BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 31 MARCH 2023

- Business performance:
    - Factoring volumes: 1,069 million, +9% y/y
    - CQ loans: 903 million, slightly down y/y
    - Pawn loans: 109 million, +19% y/y

- Net interest income: 20.6 million, stable y/y
- Total income: 25.3 million, +3% y/y
- Total operating costs: 18.4 million, +17% y/y
- Loan loss provisions: 1 million, down y/y
- Net income: 3.7 million

- The retail component accounts for 50% of total funding
- CET1 ratio at 12.0% and Total Capital ratio at 15.3%

Milan, 12 May 2023

The Board of Directors of Banca Sistema has approved the consolidated financial statements as at 31 March 2023, reporting a **net income** of 3.7 million, as compared to 4.4 million in the same period of 2022.

Business Performance

The **factoring** business line reported a solid growth, reaching a turnover of 1,069 million, corresponding to a growth rate of 9% y/y.
As at 31 March 2023, **factoring** receivables stood at 1,576 million, up from 1,501 million as at 31 December 2022 and down compared to 31 March 2022 (1,632 million), due to a different dynamic of collections.
Non-recourse factoring, accounting for 83% of receivables outstanding under management accounts[1], includes tax receivables (13% of receivables compared to 9% on 31.12.2022).

As to the **CQ** business line, the Group granted loans for 37 million (financed amount), down in comparison with last year (47 million), exclusively through the Direct channel (*QuintoPuoi*).
The loan stock as at 31 March 2023 added up to 903 million, down both y/y (919 million) and compared to 31 December 2022 (933 million).

As at 31 March 2023, **pawn loans** came to 109.4 million, up by 19% y/y.

[1] Amounting to 1,651 million as at 31.03.2023, 1,650 million as at 31.12.2022 and 1,932 million as at 31.03.2022.

Operating results as at 31 March 2023

Net interest income, at 20.6 million, was fairly stable y/y.
Interest income grew by 70% y/y (40.1 million vs 23.6 million as at 31.03.2023 and 31.03.2022, respectively), on the rise already since Q4 2022. The greater y/y contribution from all businesses/products curbed the increase in the cost of funding.
In the current market environment, interest income from the factoring business, accounting for roughly 56% of total interest margin, increased by 64% y/y, driven among other things by a stronger late-payment interest stream from legal action.

As at 31 March 2023, the overall P&L contribution from late-payment interest under legal action came to 11.1 million (4.1 million as at 31 March 2022), of which 3.8 million generated by the policy interest rate hikes (ECB) in 2022, which in turn caused the rate tied to "Dlgs. 9 October 2022 no. 231" (implementing EU regulations on late payments) to increase from 8% to 10.5% as of 01.01.2023.
Following the additional rate hikes by the European Central Bank in the first months of 2023, which will call for an adjustment of the "Dlgs. 9 October 2022 no. 231" rate as of 1.7.2023, further impacts are going to be reported in the coming quarters.
Total late-payment interest under legal action accrued as at 31 March 2023, and relevant to the accrual model, came in at 112 million (201 million when including municipalities under conservatorship, against which no late-payment interest is accrued), while receivables already on the books totaled 64.7 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 projections, that are still confirmed to exceed 80%.

The total cost of funding, at 2%, is on the rise (in 2022 it came in at 0.4%), with interest expense going to 19.5 million from 2.9 million as at 31.03.2022 (7.1 million in Q4 2022). As a result of market dynamics and of the ECB's monetary policy decisions, in the coming three months the cost of funding is expected to increase further, albeit less than in the prior quarter.

Net fees and commissions, amounting to 4.6 million, were on the rise y/y (3.7 million as at 31 March 2022), mainly driven by the greater contribution from 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 (25.4 million as at 31.03.2023), has been increasing in absolute terms year on year (17.2 million as at 31.03.2022). Total factoring revenues taken as a percentage over the average of receivables have reported an increase on a y/y basis (+100bps y/y). For CQ loans, the interest income to average loans ratio is 2.3%, +20bps y/y. The profitability of pawn loans has reported a strong increase (+250bps y/y).

A greater contribution is expected from portfolio disposals and proprietary trading in the coming quarters, which in the first quarter of 2023 totaled 0.1 million only.

Total income came in at 25.3 million, up by 3% y/y and basically in line with the last quarter of 2022, with a cost of funding that to date is higher.

As at 31 March 2023, **loan loss provisions** added up to 1 million, down y/y (2.3 million). The cost of risk tied to customer loans came in at 15bps.

The Group's **headcount** (FTE) added up to 291 employees (275 as at 31-03-2022), reporting an increase also due to the integration of Art-Rite and the opening of the Greek pawn loan company.
The y/y increase in **personnel expenses** is mainly tied to the release in 2022 of the variable component earmarked in 2021 which had generated a positive impact of 0.7 million.
Other administrative expenses grew y/y. It was driven by a mix of higher expenses, such as marketing, IT and legal, and in Q1 2023 there was also the consolidation of the subsidiaries Art-Rite and PP Grecia.
The aggregate line-item **total operating costs** increased by 17% y/y (+2.7 million y/y, of which 1 million tied to higher provisions reported in the line-item **Provisions for risks and charges)**.

Net income before tax as at 31 March 2023 added up to 5.9 million, down by 12% y/y.

Key balance sheet items as at 31 March 2023

The **securities portfolio,** made up of Italian Government bonds, amounted to 1,243.7 million (of which 686.1 million are classified under the line-item "Financial assets measured at amortized cost", slightly up compared to 681.4 million as at 31 December 2022), with an average duration of 15.3 months. The "Held to Collect and Sell" (HTCS) component, amounting to 557.6 million as at 31 March 2023, has slightly increased compared to 31 December 2022 (553 million), while it declined compared to 31 March 2022 (580.7 million), with an average duration of about 22.7 months.
Financial assets measured at amortized cost (3,598 million) are made up of factoring receivables (1.576 million), up 5% compared to 31 December 2022, and down compared to 31 March 2022 (1,632 million), as well as CQ loans (salary- and pension-backed loans) (903 million), part of the securities portfolio (686.1 million), State-guaranteed loans to SMEs (189 million vs. 197 million as at 31.12.2022), and 109 million of pawn loans (on a stable quarterly upward trend).

The **gross non-performing loan** stock came in at 275.9 million, down compared to 31 December 2022 (284.8 million). The quarterly performance was mainly driven by the lower amount of past due loans, amounting to 67.4 million, (81.4 million as at 31.12.2022), whose decline more than offset the increase in bad loans (which net of municipalities under conservatorship have a coverage rate of 88%) and unlikely-to-pay loans.

Retail funding, accounting for approx. 50% of total funding, includes checking accounts and term deposits to individuals and companies.

Under **Financial liabilities measured at amortized cost (3,875 million)**, **Due to banks** went up compared to 31 December 2022 (931 million vs 623 million as at 31.12.2022), driven by a greater contribution from the interbank component, more specifically a repo transaction with a banking counterparty.
Under Financial liabilities measured at amortized cost, Due to customers (2,829 million) went down compared to year-end 2022 (3,056 million), mainly driven by the dynamic of checking accounts.
The steered decline in checking accounts (438 million vs 639 million as at 31 December 2022) in the corporate/institutional customer segment, in line with the bank's strategy, was partly offset by an increase in retail deposit accounts (1,444 million vs 1,432 as at 31 December 2022), an upward trend that continued to run high in the month of April in the retail segment, mainly involving the foreign deposit platforms channel.

Debt securities (115 million) declined compared to 31 December 2022, due to the lower use of structured finance transactions as funding source, in particular with respect to the funding component secured by tax credits.
The deposit evolution in the last two quarters, poised to continue also in the future, is in line with the loan evolution, and was characterized by a stronger focus on retail vs. corporate.

As at 31 March 2023, **Total own funds** (Total Capital) totaled 215.5 million, (220.6 million as at 31 December 2022, under the transitional criteria in compliance with art. 468 of CRR) and - in addition to 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) - it included also the equity reserve for "Financial assets at fair value though other comprehensive income" (HTCS), in particular on Italian government bonds[2].
Capital ratios[3], up compared to the comparative data as at 31 December 2022 (see press release of 10 February 2023), notwithstanding the increase in RWA (1,412.5 million as at 31.03.2023 vs. 1,385.2 million as at 31.12.2022), stood at:

- **CET1 ratio 12.0%**;
- **TIER 1 ratio 15.2%**;
- **Total Capital ratio 15.3%**.

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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 increase in the cost of funding, caused by the current market environment, has not been fully transferred onto the return of the originated loans portfolios, considering that a portion of the CQ portfolio is fixed rated, therefore net interest income did not increase compared to the same period last year. A gradual growth in the profitability of the new originated loans is expected in the coming quarters. The 2023 overall result is going to be influenced by transactions whose outcome, among other things, depends on the economic and market performance, whose dynamics are to date uncertain.

[2]The equity reserve for "Financial assets at fair value through other comprehensive income" (HTCS), in particular on Italian Government bonds, amounts to -21.4 million (-24.7 million as at 31 December 2022).
[3]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 as of 31 September 2022:

- Common Equity Tier 1 ratio (CET1 ratio) of 9.0%;
- Tier1 ratio of 10.5%;
- Total Capital ratio of 12.50%.

The Group has no direct exposure to entities or individuals subject to the restrictive sanctions imposed by the European Union over the war in Ukraine; the evolution of the conflict and of the sanctions is being constantly and carefully monitored by the Group.

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

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Gruppo Banca Sistema
Banca Sistema, founded in 2011 and listed since 2015 on Borsa Italiana's Euronext Star Milan segment, is a financial institution specialized in purchasing trade receivables owed by the Italian Public Administrations and tax receivables, and engages in salary- and pension-backed loans, by purchasing loan pools and through the direct origination of the QuintoPuoi product. In the pawn loans business, it operates through the subsidiary Kruso Kapital S.p.A. and the brand product ProntoPegno S.p.A. The Group has more than 100,000 clients, and it offers also deposit products, including 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 present in Italy also in Bologna, Pisa, Naples, Palermo, Asti, Brescia, Civitavecchia, Florence, Livorno, Mestre, Parma, Rimini and Turin, as well as in Spain and Greece, it has 291 employees and relies on a multichannel structure.

Attachments

- Consolidated Balance Sheet
- Consolidated Income Statement
- Asset Quality

GRUPPO BANCA SISTEMA: CONSOLIDATED BALANCE SHEET

Amounts in thousands of EUR

		31.03.2023 A	31.12.2022 B	31.03.2022	Difference %
	ASSETS				
10.	Cash and cash equivalents	53,068	126,589	219,590	-58%
30.	Financial assets held to collect and sell (HTCS)	562,978	558,384	586,127	1%
40.	Financial assets held to collect (HTC)	3,597,864	3,530,678	3,074,580	2%
	a) Loans and advances to banks	17,310	34,917	29,394	-50%
	b) Loans and advances to customers	3,580,554	3,495,761	3,045,186	2%
	of which: Factoring	*1,575,787*	*1,501,353*	*1,632,196*	*5%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*902,957*	*933,200*	*918,755*	*-3%*
	of which: Pawn loans	*109,341*	*106,749*	*92,265*	*2%*
	of which: Securities	*685,687*	*681,032*	*184,531*	*1%*
60.	Fair value change of financial assets in hedged portfolios (+/-)	1,241	-	-	nm
70.	Equity investments	960	970	965	-1%
90.	Property, plant and equipment	42,284	43,374	41,034	-3%
100.	Intangible assets	34,517	34,516	33,156	0%
	of which: goodwill	33,526	33,526	32,355	nm
110.	Tax assets	35,116	24,861	15,753	41%
120.	Non-current assets and disposal groups classified as held for sale	41	40	43	2%
130.	Other assets	63,319	77,989	43,694	-19%
	Total assets	**4,391,388**	**4,397,401**	**4,014,942**	**-0.1%**
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	3,874,634	3,916,974	3,578,016	-1%
	a) Due to banks	930,511	622,865	601,329	49%
	b) Due to customers	2,828,666	3,056,210	2,802,091	-7%
	of which: Term Deposits	*1,444,282*	*1,431,548*	*1,384,496*	*1%*
	of which: Currents Accounts	*437,649*	*639,266*	*794,249*	*-32%*
	c) Debt securities issued	115,457	237,899	174,596	-51%
40.	Hedging derivatives	1,234	-	-	nm
60.	Tax liabilities	19,542	17,023	15,469	15%
70.	Liabilities associated with non-current assets held for sale and discontinued operations	13	13	17	nm
80.	Other liabilities	190,928	166,896	122,949	14%
90.	Post-employment benefits	4,317	4,107	4,173	5%
100.	Provisions for risks and charges:	37,700	36,492	29,912	3%
140.	Equity instruments	(21,614)	(24,891)	45,500	-13%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	270,766	248,729	204,815	9%
190.	Minority interests	10,149	10,024	9,708	1%
200.	Profit for the period	3,719	22,034	4,383	-83%
	Total liabilities and equity	**4,391,388**	**4,397,401**	**4,014,942**	**-0.1%**

BANCA SISTEMA: CONSOLIDATED INCOME STATEMENT

Amounts in thousands of EUR

		31.03.2023 A	31.03.2022 B	Difference % A - B
10.	Interest income	40,103	23,605	70%
20.	Interest expenses	(19,460)	(2,942)	nm
30.	**Net interest income**	**20,643**	**20,663**	**-0.1%**
40.	Fee and commission income	7,675	7,526	2%
50.	Fee and commission expense	(3,088)	(3,833)	-19%
60.	**Net fee and commission income**	**4,587**	**3,693**	**24%**
80.	Net income from trading	(250)	1	nm
90.	Fair value adjustments in hedge accounting	7	-	nm
100.	Profits (Losses) on disposal or repurchase of:	323	331	-2%
	a) financial assets measured at amortised cost	200	316	-37%
	b) financial assets measured at fair value through other comprehensive income	123	15	nm
120.	**Operating income**	**25,310**	**24,688**	**3%**
130.	Net impairment losses on loans	(1,046)	(2,307)	-55%
150.	**Net operating income**	**24,264**	**22,381**	**8%**
190. a)	Staff costs	(7,492)	(6,588)	14%
190. b)	Other administrative expenses	(9,030)	(8,318)	9%
200.	Net allowance for risks and charges	(1,494)	(539)	nm
210. +220.	Net impairment losses on property and intangible assets	(763)	(725)	5%
230.	Other net operating income/expense	399	515	-23%
240.	**Operating expenses**	**(18,380)**	**(15,655)**	**17%**
250.	Profits of equity-accounted investees	(10)	(36)	-72%
290.	**Pre-tax profit from continuing operations**	**5,874**	**6,690**	**-12%**
300.	Tax expenses (income) for the period from continuing operations	(2,041)	(2,143)	-5%
310.	**Profit after tax from continuing operations**	**3,833**	**4,547**	**-16%**
320.	Profit (Loss) after tax from discontinued operations	-	(24)	nm
330.	**Profit for the period**	**3,833**	**4,523**	**-15%**
340.	Profit (Loss) for the period attributable to the Minority interests	(114)	(140)	-19%
350.	**Profit for the period attributable to the shareholders of the Parent**	**3,719**	**4,383**	**-15%**

BANCA SISTEMA: ASSET QUALITY

Amounts in thousands of EUR

31.03.2023	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**275,850**	**62,203**	**213,647**
Bad loans	*173,944*	*47,334*	*126,610*
Unlikely to pay	*34,474*	*13,780*	*20,694*
Past-dues	*67,432*	*1,089*	*66,343*
Performing Exposures	**2,686,758**	**5,538**	**2,681,220**
Total Loans and advances to customers	**2,962,608**	**67,741**	**2,894,867**

31.12.2022	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**284,817**	**61,727**	**223,090**
Bad loans	*170,369*	*47,079*	*123,290*
Unlikely to pay	*32,999*	*13,750*	*19,249*
Past-dues	*81,449*	*898*	*80,551*
Performing Exposures	**2,598,125**	**6,486**	**2,591,639**
Total Loans and advances to customers	**2,882,942**	**68,213**	**2,814,729**