PRESS RELEASE

# BANCA SISTEMA:
# - APPROVED RESULTS AS AT 30 SEPTEMBER 2017
# - CALLING OF A GENERAL SHAREHOLDERS' MEETING

- **Results as at 30 September 2017:**
  - Business performance
    - Factoring:
      - Turnover of 1,328 million, up by 27% y/y
      - greater contribution from distribution agreements with banks
      - factoring outstanding volume on the rise y/y and q/q
    - CQS/CQP loans: 423 million outstanding, twice as much compared to the same period of 2016

  - Net interest income of 54.1 million, up by 6.5% y/y, including late-payment interest of 9 million originated by the accounting update, of which 3.7 million not related to 2017
  - Total operating costs slightly up y/h, in line with expectations
  - Net income of 21.8 million
  - Year-end ROAE Target around 20%, excluding late-payment interest of 3.7 million not related in 2017

  - Stable core business funding cost over Q2 2017 and full-year 2016
  - LCR and NSFR above the regulatory limit
  - CET1 at 12.4% and TCR at 16.1%

- **Acquisition of a minority stake in ADV Finance, company active in CQS/CQP business, and in its subsidiary, Procredit**

- **Calling of a General Shareholders' Meeting to reconstitute the Board of Statutory Auditors and to amend a document approved in the previous Shareholders' Meeting**

Milan, 27 October 2017

The Board of Directors of Banca Sistema has approved the consolidated results as at 30 September 2017, reporting a **net income of 21.8 million**.

Following the acquisition of Beta Stepstone finalized on 1 July 2016, the consolidated results as at 30 September 2016 of Banca Sistema include only the Q3 2016 contribution generated by Beta Stepstone.

**Business Performance**

The growth of **factoring,** our core business, with a turnover of 1.328 million, up by 27% y/y, has been achieved among other things by pursuing a commercial action aiming at:

1. increasing the number of new clients (which accounted for 31% of the turnover generated in 9M2017);
2. diversifying origination channels, leveraging the 17 commercial agreements with banks (of which three recently reached), which contributed around 33% to turnover.

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

Al 30 September 2017, Group **factoring** outstanding volumes stood at 1,255 million, on the rise compared to 1,039 million at 31 December 2016 (management data), due to the combined effect of turnover and of collections for the period. 83% of outstanding volumes is represented by Public Administration debtors, namely State Central Administrations (22%), Local Governments (37%), Local Healthcare Organizations (ASL) (15%), State-owned enterprises (6%) and Public-Sector Organizations (3%).
83% of the outstanding volume at the end of September 2017 was represented by factoring without-recourse (91% at 31 December 2016), of which tax-credit factoring accounted for 13% of the outstanding (10% at 31 December 2016).

In 9M 2017, the Group purchased approx. 176 million of **salary- and pension-backed loans (CQS/CQP)** from its seven partner originators (up to eight with the agreement signed today with the aforementioned ADV Finance), more than twice as much compared to the same period of 2016. The outstanding volume at 30 September 2017 added up to 423 million, and it breaks down as follows: private-sector employees (13%), retirees (56%) and public-sector employees (31%). This growth, in keeping with the Bank's strategy, was sustained by the securitization started in March 2016 (Quinto Sistema 2016), and will maintain its pace thanks to the new securitization launched this year (Quinto Sistema 2017).

**Operating results in 2017**

**Net interest income** came in at 54.1 million, up by 6.5% from the same period last year, mainly due to the update of the estimate and accounting of late-payment interest and to the higher margin from CQS/CQP portfolios.

The expected recovery rates of factoring late-payment interest used as at 30 June 2017 (65% for NHS borrowers and 15% for the other PA borrowers), have been updated in view of the progressive consolidation of the time series in the non-healthcare sector, confirming that recovery rates exceed 80%. For this reason, the recognition rate through profit and loss for the non-healthcare sector has been set at

31%, while for the healthcare sector the rate has remained practically unchanged. In compliance with IAS 8 on accounting estimates, the estimated recovery rates will be periodically revised based on the update of the collection time series.
On 30 September 2017, the average recognition rate of late-payment interest came in at 38% (28% as at 30.06.2017), still well below compared to the collection rates that have actually been reported. The impact from updating the recovery estimates generated the recognition of a higher interest income of 9 million, of which 3.7 million pertaining to prior years.

Total late-payment interest (LPI) generated by the factoring portfolio under legal action at 30 September 2017, including the 9 million described above, came in at 21.9 million. Total amount of cash collected LPI is 10.9 million. Total LPI accrued is 10.9 million (of which 13.7 million accrued and 2.7 release of previously accrued LPI then collected). Overall amount of total cash collected LPI is almost the same of the amount accrued.

The increase from 5 million to 9.1 million in revenues generated by the CQS/CQP portfolio made a positive contribution to net interest income.
The sale of securitization "Quinto Sistema 2016" has not proceeded, and this is not expected to happen in the rest of 2017, even for securitization "Quinto Sistema 2017". The decision to not sell securitization, on the one hand, does not allow to register in 2017 Income Statement the anticipation of revenues ("gain on sale") on the other will allow, unchanged the consolidation of securitized credit portfolios, to account for significant additional interests in the various exercises and partly in 2017.

The cost of funding, which has been stable in 9M 2017 compared to full-year 2016, includes the positive component generated by the interest rate currently running at -40bps on the facility allotted in the TLTRO II auction (123 million at June 2016), of which 0.3 million not accrued in 2017.



**Net fees and commissions**, amounting to 7.4 million, reported a slight pick-up y/y thanks to the contribution generated by higher factoring volumes.

At 30 September 2017, the contribution from **income from the proprietary portfolio** and from the trading portfolio was slightly lower compared to last year.

**Total income** stood at 62.6 million, up y/y mainly driven by the growing net interest income.

In Q1 2017, 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 9M 2017 added up to 3.1 million, taking into account the net positive impact from the factoring portfolio and the increased provisions for the SME portfolio, mainly driven by the new reclassifications into the bad loan category and by the greater collective impairment percentage of the SME portfolio.

The Group’s **headcount** (FTE), with 153 employees, increased when compared to the 143 employees at 30 September 2016. **Personnel expenses** grew y/y, mainly driven by the headcount increase, as well as by the gross salary rise and the newly signed non-compete agreement (closed in H1 2017).

At 30 September 2017, **net income** came in at 21.8 million, basically in line y/y excluding from the 2017 net interest income the 3.7 million not accrued late-payment interest, and 5 million not accrued late-payment interest from the 2016 net interest income.

**Key balance sheet items at 30 September 2017**

At 30 September 2017, the Group reported **total assets** of approx. 2.2 billion, slightly up compared to the end of 2016.

The **securities portfolio,** made up of Italian Government bonds, remained fairly stable compared to 31 December 2016.

**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 9M 2017 and by the hefty increase in CQS and CQP loans (salary- and pension-backed loans). Specifically, CQS/CQP loans totaled 423 million.

The **gross non-performing loans** stock increased compared to 31 December 2016 (153.0 million vs. 123.8 million, gross), mainly driven by the rise in factoring past-dues (89.1 million vs. 68.3 million, gross) and to a lower extent by unlikely-to-pay loans (24.1 million vs. 20.2 million, gross) and bad loans. Non-performing loans' stock growth q/q is mainly driven by past-dues increase.
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.
Al 30 September 2017, the net bad loans to total customer loans ratio stood at 1.8%, remaining stable q/q at contained levels.



**Retail deposits** accounted for approx. 50% of total funding (51% at 31 December 2016), and are represented by checking accounts and term deposits.

**Due to banks** went up compared to 31 December 2016, mainly driven by the increase in interbank lines, while the ECB exposure, which as mentioned above includes also the 123 million TLTRO II allocation, has remained fairly unchanged.

The increase in **Due to customers** is mainly linked to the increase in funding through repos vis-à-vis the growing securities portfolio. With respect to this aggregate, the term deposit stock (446 million al 30 September 2017 vs. about 443 million at the end of December 2016) remained stable compared to both year-end and 30 June 2017; checking accounts (469 million at 30 September 2017 vs roughly 437 million at the end of December 2016) went up compared to 31 December 2016, and slightly down compared to 30 June 2017. About 80% of the total amount held in checking accounts comes from corporate customers.

The increase in **Securities outstanding** over 31 December 2016 was driven by the TIER II bond issue of 15.5 million.

**Total own funds** (Total capital) at 30 September 2017 added up to 157 million (124.7 million at 31 December 2016), up compared to the end of 2016 due to the subordinated TIER II bond issue and to the operating result in 9M; **CET1** totaled 122.2 million (104.6 million at 31 December 2016).

At 30 September 2017, **capital ratios**[1] were well above the minimum requirements:

- **CET1 ratio** at 12.4% (13.3% at 31 December 2016), slightly lower compared to 30 June 2017;
- **TIER 1 ratio** at 13.2% (14.3% at 31 December 2016), slightly lower compared to 30 June 2017;
- **Total Capital ratio** at 16.1% (15,8% at 31 December 2016), slightly lower compared to 30 June 2017.

The increase in RWAs over 31 December 2016 was driven by the strong increase in commercial loans, whose product mix, following the 2017 first nine months growth, has slanted towards loans with a greater capital absorption, as well as by the increase in PA past-due inflows. The RWA evolution compared to 30 June 2017 was mainly driven by the rise in CQS loans.

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On 24 July 2014, IASB completed the IAS 39 replacement project with the issue of IFRS 9 "Financial Instruments", with a mandatory effective date on 1 January 2018.

At the beginning of 2017 the Bank launched a project aimed at assessing the qualitative and quantitative balance sheet impacts, and at identifying and then implementing the necessary changes in terms of organization, internal regulations and application systems.

On 24 July 2014, IASB completed the IAS 39 revision process, issuing IFRS 9 "Financial Instruments", with mandatory adoption as of 1 January 2018. L'IFRS 9, to replace the current IAS 39 "Financial Instruments: *Recognition and Measurement*", introduces major changes, especially with respect to the following aspects:

- *Classification and measurement*
- Impairment
- *Hedge Accounting*

With regard to classification and measurement, the Bank has almost completed the deep-dive analysis of the cash-flow characteristics of financial instruments classified at amortized cost under IAS 39; to date no financial assets have been identified that should be measured at fair value, since they have all passed the SPPI test (*Solely Payments of Principal and Interest*).

Based on a preliminary assessment, the operating and organizational impacts we could identify up to now that could possibly arise from the implementation of the new impairment model based on expected loss, instead of the current method based on incurred loss, do not appear significant.

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**Operational outlook**

The first nine months of 2017 confirmed the growth trend of factoring and salary/pension-backed loan volumes.

[1] In compliance with EBA's Guidelines on common SREP (Supervisory Review and Evaluation Process), the Bank of Italy required the following minimum capital requirements to be complied with:

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

In particular, in factoring the commercial agreements contribute to consolidating growth and diversifying our product range and our customer base, and likewise Beta's acquisition is providing the Group with 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.

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With regard to commercial agreements with originators, Banca Sistema has also reached an agreement to acquire a 19.90% stake in ADV Finance S.p.A ("ADV Finance") for a total of 0.6 million and to acquire the same stake of 19.90% in Procredit S.r.l., an ADV Finance subsidiary, for a total amount of around 0.2 million. The completion of the transaction is subject to the prior authorization by competent Authorities. ADV Finance, pending the authorization for its registration under art.106 of TUB, operates across the entire national territory, granting personal loans belonging to the CQS/ CQP category, namely salary- and pension-backed loans. Moreover, with this same company an origination partnership has been signed, that adds to the 7 already operational agreements.

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In the same meeting the Board of Directors resolved to call a Shareholders' Meeting, to be held on 14 December 2017, to decide – as already mentioned in the press release published on 25 July 2017 – on the reconstitution of the Board of Statutory Auditors pursuant to art. 2401 of the Civil Code and in compliance with current regulations on gender equality, and on the appointment of a director pursuant to art. 2386 of the Civil Code.

The Board of Directors also approved to submit to its Shareholders in the same General Meeting on 14 December 2017 an amendment to what had been approved by the same Shareholders' Meeting on 27 April 2017 sub. item 7 of the agenda. Notably, the Shareholders' Meeting had then approved the "Document on the 2017 Compensation Policies of Gruppo Banca Sistema S.p.A." (hereinafter, the "2017 Compensation Policies"), as well as the proposal to set the maximum limit of the ratio between the variable and fixed pay in the salary structure of Banca Sistema employees and "key personnel" at 2:1.

To this regard, material mistakes have been identified in the report of the Board of Directors, prepared in compliance with art. 125-ter of the Finance Consolidated Act, published on 28 March 2017 for the subsequent General Meeting to be held on 27 April 2017. For this reason, it is necessary to clarify now – in keeping with the 2017 Compensation Policies, whose contents are confirmed – that the maximum ratio of 2:1 between the variable and fixed pay refers to the CEO – General Manager only, and does not include all of Banca Sistema's "key personnel". The Shareholders will be duly informed also of the prior notification to the Bank of Italy, pursuant to Title IV, Chapter 2, Section II, par. 1.2 of Supervisory Regulations for banks under Circular no. 285, of 17 December 2013 and following amendments and additions, regarding the possibility of exceeding the 1:1 base fixed-variable ratio of the compensation structure.

For the sake of clarity, please note that the 2017 Compensation Policies will be implemented only after the approval of the Annual Report as at 31 December 2017.

The Notice to Convene will be published within deadlines laid down by law.

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**Statement of the Financial Reporting Officer**

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 highly 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 Axactor Italy 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*

| | | 30.09.2017 A | 31.12.2016 B | Difference % A - B |
|---|---|---|---|---|
| | **ASSETS** | | | |
| 10. | Cash and cash equivalents | 168 | 98 | 71.4% |
| 20. | Financial assets held for trading | 475 | 996 | -52.3% |
| 40. | Available-for-sale financial assets | 423,889 | 514,838 | -17.7% |
| 50. | Held to maturity | 84,143 | - | n.a. |
| 60. | Loans and advances to banks | 24,247 | 83,493 | -71.0% |
| 70. | Loans and advances to customers | 1,607,806 | 1,348,329 | 19.2% |
| 100. | Equity investments | 1,268 | 1,030 | 23.1% |
| 120. | Property, plant and equipment | 23,975 | 23,313 | 2.8% |
| 130. | Intangible assets | 1,795 | 1,835 | -2.2% |
| | *of which: goodwill* | *1,786* | *1,786* | *0.0%* |
| 140. | Tax assets | 8,011 | 10,528 | -23.9% |
| 160. | Other assets | 13,794 | 14,903 | -7.4% |
| | **Total assets** | **2,189,571** | **1,999,363** | **9.5%** |

*Figures in thousands of Euro*

| | | 30.09.2017 A | 31.12.2016 B | Difference % A - B |
|---|---|---|---|---|
| | **LIABILITIES AND EQUITY** | | | |
| 10. | Due to banks | 522,679 | 458,126 | 14.1% |
| 20. | Due to customers | 1,343,218 | 1,262,123 | 6.4% |
| 30. | Debt securities issued | 106,753 | 90,330 | 18.2% |
| 80. | Tax liabilities | 11,605 | 8,539 | 35.9% |
| 100. | Other liabilities | 65,621 | 59,825 | 9.7% |
| 110. | Post-employment benefits | 2,082 | 1,998 | 4.2% |
| 120. | Provisions for risks and charges: | 7,767 | 4,105 | 89.2% |
| 140. +170. + 180. +190. | Share capital, share premiums, reserves, valuation reserves and treasury shares | 107,968 | 88,984 | 21.3% |
| 210. | Minority interests | 30 | 20 | 50.0% |
| 220. | Profit (loss) for the year | 21,848 | 25,313 | -13.7% |
| | **Total liabilities and equity** | **2,189,571** | **1,999,363** | **9.5%** |

## BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

*Figures in thousands of Euro*

| | | 30.09.2017<br>A | 30.09.2016<br>B | Difference %<br>A - B |
|---|---|---|---|---|
| 10. | Interest income | 65,938 | 62,440 | 5.6% |
| 20. | Interest expenses | (11,807) | (11,628) | 1.5% |
| **30.** | **Net interest income** | **54,131** | **50,812** | **6.5%** |
| 40. - 50. | Net fee and commission income | 7,352 | 6,862 | 7.1% |
| 70. | Dividends and similar income | 227 | 227 | 0.0% |
| 80. + 90. + 100. + 110. | Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value | 928 | 1,060 | -12.5% |
| **120.** | **Operating income** | **62,638** | **58,961** | **6.2%** |
| 130. | Net impairment losses on loans | (3,057) | (4,923) | -37.9% |
| **140.** | **Net operating income** | **59,581** | **54,038** | **10.3%** |
| *180. a)* | Staff costs | (12,772) | (11,148) | 14.6% |
| *180. b)* | Other administrative expenses | (14,929) | (15,398) | -3.0% |
| *190.* | Net allowance for risks and charges | (82) | 69 | -218.8% |
| 200. + 210. | Net provisions for risks and charges | (229) | (236) | -3.0% |
| 220. | Other net operating income/expense | (350) | 178 | -296.6% |
| **230** | **Operating expenses** | **(28,362)** | **(26,535)** | **6.9%** |
| 240. | Profits of equity-accounted investees | (62) | 2,281 | -102.7% |
| 270 | Profits from investments disposal | - | - | n.a. |
| **280.** | **Pre-tax profit from continuing operations** | **31,157** | **29,784** | **4.6%** |
| 290. | Taxes on income for the period/year from continuing operations | (9,309) | (8,384) | 11.0% |
| **340.** | **Profit (loss) for the year attributable to the shareholders of the Parent** | **21,848** | **21,400** | **2.1%** |