PRESS RELEASE

BANCA SISTEMA:
- **APPROVED RESULTS AS AT 31 MARCH 2020**
- **ASSESSMENT OF THE REQUIREMENTS OF THE BOARD OF STATUTORY AUDITORS**
- **ANNUAL CONFIRMATION OF THE INDEPENDENCE REQUIREMENT FOR INDEPENDENT DIRECTORS**

- **Results as at 31 March 2020:**
  - Business performance
    - Factoring: volumes totaled 701 million, +10% y/y
    - CQS/CQP: loans totaled 866 million, +22% y/y
    - Gold/jewelry-backed loans: volumes totaled 4.8 million, +36% y/y

  - Net interest income of 15.9 million, +9% y/y
  - Total income of 22.0 million, +14% y/y
  - Total operating costs on the rise y/y also following:
    - Atlantide's consolidation in Q2 2019
    - the unexpected increase in the contribution paid to the Single Resolution Fund (+82% y/y)
  - Loan loss provisions down y/y, in line with expectations
  - Income before tax up by 15% y/y
  - Net income of 4.6 million, excluding the increased contribution to the Single Resolution Fund 5.0 million (+12% y/y)

  - LCR and NSFR above the regulatory limit
  - Rebalancing of the Retail funding component, accounting for 53% of total funding, in favor of the Wholesale component, in line with the funding strategy
  - Pro-forma CET1 ratio at 13.4% and Total Capital ratio at 17.1%[1]

- **Assessment of requirements for the Board of Statutory Auditors and annual confirmation of the independence requirement for independent directors**

1 Pro-forma based on the estimated impact from the adoption of the CQS/CQP risk weighting reduction according to regulation 876/2019 which could be applied before the scheduled term (28 June 2021). The regulatory CET1 ratio on the same date came in at 11.2%.

Milan, 8 May 2020

The Board of Directors of Banca Sistema has approved today the consolidated results as at 31 March 2020, reporting a net income of 4.6 million, on the rise in spite of the unexpected increase in the contribution to the Single Resolution Fund of 0.7 million (+82% y/y).

Business Performance

The **factoring** business line, with turnover volumes reaching 701 million (with revolving contracts accounting for about 40%), reported a growth rate of 10% y/y, also thanks to the greater number of purchases of receivables from healthcare operators and of tax receivables. The contribution made by agreements with commercial banks accounted for roughly 23% of turnover, less than the full year 2019 when the annual contribution came to 26%. The smaller contribution from the banking channel is due to the closure of branches and the headcount reduction to manage the COVID-19 epidemiological emergency.
At 31 March 2020, the Group's **factoring** loans (management data) stood at 1,755 million (of which 26% under legal action, 13% when considering only the portion relevant to the late-payment interest accrual model), down by 4% compared to 1,820 million at 31 March 2019 due to the higher collections within the same period and down by 5% compared to 31 December 2019. Non-recourse factoring accounted for 89% of loans, and 23% is represented by tax receivables.

As to the **CQS/CQP** business, the Group purchased/funded 86 million of loans (67 million in Q1 2019) and the loan stock at 31 March 2020 came to 866 million, up by 22% y/y and by 6% compared to 31 December 2019.

At 31 March 2020, **gold/jewelry-backed loans** added up to 13 million, on the increase compared to 11.8 million at 31 December 2019. Although volumes rose by 36% in Q1 2020 over the same period of 2019, they have been negatively impacted by the performance in March, characterized by a lower flow of customers than expected in the 6 branches, due to the lockdown measures to contain the spread of COVID-19.

Operating results as at 31 March 2020

Net interest income, at 15.9 million, increased by 9% y/y, driven by the growth in both factoring receivables and CQ loans, as well as by the lower cost of funding.
An increase in interest income (22.4 million vs 21.6 million at 31.03.2020 and 31.03.2019, respectively) added up with an 8% decline y/y in interest expense. The total cost of funding declined by 0.7% y/y (0.8% in Q1 2019 and in full-year 2019).
The increase in interest income was mainly driven by the larger y/y contribution from factoring (+5% y/y) which benefitted from the good performance of the tax receivables segment.

The overall P&L contribution at 31 March 2020 from late-payment interest under legal action has declined y/y and totaled 3.4 million (4.0 million at 31 March 2019).
Late-payment interest out of legal actions accrued at 31 March 2020, and relevant to the accrual model, came in at 100 million (144 million when including municipalities in difficulty, against which no late-payment interest is accrued), while receivables already on the books totaled 48.1 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 4.2 million, reported an increase y/y (+5%), driven by the growth in factoring commission income (+7% y/y). Factoring commissions should be analyzed in combination with the interest component of all the business lines, 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 March 2020, proprietary trading income (generated by the Italian government bond portfolio) amounted to 0.6 million, stable y/y. As in Q4 2019, in Q1 2020 the disposal of factoring receivables portfolios generated a total income of 1.3 million.

Total income stood at 22.0 million, up by 14% y/y, driven by the growth of all our lines of business.

Loan loss provisions added up to 1.9 million, down y/y. The cost of credit tied to customer loans came in at 28 bps, down compared to full-year 2019 (36 bps).

The Group's **headcount** (FTE) grew from 182 resources in the same period of 2019 to the current 216 employees, mainly as a result of Atlantide's staff joining the Group. **Personnel expenses** rose y/y, driven by the personnel increase.
Other administrative expenses increased y/y mainly because of the greater contribution to the Single Resolution Fund by about 0.7 million (in Q1 2020 the contribution totaled 1.5 million) and for advisory fees.
The y/y increase in **total operating costs** has been driven also by the consolidation of Atlantide in Q2 2019, which in Q1 2020, subdivided by the various cost items, totaled 0.6 million.

Income before tax at 31 March 2020 increased y/y by 15%, totaling 6.8 million (5.9 million in Q1 2019). On a like-for-like basis with Q1 2019, net of the greater contribution to the Single Resolution Fund (0.7 million) it would run at 7.5 million (+26% y/y).

Net income in Q1 2019, totaling 4.5 million, saw a 0.6 million contribution also from the proceeds of the sale of the 10% stake in Axactor Italy S.p.A.. **Net income** in Q1 2020 added up to 4.6 million, while excluding the unexpected increased contribution to the Single Resolution Fund it would have totaled 5.0 million (+12% y/y).

Key balance sheet items at 31 March 2020

The **securities portfolio** is made up of Italian government bonds and it amounted to 1,059 million (of which 315 million classified under the line-item Financial assets measured at amortized cost, down compared to year-end 2019), with an average time to maturity of 20.4 months. The "Held to Collect and Sell" (HTCS) component, which at December 2019 stood at 550 million, at 31 March 2020 came to 744 million, with an average time to maturity of around 23.4 months.
Financial assets measured at amortized cost (2,954 million), mainly represented by factoring receivables (1.629 million), went down by 5% vs. 31 December 2019 (1,715 million). They include also salary- and pension-backed loans (CQS and CQP) - which reported an increase compared to the end of 2019, part of

the securities portfolio, and roughly 13 million tied to gold/jewelry-backed loans. More specifically, CQS/CQP loans added up to 866 million (817 million at 31 December 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 December 2019 (258.4 million against 245.6 million), mainly driven by the increase in past dues, which more than offset the slight decline in bad loans. The increase in past dues and unlikely-to-pay loans in Q1 2020 is ascribable to the factoring exposure to PAs.
The net bad loans to total customer loans ratio has declined compared to December 2019 to 1.1%.

Retail deposits accounted for approx. 53% of total funding (61% at 31 December 2019), and are represented by checking accounts and term deposits. The Retail component of funding reported a decline in absolute terms compared to the end of 2019, which was in line with expectations following the strategy to reduce interest rates launched at the end of 2019 and the expected non-renewal of a large number of outstanding deposit accounts that followed.

Under **Financial liabilities measured at amortized cost**, **Due to banks** reported a sharp increase compared to 31 December 2019. The "due to bank" component increase was driven by the greater use of the "due to central banks" (ECB) funding, which went from 358 million at 31 December 2019 to 658 million at 31 March 2020 (total TLTRO III usage was 108 million, against a total available line of 490 million, the remaining part is LTRO). The increase in "Due to banks" has partially offset the slight dip in **Secuirites outstanding** (which includes the third securitization of the CQ portfolio) and the decline in repos.
Under Financial liabilities measured at amortized cost, **Due to customers** went down compared to year-end 2019, mainly driven by the reduction in the deposit account stock. More specifically, for deposit accounts the stock decline was mainly driven by the foreign component (at 31 March 2020 it accounted for 51% of total deposit accounts compared to 60% at the end of December 2019), due to two interest rate reduction measures implemented in September 2019 and March 2020.

Total own funds (Total Capital) at 31 March 2020 amounted to 211.3 million, reporting a slight increase over year-end 2019 (210.6 million), driven by the combined effect of the quarterly operating result and the negative reserve on the Italian government bond portfolio classified as HTCS.
At 31 March 2020, capital **ratios** [2] declined compared to 31 December 2019, driven by an increase in capital that was less than proportional to the growth in risk-weighted assets (RWA), and they are still 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, whose date of application, as things stand at present, seems likely to be advanced while it was originally due to become applicable on 28 June 2021 (see press release of 28 April 2020):

- **Pro-forma CET1 ratio at 13.4%**; regulatory CET1 ratio at 11.2% (11.7% at 31 December 2019);
- **Pro-forma TIER 1 ratio at 14.0%**; regulatory CET1 ratio at 11.8% (12.3% at 31 December 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 2020:

- Common equity Tier 1 ratio (CET1 ratio) of 7.75%;
- Tier 1 ratio of 9.55%;
- Total Capital ratio of 11.90%.

- **Pro-forma Total Capital ratio at 17.1%**; regulatory TC ratio at 14.3% (15.0% at 31 December 2019).

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We announce that today the Board of Directors of Banca Sistema S.p.A. has assessed the following requirements for all the members – standing and alternate – of the Board of Statutory Auditors, appointed by the Shareholders in the General Meeting of 23 April last, in compliance with current regulatory and legal requirements:

- the fulfillment of the requirements of integrity, professionalism and independence;
- the non-existence of conditions of ineligibility and forfeiture under art. 2399 of the Italian Civil Code;
- the non-existence of relevant situations pursuant to regulation on the prohibition of interlocking under art. 36 of L.D. no. 201/2011, transposed in Law no. 214/2011.

The aforementioned members of the Board of Statutory Auditors proved independent pursuant to art. 148 of Lgs.D. no. 58/1998 and articles 8 and 3 of the Corporate Governance Code. The same outcome was reached by the Board of Statutory Auditors, who carried out the same audit and has reported today the results to the Board of Directors.

At the same meeting, the Board of Directors carried out the annual assessment, which gave a positive result, of the fulfillment of the independence requirements for the Directors Laura Ciambellotti, Carlotta De Franceschi, Federico Ferro Luzzi, Francesco Galietti, Marco Giovannini, Daniele Pittatore, Giovanni Puglisi, Luitgard Spögler; the latter declared she does not fulfill the independence requirements under art. 3 of the Corporate Governance Code as she fills the position of Chairman of the Board of Directors of Banca Sistema.

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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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Operational outlook and main risks and uncertainties

With respect to what was indicated in the financial statements as at 31 December 2019, regarding the effects from the persisting impact of the COVID-19 pandemic, as of today it is not yet possible to estimate with sufficient reliability the future effects on the carrying amounts of assets and liabilities in the financial statements; however, there are no impacts that already need to be reflected in the financial statements,

i.e. the need to impair financial assets following increases in allowances or to reduce intangible assets following reductions in value in use.
The situation is constantly monitored and any impact that has not yet materialized to date will be reflected if need be on the recovery value estimates of financial assets.
In light of the current uncertainties and difficult forecasts on the real future impacts that will result from the current pandemic, it has been decided to postpone the drafting of the new business plan.

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

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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 statement of financial position
- Consolidated income statement
- Asset Quality

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		31.03.2020 A	31.12.2019 B	Difference A - B	Difference % A - B
	ASSETS				
10.	Cash and cash equivalents	644	652	(8)	-1%
20.	Financial assets held to sell (HTS)	-	-	-	nm
30.	Financial assets held to collect and sell (HTCS)	749,312	556,383	192,929	35%
40.	Financial assets held to collect (HTC)	2,954,184	3,112,387	(158,203)	-5%
	a) Loans and advances to banks	72,813	81,510	(8,697)	-11%
	b) Loans and advances to customers	2,881,371	3,030,877	(149,506)	-5%
	of which: Factoring	*1,628,664*	*1,714,661*	*(85,997)*	*-5%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*866,307*	*817,229*	*49,078*	*6%*
	of which: Collateralised loans	*13,043*	*11,757*	*1,286*	*11%*
	of which: Securities	*315,072*	*435,177*	*(120,105)*	*-28%*
70.	Equity investments	-	-	-	nm
90.	Property, plant and equipment	29,290	29,002	288	1%
100.	Intangible assets	3,921	3,921	-	nm
	of which: goodwill	*3,920*	*3,920*	*-*	*nm*
110.	Tax assets	10,146	8,476	1,670	20%
130.	Other assets	14,720	19,260	(4,540)	-24%
	Total assets	**3,762,217**	**3,730,081**	**32,136**	**1%**

		31.03.2020 A	31.12.2019 B	Difference A - B	Difference % A - B
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	3,438,955	3,416,486	22,469	1%
	a) Due to banks	806,239	388,359	417,880	nm
	b) Due to customers	2,164,453	2,551,600	(387,147)	-15%
	c) Debt securities issued	468,263	476,527	(8,264)	-2%
60.	Tax liabilities	18,818	16,433	2,385	15%
80.	Other liabilities	99,567	94,662	4,905	5%
90.	Post-employment benefits	2,955	3,051	(96)	-3%
100.	Provisions for risks and charges:	22,690	22,297	393	2%
120. + 150. + 160.+170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	174,611	147,401	27,210	18%
190.	Minority interests	32	32	-	0%
200.	Profit for the period	4,589	29,719	(25,130)	-85%
	Total liabilities and equity	**3,762,217**	**3,730,081**	**32,136**	**1%**

BANCA SISTEMA GROUP: CONSOLIDATED INCOME STATEMENT

Figures in thousands of Euro

		31.03.2020 A	31.03.2019 B	Difference % A - B
10.	Interest income	22,354	21,638	3%
20.	Interest expenses	(6,433)	(6,965)	-8%
30.	**Net interest income**	**15,921**	**14,673**	**9%**
40.	Fee and commission income	6,006	5,115	17%
50.	Fee and commission expense	(1,803)	(1,114)	62%
60.	**Net fee and commission income**	**4,203**	**4,001**	**5%**
80.	Net income from trading	(18)	256	nm
100.	Profits (Losses) on disposal or repurchase of:	1,889	374	nm
	a) financial assets measured at amortised cost	1,276	-	nm
	b) financial assets measured at fair value through other comprehensive income	273	374	-27%
	c) financial liabilities	340	-	nm
120.	**Operating income**	**21,995**	**19,304**	**14%**
130.	Net impairment losses on loans	(1,922)	(2,625)	-27%
150.	**Net operating income**	**20,073**	**16,679**	**20%**
190. a)	Staff costs	(5,716)	(4,897)	17%
190. b)	Other administrative expenses	(6,621)	(5,265)	26%
200.	Net allowance for risks and charges	(672)	(337)	99%
210. +220.	Net impairment losses on property and intangible assets	(376)	(374)	1%
230.	Other net operating income/expense	106	120	-12%
240.	**Operating expenses**	**(13,279)**	**(10,753)**	**23%**
290.	**Pre-tax profit from continuing operations**	**6,794**	**5,926**	**15%**
300.	Tax expenses (income) for the period from continuing operations	(2,205)	(1,976)	12%
310.	**Profit after tax from continuing operations**	**4,589**	**3,950**	**16%**
320.	Profit (Loss) after tax from discontinued operations	-	565	nm
350.	**Profit for the period attributable to the shareholders of the Parent**	**4,589**	**4,515**	**2%**

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BANCA SISTEMA GROUP: ASSET QUALITY

Figures in thousands of Euro

31.03.2020	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**258,438**	**38,194**	**220,244**
Bad loans	*48,564*	*19,819*	*28,745*
Unlikely to pay	*141,127*	*17,106*	*124,021*
Past-dues	*68,747*	*1,269*	*67,478*
Performing Exposures	**2,352,389**	**6,335**	**2,346,054**
Total Loans and advances to customers	**2,610,827**	**44,529**	**2,566,298**

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**