BANCA SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 SEPTEMBER 2021

- Business performance:
  - Factoring: volumes ran at 2,495 million, +14% y/y
  - CQ: loans totaled 955 million, +3% y/y
  - Pawn loans: loans came to roughly 87 million, +16% y/y

- Net interest income: 57.0 million, +7% y/y
- Total income: 74.8 million, +3% y/y
- Total operating costs: 44.3 million, +15% y/y, driven also by the consolidation of the pawn lending business line acquired in Q3 2020
- Loan loss provisions: 8.8 million, on the rise y/y due to the non-recurring write-downs reported in the previous two quarters
- Net income: 14.8 million

- The retail component accounted for 68% of total funding
- CET1 ratio at 12.2% and Total Capital ratio at 15.4%. Following the guidelines related to the adoption of the definition of default pursuant to article 178 of EU Regulation no. 575/2013 and communicated by the Supervisory Authority at the end of the working day of 28 October 2021, a thorough analysis and review of the operational solutions currently in place will be conducted, that may lead to negative impacts on the CET1 ratio and on the Total Capital ratio reported in this release, currently estimated to amount to around 0.60% and 0.8%, respectively

Milan, 29 October 2021

The Board of Directors of Banca Sistema has approved the consolidated results as at 30 September 2021, reporting a net income of 14.8 million.

Business Performance

In a market characterized by a gradual improvement of the production system, the **factoring** business line reported a turnover of 2,495 million, with a growth rate of 14% y/y driven by the commercial receivables component, buoyed by the diversification implemented in recent years, while the performance of the tax receivables component, similarly to the first two quarters of 2021, was weaker compared to the previous year.

As at 30 September 2021, **factoring** receivables (management data) stood at 1,707 million (of which 26% under legal action, 12% when considering only the portion relevant to the late-payment interest accrual model), basically stable compared to 30 September 2020 (1,749 million), and slightly up compared to 30 June 2021 (1,669 million). Non-recourse factoring, accounting for 76% of receivables, includes tax receivables (accounting for 17% of receivables).

As to the **CQ** business line, the Group purchased/funded 194 million of loans, less compared to last year (230 million), and the loan stock at 30 September 2021 came to 955 million, up by 3% y/y (931 million) and basically stable compared to 30 June 2021 (959 million), in spite of prepayments.

At 30 September 2021, **pawn loans** added up to 87.3 million, up by 16% y/y (75.0 million) and by 5% over 30 June 2021 (82.8 million), driven by the Q3 volumes that exceeded those of the prior quarters.

Operating results as at 30 September 2021

Net interest income, at 57.0 million, rose by 7% y/y, as the slight decline in interest income was more than offset by a lower interest expense. In the first nine months of 2021, the fall in interest income (69.8 million vs 71.6 million as at 30.9.2021 and 30.9.2020, respectively) was mainly due to the smaller contribution of factoring, which was not fully offset by the greater contribution of pawn loans and of State-guaranteed loans that Banca Sistema has been offering to its factoring clients since last year (loans stood at 131 million at 30 September 2021), following the adoption by the Government of measures to support the economy.
In today's market environment, interest income from the factoring business has been declining y/y (-11%), late-payment interest reported a slight increase, while interest income from tax receivables has been going down as in the prior quarters.

The overall P&L contribution as at 30 September 2021 from late-payment interest under legal action came to 16.3 million (16.1 million at 30 September 2020).
Total late-payment interest under legal action accrued at 30 September 2021 and relevant to the accrual model came in at 101 million (166 million when including municipalities under conservatorship, against which no late-payment interest is accrued), while receivables already on the books totaled 52.2 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%.

Total cost of funding, which came in at 0.4%, posted a y/y decline (0.6% in 2020), as a result of the reduction reported by the Wholesale component (where the impact from the substitution of Tier II issues with AT1 instruments classified as equity – that has been greater as of Q3 2021- is to be accounted for).

Net fees and commissions, amounting to 11.9 million, were stable y/y (11.9 million in 9M 2020), as the lower commission income from factoring was offset by the higher commission income from pawn loans.
The contribution in terms of total revenues from factoring, i.e., the sum of interest income, commission income and revenues from portfolio disposals, has been declining in absolute terms year on year; a decline is reported also when revenues are considered as a percentage over the average of receivables. For CQ loans, the interest income to average loans ratio has declined year on year, while it has remained stable compared to H1 2021.

At 30 September 2021, proprietary trading income generated by the sale of Italian government bonds totaled 4.2 million, down y/y (5.0 million). As usual, in 9M 2021 factoring receivables portfolios were sold, generating a revenue of 1.4 million (P&L line-item 100.a), down y/y (2.1 million).

Total income stood at 74.8 million, up 3% y/y, driven by the growth in interest income.

At 30 September 2021, **loan loss provisions** added up to 8.8 million, up y/y (7.2 million in the same period of 2020). This line-item includes a provision of 2.4 million referring to certain invoices falling within the conservatorship scope of a municipality, recognized in Q1 2021. Moreover, in Q2 2021 provisions against borrowers under conservatorship increased due to the expected lengthening of the collection time (1.4 million).
The cost of risk tied to customer loans, considering that the two impairments described above are deemed non-recurring, came in at 41 bps, slightly down compared to 42bps for full-year 2020.

The Group's **headcount** (FTE) came to 278 employees, stable when compared to the 273 resources reported in the same period of 2020.
Personnel expenses reflect the headcount evolution, which with respect to full-year 2021 was affected by the consolidation of 58 new resources from the business line acquired in Q3 2020. **Other administrative expenses** increased y/y, mainly driven by the consolidation of the acquired business line and by the higher cost for external servicers/collectors.
Total operating costs increased by 15% y/y, mainly driven by the dynamic of the two line-items described above, offset by the decline in **net provisions for risks and charges**.

Key balance sheet items at 30 September 2021

The **securities portfolio,** made up of Italian government bonds, amounted to 632.7 million (of which 183.8 million are classified under the line-item "Financial assets measured at amortized cost", well below the amount reported at the end of 2020), with an average time to maturity of 34.4 months. The "Hold to Collect and Sell" (HTCS) component, amounting to 448.8 million at 30 September 2021, has increased compared with 31 December 2020 (425 million), and has an average time to maturity of about 34.5 months.
Financial assets measured at amortized cost (2,912 million), mainly represented by factoring receivables (1,443 million), went down by 2.6% over 31 December 2020 (1,482 million), while they slightly increased over 30 June 2021 (1,418 million), and they include also CQ loans (salary- and pension-backed loans), part of the securities portfolio, and 87.3 million of pawn loans (on a stable quarterly uptrend). More specifically, CQ loans added up to 955 million (934 million at 31 December 2020).

The **gross non-performing loan** stock of 294.5 million went up compared to 31 December 2020 (251.2 million), while it declined over 30 June 2021, mainly driven by the decline in bad loans (that instead had increased as at 30 June 2021, due to the reclassification as bad loans of exposures towards local governments under conservatorship, that up until the previous quarter were classified as Unlikely-to-pay loans).
The gross NPL to total loan ratio decreased from 11.1% at 30 June 2021 to 10.9% at 30 September 2021.

Tangible assets (PP&E) include the Milan building where the bank's headquarters are based, and a property purchased in Rome in Q1 2021.

Retail deposits accounted for approx. 68% of total funding (59% at 31 December 2020), and comprise checking accounts and term deposits. The Retail component of funding has increased also in absolute terms when compared to year-end 2020.

Under **Financial liabilities measured at amortized cost (3.036million)**, **Due to banks** went down compared to 31 December 2020 (592 million at 30.09.2021 vs 870 million at 31.12.2020), due to a smaller contribution from the "due to central banks" (BCE) component, which went from 690 million at 31 December 2020 down to 537 million at 30 September 2021, and is comprised exclusively of TLTRO III. A decline was reported also over 30 June 2021 (when it amounted to 737 million, of which 540 million of TLTRO III).
Under Financial liabilities measured at amortized cost, **Due to customers** went up compared to year-end 2020; more specifically this was mainly driven by the increase in checking accounts and deposits, which more than offset the decline in repos (the same increase has been reported over 30 June 2021).
Debt securities (169 million) went down compared to 31 December 2020, mainly driven by the redemption of the privately placed senior bond (in Q2 2021) and the replacement of a subordinated T2 bond with the issue of an Additional Tier 1 instrument (AT1) for the same amount (37.5 million), which however is classified as an equity instrument (line-item 140 of Balance sheet Liabilities), and by the reclassification described below, not fully offset by a greater use of funding collateralized by ABS, represented by salary- or pension-backed loans. The AT1 instrument (amounting to 8 million) outstanding at 31.12.2020 has been reclassified under line-item 140 "Equity instruments" of the Statement of financial position from line-item 10 "Financial liabilities measured at amortized cost, c) Debt securities".

Total own funds (Total Capital) at 30 September 2021 amounted to 219.8 million, up compared to 30 June 2021 (216.4 million), and they include the net income for the period (net of the estimated dividend amount, corresponding to a payout ratio of 25% of the Parent company's net income).

At 30 September 2021, **capital ratios**[1] remained basically stable compared to 30 June 2021, notwithstanding the increase in Risk Weighted Assets, and they stood as follows:

- **CET1 ratio 12.2%**;
- **TIER 1 ratio 15.4%**;
- **Total Capital ratio 15.4%**.

Following the guidelines related to the adoption of the definition of default pursuant to article 178 of EU Regulation no. 575/2013 and communicated by the Supervisory Authority at the end of the working day of 28 October 2021, a thorough analysis and review of the operational solutions currently in place will be conducted, that may lead to negative impacts on the CET1 ratio and on the Total Capital ratio reported in this release, currently estimated to amount to around 0.60% and 0.8%, respectively.

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As per communication dated 5 March 2021, the Bank of Italy carried out inspections on Banca Sistema pursuant to articles 54 and 68 of Legislative Decree no. 385/90, whose outcome was notified on 1st September 2021. The Bank has already fulfilled some of the requests raised by the Regulator during the inspections.

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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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

The acceleration in payments by public administrations is expected to continue also in the last quarter, causing a downward pressure on factoring profitability. This effect has been driven by the extraordinary funds made available by the central Government to local governments to tackle the issue of liquidity caused by the pandemic. We do not expect this trend to become structural; indeed, as the transfer of extraordinary funds to local governments by the central Government is withdrawn, also the observed acceleration in payments will decline accordingly.
The COVID-19 pandemic situation is being constantly monitored, keeping an eye on the markets the Group operates in and on the business approach, as well as on any new impact that at present has not yet emerged, and that would be reflected, if necessary, on the financial assets' estimated recovery amount.

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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 pawn 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, Gruppo Banca Sistema is also present in Bologna, Pisa, Naples, Palermo, Asti, Brescia, Civitavecchia, Florence, Mestre, Parma, Rimini and Turin, has 278 employees and relies on a multichannel structure.

Attachments

For a like-for-like comparison, following the reclassification as of Q2 2021 of AT1 capital (8 million) under line-item 140 “Equity instruments” of the Statement of financial position from the previous classification under line-item 10 “Financial liabilities measured at amortized cost, c) Debt securities”, also the Income Statements at 31 March 2021 and 2020, the Income Statements of the second and third quarter of 2020, and the Statements of financial position as at 31 March 2021 and 31 December 2020 have been restated.

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

BANCA SISTEMA GROUP: CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Figures in thousands of Euro

		30.09.2021 A	30.06.2021	31.03.2021	31.12.2020 B	Difference % A - B
	ASSETS					
10.	Cash and cash equivalents	1,576	1,342	2,166	1,930	-18%
30.	Financial assets held to collect and sell (HTCS)	454,369	411,053	472,847	430,966	5%
40.	Financial assets held to collect (HTC)	2,912,093	2,933,683	2,867,264	3,142,791	-7%
	a) Loans and advances to banks	90,676	85,173	79,085	92,481	-2%
	b) Loans and advances to customers	2,821,417	2,848,510	2,788,179	3,050,310	-8%
	of which: Factoring	*1,442,622*	*1,418,448*	*1,415,340*	*1,481,678*	*-3%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*955,114*	*959,014*	*917,279*	*933,873*	*2%*
	of which: Pawn loans	*87,311*	*82,762*	*79,656*	*77,684*	*12%*
	of which: Securities	*183,815*	*233,506*	*233,311*	*447,864*	*-59%*
70.	Equity investments	998	1,015	1,010	1,000	nm
90.	Property, plant and equipment	41,035	41,353	41,529	32,607	26%
100.	Intangible assets	33,003	32,883	32,821	32,725	1%
	of which: goodwill	32,355	32,355	32,355	32,355	0%
110.	Tax assets	10,660	10,300	10,465	10,313	3%
130.	Other assets	22,433	22,696	19,133	19,039	18%
	Total assets	**3,476,167**	**3,454,325**	**3,447,235**	**3,671,371**	**-5%**
	LIABILITIES AND EQUITY					
10.	Financial liabilities at amortised cost	3,036,071	3,022,710	3,035,894	3,274,230	-7%
	a) Due to banks	592,347	844,720	821,200	869,648	-32%
	b) Due to customers	2,274,966	1,989,451	1,924,487	2,164,244	5%
	c) Debt securities issued	168,758	188,539	290,207	240,338	-30%
60.	Tax liabilities	17,501	14,495	18,621	16,903	4%
80.	Other liabilities	135,142	136,573	145,824	136,894	-1%
90.	Post-employment benefits	4,112	4,301	4,407	4,428	-7%
100.	Provisions for risks and charges:	22,877	23,184	23,915	23,430	-2%
140.	Equity instruments	45,500	45,500	8,000	8,000	nm
120. +150. +160.+ 170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	190,718	189,682	196,695	172,036	11%
190.	Minority interests	9,466	9,390	9,325	9,297	2%
200.	Profit for the period	14,780	8,490	4,554	26,153	-43%
	Total liabilities and equity	**3,476,167**	**3,454,325**	**3,447,235**	**3,671,371**	**-5%**

BANCA SISTEMA GROUP: CONDOLIDATED INCOME STATEMENT

Figures in thousands of Euro

		9M 2021 A	1Q 2021	2Q 2021	3Q 2021	9M 2020 B	1Q 2020	2Q 2020	3Q 2020	Difference % A - B
10.	Interest income	69,799	24,241	23,480	22,078	71,635	22,354	23,535	25,746	-3%
20.	Interest expenses	(12,760)	(4,837)	(4,379)	(3,544)	(18,403)	(6,293)	(5,976)	(6,134)	-31%
30.	**Net interest income**	**57,039**	**19,404**	**19,101**	**18,534**	**53,232**	**16,061**	**17,559**	**19,612**	**7%**
40.	Fee and commission income	18,389	5,940	5,997	6,452	17,263	6,006	5,674	5,583	7%
50.	Fee and commission expense	(6,464)	(1,916)	(2,173)	(2,375)	(5,324)	(1,803)	(1,788)	(1,733)	21%
60.	**Net fee and commission income**	**11,925**	**4,024**	**3,824**	**4,077**	**11,939**	**4,203**	**3,886**	**3,850**	**0%**
70.	Dividends and similar income	227	-	227	-	227	-	227	-	nm
80.	Net income from trading	21	5	16	-	38	(18)	56	-	-45%
100.	Profits (Losses) on disposal or repurchase of:	5,569	2,689	1,025	1,855	7,101	1,889	2,302	2,910	-22%
	a) financial assets measured at amortised cost	1,816	746	618	452	2,473	1,276	650	547	-27%
	b) financial assets measured at fair value through other comprehensive income	3,753	1,943	407	1,403	4,612	273	1,977	2,362	-19%
	c) financial liabilities	-	-	-	-	16	340	(325)	1	nm
120.	**Operating income**	**74,781**	**26,122**	**24,193**	**24,466**	**72,537**	**22,135**	**24,030**	**26,372**	**3%**
130.	Net impairment losses on loans	(8,807)	(4,103)	(3,728)	(976)	(7,229)	(1,922)	(3,146)	(2,161)	22%
140.	Profits (Losses) on changes in contracts without derecognition	(4)	-	-	(4)	-	-	-	-	nm
150.	**Net operating income**	**65,970**	**22,019**	**20,465**	**23,486**	**65,308**	**20,213**	**20,884**	**24,211**	**1%**
190. a)	Staff costs	(21,292)	(6,920)	(7,384)	(6,988)	(17,188)	(5,716)	(5,414)	(6,058)	24%
190. b)	Other administrative expenses	(22,678)	(8,621)	(7,330)	(6,727)	(19,524)	(6,621)	(5,621)	(7,282)	16%
200.	Net allowance for risks and charges	(26)	(1)	(25)	-	(1,181)	(672)	(471)	(38)	-98%
210. + 220.	Net impairment losses on property and intangible assets	(2,004)	(658)	(718)	(628)	(1,321)	(376)	(375)	(570)	52%
230.	Other net operating income/expense	1,686	852	523	311	696	106	159	431	nm
240.	**Operating expenses**	**(44,314)**	**(15,348)**	**(14,934)**	**(14,032)**	**(38,518)**	**(13,279)**	**(11,722)**	**(13,517)**	**15%**
250.	Profits of equity-accounted investees	(2)	10	5	(17)	-	-	-	-	nm
280.	Profits from investments disposal	-	-	-	-	1,090	-	1,090	-	nm
290.	**Pre-tax profit from continuing operations**	**21,654**	**6,681**	**5,536**	**9,437**	**27,880**	**6,934**	**10,252**	**10,694**	**-22%**
300.	Tax expenses (income) for the period from continuing operations	(6,705)	(2,098)	(1,536)	(3,071)	(8,423)	(2,251)	(2,739)	(3,432)	-20%
310.	**Profit after tax from continuing operations**	**14,949**	**4,583**	**4,000**	**6,366**	**19,457**	**4,683**	**7,513**	**7,262**	**-23%**
330.	**Profit for the period**	**14,949**	**4,583**	**4,000**	**6,366**	**19,457**	**4,683**	**7,513**	**7,262**	**-23%**
340.	Profit for the period attributable to the Minority interests	(169)	(29)	(64)	(76)	333	-	119	214	-151%
350.	**Profit for the period attributable to the shareholders of the Parent**	**14,780**	**4,554**	**3,936**	**6,290**	**19,790**	**4,683**	**7,632**	**7,476**	**-25%**

BANCA SISTEMA GROUP: ASSET QUALITY

Figures in thousands of Euro

30.09.2021	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**294,503**	**57,342**	**237,161**
Bad loans	*168,253*	*46,435*	*121,818*
Unlikely to pay	*34,324*	*10,450*	*23,874*
Past-dues	*91,926*	*457*	*91,469*
Performing Exposures	**2,407,571**	**7,129**	**2,400,442**
Total Loans and advances to customers	**2,702,074**	**64,471**	**2,637,603**

30.06.2021	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**296,221**	**56,623**	**239,598**
Bad loans	*169,372*	*46,160*	*123,212*
Unlikely to pay	*34,387*	*10,025*	*24,362*
Past-dues	*92,462*	*438*	*92,024*
Performing Exposures	**2,382,395**	**6,989**	**2,375,406**
Total Loans and advances to customers	**2,678,616**	**63,612**	**2,615,004**

31.12.2020	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**251,164**	**46,027**	**205,137**
Bad loans	*52,354*	*25,240*	*27,114*
Unlikely to pay	*148,433*	*20,352*	*128,081*
Past-dues	*50,377*	*435*	*49,942*
Performing Exposures	**2,404,623**	**7,315**	**2,397,308**
Total Loans and advances to customers	**2,655,787**	**53,342**	**2,602,445**