
BANCA

S I S T E M A
SPECIALTY FINANCE

1H 2020 RESULTS

31 July 2020

1H 2020 Results at a Glance

Commercial performance

- **Factoring Turnover** +2% y/y equal to €1,438m (+8% y/y ex. Tax Receivables and Receivables related to Football industry)
- **CQS/CQP outstanding** reached €891m, +19% y/y
- **Gold/ jewelry backed loans outstanding** at €13m, +61% y/y

P&L

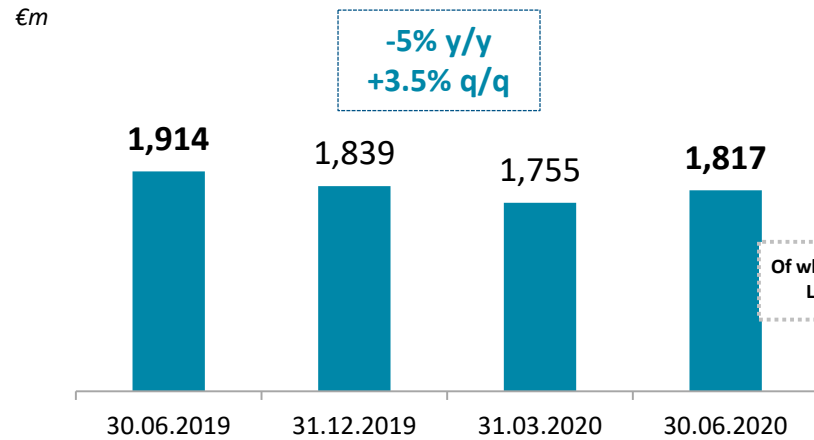
- **Net Interest Income** equal to €33.3m, -3% y/y
- **Lower funding cost y/y at 0.6%**
- **Total Income** equal to €45.9m, +4% y/y
- **Cost of risk equal to 37bps**; €5.1m LLPs (+6% y/y) in line with expectations
- **Total operating costs y/y increase** is mainly due to a higher contribution to the Single Resolution Fund (+€0.9 y/y) and Atlantide consolidation from 2Q 19
- **Net income +9% y/y**, equal to €12.1m (also up y/y without the gains from the sale of 25% stake in ProntoPegno in 1H 20 and 10% stake in Axactor Italy in 1H 19)

Balance Sheet

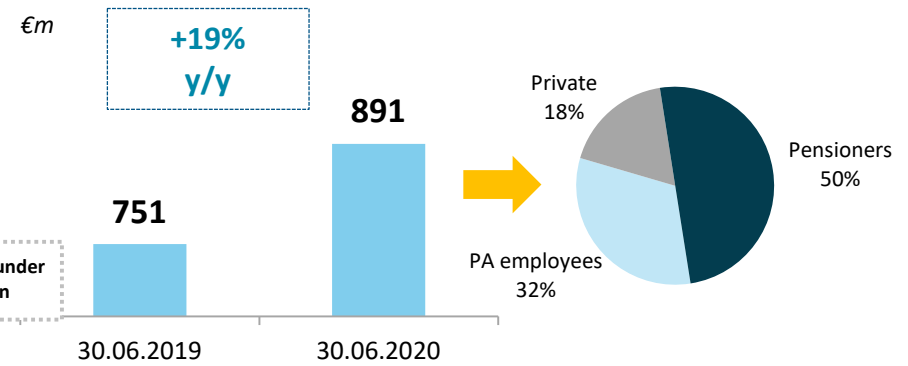
- **Wholesale Funding** (50% of Total Funds): BCE funding €691m, of which TLTRO III equal to €491m, higher q/q
- **CET1 ratio at 13.7% and TC ratio at 17.3%**, respectively 11.7% and 15.2% post acquisition of the Gold/ jewelry backed loans business unit

Commercial performance

Factoring outstanding



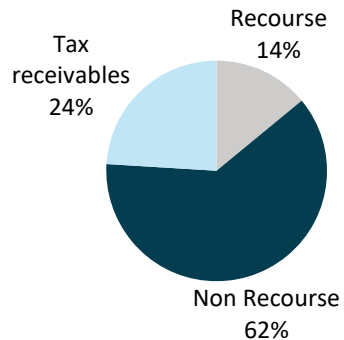
CQ loans outstanding



- €147m turnover in 1H 2020 (€138m in 1H 2019)
- 12% direct origination through agents/brokers

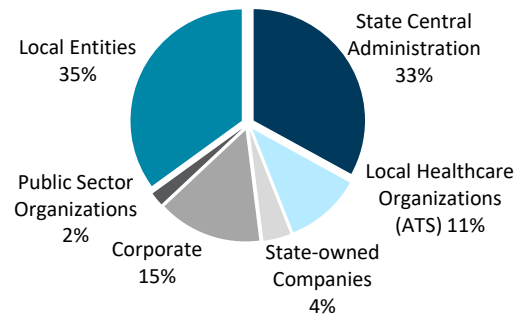
Outstanding breakdown (30.06.2020)

By Type of Product

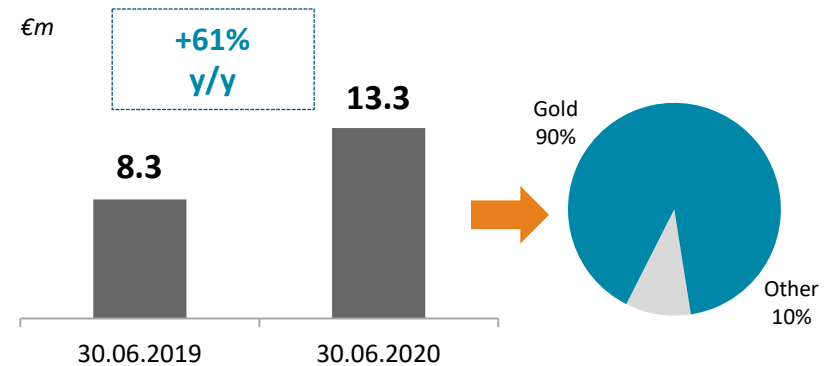


By Obligor

PA accounts for 85%



Gold/ jewelry backed loans outstanding



- Total turnover (including renewals): €10.6m (€7.6m in 1H 2019)
- «Other» includes Rolex watches and jewelry

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 2020 – Balance Sheet

Figures in millions of Euro

	31.12.2019	31.03.2020	30.06.2020	Change in % 30.06.2020 vs 31.12.2019
ASSETS				
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	556	749	754	36%
Loans at amortized cost	2,677	2,639	2,673	-0.1%
Factoring	1,715	1,629	1,638	-4%
CQ	817	866	891	9%
Gold/Jewelry backed loans	12	13	13	13%
SMEs State Guaranteed loans	12	10	16	33%
Other	121	121	115	-5%
Securities at amortized cost [Held to Collect]	435	315	447	3%
Tangible and Intangible assets	33	33	33	nm
Other assets	29	26	26	-10%
Total assets	3,730	3,762	3,933	5%
LIABILITIES AND EQUITY				
Due to banks	388	806	754	94%
<i>of which ECB exposure</i>	358	658	691	93%
Due to customers	2,552	2,164	2,317	-9%
<i>of which term deposits</i>	1,326	1,097	1,006	-24%
<i>of which current accounts</i>	682	640	700	3%
Debt securities issued	477	468	522	10%
Other liabilities	136	145	149	8%
Shareholders Equity	177	179	191	8%
Total liabilities and equity	3,730	3,762	3,933	5%

- **Govies' portfolio (€1,196m) up q/q**, with an average duration of 21.1 months, it includes €749m 'Held to Collect and Sell', with an average duration of 23.3 months

- **Loans at amortized cost up q/q (€2,673m)** and flat vs. 2019 year-end:

- **Factoring receivables down 4%** at €1.6bn (€1.7bn as at 31.12.2019)

- **CQ loans up q/q** and up vs 2019 year-end

- **"Gold/jewelry" stable q/q** and up 13% vs 2019 year-end

- **Due to banks q/q increase** is due to higher ECB funding equal to €691m (of which €491m TLTRO III)

- **Due to customers decrease q/q and vs 2019 year-end** is mainly driven by term deposits, in particular the foreign component, following the reduction of offered interest rates. Current accounts q/q stock increase is driven by Corporates

- **Debt securities slight increase q/q** is due to CQ Securitization

- **Other liabilities** include "2019 Dividend" not distributed (~€7.5m)

Interest income mainly driven by factoring LPI

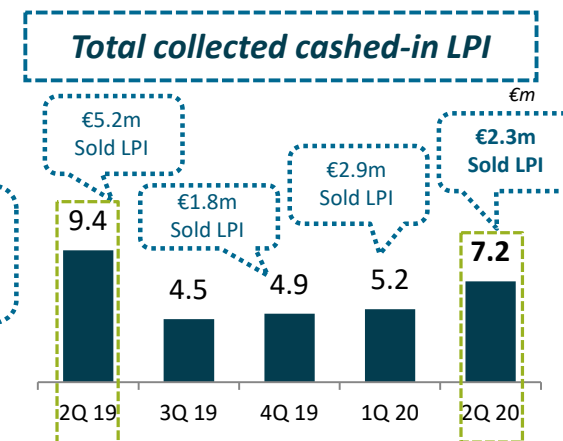
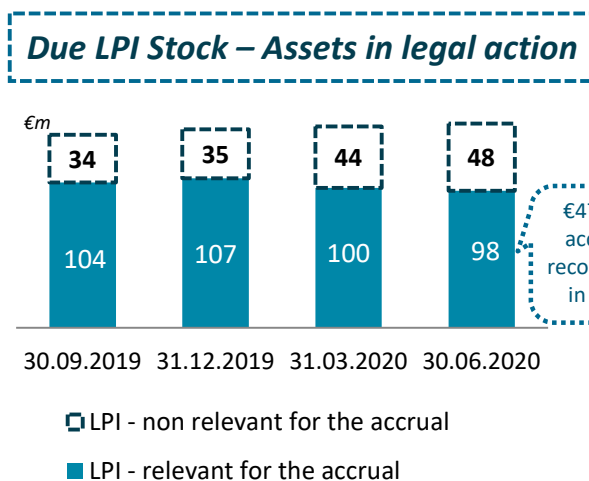
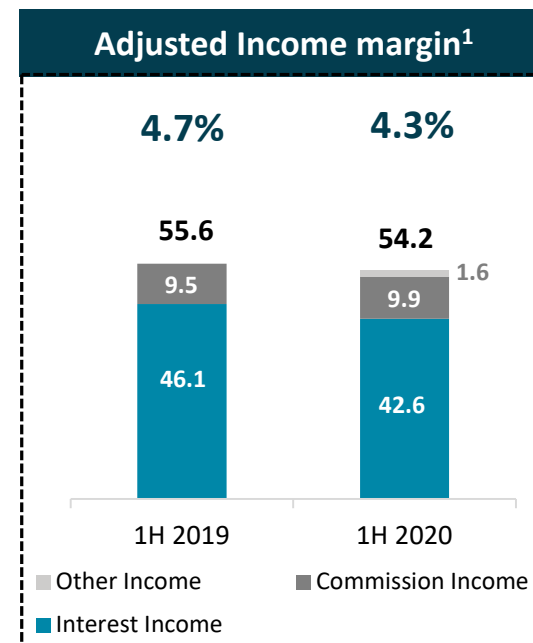
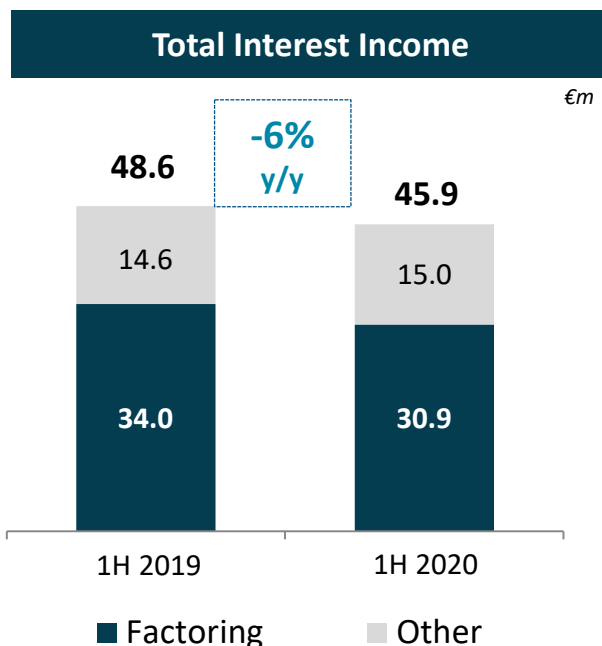
- 1H 2020 Interest Income is down 6% y/y, drop is driven mainly by lower contribution of Factoring LPI in 2Q 20 vs 2Q 19

- Factoring represents 67% of Total Interest Income

- Lower contribution y/y by **factoring LPIs from legal action** (32% of the factoring Interest Income; it was 36% FY 2019), in 1H 2020 equal to 9.9m (€11.9m in 1H 2019):

- of which accrual €3.7m (€5.4m in 1H 2019)
- of which “extra collection” €6.3m (€6.4m in 1H 2019)

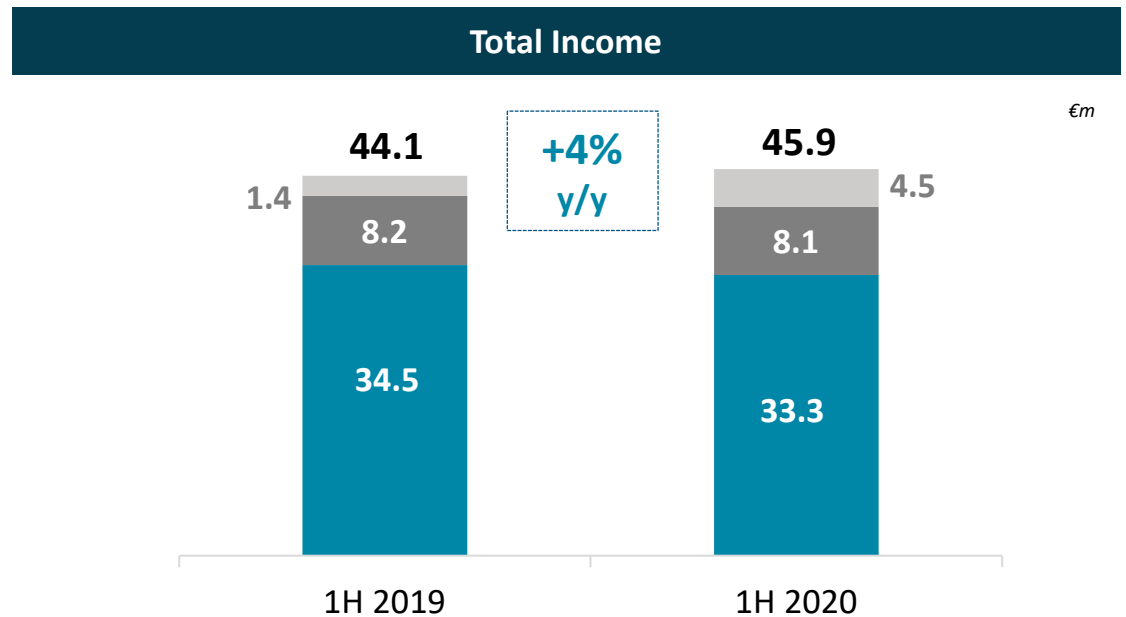
- Adjusted Income margin down y/y, driven by CQ.



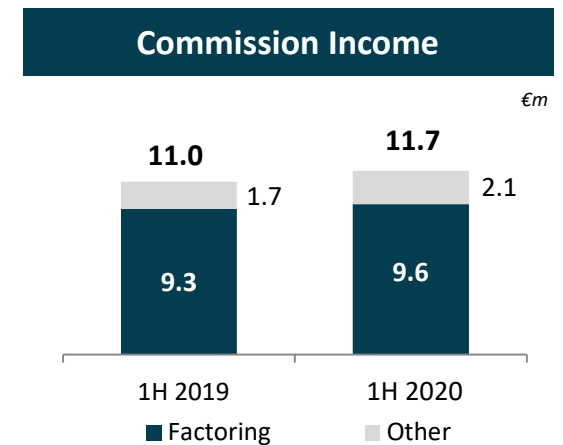
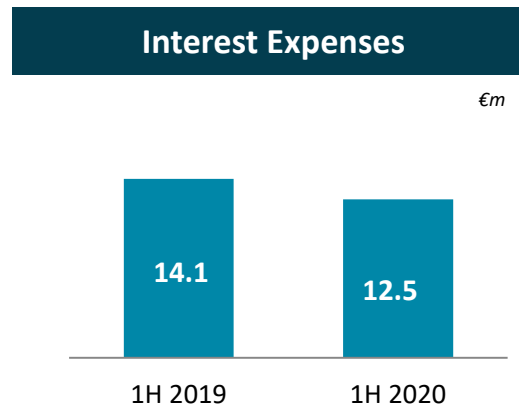
Note: (1) Calculated as [Period Interest Income + Commission Income] / [Average end of period net customer loans] - excluding the contribution from securities portfolio, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

Total Income supported by business growth

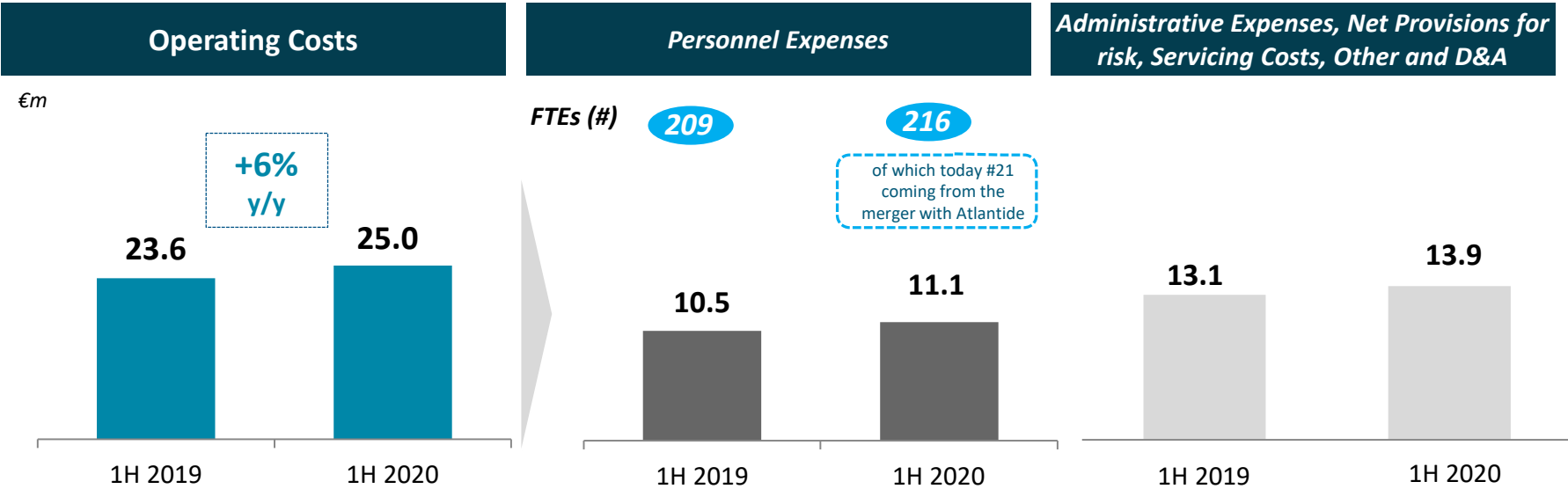
- **1H 2020 Total Income is up 4% y/y**, thanks to the contribution of **Other Income** (Trading and Dividends)
- **NII y/y decrease, 3%**, is driven by **Interest Income decrease**. Total Cost of funding (0.8% in 2019) is lower y/y, equal to 0.6% and also interest expenses are lower y/y.
- **Net Commissions substantially stable y/y**. Commission Income up y/y. Since Q2 2019, commission income and expenses include CQ component from direct origination
- **Gold/jewelry backed loans contribution on Total Income in 1H 2020: €0.8m**
- **Trading & Dividends** includes €1.6m gain from the sale of a factoring ptf in 1H 2020 (€0.3 in 2Q 20)
- Higher contribution of the **Govies' portfolio, €4.9m** (€3.5m in 1H 2019) of which €2.3m to the NII (€2.3 in 1H 2019)



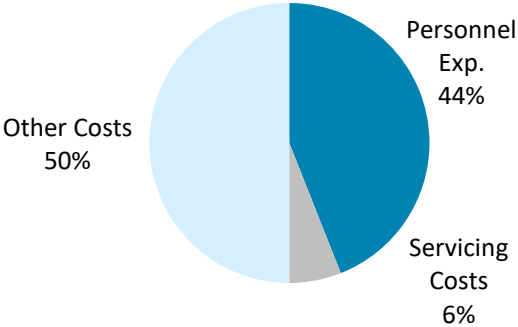
■ Net Interest Income ■ Net Commissions ■ Trading & Dividends



Costs up mainly due to the contribution to the SRF



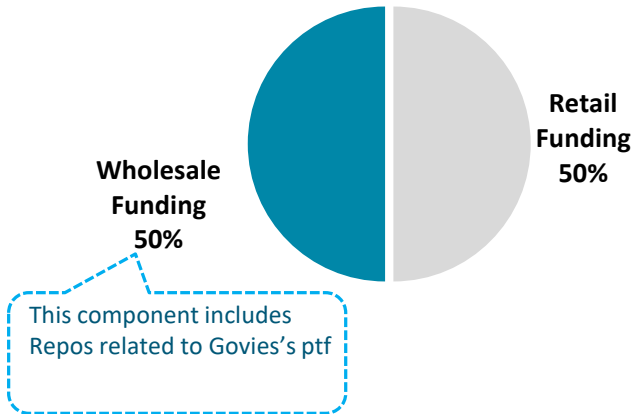
Operating Costs Breakdown



- Atlantide quarterly contribution to the cost base since Q2 2019 is around €0.6m per quarter
- Other expenses stable y/y excluding the higher contribution to the Single Resolution Fund (SRF) for +€0.9m (total contribution in 1H 2020 equal to €2.0m)

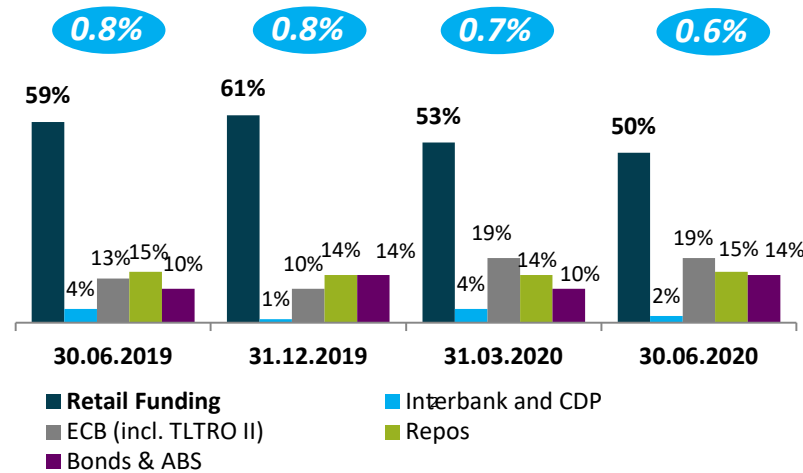
Lower funding cost y/y

Total Funding breakdown



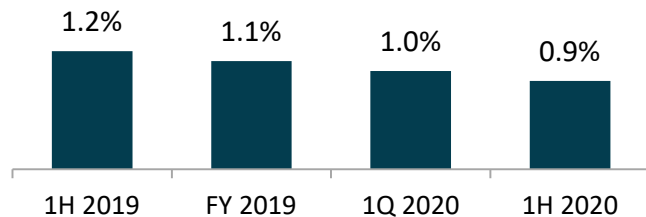
Total Funding breakdown

Funding Cost



- Cost of funding lower y/y and q/q
- Wholesale component q/q increase is due mainly to higher ECB funding equal to €691m of which €491m TLTRO III (max TLTRO III allowance €491m)
- Retail Funding down q/q, 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

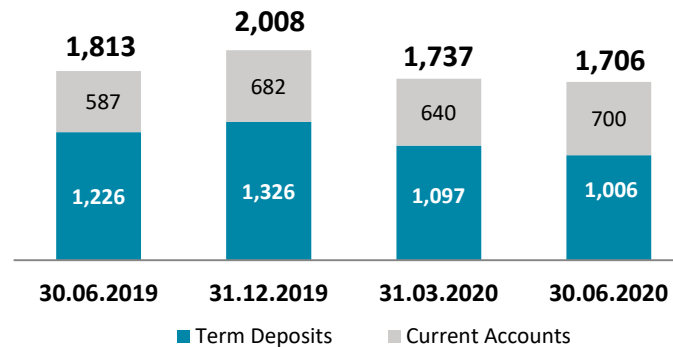
Retail Funding Cost



Retail Funding

€m

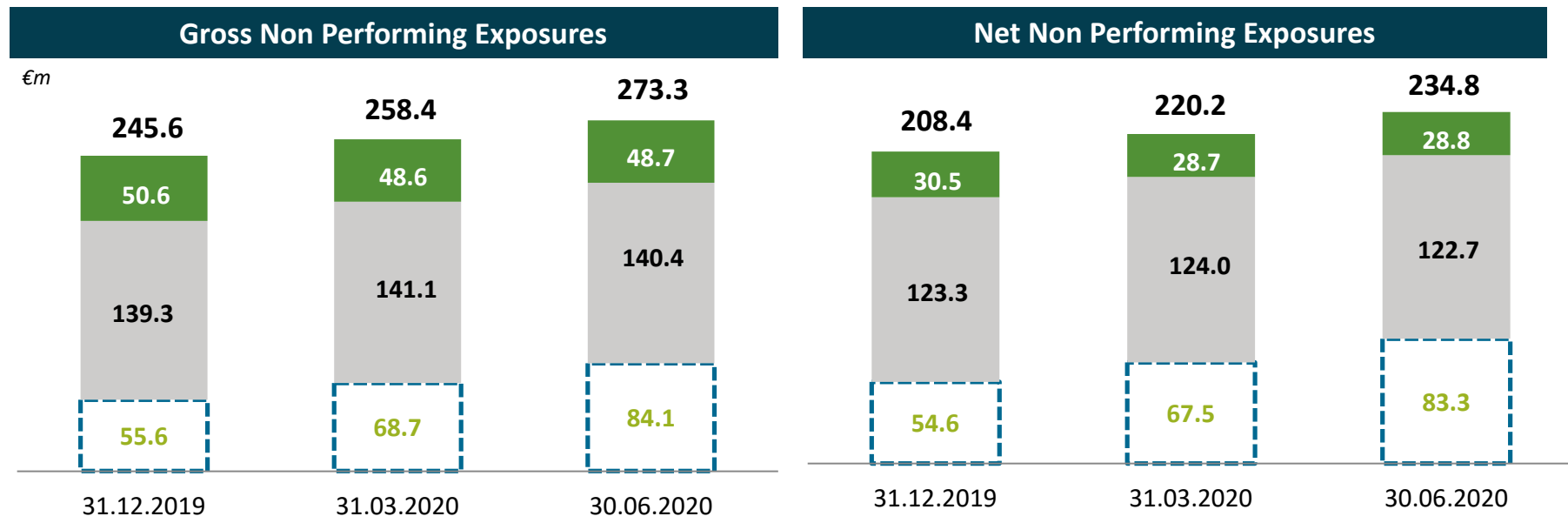
Average residual maturity of deposits is c.14 months



- Current accounts q/q increase is driven by higher Corporate accounts

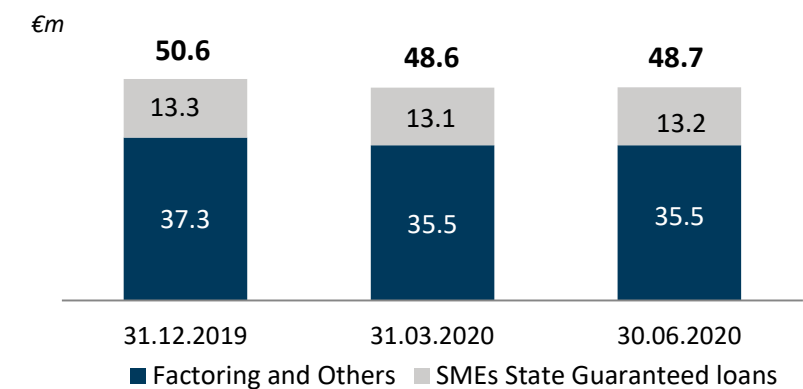
Notes: CDP stands for Cassa Depositi e Prestiti (in particular is referring to a credit line).

Asset Quality driven by factoring business



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

Gross Bad loans breakdown

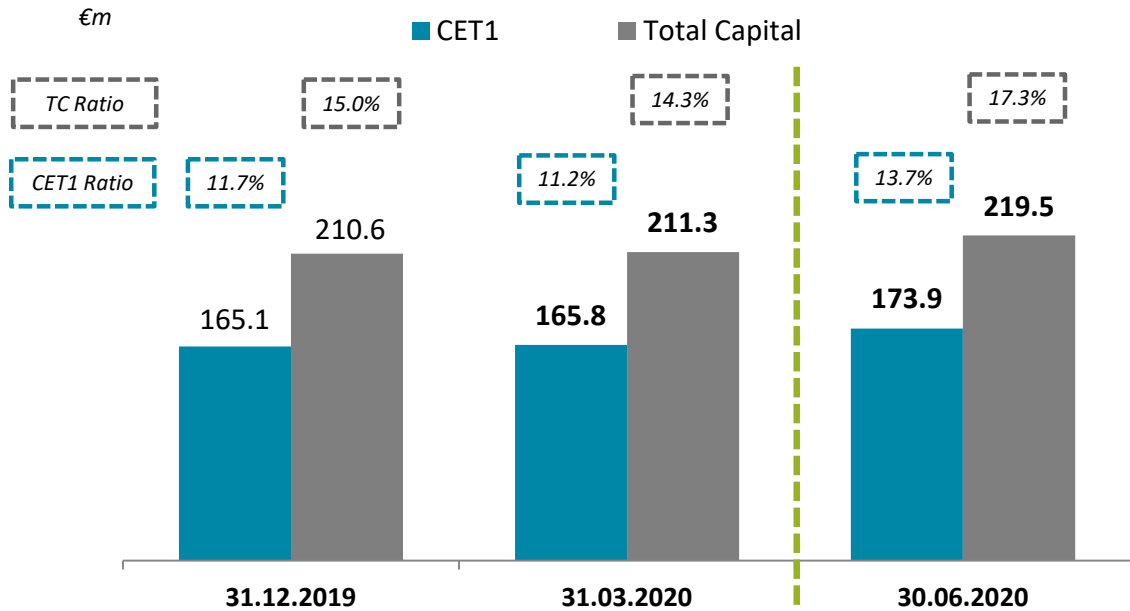


- Gross Non Performing Exposures up q/q
- Net Bad Loans represents 1.1% of total loans lower q/q
- Past-dues increase is due to factoring to PA. Substantially for one single position not paid as at 30.06.2020, because the Municipality (the obligor) has not received funds from the Central Government to compensate for lower revenues due to the continuing epidemiological emergency (Covid-19)
- 1H 20 Cost of credit risk at 37bps (36bps FY 2019). Part of the LLPs in 1H 20 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⁽¹⁾

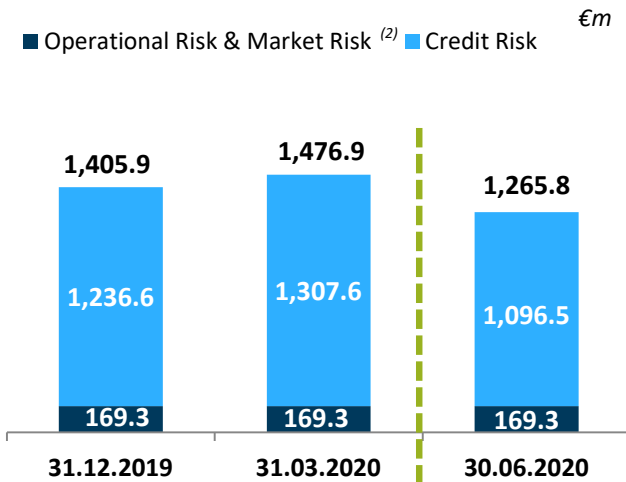


2020 SREP requirements:
CET1 ratio 7.75%
TCR 11.90%

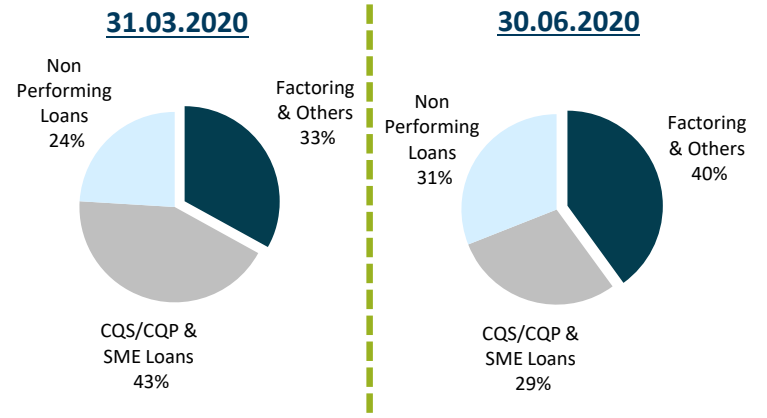
CET1 ratio and TC ratio respectively at 11.7% and 15.2% post acquisition of the Gold/ jewelry backed loans business unit

Lower RWA, following the issuance of EU Regulation 873/2020 which led, among other changes, to the reduction of the risk capital weighting (RWA) for CQ loans from 75% to 35%

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 31.03.2020.

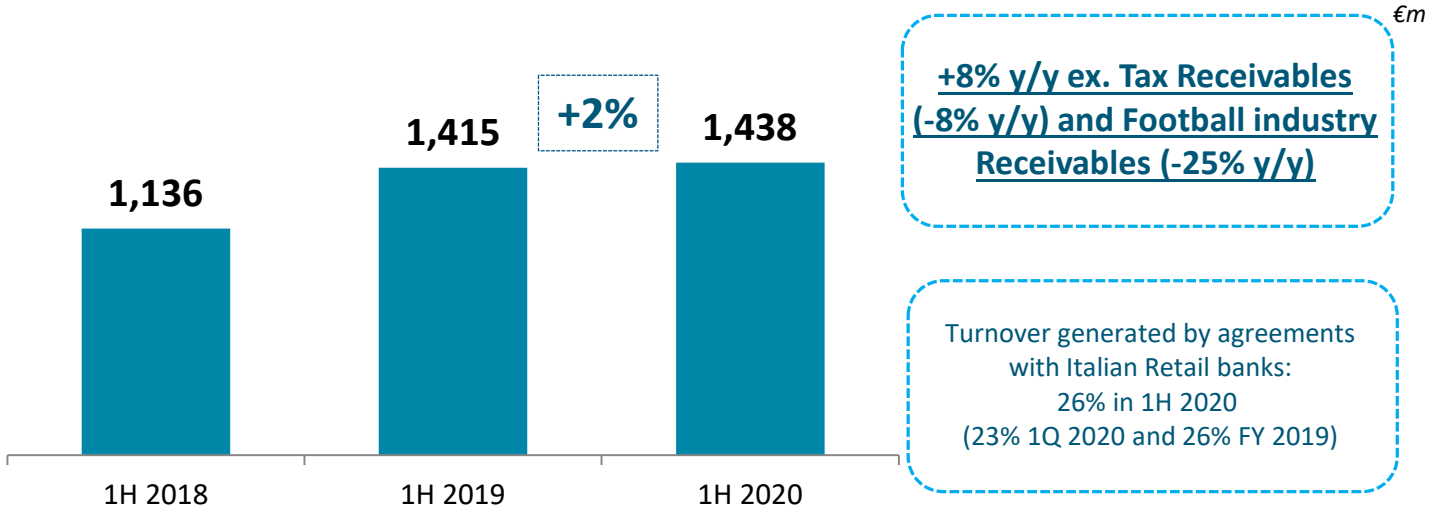
Remarks/Conclusions

- **Resilience of our business model despite the economic environment due to the ongoing Covid-19 (-13.5% 1H 2020 Factoring Turnover in Italy - Assifact)**
- **Despite the growth of Banca Sistema stock price, what we noticed is that our stock is the second most liquid (turnover vs. capitalization) among those listed on the Star segment of the Italian Stock Exchange**
- **Gold/ jewelry backed loans business from next quarter will contribute more to our P&L thanks to the acquisition:**
 - ➔ **of €57m loans, 58 new colleagues, 6 branches and €9m yearly revenues**

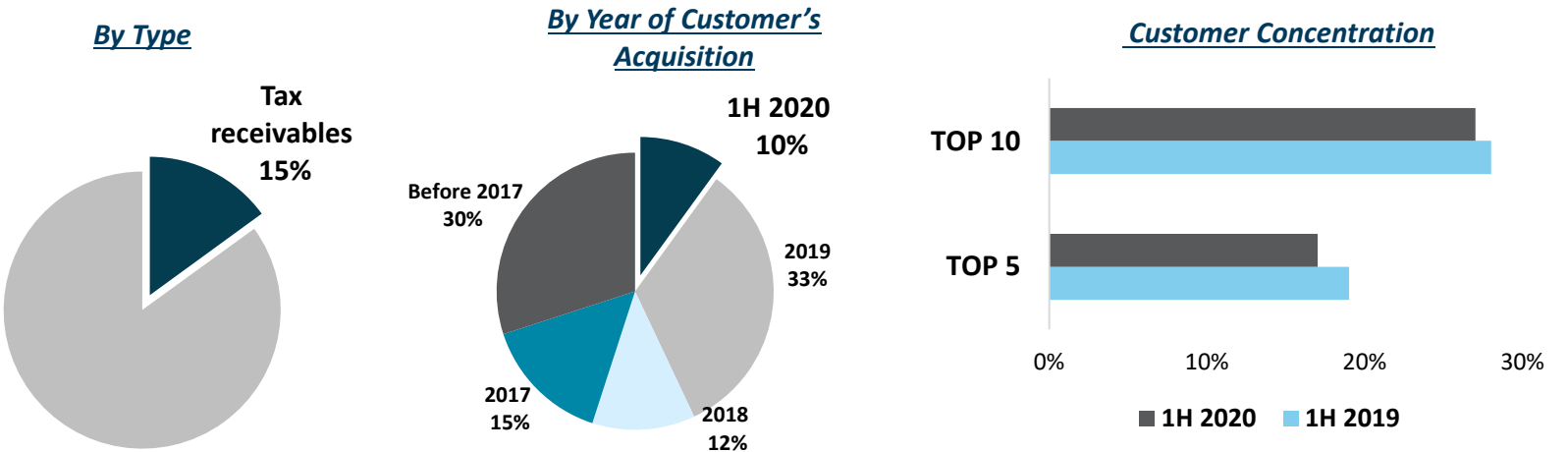
Annexes

Factoring Turnover

Factoring Turnover



1H 2020 Factoring Turnover breakdown



1H 2020 – Income Statement

Figures in millions of Euro

	1H 2019	1Q 2019	2Q 2019	1H 2020	1Q 2020	2Q 2020	1H 20 vs 1H 19 change in %
Interest income	48.6	21.6	27.0	45.9	22.4	23.5	-6%
Interest expenses	(14.1)	(7.0)	(7.1)	(12.5)	(6.4)	(6.1)	-11%
Net interest income	34.5	14.7	19.8	33.3	15.9	17.4	-3%
Commission income	11.0	5.1	5.9	11.7	6.0	5.7	6%
Commission expenses	(2.8)	(1.1)	(1.7)	(3.6)	(1.8)	(1.8)	27%
Net commission	8.2	4.0	4.2	8.1	4.2	3.9	-1%
Dividends and similar income	0.2	-	0.2	0.2	-	0.2	nm
Net income from trading	0.2	0.3	(0.1)	0.2	0.3	(0.1)	0%
Net income from disposal/repurchase assets:	1.0	0.4	0.6	4.2	1.9	2.3	320%
a) measured at amortised cost	-	-	-	1.9	1.3	0.6	nm
b) measured at fair value through other comprehensive income	1.0	0.4	0.6	2.3	0.6	1.7	130%
Total income	44.1	19.3	24.8	45.9	22.0	23.9	4%
Net impairment losses on loans	(4.8)	(2.6)	(2.2)	(5.1)	(1.9)	(3.2)	6%
Net operating income	39.3	16.7	22.6	40.8	20.1	20.7	6%
Personnel expenses	(10.5)	(4.9)	(5.6)	(11.1)	(5.7)	(5.4)	6%
Other expenses	(13.1)	(5.9)	(7.2)	(13.9)	(7.6)	(6.3)	6%
Operating expenses	(23.6)	(10.8)	(12.8)	(25.0)	(13.3)	(11.7)	6%
Profits from investments disposal	-	-	-	1.1	-	1.1	nm
Pre-tax profit from continuing operations	15.8	5.9	9.9	16.9	6.8	10.1	7%
Taxes on income for the period/year from continuing operations	(5.2)	(2.0)	(3.2)	(4.9)	(2.2)	(2.7)	-5%
Profit after tax from discontinued operations	0.6	0.6	-	-	-	-	nm
Profit (loss) for the year/period	11.2	4.5	6.7	12.0	4.6	7.4	7%
Minority interests	-	-	-	0.1	-	0.1	nm
Profit (loss) for the year/period attributable to the shareholders of the Parent	11.2	4.5	6.7	12.1	4.6	7.5	9%

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