
BANCA

S I S T E M A
SPECIALTY FINANCE

FY 2019 RESULTS

7 February 2020

FY 2019 Results at a Glance

Commercial performance

- **Factoring Turnover +27% y/y** equal to €3.1bn
- **CQS/CQP outstanding** reached €817m, +25% y/y
- **Gold/ jewelry backed loans outstanding** at ~€12m, with >9k underlying contracts

P&L

- **Interest Income** equal to €80.7m, +8% y/y
- **Slightly lower funding cost y/y at 0.8%**
- **Total Income** equal to €100.9m, +11% y/y, driven by higher core business growth
- **Cost of risk equal to 36bps; €9.1m LLPs**
- **Total operating costs up y/y, following Atlantide acquisition**
- **Net Income +9% y/y**, equal to €29.7m
- **RoAE at 18% among the highest in European Financial Services industry**

Balance Sheet

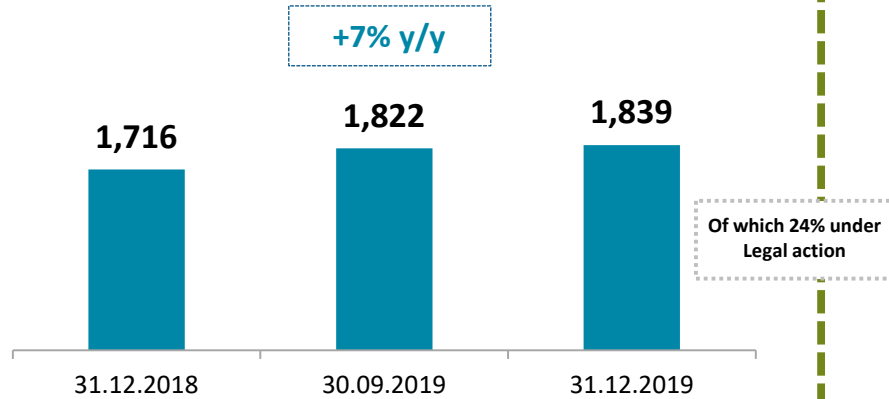
- **Total assets up 19%** at €3.7bn
- **Term deposits:** Strong growth since 3Q 18 in particular from the foreign component
- **Wholesale Funding (39% of Total Funds):** TLTRO III equal to €108m (+€98m q/q)
- **CET1 ratio pro-forma at 13.9% and TC ratio at 17.8%, both higher y/y and q/q**
- **Dividend per share (DPS) of €0.093, +7% y/y**

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 11.7%.

Core business assets outstanding is growing

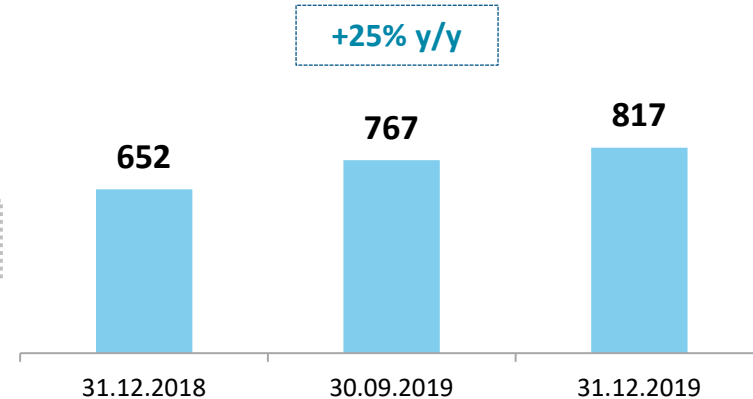
Factoring outstanding

€m



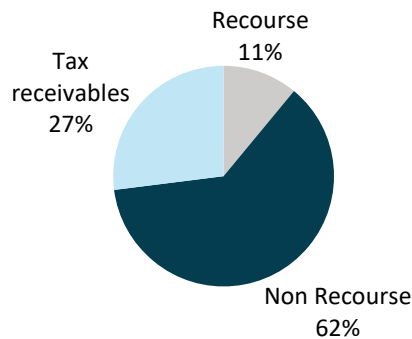
CQ Loans outstanding

€m

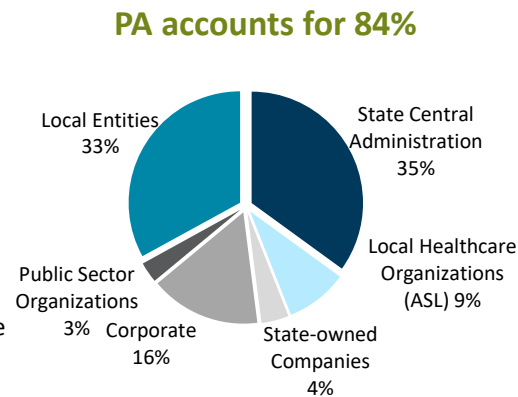


Outstanding breakdown (31.12.2019)

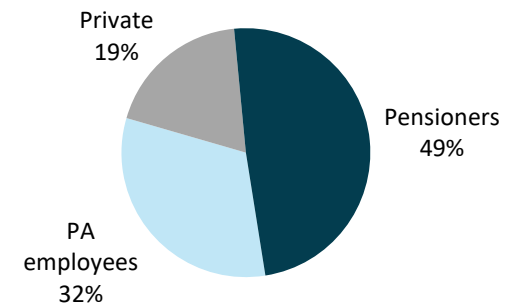
By Type of Product



By Obligor



Outstanding breakdown by Type (31.12.2019)



- €266m turnover in FY 2019 (since April including also Atlantide/direct origination)
- 81% 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.

FY 2019 – Balance Sheet

Figures in millions of Euro

	31.12.2018	30.09.2019	31.12.2019	Change in % 31.12.2018 vs 31.12.2019
ASSETS				
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	304	374	556	83%
Loans at amortized cost	2,352	2,639	2,677	14%
<i>Factoring</i>	1,567	1,738	1,715	9%
<i>CQ</i>	652	767	817	25%
<i>Gold/Jewelry backed loans</i>	6	10	12	83%
<i>SMEs State Guaranteed loans</i>	28	16	12	56%
<i>Other</i>	99	108	121	22%
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 operations	2	-	-	nm
Equity investments	1	-	-	nm
Other assets	21	23	29	38%
Total assets	3,145	3,504	3,730	19%
LIABILITIES AND EQUITY				
Due to banks	695	213	388	-44%
<i>of which ECB exposure</i>	413	143	358	-13%
Due to customers	1,899	2,551	2,552	34%
<i>of which term deposits</i>	958	1,345	1,326	38%
<i>of which current accounts</i>	657	623	682	4%
Debt securities issued	305	426	477	56%
Other liabilities	93	145	136	46%
Shareholders Equity	153	169	177	16%
Total liabilities and equity	3,145	3,504	3,730	19%

€70m Pro-forma as at 31.12.2019 with ISP business unit contribution

- **Govies' portfolio (€985m) up q/q**, with an average duration of 17.6 months, it includes €550m 'Held to Collect and Sell', with an average duration of 20.1 months
- **Loans at amortized cost up 14% y/y (€2,677m)**, slightly up q/q:
 - **Factoring receivables** up 9% at €1.7bn (~€1.6bn as at 31.12.2018), thanks to the turnover originated in 2019. Slightly lower q/q
 - **CQ loans** +25% y/y
 - **"Gold/jewelry"** will be higher in 2020 following the announced acquisition
- **Intangible assets increase is due to the goodwill from Atlantide acquisition/merger (€2.1m)**
- **Due to banks** q/q increase is mainly driven by higher ECB funding (0 TLTRO II and €108m TLTRO III)
- **Due to customers increase y/y** is driven mainly by term deposits (down q/q)
- **Debt securities** up q/q due to further growth of the new CQ Securitization financing

Interest Income growth driven by higher assets

- FY 2019 Interest Income is up 11% y/y, growth is driven by higher assets, Factoring, CQ and Govies' ptf. Q/q higher contribution is driven by factoring

- Factoring represents 74% of Total Interest Income; y/y increase was mainly driven by the non-LPI component

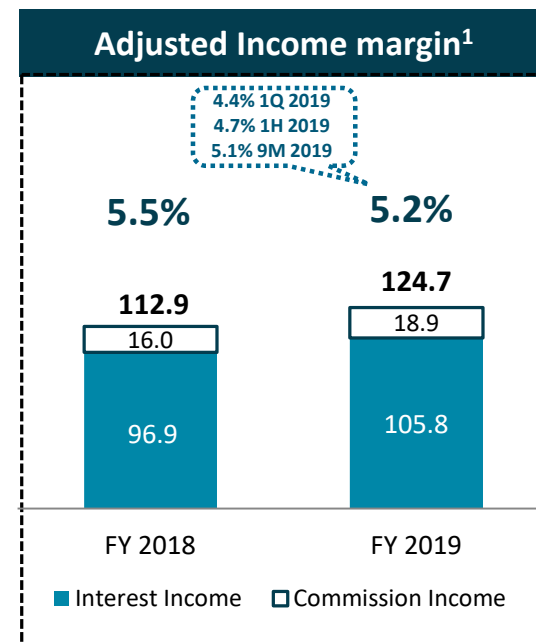
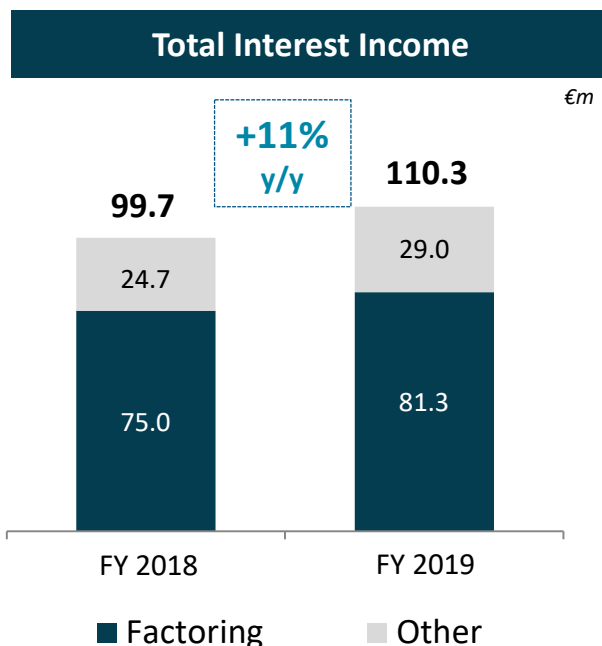
- Slightly higher contribution y/y by factoring LPIs from legal action (36% of the factoring Interest Income), in FY 2019 equal to €29.0m (€28.4m in FY 2018):

- of which €5.1m related to the change of accrual rates, following the update (in 3Q19) of the collection rates which feed the statistical model (€7.8m in FY 2018)

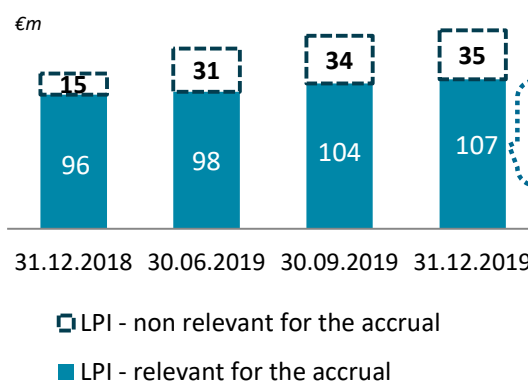
- of which accrual at constant rates €12m higher y/y and lower q/q (€10.3m in FY 2018)

- of which "extra collection" €11.9m higher y/y and q/q (€10.3m in FY 2018)

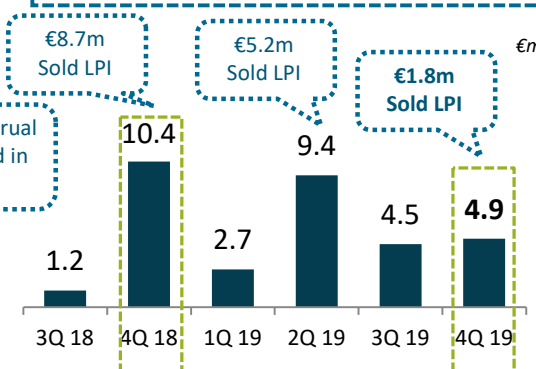
- Adjusted Income margin higher q/q, driven by factoring. Y/y reduction is mainly driven by factoring margin and the higher weight of CQ on total customer loans



Due LPI Stock – Assets in legal action



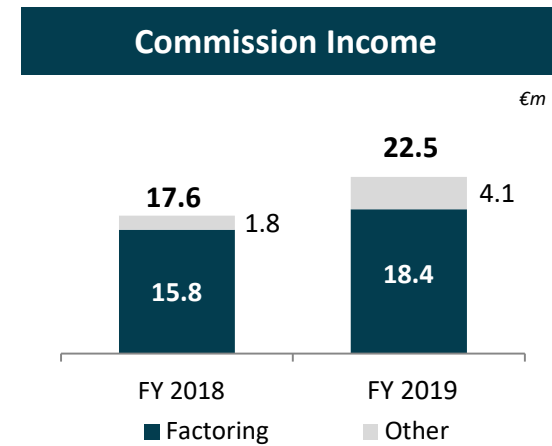
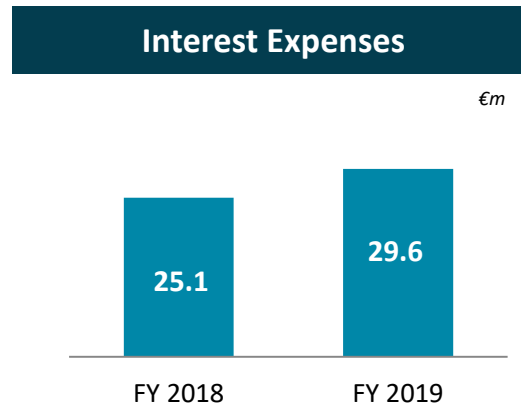
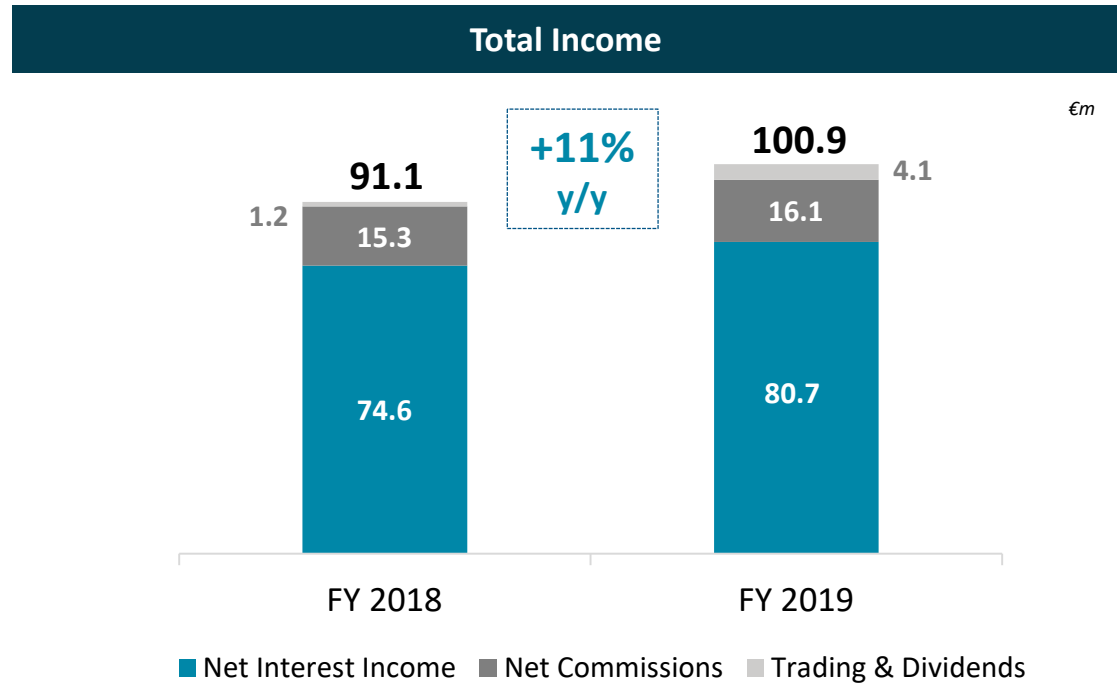
Total collected cashed-in LPI



Note: (1) Calculated as $[\text{Period Interest Income} + \text{Commission Income}] / [\text{Average end of period net customer loans}]$ - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

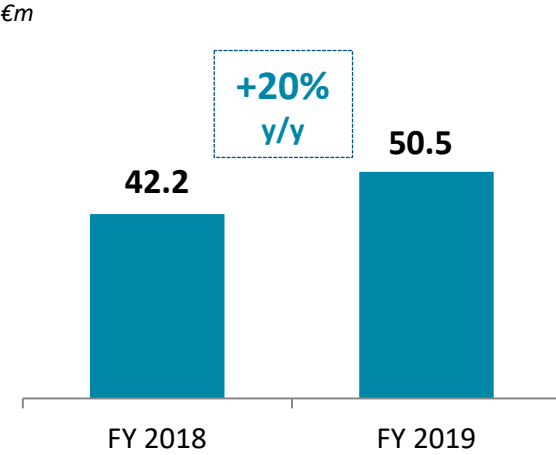
Total Income supported by business growth

- **FY 2019 Total Income** is up 11% y/y, growth is mainly driven by higher Net Interest Income (NII)
- **NII y/y increase is driven by Interest Income increase** that has more than compensated higher Interest Expenses. **Total Cost of funding (0.8% in 2019)** is slightly lower y/y (0.9% in 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. Since Q2 2019, commission income and expenses include CQ component from direct origination
- **Gold/jewelry backed loans contribution on Total Income: €1.1m in 2019 vs €0.5m in 2018**
- **Trading & Dividends** includes €1.1m gain from the sale of a factoring ptf in 4Q 2019
- Strong contribution of the **Govies' portfolio, € 6.3m** (€2.3m in 2018) of which €3.5m to the NII

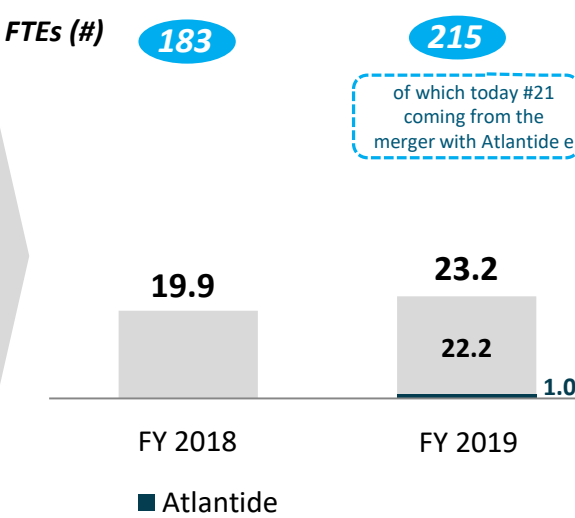


Operating costs up y/y for business growth and Atlantide

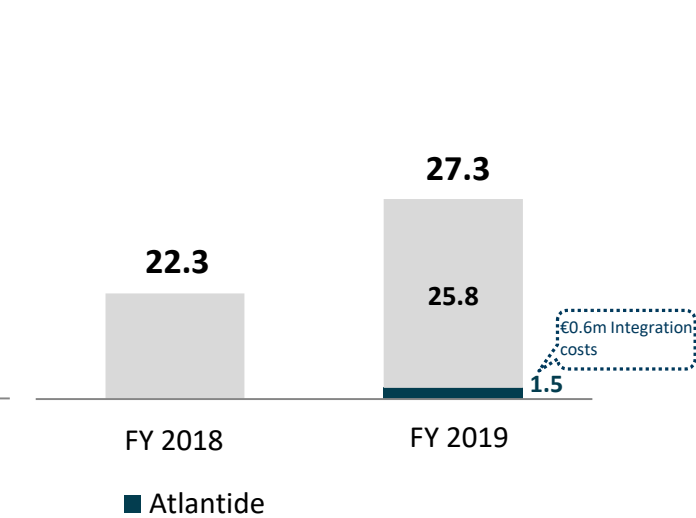
Operating Costs



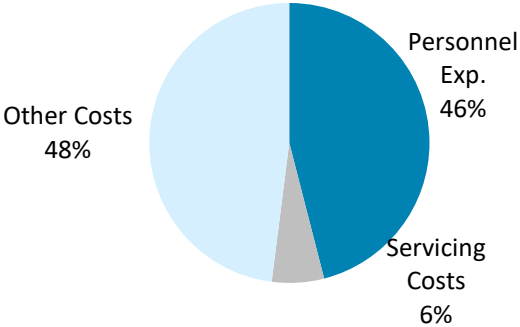
Personnel Expenses



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



Operating Costs Breakdown

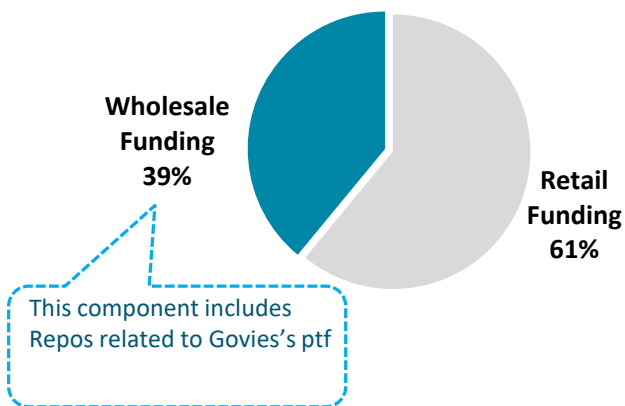


- One-off integration costs for Atlantide merger of €0.6m
- Slightly higher Admin expenses due to National Resolution Fund/FITD (+€1m y/y), to legal fees and to IT expenses

48% Cost Income
ex. Atlantide contribution for €2.5m

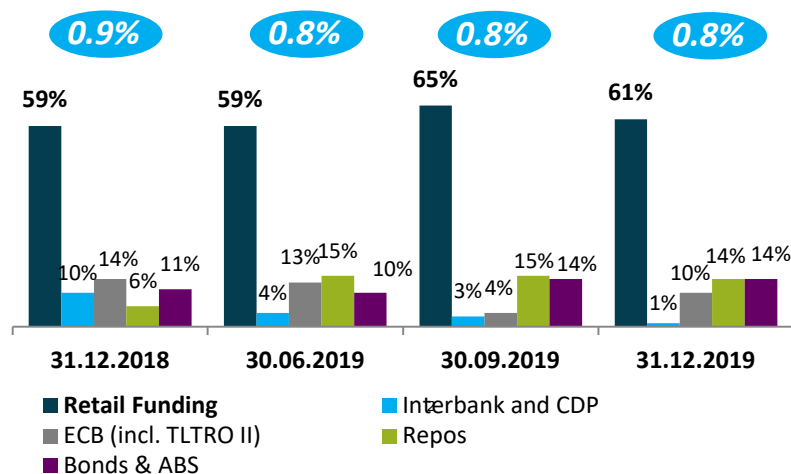
Lower funding cost y/y

Total Funding breakdown



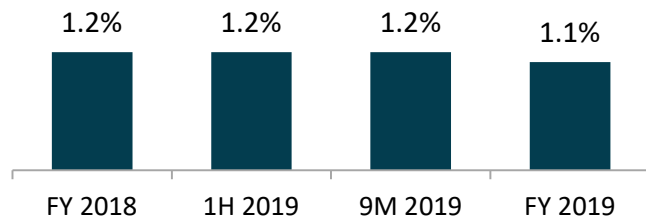
Total Funding breakdown

Funding Cost

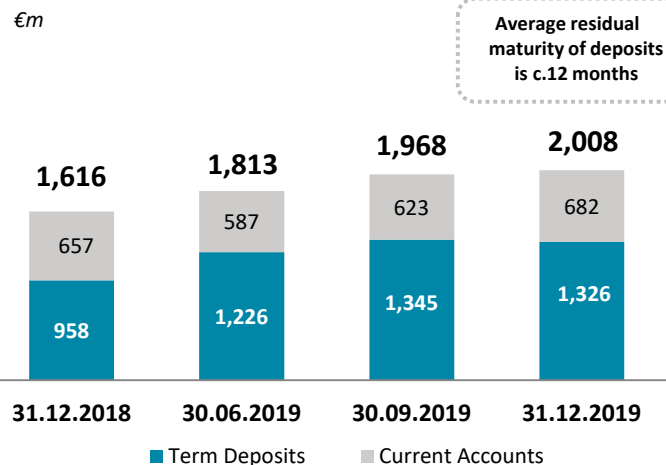


- Cost of funding slightly lower y/y and stable q/q
- Wholesale component q/q increase is due mainly to higher ECB funding equal to €358m of which TLTRO III €108m while TLTRO II has fully reimbursed in Q4 (max TLTRO III allowance €295m); interbanking is lower q/q
- Although down q/q, Term Deposits stock has registered a strong increase y/y, due to the growth of the foreign component (as at 31.12.2019, 60% of total term deposits)
- Current accounts stock is slightly up q/q and y/y

Retail Funding Cost

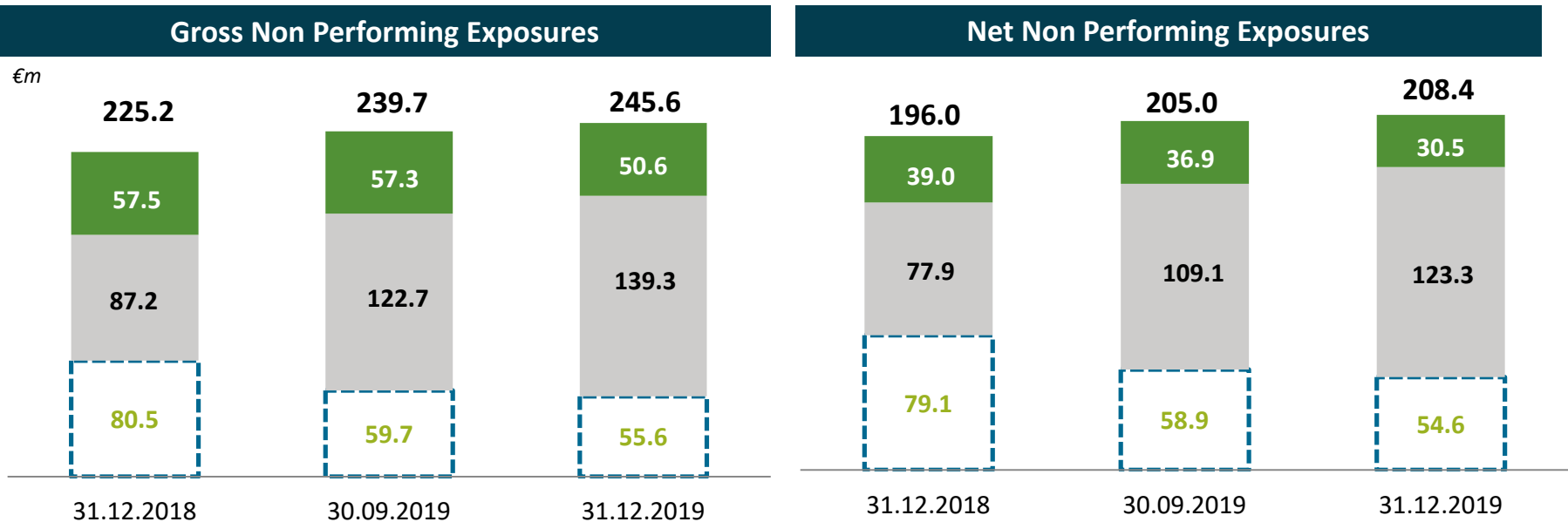


Retail Funding



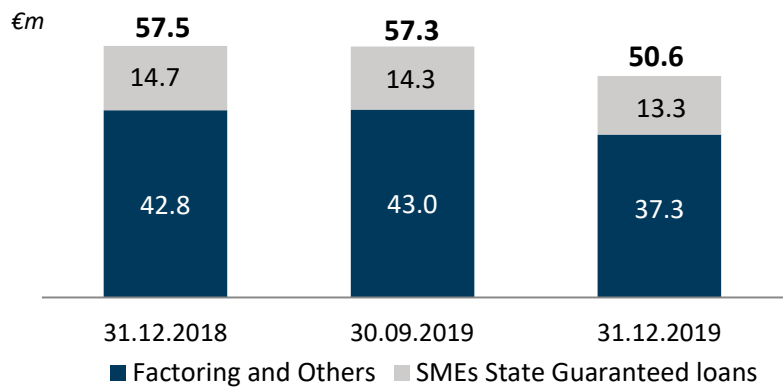
Notes: CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Asset Quality driven by factoring business



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

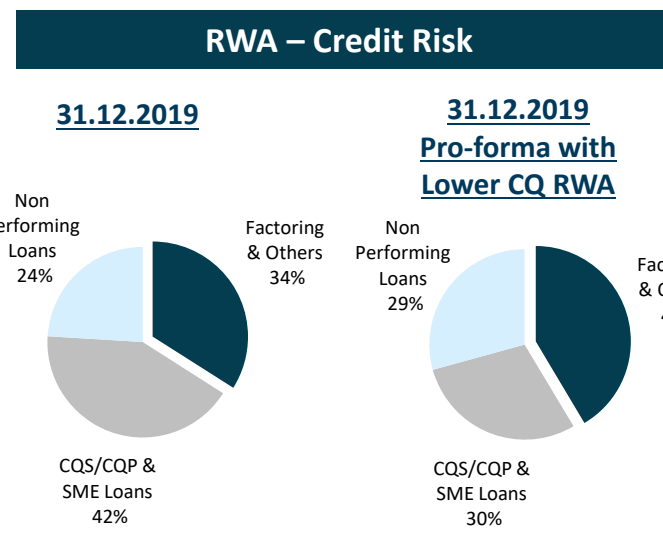
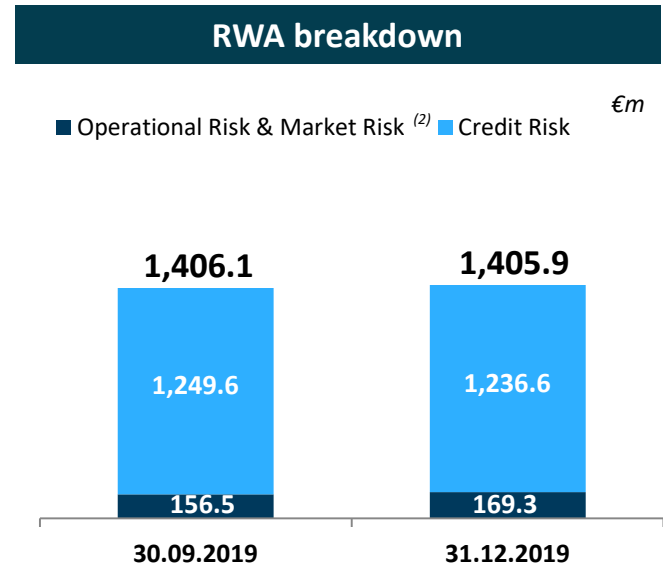
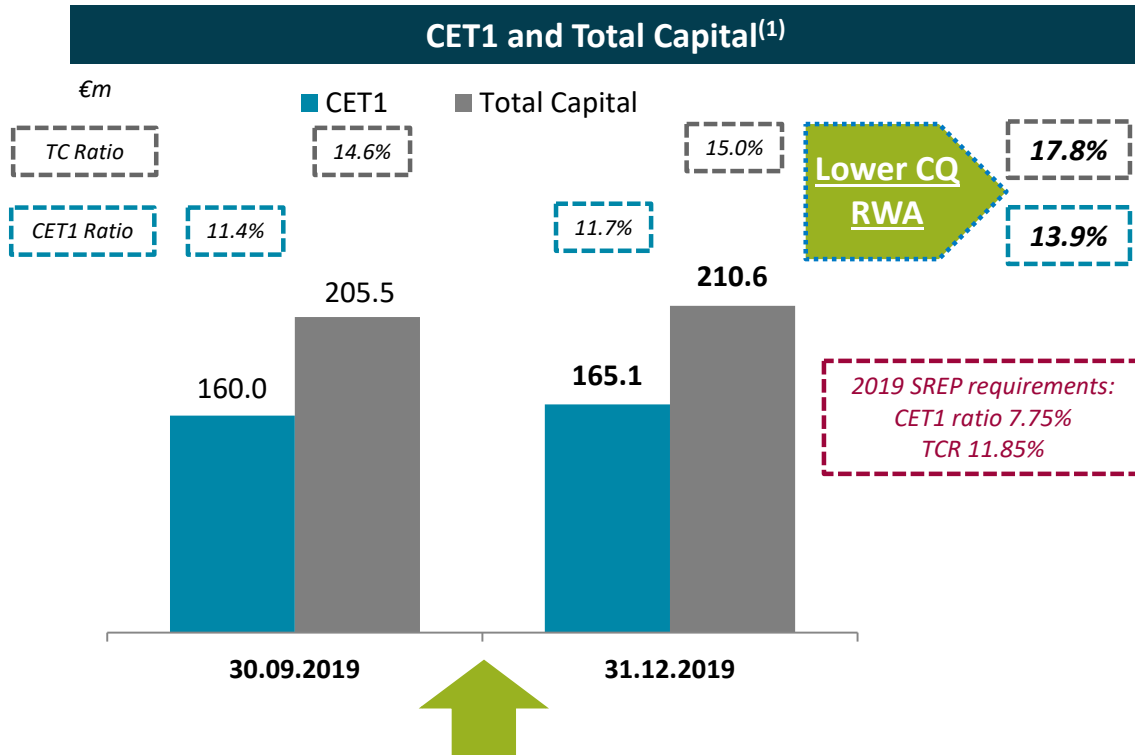
Gross Bad loans breakdown



- Gross Non Performing Exposures substantially stable in the last q/q
- Net Bad Loans represents 1.2% of total loans lower vs year-end
- Unlikely to Pay increase 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
- FY 2019 Cost of credit risk at 36bps (35bps in 9M 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".

Regulatory Capital well above minimum requirements



Key items of the quarterly trend:

- (+) €8.3m Net Income, with a positive contribution in terms of lower taxes, coming from the losses registered by Atlantide in the past years and new fiscal incentives
- (=) substantially stable RWA with a lower weight of the Private Factoring component

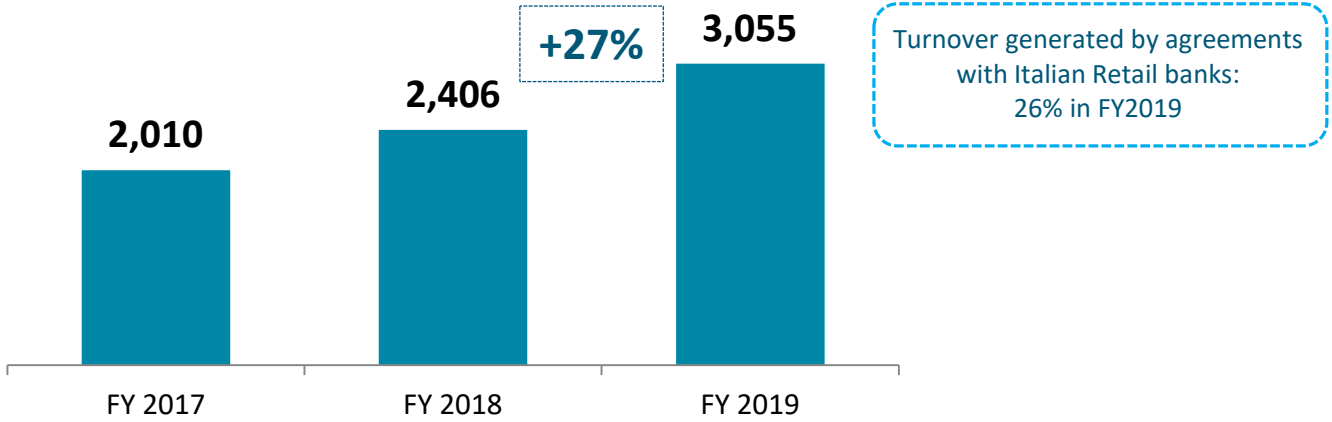
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk 0 as at 30.09.2019.

Annexes

Factoring Turnover

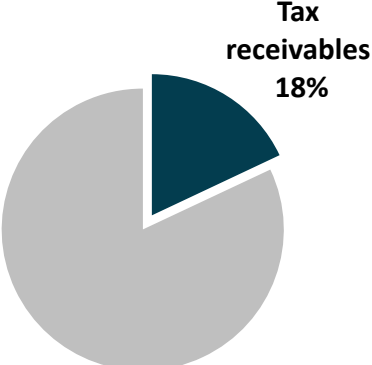
Factoring Turnover

€m

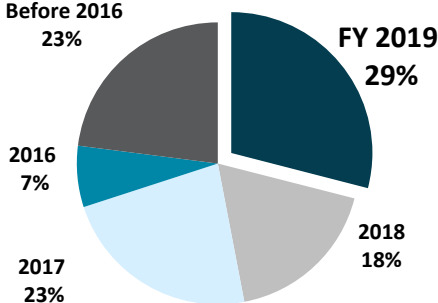


FY 2019 Factoring Turnover breakdown

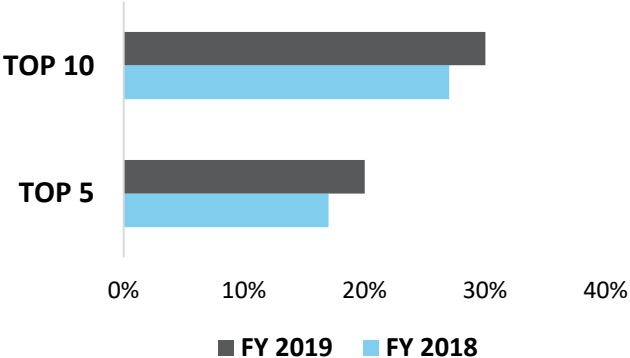
By Type



By Year of Customer's Acquisition



Customer Concentration



FY 2019 – Income Statement

Figures in millions of Euro

	FY 2018	1Q 2018	2Q 2018	3Q 2018	4Q 2018	FY 2019	1Q 2019	2Q 2019	3Q 2019	4Q 2019	FY 19 vs FY 18 change in %
Interest income	99.7	20.0	24.7	26.9	28.1	110.3	21.6	26.9	31.7	30.0	11%
Interest expenses	(25.1)	(6.4)	(5.8)	(6.4)	(6.6)	(29.6)	(7.0)	(7.1)	(7.8)	(7.7)	18%
Net interest income	74.6	13.7	18.9	20.4	21.5	80.7	14.7	19.8	23.9	22.3	8%
Commission income	17.6	4.2	4.2	4.4	4.8	22.5	5.1	5.9	6.0	5.5	28%
Commission expenses	(2.4)	(0.6)	(0.4)	(1.2)	(0.1)	(6.4)	(1.1)	(1.7)	(1.6)	(2.0)	167%
Net commission	15.3	3.6	3.8	3.3	4.6	16.1	4.0	4.2	4.4	3.5	18%
Dividends and similar income	0.2	-	0.2	-	-	0.2	-	0.2	-	-	nm
Net income from trading	(0.1)	(0.0)	(0.3)	(0.2)	0.3	0.2	0.3	(0.0)	(0.0)	(0.0)	-255%
Net income from disposal/repurchase assets:	1.2	0.9	0.1	0.2	0.1	3.7	0.4	0.6	0.7	2.0	218%
a) measured at amortised cost	-	-	-	-	-	1.1	-	-	-	1.1	nm
b) measured at fair value through other comprehensive income	1.2	0.9	0.1	0.2	0.1	2.6	0.4	0.6	0.7	0.9	124%
Total income	91.1	18.1	22.8	23.7	26.6	100.9	19.3	24.8	29.0	27.9	11%
Net impairment losses on loans	(6.8)	(1.1)	(1.9)	(1.4)	(2.5)	(9.1)	(2.6)	(2.1)	(1.7)	(2.6)	33%
Net operating income	84.3	17.0	20.9	22.3	24.1	91.9	16.7	22.6	27.3	25.2	9%
Personnel expenses	(19.9)	(4.8)	(4.8)	(4.9)	(5.5)	(23.2)	(4.9)	(5.6)	(5.2)	(7.5)	16%
Other expenses	(22.3)	(5.1)	(6.0)	(5.2)	(5.9)	(27.3)	(5.9)	(7.2)	(6.5)	(7.8)	22%
Operating expenses	(42.2)	(9.9)	(10.8)	(10.1)	(11.4)	(50.5)	(10.8)	(12.8)	(11.7)	(15.3)	20%
Profits from equity investments	0.008	(0.0)	(0.2)	(0.1)	0.4	-	-	-	-	-	-100%
Profits from investments disposal	-	-	-	-	-	(0.008)	-	(0.008)	-	-	nm
Pre-tax profit from continuing operations	42.1	7.1	9.9	12.0	13.1	41.3	5.9	9.8	15.6	10.0	-2%
Taxes on income for the period/year from continuing operations	(14.6)	(2.4)	(3.4)	(4.1)	(4.7)	(12.2)	(2.0)	(3.2)	(5.4)	(1.6)	-16%
Profit after tax from discontinued operations	(0.4)	-	-	-	(0.4)	0.6	0.6	-	-	-	nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	27.2	4.7	6.5	7.9	8.0	29.7	4.5	6.7	10.3	8.3	9%

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