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**BANCA**

**S I S T E M A**  
SPECIALTY FINANCE

# 9M 2020 RESULTS

30 October 2020

# 9M 2020 Results at a Glance

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## Commercial performance

- **Factoring Turnover** +4% y/y equal to €2,183m, +10% 3Q 20 vs 3Q 19
- **CQS/CQP outstanding** reached €931m, +21% y/y
- **Gold/ jewelry backed loans outstanding reached €75m**, from €13m as at 30.06.2020 following the acquisition of the business unit from ISP

## P&L

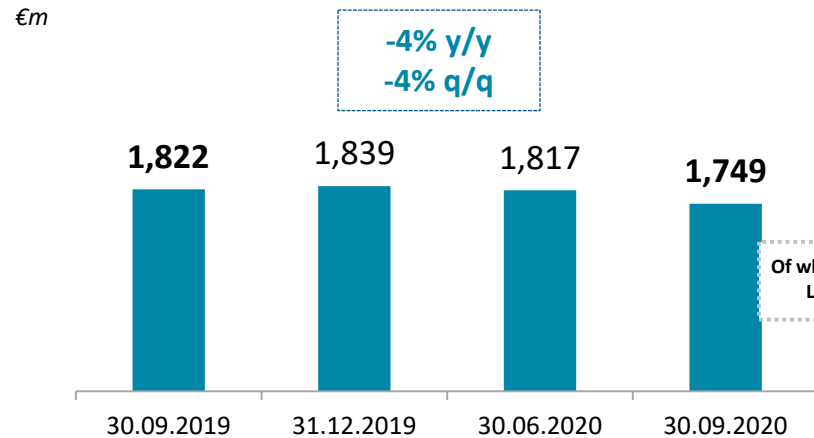
- **Net Interest Income** equal to €52.8m, **-10% y/y**
- **Lower funding cost y/y at 0.6%**
- **Total Income** equal to €72.1m, **almost stable y/y**
- **Cost of risk equal to 36bps**; €7.2m LLPs up y/y in line with expectations
- **Total operating costs y/y increase** is mainly due to a higher contribution to the SRF, one more quarter of Atlantide consolidation in 2020 and non-recurring costs for the acquisition in Gold/ jewelry backed loans
- **Net income** equal to €19.5m, **down y/y**, mainly due to lower LPIs contribution

## Balance Sheet

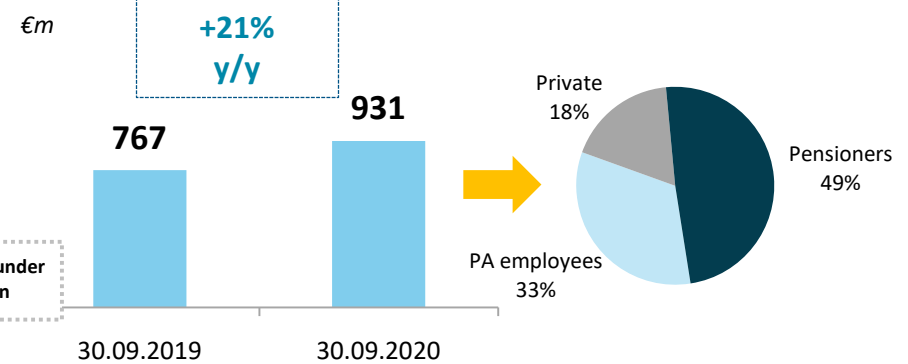
- **Wholesale funding up y/y and down q/q** (46% of Total Funds): BCE funding higher y/y and stable q/q at €690m, of which TLTRO III equal to €491m. **Retail funding up q/q** driven by higher term deposit
- **CET1 ratio at 12.0% and TC ratio at 15.4%**

# Commercial performance

## Factoring outstanding



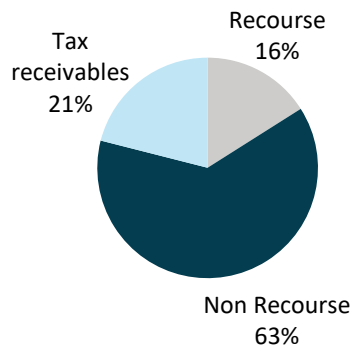
## CQ loans outstanding



- €230m turnover in 9M 2020 (€186m in 9M 2019)
- 11% direct origination through agents/brokers

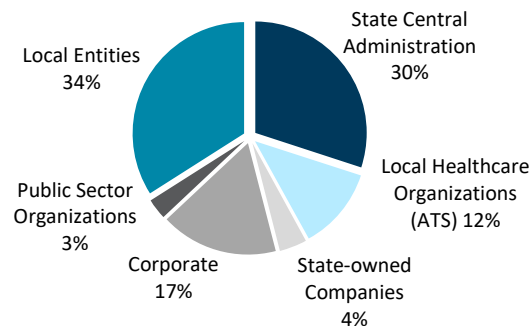
## Outstanding breakdown (30.09.2020)

### By Type of Product

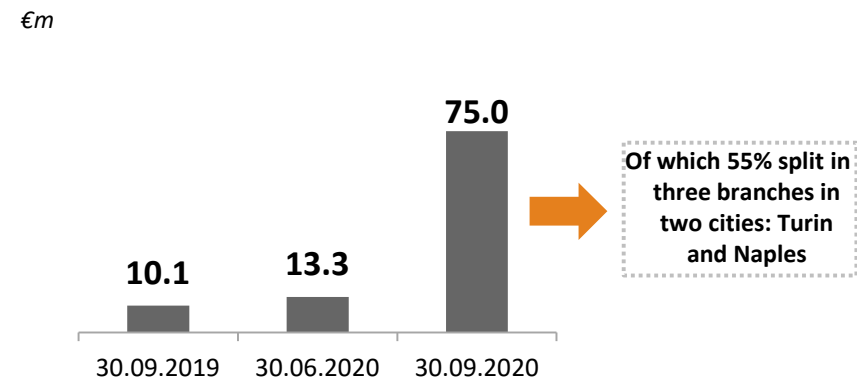


### By Obligor

#### PA accounts for 83%



## Gold/ jewelry backed loans outstanding



- Total turnover (including renewals): €38.7m
- 3Q figures, historically, leverage on less auctions than other quaters
- Integration of the business unit completed

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.

# 9M 2020 – Balance Sheet

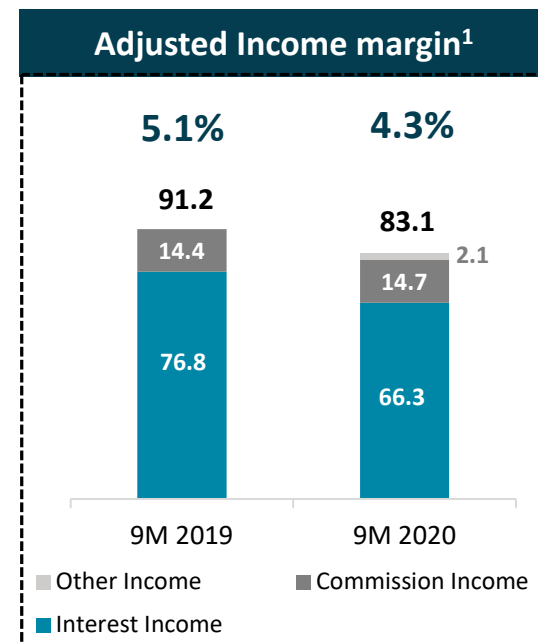
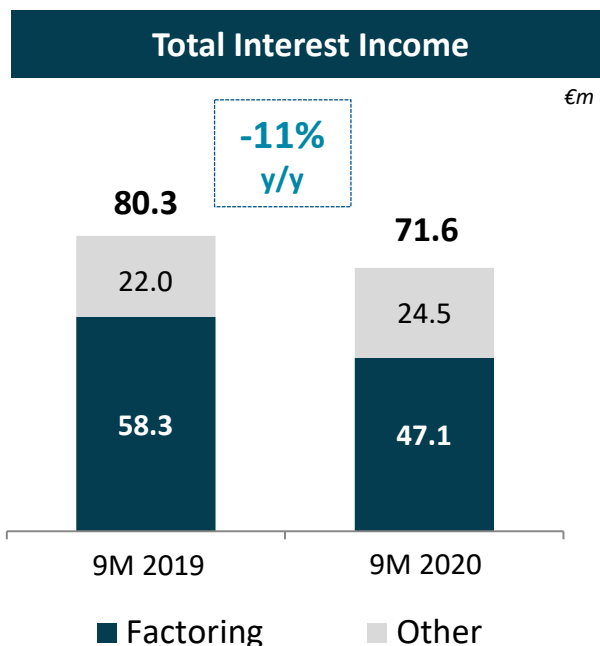
Figures in millions of Euro

|  | 31.12.2019   | 30.06.2020   | 30.09.2020   | Change in %<br>30.09.2020 vs<br>31.12.2019 |
|--|--------------|--------------|--------------|--|
| <b>ASSETS</b>  |              |              |              |  |
| Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell] | 556          | 754          | 549          | -1%  |
| <b>Loans at amortized cost</b>   | <b>2,677</b> | <b>2,673</b> | <b>2,793</b> | <b>4%</b>                                  |
| <i>Factoring</i>   | <i>1,715</i> | <i>1,638</i> | <i>1,589</i> | <i>-7%</i>                                 |
| <i>CQ</i>  | <i>817</i>   | <i>891</i>   | <i>931</i>   | <i>14%</i>                                 |
| <i>Gold/Jewelry backed loans</i>   | <i>12</i>    | <i>13</i>    | <i>75</i>    | <i>nm</i>                                  |
| <i>SMEs State Guaranteed loans</i>   | <i>12</i>    | <i>16</i>    | <i>54</i>    | <i>nm</i>                                  |
| <i>Other</i>   | <i>121</i>   | <i>115</i>   | <i>144</i>   | <i>19%</i>                                 |
| Securities at amortized cost [Held to Collect]   | 435          | 447          | 448          | 3%   |
| Tangible and Intangible assets   | 33           | 33           | 66           | nm   |
| <i>Goodwill</i>  | <i>4</i>     | <i>4</i>     | <i>34</i>    | <i>nm</i>                                  |
| Other assets   | 29           | 26           | 32           | 10%  |
| <b>Total assets</b>  | <b>3,730</b> | <b>3,933</b> | <b>3,888</b> | <b>4%</b>                                  |
| <b>LIABILITIES AND EQUITY</b>  |              |              |              |  |
| <b>Due to banks</b>  | <b>388</b>   | <b>754</b>   | <b>839</b>   | <b>116%</b>                                |
| <i>of which ECB exposure</i>   | <i>358</i>   | <i>691</i>   | <i>690</i>   | <i>93%</i>                                 |
| <b>Due to customers</b>  | <b>2,552</b> | <b>2,317</b> | <b>2,226</b> | <b>-13%</b>                                |
| <i>of which term deposits</i>  | <i>1,326</i> | <i>1,006</i> | <i>1,131</i> | <i>-15%</i>                                |
| <i>of which current accounts</i>   | <i>682</i>   | <i>700</i>   | <i>689</i>   | <i>1%</i>                                  |
| Debt securities issued   | 477          | 522          | 424          | -11%                                       |
| Other liabilities  | 136          | 149          | 199          | 46%  |
| Shareholders Equity  | 177          | 191          | 200          | 13%  |
| <b>Total liabilities and equity</b>  | <b>3,730</b> | <b>3,933</b> | <b>3,888</b> | <b>4%</b>                                  |

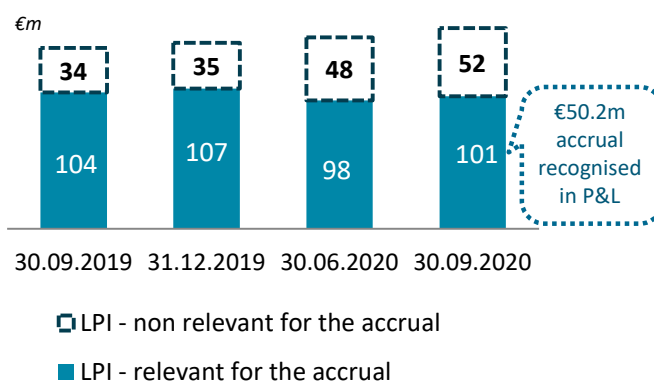
- **Govies' portfolio (€991m) down q/q**, with an average duration of 16.3 months, it includes €544m 'Held to Collect and Sell', with an average duration of 17.9 months
- **Loans at amortized cost up q/q (€2,793m)** and up vs. 2019 year-end:
  - **Factoring receivables** down 7% at €1.6bn (€1.7bn as at 31.12.2019)
  - **CQ loans up q/q** and up vs 2019 year-end
  - **"Gold/jewelry" up q/q** following the acquisition of the business unit
- **Goodwill** increase q/q is driven by the acquisition
- **Due to banks** q/q increase is driven by a bank financing related to the acquisition mentioned above. ECB funding stable at €690m (of which €491m TLTRO III)
- **Due to customers decrease q/q** is mainly driven by the decrease of Repo as a consequence of Govie's ptf reduction that has more than compensated q/q increase of term deposits, in particular the foreign component
- **Debt securities** decrease q/q is due to CQ Securitization

# Interest income mainly driven by factoring revenues

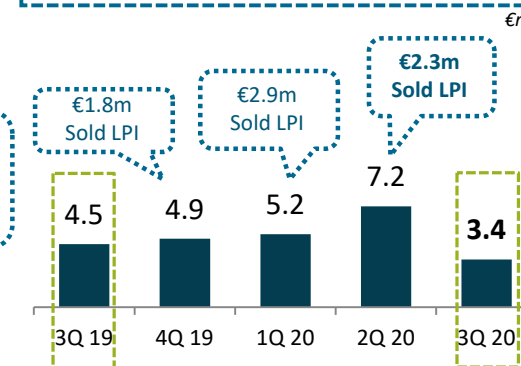
- **9M 2020 Interest Income is down 11% y/y, drop is driven mainly by lower contribution of Factoring in 2Q and 3Q**
- Factoring represents 66% of Total Interest Income (73% in 9M 2019)
- Lower contribution y/y by **factoring LPIs from legal action** (34% of the factoring Interest Income; it was 36% FY 2019), in 9M 2020 equal to €16.1m (€24.3m in 9M 2019):
  - of which €1.0m related to the change of accrual rates, following the update of the collection rates (€4.8m in 9M 2019)
  - of which accrual €7.4m (€11.0m in 9M 2019)
  - of which “extra collection” €7.7m (€8.5m in 9M 2019)
- Factoring lower contribution to the Interest Income was driven also by “non-LPI” component, although it has to be considered together with the revenues from the sale of ptf (€2.1m in 9M 20; 0 in 9M 19)
- 3Q contribution of the business unit purchased in gold/jewelry backed loans business is €1.1m (out of €1.9m overall contribution of the business in 9M 2020)
- **Adjusted Income margin down y/y, driven by factoring and also CQ (stable vs 1H 2020)**



**Due LPI Stock – Assets in legal action**



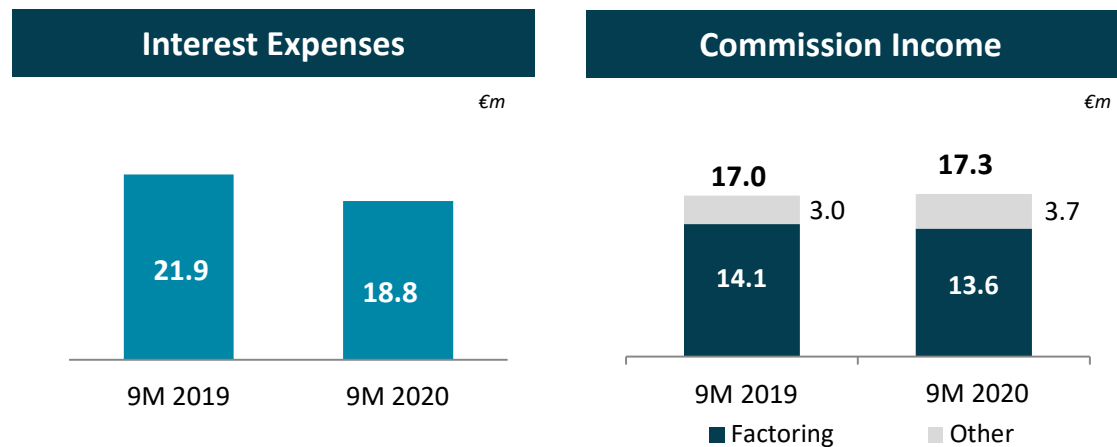
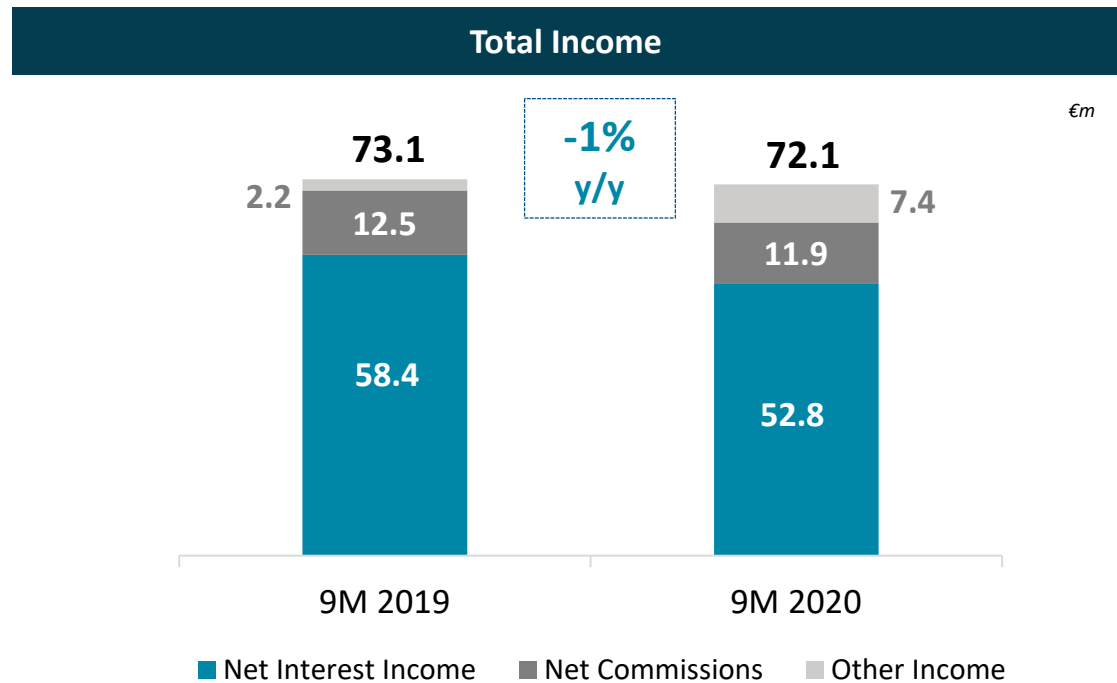
**Total collected cashed-in LPI**



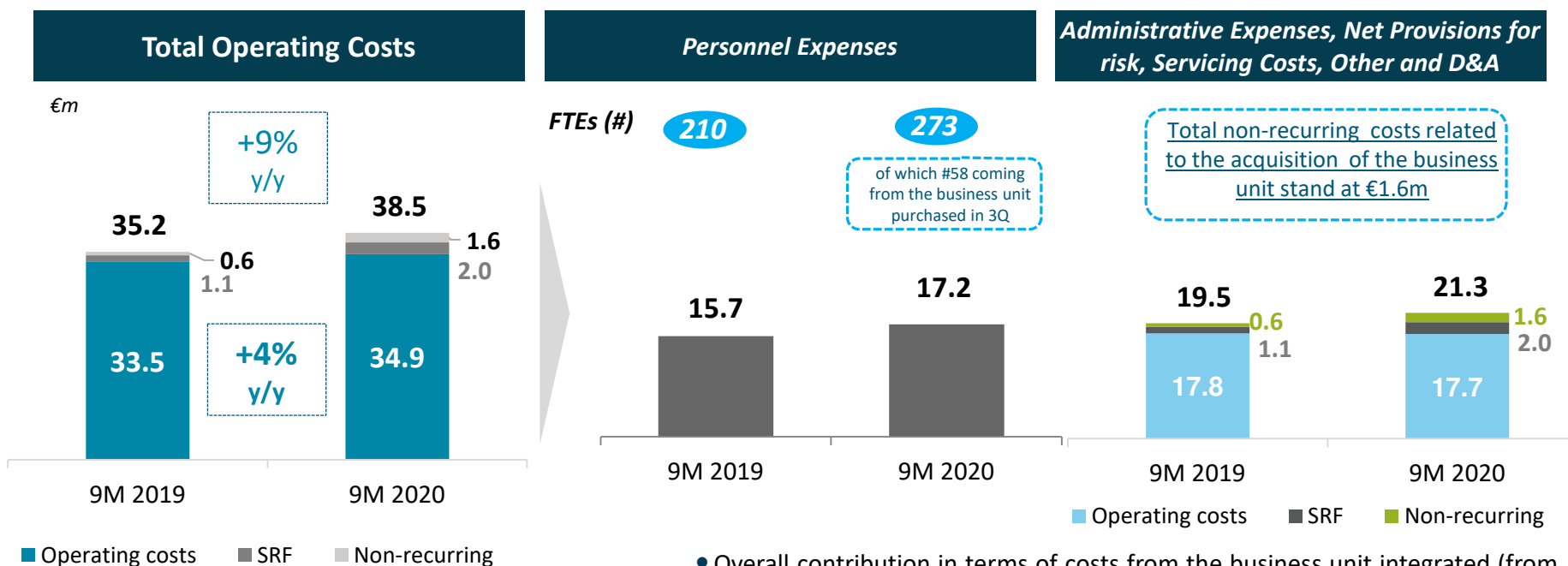
Note: (1) Calculated as  $[\text{Period Interest Income} + \text{Commission Income}] / [\text{Average end of period net customer loans}]$  - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

# Total Income roughly stable y/y

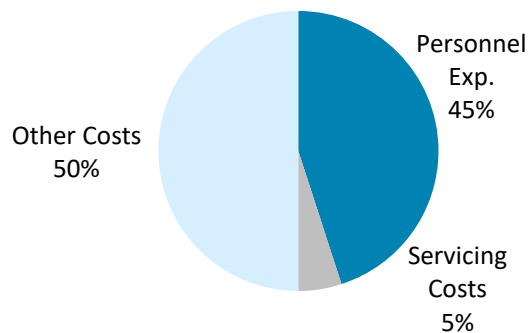
- **1H 2020 Total Income** roughly stable with **-1% y/y**, thanks to the contribution of **Other Income** (Treasury activity and Sale of factoring ptf)
- **NII 10% y/y decrease** is driven by **Interest Income decrease**. Total Cost of funding (0.8% in 2019) is lower y/y, equal to 0.6%, thanks to a good balance between diversification of the funding sources and duration
- **Net Commissions lower y/y**. Commission Income slightly lower y/y, as consequence of lower origination of factoring commission products. Since Q2 2019, commission income and expenses include CQ component from direct origination
- **Gold/jewelry backed loans contribution to Total Income in 9M 2020: €3.0m (€1.6m from the business unit purchased in 3Q)**
- **Other Income** includes €2.1m gain from the sale of a factoring ptf in 9M 2020 (€0.5 in 3Q 2020)
- Higher contribution of the **Govies' portfolio, €8.6m (€4.6m in 9M 2019)** of which €3.6m to the NII (€2.7 in 9M 2019) and €5.0m to Other Income (€1.9m in 9M 2019)



# Costs up due to higher SRF and non-recurring items



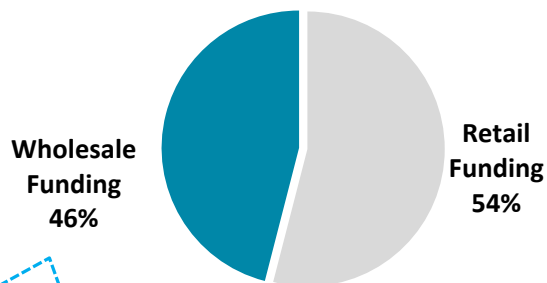
## Operating Costs Breakdown



- Overall contribution in terms of costs from the business unit integrated (from 13.07.2020) in 3Q 2020 was €2.7m (on top of the integration non-recurring costs already registered in 2Q 2020 for €0.3m) of which:
  - €1m to Personnel Expenses
  - €1.7m Others expenses, includes €1m of the one-off registration tax on Goodwill and €0.3m of non-recurring costs for the integration of the business unit
- Atlantide quarterly contribution to the cost base since Q2 2019 is around €0.6m per quarter. In 9M 2019, we have registered €0.6m non-recurring integration costs for Atlantide merger
- Other expenses item has been impacted by the contribution to the Single Resolution Fund (SRF) for +€0.9m y/y (€2.0m contribution in 9M 2020)

# Lower funding cost y/y

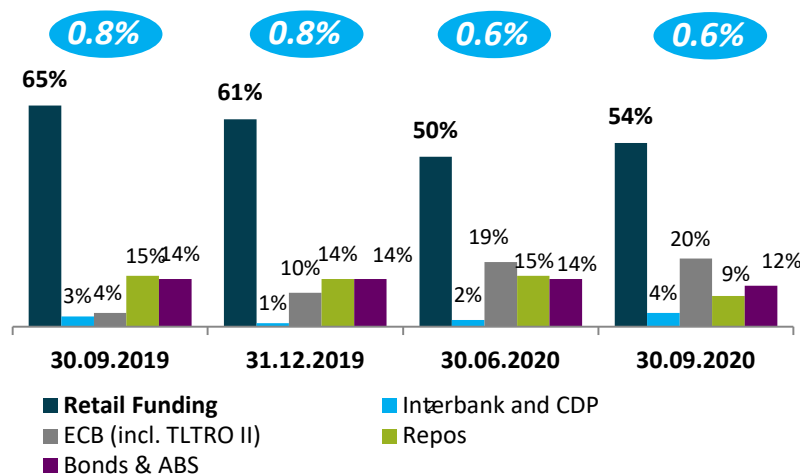
## Total Funding breakdown



This component includes Repos related to Govies' ptf

## Total Funding breakdown

### Funding Cost

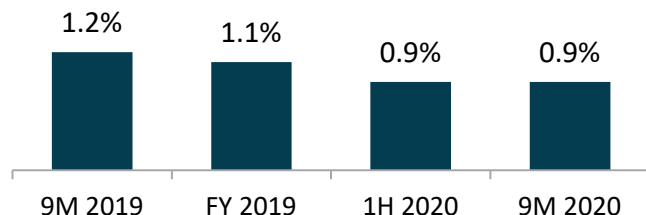


- Cost of funding lower y/y and stable q/q

- Wholesale component decrease q/q lower is due to the reduction of the Govie's ptf. ECB funding equal to €690m, of which €491m TLTRO III (max TLTRO III allowance €491m), is stable q/q

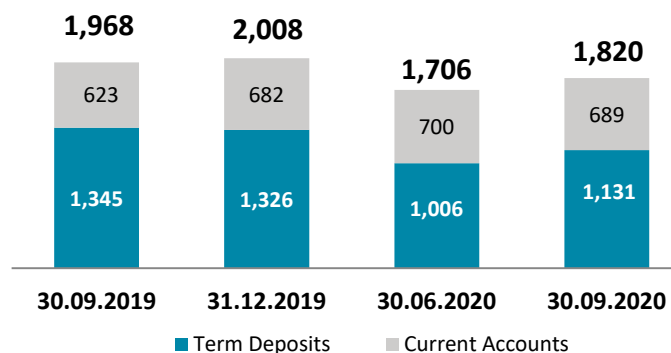
- Retail Funding up q/q, due to Term Deposits stock (in particular the foreign component)

## Retail Funding Cost



## Retail Funding

€m



Average residual maturity of deposits is c.13 months

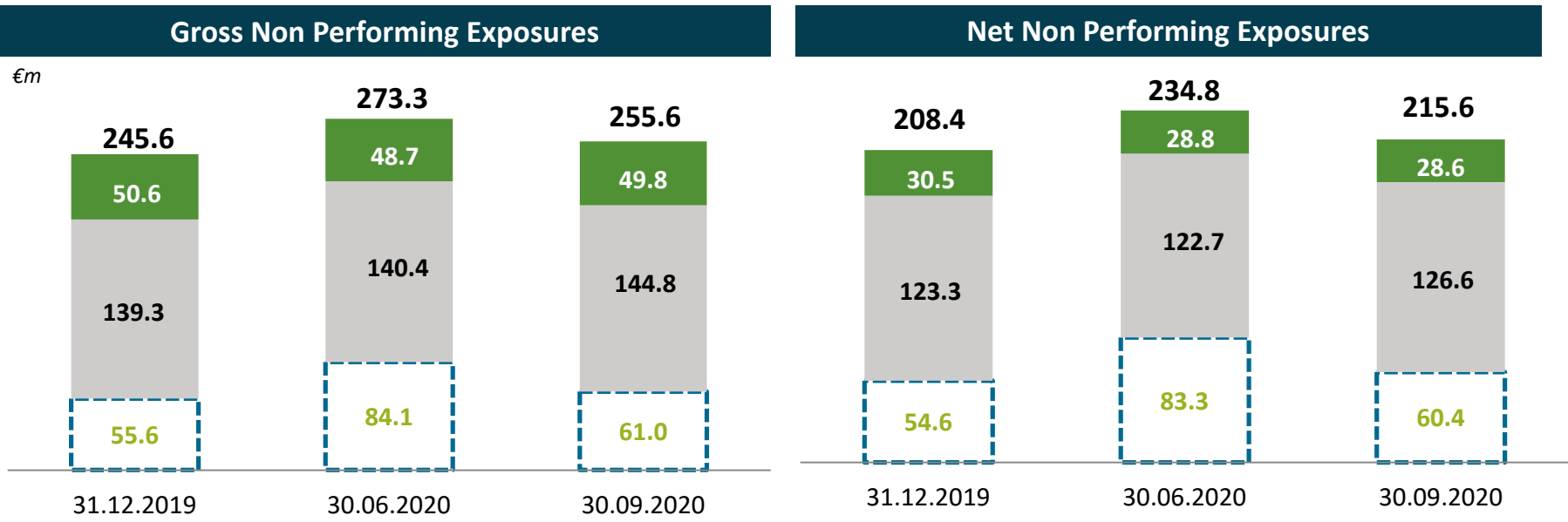
- Interbanking up q/q due to the financing related to the acquisition of the gold/jewelry backed loan business unit

- No replacement in 4Q 2020 of the €175m Wholesale Senior bond repaid in October

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

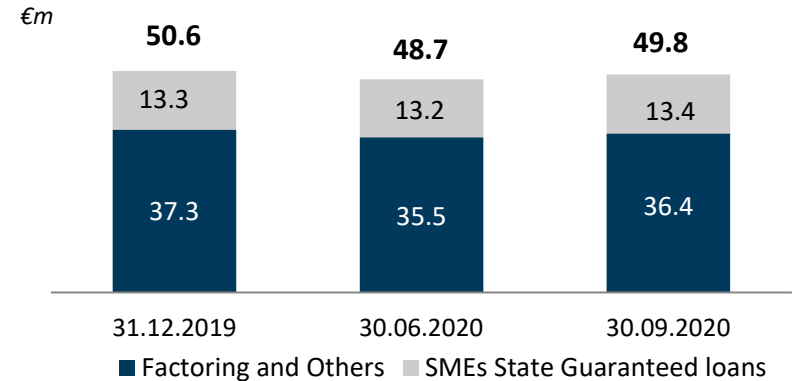


# Asset Quality driven by factoring business



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

## Gross Bad loans breakdown

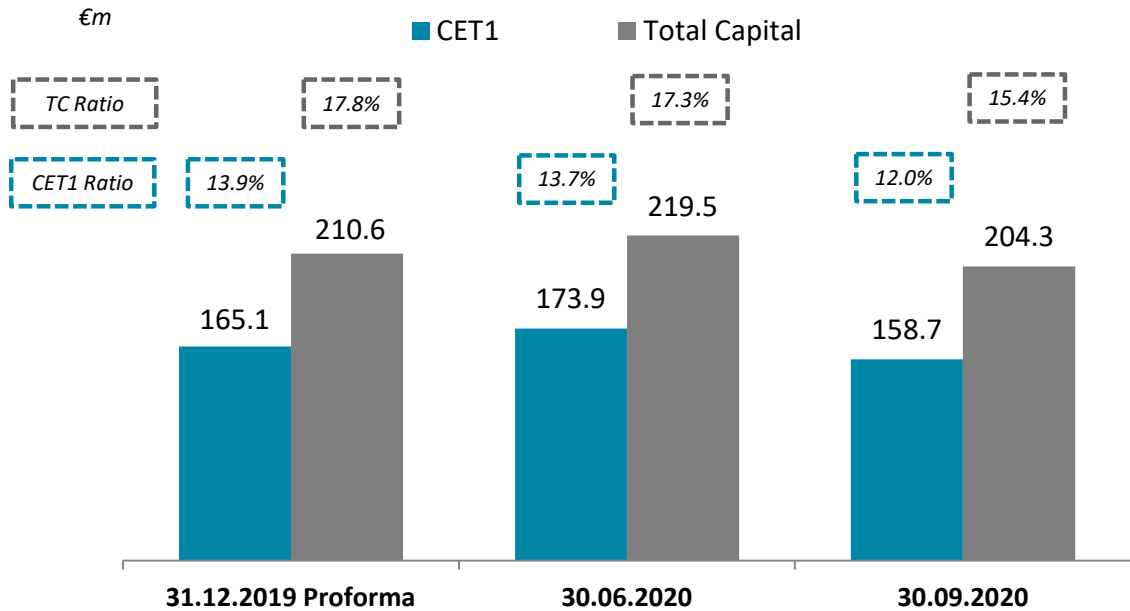


- Gross Non Performing Exposures down q/q due to Past-dues trend
- Net Bad Loans represents 1.1% of total loans stable q/q
- Past-dues decrease is due to factoring to PA exposures
- 9M 20 Cost of credit risk at 36bps (36bps FY 2019). Part of the LLPs in 3Q 2020 (same as 2Q 2020) are consequence of the update of the models for the provision on the performing loans, due to the worsening of the macroeconomic context caused by the ongoing health emergency (Covid-19)

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

## CET1 and Total Capital<sup>(1)</sup>

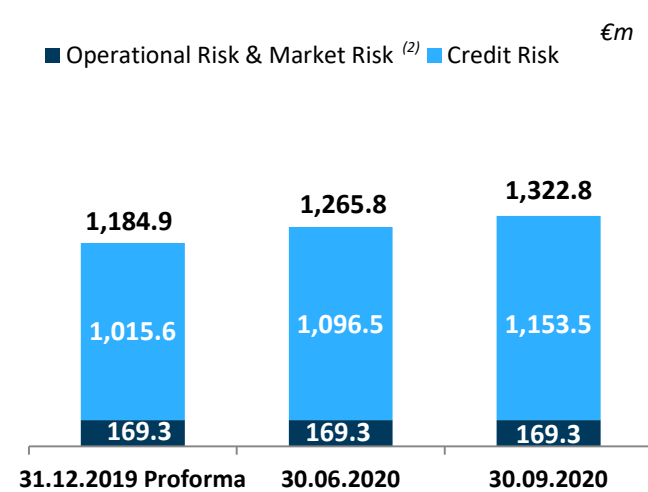


2020 SREP requirements:  
 CET1 ratio 7.75%  
 TCR 11.90%

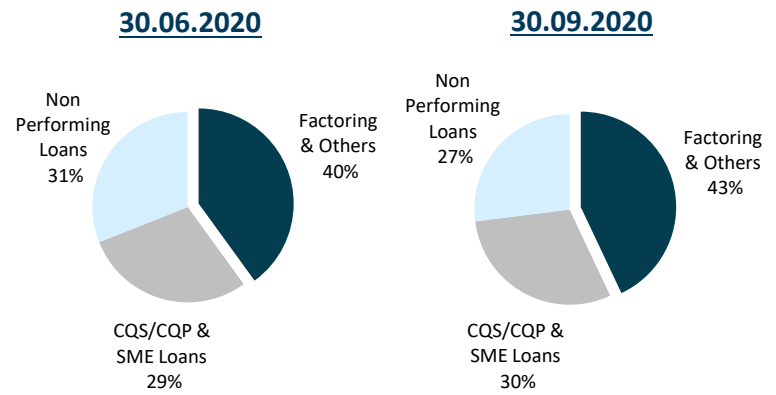
Proforma RWA, as at 31.12.2019, for the reduction of the risk capital weighting (RWA) for CQ loans from 75% to 35%

Lower CET 1/TC in 3Q 2020 for the acquisition of the gold/jewelry backed loans business unit

## RWA breakdown



## RWA – Credit Risk



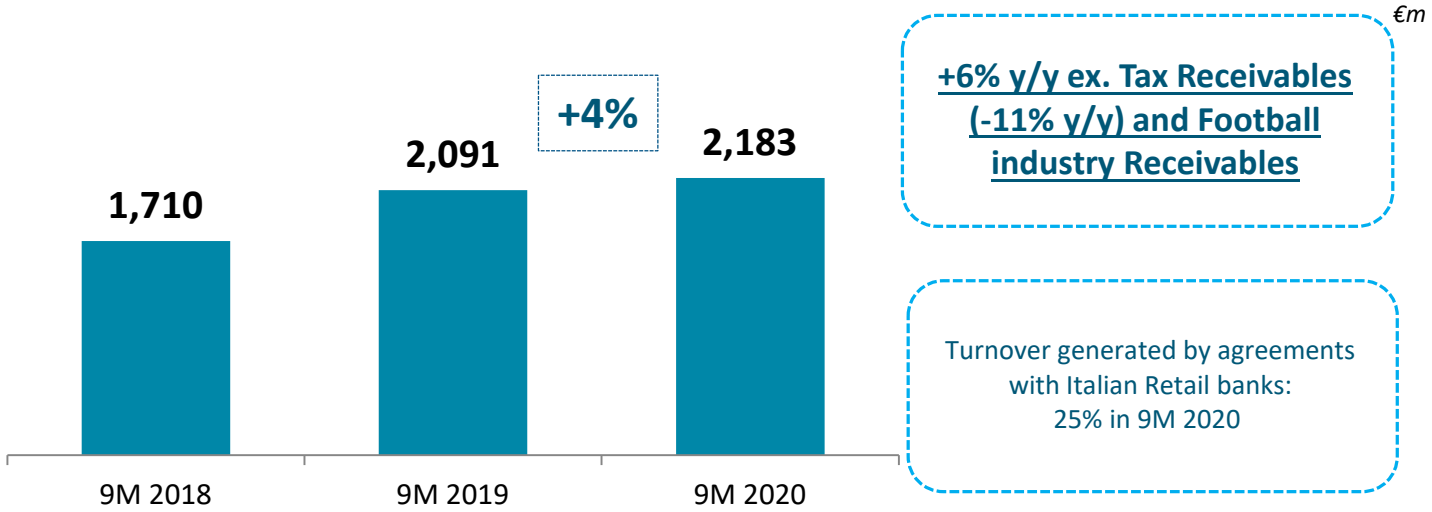
Note: (1) CET1, Tier1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk ~0 as at 31.12.2019 and 30.06.2020.

## **Annexes**

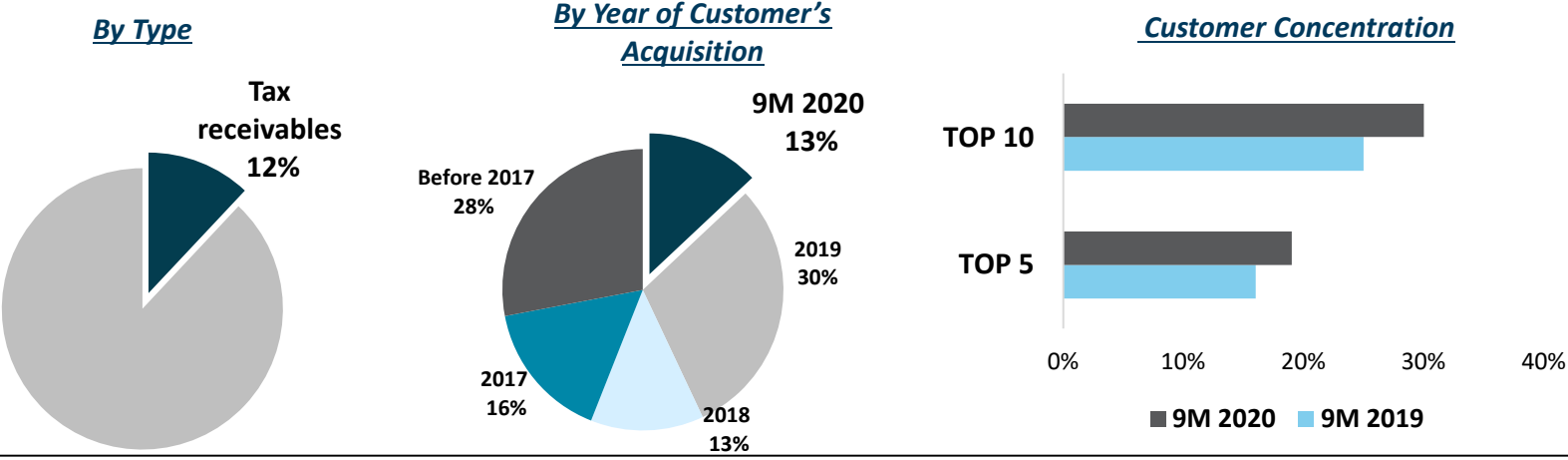
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# Factoring Turnover

## Factoring Turnover



## 9M 2020 Factoring Turnover breakdown



# 9M 2020 – Income Statement

Figures in millions of Euro

|   | 9M 2019       | 1Q 2019       | 2Q 2019       | 3Q 2019       | 9M 2020       | 1Q 2020       | 2Q 2020       | 3Q 2020       | 9M 20 vs<br>9M 19<br>change in<br>% |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------------------------|
| Interest income   | 80.3          | 21.6          | 27.0          | 31.7          | 71.6          | 22.4          | 23.5          | 25.7          | -11%                                |
| Interest expenses   | (21.9)        | (7.0)         | (7.1)         | (7.8)         | (18.8)        | (6.4)         | (6.1)         | (6.3)         | -14%                                |
| <b>Net interest income</b>  | <b>58.4</b>   | <b>14.7</b>   | <b>19.8</b>   | <b>23.9</b>   | <b>52.8</b>   | <b>15.9</b>   | <b>17.4</b>   | <b>19.5</b>   | <b>-10%</b>                         |
| Commission income   | 17.0          | 5.1           | 5.9           | 6.0           | 17.3          | 6.0           | 5.7           | 5.6           | 2%                                  |
| Commission expenses   | (4.5)         | (1.1)         | (1.7)         | (1.7)         | (5.3)         | (1.8)         | (1.8)         | (1.7)         | 20%                                 |
| <b>Net commission</b>   | <b>12.5</b>   | <b>4.0</b>    | <b>4.2</b>    | <b>4.3</b>    | <b>11.9</b>   | <b>4.2</b>    | <b>3.9</b>    | <b>3.8</b>    | <b>-5%</b>                          |
| Dividends and similar income  | 0.2           | -             | 0.2           | -             | 0.2           | -             | 0.2           | -             | nm                                  |
| Net income from trading   | 0.2           | 0.3           | (0.1)         | -             | 0.0           | -             | 0.1           | (0.0)         | nm                                  |
| Net income from disposal/repurchase assets:   | 1.7           | 0.4           | 0.6           | 0.7           | 7.1           | 1.9           | 2.3           | 2.9           | nm                                  |
| a) measured at amortised cost   | -             | -             | -             | -             | 2.5           | 1.3           | 0.6           | 0.6           | nm                                  |
| b) measured at fair value through other comprehensive income                            | 1.7           | 0.4           | 0.6           | 0.7           | 4.6           | 0.6           | 1.7           | 2.3           | nm                                  |
| <b>Total income</b>   | <b>73.1</b>   | <b>19.3</b>   | <b>24.8</b>   | <b>29.0</b>   | <b>72.1</b>   | <b>22.0</b>   | <b>23.9</b>   | <b>26.2</b>   | <b>-1%</b>                          |
| Net impairment losses on loans  | (6.4)         | (2.6)         | (2.2)         | (1.6)         | (7.2)         | (1.9)         | (3.2)         | (2.1)         | 13%                                 |
| <b>Net operating income</b>   | <b>66.6</b>   | <b>16.7</b>   | <b>22.6</b>   | <b>27.3</b>   | <b>64.9</b>   | <b>20.1</b>   | <b>20.7</b>   | <b>24.1</b>   | <b>3%</b>                           |
| Personnel expenses  | (15.7)        | (4.9)         | (5.6)         | (5.2)         | (17.2)        | (5.7)         | (5.4)         | (6.1)         | 9%                                  |
| Other expenses  | (19.5)        | (5.9)         | (7.2)         | (6.4)         | (21.3)        | (7.6)         | (6.3)         | (7.4)         | 9%                                  |
| <b>Operating expenses</b>   | <b>(35.2)</b> | <b>(10.8)</b> | <b>(12.8)</b> | <b>(11.6)</b> | <b>(38.5)</b> | <b>(13.3)</b> | <b>(11.7)</b> | <b>(13.5)</b> | <b>9%</b>                           |
| Profits from investments disposal   | -             | -             | -             | -             | 1.1           | -             | 1.1           | -             | nm                                  |
| <b>Pre-tax profit from continuing operations</b>  | <b>31.4</b>   | <b>5.9</b>    | <b>9.9</b>    | <b>15.6</b>   | <b>27.5</b>   | <b>6.8</b>    | <b>10.1</b>   | <b>10.6</b>   | <b>-13%</b>                         |
| Taxes on income for the period/year from continuing operations                          | (10.5)        | (2.0)         | (3.2)         | (5.3)         | (8.3)         | (2.2)         | (2.7)         | (3.4)         | -21%                                |
| Profit after tax from discontinued operations   | 0.6           | 0.6           | -             | -             | -             | -             | -             | -             | nm                                  |
| <b>Profit (loss) for the year/period</b>  | <b>21.4</b>   | <b>4.5</b>    | <b>6.7</b>    | <b>10.2</b>   | <b>19.2</b>   | <b>4.6</b>    | <b>7.4</b>    | <b>7.2</b>    | <b>-11%</b>                         |
| Minority interests  | -             | -             | -             | -             | 0.3           | -             | 0.1           | 0.2           | nm                                  |
| <b>Profit (loss) for the year/period attributable to the shareholders of the Parent</b> | <b>21.4</b>   | <b>4.5</b>    | <b>6.7</b>    | <b>10.2</b>   | <b>19.5</b>   | <b>4.6</b>    | <b>7.5</b>    | <b>7.4</b>    | <b>-9%</b>                          |

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# BANCA

S I S T E M A  
SPECIALTY FINANCE

## Carlo Di Piero

Head of Investor Relations

[carlo.dipierro@bancasistema.it](mailto:carlo.dipierro@bancasistema.it)

+39 02 80280358

+39 3355288794