



BANCA

S I S T E M A

9M 2021 RESULTS

29 October 2021

9M 2021 Results at a Glance

Commercial performance

- **Factoring Turnover** +14% y/y equal to €2,495m; +2% q/q factoring Outstanding
- **CQ outstanding** at €955m, +3% y/y and almost stable q/q
- **Pawn loans outstanding reached €87m**, +16% y/y and +5% q/q
- **SMEs State guaranteed loans** outstanding equal to €131m (€74m as at 31.12.2020)

P&L

- **Net Interest Income** equal to €57.0m, **+7% y/y**
- **Lower funding cost y/y at 0.4%**
- **Total Income** equal to €74.8m, **+3% y/y**
- **Recurring cost of risk equal to 41bps**; LLPs up y/y due to one-off provisions on municipalities in conservatorship (€3.8m in 1H21)
- **Total operating costs y/y increase** is mainly due to the consolidation of the Pawn loans business unit purchased in 3Q20
- **Net income equal to €14.8m**, down y/y

Balance Sheet

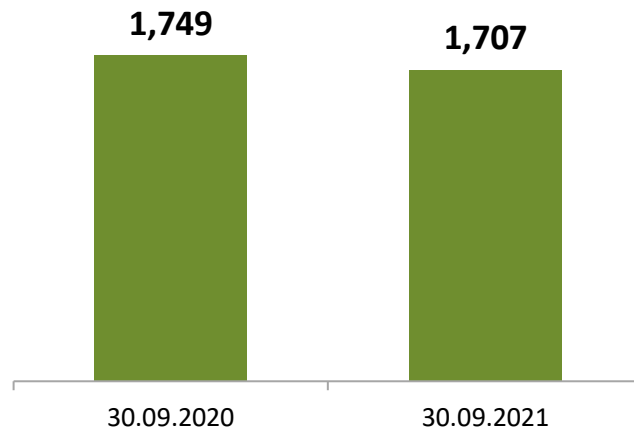
- **Wholesale funding down q/q** (32% of Total Funds): BCE funding at €537m
- **CET1 ratio at 12.2% and TC ratio at 15.4%**. Following the guidelines related to the adoption of the definition of default pursuant to article 178 of EU Regulation no. 575/2013 and communicated by the Supervisory Authority at the end of the working day of 28 October 2021, a thorough analysis and review of the operational solutions currently in place will be conducted, that may lead to negative impacts on the CET1 ratio and on the Total Capital ratio reported in this release, currently estimated to amount to around 0.60% and 0.8%, respectively.

Factoring commercial performance

Factoring outstanding

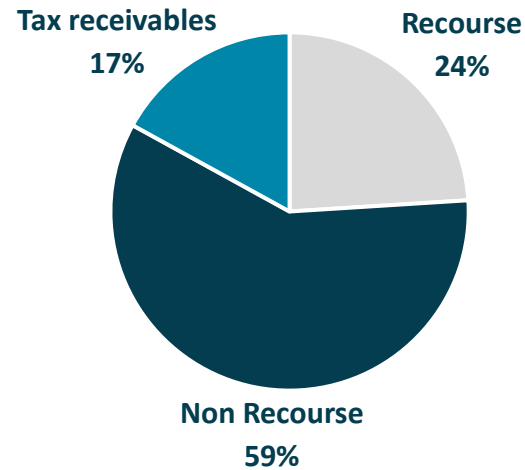
€m

-2%
y/y



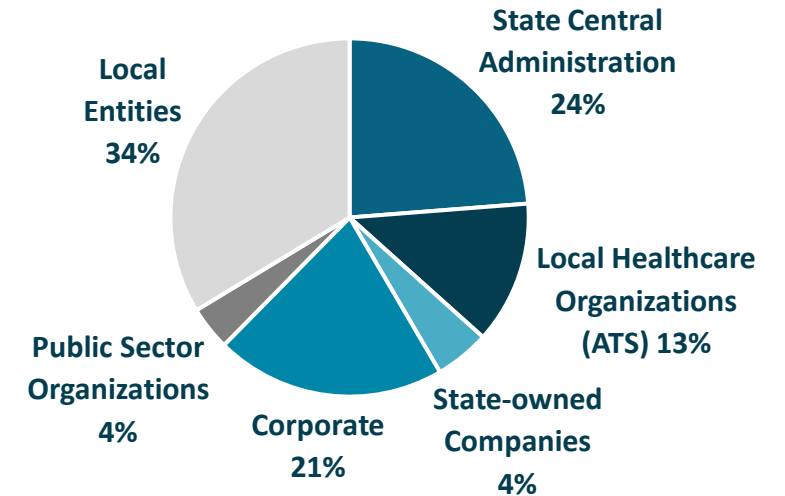
Outstanding breakdown (30.09.2021)

By Type of Product



By Obligor

PA accounts for 79%



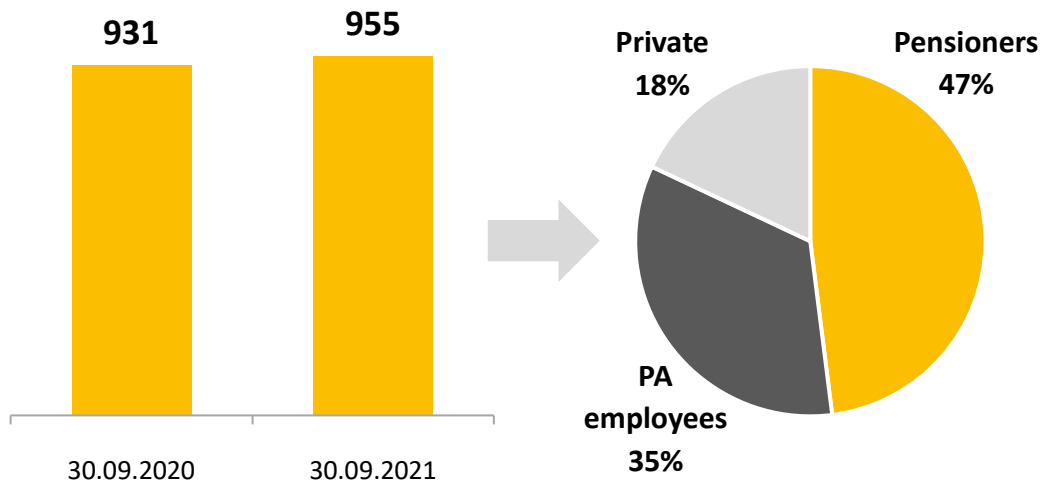
Note: Factoring outstanding management account. Factoring customer loans, item of the Balance Sheet (slide 4) differ from management account for the following elements: Recourse factoring non-financed portion; Provisions; LPI; deferred income.

CQ and Pawn loans commercial performance

CQ loans outstanding

€m

+3%
y/y

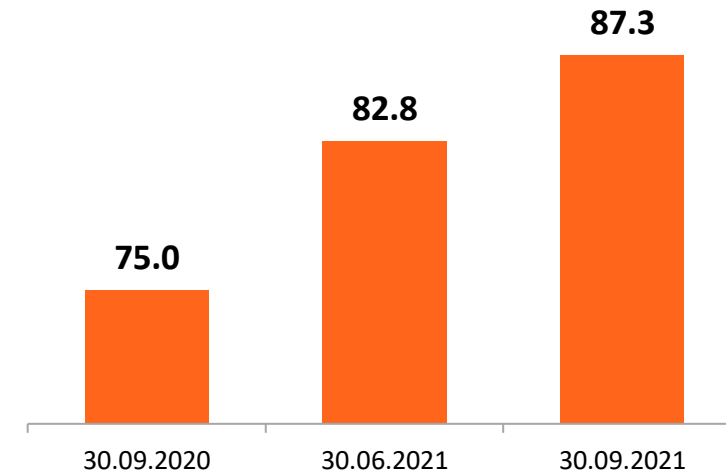


- €194m turnover in 9M 2021 (€230m in 9M 2020)
- 26% direct origination through agents/brokers (11% in 9M 2020)

Pawn Loans outstanding

€m

+5%
q/q



- ~55k contracts
- Total turnover in 9M21 (including renewals): €116.2m
- #57 auctions in 9M21, for a €3.1m cumulative turnover

Figures in millions of Euro

	31.12.2020	30.06.2021	30.09.2021	Change in % 30.09.2021 vs 31.12.2020
ASSETS				
Financial assets at fair value through Other Comprehensive Income [Held to Collect and Sell]	431	411	454	5%
Loans at amortized cost	2,695	2,700	2,728	1.2%
<i>Factoring</i>	1,482	1,418	1,443	-3%
<i>CQ</i>	934	959	955	2%
<i>Pawn loans</i>	78	83	87	12%
<i>SMEs State Guaranteed loans</i>	74	134	131	78%
<i>Other⁽¹⁾</i>	127	106	112	-12%
Securities at amortized cost [Held to Collect]	448	234	184	-59%
Tangible and Intangible assets	65	74	74	14%
Other assets	32	35	36	13%
Total assets	3,671	3,454	3,476	-5%
LIABILITIES AND EQUITY				
Due to banks	870	845	592	-32%
<i>of which ECB exposure</i>	690	737	537	-22%
Due to customers	2,164	1,989	2,275	5%
<i>of which term deposits</i>	1,217	1,171	1,256	3%
<i>of which current accounts</i>	634	703	741	17%
Debt securities issued	240	189	169	-30%
Other liabilities	182	178	179	-2%
Shareholders Equity	215	253	261	21%
Total liabilities and equity	3,671	3,454	3,476	-5%

9M 2021 – Balance Sheet

- **Govies' portfolio (€633m) down q/q**, with an average duration of 34.4 months, it includes €449m 'Held to Collect and Sell', down q/q, with an average duration of 34.5 months
- **Loans at amortized cost up q/q (€2,728m):**
 - **Factoring receivables** down 3% at €1.4bn (€1.5bn as at 31.12.2020), up q/q
 - **CQ loans** substantially stable q/q, with new loans substantially down y/y, although higher pre-payment, as already registered during the last 4 quarters
 - **Pawn Loans up q/q** thanks to organic growth
 - Strong growth on SMEs State guaranteed loans up y/y
- **Due to banks** q/q decrease is driven by interbanking and ECB funding, down at €537m (TLTRO III)
- **Due to customers increase q/q** is mainly driven by the increase of Repo as a consequence of Govie's funding. Q/q also term deposits and current accounts have registered a positive trend
- **Debt securities** decrease q/q is due to lower funding through ABS as collateral. Y/y decrease is mainly driven by the maturity of a bond (private placement), the reclassification of the AT1 bond (€8m) in Shareholders Equity and the repayment of T2 bonds (substituted with a new AT1 bond; €37.5m)
- **Shareholders Equity** since Q2 2021 includes all AT1 bonds²

Note: (1) The item include "Loans to banks" respectively as at 31.12.2020, 30.06.2021 and 30.09.2021 equal to €92.5m, to €85.2m and to €90.7m; 2) For the sake of a better comparison, following the reclassification of the AT1 bond (amounting to € 8 million) in Shareholders Equity (item 140 "Equity instruments" of the Balance Sheet), previously classified in Debt securities, the Balance Sheet as at 31 December 2020 was also restated.

- 9M 2021 Interest Income is down 3% y/y due to lower contribution of Factoring business, partially compensated by Pawn loans and SMEs State guaranteed loans contribution

- Factoring represents 60% of Total Interest Income (66% in 9M 2020)

- Lower contribution y/y by factoring, but higher LPs from legal action equal to €16.3m (€16.1m 9M 2020):
 - of which accrual €9.1m (€8.4m in 9M 2020)
 - of which “extra collection” €7.2m (€7.7m in 9M 2020)

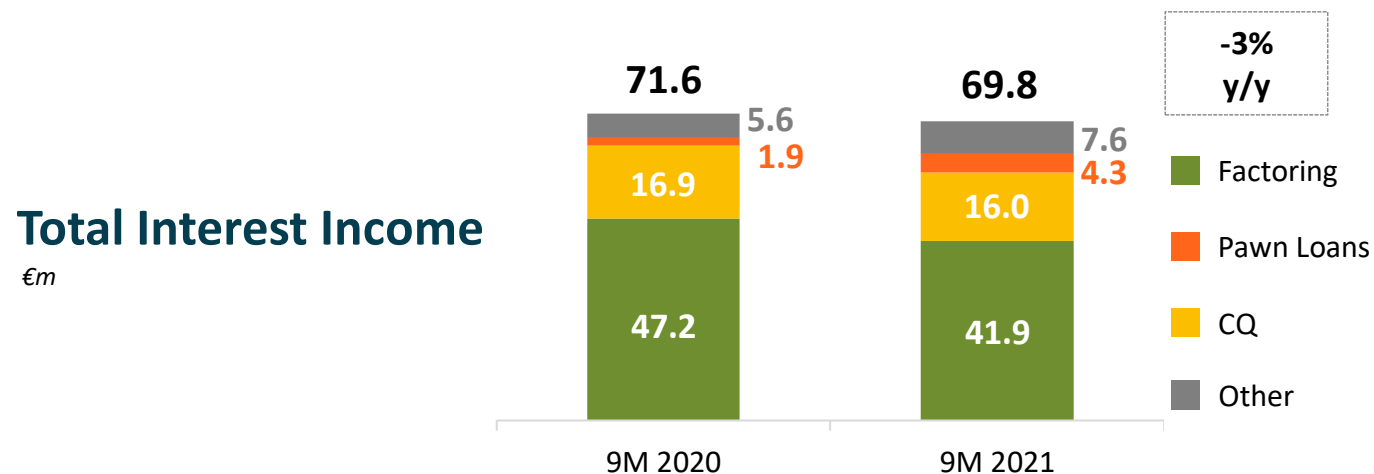
- Factoring contribution has been influenced by the lower contribution from tax receivables

- CQ contribution for €5.3m in 3Q 2021 is slightly lower q/q

- Pawn loans contribution up q/q

- Total Adjusted Income margin lower y/y, with factoring margin down and CQ margin stable

Interest income result driven by Factoring



	9M20	9M21
Total	4.3% €83.1m	4.2% €81.0m
Factoring	5.1% €62.9m	4.8% €52.7m
CQ	2.6% €16.9m	2.3% €16.0m
Pawn Loans	13.9% FY20	15.0% €9.1m

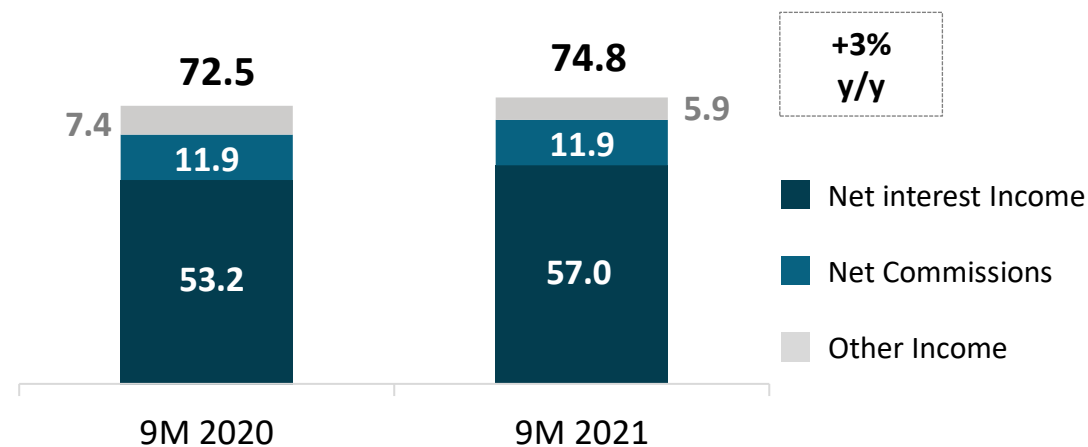
Note: (1) Calculated as [Period Interest Income + Commission Income] / [Average net customer loans at the end of the period] - excluding the contribution from securities portfolio, PPA, credit due from banks and Repo (Balance Sheet and Financial Statement figures).

Total Income up y/y

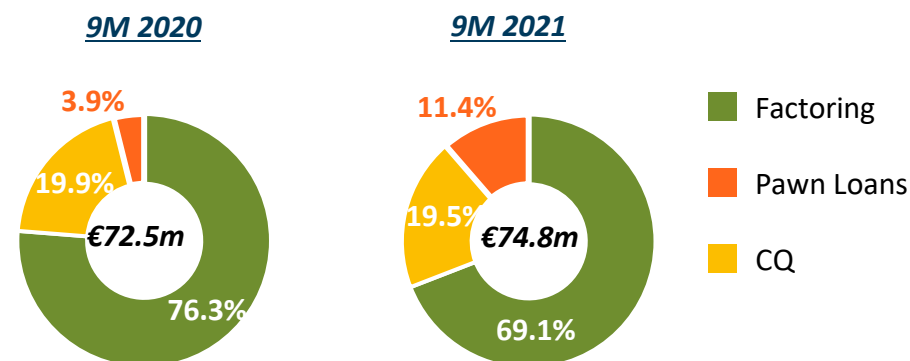
- **9M 2021 Total Income up +3% y/y**, thanks to the increase of **Net Interest Income, driven by Interest Expenses -31% y/y**. Total Cost of funding, equal to 0.4% (0.6% in 9M 2020), is lower in both component Retail and Wholesale
- **Net Commissions stable y/y** due to lower factoring contribution compensated by higher contribution from Pawn loans
- **Other Income** includes €1.4m gain from the sale of a factoring ptf in 9M 2021 (€2.1 in 9M 2020)
- Lower contribution of the **Govies' portfolio, €5.8m** (€8.6m in 9M 2020) of which €1.6m to the NII (€3.6 in 9M 2020) and €4.2m to Other Income (€5.0m in 9M 2020)

Total Income

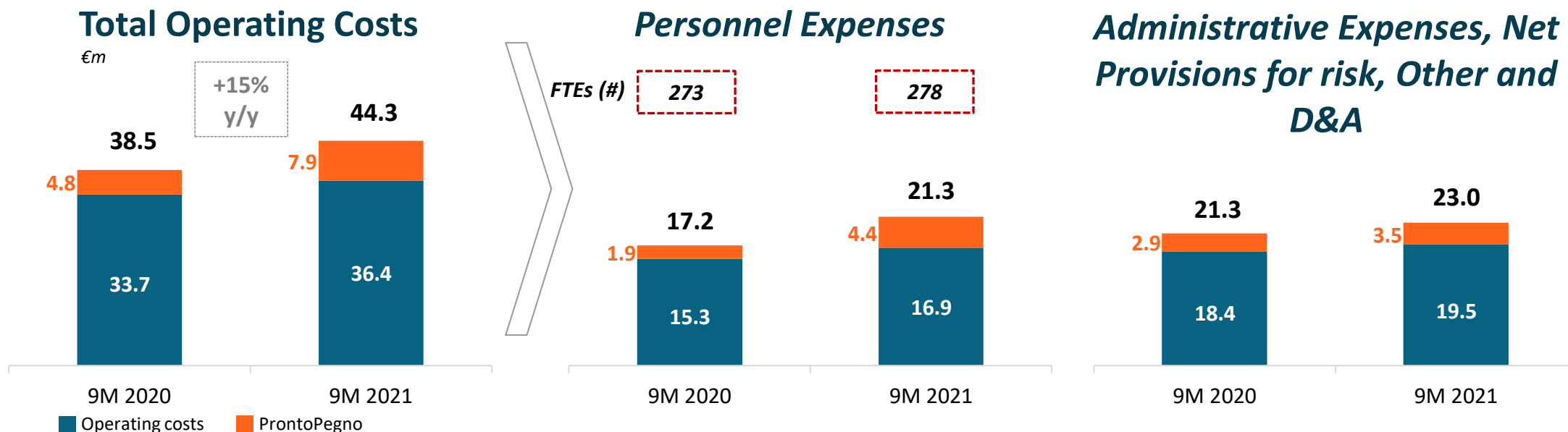
€m



Total Income by Division

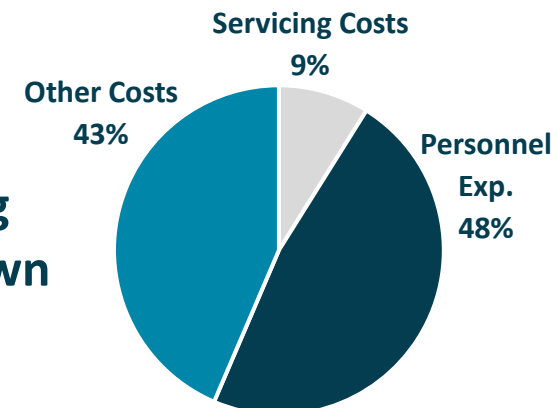


Costs up mainly due to the consolidation of Pawn loans business unit



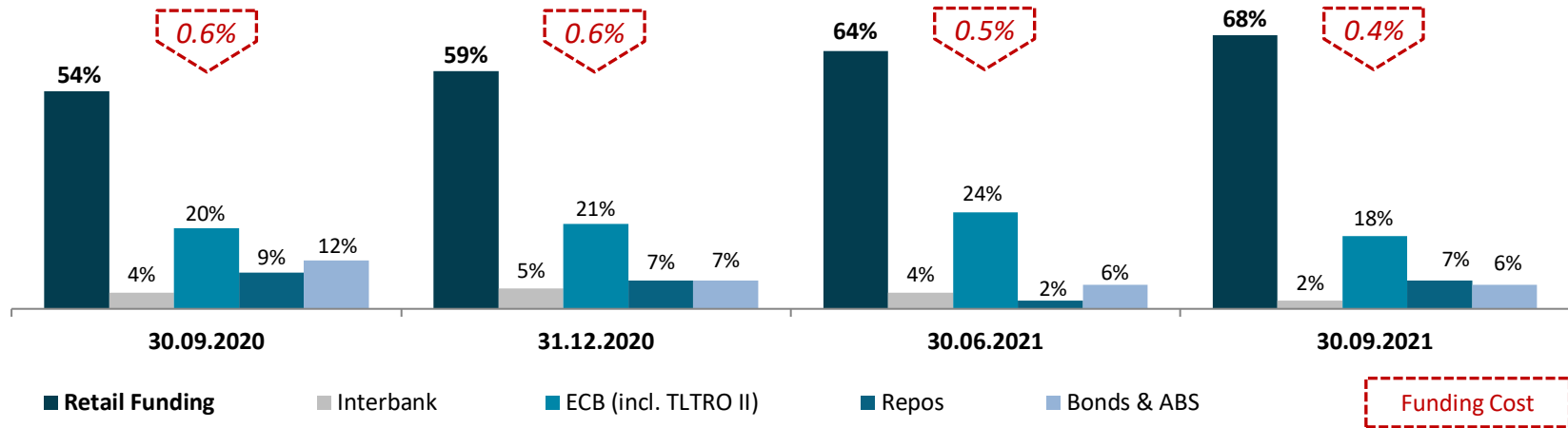
- Personnel Expenses are up y/y mainly due to higher FTEs following the consolidation of Pawn loans business unit from 3Q20
- Administrative expenses increase y/y is due to consolidation of the business unit. In 9M 2021 Servicing costs are up y/y
- D&A equal to €2.0m in 9M 2021 (€1.3m in 9M 2020) are up y/y mainly due the consolidation of the Pawn loans business unit, in particular the rent of the branches

Total Operating Costs Breakdown

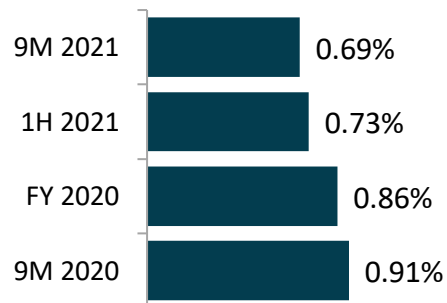


Lower funding cost y/y

Total Funding breakdown

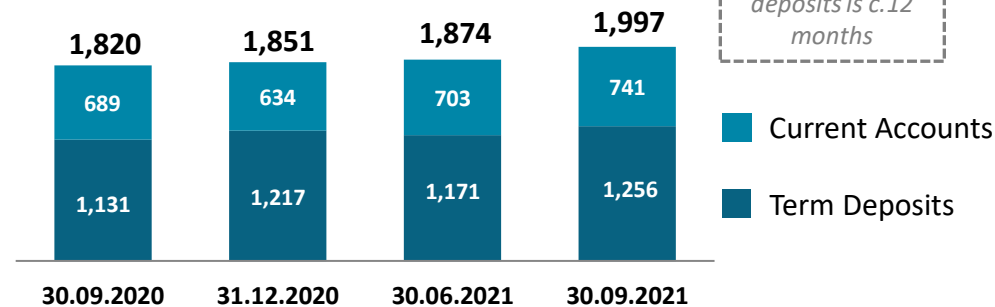


Retail Funding Cost



Retail Funding

€m

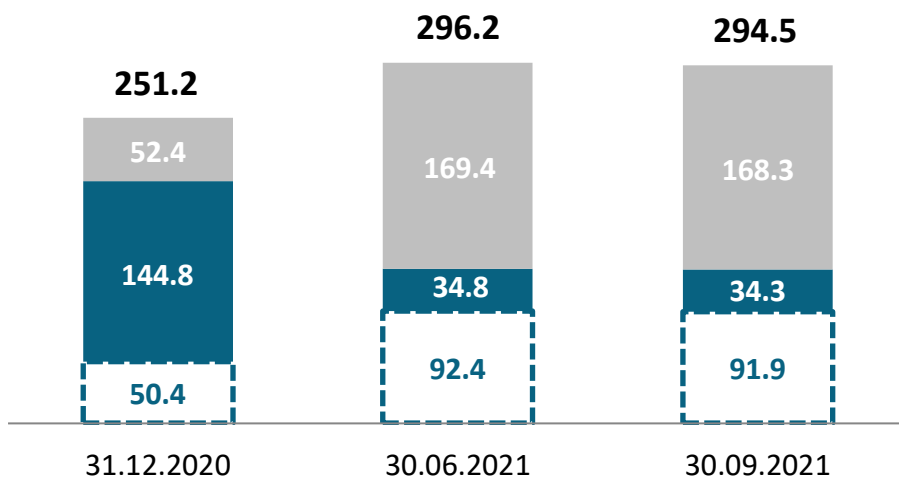


- Cost of funding lower y/y
- Retail Funding up q/q, due to the increase of Corporate current accounts and term deposits, with a lower cost
- Wholesale component decrease q/q is due to:
 - the reduction of ECB funding, equal to €537 (TLTRO III), compensated by higher Repos (to fund Govies' ptf)
 - the lower interbank funding
 - the slightly lower ABS funding (with CQ ABS as collateral)
- Since 2Q21 all senior bonds have been redeemed and following the classification of AT1 bond as equity instrument, "Bond & ABS" segment includes just ABS funding

Asset Quality driven by factoring business

Gross Non Performing Exposures

€m



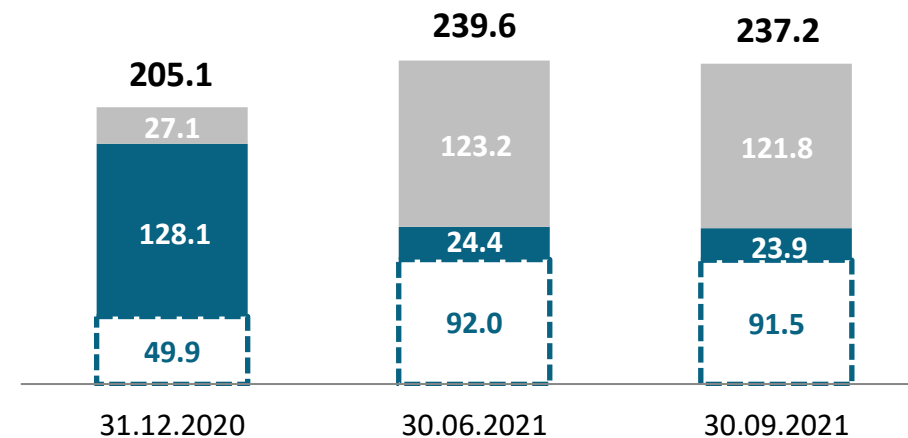
PA exposure deriving from ordinary business

□ Past-dues

■ Unlikely to Pay

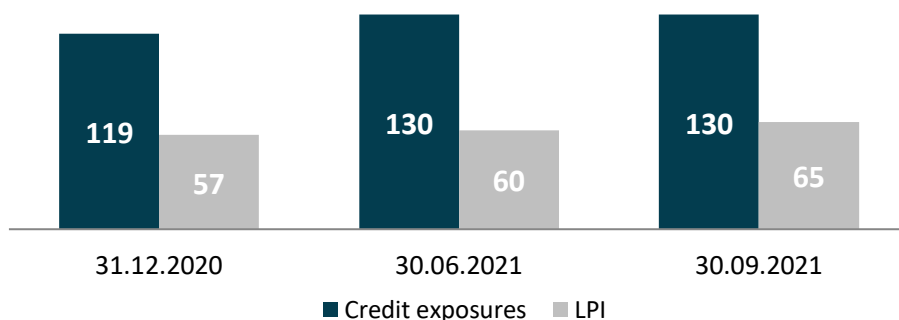
■ Bad loans

Net Non Performing Exposures



Exposure to Municipality in Conservatorship & related LPI stock

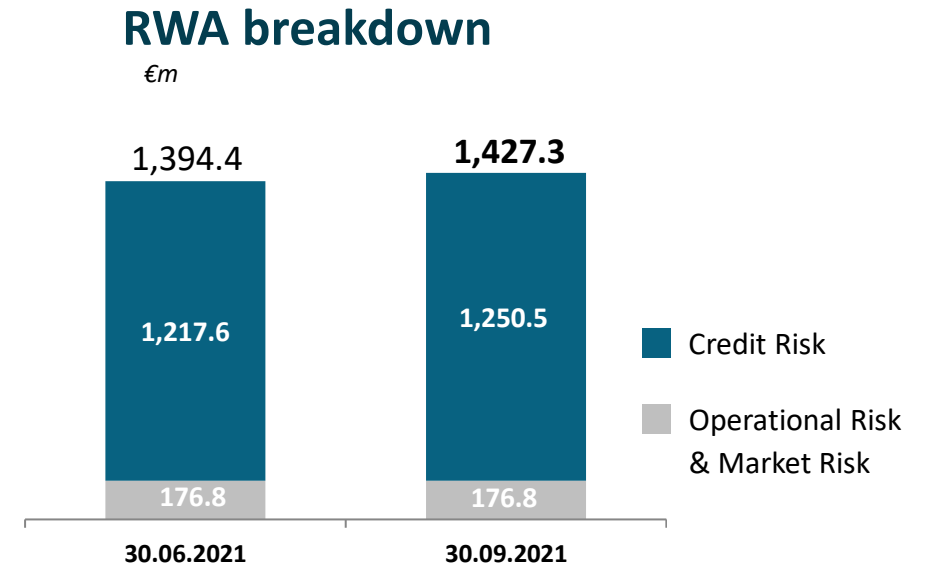
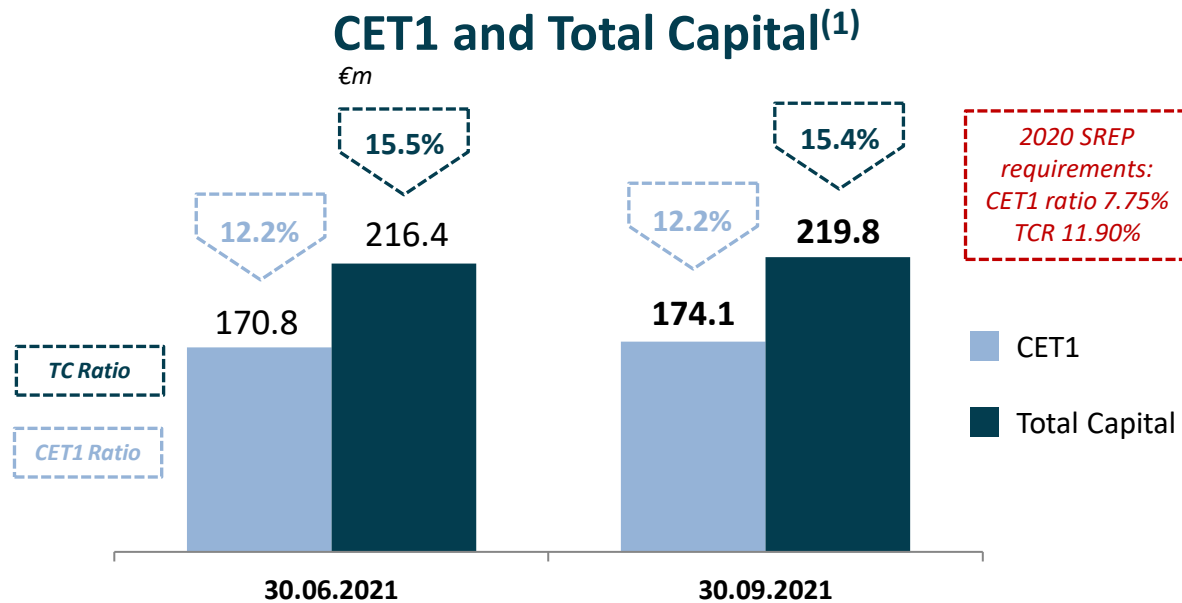
€m



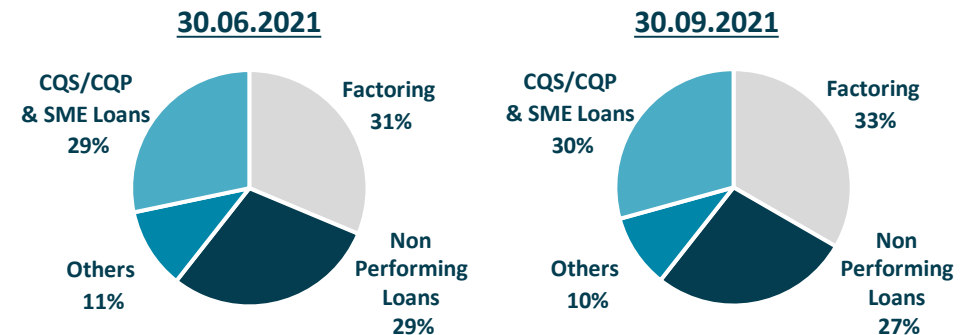
- Gross Non Performing Exposures down q/q mainly due to Bad loans decrease
- Credit exposures vs municipality in conservatorship, from 2Q 2021, have been all classified as Bad loans, the new classification does not correspond to a deterioration of creditworthiness
- Gross NPE ratio increases to 10.9% compared to 9.5% as at 31.12.2020 (11.1% as at 30.06.2021), reached for the growth in Past-due as a consequence of the application of the “New DoD” in 1Q 2021 (given to the nature of the factoring business with the PA, the change was not a harbinger of a deterioration of either the borrowers creditworthiness or the probability of recovery)
- LLPs in 9M 2021, equal to €8.8m, are up y/y (€7.2m in 9M 2020) due to €2.4m, already registered in 1Q21, provisions related to invoices part of conservatorship procedure of a municipality and €1.4m provisions in 2Q21 following the lengthening of the estimated collection times of positions in conservatorship. The provisions will be, however, compensated by the collection of higher LPIs, currently off-balance sheet
- 9M 2021 Cost of credit risk, considering the above-mentioned provisions as non recurring, stands at 41bps

Note: NPE ratio = (Gross Non performing Exposure) / (Total Gross Customer Loans). Asset Quality (Past-dues as at 30.09.2021) described above does not incorporate the guidelines (on slide 2) sent by the Supervisory Authority yesterday.

Regulatory Capital well above minimum requirements



RWA – Credit Risk



On 25.6.2021 It have been early redeemed the only two subordinated Tier 2 bonds outstanding and simultaneously issued a subordinated Additional Tier 1 (AT1) bond for the same amount. As consequence, TIER 1 ratio is today the same of the TCR, equal to 15.4%.

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

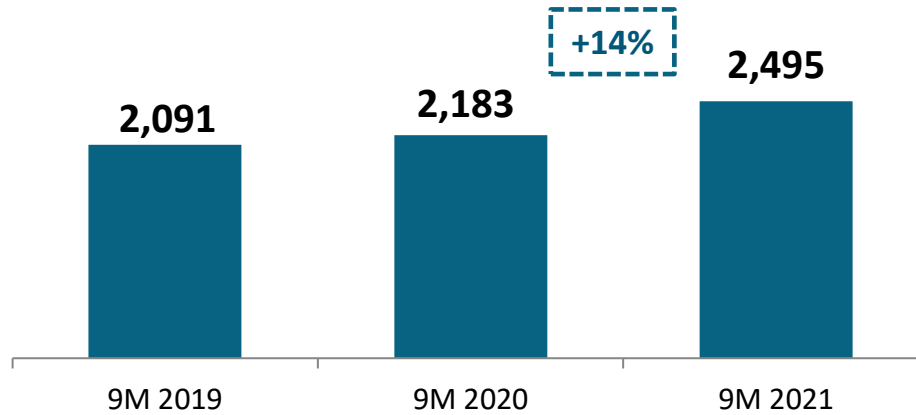
Note: (1) CET1, Tier1 and Total Capital, following CRR directive, are based on an expected dividend pay-out of ~25% of the Banca Sistema Holding Net Income. RWA and ratios as at 30.09.2021 described above do not incorporate the guidelines (on slide 2) sent by the Supervisory Authority.

Annexes

Factoring Turnover

Factoring Turnover

€m

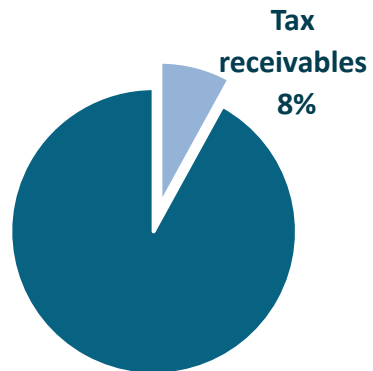


+20% y/y ex. Tax Receivables

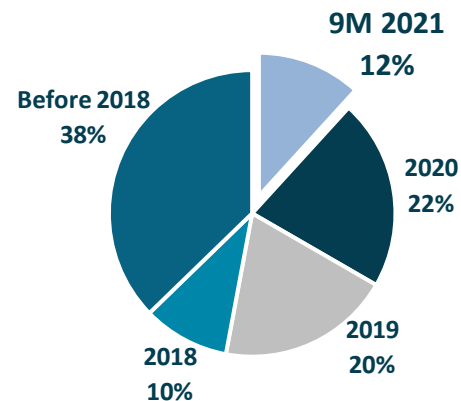
Turnover generated by agreements with Italian Retail banks: 21% in 9M 2021

9M 2021 Factoring Turnover breakdown

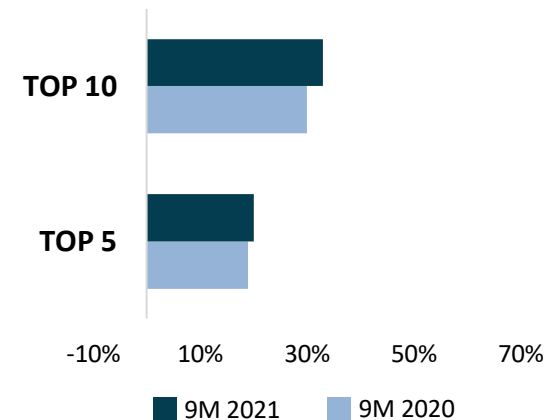
By Type



By Year of Customer's Acquisition



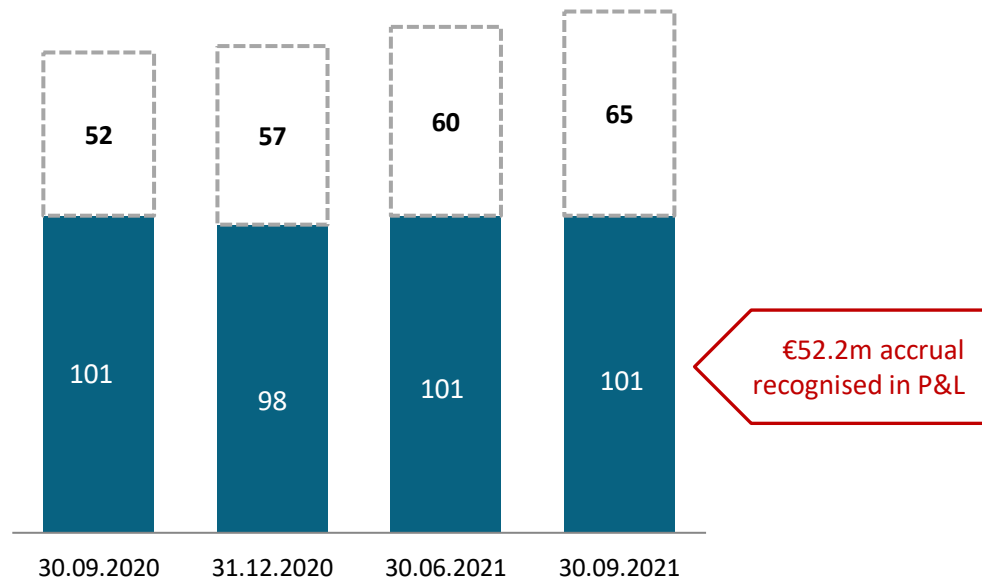
Customer Concentration



Late Payment Interest

Due LPI Stock – Assets in legal action

€m

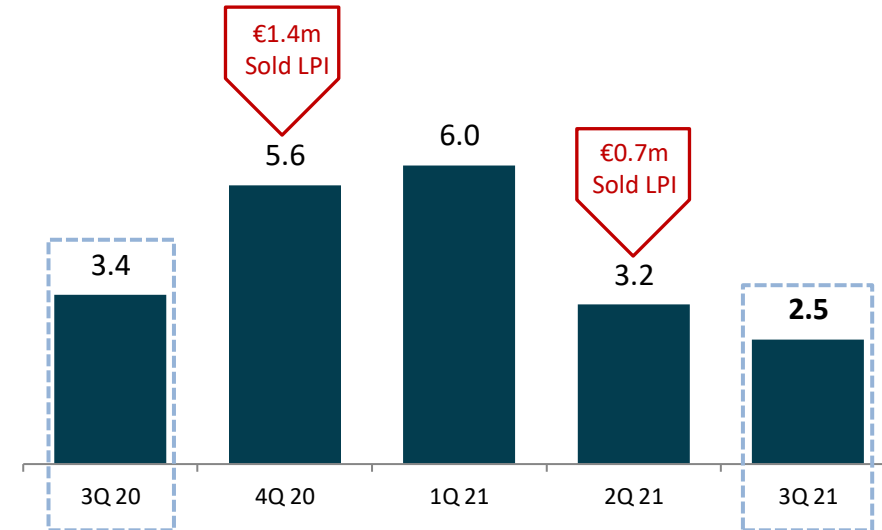


☐ LPI – non relevant for the accrual

■ LPI – relevant for the accrual

Total collected cashed-in LPI

€m



9M 2021 – Income Statement

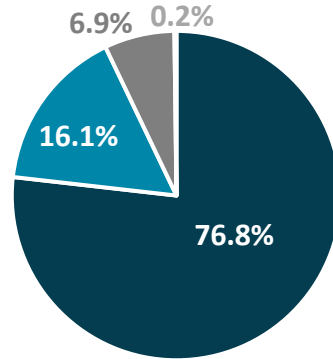
Figures in millions of Euro

	9M 2020	1Q 2020	2Q 2020	3Q 2020	9M 2021	1Q 2021	2Q 2021	3Q 2021	9M 21 vs 9M 20 change in %
Interest income	71.6	22.4	23.5	25.7	69.8	24.2	23.5	22.1	-3%
Interest expenses	(18.4)	(6.3)	(6.0)	(6.1)	(12.8)	(4.8)	(4.4)	(3.6)	-31%
Net interest income	53.2	16.1	17.5	19.6	57.0	19.4	19.1	18.5	7%
Commission income	17.2	6.0	5.7	5.5	18.4	5.9	6.0	6.5	7%
Commission expenses	(5.3)	(1.8)	(1.8)	(1.7)	(6.4)	(1.9)	(2.2)	(2.3)	21%
Net commission	11.9	4.2	3.9	3.8	11.9	4.0	3.8	4.1	0%
Dividends and similar income	0.2	-	0.2	-	0.2	-	0.2	-	nm
Net income from trading	0.04	-	0.06	(0.02)	0.02	-	0.02	-	-45%
Net income from disposal/repurchase assets:	7.1	1.9	2.3	2.9	5.6	2.7	1.0	1.9	-22%
a) measured at amortised cost	2.5	1.3	0.6	0.6	1.8	0.8	0.6	0.4	-28%
b) measured at fair value through other comprehensive income	4.6	0.3	2.0	2.3	3.8	1.9	0.4	1.5	-19%
c) financial liabilities	0.0	0.30	(0.3)	(0.00)	-	-	-	-	-100%
Total income	72.5	22.2	24.0	26.3	74.8	26.1	24.3	24.4	3%
Net impairment losses on loans	(7.2)	(1.9)	(3.2)	(2.1)	(8.8)	(4.1)	(3.7)	(1.0)	22%
Net operating income	65.3	20.2	20.9	24.2	66.0	22.0	20.5	23.5	1%
Personnel expenses	(17.2)	(5.7)	(5.4)	(6.1)	(21.3)	(6.9)	(7.4)	(7.0)	24%
Other expenses	(21.3)	(7.6)	(6.3)	(7.4)	(23.0)	(8.4)	(7.5)	(7.1)	8%
Operating expenses	(38.5)	(13.3)	(11.7)	(13.5)	(44.3)	(15.3)	(14.9)	(14.1)	15%
Profits from equity investments	-	-	-	-	-	0.01	0.01	(0.02)	nm
Profits from investments disposal	1.100	-	1.100	-	-	-	-	-	nm
Pre-tax profit from continuing operations	27.9	6.9	10.3	10.7	21.7	6.7	5.6	9.4	-22%
Taxes on income for the period/year from continuing operations	(8.4)	(2.3)	(2.7)	(3.4)	(6.7)	(2.1)	(1.5)	(3.1)	-20%
Profit (loss) for the year/period	19.5	4.7	7.5	7.3	15.0	4.6	4.0	6.4	-23%
Minority interests	0.3	-	0.1	0.2	(0.20)	0.03	(0.06)	(0.2)	-167%
Profit (loss) for the year/period attributable to the shareholders of the Parent	19.8	4.7	7.6	7.5	14.8	4.6	3.9	6.3	-25%

Note: For the sake of a better comparison, following the reclassification of the AT1 bond (amounting to 8 million) under item 140 "Equity instruments" of the Balance Sheet, previously classified under item 10 "Financial liabilities measured at amortized cost, c) Debt securities", quarterly and 9M-period Income Statement have also been restated.

Asset Quality

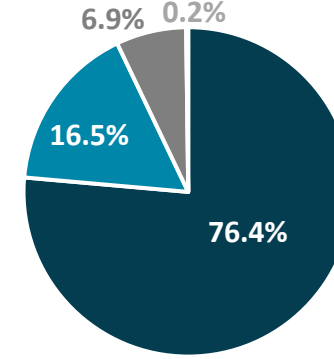
Gross Bad loans



30.06.2021

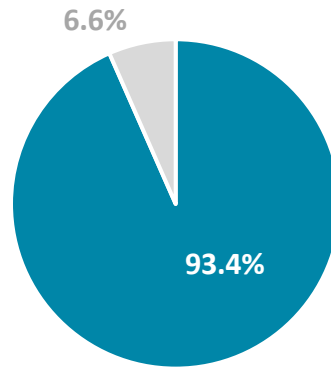
- Conservatorships (factoring)
- Factoring
- SME State Guarantee Loans
- Other

Loans granted before 2020

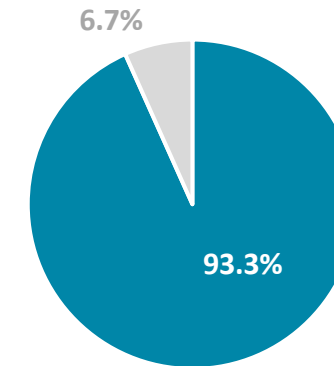


30.09.2021

Gross Unlikely to Pay



30.06.2021



30.09.2021

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