BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA:
-APPROVED RESULTS AS AT 31 MARCH 2019
-VERIFIED DIRECTOR REQUIREMENTS AND CONFIRMED BOARD COMMITTEE COMPOSITION

- **Results as at 31 March 2019:**
  - Business performance
    - Factoring: turnover of 639 million, +27% y/y
    - CQS/CQP: outstanding of 708 million, +35% y/y

  - Net interest income of 14.7 million, up 7% y/y
  - Cost of funding decreasing y/y
  - Total income of 19.3 million, up 7% y/y
  - Total operating costs and loan loss provisions up y/y
  - Net income of 4.5 million

  - LCR and NSFR above regulatory limits
  - Strong growth in Retail funding
  - CET1 ratio at 10.6% and TCR at 13.2%, pro-forma post CQ weighting reduction they stand at 12.2% and 15.2%, respectively

- **Verified the integrity, professionalism and independence requirements of directors and confirmed the composition of the Internal Control and Risk Management Committee**

Milan, 10 May 2019

The Board of Directors of Banca Sistema has approved the consolidated results as at 31 March 2019, reporting a **net income of 4.5 million**.

Business Performance

The **factoring** business line, with a turnover of 639 million, reported a growth rate of 27% y/y, with a basically stable contribution from tax receivables compared to the same period last year. The contribution made by agreements with commercial banks accounted for roughly 35% of turnover.

At 31 March 2019, the Group's **factoring** outstanding volume stood at 1,820 million (of which 22% under legal action), up by 22% from 1,488 million (management data) at 31 March 2018, and by 6% from 1,716 million at 31 December 2018, driven by the combined effect of the greater turnover and collection for the period. Non-recourse factoring accounted for 88% of the total outstanding volume (85% at 31 December 2018), and is represented by trade receivables (65%) and tax receivables (23%).

As to the **CQS/CQP** business, the Group purchased 67 million of **loans**, and the outstanding volume at 31 March 2019 came in at 708 million, up by 35% y/y and by 9% compared to 31 December 2018. Since April 2019, following the completion of Atlantide S.p.A.'s acquisition, Banca Sistema consolidates the direct origination activity made through the company's network of contracted agents and brokers.

Operating results as at 31 March 2019

Net interest income, at 14.7 million, increased by 7% y/y, driven by the growth in both factoring and CQ loans, as well as the greater contribution from the securities portfolio.
The higher interest income (21.6 million vs 20.0 million at 31.03.2019 and 31.03.2018, respectively) has more than offset the increase in interest expense y/y; the cost of funding has decreased y/y, at 0.8% (1.0% in Q1 2018) and has remained basically stable compared to the end of 2018 (0.9%).
The increase in interest income was mainly driven by the greater contribution from CQ (although the interest income margin has remained unchanged y/y, albeit lower than factoring), that more than offset the lower contribution y/y from factoring, due to the declining collection of late-payment-interest from legal actions (which has an impact also on the interest income margin, i.e., interest income over average customer loans for the period) and the lower contribution from the SME State-guaranteed loans portfolio (in run-off since the beginning of 2017).
The overall P&L contribution as at 31 March 2019 from late-payment-interest under legal action came in at 4.0 million (4.8 million at 31.03.2018).
Total late-payment interest out of legal actions accrued at 31 March 2019, and relevant to the accrual model, came in at 100 million, of which about 43.9 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 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%.

Net fees and commissions, amounting to 4.0 million, reported a sharp increase y/y (+12%), driven by the growth of factoring commission income (+27% y/y). Factoring commissions should be analyzed in combination with the interest component, therefore factoring's contribution in terms of revenues, i.e., the sum of interest income and commission income, has been increasing year on year in absolute terms, yet it has declined when considered as percentage over the average of receivables.

At 31 March 2019, **proprietary trading income** generated by the Italian government bond portfolio made a smaller contribution compared to the prior year (-0.2 million y/y).

Total income stood at 19.3 million, up by 7% y/y, driven by business growth.

Loan loss provisions added up to 2.6 million, on the rise y/y, still in line with the last quarter of 2018, for the evolution of PA factoring receivables (which made a 2.2 million contribution). The cost of credit tied to customer loans came in at 42 bps, on the rise compared to full year 2018.

The Group's **headcount** (FTE) grew from 169 resources in the same period of 2018 to the current 182 employees and has basically remained unchanged since the end of 2018. Following the acquisition of Atlantide S.p.A., the proforma headcount as at 31 March 2019 would increase to date by 25 FTE. **Personnel expenses** have remained practically stable y/y. The line-items **Other administrative expenses** (which include the contribution of about 0.8 million to the Resolution Fund) and **impairment of tangible and intangible assets** (which includes the depreciation of the "right to use" the lease asset, following the adoption of IFRS16) increase y/y due to higher legal and advisory fees.
The y/y increase in **Total operating costs**, equal to +8.6%, has been driven also by **provisions for risks and charges** tied to a tax receivable.

Income before tax at 31 March 2019 declined y/y, coming to 5.9 million. **Net income** amounted to 4.5 million, after accounting for the proceeds of about 565 thousand from the sale of the 10% stake in Axactor Italy S.p.A.. The shareholding had already been reclassified under assets under disposal in the financial statements as at 31 December 2018.

<u>**Key balance sheet items at March 2019**</u>

The **securities portfolio –** made up of Italian government bonds and amounting to 1,233 million (of which 435 million classified under the line-item Financial assets measured at amortized cost both at 31 March 2019 and at 31 December 2018) – has an average time to maturity of 14 months, and reported an increase over 31 December 2018. The "Held to Sell" (HTS) component, equal to zero at December 2018, came in at 262 million at 31 March 2019, with an average time to maturity of 4 months. The "Held to Collect and Sell" (HTCS) component, which at December 2018 stood at 298 million, at March 2019 came to 536 million (whose weight at CET1 level at 31 March 2019 was roughly 2bps, down from the 7bps at 31 December 2018) with an average time to maturity of about 12 months.

Financial assets measured at amortized cost (3,004 million), mainly represented by factoring receivables (1,704 million), went up by 9% compared to 31 December 2018 (1,567 million), driven by the significant turnover increase in Q1. They include also salary- and pension-backed loans (CQS/CQP), which also reported an increase compared to the end of 2018, and part of the securities portfolio. Notably, CQS/CQP loans totaled 708 million (652 million at 31 December 2018).

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 2018 (230.3 million vs. 225.2 million), mainly driven by the increase in unlikely-to-pay loans (98.2 million vs. 87.2 million). The increase in unlikely-to-pay loans, just as in Q4 2018, is ascribable to the factoring exposure to Public Administration. The net bad loans to total customer loans ratio has declined compared to 2018 to 1.5%, driven by the combined effect of the bad loan decline and the loan increase.

Retail deposits accounted for approx. 51% of total funding (59% at 31 December 2018), and are represented by checking accounts and term deposits. The Retail component of funding reported an increase in absolute terms compared to the end of 2018, but the Wholesale component grew even more, as a result of the increase in the Italian government bond portfolio in Q1 2019, matched by an increase in repos.

Under Financial liabilities measured at amortized cost, **Due to banks** went down compared to 31 December 2018. The “due to bank” component declined significantly, more than offsetting the increase of the “due to central banks” (ECB) component, which went from 413 million at 31 December 2018 to 433 million at 31 March 2019 (the TLTRO component remained unchanged at 123 million).
Under Financial liabilities measured at amortized cost, **Due to customers** went up compared to the end of 2018, driven by deposit accounts, which more than offset the decline in checking accounts, tied to the corporate segment. As in the second half of 2018, the increase in deposit accounts was driven by foreign funding operations.

Total own funds (Total Capital) at 31 March 2019 added up to 184.5 million, up compared to the end of 2018 (181.1 million), driven by the operating result of Q1 2019.
At 31 March 2019, **capital ratios**[1] declined compared to 31 December 2018, driven by the increase in loans, and were well above minimum requirements. Following the risk weighting reduction from 75% to 35% for CQ loans, approved by the European parliament in mid-April, the capital ratios will end up being even more robust:

- **CET1 ratio** at 10.6% (11.0% at 31 December 2018); pro-forma following the CQ risk weighting reduction at 12.2%;
- **TIER 1 ratio** at 11.2% (11.6% at 31 December 2018); pro-forma following the CQ risk weighting reduction at 12.8%;
- **Total Capital ratio** at 13.2% (13.7% at 31 December 2018); pro-forma following the CQ risk weighting reduction at 15.2%.

Following the completion of the acquisition of Atlantide on 3 April 2019 and the sale of the 19.9% minority stakes in ADV Finance S.p.A. and Procredit Srl, which has been approved today by the Board of Directors and will be finalized in the coming weeks, the CET1 ratio at 31 March 2019 is expected to decline by 14bps.

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In the same meeting the Board of Directors has:

- verified that the Director, Daniele Pittatore, appointed by Shareholders in the meeting held on 18 April 2019, fulfills the integrity and professionalism requirements;
- carried out annual verification, that gave a positive outcome, to ensure that the Directors Daniele Pittatore, Carlotta De Franceschi, Marco Giovannini, Laura Ciambellotti, Giovanni Puglisi, Francesco Galietti, Federico Ferro Luzzi fulfill the independence requirements;
- confirmed Daniele Pittatore as a member of the Internal Control and Risk Management Committee.

[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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Statement of the financial reporting officer

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

		31.03.2019 A	31.12.2018 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	366	289	27%
20.	Financial assets held to sell (HTS)	262,192	-	nm
30.	Financial assets held to collect and sell (HTCS)	540,820	304,469	78%
40.	Financial assets held to collect (HTC)	3,004,344	2,786,692	8%
	a) Loans and advances to banks	71,884	56,861	26%
	b) Loans and advances to customers	2,932,460	2,729,831	7%
70.	Equity investments	786	786	0%
90.	Property, plant and equipment	29,438	27,910	5%
100.	Intangible assets	1,788	1,788	0%
	of which: goodwill	*1,786*	*1,786*	*0%*
110.	Tax assets	7,605	7,817	-3%
120.	Non-current assets and disposal groups classified as held for sale	-	1,835	nm
130.	Other assets	12,890	13,317	-3%
	Total assets	**3,860,229**	**3,144,903**	**23%**

Figures in thousands of euro

		31.03.2019 A	31.12.2018 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	3,595,682	2,898,740	24%
	a) Due to banks	515,050	695,197	-26%
	b) Due to customers	2,773,752	1,898,556	46%
	c) Debt securities issued	306,880	304,987	1%
60.	Tax liabilities	17,737	15,676	13%
80.	Other liabilities	75,876	65,638	16%
90.	Post-employment benefits	2,571	2,402	7%
100.	Provisions for risks and charges:	10,104	9,293	9%
120. +150. + 160.+170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	153,714	125,957	22%
190.	Minority interests	30	30	0%
200.	Profit for the period	4,515	27,167	-83%
	Total liabilities and equity	**3,860,229**	**3,144,903**	**23%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		31.03.2019 A	31.03.2018 B	Difference % A - B
10.	Interest income	21,638	20,042	8%
20.	Interest expenses	(6,965)	(6,354)	10%
30.	**Net interest income**	**14,673**	**13,688**	**7%**
40.	Fee and commission income	5,115	4,184	22%
50.	Fee and commission expense	(1,114)	(626)	78%
60.	**Net fee and commission income**	**4,001**	**3,558**	**12%**
70.	Dividends and similar income	-	-	nm
80. +100.	Net income from trading, income (loss) from Financial assets held to collect and sell	630	857	-26%
120.	**Operating income**	**19,304**	**18,103**	**7%**
130.	Net impairment losses on loans	(2,625)	(1,087)	nm
150.	**Net operating income**	**16,679**	**17,016**	**-2%**
190. a)	Staff costs	(4,897)	(4,764)	3%
190. b)	Other administrative expenses	(5,265)	(5,071)	4%
200.	Net allowance for risks and charges	(337)	-	nm
210. +220.	Net impairment losses on property and intangible assets	(374)	(74)	nm
230.	Other net operating income/expense	120	4	nm
240.	**Operating expenses**	**(10,753)**	**(9,905)**	**9%**
250.	Profits of equity-accounted investees	-	(43)	nm
290.	**Pre-tax profit from continuing operations**	**5,926**	**7,068**	**-16%**
300.	Tax expenses (income) for the period from continuing operations	(1,976)	(2,351)	-16%
310.	**Profit after tax from continuing operations**	**3,950**	**4,717**	**-16%**
320.	Profit (Loss) after tax from discontinued operations	565	-	nm
350.	**Profit for the period attributable to the shareholders of the Parent**	**4,515**	**4,717**	**-4%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

31.03.2019	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**230,266**	**32,220**	**198,046**
Bad loans	*55,877*	*18,944*	*36,933*
Unlikely to pay	*98,206*	*11,672*	*86,534*
Past-dues	*76,183*	*1,604*	*74,579*
Performing Exposures	**2,305,247**	**6,299**	**2,298,948**
Total Loans and advances to customers	**2,535,513**	**38,519**	**2,496,994**

31.12.2018	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**225,163**	**29,169**	**195,994**
Bad loans	*57,467*	*18,451*	*39,016*
Unlikely to pay	*87,189*	*9,277*	*77,912*
Past-dues	*80,507*	*1,441*	*79,066*
Performing Exposures	**2,104,711**	**6,284**	**2,098,427**
Total Loans and advances to customers	**2,329,874**	**35,453**	**2,294,421**