
BANCA

S I S T E M A
SPECIALTY FINANCE

1H 2019 RESULTS

31 July 2019

1H 2019 Results at a Glance

Commercial performance

- **Factoring Turnover +25% y/y** equal to €1.4bn
- **Tax receivables represent 27%** of 1H 2019 factoring outstanding
- **CQS/CQP outstanding** reached €751m, **+32% y/y**

P&L

- **Interest Income** equal to €34.5m, **+6% y/y**
- **Cost of funding lower y/y at 0.8%**
- **Total Income** equal to €44.1m, **+8% y/y, driven by higher core business growth**
- **LLPs** equal to **€4.8m higher y/y** and lower q/q
- **Total operating costs +14% y/y, following Atlantide merger**
- **Net Income stable y/y**, equal to €11.2m
- **2Q 19 Net Income adjusted for Atlantide merger, +17% y/y**, equal to €7.6m

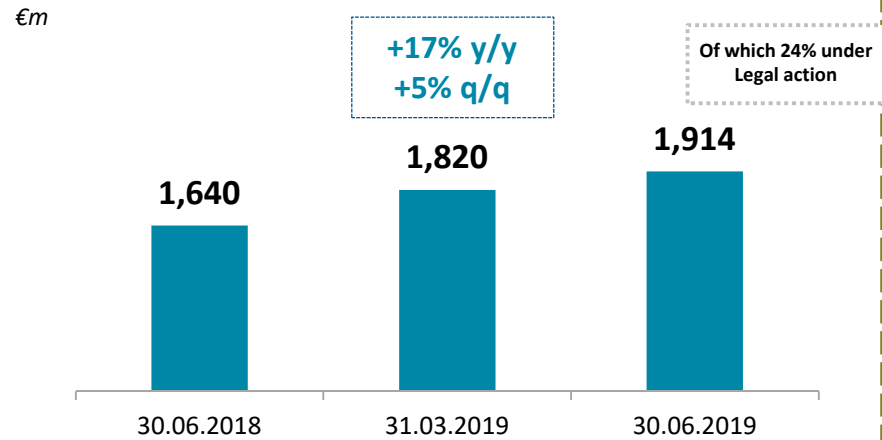
Balance Sheet

- **Term deposits:** Strong growth since 3Q 18 in particular from the foreign component
- Lower Govies' ptf q/q
- Wholesale Funding cost and duration will benefit from an increasing **TLTRO III** amount
- €6m **TIER2** bond issue in Q2 2019
- **CET1 ratio pro-forma at 12.4%**

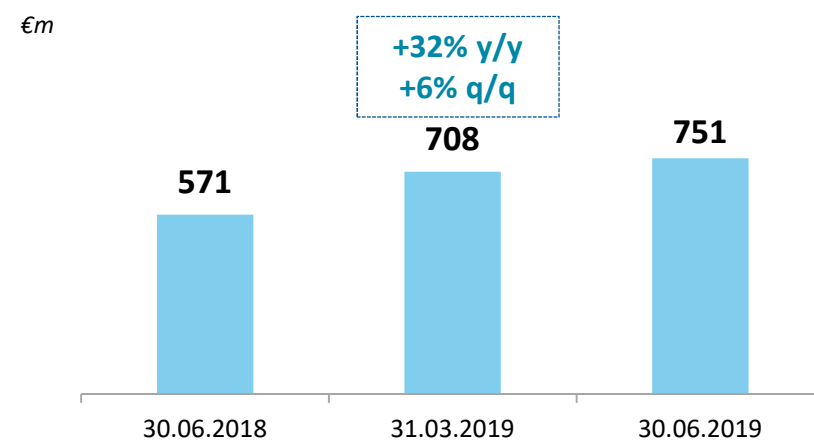
Note: CET 1 ratio pro-forma is based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to regulation 876/2019 to be applied starting on 28 June 2021. The regulatory CET1 ratio on the same date came in at 10.8%, higher q/q.

Core business assets outstanding is growing

Factoring outstanding

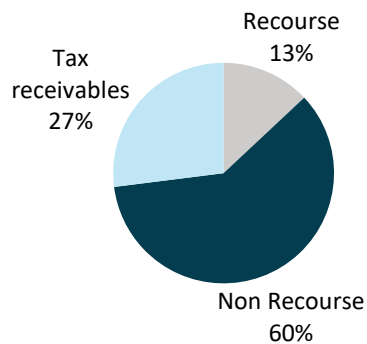


CQ Loans outstanding

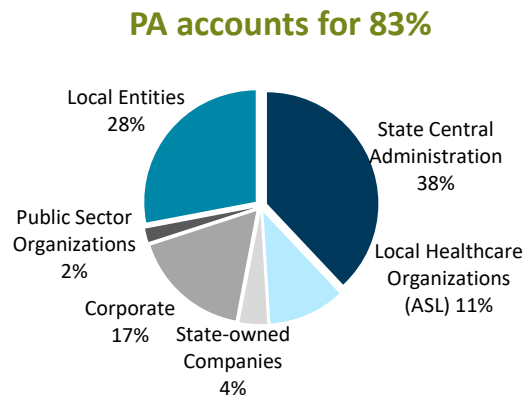


Outstanding breakdown (30.06.2019)

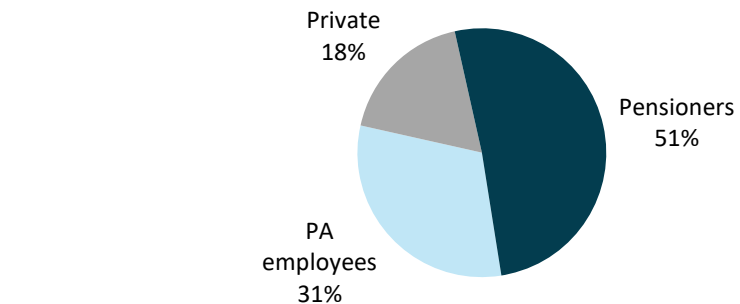
By Type of Product



By Obligor



Outstanding breakdown by Type (30.06.2019)



- €138m turnover in 1H 2019 (since April including also Atlantide/direct origination)
- 82% PA risk exposure

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.

1H 2019 – Balance Sheet

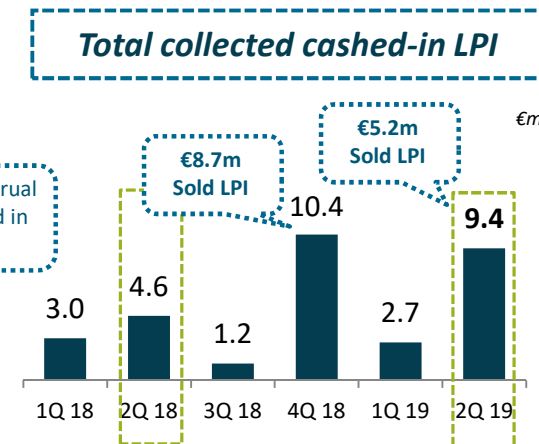
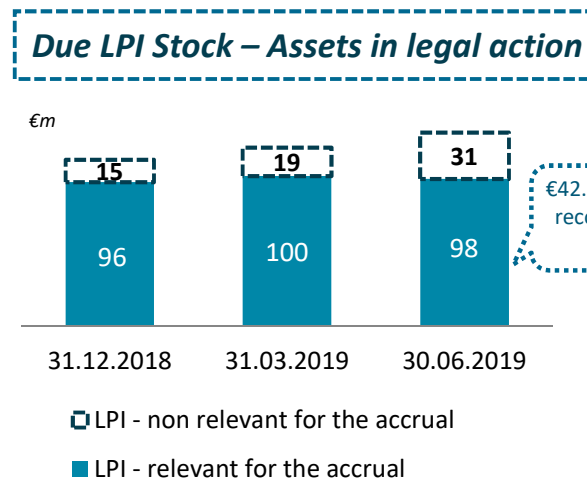
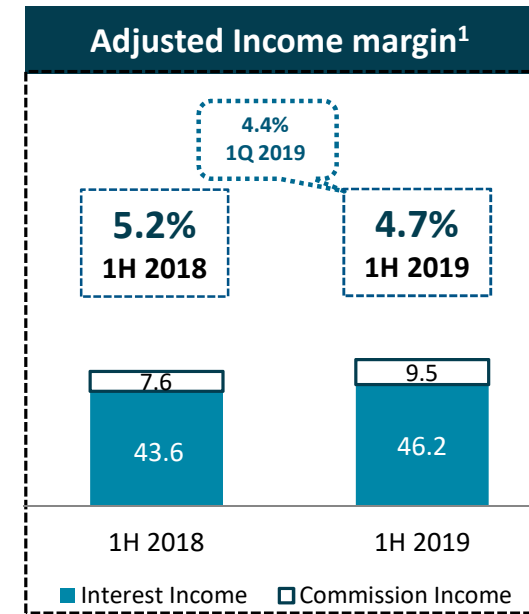
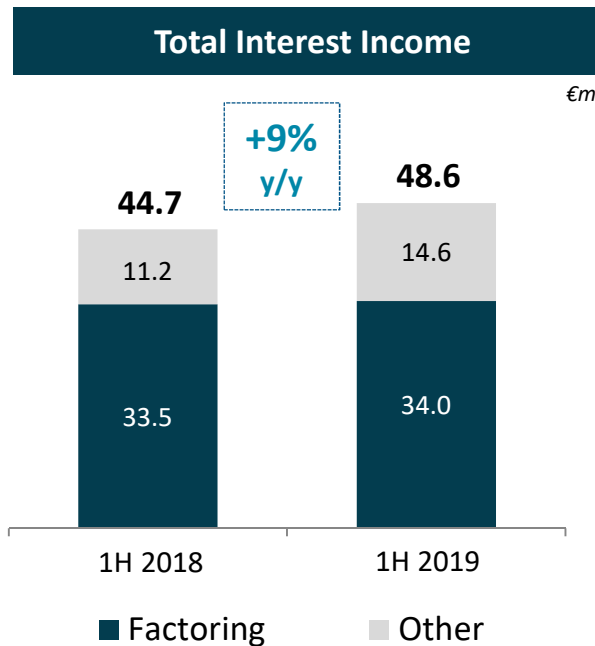
Figures in millions of Euro

	31.12.2018	31.03.2019	30.06.2019	Change in % 31.12.2018 vs 30.06.2019
ASSETS				
Financial assets at fair value through P&L [Held to Sell]	-	262	-	nm
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	304	541	361	19%
Loans at amortized cost	2,352	2,569	2,672	14%
Factoring	1,567	1,704	1,791	14%
CQ	652	708	751	15%
SMEs State Guaranteed loans	28	23	20	-29%
Other	105	134	110	5%
Securities at amortized cost	435	435	435	nm
Tangible and Intangible assets	30	31	33	10%
Non-current assets held for sale and discontinued operations	2	-	-	nm
Equity investments	1	1	-	nm
Other assets	21	21	22	5%
Total assets	3,145	3,860	3,523	12%
LIABILITIES AND EQUITY				
Due to banks	695	515	527	-24%
of which ECB exposure	413	433	418	1%
Due to customers	1,899	2,774	2,418	27%
of which term deposits	958	1,156	1,226	28%
of which current accounts	657	563	587	-11%
Debt securities issued	305	307	313	3%
Other liabilities	93	106	107	14%
Shareholders Equity	153	158	158	3%
Total liabilities and equity	3,145	3,860	3,523	12%

- Govies' portfolio (€790m) down q/q, with an average residual duration of 18 months (21 months as at 31.12.2018) mainly due to 0 HtS exposure, includes €355m 'Held to Collect and Sell', lower q/q, with an average residual duration of 15 months
- Loans at amortized cost up 14% (€2,672m):
 - Factoring receivables up 14% at €1.8bn (€1.6bn as at 31.12.2018), thanks to the turnover originated in 1H 2019
 - CQ loans +15%
- Intangible assets increase is due to the goodwill from Atlantide acquisition/merger (€2.1m)
- Equity investments decrease is due to the sale of the stake in ADV Finance and Procredit
- Due to customers decrease q/q is driven mainly by repos following lower Govies' ptf
- Debt securities up q/q due to €6m TIER 2 bond issue

Interest Income growth driven by higher assets

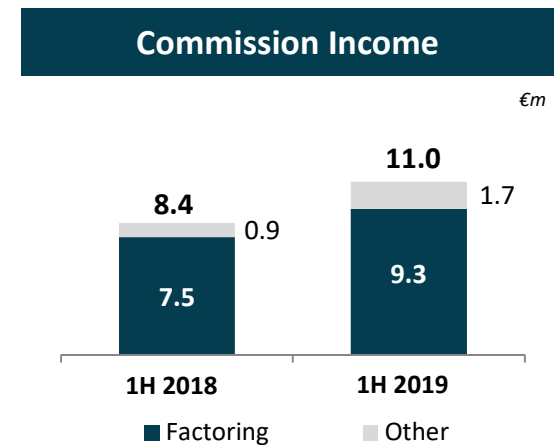
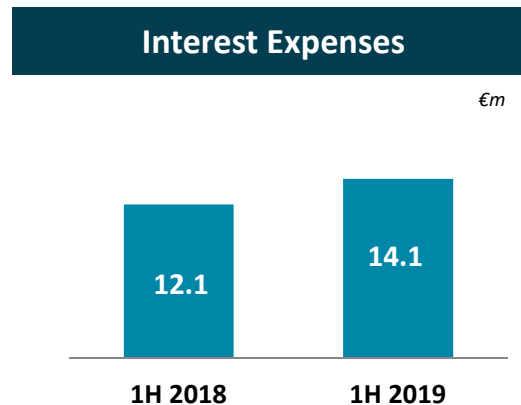
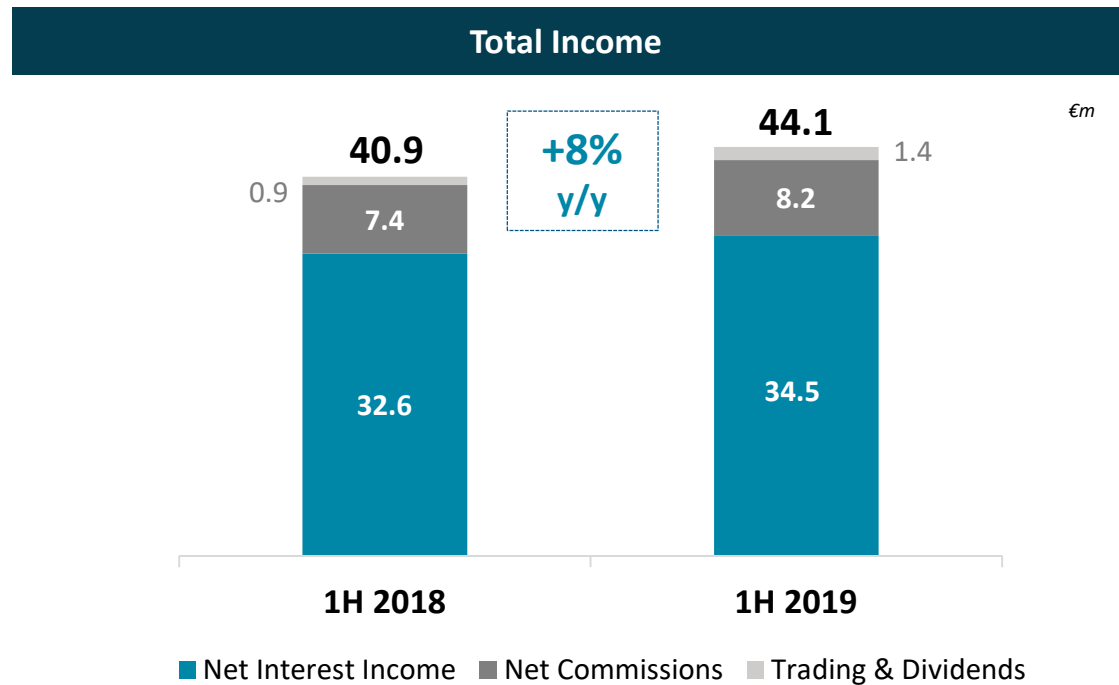
- 1H 2019 Interest Income is up 9% y/y, growth is driven by higher assets, Factoring, CQ and Govies' ptf
- Factoring represents 70% of Total Interest Income
- Higher y/y Interest Income is mainly driven by CQ and Govies' ptf higher contribution. Q/q higher contribution is mainly driven by factoring
- Factoring higher contribution y/y on P&L is driven by LPIs from legal action, in 1H 2019 equal to €11.9m (€10.7m in 1H 2018):
 - of which accrual €5.4m lower y/y (€7.3m in 1H 2018)
 - of which "extra collection" €6.4m higher y/y and q/q (€3.4m in 1H 2018)
- Adjusted Income margin higher q/q, driven by factoring. Y/y reduction is mainly driven by factoring margin and the higher weight of CQ on total customer loans
- CQ profitability is stable y/y and q/q



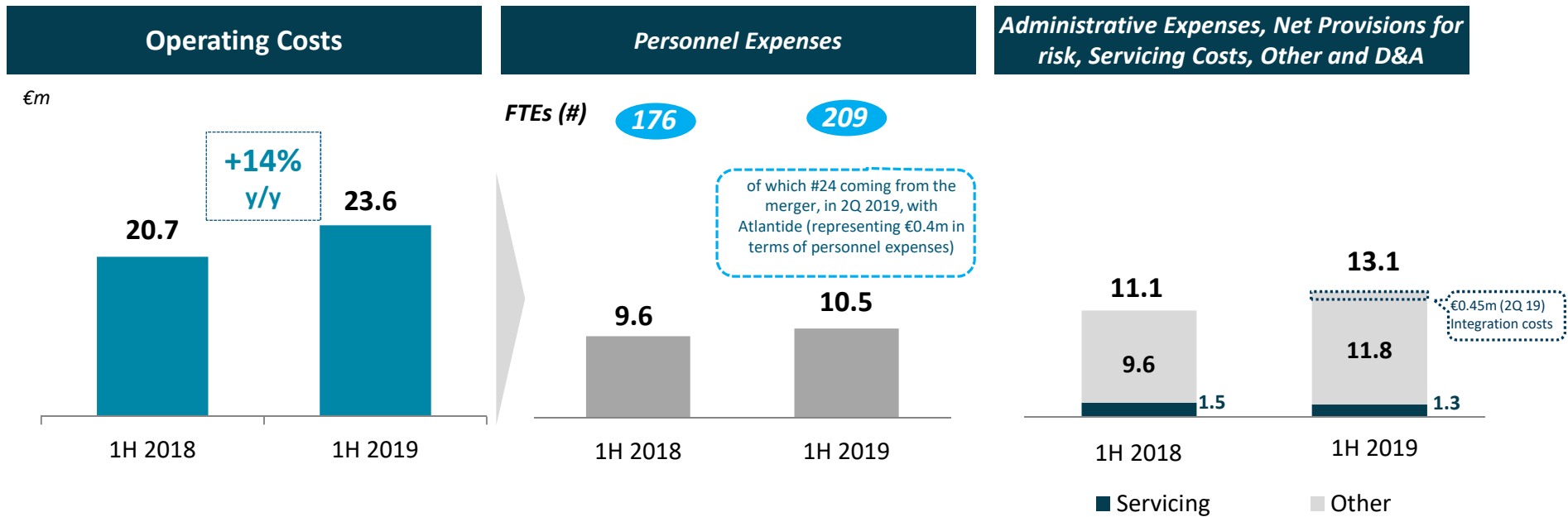
Note: (1) Calculated as $[\text{Period Interest Income} + \text{Commission Income}] / [\text{Average end of period net customer loans}]$ - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

Total Income supported by business growth

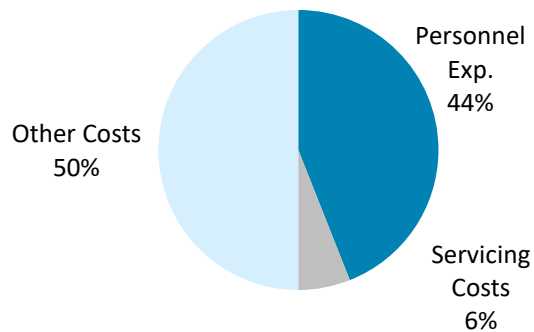
- 1H 2019 Total Income is up 8% y/y, growth is mainly driven by higher Net Interest Income (NII) and higher Net Commissions
- NII y/y increase is driven by Interest Income increase that has more than compensated higher Interest Expenses. Cost of funding (0.8%) is lower y/y and slightly lower also vs FY 2018 (0.9%)
- Net Commissions increase y/y is due to higher Commission Income driven by factoring turnover growth. Higher Commission Expenses are due to the strong growth of the term deposits raised abroad through online platforms. In Q2 2019, commission income and expenses include direct CQ component
- Positive contribution of the Govies' portfolio



Operating costs up y/y for business growth and Atlantide



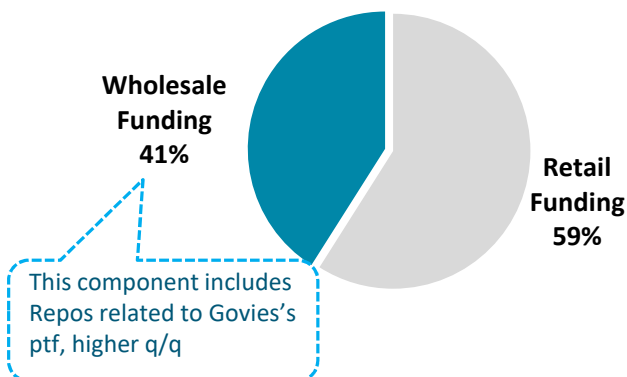
Operating Costs Breakdown



- Other costs are higher y/y for:
 - One-off integration costs for Atlantide merger of €0.45m
 - Slightly higher Admin expenses (including €1.1m contribution to the National Resolution Fund, €0.3m in Q2), due to legal fees, IT expenses and also Atlantide €0.5m other costs (in Q2 2019)
 - Higher 'Net Provisions for risk and charge' related to a tax receivable and risk for ongoing litigation

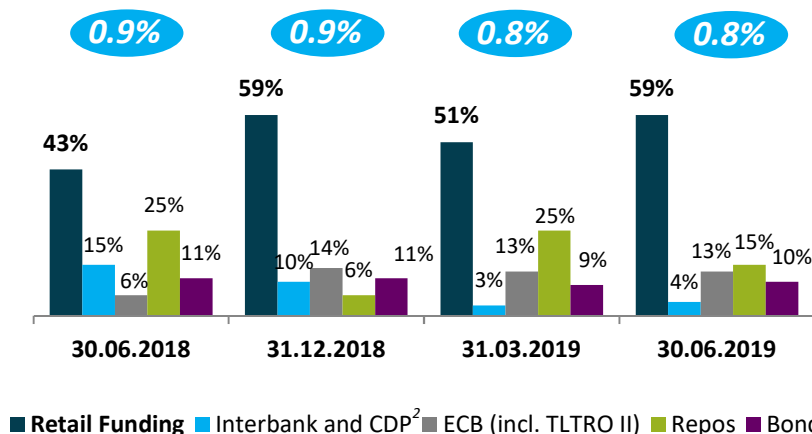
Lower funding cost y/y

Total Funding breakdown



Total Funding breakdown

Funding Cost¹



- Cost of funding slightly lower y/y

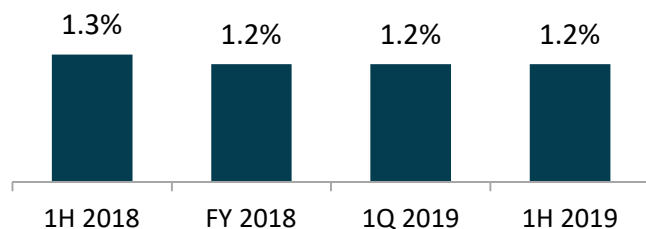
- Wholesale q/q decrease is due mainly to Repos related to the decrease q/q of Govies's ptf. While ECB financing, equal to €418m is slightly lower q/q, interbanking is higher q/q

- Term Deposits stock has registered a strong increase during the last four quarters, due to the growth of the foreign component (as at 30.06.2019, 60% of total term deposits)

- Current accounts stock is slightly up q/q

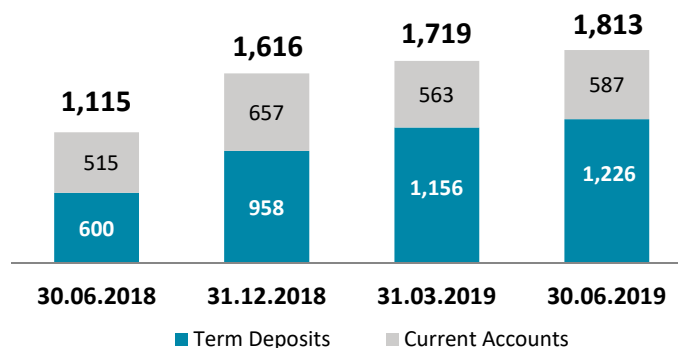
- No wholesale bond maturities in 2019. T2 bond issue in Q2 2019 (€6m)

Retail Funding Cost



Retail Funding

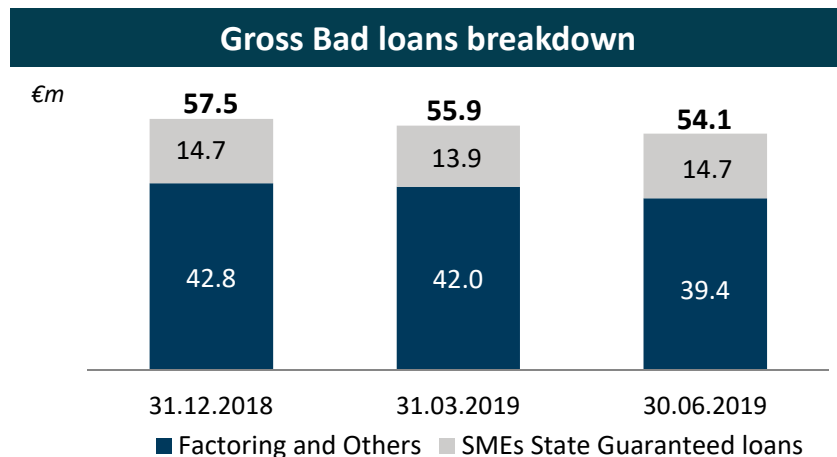
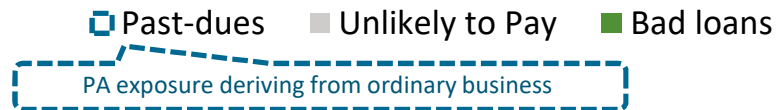
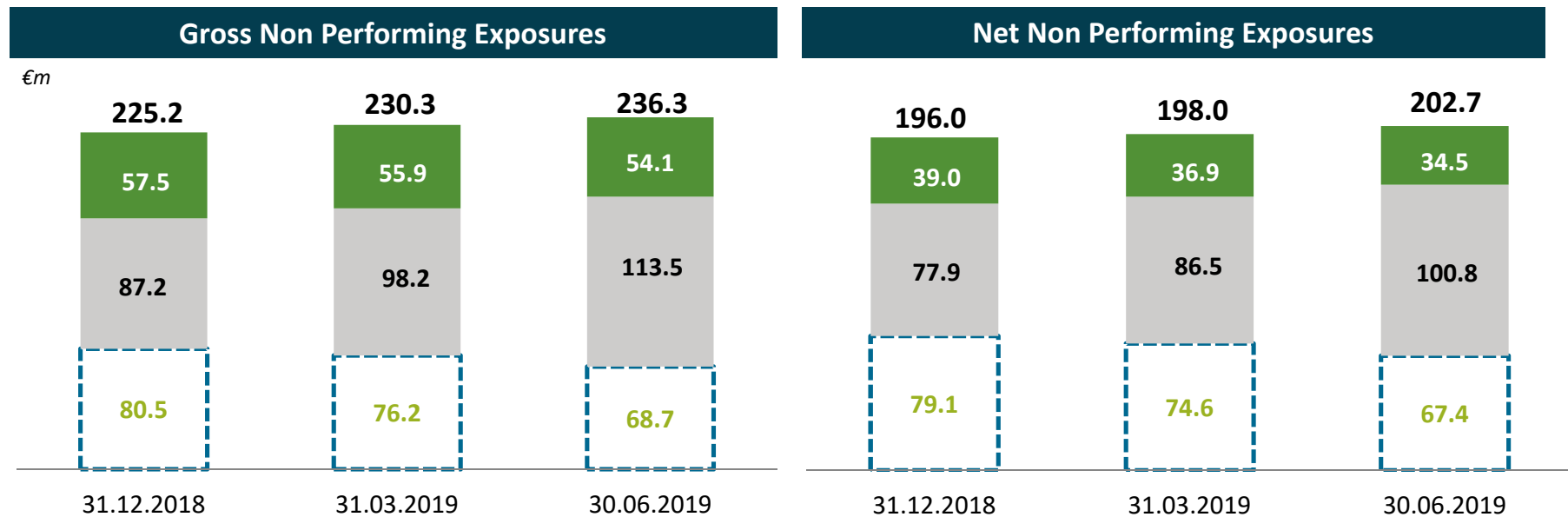
€m



Average residual maturity of deposits is c.14 months

Notes: (1) 2018 funding cost figures do not benefit from -40bps ECB TLTRO II funding; (2) CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

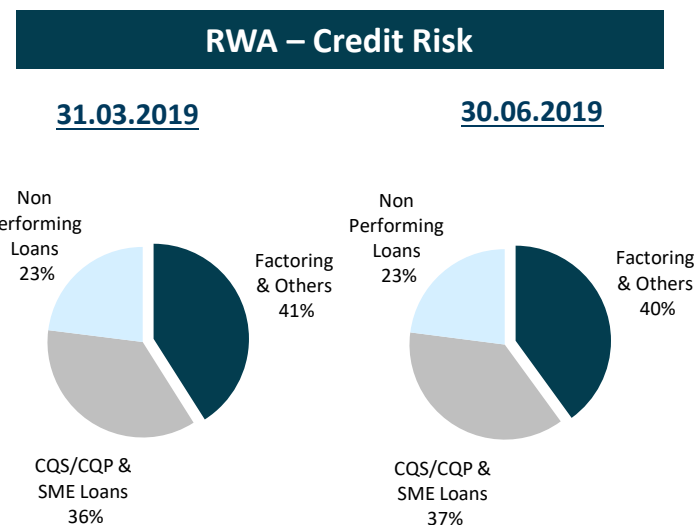
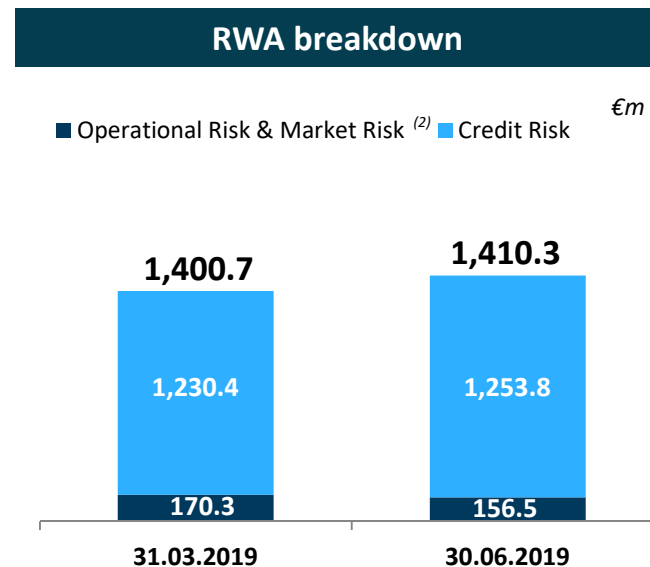
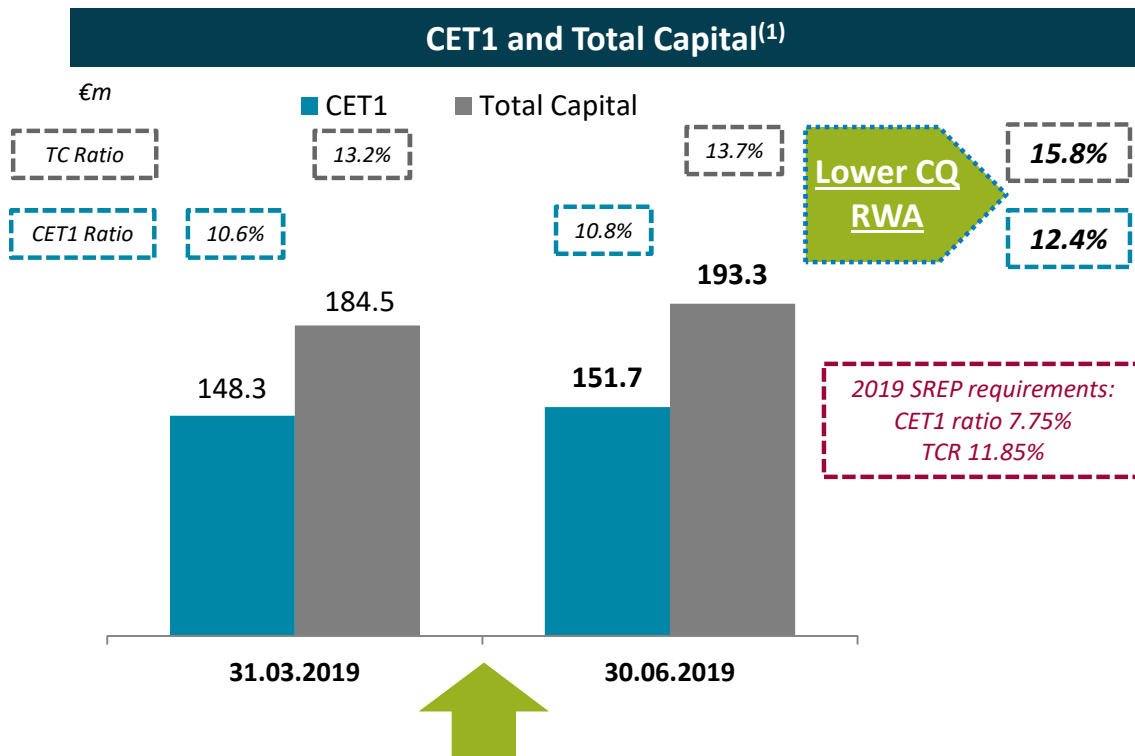
Asset Quality driven by factoring business



- Gross Non Performing Exposures substantially stable in the last two quarters
- Net Bad Loans represents 1.3% of total loans lower q/q
- Unlikely to Pay increase is due to 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
- 1H 2019 Cost of credit risk is up at 38bps, due to higher y/y Loan Loss Provisions (€4.8m), lower q/q

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. (+) €6.7m Net Income
2. (-) Merger of Atlantide with €2.1m goodwill
3. (=) substantially stable RWA
4. (+) lower Market Risk as a consequence of no Govies' exposure classified as 'Helt to Sell'
5. (+) €6m T2 bond fully eligible for Total Capital

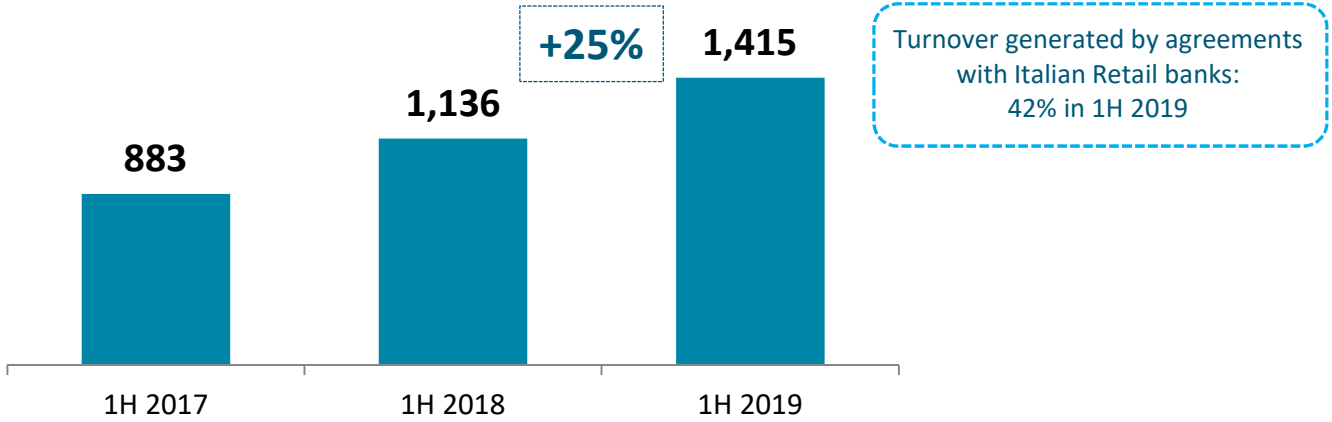
Note: (1) CET1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income; (2) RWA – Market Risk c. €13.8m as at 31.03.2019 and almost 0 as at 30.06.2019.

Annexes

Factoring Turnover

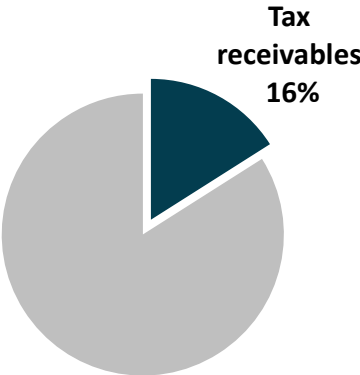
Factoring Turnover

€m

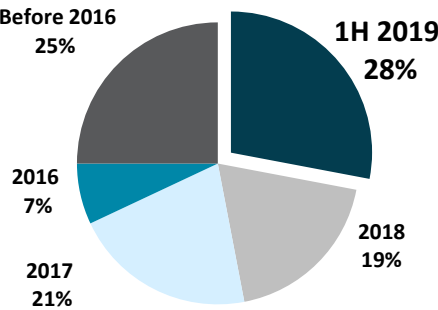


1H 2019 Factoring Turnover breakdown

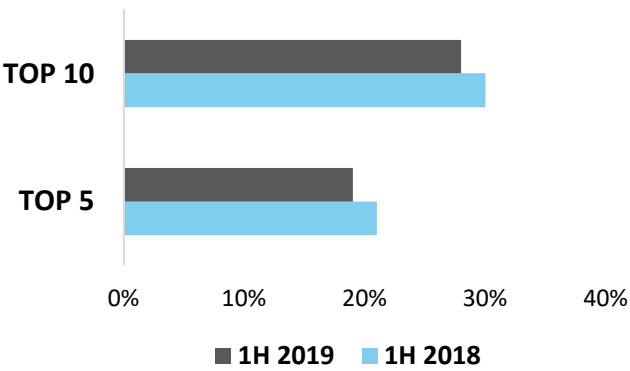
By Type



By Year of Customer's Acquisition



Customer Concentration



1H 2019 – Income Statement

Figures in millions of Euro

	1H 2018	1Q 2018	2Q 2018	1H 2019	1Q 2019	2Q 2019	1H 19 vs 1H 18 change in %
Interest income	44.7	20.0	24.7	48.6	21.6	26.9	9%
Interest expenses	(12.1)	(6.4)	(5.8)	(14.1)	(7.0)	(7.1)	17%
Net interest income	32.6	13.7	18.9	34.5	14.7	19.8	6%
Commission income	8.4	4.2	4.2	11.0	5.1	5.9	31%
Commission expenses	(1.1)	(0.6)	(0.4)	(2.8)	(1.1)	(1.7)	nm
Net commission	7.4	3.6	3.8	8.2	4.0	4.2	11%
Dividends and similar income	0.2	-	0.2	0.2	-	0.2	nm
Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	0.7	0.9	(0.2)	1.2	0.6	0.6	83%
Total income	40.9	18.1	22.8	44.1	19.3	24.8	8%
Net impairment losses on loans	(2.9)	(1.1)	(1.9)	(4.8)	(2.6)	(2.1)	62%
Net operating income	37.9	17.0	20.9	39.3	16.7	22.6	4%
Personnel expenses	(9.6)	(4.8)	(4.8)	(10.5)	(4.9)	(5.6)	10%
Other expenses	(11.1)	(5.1)	(6.0)	(13.1)	(5.9)	(7.2)	18%
Operating expenses	(20.7)	(9.9)	(10.8)	(23.6)	(10.8)	(12.8)	14%
Profits from equity investments	(0.2)	-	(0.2)				nm
Pre-tax profit from continuing operations	17.0	7.1	9.9	15.8	5.9	9.8	-7%
Taxes on income for the period/year from continuing operations	(5.8)	(2.4)	(3.4)	(5.2)	(2.0)	(3.2)	10%
Profit after tax from discontinued operations	-	-		0.6	0.6		nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	11.2	4.7	6.5	11.2	4.5	6.7	nm

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