

**INTERIM**

CONSOLIDATED

DATED

**BANCA**  
SISTEMA  
CONTEMPORARY BANK

**FI**

**NANCIAL**

**REPORT**

AT

30

**SEPTEMBER**

**2020**



**Banca SISTEMA Group**

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**INTERIM CONSOLIDATED  
FINANCIAL REPORT AT  
30 SEPTEMBER 2020**

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**BANCA**  
S I S T E M A



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## DIRECTORS' REPORT

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## COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

### Board of Directors

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Chairperson	Ms.	Luitgard Spögler <sup>1</sup>
Deputy Chairperson	Mr.	Giovanni Puglisi ( <i>Independent</i> ) <sup>2</sup>
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore ( <i>Independent</i> )
	Ms.	Carlotta De Franceschi ( <i>Independent</i> )
	Ms.	Laura Ciambellotti ( <i>Independent</i> )
	Mr.	Federico Ferro Luzzi ( <i>Independent</i> )
	Mr.	Francesco Galietti ( <i>Independent</i> )
	Mr.	Marco Giovannini ( <i>Independent</i> )

### Board of Statutory Auditors

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Chairperson	Mr.	Massimo Conigliaro
Standing Auditors	Ms.	Lucia Abati
	Mr.	Marziano Viozzi
Alternate Auditors	Mr.	Marco Armarolli
	Ms.	Daniela D'Ignazio

### Independent Auditors

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BDO Italia S.p.A.

### Manager in charge of financial reporting

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Mr. Alexander Muz

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<sup>1</sup> Meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but it also does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.

<sup>2</sup> On 10 May 2019, the Board of Directors ascertained that Mr. Puglisi also meets the independence requirements pursuant to art. 3 of the Code of Conduct promoted by Borsa Italiana, as the period of time indicated therein had elapsed from the end of his term of office with an executive position within the shareholder Fondazione Sicilia.



## COMPOSITION OF THE INTERNAL COMMITTEES

### Internal Control and Risk Management Committee

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Chairperson	Ms.	Laura Ciambellotti
Members	Ms.	Carlotta De Franceschi
	Mr.	Federico Ferro Luzzi
	Mr.	Daniele Pittatore

### Appointments Committee

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Chairperson	Mr.	Federico Ferro Luzzi
Members	Mr.	Marco Giovannini
	Ms.	Luitgard Spögler

### Remuneration Committee

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Chairperson	Mr.	Giovanni Puglisi
Members	Mr.	Francesco Galietti
	Mr.	Marco Giovannini

### Ethics Committee

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Chairperson	Mr.	Giovanni Puglisi
Members	Ms.	Carlotta De Franceschi
	Mr.	Federico Ferro Luzzi

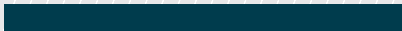





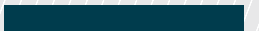


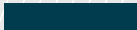

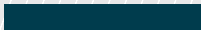





### Supervisory Body

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Chairperson	Mr.	Massimo Conigliaro
Members	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

## FINANCIAL HIGHLIGHTS AT 30 SEPTEMBER 2020

### Statement of financial position data (€,'000)

Total Assets		3,887,862	4.2%	
		3,730,081		
Securities Portfolio		996,759	0.5%	
		991,560		
Loans - Factoring		1,588,765	-7.3%	
		1,714,661		
Loans - Salary-backed loans		931,004	13.9%	
		817,229		
Funding - Banks and REPOs		1,165,451	37.9%	
		845,429		
Funding - Term Deposits		1,130,607	-14.7%	
		1,325,794		
Funding - Current Accounts		689,438	1.2%	
		681,577		

### Income statement data (€,'000)

Net interest income		52,813	-9.5%
		58,386	
Net fee and commission income		11,939	-4.8%
		12,539	
Total Income		72,118	-1.3%
		73,063	
Personnel Expenses		(17,188)	9.5%
		(15,701)	
Other administrative expenses		(19,524)	12.2%
		(17,396)	
Profit for the period attributable to the owners of the Parent		19,176	-10.5%
		21,431	

## SIGNIFICANT EVENTS FROM 1 JANUARY TO 30 SEPTEMBER 2020

The dramatic spread of the coronavirus in Italy and the rest of the world is an unprecedented emergency with systemic implications in terms of health, as well as social, political, economic and geopolitical consequences. The spread of COVID-19 and subsequent freeze in economic activity have led to estimated global growth rates being lowered. In Italy, the mandatory lockdown measures introduced have significantly changed national GDP growth estimates. Whereas Italian GDP was expected to be flat prior to the onset of COVID-19, it is now expected to drop by up to 9.5% in 2020. The combined effect of these factors and the uncertainties tied to the political solutions in the EU have led to a significant increase in the BTP-Bund spread and an increase in its volatility. At the same time, there was a significant increase in the yields of Italian bank bonds and a drop in their relative market prices. With the gradual easing of the lockdown rules starting in mid-May, travel between regions and throughout the country has resumed. Restrictions and strict safety and precautionary protocols such as the prohibition of gatherings, maintaining safe social distances and the use of masks in enclosed places remain in force. The Italian government is currently considering new measures based on how the pandemic evolves.

In Italy, the “Cura Italia” Law Decree followed by the Liquidity and Relaunch Law Decrees were enacted to support the non-financial enterprises hardest hit by the lockdown and the loss of revenue. The aim of these decrees is to support businesses in dealing with short-term liquidity needs. Among the various forms of support provided for under the decrees, banks may grant loans to businesses, subject to certain conditions, with a duration of no more than 6 years (including the possibility of deferring the repayment of the principal for up to 24 months). These loans are guaranteed by either the National Guarantee Fund for SMEs or by SACE, depending on the size of the beneficiary business.

In this respect, the Bank has launched the loan product guaranteed by SACE and/or the National Guarantee Fund

for SMEs starting from the third quarter. The product is a guaranteed unsecured loan, or rather an instalment loan in which the initial instalments for up to a maximum of 24 months consist solely of interest (deferred payment or “pre-ammortamento”, which includes deferral of the amount needed to align the due date of the instalments with the first calendar quarter following the date of disbursement). This product is exclusively for the Bank’s existing factoring customers or new customers who also enter into a factoring agreement with the Bank. At 30 September the Bank granted 12 state-guaranteed loans for a total of € 44.4 million. As at the same date, other loans of the same type were being evaluated.

With reference to the moratoriums on existing loans, the Bank has carefully considered measures for suspending payment terms. As at 30 September 2020, 50 requests for a moratorium had been received, 47 of which have so far been accepted for a total amount of € 14.5 million. All moratoria granted, except one for which the customer has given a formal waiver, have been extended, as required by law, to 31 January and 31 March 2021.

The initiatives launched by the ECB relating to the banking sector are set out below:

- an additional longer-term refinancing operation auction (additional LTROs) to guarantee fixed-rate liquidity. The rate in these operations will be fixed at the average of the deposit facility rate. The operations, which were conducted on a weekly basis, all matured on the spot settlement date of the fourth TLTRO-III operation (24 June 2020). Government bonds are once again eligible to be pledged as collateral in LTRO operations;
- more favourable conditions for TLTRO-III between June 2020 and June 2021. The initial interest rate of 25 bps lower than the average rate on the main refinancing operations (therefore, -25 bps) was then further reduced to 50 basis points below the average interest rate on the Eurosystem’s main refinancing operations prevailing over the same period. In fact, banks are being remunerated for receiving liquidity from the ECB and investing it in the real economy. Furthermore, the

maximum amount that banks can borrow (borrowing allowance) has been increased to 50% of their stock of eligible loans as at 28 February 2019. The bid limit per operation (10% of outstanding loans as at 28 February 2019) has been eliminated, which will match the overall limit of the TLTRO III loan less the loans already obtained;

- the launch of a new asset purchase programme (PEPP - Pandemic Emergency Purchase Programme) worth at least € 750 billion. The programme will terminate when the pandemic crisis is deemed to be over, but in any case not before the end of June 2021. The PEPP, compared to the current APP, also allows the purchase of Greek government bonds and provides greater flexibility allowing for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions. Purchases of government bonds must continue to be in line with the national central banks' subscriptions to the ECB capital key;
- net asset purchase programme (APP) of € 120 billion by the end of the year. This programme involves the direct purchase by the ECB of corporate securities, government bonds, asset-backed securities, and third covered bonds;
- expansion of the scope of Additional Credit Claims (ACC) to include claims related to the financing of the corporate sector;
- expansion of the Corporate Sector Purchase Programme (CSPP) to include non-financial commercial papers of sufficient quality;
- introduction of PELTROs (Pandemic Emergency Longer-term Refinancing Operations) to provide liquidity support to the Euro Area financial system and contribute to preserving the smooth functioning of money markets by providing effective liquidity support. The PELTROs consist of seven additional refinancing operations commencing in May 2020 and maturing in a staggered sequence between July and September 2021 in line with the duration of the collateral easing measures. They will be carried out as fixed-rate tender procedures with full allotment, with an interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

The Bank participated in the fourth TLTRO III operation for an amount of € 382.99 million, benefiting from the reduced rate of -50 bps between June 2020 and June 2021.

Existing TLTRO III operations at 30 September 2020 totalled € 491.24 million.

The Bank currently has € 200 million of the PELTRO loan at a refinancing rate equal to the interest rate that is 25 basis points below the average rate on the main refinancing operations prevailing over the life of each PELTRO.

The Bank participated in the additional LTRO auction for a total amount of € 650 million at the average rate of -50 bps which was repaid on 24 June 2020 (the spot settlement date of the fourth TLTRO III operation).

From a regulatory perspective, the Bank of Italy, capitalising on the flexibility of the regulation and in line with the ECB's decision regarding significant banks, decided that even less significant banks and non-bank intermediaries may also operate temporarily below the level of the Target Component, assigned following the SREP (Pillar 2 Guidance - P2G) process, as well as the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR).

Moreover, in its communication published on 27 March 2020, the Bank of Italy recommended, among other things, that banks "not pay dividends, including the distribution of reserves, and make no irrevocable commitments to pay dividends for the financial years 2019 and 2020" at least until 1 October 2020, in order to maximise their capital reserves.

In view of the foregoing and in order to comply with the aforesaid recommendation, irrespective of the performance of the Bank's business, which is not expected to be significantly impacted by the current situation, the Bank's Board of Directors submitted to the ordinary and extraordinary Shareholders' Meeting of 23 April 2020 a new Board of Directors' Report concerning item 2 on the agenda, ordinary session, entitled "Allocation of profit for the year 2019. Relating and resulting resolutions" whereby:

- the proposed allocation of profit reported in the separate financial statements for the year 2019 of

€ 29,955,723.45 was confirmed as follows:

- € 22,476,565.61 to “Retained earnings”;
- “2019 Dividend” of € 7,479,157.84 (equal to € 0.093 per ordinary share);
- it was resolved to propose to the Shareholders’ Meeting to defer the decision and the relative commitment on the payment of the dividend (ex-dividend date, record date and payment date) to the resolution of a new Shareholders’ Meeting to be convened by the Board of Directors no earlier than 1 October 2020, but before the end of November, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities.

The Shareholders’ Meeting of 23 April approved these agenda items and the amount of € 7,479,157.84 was deducted from CET 1 calculation. As reported in the section covering Significant events after the reporting date, on 21 October 2020 the Board of Directors of Banca Sistema, despite not having identified any impediments to paying the dividend for the year 2019 that can be attributed to the Bank’s financial performance and/or the strength of its capital structure, and considering the strict positions expressed by the ECB and the Bank of Italy in the recommendations updated on 27 and 28 July 2020 respectively, resolved to propose the following to the Ordinary Shareholders’ Meeting which will be convened on 27 November:

1. to confirm the resolution allocating the profit for the year 2019 adopted by the Ordinary Shareholders’ Meeting held on 23 April 2020;
2. to defer the decision on the payment of the 2019 dividend to the resolution of a new Shareholders’ Meeting to be convened by the Board of Directors as soon as possible - no earlier than 1 January 2021, and before 31 March 2021 - in accordance with the supervisory provisions.

Considering the state of emergency, the European Commission has proposed the following amendments to the European prudential framework to maximise the ability of banks to lend and absorb losses. These amendments have also been approved by the European Parliament and the European Council:

- IFRS 9 transitional arrangements, i.e. changes to

the method of calculating the adjustment in order to capture the impacts of the health emergency, extending the transitional period and increasing the applicable factors, possibility of opting in also for banks that had not initially adopted the transitional measures. Given the specific business sector in which it operates, the Bank will not need to use these temporary arrangements;

- calendar provisioning: favourable treatment of government guarantees and counter-guarantees, which are treated similar to guarantees granted by an official export credit agency (e.g. SACE) for the purposes of Calendar Provisioning, and extension of this favourable treatment to unsecured exposures to which a zero risk weight would be associated under the standardised approach;
- Leverage ratio: postponement of the date of application of the leverage ratio capital buffer for G-SII banks to 1 January 2023, modification of the methods for calculating the adjusted leverage ratio, introduction of an ad hoc framework to exclude exposures to central banks from the leverage ratio until 27 June 2021 and finally, the possibility of temporarily considering the benefit of netting between standardised cash flows, pending settlement;
- early introduction of some CRR II measures, i.e. the possibility of not deducting software assets from CET1, reduction of the weighting of salary- and pension-backed loan (CQS/CQP) products from 75% to 35%, changes to the scope and calculation of the SME supporting factor and introduction of the infrastructure supporting factor;
- other additional measures, such as the temporary treatment of government debt issued in the currency of another Member State, the temporary reduction of Market Risk add-ons and the restoration of the temporary treatment of unrealised gains and losses measured at fair value through OCI.

The Bank, in order to counter the effects of COVID-19 and to comply with the regulations issued by the Government, has adopted the measures described in the Memorandums of Understanding on workplace safety detailed below (“Shared Memorandum regulating measures to counter and contain the spread of the

Covid-19 virus in the workplace”, signed on 14 March between the social partners, and the “Shared Memorandum for measures to prevent, counter and contain the spread of the Covid-19 virus in the banking sector” signed on 16 March 2020 between ABI and the trade unions of the sector, as amended).

The Crisis Committee has met 9 times since 23 February 2020 to review the situation and the relevant legislation, to apply precautionary and protective measures and to ensure business continuity. Also, starting on 19 March, special update meetings were held on an almost weekly basis between the Chairperson of the Board of Directors, the Chief Executive Officer, the Chairperson of the Internal Control and Risk Management Committee, the Chairperson of the Board of Statutory Auditors, the Head of the Risk Department and the Head of ICT/Organisation.

With regard to labour law, the steps taken by the Bank to comply with the measures issued by the government and the indications from the various authorities are summarised below:

- adequate and proportionate introduction of remote working within the framework of a specific ad hoc Regulation communicated to all employees pursuant to the provisions on remote working (Law no. 81/2017) set out in the Prime Minister’s Decree of 4 March 2020, as amended;
- Facilitating the use of holidays (unused or not) and leaves from the bank of hours as a support measure for employees;
- Implementation of the procedures for extraordinary leave set out in the Prime Minister’s Decree of 4 March 2020 and those that followed;
- The procedures for taking paid leave once the unused holidays and the 2020 holiday leave entitlement have been taken have been defined.

In terms of safety, the Bank has implemented the following:

- emergency sanitisation of all locations throughout the country;
- scheduled maintenance to sanitise the air conditioning systems and working environments throughout the country has been increased from every six months to every three months;

- supply of dispensers for hand sanitiser;
- supply of PPE for employees of the Banking, ProntoPegno and Management branches and offices (surgical masks, disposable gloves, sanitiser, protective plexiglass partitions);
- renovation of offices to ensure a minimum distance of 1 metre;
- preparation of suitable communications on the use of lifts, break areas and rules on hygiene;
- placement of waste bins specifically for the disposal of masks and gloves;
- provision of digital body temperature sensors at the entrance to the building;
- update of the Risk Assessment Document (DVR) - Assessment of Biological Risk annex (Coronavirus Emergency);
- an air ionisation system and an air purification system for lifts have been installed at the Milan office;
- epidemiological tests for all employees, members of the Board of Directors and the Board of Statutory Auditors after the summer leave period and in any case after being absent for more than a week;
- weekly epidemiological tests for senior managers and fortnightly tests for shift employees;
- efforts to procure flu vaccines for employees;
- a safety package that requires both employees and customers/suppliers with access to the Bank’s premises for extended periods of time to install and activate the *Immuni* app.

With regard to business continuity, the Bank’s Business Continuity Plan was revised in mid-2019 and a new revision is planned for November 2020. Since the start of the emergency and the period during which the employees began working remotely, the Bank, Divisions and Departments have been continuously implementing communication initiatives with employees (including Town Halls, meetings with the Chief Executive Officer) to ensure continuity in the flow of information, the level of listening, and the sharing of corporate objectives and strategies.

A special section of the Bank’s website has been created to provide customers with operational guidelines and useful information on the support measures made

available by the Government, as well as a special “Questions and Answers” section. The telephone support service has also been enhanced.

The impacts on the three lines of business in which the Bank operates that can currently be estimated and the actions taken are set out below:

### **Factoring**

Volumes in the third quarter of 2020 increased by 10% year on year. Factoring turnover rose to € 2.2 billion in the first nine months of 2020, an increase of 4% over the same period last year.

The Bank continues to demonstrate its resilience in the face of the crisis, confirming its ability to provide support to Public Administration suppliers. This was possible keeping operations up and running, notwithstanding the state of emergency, even during the lockdown.

Factoring has proven to be the ideal tool both for small and medium-sized enterprises to finance their working capital and thus trade receivables, and for large companies, such as multinationals, to improve their net financial position, mitigate country risk and receive solid support in servicing and collection activities. This is true even though 2020 volumes were somewhat penalised by the evident difficulties some companies experienced in invoicing which had a direct impact on the volume of receivables to be assigned.

### **Salary- and Pension-Backed Loans**

The market has witnessed a strengthening downward trend in volumes which showed signs of a reversal only in August. On a consolidated annual basis, the market contracted by 15.6% (Assofin data) due mainly to the slowdowns linked to the epidemic emergency, the effects of which spread to the entire lending cycle, prolonging its impact from the peak of the crisis in the previous quarter. Against this backdrop, the CQ Division once again saw sustained growth in volumes in the third quarter when compared to last year, particularly in the indirect channel, where the number and size of the transactions was significant. These volumes have made it possible to counteract attrition in the portfolio which is constantly rising due to the maturities of the loans and receivables held by the portfolio that increase exposure

to the risk of early repayment typical of this product. As a result, outstanding capital grew to € 932 million, an increase of 22% compared to last year and +5% over the previous quarter.

### **Collateralised lending**

Following the spread of the health emergency caused by Covid-19, ProntoPegno, with the support of the Parent, established and implemented measures in line with the provisions of the competent authorities and focused on ensuring the utmost prudence in safeguarding the health of everyone without ever suspending its operations. More specifically, the branches:

- have been provided with personal protective equipment (gloves and masks), digital thermometers and disinfectants;
- have placed signage displaying the “Information on behaviours for managing the Coronavirus emergency” and to ensure people maintain safe social distances;
- have continued to operate with a single employee working in shifts until the end of May to avoid the possibility of spreading any infection, whereas the office personnel worked remotely from the beginning of March.

Along with measures to prevent the spread of contagion, ProntoPegno has also chosen to implement specific measures to support liquidity, applying Article 11 of Italian Law Decree entitled “Urgent measures concerning access to credit and tax obligations for businesses, special powers in strategic sectors, as well as measures concerning health and labour and the extension of administrative and procedural deadlines”, known as the “Liquidity Decree” issued on 8 April 2020 by the Italian Government, which introduced measures to support businesses, artisans, self-employed workers and professionals.

More specifically, paragraph 1 of the article provided that the expiry dates that fell within or commenced in the period from 9 March 2020 to 30 April 2020, relating to promissory notes, bills of exchange and other debt securities issued before the effective date of the decree, be suspended for the same period. The suspension benefits debtors and obligated parties including those

having a right of recourse or guarantee, without prejudice to their express right to waive this benefit. In applying this provision, ProntoPegno extended the expiries of those policies falling between 9 March 2020 and 30 April 2020 by 52 days, which is the number of days between 9 March and 30 April.

During the conversion of the above-mentioned Law Decree, changes were made to Article 11 whereby the suspension period was extended to 31 August 2020 (instead of 30 April 2020). ProntoPegno has therefore further postponed the expiry dates of the policies falling within the suspension period defined in the Decree to 1 September 2020.

As a consequence, default interest has not accrued until the new expiry date. Nevertheless, the customer may have decided at any time to redeem the asset, even prior to expiry, without being charged the early redemption fee.

ProntoPegno has also decided to suspend the auctions to sell the assets referred to in the policies that expired between December 2019 and August 2020 until 15 October 2020.

Notice of the measures described above has been posted on ProntoPegno's website.

On 24 June 2020, the Group received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group.

The transaction, which was then completed on 10 July and took effect on 13 July 2020, will establish the largest collateralised lending operator in Italy with 12 branches and approximately € 70 million in total loans. With this acquisition, the Banca Sistema Group strengthens its presence in Italy by taking a decisive step forward in implementing its collateralised lending strategy on a larger scale and, thanks to its long-standing reputation as a solid, innovative and growing bank, is preparing to pursue new opportunities in this low-risk business segment, more than 90% of which is secured by gold.

The Banca Sistema Group has been active in the collateralised lending market since 2017, and since 2019 through its specialist subsidiary ProntoPegno S.p.A. and a network of six branches in Milan, Rome,

Naples, Rimini, Palermo and Pisa.

The collateralised lending business unit acquired from the Intesa Sanpaolo Group holds loans of approximately € 55.3 million through a network of six branches in Turin, Naples, Florence, Mestre, Parma and Civitavecchia which employ 58 people.

The acquisition was carried out by ProntoPegno, a subsidiary 75% owned by Banca Sistema and 25% by Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria foundations (which acquired different amounts of the above-mentioned remaining share capital of ProntoPegno), which generated a net profit for the Parent of € 1.1 million at 30 June 2020. The aforementioned foundations subsequently subscribed, together with Banca Sistema, to the ProntoPegno capital increase on a pro-rata basis, which was used to acquire the business unit, for a total of € 34 million. The acquisition price of € 34 million is still subject to adjustment based on the post-closing procedures in the agreement between the parties for recognising any differences in the business unit's imbalance between the signing date and the closing date of the transaction. The provisional allocation as at 30 September 2020, which is based on the provisional consideration paid in July, led to the recognition of goodwill of € 29.8 million.

As previously announced on 22 June 2020, the European Parliament approved the amendments to Regulation (EU) 876/2019 ("CRR 2") which include bringing forward the entry into force of the provisions relating to the reduction of the risk capital weighting for salary- and pension-backed loans (CQS and CPQ) from the current 75% to 35%.

The reduction in weighting, which will enable the Group to further strengthen its capital structure, came into effect on 27 June 2020.

On 29 June 2020 Banca Sistema announced that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia renewed the Shareholders' Agreement signed on 29 June 2018, amended on 22 February 2019, and expiring on 1 July 2020. The Shareholders' Agreement



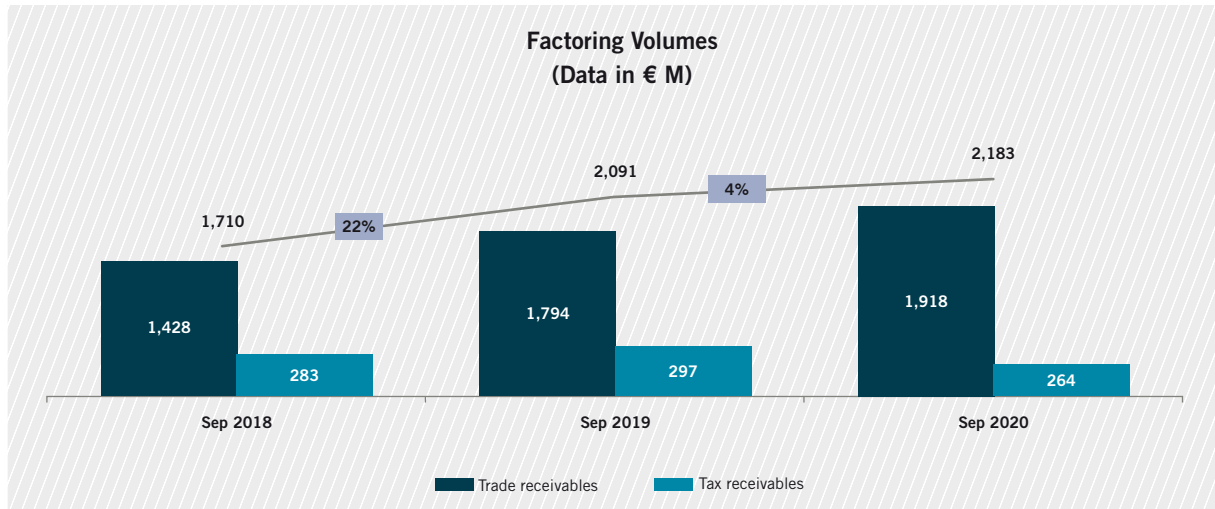
reflects a shareholding of 38.41% in Banca Sistema's share capital. The new Shareholders' Agreement came into effect on 2 July 2020 and expires on 1 July 2022. An abstract of the new Shareholders' Agreement, which was drafted pursuant to article 129 of the Issuers' Regulation, and essential information pursuant to article

130 of the Issuers' Regulation have been made available on the Parent's website [www.bancasistema.it](http://www.bancasistema.it) and on the website of the storage mechanism authorised by Consob [www.1info.it](http://www.1info.it). A full version of the abovementioned agreement has also been deposited at the Milan Companies' Register.

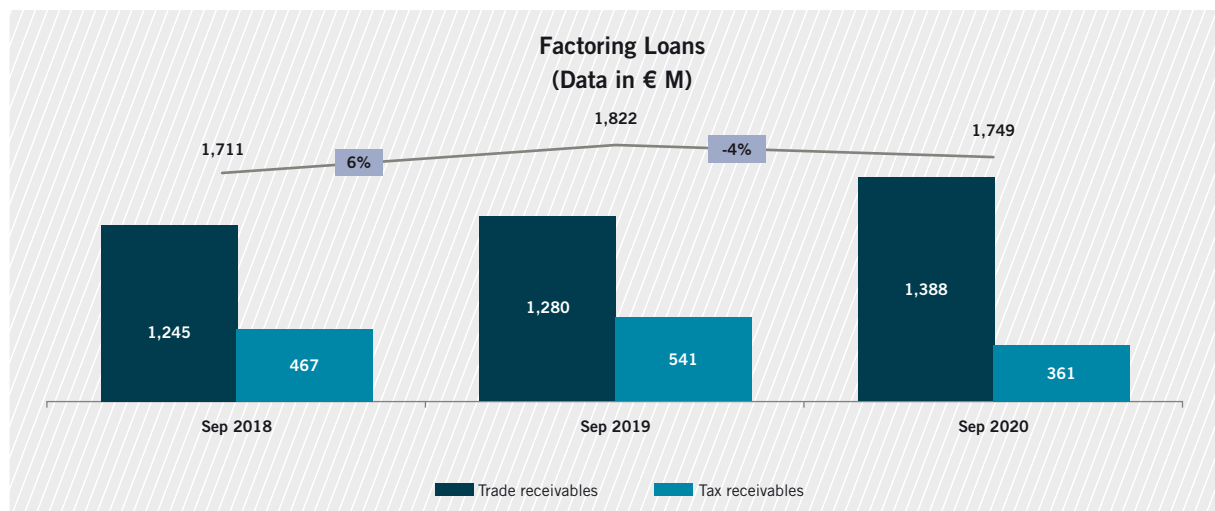
## FACTORING

### Banca Sistema and factoring activities

Total volumes at 30 September 2020 of the Banca Sistema Group were € 2,183 million, up 4% on the same period in 2019, and have remained stable year on year, despite the difficult market conditions in Italy.

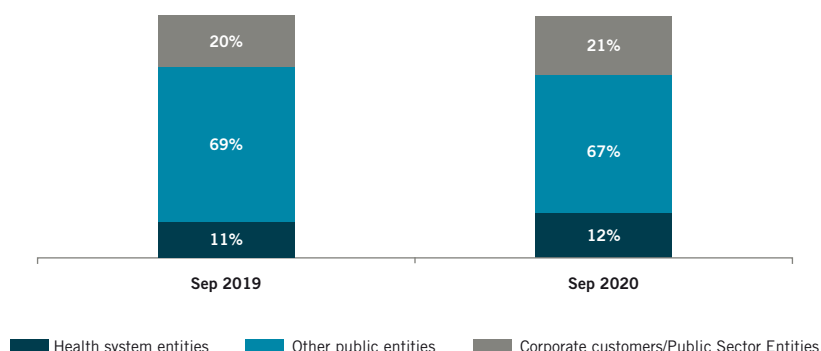


Loans as at 30 September 2020 amounted to € 1,749 million, down 4% on the € 1,822 million at 30 September 2019 mainly due to increased collections during the period compared to the volumes acquired in 2020.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 30

September 2020 and 2019. The Group's core factoring business remains the Public Administration entities segment.



Volumes were generated through both its own internal commercial network and through banks with which the Group has entered into distribution agreements.

In September 2020, existing distribution agreements accounted for 25% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	30.09.2020	30.09.2019	€ Change	% Change
Trade receivables	1,918	1,794	124	7%
<i>of which, without recourse</i>	<i>1,563</i>	<i>1,518</i>	<i>45</i>	<i>3%</i>
<i>of which, with recourse</i>	<i>355</i>	<i>276</i>	<i>79</i>	<i>29%</i>
Tax receivables	264	297	(33)	-11%
<i>of which, without recourse</i>	<i>264</i>	<i>293</i>	<i>(28)</i>	<i>-10%</i>
<i>of which, with recourse</i>	<i>0</i>	<i>4</i>	<i>(4)</i>	<i>-100%</i>
<b>TOTAL</b>	<b>2,183</b>	<b>2,091</b>	<b>92</b>	<b>4%</b>

In absolute terms, the growth in volumes derives mainly from the purchase of trade receivables.

Volumes in September 2020 were € 2,183 million, an increase of 4% over September 2019. Excluding football

and tax receivables, at September 2020 factoring volumes had grown by 6% yoy.

Volumes related to the management of third-party portfolios amounted to € 323 million (in line with the previous year).

## SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

At 30 September 2020, the Group had operated in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of 41 single-company agents and 15 specialised brokers located throughout

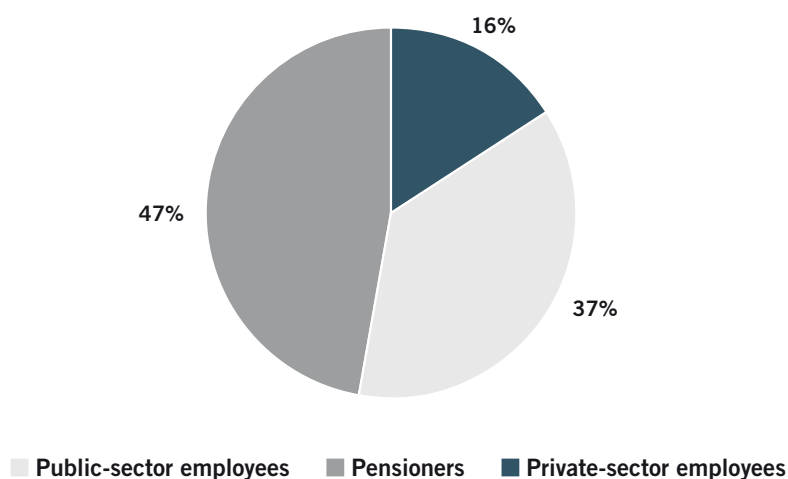
Italy and is supported by a dedicated structure within the Bank.

The volumes of acquired portfolios and directly originated receivables from the beginning of the year until September 2020 amounted to € 230 million (€ 26 million of which were originated by the Bank), including private-sector employees (16%), pensioners (47%) and public-sector employees (37%). Therefore, over 84% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

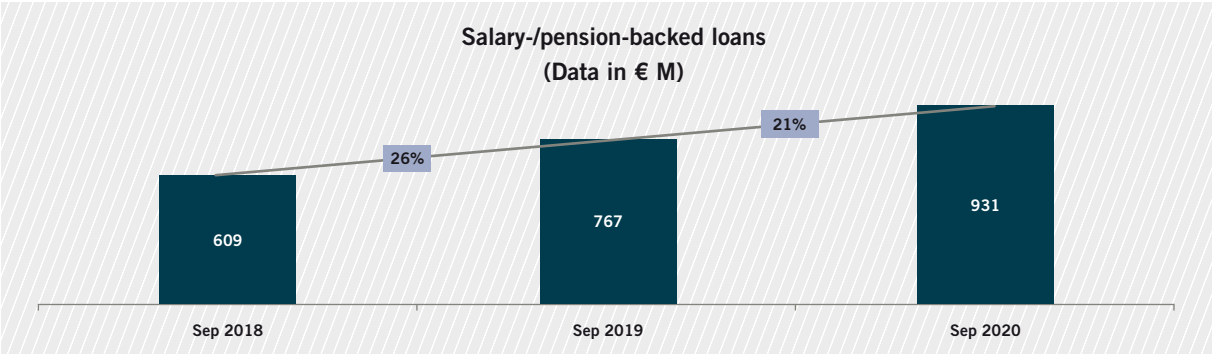
	30.09.2020	30.09.2019	€ Change	% Change
No. of applications (#)	11,766	9,723	2,043	21%
<i>of which originated</i>	<i>1,189</i>	<i>672</i>	<i>517</i>	<i>77%</i>
Volumes disbursed (millions of Euro)	230	186	44	24%
<i>of which originated</i>	<i>26</i>	<i>14</i>	<i>12</i>	<i>85%</i>

As shown in the table, the amount disbursed at September 2020 is up compared to the amount disbursed at September 2019.

CQ disbursed volumes - Breakdown



The following chart shows the performance of outstanding loans in the salary-/pension-backed loans (CQS/CQP) portfolio:



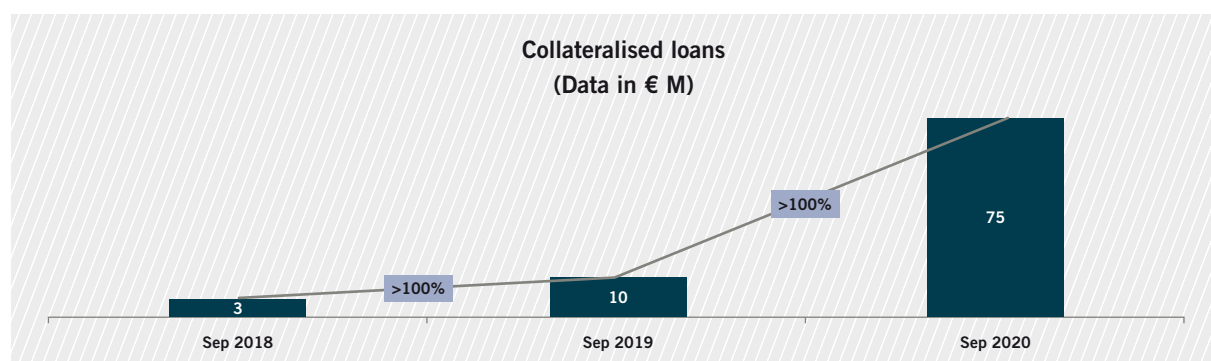
## COLLATERALISED LENDING AND PRONTOPEGNO

The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness. To take advantage of the growth prospects that have emerged since starting this business, the Bank has decided to transfer its “collateralised lending” business to a dedicated company. As described above, ProntoPegno, in line with its growth

strategy within this business, acquired the collateralised lending business unit of the Intesa Sanpaolo Group. The assets of the business unit, which was transferred with effect from 13 July 2020, consisted mainly of loans and receivables amounting to € 55.3 million.

Following the acquisition, the Pawnbroker of the Banca Sistema Group now has 12 branches located across the country.

The following chart shows the performance of outstanding loans:



As mentioned previously, volumes were impacted in March by the COVID-19 crisis because of the restrictions put in place that prevented people from going to the

branches, whereas the increase in the third quarter is attributed to the acquisition of the collateralised lending business unit.

The statement of financial position of the consolidated company ProntoPegno as at 30 September 2020 is provided below.

Assets (€,000)	30.09.2020	31.12.2019
Cash and cash equivalents	1,333	499
Financial assets measured at amortised cost	78,422	12,869
a) loans and receivables with banks	3,466	1,112
b1) loans and receivables with customers - loans	74,956	11,757
Property and equipment	3,090	489
Intangible assets	30,062	-
<i>of which: goodwill</i>	<i>29,800</i>	<i>-</i>
Tax assets	835	176
Other assets	316	36
<b>Total assets</b>	<b>114,058</b>	<b>14,069</b>

Liabilities and equity (€,'000)	30.09.2020	31.12.2019
Financial liabilities measured at amortised cost	70,598	8,502
a) due to banks	67,448	8,243
b) due to customers	3,150	259
Tax liabilities	8	-
Other liabilities	4,888	690
Post-employment benefits	1,142	95
Provisions for risks and charges	212	222
Valuation reserves	(29)	(12)
Reserves	15,410	-
Share capital	23,162	5,000
Loss for the period	(1,333)	(428)
<b>Total liabilities and equity</b>	<b>114,058</b>	<b>14,069</b>

As described previously, on 24 June 2020, ProntoPegno received authorisation from the Bank of Italy to acquire the collateralised lending business unit of the Intesa Sanpaolo Group. The acquisition was completed on 10 July with effect from 13 July 2020, consequently increasing assets with the entry of the collateralised lending business unit.

To prepare for the transaction, in June, the Parent allowed new institutional shareholders to join ProntoPegno by selling 25% of the ordinary shares to Fondazione Cassa di Risparmio di Cuneo, Fondazione Pisa and Fondazione Cassa di Risparmio di Alessandria, each of which acquired different amounts of the above-mentioned share capital of ProntoPegno. Later in June, in order to provide the Company with sufficient funds to acquire the former Banca Intesa Sanpaolo collateralised lending business unit, Banca Sistema, together with the above-mentioned foundations, subscribed to the ProntoPegno capital increase on a pro-rata basis for a total of € 34 million, € 18.2 million of which to share capital and € 15.8 million to the share premium reserve.

The assets consist mainly of loans to customers for the collateralised lending business and goodwill of € 29.8 million which is still subject to adjustment.

Liabilities, on the other hand, in addition to the capital and reserves, consist of the loan of € 48.7 million granted by Intesa Sanpaolo with the transfer of the collateralised lending business unit, along with the loan of € 18.7 million from the Parent.

The other “financial liabilities measured at amortised cost” include the auction buyer’s premium of € 3.2 million of which € 2.6 million resulting from the acquisition of the collateralised lending business unit. For 5 years, this amount is recognised in the financial statements as due to customers; if customers do not collect the amount, it would be recognised as revenue. The provision for risks includes the estimated liability for bonuses and non-compete agreements.

The income statement of the consolidated company ProntoPegno as at 30 September 2020 is provided below. In order to provide a better representation of the company’s performance, an income statement has been prepared that has been normalised for acquisition-related costs of € 1.5 million and non-recurring costs related to the acquisition of the collateralised lending business unit. Furthermore, since the company started operating on 1 August 2019, no comparative data are provided as they are not significant.

Income statement (€,000)	First three quarters of 2020	Normalisation	First three quarters of 2020 - Normalised
Net interest income	1,742	-	1,742
Net fee and commission income	1,050	-	1,050
<b>Total income</b>	<b>2,792</b>	<b>-</b>	<b>2,792</b>
Net impairment losses on loans and receivables	(7)	-	(7)
<b>Net financial income</b>	<b>2,785</b>	<b>-</b>	<b>2,785</b>
Personnel expense	(1,887)	-	(1,887)
Other administrative expenses	(2,826)	1,520	(1,306)
Net impairment losses on property and equipment/intangible assets	(291)	-	(291)
Other operating income	241	-	241
<b>Operating costs</b>	<b>(4,763)</b>	<b>1,520</b>	<b>(3,243)</b>
<b>Pre-tax loss from continuing operations</b>	<b>(1,978)</b>	<b>1,520</b>	<b>(458)</b>
Income taxes for the period	645	(418)	227
<b>Loss for the period</b>	<b>(1,333)</b>	<b>1,102</b>	<b>(231)</b>

The company closed the third quarter of 2020 with a normalised loss for the period of € 231 thousand. With the positive contribution of the recently acquired collateralised lending business unit and without considering the initial charge represented by acquisition-related costs, the company is expected to achieve quarterly profitability starting from the fourth quarter of 2020.

Personnel expenses mostly include the cost of the 76 employees (of which 17 transferred from the Bank and 58

from the business unit), as well as the pro-rata allocation of the estimated variable incentive for the year.

Other administrative expenses mainly consist of advertising costs, rent of space paid to the Group and costs for support activities carried out by the Parent.

Acquisition-related costs comprise the registration tax of € 1 million paid for the acquisition of the business unit, and other non-recurring costs incurred for IT and logistics integration totalling € 1.5 million.



## FUNDING AND TREASURY ACTIVITIES

### Treasury portfolio

A treasury portfolio has been established in order to support the Bank's liquidity commitments solely through short-term investment in Italian government bonds.

The balance at 30 September 2020 was equal to a nominal € 992 million and is in line with the balance of € 985 million at 31 December 2019.

The treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly

characterised by a concentration of transactions in very specific periods.

At 30 September, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounted to € 542 million (compared to € 550 million as at 31 December 2019) with a duration of 17.9 months (20.1 months at 31 December 2019). At 30 September, the HTC portfolio amounted to € 450 million with a duration of 14.3 months.

### Wholesale funding

At 30 September, wholesale funding was about 46% of the total, mainly comprising refinancing transactions with the ECB, as well as bonds and interbank deposits (39% at 31 December 2019).

The issue of both senior and subordinated bonds over the past few years placed with institutional investors has enabled a diversification of the sources of funding and a significant increase in the duration of funding. Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema

to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisation. The Bank also adhered to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

For its short-term liquidity needs, the Group used the interbank deposit market. Existing bank deposits at 30 September 2020 totalled € 100 million, an increase over the € 30 million at 31 December 2019.

### Retail funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.

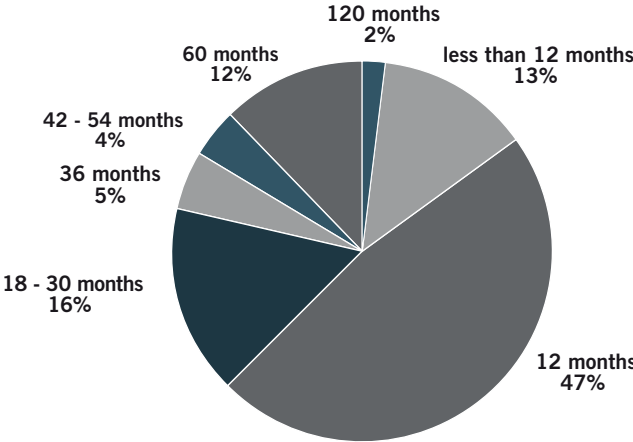
Retail funding accounts for 54% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 30 September 2020 amounted to € 1,131 million, a decrease of 15% compared to 31

December 2019. The above-mentioned amount also includes total term deposits of € 495 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 44% of total deposit funding), a decrease of € 369 million over the same period of the previous year as a result of the policy to reduce interest rates being implemented.

The breakdown of funding by term is shown below. The average *residual life* of the portfolio is 13 months.

**Breakdown of deposit accounts as at 30 September**



Current accounts increased from 6,620 (as at 30 September 2019) to 7,975 as at September 2020, while the current

account balance at 30 September 2020 increased +11% over the same period in 2019 to € 693 million.

## INCOME STATEMENT RESULTS

INCOME STATEMENT (€,'000)	First three quarters of 2020	First three quarters of 2019	€ Change	% Change
Net interest income	52,813	58,386	(5,573)	-9.5%
Net fee and commission income	11,939	12,539	(600)	-4.8%
Dividends and similar income	227	227	-	0.0%
Net trading income	38	209	(171)	-81.8%
Gain from sales or repurchases of financial assets/liabilities	7,101	1,702	5,399	>100%
<b>Total income</b>	<b>72,118</b>	<b>73,063</b>	<b>(945)</b>	<b>-1.3%</b>
Net impairment losses on loans and receivables	(7,229)	(6,425)	(804)	12.5%
Net financial income	<b>64,889</b>	<b>66,638</b>	<b>(1,749)</b>	<b>-2.6%</b>
Personnel expense	(17,188)	(15,701)	(1,487)	9.5%
Other administrative expenses	(19,524)	(17,396)	(2,128)	12.2%
Net accruals to provisions for risks and charges	(1,181)	(1,346)	165	-12.3%
Net impairment losses on property and equipment/intangible assets	(1,321)	(1,259)	(62)	4.9%
Other operating income	696	463	233	50.3%
<b>Operating costs</b>	<b>(38,518)</b>	<b>(35,239)</b>	<b>(3,279)</b>	<b>9.3%</b>
Gains (losses) on sales of investments	1,090	(8)	1,098	<100%
<b>Pre-tax profit from continuing operations</b>	<b>27,461</b>	<b>31,391</b>	<b>(3,930)</b>	<b>-12.5%</b>
Income taxes for the period	(8,285)	(10,522)	2,237	-21.3%
<b>Post-tax profit for the period</b>	<b>19,176</b>	<b>20,869</b>	<b>(1,693)</b>	<b>-8.1%</b>
Post-tax profit (loss) from discontinued operations	-	562	(562)	-100.0%
<b>Profit for the period</b>	<b>19,176</b>	<b>21,431</b>	<b>(2,255)</b>	<b>-10.5%</b>
<b>Loss for the period attributable to non-controlling interests</b>	<b>333</b>	<b>-</b>	<b>333</b>	<b>n.a.</b>
<b>Profit for the period attributable to the owners of the Parent</b>	<b>19,509</b>	<b>21,431</b>	<b>(1,922)</b>	<b>-9.0%</b>

The result of the first nine months of 2020 was a profit attributable to the owners of the Parent of € 19.5 million, a decrease on the same period a year earlier due to the lower contribution of the loans and receivables factoring portfolio.

In the third quarter of 2020, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2020 were updated in the light of the progressive consolidation of the historical data series; the adjustment of these estimates led to the recognition of higher total interest income of € 1.0 million. The results for the same period in the previous year also benefited from the change in the estimate for the

probability of collection of default interest which led to the recognition of higher interest income of € 4.8 million.

Unlike the first half of 2020, the figures for 2019 did not include the operating costs of Atlantide, which entered the scope of consolidation in the second quarter of 2019 following the acquisition of the company which was completed on 3 April 2019. Furthermore, to correctly interpret the operating costs, one must bear in mind that the amount due to the Resolution Fund is € 0.9 million higher than the first half of 2019 (the unexpected increase in the contribution was 75%) and that non-recurring costs of € 1.6 million were incurred during the quarter for the integration of the collateralised lending business unit.

NET INTEREST INCOME (€,'000)	First three quarters of 2020	First three quarters of 2019	€ Change	% Change
<b>Interest and similar income</b>				
Loans and receivables portfolios	66,314	76,721	(10,407)	-13.6%
Securities portfolio	1,413	621	792	>100%
Other	778	884	(106)	-12.0%
Financial liabilities	3,130	2,090	1,040	49.8%
<b>Total interest income</b>	<b>71,635</b>	<b>80,316</b>	<b>(8,681)</b>	<b>-10.8%</b>
<b>Interest and similar expense</b>				
Due to banks	(336)	(436)	100	-22.9%
Due to customers	(12,014)	(15,607)	3,593	-23.0%
Securities issued	(6,299)	(5,809)	(490)	8.4%
Financial assets	(173)	(78)	(95)	>100%
<b>Total interest expense</b>	<b>(18,822)</b>	<b>(21,930)</b>	<b>3,108</b>	<b>-14.2%</b>
<b>Net interest income</b>	<b>52,813</b>	<b>58,386</b>	<b>(5,573)</b>	<b>-9.5%</b>

Net interest income decreased compared to the same period of the previous year. This was due to the lower contribution of the loans and receivables factoring portfolio to net interest income as a result of the reduction in default interest deriving from both legal and out-of-court actions. On the other hand, the current funding policies and decisions had a positive impact on net interest income.

The total contribution of the factoring portfolio to interest income was € 47.1 million, equal to 66% of the entire loans and receivables portfolio (€ 58 million in interest income at 30 September 2019), to which the commission component associated with the factoring business and the revenue generated by the assignment of receivables from the factoring portfolio need to be added. The component linked to default interest from legal action at 30 September 2020 was € 16.1 million (€ 24.3 million at 30 September 2019):

- of which € 1 million resulting from the updated recovery estimates and expected collection times (€ 4.8 million at 30 September 2019);
- of which € 7.4 million resulting from the current recovery estimates (€ 11.0 million at 30 September 2019);
- of which € 7.7 million (€ 6.9 million at 30 December 2019) coming from net collections during the year, i.e. the difference between the amount collected during the period, equal to € 18.1 million (€ 15.1 million at 30 September 2019) and that recognised on an accrual basis

in previous years. This item includes gross collections of € 5.2 million from transfers to third parties (equal to € 5.2 million in 2019).

The decrease in the effect resulting from the updated recovery estimates is a consequence of the fact that the historical series over the last few years have settled nearer to the average collection percentages and have stabilised in terms of the number of positions. As a result, the expected recovery percentage calculated by the statistical model is now quite stable and does not fluctuate significantly.

The amount of the stock of default interest from legal actions accrued at 30 September 2020, relevant for the allocation model, was € 101 million (€ 104 million at the end of the third quarter of 2019), € 153 million including troubled local authorities, a component for which default interest is not allocated in the financial statements, whereas the loans and receivables recognised in the financial statements amount to € 50.2 million. The amount of default interest accrued but not recognised in the income statement is € 103 million.

During the year, factoring portfolios were sold that generated a net profit of € 2.1 million recognised in the item Gain from sales or repurchases of financial assets/liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios

which is down slightly on the same period of the previous year at € 16.9 million as a result of the early redemption of several positions.

The contribution of the collateralised loans portfolio grew to € 1.9 million, compared to € 0.5 million in the same period of the previous year. The increase is mostly due to the recent acquisition of the collateralised lending business unit which contributed € 1.2 million starting from 13 July 2020.

The item “financial liabilities” mainly includes income arising from the financing activity of the securities

portfolio in repurchase agreements and ECB loans at negative rates, which account for € 2.4 million.

Despite the increase in average lending, interest expense decreased compared to the previous year thanks to the meticulous containment of the cost of funding and the funding strategies put in place. In particular, interest on term deposits from customers decreased as a result of the reduction in the interest rate applied to deposit accounts. This has led to a decrease in funding from this channel, while the various forms of funding from the ECB, at negative rates, have increased significantly.

<b>NET FEE AND COMMISSION INCOME</b> (€,000)	First three quarters of 2020	First three quarters of 2019	€ Change	% Change
<b>Fee and commission income</b>				
Factoring activities	13,563	14,134	(571)	-4.0%
Fee and commission income - off-premises	1,566	1,304	262	20.1%
Collateralised loans (fee and commission income)	1,062	308	754	>100%
Collection activities	811	891	(80)	-9.0%
Other	261	357	(96)	-26.9%
<b>Total fee and commission income</b>	<b>17,263</b>	<b>16,994</b>	<b>269</b>	<b>1.6%</b>
<b>Fee and commission expense</b>				
Placement	(2,509)	(2,743)	234	-8.5%
Fees - off-premises	(2,129)	(1,269)	(860)	67.8%
Other	(686)	(443)	(243)	54.9%
<b>Total fee and commission expense</b>	<b>(5,324)</b>	<b>(4,455)</b>	<b>(869)</b>	<b>19.5%</b>
<b>Net fee and commission income</b>	<b>11,939</b>	<b>12,539</b>	<b>(600)</b>	<b>-4.8%</b>

Net fee and commission income of € 11.9 million decreased by 4.8% due to commissions from the CQ agents network which were not present in the first quarter of 2019 as the direct origination business was launched starting the second quarter.

Fee and commission income from factoring should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Fee and commission income from the collateral-backed loan business grew by € 754 thousand compared to the same period of the previous year thanks to the acquisition of the business unit in the third quarter.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year.

Other fee and commission income includes commissions and fees from collection and payment services, and the keeping and management of current accounts.

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 2.1 million, which should be considered together with the item Fees - off-premises, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including

the estimated year-end bonuses payable to them. Placement fees and commissions paid to third parties are attributable to returns to third party intermediaries for the placement of the SI Conto! Deposito product under the passporting regime and the origination costs

of factoring receivables, which remained in line with those reported the previous year.

Other fee and commission expense includes commissions for trading third-party securities and for interbank collections and payment services.

<b>GAIN FROM SALES OR REPURCHASES (€ ,000)</b>	<b>First three quarters of 2020</b>	<b>First three quarters of 2019</b>	<b>€ Change</b>	<b>% Change</b>
Gains from HTCS portfolio debt instruments	4,612	1,702	2,910	>100%
Gains from HTC portfolio debt instruments	340	-	340	n.a.
Gains from financial liabilities	16	-	16	n.a.
Gains from receivables	2,133	-	2,133	n.a.
<b>Total</b>	<b>7,101</b>	<b>1,702</b>	<b>5,399</b>	<b>&gt;100%</b>

The item Gain (loss) from sales or repurchases includes gains generated by the proprietary HTCS and HTC securities portfolio, which increased by € 3.3 million overall compared to the previous year, and net realised gains from receivables of € 2.1 million, the revenue from which derives mainly from the sale of factoring portfolios to private-sector assignors (recurring business since 2019).

Impairment losses on loans and receivables at 30 September 2020 amounted to € 7.2 million and include a model update of the collective provision due to the deterioration of the macroeconomic scenario caused by the ongoing health emergency. Impairment losses are mainly attributable to exposures to businesses and some factoring loans. The loss rate remained steady at 0.36% compared to 0.35% at 30 September 2019.

<b>PERSONNEL EXPENSE (€ ,000)</b>	<b>First three quarters of 2020</b>	<b>First three quarters of 2019</b>	<b>€ Change</b>	<b>% Change</b>
Wages and salaries	(15,965)	(14,580)	(1,385)	9.5%
Social security contributions and other costs	(297)	(247)	(50)	20.2%
Directors' and statutory auditors' remuneration	(926)	(874)	(52)	5.9%
<b>Total</b>	<b>(17,188)</b>	<b>(15,701)</b>	<b>(1,487)</b>	<b>9.5%</b>

The increase in personnel expense is due to the increase in the average number of employees as a result of the 58 employees joining from the business unit merged into

ProntoPegno.

As at 30 September 2020, the Group had a staff of 273, broken down by category as follows:

<b>FTES</b>	<b>30.09.2020</b>	<b>31.12.2019</b>	<b>30.09.2019</b>
Senior managers	26	24	25
Middle managers (QD3 and QD4)	53	45	44
Other personnel	194	146	141
<b>Total</b>	<b>273</b>	<b>215</b>	<b>210</b>

In July, the Bank, as part of its strategy of increasing business specialisation, completed the acquisition and merger of the collateralised lending business unit of the Intesa Sanpaolo Group. This merger resulted in 58 new operating employees in 6 new branches in Turin, Parma, Mestre, Florence, Civitavecchia and Naples, thus increasing the Group's geographical presence. Operations continued to be carried out remotely during the third quarter due to the ongoing health emergency - except for employees of the Banking and Collateralised

Loan branches and those working in the departments most critical to managing the emergency, namely ICT and Logistics - with the adequate and proportionate introduction of remote working and rigorous application of safety protocols. Before returning to the office after the summer leave period, all employees were offered epidemiological tests organised and paid for by the Bank. The average age of Group employees is 43 for men and 40 for women. The breakdown by gender is essentially balanced with women accounting for 48% of the total.

<b>OTHER ADMINISTRATIVE EXPENSES</b> (€ ,000)	First three quarters of 2020	First three quarters of 2019	€ Change	% Change
Consultancy	(2,999)	(3,535)	536	-15.2%
IT expenses	(4,616)	(4,341)	(275)	6.3%
Servicing and collection activities	(2,121)	(2,016)	(105)	5.2%
Indirect taxes and duties	(1,436)	(1,714)	278	-16.2%
Insurance	(481)	(364)	(117)	32.1%
Other	(476)	(362)	(114)	31.5%
Expenses related to management of the SPVs	(559)	(260)	(299)	115.0%
Car hire and related fees	(455)	(456)	1	-0.2%
Advertising	(302)	(413)	111	-26.9%
Rent and related fees	(656)	(406)	(250)	61.6%
Expense reimbursement and entertainment	(271)	(553)	282	-51.0%
Infoprovider expenses	(460)	(456)	(4)	0.9%
Membership fees	(255)	(253)	(2)	0.8%
Property management expenses	(316)	(277)	(39)	14.1%
Audit fees	(224)	(269)	45	-16.7%
Telephone and postage expenses	(134)	(104)	(30)	28.8%
Logistics expenses	(75)	(59)	(16)	27.1%
Stationery and printing	(54)	(47)	(7)	14.9%
Resolution Fund	(2,007)	(1,146)	(861)	75.1%
Merger-related costs	(1,627)	(365)	(1,262)	345.8%
<b>Total</b>	<b>(19,524)</b>	<b>(17,396)</b>	<b>(2,128)</b>	<b>12.2%</b>

Administrative expenses increased mainly due to the contribution to the Resolution Fund which accounts for € 0.9 million of the increase in costs and the non-recurring acquisition-related costs from the acquisition of the business unit. These costs primarily comprise the registration tax of € 1 million, and IT and logistics costs. Excluding these items, costs did not increase, but remained unchanged from the previous year.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

The 2020 merger-related costs refer to costs incurred in connection with the acquisition of the collateralised lending business unit completed in July. The 2019 merger-related costs include the costs for the integration and merger of Atlantide into the Bank.

The impairment losses on property and equipment/

intangible assets are the result of higher provisions for property used for business purposes, as well as the depreciation of the “right-of-use” asset following the application of IFRS 16.

Accruals to provisions for risks are mainly attributable to the measurement and review of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks and did not record any increase with respect to the previous quarter.

The Group's tax rate improved as it benefited from the reintroduction by the legislator of “ACE” (Aid to Economic Growth), which is aimed at strengthening the capital structure of companies, a measure that was introduced in 2011, abolished by the previous 2019 Budget Law and then reintroduced with the 2020 Budget Law. The gain on the sale of 25% of the equity investment in ProntoPegno held by the Parent benefits from the participation exemption (PEX), which means that 95% of it is exempt from taxation.



## THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

The comments on the main aggregates on the asset side of the statement of financial position are shown below.

ASSETS (€,000)	30.09.2020	31.12.2019	€ Change	% Change
Cash and cash equivalents	6,706	652	6,054	>100%
Financial assets measured at fair value through other comprehensive income	549,056	556,383	(7,327)	-1.3%
Financial assets measured at amortised cost	3,241,105	3,112,387	128,718	4.1%
a) loans and receivables with banks	110,001	81,510	28,491	35.0%
b1) loans and receivables with customers - loans	2,683,401	2,595,700	87,701	3.4%
b2) loans and receivables with customers - debt instruments	447,703	435,177	12,526	2.9%
Property and equipment	31,614	29,002	2,612	9.0%
Intangible assets	33,982	3,921	30,061	>100%
Tax assets	9,184	8,476	708	8.4%
Other assets	16,215	19,260	(3,045)	-15.8%
<b>Total assets</b>	<b>3,887,862</b>	<b>3,730,081</b>	<b>157,781</b>	<b>4.2%</b>

The period ended 30 September 2020 closed with total assets up by 4.2% on the end of 2019 and equal to € 3.9 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income (“HTCS” or “Held to collect and Sell”) of the Group remained in line with 31 December 2019 and continues to be mainly comprised of Italian government bonds with an average duration of about 17.9 months (the average remaining duration at the end of 2019 was 20.1 months). This is consistent with the

Group investment policy. The HTCS portfolio amounted to € 542 million at 30 September 2020 (€ 550 million at 31 December 2019). The associated valuation reserve was positive at the end of the period, amounting to € 2.1 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 30 September 2020 had a negative fair value reserve of € 0.7 million, resulting in a period-end amount of € 0.4 million.

**LOANS AND RECEIVABLES WITH CUSTOMERS (€,'000)**

	30.09.2020	31.12.2019	€ Change	% Change
Factoring	1,588,765	1,714,661	(125,896)	-7.3%
Salary-/pension-backed loans (CQS/CQP)	931,004	817,229	113,775	13.9%
Collateralised loans	74,966	11,757	63,209	>100%
Loans to SMEs	54,016	11,998	42,018	>100%
Current accounts	17,472	18,213	(741)	-4.1%
Compensation and Guarantee Fund	13,131	20,676	(7,545)	-36.5%
Other loans and receivables	4,047	1,166	2,881	>100%
<b>Total loans</b>	<b>2,683,401</b>	<b>2,595,700</b>	<b>87,701</b>	<b>3.4%</b>
Securities	447,703	435,177	12,526	2.9%
<b>Total loans and receivables with customers</b>	<b>3,131,104</b>	<b>3,030,877</b>	<b>100,227</b>	<b>3.3%</b>

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or “Held to Collect”), is composed of loan receivables with customers and the “held-to-maturity securities” portfolio.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were 59% (66% at the end of 2019). The volumes generated over the period amounted to € 2,183 million (€ 2,091 million at 30 September 2019).

Salary- and pension-backed loans grew thanks to new loans from acquired portfolios and originated receivables, which increased by 14% compared to the previous year (the new volumes acquired in the first

nine months of 2020 amounted to € 230 million), while government-backed loans to SMEs increased following new disbursements made under a SACE guarantee.

The collateralised loan business, carried out through the ProntoPegno subsidiary, grew significantly to € 75 million at 30 September 2020, which are the result of loans granted during the first half of the year and renewals with existing customers despite the limitations caused by the lockdown, but especially of the acquisition of the Collateralised Lending Business Unit.

HTC Securities are composed entirely of Italian government securities with an average duration of 14.3 months for an amount of € 450 million. The mark-to-market valuation of the securities at 30 September 2020 was a positive fair value of € 3.1 million.

The following table shows the quality of receivables in the loans and receivables with customers item, excluding the securities positions.

STATUS	30.09.2019	31.12.2019	31.03.2020	30.06.2020	30.09.2020
Bad exposures	57,319	50,622	48,564	48,714	49,759
Unlikely to pay	122,738	139,349	141,127	140,422	144,848
Past due	59,674	55,647	68,747	84,134	60,966
<b>Non-performing</b>	<b>239,731</b>	<b>245,618</b>	<b>258,438</b>	<b>273,270</b>	<b>255,573</b>
<b>Performing</b>	<b>2,387,359</b>	<b>2,392,985</b>	<b>2,352,389</b>	<b>2,380,051</b>	<b>2,477,606</b>
Stage 2	123,782	124,252	155,374	165,148	169,719
Stage 1	2,263,577	2,268,733	2,197,015	2,214,903	2,307,887
<b>Total loans and receivables with customers</b>	<b>2,627,090</b>	<b>2,638,603</b>	<b>2,610,827</b>	<b>2,653,321</b>	<b>2,733,179</b>
<b>Individual impairment losses</b>	<b>34,746</b>	<b>37,217</b>	<b>38,194</b>	<b>38,495</b>	<b>39,997</b>
Bad exposures	20,394	20,078	19,819	19,920	21,212
Unlikely to pay	13,588	16,042	17,106	17,707	18,265
Past due	764	1,097	1,269	868	520
<b>Collective impairment losses</b>	<b>7,303</b>	<b>5,686</b>	<b>6,335</b>	<b>8,284</b>	<b>9,781</b>
Stage 2	806	667	865	943	982
Stage 1	6,497	5,019	5,470	7,341	8,799
<b>Total impairment losses</b>	<b>42,049</b>	<b>42,903</b>	<b>44,529</b>	<b>46,779</b>	<b>49,778</b>

The ratio of gross non-performing loans to the total portfolio went from 9.3% at 31 December 2019 to 9.4% at the end of the third quarter of 2020. The decrease in the absolute value of non-performing loans compared to 31 December 2019 is mainly due to the decrease in past due factoring positions. The amount of past due loans and local authorities in financial difficulty is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.1% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 15.6%.

Property and equipment includes the property located in Milan which is also being used as Banca Sistema's new

offices. Its carrying amount, including capitalised items, is € 27.4 million after the accumulated depreciation of the building. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets refer to goodwill of € 33.7 million, broken down as follows:

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1.8 million;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2.1 million;
- the goodwill amounting to € 29.8 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020, which is still subject to review as required by IFRS 3.

A hypothetical allocation of the provisional purchase price for the former Intesa Sanpaolo collateralised lending business unit, which will be subject to a final review at the end of the year, is provided below:

### PROVISIONAL PRICE ALLOCATION

IN THOUSANDS OF EURO

Provisional spot purchase price	34,000
Price adjustment	(773)
<b>Provisional price (A)</b>	<b>33,227</b>
Business unit "Equity" (B)	(3,427)
<b>Residual value to be allocated (A+B)</b>	<b>29,800</b>
<b>Provisional allocation to goodwill</b>	<b>(29,800)</b>

The adjustment at 30 September of € 773 thousand resulting from the difference in equity between the signing date and the closing date of the transaction is recognised under loans and receivables.

Following the review of the business unit, other minor adjustments were identified which need to be reviewed by the seller. Other assets mainly include amounts being processed after the end of the period and advance tax payments.

Comments on the main aggregates on the liability side of the statement of financial position are shown below.

LIABILITIES AND EQUITY (€,'000)	30.09.2020	31.12.2019	€ Change	% Change
Financial liabilities measured at amortised cost	3,489,308	3,416,486	72,822	2.1%
a) due to banks	839,266	388,359	450,907	>100%
b) due to customers	2,226,365	2,551,600	(325,235)	-12.7%
c) securities issued	423,677	476,527	(52,850)	-11.1%
Tax liabilities	19,819	16,433	3,386	20.6%
Other liabilities	155,915	94,662	61,253	64.7%
Post-employment benefits	4,379	3,051	1,328	43.5%
Provisions for risks and charges	18,750	22,297	(3,547)	-15.9%
Valuation reserves	904	267	637	>100%
Reserves	169,861	137,749	32,112	23.3%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(234)	-	0.0%
Profit for the period	19,509	29,719	(10,210)	-34.4%
<b>Total liabilities and equity</b>	<b>3,887,862</b>	<b>3,730,081</b>	<b>157,781</b>	<b>4.2%</b>

Wholesale funding, which represents about 46% (39% at 31 December 2019) of the total, increased in relative terms from the end of 2019 following the increase in

funding from the ECB and the decrease in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 36.4% (50.4% at the end of 2019).

<b>DUE TO BANKS (€,'000)</b>	<b>30.09.2020</b>	<b>31.12.2019</b>	<b>€ Change</b>	<b>% Change</b>
Due to Central banks	690,433	358,250	332,183	92.7%
Due to banks	148,833	30,109	118,724	>100%
<i>Current accounts and demand deposits</i>	100,096	20	100,076	>100%
<i>Term deposits with banks</i>	-	30,089	(30,089)	-100.0%
<i>Financing from banks</i>	48,737	-	48,737	n.a.
<b>Total</b>	<b>839,266</b>	<b>388,359</b>	<b>450,907</b>	<b>&gt;100%</b>

The item "Due to banks" increased compared to 31 December 2019 due to the increase in interbank funding and especially refinancing with the ECB backed by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation, government bonds, salary- and pension-backed loans (CQS/CQP) - which were recently included in the basket of eligible receivables - and some factoring receivables. As a result of the decisions taken by the ECB in response to the effects of the COVID-19 pandemic, the amount available to the Bank under TLTRO III (starting

in June 2020) increased to a maximum of € 491 million from the previous amount of € 295 million. From March to June, the Bank could benefit from the LTRO bridge loan (650 million as at 30 September 2020) at a refinancing rate equal to the average rate applied to deposits with the Central Bank of -0.50%. From May, the Bank could also benefit from PELTROs, Pandemic Emergency Longer-Term Refinancing Operations (200 million as at 30 September 2020) at a fixed rate of -0.25%.

<b>DUE TO CUSTOMERS (€,'000)</b>	<b>30.09.2020</b>	<b>31.12.2019</b>	<b>€ Change</b>	<b>% Change</b>
Term deposits	1,130,607	1,325,794	(195,187)	-14.7%
Financing (repurchase agreements)	326,185	457,070	(130,885)	-28.6%
Current accounts	689,438	681,577	7,861	1.2%
Due to assignors	76,974	83,783	(6,809)	-8.1%
Other payables	3,161	3,376	(215)	-6.4%
<b>Total</b>	<b>2,226,365</b>	<b>2,551,600</b>	<b>(325,235)</b>	<b>-12.7%</b>

The item "Due to customers" decreased compared to the end of the year, mainly due to a decrease in funding from term deposits and from repurchase agreements. The period-end amount of term deposits decreased by 14.7% compared to the end of 2019, reflecting net negative deposits (net of accrued interest) of € -194

million due to the reduction in interest rates in the international channel; gross deposits from the beginning of the year were € 780 million, against withdrawals totalling € 974 million.

Due to assignors includes payables related to receivables acquired but not financed.

SECURITIES ISSUED (€,'000)	30.09.2020	31.12.2019	€ Change	% Change
Bond - AT1	8,156	8,016	140	1.7%
Bond - Tier II	37,679	37,547	132	0.4%
Bonds - other	377,842	430,964	(53,122)	-12.3%
<b>Total</b>	<b>423,677</b>	<b>476,527</b>	<b>(52,850)</b>	<b>-11.1%</b>

The nominal amount of securities issued at 30 September 2020 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7% issued on 18 December 2012;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Tier 2 subordinated loan of € 18 million, 2019-2029 with a fixed coupon of 7%;
- Senior bonds (market placement) of € 175 million, 2017-2020 with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 91.6 million, 2018-2021 with a fixed coupon of 2%.

Other bonds include the senior shares of the ABS in the Quinto Sistema Sec. 2019 and BS IVA securitisation subscribed by third-party institutional investors.

The provision for risks and charges of € 18.8 million includes the provision for possible liabilities attributable to past acquisitions of € 3.1 million, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement totalling € 6.3 million. The provision also includes an estimate of

charges related to possible liabilities to assignors of € 3.3 million and other estimated charges for ongoing lawsuits and legal disputes amounting to € 1.8 million. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years (the liability is currently estimated to be € 1.3 million and is offset against goodwill), and the provision for supplementary customer allowances. Also included is the provision for claims and the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries for an amount of € 1.9 million.

Other liabilities mainly include payments received after the end of the period from the assigned debtors and which were still being allocated and items being processed during the days following period-end, as well as trade payables and tax liabilities.

The item also includes the approved dividend of € 7.5 million that has not yet been distributed, as it is subject to a resolution of a new Shareholders' Meeting to be convened by the Board of Directors no earlier than 1 January 2021, but before 31 March 2021. This amount will be excluded from the calculation of CET1.

The reconciliation between the profit for the period and equity of the parent and the figures from the consolidated financial statements is shown below.

(€,'000)	PROFIT (LOSS)	EQUITY
<b>Profit/equity of the parent</b>	<b>20,553</b>	<b>193,806</b>
Assumption of value of investments	-	(44,231)
Consolidated loss/equity	(1,377)	50,116
<b>Equity attributable to the owners of the parent</b>	<b>19,176</b>	<b>199,691</b>
Equity attributable to non-controlling interests	333	(9,448)
<b>Group equity</b>	<b>19,509</b>	<b>190,243</b>

## CAPITAL ADEQUACY

Provisional information concerning the regulatory capital and capital adequacy of the Banca Sistema Group is shown below.

### OWN FUNDS (€,000) AND CAPITAL RATIOS

	30.09.2020	31.12.2019
<b>Common Equity Tier 1 (CET1)</b>	<b>158,671</b>	<b>165,119</b>
ADDITIONAL TIER 1	8,000	8,000
<b>Tier 1 capital (T1)</b>	<b>166,671</b>	<b>173,119</b>
TIER 2	37,672	37,500
<b>Total Own Funds (TC)</b>	<b>204,343</b>	<b>210,619</b>
<b>Total risk-weighted assets</b>	<b>1,322,847</b>	<b>1,405,890</b>
of which, credit risk	1,153,581	1,236,603
of which, operational risk	169,252	169,252
of which, market risk	0	0
of which, CVA	14	35
Ratio - CET1	12.0%	11.7%
Ratio - T1	12.6%	12.3%
Ratio - TCR	15.4%	15.0%

Total own funds were € 204 million at 30 September 2020 and included the profit for the period, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

Total own funds decreased compared to 30 June 2020 (€ 219.5 million) as the net operating income for the quarter and the positive change in the reserve on the portfolio of Italian government securities classified as HTCS were more than offset by the recognition of goodwill arising from the acquisition of the collateralised lending business unit from Intesa Sanpaolo. As previously reported, on 30 June 2020 the Group began benefitting from the reduction in

the weighting of the CQS/CQP assets set out in Regulation 876/2019 that came into effect on 27 June 2020.

The Group's consolidated capitalisation requirements, according to the transitory criteria, are as follows:

- CET1 ratio of 7.75%;
- TIER1 ratio of 9.55%;
- Total Capital Ratio of 11.90%.

The additional ratio for the CET1 ratio is unchanged from that expected for 2019, while for the T1 ratio and the Total Capital Ratio, the OCR were increased by 5 basis points. The new SREP decision does not include any quantitative liquidity requirements.

## OTHER INFORMATION

### Research and Development Activities

No research and development activities were carried out in 2020.

## RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the “Procedure governing related party transactions” approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.. Transactions between Group companies and related

parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

## ATYPICAL OR UNUSUAL TRANSACTIONS

During 2020, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 21 October 2020 the Board of Directors of Banca Sistema, despite not having identified any impediments to paying the dividend for the year 2019 that can be attributed to the Bank’s financial performance and/or the strength of its capital structure, and considering the strict positions expressed by the ECB and the Bank of Italy in the recommendations updated on 27 and 28 July 2020 respectively, resolved to propose the following to the Ordinary Shareholders’ Meeting which will be convened on 27 November:

1. confirm the resolution allocating the profit for the year 2019 adopted by the Ordinary Shareholders’ Meeting held on 23 April 2020;
2. defer the decision on the payment of the 2019 dividend to the resolution of a new Shareholders’ Meeting to be convened by the Board of Directors as soon as possible - no earlier than 1 January 2021, and before 31 March

2021 - in accordance with the supervisory provisions. Again on 27 November 2020, the Extraordinary Shareholders’ Meeting will be called to resolve on the proposals to amend the Articles of Association which include the introduction, under certain circumstances, of the possibility of electing two directors instead of one from the minority list, and updating the mechanism for appointing the Board of Statutory Auditors when there is a tie vote between the lists submitted. Regarding the proposals to amend the Articles of Association, on 30 September 2020, the Bank of Italy issued its decision assessing compliance with sound and prudent management.

After the reporting date of this interim financial report, there were no events worthy of mention which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.



## BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The Group experienced a slight decline in profitability during the third quarter as a result of the COVID-19 pandemic. This decline was mainly attributable to lower default interest income in the factoring segment, a trend

that could continue into the latter part of the year.

The situation is being continuously monitored and any impacts not yet evident will be reflected, if necessary, in the estimated recoverable value of the financial assets.

Milan, 30 October 2020

*On behalf of the Board of Directors*

*The Chairperson*

Luitgard Spögler



*The CEO*

Gianluca Garbi





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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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## STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

Assets		30.09.2020	31.12.2019
<b>10.</b>	Cash and cash equivalents	6,706	652
<b>30.</b>	Financial assets measured at fair value through other comprehensive income	549,056	556,383
<b>40.</b>	Financial assets measured at amortised cost	3,241,105	3,112,387
	<i>a) loans and receivables with banks</i>	<i>110,001</i>	<i>81,510</i>
	<i>b) loans and receivables with customers</i>	<i>3,131,104</i>	<i>3,030,877</i>
<b>90.</b>	Property and equipment	31,614	29,002
<b>100.</b>	Intangible assets	33,982	3,921
	<i>of which:</i>	-	
	<i>goodwill</i>	<i>33,720</i>	<i>3,920</i>
<b>110.</b>	Tax assets	9,184	8,476
	<i>a) current</i>	<i>1</i>	<i>1</i>
	<i>b) deferred</i>	<i>9,183</i>	<i>8,475</i>
<b>130.</b>	Other assets	16,215	19,260
	<b>Total Assets</b>	<b>3,887,862</b>	<b>3,730,081</b>

Liabilities and equity		30.09.2020	31.12.2019
<b>10.</b>	Financial liabilities measured at amortised cost	3,489,308	3,416,486
	<i>a) due to banks</i>	839,266	388,359
	<i>b) due to customers</i>	2,226,365	2,551,600
	<i>c) securities issued</i>	423,677	476,527
<b>60.</b>	Tax liabilities	19,819	16,433
	<i>a) current</i>	5,298	2,213
	<i>b) deferred</i>	14,521	14,220
<b>80.</b>	Other liabilities	155,915	94,662
<b>90.</b>	Post-employment benefits	4,379	3,051
<b>100.</b>	Provisions for risks and charges:	18,750	22,297
	<i>a) commitments and guarantees issued</i>	42	44
	<i>c) other provisions for risks and charges</i>	18,708	22,253
<b>120.</b>	Valuation reserves	904	267
<b>150.</b>	Reserves	121,313	98,617
<b>160.</b>	Share premium	39,100	39,100
<b>170.</b>	Share capital	9,651	9,651
<b>180.</b>	Treasury shares (-)	(234)	(234)
<b>190.</b>	Equity attributable to non-controlling interests (+/-)	9,448	32
<b>200.</b>	Profit for the period	19,509	29,719
	<b>Total liabilities and equity</b>	<b>3,887,862</b>	<b>3,730,081</b>

## INCOME STATEMENT

(Amounts in thousands of Euro)

	First three quarters of 2020	First three quarters of 2019	
10.	Interest and similar income	71,635	80,316
	of which: interest income calculated with the effective interest method	68,319	78,226
20.	Interest and similar expense <sup>i</sup>	(18,822)	(21,930)
30.	<b>Net interest income</b>	<b>52,813</b>	<b>58,386</b>
40.	Fee and commission income	17,263	16,994
50.	Fee and commission expense	(5,324)	(4,455)
60.	<b>Net fee and commission income</b>	<b>11,939</b>	<b>12,539</b>
70.	Dividends and similar income	227	227
80.	Net trading income	38	209
90.	Net hedging income (expense)	-	-
100.	Gain from sales or repurchases of:	7,101	1,702
	<i>a) financial assets measured at amortised cost</i>	2,473	-
	<i>b) financial assets measured at fair value through other comprehensive income</i>	4,612	1,702
	<i>c) financial liabilities</i>	16	-
120.	<b>Total income</b>	<b>72,118</b>	<b>73,063</b>
130.	Net impairment losses on:	(7,229)	(6,425)
	<i>a) financial assets measured at amortised cost</i>	(7,119)	(6,371)
	<i>b) financial assets measured at fair value through other comprehensive income</i>	(110)	(54)
150.	<b>Net financial income</b>	<b>64,889</b>	<b>66,638</b>
190.	Administrative expenses	(36,712)	(33,097)
	<i>a) personnel expense</i>	(17,188)	(15,701)
	<i>b) other administrative expenses</i>	(19,524)	(17,396)
200.	Net accruals to provisions for risks and charges	(1,181)	(1,346)
	<i>a) commitments and guarantees issued</i>	2	(36)
	<i>b) other net accruals</i>	(1,183)	(1,310)
210.	Net impairment losses on property and equipment	(1,278)	(1,133)
220.	Net impairment losses on intangible assets	(43)	(126)
230.	Other operating income	696	463
240.	<b>Operating costs</b>	<b>(38,518)</b>	<b>(35,239)</b>
250.	Gains (losses) on sales of investments	1,090	(8)
290.	<b>Pre-tax profit from continuing operations</b>	<b>27,461</b>	<b>31,391</b>
300.	Income taxes	(8,285)	(10,522)
310.	<b>Post-tax profit from continuing operations</b>	<b>19,176</b>	<b>20,869</b>
320.	Post-tax profit (loss) from discontinued operations	-	562
330.	<b>Profit for the period</b>	<b>19,176</b>	<b>21,431</b>
340.	<b>Loss for the period attributable to non-controlling interests</b>	<b>333</b>	<b>-</b>
350.	<b>Profit for the period attributable to the owners of the parent</b>	<b>19,509</b>	<b>21,431</b>

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First three quarters of 2020	2019
<b>10.</b>	<b>Profit for the period</b>	<b>19,509</b>	<b>29,719</b>
	<b>Items, net of tax, that will not be reclassified subsequently to profit or loss</b>	<b>-</b>	<b>-</b>
<b>70.</b>	Defined benefit plans	(61)	(32)
	<b>Items, net of tax, that will be reclassified subsequently to profit or loss</b>	<b>-</b>	<b>-</b>
<b>140.</b>	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	698	1,430
<b>170.</b>	<b>Total other comprehensive income, net of income tax</b>	<b>637</b>	<b>1,398</b>
<b>180.</b>	<b>Comprehensive income (Items 10+170)</b>	<b>20,146</b>	<b>31,117</b>
<b>190.</b>	<b>Comprehensive income attributable to non-controlling interests</b>	<b>-</b>	<b>-</b>
<b>200.</b>	<b>Comprehensive income attributable to the owners of the parent</b>	<b>20,146</b>	<b>31,117</b>

## STATEMENT OF CHANGES IN EQUITY AS AT 30.09.2020

Amounts in thousands of Euro

	Balance at 31.12.2019	Change in opening balances	Balance at 1.1.2020	Allocation of prior year profit		Changes during the year							Equity attributable to the owners of the parent at 30.09.2020	Equity attributable to non-controlling interests at 30.09.2020		
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options			Changes in equity investments	Comprehensive income for the first three quarters of 2020
Share capital:																
a) ordinary shares	9,651	-	9,651	-	-	-	-	-	-	-	-	-	-	-	-	9,651
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	39,100	-	39,100	-	-	-	-	-	-	-	-	-	-	-	-	39,100
Reserves	98,617	-	98,617	22,240	-	456	-	-	-	-	-	-	-	-	-	121,313
a) income-related	98,942	-	98,942	22,240	-	(7)	-	-	-	-	-	-	-	-	-	121,175
b) other	(325)	-	(325)	-	-	463	-	-	-	-	-	-	-	-	-	138
Valuation reserves	267	-	267	-	-	-	-	-	-	-	-	-	-	-	-	904
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	(234)	-	(234)	-	-	-	-	-	-	-	-	-	-	-	-	(234)
Profit for the year	29,719	-	29,719	(22,240)	(7,479)	-	-	-	-	-	-	-	-	-	19,509	19,509
<b>Equity attributable to the owners of the parent</b>	<b>177,120</b>	-	<b>177,120</b>	-	<b>(7,479)</b>	<b>456</b>	-	-	-	-	-	-	-	-	<b>20,146</b>	<b>190,243</b>
<b>Equity attributable to non-controlling interests</b>	<b>32</b>	-	<b>32</b>	-	-	-	-	-	-	-	-	-	-	-	<b>9,416</b>	<b>9,448</b>

The approved dividend of € 7.5 million has not yet been distributed as it is subject to a resolution of a new Shareholders' Meeting on the dividend payment date, to be convened by the Board of Directors no earlier than 1 January 2021, but by 31 March 2021, in accordance with the supervisory provisions or other recommendations of the Supervisory Authorities. Accordingly, the dividend is classified under other liabilities.



## STATEMENT OF CHANGES IN EQUITY AS AT 30.09.2019

Amounts in thousands of Euro

	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Allocation of prior year profit		Changes during the year							Equity attributable to the owners of the parent at 30.09.2019	Equity attributable to non-controlling interests at 30.09.2019			
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options			Changes in equity investments	Comprehensive income the first three quarters of 2019	
																	Transactions on equity
Share capital:																	
a) ordinary shares	<b>9,651</b>	-	9,651	-	-	-	-	-	-	-	-	-	-	-	-	-	9,651
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	<b>39,184</b>	-	39,184	-	-	(63)	-	-	-	-	-	-	-	-	-	-	39,121
Reserves	<b>78,452</b>	-	78,452	20,170	-	244	-	-	-	-	-	-	-	-	-	-	98,866
a) income-related	<b>78,792</b>	-	78,792	20,170	-	(27)	-	-	-	-	-	-	-	-	-	-	98,935
b) other	<b>(340)</b>	-	(340)	-	-	271	-	-	-	-	-	-	-	-	-	-	(69)
Valuation reserves	<b>(1,131)</b>	-	(1,131)	-	-	-	-	-	-	-	-	-	-	-	1,880	-	749
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	<b>(199)</b>	-	(199)	-	-	(300)	-	-	-	-	-	-	-	-	-	-	(499)
Profit for the year	<b>27,167</b>	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	-	21,431	-	21,431
<b>Equity attributable to the owners of the parent</b>	<b>153,124</b>	-	<b>153,124</b>	-	<b>(6,997)</b>	<b>(119)</b>	-	-	-	-	-	-	-	-	<b>23,311</b>	-	<b>169,319</b>
<b>Equity attributable to non-controlling interests</b>	<b>30</b>	-	<b>30</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	<b>30</b>

## STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	First three quarters of 2020	First three quarters of 2019
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>44,678</b>	<b>73,237</b>
▪ Profit for the period (+/-)	19,509	21,431
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	7,229	6,425
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,321	1,259
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,181	1,346
▪ Taxes, duties and tax assets not yet paid (+/-)	3,487	6,179
▪ Other adjustments (+/-)	11,951	36,597
<b>2. Cash flows used for financial assets</b>	<b>(119,025)</b>	<b>(382,296)</b>
▪ Financial assets held for trading	-	-
▪ Financial assets designated at fair value through profit or loss	-	-
▪ Other assets mandatorily measured at fair value through profit or loss	-	-
▪ Financial assets measured at fair value through other comprehensive income	7,964	(67,444)
▪ Financial assets measured at amortised cost	(127,724)	(310,011)
▪ Other assets	735	(4,841)
<b>3. Cash flows generated by financial liabilities</b>	<b>114,395</b>	<b>318,670</b>
▪ Financial liabilities measured at amortised cost	57,597	277,351
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	56,798	41,319
<b>Net cash flows generated by operating activities</b>	<b>40,048</b>	<b>9,611</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows generated by</b>	<b>-</b>	<b>2,621</b>
▪ Sales of equity investments	-	2,621
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
<b>2. Cash flows used in</b>	<b>(33,994)</b>	<b>(4,723)</b>
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(3,890)	(2,464)
▪ Purchases of intangible assets	(30,104)	(2,259)
▪ Purchases of business units	-	-
<b>Net cash flows used in investing activities</b>	<b>(33,994)</b>	<b>(2,102)</b>
<b>C. FINANCING ACTIVITIES</b>		
▪ Issues/repurchases of treasury shares	-	(300)
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	-	(6,997)
<b>Net cash flows generated by (used in) financing activities</b>	<b>-</b>	<b>(7,297)</b>
<b>NET CASH FLOWS FOR THE PERIOD</b>	<b>6,054</b>	<b>212</b>

### RECONCILIATION

Cash and cash equivalents at the beginning of the period	652	289
Total net cash flows for the period	6,054	212
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the period	6,706	501



## GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 30 September 2020 was drawn up in accordance with art. 154-ter of Legislative Decree no. 58 of 24 February 1998 and Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission, as established by Regulation (EC) no. 1606 of 19 July 2002, from which there were no derogations.

The interim consolidated financial report at 30 September 2020 comprises the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and the notes to the interim consolidated financial report and is accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Banca Sistema Group.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38/2005, the financial statements use the Euro as the currency for accounting purposes. The amounts in the

financial statements and the notes thereto are expressed (unless expressly specified) in thousands of Euro.

The financial statements were drawn up in accordance with the specific financial reporting standards endorsed by the European Commission, as well as pursuant to the general assumptions laid down by the Framework for the preparation and presentation of financial statements issued by the IASB.

This interim consolidated financial report includes Banca Sistema S.p.A. and the companies directly or indirectly controlled by or connected with it. No changes to the scope of consolidation have been made compared to 31 December 2019.

This interim consolidated financial report at 30 September 2020 is accompanied by a statement by the manager in charge of financial reporting, pursuant to art. 154-bis of the Consolidated Law on Finance. The consolidated financial statements have been subject to review by BDO Italia S.p.A.

### Events after the reporting date

After the reporting date of this interim financial report, there were no events worthy of mention in the Accounting Policies

which would have had an impact on the financial position, operating results and cash flows of the Bank and Group.

### Information on the main items of the consolidated financial statements

The interim consolidated financial report was prepared by applying IFRS and valuation criteria on a going concern basis, and in accordance with the principles of accruals and materiality of information, as well as the general principle of the precedence of economic substance over legal form.

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the period.

The use of estimates is essential to preparing the financial statements. The most significant use of estimates and assumptions in the financial statements

can be attributed to:

- the valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated

with the sectors in which the Bank's customers operate;

- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are

uncertain;

- the recoverability of deferred tax assets.

It should be noted that an estimate may be adjusted following a change in the circumstances upon which it was formed, or if there is new information or more experience. Any changes in estimates are applied prospectively and therefore will have an impact on the income statement for the year in which the change takes place.

The accounting policies adopted for the drafting of this interim consolidated financial report, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenue, have remained unchanged compared with those adopted in the separate and consolidated financial statements at 31 December 2019, to which reference is made.

#### **Other aspects**

The interim consolidated financial report was approved on 30 September 2020 by the Board of Directors, which

authorised its disclosure to the public in accordance with IAS 10.

## STATEMENT OF THE MANAGER IN CHARGE OF FINANCIAL REPORTING

The undersigned, Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby states, having taken into account the provisions of art. 154-bis, paragraph 2, of Legislative Decree no. 58 of 24 February 1998, that the accounting information in this interim consolidated financial report at 30 September 2020 is consistent with the company documents, books and accounting records.

Milan, 30 October 2020

*Alexander Muz*

*Manager in charge of financial reporting*

A handwritten signature in black ink, appearing to read 'Alexander Muz', written in a cursive style.



INTERIM

CONSOLIDATED

DATED

**BANCA**  
S I S T E M A  
CONTEMPORARY BANK

FINANCIAL

REPORT AT

30 SEPTEMBER

2020