BANCA SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 SEPTEMBER

- Business performance
    - Factoring: volumes came to 2,183 million, up by +4% y/y buoyed by a very positive third quarter (+10% Q3 2020 vs 2019)
    - CQS/CQP: loans totaled 931 million, +21% y/y
    - Gold/jewelry-backed loans: loans totaled 75 million, following the completion in July of the acquisition of Intesa Sanpaolo’s pledged asset lending business line

- Net interest income of 52.8 million, -10% y/y mainly driven by lower accrued and collected factoring late-payment interest
- Total income of 72.1 million, -1% y/y
- Total operating costs on the rise y/y due to:
    - the acquisition / integration of the gold/jewelry-backed lending business line, which generated non-recurring costs of 1.6 million (registration tax and integration costs)
    - a higher contribution to the Resolution Fund of 0.9 million, +75% y/y
- Loan loss provisions on the increase, +13% y/y in line with expectations
- Net income of 19.5 million

- LCR and NSFR above the regulatory limit
- Unlike the first and second quarter, the weight of the Retail component, accounting for 54% of total funding, has increased over the Wholesale component
- CET1 ratio at 12.0% and Total Capital ratio at 15.4%, up compared to the proforma ratios of H1

Milan, 30 October 2020

The Board of Directors of Banca Sistema has approved today the consolidated results as at 30 September 2020, reporting a net income of 19.5 million, down by 9% y/y, mainly driven by lower factoring late-payment interest, by the increase in non-recurring costs incurred for the integration of the gold/jewelry-backed lending business line (0.6 million), and the higher contribution to the Resolution Fund of +0.9 million gross (+75% y/y).

Business performance

In spite of the fact that Italy's economy has been strongly affected by the outbreak of the Covid-19 pandemic, in Q3 2020 the **factoring** business line, with turnover volumes at 2,183 million, reported a growth rate of 4% y/y, +10% compared to the same period of 2019. Volumes in Q3 were characterized by a pick-up in purchases of receivables from clients operating in sectors that in recent months have reported an improving business performance and from the football industry, where purchases have actually reversed the drop reported in Q2, while the tax receivables segment failed to report a similar turnaround. Net of football and tax receivables, the y/y factoring volume growth in the first nine months of 2020 came in at 6%.
At 30 September 2020, **factoring** loans (management data) stood at 1,749 million (of which 25% under legal action, 11% when considering only the portion relevant to the late-payment interest accrual model), down by 4% compared to 1,822 million at 30 September 2019, and down by 4% also compared to 30 June 2020. Non-recourse factoring accounted for 84% of loans, and it includes tax receivables (accounting for 21% of loans).

As to the **CQS/CQP** business line**,** the Group purchased/funded 230 million of loans (186 million in the first nine months of 2019) and the loan stock at 30 September 2020 came to 931 million, up by 21% y/y and by 4% over 30 June 2020.

At 30 September 2020, **gold/jewelry-backed loans** added up to 75 million, reporting a steep rise from the 13.3 million at 30 June 2020, driven by the integration of the business line acquired from Intesa Sanpaolo (the completion of the business line acquisition came into effect on 13 July 2020).

Operating results as at 30 September 2020

Net interest income, at 52.8 million, declined by 10% y/y, due to the quarterly drop compared to the same period of 2019, driven by the lower interest income generated by the factoring business, which could not be fully offset by its lower interest expense, by the higher interest income contribution made by the acquired business line (amounting to 1.1 million), and by the higher interest income from proprietary trading.
In the first nine months of 2020, the decline in interest income (71.6 million vs 80.3 million as at 30.09.2020 and 30.09.2019, respectively) was mainly driven by the factoring business, and could only be partly offset by the 14% reduction y/y in interest expense. The factoring slackening was brought about by a lower contribution y/y from across-the-board late-payment interest (including the usual update of recovery estimates), as well as by the lower revenues generated by the portfolio of loans that are not under legal action (although when compared to the previous year this component should be analyzed in conjunction with the change in the P&L line-item 100.a – disposal of loan portfolios).
The total cost of funding, which came in at 0.6%, reported a decline y/y (0.8% in the first nine months of 2019), while it remained stable compared to H1 this year.
Interest income item includes also part of the revenues generated by the Italian government bond portfolio and the revenues from refinancing operations with the ECB at positive rates for a total contribution of 3.1 million (2.1 million at 30 September 2019).

The overall P&L contribution from late-payment interest under legal action at 30 September 2020 has declined y/y, totaling 16.1 million (24.3 million at 30 September 2019), of which 1 million generated by

the update of recovery estimates (4.8 million at 30 September 2019). The diminished effect from the update of the recovery estimates is due to the fact that in recent years the time series have consolidated on values closer to the average collection percentages and have stabilized in terms of number of positions, therefore the expected recovery percentage calculated by the statistical model is now stable and is no longer subject to significant changes. The lower y/y contribution from late-payment interest (excluding the impact from the estimate update), in line with the first half of 2020 as compared to the same period of 2019, was due to lower accruals, resulting from late-payment interest collection/disposal dynamics and new legal actions, while the P&L impact from collection/disposal is slightly lower on a y/y comparison.
Late-payment interest out of legal actions accrued at 30 September 2020 and relevant to the accrual model came in at 101 million (153 million when including municipalities in difficulty, against which no late-payment interest is accrued), while receivables already on the books totaled 50.2 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 11.9 million (of which 0.6 million of commission income originated by the acquired business line) reported a decline 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 (see par. on interest income) 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 accounted for in H12020). 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 September 2020, proprietary trading income (generated by the sale of Italian government bonds from both the HTCS and the HTC components) added up to 5.0 million, up y/y (+3.1 million y/y). Similarly to Q4 2019 and the first two quarters of 2020, also in Q3 2020 factoring receivables portfolios were sold; the total net income generated in the nine months came in at 2.1 million (P&L line-item 100.a), of which 0.5 million in Q3 2020.

Total income stood at 72.1 million, down by 1% y/y, where anyhow Q3 2020 surpassed Q2 by 10%.

At 30 September 2020, **loan loss provisions** added up to 7.2 million, up y/y, in particular in Q2 and Q3 2020 also on the Performing component of the loan portfolio due to the update of the impairment models as a result of the worsening of the macroeconomic environment caused by the current pandemic emergency. The cost of credit tied to customer loans came in at 36 bps, reporting a slight decline compared to the first half of the year (37bps), while it remained stable compared to full-year 2019 (36 bps).

The Group's **headcount** (FTE) came to 273, higher compared to the 210 resources in the same period of 2019 also due to the entry of 58 new resources from Intesa Sanpaolo's gold/jewelry-backed lending business line. **Personnel expenses** rose y/y, consistent with the headcount increase, resulting also from the acquisition of the pledged asset lending business line, whose contribution in Q3 2020 added up to roughly 1 million.
Other administrative expenses increased y/y, mainly driven by the higher contribution to the Resolution Fund of about +0.9 million (already reported in H1 2020), the non-recurring 0.3 million from the integration of the pledged asset lending business line already accounted for in Q2 2020, and 1.3 million

from its consolidation (of which 1 million for the one-time registration tax on the acquisition goodwill, and 0.3 million from non-recurring integration charges) in Q3 2020.
The y/y increase in **total operating expenses** has been driven also by the consolidation of Atlantide in Q2 2019, whose estimated cost, inclusive of the various cost items, totaled 1.8 million in the first nine months of 2020. In Q3 2020 the consolidation of the acquired business line made a total cost contribution of 2.7 million.

Income before tax at 30 September 2020 reported a y/y decline, totaling 27.5 million.

Net income in the first nine months of 2019 totaled 21.4 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** at 30.09.2020 added up to 19.5 million, down by 9% y/y, also as a result of higher non-recurring costs, and it includes the gain from the disposal of a 25% stake in the subsidiary ProntoPegno SpA (amounting to 1.1 million, recognized in Q2 2020).

Key balance sheet items at 30 September 2020

The **securities portfolio,** made up of Italian government bonds, amounted to 991 million (of which 447 million classified under the line-item Financial assets measured at amortized cost, slightly up compared to year-end 2019, and stable compared to 30.06.2020), with an average time to maturity of 16.3 months. The "Held to Collect and Sell" component (HTCS), which at December 2019 stood at 550 million and at 30 June 2020 at 749 million, came to 544 million at 30 September 2020, with a residual time to maturity of around 17.9 months.
Financial assets measured at amortized cost (3,241 million), mainly represented by factoring receivables (1,589 million), which went down by 7% over 31 December 2019 (1,715 million) and by 3% over 30 June 2020 (1,638 million), include also salary- and pension-backed loans (CQS and CQP), part of the securities portfolio, and 75 million of gold/jewelry-backed loans (up compared to the 13 million at 30 June 2020, following the acquisition of the business line). More specifically, CQS/CQP loans added up to 931 million (817 million at 31 December 2019), up by 14% compared to the end of 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 of 255.6 million went down compared to 30 June 2020 (273.3 million) driven by the decline in past dues. The quarterly decline in past dues 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%.

The quarterly increase in **Intangible assets** was due to the recognition of the goodwill of the gold/jewelry-backed lending business line acquired from the subsidiary ProntoPegno (29.8 million).

Retail deposits accounted for approx. 54% of total funding (61% at 31 December 2019 and 50% at 30 June 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, while it rose slightly compared to 30 June 2020 in line with expectations.

Under the line-item **Financial liabilities measured at amortized cost**, **Due to banks** reported a sharp increase compared to 31 December 2019. The increase in the "due to bank" component was driven by the greater use of the "due to central banks" (ECB) funding, which went from 358 million at 31 December

2019 to 690 million at 30 September 2020 (stable compared to 30.06.2020), and it includes 491 million of TLTRO III, unchanged compared to 30 June 2020 (108 million at 31.12.2019). The increase over 30 June 2020 was driven by the increase in “due to banks (other than central banks)”, closely tied to the acquisition of the gold/jewelry-backed lending business line.
Under Financial liabilities measured at amortized cost, **Due to customers** went down compared to year-end 2019 and to the end of June 2020; more specifically in this quarter the decline in repos more than offset the increase in deposit accounts.

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 September 2020 amounted to 204.3 million, down compared to 30 June 2020 (219.5 million), as a result of the completion of the acquisition of the gold/jewelry-backed lending business line, which more than offset the positive contribution made by the operating result in Q3.
At 30 September 2020, **capital ratios**[1], which have increased compared to the proforma ratios for the pledged lending business line acquisition communicated on 31 July 2020, stood at:

- **CET1 ratio 12.0%**;
- **TIER 1 ratio 12.6%**;
- **Total Capital ratio 15.4%**.

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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 third quarter, as a result of the COVID-19 pandemic, the Group’s profitability reported a slight decline, especially in the factoring segment, due to the lower contribution of the late-payment interest component, that might continue also in the fourth quarter of the year.
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.

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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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, by purchasing loan pools and through the direct origination of the QuintoPuoi product, and through gold/jewelry-backed loans, 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 Torino, Florence, Mestre, Parma and Civitavecchia, has 273 employees and relies on a multichannel structure.

Attachments

- Consolidated statement of financial position
- Consolidated income statement
- Credit Quality

BANCA SISTEMA GROUP: CONSOLIDATED BALANCE SHEET

Figures in thousands of Euro

		30.09.2020 A	30.06.2020	31.03.2020	31.12.2019 B	Difference % A - B
	ASSETS					
10.	Cash and cash equivalents	6,706	717	644	652	ns
20.	Financial assets held to sell (HTS)	-	-	-	-	ns
30.	Financial assets held to collect and sell (HTCS)	549,056	754,084	749,312	556,383	-1%
40.	Financial assets held to collect (HTC)	3,241,105	3,119,600	2,954,184	3,112,387	4%
	a) Loans and advances to banks	110,001	65,711	72,813	81,510	35%
	b) Loans and advances to customers	3,131,104	3,053,889	2,881,371	3,030,877	3%
	of which: Factoring	*1,588,765*	*1,637,906*	*1,628,664*	*1,714,661*	*-7%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*931,004*	*891,347*	*866,307*	*817,229*	*14%*
	of which: Collateralised loans	*74,966*	*13,340*	*13,043*	*11,757*	*ns*
	of which: Securities	*447,703*	*447,346*	*315,072*	*435,177*	*3%*
70.	Equity investments	-	-	-	-	ns
90.	Property, plant and equipment	31,614	29,142	29,290	29,002	9%
100.	Intangible assets	33,982	3,921	3,921	3,921	ns
	of which: goodwill	33,720	3,920	3,920	3,920	ns
110.	Tax assets	9,184	8,886	10,146	8,476	8%
120.	Non-current assets and disposal groups classified as held for sale	-	-	-	-	ns
130.	Other assets	16,214	16,347	14,720	19,260	-16%
	Total assets	**3,887,862**	**3,932,697**	**3,762,217**	**3,730,081**	**4%**
	LIABILITIES AND EQUITY					
10.	Financial liabilities at amortised cost	3,489,308	3,593,664	3,438,955	3,416,486	2%
	a) Due to banks	839,266	754,266	806,239	388,359	ns
	b) Due to customers	2,226,365	2,317,152	2,164,453	2,551,600	-13%
	c) Debt securities issued	423,677	522,246	468,263	476,527	-11%
60.	Tax liabilities	19,819	15,275	18,818	16,433	21%
80.	Other liabilities	155,914	107,348	99,567	94,662	65%
90.	Post-employment benefits	4,379	3,295	2,955	3,051	44%
100.	Provisions for risks and charges:	18,750	21,927	22,690	22,297	-16%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	170,734	169,399	174,611	147,401	16%
190.	Minority interests	9,448	9,661	32	32	ns
200.	Profit for the period	19,509	12,128	4,589	29,719	-34%
	Total liabilities and equity	**3,887,862**	**3,932,697**	**3,762,217**	**3,730,081**	**4%**

BANCA SISTEMA GROUP: CONSOLIDATED FINANCIAL REPORT

Figures in thousands of Euro

		9M 2020 A	1Q 2020	2Q 2020	3Q 2020	9M 2019 B	1Q 2019	2Q 2019	3Q 2019	Difference % A - B
10.	Interest income	71,635	22,354	23,535	25,746	80,316	21,638	26,937	31,741	-11%
20.	Interest expenses	(18,822)	(6,433)	(6,115)	(6,274)	(21,930)	(6,965)	(7,141)	(7,824)	-14%
30.	**Net interest income**	**52,813**	**15,921**	**17,420**	**19,472**	**58,386**	**14,673**	**19,796**	**23,917**	**-10%**
40.	Fee and commission income	17,263	6,006	5,674	5,583	16,994	5,115	5,898	5,981	2%
50.	Fee and commission expense	(5,324)	(1,803)	(1,788)	(1,733)	(4,455)	(1,114)	(1,725)	(1,616)	20%
60.	**Net fee and commission income**	**11,939**	**4,203**	**3,886**	**3,850**	**12,539**	**4,001**	**4,173**	**4,365**	**-5%**
70.	Dividends and similar income	227	-	227	-	227	-	227	-	nm
80.	Net income from trading	38	(18)	56	-	209	256	(45)	(2)	nm
100.	Profits (Losses) on disposal or repurchase of:	7,101	1,889	2,302	2,910	1,702	374	633	695	nm
	a) financial assets measured at amortised cost	2,473	1,276	650	547	-	-	-	-	nm
	b) financial assets measured at fair value through other comprehensive income	4,612	613	1,637	2,362	1,702	374	633	695	nm
	c) financial liabilities	15	-	15	-	-	-	-	-	nm
120.	**Operating income**	**72,118**	**21,995**	**23,891**	**26,232**	**73,063**	**19,304**	**24,784**	**28,975**	**-1%**
130.	Net impairment losses on loans	(7,229)	(1,922)	(3,146)	(2,161)	(6,425)	(2,625)	(2,135)	(1,665)	13%
150.	**Net operating income**	**64,889**	**20,073**	**20,745**	**24,071**	**66,638**	**16,679**	**22,649**	**27,310**	**-3%**
190. a)	Staff costs	(17,188)	(5,716)	(5,414)	(6,058)	(15,701)	(4,897)	(5,578)	(5,226)	9%
190. b)	Other administrative expenses	(19,524)	(6,621)	(5,621)	(7,282)	(17,396)	(5,265)	(6,086)	(6,045)	12%
200.	Net allowance for risks and charges	(1,181)	(672)	(471)	(38)	(1,346)	(337)	(948)	(61)	-12%
210. + 220.	Net impairment losses on property and intangible assets	(1,321)	(376)	(375)	(570)	(1,259)	(374)	(503)	(382)	5%
230.	Other net operating income/expense	696	106	159	431	463	120	316	27	50%
240.	**Operating expenses**	**(38,518)**	**(13,279)**	**(11,722)**	**(13,517)**	**(35,239)**	**(10,753)**	**(12,799)**	**(11,687)**	**9%**
280.	Profits from investments disposal	1,090	-	1,090	-	(8)	-	(8)	-	nm
290.	**Pre-tax profit from continuing operations**	**27,461**	**6,794**	**10,113**	**10,554**	**31,391**	**5,926**	**9,842**	**15,623**	**-13%**
300.	Tax expenses (income) for the period from continuing operations	(8,285)	(2,205)	(2,693)	(3,387)	(10,522)	(1,976)	(3,184)	(5,362)	-21%
310.	**Profit after tax from continuing operations**	**19,176**	**4,589**	**7,420**	**7,167**	**20,869**	**3,950**	**6,658**	**10,261**	**-8%**
320.	Profit (Loss) after tax from discontinued operations	-	-	-	-	562	565	(3)	-	nm
330.	**Profit for the period**	**19,176**	**4,589**	**7,420**	**7,167**	**21,431**	**4,515**	**6,655**	**10,261**	**-11%**
340.	Loss for the period attributable to the Minority interests	333	-	119	214	-	-	-	-	nm
350.	**Profit for the period attributable to the shareholders of the Parent**	**19,509**	**4,589**	**7,539**	**7,381**	**21,431**	**4,515**	**6,655**	**10,261**	**-9%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Figures in thousands of Euro

30.09.2020	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**255,573**	**39,997**	**215,576**
Bad loans	*49,759*	*21,212*	*28,547*
Unlikely to pay	*144,848*	*18,265*	*126,583*
Past-dues	*60,966*	*520*	*60,446*
Performing Exposures	**2,477,606**	**9,781**	**2,467,825**
Total Loans and advances to customers	**2,733,179**	**49,778**	**2,683,401**

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**	**8,284**	**2,371,767**
Total Loans and advances to customers	**2,653,321**	**46,779**	**2,606,542**

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**