

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 31 DECEMBER 2021

- Business performance:
 - Factoring: volumes ran at 3,611 million, +16% y/y
 - CQ: loans totaled 932 million, stable y/y
 - Pawn loans: loans came to 90 million, +16% y/y
- Net interest income: 82.0 million, +10% y/y
- Total income: 108.0 million, +6% y/y
- Total operating costs: 62.9 million, +14% y/y
- Loan loss provisions: 10.6 million, -3% y/y
- Net income: 23.3 million
- 2021 RoTE at 13.1%¹
- The retail component accounts for 68% of total funding, on the rise y/y
- Leverage ratio at 6.0% on the rise y/y
- CET1 ratio at 11.6% and Total Capital ratio at 14,6%

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Milan, 10 February 2022

The Board of Directors of Banca Sistema has approved today the consolidated results as at 31 December 2021, reporting a **net income** of 23.3 million, from 26.2 million reported in the same period of 2020, which included the gain from the sale of a 25% share in the subsidiary ProntoPegno (1.1 million, recognized in Q2 2020).

Business Performance

In a market characterized by a gradual improvement of the production system, with a turnover of 3.611 million (of which 1,115 million in Q4) generated by roughly 450 clients, the **factoring** business reported a growth rate of 16% y/y, driven by the commercial receivables component, thanks to the diversification implemented in recent years, while the performance of the tax receivables component, similarly to the previous quarters of 2021, was weaker compared to the prior year.

As at 31 December 2021, **factoring** receivables (management data) stood at 1,850 million (of which 25% under legal action, 10% when considering only the portion relevant to the late-payment interest accrual model), up from 1,707 million at 30 September 2021 and also compared to 31 December 2020 (1,717

¹Il Return on Tangible Equity (RoTE) is the ratio between the Group's Net Income for the period and the Group's Net Assets (net of AT1 bonds, classified as equity instrument) excluding the amount posted under Intangible Assets.

million). Non-recourse factoring, accounting for 74% of receivables, includes tax receivables (accounting for 14% of receivables).

As to the **CQ** business line, the Group purchased/funded 299 million of loans, basically stable compared to last year (308 million), with the Direct channel accounting for 29% of total loans at year-end, which is more than double compared to last year. The loan stock at 31 December 2021 came to 932 million, stable y/y (934 million) and slipping slightly compared to 30 September 2021 (955 million), due to prepayments and to two portfolio disposals in Q4 2021 (portfolio disposals had been finalized also in 2020).

As at 31 December 2021, **pawn loans** added up to 90 million, up by 16% y/y (78 million), in line with the growth of the first 9M 2021.

Operating results as at 31 December 2021

Net interest income, at 82.0 million, rose by 10% y/y. Interest income was basically flat (98.2 million vs 98.1 million as at 31.12.2021 and 31.12.2020, respectively); the lower contribution of factoring was compensated for by the larger contribution made by pawn loans and State-guaranteed loans that Banca Sistema has been offering to its factoring clients (loans stood at 160 million at 31 December 2021, 74 million at 31 December 2020), since after the adoption last year of measures to support the economy by the Government.

In today's market environment, interest income from the factoring business, accounting for roughly 61% of total interest margin, fell by 6% y/y (albeit it picked up in Q4 2021 compared to the prior three quarters), late-payment interest remained stable and income from tax receivables declined.

The overall P&L contribution as at 31 December 2021 from late-payment interest under legal action came to 21.5 million (21.6 million at 31 December 2020).

Total late-payment interest under legal action accrued at 31 December and relevant to the accrual model came in at 99.1 million (168.8 million when including municipalities under conservatorship, against which no late-payment interest is accrued), while receivables already on the books totaled 51.5 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 15.7 million, declined y/y (17.4 million at 31 December 2020) driven by the lower commission income from factoring, offset by the higher commission income stream 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 remained stable year on year when including gains on disposals carried out in the last quarters of both 2020 and 2021.

At 31 December 2021, proprietary trading income generated by the sale of Italian government bonds totaled 4.6 million, down y/y (5.7 million in 2020). As usual, in 2021 factoring receivables portfolios were

sold, generating a revenue of 1.9 million (P&L line-item 100.a), down y/y (2.4 million in 2020) and in Q4 CQ portfolios were sold, reporting revenues of 3.7 million (P&L line-item 100.a), on the rise y/y (1.4 million in 2020).

Total income stood at 108 million, up by 6% y/y.

At 31 December 2021, **loan loss provisions** added up to 10.6 million, down y/y (11.0 million in 2020). This line-item includes a value adjustment 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 came in at 40bps, down from 42bps in 2020.

The Group's **headcount** (FTE) came to 278 employees, on the rise when compared to the 269 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 and by the salary adjustment. **Other administrative expenses** increased y/y, mainly driven by the higher cost of servicing/collection/legal action, the costs tied to a property acquired in 2021 and the higher business development-related expenses.

Total operating costs increased by 14% y/y, mainly driven by the dynamic of the two line-items described above.

Net income before tax at 31 December 2021 was 34.5 million.

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Key balance sheet items at 31 December 2021

The **securities portfolio**, made up of Italian government bonds, amounted to 629.9 million (of which 184.1 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 31.3 months. The "Hold to Collect and Sell" (HTCS) component, amounting to 445.8 million at 31 December 2021, has slightly increased over 31 December 2020 (425 million), and has an average time to maturity of about 31.4 months.

Financial assets measured at amortized cost (2,954 million), mainly represented by factoring receivables (1,542 million), rose by 4.1% over 31 December 2020, and include also CQ loans (salary- and pension-backed loans), part of the securities portfolio, and 90 million of pawn loans (on a stable quarterly uptrend). More specifically, CQ loans added up to 932 million (934 million at 31 December 2020).

The **gross non-performing loan** stock of 315.1 million went up compared to 31 December 2020 (251.2 million), mainly driven by the increase in past dues following the introduction of the new definition of default (DoD). In the last quarter of 2021, the increase in the NPE stock is mainly attributable to an increase in past dues (as partly anticipated in the press release dated 29 October 2021) and to a lesser extent to an increase in Utps.

The gross NPL to total loan ratio increased from 9.5% at 31 December 2020 to 11.2% at 31 December 2021.

Tangible assets (PP&E), on the rise y/y, 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 (3,257million)**, **Due to banks** went down compared to 31 December 2020 (592 million at 31.12.2021 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 540 million at 31 December 2021, and to a decline in interbank loans.

Under Financial liabilities measured at amortized cost, **Due to customers** went up compared to year-end 2020; more specifically driven by the increase in checking accounts and deposits.

Debt securities (193 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 ABS funding, collateralized by CQ 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".

The **Group's Shareholders' equity** at 31 December 2021 stood at 256 million, net of minority interest, which on the same date amounted to 9.6 million.

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Total own funds (Total Capital) at 31 December 2021 amounted to 221.7 million, up from 30 September 2021 (219.8 million), and 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). Own funds include the negative reserve of the Italian government bond portfolio component classified as HTCS, amounting to 2.4 million, the 1.9 million negative prudential filter tied to Calendar provisioning, and the interest accrued on AT1.

At 31 December 2021, **capital ratios**² declined compared to 30 September, following the increase in Risk Weighted Assets, mainly due to the increase in corporate loans and to a lesser extent to the increase in past dues, and they stood as follows:

- **CET1 ratio 11.6%** (12.2% at 30 September 2021);
- **TIER 1 ratio 14.6%** (15.4% at 30 September 2021);
- **Total Capital ratio 14.6%** (15.4% at 30 September 2021).

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%.

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.

Operational outlook and main risks and uncertainties

The acceleration in payments by public administrations is expected to stabilize also in the first months of 2022, and this could produce the potential effect of maintaining the current factoring profitability. This event has been driven by extraordinary funds provided to local administrations by the central State to allow them to address the liquidity issue caused by the pandemic. We do not expect this payment acceleration trend to continue once the State will start tapering the extraordinary transfers to local administrations.

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 value.

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

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Banca Sistema Group

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 is active in consumer credit 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 Group which has a customer base of 100,000, also offers deposit products, 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 of all the 2020 accounting periods have been restated. Accordingly, also the comparative Statement of financial position as at 31 December 2020 has been restated.

Finally, please note that, following the issue of the 7th update of Circular no. 262/2005 of the Bank of Italy, the figures posted under the Assets line-items 10 and 40 a) as at 31 December 2020 and 30 September 2021 have been reclassified to take into account the recognition of all demand deposits and current accounts with banks and Central Banks under line-item 10, in accordance with IAS 1. Par. 40.

- Consolidated Balance sheet
- Consolidated Income statement
- Asset quality

BANCA SISTEMA GROUP: CONSOLIDATED BALNCE SHEET

Figures in thousands of Euro

		31.12.2021 A	30.09.2021	31.12.2020 B	Difference % A - B
	ASSETS				
10.	Cash and cash equivalents	175,835	64,834	68,858	nm
30.	Financial assets held to collect and sell (HTCS)	451,261	454,369	430,966	5%
40.	Financial assets held to collect (HTC)	2,954,174	2,848,835	3,075,863	-4%
	a) Loans and advances to banks	33,411	27,418	25,553	31%
	b) Loans and advances to customers	2,920,763	2,821,417	3,050,310	-4%
	<i>of which: Factoring</i>	1,541,687	1,442,622	1,481,678	4%
	<i>of which: Salary-/pension-backed loans (CQS/CQP)</i>	931,767	955,114	933,873	nm
	<i>of which: Collateralised loans</i>	90,030	87,311	77,684	16%
	<i>of which: Securities</i>	184,042	183,815	447,864	-59%
70.	Equity investments	1,002	998	1,000	nm
90.	Property, plant and equipment	40,780	41,035	32,607	25%
100.	Intangible assets	33,125	33,003	32,725	1%
	<i>of which: goodwill</i>	32,355	32,355	32,355	nm
110.	Tax assets	12,840	10,660	10,313	25%
120.	Non-current assets and disposal groups classified as held for sale	68	-	-	nm
130.	Other assets	39,806	22,433	19,039	nm
	Total assets	3,708,891	3,476,167	3,671,371	1%
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	3,257,401	3,036,071	3,274,230	-1%
	a) Due to banks	592,157	592,347	869,648	-32%
	b) Due to customers	2,472,054	2,274,966	2,164,244	14%
	c) Debt securities issued	193,190	168,758	240,338	-20%
60.	Tax liabilities	14,981	17,501	16,903	-11%
70.	Liabilities associated with non-current assets held for sale and discontinued operations	18	-	-	nm
80.	Other liabilities	137,995	135,142	136,894	1%
90.	Post-employment benefits	4,310	4,112	4,428	-3%
100.	Provisions for risks and charges:	28,654	22,877	23,430	22%
140.	Equity instruments	45,500	45,500	8,000	nm
120. +150. +160. +170. +180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	187,212	190,718	172,036	9%
190.	Minority interests	9,569	9,466	9,297	3%
200.	Profit for the period	23,251	14,780	26,153	-11%
	Total liabilities and equity	3,708,891	3,476,167	3,671,371	1%

BANCA SISTEMA GROUP: INCOME STATEMENT

Figures in thousands of Euro

		2021 A	1Q 2021	2Q 2021	3Q 2021	4Q 2021	2020 B	1Q 2020	2Q 2020	3Q 2020	4Q 2020	Difference % A - B
10.	Interest income	98,211	24,241	23,480	22,078	28,412	98,067	22,354	23,535	25,746	26,432	nm
20.	Interest expenses	(16,249)	(4,837)	(4,379)	(3,544)	(3,489)	(23,235)	(6,293)	(5,976)	(6,134)	(4,832)	-30%
30.	Net interest income	81,962	19,404	19,101	18,534	24,923	74,832	16,061	17,559	19,612	21,600	10%
40.	Fee and commission income	25,597	5,940	5,997	6,452	7,208	24,328	6,006	5,674	5,583	7,065	5%
50.	Fee and commission expense	(9,942)	(1,916)	(2,173)	(2,375)	(3,478)	(6,900)	(1,803)	(1,788)	(1,733)	(1,576)	44%
60.	Net fee and commission income	15,655	4,024	3,824	4,077	3,730	17,428	4,203	3,886	3,850	5,489	-10%
70.	Dividends and similar income	227	-	227	-	-	227	-	227	-	-	nm
80.	Net income from trading	21	5	16	-	-	37	(18)	56	-	(1)	-43%
100.	Profits (Losses) on disposal or repurchase of:	10,089	2,689	1,025	1,855	4,520	9,531	1,889	2,302	2,910	2,430	6%
	a) financial assets measured at amortised cost	5,999	746	618	452	4,183	4,214	1,276	650	547	1,741	42%
	b) financial assets measured at fair value through other comprehensive income	4,090	1,943	407	1,403	337	5,301	273	1,977	2,362	689	-23%
	c) financial liabilities	-	-	-	-	-	16	340	(325)	1	-	nm
120.	Operating income	107,954	26,122	24,193	24,466	33,173	102,055	22,135	24,030	26,372	29,518	6%
130.	Net impairment losses on loans	(10,624)	(4,103)	(3,728)	(976)	(1,817)	(11,000)	(1,922)	(3,146)	(2,161)	(3,771)	-3%
140.	Profits (Losses) on changes in contracts without derecognition	(4)	-	-	(4)	-	-	-	-	-	-	nm
150.	Net operating income	97,326	22,019	20,465	23,486	31,356	91,055	20,213	20,884	24,211	25,747	7%
190. a)	Staff costs	(28,981)	(6,920)	(7,384)	(6,988)	(7,689)	(25,532)	(5,716)	(5,414)	(6,058)	(8,344)	14%
190. b)	Other administrative expenses	(29,547)	(8,621)	(7,330)	(6,727)	(6,869)	(25,534)	(6,621)	(5,621)	(7,282)	(6,010)	16%
200.	Net allowance for risks and charges	(1,705)	(1)	(25)	-	(1,679)	(2,520)	(672)	(471)	(38)	(1,339)	-32%
210. + 220.	Net impairment losses on property and intangible assets	(2,710)	(658)	(718)	(628)	(706)	(1,956)	(376)	(375)	(570)	(635)	39%
230.	Other net operating income/expense	74	852	523	311	(1,612)	260	106	159	431	(436)	-72%
240.	Operating expenses	(62,869)	(15,348)	(14,934)	(14,032)	(18,555)	(55,282)	(13,279)	(11,722)	(13,517)	(16,764)	14%
250.	Profits of equity-accounted investees	2	10	5	(17)	4	-	-	-	-	-	nm
280.	Profits from investments disposal	-	-	-	-	-	1,090	-	1,090	-	-	-100%
290.	Pre-tax profit from continuing operations	34,459	6,681	5,536	9,437	12,805	36,863	6,934	10,252	10,694	8,983	-7%
300.	Tax expenses (income) for the period from continuing operations	(10,916)	(2,098)	(1,536)	(3,071)	(4,211)	(11,194)	(2,251)	(2,739)	(3,432)	(2,771)	-2%
310.	Profit after tax from continuing operations	23,543	4,583	4,000	6,366	8,594	25,669	4,683	7,513	7,262	6,211	-8%
320.	Profit (Loss) after tax from discontinued operations	(20)	-	-	-	(20)	-	-	-	-	-	nm
330.	Profit for the period	23,523	4,583	4,000	6,366	8,574	25,669	4,683	7,513	7,262	6,211	-8%
340.	Profit for the period attributable to the Minority interests	(272)	(29)	(64)	(76)	(103)	484	-	119	214	151	-156%
350.	Profit for the period attributable to the shareholders of the Parent	23,251	4,554	3,936	6,290	8,471	26,153	4,683	7,632	7,476	6,362	-11%

BANCA SISTEMA GROUP: ASSET QUALITY*Figures in thousands of Euro*

31.12.2021	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	315,071	59,497	255,574
<i>Bad loans</i>	169,099	47,554	121,545
<i>Unlikely to pay</i>	37,374	11,352	26,022
<i>Past-dues</i>	108,598	591	108,007
Performing Exposures	2,488,035	6,847	2,481,188
Total Loans and advances to customers	2,803,106	66,344	2,736,762

30.09.2021	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	294,503	57,342	237,161
<i>Bad loans</i>	168,253	46,435	121,818
<i>Unlikely to pay</i>	34,324	10,450	23,874
<i>Past-dues</i>	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

31.12.2020	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	251,164	46,027	205,137
<i>Bad loans</i>	52,354	25,240	27,114
<i>Unlikely to pay</i>	148,433	20,352	128,081
<i>Past-dues</i>	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