BANCA
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PRESS RELEASE

BANCA SISTEMA – 2017 RESULTS:

- FACTORING: TURNOVER +37% Y/Y
- CQS/CQP: PURCHASED 258 MILLION (+64%)
- NET INCOME OF 26.8 MILLION
- ROAE: 22%

- **Results at 31 December 2017:**
  - Business performance
    - Factoring:
      - turnover of 2,010 million, +37% y/y
      - significant contribution from distribution agreements with banks
    - CQS/CQP: 500 million outstanding, equal to +88% y/y

  - Stable net interest income y/y at 70.7 million
  - Total operating costs slightly up y/y
  - Net income of 26.8 million
  - 2017 ROAE at 22%

  - Core business funding cost stable y/y
  - LCR and NSFR above the regulatory limit
  - CET1 ratio at 11.9% and TCR at 15.3%, well above regulatory limits
  - Dividend per share (DPS) of €0.086 (€0.076 in 2016, +13%)

Gianluca Garbi, CEO of Banca Sistema, stated: "The growth reported by Banca Sistema in the target markets brings a sense of satisfaction for the work we carried out in the year just ended and it represents a solid starting point for our journey in the coming months. Banca Sistema, which specializes in factoring with PAs and the purchase of salary- and pension-backed loans (CQS/CQP), intends to strengthen its presence in these business areas along the lines indicated to the market when presenting the Business Plan, to be approved by the Board of Directors before the next Ordinary Shareholders Meeting".

Milan, 8 February 2018

The Board of Directors of Banca Sistema has approved the preliminary results as at 31 December 2017, reporting a **net income of 26.8 million**.

Business Performance

The **factoring** business line, with a turnover of 2,010 million, has reported a growth rate of 37% y/y. At 30 September 2017 the growth rate over the same period of 2016 had been of 27%. This increase has been achieved among other things by pursuing a commercial action aiming at:

1. increasing the number of new clients (which accounted for 41% of the turnover generated in 2017);
2. consolidating the origination from the indirect channel, leveraging the 17 commercial agreements with banks, which contributed by roughly 29% to the 2017 turnover.

At 31 December 2017, the Group's **factoring** outstanding volumes stood at 1,429 million (of which 25% under legal action), up by 38% compared to 1.039 million (management data) at 31 December 2016, due to the combined effect of turnover and of collections for the period. 82% of outstanding volumes is represented by Public Administration borrowers, which include State Central Administrations (30%), Local Governments (33%), Local Healthcare Organizations - ASL (12%), State-owned enterprises (4%) and Public-Sector Organizations (3%). Factoring without recourse accounts for 85% of the total outstanding volume (91% at 31 December 2016) and is represented by trade receivables (63%) and tax receivables (22%), the latter reporting a steady rise y/y.

As to the **CQS/CQP** business, the Group purchased about 258 million of **loans** (+64% compared to the same period of 2016). At 31 December 2017 the outstanding volume came in at 500 million broken down into private-sector employees (14%), retirees (54%) and public-sector employees (32%). On the side of this growth, we also set up a new loan securitization (Quinto Sistema 2017) which, together with Quinto Sistema 2016, allows us to optimize the cost of funding tied to the CQS/CQP product.

Operating results in 2017

Net interest income, at 70.7 million, remained stable compared to the previous year as a result of the combined effect of the higher interest income generated by the CQS/CQP portfolio, offset by the lower interest income generated by factoring and by the SME loan portfolio (in run-off) and the higher interest expense.

With regard to factoring, at 31 December 2017, the average recognition rate through profit and loss of late-payment interest generated by legal actions came in at 37%, well below the actual collection rate (above 80%). The full-year 2017 impact from updating the recovery estimates for late-payment interest tied to legal actions in Q3 2017 generated the recognition of a higher interest income of 9.6 million, of which 3.7 million pertaining to prior years.
The total P&L contribution by late-payment interest out of legal actions at 31 December 2017 came in at 29.6 million (19 million in 2016), of which 17.6 million come from accruals.
Total late-payment interest out of legal actions accrued at 31 December 2017, and relevant to the accrual model, added up to 92 million (84 million at 30 September 2017), including the amount already recognized

through P&L. Most of it will be recognized, on an accrual or on a cash basis, in the P&Ls of the next financial years.

The total estimated amount of late-payment interest accrued on 31 December 2017, including those relevant to the accrual model (92 million), comes in at 197 million.

The increase in revenues generated by the CQS/CQP portfolios from 7.4 million to 13.2 million made a positive contribution to net interest income.

Interest expense has been increasing y/y, although the cost of funding remained stable. The higher interest expense paid on senior and subordinated bonds, which has been increasing over the prior year, more than offset the interest income generated by the TLTRO II facility currently running at a rate of -40bps (123 million since June 2016).

Net fees and commissions, amounting to 10.7 million, reported a slight pick-up y/y, albeit less in proportion to the scale of volumes, driven by the stronger growth reported by factoring.

At 31 December 2017, the contribution from **income from the proprietary portfolio** and from the trading portfolio was slightly lower compared to last year (-0.3 million y/y).

Total income stood at 82,5 million, practically stable y/y.

Loan loss provisions in 2017 added up to 5.4 million, corresponding to a cost of credit of 33 bps, compared to 74 bps in 2016.

The Group's **headcount** (FTE), with 156 employees, grew from 144 employees at 31 December 2016. **Personnel expenses** rose 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).
Other administrative expenses declined by 5.7% compared to the prior year (net of 2016 adjustments), mainly driven by the combined effect of declining servicing and advisory costs, which more than offset the increases in other expense items. **Other costs/revenues** include the 430 thousand contribution to the Deposit Guarantee Schemes in 2017 (in 2016 the contribution amounted to 347 thousand).

In 2017, the **Cost/Income ratio** stood at 46% compared to 45% being the normalized ratio in 2016.

At 31 December 2017, **net income** came in at 26.8 million, corresponding to a ROAE of 22% (2016 stated income was 25.3 million). Excluding from the 2017 net interest income the late-payment interest generated by legal actions not accrued in the year, the ROAE is 19.5%.
At 31 December 2016, the 2016 "normalized" net income to adjust for non-recurring items (the extraordinary contribution to the National Resolution Fund of 1.3 million and the integration costs for Beta Stepstone of 0.3 million), was 26.4 million.

Key balance sheet items at 31 December 2017

At 31 December 2017, the Group reported **total assets** of approx. 2.3 billion, up by 15% compared to the end of 2016.

The **securities portfolio,** made up of Italian Government bonds (with the AFS component of 279 million having a residual life slightly above 7 months), reported a decline compared to 31 December 2016 and 30 September 2017.

Customer loans and receivables (1,850 million), primarily represented by Public Administration factoring receivables (1,286 million), reported an increase over 31 December 2016 (1,348 million) thanks to the factoring turnover generated in 2017 and the strong increase in CQS and CQP loans. In particular, CQS/CQP loans added up to 500 million (266 million in 2016).

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 **gross non-performing loans** stock increased compared to 31 December 2016 (143.3 million vs. 123.8 million), mainly driven by the rise in factoring past-dues (74.7 million vs. 68.3 million), as a result of the reclassification of factoring receivables of local governments in difficulty and to a lesser extent the reclassification as unlikely-to-pay of a factoring receivable from a private-sector enterprise. The stock of gross NPLs instead has been declining compared to 30 September 2017, mainly driven by the reduction in factoring past-dues that more than offset the increase in factoring bad loans.
At 31 December 2017, the net bad loans to total customer loans ratio stood at 1.7%, remaining stable compared to 30 September 2017 and at contained levels.

Retail deposits accounted for approx. 49% 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 (stable compared to 30 September 2017), mainly driven by the increase in interbank lines, while the ECB exposure, which includes the 123 million TLTRO II, has remained fairly unchanged.

Due to customers were stable compared to year-end 2016: the decline in funding through repos vis-à-vis the shrinking securities portfolio has been offset by the increase in checking accounts, in particular with corporate and institutional counterparties. With respect to this aggregate, the term deposit stock (447 million at 31 December 2017 compared to approx. 443 million at the end of December 2016) remained stable compared to year-end 2016 and to 30 September 2017; checking accounts (510 million at 31 December 2017 compared to approx. 437 million at the end of December 2016) went up compared to 31 December 2016 and compared to 30 September 2017.

The increase in **Securities outstanding** over 31 December 2016 was driven by the Senior bond issue of 175 million placed in October 2017 and the TIER II subordinated bond issue of 16.5 million in 2017 (of which 1 million placed in Q4).

Total own funds (Total Capital) at 31 December 2017 added up to 162 million (124.7 million at 31 December 2016), up compared to year-end 2016 driven by the subordinated TIER II bond issue (+16.5 million), which more than offset the first regulatory amortization of a TIER II bond issued in 2012, and by the operating income in 2017 net of the dividend to be proposed. **CET1** totaled 125.8 million (104.6 million at 31 December 2016).

At 31 December 2017, **capital ratios**[1] were well above minimum requirements, and were all reporting a slight decline over 30 September 2017 due to the strong increase in loans in Q4:

- **CET1 ratio** at 11.9% (13.3% at 31 December 2016);
- **TIER 1 ratio** at 12.6% (14.3% at 31 December 2016);
- **Total Capital ratio** at 15.3% (15.8% at 31 December 2016).

In general, the declining ratios compared to 31 December 2016 are attributable to the increase in risk-weighted assets (RWA), due to the increase in trade receivables, whose product mix, driven by the growth reported in 2017, tilted towards loans with a greater capital absorption. The RWA evolution compared to 30 September 2017 was mainly driven by the rise in CQS/CQP. Currently the CQS/CQP product is subject to the same RWA treatment as unsecured personal loans.

The Board of Directors of Banca Sistema will submit the distribution of a dividend of 0.086 euro per ordinary share for approval to the Shareholders' Meeting, which represents an increase of 13% compared to 2016.

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At the beginning of 2017 the Bank launched a project aimed at assessing the qualitative and quantitative balance sheet impacts of the IFRS 9 which will replace the current IAS 39, and at identifying and then implementing the necessary changes in terms of organization, internal regulations and application systems.

The simulations carried out up to now at balance sheet/P&L and organizational level of the implementation of the new impairment model based on "expected loss", as compared to the current model which is based on "incurred loss", gave evidence of a non-significant impact.
Therefore, with regard to the transitional provisions aiming at mitigating the impact of the adoption of IFRS 9, the Group has decided to opt out of this phase-in period under EU regulation 2017/2395, and instead fully recognize the effect of the IFRS9 adoption at regulatory capital and "Large exposures" level right from 1 January 2018.

The final impact will be measured upon first adoption, in Q1 2018.

[1] In compliance with EBA's Guidelines on common SREP (Supervisory Review and Evaluation Process), the Bank of Italy required the compliance with the following minimum capital requirements in 2018:

- Common Equity Tier 1 ratio (CET1 ratio) of 7.125%;
- TIER1 ratio of 8.875%;
- Total Capital ratio of 11.225%.

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Operational outlook

2017 confirmed the growth trend of factoring and salary/pension-backed loan volumes. Furthering the consolidation of these two business lines will be one of our key objectives in 2018.

The Business Plan under approval will highlight the guidelines underpinning the Group's growth over the coming years.

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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 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
- Consolidated Normalized income statement at 31.12.2016

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.12.2017 A	31.12.2016 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	161	98	64.3%
20.	Financial assets held for trading	1,201	996	20.6%
40.	Available-for-sale financial assets	285,610	514,838	-44.5%
50.	Held to maturity	84,178	-	n.a.
60.	Loans and advances to banks	36,027	83,493	-56.9%
70.	Loans and advances to customers	1,850,290	1,348,329	37.2%
100.	Equity investments	1,190	1,030	15.5%
120.	Property, plant and equipment	24,272	23,313	4.1%
130.	Intangible assets	1,790	1,835	-2.5%
	of which: goodwill	*1,786*	*1,786*	*0.0%*
140.	Tax assets	10,198	10,528	-3.1%
160.	Other assets	14,316	14,903	-3.9%
	Total assets	**2,309,233**	**1,999,363**	**15.5%**

Figures in thousands of euro

		31.12.2017 A	31.12.2016 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Due to banks	517,533	458,126	13.0%
20.	Due to customers	1,284,132	1,262,123	1.7%
30.	Debt securities issued	281,770	90,330	211.9%
80.	Tax liabilities	10,118	8,539	18.5%
100.	Other liabilities	71,996	59,825	20.3%
110.	Post-employment benefits	2,172	1,998	8.7%
120.	Provisions for risks and charges:	6,745	4,105	64.3%
140. +170. + 180. +190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	107,944	88,984	21.3%
210.	Minority interests	30	20	50.0%
220.	Profit (loss) for the year	26,793	25,313	5.8%
	Total liabilities and equity	**2,309,233**	**1,999,363**	**15.5%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		31.12.2017 A	31.12.2016 B	Difference % A - B
10.	Interest income	87,234	86,321	1.1%
20.	Interest expenses	(16,584)	(15,321)	8.2%
30.	**Net interest income**	**70,650**	**71,000**	**-0.5%**
40. - 50.	Net fee and commission income	10,652	9,060	17.6%
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	940	1,196	-21.4%
120.	**Operating income**	**82,469**	**81,483**	**1.2%**
130.	Net impairment losses on loans	(5,352)	(9,765)	-45.2%
140.	**Net operating income**	**77,117**	**71,718**	**7.5%**
180. a)	Staff costs	(17,631)	(15,169)	16.2%
180. b)	Other administrative expenses	(19,705)	(22,529)	-12.5%
190.	Net allowance for risks and charges	(8)	(431)	-98.1%
200. + 210.	Net provisions for risks and charges	(303)	(308)	-1.6%
220.	Other net operating income/expense	(415)	150	-376.7%
230	**Operating expenses**	**(38,062)**	**(38,287)**	**-0.6%**
240.	Profits of equity-accounted investees	(140)	2,281	-106.1%
280.	**Pre-tax profit from continuing operations**	**38,915**	**35,712**	**9.0%**
290.	Taxes on income for the period/year from continuing operations	(12,122)	(10,399)	16.6%
340.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**26,793**	**25,313**	**5.8%**

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BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT (Normalized figures as at 31 December 2016)

Figures in thousands of Euro

		31.12.2017 A	31.12.2016 B	Difference % A - B
10.	Interest income	87,234	86,321	1.1%
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190.	Net allowance for risks and charges	(8)	(431)	-98.1%
200. + 210.	Net provisions for risks and charges	(303)	(308)	-1.6%
220.	Other net operating income/expense	(415)	150	-376.7%
230	**Operating expenses**	**(38,062)**	**(36,665)**	**3.8%**
240.	Profits of equity-accounted investees	(140)	2,281	-106.1%
280.	**Pre-tax profit from continuing operations**	**38,915**	**37,334**	**4.2%**
290.	Taxes on income for the period/year from continuing operations	(12,122)	(10,926)	10.9%
340.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**26,793**	**26,408**	**1.5%**