BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AT 31 MARCH 2018

- **Results at 31 March 2018:**
  - Business performance
    - Factoring:
      - turnover of 504 million, +24% y/y
      - significant contribution from distribution agreements with banks
    - CQS/CQP: 526 million outstanding, +68% y/y

  - Net interest income up by 10% y/y at 13.7 million
  - Cost of funding practically stable y/y
  - Total income at 18.1 million up by 21% y/y
  - Total operating costs slightly higher y/y in line with expectations
  - Net income of 4.7 million, up by 7% y/y

  - LCR and NSFR above the regulatory limit
  - Negligible capital impact from IFRS 9 adoption
  - CET1 ratio at 11.8% and TCR at 15.0%, well above minimum regulatory requirements

Milan, 11 May 2018

The Board of Directors of Banca Sistema has approved the results as at 31 March 2018, reporting a **net income of 4.7 million**, up by 7% compared to the same period of 2017.

The adoption of the accounting standard IFRS 9 on 1 January 2018, replacing the retired IAS 39, did not give rise upon first-time adoption (FTA) to meaningful impacts in terms of measurement and classification, or impairment. The Bank in any case had elected to fully charge the negative effect from the first-time adoption of IFRS 9 to Own Funds, with an impact on the Group CET 1 ratio of -2 bps.
For a correct interpretation of the Q1 2018 table, it is necessary to bear in mind that the balance sheet and income statement comparatives, at 31 December 2017 and at 31 March 2017, are simply a re-presentation of the statutory data in line with the retired accounting standard IAS 39. Therefore, they are not balances calculated based on the retroactive adoption of the new accounting standard IFRS 9.

Business Performance

The **factoring** business line, with a turnover of 504 million, reported a growth rate of 24% y/y. The Q1 2018 contribution to turnover generated by the agreements with commercial banks is practically in line with the 2017 dynamic.

At 31 March 2018, the Group's **factoring** outstanding volume stood at 1,488 million (of which 26% under legal action), up by 35% compared to 1,103 million (management data) at 31 March 2017, driven by the combined effect of turnover and of collections for the period. Factoring without recourse accounts for 84% of the total outstanding volume (85% at 31 December 2017), and is represented by trade receivables (60%) ad tax receivables (24%), with the latter reporting a solid growth y/y and compared to 31 December 2017.

As to the **CQS/CQP** business, the Group purchased about 40 million of **loans,** and the outstanding volume at 31 March 2018 added up to 526 million, up by 68% y/y.

Q1 2018 operating results

Net interest income, at 13.7 million, went up by 10% compared to the same period of 2017, driven by the combined effect of a higher interest income from factoring (15.0 million vs 12.8 million in Q1 2018 and Q1 2017, respectively) and CQ, which more than offset the higher interest expense.

Even net of the late-payment interest out of legal actions, the contribution to interest income by factoring is greater compared to the same period last year. The profitability of factoring considering the higher average volumes is lower when compared to the same period last year. The decline in profitability is due to the purchase of loans at a lower discount compared to the past and the greater weight in the period of tax receivables (characterized by a lower discount compared to trade receivables, but by a significant benefit in terms of lower capital absorption).
The total P&L contribution by late-payment interest out of legal actions at 31 March 2018 came in at 4.8 million (3.1 million in Q1 del 2017), of which:

- 2.9 million come from accruals (2 million in Q1 2017):
- 1.9 million (1.1 million in Q1 2017) come from the difference between cash collections in the period, equal to 3 million (1.7 million in Q1 2017), and what recognized on an accrual basis in the previous years.

Total late-payment interest out of legal actions accrued at 31 March 2018, and relevant to the accrual model, added up to 98 million (92 million at 31 December 2017), of which 35.2 million have already been recognized through P&L (since the late-payment interest accrual accounting policy was introduced in 2016). Most of the amount that was not recognized through P&L will be recognized, on an accrual or cash basis, in the P&Ls of the next financial years, based on collection expectations that exceed 80%.
The total estimated amount of late-payment interest accrued at 31 March 2018, including those relevant to the accrual model (98 million), comes in at 138 million.

The increase in revenues generated by the CQS/CQP portfolios from 2.6 million to 4.1 million made a positive contribution to net interest income.

Interest expense has been increasing y/y, although the cost of funding remained practically stable, even after the write-off of the positive non-recurring component of roughly 0.8 million (accruing in 2017 and in 2H 2016), gross of tax effect, tied to the TLTRO II cost which went from -40bps to 0bps.

Net fees and commissions, amounting to 3.6 million, reported a solid growth y/y (+58%), driven by the stronger growth reported by factoring (+1.3 million y/y; +0.2 million q/q).

At 31 March 2018, **proprietary trading income** generated by the Italian government bond portfolio has made a greater contribution compared to the prior year (+0.6 million y/y).

Total income stood at 18.1 million, up by 21% y/y.

Loan loss provisions added up to 1.1 million, corresponding to a cost of credit of 22 bps, compared to 33 bps in 2017.

The Group's **headcount** (FTE), with 169 employees, grew from 144 employees in the same period of 2017. **Personnel expenses** rose y/y, mainly driven by the headcount increase. **Other administrative expenses** have remained practically stable compared to the prior year.

Income before tax at 31 March 2018 came in at 7.1 million, up by 14% y/y.

Key balance sheet items at 31 March 2018

The **securities portfolio -** made up of Italian Government bonds and amounting to 568 million (of which 121 million at 31 March 2018 and 84 million at 31 December 2017 classified under the line-item Financial assets measured at amortized cost), reported an increase of roughly 200 million compared to 31 December 2017.

Financial assets measured at amortized cost (2,064 million), mainly represented by factoring receivables (1,302 million), went up compared to 31 December 2017 (1,.286 million) and included also CQS and CQP loans and part the securities portfolio (former "HTM"). In particular, CQS/CQP loans totaled 526 million (500 million in 2017).

The number 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 loan** stock increased compared to 31 December 2017 (159.1 million compared to 143.3 million), mainly driven by the rise in unlikely-to-pay loans (37.6 million compared to 24.1 million), tied to the factoring business.

Retail deposits accounted for approx. 43% of total funding (49% at 31 December 2017), and are represented by checking accounts and term deposits.

Under Financial liabilities measured at amortized costs, **Due to banks** went up compared to 31 December 2017 (stable compared to 30 September 2017), mainly driven by the increase in interbank lines.

Under Financial liabilities measured at amortized costs, **Due to customers** went up compared to the end of 2017, mainly due to repos given the Italian government bond portfolio increase.

Total own funds (Total Capital) at 31 March 2018 added up to 164.7 million, up compared to year-end 2017.

At 31 March 2018, **capital ratios**[1] were well above minimum requirements, and were all reporting a slight decline compared to 31 December 2017 due to the strong increase in loans:

- **CET1 ratio** at 11.8% (11.9% at 31 December 2017);
- **TIER 1 ratio** at 12.5% (12.6% at 31 December 2017);
- **Total Capital ratio** at 15.0% (15.3% at 31 December 2017).

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Statement of the financial reporting officer

The financial reporting officer of Banca Sistema, Mr. Alexander Muz, 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.

[1] [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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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 balance sheet with IFRS 9 first time application (FTA)
- Consolidated income statement

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.03.2018 A	31.12.2017 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	199	161	24%
20.	Financial assets held to sell	844	1,201	-30%
30.	Financial assets held to collect and sell	453,501	285,610	59%
40.	Financial assets held to collect	2,064,404	1,970,495	5%
	a) Loans and advances to banks	24,652	36,027	-32%
	b) Loans and advances to customers	2,039,752	1,934,468	5%
70.	Equity investments	1,297	1,190	9%
90.	Property, plant and equipment	24,772	24,272	2%
100.	Intangible assets	1,788	1,790	0%
	of which: goodwill	*1,786*	*1,786*	*0%*
110.	Tax assets	8,271	10,198	-19%
130.	Other assets	16,604	14,316	16%
	Total assets	**2,571,680**	**2,309,233**	**11%**

Figures in thousands of euro

		31.03.2018 A	31.12.2017 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	2,326,279	2,083,435	12%
	a) Due to banks	566,194	517,533	9%
	b) Due to customers	1,477,072	1,284,132	15%
	c) Debt securities issued	283,013	281,770	0%
20.	Financial liabilities held for trading	10,219	-	ns
60.	Tax liabilities	10,331	10,118	2%
80.	Other liabilities	76,660	71,996	6%
90.	Post-employment benefits	2,237	2,172	3%
100.	Provisions for risks and charges:	6,863	6,745	2%
120. +150. + 160.+170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	134,344	107,944	24%
190.	Minority interests	30	30	0%
200.	Profit for the period	4,717	26,793	-82%
	Total liabilities and equity	**2,571,680**	**2,309,233**	**11%**

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.12.2017	IFRS 9 impact	01.01.2018
	ASSETS			
10.	Cash and cash equivalents	161		161
20.	Financial assets held to sell	1,201		1,201
30.	Financial assets held to collect and sell	285,610	84,904	370,514
40.	Financial assets held to collect	1,970,495	(84,451)	1,886,044
	Loans and advances to banks	36,027		36,027
	Loans and advances to customers	1,934,468	(84,451)	1,850,017
70.	Equity investments	1,190		1,190
90.	Property, plant and equipment	24,272		24,272
100.	Intangible assets	1,790		1,790
	of which: goodwill	1,786		1,786
110.	Tax assets	10,198	110	10,308
130.	Other assets	14,316		14,316
	Total assets	**2,309,233**	**563**	**2,309,796**

Figures in thousands of Euro

		31.12.2017	IFRS 9 impact	01.01.2018
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	2,083,435		2,083,435
	a) Due to banks	517,533		517,533
	b) Due to customers	1,284,132		1,284,132
	c) Debt securities issued	281,770		281,770
60.	Tax liabilities	10,118	260	10,378
80.	Other liabilities	71,996		71,996
90.	Post-employment benefits	2,172		2,172
100.	Provisions for risks and charges:	6,745		6,745
120. + 150. + 160.+170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	107,944	303	108,247
190.	Minority interests	30		30
200.	Profit for the period	26,793		26,793
	Total liabilities and equity	**2,309,233**	**563**	**2,309,796**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		31.03.2018 A	31.03.2017 B	Difference % A - B
10.	Interest income	20,042	16,973	18%
20.	Interest expenses	(6,354)	(4,550)	40%
30.	**Net interest income**	**13,688**	**12,423**	**10%**
40. - 50.	Net fee and commission income	3,558	2,249	58%
80. + 90. + 100. + 110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	857	231	nm
120.	**Operating income**	**18,103**	**14,903**	**21%**
130.	Net impairment losses on loans	(1,087)	488	nm
150.	**Net operating income**	**17,016**	**15,391**	**11%**
190. a)	Staff costs	(4,764)	(4,274)	11%
190. b)	Other administrative expenses	(5,071)	(4,853)	4%
210. + 220.	Net provisions for risks and charges	(74)	(77)	-4%
230.	Other net operating income/expense	4	(6)	nm
240.	**Operating expenses**	**(9,905)**	**(9,210)**	**8%**
250.	Profits of equity-accounted investees	(43)	-	nm
290.	**Pre-tax profit from continuing operations**	**7,068**	**6,181**	**14%**
300.	Taxes on income for the period/year from continuing operations	(2,351)	(1,783)	32%
350.	**Profit for the period attributable to the shareholders of the Parent**	**4,717**	**4,398**	**7%**