PRESS RELEASE

BANCA SISTEMA - 2016 RESULTS:
- REVENUES GROWING ACROSS ALL BUSINESS LINES
- NORMALIZED NET INCOME UP BY 11% YoY

- **Net interest income up by 22% yoy**
- **Total income +16% yoy net of trading result**
- **Total operating costs, net of the non-recurring contribution to the National Resolution Fund and of Beta's integration costs, up in line with expectations**
- **Loan loss provisions due to a more stringent and conservative approach for the State-guaranteed SME loans portfolio**
- **Normalized net income of 26.4 million, including the 1.3 million net contribution of Beta Stepstone**
- **ROAE at 25%, amongst the highest across the European banking system**

- **Business performance**
    - **Factoring:**
        - **turnover on the rise, net of Beta's contribution (+3% yoy)**
        - **number of customers up by 15% yoy, net of Beta's contribution**
        - **stable recurring turnover component: c.90%**
    - **SME financing: 79 million outstanding**
    - **CQS/CQP: 266 million outstanding, +121% yoy**

- **Diversified funding with Retail component at 51%**
- **LCR and NSFR above the regulatory limits**
- **CET1 at 13.3% and TCR at 15.8%, well above regulatory limits**
- **Dividend per Share (DPS) of €0.076 (€0.053 in 2015)**

Gianluca Garbi, Banca Sistema CEO, said: "2016 was a year of further growth for Banca Sistema, reporting a profitability which is among the highest across the European banking system and a net income +11% yoy. Beta Stepstones' acquisition gave a better than expected contribution to full year results and helped to consolidate our core business, where, in 2017, we also expect to see an increase in CQS/CQP, in line with our strategy of continuing to diversify our business activities."

Milan, 8 February 2017

The Board of Directors of Banca Sistema has approved the preliminary results as at 31 December 2016, reporting a **"normalized" net income,** excluding non-recurring items related to the extraordinary contribution to the National Resolution Fund (1.3 million) and Beta Stepstone integration costs (0.3 million), of **26.4** million (23.7 million in 2015, adjusted to exclude non-recurring items), up by **11% compared to 31 December 2015**.

Five years after its foundation, Banca Sistema closed the year once again with a rising net income by:

- consolidating its factoring core business both organically and through the acquisition of Beta Stepstone, which has also contributed Collection/Servicing skills to the Group;
- seizing the business diversification opportunity started at the end of 2014, in particular in CQS/CQP;
- entering a partnership with the Norwegian group Axactor in the NPL business;
- maintaining a stable and robust capital position;
- strengthening its liquidity position in terms of source diversification and maturity;
- reporting a profitability which is among the highest across the European and Italian banking industry.

In addition to Beta Stepstone's net result (1.3 million in H2 as it was acquired on 1.07.2016), the other contributors to the 2016 net income were the accrual-based accounting of 11.3 million of late-payment interest on loans under legal proceedings, and a gross 2.3 million capital gain generated in Q2 2016 on the partial disposal of a stake held in CS Union (Axactor).

Business Performance

The growth of **factoring,** our core business, with a turnover of 1,453 million, up by 3% yoy (with Beta Stepstone's contribution it would have been 4% yoy), has been achieved among other things by pursuing a commercial action aiming at:

1. increasing the number of clients, from 294 in 2015 to 337 in 2016 (124 in 2014), while maintaining a high recurring turnover rate at approx. 90%
2. diversifying origination channels, through 14 commercial agreements with banks (covering a total of 1,100 branches in Italy), generating a contribution of 13.5% to Banca Sistema's turnover.

In terms of products, tax credit factoring, whose average duration is longer than that of factoring with-recourse and whose capital absorption is similar to the State Central Administrations, is on the rise. Worth mentioning is also the growth reported in factoring without-recourse to PA and corporate clients.
The growth in turnover went hand in hand with a reduction in customer turnover concentration.
The turnover generated in Q4 2016 accounted for a smaller percentage of the full-year turnover, as compared with 2015, given that some clients, in particular in the month of December 2016, went back on their decision to sell their portfolios proposed in the previous months.

At 31 December 2016, Group factoring outstanding volumes stood at 1,039 million (accounting figure), slipping slightly yoy due to the December commercial dynamics described above and to higher collection compared to last year. 83% of outstanding volumes is represented by Public Administration debtors (PA), namely State Central Administrations (24%), Local Entities (35%), Local Healthcare Organizations (ASL) (15%), State-owned enterprises (6%) and Public Sector Organizations (3%).

In line with the bank’s core business, 81% of the outstanding volume at the end of December 2016 was represented by factoring without-recourse, 9% by factoring with-recourse, and 10% by tax credits.

In 2016, the Group granted 30 million of **credit facilities to SMEs backed** by an 80% guarantee issued by the Credit Guarantee Fund of the Ministry for Economic Development (79 million outstanding). In light of the new criteria, not yet approved, on guarantees backing these types of facilities, the Bank decided to cease granting guaranteed SME loans, re-directing the resources dedicated to SMEs lending to business where it is expected further more potential growth as CQS/CQP, also thanks to new strategic agreements currently being discussed with major originators.

In 2016, the Group purchased approx. 157 million of **salary- and pension-backed loans (CQS/CQP)** (+36% yoy) from its five partner originators, with a year-end outstanding volume of 266 million broken down into private-sector employees (14%), retirees (49%) and public-sector employees (37%). This growth, in keeping with the bank’s strategy, was followed by securitization, whose process was started in March 2016.

Operating results in 2016

The operating results for 2016 reported below have been normalized to filter out non-recurring items tied to the extraordinary contribution to the National Resolution Fund (1.3 million) and Beta Stepstone’s integration costs (0.3 million). The adjustments regarded the line-item “other administrative expenses”.
For the sake of comparison with the prior year and in line with last year’s treatment, the operating results as at 31 December 2015 have been normalized to account for the non-recurring contribution to the NRF (1.9 million) and for the non-recurring IPO costs (6.7 million), under the line-items “personnel expenses” and “other administrative expenses”.

At 31 December 2016, the **”normalized” net income** came in at 26.4 million, on the rise compared to the same period of 2015 (+11% yoy).

In 2016, **net interest income** stood at 71 million, up by 22% over the same period of 2015. This increase was driven by a net reduction in the cost of funding, by greater revenues from CQS/CQP, and by the greater contribution from factoring (in particular tax credits and late-payment interest), also thanks to Beta’s contribution (2.6 million).

At the end of H1 2016, the Bank revised the accounting recognition method for late-payment interest, switching from the cash accounting method to accrual accounting for the portfolio of loans under legal proceedings as at 30 June 2016.
In Q4 2016, in light of the broadening and enhancement of our database on historical late-payment interest collection, and of the inclusion of Beta Stepstone’ collection time series (acquired on 1 July 2016), the Bank implemented a statistical model to calculate the expected recovery rates. The adoption of this model drove estimated late-payment recovery rates up at P&L level for NHS borrowers, which went from 15% to 65%. The P&L effect produced by the change in late-payment recoverability estimation methods for the portfolio of loans under legal proceedings as at 31 December 2016 came in at 11.3 million in FY 2016 for Banca Sistema, of which 5.7 million related to prior periods.
Late-payment interest accrued on receivables closed and opened at 31 December 2016, net of the amount already allocated during the year, added up to 104.3 million (70.2 million on collected invoices).

In 2016, collected/cashed-in late-payment interest amounted to 5.8 million, compared to 2.9 million in full-year 2015.
In December 2016, the Bank completed its first late-payment interest disposal to a third party, regarding non-recourse factoring receivables from NHS borrowers totaling approx. 5 million, with a market valuation of 80%.

The lower cost of funding (interest expense declined yoy by 27%) was driven by the combined contribution from the diversification in favor of cheaper wholesale funding sources, the reduction in average deposit account costs (their average time-to-maturity at the end of December 2016 was about 20 months), and the decline in average checking account costs.
The average deposit account cost dropped by 100bps yoy, from 300bps in 2015 to 200bps in 2016.
The new wholesale funding sources are the following:

- securitization of CQS/CQP loans, started in March 2016,
- 2-year Senior bond, issued in May 2016,
- take-up of ECB's TLTRO II in June 2016.

Net fees and commissions, amounting to 9.1 million, declined compared to 2015, mainly driven by lower factoring fees due to a more limited use of commission-based products.

In 2016, **income from the proprietary portfolio** and from the trading portfolio made a more limited contribution compared to the prior year, due to the market underperformance.

Total income, at 81.5 million, was up by 16% yoy net of trading results.

Loan loss provisions equal to 4.3 million in Q4 2016, net of write-backs for late-payment interest collection of the subsidiary Beta, were mainly driven by the decision taken:

- after a more accurate and prudential collective valuation of the portfolio of SME loans backed by an 80% guarantee issued by the Credit Guarantee Fund of the Ministry for Economic Development. The 20% bad loans unsecured exposure at 31 December 2016 was 100% covered;
- on a specific corporate factoring position, classified as unlikely-to-pay.

The Bank is completing an exercise on a model to assess bad loans factoring receivables from PA debtors, and the preliminary results show that the recoverability rate may be higher than what has been estimated to date.

At 31 December 2016, the **cost of risk**, net of repos, came in at 74bps, up compared to 2015 due to the deterioration of the SME financing and factoring.

The Group's **headcount** (FTE) grew from 130 employees at 31 December 2015 to 144 at 31 December 2016, of which 14 from Beta Stepstone. **Personnel expenses** stood at 15.2 million (of which 0.6 for Beta Stepstone for H2 alone), and report an increase compared to the prior year.
Other administrative expenses, running at approx. 20.9 million (net of the non-recurring items described above), grew by 4% compared to the prior year (Beta's contribution was 0.6 million). Servicing costs reported a reduction of 36% yoy, which however was offset by an increase in advisory fees for securitization and M&A advisory services.

In 2016, the **normalized Cost Income ratio** stood at 45% compared to 46% in 2015.

Gains (losses) on equity investments include the 2.3 million capital gain on the disposal of 15.8% of the shareholding in CS Union.

Net income for the period (stated) for FY 2016 came in at 25.3 million, up by 43% yoy.

Key balance sheet items at 31 December 2016

At 31 December 2016, the Group reported approx. 2 billion of **total assets**, down compared to the end of 2015 due to the reduction of the Government bond portfolio and of the associated repo trades. Beta Stepstone closed FY 2016 with approx. 90 million of total assets.

The Bank's **securities portfolio** is still primarily made up of Italian Government bonds, having an average duration at 31 December 2016 of approx. 7 months (the residual average duration at year-end 2015 was 9 months). Securities held at 31 December 2015 totaled 508 million (920 million at 31 December 2015), and were represented exclusively by short-term Government bonds.

Customer loans are primarily represented by non-recourse factoring with the Public Administration, accounting for 73% of total loans, net of repos. Factoring facilities, amounting to 986 million, have declined yoy, driven by the turnover dynamic in Q4 2016 and by collection over the year. State-guaranteed loans to SMEs have remained stable, while salary- and pension-backed loans (CQS/CQP) have reported a steep growth. Notably, CQS/CQP totaled 266 million (120 million at 31 December 2015).
The **gross non-performing loans** stock shrank compared to 30 September 2016, due to the sharp decline in past dues, which more than offset the increase in unlikely-to-pay (UtP) loans. The rise in UtP loans compared to 30 September 2016 was mainly driven by the factoring business, just as with the drop in past dues.
Compared to 31 December 2015, the NPL stock increase was mainly driven by the rise in bad loans, tied to the SME financing segment, and by the increase in UtP loans, tied to the factoring segment (to a large extent due to the position mentioned when commenting on loan loss provision).
At 31 December 2016, the net Bad Loan to total loan ratio stood at 1.7%, hence within contained levels.

Tangible Assets, as discussed for the prior quarter, include the property located in Milan, that will mainly house the new offices of Banca Sistema.

Retail deposits account for approx. 51% of total funding (42% at 31 December 2015), and are represented by checking accounts and term deposits.

Due to banks increased compared to 31 December 2015, driven by ECB refinancing operations. The rise was triggered by the green light given to the use of the Senior securities from the CQS/CQP securitization as collateral for Eurosystem refinancing operations.
Over the year, the Bank participated in the ECB TLTRO II auction with a take-up of 123 million, with a 4-year duration and an interest rate currently estimated at -40bps (to date this potential revenue has not been recognized yet, as it will be effective only upon maturity of the loan, and the recognized interest rate has been set at 0%).
Interbank funding through term deposits, with an average duration of 2 months, is stable.

As to **Debt to customers**, the term deposit (443 million at 31 December 2016 compared to c. 572 million at the end of December 2015) and checking account stocks (437 million at 31 December 2016 compared to c. 336 million at the end of December 2015, including Corporate customers) have reported a slight dip compared to the end of 2015, in line with the strategies, however both components have been increasing compared to 30 September 2016.

The increase in **Securities Outstanding** was impacted by the 70 million Senior bond issue.

Total own funds at 31 December 2016 came in at 124.7 million (106.9 million at 31 December 2015) and **CET1** totaled 104.6 million (86.9 million at 31 December 2015).
At 31 December 2016, **capital ratios have reported a slight decline from** 31 December 2015, notably:

- **CET1 ratio** from 13.7% to 13.3%;
- **Tier1 ratio** from 14.9% to 14.3%;
- **Total Capital ratio** from 16.8% to 15.8%.

The increase in RWAs over 31 December 2015 was driven by the strong increase in commercial loans, where the product mix has slanted towards loans with a greater capital absorption, by the increase in Past due inflows from PA loans, by the acquisition of Beta Stepstone, by increased revenues affecting operational risk, and to a lower extent, by the purchase of the property.
Capital ratios have increased compared to 30 September 2016, driven by the income generated in Q4 2016 and by the credit RWA reduction.

Capital ratios at 31 December 2016 have been calculated based on a dividend distribution assumption of 0.076 Euro per share. On 8 March 2017, the Board of Directors will submit the final dividend proposal to the General Shareholders' Meeting.

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Operational outlook

2016 confirmed the growth trend of factoring and salary/pension-backed loan volumes.

In particular, in factoring the commercial agreements entered in 2015 contributed to consolidating growth and diversifying our product offering and our customer base, and also Beta's acquisition will provide the Group with greater capabilities to manage the Collection/Servicing of loans under legal action.

The goal for next year is again to consolidate growth in our core business, i.e., factoring, and to seize additional growth opportunities in the salary/pension-backed loan business. The shift of focus away from guaranteed SME credit facilities will be offset by the pursuit of new product lines and by the assessment of strategic and complementary acquisitions.

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In line with the 2017 Corporate Calendar published on 16 December 2016, please remember that Banca Sistema, being listed on Borsa Italiana's STAR segment, will publish its interim financial reports as at 31 March and 30 September pursuant to article 2.2.3, paragraph 3 of Borsa Italiana's Regulation, within 45 days of the end of the first and third quarter of the year.

Interim financial reports will be made available to the public, under the law, at the corporate head office, on the corporate website, as well as on the website of the authorized central storage mechanism (www.1info.it).

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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 and Rome, 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 stake in the capital of CS Union S.p.A. and in its controlling company Axactor AB, listed to the Oslo Stock Exchange.

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Normalized consolidated income statement as at 31 December 2016 and 31 December 2015

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of euro

		31.12.2016 A	31.12.2015 B	Difference A - B	Difference % A - B
	ASSETS				
10.	Cash and cash equivalents	98	104	(6)	-5.8%
20.	Financial assets held for trading	996	-	996	n.a.
40.	Available-for-sale financial assets	514,838	925,402	(410,564)	-44.4%
60.	Loans and advances to banks	83,493	2,076	81,417	3921.8%
70.	Loans and advances to customers	1,348,329	1,457,990	(109,661)	-7.5%
100.	Equity investments	1,030	2,696	(1,666)	-61.8%
120.	Property, plant and equipment	23,313	1,058	22,255	2103.5%
130.	Intangible assets	1,835	1,872	(37)	-2.0%
	of which: goodwill	*1,786*	*1,786*	-	*0.0%*
140.	Tax assets	10,528	7,353	3,175	43.2%
160.	Other assets	14,903	13,119	1,784	13.6%
	Total assets	**1,999,363**	**2,411,670**	**(412,307)**	**-17.1%**

Figures in thousands of euro

		31.12.2016 A	31.12.2015 B	Difference A - B	Difference % A - B
	LIABILITIES AND EQUITY				
10.	Due to banks	458,126	362,075	96,051	26.5%
20.	Due to customers	1,262,123	1,878,339	(616,216)	-32.8%
30.	Debt securities issued	90,330	20,102	70,228	349.4%
80.	Tax liabilities	8,539	804	7,735	962.1%
100.	Other liabilities	59,825	55,317	4,508	8.1%
110.	Post-employment benefits	1,998	1,303	695	53.3%
120.	Provisions for risks and charges:	4,105	372	3,733	1003.5%
140.+170.+ 180.+190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	89,004	75,751	13,253	17.5%
220.	Profit (loss) for the year	25,313	17,607	7,706	43.8%
	Total liabilities and equity	**1,999,363**	**2,411,670**	**(412,307)**	**-17.1%**

Note: FY 2016 figures include the contribution of Beta Stepstone (purchased in July 2016).

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT AS AT 31 DECEMBER 2016

Figures in thousands of euro

		31.12.2016 A	*01.07-31.12.2016 Beta contribution*	31.12.2015 B	Difference % A - B
10.	Interest income	86,321	2,615	79,019	9.2%
20.	Interest expenses	(15,321)	(9)	(21,013)	-27.1%
30.	**Net interest income**	**71,000**	**2,606**	**58,006**	**22.4%**
40. - 50.	Net fee and commission income	9,060	436	11,168	-18.9%
70.	Dividends and similar income	227	-	-	n.a.
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1,196	436	2,640	-54.7%
120.	**Operating income**	**81,483**	**3,042**	**71,814**	**13.5%**
130.	Net impairment losses on loans	(9,765)	462	(5,439)	79.5%
140.	**Net operating income**	**71,718**	**3,504**	**66,375**	**8.0%**
180. a)	Staff costs	(15,169)	(642)	(17,528)	-13.5%
180. b)	Other administrative expenses	(22,529)	(641)	(24,350)	-7.5%
190.	Net allowance for risks and charges	(431)	(500)	300	-243.7%
200. + 210.	Net provisions for risks and charges	(308)	(8)	(312)	-1.3%
220.	Other net operating income/expense	150	(75)	71	111.3%
230	**Operating expenses**	**(38,287)**	**(1,866)**	**(41,819)**	**-8.4%**
240.	Profits of equity-accounted investees	2,281	-	422	440.5%
270	Profits from investments disposal	-	-	534	-100.0%
280.	**Pre-tax profit from continuing operations**	**35,712**	**1,638**	**25,512**	**40.0%**
290.	Taxes on income for the period/year from continuing operations	(10,399)	(350)	(7,905)	31.5%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**25,313**	**1,288**	**17,607**	**43.8%**

Note: FY 2016 figures include the contribution of Beta Stepstone (purchased in July 2016) of the 2H 2016; 2015 figures do not include Beta Stepstone results.

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT AS AT 31 DECEMBER 2016 AND 2015 (normalized figures)

Figures in thousands of Euro

		31.12.2016 A	01.07-31.12.2016 Beta contribution	31.12.2015 B	Difference % A - B
10.	Interest income	86,321	2,615	79,019	9.2%
20.	Interest expenses	(15,321)	(9)	(21,013)	-27.1%
30.	**Net interest income**	**71,000**	**2,606**	**58,006**	**22.4%**
40. - 50.	Net fee and commission income	9,060	436	11,168	-18.9%
70.	Dividends and similar income	227	-	-	n.a.
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1,196	436	2,640	-54.7%
120.	**Operating income**	**81,483**	**3,042**	**71,814**	**13.5%**
130.	Net impairment losses on loans	(9,765)	462	(5,439)	79.5%
140.	**Net operating income**	**71,718**	**3,504**	**66,375**	**8.0%**
180. a)	Staff costs	(15,169)	(642)	(13,139)	15.5%
180. b)	Other administrative expenses	(20,907)	(641)	(20,112)	4.0%
190.	Net allowance for risks and charges	(431)	(500)	300	-243.7%
200. + 210.	Net provisions for risks and charges	(308)	(8)	(312)	-1.3%
220.	Other net operating income/expense	150	(75)	71	111.3%
230	**Operating expenses**	**(36,665)**	**(1,866)**	**(33,192)**	**10.5%**
240.	Profits of equity-accounted investees	2,281	-	422	440.5%
270	Profits from investments disposal	-	-	534	-100.0%
280.	**Pre-tax profit from continuing operations**	**37,334**	**1,638**	**34,139**	**9.4%**
290.	Taxes on income for the period/year from continuing operations	(10,926)	(350)	(10,426)	4.8%
340.	**Profit (loss) for the year/period attributable to the shareholders of the Parent**	**26,408**	**1,288**	**23,713**	**11.4%**

Note: FY 2016 figures include the contribution of Beta Stepstone (purchased in July 2016) of the 2H 2016. 2015 figures do not include Beta Stepstone results and are normalized for non-recurring items related to the IPO (€6.7m gross) and the extraordinary contribution to the National resolution Fund (€1.9m gross). 2016 figures do include the estraordinary contribution to the National Resolution Fund (€1.3m gross) and integration expenses fo Beta Stepstone (€0.3m gross).