
BANCA

S I S T E M A
SPECIALTY FINANCE

1Q 2020 RESULTS

8 May 2020

1Q 2020 Results at a Glance

Commercial performance

- **Factoring Turnover +10% y/y** equal to €701m
- **CQS/CQP outstanding** reached €866m, +22% y/y
- **Gold/ jewelry backed loans outstanding** at €13m, slightly higher q/q

P&L

- **Interest Income** equal to €15.9m, +9% y/y
- **Lower funding cost y/y at 0.7%**
- **Total Income** equal to €22.0m, +14% y/y, driven by factoring contribution
- **Cost of risk equal to 28bps**; €1.9m LLPs
- **Total operating costs y/y increase** is due to a higher unexpected contribution to the Single Resolution Fund and Atlantide consolidation from 2Q 19
- **Pre-tax profit +15% y/y**, equal to €6.8m
- **Net income** equal to €4.6m, adjusted for the higher y/y contribution to the Single Resolution Fund **€5.0, +12% y/y**

Balance Sheet

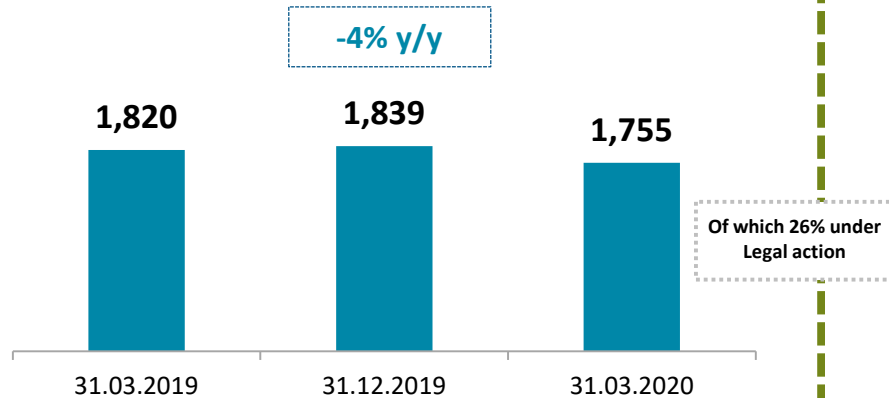
- **Wholesale Funding** (47% of Total Funds): BCE funding €658m, of which TLTRO III equal to €108m, stable q/q
- **Pro-forma CET1 ratio at 13.4% and TC ratio at 17.1%**

Note: CET1 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 before the 28 June 2021. The regulatory CET1 ratio on the same date came in at 11.2%.

Commercial performance

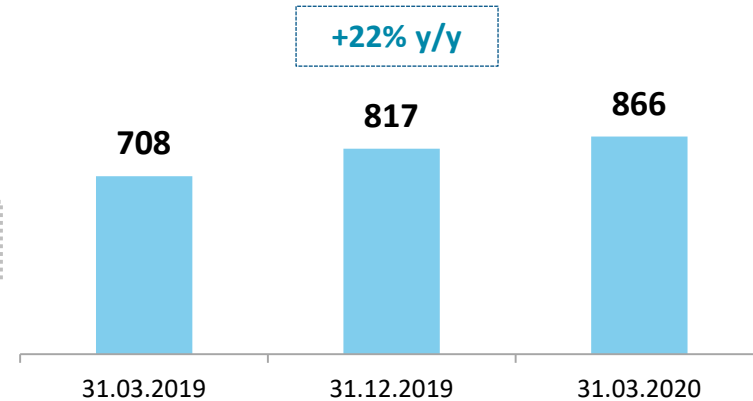
Factoring outstanding

€m



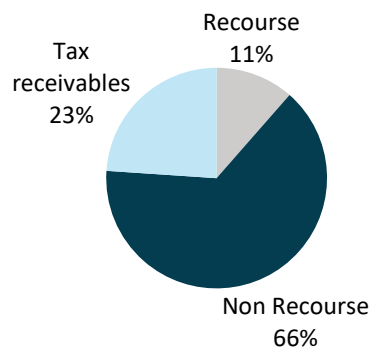
CQ Loans outstanding

€m

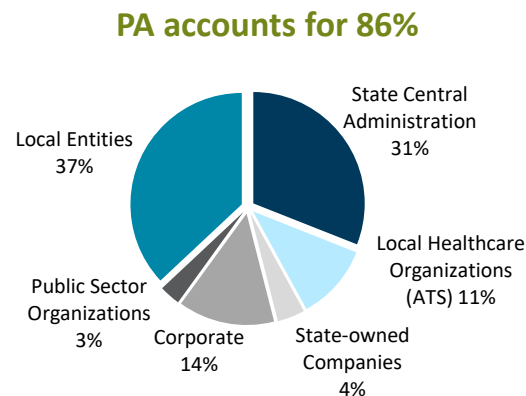


Outstanding breakdown (31.03.2020)

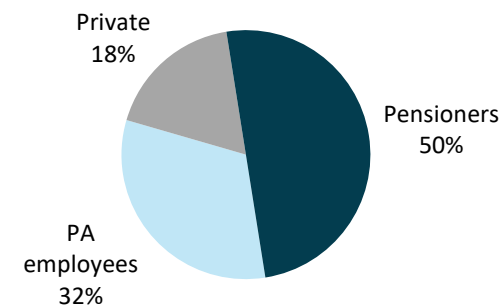
By Type of Product



By Obligor



Outstanding breakdown by Type (31.03.2020)



- €86m turnover in 1Q 2020 (€67m in 1Q 2019)
- 10% direct origination through agents/brokers
- 82% of the exposure is to «PA»

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 2020 – Balance Sheet

Figures in millions of Euro

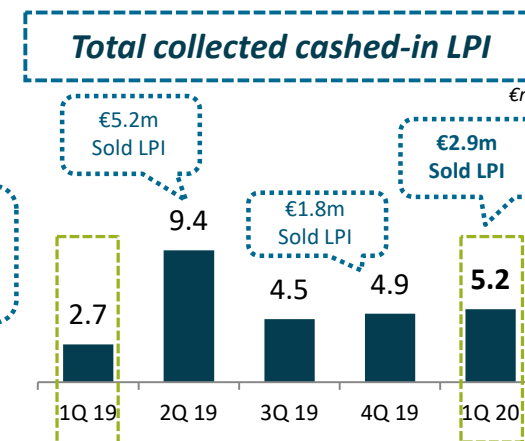
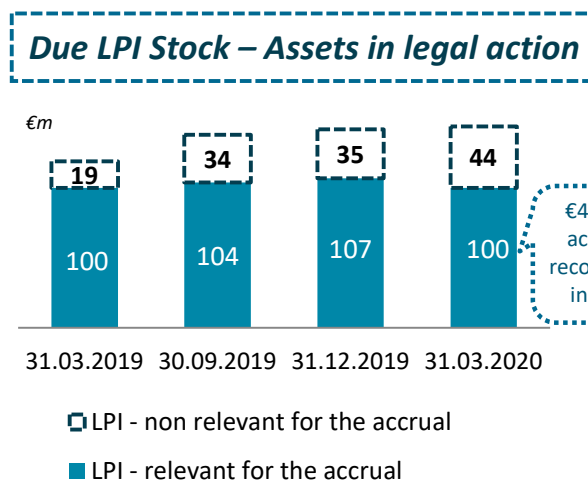
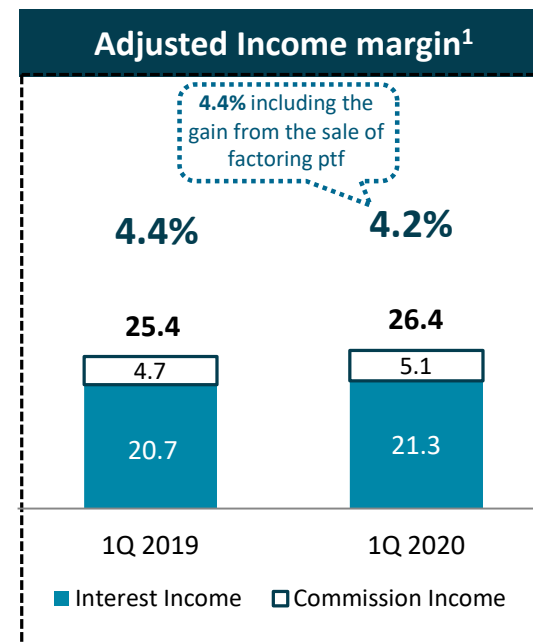
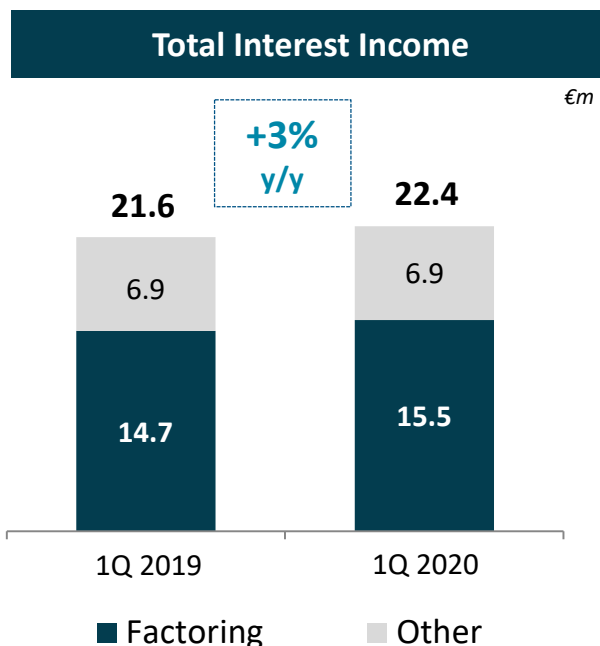
	31.12.2019	31.03.2020	Change in % 31.03.2020 vs 31.12.2019
ASSETS			
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	556	749	35%
Loans at amortized cost	2,677	2,639	-1%
<i>Factoring</i>	1,715	1,629	-5%
<i>CQ</i>	817	866	6%
<i>Gold/Jewelry backed loans</i>	12	13	11%
<i>SMEs State Guaranteed loans</i>	12	10	-15%
<i>Other</i>	121	121	nm
Securities at amortized cost [Held to Collect]	435	315	-28%
Tangible and Intangible assets	33	33	nm
Other assets	29	26	nm
Total assets	3,730	3,762	1%
LIABILITIES AND EQUITY			
Due to banks	388	806	108%
<i>of which ECB exposure</i>	358	658	84%
Due to customers	2,552	2,164	-15%
<i>of which term deposits</i>	1,326	1,097	-17%
<i>of which current accounts</i>	682	640	-6%
Debt securities issued	477	468	-2%
Other liabilities	136	145	7%
Shareholders Equity	177	179	1%
Total liabilities and equity	3,730	3,762	1%

- **Govies' portfolio (€1,059m) up q/q**, with an average duration of 20.4 months, it includes €744m 'Held to Collect and Sell', with an average duration of 23.4 months
- **Loans at amortized cost down 1% q/q (€2,639m):**
 - **Factoring receivables** down 5% at €1.6bn (€1.7bn as at 31.12.2019)
 - **CQ loans** +6% q/q
 - **"Gold/jewelry" weight** will be higher in 2020 following the announced acquisition
- **Due to banks** q/q increase is due to higher ECB funding equal to €658m (of which €108m TLTRO III), driven by the opportunity of LTRO funding
- **Due to customers decrease q/q** is mainly driven by term deposits, in particular the foreign component, following the reduction of offered interest rates. Current accounts stock reduction is influenced by the lower interest rates offered
- **Debt securities** slight decrease q/q is due to the amortizing of one of CQ Securitization outstanding

Interest Income growth driven by factoring

- 1Q 2020 Interest Income is up 3% y/y, growth is driven by Factoring
- Factoring represents 70% of Total Interest Income; y/y increase was mainly driven by the non-LPI component
- Lower contribution y/y by factoring LPIs from legal action (22% of the factoring Interest Income; it was 36% FY 2019), in 1Q 2020 equal to 3.4m (€4.0m in 1Q 2019):
 - of which accrual €1.2m lower y/y (€3.0m in 1Q 2019)
 - of which “extra collection” €2.2m higher y/y (€1.0m in 1Q 2019)

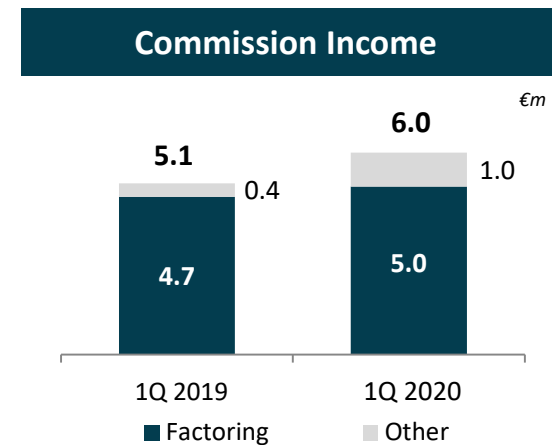
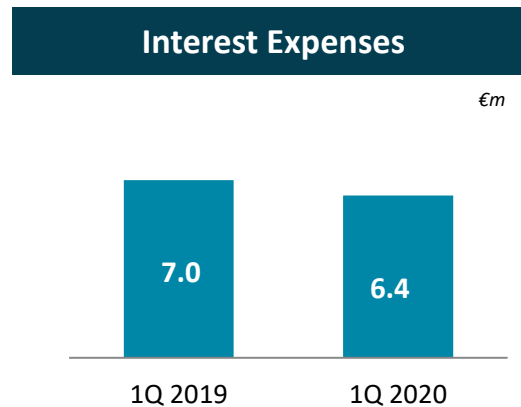
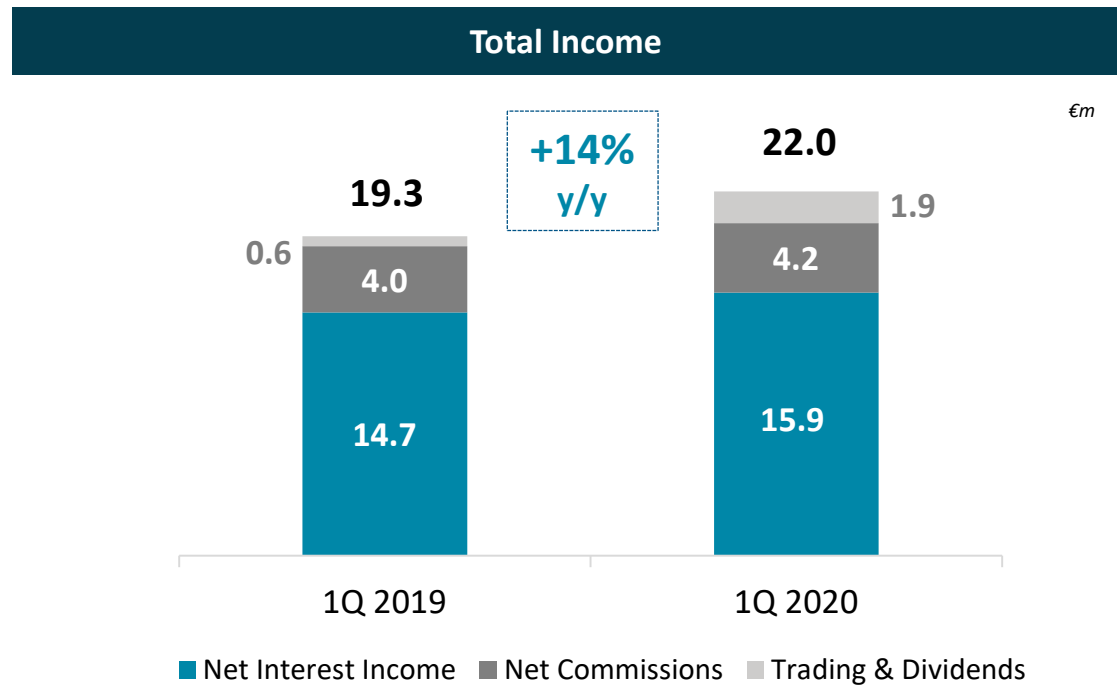
- Adjusted Income margin down y/y, driven by CQ and its higher weight on total customer loans. Q/q reduction is mainly driven by factoring margin, in quarters when the component of LPI was higher



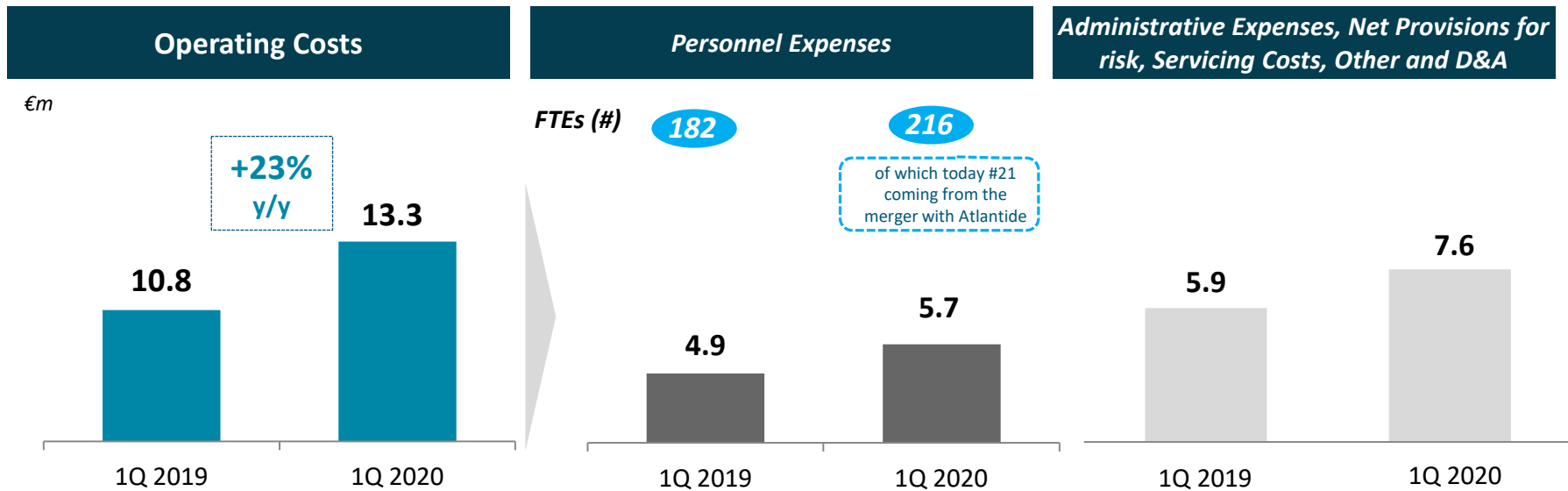
Note: (1) Calculated as $[\text{Period Interest Income} + \text{Commission Income}] / [\text{Average end of period net customer loans}]$ - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

Total Income supported by business growth

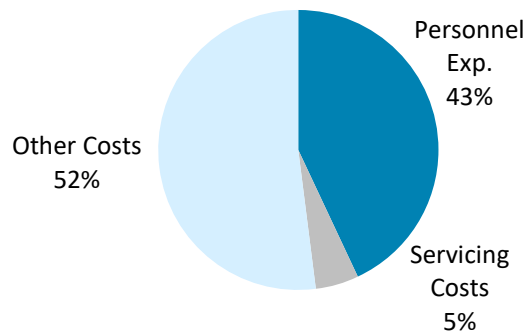
- **1Q 2020 Total Income** is up 14% y/y, growth is mainly driven by higher **Net Interest Income (NII)** and **Other Income** (Trading and Dividends)
- **NII y/y increase, +9%**, is driven by **Interest Income increase** and **lower Interest Expenses**. Total Cost of funding (0.8% in 2019) is lower y/y, equal to 0.7%
- **Net Commissions increase y/y** is due to **higher Commission Income** driven by **factoring turnover growth**. Since Q2 2019, commission income and expenses include CQ component from direct origination
- **Gold/jewelry backed loans contribution on Total Income in 1Q 2020: €0.4m**
- **Trading & Dividends** includes €1.3m gain from the sale of a factoring ptf in 1Q 2020 (same kind of transaction of 4Q 2019)
- Stable contribution of the **Govies' portfolio, €1.5m** (€1.5m in 2019) of which €0.9m to the NII



Costs up mainly due to the contribution to the SRF and Atlantide



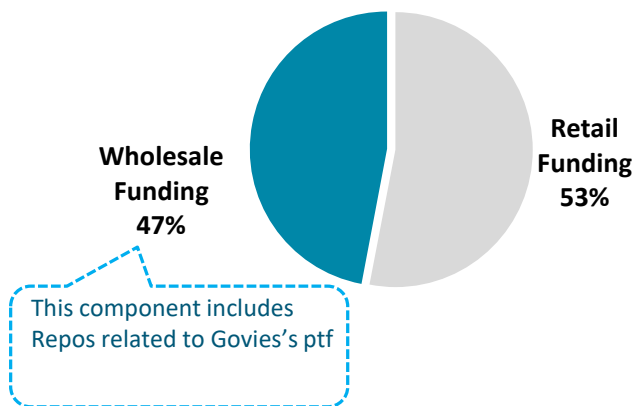
Operating Costs Breakdown



- Atlantide quarterly contribution on overall cost base since Q2 2019 is around €0.6m
- Admin expenses up y/y due to unexpected higher contribution to the Single Resolution Fund (SRF) for +€0.7m (total contribution in 1Q 2020 equal to €1.5m)
- Higher 'Net Provisions for risk and charge' (+€0.3m y/y)

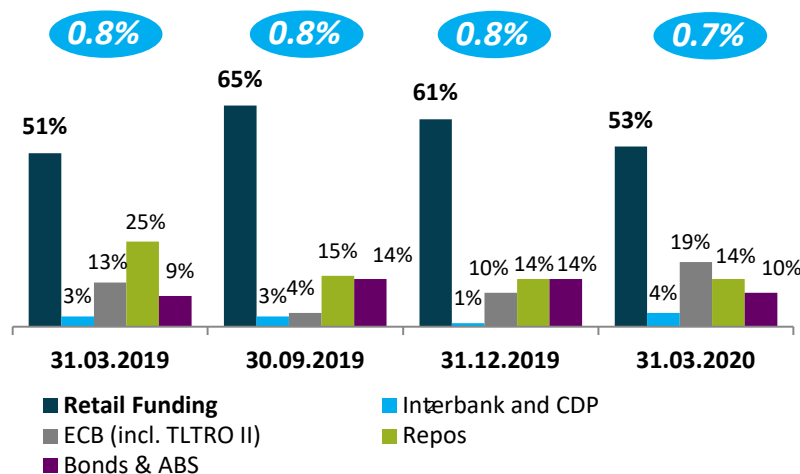
Lower funding cost y/y

Total Funding breakdown



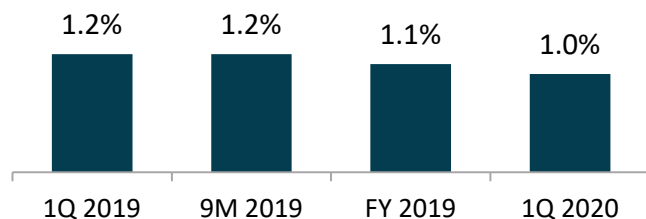
Total Funding breakdown

Funding Cost



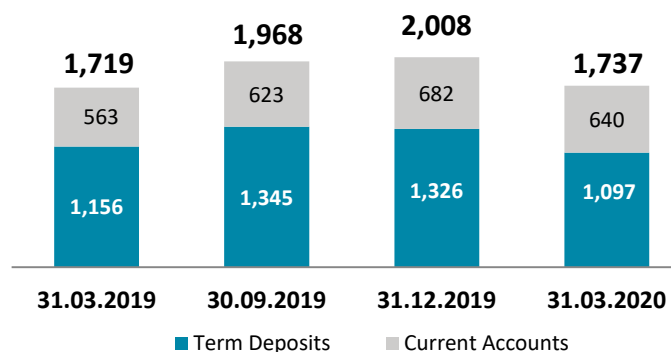
- Cost of funding lower y/y and q/q
- Wholesale component q/q increase is due mainly to higher ECB funding equal to €658m of which €108m TLTRO III (max TLTRO III allowance €490m) and the remaining part LTRO; interbanking is slightly higher q/q

Retail Funding Cost



Retail Funding

€m

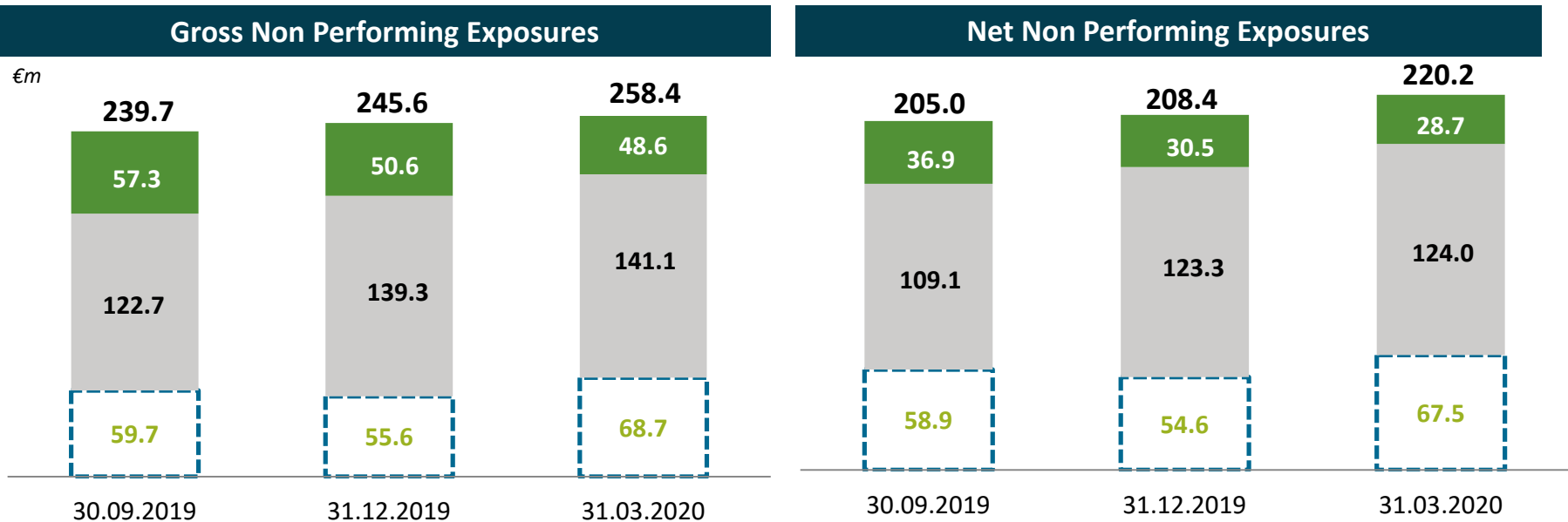


Average residual maturity of deposits is c.15 months

- Retail Funding down q/q, mainly due to Term Deposits stock (in particular the foreign component) that has registered an expected reduction, as a consequence of the lower rates offered, since the end of 2019
- Current accounts q/q decrease is also driven by the reduction of the rates offered

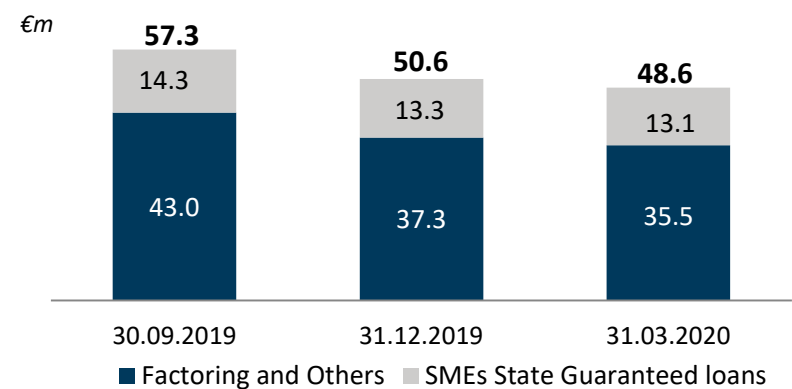
Notes: CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Asset Quality driven by factoring business



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

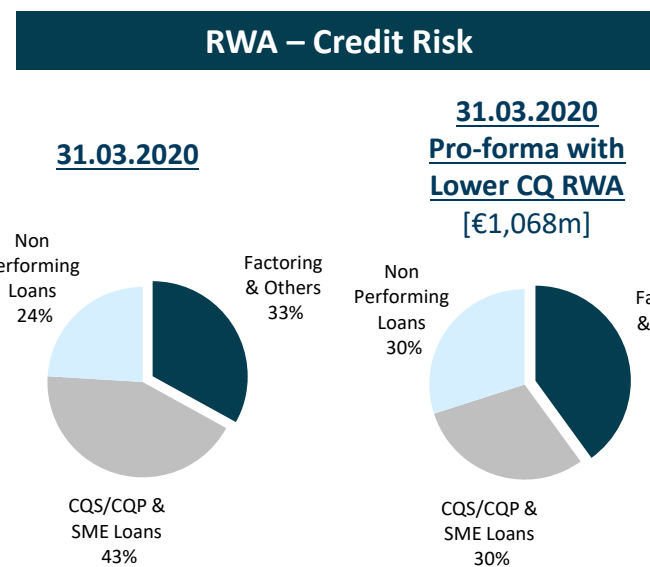
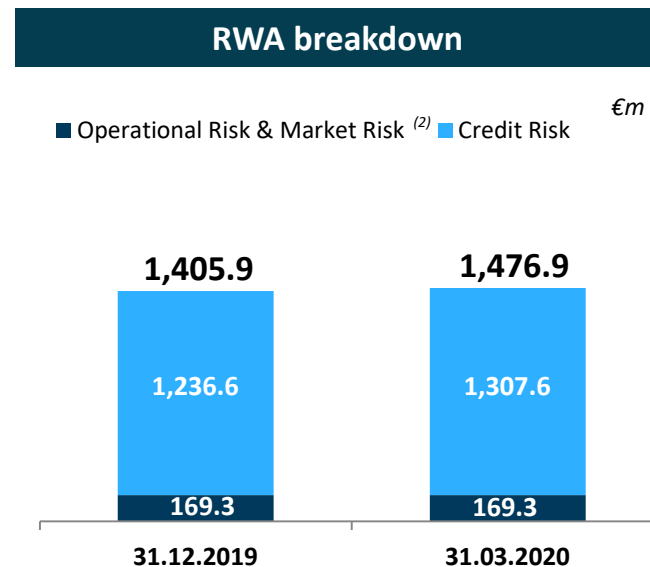
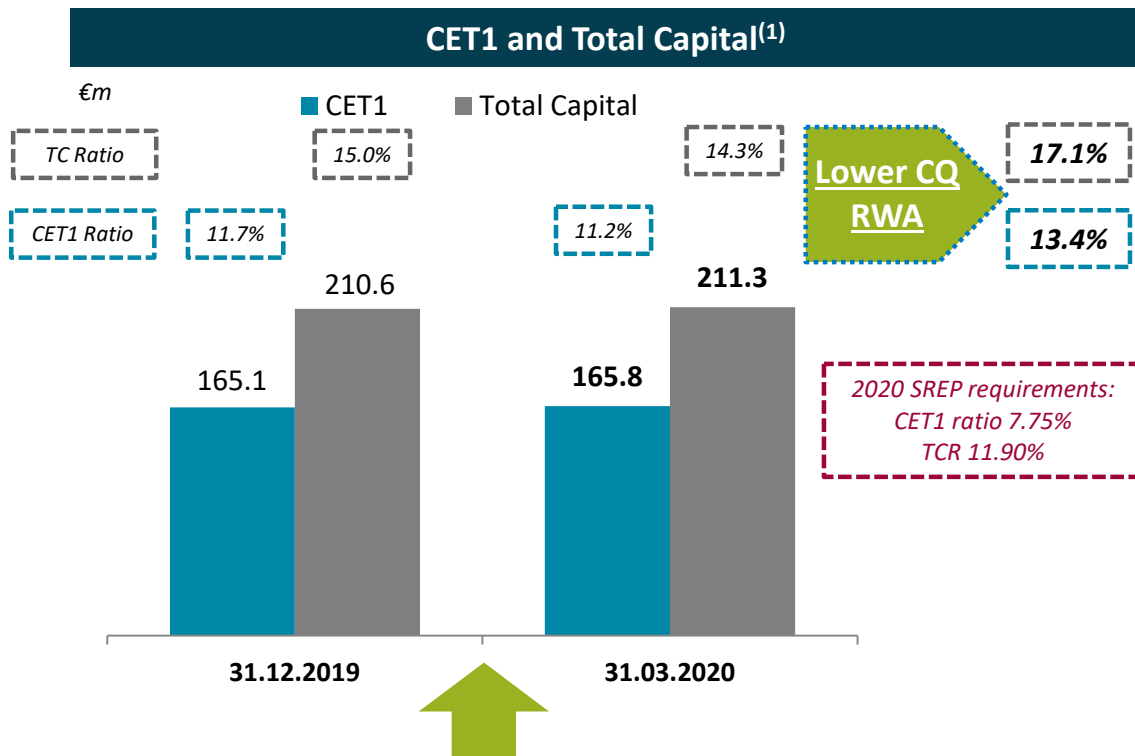
Gross Bad loans breakdown



- Gross Non Performing Exposures up q/q
- Net Bad Loans represents 1.1% of total loans lower q/q
- Unlikely to Pay and Past-dues 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
- 1Q 2020 Cost of credit risk at 28bps (36bps FY 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:

1. (+) €4.6m Net Income
2. (-) 'Held to Collect and Sell' reserve from Govies' ptf, +€2.5m vs 31.12.2019
3. (-) higher RWA, mainly due to CQ growth

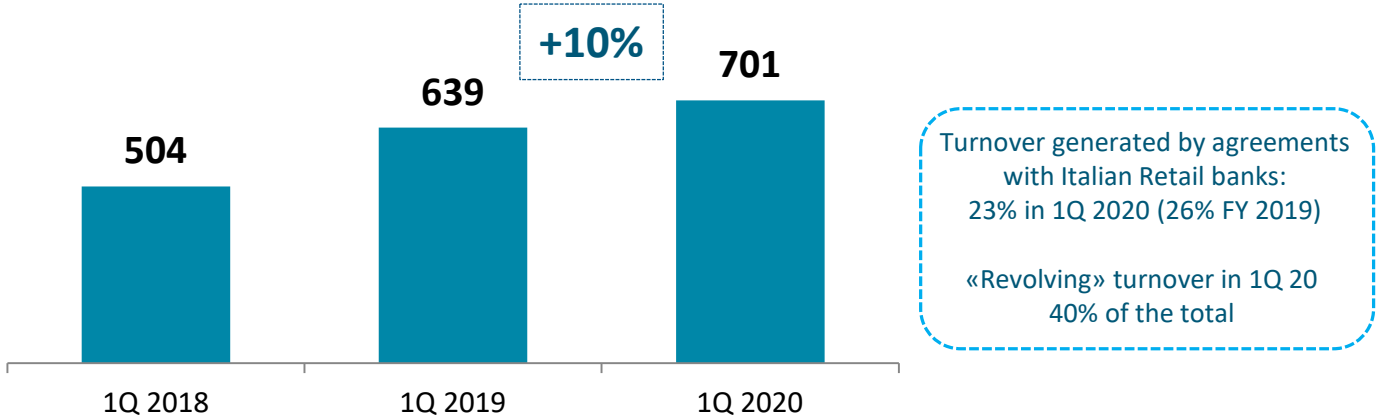
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk 0 as at 31.12.2019.

Annexes

Factoring Turnover

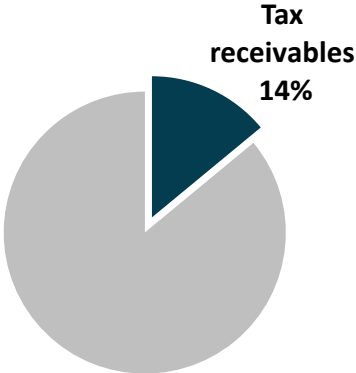
Factoring Turnover

€m

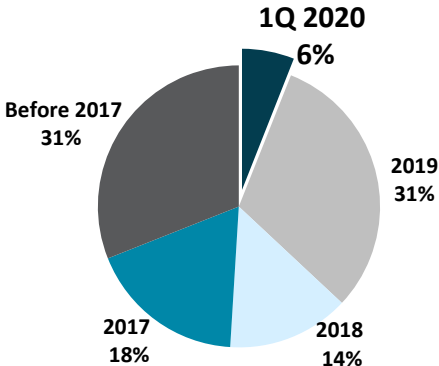


1Q 2020 Factoring Turnover breakdown

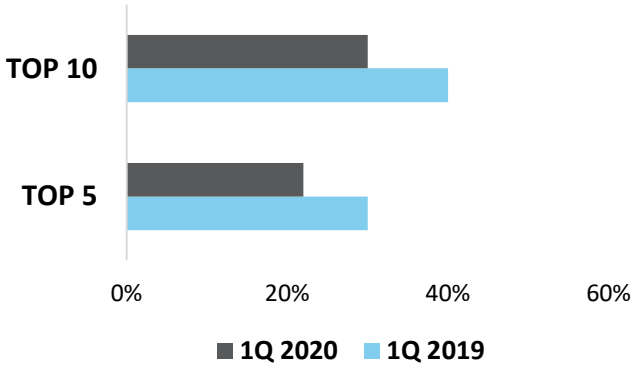
By Type



By Year of Customer's Acquisition



Customer Concentration



1Q 2020 – Income Statement

Figures in millions of Euro

	1Q 2019	1Q 2020	1Q 20 vs 1Q 19 change in %
Interest income	21.6	22.4	3%
Interest expenses	(7.0)	(6.4)	-8%
Net interest income	14.7	15.9	9%
Commission income	5.1	6.0	17%
Commission expenses	(1.1)	(1.8)	62%
Net commission	4.0	4.2	5%
Net income from trading	0.3	(0.0)	nm
Net income from disposal/repurchase assets:	0.4	1.9	nm
a) measured at amortised cost	-	1.3	nm
b) measured at fair value through other comprehensive income	0.4	0.6	60%
Total income	19.3	22.0	14%
Net impairment losses on loans	(2.6)	(1.9)	-27%
Net operating income	16.7	20.1	20%
Personnel expenses	(4.9)	(5.7)	17%
Other expenses	(5.9)	(7.6)	29%
Operating expenses	(10.8)	(13.3)	23%
Pre-tax profit from continuing operations	5.9	6.8	15%
Taxes on income for the period/year from continuing operations	(2.0)	(2.2)	12%
Profit after tax from discontinued operations	0.6	-	nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	4.5	4.6	2%

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BANCA

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SPECIALTY FINANCE

Carlo Di Pierro

Head of Investor Relations

carlo.dipierro@bancasistema.it

+39 02 80280358

+39 3355288794