

**INTERIM CONSOLIDATED
FINANCIAL REPORT
31 MARCH 2023**

BANCA SISTEMA GROUP

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DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

BOARD OF DIRECTORS

Chairperson	Ms. Luitgard Spögler
Deputy Chairperson	Mr. Giovanni Puglisi
CEO and General Manager	Mr. Gianluca Garbi
Directors	Mr. Daniele Pittatore
	Ms. Carlotta De Franceschi (Independent)
	Mr. Daniele Bonvicini (Independent)
	Ms. Maria Leddi (Independent)
	Ms. Francesca Granata (Independent)
	Mr. Pier Angelo Taverna (Independent)

BOARD OF STATUTORY AUDITORS

Chairperson	Ms. Lucia Abati
Standing Auditors	Ms. Daniela Toscano
	Mr. Luigi Ruggieri
Alternate Auditors	Mr. Marco Armarolli
	Ms. Daniela D'Ignazio

INDEPENDENT AUDITORS

BDO Italia S.p.A.

MANAGER IN CHARGE OF FINANCIAL REPORTING

Mr. Alexander Muz

COMPOSITION OF THE INTERNAL COMMITTEES

INTERNAL CONTROL AND RISK MANAGEMENT COMMITTEE

Chairperson	Mr. Daniele Bonvicini
Members	Ms. Maria Leddi Mr. Pier Angelo Taverna Mr. Daniele Pittatore

APPOINTMENTS COMMITTEE

Chairperson	Ms. Carlotta De Franceschi
Members	Ms. Francesca Granata Mr. Pier Angelo Taverna

REMUNERATION COMMITTEE

Chairperson	Ms. Francesca Granata
Members	Mr. Giovanni Puglisi Ms. Carlotta De Franceschi

ETHICS COMMITTEE

Chairperson	Mr. Giovanni Puglisi
Members	Ms. Maria Leddi Ms. Carlotta De Franceschi

SUPERVISORY BODY

Chairperson	Ms. Lucia Abati
Members	Mr. Daniele Pittatore Mr. Franco Pozzi

FINANCIAL HIGHLIGHTS AT 31 MARCH 2023

The Banca Sistema Group comprises the Parent, Banca Sistema S.p.A., with registered office in Milan, the subsidiaries Kruso Kapital S.p.A., Largo Augusto Servizi e Sviluppo S.r.l., the Greek company Ready Pawn Single Member S.A. (hereinafter also referred to as ProntoPegno Greece), a wholly owned subsidiary of Kruso Kapital S.p.A., and Specialty Finance Trust Holdings Limited (a company incorporated under UK Law placed in liquidation in December 2021).

The scope of consolidation also includes the auction house Art-Rite S.r.l. (wholly owned by Kruso Kapital and outside the Banking Group), the Spanish Joint Venture EBNSistema Finance S.L. and the following special purpose securitisation vehicles whose receivables are not subject to derecognition: Quinto Sistema Sec. 2019 S.r.l., Quinto Sistema Sec. 2017 S.r.l. and BS IVA SPV S.r.l. The parent, Banca Sistema S.p.A., is a company registered in Italy, at Largo Augusto 1/A, ang. via Verziere 13 - 20122 Milan.

Operations are mainly carried out in the Italian market, although the Bank is also active in the Spanish, Portuguese and Greek markets, as described below, in addition to funding in Germany and Austria.

The Parent directly carries out factoring activities (mainly with the Italian public administration) and operates in the salary- and pension-backed loans segment through direct origination and through the purchase of receivables generated by other specialist operators, distributing its product through a network of single-company agents and specialised brokers located throughout Italy. Through its subsidiary Kruso Kapital S.p.A., the Group carries out collateralised lending activities in Italy through a network of branches, and in Greece through the ProntoPegno Greece subsidiary, as well as auction house activities. The Group also provides factoring services in Spain and Portugal through the joint venture EBNSistema Finance.

The Parent, Banca Sistema S.p.A., is listed on the Euronext STAR Milan segment of the Euronext Milan market of Borsa Italiana.

KEY INDICATORS



Statement of financial position data (€,000)			
Total Assets		4.391.388	-0,1%
		4.397.401	
Securities Portfolio		1.248.665	0,7%
		1.239.416	
Loans - Factoring		1.575.787	5,0%
		1.501.353	
Loans - Salary-backed loans		902.957	-3,2%
		933.200	
Funding - Banks and REPOS		1.752.541	17,7%
		1.488.743	
Funding - Term Deposits		1.444.282	0,9%
		1.431.548	
Funding - Current Accounts		437.649	-31,5%
		639.266	



Income statement data (€,000)			
Net interest income		20,643	-0.1%
		20,663	
Net fee and commission income (expense)		4,587	24.2%
		3,693	
Total income		25,310	2.5%
		24,688	
Personnel expense		(7,492)	13.7%
		(6,588)	
Other administrative expenses		(9,030)	8.6%
		(8,318)	
Profit for the year attributable to the owners of the Parent		3,719	-15.1%
		4,383	

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 MARCH 2023

On 18 January 2023, the Bank of Italy, following the measure of 5 May 2022, by which the Bank was notified of additional capital requirements with respect to the minimum capital ratios required by current regulations, informed the Bank not to adopt a new decision on capital as a result of the 2022 SREP (Supervisory Review and Evaluation Process) cycle.

On 27 January 2023, a member of the Internal Control and Risk Management Committee was replaced, with Mr Pier Angelo Taverna, an independent and non-executive director, being appointed to replace Ms Francesca Granata, an independent and non-executive director, who is already a member of the Appointments Committee and the Remuneration Committee.

The Board of Directors of Kruso Kapital (in which Banca Sistema holds a 75% equity interest) approved the start of the process to list the company on the Euronext Growth Market of Borsa Italiana S.p.A. The listing could take place in 2023 depending on market conditions.

On 27 February 2023, the Bank of Italy started an inspection at the Bank relating to the "Evolution of Liquidity Risk Exposure and Related Operational Safeguards", which was concluded in March, with management being informed that there were no compliance issues to report. On the date this Report was approved, no formal findings had been communicated to the Bank.

FACTORING

BANCA SISTEMA AND FACTORING ACTIVITIES

Banca Sistema was one of the pioneers in the factoring of receivables from the Public Administration, initially by purchasing receivables from suppliers to the public health sector, subsequently gradually expanding the business to other sectors of this niche, to include tax receivables and receivables from the football sector. Since the project started, the Bank has been able to grow in the original factoring business with a prudent risk management, and to support businesses (from large multinationals to small and medium-sized enterprises) through the provision of financial and collection services, thus contributing to the businesses' growth and consolidation. Since December 2020, Banca Sistema has also been operating in Spain - through the company EBNSISTEMA Finance, which it owns together with the Spanish banking partner EBN Banco - mainly in the factoring segment for receivables from the Spanish Public Administration, specialising in the purchase of receivables from entities in the public health sector. At the end of the first quarter of 2023, EBNSISTEMA's factoring turnover in the market reached € 30 million (€ 20 million at the end of the first quarter of 2022).

The Bank offers SACE and MCC-guaranteed loans to its factoring customers and purchases "Eco-Sisma 110% bonus" tax credits.

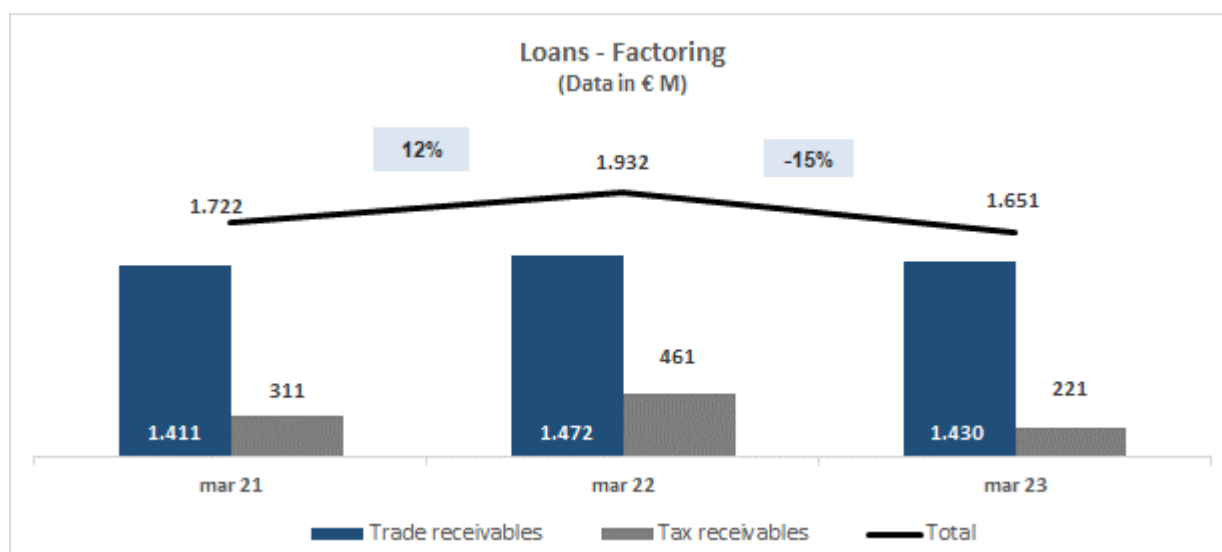
The following table shows the factoring volumes by product type:

Product (millions of Euro)	31.03.2023	31.12.2022	€ Change	% Change
Trade receivables	931	708	224	31.6%
<i>of which, without recourse</i>	746	524	222	42.4%
<i>of which, with recourse</i>	185	184	1	0.7%
Tax receivables	138	275	(137)	-49.9%
<i>of which, without recourse</i>	138	275	(137)	-49.9%
<i>of which, with recourse</i>	-	-	-	n.a.
Total	1,069	983	86	8.8%

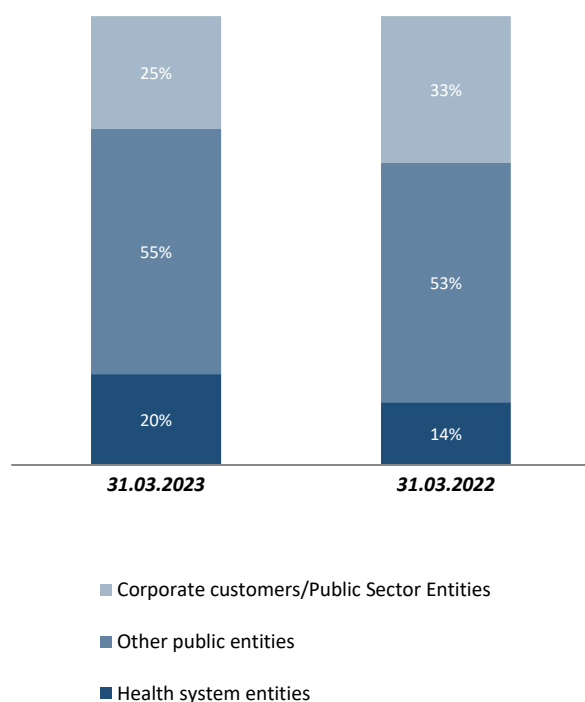
Volumes were generated through both its own internal commercial network and through other intermediaries with which the Group has entered into distribution agreements.

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.

Loans at 31 March 2023 (management figures) amounted to € 1,651 million, which is in line with the € 1,650 million at 31 December 2022.



The following chart shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 March 2023 and 2022. The Group's core factoring business remains the Public Administration entities segment.



Volumes related to the management of third-party portfolios amounted to € 121 million (an increase compared to the € 113 million recognised in the previous year).

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

The salary and pension-backed loan market got off to a strong start in 2023 compared to the previous year, with Q1 reporting a year-on-year increase of 12% in terms of funded capital. The growth in volumes seems to be correlated with a relative reluctance of operators to align lending rates with the general trend in benchmark rates, particularly the ECB rate. Between June 2022 and the end of March 2023, the Eurosystem benchmark rate increased by 350 bps as a result of the various interventions by the European Central Bank, while the 5-year IRS rate moved on average by more than 120 bps, rising above the 3% mark. During the same period, the Bank of Italy's quarterly survey of TEGMs revealed a net increase of just over 80 bps, net of the corrections made to account for the expected rise in ECB rates.

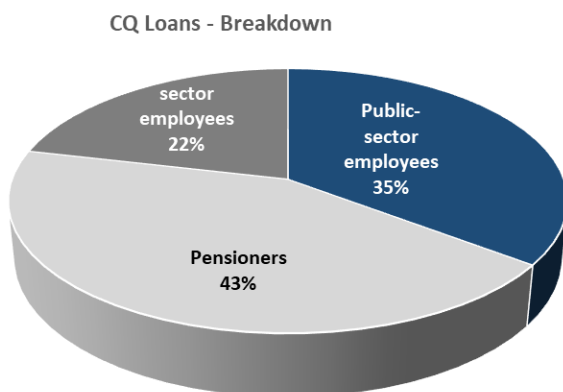
The Bank applied significant repricing to account for the change in refinancing conditions, which had an impact on disbursement rates of more than 200 bps, with a small part of the volume elasticity being affected by having moved faster and more decisively than the market.

Total volumes originated amounted to € 37 million of funded capital, 13.5% (€ 5.8 million) lower than last year. The increase in rates nevertheless made it possible to limit, for new disbursements, the loss of margin caused by the sudden rise in benchmark rates.

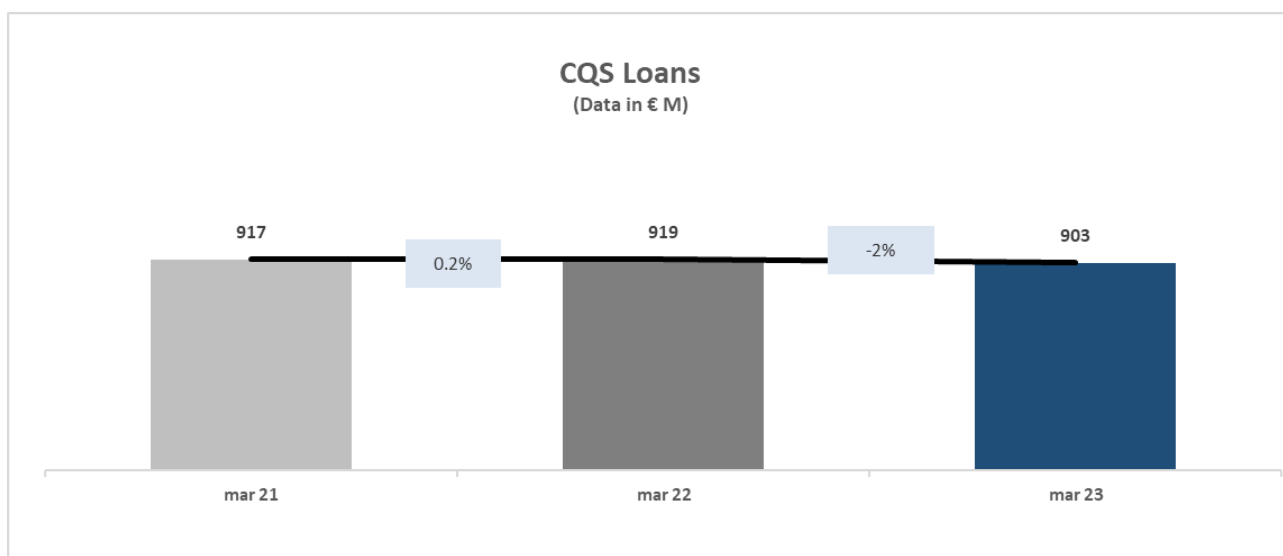
Outstanding capital fell from € 931 million in December 2022 to € 903 million at 31 March. The change is in line with expectations and with the discontinuation of the without recourse business whose portfolio is being gradually reduced.

	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
No. of applications (#)	1.740	2.143	(403)	-18,8%
<i>of which originated</i>	1.740	1.879	(139)	-7,4%
Volumes disbursed (millions of Euro)	37	47	(10)	-21,5%
<i>of which originated</i>	37	47	(10)	-21,5%

Loans are split between private-sector employees (22%), pensioners (43%) and public-sector employees (35%). Therefore, approximately 80% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.



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



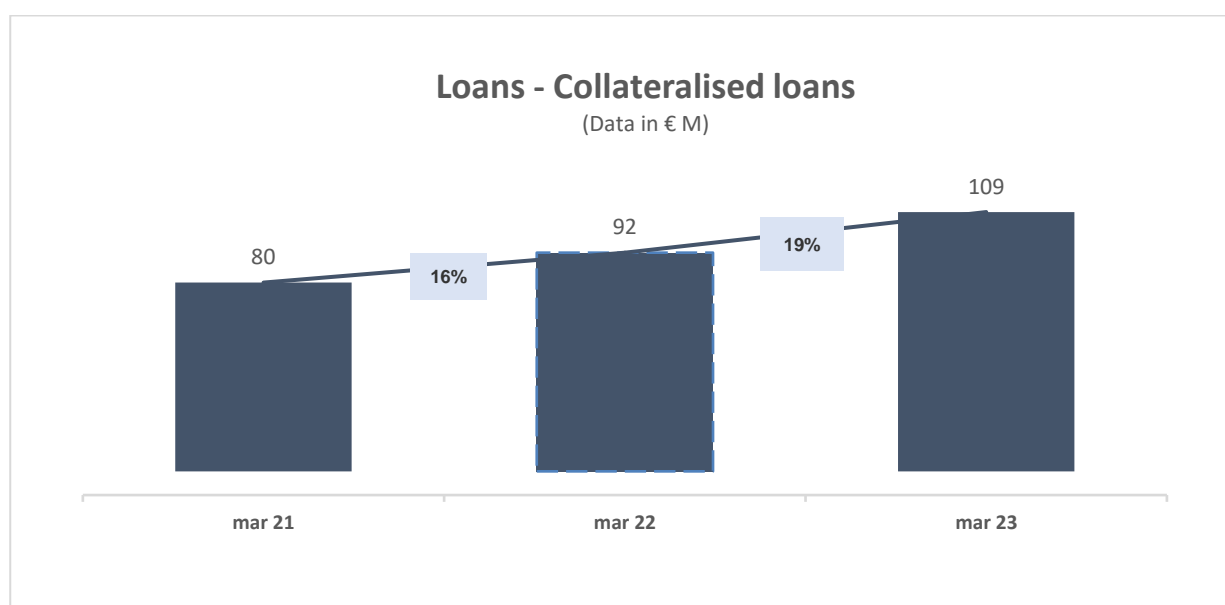
COLLATERALISED LENDING AND KRUSO CAPITAL

The first quarter of 2023 saw strong growth in business in Italy, with volumes totalling approximately € 49.3 million (€ 44.2 million in the first quarter of 2022), of which €22.6 million from renewals. As of 31 March 2023, the company had around 64,000 policies, with total loans of € 109 million, up 18.5% from 31 March 2022 (€ 92.3 million).

In the first quarter of 2023, 14 collateralised loan auctions were carried out in Italy.

The DigitalPegno app continues to be very popular since its launch and now has more than 12,785 registered users, with 3,688 digital bids placed at auctions in the first quarter of 2023 and 3,333 online policy renewals over the same period.

The following chart shows the performance of outstanding loans:



The statement of financial position of Kruso Kapital as at 31 March 2023 is provided below.

Assets (€000)	31.03.2023	31.12.2022	Change	%
Cash and cash equivalents	4,520	4,884	(364)	-7.5%
Financial assets measured at amortised cost	109,407	106,867	2,540	2.4%
a) loans and receivables with banks	66	118	(52)	-44.1%
b1) loans and receivables with customers - loans	109,341	106,749	2,592	2.4%
Equity investments	1,115	1,115	-	0.0%
Property and equipment	3,697	4,503	(806)	-17.9%
Intangible assets	29,189	29,195	(6)	0.0%
of which: goodwill	28,436	28,436	-	0.0%
Tax assets	985	1,083	(98)	-9.0%
Other assets	3,281	2,859	422	14.8%
Total assets	152,194	150,506	1,688	1.1%

Liabilities and equity (€000)	31.03.2023	31.12.2022	Change	%
Financial liabilities measured at amortised cost	102,506	100,633	1,873	1.9%
a) due to banks	97,875	96,018	1,857	1.9%
b) due to customers	4,631	4,615	16	0.3%
Tax liabilities	1,738	1,530	208	13.6%
Other liabilities	5,601	6,748	(1,147)	-17.0%
Post-employment benefits	892	851	41	4.8%
Provisions for risks and charges	784	715	69	9.7%
Valuation reserves	(34)	(22)	(12)	54.5%
Reserves	16,889	14,567	2,322	15.9%
Share capital	23,162	23,162	-	0.0%
Profit (loss) for the year	656	2,322	(1,666)	-71.7%
Total liabilities and equity	152,194	150,506	1,688	1.1%

The “financial liabilities measured at amortised cost” include the auction buyer’s premium of € 4.6 million. For 5 years, this amount is reported in the financial statements as due to customers which become a contingent asset if not collected. Based on historical information, 90% of the auction buyer’s premium, amounting to € 4.1 million, will become a contingent asset over the next five years.

The item Due to banks includes loans from Banca Sistema amounting to € 70 million at 31 March 2023 (equal to 69% of the total).

Other liabilities include lease liabilities of € 3 million and accrued expenses of € 1.6 million.

The income statement of Kruso Kapital for the first quarter of 2023 is provided below.

Income statement (€,000)	First Quarter of 2023	First Quarter of 2022	Change	%
Total income	4,263	3,440	823	23.9%
Net impairment losses on loans and receivables	(64)	(5)	(59)	>100%
Net financial income (expense)	4,199	3,435	764	22.2%
Personnel expense	(1,630)	(1,438)	(192)	13.4%
Other administrative expenses	(1,362)	(1,003)	(359)	35.8%
Net impairment losses on property and equipment/intangible assets	(297)	(346)	49	-14.2%
Other operating income (expense)	56	148	(92)	-62.2%
Operating costs	(3,233)	(2,639)	(594)	22.5%
Pre-tax profit from continuing operations	966	796	170	21.4%
Income taxes for the year	(310)	(237)	(73)	30.8%
Profit (loss) for the year	656	559	97	17.4%
Profit (loss) for the year subsidiaries	(200)	-	(200)	n.a.
Profit (loss) for the year of Kruso Kapital Group	456	559	(103)	-18.4%

The company closed the first quarter of 2023 with a profit of € 656 thousand (€ 456 thousand including the results of the subsidiaries ProntoPegno Greece and Art-Rite), a year-on-year increase of 17%.

The increase in total income, up 24% yoy, was driven by higher loans and increases in margins of both interest income and custody fees (fee and commission income). The increase in revenues more than offset the increase in the cost of funding.

The increase in total costs was mainly driven by other administrative expenses, which increased year-on-year due to expenses related to the opening of new branches and the modernisation of existing ones occurring after the first quarter of 2022, and higher IT costs.

Personnel expenses essentially include the cost of the company's 78 employees (72 employees in 2022). Other operating income (expense) include deferred charges of € 122 thousand for improvements to new branch offices and the required portion of auction buyer's surpluses of € 143 thousand.

The loss recorded by the ProntoPegno Greece subsidiary of € 130 thousand is driven by start-up and operating expenses, which are not yet matched by the business' revenues as operations started in September 2022 and are still in the start-up phase.

The loss reported by the Art-rite subsidiary amounted to € 69 thousand.

FUNDING AND TREASURY ACTIVITIES

TREASURY PORTFOLIO

A treasury portfolio has been established to support the Bank's liquidity commitments almost exclusively through investment in Italian government bonds.

The balance at 31 March 2023 was equal to a nominal € 1,286 million (in line with the € 1,286 million at 31 December 2022).

The treasury portfolio allowed for optimal management of the Treasury commitments, which are characterised by a concentration of transactions in specific periods.

At 31 March 2023, the nominal amount of securities in the HTCS portfolio amounted to € 586 million (in line with the € 586 million reported at 31 December 2022) with a duration of 22.7 months (25.6 months at 31 December 2022). At 31 March 2023, the HTC portfolio amounted to € 700 million with a duration of 9.4 months (in line with the € 700 million at 31 December 2022, which had a duration of 12.3 months). At 31 March 2022, the HTC portfolio had a market value of € 1.7 million.

WHOLESALE FUNDING

At 31 March 2023, wholesale funding was about 50% of the total (45% at 31 December 2022), mainly comprising refinancing transactions with the ECB.

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 securitisations. The Bank also continues to adhere to the ABACO procedure introduced by the Bank of Italy which was expanded to include consumer credit during the Covid-19 emergency.

Regarding customer deposits, the Bank increased net deposits from private individuals in order to decrease its reliance on deposits from corporate customers, which are known to be less stable and more concentrated.

More specifically, with regard to funding through term deposits, the stock of deposits from private customers increased by € 286 million while deposits from corporate customers decreased by € 275 million.

The Bank will continue to pursue this strategy in order to increase the diversification of funding sources and to focus on the most stable ones.

At 31 March 2023, the LCR stood at 298%, compared to 271% at 31 December 2022.

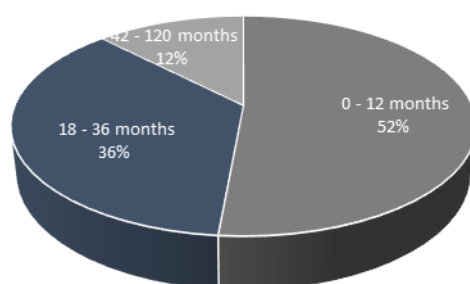
RETAIL FUNDING

Retail funding accounts for 50% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.

Total term deposits as at 31 March 2023 amounted to € 1,444 million, an increase of 0.9% compared to 31 December 2022. The above-mentioned amount also includes total term deposits of € 894 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 62% of total deposit funding), an increase of € 307 million over the same period of the previous year.

The breakdown of funding by term is shown below.

Breakdown of deposit accounts as at 31 March 2023



The average residual life is 13 months compared to 10 months in the first quarter of 2022.

Current accounts increased from 8,210 (as at 31 December 2022) to 8,601 at the end of first quarter of 2023, while the current account balance at 31 March 2023 amounted to € 438 million.

COMPOSITION AND STRUCTURE OF THE GROUP

HUMAN RESOURCES

As at 31 March 2023, the Group had a staff of 291, broken down by category as follows:

FTES	3/31/2023	12/31/2022
Senior managers	24	24
Middle managers (QD3 and QD4)	65	62
Other personnel	202	204
Total	291	290

The Group continues to provide flexible working arrangements with middle managers and employees in the professional areas having the possibility of working remotely in accordance with the law and through individual agreements signed with those requesting it. Bank employees who perform all their work in-person at the various locations will receive a special welfare credit in 2023 to compensate for the increased transport and meal costs they incur over time.

During the first quarter of 2023, 8 people were selected and hired, more than 60% of which with permanent contracts and mainly in the Factoring Division and at the Corporate Centre. Staff turnover due to voluntary resignations alone was 3%, which is in line with the trend of the last five years.

In terms of skills development, the Bank is in the process of identifying professional and technical training needs on legal and regulatory issues affecting the Bank, particularly with regard to anti-money laundering, privacy, transparency, Mifid II, related party transactions, and the improvement of English and Spanish language skills.

The Remuneration Policies for 2023 have been prepared and within these, the variable incentive system for 2023 is being developed including the setting of business and ESG targets as well as the updating of the operational policy to determine the processes, responsibilities and methods for calculating the bonus pool actually payable and the bonuses earned by key personnel.

The average age of Group employees is 47.5 for men and 43 for women. The breakdown by gender is essentially balanced with men accounting for 55.7% of the total.

INCOME STATEMENT RESULTS

Income statement (€,000)	First Quarter of 2023	First Quarter of 2022	Change	%
Net interest income	20.643	20.663	(20)	-0,1%
Net fee and commission income (expense)	4.587	3.693	894	24,2%
Dividends and similar income	-	-	-	n.a.
Net trading income (expense)	(250)	1	(251)	<100%
Net hedging result	7	-	7	n.a.
Gain from sales or repurchases of financial assets/liabilities	323	331	(8)	-2,4%
Total income	25.310	24.688	622	2,5%
Net impairment losses on loans and receivables	(1.046)	(2.307)	1.261	-54,7%
Net financial income (expense)	24.264	22.381	1.883	8,4%
Personnel expense	(7.492)	(6.588)	(904)	13,7%
Other administrative expenses	(9.030)	(8.318)	(712)	8,6%
Net accruals to provisions for risks and charges	(1.494)	(539)	(955)	>100%
Net impairment losses on property and equipment/intangible	(763)	(725)	(38)	5,2%
Other operating income (expense)	399	515	(116)	-22,5%
Operating costs	(18.380)	(15.655)	(2.725)	17,4%
Gains (losses) on equity investments	(10)	(36)	26	-72,2%
Gains (losses) on sales of investments	-	-	-	n.a.
Pre-tax profit from continuing operations	5.874	6.690	(816)	-12,2%
Income taxes for the period	(2.041)	(2.143)	102	-4,8%
Post-tax profit for the period	3.833	4.547	(714)	-15,7%
Post-tax profit (loss) from discontinued operations	-	(24)	24	-100,0%
Profit for the period	3.833	4.523	(690)	-15,3%
Profit (loss) attributable to non-controlling interests	(114)	(140)	26	-18,6%
Profit for the period attributable to the owners of the parent	3.719	4.383	(664)	-15,1%

The first quarter of 2023 ended with a profit of € 3.7 million, down from the same period of the previous year, due to a modest increase in total income despite the rise in market rates, as costs increased more sharply.

Operating costs, on the other hand, increased slightly and were mainly driven by higher provisions for risks and higher administrative expenses for new projects.

Net interest income (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	33,290	21,767	11,523	52.9%
Factoring	22,813	13,813	9,000	65.2%
CQ	5,276	4,691	585	12.5%
Collateralised lending	2,401	1,779	622	35.0%
Government-backed loans to SMEs	2,800	1,484	1,316	88.7%
Securities portfolio	5,794	600	5,194	>100%
Other	1,019	65	954	>100%
Financial liabilities	-	1,173	(1,173)	-100.0%
Total interest income	40,103	23,605	16,498	69.9%
Interest and similar expense				
Due to banks	(3,750)	(21)	(3,729)	>100%
Due to customers	(13,996)	(2,712)	(11,284)	>100%
Securities issued	(1,714)	(70)	(1,644)	>100%
Financial assets	-	(139)	139	-100.0%
Total interest expense	(19,460)	(2,942)	(16,518)	>100%
Net interest income	20,643	20,663	(20)	-0.1%

Net interest income was in line with the same period of the previous year, reflecting the good performance of the Factoring division (which includes revenue from “factoring” and “Government-backed loans to SMEs”), which offset the expected increase in the cost of funding. Interest expense, which continued to benefit from the low cost of funding in 2022, increased as a result of the ECB rate hikes, although the average cost of funding is still below the ECB rate.

The total contribution of the Factoring Division to interest income was € 25.6 million, equal to 77% of the entire loans and receivables portfolio, 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 item also includes the interest component tied to the amortised cost of eco-bonus loans amounting to € 0.5 million.

The component linked to default interest from legal action at 31 March 2023 was € 11.1 million (€ 4.1 million in the first quarter of 2022):

- of which € 3.8 million due to the increases in the ECB benchmark rates in of 2022, which caused the rate pursuant to Legislative Decree 231 of 9 October 2002 (transposition of EU directive on combating late payments) to increase from 8% to 10.5% from 1 January 2023. Following the additional rate hikes decided by the ECB in the first months of 2023, which will lead to another adjustment to the rate pursuant to Legislative Decree 231 of 9 October 2002 as from 1 July 2023, there will be a further positive impact in the coming quarters;

- of which € 5.3 million resulting from the current recovery estimates (€ 1.9 million in the first quarter of 2022);
- of which € 2 million (€ 2.2 million in the first quarter of 2022) coming from the difference between the amount collected during the period, equal to € 2.7 million (€ 3.4 million in the first quarter of 2022), and that recognised on an accruals basis in previous years.

The amount of the stock of default interest from legal actions accrued at 31 March 2023, relevant for the allocation model, was € 111.5 million (€ 104 million at the end of 2022), which becomes € 201 million when including default interest related to positions with 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 € 65 million. Therefore, the amount of default interest accrued but not recognised in the income statement is € 137 million.

The contribution of interest from the salary- and pension-backed portfolios amounted to € 5.3 million, up from the same period of the previous year due to the lower impact of portfolio prepayments and the increased contribution of new loans originated at higher rates.

The contribution of the Collateralised Lending Division grew significantly to € 2.4 million, compared to € 1.8 million in the first quarter of 2022.

The interest component from government-backed loans also had a positive and significant impact.

The increased contribution of the securities portfolio, which grew by € 5.2 million over the same period of the previous year, is related to the higher market rate and is commensurate with the higher costs of financing the repo portfolio which are included within interest expense.

The growth in interest expense is a direct consequence of the ECB interest rate hikes; however, the bank's cost of funding is still below the ECB rate on average.

Net fee and commission income (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Fee and commission income				
Factoring activities	2,916	3,236	(320)	-9.9%
Fee and commission income - off-premises CQ	1,674	2,121	(447)	-21.1%
Collateralised loans (fee and commission income)	2,569	1,836	733	39.9%
Collection activities	331	248	83	33.5%
Other fee and commission income	185	85	100	>100%
Total fee and commission income	7,675	7,526	149	2.0%
Fee and commission expense				
Factoring portfolio placement	(328)	(324)	(4)	1.2%
Placement of other financial products	(593)	(544)	(49)	9.0%
Fees - off-premises CQ	(1,656)	(2,691)	1,035	-38.5%
Other fee and commission expense	(511)	(274)	(237)	86.5%
Total fee and commission expense	(3,088)	(3,833)	745	-19.4%
Net fee and commission income	4,587	3,693	894	24.2%

Net fee and commission income, amounting to € 4.6 million, increased by 24.2%, due to a change in the method of accounting for the rappels to be paid to the agent network, which, in order to better reflect net interest income and to improve the correlation between costs and revenues, have been deferred over the expected life of the loans and receivables, resulting in a decrease in the amount of the item Fees - off premises;

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 loans business grew by € 0.7 million compared to the same period of the previous year thanks to the continuing growth of the business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are up 33.5% compared to the first quarter of 2022.

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 CQ refers to the commissions on the salary- and pension-backed loan (CQ) origination business of € 1.7 million, which should be considered together with the item Fees - off-premises CQ, amounting to € 1.7 million, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product.

Fees and commissions for the placement of financial products 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, whereas the fee and commission expense of placing the factoring portfolios is linked to the origination costs of factoring receivables, which remained in line with those reported in the same period of the previous year.

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

Gain (loss) from sales or repurchases (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Gains from HTCS portfolio debt instruments	123	15	108	>100%
Gains from receivables (Factoring portfolio)	200	316	(116)	-36,7%
Total	323	331	(8)	-2,4%

The item Gain (loss) from sales or repurchases includes net realised gains from the securities portfolio and factoring receivables, the revenue from which derives from the sale of factoring portfolios to private-sector assignors.

Impairment losses on loans and receivables at 31 March 2023 amounted to € 1.0 million (€ 2.3 million at 31 March 2022). The loss rate decreased to 0.15% at 31 March 2023 from 0.29% in 2022.

Personnel expense (€,000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Wages and salaries	(5,845)	(5,033)	(812)	16.1%
Social security contributions and other costs	(1,235)	(1,172)	(63)	5.4%
Directors' and statutory auditors' remuneration	(412)	(383)	(29)	7.6%
Total	(7,492)	(6,588)	(904)	13.7%

The increase in personnel expense is related to the release in the first quarter of 2022 of the estimated variable component of remuneration accrued in 2021 resulting from the application of the remuneration policies (which had an impact of € 0.7 million compared to €0.2 million in 2023), as well as an increase in the average number of staff from 277 to 290.

Other administrative expenses (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Consultancy	(1,301)	(835)	(466)	55.8%
IT expenses	(1,767)	(1,575)	(192)	12.2%
Servicing and collection activities	(442)	(786)	344	-43.8%
Indirect taxes and duties	(667)	(890)	223	-25.1%
Insurance	(334)	(205)	(129)	62.9%
Other	(262)	(210)	(52)	24.8%
Expenses related to management of the SPVs	(109)	(146)	37	-25.3%
Outsourcing and consultancy expenses	(122)	(144)	22	-15.3%
Car hire and related fees	(173)	(125)	(48)	38.4%
Advertising and communications	(545)	(123)	(422)	343.1%
Expenses related to property management and logistics	(663)	(677)	14	-2.1%
Personnel-related expenses	(37)	(19)	(18)	94.7%
Entertainment and expense reimbursement	(162)	(75)	(87)	116.0%
Infoprovder expenses	(149)	(192)	43	-22.4%
Membership fees	(122)	(141)	19	-13.5%
Audit fees	(96)	(90)	(6)	6.7%
Telephone and postage expenses	(120)	(140)	20	-14.3%
Stationery and printing	(39)	(25)	(14)	56.0%
Total operating expenses	(7,110)	(6,398)	(712)	11.1%
Resolution Fund	(1,920)	(1,920)	-	0.0%
Merger-related costs	-	-	-	n.a.
Total	(9,030)	(8,318)	(712)	8.6%

Administrative expenses increased slightly compared to the same period of the last year, with increases in some cost items offset by reductions in others.

Servicing and collection activities decreased due to the reduction in costs for the collection of factoring receivables.

IT expenses consist of costs for services rendered by the IT outsourcer providing the legacy services and costs related to the IT infrastructure, which are increasing due to higher investments related to the digitalisation project of the pawn product.

Consultancy expenses consist mainly of costs incurred for legal expenses related to pending legal claims made and enforceable injunctions for the recovery of receivables and default interest from debtors of the Public Administration.

Expenses for indirect taxes and duties increased as a result of higher contributions paid for enforceable injunctions against public administration debtors.

The increase in Advertising expenses relates to costs incurred for advertising campaigns to promote the Bank's funding products.

Net impairment losses on property and equipment/intangible assets (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Depreciation of buildings used for operations	(204)	(161)	(43)	26.7%
Depreciation of furniture and equipment	(93)	(72)	(21)	29.2%
Amortisation of value in use	(373)	(418)	45	-10.8%
Amortisation of software	(83)	(68)	(15)	22.1%
Amortisation of other intangible assets	(10)	(6)	(4)	66.7%
Total	(763)	(725)	(38)	5.2%

The impairment losses on property and equipment/intangible assets are the result of higher depreciation and amortisation for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16.

Other operating income (expense) (€,'000)	First Quarter of 2023	First Quarter of 2022	€ Change	% Change
Auction buyer's premiums	143	198	(55)	-27.8%
Recovery of expenses and taxes	177	255	(78)	-30.6%
Amortisation of multiple-year improvement costs	(136)	(75)	(61)	81.3%
Other income (expense)	19	26	(7)	-26.9%
Contingent assets and liabilities	196	111	85	76.6%
Total	399	515	(116)	-22.5%

The total of the item decreased because of lower recoveries and higher charges from the amortisation of multiple-year improvement costs.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

Assets (€,'000)	31.03.2023	31.12.2022	Change	%
Cash and cash equivalents	53.068	126.589	(73.521)	-58,1%
Financial assets measured at fair value through profit or loss	-	-	-	n.a.
Financial assets measured at fair value through other comprehensive income	562.978	558.384	4.594	0,8%
Financial assets measured at amortised cost	3.597.864	3.530.678	67.186	1,9%
a) loans and receivables with banks	17.310	34.917	(17.607)	-50,4%
b1) loans and receivables with customers - loans	2.894.867	2.814.729	80.138	2,8%
b2) loans and receivables with customers - debt instruments	685.687	681.032	4.655	0,7%
Changes in fair value of portfolio hedged items (+/-)	1.241	-	1.241	n.a.
Equity investments	960	970	(10)	-1,0%
Property and equipment	42.284	43.374	(1.090)	-2,5%
Intangible assets	34.517	34.516	1	0,0%
<i>of which: goodwill</i>	33.526	33.526	-	0,0%
Tax assets	35.116	24.861	10.255	41,2%
Non-current assets held for sale and disposal groups	41	40	1	2,5%
Other assets	63.319	77.989	(14.670)	-18,8%
Total assets	4.391.388	4.397.401	(6.013)	-0,1%

The quarter ended 31 March 2023 closed with total assets in line with the end of 2022 and equal to € 4.4 billion.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS") of the Group continues to be mainly comprised of Italian government bonds with an average duration of about 22.7 months (the average remaining duration at the end of 2022 was 25.6 months). The nominal amount of the government bonds held in the HTCS portfolio amounted to € 586 million at 31 March 2023 (€ 586 million at 31 December 2022). The associated valuation reserve was negative at the end of the period, amounting to € 32 million before the tax effect.

Loans and receivables with customers (€,000)	31.03.2023	31.12.2022	€ Change	% Change
Factoring receivables	1,575,787	1,501,353	74,434	5.0%
Salary-/pension-backed loans (CQS/CQP)	902,957	933,200	(30,243)	-3.2%
Collateralised loans	109,341	106,749	2,592	2.4%
Loans to SMEs	189,500	196,909	(7,409)	-3.8%
Current accounts	473	289	184	63.7%
Compensation and Guarantee Fund	113,038	72,510	40,528	55.9%
Other loans and receivables	3,771	3,719	52	1.4%
Total loans	2,894,867	2,814,729	80,138	2.8%
Securities	685,687	681,032	4,655	0.7%
Total loans and receivables with customers	3,580,554	3,495,761	84,793	2.4%

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 54% (53% at the end of 2022). The volumes generated during the quarter amounted to € 1,069 million (€ 983 million at 31 March 2022).

Salary- and pension-backed loans were largely unchanged from the end of the previous year, with volumes disbursed directly by the agent network amounting to € 37 million (€ 43 million at the end of the first quarter of 2022).

Government-backed loans to small and medium-sized enterprises fell slightly to € 189.5 million as a result of fewer new loans being disbursed.

The collateralised lending business, which is conducted through the Kruso Kapital subsidiary, remained stable, with loans granted as of 31 March 2023 amounting to € 109 million.

HTC Securities are composed entirely of Italian government securities with an average duration of 9.4 months for an amount of € 700 million. The mark-to-market valuation of the securities at 31 March 2022 shows a pre-tax unrealised gain of € 1.7 million.

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

Status	3/31/2022	6/30/2022	9/30/2022	12/31/2022	3/31/2023
Bad exposures - gross	169,060	166,825	167,047	170,369	173,944
Unlikely to pay - gross	48,816	46,845	33,743	32,999	34,474
Past due - gross	101,603	77,507	90,948	81,449	67,432
Non-performing - gross	319,479	291,177	291,738	284,817	275,850
Performing - gross	2,609,812	2,727,798	2,732,517	2,598,125	2,686,758
Stage 2 - gross	101,406	115,021	112,285	112,799	109,587
Stage 1 - gross	2,508,406	2,612,777	2,620,232	2,485,326	2,577,171
Total loans and receivables with customers	2,929,291	3,018,975	3,024,255	2,882,942	2,962,608
Individual impairment losses	61,959	61,581	60,410	61,727	62,203
Bad exposures	48,922	47,758	46,205	47,079	47,334
Unlikely to pay	12,384	13,201	13,379	13,750	13,780
Past due	653	622	826	898	1,089
Collective impairment losses	6,677	7,872	6,175	6,486	5,538
Stage 2	556	626	1,600	1,993	689
Stage 1	6,121	7,246	4,575	4,493	4,849
Total impairment losses	68,636	69,453	66,585	68,213	67,741
Net exposure	2,860,655	2,949,522	2,957,670	2,814,729	2,894,867

The ratio of gross non-performing loans to the total portfolio decreased to 9.3% compared to 9.9% at 31 December 2022, following the decrease in past due loans, which remain high because of the entry into force of the new definition of default on 1 January 2021 ("New DoD"). Past due loans are associated with factoring receivables without recourse from Public Administration and are considered normal for the sector. Despite the new technical rules used to report past due loans for regulatory purposes, this continues not to pose particular problems in terms of credit quality and probability of collection.

The coverage ratio for non-performing loans is 22.5%, up from 21.7% on 31 December 2022; excluding the component relating to municipalities in financial difficulty, which for regulatory purposes is classified as bad debt, although both principal and default interest are in fact recoverable, the coverage ratio is 87.6%.

Property and equipment includes the property located in Milan, which is also being used as Banca Sistema's offices, and the building in Rome. The carrying amount of the properties, including capitalised items, is € 35.2 million after accumulated depreciation. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments of the branches and company cars.

Intangible assets refer to goodwill of € 33.5 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 € 28.4 million arising from the acquisition of the former Intesa Sanpaolo collateralised lending business unit completed on 13 July 2020.
- provisional goodwill of € 1.2 million, resulting from the acquisition of ArtRite which was completed on 2 November 2022.

The investment recognised in the financial statements relates to the 50/50 joint venture with EBN Banco de Negocios S.A. in EBNSISTEMA. Banca Sistema acquired an equity investment in EBNSISTEMA through a capital increase of € 1 million which gave the Bank a 50% stake in the Madrid-based company. The aim of the joint venture is to develop the Public Administration factoring business in the Iberian peninsula, with its core business being the purchase of healthcare receivables. At the end of first quarter of 2023, EBNSISTEMA originated € 30 million in loans and receivables, an increase of € 20 million on the end of the first quarter of 2022.

Non-current assets held for sale and disposal groups include the assets of SF Trust Holding, which was put into liquidation in December 2021.

Other assets mainly include amounts being processed after the end of the period and advance tax payments. The item includes tax credits from the "Eco-Sisma bonus 110" amounting to € 41.5 million at 31 March 2023.

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

Liabilities and equity (€,'000)	31.03.2023	31.12.2022	Change	%
Financial liabilities measured at amortised cost	3,874,634	3,916,974	(42,340)	-1.1%
a) due to banks	930,511	622,865	307,646	49.4%
b) due to customers	2,828,666	3,056,210	(227,544)	-7.4%
c) securities issued	115,457	237,899	(122,442)	-51.5%
Hedging derivatives	1,234	-	1,234	n.a.
Tax liabilities	19,542	17,023	2,519	14.8%
Liabilities associated with disposal groups	13	13	-	0.0%
Other liabilities	190,928	166,896	24,032	14.4%
Post-employment benefits	4,317	4,107	210	5.1%
Provisions for risks and charges	37,700	36,492	1,208	3.3%
Valuation reserves	(21,614)	(24,891)	3,277	-13.2%
Reserves	216,174	194,137	22,037	11.4%
Equity instruments	45,500	45,500	-	0.0%
Equity attributable to non-controlling interests	10,149	10,024	125	1.2%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(559)	(559)	-	0.0%
Profit for the period	3,719	22,034	(18,315)	-83.1%
Total liabilities and equity	4,391,388	4,397,401	(6,013)	(0)

Wholesale funding, which represents about 50% of the total (45% at 31 December 2022), increased in absolute terms from the end of 2022 mainly following the increase in funding through repurchase agreements and inter-bank deposits. The contribution of bond funding to total wholesale funding was 6% (16% at the end of 2022).

Due to banks (€,000)	31.03.2023	31.12.2022	€ Change	% Change
Due to Central banks	541,058	537,883	3,175	0.6%
Due to banks	389,453	84,982	304,471	>100%
Current accounts with other banks	176,400	68,983	107,417	>100%
Deposits with banks (repurchase agreements)	192,053	-	192,053	n.a.
Financing from other banks	21,000	15,999	5,001	31.3%
Other amounts due to banks	-	-	-	n.a.
Total	930,511	622,865	307,646	49.4%

The item "Due to banks" increased by 49.4% compared to 31 December 2022, as a result of an increase in borrowing from the interbank deposit market and repurchase agreements with bank counterparties compared to 31 December 2022.

Due to customers (€,000)	31.03.2023	31.12.2022	€ Change	% Change
Term deposits	1,444,282	1,431,548	12,734	0.9%
Financing (repurchase agreements)	822,030	865,878	(43,848)	-5.1%
Financing - other	66,584	66,166	418	0.6%
Customer current accounts	437,649	639,266	(201,617)	-31.5%
Due to assignors	53,183	48,542	4,641	9.6%
Other payables	4,938	4,810	128	2.7%
Total	2,828,666	3,056,210	(227,544)	-7.4%

The item "Due to customers" decreased compared to the end of the previous year reflecting a decrease in funding from bank accounts. The period-end amount of term deposits increased from the end of 2022 (+1.7%), reflecting net positive funding (net of interest accrued) of € 12 million; gross deposits from the beginning of the year were € 523 million, against repayments totalling € 512 million.

"Due to assignors" includes payables related to the unfunded portion of acquired receivables.

Bonds issued (€,000)	31.03.2023	31.12.2022	€ Change	% Change
Bond - AT1	45,500	45,500	-	0.0%
Bond - Tier II	-	-	-	n.a.
Bonds - other	69,957	192,399	(122,442)	-63.6%

The value of bonds issued decreased compared to 31 December 2022 due to the repayments of the senior shares of the ABS financed by third-party investors.

Bonds issued at 31 March 2023 are as follows:

- AT1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 June 2023 at 7% issued on 18 December 2012 and 18 December 2013 (reopening date);
- AT1 subordinated loan of € 37.5 million, with no maturity (perpetual basis) and a fixed coupon until 25 June 2031 at 9% issued on 25 June 2021.

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.

All AT1 instruments, based on their main characteristics, are classified under equity item 140 "Equity instruments".

The provision for risks and charges of € 37.7 million includes the provision for possible liabilities attributable to past acquisitions of € 1.1 million, the estimated amount of personnel-related charges mainly for the portion of the bonus for the period, the deferred portion of the bonus accrued in previous years, and the estimates related to the non-compete agreement and the 2022 retention plan, totalling € 5.8 million (the item includes the estimated variable and deferred components, accrued but not paid). The provision also includes an estimate of charges related to possible liabilities to assignors that have yet to be settled and other estimated charges for ongoing lawsuits and legal disputes amounting to € 13.2 million. With reference to the CQ portfolio (Salary- and Pension-Backed Loans), there is also a provision for claims, a provision for the estimated negative effect of possible early repayments on existing portfolios and portfolios sold, as well as repayments related to the Lexitor sentence amounting to € 12.4 million.

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

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
Profit (loss)/equity of the parent	3,347	252,336
Assumption of value of investments	-	(44,191)
Consolidated profit (loss)/equity	489	54,875
Gain (loss) on equity investments	(3)	-
Adjustment to profit (loss) from discontinued operations	-	-
Equity attributable to the owners of the parent	3,833	263,020
Equity attributable to non-controlling interests	(114)	(10,149)
Profit (loss)/equity of the Group	3,719	252,871

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	31.03.2023	31.12.2022	31.12.2022 Fully loaded
Common Equity Tier 1 (CET1)	169,774	174,974	164,238
ADDITIONAL TIER 1	45,500	45,500	45,500
Tier 1 capital (T1)	215,274	220,474	209,738
TIER2	196	194	194
Total Own Funds (TC)	215,470	220,668	209,931
Total risk-weighted assets	1,412,519	1,385,244	1,382,804
of which, credit risk	1,223,706	1,196,431	1,193,991
of which, operational risk	188,813	188,813	188,813
Ratio - CET1	12.0%	12.6%	11.9%
Ratio - T1	15.2%	15.9%	15.2%
Ratio - TCR	15.3%	15.9%	15.2%

Total regulatory own funds were € 215 million at 31 March 2023 and included the profit, net of dividends estimated on the profit for the period which were equal to a pay-out of 25% of the Parent's profit. For comparison purposes, this figure is to be compared with the fully loaded figure, meaning without applying the mitigating measure provided for under Article 468 of the Capital Requirements Regulation (CRR). In this regard, the neutralisation of all or part of the reserve (HTCS) on government bonds will be the topic of discussion in the European Trilogue, on which Ecofin has already proposed a 100% neutralisation. This change, if approved, would enter into force with its publication in the Official Journal in autumn 2023.

The CET1 ratio compared to the fully loaded figure at 31 December 2022 improved as a result of lower credit RWA as well as an improvement in the negative OCI reserve on government bonds.

The Group's new consolidated capital requirements, which came into effect on 30 June 2022, are as follows:

- CET1 ratio of 9.00%;
- TIER1 ratio of 10.55%;
- Total Capital Ratio of 12.50%.

The reconciliation of equity and CET1 is provided below:

	31.03.2023	31.12.2022
Share capital	9.651	9.651
Equity instruments	45.500	45.500
Income-related and share premium reserve	216.174	194.137
Treasury shares (-)	(559)	(559)
Valuation reserves	(21.614)	(24.891)
Profit	3.719	22.034
Equity attributable to the owners of the parent	252.871	245.872
Dividends distributed and other foreseeable expenses	(837)	(5.227)
Equity assuming dividends are distributed to shareholders	252.034	240.645
Regulatory adjustments	(44.979)	(39.641)
Eligible equity attributable to non-controlling interests	8.219	8.734
Equity instruments not eligible for inclusion in CET1	(45.500)	(45.500)
Common Equity Tier 1 (CET1)	169.774	164.238

OTHER INFORMATION

RESEARCH AND DEVELOPMENT ACTIVITIES

No research and development activities were carried out in 2023.

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 2023, 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

The ordinary Shareholders' Meeting of Banca Sistema S.p.A. held on single call on 28 April 2023, resolved to approve the separate financial statements at 31 December 2022 and pay a dividend of € 0.065 per ordinary share for 2022 from 10 May 2023, with ex-dividend date of 8 May 2023.

As envisaged by the remuneration and incentive policies of key personnel, 112,915 shares were handed over at the end of April. As a result, Banca Sistema now holds 168,004 treasury shares, equal to 0.21% of share capital and amounting to € 334,072.

After the reporting date of this 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 increase in the cost of funding, driven by the current market environment, was not fully passed through the yield of the portfolios of originated loans, as a portion of the CQ portfolio (Salary- and Pension-Backed Loans) is at a fixed rate, and therefore there was no increase in net interest income compared to the same period of the previous year.

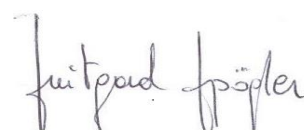
A gradual increase in the profitability of newly originated loans is expected in the coming quarters. The overall result of 2023 will be influenced by transactions the outcome of which depends, among other things, on economic and market trends, the dynamics of which are still uncertain.

Milan, 12 May 2023

On behalf of the Board of Directors

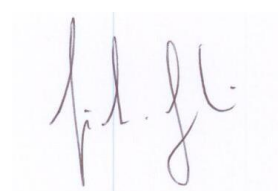
The Chairperson

Luitgard Spögler



The CEO

Gianluca Garbi



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

Assets		31.03.2023	31.12.2022
10.	Cash and cash equivalents	53,068	126,589
30.	Financial assets measured at fair value through other comprehensive income	562,978	558,384
40.	Financial assets measured at amortised cost	3,597,864	3,530,678
erso ba	a) loans and receivables with banks	17,310	34,917
	b) loans and receivables with customers	3,580,554	3,495,761
60.	Changes in fair value of portfolio hedged items (+/-)	1,241	-
70.	Equity investments	960	970
90.	Property and equipment	42,284	43,374
100.	Intangible assets	34,517	34,516
	of which:	-	-
	goodwill	33,526	33,526
110.	Tax assets	35,116	24,861
	a) current	13,575	2,136
ite	b) deferred	21,541	22,725
120.	Non-current assets held for sale and disposal groups	41	40
130.	Other assets	63,319	77,989
Total Assets		4,391,388	4,397,401

Liabilities and equity		31.03.2023	31.12.2022
10.	Financial liabilities measured at amortised cost	3,874,634	3,916,974
so banche	a) due to banks	930,511	622,865
	b) due to customers	2,828,666	3,056,210
colazione	c) securities issued	115,457	237,899
40.	Hedging derivatives	1,234	-
60.	Tax liabilities	19,542	17,023
	a) current	314	236
	b) deferred	19,228	16,787
70.	Liabilities associated with disposal groups	13	13
80.	Other liabilities	190,928	166,896
90.	Post-employment benefits	4,317	4,107
100.	Provisions for risks and charges:	37,700	36,492
	a) commitments and guarantees issued	26	24
per rischi e	c) other provisions for risks and charges	37,674	36,468
120.	Valuation reserves	(21,614)	(24,891)
140.	Equity instruments	45,500	45,500
150.	Reserves	177,074	155,037
160.	Share premium	39,100	39,100
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(559)	(559)
190.	Equity attributable to non-controlling interests (+/-)	10,149	10,024
200.	Profit for the year	3,719	22,034
Total liabilities and equity		4,391,388	4,397,401

INCOME STATEMENT

(Amounts in thousands of Euro)

		First Quarter of 2023	First Quarter of 2022
10.	Interest and similar income	40.103	23.605
	of which: interest income calculated with the effective interest method	37.704	21.329
20.	Interest and similar expense	(19.460)	(2.942)
30.	Net interest income	20.643	20.663
40.	Fee and commission income	7.675	7.526
50.	Fee and commission expense	(3.088)	(3.833)
60.	Net fee and commission income (expense)	4.587	3.693
70.	Dividends and similar income	-	-
80.	Net trading income (expense)	(250)	1
90.	Net gains (losses) on hedge accounting	7	-
100.	Gain (loss) from sales or repurchases of:	323	331
	a) financial assets measured at amortised cost	200	316
	b) financial assets measured at fair value through other comprehensive income	123	15
	c) financial liabilities	-	-
120.	Total income	25.310	24.688
130.	Net impairment losses/gains on:	(1.046)	(2.307)
	a) financial assets measured at amortised cost	(1.046)	(2.251)
	b) financial assets measured at fair value through other comprehensive income	-	(56)
140.	Gains/losses from contract amendments without derecognition	-	-
150.	Net financial income (expense)	24.264	22.381
190.	Administrative expenses	(16.522)	(14.906)
	a) personnel expense	(7.492)	(6.588)
	b) other administrative expenses	(9.030)	(8.318)
200.	Net accruals to provisions for risks and charges	(1.494)	(539)
	a) commitments and guarantees issued	(2)	(1)
	b) other net accruals	(1.492)	(538)
210.	Net impairment losses on property and equipment	(670)	(652)
220.	Net impairment losses on intangible assets	(93)	(73)
230.	Other operating income (expense)	399	515
240.	Operating costs	(18.380)	(15.655)
250.	Gains (losses) on equity investments	(10)	(36)
280.	Gains (losses) on sales of investments	-	-
290.	Pre-tax profit (loss) from continuing operations	5.874	6.690
300.	Income taxes	(2.041)	(2.143)
310.	Post-tax profit from continuing operations	3.833	4.547
320.	Post-tax profit (loss) from discontinued operations	-	(24)
330.	Profit for the period	3.833	4.523
340.	Profit (Loss) for the year attributable to non-controlling interests	(114)	(140)
350.	Profit for the period attributable to the owners of the parent	3.719	4.383

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		First Quarter of 2023	First Quarter of 2022
10.	Profit (loss) for the year	3,719	4,383
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
70.	Defined benefit plans	(56)	171
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	3,333	(4,436)
170.	Total other comprehensive income (expense), net of income tax	3,277	(4,265)
180.	Comprehensive income (Items 10+170)	6,996	118
190.	Comprehensive income attributable to non-controlling interests	-	-
200.	Comprehensive income attributable to the owners of the parent	6,996	118

STATEMENT OF CHANGES IN EQUITY AT 31/03/2023

Amounts in thousands of Euro

	Balance at 31.12.2022	Change in opening balances	Balance at 1.1.2023	Allocation of prior year profit		Changes during the year							Equity attributable to the owners of the parent at 31.03.2023	Equity attributable to non-controlling interests at 31.03.2023
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on equity					Comprehensive income for First Quarter of 2023		
								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
Share capital:														
a) ordinary shares	9,651		9,651											9,651
b) other shares														
Share premium	39,100		39,100											39,100
Reserves	155,037		155,037	22,034		3								177,074
a) income-related	153,332		153,332	22,034		(2)								175,364
b) other	1,705		1,705			5								1,710
Valuation reserves	(24,891)		(24,891)									3,277		(21,614)
Equity instruments	45,500		45,500											45,500
Treasury shares	(559)		(559)											(559)
Profit (loss) for the year	22,034		22,034	(22,034)								3,719		3,719
Equity attributable to the owners of	245,872		245,872			3						6,996	252,871	
Equity attributable to non-controllir	10,024		10,024									125		10,149

STATEMENT OF CHANGES IN EQUITY AT 31/03/2022

Amounts in thousands of Euro

	Balance at 31.12.2021	Change in opening balances	Balance at 1.1.2022	Allocation of prior year profit		Changes during the year							Comprehensive income for First Quarter of 2022	Equity attributable to the owners of the parent at 31.03.2022	Equity attributable to non-controlling interests at 31.03.2022	
				Reserves	Dividends and other allocations	Changes in reserves	Transactions on equity									
							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
Share capital:																
a) ordinary shares	9,651		9,651											9,651		
b) other shares																
Share premium	39,100		39,100											39,100		
Reserves	141,528		141,528	23,251		(5)								164,774		
a) income-related	138,857		138,857	23,251		(3)								162,105		
b) other	2,671		2,671			(2)								2,669		
Valuation reserves	(3,067)		(3,067)										(4,265)	(7,332)		
Equity instruments	45,500		45,500											45,500		
Treasury shares							(1,378)									
Profit (loss) for the year	23,251		23,251	(23,251)									4,383	4,383		
Equity attributable to the owners of	255,963		255,963			(5)	(1,378)						118	254,698		
Equity attributable to non-controllin	9,569		9,569									139		9,708		

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

Amounts in thousands of Euro

	Amount First Quarter of 2023	First Quarter of 2022
A. OPERATING ACTIVITIES		
1. Operations	1,387	11,317
Profit (loss) for the year (+/-)	3,719	4,383
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/gains due to credit risk (+/-)	1,046	2,251
Net impairment losses/gains on property and equipment and intangible assets (+/-)	763	725
Net accruals to provisions for risks and charges and other costs/income (+/-)	1,494	539
Taxes, duties and tax assets not yet paid (+/-)	(8,713)	(10,271)
Other adjustments (+/-)	3,078	13,690
2. Cash flows generated by (used for) financial assets	(36,176)	(242,550)
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	(3,196)	(133,468)
Financial assets measured at amortised cost	(53,675)	(117,408)
Other assets	20,695	8,326
3. Cash flows generated by (used for) financial liabilities	(38,627)	277,039
Financial liabilities measured at amortised cost	(55,868)	307,064
Financial liabilities held for trading		
Financial liabilities designated at fair value through profit or loss		
Other liabilities	17,241	(30,025)
Net cash flows generated by (used for) operating activities	(73,416)	45,806
B. INVESTING ACTIVITIES	-	-
1. Cash flows generated by	-	37
Sales of equity investments		37
Dividends from equity investments		
Sales of property and equipment		
Sales of intangible assets		
Sales of business units		
2. Cash flows used in	(105)	(710)
Purchases of equity investments		
Purchases of property and equipment	(27)	(150)
Purchases of intangible assets	(78)	(560)
Purchases of business units		
Net cash flows generated by (used in) investing activities	(105)	(673)
C. FINANCING ACTIVITIES	-	-
Issues/repurchases of treasury shares		(1,378)
Issues/repurchases of equity instruments		
Dividend and other distributions		
Net cash flows generated by (used in) financing activities	-	(1,378)
NET CASH FLOWS FOR THE PERIOD	(73,521)	43,755
Cash and cash equivalents at the beginning of the year	126,589	175,835
Total net cash flows for the year	(73,521)	43,755
Cash and cash equivalents: effect of change in exchange rates		
Cash and cash equivalents at the end of the period	53,068	219,590

ACCOUNTING POLICIES

GENERAL BASIS OF PREPARATION

This interim consolidated financial report at 31 March 2023 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 31 March 2023 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 2022.

This interim consolidated financial report at 31 March 2023 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

Section 2 - General basis of preparation

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 provisions 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 2022, to which reference is made.

Other aspects

The interim consolidated financial report was approved on 11 May 2023 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 31 March 2023 is consistent with the company documents, books and accounting records.

Milan, 12 May 2023

Alexander Muz

Manager in charge of financial reporting

A handwritten signature in black ink, appearing to read "Alexander Muz". The signature is written in a cursive style with a large initial "A".