
BANCA

S I S T E M A
SPECIALTY FINANCE

9M 2017 RESULTS

27 October 2017

9M 2017 Results at a Glance

Commercial performance

- **9M 2017 Factoring Turnover +27% y/y**
- **Increasing contribution on factoring turnover** from the agreements with banks
- **CQS outstanding reached €423m**, with a market share > 2% in terms of outstanding
- Opening by the 1Q 2018 of two branches dedicated to **“Mount of Piety” business**

P&L

- **NII equals to €54.1m** includes €9m in 2017 for the accounting update on LPIs, of which €3.7m not related to 2017
- **Net Income at €21.8m**
- **Total operating costs +7% y/y**, in line with expectations for 2017
- **FY 2017 ROAE TARGET around 20%** excluding €3.7m gross LPIs not related to 2017

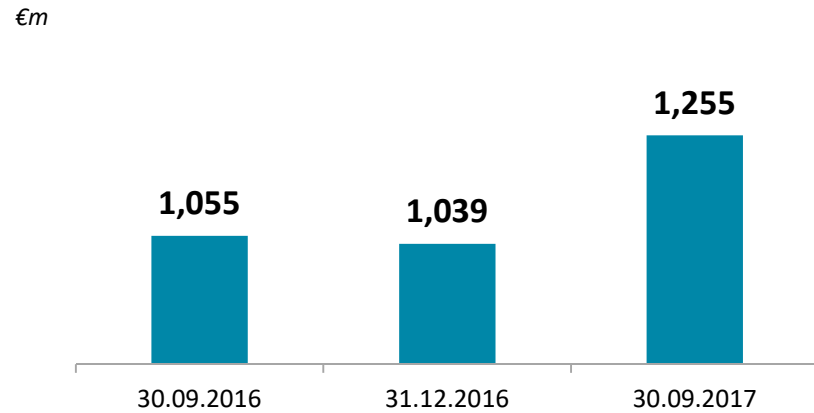
Balance Sheet

- **Core business funding cost stable q/q and y/y**
- **Retail funding 50%** of Total funds
- **LCR and NSFR above regulatory requirements**
- **CET1 and TCR** respectively **12.4%** and **16.1%**

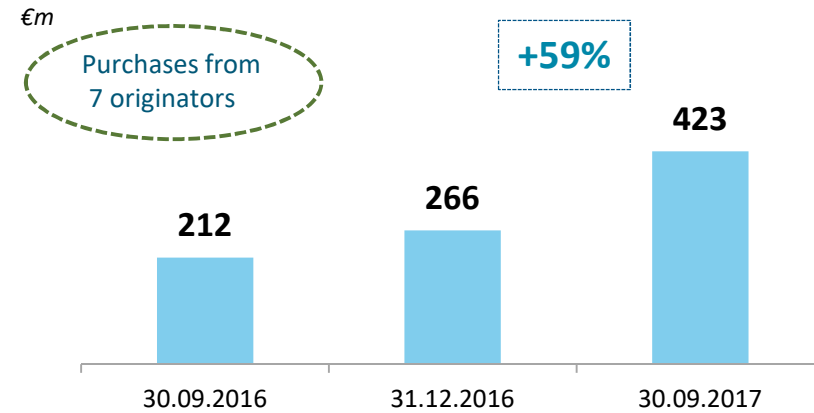
Note: 9M 2016 figures include the contribution of Beta Stepstone from 01.07.2016 to 30.09.2016 (Beta Stepstone has been purchased on the 01.07.2016 and merged in BST on the 01.01.2017).

Core business assets outstanding

Factoring outstanding

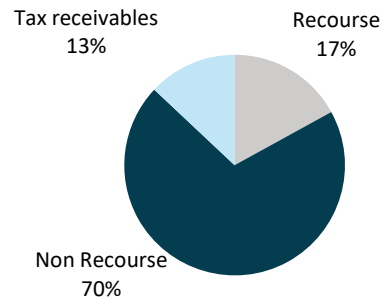


CQS/CQP Loans outstanding



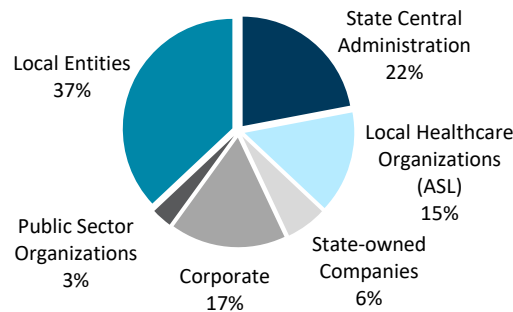
Outstanding breakdown (30.09.2017)

By Type of Product

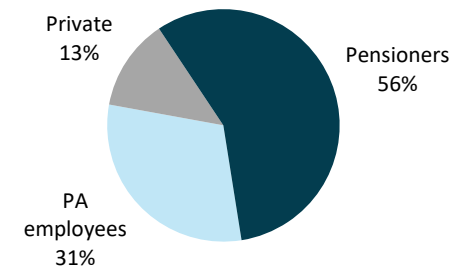


By Obligor

PA accounts for 83%



Outstanding breakdown by Type (30.09.2017)



- €176m volume purchased in 9M 2017, +76% y/y
- 87% PA risk exposure
- Average contractual duration of 9.5 years
- ~€150m transferred to the SPV for the new securitisation («Quinto Sistema 2017»)

Note: Factoring outstanding management account.

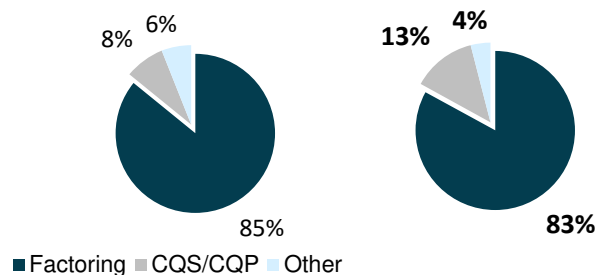
9M 2017 – Income Statement

Figures in millions of Euro

	30.09.2016	30.09.2017	Difference %
Net interest income	50.8	54.1	7%
Net fee and commission income	6.9	7.4	7%
Dividends and similar income	0.2	0.2	0%
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1.1	0.9	-12%
Operating income	59.0	62.6	6%
Net impairment losses on loans	(4.9)	(3.1)	-38%
Net operating income	54.0	59.6	10%
Personnel expenses	(11.1)	(12.8)	15%
Other expenses	(15.4)	(15.6)	1%
Operating expenses	(26.5)	(28.4)	7%
Profits from equity investments	2.3	(0.1)	nm
Pre-tax profit from continuing operations	29.8	31.2	5%
Taxes on income for the period/year from continuing operations	(8.4)	(9.3)	11%
Profit (loss) for the year/period attributable to the shareholders of the Parent	21.4	21.8	2%

Include €7.9m LPIs accrual of which €5m are not related to the period

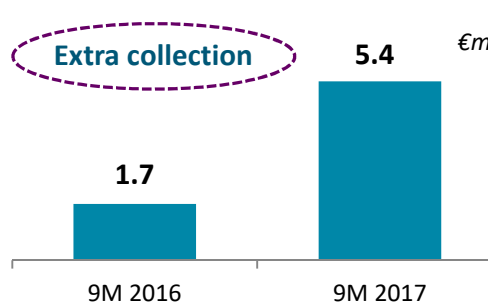
Net Interest Income Breakdown



9M 2016 - €50.8m

9M 2017 - €54.1m

Cashed-in Factoring LPIs



- **Factoring contribution to NII represents 83% of the total**
- **9M 2017 NII includes €9m of higher factoring LPIs** (from legal actions) following an accounting update of the accrual on non- Health care exposures. Accrual on non-Health, equals to 31% (15% before), increase for the evidence in the last 9 months of a LPI's collection around 80%. Remaining stable the % of accrual on Health care exposures, overall the accrual is 38%
- **NII in 9M 2017 include €21.9m LPIs from legal actions of which:**
 - €9m LPIs accrual from the update of accounting, of which €3.7m are not related to this year
 - €4.7m LPIs accrual based on previous accounting
 - €8.2m LPIs extra collection, including €2.8m of a transaction in Q2 2017
- **NII in 9M 2017 has been influenced by** higher contribution from CQS/CQP loans (+€4.1m y/y) 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)
- **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
- **Net Income** in 2016 includes the contribution from the sale of ~16% in CS Union (today Axactor Italy) for €2.2m

Note: see Note of Slide n.2.

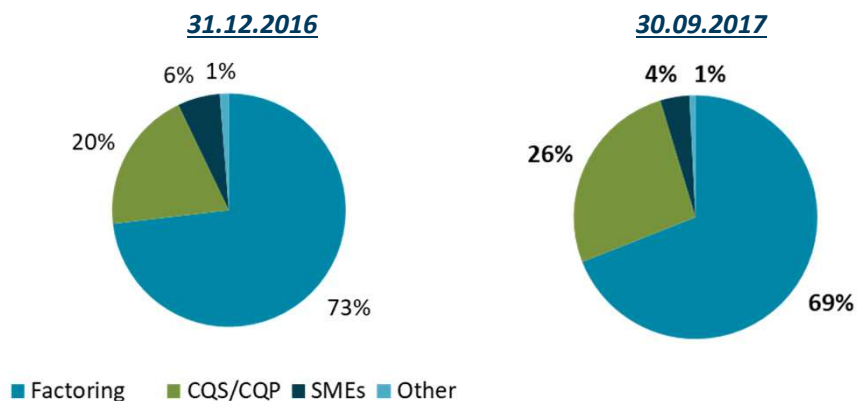
9M 2017 – Balance Sheet

Figures in millions of Euro

	31.12.2016	30.09.2017	Difference %
ASSETS			
Available-for-sale financial assets	516	424	-18%
Held to maturity	-	84	nm
Loans and advances to customers	1,348	1,608	19%
Tangible and Intangible assets	25	26	2%
Other assets	110	48	-57%
Total assets	1,999	2,190	10%
LIABILITIES AND EQUITY			
Due to banks	458	523	14%
Due to customers	1,262	1,343	6%
Debt securities issued	90	107	-18%
Other liabilities	74	87	17%
Shareholders Equity	114	130	14%
Total liabilities and equity	1,999	2,190	10%

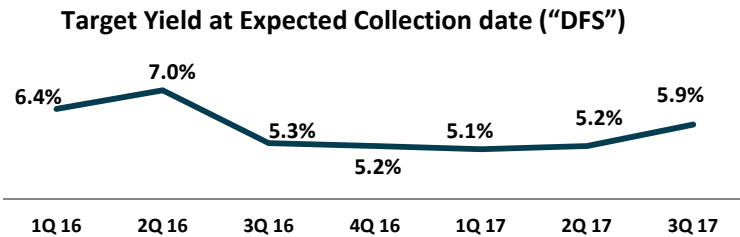
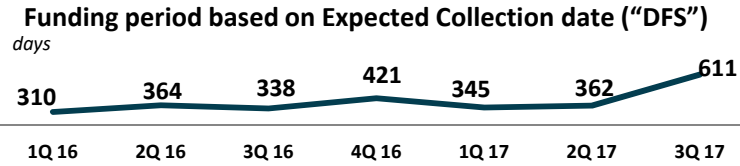
- **Govies' portfolio (€500m) almost stable vs year-end and up q/q** following the increase of the AFS component (equals to €416m, with a residual maturity as at 30.09.2017 of 8 months)
- **Loans to customers, +19%:**
 - **Factoring receivables** up vs. year-end (+12%) and q/q, thanks to the turnover originated in 9M 2017 (€1,109m as at 30.09.2016 vs €986m as at 31.12.2016)
 - **CQS/CQP** increase due to further loan purchases and reached €423m
- **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 q/q
- **Due to customers higher vs year-end** for the combination of higher Repos (+€24m) related to the increase of the Govies' ptf and of higher current accounts (+€32m). Stable term deposits vs year-end and slightly lower q/q
- 2017 figures of the item **Debt securities issued** include €15.5m TIER II bond issued this year and will in 4Q 2017 include:
 - €1m TIER II bond issued in October
 - €175m Wholesale Senior bond issued in October

Loans to customers Breakdown

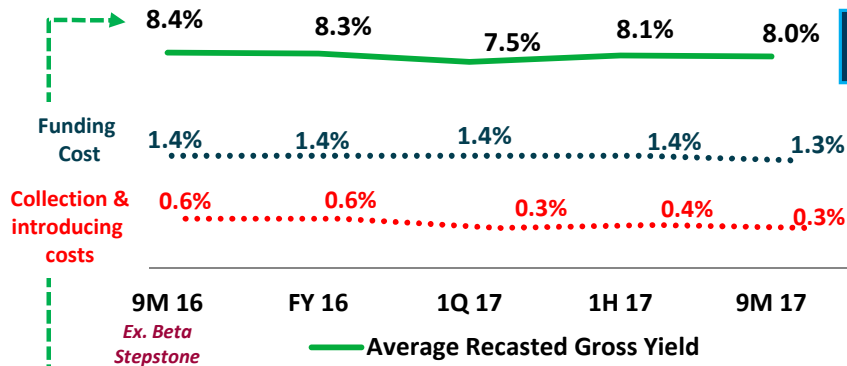


Focus on Factoring

How we originate new business:



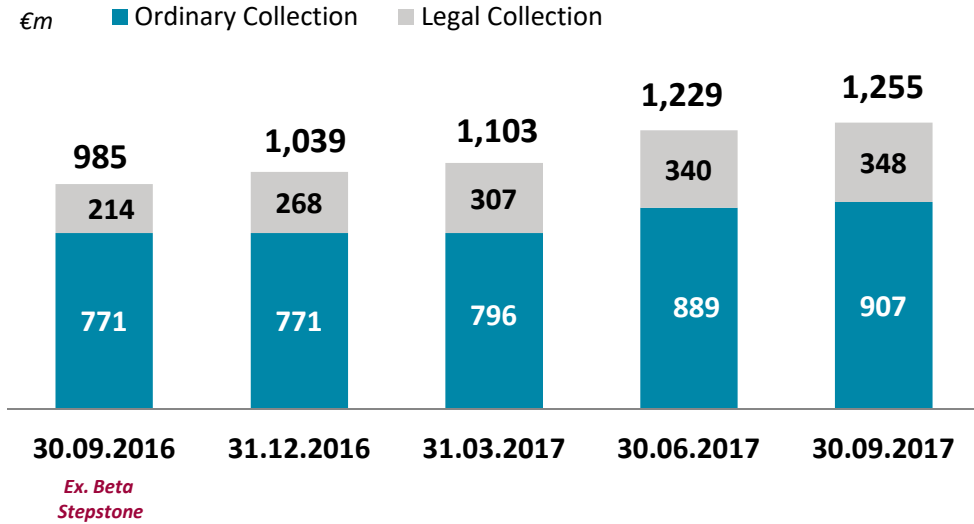
Average Gross Yield on Factoring Outstanding (Interest and Commission Income)



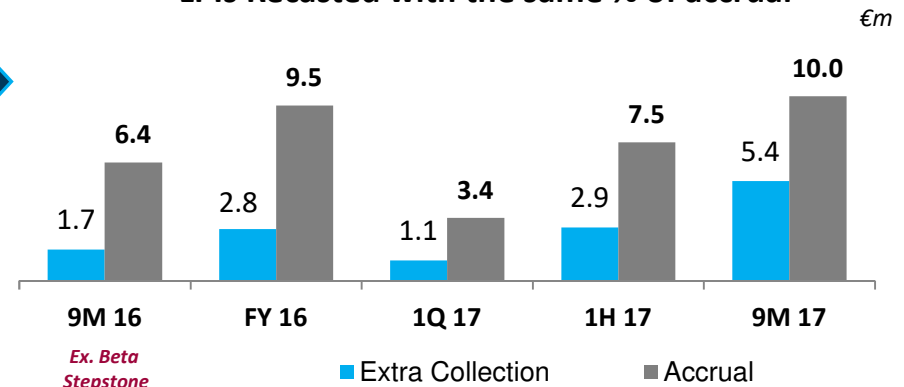
Gross Yield includes Commission Income: €8.0m in 9M 17; €4.9m in 1H 17; €2.4m in 1Q 17; €9.1m in FY 16; €7.0m in 9M 2017

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

Factoring Outstanding Evolution

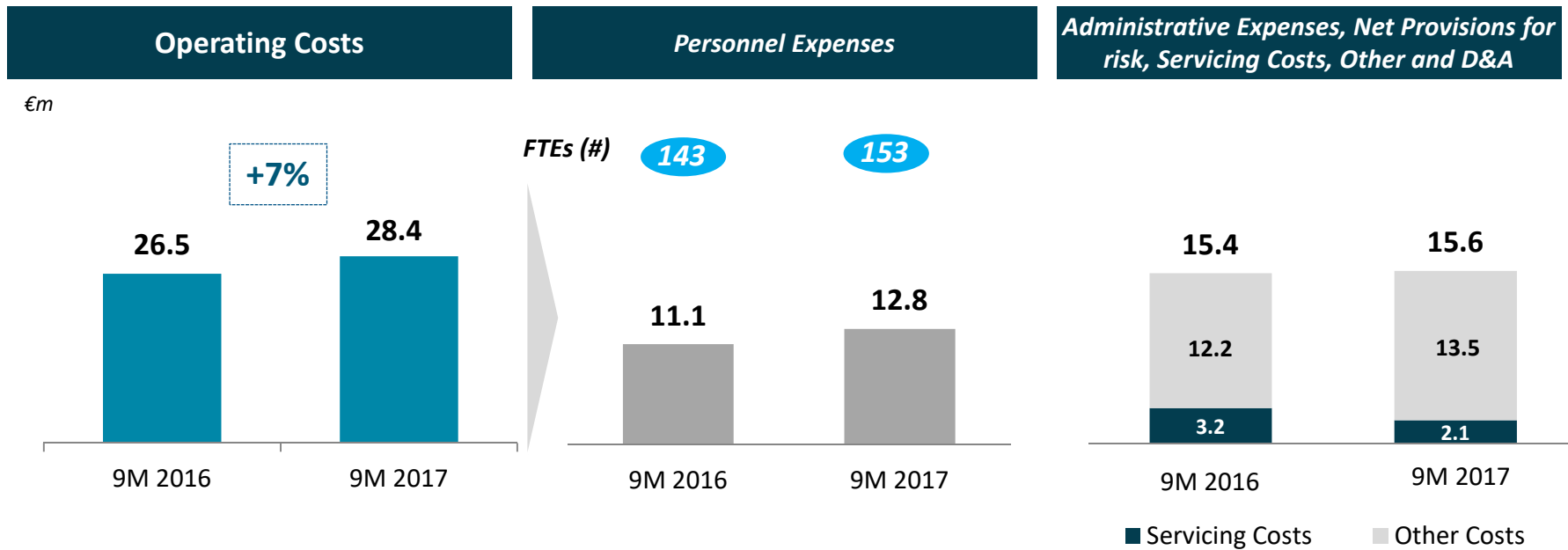


LPIs Recasted with the same % of accrual

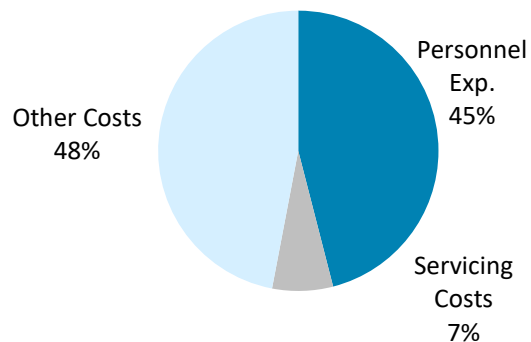


Note: Priced DFS includes also commission income. Other Costs include also Cost of Risk. Outstanding figures are management account data and the component under legal collection include also deteriorated exposure that do not generate LPIs.

Costs in line with expectations



Operating Costs Breakdown

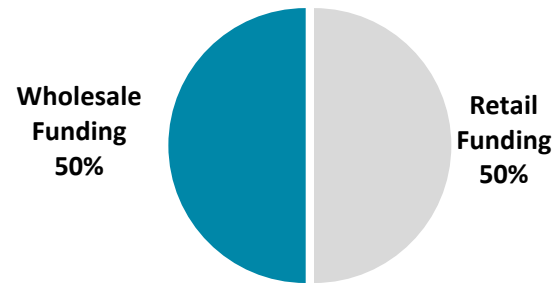


- Personnel Expenses increase due to higher average salary and a new no-competition agreement (€1m in 1H 2017)
- Servicing costs mainly related to factoring benefit from internalisation of the collection
- Other costs include €0.8m yearly ordinary contribution to the National Resolution Fund (in 1H 2017) and €0.3m provision for the Deposit Scheme (in 3Q 2017)
- Other costs growth y/y mainly driven by IT expenses and at minor extent expenses on new business opportunities

Note: see Note of Slide n.2.

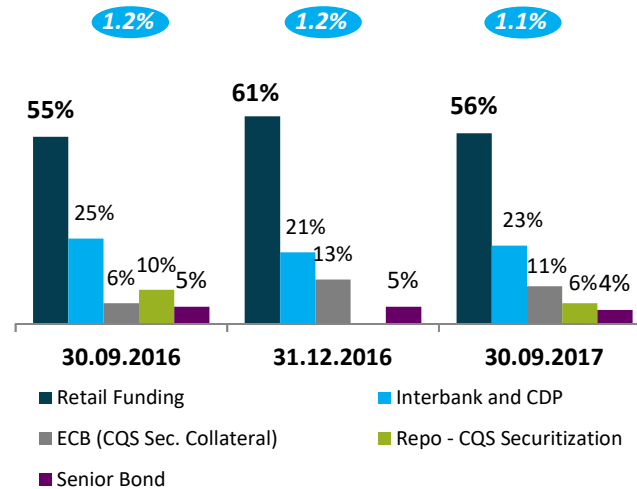
Stable funding cost

Total Funding Breakdown



Core Business Funding Breakdown

Core Funding Cost



- Term Deposits stock is stable q/q and up y/y, average cost was also almost stable q/q and y/y

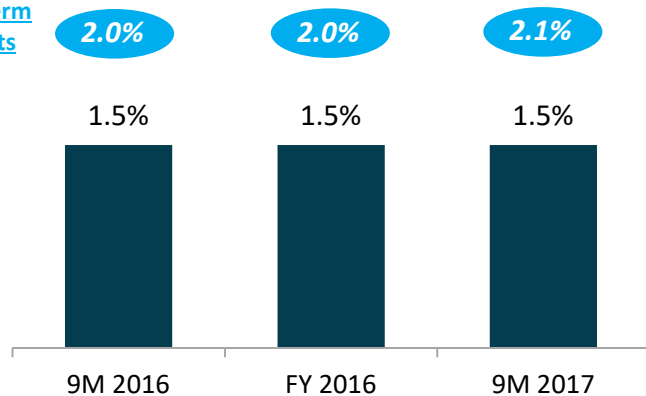
- Current account stock, of which 82% is corporates, slightly up q/q

- ~27% of term deposits from Germany/Austria

- In October 2017, has been issued the first Senior public bond to institutional investors: 3Y; €175m; Fixed rate 175bps

Retail Funding Cost

Cost Term Deposits



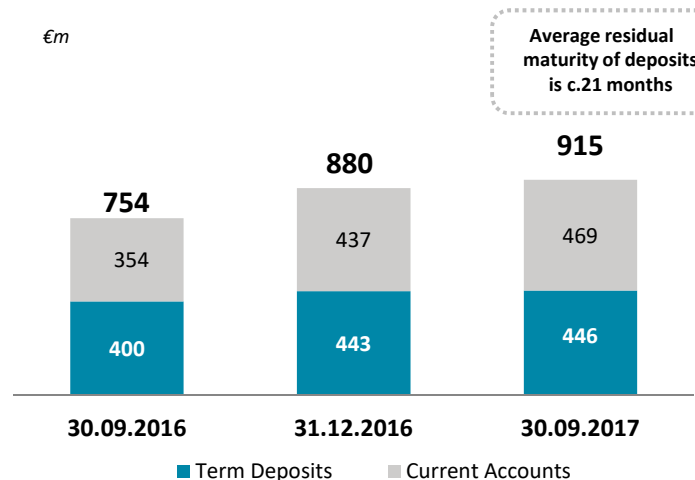
2.0%

2.0%

2.1%

Retail Funding

€m



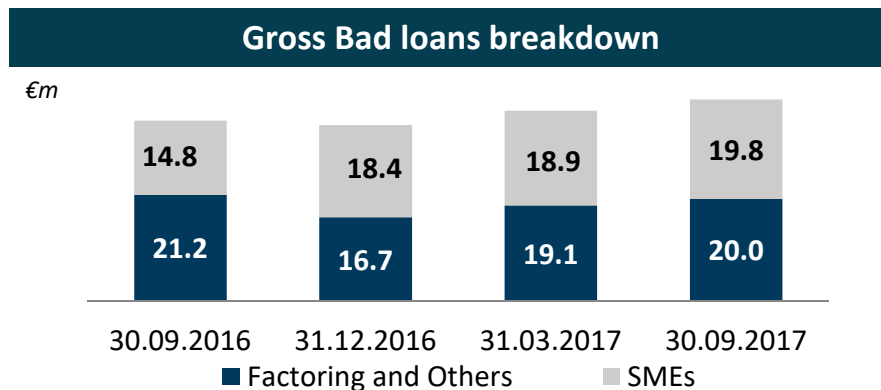
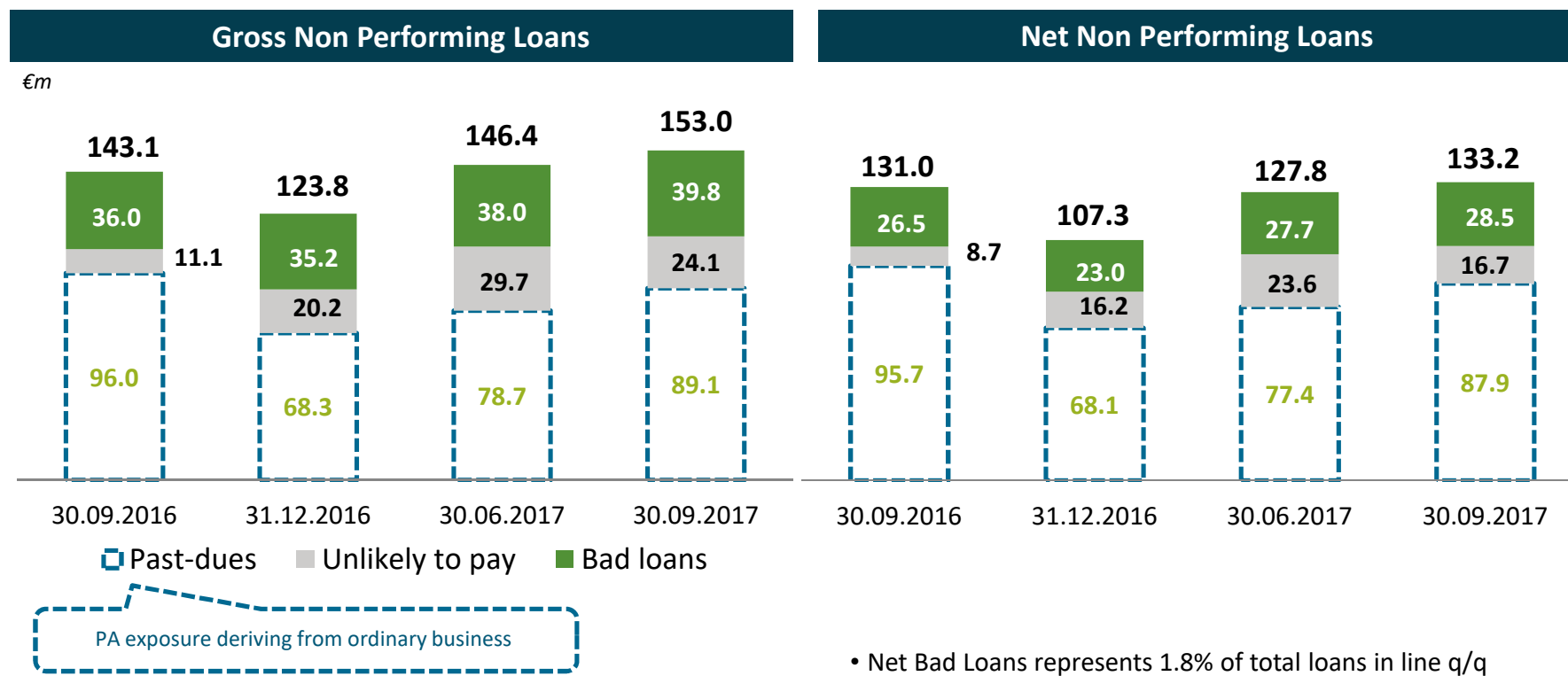
Average residual maturity of deposits is c.21 months

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

- Wholesale funding includes the CQ securitizations, "Quinto Sistema 2016" used as collateral for ECB funding and "Quinto Sistema 2017" used as a collateral for a REPO with a bank

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).

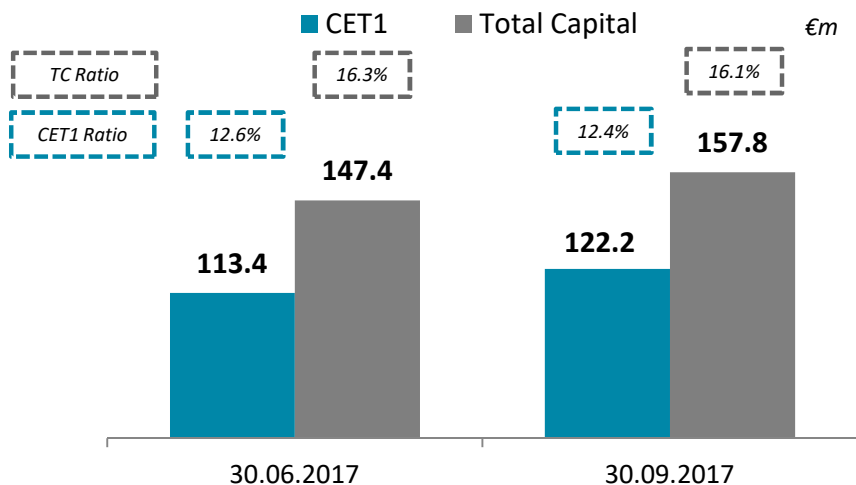
Conservative risk policy in all the business lines



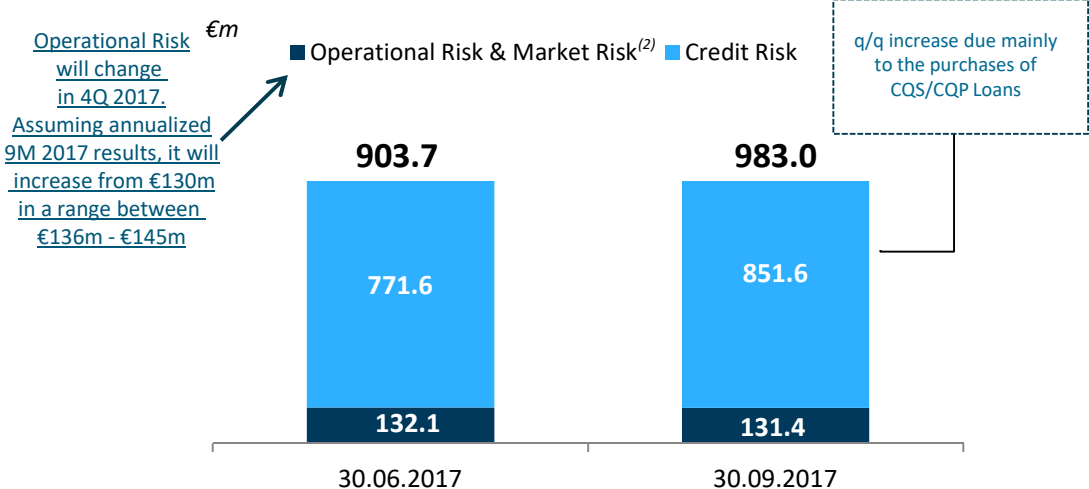
- Net Bad Loans represents 1.8% of total loans in line q/q
- Bad loans slight increase q/q was due to some deterioration of SMEs State Guaranteed loans portfolio and some factoring positions
- Past-dues is mainly attributed to factoring receivables without recourse from the Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection
- 9M 2017 Loan loss provisions in line with expectations, in 3Q 2017 mainly on factoring

Regulatory Capital

CET1 and Total Capital⁽¹⁾

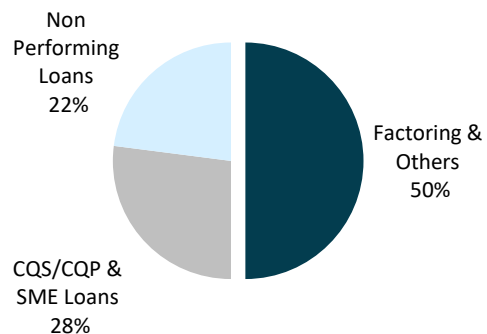


RWA breakdown

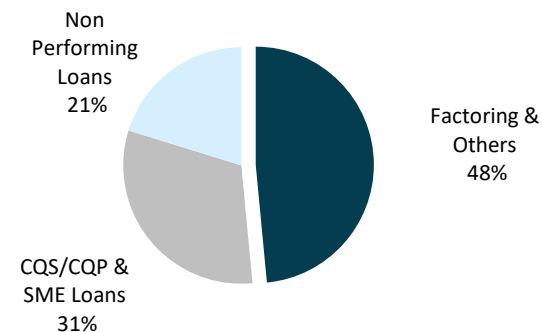


RWA – Credit Risk

30.06.2017



30.09.2017

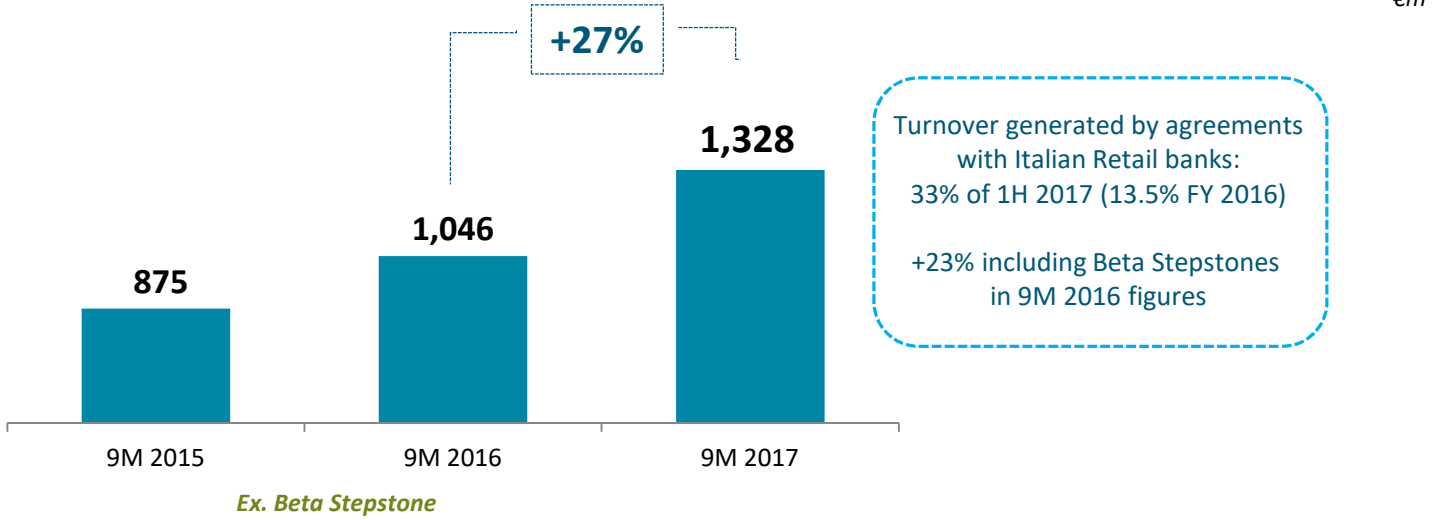


Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €1.6m as at 30.06.2017 and €0.9m as at 30.09.2017.

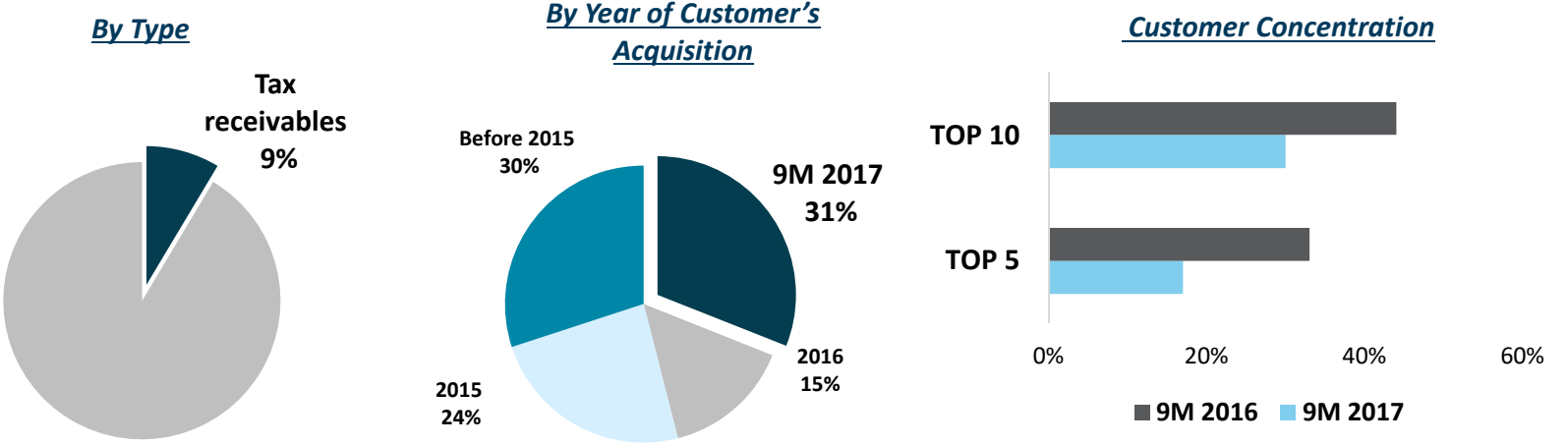
Appendix

Factoring Turnover

Factoring Turnover

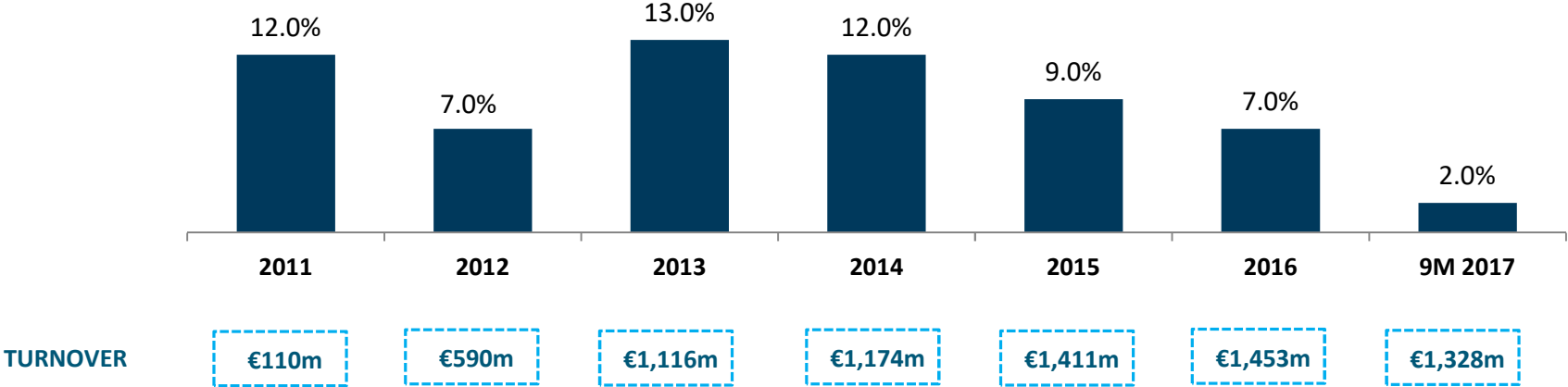


9M 2017 Factoring Turnover breakdown



Factoring LPIs

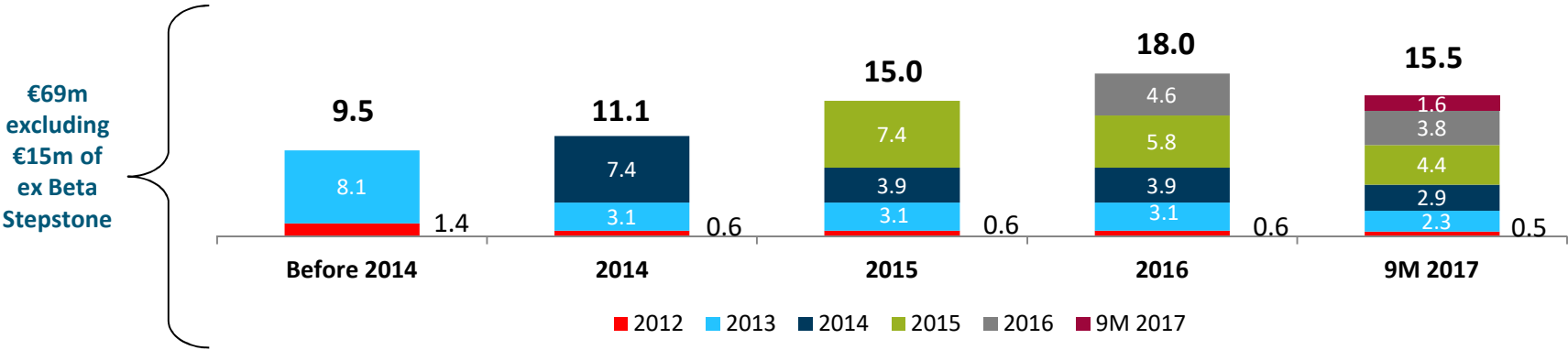
% of Turnover under Legal Collection, PER VINTAGE, as at 30.09.2017



Total factoring LPIs, PER YEAR, related to loans under Legal collection as at 30.09.2017

€m

Average LPIs accrual in 9M 2017 was 38%



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