BANCA SISTEMA

PRESS RELEASE

BANCA SISTEMA – 2019 ANNUAL RESULTS:

- FACTORING: VOLUMES +27% Y/Y
- CQS/CQP: OUTSTANDING +25% Y/Y
- NET INCOME +9% Y/Y
- ROAE: 18%

- Business performance
  - Factoring: volumi pari a 3.055 million, +27% y/y
  - CQS/CQP: loans totaled 817 million, +25% y/y
  - Gold/jewelry-backed loans: volumes, in constant upswing since the business was launched, totaled roughly 23 million (90% backed by gold)

- Net interest income of 80.7 million, +8% y/y
- Total income of 100.9 million, +11% 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 (Cost of risk 36bps)
- Net income of 29.7 million, up by 9% y/y

- Total Assets of 3.7 billion, +19% y/y
- Growing Retail funding component (61% of total funding)
- Rising y/y Pro-forma CET1 ratio at 13.9% and Total Capital ratio at 17.8%[1]
- Dividend per share (DPS) of €0.093 (€0.087 in 2018), +7% y/y, corresponding to Dividend Yield of 5.1%[2]

"Banca Sistema closed FY 2019 still on the upswing, with net income increasing by 9%, a return on equity of 18%, significantly stronger capital ratios, volumes and loans from factoring, CQ and the gold/jewelry-backed lending business on a constant uptrend; and - talking about the gold/jewelry-backed lending business - at the end of 2019 we announced the acquisition of Intesa Sanpaolo's business line." remarked Gianluca Garbi, CEO of Banca Sistema.

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 11.7%.

2 Dividend Yield: ratio between the DPS (€0.093) and the official Banca Sistema share price as reported 6 February last (€1.830).

Milan, 7 February 2020

The Board of Directors of Banca Sistema has approved today the consolidated results as at 31 December 2019.

Business Performance

The **factoring** business line, reaching a (turnover) volume of 3,055 million, reported a growth rate of 27% y/y, also thanks to the greater number of purchases of receivables from healthcare operators. The contribution made by agreements with commercial banks accounted for roughly 26% of turnover.
At 31 December 2019, the Group's **factoring** receivables (management data) stood at 1,839 million (of which 24% under legal action), up 7% from 1,716 million at 31 December 2018 and up also compared to 30 September 2019. Non-recourse factoring accounted for 89% of receivables, and 27% is represented by tax receivables.

As to the **CQS/CQP** business, the Group purchased/funded 266 million of loans, and the loan stock at 31 December 2019 came to 817 million, up by 25% y/y.

At 31 December 2019, **gold/jewelry-backed loans** added up to about 12 million, with roughly 9,000 underlying contracts.

Operating results as at 31 December 2019

Net interest income, at 80.7 million, increased by 8% y/y, driven by the growth in both factoring receivables and CQ loans, as well as by the greater contribution from the securities portfolio.
The higher interest income (110.3 million vs 99.7 million at 31.12.2019 and at 31.12.2018, 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 2018).
The increase in interest income was mainly driven by the greater y/y contribution from factoring (+8% y/y) benefitted by the good performance of the tax receivables segment, as well as by the greater contributions from CQ (+18% y/y) and from the Government bond portfolio.

The overall P&L contribution at 31 December 2019 from late-payment interest under legal action has been rising slightly, coming to 29.0 million (28.4 million at 31 December 2018), of which 5.1 million generated by the update of recovery estimates carried out in Q3 2019 (7.8 million at the end of 2018).
Late-payment interest out of legal actions accrued at 31 December 2019, and relevant to the accrual model, came in at 107 million (142 million when including municipalities in difficulty, against which no late-payment interest is booked), while receivables already on the books total 49.9 million. The amount that was not recognized through profit and loss will be recognized, on an accrual or cash basis, in the next financial years, based on collection expectations that exceed 80%.

Net fees and commissions, amounting to 16.1 million, reported an increase y/y (+5%), driven by the growth in factoring commission income (+17% 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 Atlantide's acquisition.

At 31 December 2019, the 2.8 million **proprietary trading income** (combining line-items 80 and 100.b of the Income statement) generated by the Italian government bond portfolio made a greater contribution compared to the prior year (+1.8 million y/y). In Q4 2019, the disposal of factoring corporate receivables portfolios generated a total income of 1.1 million.

Total income stood at 100.9 million, up by 11% y/y, driven by the growth of all our lines of business.

Loan loss provisions added up to 9.1 million, on the rise y/y, in line with expectations and with the dynamics of factoring receivables with PAs and corporate clients. The cost of credit tied to customer loans came in at 36 bps, reporting a slight increase compared to full-year 2018 (33 bps) and a slight decline over 1H 2019 (38 bps).

The Group's **headcount** (FTE) grew from 183 resources in the same period of 2018 to the current 215 employees, mainly as a result of Atlantide's staff joining the Group. **Personnel expenses** rose y/y, driven by the personnel increase, and it includes also an incremental cost component of about 0.8 million reflecting the estimated charges tied to voluntary exit incentives and the cost connected with non-compete covenants. Net of **Atlantide's one-off integration costs** of 0.6 million, **other administrative expenses** (which include the contribution of about 1.1 million to the Resolution Fund) together with **depreciation and amortization of tangible/intangible assets** (which includes the depreciation of the "right to use" the leased asset, following the adoption of IFRS16) increase y/y mainly driven by the consolidation/merger of Atlantide and by higher legal and IT expenses.
The y/y increase in **total operating costs** (+20%) has been driven also by the 2.0 million allowance to **provisions for risks and charges** tied to the valuation of potential liabilities arising from pending litigations and to the valuation and quantification of possible future risks.

Income before tax at 31 December 2019 came to 41.3 million, and net of costs tied to Atlantide's integration from Q2 2019 onwards it would add up to 43.8 million, up from 42.1 million in 2018.

A positive contribution to **net income**, that totaled 29.7 million and was up 9% y/y, came among others from the proceeds of the sale of the 10% stake in Axactor Italy S.p.A., which gave rise to the recognition of about 565 thousand euro in Q1 2019, as well as from the introduction of new tax codes. Another positive contribution of 1.5 million euro was obtained by carrying forward past losses reported by Atlantide, which was acquired and merged into Banca Sistema in 2019.

Key balance sheet items at 31 December 2019

The **securities portfolio** is made up of Italian government bonds and it amounted to 985 million (of which 435 million classified under the line-item Financial assets measured at amortized cost, unchanged in the last 5 quarters), with an average time to maturity of 17.6 months. The "Held to Collect and Sell" (HTCS) component, standing at 298 million at December 2018, was 550 million at 31 December 2019, with an average time to maturity of about 20.1 months.

Financial assets measured at amortized cost (3,112 million), mainly represented by factoring receivables (1,715 million), went up by 9% from 1,567 million at 31 December 2018. They include also salary- and pension-backed loans (CQS and CQP) - which also reported an increase compared to the end of 2018, part of the securities portfolio, and roughly 12 million tied to gold/jewelry-backed loans. More specifically, CQS/CQP loans added up to 817 million (652 million at 31 December 2018).

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 2018 (245.6 million against 225.2 million), mainly driven by the increase in unlikely-to-pay loans, which more than offset the decline in past-due loans. The increase in unlikely-to-pay loans in Q4 is ascribable to the factoring exposure to PAs.
The net bad loans to total customer loans ratio has declined compared to 2018 to 1.2%.

Retail deposits accounted for approx. 61% 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 30 September 2019; even the Wholesale component grew compared to the same periods, albeit at a more subdued pace.

Under **Financial liabilities measured at amortized cost**, **Due to banks** went down compared to 31 December 2018, while it increased compared to 30 September 2019. The “due to banks” component reported an increase compared to 30 September 2019 driven by the greater contribution of the “due to central banks” (ECB) component, which went from 143 million at 30 September 2019 up to 358 million at 31 December 2019 (drawings under the TLTRO III totaled 108 million, against a potential use of 295 million, and it stood at 10 million at 30 September 2019; TLTRO II has been fully paid off in Q4 2019). The y/y decline in Due to banks was partly offset by the increase in **Outstanding securities**, 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 was driven by the increase in foreign funding operations, accounting for 60% of total deposit accounts (of which 89% in Germany, 9% in Spain and 2% in Austria).

The y/y increase in **Provisions for risks and charges** was mainly driven by the estimated allowance to cover possible early redemptions on CQ portfolios purchased from third party intermediaries, the estimated allowance for charges from legal proceedings initiated by clients and the estimated allowance for charges from labor litigations and disputes.

Total own funds (Total Capital) at 31 December 2019 added up to 210.6 million, up compared to the end of 2018 (181.1 million), driven by the combined effect of the 2019 operating result, 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 a TIER 2 subordinated bond 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 31 December 2019, **capital ratios**[3] – which were well above minimum requirements - reported a strong increase both compared to 30 June 2019 and to the end of 2018, driven by an increase in capital that was more than proportional to the growth in risk-weighted assets (RWA). 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 13.9%**; regulatory CET1 ratio at 11.7% (10.8% at 30 June 2019);
- **Pro-forma TIER 1 ratio at 14.6%**; regulatory CET1 ratio at 12.3% (11.3% at 30 June 2019);
- **Pro-forma Total Capital ratio at 17.8%**; regulatory TC ratio at 15.0% (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.

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

3 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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Banca Sistema

Banca Sistema, founded in 2011 and listed in 2015 on Borsa Italiana's Star segment, is a financial institution specialized in purchasing trade receivables owed by the Italian Public Administrations and tax receivables, and engages in consumer credit through salary- and pension-backed loans and gold/jewelry-backed loans. The Bank engages in the salary- and pension backed loans business by purchasing loan pools and through the direct origination of the QuintoPuoi product. The gold/jewelry-backed lending business is carried out via the fully-owned company ProntoPegno S.p.A. The bank offers also deposit products to a base of about 35 thousand customers, with an offering that includes current accounts, deposit accounts and securities accounts, in addition to other services as credit management and recovery, bank guarantees and security bonds, PA receivables certification and e-billing. With head offices in Milan and Rome, Banca Sistema is also present in Bologna, Pisa, Naples, Palermo and Rimini, has 215 employees and relies on a multichannel structure.

Attachments

- Consolidated balance sheet
- Consolidated income statement
- Credit Quality

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.12.2019 A	30.09.2019	30.06.2019	31.03.2019	31.12.2018 B	Difference % A - B
	ASSETS						
10.	Cash and cash equivalents	652	501	342	366	289	126%
20.	Financial assets held to sell (HTS)	-	-	-	262,192	-	nm
30.	Financial assets held to collect and sell (HTCS)	556,383	374,048	360,530	540,820	304,469	83%
40.	Financial assets held to collect (HTC)	3,112,387	3,074,537	3,106,544	3,004,344	2,786,692	12%
	a) Loans and advances to banks	81,510	69,045	47,292	71,884	56,861	43%
	b) Loans and advances to customers	3,030,877	3,005,492	3,059,252	2,932,460	2,729,831	11%
	of which Securities	*435,177*	*435,359*	*435,284*	*435,466*	*435,411*	*nm*
70.	Equity investments	-	-	-	786	786	-100%
90.	Property, plant and equipment	29,002	29,241	29,531	29,438	27,910	4%
100.	Intangible assets	3,921	3,921	3,922	1,788	1,788	119%
	of which: goodwill	3,920	3,920	3,920	1,786	1,786	119%
110.	Tax assets	8,476	6,731	6,613	7,605	7,817	8%
120.	Non-current assets and disposal groups classified as held for sale	-	-	-	-	1,835	-100%
130.	Other assets	19,260	15,532	15,793	12,890	13,317	45%
	Total assets	**3,730,081**	**3,504,511**	**3,523,275**	**3,860,229**	**3,580,314**	**4%**
		31.12.2019 A	**30.09.2019**	**30.06.2019**	**31.03.2019**	**31.12.2018 B**	**Difference % A - B**
	LIABILITIES AND EQUITY						
10.	Financial liabilities at amortised cost	3,416,486	3,190,257	3,257,899	3,595,682	2,898,740	18%
	a) Due to banks	388,359	212,964	527,390	515,050	695,197	-44%
	b) Due to customers	2,551,600	2,550,959	2,417,616	2,773,752	1,898,556	34%
	c) Debt securities issued	476,527	426,334	312,893	306,880	304,987	56%
60.	Tax liabilities	16,433	19,960	13,944	17,737	15,676	5%
80.	Other liabilities	94,662	108,664	77,813	75,876	65,638	44%
90.	Post-employment benefits	3,051	3,194	2,974	2,571	2,402	27%
100.	Provisions for risks and charges:	22,297	13,087	12,190	10,104	9,293	140%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	147,401	147,888	147,255	153,714	125,957	17%
190.	Minority interests	32	30	30	30	30	7%
200.	Profit for the period	29,719	21,431	11,170	4,515	27,167	9%
	Total liabilities and equity	**3,730,081**	**3,504,511**	**3,523,275**	**3,860,229**	**3,144,903**	**19%**

BANCA SISTEMA

BANCA SISTEMA GROUP: CONSOLIDATED INCOME STATEMENT

Figures in thousands of Euro

		2019 A	1Q 2019	2Q 2019	3Q 2019	4Q 2019	2018 B	1Q 2018	2Q 2018	3Q 2018	4Q 2018	Difference A - B	Difference % A - B
10.	Interest income	110,336	21,638	26,937	31,741	30,020	99,710	20,042	24,672	26,870	28,126	10,626	11%
20.	Interest expenses	(29,642)	(6,965)	(7,141)	(7,824)	(7,712)	(25,145)	(6,354)	(5,752)	(6,440)	(6,599)	(4,497)	18%
30.	**Net interest income**	**80,694**	**14,673**	**19,796**	**23,917**	**22,308**	**74,565**	**13,688**	**18,920**	**20,430**	**21,527**	**6,129**	**8%**
40.	Fee and commission income	22,490	5,115	5,898	5,981	5,496	17,625	4,184	4,247	4,434	4,760	4,865	28%
50.	Fee and commission expense	(6,422)	(1,114)	(1,725)	(1,616)	(1,967)	(2,370)	(626)	(446)	(1,169)	(129)	(4,052)	171%
60.	**Net fee and commission income**	**16,068**	**4,001**	**4,173**	**4,365**	**3,529**	**15,255**	**3,558**	**3,801**	**3,265**	**4,631**	**813**	**5%**
70.	Dividends and similar income	227	-	227	-	-	227	-	227	-	-	-	nm
80.	Net income from trading	208	256	(45)	(2)	(1)	(129)	(4)	(264)	(193)	332	337	-261%
100.	Profits (Losses) on disposal or repurchase of:	3,716	374	633	695	2,014	1,167	861	71	170	65	2,549	nm
	a) financial assets measured at amortised cost	1,106	-	-	-	1,106	-	-	-	-	-	1,106	nm
	b) financial assets measured at fair value through other comprehensive income	2,610	374	633	695	908	1,167	861	71	170	65	1,443	nm
120.	**Operating income**	**100,913**	**19,304**	**24,784**	**28,975**	**27,850**	**91,085**	**18,103**	**22,755**	**23,672**	**26,555**	**9,828**	**11%**
130.	Net impairment losses on loans	(9,055)	(2,625)	(2,135)	(1,665)	(2,630)	(6,814)	(1,087)	(1,852)	(1,395)	(2,480)	(2,241)	33%
150.	**Net operating income**	**91,858**	**16,679**	**22,649**	**27,310**	**25,220**	**84,271**	**17,016**	**20,903**	**22,277**	**24,075**	**7,587**	**9%**
190. a)	Staff costs	(23,166)	(4,897)	(5,578)	(5,226)	(7,465)	(19,908)	(4,764)	(4,796)	(4,888)	(5,460)	(3,258)	16%
190. b)	Other administrative expenses	(22,939)	(5,265)	(6,086)	(6,045)	(5,543)	(20,954)	(5,071)	(5,934)	(5,242)	(4,707)	(1,985)	9%
200.	Net allowance for risks and charges	(1,996)	(337)	(948)	(61)	(650)	(414)	-	(51)	-	(363)	(1,582)	nm
210. +220.	Net impairment losses on property and intangible assets	(1,632)	(374)	(503)	(382)	(373)	(532)	(74)	(67)	(72)	(319)	(1,100)	nm
230.	Other net operating income/expense	(768)	120	316	27	(1,231)	(396)	4	48	81	(529)	(372)	94%
240.	**Operating expenses**	**(50,501)**	**(10,753)**	**(12,799)**	**(11,687)**	**(15,262)**	**(42,204)**	**(9,905)**	**(10,800)**	**(10,121)**	**(11,378)**	**(8,297)**	**20%**
250.	Profits of equity-accounted investees	-	-	-	-	-	8	(43)	(186)	(126)	363	(8)	nm
270	Profits from investments disposal	(8)	-	(8)	-	-	-	-	-	-	-	(8)	nm
290.	**Pre-tax profit from continuing operations**	**41,349**	**5,926**	**9,842**	**15,623**	**9,958**	**42,075**	**7,068**	**9,917**	**12,030**	**13,060**	**(726)**	**-2%**
300.	Tax expenses (income) for the period from continuing operations	(12,192)	(1,976)	(3,184)	(5,362)	(1,670)	(14,554)	(2,351)	(3,413)	(4,115)	(4,675)	2,362	-16%
310.	**Profit after tax from continuing operations**	**29,157**	**3,950**	**6,658**	**10,261**	**8,288**	**27,521**	**4,717**	**6,504**	**7,915**	**8,385**	**1,636**	**6%**
320.	Profit (Loss) after tax from discontinued operations	562	565	(3)	-	-	(354)	-	-	-	(354)	916	-259%
350.	**Profit for the period attributable to the shareholders of the Parent**	**29,719**	**4,515**	**6,655**	**10,261**	**8,288**	**27,167**	**4,717**	**6,504**	**7,915**	**8,031**	**2,552**	**9%**

BANCA SISTEMA GROUP: ASSET QUALITY

Figures in thousands of Euro

31.12.2019	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**245,618**	**37,217**	**208,401**
Bad loans	*50,622*	*20,078*	*30,544*
Unlikely to pay	*139,349*	*16,042*	*123,307*
Past-dues	*55,647*	*1,097*	*54,550*
Performing Exposures	**2,392,983**	**5,684**	**2,387,299**
Total Loans and advances to customers	**2,638,601**	**42,901**	**2,595,700**

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	**2,387,359**	**7,303**	**2,380,056**
Total Loans and advances to customers	**2,627,090**	**42,049**	**2,585,041**

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**