PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 SEPTEMBER 2023

- ***Business performance: factoring and pawn loans maintain their resilience, more selective in the CQ business line.***
    - Factoring turnover: 3,575 million, +13% y/y
    - CQ loans: 834 million, -13% y/y
    - Pawn loans: 117 million, +13% y/y

- ***Income statement analysis: net interest income still soft but trending upwards, good cost control and credit quality.***
    - Net interest income: 50.2 million, down -23% y/y (-20% y/y in 1H23 vs 1H22)
    - Total income: 71.3 million, -12.0% y/y
    - Total operating costs: 50.1 million, +5% y/y (+11.7% y/y in 1H23 vs 1H22)
    - Loan loss provisions: 3.6 million, down y/y
    - Net income: 11.3 million, down y/y

- ***Funding and capital: ongoing funding diversification, more robust capital ratios.***
- During the quarter the Retail component kept rising and now accounts for 66% of total funding 66% (57% in 1H23).
- CET1 ratio at 12.3% (vs 11.9% in 1H23) and Total Capital ratio at 15.4% (vs 15.0% in 1H23), and ex "HTCS reserve", 13.6% and 16.7%, respectively

Milan, 10 November 2023

The Board of Directors of Banca Sistema has approved the consolidated financial statements as at 30 September 2023, reporting a **net income** of 11.3 million, as compared to 17.8 million in the same period of 2022.

Business performance

The **factoring** business line reported a solid growth, reaching a turnover of 3,575 million, corresponding to a growth rate of 13% y/y, driven by the commercial loan business line (+26% y/y).
On 30 September 2023, **factoring** receivables stood at 1,729 million, up 3% y/y, i.e., +15.2% YTD.
Non-recourse factoring, accounting for 84% of receivables outstanding under management accounts [1], includes tax receivables (17% of total receivables, vs 25% in 9M22).

[1] Amounting to 1,796 million on 30.09.2023, 1,937 million on 30.06.2023 and 1,651 million on 30.03.2023.

As to the **CQ** business line, the Group granted loans for 132 million (financed amount), down compared to the previous year (273 million), of which 122 million through the Direct channel QuintoPuoi and 10 million through the indirect channel.
The loan stock on 30 September 2023 added up to 834 million, which confirms the ongoing downtrend (from 958 million on 30 September 2022, and 933 million on 31 December 2022). This figure was impacted also by the 21,3 million disposal of receivables carried out during the quarter.

On 30 September 2023, **pawn loans** stood at 117.3 million, up 13.2% y/y.

<u>Operating results as at 30 September 2023</u>

In the first 9M, net interest income came to 50.2 million, down by 23.3% y/y, driven by the higher cost of funding, which was only partly offset by a higher interest income. The increase in interest income was driven by the contribution of the commercial component tied to factoring, in addition to the increase in the late-payment interest stream as a result of the ECB rate hikes. The financial portfolio also benefitted from an increase in interest income, but as a whole proprietary trading (net interest + trading) remained essentially stable y/y. In the first 9M funding activities continued, leading to an increase in liquidity buffers, with a constant increase in the Retail component compared to the corporate one.

On 30 September 2023, the overall P&L contribution from legal actions came to 26.7 million (11.3 million on 30 September 2022) of which: 1) 4.2 million (late-payment interest) as a result of the policy rate hikes (ECB) in 2022, which caused the rate tied to "Dlgs. no. 231 of 9 October 2022" (implementing EU regulations on late payments) to increase from 8% to 10.5% as of 1.01.2023 and to 12% as of 1.07.2023; 2) 14.5 million (late-payment interest) from current recovery projections (5.8 million on 30 September 2022); 3) 4.9 million (late-payment interest) from the difference between the collections in the period compared to the accruals reported in the prior financial years (3.9 million on 30 September 2022); 4) 1.9 million resulting from the current recovery projections related to the 40-euro component of compensation claims due under art. 6 Dlgs 231/02; 5) 1.2 million from the update of the recovery projections and the expected time to recovery (1.6 million on 30 September 2022);.

Following the additional interest rate hikes conducted by the European Central Bank in the second half of 2023, which will call for an adjustment of the "Dlgs. no. 231 of 9 October 2002" as of 1.1.2024, further positive impacts are going to be reported in the coming quarters.

Compensation claims were accounted for based on the same time series and models currently in use for the accounting of late-payment interest; over the years the model has constantly produced a higher collection than what had been recognized as receivables.

Total late-payment interest under legal action accrued on 30 September 2023, and relevant to the accrual model, came in at 123 million (221 million when including arrears of municipalities under conservatorship, against which no late-payment interest is accrued), while receivables already on the books totaled 73 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 average cost of total funding, at 2.7% in 9M23, is on the rise compared to 1H23 (2.4%) and well above the level reported in 9M22 (0.2%), with interest expense reaching 79.4 million in 9M23 from 9.4 million in 9M22. The increase was mainly driven by market dynamics, characterized by policy rate hikes and stronger competition, as well as by the funding mix, as in recent quarters we tilted towards more stable and longer-term funding instruments, mainly in the Retail segment, and in any case cheaper than the Wholesale instruments with an equivalent tenor. Notably, at the end of September 2023 retail funding accounted for 66% of total funding (57% in June 2023). The increase in funding generated a very solid liquidity position with an LCR well above regulatory requirements.

Net fees and commissions, amounting to 15.2 million, rose by 24% y/y, mainly driven by the greater contribution from commission income from pawn loans and the lower commission expense from CQ loans compared to the same period of 2022.

The contribution in terms of total revenues from factoring, i.e., the sum of interest income, commission income and revenues from portfolio disposals (78.5 million on 30 September 2023), has been increasing in absolute terms year on year (51.8 million on 30 September 2022), confirming in the first 9M23 the margin improvement (total factoring revenues over the average of receivables), at 6.3% (vs. 5.9% in 1H23 and 4.3% in 9M22), namely 6.2%, 5.8% and 4.1% net of portfolio disposals. As to CQ loans, the interest income to average loans ratio came in at 2.8% (2.5% net of the disposal proceeds), reporting a slight uptick compared to the trend in 1Q23 (2.3%) and 1H23 (2.6%, or 2.4% net of disposals), yet still not enough to adequately cover the cost of funding. The profitability of pawn loans has reported a strong increase, running at 19.2% in the first 9M23 (15.9% in 9M22) (+330bps y/y), more than proportional to the related funding growth.

On 30 September 2023, proprietary trading revenues, totaling 2.8 million, made a positive contribution compared to the same period last year (-0.2 million), driven among other things by the disposal of securities classified in the HTC portfolio HTC (177 million). In 9M23, the disposal of factoring receivables portfolios gave rise to 1.2 million of revenues (1.6 million in 9M22), while the sale of CQ loans generated 1.8 million of revenues (1.5 million in 9M22).
Total income came in at 71.3 million, down by 12% y/y.

On 30 September 2023, **loan loss provisions** added up to 3.6 million, down y/y (6.3 million). The cost of risk tied to customer loans was equal to 18bps (vs 28bps in 9M22). Please note that in 3Q23 gross NPEs declined by -3.7% QoQ and the gross NPE coverage ratio increased by 100bps QoQ to 22.3% (32.7% net of municipalities under conservatorship). Bad loans coverage net of municipalities under conservatorships came to 91.1%.

The Group’s **headcount** (FTE) added up to 295 (283 on 30 September 2022) and reported an increase also due to the integration of Art-Rite.
In 9M23 personnel expenses reported a positive trend (-2.7% y/y), as a result of a reduced allocation to the variable component; this dynamic however was offset by higher administrative expenses (+17% y/y) driven by a mix of costs, such as higher IT expenses, origination expenses, loan recovery legal expenses, advertising, with the addition in H1 2023 of the consolidation of the subsidiaries Art-Rite and Pronto Pegno Grecia.
The aggregate line-item **total operating costs** increased by 5% y/y (+2.4 million y/y), with provisions for risks and charges remaining basically stable, and the contributions to systemic risk funds (Resolution fund and Interbank fund) dipping slightly y/y (1.6 million vs 1.9 million).

Net income before tax on 30 September 2023 added up to 17.6 million, down 35% y/y.

<u>**Key balance sheet items as at 30 June 2023**</u>

The **securities portfolio,** made up of Italian Government bonds, amounted to 1,076 million (of which 502 million are classified under the line-item “Financial assets measured at amortized cost”, down compared to 30 June 2023, with an average duration of 10.9 months. The “Held to Collect and Sell” (HTCS) component, amounting 574 million on 30 September 2023, has slightly increased compared to 30 June 2023, with an average duration of roughly 17.5 months.
Financial assets measured at amortized cost (3,479 million) comprise factoring receivables (1,729 million), up 15% over 31 December 2022 and on the rise also compared to 30 September 2022 (1,679 million), as well as CQ loans (salary- and pension backed loans) (834 million), part of the securities portfolio (502 million), State-guaranteed loans to SMEs (247 million vs 197 million as at 31.12.2022) and 117 million of pawn loans (on a stable quarterly uptrend).

The **gross non-performing loan** stock came in at 287.4 million, basically in line with 31 December 2022 (284.8 million) and down over 30 June 2023 (298.4 million). The quarterly performance was driven by less past due loans, amounting to 53.9 million (61.9 million as at 30.06.2023), less Utp loans, coming in at 59.2 million (63.1 million as at 30.06.2023). Excluding Municipalities under conservatorship, gross non-performing loans added up to 149.3 million. Past dues are tied to the P.A. non-recourse factoring portfolio, and represent a characteristic dynamic of this sector, whose credit quality and probability of recovery, irrespective of the new technical rules adopted to report the past due figure for regulatory purposes, show no particular criticalities.

Retail funding increased in 3Q23 (2,529 million vs 2,308 million in 2Q23), accounting for approx. 66% of total funding (57% in June 2023), and it comprises checking accounts and term deposits held by individuals and businesses.

Under **Financial liabilities measured at amortized cost (3,899 million)**, **Due to banks** went down compared to 31 December 2022 (567 million vs 623 million on 31.12.2022), driven also by the greater contribution of the retail component.
Under Financial liabilities measured at amortized cost, Due to customers (3,202 million) rose compared to year-end 2022 (3,056 million), and also compared to 30.06.2023 (3,017 million).
The steered curbing in repos and checking accounts (406 million vs 639 million on 31 December 2022), in the corporate/institutional customer segment, in line with the bank’s strategy, was more than offset by an increase in retail deposit accounts (2,124 million vs 1,432 on 31 December 2022), an uptrend reported also in comparison with 30 June 2023 (1,819 million), mainly channeled through foreign deposit platforms.
Debt securities (130 million) kept declining over 31 December 2022 and also compared to 30 June 2023. The changes in this line-item are mainly the result of the funding dynamics generated by structured finance transactions.
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 customers.

On 30 September 2023, **Total own funds** (Total Capital) added up to 222.4 million (217.8 million on 30 June 2023) 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] report an increase over 30 June 2023, driven by the net income for the period, a slight improvement in RWAs and the reduction of the HTCS reserve. In detail the ratios came in at:

- **CET1 ratio 12.3%**;
- **TIER 1 ratio 15.4%**;
- **Total Capital ratio 15.4%**.

Among the various changes that are part of a package of reforms to Basel III regulations, the neutralization of all of the "HTCS reserve" on government securities was approved at a European Trilogue meeting. This change will come into effect with publication in the Official Journal. Assuming a full neutralization of the "HTCS reserve" on government securities as at 30 September 2023, capital ratios would stand as follows:

- **CET1 ratio 13.6%**;
- **TIER 1 ratio 16.7%**;
- **Total Capital ratio 16.7%**.

Aside from the coming into effect of CRR, since the HTCS portfolio has a residual duration of 17.5 months, the capital ratios will be gradually met when the HTCS government bonds reach maturity.

***

<u>Statement of the financial reporting officer</u>

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 additional progressive increase in the cost of funding, compared to the trend of the previous quarters, will continue in the coming quarters driven by the rate hikes and by the tilt towards more stable and/or longer-term funding instruments.

While the newly originated business of the factoring division, of Kruso Kapital and of the CQ loans division will be able to translate their respective higher cost of funding in a greater profitability of booked loans, the CQ loan stock, due to the longer-term maturity, will continue to be negatively affected by the (fixed rate) interest income of loans originated in past years, which is well below the current market rates. In

[2] The equity reserve for "Financial assets at fair value through other comprehensive income" (HTCS), in particular on Italian Government bonds, amounted to -28.5 million on 30 September 2023 (-31.8 million on 30 June 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 December 2022:

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

spite of the fact that the CQ business is reporting a lower prepayment rate and can benefit from a higher return from newly originated loans, yet the relative size of the legacy portfolio is such, that at least throughout 2023 the interest income of the CQ division is bound to be in negative territory.

The process for the implementation of the new Strategic Plan has been set in motion. The Plan will be disclosed to the Financial community in the first half of 2024.

***

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

Contacts:

Investor Relations
Christian Carrese
Tel. +39 02 80280403
E-mail christian.carrese@bancasistema.it

Media Relations
Patrizia Sferrazza
Tel. +39 02 80280354
E-mail patrizia.sferrazza@bancasistema.it

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, Mestre, Parma, Rimini and Turin, as well as in Spain and Greece, it has 295 employees and relies on a multichannel structure.

Attachments

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

GRUPPO BANCA SISTEMA: CONSOLIDATED BALANCE SHEET

Amounts in thousands of Euro

		30.09.2023 A	30.06.2023	31.03.2023	31.12.2022 B	Difference % A - B
	ASSETS					
10.	Cash and cash equivalents	154,900	171,170	53,068	126,589	22%
30.	Financial assets held to collect and sell (HTCS)	579,511	562,574	562,978	558,384	4%
40.	Financial assets held to collect (HTC)	3,479,255	3,719,276	3,597,864	3,530,678	-1%
	a) Loans and advances to banks	19,708	1,000	17,310	34,917	-44%
	b) Loans and advances to customers	3,459,547	3,718,276	3,580,554	3,495,761	-1%
	of which: Factoring	*1,729,187*	*1,800,010*	*1,575,787*	*1,501,353*	*15%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*833,592*	*856,316*	*902,957*	*933,200*	*-11%*
	of which: Collateralised loans	*117,114*	*112,463*	*109,341*	*106,749*	*10%*
	of which: Securities	*502,047*	*650,913*	*685,687*	*681,032*	*-26%*
50.	Hedging derivatives	277	415	-	-	nm
60.	Fair value change of financial assets in hedged portfolios (+/-)	(277)	(385)	1,241	-	nm
70.	Equity investments	978	954	960	970	1%
90.	Property, plant and equipment	41,189	41,693	42,284	43,374	-5%
100.	Intangible assets	34,843	34,870	34,517	34,516	1%
	of which: goodwill	33,526	33,526	33,526	33,526	0%
110.	Tax assets	26,738	33,910	35,116	24,861	8%
120.	Non-current assets and disposal groups classified as held for sale	64	65	41	40	60%
130.	Other assets	78,281	75,907	63,319	77,989	0%
	Total assets	**4,395,759**	**4,640,449**	**4,391,388**	**4,397,401**	**0%**
	LIABILITIES AND EQUITY					
10.	Financial liabilities at amortised cost	3,899,346	4,133,925	3,874,634	3,916,974	0%
	a) Due to banks	566,827	942,288	930,511	622,865	-9%
	b) Due to customers	3,202,438	3,016,835	2,828,666	3,056,210	5%
	of which: Term Deposits	*2,123,696*	*1,819,361*	*1,444,282*	*1,431,548*	*48%*
	of which: Currents Accounts	*405,691*	*487,682*	*437,649*	*639,266*	*-37%*
	c) Debt securities issued	130,081	174,802	115,457	237,899	-45%
40.	Hedging derivatives	-	-	1,234	-	nm
60.	Tax liabilities	22,801	21,010	19,542	17,023	34%
70.	Liabilities associated with non-current assets held for sale and discontinued operations	37	38	13	13	nm
80.	Other liabilities	168,272	186,122	190,928	166,896	1%
90.	Post-employment benefits	4,350	4,406	4,317	4,107	6%
100.	Provisions for risks and charges:	34,412	34,895	37,700	36,492	-6%
140.	Equity instruments	45,500	45,500	45,500	45,500	0%
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	199,191	196,819	203,652	178,338	12%
190.	Minority interests	10,504	10,279	10,149	10,024	5%
200.	Profit for the period	11,346	7,455	3,719	22,034	-49%
	Total liabilities and equity	**4,395,759**	**4,640,449**	**4,391,388**	**4,397,401**	**0%**

BANCA SISTEMA: CONSOLIDATED INCOME STATEMENT

Amounts in thousands of Euro

		9M 2023 A	1Q 2023	2Q 2023	3Q 2023	9M 2022 B	1Q 2022	2Q 2022	3Q 2022	Difference % A - B
10.	Interest income	129,554	40,103	43,284	46,167	74,873	23,605	26,953	24,315	73%
20.	Interest expenses	(79,395)	(19,460)	(28,084)	(31,851)	(9,435)	(2,942)	(2,970)	(3,523)	nm
30.	**Net interest income**	**50,159**	**20,643**	**15,200**	**14,316**	**65,438**	**20,663**	**23,983**	**20,792**	**-23%**
40.	Fee and commission income	26,855	7,675	9,188	9,992	23,860	7,526	8,218	8,116	13%
50.	Fee and commission expense	(11,696)	(3,088)	(3,696)	(4,912)	(11,587)	(3,833)	(4,955)	(2,799)	1%
60.	**Net fee and commission income**	**15,159**	**4,587**	**5,492**	**5,080**	**12,273**	**3,693**	**3,263**	**5,317**	**24%**
70.	Dividends and similar income	227	-	227	-	227	-	227	-	0%
80.	Net income from trading	(145)	(250)	216	(111)	(1,505)	1	(1,202)	(304)	-90%
90.	Fair value adjustments in hedge accounting	1	7	23	(29)	-	-	-	-	nm
100.	Profits (Losses) on disposal or repurchase of:	5,886	323	2,966	2,597	4,496	331	3,806	359	31%
	a) financial assets measured at amortised cost	5,082	200	2,546	2,336	3,409	316	2,735	358	49%
	b) financial assets measured at fair value through other comprehensive income	804	123	420	261	1,087	15	1,071	1	-26%
	c) financial liabilities	-	-	-	-	-	-	-	-	nm
120.	**Operating income**	**71,287**	**25,310**	**24,124**	**21,853**	**80,929**	**24,688**	**30,077**	**26,164**	**-12%**
130.	Net impairment losses on loans	(3,623)	(1,046)	(1,791)	(786)	(6,264)	(2,307)	(2,749)	(1,208)	-42%
140.	Profits (Losses) on changes in contracts without derecognition	(1)	-	(1)	-	-	-	-	-	nm
150.	**Net operating income**	**67,663**	**24,264**	**22,332**	**21,067**	**74,665**	**22,381**	**27,328**	**24,956**	**-9%**
190. a)	Staff costs	(20,855)	(7,492)	(7,246)	(6,117)	(21,439)	(6,588)	(7,742)	(7,109)	-3%
190. b)	Other administrative expenses	(25,956)	(9,030)	(8,659)	(8,267)	(22,834)	(8,318)	(7,145)	(7,371)	14%
200.	Net allowance for risks and charges	(2,446)	(1,494)	(703)	(249)	(2,296)	(539)	(514)	(1,243)	7%
210. + 220.	Net impairment losses on property and intangible assets	(2,332)	(763)	(816)	(753)	(2,217)	(725)	(774)	(718)	5%
230.	Other net operating income/expense	1,516	399	833	284	1,114	515	498	101	36%
240.	**Operating expenses**	**(50,073)**	**(18,380)**	**(16,591)**	**(15,102)**	**(47,672)**	**(15,655)**	**(15,677)**	**(16,340)**	**5%**
250.	Profits of equity-accounted investees	8	(10)	(6)	24	(56)	(36)	(15)	(5)	-114%
290.	**Pre-tax profit from continuing operations**	**17,598**	**5,874**	**5,735**	**5,989**	**26,937**	**6,690**	**11,636**	**8,611**	**-35%**
300.	Tax expenses (income) for the period from continuing operations	(5,666)	(2,041)	(1,874)	(1,751)	(8,726)	(2,143)	(3,707)	(2,876)	-35%
310.	**Profit after tax from continuing operations**	**11,932**	**3,833**	**3,861**	**4,238**	**18,211**	**4,547**	**7,929**	**5,735**	**-34%**
320.	Profit (Loss) after tax from discontinued operations	-	-	-	-	(23)	(24)	1	-	-100%
330.	**Profit for the period**	**11,932**	**3,833**	**3,861**	**4,238**	**18,188**	**4,523**	**7,930**	**5,735**	**-34%**
340.	Profit for the period attributable to the Minority interests	(586)	(114)	(125)	(347)	(353)	(140)	(108)	(105)	66%
350.	**Profit for the period attributable to the shareholders of the Parer**	**11,346**	**3,719**	**3,736**	**3,891**	**17,835**	**4,383**	**7,822**	**5,630**	**-36%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Amounts in thousands of Euro

30.09.2023	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**287,366**	**64,167**	**223,199**
Bad loans	*174,216*	*48,331*	*125,885*
Unlikely to pay	*59,246*	*14,677*	*44,569*
Past-dues	*53,904*	*1,159*	*52,745*
Performing Exposures	**2,740,646**	**6,345**	**2,734,301**
Total Loans and advances to customers	**3,028,012**	**70,512**	**2,957,500**

30.06.2023	Gross exposure	Impairment losses	Net exposure
Gross Non Performing Exposures	**298,350**	**63,654**	**234,696**
Bad loans	*173,412*	*48,218*	*125,194*
Unlikely to pay	*63,081*	*14,186*	*48,895*
Past-dues	*61,857*	*1,250*	*60,607*
Performing Exposures	**2,838,474**	**5,808**	**2,832,666**
Total Loans and advances to customers	**3,136,824**	**69,462**	**3,067,362**

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**