BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA GROWING ACROSS ALL BUSINESS LINES WITH A NET INCOME UP BY 21% YoY [1]

- **Business performance**
    - **Factoring: turnover +20% yoy and growing customer base from 124 in 2014 to 294 in 2015**
    - **CQS/CQP: 120 million vs. 13 in 2014 and 4 new partnerships**
    - **Loans to SMEs: 83 million vs. 19 million in 2014**

- **Net interest income up by 20% yoy**
- **Cost Income down to 46% from 49% in 2014**
- **ROAE at 34%, amongst the highest in the European banking industry [1]**

- **Diversified funding with Retail component at 42%**
- **High credit quality, with a net NPL over total loans ratio of 1.1%**
- **Total Capital Ratio at 16,8% and CET1 13.7%**
- **Dividend pay-out of 25% and DPS equals to € 0.05**

- **February 2016 first acquisition: Beta Stepstone**

Milan, 5 February 2016

The Board of Directors of Banca Sistema has approved the preliminary results as at 31 December 2015, reporting a **"normalized" net income,** excluding non-recurring items related to the IPO and to the one-off contribution to the National Resolution Fund, of 23.7 million (19.5 million in the same period of 2014), up by 21% yoy.
Four years after its foundation, Banca Sistema closed the year once again with a rising net income, reporting a profitability that is amongst the highest across the European banking industry. And with the acquisition of **Beta Stepstone**, announced yesterday, it laid the foundations for a further future growth.

[1] Amounts and indicators are calculated based on normalized P&L figures adjusted to filter out IPO non-recurring costs and the one-off contribution to the National Resolution Fund of approx. 1.2 million (after taxes).

Business Performance

The robust growth of **factoring,** our core business, with a turnover of 1,411 million, up by 20% yoy, has been achieved among other things by pursuing a commercial action targeting:

1. a growth in the number of customers, from 124 in 2014 to 294 in 2015, while maintaining a high recurring turnover rate at approx. 90%;
2. the diversification of origination channels, through the closing of 14 commercial agreements with banks (covering a total of 1,100 branches in Italy) to distribute factoring products, generating a contribution of 73 million to the turnover.

The growth has reduced further also the customer concentration.

The contribution margin of the fourth quarter 2015 to the full year turnover came in at 38%, in line with 2014, and in particular the month of December 2015 contributed by 22% to the yearly turnover.
In terms of products, tax credits factoring (VAT) reported a marked growth of 168% yoy.

At 31 December 2015, factoring outstanding volumes (management accounting data) stood at 1,111 million, of which 93% is represented by Public Administration (PA), notably State Central Administrations (27%), Local Entities (40%), Local Healthcare Organizations (ASL) (13%), State-owned companies (7%) and Public Sector Organizations (6%).
In line with the bank's core business, 81% of the outstanding volume at the end of December was represented by non-recourse factoring, 9% by recourse factoring, and 10% by tax credits (VAT), which reported a steep rise compared to the end of 2014.

In 2015 the Group extended 79.0 million worth of **credit facilities to SMEs backed** by the SME Credit Guarantee Fund (80% granted) of the Ministry for Economic Development (law 662/96) (20.8 million in 2014).

In 2015, the Group purchased **salary- and pension-backed loans (CQS/CQP)** to private-sector employees (21%), retirees (47%) and public-sector employees (32%) for approx. 115 million, thanks to the renewal of the agreement reached with a specialized partner in 2014 and four new agreements signed this year.

Operating results in 2015

The operating results for 2015 reported below have been normalized to filter out IPO non-recurring costs (6.8 million) and the one-off contribution to the National Resolution Fund (1.8 million). IPO costs are mainly represented by underwriting and advisory costs, as well as by the cost associated with the re-measurement of the bonus deferred components recognized in prior financial years.
The above adjustments added up to 8.6 million before tax (4.4 million under the line-item Personnel expenses and 4.2 million under the line-item Other administrative expenses), and 6.1 million after tax.

At 31 December 2015, the **"normalized" net income** came in at 23.7 million (+21%), definitely on the uprise compared to the same period of 2014.

In 2015, **net interest income** stood at approx. 58 million, up by 20% over the same period of 2014 (up by 19% in Q4 2015 compared to the same period of 2014), driven by a greater contribution of both factoring, also thanks to the decline in the cost of funding, and of the new business lines – loans to SMEs and CQS/CQP. The contribution to net interest income by the securities portfolio (carry trade) instead

has been decreasing from €2.4 million in 2014 to €1.6 million in 2015, as a result of the falling Government bond yields throughout the period.
Interest income from receivables, which increased by 9.4%, is basically made up of revenues generated by the factoring loan book.
Factoring interest income is generated by the purchase of loans at a discount and does not include accrued late payment interest with Public Administration, amounting to approx. 82 million euro on loans already collected and to approx. 70 million on uncollected loans, adding up to 152 million (121 million in 2014). In 2015 the Bank received late payment interest on portfolios mainly acquired in prior years amounting to 2.9 million. Applying late payment interest represents an expedient that can be adopted to encourage some borrowers to improve their payment timeliness.
The cost of funding has been declining compared to the prior year as a result of a general decrease in market rates which had a positive impact on wholesale funding. Also the cost of retail funding went down, driven by the decline in interest rates on deposits and checking accounts, and by the maturity of term deposits with higher interest rates than the current renewals.

Net fees and commissions, amounting to 11.2 million, reported a slight decline compared to 2014 due to the combined effect of higher distribution fees paid to third parties closely related to the increase in factoring volumes, and lower collection commission income due to a reduction in third party invoices under management (from 300 million to 288 million). Compared to the prior period, factoring commissions have remained stable (10.9 million).

In 2015, **income from the proprietary portfolio** and from the trading portfolio made a lower contribution compared to the prior year, due to the less favorable market performance for the former, and to a decline in the volume of trades on behalf of third parties for the latter.

Total income added up to 71.8 million, up by 11% over 2014.

Loan loss provisions at 31/12/2015 were running at 5.4 million (of which 1.2 million collective /performing accounting for 23% of total provisions), on the rise due to the classification as NPLs of new Municipalities in financial distress (2 new entries since 30.09.2015) and to the impairment of SME loans backed by the State (80% of nominal value backed by guarantee). LLPs reported in the last quarter of 2015 have been affected by the increase in outstanding loans (collective provisions in Q4 accounted for 35% of total LLPs).
The **cost of risk** at 31 December 2015, excluding repurchase agreements, stood at 50bps, up compared to 2014 as a result of the impairment of SME loans. The cost of risk for factoring remained practically unchanged with respect to 2014.

The Group's **headcount** (FTE) grew from 113 employees at 31 December 2014 to 130 at 31 December 2015. **Personnel expenses** stood at 13.1 million net of the non-recurring items described above, up by approx. 1 million over 2014, primarily driven by the growth in headcount started in 2014.
Other administrative expenses added up to approx. 20.1 million (net of the non-recurring items described above), up by 9.4% over the prior year. Third-party costs from the collection and servicing of receivables, included in other administrative expenses, and amounting to 7.0 million in 2015 as compared to 7.1 million in 2014, are in line, although volumes have increased driven by the reduction in the percentage cost applied to collected amounts, also thanks to the increase in volumes managed in-house.

The total Operating costs grew 6%, +3% excluding the ordinary contribution to the National Resolution Fund due from 2015 (0.6 million) and the contribution to the Interbank Deposit Guarantee Fund (0.2 million)
In 2015, the **Cost Income ratio** stood at 46 compared to 49% in 2014.

Profits from equity investments, amounting to 0.4 million in 2015, reflect the net pro-rated result of the company CS Union S.p.A..

Gains on sale of investments, amounting to 0.5 million, refer to a conservative estimate of the portion of deferred price under the contract that the subsidiary SFT Holding is entitled to receive from SFTI in liquidation, based on the current positive progress of the liquidation procedure. It refers to the unwinding of the securitization of “Pubblica Funding”, therefore the above gains may be considered part of the revenues generated by the core business, even though they come as deferred price.

At 31 December 2015, **income tax for the period**, including the additional taxes on the non-recurring items described above, totaled 10.4 million (10.1 million in the same period of 2014).

Net income for the period (stated) for FY 2015 came in at 17.6 million.

<u>Key balance sheet items at 31 December 2015</u>

At 31 December 2015, the Bank reported **total assets** of approx. 2.4 billion, up by c. 16% over year-end 2014.

The Bank’s **securities portfolio** is still entirely made up of Italian Government bonds, having an average duration at 31 December 2015 of approx. 9 months (the residual average duration at year-end 2014 was 8.5 months), in line with the Group investment policy requirement to hold securities with a duration below 12 months. Securities held at 31 December 2015 totaled 920 million (858 million at 31 December 2014), and were represented exclusively by short-term Government bonds. The valuation reserve at 31 December 2015 posted a positive balance of 352 thousand.
In July the Bank purchased 200 shares of the Bank of Italy, for a total amount of 5 million, and the shares have been classified in the AFS portfolio.

Customer loans increased by 22% yoy **,** and are primarily represented by non-recourse factoring with the Public Administration, which went from 94% to 82% excluding repos. Factoring facilities, amounting to 1,050 million, have reported a steep increase yoy (+23.2%) as a result of the turnover dynamic generated in 2015, of collection over the period, and in particular of the turnover generated in Q4 2015 amounting to 536 million (311 million just in the month of December 2015). Also State-guaranteed loans to SMEs and salary- and pension-backed loans (CQS/CQP) have been increasing, driven by the disbursements made in FY 2015. In particular, SME loans totaled 83.2 million (18.7 million at 31 December 2014), while CQS/CQP amounted to 120.4 million (13.2 million at 31 December 2014). The diversification strategy rolled out at the end of 2014 to include other types of loans is now reaping its first results, so much so that State-guaranteed loans to SMEs and salary- and pension-backed loans (CQS/CQP) now account for 16% of customer loans net of repos.

The **gross doubtful loans** stock got smaller compared to 30 September 2015 due to the decline in past dues and bad loans, which more than offset the increase in unlikely-to-pay loans. The rise in unlikely-to-

pay loans compared to 30 September 2015 and to 30 December 2014 is ascribable to the impairment of 80% of State-guaranteed loans to SMEs .
The gross doubtful loans stock increase yoy was mainly driven by the rise in past dues as a result of the adoption of a more stringent internal classification method with regard to PA loans, which does not entail a worsening of the credit quality, and is normal and in line with the Bank's business.
The net NPL to total loan ratio excluding outstanding repos went from 4.4% at 31 December 2014 to 6.6% at 31 December 2015.
The increase in bad loans yoy is mainly ascribable to new local governments in financial distress. The net bad loans to total outstanding loans ratio (net of repos) went from 1.0% at 31 December 2014 to 1.1%, and remain at contained levels.

Equity investments include the 25.8% stake in CS Union S.p.A. (engaging in the purchase and management of non-performing account receivables and financial loans, as well as credit collection).

Retail deposits account for approx. 42% (46% at 31 December 2014) of total funding, and are represented by checking accounts and term deposits.

Due to banks decreased compared to 31 December 2014 due to a decline in ECB funding in favor of repo-based funding (see Due to customers), which over the period proved more cost effective compared to ECB rates. For ECB funding equals to 80 million, amounting to 49.3 million, credit claims were used as underlying collateral, and for the remaining part it was represented by Government bonds. At 31 December 2015 funding was increased by resorting to the interbank market through term deposits.

As to **Due to customers**, term deposits (572 million at 31 December 2015 compared to approx. 569 million at the end of December 2014) and checking accounts (336 million at 31 December 2015 compared to approx. 312 million at the end of December 2014, including Corporate customers) have been growing slightly compared to the end of 2014, in spite of the fact that the Group has decided to reduce the cost of retail funding, while maintaining a high liquidity buffer, also thanks to a greater number of uncommitted credit lines granted by banks.

Shareholders' equity went up compared to 31 December 2014, mainly driven by the increase in reserves, that include the proceeds raised in the new share issue for the IPO (10 million shares at a unit price of €3.75) net of the IPO-related capitalized costs of approx. 1.5 million (net of 0.3 million deferred tax assets, that can be tax-deducted over a five-year period)[2], as well as by the 2015 net income of 17.6 million.

Total own funds at 31 December 2015 came in at 106.9 million (57.8 million at 31 December 2014), and **CET1** amounted to 86.9 million (37.8 million at 31 December 2014).
Capital ratios have all been going up compared to 31 December 2014, specifically:

- **CET1** from 10.4% to 13.7%;
- **TIER1** from 12.6% to 14.9%;
- **Total Capital** from 15.9% to 16.8%.

[2] In compliance with international accounting standards, all incremental costs strictly connected with the IPO (mainly underwriting and advisory fees) have been capitalized as a proportion of the number of new shares issued over the total number of new shares.

The increase in risk-weighted assets (RWA) over 31 December 2014 was driven by the strong increase in commercial loans, where the product mix has changed to include also loans with a higher capital absorption, by the increase in PA past dues, as a result of the credit policies mentioned above, as well as by the rise in total income reflecting a higher operational risk .
The decline in capital ratios over the quarter - 31 December 2015 compared to 30 September 2015 - was primarily driven by the increase in risk-weighted assets, which went from 531 million to 636 million. This rise was driven by the credit risk component, which incremented across all business segments, and by the increase in operational risk.

Capital ratios have been calculated based on the assumption of distributing a dividend of 0.05 euro per share. On 15 March 2016 the Board of Directors shall submit the final dividend proposal to the General Shareholders' Meeting.

Please note, that in compliance with EBA's *Guidelines on common SREP (Supervisory Review and Evaluation Process)*, with a letter dated 14 October 2015 the Parent company was requested by the Bank of Italy to satisfy the following minimum requirements:

- CET1 ratio of 7.2%, +0.2% for additional requirements on top of minimum regulatory capital;
- TIER1 ratio of 9.6%, +1.1% for additional requirements on top of minimum regulatory capital;
- Total capital ratio of 12.9%, +2.4% for additional requirements on top of minimum regulatory capital.

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Operational outlook

FY 2015 confirmed the growth trend of factoring, SME loans and salary/pension-backed loans volumes over the prior year. Based on current market conditions, net interest income will keep on benefitting from the basic stability of funding costs and from the diversification of funding sources.

New strategic commercial agreements and framework agreements have been entered during the year, which allowed the Group and will further contribute in 2016 to consolidate the product range diversification process.

The goal is again to broaden our Customer base and take advantage of the opportunities presented by the excellent strategic positioning of Gruppo Banca Sistema on the Italian market.

The net IPO proceeds and the resulting shoring-up of Own Funds will facilitate the pursuit of our strategies, notably the strengthening and stabilization of the factoring core business and the growth of the new business lines introduced in 2014, and will also favor a further business diversification based on the identification of new opportunities, including strategic acquisitions.

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Statement of the Manager in charge of preparing corporate financial reports

The manager in charge of preparing the corporate financial reports of Banca Sistema, in compliance with paragraph two of art. 154 bis of the "Consolidated act for financial intermediation", hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

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All amounts reported in the press release are in euro.

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Banca Sistema

Banca Sistema was founded in 2011, as a bank specialized in financing and managing trade receivables owed by the Italian Public Administrations, thereby entering a sector of the Italian financial system aimed at granting liquidity to corporate entities in their business dealings with the PA's, mainly through factoring and credit management services.
With main offices in Milan, Rome and London, during this time Banca Sistema has extended its activities and services available both to business and retail Clients.
As an independent financial operator characterized by a diversified business model, Banca Sistema can offer, today, recourse and non-recourse factoring services. This includes receivables between private companies, yearly and quarterly VAT receivables refunds, current accounts, time deposits with durations up to 10 years, guarantees, securities deposit, reverse factoring, certification of Public Administration credits, salary and pension backed loans, and small and medium enterprises financing.
The Bank is also active in the purchasing and management of non-performing financial and trade receivables as well as management and debt recovery from individuals, thanks to its shareholding in CS Union S.p.A..

Attachments

- Consolidated Balance-sheet
- Consolidated Income statement
- Normalized Consolidated Income statement at 31 December 2015

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

	Figures in thousands of euro	31/12/2015	31/12/2014	Changes A - B	Changes % A - B
	ASSETS				
10.	Cash and cash equivalents	104	66	38	57.6%
20.	Financial assets held for trading	-	63	(63)	-100.0%
40.	Available-for-sale financial assets	925,402	858,007	67,395	7.9%
60.	Loans and advances to banks	2,076	16,682	(14,606)	-87.6%
70.	Loans and advances to customers	1,457,990	1,193,754	264,236	22.1%
100.	Equity investments	2,696	2,448	248	10.1%
120.	Property, plant and equipment	1,058	1,201	(143)	-11.9%
130.	Intangible assets	1,872	1,904	(32)	-1.7%
	of which: goodwill	*1,786*	*1,786*	-	*0.0%*
140.	Tax assets	7,353	2,752	4,601	167.2%
160.	Other assets	13,119	4,376	8,743	199.8%
	Total assets	**2,411,670**	**2,081,253**	**330,417**	**15.9%**

	Figures in thousands of euro	31/12/2015	31/12/2014	Changes A - B	Changes % A - B
	LIABILITIES AND EQUITY				
10.	Due to banks	362,075	821,404	(459,329)	-55.9%
20.	Due to customers	1,878,339	1,153,797	724,542	62.8%
30.	Debt securities issued	20,102	20,109	(7)	0.0%
80.	Tax liabilities	804	6,248	(5,444)	-87.1%
100.	Other liabilities	55,317	36,441	18,876	51.8%
110.	Post-employment benefits	1,303	1,173	130	11.1%
120.	Provisions for risks and charges:	372	1,030	(658)	-63.9%
	b) other provisions	372	1,030	(658)	-63.9%
140. + 170. + 180. + 190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	75,751	21,512	54,239	252.1%
220.	Profit (loss) for the year	17,607	19,539	(1,932)	-9.9%
	Total liabilities and equity	**2,411,670**	**2,081,253**	**330,417**	**15.9%**

BANCA SISTEMA GROUP: CONSOLIDATED INCOME STATEMENT

	Figures in thousands of euro	31.12.2015 A (Normalised)	31.12.2014 B	Changes A - B	Changes % A - B
10.	Interest income	79,019	75,792	3,227	4.3%
20.	Interest expenses	(21,013)	(27,456)	6,443	-23.5%
30.	**Net interest income**	**58,006**	**48,337**	**9,669**	**20.0%**
40. - 50.	Net fee and commission income	11,168	11,501	(333)	-2.9%
70.	Dividends and similar income	-	33	(33)	-100.0%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	2,640	4,679	(2,039)	-43.6%
120.	**Operating income**	**71,814**	**64,550**	**7,264**	**11.3%**
130.	Net impairment losses on loans	(5,439)	(3,520)	(1,919)	54.5%
140.	**Net operating income**	**66,375**	**61,030**	**5,345**	**8.8%**
180. a)	Staff costs	(13,139)	(12,107)	(1,032)	8.5%
180. b)	Other administrative expenses	(20,112)	(18,384)	(1,728)	9.4%
190.	Net allowance for risks and charges	300	(369)	669	-181.2%
200. + 210.	Net provisions for risks and charges	(312)	(230)	(82)	35.9%
220.	Other net operating income/expense	71	(338)	409	-121.0%
230	**Operating expenses**	**(33,192)**	**(31,428)**	**(1,764)**	**5.6%**
240.	Profits of equity-accounted investees	422	71	351	495.5%
270	Profits from investments disposal	534	-		
280.	**Pre-tax profit from continuing operations**	**34,139**	**29,672**	**4,467**	**15.1%**
290.	Taxes on income for the period/year from continuing operations	(10,426)	(10,133)	(293)	2.9%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**23,713**	**19,539**	**4,174**	**21.4%**

BANCA SISTEMA GROUP: CONSOLIDATED INCOME STATEMENT NORMALISED AS AT 31 DECEMBER 2015

	Figures in thousands of euro	31.12.2015 A	31.12.2014 B	Changes A - B	Changes % A - B
10.	Interest income	79,019	75,792	3,227	4.3%
20.	Interest expenses	(21,013)	(27,456)	6,443	-23.5%
30.	**Net interest income**	**58,006**	**48,337**	**9,669**	**20.0%**
40. - 50.	Net fee and commission income	11,168	11,501	(333)	-2.9%
70.	Dividends and similar income	-	33	(33)	-100.0%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	2,640	4,679	(2,039)	-43.6%
120.	**Operating income**	**71,814**	**64,550**	**7,264**	**11.3%**
130.	Net impairment losses on loans	(5,439)	(3,520)	(1,919)	54.5%
140.	**Net operating income**	**66,375**	**61,030**	**5,345**	**8.8%**
180. a)	Staff costs	(17,528)	(12,107)	(5,421)	44.8%
180. b)	Other administrative expenses	(24,350)	(18,384)	(5,966)	32.5%
190.	Net allowance for risks and charges	300	(369)	669	-181.2%
200. + 210.	Net provisions for risks and charges	(312)	(230)	(82)	35.9%
220.	Other net operating income/expense	71	(338)	409	-121.0%
230	**Operating expenses**	**(41,819)**	**(31,428)**	**(10,391)**	**33.1%**
240.	Profits of equity-accounted investees	422	71	351	495.5%
270	Profits from investments disposal	534	-		
280.	**Pre-tax profit from continuing operations**	**25,512**	**29,672**	**(4,160)**	**-14.0%**
290.	Taxes on income for the period/year from continuing operations	(7,905)	(10,133)	2,228	-22.0%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**17,607**	**19,539**	**(1,932)**	**-9.9%**