BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED H1 2016 RESULTS AND THE MERGER OF BETA STEPSTONE

- **Results as at 30 June 2016:**
  - Factoring turnover at 697 million, +16% y/y
  - Outstanding salary- and pension-backed loans (CQS/CQP) at 182 million, +180% y/y

  - Net interest income at 34.6 million, +20% y/y
  - Cost of Retail funding at 160bps, down by 80bps y/y
  - Cost of risk at 51bps in line with FY 2015
  - Net income of 15.7 million, +17% y/y

  - Shrinking Italian Government bond portfolio, down to 0.4 billion (0.9 billion at 31.03.2016) c. 50% reduction
  - CET1 at 14.4% (13.7% at 31.12.2015)
- **Merger Plan of Beta Stepstone approved**

Milan, 29 July 2016

The Board of Directors of Banca Sistema has approved the results as at 30 June 2016, reporting a **net income** of 15.7 million, up by 17% compared to the same period of 2015.

Business Performance

The growth in **factoring,** our core business, with a turnover of 697 million, up by 16% y/y, was achieved also thanks to a commercial action in keeping with the guidelines that had been outlined already in 2015:

1. increase in the number of customers (+35% y/y);
2. focus on recurring business (>90%);
3. Diversification of origination channels (11% of turnover generated through commercial agreements with banks, 5% in June 2015).

From a product perspective, it is worth highlighting the growth reported by tax credit (VAT) factoring, which soared from 56 million in H1 2015 to 91 million in H1 2016.

Factoring outstanding volumes (management accounting data) at 30 June 2016 stood at 997 million, of which 88% is represented by Public Administration debtors (PA).

At the end of June 2016, **credit facilities to SMEs backed** by an 80% guarantee coverage of the SME from Credit Guarantee Fund of the Ministry for Economic Development (law 662/96) totaled 84 million, basically stable compared to the end of 2015.

In H1 2016, the Group purchased **salary- and pension-backed loans (CQS/CQP)** for approx. 65 million, bringing total loans at 30 June 2016 to 182 million (120 million at 31 December 2015).

Operating results at 30 June 2016

Net interest income at 34,6 million improved by 20% over the same period of 2015, driven by a significant reduction in the cost of funding, and a greater contribution from the new lines of business (SMEs financing and CQS/CQP).
Moreover, until recently the Bank had been following the cash accounting methodology to recognize late-payment interest only when collected, whilst as at of the second quarter of 2016, having further developed our internal forecasting tools and with a larger data pool available after five years of trading from inception, and also as a result of the rollout of a more systematic in- and out-of-court recovery process for defaulted loans (driven also by the increase in volumes), the bank prudentially credited to income 15% of late-payment interest due at 30 June 2016. It is limited to invoices whose recovery is taking place in-court through legal proceedings. The recognition does not take place upon purchase the invoices but is only, triggered with the commencement of legal action for recovery.
The amount generated by this change was 6.9 million (at interest income level), of which 1.9 million accrued over the current period and 5.0 million as a result of the change in the estimation method.

Late-payment interest accrued on receivables closed and opened as at 30 June 2016 came in at approx. euro 160.7 million (94.2 million on collected invoices).
In 2016, collected late-payment interest related to portfolios that had mainly been acquired in prior years came in at 1.2 million, as compared with 2.9 million in full-year 2015.

Regarding interest expense, the cost of funding has been declining compared to the same period last year.

Net fees and commissions, amounting to 4.4 million, fell by 25%, mainly as a result of lower factoring fees due to a more limited use of commission-based products.

Income from the proprietary portfolio, at -61%, made a more limited contribution compared to the same period last year, due to lowering Government bond yields.

Loan loss provisions in H1 2016 added up to 3.1 million (2.1 million in H1 2015), mainly driven by an increase in the collective provisioning of the SME loan book and new individual write-downs. In particular, the increase in individual write-downs was due to the reclassification as Bad loans of new positions of local governments under distress, and by the increase in SMEs under distress. The **cost of risk** (excluding reverse repos) came in at 0.51% (0.50% in 2015).

The Group's **headcount** (FTE) grew from 129 employees at 30 June 2015 to 132 at 30 June 2016.

The rise in **personnel expenses** (taking into account the 4.4 million normalization in H1 2015 due to the IPO-related bonuses) was mainly driven by the increase in salaries and wages as a result of new hires.
Other administrative expenses grew by 13% compared to the prior half-year, mainly as a result of the contribution for the year 2016 to the European Resolution Fund (earmarked only in the last quarter of 2015), and of project costs related to new initiatives that were not present in 2015 half-year, notably, the securitization of CQS loans and M&A-related due diligence and advisory services.

At 30 June 2016, the **Cost Income ratio** stood at 44%.

Gains (losses) on equity investments include the 2.3 million capital gain on the disposal of 15.8% of the shareholding in CS Union, as well as the pro-rated loss for the period related to the current 10% stake still held in CS Union.

The Group's **tax rate** declined compared to H1 2015, mainly as a result of the *participation exemption* (or Pex) being applied to the capital gain from the sale of a stake in CS Union.

Based on the stated net income for H1 2016, coming in at 15.7 million, over the same period the Bank reports a **ROAE** of 29%.

Key balance sheet items at 30 June 2016

At 30 June 2016, **total assets**, coming in at approx. 1.7 billion, reported a decline of 30% compared with year-end 2015, mainly driven by the lower Italian government bond exposure (-56%).

At the end of June 2016, the Bank's **securities portfolio**, amounting to 0.4 billion and entirely made up of Italian Government bonds, had an average duration of roughly 5 months. This reduction was decided in view of the possible outcome of the British referendum of June 23, 2016.

Customer loans, primarily represented by receivables from non-recourse factoring with the Public Administration, went from 82% at the end of December 2015 to 76% excluding repos.
At 30 June 2016, the book value of factoring facilities went down by 13.2% compared to 31 December 2015, mainly driven by the collection dynamic in Q1 2016 (790 million). Moreover, the year-end outstanding volume had been impacted by the significant number of receivables portfolios purchased in Q4 2015, totaling 535 million.
With regard to factoring receivables, we completed the securitization of a portfolio which included 145 injunctions (under "unchallenged" status), amounting to a total principal of 24.8 million, and accrued late-payment interest of 7.7 million (of which 1.5 million referring to invoices whose principal had been paid off, and 6.2 million to invoices not yet paid back).

The **Net non-performing loans** to total loan ratio (net of outstanding reverse repos) went from 7.1% at 31 December 2015 to 8.7% at 30 June 2016.
The Bad loans ratio (the ratio between net NPLs and total customer loans net of reverse repos) remains at contained levels below 2%.
The Bad loans increase over the first-half was mainly attributable to new local government entities under bankruptcy proceeding and distress, as well as to new inflows of SME loans in the Bad loans

bucket and to the reclassification from unlikely-to-pay in Bad loans of other SME loans: to this respect note that the State's average coverage ratio is 80% of the exposure.

Retail deposits account for approx. 51% of total funding and are represented by checking accounts and term deposits.

As pertains to **Due to banks**, the Bank participated in the TLTRO II auction and borrowed 123 million, with a four-year duration and a currently estimated rate of -40bps; to date this is still an unrealized gain that has not been recognized yet as it will be known only when the loan expires, while a 0% interest rate has been accounted for. At 30 June 2016, interbank funding has declined compared to the end of 2015.

In the context of **Due to customers**, in line with the Business plan - set to increase wholesale funding, achieve a greater diversification, reduce the cost of funding and extend the duration - the term deposit stock (having a residual life at 30 June 2016 of about 18 months and a weight of Germany-based funding of 22%) declined by approx. 114 million compared to 31 December 2015, as did also the checking account stock compared to 31 December 2015.

Securities issued went up compared to 31 December 2015, as a result of the new issuance of Senior notes sold to institutional clients in Q2 2016, totaling 70 million.

Total own funds at 30 June 2016 came in at 119.0 million (106.9 million at 31 December 2015), and **CET1** totaled 99.0 million (86.9 million at 31 December 2015).
Capital ratios have reported a slight increase compared to 31 December 2015, notably:

- **CET1** from 13.7% to 14.4%;
- **TIER1** from 14.9% to 15.5%;
- **Total Capital** from 16.8% to 17.3%.

The estimated CET1 impact at 30.06.2016 from the acquisition of Beta Stepstone, completed on 1 July 2016, is around 70bps.

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Today, pursuant to articles 2501-ter and 2505 of the civil code, the Board of Directors has approved the plan to merge Beta Stepstone into Banca Sistema.
The Merger – subject to the prior authorization of the Bank of Italy pursuant to article 57 of Lgs.D. 385/93 – is part of the integration plan for Beta Stepstone, as already disclosed to the market on 4 July 2016.

The Merger will follow the simplified procedure pursuant to art. 2505 of the civil code, considering that to date the acquiring company Banca Sistema holds 100% of the share capital of Beta Stepstone, and thus, in accordance with the above regulation, need not include the share-exchange ratio, nor are the executive report pursuant to article 2501-quinquies of the civil code, or the expert's report under article 2501-sexies of the civil code required.

No right of withdrawal is granted to the shareholders of Banca Sistema.

The merger with Beta Stepstone is scheduled to be finalized by the end of 2016.

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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 financial amounts reported in the press release are expressed in euros.

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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 minority shareholding in CS Union S.p.A..

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Normalized consolidated income statement as at 30 June 2015

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of euro

		30.06.2016 A	31.12.2015 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	90	104	-13.5%
40.	Available-for-sale financial assets	411,422	925,402	-55.5%
60.	Loans and advances to banks	49,701	2,076	2294.1%
70.	Loans and advances to customers	1,192,757	1,457,990	-18.2%
100.	Equity investments	990	2,696	-63.3%
120.	Property, plant and equipment	938	1,058	-11.3%
130.	Intangible assets	1,846	1,872	-1.4%
	of which: goodwill	*1,786*	*1,786*	*0.0%*
140.	Tax assets	3,679	7,353	-50.0%
160.	Other assets	17,216	13,119	31.2%
	Total assets	**1,678,639**	**2,411,670**	**-30.4%**

Figures in thousands of euro

		30.06.2016 A	31.12.2015 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Due to banks	352,713	362,075	-2.6%
20.	Due to customers	1,069,141	1,878,339	-43.1%
30.	Debt securities issued	90,325	20,102	349.3%
80.	Tax liabilities	3,067	804	281.5%
100.	Other liabilities	57,291	55,317	3.6%
110.	Post-employment benefits	1,464	1,303	12.4%
120.	Provisions for risks and charges:	279	372	-25.0%
140.+170.+ 180.+190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	88,674	75,751	17.1%
220.	Profit (loss) for the year	15,685	17,607	-10.9%
	Total liabilities and equity	**1,678,639**	**2,411,670**	**-30.4%**

BANCA SISTEMA GROUP: CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 June 2016

Figures in thousands of euro

		30.06.2016 A	31.03.2015 B	Difference % A - B
10.	Interest income	42,588	40,500	5.2%
20.	Interest expenses	(7,941)	(11,549)	-31.2%
30.	**Net interest income**	**34,647**	**28,951**	**19.7%**
40. - 50.	Net fee and commission income	4,415	5,853	-24.6%
70.	Dividends and similar income	227	-	0.0%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	803	2,060	-61.0%
120.	**Operating income**	**40,092**	**36,864**	**8.8%**
130.	Net impairment losses on loans	(3,130)	(2,091)	49.7%
140.	**Net operating income**	**36,962**	**34,773**	**6.3%**
180. a)	Staff costs	(7,466)	(10,917)	-31.6%
180. b)	Other administrative expenses	(10,239)	(11,260)	-9.1%
190.	Net allowance for risks and charges	69	(10)	100.0%
200. + 210.	Net provisions for risks and charges	(151)	(154)	-1.9%
220.	Other net operating income/expense	321	128	150.8%
230	**Operating expenses**	**(17,466)**	**(22,213)**	**-21.4%**
240.	Profits of equity-accounted investees	2,241	221	914.0%
280.	**Pre-tax profit from continuing operations**	**21,737**	**12,781**	**70.1%**
290.	Taxes on income for the period/year from continuing operations	(6,052)	(4,165)	45.3%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**15,685**	**8,616**	**82.0%**

BANCA SISTEMA GROUP: CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 JUNE 2015 (normalized figures)

Figures in thousands of Euro

		30.06.2016 A	30.06.2015 B (Normalized)	Difference % A - B
10.	Interest income	42,588	40,500	5.2%
20.	Interest expenses	(7,941)	(11,549)	-31.2%
30.	**Net interest income**	**34,647**	**28,951**	**19.7%**
40. - 50.	Net fee and commission income	4,415	5,853	-24.6%
70.	Dividends and similar income	227	-	0.0%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	803	2,060	-61.0%
120.	**Operating income**	**40,092**	**36,864**	**8.8%**
130.	Net impairment losses on loans	(3,130)	(2,091)	49.7%
140.	**Net operating income**	**36,962**	**34,773**	**6.3%**
180. a)	Staff costs	(7,466)	(6,528)	14.4%
180. b)	Other administrative expenses	(10,239)	(9,042)	13.2%
190.	Net allowance for risks and charges	69	(10)	100.0%
200. + 210.	Net provisions for risks and charges	(151)	(154)	-1.9%
220.	Other net operating income/expense	321	128	150.8%
230	**Operating expenses**	**(17,466)**	**(15,606)**	**11.9%**
240.	Profits of equity-accounted investees	2,241	221	914.0%
280.	**Pre-tax profit from continuing operations**	**21,737**	**19,388**	**12.1%**
290.	Taxes on income for the period/year from continuing operations	(6,052)	(6,029)	0.4%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**15,685**	**13,359**	**17.4%**