BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA – 2018 ANNUAL RESULTS:

- FACTORING: TURNOVER +20% Y/Y
- CQS/CQP: OUTSTANDING +30% Y/Y
- INCOME BEFORE TAX 42.1 MILLION +8% Y/Y
- ROAE: 18.9%

- Business performance
  - Factoring: turnover of 2.406 million, +20% y/y
  - CQS/CQP: outstanding of 652 million, +30% y/y

- Net interest income at 74.6 million, up y/y
- Cost of funding practically stable y/y
- Total income at 91.1 million, up 10% y/y
- Total operating costs up y/y in line with expectations
- Net income of 27.2 million

- LCR and NSFR above regulatory limit
- Strong growth in Retail funding
- CET1 ratio at 11.0% and TCR at 13.7%, pro-forma post CQ weighting reduction they stand at 12.5% and 15.7%, respectively
- Dividend per share (DPS) of €0.087 (€0.086 in 2017)

Gianluca Garbi, CEO of Banca Sistema: "In 2018 Banca Sistema continued to grow fully on track with the planned development guidelines. Today we report to our shareholders a substantial growth in volumes, both for factoring, the traditional core business, and for salary- and pension-backed loans. The Bank's net income is growing, and the return on equity is running in double digits at 18.9%. I am pleased to highlight that, from a diversification perspective, also pawnbroking is growing steadily."

Milano, 8 February 2019

The Board of Directors of Banca Sistema has approved the consolidated financial statements as at 31 December 2018, reporting a **net income of 27.2 million** (26.8 million in 2017).

The first-time adoption on 1 January of IFRS 9, to replace the retired IAS 39, did not give rise to any meaningful impact, neither in terms of measurement and classification, nor in terms of impairment (see the press release on 2018 Q3 results published on 11 May 2018).
For a correct interpretation of the 2018 financial statements it is necessary to bear in mind that the balance sheet and income statement comparatives at 31 December 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 2,406 million, reported a growth rate of 20% y/y. The contribution to turnover made by the agreements with commercial banks accounted for roughly 28%.

At 31 December, the Group's **factoring** outstanding volume stood at 1,716 million (of which 22% under legal action), up by 20% from last year's 1,429 million (management data), driven by the combined effect of turnover and of collection for the period. Non-recourse factoring accounted for 85% of the total outstanding volume (85% at 31 December 2017), and is represented by trade receivables (63%) and tax receivables (22%).

As to the **CQS/CQP** business, the Group purchased **loans** in excess of 200 million, and the outstanding volume at 31 December 2018 came in at 652 million, up by 30% y/y.

2018 Operating results

Net interest income, at 74.6 million, increase 6% y/y, driven by the growth in both factoring and CQ loans. The higher interest income (99.7 million vs 90.1 million at 31.12.2018 and 31.12.2017, respectively) has more than offset the increase in interest expense y/y; the cost of funding remained stable at 0.9%.

Tax receivables, characterized by a lower discount compared to trade receivables, enjoy a tangible benefit in terms of lower capital absorption. The profitability generated by factoring proved lower compared to the same period last year due to the different mix biased towards tax receivables.

The expected late-payment-interest recovery rates from factoring and the related time to recovery, on which the estimates at 30 September 2018 were based, have been updated in light of the progressive consolidation of the time series in line with the business dynamics. The overall P&L contribution of late-payment interest out of legal actions at 31 December 2018 came at 28.4 million (26.8 million at 31.12.2017, excluding 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, which was then merged into Banca Sistema the following year). The impact from the update of the recovery estimates, carried out in Q3, came to 7.8 million at 31 December 2018 (6.6 million in 9M 2018), of which 4.9 million tied to prior financial years (9.6 million at 31.12.2017, of which 3.7 million tied to prior financial years).

Total late-payment interest out of legal actions accrued at 31 December 2018, and relevant to the accrual model, came in at 96 million, of which roughly 42.5 million have already been recognized through P&L (since the late-payment interest accrual accounting policy was introduced in 2016). The decline in late-payment interest out of legal action from 100 million at 30 September 2018 is tied to recoveries partly from borrowers, and partly from counterparties to whom part of the interest has been definitively transferred.
Most of the amount that was not recognized through profit and loss will be recognized, on an accrual or cash basis, in the P&L of the next financial years, based on collection expectations that exceed 80%.

The increase in revenues generated by the CQS/CQP portfolios from 13.2 million to 19.6 million made a positive contribution to net interest income.

Net fees and commissions, amounting to 15.3 million, reported a sharp increase y/y (+43%), driven by the more sustained growth of factoring commissions (+4.3 million y/y).

At 31 December 2018, **proprietary trading income** generated by the Italian government bond portfolio made a slightly greater contribution compared to the prior year (+0.1 million y/y); while **dividends** remained stable y/y.

Total income stood at 91.1 million, up 10% y/y, driven by the solid business growth.

Loan loss provisions added up to 6.8 million, on the rise y/y. The cost of credit tied to customer loans came in at 33 bps, in line with 2017.

The Group's **headcount** (FTE) grew from 156 resources in the same period of 2017 to the current 183 employees. **Personnel expenses** rose y/y, driven by the personnel increase. **Other administrative expenses** rose by 6% compared to the same period last year, in line with the business growth enjoyed in 2018. The Cost/Income ratio, at 46%, remained unchanged compared to 2017.

Income before tax at 31 December 2018 came to 42.1 million, up 8% vs. 2017. **Net income**, after accounting for taxes, which increased y/y as a result of lower deductions, and for the prorated loss of about 354 thousand euro pertaining to the first 9M 2018 of Axactor Italy, tied to the reclassification under assets under disposal of the 10% stake held in Axactor Italy SpA, following the decision to sell the shareholding in 2019, worked out to 27.2 million

Key balance sheet items at 31 December 2018

The **securities portfolio** – made up of Italian government bonds and amounting to 734 million (of which 435 million classified at 31 December 2018 under the line-item Financial assets measured at amortized cost) – has an average time to maturity of 21 months, and reported a decline over 30 September 2018 following the sale of a security classified as "Held to Sell" for nominal 100 million. The "Held to Collect and Sell" component, totaling 298 million (and whose weight at CET1 level at 31 December 2018 was roughly 7bps, down compared to 30 June 2018 and to 30 September 2018), has an average time to maturity of 14 months.

Financial assets measured at amortized cost (2,787 million), mainly represented by factoring receivables (1,567 million), went up compared to 31 December 2017 (1,286 million), while remained stable compared to 30 September 2018 (due to the hefty collections in Q4 2018). They include also salary- and pension-backed loans (CQS and CQP) and part of the securities portfolio. More specifically, CQS/CQP loans totaled 652 million (500 million at 31 December 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 (225.2 million vs. 143.3 million), mainly driven by the increase in unlikely-to-pay loans (87.2 million vs. 24.1 million), and by bad loans (57.5 million vs. 44.6 million), tied to the PA factoring business. The increase in unlikely-to-pay loans in Q4 2018 is ascribable to the factoring exposure to the Public Administration.
The net bad loans to total customer loans ratio has remained unchanged compared to 2017 at 1.7%, still at contained levels.

Retail deposits accounted for approx. 59% of total funding (49% at 31 December 2017), and are represented by checking accounts and term deposits.

Under Financial liabilities measured at amortized cost, **Due to banks** went up compared to 31 December 2017. In detail, as of Q3 2018 the ECB funding component reported a significant rise following the rating of the securitization Quinto Sistema Sec. 2017 (CQ).

Under Financial liabilities measured at amortized cost, **Due to customers** went up compared to the end of 2017, mainly driven by deposit accounts, and to a lesser extent also by the increase in checking accounts. More specifically, deposit accounts reported a stronger growth in the second half of 2018, in particular driven by foreign operations.

Total own funds (Total Capital) at 31 December 2018 added up to 181 million, up compared to the end of 2017 (162.0 million).
At 31 December 2018, **capital ratios**[1] declined compared to 31 December 2017, driven by the increase in loans, and were well above minimum requirements. Moreover, following the risk weighting reduction from 75% to 35% for loans backed by salary (CQS) and pension (CQP), they came in as follows:

- **CET1 ratio** at 11.0% (11.9% at 31 December 2017); pro-forma following the CQ risk weighting reduction at 12.5%;
- **TIER 1 ratio** at 11.6% (12.6% at 31 December 2017); pro-forma following the CQ risk weighting reduction at 13.2%;
- **Total Capital ratio** at 13.7% (15.3% at 31 December 2017); pro-forma following the CQ risk weighting reduction at 15.7%.

[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 2019:

- Common equity Tier 1 ratio (CET1 ratio) of 7.75%;
- Tier 1 ratio of 9.50%;
- Total Capital ratio of 11.85%.

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

The financial reporting officer of Banca Sistema, 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.

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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.

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Credit Quality

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.12.2018 A	31.12.2017 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	289	161	80%
20.	Financial assets held to sell (HTS)	-	1,201	nm
30.	Financial assets held to collect and sell (HTCS)	304,469	285,610	7%
40.	Financial assets held to collect (HTC)	2,786,692	1,970,495	41%
	a) Loans and advances to banks	56,861	36,027	58%
	b) Loans and advances to customers	2,729,831	1,934,468	41%
70.	Equity investments	786	1,190	-34%
90.	Property, plant and equipment	27,910	24,272	15%
100.	Intangible assets	1,788	1,790	nm
	of which: goodwill	*1,786*	*1,786*	*nm*
110.	Tax assets	7,817	10,198	-23%
120.	Non-current assets and disposal groups classified as held for sale	1,835	-	n.a.
130.	Other assets	13,317	14,316	-7%
	Total assets	**3,144,903**	**2,309,233**	**36%**

Figures in thousands of euro

		31.12.2018 A	31.12.2017 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	2,898,740	2,083,435	39%
	a) Due to banks	695,197	517,533	34%
	b) Due to customers	1,898,556	1,284,132	48%
	c) Debt securities issued	304,987	281,770	8%
60.	Tax liabilities	15,676	10,118	55%
80.	Other liabilities	65,638	71,996	-9%
90.	Post-employment benefits	2,402	2,172	11%
100.	Provisions for risks and charges:	9,293	6,745	38%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	125,957	107,944	17%
190.	Minority interests	30	30	nm
200.	Profit for the period	27,167	26,793	1%
	Total liabilities and equity	**3,144,903**	**2,309,233**	**36%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		31.12.2018 A	31.12.2017 B	Difference % A - B
10.	Interest income	99,710	90,135	11%
20.	Interest expenses	(25,145)	(19,485)	29%
30.	**Net interest income**	**74,565**	**70,650**	**6%**
40. - 50.	Net fee and commission income	15,255	10,652	43%
70.	Dividends and similar income	227	227	nm
80. + 100.	Net income from trading, income (loss) from Financial assets held to collect and sell	1,038	940	10%
120.	**Operating income**	**91,085**	**82,469**	**10%**
130.	Net impairment losses on loans	(6,814)	(5,352)	27%
150.	**Net operating income**	**84,271**	**77,117**	**9%**
190. a)	Staff costs	(19,908)	(17,631)	13%
190. b)	Other administrative expenses	(20,954)	(19,798)	6%
200.	Net allowance for risks and charges	(414)	(8)	nm
210. + 220.	Net impairment losses on property and intangible assets	(532)	(303)	76%
230.	Other net operating income/expense	(396)	(322)	nm
240.	**Operating expenses**	**(42,204)**	**(38,062)**	**11%**
250.	Profits of equity-accounted investees	8	(140)	nm
290.	**Pre-tax profit from continuing operations**	**42,075**	**38,915**	**8%**
300.	Tax expenses (income) for the period from continuing operations	(14,554)	(12,122)	20%
310.	**Profit after tax from continuing operations**	**27,521**	**26,793**	**3%**
320.	Profit (Loss) after tax from discontinued operations	(354)	-	ns
350.	**Profit for the period attributable to the shareholders of the Parent**	**27,167**	**26,793**	**1%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

	31.12.2018 A	31.12.2017 B	Difference % A - B
Gross Non Performing Exposures	**225,163**	**143,328**	**57%**
Bad loans	*57,467*	*44,577*	29%
Unlikely to pay	*87,189*	*24,061*	262%
Past-dues	*80,507*	*74,690*	8%
Performing Exposures	**2,104,711**	**1,734,845**	**21%**
Total Loans and advances to customers	**2,329,874**	**1,878,173**	**24%**
Individual impairment losses	29,169	22,293	31%
Collective impairment losses	6,284	5,590	12%
Total Loans and advances to customers - Net Exposures	**2,294,421**	**1,850,290**	**24%**