BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 SEPTEMBER 2018

- **Results at 30 September 2018:**
  - Business performance
    - Factoring: turnover of 1,710 million, +29% y/y
    - CQS/CQP: 609 million outstanding, +44% y/y

  - Net interest income at 53.0 million, basically stable y/y excluding the write-off tied to the TLTRO II funding
  - Cost of funding practically stable y/y
  - Total income at 64.5 million, up by 3% y/y
  - Total operating costs slightly higher y/y in line with expectations
  - Net income of 19.1 million, corresponding to a ROAE of roughly 18%, in line with the Strategic Plan

  - LCR and NSFR above the regulatory limit
  - Strong growth of deposit accounts in the third quarter
  - CET1 ratio at 11.1% and TCR at 14.2% in line with expectations, well above minimum regulatory requirements

Milan, 31 October 2018

The Board of Directors of Banca Sistema has approved the results as at 30 September 2018, reporting a **net income of 19.1 million** (21.8 million at 30 September 2017).

The first-time adoption (FTA) of the accounting standard IFRS 9 on 1 January 2018, replacing the retired IAS 39, did not give rise 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 financial statements tables for the first nine months of 2018, it is necessary to bear in mind that the balance sheet and income statement comparatives, at 31 December 2017 and at 30 September 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 1,710 million, reported a growth rate of 29% y/y. The contribution generated by the agreements with commercial banks accounted for roughly 30% of the turnover.

At 30 September 2018, the Group's **factoring** outstanding volume stood at 1,711 million (of which 21% under legal action), up by 36% from 1,255 million (management data) at 30 September 2017, driven by the combined effect of turnover and of collection for the period. Non-recourse factoring accounted for 87% of the total outstanding volume (85% at 31 December 2017), and is represented by trade receivables (60%) and tax receivables (27%), with the latter reporting a strong growth both y/y and compared to 31 December 2017.

As to the **CQS/CQP** business, the Group purchased about 152 million of **loans,** and the outstanding volume at 30 September 2018 came in at 609 million, up by 44% y/y.

2018 Operating results

Net interest income, at 53.0 million, reported a slight decline y/y, while it remained practically stable after excluding the non-recurring interest expense of 0.8 million tied to the TLTRO II. The higher interest income (71.6 million vs 68.3 million at 30.09.2018 and at 30.09.2017, respectively) was driven by the greater contribution from CQS/CQP.

The profitability generated by factoring proved lower compared to the same period last year, in line with the expectations of the Strategic Plan. The decline in profitability is due to the purchase of loans at a lower discount compared to the past. More specifically, although tax receivables are characterized by a lower discount compared to trade receivables, yet they benefit from a tangible benefit in terms of lower capital absorption.

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 view of the progressive consolidation of the time series in line with the business dynamics. As a result, at 30 September 2018 the overall P&L contribution by late-payment interest out of legal actions came in at 20.1 million (19.1 million at 30.09.2017, 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 resulting from the update of the recovery estimates is 6.6 million, of which 4.9 million tied to prior financial years (9.0 million at 30.09.2017, of which 3.7 million tied to prior financial years).
Total late-payment interest out of legal actions accrued at 30 September 2018, and relevant to the accrual model, came in at 100 million (92 million at 31 December 2017), of which about 45 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 9.1 million to 14.1 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 H2 2016), gross of tax effect, tied to the TLTRO II cost, which went from -40bps to 0bps.

Net fees and commissions, amounting to 10.6 million, reported a strong growth y/y (+45%), driven by the more sustained growth in factoring commissions (+3.5 million y/y).

At 30 September 2018, **proprietary trading income** generated by the Italian government bond portfolio made a smaller contribution compared to the prior year (-0.3 million y/y), in particular because of the Q2 and Q3 2018 negative results caused by the volatility of the Italian government bonds market.

Total income stood at 64.5 million, up by 3% y/y.

Loan loss provisions added up to 4.3 million. The cost of credit tied to customer loans came in at 28 bps (33 bps nel 2017).

The Group's **headcount** (FTE) grew from 153 resources in the same period of 2017 to the current 179 employees. **Personnel expenses** rose y/y, mainly driven by the headcount increase. **Other administrative expenses** have increased by 9% compared to the same period last year, in line with expectations.

Income before tax at 30 September 2018 came in at 29.0 million.

<u>**Key balance sheet items at 30 September 2018**</u>

The **securities portfolio -** made up of Italian Government bonds and amounting to 777 million (of which 436 million at 30 September 2018 were classified under the line-item Financial assets measured at amortized cost) – has remained stable compared to 30 June 2018 and it includes 100 million of "Held to Sell" securities coming due in April 2019 and 242 million "Held to Collect and Sell" securities with an average time to maturity below 2 years (whose weight at CET1 level at 30 September 2018 came in at about 24bps, slightly higher compared to 30 June 2018).

Financial assets measured at amortized cost, mainly represented by factoring receivables (1,576 million), which went up compared to 31 December 2017 (1,286 million) and to 30 June 2018 (1,492 million), also include salary- and pension-backed loans (CQS and CQP) and part of the securities portfolio. More specifically, CQS/CQP loans totaled 609 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 (189.1 million vs. 143.3 million), mainly driven by the increase in past-dues (97.3 million vs. 74.7 million) and bad loans (60.6 million vs. 44.6 million), tied to the factoring business. The rise in bad loans intersected also with the purchase of loans to municipalities already in difficulty.

Retail deposits accounted for approx. 52% 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. More specifically, 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 costs, **Due to customers** went up compared to the end of 2017, mainly due to repos driven by the increase in the Italian government bond portfolio in deposit accounts, especially in Q3 2018.

Total own funds (Total Capital) at 30 September 2018 added up to 174 million, up compared to year-end 2017.
At 30 September 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 11.1% (11.9% at 31 December 2017);
- **TIER 1 ratio** at 11.8% (12.6% at 31 December 2017);
- **Total Capital ratio** at 14.2% (15.3% at 31 December 2017).

Operational outlook

The third quarter 2018 confirmed the loan growth trend. Further consolidation of the factoring and CQ businesses will continue to be one of the main objectives for 2018.

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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.

[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 income statement

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		30.09.2018 A	31.12.2017 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	327	161	103%
20.	Financial assets held to sell (HTS)	99,732	1,201	nm
30.	Financial assets held to collect and sell (HTCS)	241,705	285,610	-15%
40.	Financial assets held to collect (HTC)	2,756,992	1,970,495	40%
	a) Loans and advances to banks	43,100	36,027	20%
	b) Loans and advances to customers	2,713,892	1,934,468	40%
70.	Equity investments	2,179	1,190	83%
90.	Property, plant and equipment	27,164	24,272	12%
100.	Intangible assets	1,787	1,790	nm
	of which: goodwill	*1,786*	*1,786*	*nm*
110.	Tax assets	8,103	10,198	-21%
130.	Other assets	14,741	14,316	3%
	Total assets	**3,152,730**	**2,309,233**	**37%**

Figures in thousands of euro

		30.09.2018 A	31.12.2017 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Financial liabilities at amortised cost	2,902,827	2,083,435	39%
	a) Due to banks	609,188	517,533	18%
	b) Due to customers	1,985,566	1,284,132	55%
	c) Debt securities issued	308,073	281,770	9%
60.	Tax liabilities	15,905	10,118	57%
80.	Other liabilities	79,551	71,996	10%
90.	Post-employment benefits	2,412	2,172	11%
100.	Provisions for risks and charges:	8,396	6,745	24%
120. +150. + 160.+170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	124,473	107,944	15%
190.	Minority interests	30	30	nm
200.	Profit for the period	19,136	26,793	-29%
	Total liabilities and equity	**3,152,730**	**2,309,233**	**37%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		30.09.2018 A	30.09.2017 B	Difference % A - B
10.	Interest income	71,584	68,318	5%
20.	Interest expenses	(18,546)	(14,187)	31%
30.	**Net interest income**	**53,038**	**54,131**	**-2%**
40. - 50.	Net fee and commission income	10,624	7,352	45%
70.	Dividends and similar income	227	227	nm
80. + 100.	Net income from trading, income (loss) from Financial assets held to collect and sell	641	928	-31%
120.	**Operating income**	**64,530**	**62,638**	**3%**
130.	Net impairment losses on loans	(4,334)	(3,057)	42%
150.	**Net operating income**	**60,196**	**59,581**	**1%**
190. a)	Staff costs	(14,448)	(12,772)	13%
190. b)	Other administrative expenses	(16,247)	(14,958)	9%
200.	Net allowance for risks and charges	(51)	(82)	-38%
210. + 220.	Net impairment losses on property and intangible assets	(213)	(229)	-7%
230.	Other net operating income/expense	133	(321)	nm
240.	**Operating expenses**	**(30,826)**	**(28,362)**	**9%**
250.	Profits of equity-accounted investees	(355)	(62)	nm
290.	**Pre-tax profit from continuing operations**	**29,015**	**31,157**	**-7%**
300.	Taxes on income for the period/year from continuing operations	(9,879)	(9,309)	6%
350.	**Profit for the period attributable to the shareholders of the Parent**	**19,136**	**21,848**	**-12%**