

BANCA S I S T E M A

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| | | | |
|-------------------------|-------------------------------------------------------------------------------------------------------------------|---------------------------|----------------------------------------------------------------------------------------------------------|
| SECTOR | Financials | FINANCIAL CALENDAR (2020) | Apr. 23: Annual General Meeting May 8: 1Q20 results Jul. 31: 1H20 results Oct. 30: 3Q20 results |
| INDUSTRY | Banking | | |
| SUB-INDUSTRY | Banks | | |
| MAIN SHAREHOLDERS | Gianluca Garbi (23.611%) Fondazione CR Alessandria (7.399%) Fondazione Sicilia (7.399%) Market (61.591%) | CET1 RATIO (FY19) | 11.7% (vs. 7.75% SREP) |
| KEY PEOPLE | Gianluca Garbi (CEO) Luitgard Spogler (Chairwoman) | COST/INCOME RATIO (FY19) | 50.0% (vs. 46.3% FY18) |
| MARKET CAP (03/17/2020) | EUR83.64m | TOTAL ASSETS (FY19) | EUR3.7bn (+19% YoY) |
| | | EMPLOYEES (FY19) | 215 |

For more information:
www.promoscore.it

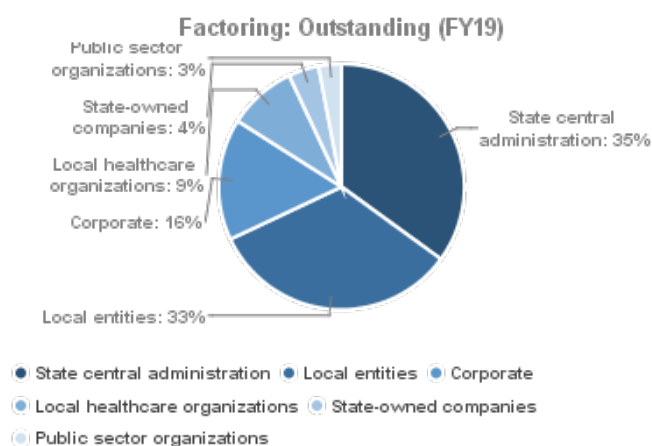
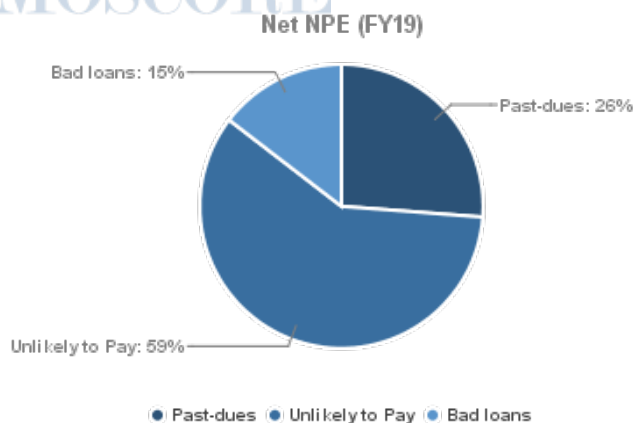
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QUICK LOOK

Founded in 2011, **Banca Sistema** is a bank specialized in **purchasing trade and tax receivables** owed by the Italian Public Administrations and active in the business of **salary/pension-secured loans** (*cessione del quinto*) and **gold/jewelry-backed loans** (*credito su pegno*). In 2019, factoring to PAs represented 66% of the bank's total customer loans; salary/pension-secured loans (*aka CQS/CQP*) were accountable for 31%.

HIGHLIGHTS

- **SHAREHOLDERS** - Banca Sistema has been listed on **Borsa Italiana's** STAR segment since 2015. According to data compiled by Italy's market regulator Consob, CEO **Gianluca Garbi** is the main shareholder of the lender through SGBS Srl (23.102%) and Garbifin Srl (0.509%). **Fondazione Sicilia** and **Fondazione Cassa di Risparmio di Alessandria** hold 7.399% each. A shareholders' agreement binds the three largest stockholders until 1 July 2020. In March 2019, a third banking foundation, **Fondazione Pisa**, reduced its stake from 7.399% to 4.849%.
- **GOVERNANCE** - At the helm of Banca Sistema since 2011, **Gianluca Garbi** (49) previously held top positions at Commerzbank (*Head of Global Public Sector*) and MTS Group (*CEO*). In 1997 he was appointed by Italy's Ministry of Economy and Finance as a member of the Council of Economic Advisers and in 2006 he was appointed by the European Commission as a member of the European Securities Markets Expert Group. He is a Knight of the Order of Merit of the Italian Republic. Banca Sistema's Chairwoman, **Luitgard Spogler** (58), is currently partner of law firm Legalitax and member of the Supervisory Board of Alperia SpA. Previously, she held positions at the Bank of Italy, the European Commission, ESMA, and Borsa Italiana. The bank's current BoD, consisting of 9 directors, will expire with the approval of the 2020 financial statements.
- **FACTORING (1)** - Banca Sistema's corporate clients are typically **PA suppliers** active in the utilities, healthcare, services, food, transport, and entertainment sectors, with receivables towards **local entities and healthcare organizations** (*regions, municipalities, ASLs*), **central administrations** (*ministries, Agenzia delle Entrate*), and other **entities of public interest** (*GSE, Serie A*). In FY19, about 20% of the bank's factoring turnover was concentrated on its top 5 customers. In terms of risk, the lender compares its PA factoring exposure to that arising from Italian government bonds. Albeit decreasing, **payment times** of Italy's PA remain higher than those of the main European countries.
- **FACTORING (2)** - At YE19, Banca Sistema's factoring business showed an outstanding (*turnover*) of EUR1.84bn (*EUR3.06bn*). 62% (71%) of total outstanding (*turnover*) was in the form of **non-recourse factoring**, 27% (18%) **tax receivables**, and 11% (11%) **recourse factoring**. In 2019, 74% of turnover was originated by the bank's 22 offices (*in Milan, Rome, Naples, and Palermo*) and 26% by the distribution networks of the lenders with which Banca Sistema has signed commercial agreements (*19 deals, 1,500 branches*).



- **CESSIONE DEL QUINTO** - Banca Sistema is active in the CQS/CQP market both through the **purchase of loan portfolios** and through **direct origination**. The business is characterized by historically low levels of **PD** and **LGD**: 81% of the bank's risk exposure is towards PAs (49% pensioners, 32% PA employees, 19% private employees). At the end of 2019, the CQS/CQP outstanding was **EUR817m**.
- **CREDITO SU PEGNO** - Banca Sistema operates in the gold/jewelry-backed lending -- a "highly profitable" and "**low capital absorption**" business, according to the lender -- through its subsidiary **ProntoPegno SpA** (with branches in Milan, Rome, Naples, Palermo, Pisa, and Rimini). At the end of 2019, the business line had an outstanding of **EUR11.29m** (91% backed by gold) with more than 9,000 underlying contracts. In Italy -- where the activity was carried out by Montes Pietatis since the Middle Ages -- the main market player is **Affide**, a company born from the acquisition by Austria's Dorotheum of UniCredit's pawnbroking unit.

FINANCIALS

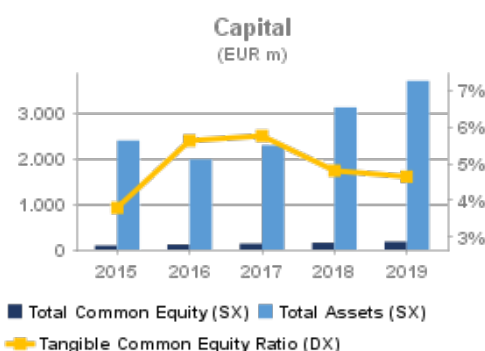
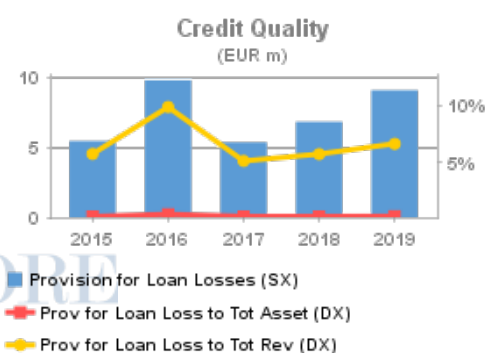
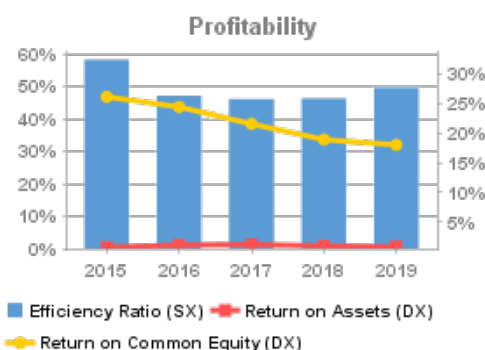
INCOME STATEMENT

| (in EUR m) | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
|------------------------------------|---------|---------|---------|---------|---------|
| Net Interest Income | 80,92 | 74,79 | 70,88 | 71,23 | 58,01 |
| Adjusted Total Non-Interest Income | 25,65 | 18,66 | 13,99 | 12,24 | n.a. |
| Provision for Loan Losses | 9,06 | 6,81 | 5,35 | 9,77 | 5,44 |
| Total Non-Interest Expense | 56,16 | 44,57 | 40,46 | 40,27 | 43,46 |
| Operating Income (Loss) | 41,36 | 42,07 | 39,06 | 33,43 | 24,56 |
| Non-Operating (Income) Loss | 0,01 | -0,01 | 0,14 | -2,28 | -0,96 |
| Pretax Income (Loss), Adjusted | 41,35 | 42,08 | 38,92 | 35,71 | 25,51 |
| Abnormal Losses (Gains) | 1,70 | 0,00 | 0,00 | -0,70 | -0,53 |
| Pretax Income (Loss), GAAP | 41,35 | 42,08 | 38,92 | 35,71 | 25,51 |
| Income Tax Expense (Benefit) | 12,19 | 14,55 | 12,12 | 10,40 | 7,91 |
| Net Income, GAAP | 29,72 | 27,17 | 26,79 | 25,31 | 17,61 |

BALANCE SHEET

| (in EUR m) | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| ASSETS | | | | | |
| Cash & Cash Equivalents | 0,65 | 0,29 | 0,16 | 0,10 | 0,10 |
| Interbanking Assets | 81,51 | 56,86 | 36,03 | 83,49 | 179,94 |
| ST And LT Investments | 556,38 | 304,47 | 286,81 | 515,83 | n.a. |
| Net Loans | 3030,88 | 2729,83 | 1934,47 | 1348,33 | 1280,12 |
| Net Fixed Assets | 29,00 | 27,91 | 24,27 | 23,31 | 1,06 |
| Total Intangible Assets | 3,92 | 1,79 | 1,79 | 1,84 | 1,87 |
| Investments in Associates | n.a. | 0,79 | 1,19 | 1,03 | 2,70 |
| Total Deferred Tax Assets | 8,48 | 7,82 | 6,73 | 7,49 | n.a. |
| Total Derivative Assets | n.a. | n.a. | n.a. | 0,00 | n.a. |
| Other Assets | 19,26 | 15,15 | 17,79 | 17,94 | 1126,44 |
| TOTAL ASSETS | 3730,08 | 3144,90 | 2309,23 | 1999,36 | 2411,67 |
| LIABILITIES + EQUITY | | | | | |
| Demand Deposits | n.a. | 657,25 | 510,35 | 436,93 | 335,54 |
| Interest Bearing Deposits | n.a. | 957,86 | 447,09 | 443,40 | 572,38 |
| Other Deposits | n.a. | 103,62 | 111,07 | 86,21 | 61,33 |
| ST Borrowings & Repos | 388,36 | 875,02 | 733,16 | 753,71 | 1271,16 |
| LT Debt | 476,53 | 304,99 | 281,77 | 90,33 | 20,10 |
| Pension Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total Deferred Tax Liabilities | n.a. | 12,23 | 10,12 | 7,46 | n.a. |
| Total Derivative Liabilities | n.a. | n.a. | n.a. | n.a. | n.a. |
| Other Liabilities | 136,44 | 80,78 | 80,91 | 67,00 | 57,80 |
| TOTAL LIABILITIES | 3552,93 | 2991,75 | 2174,47 | 1885,05 | 2318,31 |
| TOTAL EQUITY | 177,15 | 153,15 | 134,77 | 114,32 | 93,36 |
| TOTAL LIABILITIES & EQUITY | 3730,08 | 3144,90 | 2309,23 | 1999,36 | 2411,67 |

Source: Bloomberg -- Note: Financial statements audited by KPMG (2015-2018), BDO (2019)



- **CAPITAL RATIOS** - Following the **SREP** process, the Bank of Italy asked Banca Sistema to comply (on a consolidated basis) with a **CET1** ratio of **7.75%**, a **Tier 1** ratio of **9.55%**, and a **Total Capital** ratio of **11.90%**. At the end of 2019, the group showed capital ratios above the minimum: **CET1** of **11.7%**, **T1** of **12.3%**, **TC** of **15.0%**. Taking into account the risk-weighting reduction for CQS/CQP assets that will be introduced in 2021 under **EU Regulation 876/2019**, the pro-forma ratios would be equal to 13.9%, 14.6%, and 17.8%, respectively.

| Total Assets (EUR m) | | | | | |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 3730,08 | 3144,90 | 2309,23 | 1999,36 | 2411,67 |
| Banca IFIS SpA | 10526,02 | 9382,26 | 9554,33 | 8708,91 | 6957,72 |
| Banca Farmafactoring SpA | 5511,03 | 4941,52 | 4446,94 | 4735,00 | 3321,55 |
| Illimity Bank SpA | 3025,22 | 909,03 | 1074,41 | 955,76 | 853,89 |

| Return on Assets (%) | | | | | |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 0,86 | 1,00 | 1,24 | 1,15 | 0,78 |
| Banca IFIS SpA | 1,24 | 1,55 | 1,98 | 8,91 | 2,12 |
| Banca Farmafactoring SpA | 1,78 | 1,96 | 2,08 | 1,79 | 2,17 |
| Illimity Bank SpA | -0,82 | -2,94 | 0,33 | 0,17 | n.a. |

| Overhead Efficiency Ratio (%) | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 42,55 | 36,03 | 38,67 | 41,03 | 52,84 |
| Banca IFIS SpA | 43,77 | 57,00 | 56,65 | -176,01 | 33,23 |
| Banca Farmafactoring SpA | 37,93 | 33,22 | 28,10 | 37,22 | 27,43 |
| Illimity Bank SpA | 166,85 | 238,21 | 53,22 | 55,73 | 49,48 |

| Non-Performing Loans to Total Loans (%) | | | | | |
|-----------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | n.a. | 8,14 | 7,30 | 9,01 | 7,08 |
| Banca IFIS SpA | n.a. | 23,38 | 29,08 | 27,63 | 7,93 |
| Banca Farmafactoring SpA | n.a. | n.a. | n.a. | 2,66 | n.a. |
| Illimity Bank SpA | n.a. | n.a. | n.a. | n.a. | n.a. |

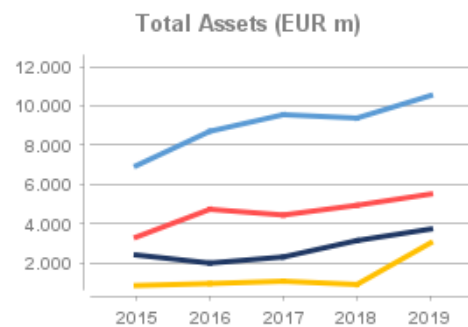
| Prov for Loan Loss to Tot Loan (%) | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | n.a. | 0,29 | 0,32 | 0,73 | 0,44 |
| Banca IFIS SpA | n.a. | -0,52 | -1,10 | 1,03 | 0,75 |
| Banca Farmafactoring SpA | n.a. | n.a. | n.a. | n.a. | n.a. |
| Illimity Bank SpA | n.a. | 1,45 | 0,94 | 0,67 | n.a. |

| Res for Loan Loss to Tot Loans (%) | | | | | |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | n.a. | 1,29 | 1,42 | 1,82 | 0,80 |
| Banca IFIS SpA | n.a. | 4,25 | 13,20 | 14,48 | 6,94 |
| Banca Farmafactoring SpA | n.a. | n.a. | n.a. | n.a. | n.a. |
| Illimity Bank SpA | n.a. | 2,83 | 2,97 | 2,37 | 2,67 |

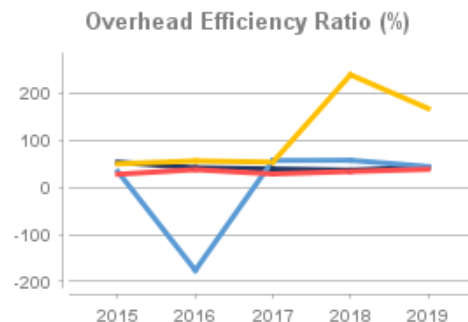
| Common Equity to Tot Assets (%) | | | | | |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 4,75 | 4,87 | 5,83 | 5,72 | 3,87 |
| Banca IFIS SpA | 14,57 | 15,49 | 14,33 | 14,11 | 8,24 |
| Banca Farmafactoring SpA | 6,85 | 7,41 | 8,18 | 7,05 | 9,97 |
| Illimity Bank SpA | 18,00 | 25,07 | 5,59 | 5,31 | 6,40 |

| Deposits to Assets (%) | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 68,41 | 54,65 | 46,27 | 48,34 | 40,19 |
| Banca IFIS SpA | 50,22 | 49,81 | 55,40 | 54,83 | 46,11 |
| Banca Farmafactoring SpA | 49,24 | 26,69 | 29,98 | 25,07 | 24,27 |
| Illimity Bank SpA | 65,62 | 52,17 | 40,44 | 37,92 | 35,50 |

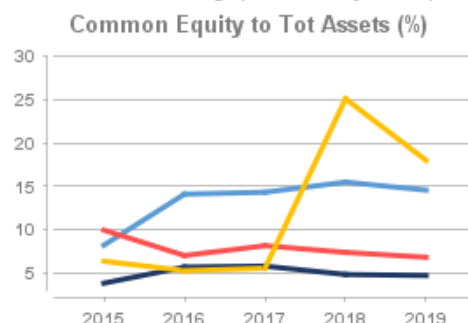
| After-Tax WACD (%) | | | | | |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Company | FY 2019 | FY 2018 | FY 2017 | FY 2016 | FY 2015 |
| Banca Sistema SpA | 0,69 | 0,89 | 0,62 | 0,33 | 0,11 |
| Banca IFIS SpA | 0,85 | 1,80 | 1,18 | 1,81 | 0,05 |
| Banca Farmafactoring SpA | 0,67 | 1,20 | 0,98 | 0,94 | 0,56 |
| Illimity Bank SpA | 0,13 | 2,14 | 0,33 | 0,27 | 0,30 |



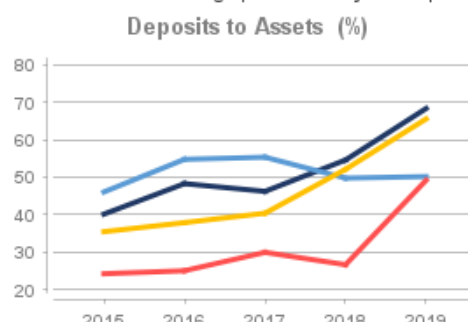
Legend: Banca Sistema SpA (dark blue), Banca IFIS SpA (light blue), Banca Farmafactoring SpA (red), Illimity Bank SpA (yellow)



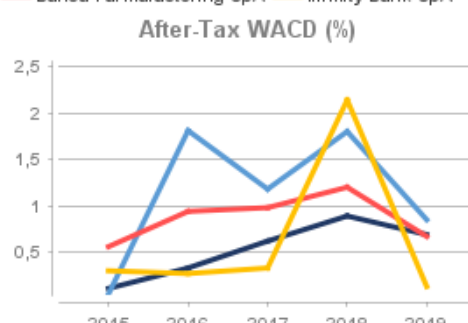
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Source: Bloomberg

INVESTMENT CASE

Banca Sistema SpA (BANCSS) - Sr Preferred - Fixed 1.75% - 13 Oct. 2020 - XS1695270162

| | | | |
|---------------------|-------------------------------|---------------------------|-------------------------------------|
| YIELD TO WORST | 1.64% | COUNTRY RATING (Italy) | Moody's: Baa3 / Stable (10/19/2018) |
| G-SPREAD | 231.9bps | | S&P BBB / Negative (10/26/2018) |
| Z-SPREAD | 204.5bps | | Fitch: BBB / Negative (08/31/2018) |
| ASW | 200.5bps | ISSUER/ISSUE RATING | Not Rated |
| MODIFIED DURATION | 0.563 | | GOVERNING LAW |
| OUTST. / MIN PIECE | EUR175m / 100k + 1k | COVENANTS | Negative Pledge, Cross Default, CAC |
| EXP. DAILY VOLUME | 574,862 | 1-YR DEFAULT RISK | HY1 |
| BID-ASK / LQA SCORE | 0.529 / 7 | 1-YR DEFAULT PROB | 0.8789% |
| MARKETS | Dublin, EuroTLX, ExtraMOT PRO | REPORTING TIMELINESS | Adequate |
| ECB ELIGIBLE | No | | |
| LEVEL OF DISCLOSURE | Adequate | | |

MAIN EXTERNAL RISK (↓) / RETURN (↑) FACTORS

| | | | |
|------------------------|---|------------------------|---|
| Sovereign risk (Italy) | ↓ | Regulation EU 2019/876 | ↑ |
|------------------------|---|------------------------|---|

Source: Bloomberg, Banca Promos

- **FUNDING** - At 31 December 2019, **61%** of the bank's total funding was **retail** funding (2/3 in the form of term deposits, 1/3 current accounts); the remaining **39%** is **wholesale** funding, in the form of repos, bonds/ABS, and **TLTRO III** (the latter for EUR108m). At the same date, the cost of funding was 0.8% (slightly down from 0.9% at the end of 2018), according to the lender's own calculations.
- **BONDS** - The bank currently has **5 outstanding bonds**, for a total nominal value of **EUR317.5m** with maturities from 2020 to 2029 (to which is added a perpetual bond of EUR8m), data compiled by Bloomberg show. In 2019, Banca Sistema issued, through private placements, two tranches (EUR6m and EUR12m) of a ten-year 7%-fixed-coupon **subordinated Tier II** bond. The second tranche, whose issuance allowed the early repayment of an existing 2012-2022 Lower Tier II security, was subscribed by the same institutional investor that held the repaid bond.

DEBT COMPOSITION: BONDS

| ISIN | XS1695270162 | IT0005333999 | IT0005247397 | IT0005373060 | IT0004881444 |
|-------------|--------------|--------------|--------------|--------------|--------------|
| Rank | Sr Preferred | Sr Preferred | Subordinated | Subordinated | Subordinated |
| Type | Fixed | Fixed | Floating | Fixed | Variable |
| Coupon | 1.75% | 2.00% | 4.10% | 7.00% | 7.00% |
| Issue Date | 13/10/2017 | 31/05/2018 | 30/03/2017 | 23/05/2019 | 18/12/2012 |
| Maturity | 13/10/2020 | 31/05/2021 | 30/03/2027 | 20/06/2029 | Perpetual |
| Outstanding | EUR175m | EUR100m | EUR16.5m | EUR18m | EUR8m |
| Exchange | Multiple | EuroMTF | Not Listed | Not Listed | Not Listed |

Source: Bloomberg, Banca Sistema

PRICE SENSITIVE NEWS

- In the context of the epidemiological emergency from **Covid-19**, Banca Sistema said (in a 11 March 2020 press release) that "the effect of the persistence [of] this alert, which will have negative impacts on the country's economic sector and a foreseeable increase in **public spending**, particularly in the **health sector**, is not currently expected to affect in the short term [the] Group's activities, which by their nature are **counter-cyclical**. Nevertheless, the situation will be continuously monitored, as **indirect effects** related to a decrease in the production of the **transferring companies** with which the Group works are likely to be expected."
- In November 2019, Banca Sistema signed a binding agreement for the acquisition (through its subsidiary ProntoPegno) of the **pawnbroking** line of business of **Intesa Sanpaolo**, for a consideration of **EUR34m**. Banking foundations CRC, Pisa, and CR Alessandria will support Banca Sistema by jointly acquiring 25% of ProntoPegno and then subscribing the **capital increase** needed to finance the deal. The Intesa-owned unit boasts loans for EUR60m and branches in Turin, Naples, Florence, Mestre, Parma, and Civitavecchia.
- In April 2019, Banca Sistema completed the acquisition of 100% of **Atlantide SpA**, for a total consideration of **EUR3.02m**. The intermediary -- headquartered in Bologna and active in the supply of **CQS/CQP loans** all across Italy -- has 24 employees and a network of around 45 agents and brokers. The selling shareholders will use a part of the amount of the transaction (EUR2.4m) to purchase Banca Sistema's shares on the market with a 3-year lock-up period.

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The level of corporate disclosure and the timeliness of results reporting shown in the "Investment Case" table is defined -- on the basis of a qualitative assessment -- with reference to the following scale: Adequate, Moderate, Inadequate. As of the date of this report, Banca Promos monitors the following bond issuers: Ansaldo Energia, Astaldi, Attica Bank, Banca IFIS, Banca Sistema, Casino Guichard-Perrachon, Estra, Fincantieri, Goodvalley (Axzon), Intrum, Kedrion, La Tecnica nel Vetro, Maire Tecnimont, Moby, Tereos, Wind Tre.

