

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AT 30 SEPTEMBER 2016

- **Results at 30 September 2016:**

- Factoring turnover of 1,046 million, +19% y/y net of Beta Stepstone's contribution
- Outstanding salary- and pension-backed loans (CQS/CQP) at 212 million, +155% y/y
- Net interest income of 50.8 million, + 18% y/y
- Cost of Retail funding at 150bps, reporting a q/q decline
- Cost of risk at 51bps in line with FY 2015
- Net income of 21.4 million, +17% y/y
- Italian Government bond portfolio at 0.4 billion in line q/q
- ROAE of 27%
- CET1 ratio of 12.4% and TCR of 14.8%

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- **Merger date of Beta Stepstone into Banca Sistema set**

Milan, 28 October 2016

The Board of Directors of Banca Sistema has approved the results as at 30 September 2016, reporting a **consolidated net income** of 21.4 million, up by 17% over the same period of 2015.

The consolidated results at 30.09.2016 include the contribution of Beta Stepstone (acquired on 1 July 2016) limited only to the third quarter of 2016, and they are compared with results generated in prior periods that do not include the contribution by Beta Stepstone.

Business Performance

The growth in **factoring**, our core business, with a turnover of 1,046 million, up by 19% Y/y (20% if we include Beta's contribution of 8 million), was achieved also thanks to a commercial action in keeping with the guidelines outlined in 2015:

1. increase in the number of customers (+35% y/y);
2. focus on recurring business (>90%);

3. diversification of origination channels (12% of turnover generated through commercial agreements with banks, 5% in September 2015).

From a product perspective, it is worth underscoring the growth reported by tax credit (VAT) factoring, which leaped from 85 million in the first nine months of 2015 to 127 million in the same period of 2016.

Factoring outstanding volumes (management accounting data) at 30 September 2016 stood at 1,055 million (including Beta), of which 86% is represented by Public Administration debtors (PA).

At the end of September 2016, **credit facilities to SMEs secured** by an 80% guarantee coverage of the SME Credit Guarantee Fund of the Ministry for Economic Development (law 662/96) totaled 81 million.

In the first nine months of 2016, the Group purchased **salary- and pension-backed loans (CQS/CQP)** for approx. 100 million, bringing total loans at 30 September 2016 to 212 million (120 million at 31 December 2015).

Operating results at 30 September 2016

Net interest income came in at 50.8 million, up by 18% over the same period of 2015 driven by a significant reduction in the cost of funding, increasing interest income from tax credit (VAT) factoring and a greater contribution from the new lines of business (SMEs financing and CQS/CQP).

Booked late-payment interest from invoices subject to judiciary recovery at 30.09.2016 amounted to 7.9 million (of which 0.7 million contributed by Beta Stepstone in Q3 2016), of which 5.0 million not related to 2016.

Net fees and commissions, amounting to 6.9 million (0.2 million is Beta Stepstone's contribution in Q3 2016), fell by 17%, mainly because of the dipping of the factoring commission stream due to the more limited use of commission-based products.

Income from the proprietary portfolio, at -57%, made a more limited contribution compared to the same period last year, due to slumping Government bond yields.

Loan loss provisions in 2016 added up to 4.9 million (3.1 million in H1 2016 and 3.9 in the first 9M of 2015), mainly driven up y/y by the increase of SMEs' bad loans.

Moreover, as compared to data at 30 June 2016, a write-down of 0.5 million was posted against positions with public organizations under financial distress, following an in-depth review that led to the identification of invoices that had not been included in the managed financial distress scope ("procedure di dissesto"). The **cost of risk** (excluding reverse repos) came in at 0.51% (0.50% in 2015).

The Group's **headcount** (FTE) grew from 136 employees at 30 September 2015 to 143 at 30 September 2016 (of which 14 from Beta Stepstone).

The rise in **personnel expenses** (considering the 4.4 million normalization in 9M 2015 due to the IPO-related bonuses) was mainly driven by the increase in salaries and wages because of new hires.

Other administrative expenses grew by 12% compared to the same period last year, mainly driven by the 2016 contribution to the European Resolution Fund (in 2015 earmarked only for the last quarter) as

well as the project costs related to new initiatives that were not present in 2015, notably securitizations and M&A-related due diligence and advisory services.

At 30 September 2016, the **Cost Income ratio** stood at 45%.

Gains (losses) on equity investments include the 2.3 million capital gain on the disposal of 15.8% of the shareholding in CS Union.

Based on the stated consolidated net income at 30 September 2016, amounting to 21.4 million (of which 0.9 million generated by Beta), over the same period the Bank reported a **ROAE** of 27%.

Key balance sheet items at 30 September 2016

At 30 September 2016, **Total assets** amounted to roughly 1.8 billion (of which approx. 89 million related to Beta), down by 25% compared to year-end 2015 mainly because of the lower exposure to Italian government bonds.

Customer loans, primarily represented by factoring with the Public Administration.

At 30 September 2016, the book value of factoring facilities went down by 6.4% compared to 31 December 2015, mainly driven by the collection dynamics in the first 9M of 2016.

The **net NPL** to total loan ratio (net of outstanding reverse repos) went from 7.1% at 31 December 2015 to 10.9% at 30 September 2016.

The net bad loan to total customer loan ratio, net of reverse repos, came in at 2%, still at contained levels.

The increase in bad loans compared with 30 June 2016 is mainly ascribable to new SME bad loans and to additional local governments under financial distress. The increase in past dues is attributable to the purchase of portfolios with PA exposures already classified by the bank as past due, and to the deterioration of PA payment conditions.

Tangible Assets increased compared to 30 June 2016, primarily due to the purchase of a property in Milan, finalized in August, which will become the bank's headquarters once renovation is completed.

Retail deposits account for approx. 48% of total funding and are represented by checking accounts and term deposits.

Regarding **Due to banks**, at 30 September 2016, compared to year-end 2015, both interbank funding and ECB funding have been rising, also thanks to the take-up of 123 million in the ECB's TLTRO II (June 2016).

As to **Due to customers**, Retail funding has been declining compared to year-end and to 30 June 2016 because of the greater diversification towards wholesale funding sources.

Total own funds at 30 September 2016 came in at 123.8 million (106.9 million at 31 December 2015), and **CET1** totaled 103.8 million (86.9 million at 31 December 2015).

Capital ratios have reported a slight decline from 31 December 2015, notably:

- **CET1** from 13.7% to 12.4%;

- **TIER1** from 14.9% to 13.4%;
- **Total Capital** from 16.8% to 14.8%.

The increase in RWAs over the reference period, in addition to the impact from Beta Stepstone consolidated at 30.09.2016 (amounting to approx. 32 million in terms of RWA), which did not fall within the consolidation scope at 31.12.2015, is mainly attributable to the increase in loans (particularly CQS/CQPs and Corporate factoring exposures), to the increase in Past due inflows from PA loans and to the purchase of the property.

Based on the company's organizational indications, the Board of Directors has taken note of the fact that the merger date of Beta Stepstone into Banca Sistema has been set for 1 January 2017.

Statement of the Manager in charge of preparing corporate financial reports

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.

The Financial report as at 30 September 2016 will be made available to the public, under the law, at the corporate head office, as well as on the corporate website www.bancasistema.it and on the website of the authorized central storage mechanism www.1info.it.

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, guarantees, securities deposit, reverse factoring, certification of Public Administration credits, salary and pension backed loans, and small and medium enterprises financing.

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 minority shareholding in CS Union S.p.A..

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Normalized consolidated income statement as at 30 September 2015

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of euro

		30.09.2016 A	31.12.2015 B	Difference % A - B
	ASSETS			
10.	Cash and cash equivalents	101	104	-2.9%
40.	Available-for-sale financial assets	435,037	925,402	-53.0%
60.	Loans and advances to banks	34,304	2,076	1552.4%
70.	Loans and advances to customers	1,296,719	1,457,990	-11.1%
100.	Equity investments	1,112	2,696	-58.8%
120.	Property, plant and equipment	23,316	1,058	2103.8%
130.	Intangible assets	1,850	1,872	-1.2%
	<i>of which: goodwill</i>	<i>1,786</i>	<i>1,786</i>	<i>0.0%</i>
140.	Tax assets	8,500	7,353	15.6%
160.	Other assets	10,969	13,119	-16.4%
	Total assets	1,811,908	2,411,670	-24.9%

Figures in thousands of euro

		30.09.2016 A	31.12.2015 B	Difference % A - B
	LIABILITIES AND EQUITY			
10.	Due to banks	435,245	362,075	20.2%
20.	Due to customers	1,101,063	1,878,339	-41.4%
30.	Debt securities issued	90,990	20,102	352.6%
80.	Tax liabilities	10,890	804	1254.5%
100.	Other liabilities	57,644	55,317	4.2%
110.	Post-employment benefits	2,096	1,303	60.9%
120.	Provisions for risks and charges:	3,605	372	869.1%
140. + 170. + 180. + 190.	Share capital, share premiums, reserves, valuation reserves and treasury shares	88,975	75,751	17.5%
220.	Profit (loss) for the year	21,400	17,607	21.5%
	Total liabilities and equity	1,811,908	2,411,670	-24.9%

Note: 9M 2016 figures include the contribution of Beta Stepstone (purchased in July 2016).

BANCA SISTEMA GROUP: CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 September 2016

Figures in thousands of euro

		30.09.2016 A	30.09.2015 B	Difference % A - B
10.	Interest income	62,440	59,543	4.9%
20.	Interest expenses	(11,628)	(16,549)	-29.7%
30.	Net interest income	50,812	42,994	18.2%
40. -50.	Net fee and commission income	6,861	8,308	-17.4%
70.	Dividends and similar income	227	33	0.0%
80. +90. + 100. +110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1,060	2,450	-56.7%
120.	Operating income	58,960	53,785	9.6%
130.	Net impairment losses on loans	(4,923)	(3,921)	25.6%
140.	Net operating income	54,037	49,864	8.4%
180. a)	Staff costs	(11,148)	(14,095)	-20.9%
180. b)	Other administrative expenses	(15,398)	(16,140)	-4.6%
190.	Net allowance for risks and charges	69	(60)	100.0%
200. +210.	Net provisions for risks and charges	(236)	(234)	0.9%
220.	Other net operating income/expense	179	162	10.5%
230	Operating expenses	(26,534)	(30,367)	-12.6%
240.	Profits of equity-accounted investees	2,281	341	568.9%
270	Profits from investments disposal	-	-	0.0%
280.	Pre-tax profit from continuing operations	29,784	19,838	50.1%
290.	Taxes on income for the period/year from continuing operations	(8,384)	(6,345)	32.1%
340.	Profit (loss) for the year/period attributable to the shareholders of the Parent	21,400	13,493	58.6%

BANCA SISTEMA GROUP: CONSOLIDATED INTERIM FINANCIAL REPORT AS AT 30 SEPTEMBER 2015 (normalized figures)

Figures in thousands of Euro

		30.09.2016 A	30.06.2015 B (Normalized)	Difference % A - B
10.	Interest income	62,440	59,543	4.9%
20.	Interest expenses	(11,628)	(16,549)	-29.7%
30.	Net interest income	50,812	42,994	18.2%
40. -50.	Net fee and commission income	6,861	8,308	-17.4%
70.	Dividends and similar income	227	33	0.0%
80. +90. + 100. +110.	Net income from trading, hedging and disposal/repurchase activities and from assets/liabilities designated at fair value	1,060	2,450	-56.7%
120.	Operating income	58,960	53,785	9.6%
130.	Net impairment losses on loans	(4,923)	(3,921)	25.6%
140.	Net operating income	54,037	49,864	8.4%
180. a)	Staff costs	(11,148)	(9,708)	14.8%
180. b)	Other administrative expenses	(15,398)	(13,754)	12.0%
190.	Net allowance for risks and charges	69	(60)	100.0%
200. +210.	Net provisions for risks and charges	(236)	(234)	0.9%
220.	Other net operating income/expense	179	162	10.5%
230	Operating expenses	(26,534)	(23,594)	12.5%
240.	Profits of equity-accounted investees	2,281	341	568.9%
280.	Pre-tax profit from continuing operations	29,784	26,611	11.9%
290.	Taxes on income for the period/year from continuing operations	(8,384)	(8,264)	1.5%
340.	Profit (loss) for the year/period attributable to the shareholders of the Parent	21,400	18,347	16.6%

Note: 9M 2016 figures include the contribution of Beta Stepstone (purchased in July 2016) of the 3Q 2016; 2015 figures do not include Beta Stepstone results and are normalized for non-recurring items related to the IPO.