BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 SEPTEMBER 2019

- Business performance
  - Factoring: volumes totaled 2.091 million, +22% y/y
  - CQS/CQP: loans totaled 767 million, +26% y/y
  - Gold/jewelry backed loans: the business, which shows a stable growth trend, at launch reported volumes of about 20 million (90% with gold as collateral)

- Net interest income of 58.4 million, up 10% y/y
- Total income of 73.1 million, up 13% 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
- Net income of 21.4 million, up by 12% y/y (21.8 million net of non-recurring costs tied to Atlantide's merger)

- Growing Retail funding component (65% of total funding)
- Regulatory capital in excess of 200 million
- Rising Pro-forma CET1 ratio at 13.4% and Pro-forma Total Capital ratio at 17.2%[1]

"Against a very challenging economic backdrop, Banca Sistema closed the first nine months of 2019 with a double digit growth rate: net income increased by 12% y/y to 21.4 million, capital ratios have grown significantly stronger, with a pro-forma CET1 ratio at 13.4% and a pro-forma TC ratio at 17.2%, volumes and loans kept on growing in both the factoring and CQ core businesses, as well as in the gold/jewelry-backed loans business" remarked Gianluca Garbi, CEO of Banca Sistema.

Milan, 30 October 2019

The Board of Directors of Banca Sistema has approved today the consolidated results as at 30 September 2019.

<u>Business Performance</u>

1 Pro-forma based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to regulation 876/2019 to be applied starting on 28 September 2021. The regulatory CET1 ratio on the same date came in at 11.4%.

The **factoring** business line, with turnover volumes reaching 2.091 million, reported a growth rate of 22% y/y, also thanks to the greater number of purchases of receivables from Healthcare operators. According to the latest data, volume-wise the Bank confirms its position 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 27% of turnover.

At 30 September 2019, the Group's **factoring** loans (management data) stood at 1,822 million (of which 24% under legal action), up 6% from 1,711 million at 30 September 2018, and down compared to 30 June 2019. Non-recourse factoring accounted for 89% of loans (87% at 30 June 2019), and it is represented by trade receivables (59%) and tax receivables (30%).
As to the **CQS/CQP** business, the Group purchased/funded 186 million of loans**,** and the loan stock at 30 September 2019 came in at 767 million, up by 26% y/y and by 2% over 30 June 2019.
With regard to **gold/jewelry backed loans**, following the launch of this business at the beginning of 2017, the opening of branches and the stable volume growth, loans added up roughly to 10 million, with little more than 8,000 underlying contracts.

<u>Operating results as at 30 September 2019</u>

Net interest income, at 58.4 million, increased by 10% y/y, driven by the growth in both factoring and CQ loans, as well as by the greater contribution from the securities portfolio.
The higher interest income (80.3 million vs 71.6 million at 30.09.2019 and 30.09.2018, 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 9M 2018).
The increase in interest income was mainly driven 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 both from CQ and from the Government bond portfolio.

The overall P&L contribution at 30 September 2019 from late-payment interest under legal action has been rising, coming to 24.3 million (20.1 million at 30 September 2018), of which 4.8 million generated by the update of recovery estimates (6.6 million at 30 September 2018). The update of the expected late-payment interest recovery rates in factoring and the associated collection times underlying the estimate was driven by the progressive consolidation of the time series, in line with the business evolution.
Total late-payment interest out of legal actions accrued at 30 September 2019, and relevant to the accrual model, came in at 104 million, while the receivables already on the books total 50.1 million. 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 12.5 million, reported a sharp increase y/y (+18%), driven by the growth in factoring commission income (+23% 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 dipped slightly when considered as a percentage over the average of receivables. Since Q2 2019 both commission income and commission expense include the contribution from the new CQ direct origination business, following the acquisition of Atlantide.

At 30 September 2019, the 1.9 million **proprietary trading income** generated by the Italian Government bond portfolio made a greater contribution compared to the prior year (+1.3 million y/y).

Total income stood at 73.1 million, up by 13% y/y, driven by business growth.

Loan loss provisions added up to 6.4 million, on the rise y/y, still in line with the last quarters, for the evolution of PA and Corporates factoring receivables. The cost of credit tied to customer loans came in at 35 bps, slightly on the rise compared to full-year 2018, while slightly down when compared to H1 2019.

The Group's **headcount** (FTE) grew from 179 resources in the same period of 2018 to the current 210 employees, mainly as a result of the Atlantide employees who joined the Group. **Personnel expenses** went up y/y in line with the headcount increase and include also an incremental cost component of about 0.6 million reflecting the estimated charges linked to voluntary redundancy schemes and the cost tied to non-compete covenants. Net of the 0.6 million **one-off integration costs tied to Atlantide**, **other administrative expenses** (which include the contribution of about 1.1 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) increased y/y mainly as a result of Atlantide's consolidation/merger, 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 September 2019 rose y/y, coming to 31.4 million (+8% y/y). **Net income** amounted to 21.4 million, up by 12%, after accounting also for the proceeds of about 565 thousand euro 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 September 2019

The **securities portfolio** is made up of Italian government bonds and it amounted to 803 million (of which 435 million classified under the line-item Financial assets measured at amortized cost, unchanged in the last 4 quarters) with an average time to maturity of 16.6 months. The "Held to Collect and Sell" (HTCS) component, equal to 298 million at December 2018, came in at 368 million at 30 September 2019 (with a positive impact on the CET1 ratio at 30 September 2019), with an average time to maturity of about 15.5 months.

Financial assets measured at amortized cost (3.075 million), mainly represented by factoring receivables (1.738 million), went up by 11% compared to 1,567 million at 31 December 2018 (1,791 million at 30 June 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 767 million (652 million at 31 December 2018 and 751 million at 30 June 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 slightly compared to 30 June 2019 (239.7 million vs. 236.3 million as at 30.06.2019), mainly driven by the increase in unlikely-to-pay loans (122.7 million vs. 113.5 million), which more than offset the decline in past-due loans. The increase in unlikely-to-pay loans in Q3 is ascribable to the factoring exposure to PAs and Corporates.
The net bad loans to total customer loans ratio has declined compared to 2018 to 1.4%.

Retail deposits accounted for approx. 65% of total funding (59% at 30 June 2019), 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 30 June 2019, while the Wholesale component went down compared to 31 December 2018 and to 30 June 2019.

Under Financial liabilities measured at amortized cost, **Due to banks** went down compared to 31 December 2018 and to 30 June 2019. The "due to banks" component declined significantly, driven by the decline of the "due to central banks" (ECB) component, which went from 418 million at 30 June 2019 to 143 million at 30 September 2019 (TLTRO totaled 133 million, of which 10 million in TLTRO III). The decline in the Due to banks line-item was partly offset by the increase in the **Debt securities issued** line-item, as a result of the third securitization of the CQ portfolio finalized in September 2019).
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 five quarters, was driven by foreign funding operations (of which 89% in Germany, 9% in Spain and 2% in Austria).

Total own funds (Total Capital) at 30 September 2019 added up to 205.5 million, up compared to the end of 2018 (181.1 million), driven by the combined effect of the operating result of 9M 2019, the merger of Atlantide (generating a goodwill of 2.1 million, reported under Intangible Assets of the Balance sheet) and the issue in Q2 and Q3 2019 of TIER 2 subordinated bonds for a total of 18 million (coinciding with the redemption of another Lower Tier 2 subordinated bond of 12 million, no longer fully eligible to be included in the regulatory capital).
At 30 September 2019, **capital ratios**[2] reported a strong increase compared to 30 June 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 Regulation 876/2019 to be adopted on 28 September 2021:

- **Pro-forma CET1 ratio at 13.4%;** regulatory CET1 ratio at 11.4% (10.8% at 30 June 2019);
- **Pro-forma TIER 1 ratio at 14.1%**; regulatory CET1 ratio at 11.9% (11.3% at 30 June 2019);
- **Pro-forma Total Capital ratio at 17.2%**; regulatory TC ratio at 14.6% (13.7% at 30 June 2019).

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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.

[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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All financial amounts reported in the press release are expressed in euros.

Contacts:

Investor Relations
Carlo Di Pierro
Tel. +39 02 80280358
E-mail carlo.dipierro@bancasistema.it

Media Relations
Patrizia Sferrazza
Tel. +39 02 80280354
E-mail patrizia.sferrazza@bancasistema.it

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

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		30.09.2019 A	30.06.2019	31.03.2019	31.12.2018 B	Difference % A - B
	ASSETS					
10.	Cash and cash equivalents	501	342	366	289	73%
20.	Financial assets held to sell (HTS)	-	-	262,192	-	ns
30.	Financial assets held to collect and sell (HTCS)	374,048	360,530	540,820	304,469	23%
40.	Financial assets held to collect (HTC)	3,074,537	3,106,544	3,004,344	2,786,692	10%
	a) Loans and advances to banks	69,045	47,292	71,884	56,861	21%
	b) Loans and advances to customers	3,005,492	3,059,252	2,932,460	2,729,831	10%
70.	Equity investments	-	-	786	786	ns
90.	Property, plant and equipment	29,241	29,531	29,438	27,910	5%
100.	Intangible assets	3,921	3,922	1,788	1,788	ns
	of which: goodwill	3,920	3,920	1,786	1,786	ns
110.	Tax assets	6,731	6,613	7,605	7,817	-14%
120.	Non-current assets and disposal groups classified as held for sale	-	-	-	1,835	ns
130.	Other assets	15,532	15,793	12,890	13,317	17%
	Total assets	**3,504,511**	**3,523,275**	**3,860,229**	**3,144,903**	**11%**

		30.09.2019 A	30.06.2019	31.03.2019	31.12.2018 B	Difference % A - B
	LIABILITIES AND EQUITY					
10.	Financial liabilities at amortised cost	3,190,257	3,257,899	3,595,682	2,898,740	10%
	a) Due to banks	212,964	527,390	515,050	695,197	-69%
	b) Due to customers	2,550,959	2,417,616	2,773,752	1,898,556	34%
	c) Debt securities issued	426,334	312,893	306,880	304,987	40%
60.	Tax liabilities	19,960	13,944	17,737	15,676	27%
80.	Other liabilities	108,664	77,813	75,876	65,638	66%
90.	Post-employment benefits	3,194	2,974	2,571	2,402	33%
100.	Provisions for risks and charges:	13,087	12,190	10,104	9,293	41%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	147,888	147,255	153,714	125,957	17%
190.	Minority interests	30	30	30	30	ns
200.	Profit for the period	21,431	11,170	4,515	27,167	-21%
	Total liabilities and equity	**3,504,511**	**3,523,275**	**3,860,229**	**3,144,903**	**11%**

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BANCA SISTEMA GROUP: CONSOLIDATED INCOME STATEMENT

Figures in thousands of Euro

		9M 2019 A	1Q 2019	2Q 2019	3Q 2019	9M 2018 B	1Q 2018	2Q 2018	3Q 2018	Difference % A - B
10.	Interest income	80,316	21,638	26,937	31,741	71,584	20,042	24,672	26,870	12%
20.	Interest expenses	(21,930)	(6,965)	(7,141)	(7,824)	(18,546)	(6,354)	(5,752)	(6,440)	18%
30.	**Net interest income**	**58,386**	**14,673**	**19,796**	**23,917**	**53,038**	**13,688**	**18,920**	**20,430**	**10%**
40.	Fee and commision income	16,994	5,115	5,898	5,981	12,865	4,184	4,247	4,434	32%
50.	Fee and commission expense	(4,455)	(1,114)	(1,725)	(1,616)	(2,241)	(626)	(446)	(1,169)	99%
60.	**Net fee and commission income**	**12,539**	**4,001**	**4,173**	**4,365**	**10,624**	**3,558**	**3,801**	**3,265**	**18%**
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	1,911	630	588	693	641	857	(193)	(23)	ns
120.	**Operating income**	**73,063**	**19,304**	**24,784**	**28,975**	**64,530**	**18,103**	**22,755**	**23,672**	**13%**
130.	Net impairment losses on loans	(6,425)	(2,625)	(2,135)	(1,665)	(4,334)	(1,087)	(1,852)	(1,395)	48%
150.	**Net operating income**	**66,638**	**16,679**	**22,649**	**27,310**	**60,196**	**17,016**	**20,903**	**22,277**	**11%**
190. a)	Staff costs	(15,701)	(4,897)	(5,578)	(5,226)	(14,448)	(4,764)	(4,796)	(4,888)	9%
190. b)	Other administrative expenses	(17,396)	(5,265)	(6,086)	(6,045)	(16,248)	(5,071)	(5,934)	(5,243)	7%
200.	Net allowance for risks and charges	(1,346)	(337)	(948)	(61)	(51)	-	(51)	-	ns
210. + 220.	Net impairment losses on property and intangible assets	(1,259)	(374)	(503)	(382)	(213)	(74)	(67)	(72)	ns
230.	Other net operating income/expense	463	120	316	27	136	4	48	84	ns
240.	**Operating expenses**	**(35,239)**	**(10,753)**	**(12,799)**	**(11,687)**	**(30,824)**	**(9,905)**	**(10,800)**	**(10,119)**	**14%**
250.	Profits of equity-accounted investees	-	-	-	-	(355)	(43)	(186)	(126)	ns
270	Profits from investments disposal	(8)	-	(8)	-	-	-	-	-	ns
290.	**Pre-tax profit from continuing operations**	**31,391**	**5,926**	**9,842**	**15,623**	**29,017**	**7,068**	**9,917**	**12,032**	**8%**
300.	Tax expenses (income) for the period from continuing operations	(10,522)	(1,976)	(3,184)	(5,362)	(9,879)	(2,351)	(3,413)	(4,115)	7%
310.	**Profit after tax from continuing operations**	**20,869**	**3,950**	**6,658**	**10,261**	**19,138**	**4,717**	**6,504**	**7,917**	**9%**
320.	Profit (Loss) after tax from discontinued operations	562	565	(3)	-	-	-	-	-	ns
350.	**Profit for the period attributable to the shareholders of the Parent**	**21,431**	**4,515**	**6,655**	**10,261**	**19,138**	**4,717**	**6,504**	**7,917**	**12%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

30.09.2019	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**239,731**	**34,746**	**204,985**
Bad loans	*57,319*	*20,394*	*36,925*
Unlikely to pay	*122,738*	*13,588*	*109,150*
Past-dues	*59,674*	*764*	*58,910*
Performing Exposures	**2,372,450**	**7,302**	**2,365,148**
Total Loans and advances to customers	**2,612,181**	**42,048**	**2,570,133**

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**

31.12.2018	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**