PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 JUNE 2019

- **Results as at 30 June 2019:**
  - Business performance
    - Factoring: turnover of 1,415 million, +25% y/y
    - CQS/CQP: outstanding of 751 million, +32% y/y

  - Net interest income of 34.5 million, up 6% y/y
  - Cost of funding decreasing y/y
  - Total income of 44.1 million, up 8% y/y
  - Total operating costs on the rise y/y also following Atlantide's consolidation
  - Loan loss provisions on the rise y/y in line with expectations
  - Q2 2019 net income of 7.6 million, up by 17% y/y, net of Atlantide's merger

  - LCR and NSFR above regulatory limits
  - Strong growth in Retail funding (59% of total funding)
  - Pro-forma CET1 ratio at 12.4%[1]

Milan, 31 July 2019

The Board of Directors of Banca Sistema has approved the consolidated results as at 30 June 2019, reporting a **net income of 11.2 million**. The first-half 2019 results include the line-by-line contribution of Atlantide SpA, pertaining only to Q2 2019, following the coming into effect of the company's acquisition on 3 April 2019. The company was merged into the Bank on 30 June 2019. Net of Atlantide's merger, **in Q2 2019 net income added up to 7.6 million** (+17% y/y).

Business Performance

The **factoring** business line, with a turnover of 1,415 million, reported a growth rate of 25% y/y, with a growing contribution from tax receivables compared to the same period last year. According to the most recent data, volume-wise the Bank positions itself as the no. one player specializing in factoring towards the Public Administration in Italy. The contribution made by agreements with commercial banks accounted for roughly 42% of turnover.

At 30 June 2019, the Group's **factoring** outstanding volume stood at 1,914 million (of which 24% under legal action), up 17% from 1,640 million (management data) at 30 June 2018, and up 5% from 1,820 million

1 Pro-forma based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to European Regulation 876/2019 to be applied starting on 28 June 2021. The regulatory CET1 ratio on the same date came in at 10.8%.

at 31 March 2019, driven by the combined effect of the greater turnover and collection for the period. Non-recourse factoring accounted for 87% of the total outstanding volume (88% at 31 March 2019), and it is represented by trade receivables (60%) and tax receivables (27%).
As to the **CQS/CQP** business, the Group purchased 138 million of loans**,** and the outstanding volume at 30 June 2019 came in at 751 million, up by 32% y/y and by 6% over 31 March 2019.

Operating results as at 30 June 2019

Net interest income, at 34.5 million, increased by 6% y/y, driven by the growth in both factoring and CQ loans, as well as by the greater contribution from the securities portfolio, that more than offset the declining contribution made by SME State-guaranteed loans (run-off business).
The higher interest income (48.6 million vs 44.7 million at 30.06.2019 and 30.06.2018, respectively) has more than offset the y/y increase in interest expense; the cost of funding, at 0.8%, has decreased y/y (0.9% in H1 2018).
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 as it is well known it is lower than factoring), by the greater y/y contribution from factoring thanks to the increased collection of late-payment interest from legal action, and by the greater contribution from the Government bond portfolio.
The overall P&L contribution at 30 June 2019 from late-payment interest under legal action has been rising, coming to 11.9 million (10.7 million at 30.06.2018).
Total late-payment interest out of legal actions accrued at 30 June 2019, and relevant to the accrual model, came in at 98 million, while the receivables already on the books total 42.3 million. 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 8.2 million, reported a sharp increase y/y (+11%), driven by the growth in factoring commission income (+25% y/y), which more than offset a higher commission expense tied to funding from deposit accounts abroad. Factoring commissions should be analyzed in combination with the interest component, whereby 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 a percentage over the average of receivables. Both commission income and commission expense in Q2 2019 include the contribution from the new CQ origination business, following the merger of Atlantide.

At 30 June 2019, **proprietary trading income** generated by the Italian government bond portfolio made a greater contribution compared to the prior year (+0.5 million y/y).

Total income stood at 44.1 million, up by 8% y/y, driven by business growth.

Loan loss provisions added up to 4.8 million, on the rise y/y, still in line with the last quarters, for the evolution of PA factoring receivables. The provisions reported in Q2 2019 were basically due to the impairment of factoring loans to private individuals. The cost of credit tied to customer loans came in at 38 bps, on the rise compared to full year 2018, while slightly down when compared to Q1 2019.

The Group's **headcount** (FTE) grew from 176 resources in the same period of 2018 to the current 209 employees, mainly as a result of the 24 Atlantide employees who joined the Group. **Personnel expenses** went up y/y in line with the headcount increase. Net of the 0.45 million one-off integration costs tied to

Atlantide, **other administrative expenses** (which include the contribution of about 1.1 million to the Resolution Fund, of which 0.3 million reported in Q2; 0.9 million in 1H 2018) and **impairment of tangible and intangible assets** (which includes the depreciation of the "right to use" the lease asset, following the adoption of IFRS16) increased y/y mainly as a result of Atlantide's consolidation in Q2 2019 (about 0.5 million), and higher legal and IT expenses.
The y/y increase in **total operating costs** (+14%), has been driven also by **provisions for risks and charges**, of 1.3 million, in particular in Q2 2019 due to contingent liabilities arising from pending disputes.

Income before tax at 30 June 2019 declined y/y, coming to 10.6 million. **Net income** was stable y/y and amounted to 11.2 million, after accounting for the proceeds of about 565 thousand from the sale of the 10% stake in Axactor Italy S.p.A., reported in Q1 2019. The sale in Q2 2019 of a 19.9% stake in ADV Finance SpA and in Procredit Srl produced no P&L impact.

Key balance sheet items at 30 June 2019

The **securities portfolio –** made up of Italian government bonds and amounting to 790 million (of which 435 million classified under the line-item Financial assets measured at amortized cost both at 30 June 2019 and at 31 December 2018) with an average time to maturity of 18 months - reported a slight increase over 31 December 2018, while it went down compared to 31 March 2019. The "Held to Collect and Sell" (HTCS) component, equal to 298 million at December 2018, came in at 355 million at 30 June 2019 (with a negligible impact on the CET1 ratio at 30 June 2019), with an average time to maturity of about 15 months. The "Held to Sell" (HTS) component at 30 June 2019 was equal to zero.

Financial assets measured at amortized cost (3.107 million), mainly represented by factoring receivables (1.791 million), went up by 14% compared to 1,567 million at 31 December 2018 (1,704 million at 31 March 2019). They include also salary- and pension-backed loans (CQS and CQP), which reported an increase compared to the end of 2018, and part of the securities portfolio. Notably, CQS/CQP loans totaled 751 million (652 million at 31 December 2018 and 708 million at 31 March 2019).

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 March 2019 (236.3 million vs. 230.3 million), mainly driven by the increase in unlikely-to-pay loans (113.5 million vs. 98.2 million), which more than offset the decline in bad loans and past-dues. The increase in unlikely-to-pay loans in Q2 is ascribable to the factoring exposure to private individuals.
The net bad loans to total customer loans ratio has declined compared to 2018 to 1.3%, driven by the combined effect of the decline in bad loans and the increase in loans.

Retail deposits accounted for approx. 59% 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 and to 31 March 2019, while the Wholesale component, which went up compared to 31 December 2018 and down over 31 March 2019, tracks the dynamics of the Italian government bond portfolio.

Under Financial liabilities measured at amortized cost, **Due to banks** went down compared to 31 December 2018 and remained stable compared to 31 March 2019. 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 418 million at 30 June 2019 (the TLTRO II component remained unchanged at 123 million).
Following the decision of the European Central Bank (ECB) to include retained securitizations when calculating the overall amount that can be borrowed under "TLTRO III" (Targeted Longer-Term Refinancing Operations), the participation in the refinancing auctions for an overall amount that will significantly exceed the current 123 million of TLTRO II will extend the average duration of the Wholesale funding, and it will cost less than we expected because the TLTRO III will replace funding sources that have a similar duration but are more expensive.
Under Financial liabilities measured at amortized cost, **Due to customers** went up compared to the end of 2018, driven by deposit accounts. Specifically, the growth reported by the deposit account stock, just as in the prior four quarters, was driven by foreign funding operations.

Total own funds (Total Capital) at 30 June 2019 added up to 193.3 million, up compared to the end of 2018 (181.1 million), driven by the combined effect of the operating result of H1 2019, the merger of Atlantide (generating a goodwill of 2.1 million, reported under Intangible Assets of the Balance sheet) and the issue of a 6 million TIER 2 subordinated bond in Q2 2019.
At 30 June 2019, **capital ratios**[2] increased compared to 31 March 2019, driven by an increase in capital that was more than proportional to the growth in risk-weighted assets (RWA), and were well above minimum requirements. Capital ratios have been growing stronger when considering the estimated impact from the risk-weighting reduction for salary- and pension-backed loans (CQ), from 75% to 35% under European Regulation 876/2019 to be adopted on 28 June 2021:

- **Pro-forma CET1 ratio at 12.4%;** regulatory CET1 ratio at 10.8% (10.6% at 31 March 2019);
- **Pro-forma TIER 1 ratio 13.1%**; regulatory CET1 ratio at 11.3% (11.2% at 31 March 2019);
- **Pro-forma Total Capital ratio 15.8%**; regulatory CET1 ratio at 13.7% (13.2% at 31 March 2019).

[2] 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 Administration, 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 these years 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 today can offer recourse and non-recourse factoring services. This includes receivables between private companies, yearly and quarterly VAT receivables refunds, current accounts, time deposits with duration up to 10 years, pawnbroking, guarantees, securities deposits, reverse factoring, certification of Public Administration credits, salary- and pension-backed loans.

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Asset Quality

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		30.06.2019 A	31.03.2019	31.12.2018 B	Difference % A - B
	ASSETS				
10.	Cash and cash equivalents	342	366	289	18%
20.	Financial assets held to sell (HTS)	-	262,192	-	ns
30.	Financial assets held to collect and sell (HTCS)	360,530	540,820	304,469	18%
40.	Financial assets held to collect (HTC)	3,106,544	3,004,344	2,786,692	11%
	a) Loans and advances to banks	47,292	71,884	56,861	-17%
	b) Loans and advances to customers	3,059,252	2,932,460	2,729,831	12%
70.	Equity investments	-	786	786	ns
90.	Property, plant and equipment	29,531	29,438	27,910	6%
100.	Intangible assets	3,922	1,788	1,788	ns
	of which: goodwill	*3,920*	*1,786*	*1,786*	ns
110.	Tax assets	6,613	7,605	7,817	-15%
120.	Non-current assets and disposal groups classified as held for sale	-	-	1,835	ns
130.	Other assets	15,793	12,890	13,317	19%
	Total assets	**3,523,275**	**3,860,229**	**3,144,903**	**12%**
		30.06.2019 A	**31.03.2019**	**31.12.2018 B**	**Difference % A - B**
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	3,257,899	3,595,682	2,898,740	12%
	a) Due to banks	527,390	515,050	695,197	-24%
	b) Due to customers	2,417,616	2,773,752	1,898,556	27%
	c) Debt securities issued	312,893	306,880	304,987	3%
60.	Tax liabilities	13,944	17,737	15,676	-11%
80.	Other liabilities	77,813	75,876	65,638	19%
90.	Post-employment benefits	2,974	2,571	2,402	24%
100.	Provisions for risks and charges:	12,190	10,104	9,293	31%
120. +150. +160.+ 170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	147,255	153,714	125,957	17%
190.	Minority interests	30	30	30	ns
200.	Profit for the period	11,170	4,515	27,167	-59%
	Total liabilities and equity	**3,523,275**	**3,860,229**	**3,144,903**	**12%**

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BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		1H 2019 A	1Q 2019	2Q 2019	1H 2018 B	1Q 2018	2Q 2018	Difference % A - B
10.	Interest income	48,575	21,638	26,937	44,714	20,042	24,672	9%
20.	Interest expenses	(14,106)	(6,965)	(7,141)	(12,106)	(6,354)	(5,752)	17%
30.	**Net interest income**	**34,469**	**14,673**	**19,796**	**32,608**	**13,688**	**18,920**	**6%**
40.	Fee and commission income	11,013	5,115	5,898	8,431	4,184	4,247	31%
50.	Fee and commission expense	(2,839)	(1,114)	(1,725)	(1,072)	(626)	(446)	ns
60.	**Net fee and commission income**	**8,174**	**4,001**	**4,173**	**7,359**	**3,558**	**3,801**	**11%**
70.	Dividends and similar income	227	-	227	227	-	227	ns
80. + 100.	Net income from trading, income (loss) from Financial assets held to collect and sell	1,218	630	588	664	857	(193)	83%
120.	**Operating income**	**44,088**	**19,304**	**24,784**	**40,858**	**18,103**	**22,755**	**8%**
130.	Net impairment losses on loans	(4,760)	(2,625)	(2,135)	(2,939)	(1,087)	(1,852)	62%
150.	**Net operating income**	**39,328**	**16,679**	**22,649**	**37,919**	**17,016**	**20,903**	**4%**
190. a)	Staff costs	(10,475)	(4,897)	(5,578)	(9,560)	(4,764)	(4,796)	10%
190. b)	Other administrative expenses	(11,351)	(5,265)	(6,086)	(11,005)	(5,071)	(5,934)	3%
200.	Net allowance for risks and charges	(1,285)	(337)	(948)	(51)	-	(51)	ns
210. + 220.	Net impairment losses on property and intangible assets	(877)	(374)	(503)	(141)	(74)	(67)	ns
230.	Other net operating income/expense	436	120	316	52	4	48	ns
240.	**Operating expenses**	**(23,552)**	**(10,753)**	**(12,799)**	**(20,705)**	**(9,905)**	**(10,800)**	**14%**
250.	Profits of equity-accounted investees	-	-	-	(229)	(43)	(186)	-100%
270	Profits from investments disposal	(8)	-	(8)	-	-	-	ns
290.	**Pre-tax profit from continuing operations**	**15,768**	**5,926**	**9,842**	**16,985**	**7,068**	**9,917**	**-7%**
300.	Tax expenses (income) for the period from continuing operations	(5,160)	(1,976)	(3,184)	(5,764)	(2,351)	(3,413)	-10%
310.	**Profit after tax from continuing operations**	**10,608**	**3,950**	**6,658**	**11,221**	**4,717**	**6,504**	**-5%**
320.	Profit (Loss) after tax from discontinued operations	562	565	(3)	-	-	-	ns
350.	**Profit for the period attributable to the shareholders of the Parent**	**11,170**	**4,515**	**6,655**	**11,221**	**4,717**	**6,504**	**ns**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

30.06.2019	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**236,319**	**33,662**	**202,657**
Bad loans	*54,124*	*19,602*	*34,522*
Unlikely to pay	*113,462*	*12,665*	*100,797*
Past-dues	*68,733*	*1,395*	*67,338*
Performing Exposures	**2,428,104**	**6,792**	**2,421,312**
Total Loans and advances to customers	**2,664,423**	**40,454**	**2,623,969**

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**