PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AT 30 JUNE 2018

- **Results at 30 June 2018:**
  - Business performance
    - Factoring:
      - turnover of 1,136 million, +29% y/y
      - significant contribution from distribution agreements with banks
    - CQS/CQP: 571 million outstanding, +60% y/y

  - Net interest income up by 9% y/y at 32.6 million
  - Cost of funding practically stable y/y
  - Total income at 40.9 million, up by 16% y/y
  - Total operating costs slightly higher y/y in line with expectations
  - Net income of 11.2 million, up by 12% y/y

  - LCR and NSFR above the regulatory limit
  - New partnership for deposit accounts on online platform in Germany
  - CET1 ratio at 11.0% and TCR at 14.1% in line with expectations, well above minimum regulatory requirements

- **Verification of requirements for the director coopted by the Board of Directors on 13 July last**

Milan, 26 July 2018

The Board of Directors of Banca Sistema has approved the results as at 30 June 2018, reporting a **net income of 11.2 million**, up by 12% 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 (please refer to the press release on Q1 2018 results published on 11 May 2018).
For a correct interpretation of the H1 2018 table, it is necessary to bear in mind that the balance sheet and income statement comparatives, at 31 December 2017 and at 30 June 2017 respectively, 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 1,136 million, reported a growth rate of 29% y/y. The H1 2018 contribution to turnover generated by the agreements with commercial banks, accounting for about 30% of total turnover, is practically in line with the 2017 dynamic.

At 30 June 2018, the Group's **factoring** outstanding volume stood at 1,640 million (of which 23% under legal action), up by 33% compared to 1,229 million (management data) at 30 June 2017, driven by the combined effect of turnover and of collections for the period. Non-recourse factoring accounts for 87% of the total outstanding volume (85% at 31 December 2017), and is represented by trade receivables (62%) and tax receivables (25%), with the latter reporting a strong growth y/y, as well as compared to 31 December 2017.

As to the **CQS/CQP** business, the Group purchased about 97 million of **loans,** and the outstanding volume at 30 June 2018 came in at 571 million, up by 60% y/y.

H1 2018 operating results

Net interest income, at 32.6 million, went up by 9% compared to the same period of 2017, driven by the combined effect of a higher interest income (44.7 million vs 39.3 million in H1 2018 and H1 2017) from factoring and CQs, which more than offset the higher interest expense.

The profitability of factoring considering the higher average volumes is lower when compared to the same period last year, in line with Strategic Plan expectations. The decline in profitability is due to the purchase of loans at a lower discount compared to the past. In particular, tax receivables are characterized by a lower discount compared to trade receivables, however they bring the tangible benefit of a lower capital absorption.

The total P&L contribution by late-payment interest out of legal actions at 30 June 2018 added up to 10.7 million (6.3 million in H1 2017, not including 2.8 million tied to the early termination of the security agreement provided by the former shareholder of Beta Stepstone, a company acquired in 2016 and merged into Banca Sistema the following year), of which:

- 7.3 million from accruals (3.4 million in H1 2017);
- 3.5 million (2.9 million in H1 2017) from net collections for the period (difference between the amount collected in the first half or 2018, equal to €7.6 million; €4.4 million in H1 2017), and what had already been recognized on an accrual basis in prior years.

Total late-payment interest out of legal actions accrued at 30 June 2018, and relevant to the accrual model, came in at 100 million (92 million at 31 December 2017), of which 36.6 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 increase in revenues generated by the CQS/CQP portfolios from 5.4 million to 8.9 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 H2 2016), gross of tax effect, tied to the TLTRO II cost, which went from -40bps to 0bps.

Net fees and commissions, amounting to 7.4 million, reported a solid growth y/y (+60%), driven by the stronger growth in factoring commissions (+2.5 million y/y).

At 30 June 2018, **proprietary trading income** generated by the Italian government bond portfolio has made a greater contribution compared to the prior year (+0.2 million y/y), despite the loss reported in Q2 2018 due to the Italian government bond market volatility.

Total income stood at 40.9 million, up by 16% y/y.

Loan loss provisions added up to 2.9 million. The cost of credit tied to customer loans came in at 29 bps (33 bps in 2017).

The Group's **headcount** (FTE) grew from 148 resources in the same period of 2017 to the current 176 employees. **Personnel expenses** rose y/y, mainly driven by the headcount increase. **Other administrative expenses** have increased by 10% compared to the same period of 2017, in line with expectations.

Income before tax at 30 June 2018 came in at 17.0 million, up by 17% y/y.

Key balance sheet items at 30 June 2018

The **securities portfolio -** made up of Italian Government bonds and amounting to nominal 799 million (of which 436 million at 30 June 2018; 120 million at 31 March 2018 and 84 million at 31 December 2017 were classified under the line-item Financial assets measured at amortized cost) – reported an increase of roughly 201 million compared to 31 March 2018, and roughly 436 million compared to 31 December 2017.

Financial assets measured at amortized cost (2,616 million), mainly represented by factoring receivables (1,492 million), which went up compared to 31 December 2017 (1,286 million) and 31 March 2018 (1,302 million), also include salary/pension-backed loans (CQS/CQP) and part of the securities portfolio. In particular, CQS/CQP loans totaled 571 million (500 million as at 31.12.2017).

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 (173.5 million vs. 143.3 million), mainly driven by the rise in past-due loans (89.4 million vs. 74.7 million) and bad loans (53.4 million vs. 44.6 million), tied to the factoring business.

Retail deposits accounted for approx. 43% of total funding (43% and 49% at 31 March 2018 and 31 December 2017, respectively), 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, mainly driven by the increase in interbank term deposits.

Under Financial liabilities measured at amortized costs, **Due to customers** went up compared to the end of 2017, mainly due to repos driven by the Italian government bond portfolio increase, and to a lesser extent to the increase in deposit accounts, with both components reporting an increase also compared to 31 March 2018.

BANCA SISTEMA

Total own funds (Total Capital) at 30 June 2018 added up to 169.9 million, up compared to year-end 2017. At 30 June 2018, **capital ratios**[1] were well above minimum requirements, and all reporting a decline compared to 31 December 2017 due to the strong increase in loans, as expected under the Plan:

- **CET1 ratio** at 11.0% (11.9% at 31 December 2017);
- **TIER 1 ratio** at 11.7% (12.6% at 31 December 2017);
- **Total Capital ratio** at 14.1% (15.3% at 31 December 2017).

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<u>Operational outlook</u>

The start of 2018 confirmed the growth trend in loans. Further consolidation of the factoring and CQ businesses will be one of the main objectives for 2018.

The approved Business Plan set out the Group's growth guidelines for the coming years.

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<u>Statement of the financial reporting officer</u>

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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Today, the Board of Directors of Banca Sistema, in the presence of the Board of Statutory Auditors and based on the relevant statements provided, has verified the compliance with the requirements of professionalism and integrity for the director coopted by the Board on 13 July last, Mr. Daniele Pittatore.

As regards the requirement of independence, the Board of Directors – pending the implementing rules of art. 26 of Lgs.D. 385/93 – has verified that Mr. Daniele Pittatore fulfills the requirement of independence pursuant to articles 147-ter, paragraph 4, and 148, paragraph 3 of Lgs.D. no. 58 of 24 February 1998, as well as to art. 3 of the Corporate Governance Code promoted by Borsa Italiana S.p.A. and adopted by Banca Sistema.

[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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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

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		30.06.2018 A	31.12.2017 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	288	161	79%
20.	Financial assets held to sell (HTS)	100,027	1,201	nm
30.	Financial assets held to collect and sell (HTCS)	267,281	285,610	-6%
40.	Financial assets held to collect (HTC)	2,615,584	1,970,495	33%
	a) Loans and advances to banks	22,119	36,027	-39%
	b) Loans and advances to customers	2,593,465	1,934,468	34%
70.	Equity investments	2,205	1,190	85%
90.	Property, plant and equipment	26,075	24,272	7%
100.	Intangible assets	1,787	1,790	0%
	of which: goodwill	*1,786*	*1,786*	*0%*
110.	Tax assets	6,203	10,198	-39%
130.	Other assets	13,616	14,316	-5%
	Total assets	**3,033,066**	**2,309,233**	**31%**

Figures in thousands of euro

		30.06.2018 A	31.12.2017 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	2,793,421	2,083,435	34%
	a) Due to banks	561,181	517,533	8%
	b) Due to customers	1,926,056	1,284,132	50%
	c) Debt securities issued	306,184	281,770	9%
60.	Tax liabilities	10,358	10,118	2%
80.	Other liabilities	82,819	71,996	15%
90.	Post-employment benefits	2,329	2,172	7%
100.	Provisions for risks and charges:	7,401	6,745	10%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	125,487	107,944	16%
190.	Minority interests	30	30	0%
200.	Profit for the period	11,221	26,793	-58%
	Total liabilities and equity	**3,033,066**	**2,309,233**	**31%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		30.06.2018 A	30.06.2017 B	Difference % A - B
10.	Interest income	44,714	39,272	14%
20.	Interest expenses	(12,106)	(9,387)	29%
30.	**Net interest income**	**32,608**	**29,885**	**9%**
40. - 50.	Net fee and commission income	7,359	4,607	60%
70.	Dividends and similar income	227	227	0%
80. + 100.	Net income from trading, income (loss) from Financial assets held to collect and sell	664	438	52%
120.	**Operating income**	**40,858**	**35,157**	**16%**
130.	Net impairment losses on loans	(2,939)	(1,427)	106%
150.	**Net operating income**	**37,919**	**33,730**	**12%**
190. a)	Staff costs	(9,560)	(8,872)	8%
190. b)	Other administrative expenses	(11,005)	(10,030)	10%
200.	Net allowance for risks and charges	(51)	(58)	-12%
210. + 220.	Net provisions for risks and charges	(141)	(153)	-8%
230.	Other net operating income/expense	52	(38)	-237%
240.	**Operating expenses**	**(20,705)**	**(19,151)**	**8%**
250.	Profits of equity-accounted investees	(229)	(32)	nm
290.	**Pre-tax profit from continuing operations**	**16,985**	**14,547**	**17%**
300.	Taxes on income for the period/year from continuing operations	(5,764)	(4,564)	26%
350.	**Profit for the period attributable to the shareholders of the Parent**	**11,221**	**9,983**	**12%**