BANCA
SISTEMA
SPECIALTY FINANCE

GROUP PROFILE

May 2020

Agenda

I. Overview of Banca Sistema

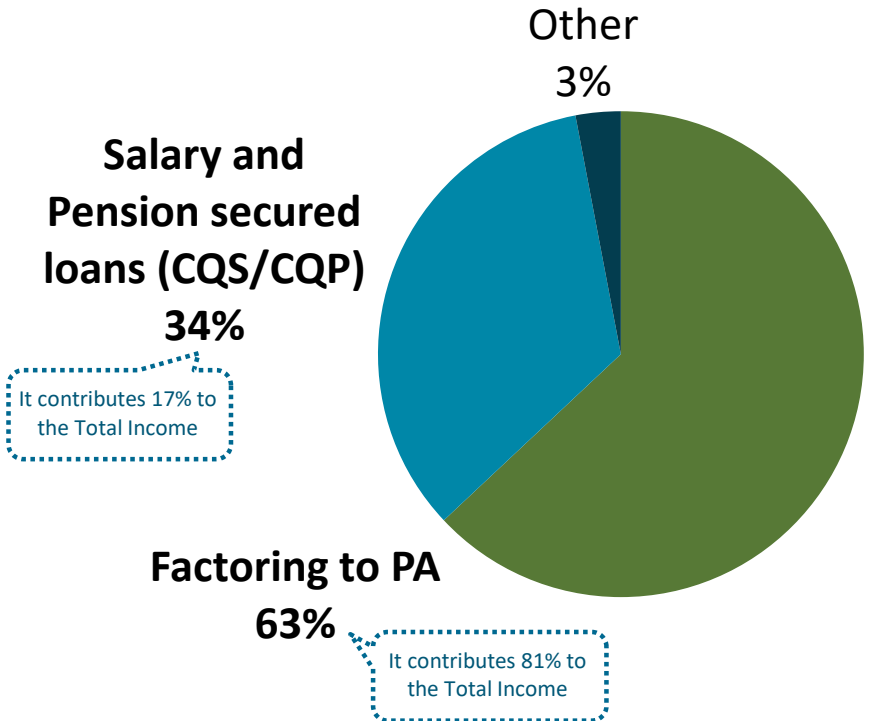
II. 1Q 2020 Results

Annexes

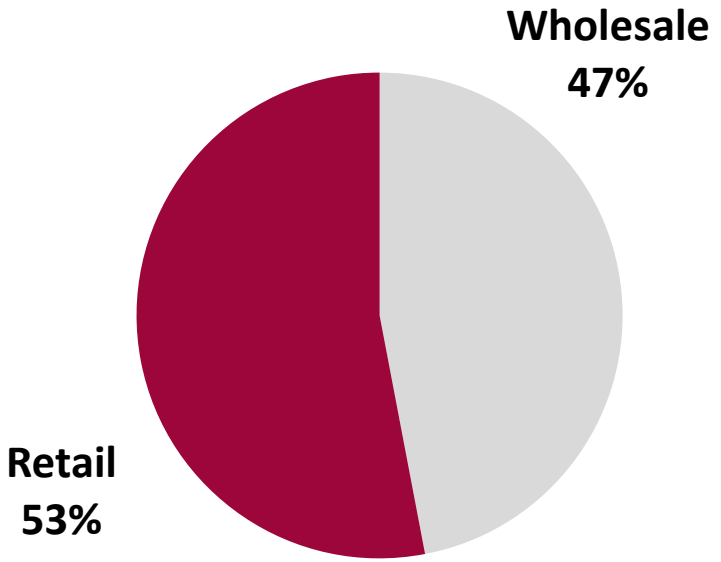
I. Overview of Banca Sistema

What we do

1Q 2020
Total customer loans[1]
€2,566m



1Q 2020
Total Funding
€3,439m

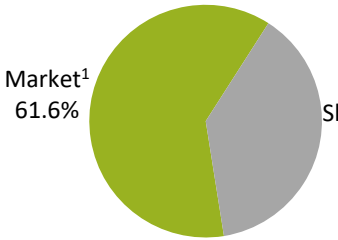


Note: 1. Total Customer loans represent the item of the Balance Sheet, "Assets at amortized cost", excluding the securities at amortized cost.

BANCA SISTEMA

Snapshot

Shareholders Structure



- *Shareholders' agreement between two banking Foundations ("Fondazioni") and SGBS (of which the relative majority shareholder is Mr. Garbi, CEO of Banca Sistema)*
- *Fondazione Sicilia (7.4%); Fondazione Cassa di Risparmio di Alessandria (7.9%); SGBS S.r.l. (23.1%)*
- *2 year lock up period (expiring in June 2020)*

Key strengths

- Strong analytical capabilities
- Favorable legal framework
- Business diversification
- Strong competitive position with opportunities to consolidate the leadership
- Low risk business with high returns
- Clear model to support an efficient execution of the strategy

The last 4 years….

Strong constant growth in factoring outstanding: €1,111m FY 15 vs €1,839m FY 19

Diversification strategy: CQ outstanding, €120m FY 15 vs €817m FY 19

Better diversified funding

Constant low cost of risk

11.2% CET1 1Q 2020 with minimum required for 2020 at 7.75%

25% Dividend pay-out in 2015-2019

Note: 1) 0.51% Garbifin Srl.

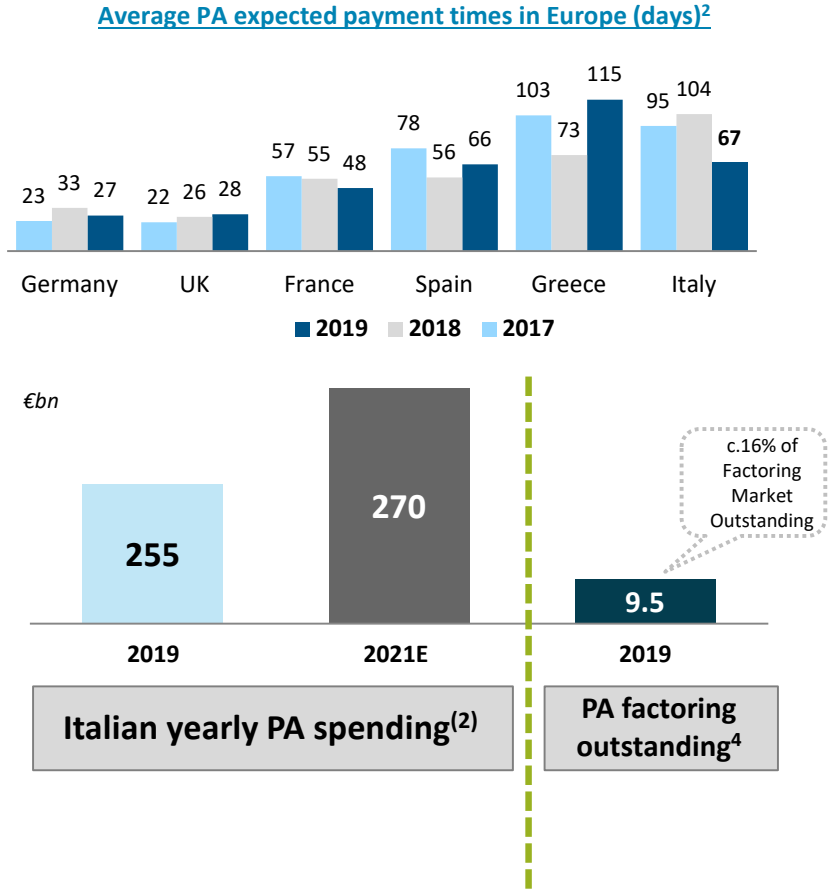
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Delay and PA spending are the drivers of this attractive Market

Italy is characterized by structurally high Public Administration payment times compared to other European countries

As at 31.12.2018 estimated Total Debt of Italian PA is c. €53bn[1]

As we operate with a focus on Public Administration receivables, our reference market is the Italian Public Spending, a large market with significant growth potential. As of 2019, Italy's annual PA spending amounts to c.€255bn and is expected to grow to c.€270bn by 2021[3]



Sources: 1. Bank of Italy, "Relazione annuale 2018", May 2019 2. Intrum Justitia, "European Payment Report 2019", May 2019; 3. MEF, "Documento di Economia e Finanze 2020 – Analisys and trends in public finance», April 2020. Including spending for goods and services and gross fixed capital formation; 4. Assifact.

Supporting corporate entities in their business dealings with PAs

PA Suppliers (Banca Sistema Clients)

Leading multinationals and corporates

Main Sectors:

- Utilities
- Healthcare
- Services
- Food
- Transport
- Entertainment

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PA Obligors

Local Entities (regions and municipalities)

Local Healthcare Organizations ("ASLs")

State Central Administrations

Other Entities of Public Interest

Italian Soccer League
Serie A

Non-recourse factoring	Recourse factoring	Tax receivables (Non-recourse and Recourse)	Debt Collection and Credit Management Services
1Q 2020 Turnover breakdown by product (€0.7bn, +10% y/y)	**74%** (+6% y/y)	**12%** (+2% y/y)	**14%** (+49% y/y)

Factoring business leverage on a well balanced network

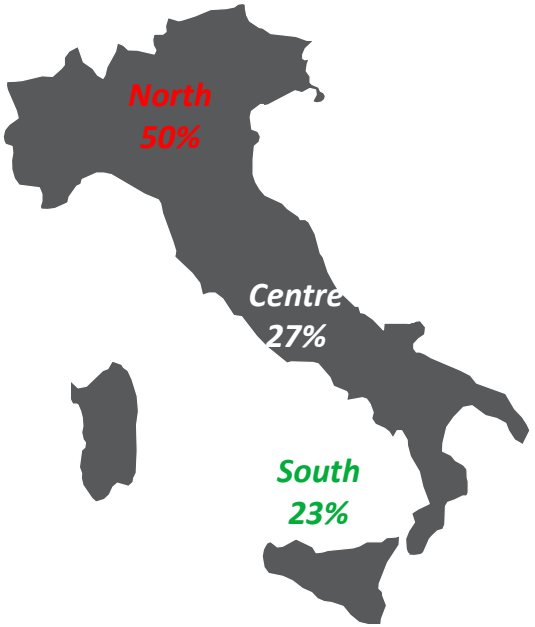
DIRECT CHANNEL

- **14 Origination resources**
- **8 Relationship Managers**



INDIRECT CHANNEL

18 commercial agreements to provide factoring products to third party banks in Italy, through **c. 1,500 branches**



1Q 2020 Turnover breakdown by channel (€0.7bn, +10% y/y)

77%

23%

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Factoring Business

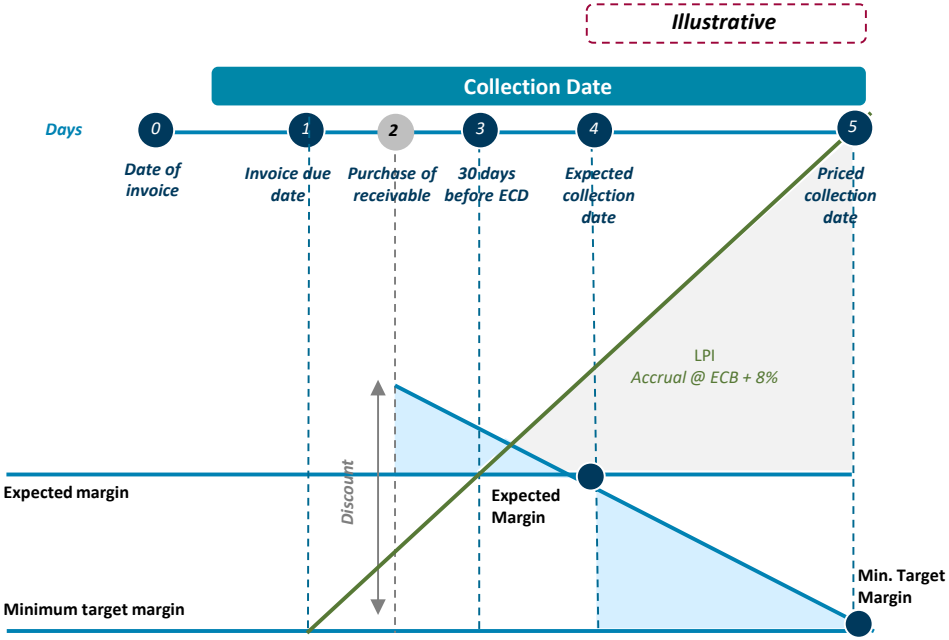
Overview of Key Dates for Pricing and Collection

Receivables Factoring - Key Dates

Days Sales Outstanding (DSO) of the receivable

0	Date of Invoice	• Date of original invoice
1	Invoice Due Date	• 30/60 days after invoice(1)
2	Purchase of receivable	• Start of ordinary collection activities
3	30 days before Expected Collection Date	• Start of accelerated collection activities
4	Expected Collection Date (ECD)	• Number of collection days estimated for each specific debtor based on company's proprietary tools, analysis and experience
5	Priced Collection Date (PCD, "DFS")	• **Estimated conservative date of payment on which the pricing to the client and underwriting is based**; estimated for each debtor based on company proprietary tools and analysis

Collection Dates and Contribution Margin Overview



Interest Margin – Illustrative

	Priced collection date	Discount to face value	Min. target gross yield
Client effective cost	11 months	5%	5.8%
	Payment Date (ECD)	**Months of anticipated collection**	**Actual gross yield**
Banca Sistema gross interest yield	7 months	4 months	9.0%

Late Payment Interests:

- Try to collect without starting a legal action till 30 days before ECD
- From the start of the legal action we rely on due LPI at: 8% + ECB *rate*

Note: 1. 60 days for healthcare related receivables.

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BST: Factoring outstanding

Our Key Strengths

Strong analytical capabilities

- **Disciplined underwriting process supported by accelerated collections** without relying on active LPI collection, up till 30 days before the ECD
- **Proprietary database** of payment times of Public Administration obligors, supporting **our underwriting capabilities and pricing models for individual invoices**

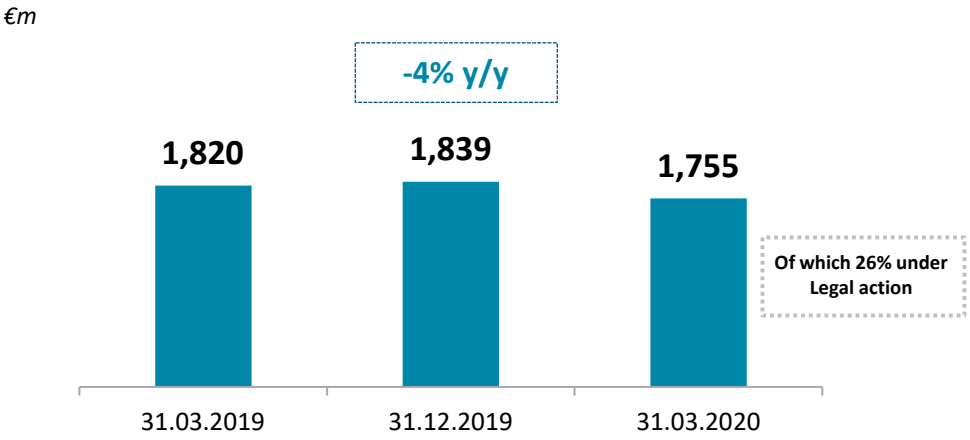
Compelling collection strategy with excellence in collections

- **The collection leverages** on the strong relationships with PAs and is focused on the **late payment interest ("LPI") when it is necessary**
- Strong performance due to **excellence in collection versus suppliers,** generating **high margins through accelerated recovery periods**
- Collection Department:
  - **Extrajudicial collection**: 13 headcount and 11 external field collectors
  - **Judicial collection**: 12 headcount and 23 Law firms

Low risk counterparty exposure

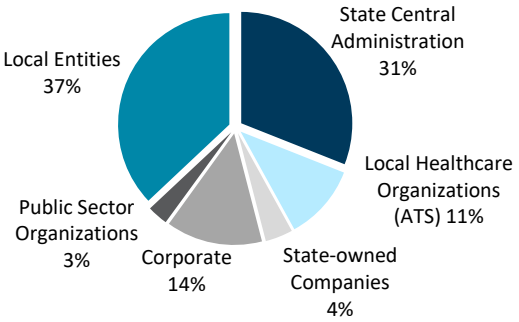
- **The majority of our credit exposure is towards the Italian Public Administration,** with **low risk underlying credit exposure** comparable to a **Government Bond**

Factoring outstanding



Outstanding breakdown by Obligor (31.03.2020)

PA accounts for 86%



Note: Factoring outstanding management account.

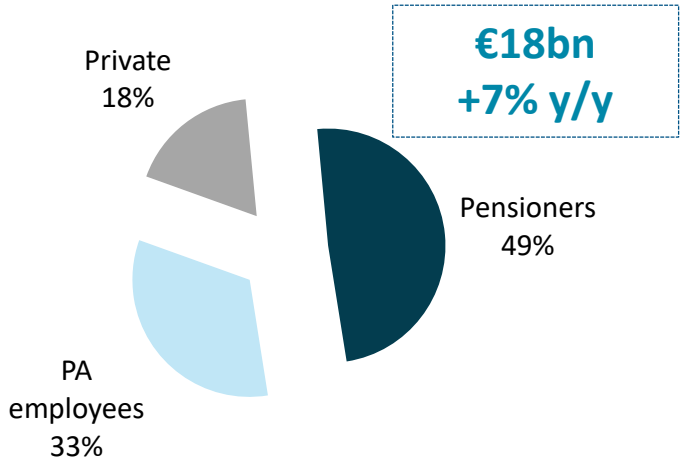
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Italian CQS/CQP market: Low risk Business

Key product items

- A product established by the law of the 1950s
- The borrower's loan is repaid directly from their salary/pension, by the employer/INPS (Italian pension institution)
- Monthly installment cannot exceed 1/5 of the salary/pension
- The loan takes precedence over any seizure of salary/pension amounts
- Insurance is mandatory by the law and covers in case of death, disability and loss of job
- CQS is partly collateralized by the TFR (compulsory retirement/severance plan)
- FY 2019, €6.2bn turnover and €19.4bn Outstanding(1)

Outstanding as at 31.12.2018[1]



Note: 1) Source: Assofin.

BST: CQS/CQP outstanding

Our Business model

Commercial capabilities

- Agreement with 5 originators
- Direct origination following the merger of Atlantide
- Lower exposure to the Private component the Market

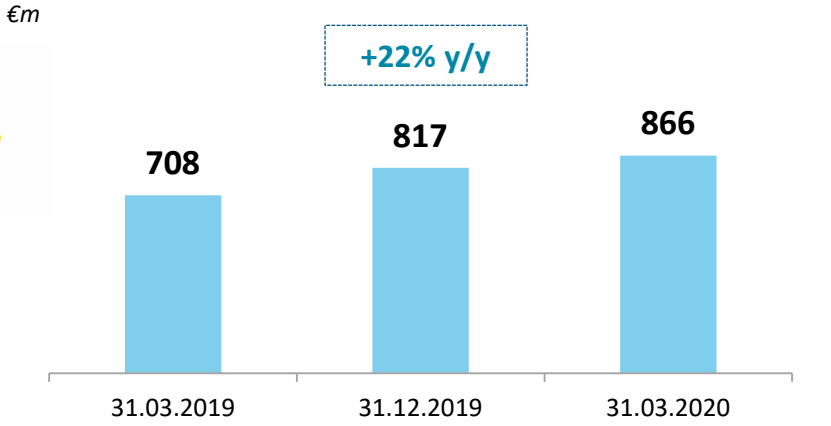
Dedicated funding

- A good portion of the assets is securitized, but consolidated in BST Balance Sheet
- Securitizations allow to get a cheaper funding through Repos (ECB and banks)

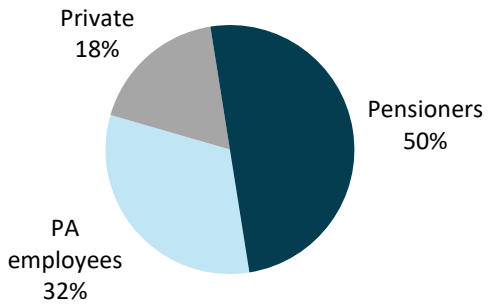
Low risk asset

- CQS/CQP historically have registered very low PD and almost 0% LGD also thanks to the insurance

CQS/CQP Loans outstanding



Outstanding breakdown by Type (31.03.2020)



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II. 1Q 2020 Results

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**

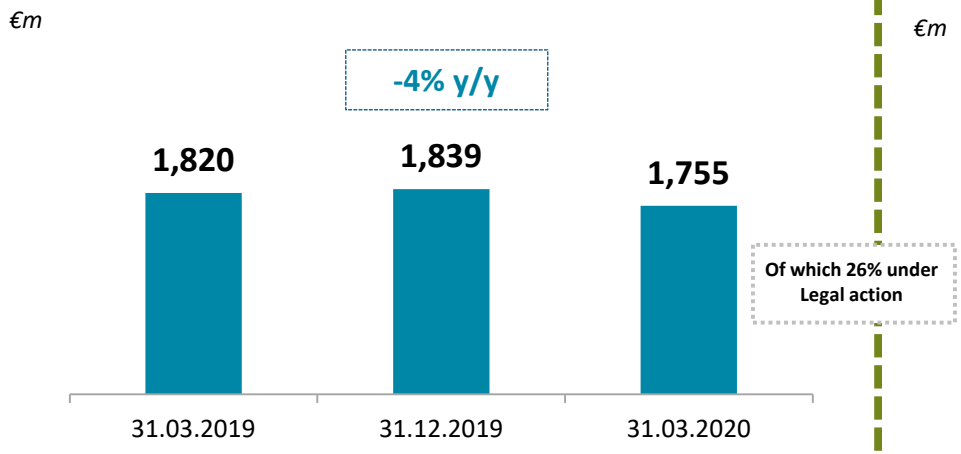
Balance Sheet

- **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%**

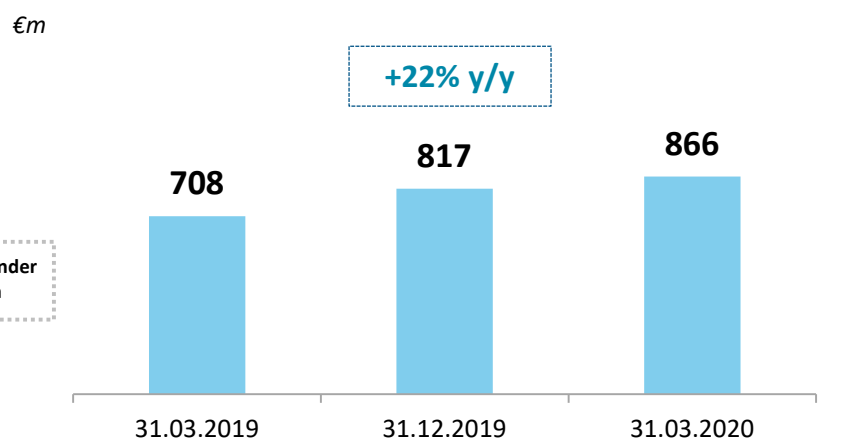
Note: CET 1 ratio pro-forma is based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to regulation 876/2019 to be applied before the 28 June 2021. The regulatory CET1 ratio on the same date came in at 11.2%.

Commercial performance

Factoring outstanding

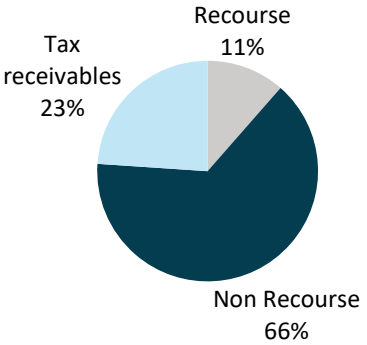


CQ Loans outstanding



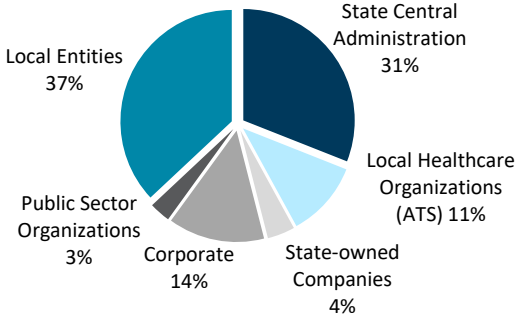
Outstanding breakdown (31.03.2020)

By Type of Product

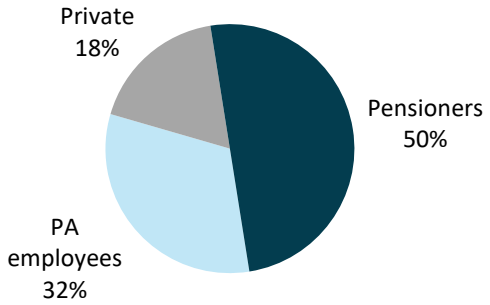


By Obligor

PA accounts for 86%



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.

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1Q 2020 – Balance Sheet

Figures in millions of Euro

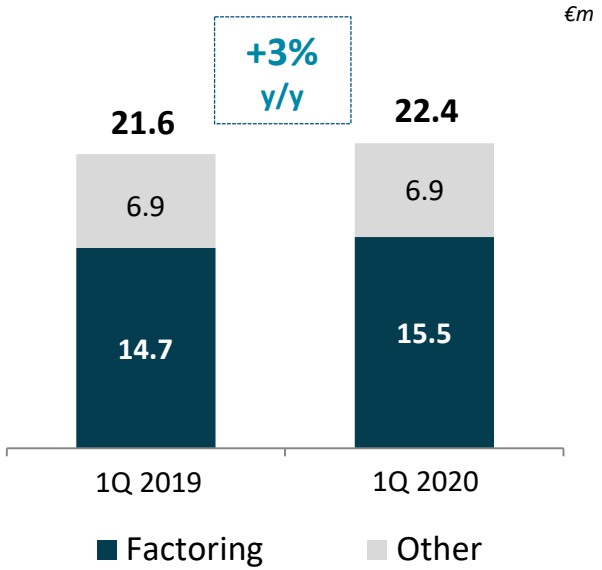
	31.12.2019	31.03.2020	Change in % 31.03.2020 vs 31.12.2019
ASSETS			
Financial assets at fair value through Other Comprehensive Income **[Held to Collect and Sell]**	556	749	35%
Loans at amortized cost	**2,677**	**2,639**	**-1%**
Factoring	***1,715***	***1,629***	***-5%***
CQ	***817***	***866***	***6%***
Gold/Jewelry backed loans	***12***	***13***	***11%***
SMEs State Guaranteed loans	*12*	*10*	*-15%*
Other	*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%**
of which ECB exposure	*358*	*658*	*84%*
Due to customers	**2,552**	**2,164**	**-15%**
of which term deposits	*1,326*	*1,097*	*-17%*
of which current accounts	*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

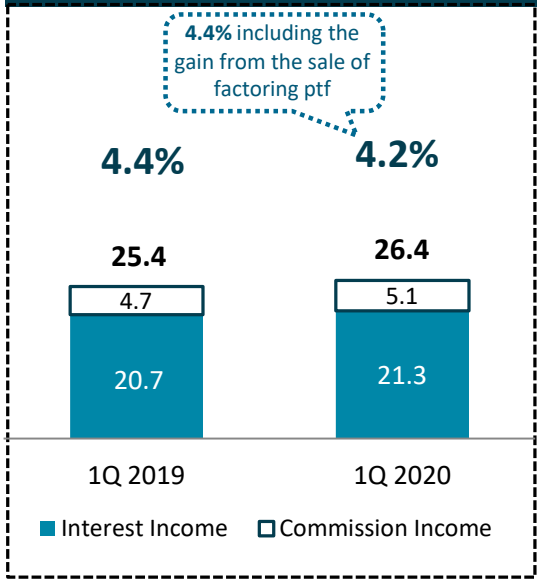
Interest Income growth driven by factoring

- **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

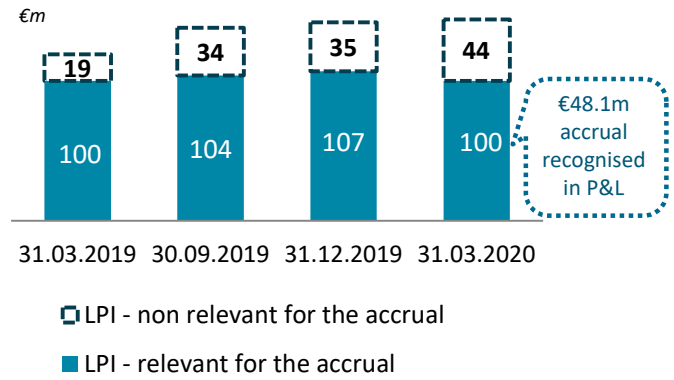
Total Interest Income



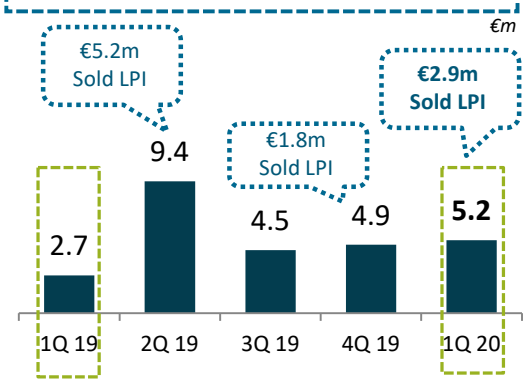
Adjusted Income margin[1]



Due LPI Stock – Assets in legal action



Total collected cashed-in LPI

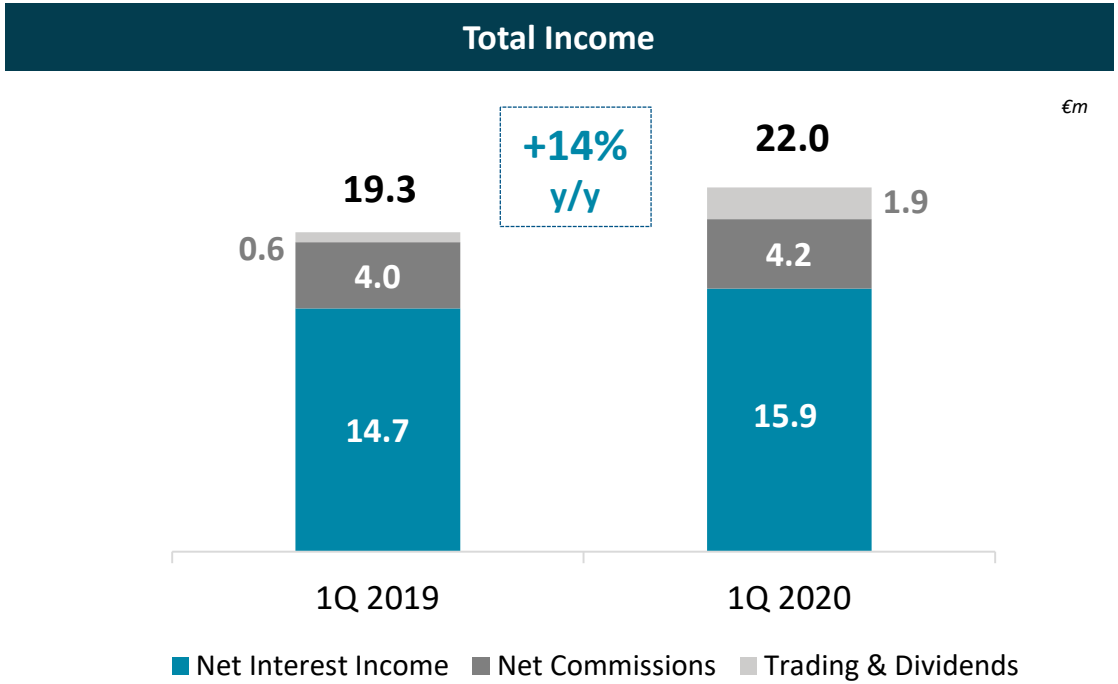


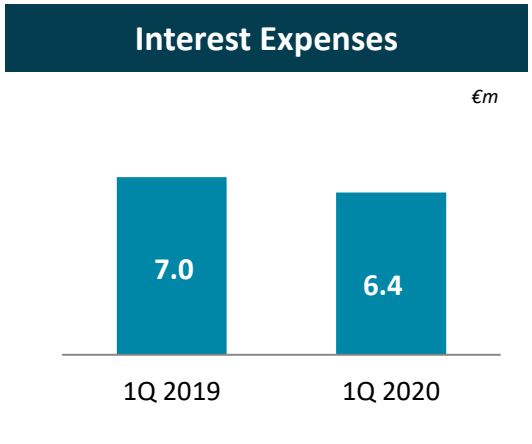
Note: (1) Calculated as [Period Interest Income + Commission Income] / [Average end of period net customer loans] - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

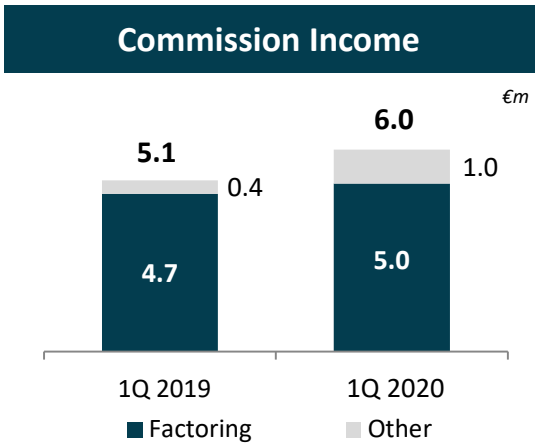
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Total Income supported by business growth

- **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



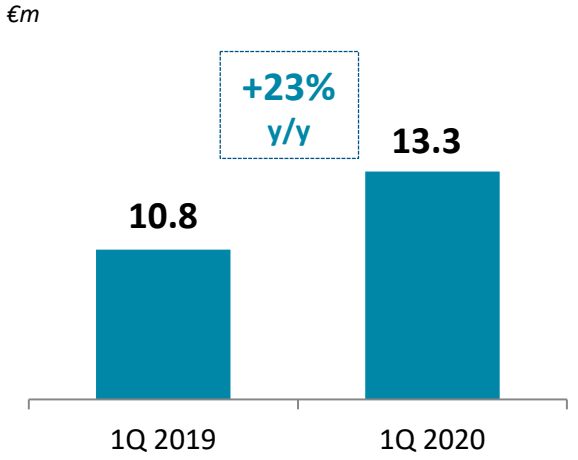




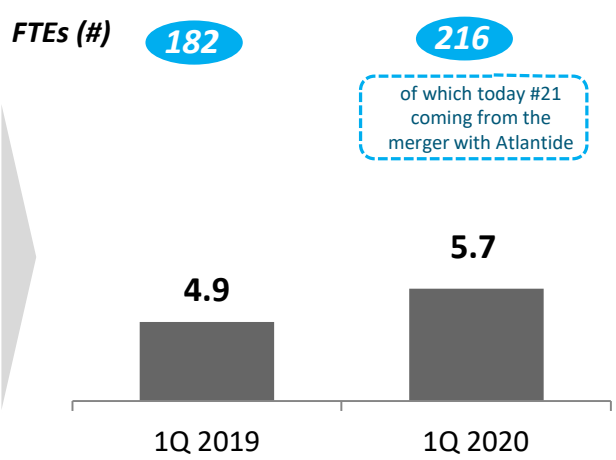
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Costs up mainly due to the contribution to the SRF and Atlantide

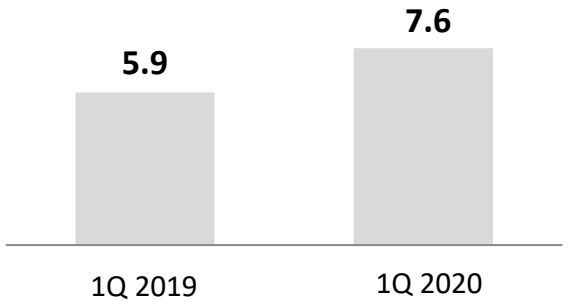
Operating Costs



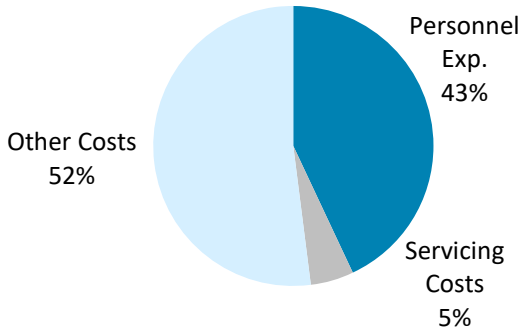
Personnel Expenses



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



Operating Costs Breakdown

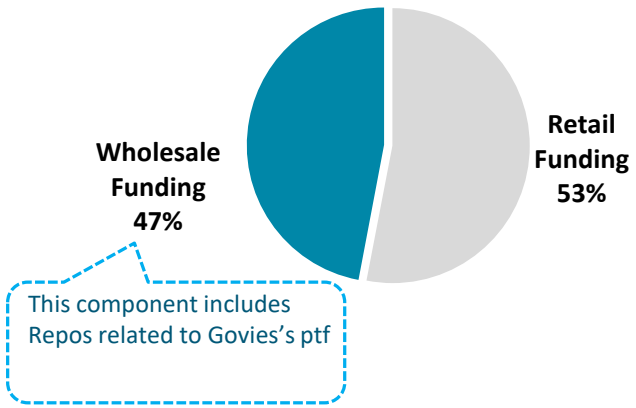


- Atlantide quarterly contribution on overall cost base since Q2 2019 is around €0.6m
- Admin expenses up y/y due to unexpected higher contribution to the Single Resolution Fund (SRF) for +€0.7m (total contribution in 1Q 2020 equal to €1.5m)
- Higher 'Net Provisions for risk and charge' (+€0.3m y/y)

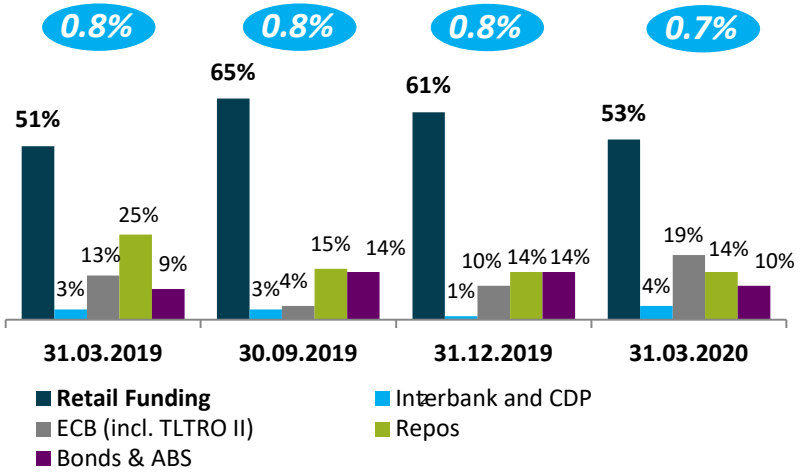
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Lower funding cost y/y

Total Funding breakdown

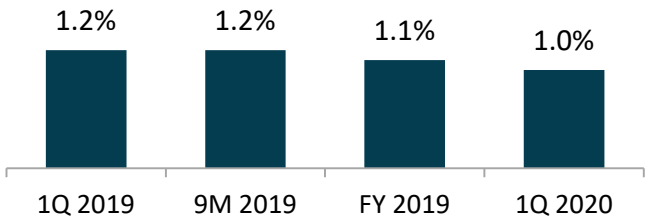


Total Funding breakdown

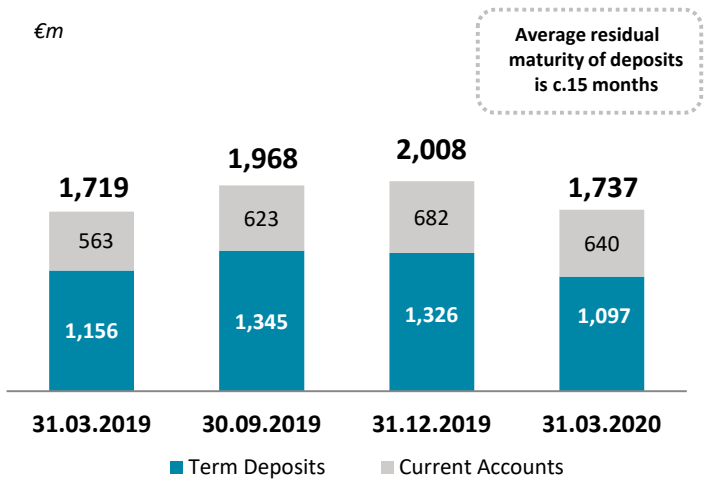


- Cost of funding lower y/y and q/q
- Wholesale component q/q increase is due mainly to higher ECB funding equal to €658m of which €108m TLTRO III (max TLTRO III allowance €490m) and the remaining part LTRO; interbanking is slightly higher q/q
- Retail Funding down q/q, mainly due to Term Deposits stock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

Retail Funding Cost



Retail Funding

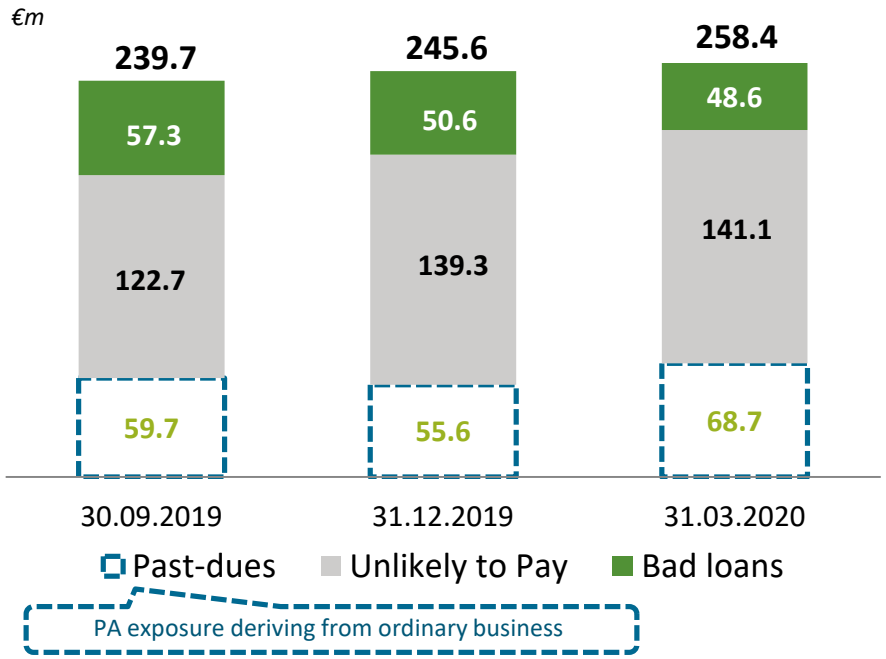


Notes: CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

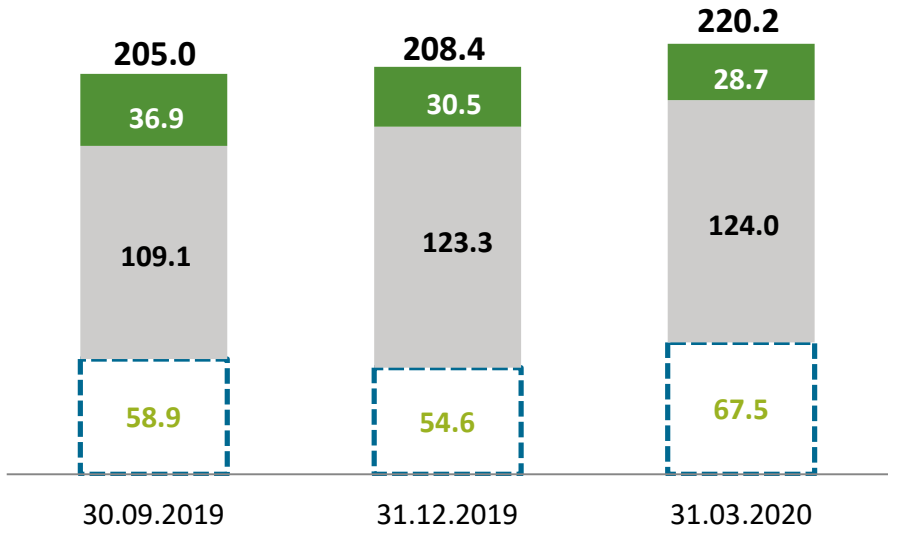
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Asset Quality driven by factoring business

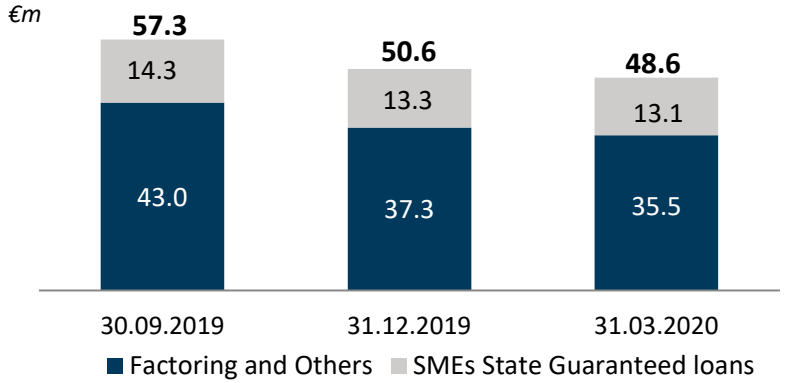
Gross Non Performing Exposures



Net Non Performing Exposures



Gross Bad loans breakdown



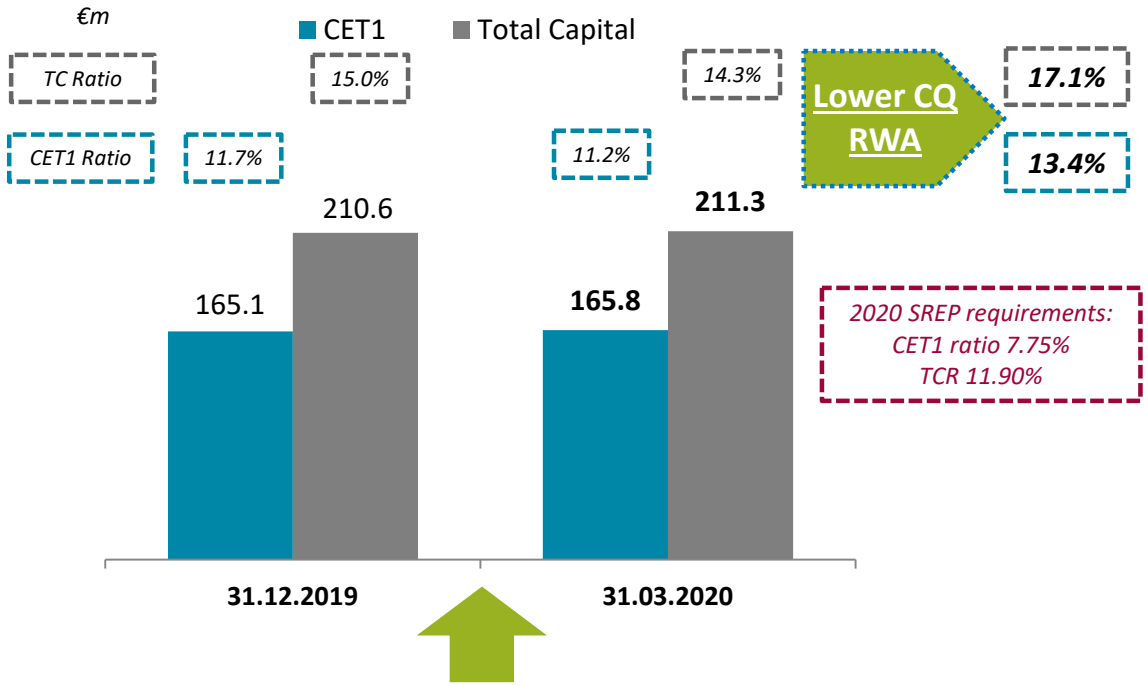
- Gross Non Performing Exposures up q/q
- Net Bad Loans represents 1.1% of total loans lower q/q
- Unlikely to Pay and Past-dues increase is due to factoring to PA
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the 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".

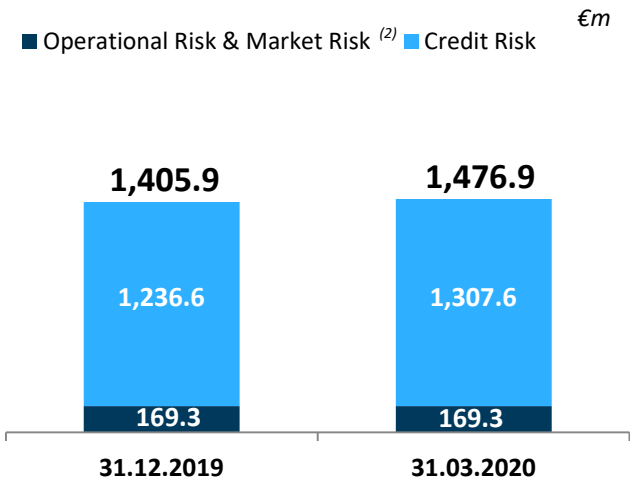
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Regulatory Capital well above minimum requirements

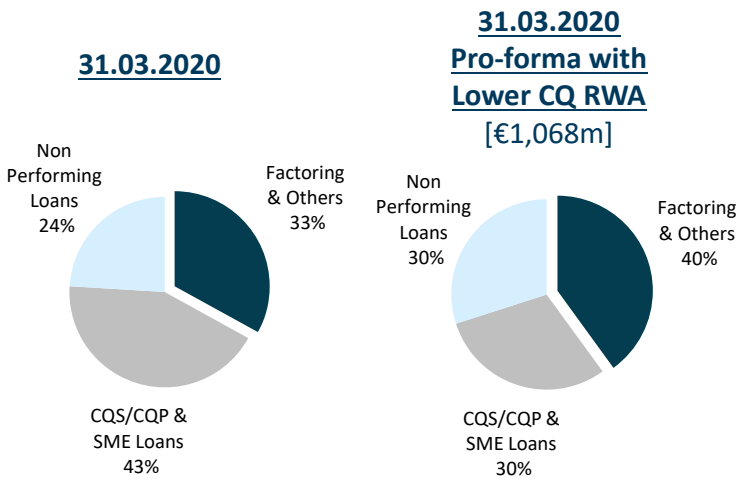
CET1 and Total Capital[1]



RWA breakdown



RWA – Credit Risk



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.

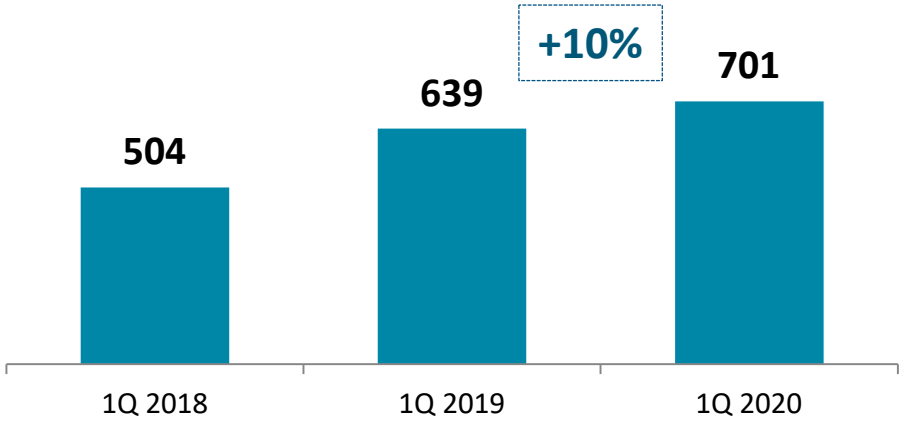
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Annexes

Factoring Turnover

Factoring Turnover

€m

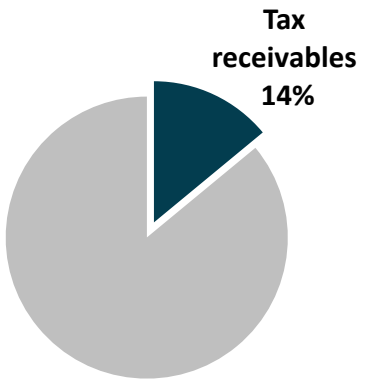


Turnover generated by agreements with Italian Retail banks:
23% in 1Q 2020 (26% FY 2019)

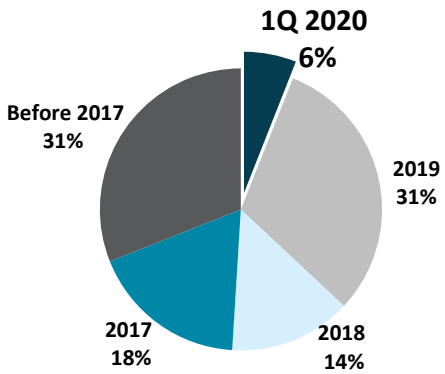
«Revolving» turnover in 1Q 20
40% of the total

1Q 2020 Factoring Turnover breakdown

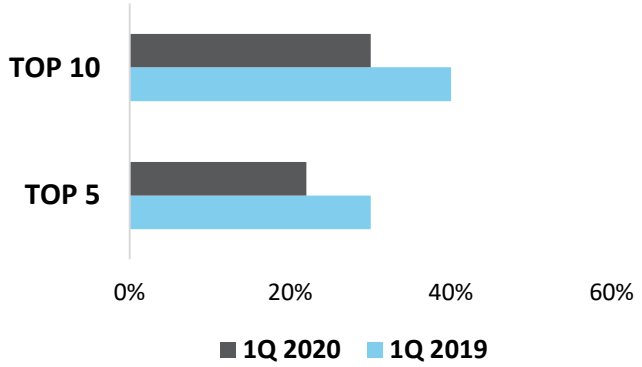
By Type



By Year of Customer's Acquisition



Customer Concentration



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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%**

Gold/jewelry-backed lending in Italy

Italian Market

The gold/jewelry backed lending in Italy is the institutional pawnbroking business. This business is **anticyclical**, compared to the "traditional lending".

According to Bank of Italy, the average estimated volume per year is around **€800m**, with more than 30,000 loans issued each month.

Most of pawns are paid back at the expiration date: **between 5% - 8% is sold at auction**

Main market players: Affide/ Dorotheum; Banca Sistema; Italian commercial banks and independent broker networks

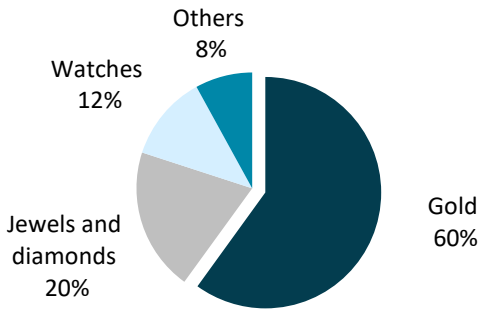
First «Mount of Compassion» («Monte di Pietà») was established in Perugia in 1462

Revenues/ Loan — *15 - 18%*

Interest/ Revenues — *60/70%*

Gross Annual Rate — *12 - 14%*

Yearly Turnover Breakdown



Main Features of the Product in Italy

- The pawn loan is a particular form of short-term loan with a collateral on property goods which is based on the existence and value of assets pledged
- The pawn loan consists of a main contract (policy of payment) and an ancillary contract (pledge)
- Renewal of the loan for a maximum period of **3 Years**
- The loan amount is commensurate with the estimated value of the goods offered as collateral, while respecting the limits set by law:
  - **4/5** of the estimated value in case of a pledge of precious goods
  - **2/3** of the estimated value in case of a pledge of other goods

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Banca Sistema Gold/jewelry-backed loans

What we have done in these 3 years….

Product

- Focus on gold, jewelry, diamonds and some watch brands
- Fast loan procedure
- Advertising in different languages
- Offered loan durations: 3/6/12 months

Operations

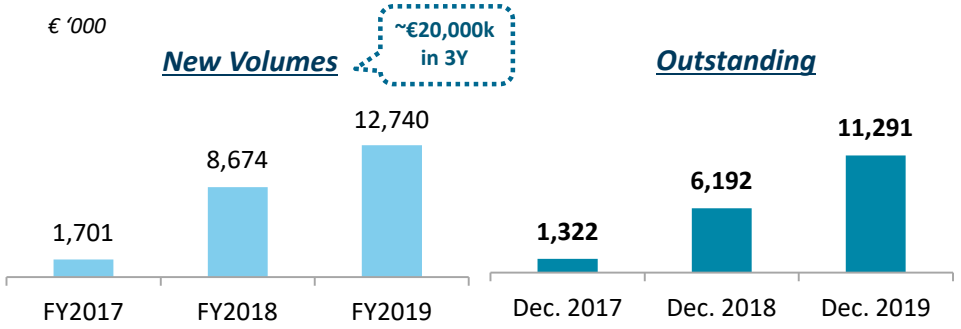
- First dedicated branch opened in Milan (02.2017)
- Other dedicated branches: Rome (07.2017); Naples, Palermo, Pisa and Rimini (2018)
- Acquisition of two small loan ptf (2018)
- Dedicated company: **ProntoPegno**

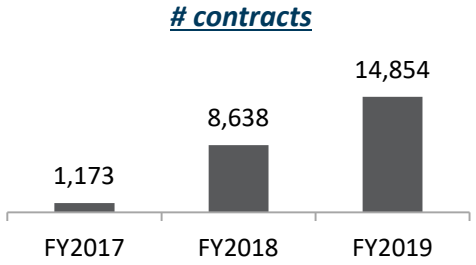
Profitability

- Short term secured financing
- Margins above the average of other retail banking products
- Commission contribution
- Further revenues in case the good is sold in auction

Funding/ Regulatory Capital

- Fit with Banca Sistema actual diversified funding base
- Low RWA absorption





91% of Outstanding backed by GOLD

FY 2019 Total Income €1m

50% Loan To Value

~45% of the new Volume are renewed

Note: New Volumes does not include renewals.

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Today [BST + Intesa Sanpaolo] Gold/jewelry- backed loans

Following the announced acquisition of ISP gold/jewelry-backed business unit…

Combined ISP and BST

As at 30.09.2019 Outstanding c. €70m

9M 2019 Total Income: €8.0m

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