BANCA IFIS

# 1Q 2019 RESULTS

9 MAY 2019

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# Banca IFIS's growth strategy

## Banca IFIS's growth strategy

- Continuous acquisitions of new NPL portfolios and streamlining of the recovery process
- Broadening of lending and services to SMEs, leveraging the unique and diversified business model of the Bank

## Continuous focus on capital management and cost control

- Strict monitoring of capital requirements, which should have bottomed in 1Q 2019
- Cost control after the buoyant growth and acquisitions of 2015-2018, while continuing investments in IT/digitalization and in NPL business

## The majority shareholder is fully committed to supporting the strategy and growth of the Bank

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# Summary results

## 1Q 2019

### Net income

- €30mln net income
- Reversal of PPA at €17mln (€31mln in 4Q 18; €22mln in 1Q 18)

### Net banking income

€130mln:
- 48% NPL business
- 31% trade receivables
- 10% leasing
- 7% corporate
- 3% others

### Operating costs

- €74mln (€65mln in 4Q 18, €73mln in 1Q 18), including the consolidation of FBS

### LLP

- Cost of risk of €13mln (€11mln in 1Q 18 and €31mln in 4Q 18, impacted by one-offs on a few large positions)

## STOCK

### Customer loans

€7.3bn stable QoQ
- Trade receivables stable as 4Q 18 benefited from seasonality
- NPLs stable due to lack of significant small ticket disposals in the market in 1Q 19

### NPL business

- ERC €2.4bn
- In 1Q 19: €66mln* P&L contribution vs. €57mln cash collection (ca. 87%)
- Full NPL accounting description in appendix

### Funding

- €0.96bn Wholesale
- €5.02bn customer deposits (+0.35bn QoQ)
- Rendimax: ca. +€0.3bn net deposit inflow in 1/1/19 – 30/4/19

### CET1

- 10.29% La Scogliera Group Scope, well above the 8.12% SREP
- CET1 at 13.53% Banca IFIS Group Scope
- CET1 includes goodwill from the consolidation of FBS

* It includes only interest income, excludes cost of funding and some minor items

# Quarterly results

| (€ mln) | 1Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|
| Net interest income | 119.5 | 140.0 | 115.3 |
| Net commission income | 19.8 | 24.5 | 23.8 |
| Trading and other revenues | 0.1 | 8.4 | (9.0) |
| **Net banking income** | **139.4** | **173.0** | **130.1** |
| Loan loss provisions (LLP) | (11.0) | (31.2) | (13.1) |
| **Net banking income – LLP** | **128.4** | **141.8** | **117.0** |
| Personnel expenses | (26.8) | (28.3) | (31.4) |
| Other administrative expenses | (46.6) | (42.7) | (43.3) |
| Other net income/expenses | 0.0 | 6.4 | 0.4 |
| **Operating costs** | **(73.4)** | **(64.6)** | **(74.4)** |
| **Pre tax profit** | **55.0** | **77.2** | **42.7** |
| Taxes | (17.1) | (19.4) | (12.7) |
| **Net income** | **37.9** | **57.8** | **29.9** |
| | | | |
| Customer loans | 6,457 | 7,314 | 7,322 |
| *- of which NPL Business* | *832* | *1,093* | *1,125* |
| Total assets | 9,521 | 9,382 | 9,864 |
| Direct funding | 6,797 | 6,652 | 6,977 |
| *- of which customer deposits* | *5,022* | *4,673* | *5,021* |
| Shareholders Equity | 1,413 | 1,459 | 1,489 |

## Focus on a few items

| Data in €mln | 1Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|
| PPA | 21.8 | 30.8 | 16.6 |
| FBS | 0.0 | 0.0 | 8.2 |
| Fair value adjustments* | 0.0 | 0.0 | (4.7) |
| Model update** | 3.2 | (6.0) | (9.0) |
| **Net banking income** | **25.0** | **24.8** | **11.1** |

* Fair value adjustments of an equity instrument stemming from debt restructuring

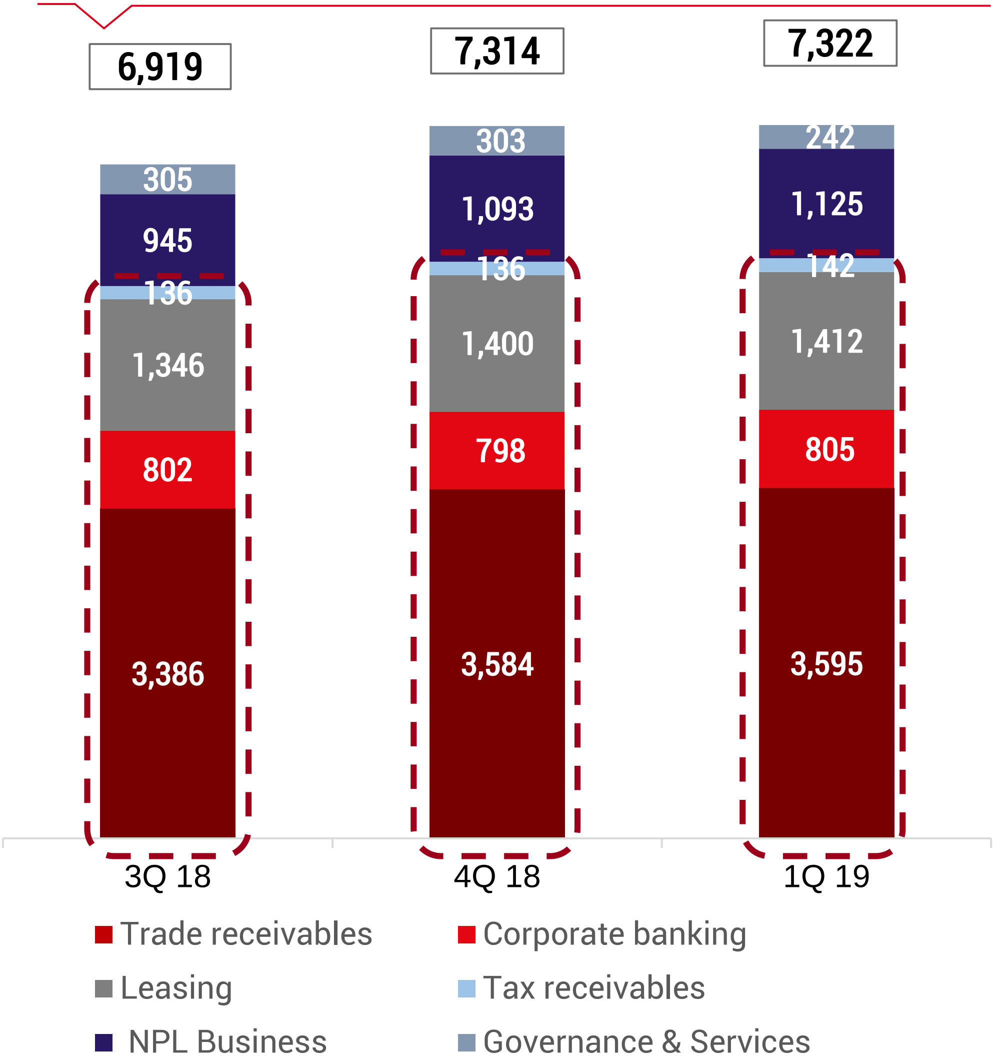
** 1Q 19 and 4Q 18 include the negative effects of the NPL model update made in 1Q2018 to consider the longer time frame for the issuance of court injunctions (“precetto” and “pignoramento”).



In these financial statements, net impairment losses/reversals on receivables of the NPL segment were entirely reclassified to interest receivable and similar income as they represent an integral part of return on investment

# Customer loans

## Customer loans (€ mln)




## Highlights

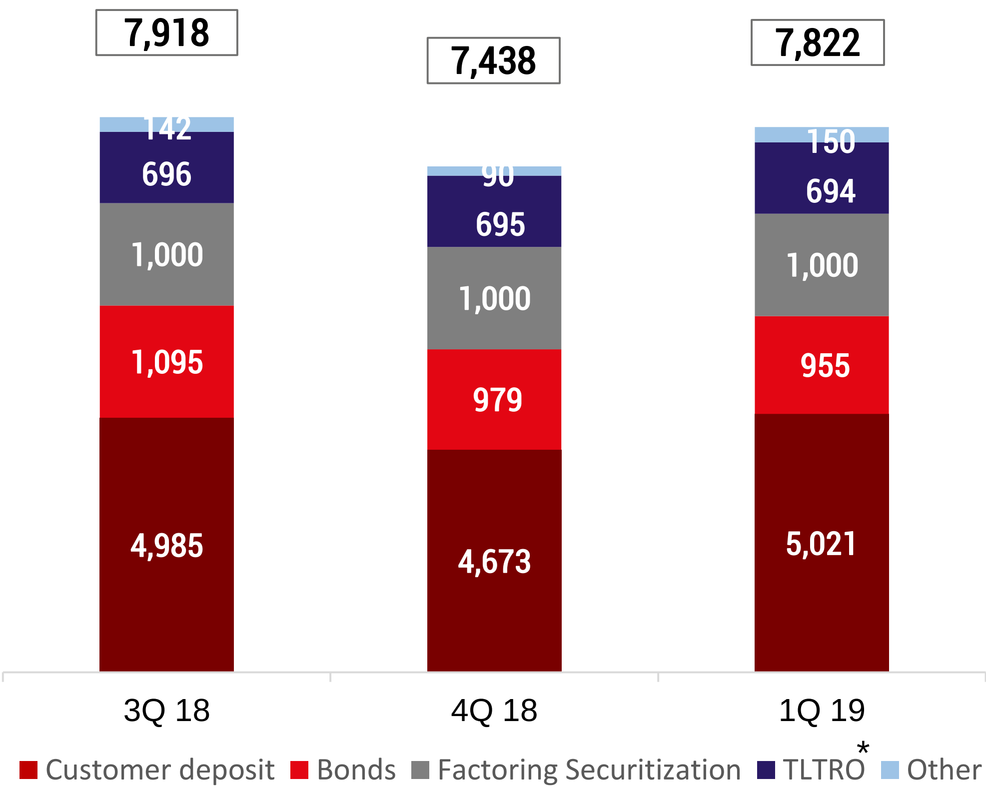
- Focus on short term loans, very selective on long term maturities. This trend is expected to continue in coming quarters
- Customer loans substantially stable QoQ (+€8mln):
  - Trade receivables (+€11mln QoQ) and leasing (+€12mln QoQ) were impacted by positive seasonality in 4Q 18
  - NPL (+€33mln) reported limited acquisitions due to lack of significant small ticket disposals carried out in the market in 1Q 19. Banca IFIS is participating in all the ongoing sell side processes of small tickets that are on the Italian market



Enterprises Segment

# Funding

## Funding (€ mln)



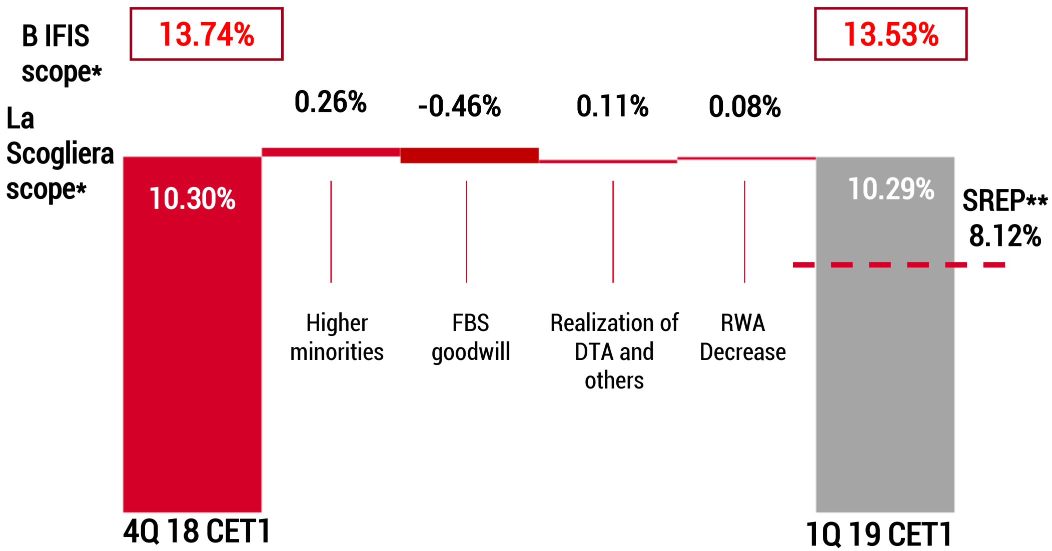

| | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|
| LCR | >2,000% | >600%** | >1,000% |
| NSFR | >100% | >100% | >100% |

## Highlights

- 1Q 19, customer deposits came in at €5,021mln (+€348mln QoQ), driven by the Rendimax campaign launched on 17 January 2019
- The flexibility of the Rendimax customer deposit allows timely adjustments to funding requirements
  - ~€140mln 2Y maturity and ~€150mln 5Y maturity new term deposits from 17 January 2019 to 3 May 2019
  - No significant change in average cost of funding which remains substantially stable at ca. 1.4%
- New bond issuance to be considered only at attractive yields
- TLTRO will be reviewed based on final terms and conditions

*TLTRO with maturity in March 2021, cost -0.4%; Collateral represented by €423mln Italian Government Bonds and ca. €378mln leasing securitization (rating AA-)
** In 4Q18, LCR Ratio was impacted by seasonality in factoring

# Capital structure




Data in €bn

| Banca IFIS Group Scope | 4Q 18 | 1Q 19 |
|---|---|---|
| RWA | 9.0 | 8.9 |
| CET1 | 1.2 | 1.2 |
| Total Capital | 1.6 | 1.6 |
| Total Capital % | 18.20% | 18.03% |
| | | |
| Excess CET1 not inc. in La Scogliera | 0.3 | 0.3 |

| La Scogliera Group scope | | |
|---|---|---|
| RWA | 9.0 | 8.9 |
| CET1 | 0.9 | 0.9 |
| Total Capital | 1.3 | 1.2 |
| Total Capital % | 14.01% | 14.02% |

## 1Q 19 CET1

- +0.26% due to increase in Capital Conservation Buffer from 1.9% to 2.5% due to regulation 2013/36/EU. This applies only to La Scogliera scope capital requirements; the CET1 increase is due to excess capital reduction
- +0.19% due to DTA realization and RWA decrease
- Ca. -46bps in CET1 due to the goodwill for the acquisition of FBS in Jan. 2019. The final goodwill will depend on the ongoing purchase price allocation on FBS assets and liabilities

CET1 does not include 1Q 2019 net income

## Capital generation in future quarters

- Retained earnings
- Progressive winding down of former Interbanca PPA (€213mln gross of taxes as at 31 March 19, indicative maturity of ca. 3Y)
- Progressive use of DTA against future profits (€135.5mln as at 31 March 19) currently fully deducted from CET1
- Ordinary winding down of former Interbanca customer loans (€0.5bn as at 31 March 19)

*The application of the 2013/36/EU (CRD IV) Directive and EU Regulation 575/2013 (CRR) envisages that only 50.6% of the excess capital of Banca IFIS Group Scope is included in the CET1 of La Scogliera Group Scope. Excess Capital of €0.3bn is not included in CET1 of La Scogliera Group Scope
** SREP received by the Bank of Italy to be applied in 2019

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# Segment breakdown

Data in € mln

| | Enterprises: Trade Receivables | Enterprises: Leasing | Enterprises: Corporate Banking | Enterprises: Tax Receivables | NPL | G&S | Total |
|---|---|---|---|---|---|---|---|
| Net banking income | 41 | 14 | 9 | 3 | 63 | 1 | 130 |
| - of which PPA | 1 | - | 13 | - | - | 2 | 17 |
| Loan loss provisions (LLP) | (9) | (2) | (2) | (0) | - | 0 | (13) |
| Net banking income - LLP | 31 | 12 | 7 | 3 | 63 | 1 | 117 |
| % total | 27% | 10% | 6% | 3% | 53% | 1% | |
| Net customer loans | 3,595 | 1,412 | 805 | 142 | 1,125 | 242 | 7,322 |
| RWA from counterparty risk* | 4,806 | | | | 1,562 | 114 | 6,482 |
| % total | 74% | | | | 24% | 2% | |

| | |
|---|---|
| Counterparty RWA on other group assets (i.e. DTA, other assets, financial assets) | 1,396 |
| Operating and market risks and CVA | 1,032 |
| **Total RWA** | **8,910** |

*Data includes only RWA on net customer loans

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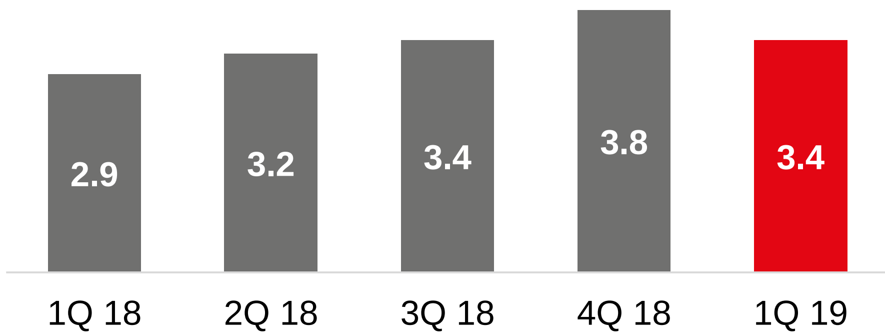
# Trade Receivables

## Turnover* - €bn




| | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|
| Net customer loans - €mln | 3,208 | 3,382 | 3,386 | 3,584 | 3,595 |
| *- of which Factoring** | *2,738* | *2,992* | *2,824* | *2,983* | *2,915* |

| Data in euro million* | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|
| Net banking income | 40 | 40 | 43 | 46 | 41 |
| *- of which PPA* | 1 | 3 | 1 | 1 | 1 |
| Net banking income / average customer loans | 5.0% | 5.0% | 5.3% | 5.6% | 4.8% |
| Loan loss provisions | (7) | (22) | (26) | (20) | (9) |

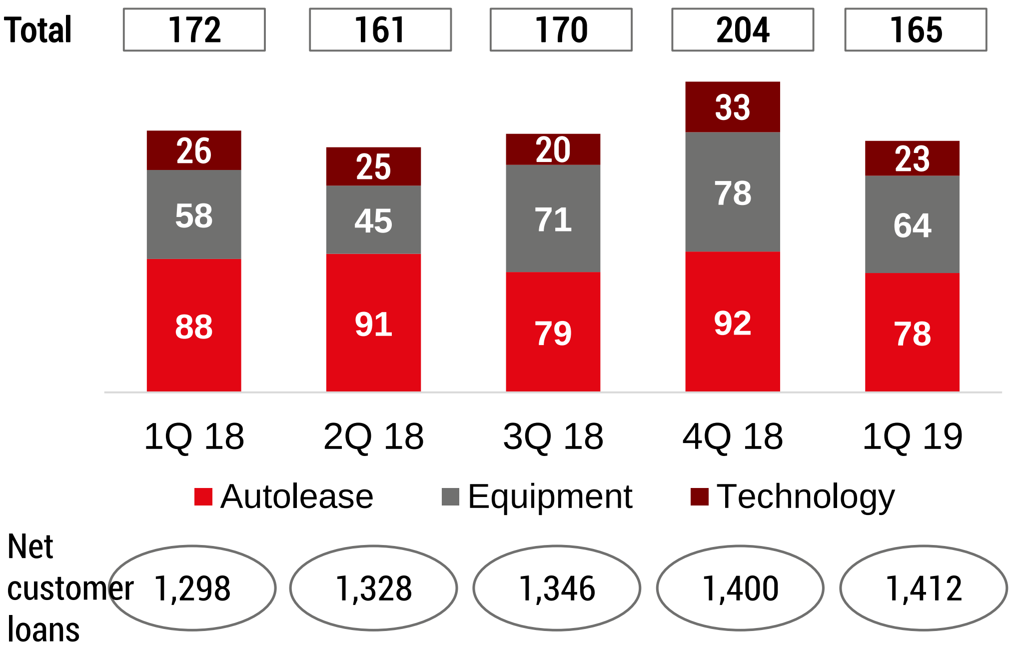
## Highlights*

- Turnover +19% YoY and -10% QoQ, as 4Q was impacted by seasonality. Confirmed strategy in trade receivables:
  - **SMEs**: ca. 80% of customers are SMEs with total revenue less than €10mln
  - **Short term lending**: average factoring duration of ca. 3-4 months
  - **Customer fragmentation**: average ticket of ca. €400k well diversified across all major business segments
- Net banking income / average customer loans at 4.8% due to lower contribution from Pharma and from a few large clients due to seasonality
- In 2018, loan loss provisions were impacted by one-off provisions on a few large tickets. 1Q 2019 results are showing some stabilization


* Data based on management accounting. Factoring includes Polish business

# Leasing

## New business* - €mln




| Data in euro million* | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|
| Net banking income | 12 | 14 | 12 | 13 | 14 |
| Net banking income / average customer loans | 4.0% | 4.2% | 3.6% | 3.8% | 3.9% |
| Loan loss provisions | (2) | (2) | (3) | (3) | (2) |

## Highlights*

- New leasing -4% YoY and -19% QoQ, impacted by seasonality and the end of the fast depreciation ("Super Ammortamento"), a fiscal incentive in the equipment industry
  - Auto leasing -15% QoQ (vs. -46.4% in the market in 1Q 19) due to the slowdown in the market
  - Potential benefits from the reintroduction of the fast depreciation
- Customer fragmentation to minimize asset quality risk: ca. 70k clients, mainly SMEs
- Well distributed distribution network of 84 agencies: 50% north, 35% centre, 15% south
- Ca 2/3 of leasing approval within same day for auto and equipment; real time for technology. Acceptance rate of ca. 70%-75%
- Third party contracts for re-marketing of returned leasing/rentals provide clear recovery estimates


* Data based on management accounting.

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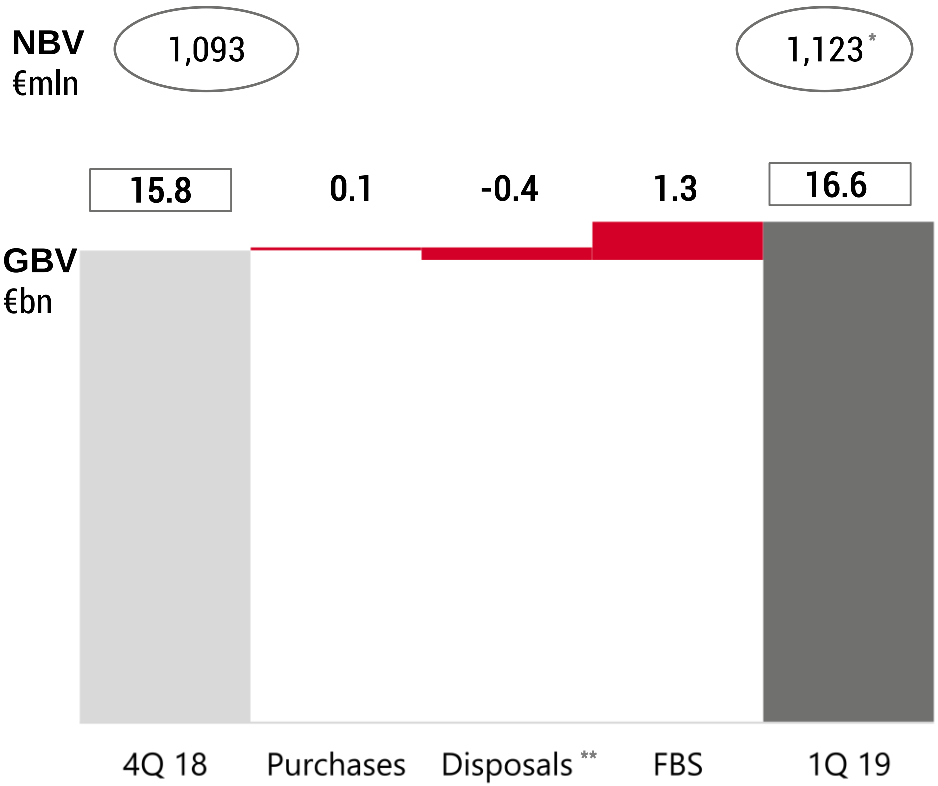
# NPL Business: portfolio evolution

## NPL portfolio evolution




## Key numbers

- 1.7mln tickets, #1.2mln borrowers
- Extensive portfolio diversification by location, type and age of borrower

## NPLs acquired in 1Q: €0.1bn GBV

- In 1Q 2019, Banca IFIS carried out very few acquisitions as there were limited NPL disposals in the market of unsecured tickets, the core business of Banca IFIS
- Banca IFIS is participating in all the ongoing disposal processes of unsecured tickets, part of which have the binding phase in 2Q 19. Further disposals of unsecured tickets are expected in the coming quarters

## NPLs disposed in 1Q

- There was no disposal in 1Q 19
- The €0.4bn reduction is due to disposals agreed in 4Q 18 completed in 1Q 19. P&L impact already booked in 4Q 18



*Does not include €1.9 mln of customer loans (invoices to be issued) related to FBS servicing activities
** Disposals agreed in 4Q 18 and completed in 1Q 19

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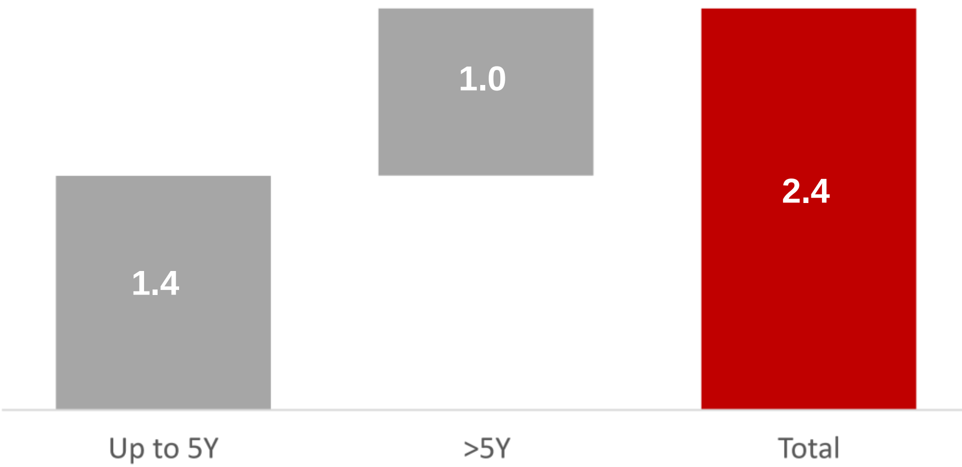
# NPL Business: ERC

## ERC €2.4bn*




## ERC breakdown*

| Data in € bn | GBV | NBV | ERC |
|---|---|---|---|
| Waiting for workout - At cost | 2,9 | 0,2 | 0,4 |
| Extrajudicial positions | 9,7 | 0,3 | 0,6 |
| Judicial positions | 4,0 | 0,6 | 1,4 |
| Total | 16,6 | 1,1 | 2,4 |

## ERC assumptions

- ERC based proprietary statistical models built using internal historical data series and homogeneous clusters of borrowers
  - Type of borrower, location, age, amount due, employment status
  - Time frame of recovery
  - Probability of decay
- ERC represents Banca IFIS's expectation in terms of gross cash recovery. Internal and external costs of positions in non-judicial payment plans (GBV of €0.4bn in 1Q 19), court injunction ["precetto"] issued and order of assigments (GBV of €1bn in 1Q 19) have already been expensed in P&L
- ERC review according to management actions and periodic review of assumptions based on update of historical data
- €0.75bn cash recovery (including proceeds from disposals) in 2014-1Q 2019

* Source: management accounting, risk management data

# NPL Business: GBV and cash recovery

## Judicial recovery

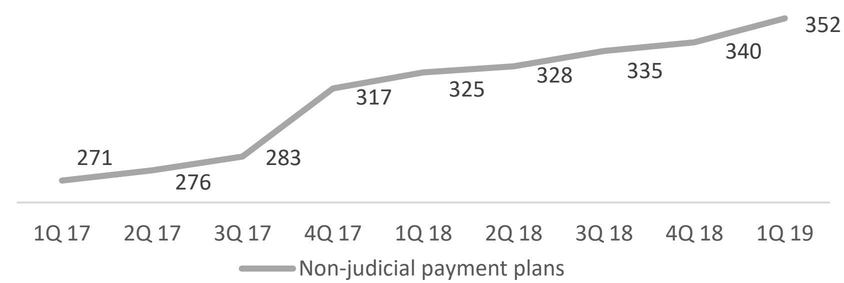
| Judicial recovery (€ mln) | GBV | % |
|---|---|---|
| Freezed* | 1,822 | 45% |
| Court injunctions ["precetto"] and foreclosures | 464 | 12% |
| Order of assigments | 561 | 14% |
| Secured and Corporate | 1,167 | 29% |
| **Total** | **4,015** | **100%** |

**Ongoing processing**

Towards ODA or secured and corporate / future cash flows

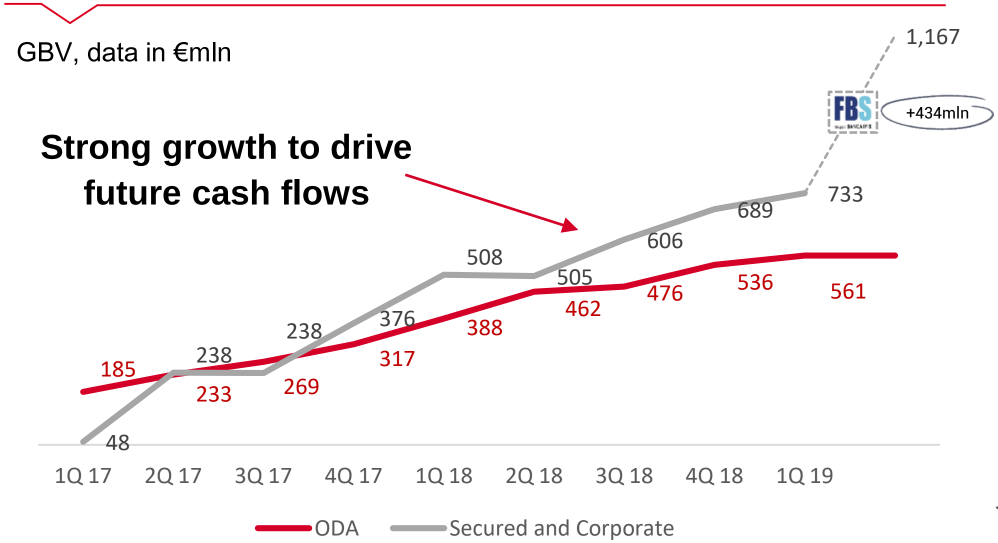
## Non judicial recovery – Voluntary plans

GBV, data in €mln



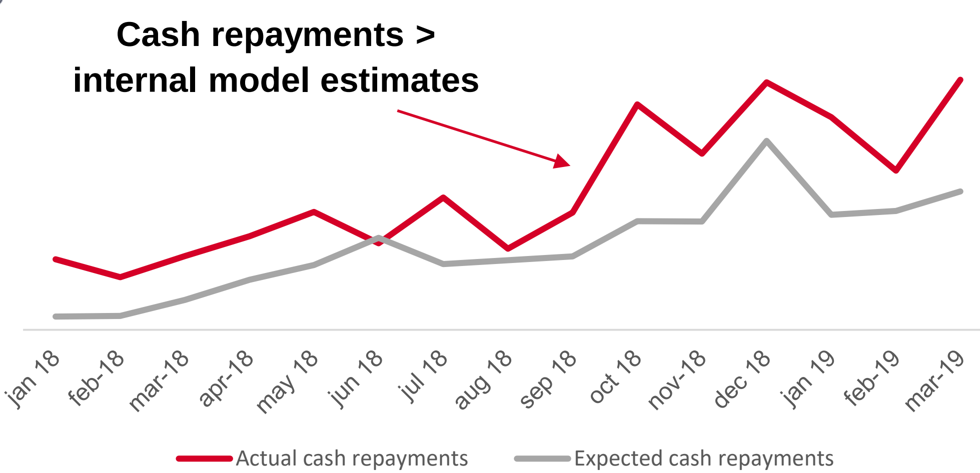

## Judicial recovery - Growth of ODA and secured

GBV, data in €mln




## Actual cash repayments > expected cash repayments **

Judicial + non judicial recovery, data in €mln






Source: split according to management accounting
*Other Judicial positions
** Excluding FBS

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# NPL Business: cash recovery

- **Difference between cash collection and contribution to P&L mainly due to judicial recovery:**
  - #1 increase in accounting value after the issuance of court injunction ("precetto"). Legal costs are also expensed
  - #2 increase in accounting value after the issuance of foreclosure ("pignoramento"). Legal costs are also expensed
  - #3 increase in accounting value after the issuance of order of assignment. Remaining legal costs are expensed
  - Judicial actions last on average ca. 1.5-2.5 years from the acquisition date to the order of assignment

| Data in € mln (excluding disposals) | 1Q 17 | 2Q 17 | 3Q 17 | 4Q 17 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 | 2017 YE | 2018 YE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash collection | 25 | 29 | 30 | 44 | 40 | 41 | 45 | 55 | 57 | 128 | 181 |
| Contribution to P&L * | 35 | 36 | 32 | 58 | 67 | 56 | 46 | 69 | 66 | 162 | 238 |
| Cash collection / contribution to P&L | 70% | 80% | 93% | 75% | 60% | 73% | 98% | 79% | 87% | 79% | 76% |

**Cash collection to start following the issuance of the order of assignment; costs of judicial actions have already been expensed**

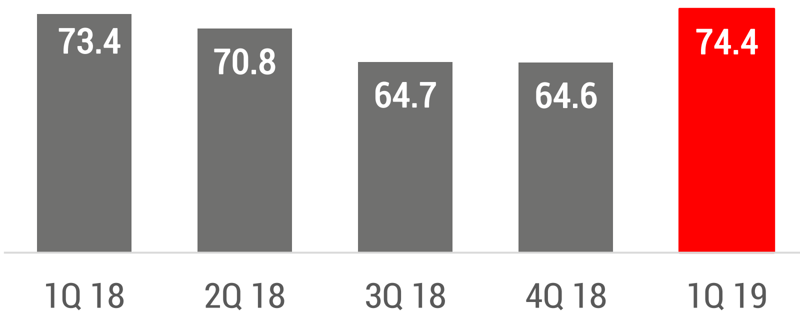


Source: split according to management accounting

* It includes only interest income, excludes cost of funding and some minor items (i.e. net commission income and the gains on sales of receivables)

# Consolidated operating costs

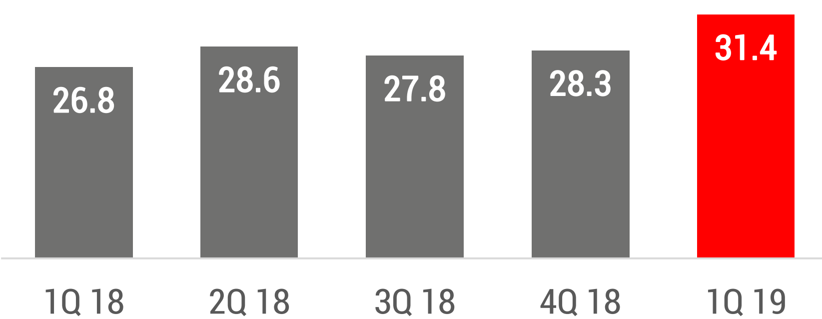
## Operating costs (€mln)




## Highlights

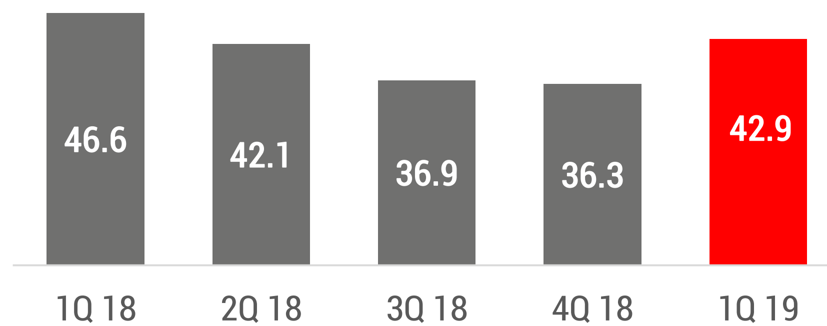
- Operating costs +€9.8mln vs. 4Q 18:
  - +€2.9mln for the consolidation of FBS (+€1.9mln cost of personnel, +€1.0mln other administrative expenses and other income / expenses)
  - +€3.4mln due to Resolution Fund (1Q 19 included €2mln annual contribution to the Resolution Fund; 4Q 18 included €1.4mln one-off release of the Resolution Fund)
  - +€2.5mln due to higher legal costs of NPL business and other items
- In 1Q 19 cost / income ratio at 57.2% (47.4% in 2018FY)

## Personnel expenses (€mln)




| | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|
| Banca IFIS employees | 1,541 | 1,577 | 1,622 | 1,638 | 1,764 * |

## Other administrative expenses and other income / expenses (€mln)




* Of which 100 Employees related to FBS

# Asset quality – 1Q 19

| Enterprises | Gross | Coverage % | Net |
|---|---|---|---|
| Bad loans | 252 | 73% | 68 |
| UTP | 242 | 38% | 150 |
| Past due | 101 | 11% | 89 |
| Total | 595 | 48% | 307 |

| Enterprises Net of POCI | Gross | Coverage % | Net |
|---|---|---|---|
| Bad loans | 225 | 82% | 41 |
| UTP | 202 | 46% | 110 |
| Past due | 100 | 11% | 89 |
| Total | 527 | 54% | 240 |

| POCI | Gross | Coverage % | Net |
|---|---|---|---|
| Bad loans | 27 | 0% | 27 |
| UTP | 40 | 0% | 40 |
| Past due | 0 | 0% | 0 |
| Total | 67 | 0% | 67 |

## Highlights

- NPL Business not included in this analysis
- Enterprises (net of POCI): bad loans and UTP coverage at 82% and 46%, respectively
- NPEs that arose from the acquisition of Interbanca, in accordance with IFRS 9 are qualified as POCI ("purchased or originated credit-impaired") and are booked net of provisions
- NPEs ratio in Enterprises
  - Gross NPE %: 9.5% stable vs 31 Dec 2018
  - Net NPE %: 5.2% stable vs 31 Dec 2018
- In addition to Enterprises Segment (highlighted in the left table), as at 31 Mar 2019, G&S had €42mln gross NPEs, of which:
  - €25mln gross other loans (of which €4mln gross bad loans, €17mln gross UTP and €3mln gross past due)
  - €17mln POCI

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# 1Q 19 results

## ✓ Sound growth perspective

- **NPL**: order of assignments (+5% QoQ), secured and corporate (+6% QoQ) and €1.8bn GBV in judicial recovery to increase future cash flows
- **Trade receivables and leasing**: relatively stable revenue contribution, with strict monitoring of loan loss provisions

## ✓ Net income of €30mln

- Contribution of PPA down to €17mln in 1Q 19 from €31mln in 4Q 18

## ✓ CET1 of 10.3%, expected to grow in coming quarters

- Net income generation
- Potential PPA of FBS portfolio
- Progressive PPA release and winding down of former Interbanca loans

# Strategic guidances

## NPL

- Acquisition of new unsecured NPL tickets: Banca IFIS is participating in all the ongoing disposal processes of unsecured tickets, part of which have the binding phase in 2Q 19. In addition, further disposals of unsecured tickets are expected in the coming quarters
- Streamlining recovery strategy leveraging also on Capitalfin (salary backed loans for borrowers) and FBS (know-how in secured and corporate NPLs)
- Broadening servicing business through FBS

## FOCUS ON SMES

- Selective growth in lending with client diversification reducing concentration risk
- Broadening product offer to SMEs: rental in leasing, value added credit servicing in factoring, corporate finance
- Ordinary winding down of former Interbanca long term loans

## CAPITAL AND COST

- Increase capital ratios
- Streamlining and monitoring the allocated capital and the return of each business unit
- Cost control after the buoyant growth and acquisitions of 2015-2018. The investments in digitalization / IT and NPL will continue and will not be impacted

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# Appendix

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# La Scogliera: implications of CRD IV

- The application of the 2013/36/EU (CRD IV) Directive and EU Regulation 575/2013 (CRR) envisages that 49.4% of the excess capital of the Banca IFIS Group Scope is not included in the CET1 of La Scogliera Group Scope. CET1 excess capital of €0.3bn is not included in La Scogliera Group Scope
- La Scogliera has communicated to Banca IFIS that it will continue to review potential transactions to achieve substantially equivalent regulatory results to the abandoned reverse merger between the Bank and La Scogliera, safeguarding the capitalization requirements of the Bank, taking into account the interests of the family shareholders of La Scogliera and providing full commitment to support the growth of the Bank

La Scogliera S.p.A. Consolidating Group entity

**50.6%****

Banca IFIS S.p.A.

Data in €billion

| Data as at 31 Mar 2019 | Banca IFIS Group Scope | Capital requirements* | Excess capital | Minority stake of La Scogliera | Excess capital not included | La Scogliera Group Scope |
|---|---|---|---|---|---|---|
| CET1 | 1.2 | | 0.6 | 49% | 0.3 | 0.9 |
| Total Capital | 1.6 | | 0.7 | 49% | 0.4 | 1.2 |
| CET1 % | 13.5% | 7.0% | | 49% | | 10.3% |
| Total Capital % | 18.0% | 10.5% | | 49% | | 14.0% |
| RWA | 8.9 | | | | | 8.9 |

*Capital requirements at parent company level
**Net of Treasury shares

# Appendix

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# Segment breakdown (1/2)

| Consolidated P&L - Data in €mln | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q 19 |
|---|---|---|---|---|---|
| Net interest income | 119 | 110 | 100 | 140 | 115 |
| Net commission income | 20 | 20 | 20 | 25 | 24 |
| Trading and other income | 0 | 9 | 6 | 8 | (9) |
| **Net banking income** | **139** | **139** | **125** | **173** | **130** |
| Loan loss provisions (LLP) | (11) | (29) | (29) | (31) | (13) |
| **Net banking income – LLP** | **128** | **110** | **97** | **142** | **117** |
| Personnel expenses | (27) | (29) | (28) | (28) | (31) |
| Other administrative expenses | (47) | (48) | (39) | (43) | (43) |
| Other net income/expenses | 0 | 6 | 2 | 6 | 0 |
| **Operating costs** | **(73)** | **(71)** | **(65)** | **(65)** | **(74)** |
| **Pre-tax profit** | **55** | **39** | **32** | **77** | **43** |
| Taxes | (17) | (11) | (9) | (19) | (13) |
| **Net income** | **38** | **28** | **23** | **58** | **30** |

| P&L breakdown - Data in €mln | 1Q18 | 2Q18 | 3Q18 | 4Q18 | 1Q 19 |
|---|---|---|---|---|---|
| **Interest income** | **119** | **110** | **100** | **140** | **115** |
| o/w Enterprises | 59 | 57 | 57 | 75 | 53 |
| o/w NPL *Business* | 64 | 53 | 43 | 66 | 61 |
| o/w G&S | (4) | (0) | (0) | (1) | 1 |
| **Commission Income** | **20** | **20** | **20** | **25** | **24** |
| o/w Enterprises | 20 | 21 | 20 | 24 | 22 |
| o/w NPL *Business* | (0) | 0 | 0 | 0 | 1 |
| o/w G&S | 0 | (1) | (0) | 0 | 0 |
| **Trading income** | **0** | **9** | **6** | **8** | **(9)** |
| o/w Enterprises | (0) | 9 | (1) | (5) | (8) |
| o/w NPL *Business* | 1 | 1 | 6 | 10 | 0 |
| o/w G&S | (1) | (1) | 1 | 4 | (1) |
| **Net banking income** | **139** | **139** | **125** | **173** | **130** |
| o/w Enterprises | 79 | 86 | 76 | 94 | 67 |
| o/w NPL *Business* | 65 | 54 | 49 | 76 | 63 |
| o/w G&S | (4) | (2) | 0 | 3 | 1 |
| **o/w PPA** | **22** | **22** | **17** | **31** | **17** |
| o/w Enterprises | 20 | 20 | 15 | 29 | 14 |
| o/w NPL *Business* | 0 | 0 | 0 | 0 | 0 |
| o/w G&S | 1 | 2 | 1 | 2 | 2 |

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# Segment breakdown (2/2)

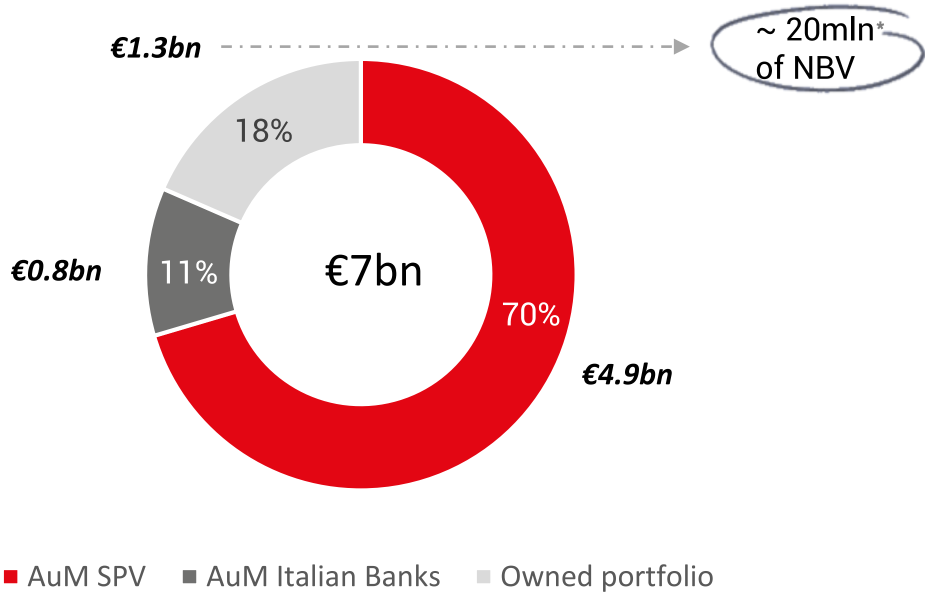
| Enterprises - Data in €mln | 1.1.2018 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|
| Bad loans (net) | 63 | 63 | 68 | 74 | 68 | 68 |
| Unlikely to pay (net) | 163 | 160 | 144 | 165 | 147 | 150 |
| Past due loans | 112 | 120 | 156 | 122 | 95 | 89 |
| **Total non performing loans (stage 3)** | **338** | **343** | **368** | **362** | **310** | **307** |
| Performing loans (stage 1 and 2) | 5,124 | 5,030 | 5,232 | 5,308 | 5,608 | 5,648 |
| **Total loans** | **5,462** | **5,373** | **5,600** | **5,669** | **5,918** | **5,955** |

| NPL Business - Data in €mln | 1.1.2018 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|
| Bad loans (net) | 528 | 563 | 582 | 676 | 782 | 818 |
| Unlikely to pay (net) | 270 | 268 | 268 | 266 | 306 | 301 |
| Past due loans | 0 | 0 | 1 | 1 | 0 | 0 |
| **Total non performing loans (stage 3)** | **799** | **831** | **850** | **943** | **1,088** | **1,120** |
| Performing loans (stage 1 and 2) | 1 | 1 | 1 | 2 | 5 | 6 |
| **Total loans** | **799** | **832** | **851** | **945** | **1,093** | **1,125** |

| G&S - Data in €mln | 1.1.2018 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|
| Bad loans (net) | 13 | 13 | 13 | 13 | 12 | 12 |
| Unlikely to pay (net) | 7 | 14 | 14 | 14 | 19 | 20 |
| Past due loans | 3 | 5 | 7 | 7 | 5 | 4 |
| **Total non performing loans (stage 3)** | **24** | **32** | **34** | **34** | **36** | **35** |
| Performing loans (stage 1 and 2) | 116 | 220 | 225 | 272 | 267 | 207 |
| **Total loans** | **140** | **252** | **259** | **305** | **303** | **242** |

# FBS - 1Q 19 Key Figures

## AUM GBV - Breakdown




## Pre tax profit

| Data in €mln | 1Q 19 |
|---|---|
| Net banking income - LLP | 8.2 |
| Operating costs | (2.9) |
| **Pre-tax profit** | **5.4** |

FBS Employees: ~100

*Does not include €1.9mln of customer loans (invoices to be issued) related to FBS servicing activities

# Appendix

# Focus on DTA

Data in €/mln

| | | |
|---|---|---|
| Convertible DTA | • DTAs related to write downs of loans convertible into tax credits (under Law 214/2011)<br>• Their recovery is certain regardless of the presence of future taxable income and is defined by fiscal law (range ca. 5%-12% per annum, with full release by 2026)<br>• No time and amount limit in the utilization of converted DTA<br>• Capital requirements: 100% weight on RWA | 218.4 |
| DTA due to tax losses (non-convertible) | • DTAs on losses carried forward (non-convertible) and DTAs on ACE (Allowance for Corporate Equity) deductions can be recovered in subsequent years only if there is positive taxable income<br>• No time limit to the use of fiscal losses against taxable income of subsequent years<br>• Capital requirements: 100% deduction from CET1 | 135.5 (98.8+36.7*) |
| Other non-convertible DTAs | • DTAs generated due to negative valuation reserves and provisions for risks and charges<br>• Capital requirements: deduction from CET1 or weighted in RWA depending on certain thresholds. For Banca IFIS they are weighted at 250% and are substantially offset by DTL | 32.0 |

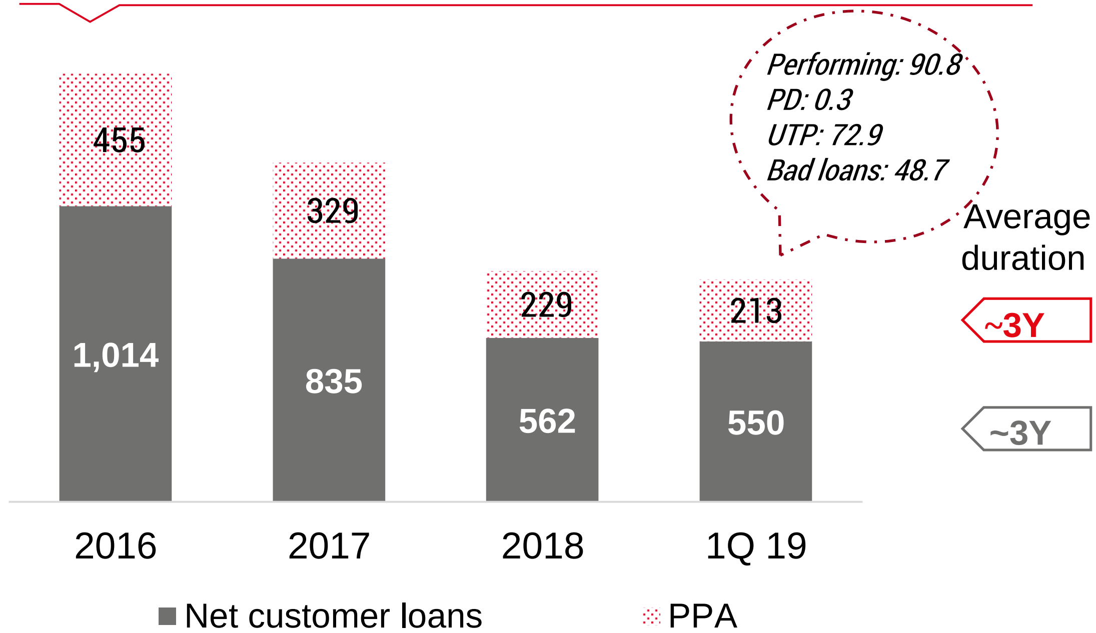
* Includes €36.7mln of tax credits booked as loans towards La Scogliera as part of the consolidated fiscal accounts. The tax credit stemmed from Interbanca's PPA in fiscal year 2017, following the merger of Interbanca into Banca IFIS

# Focus on PPA

## Description

- In 2016, following the acquisition of Interbanca, Banca IFIS valued the performing and non performing loans of Interbanca by applying a market discount and a liquidity discount to reflect purchase price
- The purchase price allocation (PPA) is written back with the progressive maturity or the disposal of Interbanca's loans
  - As at 31 Mar 19, the residual amount of pre-tax PPA was €213mln
  - The average maturity of the loan is ca. 3Y

## Net customer loans and PPA - €mln




| PPA Reversal in P&L | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 | Outstanding 1Q 19 |
|---|---|---|---|---|---|---|
| Enterprises | 20 | 20 | 15 | 29 | 14 | 171 |
| G&S | 1 | 2 | 1 | 2 | 2 | 41 |
| **Total** | **22** | **22** | **17** | **31** | **17** | **213** |

# Appendix

01 La Scogliera: implications of CRD IV

02 Segment breakdown

03 Focus on DTA and BS

04 **NPL Business**
- NPL Business: stock by recovery phase
- Judicial and extrajudicial workout
- NPL Business: GBV and NBV evolution
- NPL Business: P&L and cash evolution
- Accounting of extrajudicial workout
- Accounting of judicial workout
- NPL portfolio diversification

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# NPL Business: stock by recovery phase

| Cluster | GBV 1Q19 €mln | % total | Description | Average time frame | Accounting valuation | Cash proceeds |
|---|---|---|---|---|---|---|
| **Waiting for workout - Positions at cost** | **2,864** | **17%** | Recently acquired, under analysis to select the best recovery strategy, to be assigned either to extrajudicial or to judicial recovery | 6 months | Acquisition cost | |
| **Extrajudicial positions** | **9,745** | **59%** | | | | |
| - Ongoing attempt of recovery | 9,393 | 57% | Managed by internal and external call centres and recovery networks. The purpose is the transformation into voluntary payment plans (or into judicial recovery if conditions arises) | NA | Statistical model (collective valuation) | No |
| - Non-judicial payment plans | 352 | 2% | Sustainable cash yields agreed with debtors through call centres and collection agents | 5 years | Increase in value (P&L), with valuation based on agreed plan, net of historical delinquency rate, discounted at the IRR used for acquisition | Yes |
| **Judicial positions** | **4,015** | **24%** | | | | |
| - Freezed* | 1,822 | 11% | Judicial process has started; but the court injunction ["precetto"] has not been issued | 6-12 months | Cluster model valuation, based on probability of success of the legal proceedings | No |
| - Court injunctions ["precetto"] issued and foreclosures ("pignoramento") | 464 | 3% | Court injunction ["precetto"] already issued; legal actions continue to get the order of assignment | 8-12 months | #1 increase in value. Part of the legal costs are expensed in P&L | No |
| - Order of assignments | 561 | 3% | Enforcement order already issued. The cash repayment plan is decided by the court and starts afterwards | 2-4 months | #2 increase in value. The remaining legal costs are expensed in P&L | Yes |
| - Secured and Corporate | 1,167 | 7% | Ongoing execution of real estate collaterals | 4 years | Analytical valuation (expected time frame and amount to be recovered) | Yes |
| **Total** | **16,624** | **100%** | | | | |

Source: split according to management accounting. Please note that the presentation of this table has been improved compared to the past in order to better highlight the correlation regarding both the operating and financial impacts of transferring positions between different categories.
*Other Judicial positions

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# Judicial and extrajudicial workout

## Judicial workout

Ca. 50 internal lawyers

Ca. 200 external lawyers

Extrajudicial recovery voluntary payment

- Coordination between internal and external lawyers
- Efficiency and knowledge in preparing court documentations
- Coordination between internal and external lawyers

- Pledges against 1/5 of salary or execution of RE collateral
- Ca. 1.5-2.5 years to get the order of assignments
- Courts estimate legal costs to be charged to the debtors

- Order of assignments: ca. €561mln GBV
- Secured and corporate: ca. €1,167mln GBV

## Extrajudicial workout

Internal / external call centre (ca. 130 FTE)

Internal collection agents (ca. 100 FTE)
40 third party collection agencies

Subsidiary Capitalfin offers repayments against 1/5 of salary

- Trained staff, incentive based on performance
- Coordination between collection agents and call centres
- Extensive use of IT/IA

- Voluntary repayment includes one off repayment or sustainable cash yields agreed with debtors through call centres and collection agents
- No legal costs charged to debtors

- Extrajudicial workout: ca. €352mln non judicial payment plans

**Recovery strategy may include judicial and extrajudicial workout**

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# NPL Business: GBV and NBV evolution

| GBV - €mln | 1Q 17 | 2Q 17 | 3Q 17 | 4Q 17 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|---|---|---|
| **Waiting for workout - Positions at cost** | **2,525** | **2,325** | **3,614** | **2,522** | **2,298** | **2,014** | **1,840** | **3,472** | **2,864** |
| **Extrajudicial positions** | **6,047** | **6,573** | **6,702** | **8,050** | **8,050** | **8,145** | **9,667** | **8,956** | **9,745** |
| - Ongoing attempt of recovery | 5,776 | 6,297 | 6,420 | 7,733 | 7,725 | 7,817 | 9,332 | 8,617 | 9,393 |
| - Non-judicial payment plans | 271 | 276 | 283 | 317 | 325 | 328 | 335 | 340 | 352 |
| **Judicial positions** | **1,874** | **2,127** | **2,220** | **2,503** | **2,664** | **2,738** | **3,170** | **3,327** | **4,015** |
| - Freezed* | 1,640 | 1,655 | 1,713 | 1,810 | 1,515 | 1,435 | 1,712 | 1,692 | 1,822 |
| - Court injunctions ["precetto"] issued and foreclosures | 0 | 0 | 0 | 0 | 253 | 336 | 376 | 411 | 464 |
| - Order of assignments | 185 | 233 | 269 | 317 | 388 | 462 | 476 | 536 | 561 |
| - Secured and Corporate | 48 | 238 | 238 | 376 | 508 | 505 | 606 | 689 | 1,167 |
| **Total** | **10,445** | **11,025** | **12,536** | **13,075** | **13,011** | **12,897** | **14,676** | **15,756** | **16,624** |

| NBV - €mln | 1Q 17 | 2Q 17 | 3Q 17 | 4Q 17 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 ** |
|---|---|---|---|---|---|---|---|---|---|
| **Waiting for workout - Positions at cost** | **147** | **132** | **128** | **94** | **61** | **57** | **96** | **225** | **174** |
| **Extrajudicial positions** | **231** | **244** | **239** | **283** | **287** | **285** | **302** | **291** | **306** |
| - Ongoing attempt of recovery | 130 | 139 | 139 | 160 | 160 | 154 | 167 | 153 | 162 |
| - Non-judicial payment plans | 101 | 105 | 100 | 122 | 127 | 131 | 135 | 138 | 144 |
| **Judicial positions** | **254** | **325** | **349** | **423** | **484** | **509** | **547** | **577** | **643** |
| - Freezed* | 189 | 219 | 229 | 266 | 222 | 194 | 203 | 188 | 205 |
| - Court injunctions ["precetto"] issued and foreclosures | 0 | 0 | 0 | 0 | 52 | 80 | 94 | 107 | 118 |
| - Order of assignments | 63 | 82 | 95 | 123 | 148 | 174 | 183 | 209 | 227 |
| - Secured and Corporate | 2 | 25 | 25 | 33 | 62 | 61 | 67 | 73 | 94 |
| **Total** | **631** | **701** | **716** | **799** | **832** | **851** | **945** | **1,093** | **1,123** |



Source: split according to management accounting. Please note that the presentation of this table has been improved compared to the past in order to better highlight the correlation regarding both the operating and financial impacts of transferring positions between different categories.
*Other Judicial positions **Does not include €1.9 mln of customer loans (invoices to be issued) related to FBS servicing activities

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# NPL Business: P&L and cash evolution

| P&L - €mln | 1Q 17 | 2Q 17 | 3Q 17 | 4Q 17 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|---|---|---|
| **Waiting for workout - Positions at cost** | | | | | | | | | |
| **Extrajudicial positions** | **18** | **15** | **16** | **28** | **21** | **13** | **13** | **17** | **19** |
| - Ongoing attempt of recovery | 1 | 1 | (1) | 0 | 2 | (3) | (3) | (4) | (3) |
| - Non-judicial payment plans | 17 | 14 | 18 | 28 | 19 | 16 | 16 | 21 | 22 |
| **Judicial positions** | **17** | **21** | **16** | **31** | **46** | **43** | **33** | **53** | **46** |
| - Freezed* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - Court injunctions and foreclosures + Order of assignments | 17 | 20 | 15 | 28 | 44 | 41 | 26 | 42 | 37 |
| - Secured and Corporate | 0 | 1 | 1 | 2 | 3 | 2 | 7 | 11 | 9 |
| **Total** | **35** | **36** | **32** | **58** | **67** | **56** | **46** | **69** | **66** |

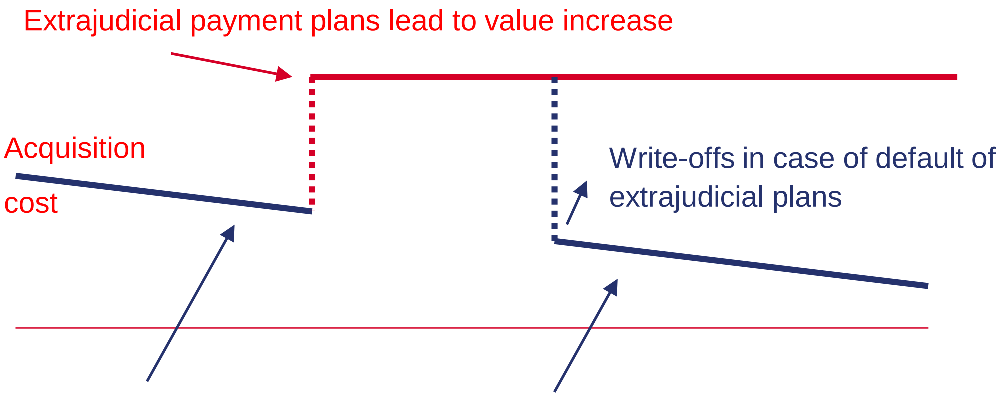
| Cash - €mln | 1Q 17 | 2Q 17 | 3Q 17 | 4Q 17 | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 1Q 19 |
|---|---|---|---|---|---|---|---|---|---|
| **Waiting for workout - Positions at cost** | | | | | | | | | |
| **Extrajudicial positions** | **18** | **19** | **21** | **29** | **21** | **21** | **22** | **26** | **27** |
| - Ongoing attempt of recovery | 2 | 3 | 3 | 6 | 4 | 4 | 3 | 3 | 4 |
| - Non-judicial payment plans | 16 | 16 | 18 | 23 | 17 | 17 | 19 | 23 | 23 |
| **Judicial positions** | **7** | **10** | **10** | **15** | **19** | **20** | **23** | **29** | **30** |
| - Freezed* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - Court injunctions and foreclosures + Order of assignments | 7 | 8 | 9 | 12 | 15 | 17 | 19 | 22 | 24 |
| - Secured and Corporate | 0 | 2 | 0 | 3 | 4 | 3 | 4 | 7 | 6 |
| **Total** | **25** | **29** | **30** | **44** | **40** | **41** | **45** | **55** | **57** |



Source: split according to management accounting. Please note that the presentation of this table has been improved compared to the past in order to better highlight the correlation regarding both the operating and financial impacts of transferring positions between different categories.
*Other Judicial positions

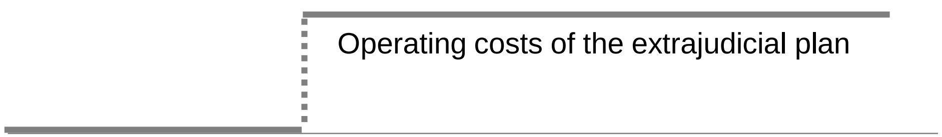
# Accounting of extrajudicial workout

## Net banking income




**Massive model gives a write off of ca. 10%-15% per year if no repayment plan is agreed**

## Operating costs




**Cash flows are free of charge, after booking the costs of the extrajudicial plan**

## Accounting based on IFRS 9

- Until the completion of the onboarding process, which on average lasts 6 months, NPLs are valued at acquisition costs (i.e. expected cash recovery discounted at the IRR used for the acquisition of the portfolio)
- Once the onboarding has been completed, the NPLs are valued based on statistical model («massive model»)
- The agreement of an extrajudicial payment plan leads to an increase in accounting value due to the increased probability of recovery. In this case the net book value of the NPL is based on the future cash flows of the voluntary plan net of historical delinquency rate, discounted at the original IRR
- In case of default of the extrajudicial payment plan, the NPL is written off and valued based on statistical model («massive model»)
- The costs of the onboarding are expensed in P&L; the entire costs related to the extrajudicial plans go to the P&L when the extrajudicial plans are approved and start providing their P&L contribution

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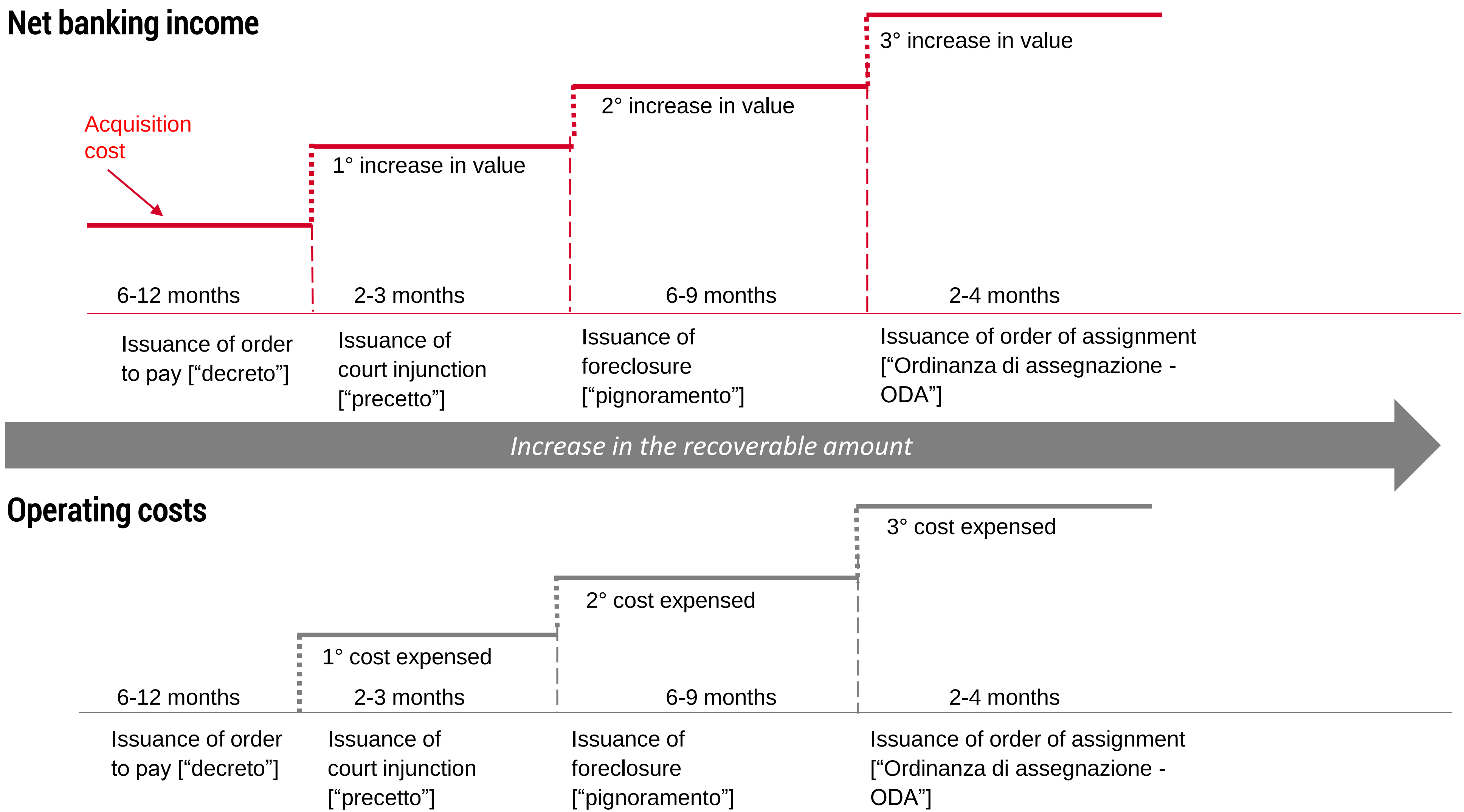
# Accounting of judicial workout (1/2)




**Cash flows are free of charge, after booking the costs of the ODA**

# Accounting of judicial workout (2/2)

## Accounting based on IFRS 9

### Freezed

- Until the completion of the onboarding process, NPLs in judicial workout are valued at acquisition cost until the issue of court injunctions ("precetto")

### #1 Increase in value and cost expensed (court injunctions "precetto")

- Once the court injunctions have been issued, NPLs are valued based on internal recovery models. This leads to an incremental growth in the credit accounting value, as the probability of recovery rises significantly. The legal costs to get to court injunctions are expensed in P&L
- Legal proceeding to get to court injunctions ("precetto") last on average ca. 6-12 months

### #2 Increase in value (foreclosures "pignoramento")

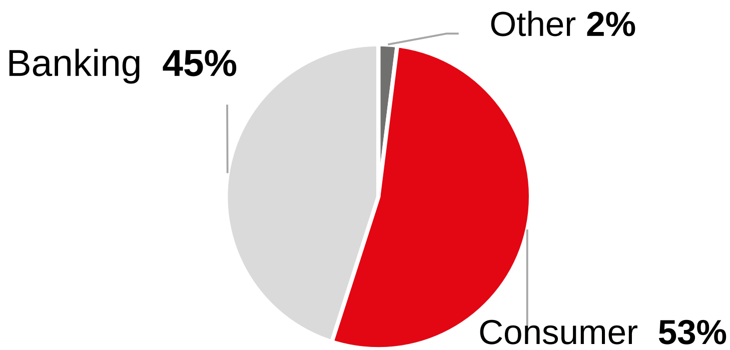
- Once the foreclosure ("pignoramento") has been issued, there is another update in the accounting value. The second part of the legal costs are expensed in P&L
- Foreclosure phase lasts on average ca. 2-3 months
- In cases of decay of foreclosure, the NPL is written-off. Probability of decay is included in risk modelling

### #3 Increase in value (order of assignments)

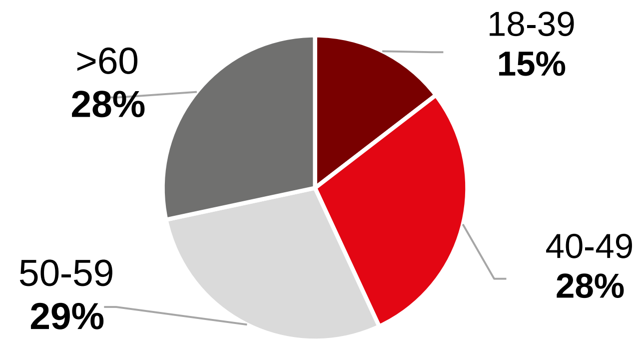
- Once the ODA ("order of assignment") has been issued, there is another update in the accounting value due to the completion of the legal process. The remaining legal costs to get the ODA  are expensed in P&L
- Judicial actions to get the final ODA last on average ca. 1.5-2.5 years from the acquisition date
- In case of decay of ODA, the NPL is written-off. Probability of decay is included in risk modelling

# NPL Business*: portfolio diversification

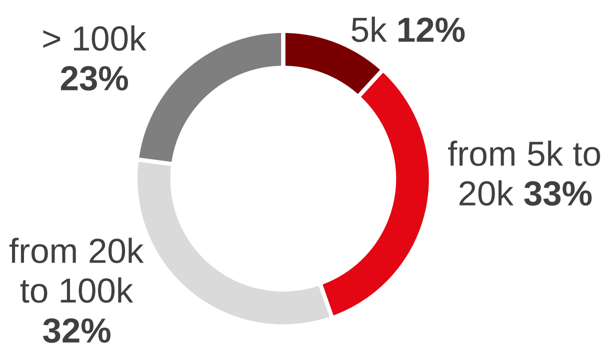
## Breakdown of GBV by type




## Breakdown of GBV by borrower age




## Breakdown of Gross Bad Loans by ticket size




## Gross NPL breakdown by region

| | |
|---|---|
| NORTH | 32.6% |
| CENTER | 24.7% |
| SOUTH & ISLANDS | 36.6% |
| OTHER/ ABROAD | 6.1% |

Data as at 31 March 2019
Source: management accounting, risk management data
*Excluding FBS

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