PRESS RELEASE

BANCA SISTEMA:
- APPROVED RESULTS AS AT 30 JUNE 2017
- TAP ISSUE OF TIER II BONDS

- **Results as at 30 June 2017:**
  - Business performance
    - Factoring:
      - turnover of 883 million, up by 27% y/y
      - greater contribution from distribution agreements with banks
      - factoring outstanding volume on the rise y/y and q/q
    - CQS/CQP loans: 357 million outstanding, roughly twice as much compared to the same period of 2016

  - Net interest income of 29.9 million, basically stable y/y net of the 5 million late-payment interest component not accrued in 2016
  - Total operating costs slightly up y/y, in line with expectations
  - Net income of 10.0 million, stable y/y excluding late-payment interests not accrued in 2016 and the 16% sale contribution of CS Union
  - 2017 ROAE Target greater than 20%

  - Stable core business funding cost over Q1 2017 and full-year 2016
  - LCR and NSFR above the regulatory limit
  - CET1 at 12.6% and TCR at 16.3%, above regulatory limits

- **Tap issue of TIER II subordinated bonds launched in March 2017**

Milan, 27 July 2017

The Board of Directors of Banca Sistema has approved the consolidated results as at 30 June 2017, reporting a **net income of 10.0 million**.

Following the acquisition of Beta Stepstone finalized on 1 July 2016, the consolidated results as at 30 June 2016 of Banca Sistema do not include the contribution generated by Beta Stepstone.

Business Performance

The growth of **factoring,** our core business, with a turnover of 883 million, up by 27% y/y (including Beta Stepsone's contribution in H1 2016 it would have been 23% y/y), has been achieved among other things by pursuing a commercial action aiming at:

1. increasing the number of new clients (which accounted for 26% of the turnover generated in H1 2017);
2. diversifying origination channels, leveraging the 14 commercial agreements with banks, which contributed by more than 30% to turnover.

In terms of products, worth mentioning is the growth of with-recourse factoring to PA and corporate clients.

At 30 June 2017, Group **factoring** outstanding volumes stood at 1,229 million, on the rise compared to 1,039 million at 31 December 2016 (management data), due to the combined effect of turnover and of collections for the period. 79% of outstanding volumes is represented by Public Administration debtors, namely State Central Administrations (23%), Local Governments (34%), Local Healthcare Organizations (ASL) (12%), State-owned enterprises (7%) and Public-Sector Organizations (3%).
69% of the outstanding volume at the end of June 2017 was represented by factoring without-recourse (82% at 31 December 2016), and tax-credit factoring, which at 30 June 2017 accounted for 12% of the outstanding volume (10% at 31 December 2016).

In H1 2017, the Group purchased approx. 105 million of **salary- and pension-backed loans (CQS/CQP)** from its seven partner originators, more than twice as much compared to the same period of 2016. The outstanding volume at 30 June 2017 added up to 357 million, and it breaks down as follows: private-sector employees (14%), retirees (55%) and public-sector employees (31%). This growth, in keeping with the Bank's strategy, was sustained by the securitization started in March 2016, and will maintain its pace thanks to the new securitization launched this year (Quinto Sistema 2017).

Operating results in 2017

Net interest income came in at 29.9 million, reporting a 13.7% decline over the same period last year mainly driven by the impact, in 2016, from the change in methodology to estimate and account for late-payment interest and the ensuing crediting of 5 million for late-payment interests accrued in past financial years before 2016. The effect of this one-off item in the y/y comparison is partly offset by the greater margin generated in 2017 by the CQS/CQP portfolio.
The factoring portfolio contribution to net interest income in H1 was mainly affected by the declining market interest rates on recent business.
Late-payment interest generated by the factoring portfolio under legal action at 30 June 2017 came in at 6.3 million, of which 3.4 million earmarked, in line with the relevant accounting methodology, and 2.9 million collected (1.2 million from H1 2016). A greater contribution from late-payment interest is expected in the second half of 2017.
Late-payment interest accrued on receivables closed and opened, net of the amount already earmarked, came in at approx. 108.4 million (104.3 million at 31 December 2016).

Moreover, as a consequence of the early termination of the security agreement with Beta Stepstone's former shareholder (after its acquisition from Banca Sistema) covering the future collection of late-payment interest on loans to healthcare organizations, additional late payment interests were recognized in Q2 2017. This transaction must be construed in the context of the Bank's strategy to assess late-payment interest transactions on a case-by-case basis, as in Q4 2016. In the future, an increasing number of late-payment interest sales and purchase transactions can be expected.

The cost of funding, which has been stable in H1 2017 compared to full-year 2016, includes the positive component generated by the interest rate currently running at -40bps on the facility allotted in the TLTRO II auction (123 million at June 2016), amounting to 540 thousand, of which 295 thousand date back to 2016.

Net fees and commissions, amounting to 4.6 million, reported a slight pick-up y/y thanks to the contribution generated by higher factoring volumes.

In H1 2017, the contribution from **income from the proprietary portfolio** and from the trading portfolio was lower compared to last year.

Total income stood at 35.2 million, down y/y mainly due to a declining net interest income, considering the 5 million late-payment interest component that did not accrue in 2016.

In Q1 2017, as part of the revision of the expected loss model and the associated time-to-recovery of bad loans of PA borrowers, the provisions prudentially set aside in prior years have been revised; also, estimated write-downs for unlikely-to-pay loans have been recalculated. Consequently, **loan loss provisions** set aside in H1 2017 added up to 1.4 million, taking into account the net positive impact from the factoring portfolio and the increased provisions for the SME portfolio, mainly driven by the new reclassifications into the bad loan category and by the greater collective impairment percentage of the SME portfolio.

The Group's **headcount** (FTE), with 148 employees (of which 13 from Beta Stepstone's acquisition) increased when compared to the 131 employees at 30 June 2016. **Personnel expenses** grew y/y, mainly driven by the headcount increase, as well as by the gross salary rise and the newly signed non-compete agreement.
Other administrative expenses declined y/y, mainly driven by the reduction in servicing costs, which more than offset the increase in IT and advisory expenses. The final contribution to the National Resolution Fund for the current year added up to 0.8 million (0.2 million in addition to what set aside in Q1 2017).

Net income at 30 June 2017 came in at 10.0 million, basically in line y/y excluding the 5 million late-payment interests not accrued in 2016 and the contribution generated in H1 2016 from the sale of approx. 16% of the stake in CS Union (2.2 million).

Key balance sheet items at 30 June 2017

At 30 June 2017, the Group reported **total assets** of approx. 2 billion, basically stable compared with the end of 2016.

The **securities portfolio,** made up of Italian Government bonds, declined compared to 31 December 2016. The decline in available-for-sale financial assets (AFS), with a slightly shorter average residual duration compared to the past, was due to the fact that refinancing the portfolio - which at 30 June 2017 amounted to 357 million - would prove less profitable. In Q1 2017 a portfolio of Held-to-maturity assets (HtM) was set up, totaling 84 million, with an average duration of 2.2 years.

Customer loans, primarily represented by non-recourse factoring with the Public Administration, went up compared to 31 December 2016, driven by the turnover generated in H1 2017 and by the hefty increase in CQS and CQP loans (salary- and pension-backed loans). Specifically, CQS/CQP loans totaled 357 million, as a result of portfolios purchased in H1 2017, and of the decision in Q2 2017 to retain the “Quinto Sistema 2016” securitization, due to which the loans were no longer deconsolidated. The sale, which was expected to take place by the end of June 2017, after the roadshow had shown that investors were interested in these type of assets, was not completed because, although junior and mezzanine notes were three times oversubscribed, for senior notes (whose rating at the end of June was upgraded by DBRS above Italy’s sovereign rating level), that are less risky than the other two note classes, the demand at the return/price that was deemed cost-effective for Banca Sistema was not enough to cover the supply. By not deconsolidating the loans, the bank will profit from the revenues generated in the coming quarters.

The **gross non-performing loans** stock increased compared to 31 December 2016 (146.4 million vs. 123.8 million, gross), mainly driven by the rise in factoring past-dues (78.7 million vs. 68.3 million, gross) and by unlikely-to-pay loans (29.7 million vs. 20.2 million, gross), up also compared to 31 March 2017, as a result of reclassifications from the factoring portfolio (in particular, a single with-recourse position). Worth noting is the fall in bad loans compared to 31 March 2017, from 40.6 million to 38.0 million, as a result of the repayment of the secured portion of the SME portfolio (accounting for approx. 50% of bad loans), offset by the inflow in the same class of two new Municipalities under distress.
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 net bad loans to total customer loans ratio, at 30 June 2017, came in at 1.8%, remaining at a contained level.

Retail deposits accounted for approx. 53% (51% at 31 December 2016) of total funding, and are represented by checking accounts and term deposits.

Due to banks went up compared to 31 December 2016, mainly driven by the increase in interbank lines, while the ECB exposure, which as mentioned above includes also the 123 million TLTRO II allocation, has remained fairly unchanged.

The decline in **Due to customers** is mainly linked to the decline in funding through repos vis-à-vis the shrinking securities portfolio. With respect to this aggregate, the term deposit stock (454 million at 30 June 2017 compared to about 443 million at the end of December 2016) went slightly up compared to year-end and slightly down compared to 31 March 2017; checking accounts (479 million at 30 June 2017 compared to roughly 437 million at the end of December 2016, including Corporate customers) rose compared to 31 December 2016 and 31 March 2017. About 80% of the total amount held in checking accounts comes from corporate customers.

The increase in **Securities outstanding** over 31 December 2016 was driven by the TIER II bond issue of 14 million carried out in Q1 2017.

Total own funds at 30 June 2017 added up to 147.4 million (124.7 million at 31 December 2016), up compared to the end of 2016 due to the subordinated TIER II bond issue and to the operating result in H1; **CET1** totaled 113.4 million (104.6 million at 31 December 2016).
At 30 June 2017, **capital ratios**[1] were well above the minimum requirements:

- **CET1 ratio** of 12.6% (13.3% at 31 December 2016), unchanged compared to 31 March 2017;
- **TIER 1 ratio** of 13.4% (14.3% at 31 December 2016), slightly down compared to 31 March 2017;
- **Total Capital ratio** of 16.3% (15.8% at 31 December 2016), slightly down compared to 31 March 2017.

The increase in RWAs over 31 December 2016 was driven by the strong increase in commercial loans, whose product mix, following the H1 growth, has slanted towards loans with a greater capital absorption, as well as by the increase in PA past-due inflows. The RWA evolution compared to 31 March 2017 was driven by the rise in CQS loans and factoring.

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Having acknowledged a request by an institutional investor for a tap issue of 1.5 million of the subordinated TIER II bond launched on 30 March 2017 with a 10-year duration and a six-monthly coupon of 6M EURIBOR + 450bps (with early-redemption option triggered by a regulatory event), and in light of the favorable market conditions, the Board of Directors passed the following resolutions:

- follow through with the 1.5 million tap issue request;
- give a mandate to accept further requests for tap issues at market conditions up to a maximum additional amount of 13.5 million.

The 1.5 million issue will be settled by 5 August of the current year.

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

On 24 July 2014, IASB completed the IAS 39 revision process, issuing IFRS 9 “Financial Instruments”, with mandatory adoption as of 1 January 2018. L’IFRS 9, to replace the current IAS 39 “Financial Instruments: *Recognition and Measurement*”, introduces major changes, especially with respect to the following aspects:

- *Classification and measurement*
- Impairment
- *Hedge Accounting*

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

- CET1 ratio of 7.2%, +0.2% additional requirement on top of minimum requirements;
- TIER1 ratio of 9.6%, +1.1% additional requirement;
- Total Capital ratio of 12.9%, +2.4% additional requirement.

With regard to classification and measurement, the Bank has almost completed the deep-dive analysis of the cash-flow characteristics of financial instruments classified at amortized cost under IAS 39; to date no financial assets have been identified that should be measured at fair value, since they have all passed the SPPI test (*Solely Payments of Principal and Interest*).

Based on a preliminary assessment, the operating and organizational impacts we could identify up to now that could possibly arise from the implementation of the new impairment model based on expected loss, instead of the current method based on incurred loss, do not appear significant.

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Operational outlook

The first half of 2017 confirmed the growth trend of factoring and salary/pension-backed loan volumes.

In particular, in factoring the commercial agreements contribute to consolidating growth and diversifying our product range and our customer base, and likewise Beta's acquisition is providing the Group with greater capabilities to manage the Collection/Servicing of loans under legal action.

The goal for this year is again to consolidate growth in our core business, i.e., factoring, and to seize additional growth opportunities in the salary/pension-backed loan business. The shift of focus away from guaranteed SME credit facilities will be offset by the pursuit of new product lines and by the assessment of strategic and complementary acquisitions.

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Statement of the Financial Reporting Officer

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 highly 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

		30.06.2017 A	31.12.2016 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	191	98	94.9%
20.	Financial assets held for trading	827	996	-17.0%
40.	Available-for-sale financial assets	363,673	514,838	-29.4%
50.	Held to maturity	84,084	-	nm
60.	Loans and advances to banks	35,564	83,493	-57.4%
70.	Loans and advances to customers	1,503,150	1,348,329	11.5%
100.	Equity investments	1,298	1,030	26.0%
120.	Property, plant and equipment	23,791	23,313	2.1%
130.	Intangible assets	1,803	1,835	-1.7%
	of which: goodwill	*1,786*	*1,786*	*0.0%*
140.	Tax assets	9,491	10,528	-9.8%
160.	Other assets	14,727	14,903	-1.2%
	Total assets	**2,038,599**	**1,999,363**	**2.0%**

Figures in thousands of euro

		30.06.2017 A	31.12.2016 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Due to banks	512,709	458,126	11.9%
20.	Due to customers	1,236,719	1,262,123	-2.0%
30.	Debt securities issued	104,470	90,330	15.7%
80.	Tax liabilities	8,222	8,539	-3.7%
100.	Other liabilities	48,532	59,825	-18.9%
110.	Post-employment benefits	2,018	1,998	1.0%
120.	Provisions for risks and charges:	8,080	4,105	96.8%
140. +170. + 180. +190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	107,836	88,984	21.2%
210.	Minority interests	30	20	50.0%
220.	Profit (loss) for the year	9,983	25,313	-60.6%
	Total liabilities and equity	**2,038,599**	**1,999,363**	**2.0%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		30.06.2017 A	30.06.2016 B	Difference % A - B
10.	Interest income	37,564	42,588	-11.8%
20.	Interest expenses	(7,679)	(7,941)	-3.3%
30.	**Net interest income**	**29,885**	**34,647**	**-13.7%**
40. - 50.	Net fee and commission income	4,607	4,415	4.3%
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	438	803	-45.5%
120.	**Operating income**	**35,157**	**40,092**	**-12.3%**
130.	Net impairment losses on loans	(1,427)	(3,130)	-54.4%
140.	**Net operating income**	**33,730**	**36,962**	**-8.7%**
180. a)	Staff costs	(8,872)	(7,466)	18.8%
180. b)	Other administrative expenses	(10,030)	(10,239)	-2.0%
190.	Net allowance for risks and charges	(58)	69	-184.1%
200. + 210.	Net provisions for risks and charges	(153)	(151)	1.3%
220.	Other net operating income/expense	(38)	321	-111.8%
230	**Operating expenses**	**(19,151)**	**(17,466)**	**9.6%**
240.	Profits of equity-accounted investees	(32)	2,241	-101.4%
280.	**Pre-tax profit from continuing operations**	**14,547**	**21,737**	**-33.1%**
290.	Taxes on income for the period/year from continuing operations	(4,564)	(6,052)	-24.6%
340.	**Profit (loss) for the year attributable to the shareholders of the Parent**	**9,983**	**15,685**	**-36.4%**