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**BANCA**

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

# 1H 2017 RESULTS

27 July 2017

# 1H 2017 Results at a Glance

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## Commercial performance

- **1H 2017 Factoring Turnover +27% y/y**
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS outstanding reached €357m, ~2x y/y**
- Second dedicated branch to **Pawnbroking business**

## P&L

- **Net Income at €10.0m**
- **NII equals to €29.9m** flat y/y excluding from 2016 figures €5m for the accrual of LPI, as a consequence of the new accountings started in 2Q 2016
- **Total operating costs +10% y/y**, in line with expectations for 2017
- **LLPs** impacted by extraordinary write-backs on factoring in 1Q 2017
- 1H 2017 ROAE 16%, **2017 ROAE TARGET >20%**

## Balance Sheet

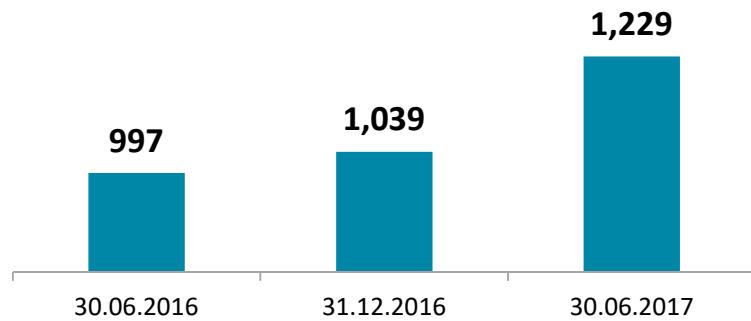
- **Core business funding cost stable q/q**
- **Retail funding 53%** of Total funds
- **LCR and NSFR above regulatory requirements**
- **CET1 and TCR** respectively **12.6%** and **16.3%**

*Note: 1H 2016 figures do not include the contribution of Beta Stepstone (purchased on the 01.07.2016 and merged in BST on the 01.01.2017).*

# Core business assets outstanding

## Factoring outstanding

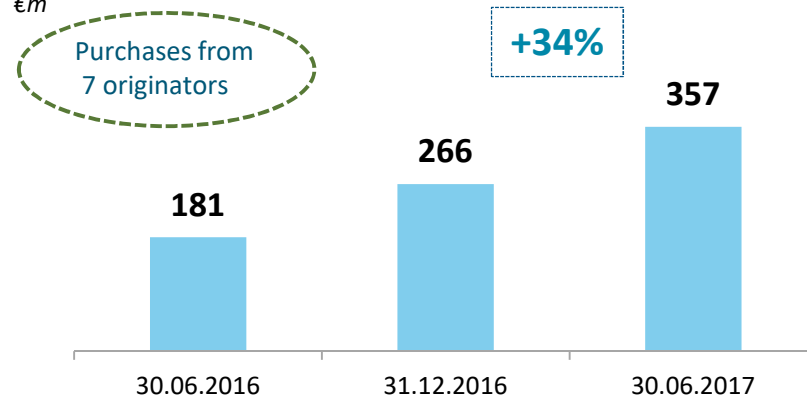
€m



Ex. Beta Stepstone

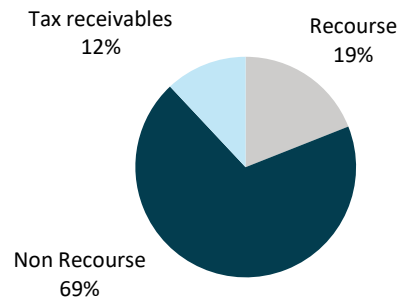
## CQS/CQP Loans outstanding

€m



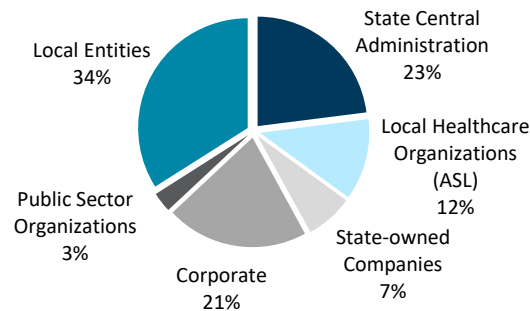
## Outstanding breakdown (30.06.2017)

### By Type of Product

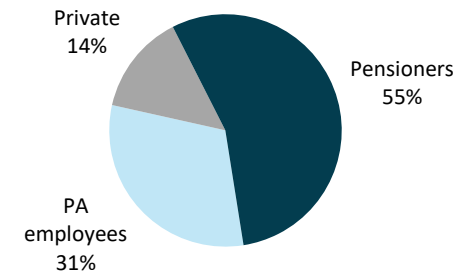


### By Obligor

PA accounts for 79%



## Outstanding breakdown by Type (30.06.2017)



- €105m volume purchased in 1H 2017, +60% y/y
- 86% PA/State risk exposure
- Average contractual duration of 9.6 years
- ~€100m transferred to the SPV for the new securitisation (Quinto Sistema 2017)

Note: Factoring outstanding management account.

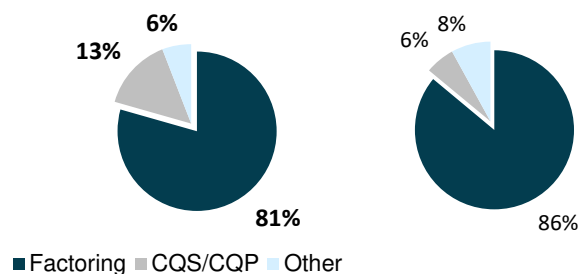
# 1H 2017 – Income Statement

Figures in millions of Euro

	30.06.2017	30.06.2016 Excluding Beta Stepstone	Difference %
<b>Net interest income</b>	<b>29.9</b>	<b>34.6</b>	<b>-14%</b>
Net fee and commission income	4.6	4.4	5%
Dividends and similar income	0.2	0.2	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.4	0.8	-50%
<b>Operating income</b>	<b>35.2</b>	<b>40.1</b>	<b>-12%</b>
Net impairment losses on loans	(1.4)	(3.1)	-55%
<b>Net operating income</b>	<b>33.7</b>	<b>37.0</b>	<b>-9%</b>
Personnel expenses	(8.9)	(7.5)	19%
Other expenses	(10.3)	(10.0)	3%
<b>Operating expenses</b>	<b>(19.2)</b>	<b>(17.5)</b>	<b>10%</b>
Profits from equity investments	-	2.2	
<b>Pre-tax profit from continuing operations</b>	<b>14.6</b>	<b>21.7</b>	<b>-33%</b>
Taxes on income for the period/year from continuing operations	(4.6)	(6.1)	-25%
<b>Profit (loss) for the year/period attributable to the shareholders of the Parent</b>	<b>10.0</b>	<b>15.7</b>	<b>-36%</b>

- **Factoring contribution to NII represents 81% of the total**
- **1H 2017 NII includes €6.3m** of factoring LPIs from Legal actions (€3m in 1H 2016 ex. €5m not related to the period), of which €2.9m cashed-in, and further LPI related to the closing of the guaranty agreement related to the acquisition of Beta Stepstone
- **NII in 1H 2017 has been influenced by** lower factoring margin, by higher contribution from CQS/CQP loans and at a lower extent by the cost of funding saving of -40bps accounting of the TLTRO II (of which €0.3m related to 2H 2016) and from a lower carry trade on Govies' ptf
- Lower contribution from our short term Italian Government **bond portfolio** (-50% trading revenues)
- **LLPs** in 2017 mainly influenced by 1Q 2017 write-backs on the factoring
- **Personnel expenses** reflect headcount growth following Beta Stepstone merger, higher average salary and no-competition agreement
- **Other expenses** include €0.8m contribution to the National Resolution Fund (+€0.2m q/q)
- **Net Income** in 2016 includes the contribution from the sale of ~16% in CS Union for €2.2m

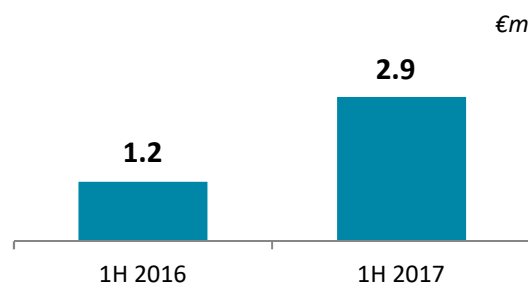
## Net Interest Income Breakdown



1H 2017 - €29.9m

1H 2016 - €34.6m

## Cashed-in Factoring LPIs



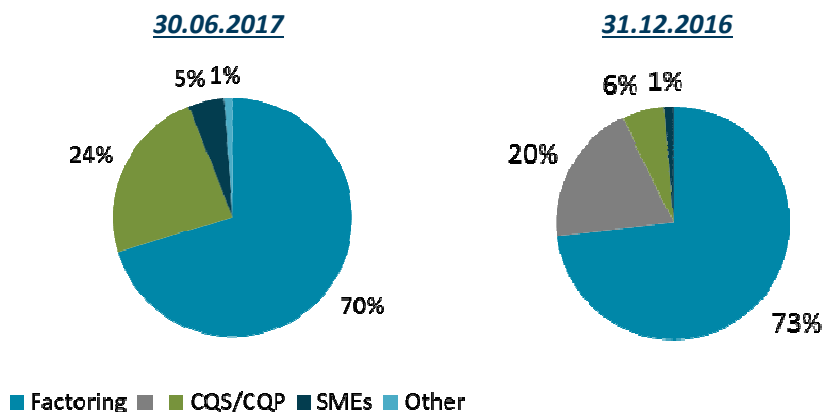
Note: see Note of Slide n.2.

# 1H 2017 – Balance Sheet

Figures in millions of Euro

	30.06.2017	31.12.2016	Difference %
<b>ASSETS</b>			
Available-for-sale financial assets	365	516	-29%
Held to maturity	84	-	nm
Loans and advances to customers	1,503	1,348	11%
Tangible and Intangible assets	26	25	2%
Other assets	61	110	-45%
<b>Total assets</b>	<b>2,039</b>	<b>1,999</b>	<b>2%</b>
<b>LIABILITIES AND EQUITY</b>			
Due to banks	513	458	12%
Due to customers	1,237	1,262	-2%
Debt securities issued	104	90	16%
Other liabilities	67	74	-9%
Shareholders Equity	118	114	4%
<b>Total liabilities and equity</b>	<b>2,039</b>	<b>1,999</b>	<b>2%</b>

## Loans to customers Breakdown

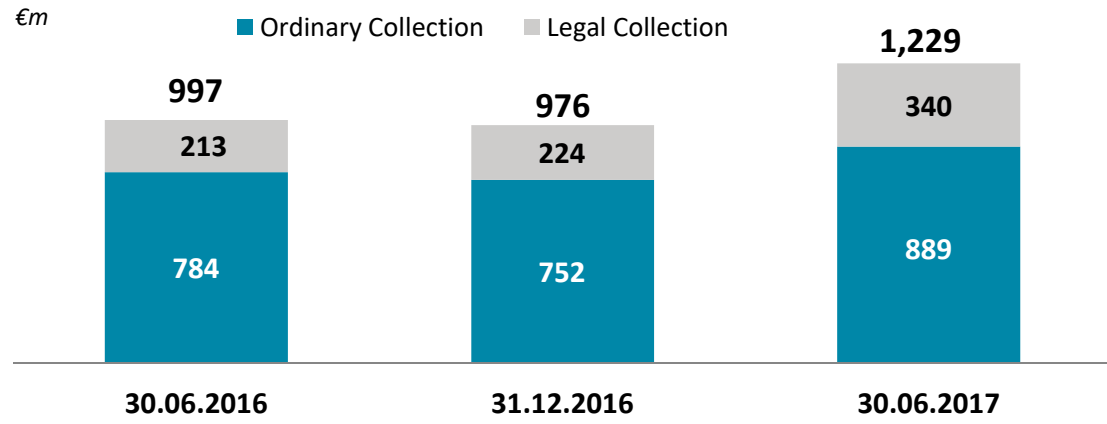


- **Govies' portfolio (€449m) down vs year-end and down q/q** following the reduction of the AFS component (equals to €359m, with a residual maturity as at 30.06.2017 of 5 months) as consequence of less attractive refinancing conditions, not compensated by the purchased in 1Q 2017 of €84m of Italian 'BTP' with an average duration ~2 years, classified as Held To Maturity
- **Loans to customers, +11%:**
  - **Factoring receivables** up vs. year-end and q/q, thanks to the turnover originated in 1H 2017 (€1,059m as at 30.06.2016 vs €986m as at 31.12.2016)
  - **CQS/CQP** increase due to further loan purchases
- **Due to banks** up vs 31.12.2016 mainly for higher Interbanking (with a residual maturity > 2 years), with a lending from ECB stable vs year-end and slightly lower q/q
- **Due to customers stable vs year-end** for the combination of lower Repos (-€65m) related to the decrease of the Govies' ptf and of higher current accounts. Stable term deposits vs year-end and q/q
- 2017 figures of the item **Debt securities issued** include €14m TIER II bond issued this year

# Focus on Factoring

- Outstanding trend influenced by:
  - 1H 2017 turnover growth, strong volume in March and June 2017
  - higher portion of the outstanding in Legal Collection
- Target Yield in line with expectations
- Positive inversion of the Average Gross Yield curve, in line with expectation. Higher contribution from LPI in 2H 2017

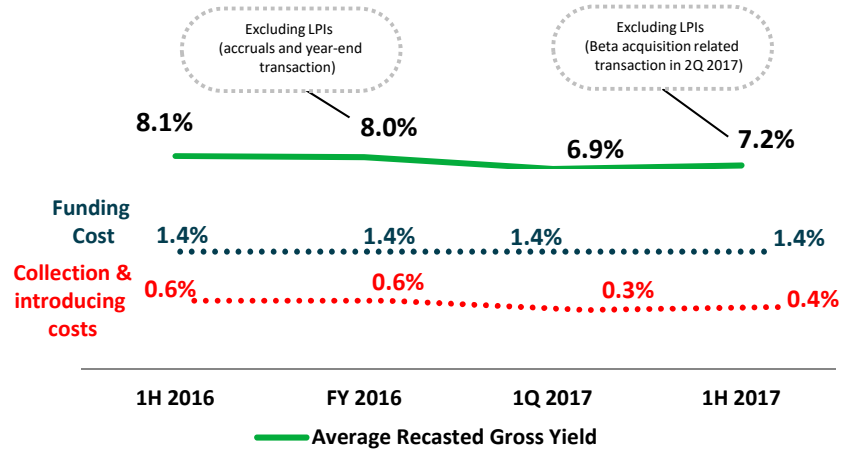
## Factoring Outstanding Evolution



Ex. Beta Stepstone

Ex. Beta Stepstone

## Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



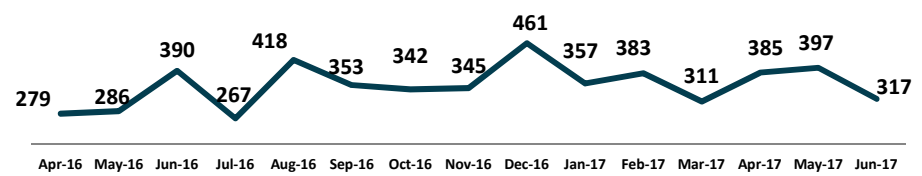
Gross Yield includes Commission Income: €4.9m in 1H 2017; €2.4m in 1Q 2017; €9.1m in FY2016; €4.6m in 1H 2016

FY 2016 and 1H 2016 figures do not include Beta Stepstone.

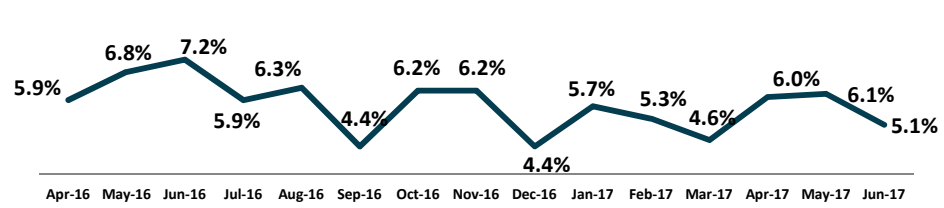
Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data.

## How we originate new business:

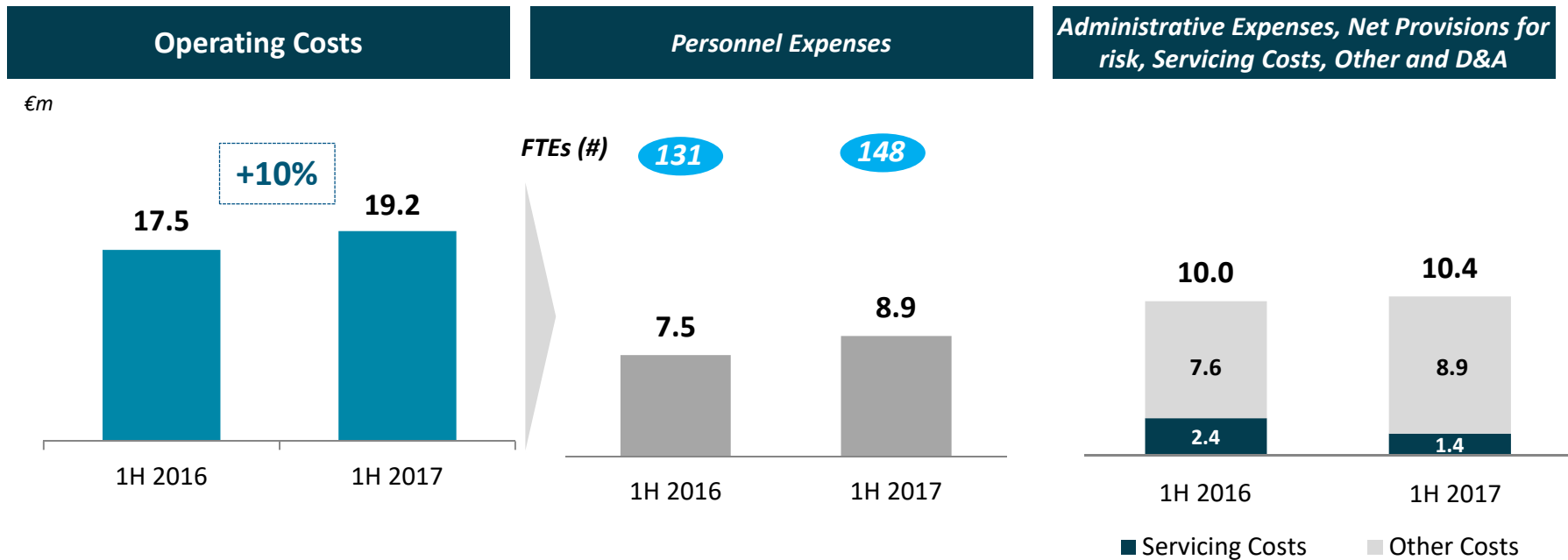
### Funding period based on Expected Collection date ("DFS")



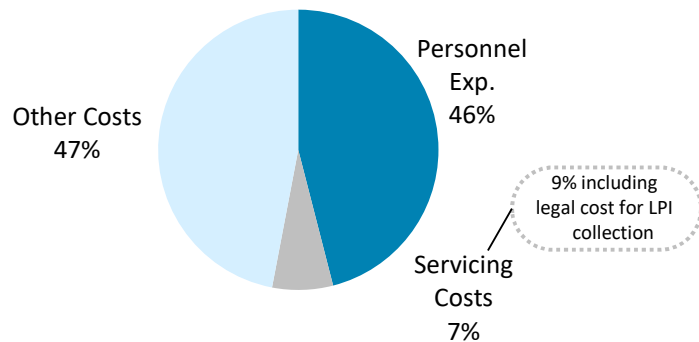
### Target Yield at Expected Collection date ("DFS")



# Costs in line with expectations



## Operating Costs Breakdown

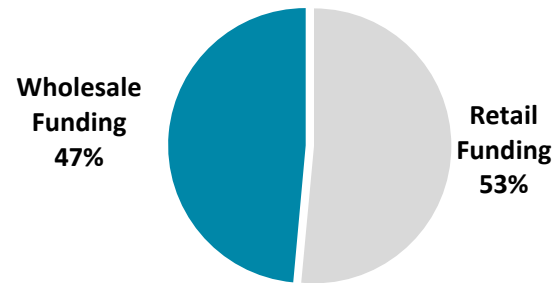


- Personnel Expenses increase due to higher headcount following the acquisition of Beta Stepstone, higher average salary and a new no-competition agreement
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution Fund (+€0.2m q/q)
- Other costs growth y/y mainly driven by IT expenses, legal cost for factoring LPI collection and at minor extent advisory fees

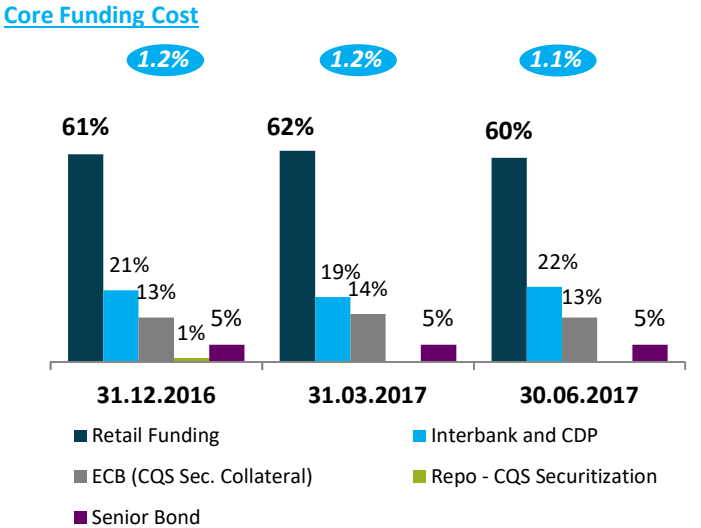
Note: see Note of Slide n.2.

# Stable funding cost

## Total Funding Breakdown



## Core Business Funding Breakdown



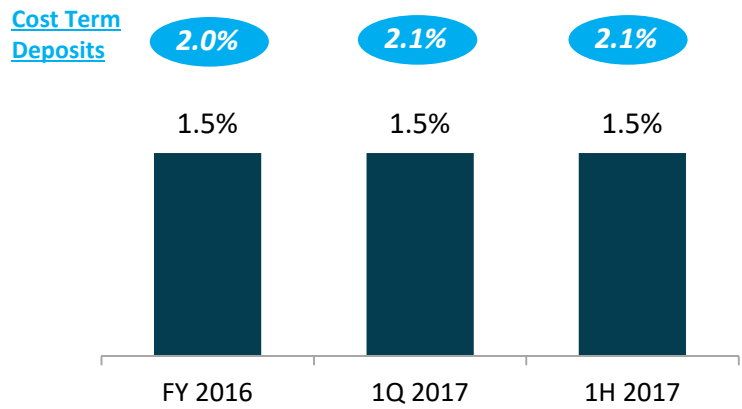
- Term Deposits stock is down q/q, due to lower rates offered to customers since mid-March. Although average cost was almost stable q/q

- Current account stock, of which 83% is corporates, slightly up q/q

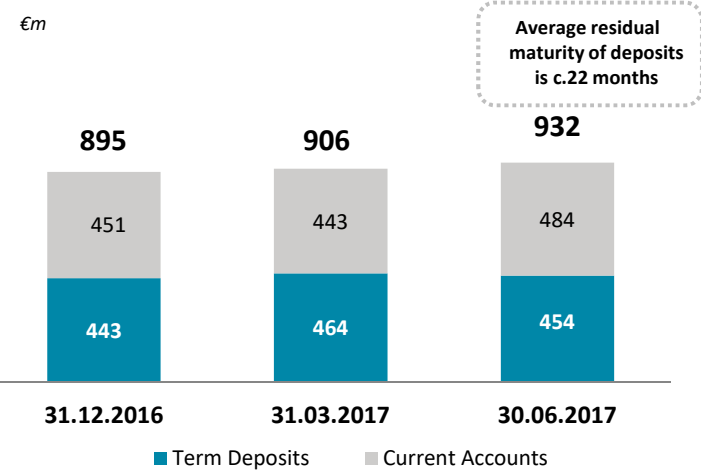
- ~30% of term deposits from Germany/Austria

- Positive market conditions allow us to increase interbank stock q/q and y/y

## Retail Funding Cost



## Retail Funding

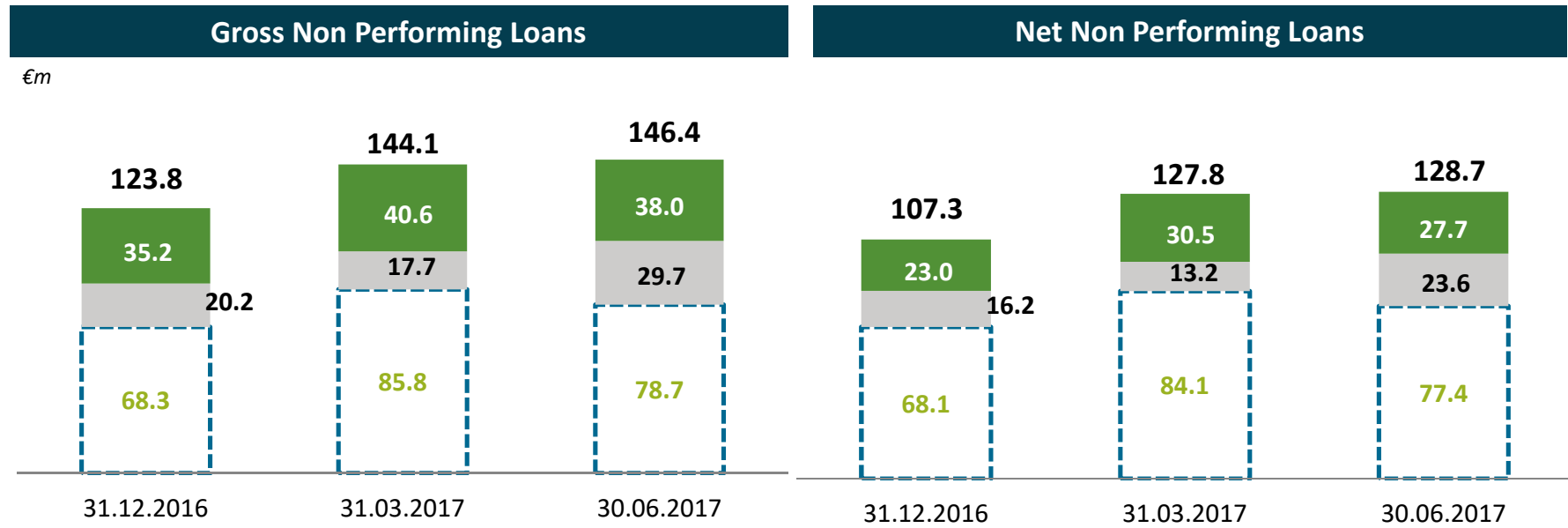


- Wholesale funding includes the CQS securitization (Quinto Sistema 2016) used as collateral for ECB funding that we decided to not sell in 2Q 2017 because Investor request in terms of price on the Senior notes was higher than our economic incentive to deconsolidated the assets

Notes: Average cost of funding (current accounts and term deposits); CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).



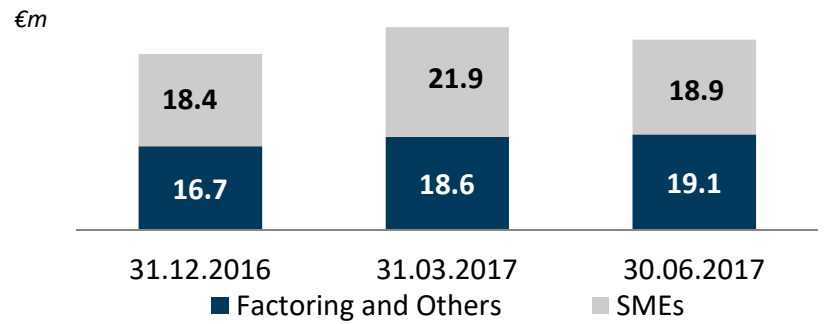
# Conservative risk policy in all the business lines



□ Past-dues  
 ■ Unlikely to pay  
 ■ Bad loans

PA exposure deriving from ordinary business

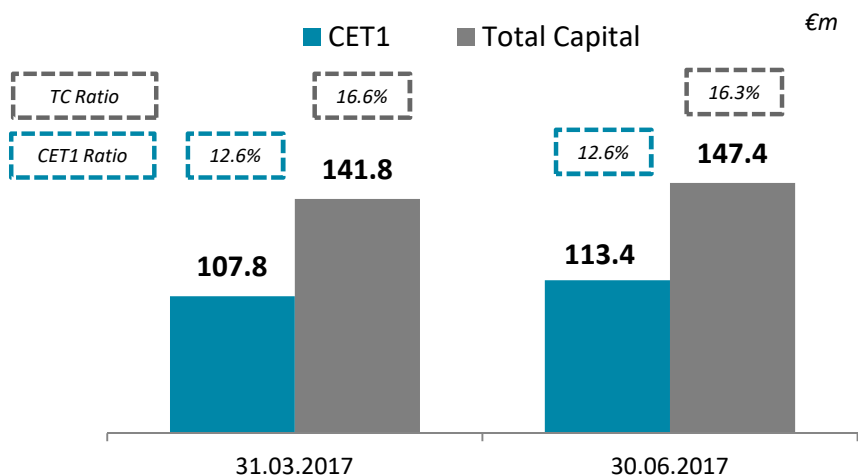
## Gross Bad loans breakdown



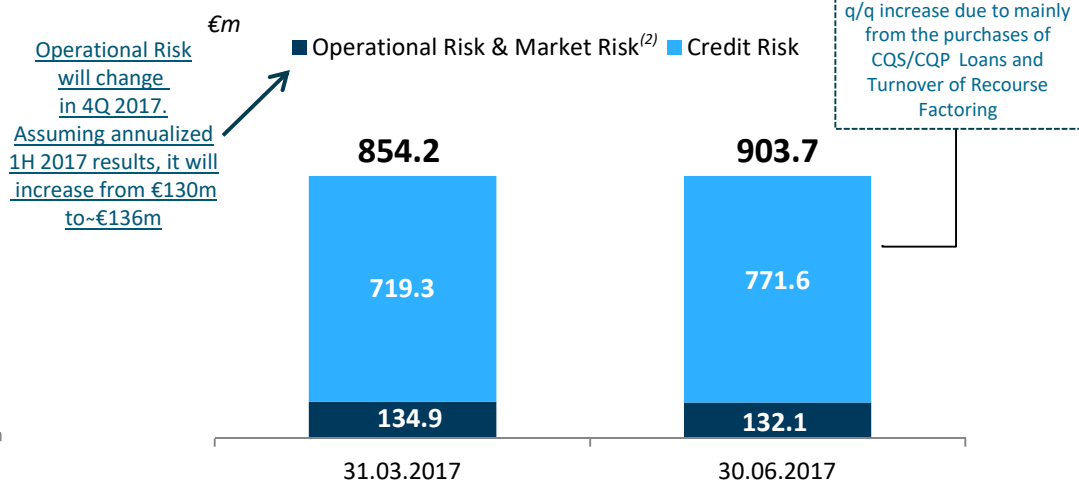
- Net Bad Loans represents 1.8% of total loans as at 30.06.2017
- Bad loans decrease q/q was due to some deterioration of factoring positions (2 new Municipalities under 'Distressed procedure') and decrease of SMEs State Guaranteed loans portfolio as a consequence of reimbursement of the guaranty
- Unlikely to pay increase q/q was mainly due to deterioration of factoring, in particular of a single exposure of Recourse factoring
- 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
- Loan loss provisions in 1H 2017 were influenced mainly by:
  - provisions and write-backs on factoring (1Q 2017 and 2Q 2017)
  - higher provisions on SMEs State Guaranteed loans (1Q 2017)

# Regulatory Capital

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

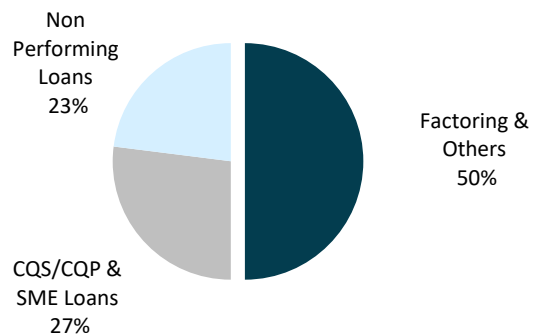


## RWA breakdown



## RWA – Credit Risk

31.03.2017



30.06.2017



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 c. €5m as at 31.03.2017 and €1.6m as at 30.06.2017.

**Appendix**

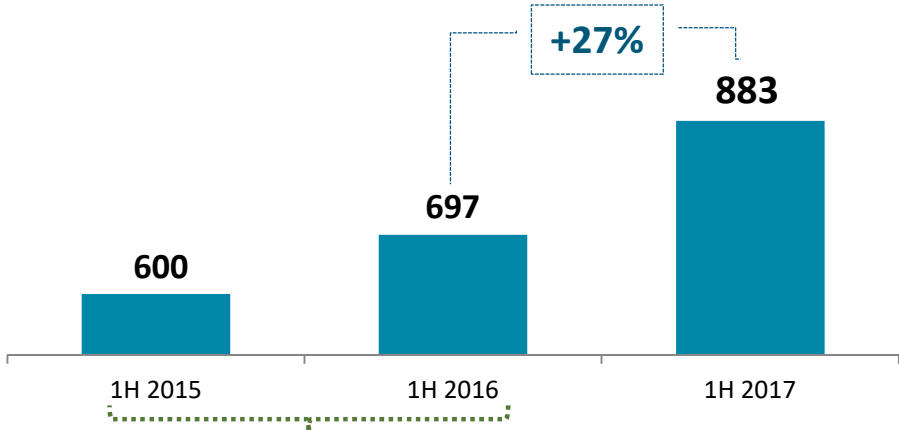
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# Factoring Turnover

## Factoring Turnover

€m

**+23% including Beta in 1H 2016**

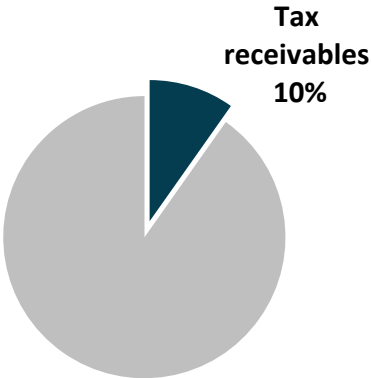


Turnover generated by agreements with Italian Retail banks: 32% of 1H 2017 (13.5% FY 2016)

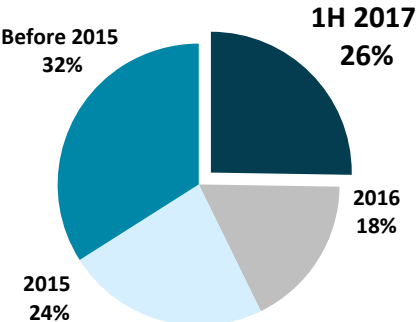
*Ex. Beta Stepstone*

## 1H 2017 Factoring Turnover breakdown

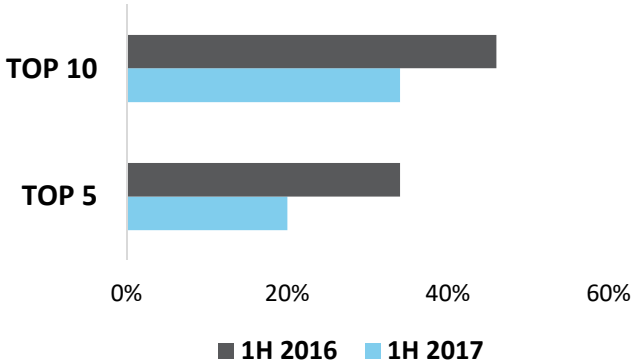
By Type



By Year of Customer's Acquisition



Customer Concentration



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