BANCA SISTEMA

PRESS RELEASE

BANCA SISTEMA:
- APPROVED RESULTS AS AT 31 MARCH 2017
- NEW DIRECTOR COOPTED TO THE BOARD
- CHANGES TO BOARD COMMITTEES

- **Results as at 31 March 2017:**
  - Net interest income of 12.4 million
  - Total operating costs slightly on the rise y/y, in line with expectations
  - Net income of 4.4 million, including the annual contribution of 0.6 million to the National Resolution Fund
  - 2017 ROAE Target > 20%

  - Business performance
    - Factoring:
      - turnover of 408 million, up by 21% y/y
      - greater contribution from distribution agreements with banks
    - CQS/CQP: 313 million outstanding, up by more than 100% y/y

  - Stable core business funding cost in 1Q 2017 compared to full-year 2016
  - LCR and NSFR above the regulatory limits
  - CET1 at 12.6% and TCR at 16.6%, well above regulatory limits

- **Diego De Francesco coopted to the Board to replace Andrea Zappia**

- **Approved the new composition of some Board Committees and of the Surveillance Body**

Milan, 28 April 2017

The Board of Directors of Banca Sistema has approved the consolidated results as at 31 March 2017, reporting a **net income**, inclusive of the annual contribution to the National Resolution Fund (0.6 million gross), of **4.4** million (6.0 million in the same period of 2016).

Following the merger of Beta Stepstone into Banca Sistema, which took place on 1 January 2017, the consolidated results as at 31 March 2017 include the contribution generated by Beta Stepstone's business.

Business Performance

The growth of **factoring,** our core business, with a turnover of 408 million, up by 21% y/y (with Beta Stepsone's contribution in Q1 2016 it would have been 19% y/y), has been achieved among other things by pursuing a commercial action aiming at:

1. increasing the number of clients, in particular new clients;
2. diversifying origination channels, leveraging the 14 commercial agreements with banks, which generated a contribution of 28% to Banca Sistema's turnover.

In terms of products, worth mentioning is the growth of factoring with recourse to PA and corporate clients.

At 31 March 2017, Group **factoring** outstanding volumes stood at 1,103 million, on the uptrend compared to 31 December 2016 (management data), due to the combined effect of a higher turnover in particular in March compared to the collection for the period. 90% of outstanding volumes is represented by Public Administration debtors (PA), namely State Central Administrations (27%), Local Entities (38%), Local Healthcare Organizations (ASL) (14%), State-owned enterprises (7%) and Public Sector Organizations (4%). 76% of the outstanding volume at the end of March 2017 was represented by factoring without-recourse (81% at 31 December 2016).

In Q1 2017, the Group purchased approx. 56 million of **salary- and pension-backed loans (CQS/CQP)**, more than twice as much as the same period of 2016, from its five partner originators, with two more poised to come on board in May 2017. The outstanding volume at 31 March 2017 came in at 313 million, with the following breakdown: private-sector employees (12%), retirees (49%) and public-sector employees (39%). This growth, in keeping with the Bank's strategy, was sustained by the securitization started in March 2016, and will maintain its pace thanks to the new securitization launched this year.

Operating results in 2017

Net interest income came in at 12.4 million, reporting a decline over the same period last year (16.1 million), mainly due to the lower contribution from factoring, partly offset by the greater margin generated by CQS/CQP.

The different contribution of the factoring portfolio stems from the lower turnover in Q4 2016 compared to the same period of 2015 (408 million in 2016 vs. 535 million in 2015) with lower margins. Moreover, Q1 2016 had benefitted from a payment collected earlier than expected.
Late-payment interest generated by the factoring portfolio under legal action at 31 March 2017 came in at 3.1 million, of which 2.0 million earmarked, in line with the relevant accounting methodology (adopted when approving results as at 30 June 2016 and updated upon approving results as at 31 December 2016) and 1.1 million collected (0.5 million in Q1 2016). A greater contribution from late-payment interest is expected in the second half of 2017.
Late-payment interest accrued on receivables closed and opened as at 31 March 2017, net of the amount already earmarked in the year, came in at approx. 110 million (104.3 million at 31 December 2016).

In Q1 2017, the cost of funding remained stable compared to full year 2016.

Net fees and commissions, amounting to 2.2 million, remained basically stable y/y.

In Q1 2017, the contribution from **income from the proprietary portfolio** and from the trading portfolio was lower compared to the same period last year.

Total income stood at 14.9 million, down y/y mainly due to the lower net interest income and lower gains from the proprietary portfolio.

As part of the revision of the expected loss model and the associated time-to-recovery of bad loans of PA borrowers, the provisions prudentially set aside in prior years have been revised; also, estimated write-downs for unlikely-to-pay loans have been recalculated. Consequently, **loan loss provisions** set aside in Q1 2017 generated a total positive effect of 0.5 million, as a combined result of the net positive impact of 2.3 million on the factoring portfolio and the increased provisions for the SME portfolio, mainly driven by new reclassifications into the bad loan category and to the increase in the collective impairment percentage of the SME portfolio.

The Group's **headcount** (FTE), with 144 employees (of which 14 from Beta Stepstone) is unchanged as compared to the end of December 2016, yet higher when compared to the 130 employees at 31 March 2016. **Personnel expenses** grew y/y, mainly driven by the headcount increase and by the gross salary rise and the newly signed non-compete agreement.
Other administrative expenses declined y/y, mainly driven by the reduction in servicing costs, which more than offset the increase in IT and advisory expenses.

Net income at 31 March 2017 came in at 4.4 million, down compared to the same period of 2016.

Key balance sheet items at 31 March 2017

Al 31 March 2017, the Group reported **total assets** of approx. 2.2 billion, up compared to the end of 2016.

The **securities portfolio,** made up of Italian Government bonds, increased compared to 31 December 2016. Available-for-sale financial assets (AFS), with an average residual duration of 7 months in line with the end of 2016, increased by about 57 million. In Q1 2017 a portfolio of Held-to-maturity assets (HTM) was set up, totaling 84 million, with an average duration of 2.4 years.

Customer loans, primarily represented by non-recourse factoring with the Public Administration, went up compared to 31 December 2016, driven by the turnover generated in Q1 2017 and by the hefty increase in CQS and CQP loans (salary- and pension-backed loans). Specifically, CQS/CQP totaled 313 million, as a result of portfolios purchased in the first quarter.
In Q1 2017, the CQS and CQP loan disposal program to the securitization vehicle Quinto Sistema 2016 was completed, and the securities are expected to be sold in the second quarter of 2017. A new securitization was launched through the special purpose vehicle (SPV) Quinto Sistema 2017, and a first sale of the same type of loans was executed for 45.5 million.

The **gross non-performing loans** stock increased compared to 31 December 2016 (144.1 million vs. 123.8 million, gross), mainly driven by the rise in factoring past-dues (85.8 million vs. 68.3 million, gross) and bad loans (40.6 million vs. 35.2 million, gross), on the wake of the increased number of local governments in distress, and new bad loans from SME, following their reclassification from unlikely-do-pay to bad loans. The amount of past-dues, mainly tied to the PA factoring portfolio, is typical of this sector, and does not imply any criticality in terms of credit quality or recoverability.

The net bad loans to total customer loans ratio, at 31 March 2017, came in at 2.2%, remaining at a contained level.

Retail deposits account for approx. 48% (51% at 31 December 2016) of total funding, and are represented by checking accounts and term deposits.

Due to banks remained basically in line with 31 December 2016.

The increase in **Due to customers** is mainly linked to the increase in funding through repos vis-à-vis the increased securities portfolio. Within this same aggregate, also the term deposit stock (464 million at 31 March 2017 vs. approx. 443 million at the end of December 2016) and the checking account stock (443 million at 31 March 2017 vs. approx. 437 million at the end of December 2016, including Corporate customers) have increased compared to 31 December 2016.

The increase in **Securities Outstanding** was driven by the TIER II bond issue of 14 million in Q1 2017.

Total own funds at 31 March 2017 came in at 141.8 million (124.7 million at 31 December 2016), up compared to the end of 2016, mainly due to the TIER II issuance, and **CET1** totaled 107.8 million (104.6 million at 31 December 2016).

At 31 March 2017, **capital ratios** were as follows:

- **CET1 ratio** of 12.6% (13.3% at 31 December 2016);
- **Total Capital ratio** of 16.6% (15.8% at 31 December 2016).

The increase in RWAs over 31 December 2016 was driven by the strong increase in commercial loans, whose product mix, as a result of the quarterly rise, has slanted towards loans with a greater capital absorption, and by the increase in PA past-due inflows.

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Operational outlook

The first quarter 2017 confirmed the growth trend of factoring and salary/pension-backed loans.

In particular, in factoring the commercial agreements signed in 2015 contributed to consolidating growth and diversifying our product range and our customer base, and likewise Beta's acquisition is going to lend the Group greater capabilities to manage the Collection/Servicing of loans under legal action.

The goal for this 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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Today, having taken cognizance of the resignation tendered by the Director Andrea Zappia, effective on 1 May 2017, pursuant to art. 2386 and in line with what already communicated on 18 April 2017, the Board of Directors coopted Diego De Francesco as non-executive Director to replace the resigning director. The appointment will come into effect on 1 May 2017.
Based on the acquired information, in accordance with the Articles of Association and with applicable laws, notably articles 147-ter, paragraph 4, and 148, paragraph 3 of Lgs.D. no 58 of 24 February 1998, and art. 3 of the Corporate Governance Code promoted by Borsa Italiana, the Board of Directors verified the fulfillment of the independence requirements for Diego De Francesco and Ilaria Bennati, who was confirmed as Director by the Shareholders meeting on 27 April last.
Diego De Francesco and Ilaria Bennati, whose CVs are published on the website www.bancasistema.it (Governance/ Corporate Boards section), declared that they do not hold any share in Banca Sistema.
After the cooptation of Diego De Francesco, the Board of Directors approved the new composition of the following Board Committees:

Nomination Committee
Ilaria Bennati (independent), Diego De Francesco (independent) and Luitgard Spögler (non-executive)

Remuneration Committee
Giorgio Barba Navaretti (independent), Giovanni Antonino Puglisi (non-executive) and Diego De Francesco (independent)

Finally, the Board of Directors approved the nomination of Massimo Conigliaro, Chairman of the Board of Statutory Auditors appointed by the Shareholders meeting on 27 April last, as Chairman of the Surveillance Body of Banca Sistema pursuant to Lgs.D. no. 231 of 2001. The other members of the Surveillance Body, Daniele Pittatore, Independent director, and Franco Pozzi, Head of Internal Audit, have been confirmed.

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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, pawnbroking, guarantees, securities deposit, reverse factoring, certification of Public Administration credits, salary and pension backed loans.

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

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of euro

		31.03.2017 A	31.12.2016 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	142	98	44.9%
20.	Financial assets held for trading	894	996	-10.2%
40.	Available-for-sale financial assets	571,780	514,838	11.1%
50.	Held to maturity	84,050	-	nm
60.	Loans and advances to banks	80,171	83,493	-4.0%
70.	Loans and advances to customers	1,414,212	1,348,329	4.9%
100.	Equity investments	1,030	1,030	0.0%
120.	Property, plant and equipment	23,706	23,313	1.7%
130.	Intangible assets	1,810	1,835	-1.4%
	of which: goodwill	*1,786*	*1,786*	*0.0%*
140.	Tax assets	10,383	10,528	-1.4%
160.	Other assets	14,075	14,903	-5.6%
	Total assets	**2,202,253**	**1,999,363**	**10.1%**

Figures in thousands of euro

		31.03.2017 A	31.12.2016 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Due to banks	457,107	458,126	-0.2%
20.	Due to customers	1,437,845	1,262,123	13.9%
30.	Debt securities issued	104,971	90,330	16.2%
80.	Tax liabilities	10,134	8,539	18.7%
100.	Other liabilities	67,306	59,825	12.5%
110.	Post-employment benefits	2,007	1,998	0.5%
120.	Provisions for risks and charges:	4,302	4,105	4.8%
140.+170.+ 180.+190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	114,183	89,004	28.3%
220.	Profit (loss) for the year	4,398	25,313	-82.6%
	Total liabilities and equity	**2,202,253**	**1,999,363**	**10.1%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of euro

		31.03.2017 A	31.03.2016 B	Difference % A - B
10.	Interest income	16,355	20,168	-18.9%
20.	Interest expenses	(3,932)	(4,076)	-3.5%
30.	**Net interest income**	**12,423**	**16,092**	**-22.8%**
40. - 50.	Net fee and commission income	2,249	2,342	-4.0%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	231	642	-64.0%
120.	**Operating income**	**14,903**	**19,076**	**-21.9%**
130.	Net impairment losses on loans	488	(1,471)	-133.2%
140.	**Net operating income**	**15,391**	**17,605**	**-12.6%**
180. a)	Staff costs	(4,274)	(3,625)	17.9%
180. b)	Other administrative expenses	(5,052)	(5,213)	-3.1%
190.	Net allowance for risks and charges	-	69	100.0%
200. + 210.	Net provisions for risks and charges	(77)	(75)	2.7%
220.	Other net operating income/expense	193	(27)	-814.8%
230	**Operating expenses**	**(9,210)**	**(8,871)**	**3.8%**
240.	Profits of equity-accounted investees	-	(6)	-100.0%
280.	**Pre-tax profit from continuing operations**	**6,181**	**8,728**	**-29.2%**
290.	Taxes on income for the period/year from continuing operations	(1,783)	(2,767)	-35.6%
340.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**4,398**	**5,961**	**-26.2%**