BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 JUNE, NET INCOME +9%

- Business performance
    - Factoring: volumes came to 1,438 million, +8% y/y excluding tax and football receivables
    - CQS/CQP: loans totaled 891 million, +19% y/y
    - Gold/jewelry-backed loans: volumes totaled 10.6 million, +39% y/y
- Finalized in July the acquisition of the gold/jewelry-backed lending business line of Intesa Sanpaolo, Banca Sistema becomes no. 1 banking institution in Italy in gold/jewelry-backed lending

- Net interest income of 33.3 million, -3% y/y
- Total income of 45.9 million, +4% y/y
- Total operating costs on the increase y/y also due to:
    - Atlantide's consolidation in Q2 2019
    - a higher contribution to the Resolution Fund, +75% y/y
- Loan loss provisions reported a slight increase, +6% y/y
- Net income of 12.1 million, +9% y/y

- LCR and NSFR above the regulatory limit
- Consistent with Q1, rebalancing of the Retail funding component, accounting for 50% of total funding, in favor of the Wholesale component
- CET1 ratio at 13.7% and Total Capital ratio at 17.3%, respectively 11.7% and 15.2% post acquisition of the gold/jewelry-backed lending business line

Milan, 31 July 2020

The Board of Directors of Banca Sistema has approved today the consolidated results as at 30 June 2020, reporting a net income of 12.1 million, on the 9% increase y/y in spite of the higher contribution to the Resolution Fund of +0.9 million gross (+75% y/y), and thanks also to the proceeds from the sale of a 25% interest in the subsidiary ProntoPegno SpA (totaling 1.1 million, recognized in Q2 2020).

Business Performance

The **factoring** business line, with turnover volumes reaching 1,438 million, reported a growth rate of 2% y/y (it was 10% in the first 4 months of 2020 over the same period of 2019). Volumes in Q2 2020 were affected by the choice made by the Bank to put the purchasing of receivables from specific sectors on

hold for a few months, in particular from the Football industry (whose volumes dropped by 25% y/y), and by lower tax receivables sales (whose volumes went down by 8% y/y), mainly due to the rescheduling of tax deadlines. Excluding Football and tax receivables, the y/y factoring volume growth in H1 2020 came in at 8%.
At 30 June 2020, the Group's **factoring** loans (management data) stood at 1,817 million (of which 25% under legal action, 11% when considering only the portion relevant to the late-payment interest accrual model), down 5% compared to 1,914 million at 30 June 2019, and up 4% compared to 31 March 2020. Non-recourse factoring accounted for 86% of loans, and it includes tax receivables (accounting for 24% of loans).

As to the **CQS/CQP** business, the Group purchased/funded 147 million of loans (138 million in H1 2019) and the loan stock at 30 June 2020 came to 891 million, up by 19% y/y and by 3% over 31 March 2020.

At 30 June 2020, **gold/jewelry-backed loans** added up to 13.3 million, on the increase compared to 11.8 million at 31 December 2019. Although volumes rose by 39% in H1 2020 over the same period of 2019, they have been negatively affected by the performance in March/April, characterized by a lower flow of customers than expected in the 6 branches, due to the lockdown measures to contain the spread of the pandemic.

Operating results as at 30 June 2020

Net interest income, at 33.3 million, declined by 3% y/y, driven by the lower NII reported in Q2 2020, which, although on the rise compared to the previous quarter, still came in lower when compared to Q2 2019. The quarterly decline over the same period of 2019 was mainly driven by a lower interest income from factoring, which was not fully offset by the lower interest expense and the higher interest income tied to proprietary trading.
In H1 2020, the decline in interest income (45.9 million vs 48.6 million at 30.06.2020 and 30.06.2019, respectively), mainly driven by the factoring business, was partly offset by the 11% reduction (y/y) in interest expense. The total cost of funding, which came in at 0.6%, declined y/y (0.8% in H1 2019 and in full-year 2019). As to interest income, a positive contribution of 2.0 million (1.5 million at 30 June 2019) was made by the sub-line item "financial liabilities" which includes part of the revenues generated by the Italian government bond portfolio financing transactions and the revenues from a refinancing operation with the ECB at positive rates.

The overall P&L contribution at 30 June 2020 from late-payment interest under legal action has declined y/y and totaled 9.9 million (11.9 million at 30 June 2019).
Late-payment interest out of legal actions accrued at 30 June 2020 and relevant to the accrual model came in at 98 million (146 million when including municipalities in difficulty, against which no late-payment interest is accrued), while receivables already on the books totaled 47.4 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 8.1 million, remained basically stable y/y. The income flow from the three businesses should be analyzed in combination with the interest component, whereby their contribution in terms of total revenues, i.e., the sum of interest income and commission income, has been slightly decreasing in absolute terms year on year, and has declined when considered as a percentage over the average of receivables, in particular as regards the CQ segment (in line with what had already been reported in Q1 2020). Since Q2 2019, both commission income and commission expense include the contribution from the new CQ direct origination business, following Atlantide's acquisition.

At 30 June 2020, proprietary trading income (generated by the sale of Italian government bonds from both the HTCS and the HTC components) added up to 2.6 million, up y/y (+1.6 million y/y). Similarly to Q4 2019 and Q1 2020, also in Q2 2020 factoring receivables portfolios were sold, generating a total income of 1.6 million (line-item 100.a of the Income Statement), of which 0.3 million in Q2 2020.

Total income stood at 45.9 million, up by 4% y/y and by 9% over Q1 2020.

At 30 June 2020, **loan loss provisions** added up to 5.1 million, up y/y, in particular in Q2 2020 relative to the performing loan portfolio, driven among others by a model update and by the worsening of the macroeconomic environment as a result of the pandemic emergency. The cost of credit tied to customer loans came in at 37 bps, basically stable compared to full-year 2019 (36 bps).

The Group's **headcount** (FTE), remained stable at 216, although higher compared to the 209 resources in the same period of 2019. **Personnel expenses** rose y/y, consistent with the headcount increase.
Other administrative expenses increased y/y, mainly driven by the higher contribution to the Resolution Fund of about 0.9 million (in H1 2020 the contribution totaled 2.0 million).
The y/y increase in **total operating costs** has been driven also by the consolidation of Atlantide in Q2 2019, whose estimated cost in H1 2020, subdivided by the various cost items, totaled 1.2 million.

Income before tax at 30 June 2020 increased by 7% y/y, totaling 16.9 million (15.8 million in H1 2019), in spite of the higher contribution to the Resolution Fund (+0.9 million y/y), also thanks to the gain generated by the sale of a 25% stake in ProntoPegno (1.1 million).

Net income in H1 2019 totaled 11.2 million, and saw a 0.6 million contribution also from the proceeds of the sale of a 10% stake in Axactor Italy S.p.A.. **Net income** in H1 2020 added up to 12.1 million, reporting a y/y increase even when excluding the various gains from the disposal of equity investments reported in 2020 and in 2019.

Key balance sheet items at 30 June 2020

The **securities portfolio,** made up of Italian government bonds, amounted to 1,196 million (of which 447 million classified under the line-item Financial assets measured at amortized cost, slightly down compared to year-end 2019, and up compared to 31.03.2020), with an average time to maturity of 21.1 months. At 30 June 2020, the "Held to Collect and Sell" (HTCS) component, which at December 2019 stood at 550 million, came to 749 million, with an average time to maturity of around 23.3 months.
Financial assets measured at amortized cost (3,120 million), mainly represented by factoring receivables (1,638 million), were down 5% compared to 31 December 2019 (1,715 million), and include also salary- and pension-backed loans (CQS and CQP) - which reported a 9% increase compared to the end of 2019, as well as part of the securities portfolio, and roughly 13 million tied to gold/jewelry-backed loans. More specifically, CQ loans added up to 891 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 and 31 March 2020 (273.3 million as compared to 245.6 million and 258.4 million), mainly driven by the increase in past dues, which more than offset the slight decline in UtP loans. The increase in past dues, as in Q1 2020, is tied 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. 50% of total funding (61% at 31 December 2019 and 53% at 31 March 2020), 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, and also slightly compared to 31 March 2020, 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 the line-item **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 691 million at 30 June 2020 (658 million at 31 March 2020), mainly as a result of a greater TLTRO III take-up, coming to 491 million (108 million at 31.12.2019).
Under Financial liabilities measured at amortized cost, **Due to customers** went down compared to year-end 2019 and to the end of March 2020, 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 30 June 2020 it accounted for 52% 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.

The "2019 dividend", approved by Shareholders in the General Meeting of 23 April 2020, has been included under the liabilities line item **Other liabilities**.

Total own funds (Total Capital) at 30 June 2020 amounted to 219.5 million, up compared to 31 March 2020 (211.3 million), driven by the combined effect of the quarterly operating result and the positive reserve change in the Italian government bond portfolio classified as HTCS.
At 30 June 2020, following the issuance of Regulation 873/2020, which among others included the risk-weighting reduction (RWA) for CQ products (salary- and pension-backed loans) from 75% to 35%, **capital ratios**[1] stood at:

- **CET1 ratio 13.7%**;
- **TIER 1 ratio 14.4%**;
- **Total Capital ratio 17.3%**.

Following the acquisition of the gold/jewelry-backed loans business line by the subsidiary ProntoPegno, effective on 13 July 2020, the CET1 ratio at 30 June 2020 would come to 11.7% (Total Capital ratio to 15.2%).

1 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%.

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As regards the new recommendations on the distribution of dividends by credit institutions issued on 27 and 28 July 2020 by the European Central Bank (ECB) and by the Bank of Italy, respectively, the Board of Directors decided to discuss the matter in a coming Board meeting to be held in good time to enable the Shareholders to pass the relative resolutions at the next General Meeting to be convened between 1 October and 30 November 2020.

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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

During the second quarter, also due to the COVID-19 pandemic, the Group reported a slight decline in new business which might continue during the year, with an impact on the year-end results that at present is deemed not meaningful.
The situation is constantly monitored, and any future impact not yet emerged to date will be reflected, if necessary, in the estimated financial assets recovery values.
In light of the current economic and market uncertainty, and considering how difficult it is to foresee what the future effects of the pandemic might be, it was decided to postpone the preparation of the new business plan until the beginning of next year.

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

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Gruppo 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 subsidiary 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, Rimini, Turin, Florence, Mestre, Parma e Civitavecchia, has 274 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

		30.06.2020 A	31.03.2020	31.12.2019 B	Difference %
	ASSETS				
10.	Cash and cash equivalents	717	644	652	10%
30.	Financial assets held to collect and sell (HTCS)	754,084	749,312	556,383	36%
40.	Financial assets held to collect (HTC)	3,119,600	2,954,184	3,112,387	0%
	a) Loans and advances to banks	65,711	72,813	81,510	-19%
	b) Loans and advances to customers	3,053,889	2,881,371	3,030,877	1%
	of which: Factoring	*1,637,906*	*1,628,664*	*1,714,661*	*-4%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*891,347*	*866,307*	*817,229*	*9%*
	of which: Collateralised loans	*13,340*	*13,043*	*11,757*	*13%*
	of which: Securities	*447,346*	*315,072*	*435,177*	*3%*
90.	Property, plant and equipment	29,142	29,290	29,002	ns
100.	Intangible assets	3,921	3,921	3,921	ns
	of which: goodwill	*3,920*	*3,920*	*3,920*	*ns*
110.	Tax assets	8,886	10,146	8,476	5%
130.	Other assets	16,347	14,720	19,260	-15%
	Total assets	**3,932,697**	**3,762,217**	**3,730,081**	**5%**
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	3,593,664	3,438,955	3,416,486	5%
	a) Due to banks	754,266	806,239	388,359	94%
	b) Due to customers	2,317,152	2,164,453	2,551,600	-9%
	c) Debt securities issued	522,246	468,263	476,527	10%
60.	Tax liabilities	15,275	18,818	16,433	-7%
80.	Other liabilities	107,348	99,567	94,662	13%
90.	Post-employment benefits	3,295	2,955	3,051	8%
100.	Provisions for risks and charges:	21,927	22,690	22,297	-2%
120. + 150. + 160.+170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	169,399	174,611	147,401	15%
190.	Minority interests	9,661	32	32	ns
200.	Profit for the period	12,128	4,589	29,719	-59%
	Total liabilities and equity	**3,932,697**	**3,762,217**	**3,730,081**	**5%**

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BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		1H 2020 A	1Q 2020	2Q 2020	1H 2019 B	1Q 2019	2Q 2019	Difference % A - B
10.	Interest income	45,889	22,354	23,535	48,575	21,638	26,937	-6%
20.	Interest expenses	(12,548)	(6,433)	(6,115)	(14,106)	(6,965)	(7,141)	-11%
30.	**Net interest income**	**33,341**	**15,921**	**17,420**	**34,469**	**14,673**	**19,796**	**-3%**
40.	Fee and commission income	11,680	6,006	5,674	11,013	5,115	5,898	6%
50.	Fee and commission expense	(3,591)	(1,803)	(1,788)	(2,839)	(1,114)	(1,725)	26%
60.	**Net fee and commission income**	**8,089**	**4,203**	**3,886**	**8,174**	**4,001**	**4,173**	**-1%**
70.	Dividends and similar income	227	-	227	227	-	227	0%
80.	Net income from trading	38	(18)	56	211	256	(45)	-82%
100.	Profits (Losses) on disposal or repurchase of:	4,191	1,889	2,302	1,007	374	633	nm
	a) financial assets measured at amortised cost	1,926	1,276	650	-	-	-	nm
	b) financial assets measured at fair value through other comprehensive income	2,250	613	1,637	1,007	374	633	nm
	c) financial liabilities	15	-	15	-	-	-	nm
120.	**Operating income**	**45,886**	**21,995**	**23,891**	**44,088**	**19,304**	**24,784**	**4%**
130.	Net impairment losses on loans	(5,068)	(1,922)	(3,146)	(4,760)	(2,625)	(2,135)	6%
150.	**Net operating income**	**40,818**	**20,073**	**20,745**	**39,328**	**16,679**	**22,649**	**4%**
190. a)	Staff costs	(11,130)	(5,716)	(5,414)	(10,475)	(4,897)	(5,578)	6%
190. b)	Other administrative expenses	(12,242)	(6,621)	(5,621)	(11,351)	(5,265)	(6,086)	8%
200.	Net allowance for risks and charges	(1,143)	(672)	(471)	(1,285)	(337)	(948)	-11%
210. +220.	Net impairment losses on property and intangible assets	(751)	(376)	(375)	(877)	(374)	(503)	-14%
230.	Other net operating income/expense	265	106	159	436	120	316	-39%
240.	**Operating expenses**	**(25,001)**	**(13,279)**	**(11,722)**	**(23,552)**	**(10,753)**	**(12,799)**	**6%**
270	Profits from investments disposal	1,090	-	1,090	(8)	-	(8)	nm
290.	**Pre-tax profit from continuing operations**	**16,907**	**6,794**	**10,113**	**15,768**	**5,926**	**9,842**	**7%**
300.	Tax expenses (income) for the period from continuing operations	(4,898)	(2,205)	(2,693)	(5,160)	(1,976)	(3,184)	-5%
310.	**Profit after tax from continuing operations**	**12,009**	**4,589**	**7,420**	**10,608**	**3,950**	**6,658**	**13%**
320.	Profit (Loss) after tax from discontinued operations	-	-	-	562	565	(3)	nm
330.	**Profit for the period**	**12,009**	**4,589**	**7,420**	**11,170**	**4,515**	**6,655**	**8%**
340.	Profit for the period attributable to the Minority interests	119	-	119	-	-	-	nm
350.	**Profit for the period attributable to the shareholders of the Parent**	**12,128**	**4,589**	**7,539**	**11,170**	**4,515**	**6,655**	**9%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

30.06.2020	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**273,270**	**38,495**	**234,775**
Bad loans	*48,714*	*19,920*	*28,794*
Unlikely to pay	*140,422*	*17,707*	*122,715*
Past-dues	*84,134*	*868*	*83,266*
Performing Exposures	**2,380,051**	**8,283**	**2,371,768**
Total Loans and advances to customers	**2,653,321**	**46,778**	**2,606,543**

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	**2,392,985**	**5,686**	**2,387,299**
Total Loans and advances to customers	**2,638,603**	**42,903**	**2,595,700**