BANCA
SISTEMA

PRESS RELEASE

BANCA SISTEMA: APPROVED RESULTS AS AT 30 JUNE 2023

- Business performance:
  - Factoring turnover: 2,477 million, +18% y/y
  - CQ loans: 856 million, down y/y
  - Pawn loans: 113 million, +15% y/y

- Net interest income: 35.8 million, down y/y
- Total income: 49.4 million, -10% y/y
- Total operating costs: 35 million, +12% y/y
- Loan loss provisions: 2.8 million, down y/y
- Net income: 7.5 million

- The retail component accounts for 57% of total funding
- CET1 ratio at 11.9% and Total Capital ratio at 15.0% (13.3% and 16.5% respectively ex "HTCS reserve")

Milan, 28 July 2023

The Board of Directors of Banca Sistema has approved the consolidated financial statements as at 30 June 2023, reporting a **net income** of 7.5 million, as compared to 12.2 million in the same period of 2022.

Business Performance

The **factoring** business line reported a solid growth, reaching a turnover of 2,477 million, corresponding to a growth rate of 18% y/y, driven by the commercial loan business line (+34% y/y).
On 30 June 2023, **factoring** receivables stood at 1,800 million, up from 1,501 million on 31 December 2022 and on the rise also compared to 31 March 2023 (1,576 million).
Non-recourse factoring, accounting for 81% of receivables outstanding under management accounts [1], includes tax receivables (18% of receivables, compared to 9% on 31.12.2022).

As to the **CQ** business line, the Group granted loans for 77 million (financed amount), down compared to the prior year (215 million, of which 104 million through the Direct channel), exclusively through its Direct channel (*QuintoPuoi*).
The loan stock on 30 June 2023 added up to 856 million, down from 903 million on 30 March 2023, due also to the disposal of a portfolio in June for 35 million, and down compared to both 31 December 2022 (933 million) and 30 June 2022 (966 million).

[1] Amounting to 1,937 million on 30.06.2023, 1,651 million on 31.3.2023 and 1,650 million on 31.12.2022.

On 30 June 2023, **pawn loans** came to 112.6 million, up 15% y/y and on the rise also compared to 31 March 2023.

Operating results as at 30 June 2023

Net interest income, at 35.8 million, was down by 20% y/y, due to the increase in interest expense.
Interest income grew by 65% y/y (83.4 million vs 50.6 million on 30.06.2023 and on 30.06.2022, respectively), on an uptrend already since Q4 2022.
In the current market environment, interest income from the factoring business, accounting for roughly 54% of total interest margin, increased by 68% y/y, more than offsetting the increase in the interest expense tied to the business, driven among other things by a stronger late-payment interest stream from legal action.

On 30 June 2023, the overall P&L contribution from legal actions came to 20 million (6.8 million on 30.6.2022) of which: 1) 4.2 million (late-payment interest) as a result of the policy rate hikes (ECB) in 2022, which caused the rate tied to “Dlgs. 9 October 2022 no. 231” (implementing EU regulations on late payments) to increase from 8% to 10.5% as of 1.01.2023 and to 12% as of 1.07.2023; 2) 10.4 million (late-payment interest) from current recovery projections (3 million in H1 2022); 3) 3.6 million (late-payment interest) from the difference between the collections in the period compared to the accruals reported in the prior financial years (3.8 million in H1 2022); 4) 1.7 million resulting from the current recovery projections related to the 40-euro component of compensation claims due under art. 6 D.Lgs 231/02.
Compensation claims were accounted for based on the same time series and models currently in use for the accounting of late-payment interest; over the years the models have constantly produced a higher collection than what had been recognized as receivables. To date, only the injunctions issued as of April 2021 are in scope, as this is when the Bank started to systematically claim for compensation. The Bank will start to require this compensation for all invoices in arrears, provided that the injunction has not been resolved through a settlement and the claim is not time-barred, as the failure to file a compensation claim from a legal point of view cannot be construed as a waiver. Hence, the scope against which the amortized cost inclusive of the 40-euro claim shall be calculated may expand over time.
As mentioned above, on 30 June 2023, based on the current scope, the Group posted a revenue of 1.7 million vs. a gross receivable of 3.2 million.

Total late-payment interest under legal action accrued as at 30 June 2023, and relevant to the accrual model, came in at 119 million (212 million when including arrears of municipalities under conservatorship, against which no late-payment interest is accrued), while receivables already on the books totaled 69 million. The amount that was not recognized through profit and loss will be recognized, on an accrual or cash basis, in the next financial years, based on collection projections, that are still confirmed to exceed 80%.

The total cost of funding, at 2.4%, is on the rise (in 2022 it came in at 0.4% and 2% in Q1 2023), with interest expense going to 47.5 million from 5.9 million on 30.06.2022. The increase was mainly driven by market dynamics, characterized by policy rate hikes and stronger competition, as well as by the funding mix, as in recent quarters we tilted towards more stable and longer-term funding instruments, mainly in the Retail segment, and in any case cheaper than the Wholesale instruments with an equivalent tenor.

Net fees and commissions, amounting to 10.1 million, rose by 45% y/y (7 million on 30 June 2022), mainly driven by the greater contribution from commission income from pawn loans and the lower commission expense from CQ loans compared to 2022.

The contribution in terms of total revenues from factoring, i.e., the sum of interest income, commission income and revenues from portfolio disposals (52.1 million on 30.06.2023), has been increasing in absolute terms year on year (34.2 million on 30.06.2022). Total factoring revenues, taken as a percentage over the average of receivables, have reported an increase on a y/y basis (+150bps y/y), which is greater than the funding tied to this business. For CQ loans, the interest income to average loans ratio is 2.6%, including the disposal of June 2023 (2.4% net of the disposal proceeds), which, due to the portfolios purchased up until Q2 2022, does not cover the cost of funding tied to this business. The profitability of pawn loans is reporting a strong increase (+310bps y/y), more than proportional to the related funding growth (on a standalone basis, Kruso Kapital’s total income reported a 23% growth rate y/y).

On 30 June 2023, proprietary trading revenues, totaling 1.3 million, have made a greater contribution to total income compared to the prior year (0.1 million). In the first two quarters of 2023, factoring receivables portfolios were sold, giving rise to 0.9 million of revenues (1.3 million in H1 2022), while a CQ loan disposal in the second quarter of 2023 generated 1.1 million of revenues (1.5 million in H1 2022).

Total income came in at 49.4 million, down 10% y/y.

On 30 June 2023, **loan loss provisions** added up to 2.8 million, down y/y (5.1 million). The cost of risk tied to customer loans was equal to 19bps.

The Group’s **headcount** (FTE) added up to 297 (280 on 30.06.2022) and reported an increase also due to the integration of Art-Rite and the setting up of the Greek pawn loan company.
The slight y/y increase in **personnel expenses** is mainly tied to the release in 2022 of the variable component earmarked in 2021, which had generated a positive impact of 1 million.
Other administrative expenses grew y/y, driven by a mix of higher expenses, such as marketing, IT and legal, with the addition in H1 2023 of the consolidation of the subsidiaries Art-Rite and PP Grecia.
The aggregate line-item **total operating costs** increased by 12% y/y% (+1.1 million y/y, tied to higher **Provisions for risks and charges**).

Net income before tax as at 30 June 2023 added up to 11.6 million, down y/y.

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

The **securities portfolio,** made up of Italian Government bonds, amounted to 1,208.6 million (of which 651.3 million are classified under the line-item “Financial assets measured at amortized cost”, slightly up from 681.0 million as at 31 December 2022), with an average duration of 15.3 months. The “Held to Collect and Sell” (HTCS) component, amounting to 557.3 million as at 30 June 2023, has slightly increased compared to 31 December 2022 (553 million), with an average duration of roughly 19.8 months.
Financial assets measured at amortized cost (3,719 million) comprise factoring receivables (1,800 million), up 20% over 31 Decembre 2022 and on the rise also compared to 30 June 2022 (1,679 million), as well as CQ loans (salary- and pension backed loans) (856 million), part of the securities portfolio (651 million), State-guaranteed loans to SMEs (249 million vs 197 million as at 31.12.2022) and 112 million of pawn loans (on a stable quarterly uptrend).

The **gross non-performing loan** stock came in at 298.4 million, up compared to 31 December 2022 (284.8 million) and to 31 March 2023 (275.9 million). The quarterly performance was driven by less past due loans, amounting to 61.9 million (67.4 million as at 31.3.2023), more than offset by the increase in Utp loans, coming in at 63.1 million (34.5 million as at 31.3.2023).

Retail funding, accounting for approx. 57% of total funding, includes checking accounts and term deposits held by individuals and businesses.

Under **Financial liabilities measured at amortized cost (4,134 million)**, **Due to banks** went up compared to 31 December 2022 (942 million vs 623 million as at 31.12.2022), driven by a greater contribution from the interbank component, more specifically a repo transaction with a banking counterparty.
Under Financial liabilities measured at amortized cost, Due to customers (3,017 million) dipped slightly compared to year-end 2022 (3,056 million), while they reported an increase compared to 31.3.2023 (2,829 million).
The steered curbing in repos and checking accounts (488 million vs 639 million as at 31 December 2022), in the corporate/institutional customer segment, in line with the bank's strategy, was almost fully offset by an increase in retail deposit accounts (1,819 million vs 1,432 as at 31 December 2022), an uptrend reported also in comparison with 31.3.2023 (1,444 million) in the retail segment, mainly channeled through foreign deposit platforms.
Debt securities (175 million) declined over 31 December 2022, while they increased compared to 31 March 2023. The changes in this line-item are mainly the result of the funding dynamics generated by structured finance transactions.
The deposit evolution in the last two quarters, poised to continue also in the future, is in line with the loan evolution, and was characterized by a stronger focus on retail customers.

As at 30 June 2023, **Total own funds** (Total Capital) added up to 217.8 million (215.5 million as at 31 March 2023), and – in addition to the net income for the period (net of the estimated dividend amount, corresponding to a payout ratio of 25% of the Parent company's net income) - it included also the equity reserve for "Financial assets at fair value though other comprehensive income" (HTCS), in particular on Italian government bonds[2].
Capital ratios[3], down compared to 31 March 2023, due to higher RWAs from the factoring business (1,448.0 million from 1,412.5 million as at 31.03.2023), stood at:

- **CET1 ratio 11.9%**;
- **TIER 1 ratio 15.0%**;
- **Total Capital ratio 15.0%**.

Among the various changes that are part of a package of reforms to Basel III regulations, the neutralization of all or part of the "HTCS reserve" on government securities was approved at a European Trilogue meeting. This change will come into effect with publication in the Official Journal predictably by the end

[2]The equity reserve for "Financial assets at fair value through other comprehensive income" (HTCS), in particular on Italian Government bonds, amounts to -21.3 million (-21.4 million on 31 March 2023; -24.7 million on 31 December 2022).
[3]In compliance with EBA's Guidelines on common SREP (Supervisory Review and Evaluation Process), the Bank of Italy required the compliance with the following minimum capital requirements as of 31 December 2022:
- Common Equity Tier 1 ratio (CET1 ratio) of 9.0%;
- Tier 1 ratio of 10.5%;
- Total Capital ratio of 12.50%.

of 2023. Assuming a full neutralization of the "HTCS reserve" on government securities as at 30.6.2023, capital ratios would stand as follows:

- **CET1 ratio 13,3%**;
- **TIER 1 ratio 16.5%**;
- **Total Capital ratio 16.5%**.

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Statement of the financial reporting officer

The financial reporting officer of Banca Sistema, Alexander Muz, in compliance with paragraph two of art. 154 bis of the Consolidated act for financial intermediation, hereby states that the accounting information illustrated in this press release is consistent with documental evidence, accounting books and book-keeping entries.

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Operational outlook and main risks and uncertainties

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

While the factoring division, Kruso Kapital and newly originated CQ loans will be able to translate their respective higher cost of funding in a greater profitability of booked loans, the CQ loan stock, due to the longer-term maturity, will continue to be negatively affected by the (fixed rate) interest income of loans originated in past years, which is well below the current market rates. In spite of the fact that the CQ business is reporting a lower prepayment rate and can benefit from a higher return from newly originated loans, yet the relative size of the legacy portfolio is such, that at least throughout 2023 the interest income of the CQ division is bound to be in negative territory.

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On 21 July the Board of Directors of Banca Sistema approved the total or partial sale of the Government bonds held in the HTC portfolio (with a par value of 666 million at closing on 27.7.2023, of which 541 million with an unrealized profit of 13.5 million, and the remaining portion with an unrealized loss of 8.1 million, resulting in a net total of 5.4 million), to be carried out by 31 December 2023, depending on market conditions and possibly in more tranches. The disposal of the portfolio will allow the Bank to reach higher liquidity buffers as a proportion of assets, while generating a positive result, based on the current market performance.

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

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Gruppo Banca Sistema

Banca Sistema, founded in 2011 and listed since 2015 on Borsa Italiana's Euronext Star Milan segment, is a financial institution specialized in purchasing trade receivables owed by the Italian Public Administrations and tax receivables, and engages in salary- and pension-backed loans, by purchasing loan pools and through the direct origination of the QuintoPuoi product. In the pawn loans business, it operates through the subsidiary Kruso Kapital S.p.A. and the brand product ProntoPegno. The Group has more than 100,000 clients, and it offers also deposit products, including current accounts, deposit accounts and securities accounts, in addition to other services as credit management and recovery, bank guarantees and security bonds, PA receivables certification and e-billing. With head offices in Milan and Rome, Gruppo Banca Sistema is present in Italy also in Bologna, Pisa, Naples, Palermo, Asti, Brescia, Civitavecchia, Florence, Mestre, Parma, Rimini and Turin, as well as in Spain and Greece, it has 297 employees and relies on a multichannel structure.

Attachments

- Consolidated Balance Sheet
- Consolidated Income Statement
- Asset Quality

BANCA SISTEMA

GRUPPO BANCA SISTEMA: CONSOLIDATED BALANCE SHEET

Amounts in thousands of Euro

		30.06.2023 A	31.03.2023	31.12.2022 B	Difference %
	ASSETS				
10.	Cash and cash equivalents	171,170	53,068	126,589	35%
30.	Financial assets held to collect and sell (HTCS)	562,574	562,978	558,384	1%
40.	Financial assets held to collect (HTC)	3,719,276	3,597,864	3,530,678	5%
	a) Loans and advances to banks	1,000	17,310	34,917	-97%
	b) Loans and advances to customers	3,718,276	3,580,554	3,495,761	6%
	of which: Factoring	*1,800,010*	*1,575,787*	*1,501,353*	*20%*
	of which: Salary-/pension-backed loans (CQS/CQP)	*856,316*	*902,957*	*933,200*	*-8%*
	of which: Collateralised loans	*112,463*	*109,341*	*106,749*	*5%*
	of which: Securities	*650,913*	*685,687*	*681,032*	*-4%*
50.	Hedging derivatives	415	-	-	nm
60.	Fair value change of financial assets in hedged portfolios (+/-)	(385)	1,241	-	nm
70.	Equity investments	954	960	970	-2%
90.	Property, plant and equipment	41,693	42,284	43,374	-4%
100.	Intangible assets	34,870	34,517	34,516	1%
	of which: goodwill	33,526	33,526	33,526	nm
110.	Tax assets	33,910	35,116	24,861	36%
120.	Non-current assets and disposal groups classified as held for sale	65	41	40	63%
130.	Other assets	75,907	63,319	77,989	-3%
	Total assets	**4,640,449**	**4,391,388**	**4,397,401**	**6%**
	LIABILITIES AND EQUITY				
10.	Financial liabilities at amortised cost	4,133,925	3,874,634	3,916,974	6%
	a) Due to banks	942,288	930,511	622,865	51%
	b) Due to customers	3,016,835	2,828,666	3,056,210	-1%
	of which: Term Deposits	*1,819,361*	*1,444,282*	*1,431,548*	*27%*
	of which: Currents Accounts	*487,682*	*437,649*	*639,266*	*-24%*
	c) Debt securities issued	174,802	115,457	237,899	-27%
40.	Hedging derivatives	-	1,234	-	nm
60.	Tax liabilities	21,010	19,542	17,023	23%
70.	Liabilities associated with non-current assets held for sale and discontinued operations	38	13	13	nm
80.	Other liabilities	186,122	190,928	166,896	12%
90.	Post-employment benefits	4,406	4,317	4,107	7%
100.	Provisions for risks and charges	34,895	37,700	36,492	-4%
140.	Equity instruments	45,500	45,500	45,500	nm
120. + 150. + 160.+ 170. + 180.	Share capital, share premiums, reserves, valuation reserves and treasury shares	196,819	203,652	178,338	10%
190.	Minority interests	10,279	10,149	10,024	3%
200.	Profit for the period	7,455	3,719	22,034	-66%
	Total liabilities and equity	**4,640,449**	**4,391,388**	**4,397,401**	**6%**

BANCA SISTEMA: CONSOLIDATED INCOME STATEMENT

Amounts in thousands of Euro

		1H 2023 A	1Q 2023	2Q 2023	1H 2022 B	1Q 2022	2Q 2022	Difference % A - B
10.	Interest income	83,387	40,103	43,284	50,558	23,605	26,953	65%
20.	Interest expenses	(47,544)	(19,460)	(28,084)	(5,912)	(2,942)	(2,970)	nm
30.	**Net interest income**	**35,843**	**20,643**	**15,200**	**44,646**	**20,663**	**23,983**	**-20%**
40.	Fee and commission income	16,863	7,675	9,188	15,744	7,526	8,218	7%
50.	Fee and commission expense	(6,784)	(3,088)	(3,696)	(8,788)	(3,833)	(4,955)	-23%
60.	**Net fee and commission income**	**10,079**	**4,587**	**5,492**	**6,956**	**3,693**	**3,263**	**45%**
70.	Dividends and similar income	227	-	227	227	-	227	nm
80.	Net income from trading	(34)	(250)	216	(1,201)	1	(1,202)	-97%
90.	Fair value adjustments in hedge accounting	30	7	23	-	-	-	nm
100.	Profits (Losses) on disposal or repurchase of:	3,289	323	2,966	4,137	331	3,806	-20%
	a) financial assets measured at amortised cost	2,746	200	2,546	3,051	316	2,735	-10%
	b) financial assets measured at fair value through other comprehensive income	543	123	420	1,086	15	1,071	-50%
120.	**Operating income**	**49,434**	**25,310**	**24,124**	**54,765**	**24,688**	**30,077**	**-10%**
130.	Net impairment losses on loans	(2,837)	(1,046)	(1,791)	(5,056)	(2,307)	(2,749)	-44%
140.	Profits (Losses) on changes in contracts without derecognition	(1)	-	(1)	-	-	-	nm
150.	**Net operating income**	**46,596**	**24,264**	**22,332**	**49,709**	**22,381**	**27,328**	**-6%**
190. a)	Staff costs	(14,738)	(7,492)	(7,246)	(14,330)	(6,588)	(7,742)	3%
190. b)	Other administrative expenses	(17,689)	(9,030)	(8,659)	(15,463)	(8,318)	(7,145)	14%
200.	Net allowance for risks and charges	(2,197)	(1,494)	(703)	(1,053)	(539)	(514)	nm
210. + 220.	Net impairment losses on property and intangible assets	(1,579)	(763)	(816)	(1,499)	(725)	(774)	5%
230.	Other net operating income/expense	1,232	399	833	1,013	515	498	22%
240.	**Operating expenses**	**(34,971)**	**(18,380)**	**(16,591)**	**(31,332)**	**(15,655)**	**(15,677)**	**12%**
250.	Profits of equity-accounted investees	(16)	(10)	(6)	(51)	(36)	(15)	-69%
290.	**Pre-tax profit from continuing operations**	**11,609**	**5,874**	**5,735**	**18,326**	**6,690**	**11,636**	**-37%**
300.	Tax expenses (income) for the period from continuing operations	(3,915)	(2,041)	(1,874)	(5,850)	(2,143)	(3,707)	-33%
310.	**Profit after tax from continuing operations**	**7,694**	**3,833**	**3,861**	**12,476**	**4,547**	**7,929**	**-38%**
320.	Profit (Loss) after tax from discontinued operations	-	-	-	(23)	(24)	1	nm
330.	**Profit for the period**	**7,694**	**3,833**	**3,861**	**12,453**	**4,523**	**7,930**	**-38%**
340.	Profit for the period attributable to the Minority interests	(239)	(114)	(125)	(248)	(140)	(108)	-4%
350.	**Profit for the period attributable to the shareholders of the Parent**	**7,455**	**3,719**	**3,736**	**12,205**	**4,383**	**7,822**	**-39%**

GRUPPO BANCA SISTEMA: ASSET QUALITY

Amounts in thousands of Euro

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

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

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