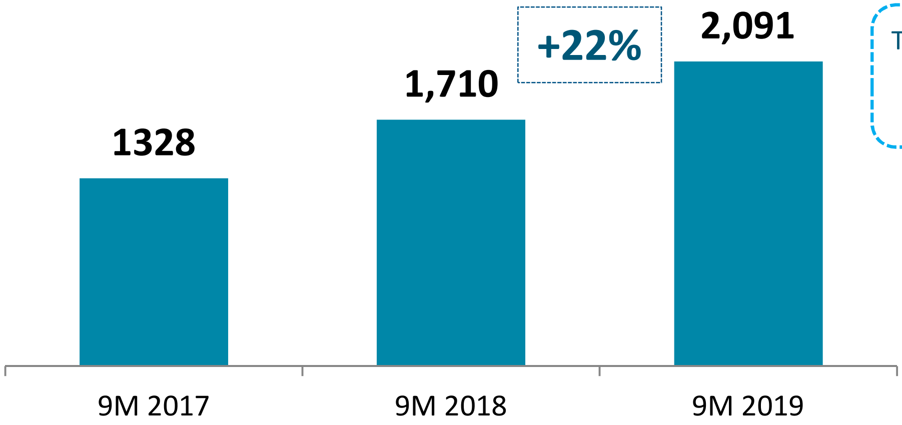
Annexes

Factoring Turnover

Factoring Turnover

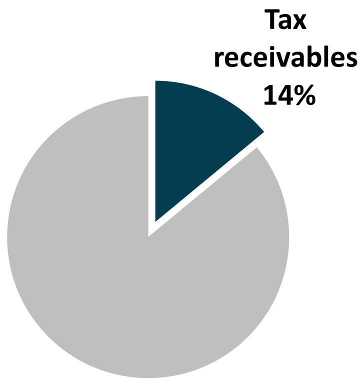
€m



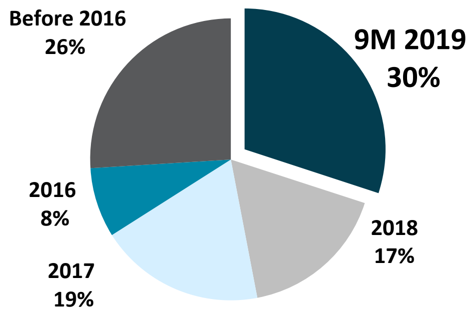
Turnover generated by agreements with Italian Retail banks: 27% in 9M 2019

9M 2019 Factoring Turnover breakdown

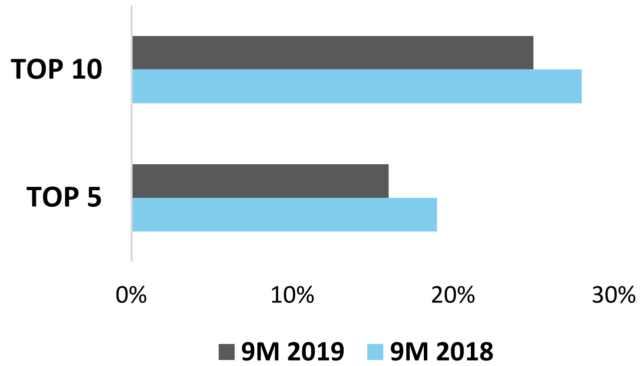
By Type



By Year of Customer's Acquisition



Customer Concentration



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9M 2019 – Income Statement

Figures in millions of Euro

	9M 2018	1Q 2018	2Q 2018	3Q 2018	9M 2019	1Q 2019	2Q 2019	3Q 2019	9M 19 vs 9M 18 change in %
Interest income	71.6	20.0	24.7	26.9	80.3	21.6	26.9	31.7	12%
Interest expenses	(18.5)	(6.4)	(5.8)	(6.4)	(21.9)	(7.0)	(7.1)	(7.8)	18%
Net interest income	**53.0**	**13.7**	**18.9**	**20.4**	**58.4**	**14.7**	**19.8**	**23.9**	**10%**
Commission income	12.9	4.2	4.2	4.4	17.0	5.1	5.9	6.0	32%
Commission expenses	(2.2)	(0.6)	(0.4)	(1.2)	(4.5)	(1.1)	(1.7)	(1.6)	nm
Net commission	**10.6**	**3.6**	**3.8**	**3.3**	**12.5**	**4.0**	**4.2**	**4.4**	**18%**
Dividends and similar income	0.2		0.2		0.2	-	0.2	-	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.6	0.9	(0.2)	-	1.9	0.6	0.6	0.7	nm
Total income	**64.5**	**18.1**	**22.8**	**23.7**	**73.1**	**19.3**	**24.8**	**29.0**	**13%**
Net impairment losses on loans	(4.3)	(1.1)	(1.9)	(1.4)	(6.4)	(2.6)	(2.1)	(1.7)	48%
Net operating income	**60.2**	**17.0**	**20.9**	**22.3**	**66.6**	**16.7**	**22.6**	**27.3**	**11%**
Personnel expenses	(14.4)	(4.8)	(4.8)	(4.9)	(15.7)	(4.9)	(5.6)	(5.2)	9%
Other expenses	(16.4)	(5.1)	(6.0)	(5.2)	(19.5)	(5.9)	(7.2)	(6.5)	19%
Operating expenses	**(30.8)**	**(9.9)**	**(10.8)**	**(10.1)**	**(35.2)**	**(10.8)**	**(12.8)**	**(11.7)**	**14%**
Profits from equity investments	(0.4)		(0.2)	(0.1)	-			-	nm
Pre-tax profit from continuing operations	**29.0**	**7.1**	**9.9**	**12.0**	**31.4**	**5.9**	**9.8**	**15.6**	**8%**
Taxes on income for the period/year from continuing operations	(9.9)	(2.4)	(3.4)	(4.1)	(10.5)	(2.0)	(3.2)	(5.4)	7%
Profit after tax from discontinued operations				-	0.6	0.6			nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	**19.1**	**4.7**	**6.5**	**7.9**	**21.4**	**4.5**	**6.7**	**10.3**	**12%**

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