MINUTES OF THE ORDINARY SHAREHOLDERS' MEETING

OF BANCA SISTEMA S.P.A. HELD ON 18 APRIL 2019

In the year two thousand and nineteen, on the eighteenth of April, in Milan, Largo Augusto 1/A, corner of via Verziere 13, at the registered office of Banca Sistema S.p.A., at 10:05 am on request of the Board of Directors of the Company, the Ordinary Shareholders' Meeting of “Banca Sistema S.p.A.” with registered office in Milan, Largo Augusto 1/A, corner of via Verziere 13, share capital € 9,650,526.24 fully paid-in, divided into 80,421,052 shares with nominal amount of € 0.12 each, Tax Code and registration with the Milan Monza Brianza Lodi Companies' Register no. 12870770158 (R.E.A. MI-1619654) (hereinafter also the “**Bank**”) was held, on single call, to discuss and resolve on the following

agenda:

1. Approval of the Separate Financial Statements of Banca Sistema S.p.A. at 31 December 2018. Presentation of the Consolidated Financial Statements at 31 December 2018. Reports of the Directors, the Board of Statutory Auditors and the Independent Auditors. Relating and resulting resolutions.

2. Allocation of the profit for the year 2018. Relating and resulting resolutions.

3. Appointment of a Director pursuant to article 2386 of the Italian Civil Code. Relating and resulting resolutions.

4. Appointment of the Independent Auditors and determination of their fee. Relating and resulting resolutions.

5. Approval of the Remuneration Policies of the Banca Sistema

Group for 2019 and setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for the CEO and General Manager. Relating and resulting resolutions.

6. Remuneration Report: resolution pursuant to article 123-ter, paragraph 6, of Legislative Decree no. 58 of 24 February 1998 as amended and supplemented.

7. Authorisation for the purchase and disposal of treasury shares. Relating and resulting resolutions.

Pursuant to article 8.10 of the Articles of Association in force, the meeting is chaired by the Chairperson of the Board of Directors, Ms. Luitgard Spögler, who invites, following unanimous designation by the share capital attending, Ms. Laura Cavallotti, Notary in Milan, to act as secretary and take the minutes of this ordinary shareholders' meeting by private instrument.

The Chairperson then notes that:

- this meeting was duly called on single call pursuant to the law and article 8 of the Articles of Association with a notice published at the registered office of Banca Sistema, on the authorised storage mechanism 1Info at www.1info.it, on the website of the Bank www.bancasistema.it - section governance/Shareholder's Meeting documentation - Ordinary Shareholders' Meeting 18 April 2019, as well as with notice published in excerpt form on 18 March 2019 on the daily newspaper “Il Giornale”;

- for the Board of Directors, the meeting is attended:

the undersigned Luitgard Spögler, Chairperson of the Board of Directors, Gianluca Garbi, CEO and General Manager, Giovanni Puglisi, Deputy Chairperson and the Directors Daniele Pittatore, Laura Ciambellotti and

Federico Ferro-Luzzi;

- for the Board of Statutory Auditors, the meeting is attended by Massimo Conigliaro, Chairperson of the Board of Statutory Auditors, and by Lucia Abati and Biagio Verde, Standing Auditors.

- the meeting is attended, personally or by proxy, by 47 (forty-seven) shareholders representing 42,079,938 (forty-two million seventy-nine thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each, out of 80,421,052 ordinary shares issued, with nominal amount of € 0.12 (zero point twelve) each.

On 9 April 2019 ("record date"), the Bank held 104,661 (one hundred four thousand six hundred sixty-one) treasury shares, equal to 0.13% (zero point thirteen percent) of the share capital.

The list with the names of the shareholders attending the meeting, personally or by proxy, the indication of the number of shares represented and the delegating parties, is attached to the minutes of today's meeting as Annex "A".

The Chairperson notes that, for the purposes of attendance at today's meeting, for the above-mentioned shares, the notifications specified by the law in force for attendance at the shareholders' meeting were sent by the relevant intermediaries and compliance with legal provisions of the proxies issued has been established.

She therefore declares today's meeting validly established on single call.

The Chairperson notes that:

- to deal with the technical requirements of the proceedings, some senior managers and employees of the Bank are present in the room;

- today's meeting will take place according to the provisions of the Regulations for Shareholders' Meetings.

The Chairperson invites those who need to leave the room during the meeting to inform the secretary and the accreditation desk near the entrance of the room.

The Chairperson also invites those who need to leave the room during the meeting, to avoid leaving at the time of the vote, to facilitate the calculation of the quorum.

The Chairperson reminds the participants that pursuant to article 6.4 and article 6.5 of the Regulations for Shareholders' Meetings:

- requests to speak on individual items on the agenda may be submitted, after the debate is opened and following reading of the item on the agenda in respect of which the entitled individual in question wishes to speak on, but before the Chairperson declares the debate on such item closed. Individuals with a right to speak intending to take the floor must submit a request to the Chairperson, providing their own name and the name of the shareholder they represent, if any. Said request must be made by raising a hand, should the Chairperson not have arranged for a written request procedure.

In the case where requests to take the floor are made by the raising of hands, the Chairperson shall grant the floor to the person who first raises his hand; in the case where it is not possible to determine precisely who was the first to raise his or her hand, the Chairperson shall grant the floor in accordance with the order established by the Chairperson herself, at her sole discretion.

In the event where written requests to take the floor are required, the

Chairperson shall grant the floor in accordance with the order in which requests to speak were received;

- the Chairperson of the Shareholders' Meeting is in charge of conducting the meeting, ensuring the correctness of the discussion and the right of individuals to speak. The Chairperson, taking into account the nature and importance of individual items on the agenda, shall grant each speaker a time period of no more than 10 minutes to take the floor. After the allotted time, the Chairperson may invite persons with the right to speak to conclude within the next 5 minutes. If the speech is not yet concluded, the Chairperson will proceed pursuant to article 6.7(a) of the Regulations for Shareholders' Meetings: to maintain the order in the meeting and guarantee the correct execution of the proceedings and prevent any abuse of the right to speak, she may take the floor back if an entitled person speaks out of order, or continues to speak beyond the time allotted pursuant to the Regulations.

A reply will be provided - by the Chairperson, the CEO, other Directors, the Statutory Auditors or employees of the Bank - after each speech or at the end of all speeches on each item on the agenda. Pursuant to article 6.9 of the Regulations for Shareholders' Meetings, the meeting may be suspended up to a maximum of two hours to allow the responses to the speeches to be prepared. After the responses, those who have asked the floor will be allowed a short reply. When nobody else wishes to address the Meeting, answer or make any reply, the Chairperson will declare the discussion closed.

The Chairperson also reminds the participants that, pursuant to article 3.5 of the Regulations for Shareholders' Meetings, the use of photo or video equipment and similar, recording devices of any kind and mobile phones with camera is not allowed on the premises.

Based on the available information and pursuant to the provisions in force issued by CONSOB, the Chairperson announces that the list indicating the names of the shareholders holding shares with voting rights exceeding 5% of the share capital, the number of ordinary shares held by each and the percentage of share capital held is the following:

- **Società di gestione delle partecipazioni in Banca Sistema S.r.l.** ("SGBS"), holder of 23.10% (twenty-three point ten percent) of the ordinary shares, corresponding to 18,578,900 (eighteen million five hundred seventy-eight thousand nine hundred) ordinary shares with nominal amount of € 0.12 (zero point twelve) each;
- **Fondazione Sicilia**, holder of 7.40% (seven point forty percent) of the ordinary shares, corresponding to 5,950,104 (five million nine hundred fifty thousand one hundred and four) ordinary shares with nominal amount of € 0.12 (zero point twelve) each;
- **Fondazione Cassa di Risparmio di Alessandria**, holder of 7.91% (seven point ninety-one percent) of the ordinary shares, corresponding to 6,361,731 (six million three hundred sixty-one thousand seven hundred and thirty-one) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

The Chairperson states as follows:

- the participants in today's meeting have been asked to declare any exclusion and/or limitation of voting rights, pursuant to the relevant provisions in force. No participant has issued a declaration in this respect;
- with the support of the relevant Bank departments and based on the

available information, the Chairperson has carried out the controls on the admission to the vote of the attending shareholders, who were asked to declare any exclusion from the vote pursuant to the legal and supervisory provisions in force and, as the attending shareholders have declared, there are no cases of exclusion from voting rights;

- there are no additional circumstances that may prevent or limit the exercise of voting rights;

- in the notice of call of this meeting, the shareholders have been informed of the procedures to cast their vote by post, making also available on the website of Banca Sistema the ballots for the exercise of the vote;

- postal ballots have not been received;

- the personal data of the participants will be processed in the forms and within the limits related to the obligations and the purposes specified by the provisions in force; - the meeting is recorded in audio format for minute-taking purposes;

- Computershare S.p.A., with registered office in Milan, Via Lorenzo Mascheroni 19, was appointed as Designated Proxy Holder pursuant to article 135-undecies of the Consolidated Law on Finance; the form prepared by this Designated Proxy Holder together with the Bank was published on the website of the Bank;

- the identity and entitlement of the participants has been verified;

- the participants are able to follow the meeting to report in the minutes; any sound issue should be reported to the secretary desk, located at the entrance of the room;

- the participants are able to take part in the discussion and vote on the topics on the agenda in real time;

- shareholders have been able to request a copy of the documentation indicated in the items on the agenda;

- no shareholder has exercised the right to ask questions on the items on the agenda of the meeting pursuant to article 127-ter of the Consolidated Law on Finance;

- the Bank has not received requests for the addition of items on the agenda or draft resolutions on items on the agenda pursuant to article 126-bis of the Consolidated Law on Finance and article 8.4 of the Articles of Association of the Bank.

The Chairperson notes that, pursuant to article 7.4 of the Regulations for Shareholders' Meetings, special ballots will be used, delivered to the participants on accreditation.

The Chairperson also notes that the following documentation was made available to the public in accordance with the law, in particular, pursuant to article 2429 of the Italian Civil Code and article 154-ter of the Consolidated Law on Finance:

- the "Annual Financial Report", containing the draft separate financial statements of Banca Sistema S.p.A. at 31 December 2018, accompanied by the Directors' Report, the Board of Statutory Auditors' Report and the Independent Auditors' Report, pursuant to article 2429 of the Italian Civil Code and article 154-ter of the Consolidated Law on Finance, as well as the consolidated financial statements of the Banca Sistema Group at 31 December 2018;

- the “Report on Corporate Governance and Ownership Structure” pursuant to article 123-bis of the Consolidated Law on Finance;
- the Board of Directors’ Report on the individual proposals concerning the issues on discussion in today's meeting, pursuant to article 125-ter of the Consolidated Law on Finance and its annexes.

Before moving to the discussion of the items on the agenda, the Chairperson invites the attending shareholders to disclose the existence of any shareholders' agreement as specified by article 122 of the Consolidated Law on Finance - including the existence of any agreement pursuant to article 20 of the Consolidated Law on Banking.

Mr. Flavio Tullio Toniolo, as representative of Fondazione Cassa di Risparmio di Alessandria, confirms the existence of a shareholders' agreement, for which all formalities were fulfilled as set forth in paragraph 1 of article 122 of the Consolidated Law on Finance. This agreement involves 38.41% (thirty-eight point forty-one) of the share capital with voting rights, namely:

- Società di gestione delle partecipazioni in Banca Sistema S.r.l. (“SGBS”), holder of 23.10% of the ordinary shares corresponding to 18,578,900 shares;
- Fondazione Sicilia, holder of 7.40% of the ordinary shares, corresponding to 5,950,104 shares;
- Fondazione Cassa di Risparmio di Alessandria, holder of 7.91% of the ordinary shares, corresponding to 6,361,731 shares.

All this having been established, the Chairperson declares the meeting validly established, pursuant to the Articles of Association and relevant applicable provisions.

Before continuing with the official execution of the proceedings, the Chairperson states as follows: "*I would like to welcome the shareholders, Directors, Statutory Auditors, and employees of Banca Sistema, gathered here. We are glad to be able to host this shareholders' meeting, for the first time, here at the new offices of Banca Sistema.*

Another year has gone by, rich of initiatives and news, which has ended with very positive results, as confirmed by the data that will be described below in detail. The Bank continues to grow, not only in the core factoring business, but also in the "salary- and pension-backed loans" segment, where it has reached an outstanding amount of € 652 million. Banca Sistema wants to expand further in this segment, also by starting direct origination activities. The profit generated and the capital ratios reported - naturally reduced against the increase in lending but in any case above the minimum thresholds set by the Bank of Italy - confirm Banca Sistema's solid and stable growth trend. This performance will allow us to distribute this year too a percentage of profits, in line with the previous years and with the approach that combines the interests of the shareholders and the need to ensure the Bank's capital strength. The gradual diversification of business and the expansion in other sectors, at any rate with a low risk exposure, such as the "salary- and pension-backed loans" and the collateralised loan business, as well as keeping a good balance between wholesale and retail funding, are the precondition for steady growth. The Bank has worked to be able to support the increase in volumes and the diversification strategy, endowing its organisation with new technology and human resources, while remaining streamlined and dynamic: Today, Banca Sistema has 183 employees, with a *relatively low average age, (40.9 years); 71% of employees are graduates. We also strive to keep an appropriate balance between the genders; currently, 43% of employees are women. Banca Sistema will continue to grow in the next few years, as a result of the merger of Atlantide S.p.A., an intermediary operating in the "salary- and pension-backed loans" business acquired recently by the Bank. We expect the transaction to be completed by the end of the first half of the current year: at the end of the merger, Banca Sistema will have approximately 210 employees.*

I will end my speech by thanking the CEO and General Manager, Gianluca Garbi, and all employees and collaborators of Banca Sistema for their commitment and the important work done in the last financial year, which has made possible the excellent results achieved. I would also like to thank the Directors, for their indefatigable support and constructive feedback, as well as the meticulous analysis carried out within the Board committees, and the Statutory Auditors, for the intense control activity, carried out also with onsite audits. I believe that also the shareholders appreciate the value of these activities: they are essential in such a complex context, where the utmost attention must be paid to protect the Bank and, in particular, its reputation".

The Chairperson then moves on to discuss the **first item** on the agenda:

1. Approval of the Separate Financial Statements of Banca Sistema S.p.A. at 31 December 2018. Presentation of the Consolidated Financial Statements at 31 December 2018. Reports of the Directors, the Board of Statutory Auditors and the Independent Auditors. Relating and resulting resolutions.

The Chairperson notes that, at the meeting held on 1 March 2019, the Board of Directors approved the draft separate financial statements at 31 December 2018, and it is now necessary to proceed to their review and approval.

The reporting package, which includes the Independent Auditors' Report, the Board of Directors' Report, the Statement of the Manager in Charge of Financial Reporting as set forth in article 154-bis, paragraph 5, of the Consolidated Law on Finance, and the Board of Statutory Auditors' Report, already made available to the shareholders and published under the terms of law, on 27 March 2019, is attached to these minutes as Annex "B".

The Chairperson reminds the participants that the consolidated financial statements at 31 December 2018 were also drafted and approved by the Board of Directors at the meeting held on 1 March 2019: these too are submitted to today's meeting accompanied by the Group Director's Report and the Independent Auditors' Report.

With regard to the activity carried out by the Independent Auditors, as specified by CONSOB Communication No. DAC/RM/96003558, 18 April 1996, the Chairperson announces that the audit of the separate financial statements of Banca Sistema S.p.A. and the consolidated financial statements of the Banca Sistema Group is estimated to have required about 2,500 hours. Total fees due to the Independent Auditors currently stand at € 159,000, plus VAT, expenses and supervisory contribution due to CONSOB and any additional amount.

The Chairperson gives then the floor to the CEO.

Mr. Gianluca Garbi takes the floor and summarises for the meeting the performance at 31 December 2018, noting that, at the consolidated level, the Bank closed the year with a profit of € 27.2 million, up on the previous year, while the Parent's profit was equal to € 28.1 million. Net interest income increased and the cost of funding remained stable. Total income was equal to € 91.1 million, up by 10% year on year, therefore in line with the increase in operating costs (+10% year on year). Return on average equity was equal to 18.9%: also this year a dividend is expected to be distributed, equal to 25% of the Parent's profits for 2018, equal to € 0.087 per share.

The CEO continues by saying that, at the level of business performance, the factoring turnover increased by 20% compared to 2018, with a 20% increase in the customer base; outstanding salary- and pension-backed loans have reached € 652 million at 31 December 2018, up by 30% year on year. In April 2019, the Bank finalised the acquisition of Atlantide S.p.A., a financial intermediary active in the granting of salary- and pension-backed personal loans: the transaction had been announced in September last year.

Mr. Gianluca Garbi then notes that, in the second quarter of 2018, the Bank issued a senior bond with three-year maturity by private placement and, since the third quarter of 2018, the Bank has collected deposits also abroad through a new partner, Deposit Solutions.

After successfully navigating a testing period in 2017 and expanding in 2018, today the collateralised loan business can count on dedicated branches in Milan, Rome, Naples, Rimini, Pisa and Palermo.

In terms of liquidity, the LCR and the NSFR were above the regulatory levels. The retail component of the funding was equal to 59%. The CET1 ratio and the TCR were respectively 11.0% and 13.7%, well above the minimum requirements announced by the Bank of Italy for 2019.

The turnover of factoring, the Bank's core business in terms of contribution to the income statement, increased by 70% compared to 2015. The growth in recent years was, like in 2018, due to:

- constant growth of origination from the indirect channel, represented by the agreements with commercial banks;
- expansion of the customer base, resulting in an improvement in terms of concentration;
- expansion of the tax receivables business;
- increased diversification of trade receivables factoring.

Net interest income was € 74.6 million, up year on year, with a contribution of approximately € 7.8 million from the update, in the third quarter, of the allocation percentage for default interest from factoring. The allocation of default interest accrued in the income statement does not exceed on average 45% of the total against an average between collections and sale of interest of more than 85%. Total revenue, equal to € 91.1 million, was up by 10% on the previous year, partly due to an increased contribution of factoring fee and commission income. Total operating costs increased by 11% year on year. Profit before tax increased by +8% year on year.

As for the statement of financial position, there was a clear increase in total assets year on year. This increase was mainly led by the increase in item 40, Financial assets measured at amortised cost, including loans and receivables with customers, which reported an increase in:

- factoring (+22 yoy), due to the turnover trend described above;
- salary- and pension-backed loans (+30% yoy) due to purchases of portfolios in the previous year for approximately € 212 million;
- Italian government securities portfolio (formerly classified as held to

maturity) which rose from € 84 million in December 2017 to € 453 million in December 2018, continuing the conservative policy of buying only securities with a short-term maturity.

On the liability side, the largest increase in absolute value was reported in due to customers, resulting from the significant year-on-year increase in deposit accounts, in particular foreign accounts, and in Italian current accounts.

The Chairperson thanks the CEO and proposes that the reading of the draft financial statements, with the accompanying reports and statements, be omitted, assuming that they have already been read and are known by all.

The Chairperson establishes that the meeting unanimously approves the proposal.

The Chairperson then opens the discussion, inviting shareholders to ask questions and indicating that all responses will be provided together at the end of all speeches.

Mr. Giovanni Pollastrelli asks for the floor. He observes that today the Bank's shares, despite their excellent performance, are traded at prices significantly below those at which they were first listed on the stock exchange.

He also asks for an explanation on the reasons that have led the shareholder Fondazione Pisa to sell a substantial part of its shares, bringing its stake below 5%.

Giovanni Pollastrelli then asks what have been the reasons that have led the Bank to acquire Atlantide S.p.A, considering that Atlantide's financial statements were not strong and the market of salary- and pension-backed loans is, in his opinion, reaching saturation.

Lastly, he asks when the Bank expects to reach the break-even point on the collateralised loan business.

Mr. Riccardo Sismondi takes the floor as representative of the shareholder Ms. Anna Girello. First of all, he expresses satisfaction for the excellent performance reported for 2018. He then acknowledges that, according to the presentation just made by the CEO, the allocation of default interest accrued in the income statement is approximately 45% of the total against a value recognised, between collections and sale of interest, exceeding 85%. In this regard, he invites the Board of Directors to take into account, in the accounting treatment of default interest, not only prudential assessments, but also the need to report in the financial statements, in a way as precise as possible, the actual market value of these items, also to avoid any undue penalisation of current and future shareholders.

The shareholder Giorgio Rugarli now asks to take the floor and reads his speech, as follows: "*I was an employee of Banca Sistema in 2015, when I bought, at the time of the IPO, the share then reserved for employees of one thousand Banca Sistema shares, which I have continued to hold. Graduated in law, with in-depth knowledge of markets and workplaces, although only for some year employed in the banking sector. I am then a micro- (almost non-) shareholder, but not without some idea of the situation in which I find myself, having also seen many aspects of this Bank from the inside and having learnt its way and style of work. I am addressing in particular to you, Mr. Garbi, as "brain" (allow me to use this term, asking you and everybody to consider only the nice side of this) of Banca Sistema. I would like to note, after some years in which I have attended your meetings (maybe I should say our meetings...),* *being in a position to compare them with others, that the presentation of the bank's financial performance is very aseptic, almost detached, one could say mechanical and rushed. This, which I believe is not only my own impression, gives the impression that the meeting is an ancillary and almost annoying event in the life of the Bank, giving almost the idea "that "the games" are played elsewhere, without need to care about the ownership structure, especially minority interests" (I hope it is clear that I interpret widely the idea that I have expressed).*

The fact that no mention is made of any market aspect, either banking or equity market of the bank segment, also makes this meeting peculiar, almost a merely formal and marginal event.

I would therefore like to request a brief statement, in margin or as a comment of the data provided, in general terms, but not generic, hopefully accompanied by your opinion (British-style, if you want, noting that it is your personal opinion...within the limits of what is correct) on the actual and substantial performance of Banca Sistema, the banking equity market, the positioning of Banca Sistema in this market, its potential developments and the corresponding initiatives of Banca Sistema, with particular regard to those that might have been identified for the current financial year.

I thank you in advance. I might make a short comment after your reply, if allowed by the meeting procedures".

As no other shareholder asks to take the floor, the Chairperson notes, also to the Board of Directors, that the market performance of the Banca Sistema shares seems disappointing, especially in the light of the excellent performance reported in the financial statements, which suggest that the Board of Directors is working in the right direction.

The Chairperson notes that she cannot comment on the decision of Fondazione Pisa to sell a substantial portion of its stake, as the reasons for this are not known and could be related to investment initiatives in the reference area.

At this point, the Chairperson gives the floor to the CEO, who, with regard to the current price of the Bank’s shares, agrees with the shareholder Pollastrelli. However, he notes that, also as a result of the 2015 crisis, the entire banking segment has been very volatile and large international investors often make investment and divestment decisions looking not at the value of the individual securities in portfolio, but at the segment they belong to.

With regard to Fondazione Pisa, Mr. Garbi says he cannot comment on its investment decisions, pointing out though that Fondazione Pisa still holds the subordinated bond issued by Banca Sistema.

With regard to the acquisition of Atlantide S.p.A., Mr. Garbi states that its unsatisfactory performance derive (as for all intermediaries in the register created pursuant to article 106 of the Consolidated Law on Banking) from the increased costs due to the implementation of the new organisational and procedural structure required by the Bank of Italy for all financial intermediaries, now subject to supervision similar to that of banks. This increase in costs cannot be offset by an increase in the volumes of loans granted, since the company cannot raise funds from investors. He also notes that this acquisition will allow Banca Sistema to acquire its own network and then to originate loans directly, without having to acquire portfolios from other operators.

With regard to the saturation of the market for salary-and pension-backed loans, the CEO notes that this market is self-sustaining, especially in the segment of loans to public sector employees, since the person who has obtained a salary-backed loan usually takes out a new loan after repaying approximately half of the loan, through a new salary-backed loan. The increase in average life will also bring about increased development, making pension-backed loans more widespread.

With regard to the collateralised loan business, Mr. Garbi expects that the break-even will occur in 2020.

The CEO replied to the shareholder Giorgio Rugarli saying that the annual shareholders' meeting for the approval of the financial statements is seen by the entire Board of Directors and the entire structure of Banca Sistema not as a formal but as an important event. He notes however that the majority of the shareholders of the Bank are institutional investors, which attend the meeting through delegates who have been given precise voting instructions. Institutional investors usually do not consider the meeting as an opportunity for learning and discussion between management and shareholders, but prefer that the performance and future scenarios of the Bank be presented in special meetings with the managers of the investments.

The shareholder Giuseppe Tocchetti then asks to take the floor. He congratulates the CEO for the exhaustive description of the financial performance achieved by the Bank. He also asks for information on the cost of funding.

The CEO replies that the cost of Banca Sistema's funding is on average 0.9% per year and that this is very low. The advertising campaign of Banca Sistema, which invites current account holders to deposit sums promising higher returns compared to the market, does not refer to demand deposits, but to term deposits: therefore, they should be compared with similar instruments, such as for example two- or three-year bonds. Last year, the Bank issued a three-year bond with a 2% yield, a low rate compared to the average for a bank bond with the same maturity. If new bonds with the same maturity were issued, today the yields requested by investors would be at least 4% a year.

The CEO then points out that funding through deposit accounts, with a duration more in line with the Bank's requirements, is more convenient than issuing bonds.

As nobody is asking to take the floor, the Chairperson declares the discussion closed.

The Chairperson then gives an update on attendance, noting that, at 11:25 am, the meeting is attended, personally or by proxy, by 48 (forty-eight) shareholders representing 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each, out of 80,421,052 ordinary shares issued, with nominal amount of € 0.12 (zero point twelve) each.

The Chairperson then reads the following resolution proposal:

"Dear Shareholders, with regard to point 1 on the agenda, you are invited to approve the financial statements of Banca Sistema S.p.A. at 31 December 2018, as described by the Board of Directors as a whole and in the individual

items. The financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements and are accompanied by a Directors' Report on the performance, the financial results achieved and the financial position of the Bank. The reporting package also includes the statements on the separate financial statements pursuant to article 81-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended and supplemented; the Board of Statutory Auditors' Report pursuant to article 153 of Legislative Decree no. 58 of 24 February 1998; the Independent Auditors' Report pursuant to articles 14 and 16 of Legislative Decree no. 39 of 27 January 2010."

The ordinary Shareholders' Meeting of Banca Sistema S.p.A.,

- *after hearing the Board of Directors' Report on point 1) on the agenda;*
- *after acknowledging the report drafted by the Board of Statutory Auditors on the supervisory activity it carried out during the year;*
- *after acknowledging the reports on the separate and consolidated financial statements drafted by the Independent Auditors;*

resolves:

to approve the separate financial statements at 31 December 2018 of Banca Sistema S.p.A. that show a profit of € 28,070,559.59".

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: zero

Abstained: zero

Favourable: 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex "C".

The Chairperson moves on to the discussion of the **second item** on the agenda of the ordinary meeting:

***2 Allocation of the profit for the year 2018.* Relating and resulting resolutions.**

The Chairperson reminds the participants of the content of the Directors' Report, made available to the public in accordance with the law and filed at the registered office, and proposes to omit its reading.

The Chairperson establishes that the meeting unanimously approves the proposal.

The Chairperson states that, as reported in the Directors' Report, made available to the public in accordance with the law and filed at the registered office, in its separate financial statements the Bank has recognised a profit for 2018 equal to € *28,070,559.59*.

The Board of Directors has proposed to allocate this profit as follows:

- to dividend of € 6,996,631.52 for the 80,421,052 ordinary shares, equal to € 0.087 per share;
- the remainder of € 21,073,928.07 to retained earnings.

An allocation to the legal reserve will not be made since the limits set out in Article 2430 of the Italian Civil Code were reached.

The Board of Directors has also proposed that the allocation of the dividend be made in cash, in accordance with the provisions of applicable laws and regulations, with ex-dividend date of 6 May 2019, and payment on 8 May 2019.

Under the provisions of article 83-terdecies of the Consolidated Law on Finance, all those who are registered as shareholders according to the accounting records at the end of the accounting day of 7 May 2019 (record date) will be entitled to receive the above dividend.

The Chairperson then opens the discussion.

The shareholder Andrea Pollastrelli takes the floor. After learning from the documentation of the meeting that the Bank plans to distribute to the shareholders 25% of the profit for 2018, he asks whether it would be possible to distribute approximately 30/35% of the profit.

Mr. Garbi replies that the Bank needs to increase its capitalisation by recognising retained earnings, to continue its purchase of receivables without having to turn to the equity market: increasing dividend distributions would mean reducing the Bank’s CORE TIER 1. The Chairperson confirms that, in compliance with the principle of sound and prudent management, the Bank’s capitalisation targets must be combined with the shareholders’ objective of receiving higher profits. At any rate, the Chairperson and the CEO do not exclude that in the future, when the Bank is able to benefit from the reduced weighting of the salary- and pension-backed loans and capital resources are available, the share of profits distributed may be increased.

As nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

The Chairperson then invites the Shareholders' Meeting to approve the following draft resolution, which is read out:

"The ordinary Shareholders' Meeting of Banca Sistema S.p.A., pursuant to the decisions made during approval of the financial statements at 31 December 2018,

resolves:

(i) to allocate the profit for the year 2018 of Banca Sistema S.p.A. equal to € 28,070,559.59 as follows:

- *to dividend of € 6,996,631.52 for the 80,421,052 ordinary shares, equal to € 0.087 per share;*
- *the remainder of € 21,073,928.07 to retained earnings.*

in the manner and within the terms set forth by the Directors' Report. Please note that no allocation to the legal reserve was made since the limits set out in Article 2430 of the Italian Civil Code were reached;

(ii) to pay the above dividend as of 8 May 2019. Payment will be made through the authorised intermediaries with whom the shares in the Monte Titoli System are registered."

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: 1,000 shares

Abstained: 713,000 shares

Favourable: 41,369,938 (forty-one million three hundred sixty-nine thousand nine hundred thirty-eight) shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex "D".

The Chairperson starts now the discussion of the **third point** on the agenda:

3. Appointment of a Director pursuant to Article 2386 of the Italian Civil Code. Relating and resulting resolutions.

The Chairperson informs that, on 28 June 2018, the Director Mr. Claudio Pugelli, taken from the list that received the majority of votes at the Shareholders' Meeting of 23 April 2018, resigned as from 30 June 2018 from his position as Director of Banca Sistema S.p.A.

Under article 2386 of the Italian Civil Code and article 10.4, paragraph two (b) of the Articles of Association of Banca Sistema S.p.A., on 13 July 2018, the Board of Directors, after consulting the Appointments Committee and with the approval of the Board of Statutory Auditors, resolved to co-opt Mr. Daniele Pittatore to replace Mr. Claudio Pugelli as Director. Given that, pursuant to article 2386 of the Italian Civil Code, the office of Mr. Daniele Pittatore, non-executive and independent Director, ends at the date of this Shareholders' Meeting, it is therefore necessary to appoint a Director who shall remain in office for the term of office of the current Board of Directors, and thus until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2020. In addition, in the case in question, the slate voting procedure will not be adopted, given that this is applicable only when the entire Board of Directors is being elected, as set forth by the above article 10.4 of the Articles of Association of Banca Sistema S.p.A. The resolution for the appointment of the Director will therefore be approved by the Shareholders’ Meeting with the majorities set forth by law.

In particular, pursuant to article 10.4, paragraph 2(a) of the Articles of Association, if during the year one or more Directors become unavailable, provided the majority is always composed of Directors appointed by the Shareholders’ Meeting, “*the Board of Directors will appoint the replacement from the individuals on the same list as that including the director who has left office and the Shareholders' Meeting, as set forth in article 2386, paragraph 1, of the Italian Civil Code, will decide by the legal majorities in compliance with the same criterion*”.

The Chairperson calls the attention of the participants on the fact that, pursuant to the Articles of Association, candidates for the position are therefore to be chosen from the same list as that of the outgoing Director.

The Chairperson then notes that Mr. Daniele Pittatore belonged to the list of the outgoing Director, Claudio Pugelli.

The Chairperson also indicates that, on 2 April, the shareholder Fondazione Cassa di Risparmio di Alessandria proposed to confirm Mr. Daniele Pittatore for the office of Director of Banca Sistema S.p.A. until the meeting called to approve the financial statements at 31 December 2020.

The Chairperson then proposes to the participants to omit the reading of the Directors' Report, made available to the public in accordance with the law and filed at the registered office.

The Chairperson establishes that the meeting unanimously approves the proposal and opens the discussion.

The shareholder Giuseppe Tocchetti takes the floor and asks Mr. Pittatore to introduce himself in a few words.

Mr. Pittatore thanks the shareholder and says that he is a professional accountant and has already been a member of the Board of Directors of the Bank for a long period. Therefore, he was able to follow its developments from the very beginning and observes how much the Bank has grown also in terms of capitalisation, due not only to its listing on the stock exchange, but especially to the profits generated by its business. He believes that the Bank is solid and will continue to grow, and that he will be able to continue to provide a constructive contribution for this purpose.

After thanking Mr. Pittatore for his speech and noting that nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

As no objections have been made, the Chairperson declares open the vote on this item on the agenda and invites the shareholders to vote on the following draft resolution, which is read out:

"The ordinary Shareholders' Meeting of Banca Sistema S.p.A.

resolves:

to confirm Mr. Daniele Pittatore as Director, pursuant to article 2386 of the Italian Civil Code and article 10.4 of the Articles of Association of Banca

Sistema S.p.A. Mr. Daniele Pittatore shall remain in office for the term of office of the current Board of Directors, and thus until the date of the ordinary Shareholders' Meeting called to approve the financial statements at 31 December 2020."

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: 9,074,293 shares

Abstained: 1,000 shares

Favourable: 33,008,645 shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex "E".

The Chairperson starts now the discussion of the **fourth point** on the agenda:

4. Appointment of the Independent Auditors and determination of their fee. Relating and resulting resolutions.

The Chairperson reminds the participants that the term of the Independent Auditors KPMG S.p.A appointed by the Shareholders' Meeting on 27 April 2010 expires upon approval by the Shareholders' Meeting of the separate financial statements of Banca Sistema S.p.A. at 31 December 2018. Therefore, the Shareholders' Meeting is called to resolve on the granting of the mandate to other Independent Auditors for the 2019/2027 period.

The Chairperson reminds the participants of the content of the specific Directors' Report, made available to the public in accordance with the law and filed at the registered office, and proposes to omit its reading.

The Chairperson establishes that the meeting unanimously approves the proposal.

The floor is then taken by Mr. Massimo Conigliaro, Chairperson of the Board of Statutory Auditors, who reads out the reasoned proposal of the Board of Statutory Auditors for the granting of the mandate to the new Independent Auditors, drafted in compliance with Legislative Decree no. 39 of 27 January 2010, attached to these minutes as Annex "F".

In the proposal, the Board of Statutory Auditors compares the offers received and describes the procedure used to assess the qualitative and quantitative aspects considered in the selection. The Board of Statutory Auditors proposes that the mandate for the audit for the 2019-2027 period be granted to BDO Italia S.p.A. based on the offer submitted by this on 22 January 2019.

The Board of Statutory Auditors also proposes the following fee for each financial year of the mandate, in addition to out-of-pocket and/or ancillary expenses, contributions (social security funds, CONSOB or other supervisory authorities), VAT and adjustments based on the change in the ISTAT cost of living index from 1 January 2020:

- for Banca Sistema, a total of € 180,000 for 2,650 hours, divided into € 120,000, for 1,780 hours, for the audit of the separate and consolidated financial statements, € 30,000, for 435 hours, for the review of the interim financial statements, € 30,000 for 435 hours, for the quarterly reviews;

- for the investees, € 13,000 for 188 hours, for Largo Augusto Servizi e Sviluppo S.r.l., € 22,000 for 320 hours, for Quinto Sistema SEC 2017, € 35,000 for 500 hours, for ProntoPegno S.p.A. (company currently waiting for authorisation by the Bank of Italy to operate as intermediary pursuant to article 106 of the Consolidated Law on Banking).

As nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

The Chairperson then invites the Shareholders' Meeting to approve the following draft resolution, which is read out:

"The ordinary Shareholders' Meeting of Banca Sistema S.p.A.

resolves:

- *to grant the mandate for the audit of the accounts of Banca Sistema S.p.A. to BDO Italia S.p.A., with registered office in Milan, Viale Abruzzi No. 94, registration number with the Milan Monza Brianza Lodi Companies' Register and Tax Code* 07722780967, Independent Auditors appointed with Ministerial Decree published on Official Gazette of the Italian Republic no. 26 of 2 April 2013, *for the 2019/2027 period;*
- *to determine the total fee for the entire duration of the mandate and each year of the mandate, to be equal to € 180,000 for 2,650 hours, divided into € 120,000, for 1,780 hours, for the audit of the separate and consolidated financial statements, € 30,000, for 435 hours, for the*

review of the interim financial statements, € 30,000 for 435 hours, for the quarterly reviews;

- *to approve the payment, in addition to this fee, of out-of-pocket and/or ancillary expenses, contributions (social security funds, CONSOB or other supervisory authorities), VAT and adjustments based on the change in the ISTAT cost of living index from 1 January 2020."*

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: zero

Abstained: 1,000 shares

Favourable: 42,082,938 shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex "G".

The Chairperson then moves on to the discussion of the **fifth point** on the agenda:

5. Approval of the Remuneration Policies of the Banca Sistema Group for 2019 and setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for the CEO and General Manager. Relating and resulting resolutions.

The Chairperson notes that, pursuant to article 9.2 of the Articles of Association, the Shareholders' Meeting is asked to approve the remuneration and incentive policies for the members of the Board of Directors and the Bank's other employees.

The Chairperson reminds the participants of the content of the Directors' Report, made available to the public in accordance with the law and filed at the registered office, and proposes to omit its reading.

The Chairperson establishes that the meeting unanimously approves the proposal.

The "2019 Remuneration Policies Document of the Banca Sistema Group" is attached to these minutes as Annex "H".

The Chairperson notes that, in accordance with the laws in force, the Board of Directors has notified the Bank of Italy of the increase in the ratio between the variable and fixed components of remuneration, for the CEO and General Manager alone, to the maximum value of 2:1. The Bank of Italy has made no objection to this proposal.

The Chairperson then notes that the Compliance Department has verified the compliance of the 2019 Remuneration Policies of the Banca Sistema Group with the provisions concerning remuneration and incentive policies and practices, as shown in the Report, which is attached to these minutes as Annex "I".

The Chairperson notes that the Board of Directors has proposed to set the ratio between variable and fixed components of remuneration up to a maximum of 200% (2:1 ratio) for the CEO and General Manager alone (in compliance with Circular 285/2015 of the Bank of Italy) and that this proposal is subject, among other things, to approval by the Shareholders' Meeting with the voting requirements provided for in the applicable law (namely Circular 285/2015).

For the adoption of this proposal of the Board of Directors, the following majorities are required: a) when the meeting is constituted with at least half of the share capital, the decision is passed by the favourable vote of at least 2/3 of the share capital represented at the meeting; or b) the favourable vote of at least 3/4 of the share capital represented at the meeting, regardless of the share capital with which the Meeting is constituted. Today's meeting falls in the first category, therefore the proposal has to be approved with at least 2/3 of the share capital represented at the meeting.

The Chairperson then opens the discussion.

The shareholders Pollastrelli and Tocchetti ask for clarifications on the remuneration policies and the Chairperson explains some sections of the "2019 Remuneration Policies Document of the Banca Sistema Group", distributed to the shareholders and available on the Bank's website: in particular, clarifications are provided on paragraph 6.4.1 (Bonus Pool) and paragraph 3 (Performance of the CEO/General Manager) of Annex 2 to the above-mentioned document.

As nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

Having acknowledged the above, the Chairperson then invites the Shareholders' Meeting to approve the following draft resolution, which is read out:

"The ordinary Shareholders' Meeting of Banca Sistema S.p.A.,

- *having examined the 2019 Remuneration Policies of the Banca Sistema Group and its annexes, made available to the public pursuant to the applicable regulatory provisions;*
- *having also examined the Information Document on Stock Grant Plan of the Banca Sistema Group, drawn up in accordance with article 114–bis of Legislative Decree 58/98 and article 84-bis of Regulation 11971, as approved by CONSOB Resolution dated 14 May 1999, as amended;*
- *having heard and approved the proposal of the Board of Directors concerning the 2019 Remuneration Policies of the Banca Sistema Group;*
- *having heard the proposal of the Board of Directors to set the variable-fixed remuneration ratio at a maximum of 200% (ratio of 2:1) for the CEO and General Manager;*

resolves

- *to approve the 2019 Remuneration Policies of the Banca Sistema Group;*
- *to set the variable-fixed remuneration ratio for the CEO and General Manager at a maximum of 2:1;*
- *to grant the Board of Directors, in the persons of the Chairperson of the Board of Directors and the CEO, the powers necessary to fully implement the aforesaid 2019 Remuneration Policies of the Banca Sistema Group, severally and with the authority to sub-delegate such powers - to be exercised in accordance with the application criteria*

described above, making any necessary amendment or addition for the subject matter resolved on to be implemented".

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: 4,293,684 shares

Abstained: 713,000 shares

Favourable: 37,077,254 shares.

The proposal is approved, with the higher quorum required by the supervisory regulations in force.

The sheet with the details of the votes is attached to these minutes as Annex "L".

The Chairperson moves on to the discussion of the **sixth item** on the agenda of the ordinary meeting:

6. Remuneration Report: resolution pursuant to article 123-ter, paragraph 6, of Legislative Decree no. 58 of 24 February 1998 as amended and supplemented.

The Chairperson notes that, in accordance with article 123-ter of the Consolidated Law on Finance, article 84-quater and Annex 3A, Schedule 7-bis of the Consob Issuers' Regulation and article 6 of the Code of Conduct adopted by the Corporate Governance Committee of Borsa Italiana S.p.A., the Board of Directors prepared and approved on 1 March 2019, on proposal of the Remuneration Committee, the Remuneration Report.

The Report, to which we refer, was made available to the public within the terms and in the manner set forth by applicable laws, including publication on the Bank’s website.

The Chairperson then proposes to omit the reading of the Directors’ Report, made available to the public in accordance with the law and filed at the registered office. The Chairperson establishes that the meeting unanimously approves the proposal.

It is also noted that an executive summary of the Remuneration Policies for the Banca Sistema Group was also published on the website of Banca Sistema. The document summarises the approach to remuneration adopted by Banca Sistema.

The Chairperson also informs that the Internal Audit Department has carried out audits on remuneration practices to assess their compliance with the approved policies and the legal framework applicable to the Banca Sistema Group in 2018. The report of the Internal Audit Department is attached to these minutes as Annex "M".

The Chairperson then notes that the Shareholders' Meeting is called, pursuant to article 123-ter, paragraph 6, of the Consolidated Law on Finance, to resolve for or against the content of Section I of the Remuneration Report. Pursuant to the above-mentioned article, the resolution is not binding.

In the light of the above, the Chairperson opens the discussion.

As nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

The Chairperson then invites the Shareholders' Meeting to approve the following draft resolution, which is read out:

“The ordinary Shareholders’ Meeting of Banca Sistema S.p.A.,

- *having acknowledged the Remuneration Report approved by the Board of Directors of the Bank on 1 March 2019, on proposal of the Remuneration Committee, which met on 27 February 2019, pursuant to article 123-ter of the Consolidated Law on Finance and article 84-quater and Annex 3A, Schedule 7-bis of the Issuers’ Regulation*

resolves

to approve Section I of the Remuneration Report.".

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: 4,292,684 shares

Abstained: 714,000 shares

Favourable: 37,077,254 shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex “N".

The Chairperson moves on to the discussion of the **<u>seventh item</u>** on the agenda of the ordinary meeting:

7. Authorisation for the purchase and disposal of treasury shares. Relating and resulting resolutions.

The Chairperson reminds the participants of the content of the Directors' Report, made available to the public in accordance with the law and filed at the registered office, and proposes to omit its reading.

The Chairperson establishes that the meeting unanimously approves the proposal.

The Chairperson notes that the Board of Directors submits motion to authorise the purchase of ordinary shares of Banca Sistema S.p.A., pursuant to article 2357 of the Italian Civil Code and article 132 of the Consolidated Law on Finance, and articles 77 and 78 of Regulation (EU) no. 575/2013 ("CRR") and article 29, paragraph 4 of Delegated Regulation (EU) no. 241/2014 ("Regulation 241/2014"), according to the terms and in the manner indicated in the report made available to the public in accordance with the law, and filed at the registered office. The above purchase may be made only after obtaining the authorisation of the Bank of Italy in accordance with the above EU regulations.

The Chairperson notes that the Board of Directors also submits motion asking the Shareholders' Meeting to authorise the Board of Directors to dispose of the shares of Banca Sistema by allocating the same to "key personnel", in implementation of the remuneration and incentive policies approved by the Shareholders' Meeting as variable component of the remuneration.

Moreover, the Remuneration Policies of the Banca Sistema Group, submitted to the Shareholders’ Meeting for approval, include the payment of a portion of the variable component of the remuneration, as well as any fees paid in anticipation of or as a result of early termination of the employment relationship or early termination of the position, through the allocation of financial instruments.

In particular, the proposed purchase of treasury shares is aimed at allocating the shares of the Bank to “key personnel”, in implementation of the above Remuneration policies.

The Chairperson then opens the discussion.

As nobody is asking to take the floor, the Chairperson, believing the information provided on the matter to be adequate, declares the discussion closed.

The Chairperson then invites the Shareholders' Meeting to approve the following draft resolution, which is read out:

“The Shareholders’ Meeting, having heard and approved the report of the Board of Directors on item 7) of the agenda,

RESOLVES

A) to authorise the Board of Directors (i) to submit to the Bank of Italy the request for authorisation to purchase treasury shares for an amount of no more than € 300,000 and (ii) to purchase fully paid-in ordinary treasury shares of the Bank, with a nominal amount of € 0.12 (zero point twelve) each, for a maximum amount not exceeding € 300,000 (three hundred thousand) and in any case in compliance with the limit of one fifth of the share capital. This equivalent value will be covered by the undistributable reserve provided *by law called “Reserve for the future purchase of treasury shares”.*

The above authorisation is intended as granted for a period of no more than 18 (eighteen) months from today’s date. Shares may be purchased, even in tranches, at a price of no less than 15% (fifteen percent) - and no more than 15% (fifteen percent) - of the price determined on the last business day of each week as average of the official closing price of the quotations of Banca Sistema shares for the last two weeks in the TARGET calendar prior to the date of determination of the average price. This minimum and maximum price will be valid for a period starting as from the day after the date on which the average price is determined to the date on which the new weekly price is determined (inclusive);

B) to authorise the Board of Directors to dispose of the treasury shares of Banca Sistema S.p.A. by allocating such treasury shares as part of the variable remuneration paid to specific employees in compliance with the remuneration policies approved from time to time by the Shareholders' Meeting;

D) to establish that purchases may be made exclusively by trading ordinary Banca Sistema S.p.A. shares on the Stock Exchange, according to procedures that ensure equal treatment for all shareholders as set forth by article 132 of Legislative Decree no. 58/1998, and in compliance with applicable market laws and practices accepted by Consob pursuant to article 13 of Regulation (UE) no. 596/2014;

E) to authorise and instruct the CEO, with the authority to sub-delegate such powers, to submit to the Bank of Italy the request for authorisation to purchase treasury shares and carry out any transactions that may be *necessary, including financial transactions, pertaining to or resulting from the implementation of the above resolutions, in compliance with the procedures set forth by applicable laws and regulations, ensuring through management and control of the subsidiaries, that the latter do not carry out any transaction involving the shares of Banca Sistema S.p.A. so as to ensure full compliance with the maximum limit of one fifth of the share capital. The CEO may use the services of third parties to execute the above, signing contracts and appointing agents or attorneys for single acts or categories of acts.”*

The Chairperson then invites the Shareholders' Meeting to vote on this resolution.

The Chairperson counts the votes:

Present: 48 (forty-eight) Shareholders for 42,083,938 (forty-two million eighty-three thousand nine hundred thirty-eight) ordinary shares with nominal amount of € 0.12 (zero point twelve) each.

Against: 546,000 shares

Abstained: zero

Favourable: 41,537,938 shares.

The proposal is approved.

The sheet with the details of the votes is attached to these minutes as Annex “O".

As there is nothing else to resolve on and nobody is asking to take the floor, the Chairperson thanks all the participants and closes today's ordinary Shareholders' Meeting, at 12:25 pm.

The Chairperson The Secretary

ALLEGATO "A".

Banca SISTEMA S.p.A.

18 aprile 2019 10.01.34

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Assemblea Ordinaria del 18 aprile 2019
(2^ Convocazione del)

SITUAZIONE ALL'ATTO DELLA COSTITUZIONE

Sono ora rappresentate in aula numero 42.079.938 azioni ordinarie

pari al 52,324531% del capitale sociale, tutte ammesse al voto.

Sono presenti in aula numero 47 azionisti , di cui

numero 1 presenti in proprio e numero 46

rappresentati per delega.

Azionisti in proprio: 1
Azionisti in delega: 46
Teste: 7 Azionisti. :47

Banca SISTEMA S.p.A.

18/04/2019 10:00:24

Elenco Intervenuti (Tutti ordinati cronologicamente)

Assemblea Ordinaria

5

Badge	Tipo Rap.		Titolare / Deleganti / Rappresentati legalmente	Ordinaria	
1			BONVICINI DANIELE	0	
	1	D	SOCIETA'DI GESTIONE DELLE PARTECIPAZIONI IN BANCA SISTEMA SRL	18.578.900	
			Totale azioni	**18.578.900**	
				23,102036%	
2			SISMONDI RICCARDO	0	
	1	D	GARBIFIN SRL	409.453	
	2	D	GARBI GIANLUCA	111.669	
	3	D	GIRELLO ANNA	10.461	
			Totale azioni	**531.583**	
				0,661000%	
3			RUGARLI GIORGIO	1.000	
				0,001243%	
4			POLLASTRELLI GIOVANNI	0	
	1	D	ZENGARINI CRISTINA	15.000	
	2	D	CRISTALLINI DEANNA	200.000	
	3	D	POLLASTRELLI ANDREA	25.000	
	4	D	POLLASTRELLI ROSA ANGELA	400.000	
	5	D	MORGONI MARIO	73.000	
			Totale azioni	**713.000**	
				0,886584%	
5			RICCI RAFFAELLO	0	
	1	D	FONDAZIONE SICILIA	5.950.104	
			Totale azioni	**5.950.104**	
				7,398690%	
6			TONIOLO FLAVIO TULLIO	0	
	1	D	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	6.361.731	
			Totale azioni	**6.361.731**	
				7,910529%	
7			MEUCCI FILIPPO	0	
	1	D	GERANA SICAV-SIF, S.A.	37.678	
	2	D	SCHRODER INTERNATIONAL SELECTION FUND	1.959.940	
	3	D	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD	7.900	
	4	D	CC&L ALL STRATEGIES FUND	2.700	
	5	D	CC&L Q MARKET NEUTRAL FUND	200	
	6	D	VANGUARD INTERNATIONAL EXPLORER FUND	2.540.996	
	7	D	CC AND L Q 130/30 FUND II	300	
	8	D	CC AND L Q EQUITY EXTENSION FUND II	200	
	9	D	SCHRODER CAPITAL MANAGEMENT COLLECTIVE T	900.000	
	10	D	SCHRODER INTERNATIONAL SMALL COMPANIES PORTFOLIO	50.000	
	11	D	M1RF ARROWSTREET FOREIGNL	29.821	
	12	D	RWSF CIT ACWI	29.095	
	13	D	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND	401.520	
	14	D	KEYBK TTEE CHARITABLE INTL EF SMID CAP	62.602	
	15	D	GBVF GCIT INTL SM CAP OPP	11.710	
	16	D	WF VALERO ENERGY CORP PENS PLVCM	118.271	
	17	D	FLORIDA RETIREMENT SYSTEM	11.360	
	18	D	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT	2.300	
	19	D	NATIONAL COUNCIL FOR SOCIAL SECURITY FUND	200.000	

18/04/2019 10:00:24

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Elenco Intervenuti (Tutti ordinati cronologicamente)

Assemblea Ordinaria

Badge	Tipo Rap.	Titolare / Deleganti / Rappresentati legalmente	Ordinaria
20	D	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	22.385
21	D	MERCER GE INTERNATIONAL EQUITY FUND	95.626
22	D	MARYLAND STATE RETIREMENT & PENSION SYSTEM	3.740
23	D	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I	38.791
24	D	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II	129.847
25	D	WISDOMTREE DYNAMIC CURRENCY HEDGED INTRNL SMALLCAP EQ FUND	10.730
26	D	WISDOMTREE EUROPE HEDGED SMALLCAP EQUITY FUND	45.802
27	D	ISHARES VII PLC	8.964
28	D	THE ARROWSTREET COMMON CONTRACTUAL FUND	169.084
29	D	AECOM DC RETIREMENT PLANS SMA MASTER TRUST	166.095
30	D	CHURCH OF ENGLAND INVESTMENT FUND FOR PENSIONS	40.595
31	D	METIS EQUITY TRUST	507.598
32	D	MISSOURI LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM	509.822
33	D	POLAR CAPITAL FUNDS PLC	992.642
34	D	STATE TEACHERS RETIREMENT SYSTEM OF OHIO	290.306
35	D	ALLIANZ AZIONI ITALIA ALL STARS	545.000
		Totale azioni	**9.943.620**
			12,364449%

Totale azioni in proprio	1.000
Totale azioni in delega	42.078.938
Totale azioni in rappresentanza legale	0
TOTALE AZIONI	42.079.938
	52,324531%
Totale azionisti in proprio	1
Totale azionisti in delega	46
Totale azionisti in rappresentanza legale	0
TOTALE AZIONISTI	47
TOTALE PERSONE INTERVENUTE	7

Legenda:

D: Delegante R: Rappresentato legalmente

ALLEGATO "A1"

Banca SISTEMA S.p.A.

18 aprile 2019 10.40.11

Assemblea Ordinaria del 18 aprile 2019
(2^ Convocazione del)

AGGIORNAMENTO SITUAZIONE PRESENTI

Comunico che sono ora presenti in proprio o per delega

- n° **48** azionisti rappresentati

- n° **42.083.938** azioni, pari al **52,329504%** delle

80.421.052 azioni costituenti il capitale sociale interamente sottoscritto e versato alla data odierna.

Azionisti: 48
Azionisti in proprio: 2

Teste: 8
Azionisti in delega: 46

Banca SISTEMA S.p.A.

18/04/2019 10:41:33

8

Elenco Intervenuti (Tutti ordinati cronologicamente)

Assemblea Ordinaria

Badge	Tipo Rap.		Titolare / Deleganti / Rappresentati legalmente	Ordinaria
1			BONVICINI DANIELE	0
	1	D	SOCIETA'DI GESTIONE DELLE PARTECIPAZIONI IN BANCA SISTEMA SRL	18.578.900
			Totale azioni	**18.578.900**
				23,102036%
2			SISMONDI RICCARDO	0
	1	D	GARBIFIN SRL	409.453
	2	D	GARBI GIANLUCA	111.669
	3	D	GIRELLO ANNA	10.461
			Totale azioni	**531.583**
				0,661000%
3			RUGARLI GIORGIO	1.000
				0,001243%
4			POLLASTRELLI GIOVANNI	0
	1	D	ZENGARINI CRISTINA	15.000
	2	D	CRISTALLINI DEANNA	200.000
	3	D	POLLASTRELLI ANDREA	25.000
	4	D	POLLASTRELLI ROSA ANGELA	400.000
	5	D	MORGONI MARIO	73.000
			Totale azioni	**713.000**
				0,886584%
5			RICCI RAFFAELLO	0
	1	D	FONDAZIONE SICILIA	5.950.104
			Totale azioni	**5.950.104**
				7,398690%
6			TONIOLO FLAVIO TULLIO	0
	1	D	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA	6.361.731
			Totale azioni	**6.361.731**
				7,910529%
7			MEUCCI FILIPPO	0
	1	D	GERANA SICAV-SIF, S.A.	37.678
	2	D	SCHRODER INTERNATIONAL SELECTION FUND	1.959.940
	3	D	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD	7.900
	4	D	CC&L ALL STRATEGIES FUND	2.700
	5	D	CC&L Q MARKET NEUTRAL FUND	200
	6	D	VANGUARD INTERNATIONAL EXPLORER FUND	2.540.996
	7	D	CC AND L Q 130/30 FUND II	300
	8	D	CC AND L Q EQUITY EXTENSION FUND II	200
	9	D	SCHRODER CAPITAL MANAGEMENT COLLECTIVE T	900.000
	10	D	SCHRODER INTERNATIONAL SMALL COMPANIES PORTFOLIO	50.000
	11	D	M1RF ARROWSTREET FOREIGNL	29.821
	12	D	RWSF CIT ACWI	29.095
	13	D	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND	401.520
	14	D	KEYBK TTEE CHARITABLE INTL EF SMID CAP	62.602
	15	D	GBVF GCIT INTL SM CAP OPP	11.710
	16	D	WF VALERO ENERGY CORP PENS PLVCM	118.271
	17	D	FLORIDA RETIREMENT SYSTEM	11.360
	18	D	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT	2.300
	19	D	NATIONAL COUNCIL FOR SOCIAL SECURITY FUND	200.000

Elenco Intervenuti (Tutti ordinati cronologicamente)

18/04/2019 10:41:33

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Assemblea Ordinaria

Badge	Titolare / Tipo Rap.	Deleganti / Rappresentati legalmente	Ordinaria
20	D	OREGON PUBLIC EMPLOYEES RETIREMENT SYSTEM	22.385
21	D	MERCER GE INTERNATIONAL EQUITY FUND	95.626
22	D	MARYLAND STATE RETIREMENT & PENSION SYSTEM	3.740
23	D	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I	38.791
24	D	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II	129.847
25	D	WISDOMTREE DYNAMIC CURRENCY HEDGED INTRNL SMALLCAP EQ FUND	10.730
26	D	WISDOMTREE EUROPE HEDGED SMALLCAP EQUITY FUND	45.802
27	D	ISHARES VII PLC	8.964
28	D	THE ARROWSTREET COMMON CONTRACTUAL FUND	169.084
29	D	AECOM DC RETIREMENT PLANS SMA MASTER TRUST	166.095
30	D	CHURCH OF ENGLAND INVESTMENT FUND FOR PENSIONS	40.595
31	D	METIS EQUITY TRUST	507.598
32	D	MISSOURI LOCAL GOVERNMENT EMPLOYEES RETIREMENT SYSTEM	509.822
33	D	POLAR CAPITAL FUNDS PLC	992.642
34	D	STATE TEACHERS RETIREMENT SYSTEM OF OHIO	290.306
35	D	ALLIANZ AZIONI ITALIA ALL STARS	545.000
		Totale azioni	**9.943.620**
			12,364449%
8	TOCCHETTI GIUSEPPE		4.000
			0,004974%

Totale azioni in proprio	5.000
Totale azioni in delega	42.078.938
Totale azioni in rappresentanza legale	0
TOTALE AZIONI	42.083.938
	52,329504%
Totale azionisti in proprio	2
Totale azionisti in delega	46
Totale azionisti in rappresentanza legale	0
TOTALE AZIONISTI	48
TOTALE PERSONE INTERVENUTE	8

Legenda:

D: Delegante R: Rappresentato legalmente

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

Banca SISTEMA S.p.A.

DRAFT SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2018

BANCA

SISTEMA

CONTENTS

DIRECTORS' REPORT
AT 31 DECEMBER 2018

COMPOSITION OF MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler[1]
Deputy Chairperson	Mr.	Giovanni Puglisi[2]
CEO and General Manager	Mr.	Gianluca Garbi
Directors	Mr.	Daniele Pittatore *(Independent)*[3]
	Ms.	Carlotta De Franceschi *(Independent)*
	Ms.	Laura Ciambellotti *(Independent)*
	Mr.	Federico Ferro Luzzi *(Independent)*
	Mr.	Francesco Galietti *(Independent)*
	Mr.	Marco Giovannini *(Independent)*

Board of Statutory Auditors

Chairperson	Mr.	Massimo Conigliaro
Standing Auditors	Mr.	Biagio Verde
	Ms.	Lucia Abati[4]
Alternate Auditors	Mr.	Marco Armarolli[5]
	Ms.	Daniela D'Ignazio

Independent Auditors

KPMG S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

[1] Meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but it also does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
[2] Meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but it also does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
[3] Director co-opted by the Board of Directors on 13 July 2018 replacing Mr. Pugelli who tendered his resignation from the position with effect from 30 June 2018.
[4] Appointed as a Standing Auditor at the Shareholders' Meeting on 14 December 2017 and shall remain in office until the end of the Board of Statutory Auditors' term.
[5] On 14 December 2017, following the appointment of the new Standing Auditor, he was once again appointed Alternate Auditor at the Shareholders' Meeting and shall remain in office until the end of the Board of Statutory Auditors' term.

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

Chairperson	Ms.	Laura Ciambellotti
Members	Ms.	Carlotta De Franceschi
	Mr.	Federico Ferro Luzzi
	Mr.	Daniele Pittatore[6]

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

Chairperson	Mr.	Giovanni Puglisi
Members	Ms.	Carlotta De Franceschi
	Mr.	Federico Ferro Luzzi[7]

Supervisory Body

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

[6] On 21 September 2018, the Board of Directors appointed Mr. Daniele Pittatore (independent and non-executive director) as a new member of the Internal Control and Risk Management Committee to replace Ms. Luitgard Spögler, who will in any case be entitled to attend meetings without the possibility of voting.

[7] On 21 September 2018, the Board of Directors appointed Mr. Federico Ferro Luzzi (independent and non-executive director) as a new member of the Ethics Committee.

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2018

31 Dec 2018

31 Dec 2017

Statement of financial position data (€,000)

Total Assets	3,150,153 2,310,427	36.3%
Securities Portfolio	739,880 370,989	99.4%
Loans - Factoring	1,566,613 1,285,726	21.8%
Loans - Salary-backed loans and SME	679,589 556,061	22.2%
Funding - Banks and REPOs	875,016 733,156	19.3%
Funding - Term Deposits	958,193 447,093	114.3%
Funding - Current Accounts	660,582 510,349	29.4%

Income statement data (€,000)

Net interest income	74,746 70,809	5.6%
Net fee and commission income	15,257 10,667	43.0%
Total Income	91,272 82,652	10.4%
Personnel Expenses	(19,811) (17,549)	12.9%
Other administrative expenses	(20,710) (19,259)	7.5%
Pre-tax profit	42,700 39,767	7.4%

Performance Indicators

Cost/Income	45.8% 45.4%	0.7%
ROAE	19.3% 21.5%	-10.5%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2018

On 8 February 2018, the Board of Directors approved the Remuneration Policies Document of the Banca Sistema Group for 2018. It also acknowledged the quarterly report by the Internal Control Department as at 31 December 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), the quarterly report on Related Party Transactions within the scope of the Master Resolution, and the annual Report of the Head of internal whistleblowing systems.

On 8 March 2018, the Board of Directors approved: (I) the "2017 Risks Department Annual Report", (II) the "2017 Compliance Department Annual Report", (III) the "2017 Anti-Money Laundering Department Annual Report", (IV) the "Compliance Department Annual Report on complaints received by the Bank", (V) the "Annual Report on the activities carried out by the Internal Audit Department during 2017", and (VI) the Activity Plan for 2017 related to the II Level Internal Control Departments (Risk, Compliance and Anti-Money laundering) and Internal Audit Department and the Periodic Report by the Supervisory Body concerning the application of the "Organisational, management and control model pursuant to Legislative Decree no. 231/2001". The Board of Directors also approved (I) the Report on Corporate Governance and Ownership Structure prepared in accordance with art. 123-Bis of Legislative Decree no. 58/1998 and the Remuneration Report pursuant to art. 123-Ter of Legislative Decree no. 58/1998, as well as (II) the document "IFRS 9 - Business Model Policy".

On 9 April 2018, following the authorisations granted by the Bank of Italy, two new branches dedicated exclusively to the collateralised lending business were opened in Naples and Palermo.

On 10 April, the Board of Directors of Banca Sistema approved the 2018-2020 Strategic Plan, which was presented to analysts and investors on 11 April 2018.

On 23 April 2018, the shareholders' meeting was held during which the Board of Directors' mandate was renewed with the appointment of nine members.

Following the renewal, the Board of Directors approved the appointment of Gianluca Garbi as CEO of the Bank, conferring on him necessary operational powers.

At the end of May, the placement of a senior bond issue was successfully completed. The placement in a club deal reserved for institutional investors that are not related parties, in the total amount of € 90 million, has a term of 3 years, with a fixed rate and an all-inclusive cost of 200 bps. The objective of the issue is consistent with the bank's strategy to diversify its sources of funding and to support the growth of the core business.

On 19 June 2018, the Bank completed the acquisition of a 19.90% stake in the share capital of ADV Finance S.p.A. ("ADV Finance"), a registered financial intermediary (under art. 106 of the Consolidated Banking Act) that since 2010 has offered in Italy, through agents and brokers, a complete range of services related to salary- and pension-backed personal loans (CQS/CQP). Subsequently, on 18 December 2018, it acquired from ADV Finance, 19.90% of the quota capital of the subsidiary Procredit S.r.l., a company specialising in services related to salary- and pension-backed personal loans (CQS/CQP).

On 22 June, the Board of Directors approved the start of market making activities and thus allocated € 40,000 to them for the purchase and disposal of treasury shares within the scope of the authorisation granted at the Shareholders' Meeting of 27 April 2017 and in accordance with the terms authorised by the Bank of Italy on 13 September 2017. The programme was suspended on 5 October 2018 to start the treasury share repurchase programme for the purpose of supporting the remuneration and incentive policies for key personnel for an overall amount not exceeding € 200,000, which was concluded on 12 October 2018, the day on which the market making activity programme resumed and which was terminated on 27 October 2018.

On 29 June 2018, notice was given that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia, in anticipation of the imminent expiry date of the Shareholders' Agreement signed on 3 June 2015 along with Fondazione Pisa, having taken note of the intention expressed by Fondazione Pisa not to join the new Shareholders' Agreement, signed a new Shareholders' Agreement which came into effect on this date until 1 July 2020. The new Shareholders' Agreement reflects a shareholding of 38.41% in Banca Sistema's share capital.

Given the above, Claudio Pugelli, a non-executive and non-independent Director of Banca Sistema, tendered his resignation from the position with effect from 30 June.

An abstract of the new Shareholders' Agreement, which was drafted pursuant to article 129 of the Issuers' Regulation approved by Consob Resolution no. 11971/99, and essential information pursuant to article 130 of the Issuers' Regulation have been made available on the Parent's website www.bancasistema.it and on the website of the storage mechanism authorised by Consob www.1info.it in accordance with the legal terms.

On 28 September 2018, the Bank signed a binding agreement for the acquisition of 100% of Atlantide S.p.A., a registered financial intermediary (under art. 106 of the Consolidated Banking Act) and active in the granting of salary- and pension-backed personal loans (CQS/CQP) since 2010. Atlantide, headquartered in Bologna, has 23 employees and provides comprehensive CQS/CQP services throughout the country through a network of more than 30 agents. The agreement is in line with Banca Sistema's growth objectives and with the 2018-2020 Strategic Plan for CQS/CQP, a market in which Banca Sistema is already active through agreements with other intermediaries for the purchase of portfolios.

The value of the transaction is equal to the equity of Atlantide at 30 June 2018 plus goodwill of € 250 thousand; the agreement also includes a variable component to be paid upon achievement of certain objectives. All the proceeds resulting from the completion of the transaction will be used by Atlantide's current shareholders to buy Banca Sistema's shares on the open market, subject to a maintenance obligation of three years. The agreement is expected to be completed by the end of the first quarter of 2019 following the authorisation of the Supervisory Authority. The transaction had an impact of approximately 15 bps on Banca Sistema's CET1 ratio at 30 June 2018.

The transaction is structured so that, subsequent to authorisation by the Bank of Italy, the company will be merged into Banca Sistema pursuant to Article 2505 of the Italian Civil Code (so-called simplified merger). The merger will take effect on the first day of the month following the last of the planned filings with the Chamber of Commerce, while the tax effects will be backdated to 1 January 2019.

On 12 October 2018, work commenced on relocating to the new headquarters located in Largo Augusto 1/A, at the corner of Via Verziere 13, in Milan and were completed on 9 November 2018.

On 12 October 2018 ProntoPegno S.p.A. was incorporated, with Banca Sistema S.p.A. as sole shareholder. The registered office of the company is in Largo Augusto 1/A, Milan (at the corner of Via Verziere 13) and the share capital amounts to € 3,500,000. On 9 November 2018, the application was sent to the Bank of Italy for the registration of ProntoPegno S.p.A. in the Register referred to in Article 106 of Italian Legislative Decree no. 385/1993, in accordance with the provisions of Circular no. 288 of 3 April 2015. Once the authorisation to conduct business has been obtained, all the assets and liabilities relating to the collateralised loan business will be transferred to the company, in addition to the personnel dedicated to the management and development of the business.

On 8 November 2018, following the authorisation issued by the Bank of Italy, a new branch dedicated exclusively to the collateralised loan business was opened in the city of Rimini. This branch joins the branches in Milan, Rome, Pisa, Naples and Palermo.

On 7 November, Banca Sistema also acquired the portfolio of Credit Agricole, formerly Carim, a well-established collateralised lender based in Rimini. The transaction will accelerate growth and strengthen the presence of "ProntoPegno" throughout the area while promoting a service that has significant social value.

It should be noted that between October and December 2018, in accordance with banking and financial regulations, the Bank was subject to inspections by the Bank of Italy. The purpose of the inspections was to verify compliance with anti-money laundering legislation and the effectiveness of the organisational structures in reporting the AOER correctly and preventing the risks associated with violations of usury regulations. Upon completion of the inspections, the inspectors met with the Chairperson of the Board of Directors, the Chairperson of the Board of Statutory Auditors and the CEO, reporting to each of them, albeit informally, that the inspections did not reveal any significant weaknesses with respect to the effectiveness of the controls in place regarding the risks of money laundering, terrorism financing and usury, and that the departments under inspection had fully cooperated with them. The Bank has already implemented some of the recommendations made during the inspection, which are to be reported in the inspection report that is scheduled to be issued by the end of the first quarter of 2019.

THE MACROECONOMIC SCENARIO

In the last few months of 2018, the global economy continued to grow, although there were signs of cyclical deterioration in many advanced and emerging economies. The expansion which has taken place in the international economy is influenced by a number of risk factors: the repercussions stemming from the adverse outcome of trade negotiations between the United States and China, rising financial tensions in emerging countries, and the way in which the United Kingdom's exit from the European Union will be achieved. At the end of 2018, the United States continued to grow at a fairly robust rate and Japan has recovered after a marked contraction in output caused by natural disasters in the third quarter of the year.

The slowdown in economic activity in China that started at the beginning of the year continues despite the fiscal stimulus introduced by the government. In Brazil, macroeconomic conditions remain fragile, while in India cyclical expansion remains strong. At its meeting on 19 December, the Federal Reserve raised the target range for interest rates on federal funds by 25 basis points. The economic slowdown in the Euro Area continues: as shown in Economic Bulletin no. 1 2019 of 11 January 2019 issued by the Bank of Italy, GDP increased by 0.2%, a significant slowdown compared to previous periods (it had increased by 0.4% in the second quarter).

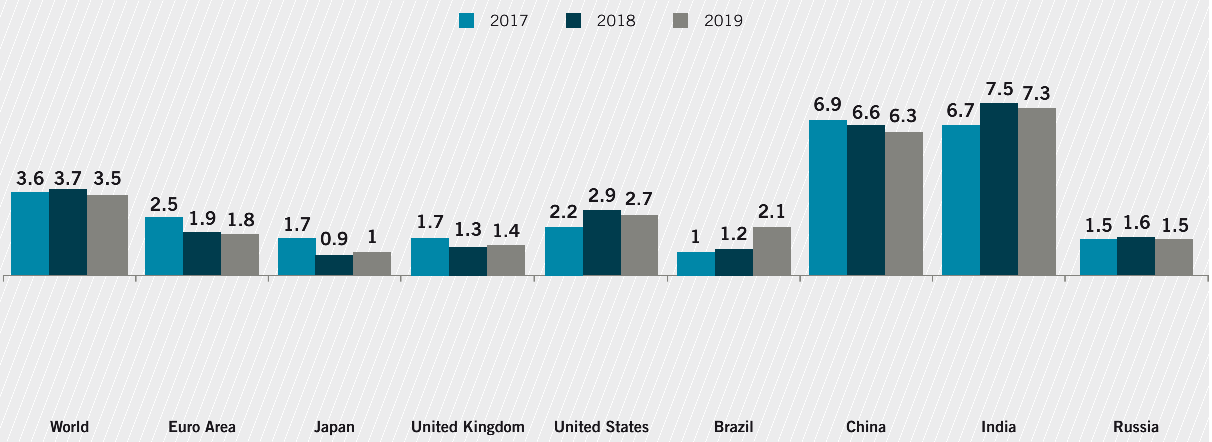
According to the estimates contained in the Bulletin, in the final months of the year industrial production fell more than expected. The €-coin indicator prepared by the Bank of Italy, which measures the underlying performance of the area's GDP, decreased, reaching the lowest level since the end of 2006 (0.42).

Inflation in December stood at 1.6%, down compared to previous months due to the slowdown in energy prices.

In the fourth quarter, yields on ten-year government bonds fell in all major economic areas. Lending to households and non-financial companies continues to grow in all major countries. In the final months of 2018, the Euro declined by 2% against the Dollar and its main trading partners, as expectations of a weakening of the common currency persist.

World macroeconomic scenario (GDP % change)

(Source OECD Economic Outlook, November 2018; Bank of Italy for world trade)



ITALY

In Italy there was a 0.1% drop in gross domestic product over the previous period, and according to estimates in the Economic Bulletin, GDP will continue to fall. The slowdown in activity was mainly due to the decline in investments and the slight drop in household spending.

Business confidence indicators have worsened. According to a survey carried out by the Bank of Italy, both the opinions on the general economic situation and those regarding the trend in demand have worsened.

Investments rose again in 2018 but were below the levels seen before the financial crisis. It is estimated that this growth will continue in 2019, although at a slower pace than in 2018.

The recovery in home sales continues while the construction sector has slowed. There was a slight decrease in household consumption in the closing months of 2018 (down 0.1% on the previous period), due to less than encouraging signs from the labour market. Disposable income net of inflation fell by 0.2% on the previous quarter, while the propensity to save continued to rise (8.1%). Italian household debt as a percentage of disposable income remained substantially unchanged and well below the average for the Euro Area (61.3%). Interest rates on new mortgages remained low (1.9% in October).

Exports picked up again after a sharp decline at the beginning of the year. The most substantial increase occurred mainly in the domestic markets of the European Union notwithstanding the sharp slowdown in sales to Germany. Increases were seen in the mechanical, electrical equipment and electronics sectors.

There was a slowdown in imports, mainly of means of transport, especially motor vehicles. In 2018, the current account surplus narrowed slightly compared to the previous year, but the decline in the trade surplus caused by increased spending for energy raw materials is offset by the growth in the primary income.

Purchases of foreign securities by residents amounted to € 51 billion, while purchases of Italian government bonds and Italian bank securities by non-resident investors decreased. Italian banks increased their foreign sourced net funding in the form of loans and deposits.

The number of hours worked continued to rise (+0.6% on the previous period), while the number of employed persons decreased, especially in the services to households and individuals sectors. The youth unemployment rate remained largely stable (32%).

Consumer price inflation fell to 1.2% in December as a result of the slowdown in energy prices. Core inflation remained low (0.5% in December) thanks mainly to a reduction in university tuition fees decided in the stability law for 2017, which slowed price growth in the early months of 2018. The slowdown in energy prices also led to lower producer price inflation for industrial products sold on domestic markets. Loans to non-financial companies have increased, particularly to firms in the manufacturing and service sectors, while loans to construction companies have decreased. The cost of credit remained very low. The impact of new non-performing loans on total loans granted by banking groups continued to decline (from 9.7% in the previous period to 9.4%), thanks to the implementation of plans to sell bad exposures. The return on equity, net of extraordinary income, increased to 6.1% compared to 4.4% in 2017.

Overall, the outlook described in the Economic Bulletin points to a slowdown in economic growth for 2019. The main risks to this outlook include overarching uncertainties and the possibility of a further rise in sovereign bond yields, a faster deterioration in private sector financing conditions and a further slowdown in firms' propensity to invest.

The Italian factoring market

According to preliminary sector data published by Assifact, in the year just ended the market recorded volume growth of 7.65%, well above the expectations of specialised observers and all the more significant if we consider that in June volumes were stable compared to the corresponding half of 2017. The acceleration in the second half of the year, thanks in part to high-value transactions carried out by some operators with retail debtors, made it possible to achieve a total turnover of over € 238 billion (14% of GDP). Without recourse factoring is by far the most common form used by the market accounting for 75% of total turnover, against 25% for with recourse transactions (for amounts outstanding, these percentages do not vary much: 73% against 27%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

Receivables turnover remains at the same levels as last year due to the fact that average collection times remained substantially unchanged. Outstanding receivables (to be collected at 31 December 2018) totalled € 67.3 billion (+8.07%), while advances/consideration from assignments reached an impressive € 54.4 billion (+8.1%). Even the proportion of advances to outstanding receivables remained unchanged (80.81% compared to 80.84% in 2017), which allowed banks/intermediaries to maintain a conservative margin for any possible credit dilution risks.

Unlike the trend in bank loans, which was severely affected by the prolonged economic crisis that began in 2007, factoring did not experience the same repercussions in terms of its business, which, by contrast, continued to grow at a rapid pace (turnover steadily increased from € 120 billion in 2007 to the current € 238 billion), thus proving its resilience to negative economic cycles.

The capacity of the sector to support businesses even during the downward phase of the cycle is related to the operators' unique approach to managing risks, as evaluation is not limited to the party being financed, but mainly the quality of the receivables acquired and the solvency of the assigned debtors are also considered. The particular attention paid to the management of purchased or financed receivables and the constant monitoring of collections ensure that risk is kept at much lower levels than those of traditional bank loans.

The sector's low level of risk is also confirmed by the Assifact figures at 30 September 2018: gross non-performing loans amount to 6.33% of outstanding receivables (6.45% at the end of 2017), of which 1.69% related to past due exposures, 1.87% were unlikely to pay, and 2.78% were bad exposures (at the end of 2017 such exposures amounted to 3.04%). Net of adjustments, non-performing loans stood at 3.10%, considerably lower than those reported by commercial banks in their financing.

Factoring represents an important opportunity available to the business world - especially small and medium-sized enterprises - that provides access to essential sources of financing necessary for ensuring financial support for business continuity and growth.

The range of services offered (credit management, risk hedging and credit collection, just to name a few) and the excellent level of expertise attained over the years by factoring companies permit considerable simplification of supply relationships between the participants in the system despite the lack of structural changes in Italy.

Even large companies benefit considerably from factoring services: through without recourse factoring they are able to reduce working capital and improve their net financial position. They can also optimise the supply chain relationship with the various suppliers through Supply Chain Finance and reduce internal costs through the use of advanced technological platforms that banks/intermediaries can make available to them.

Through servicing, they also receive full support in managing relations with debtors - consider, for example, the Public Administration - thanks to the specific expertise and thorough monitoring guaranteed by the specialised operators.

SMEs represent 55% of assignor companies and, with regard to economic sectors, 29% are manufacturers, 11% are commercial enterprises and 9% are construction companies.

In the Italian market, one of the most developed not only in

Europe, but in the world, a significant share of turnover is made up of factored receivables due from the Public Administration with extremely long payment terms and complex bureaucratic procedures for recognising and reconciling the receivable.

According to estimates provided by Assifact, more than € 13 billion of outstanding receivables are due from Public Administration debtors, which represents 20% of all outstanding receivables. More than 40% of receivables are due from entities of the National Health Service, while the remaining 60% are receivables equally divided between those due from the Central Authorities and those due from Territorial Entities. The efforts made by the Government in recent years through the establishment of ad hoc funds aimed at rectifying the payment of certain, liquid and collectable pre-existing Public Administration debt, and the transposition of the EU regulation on late payments which exacerbated the amount of default interest for late payments beyond 60 days, have however led to only a slight reduction in payment times by the Public Administration, which today stand at just under 100 days, leading the European Commission to refer the Italian Government to the European Court for violating the directive. It should be noted that more than 55% of past due receivables from the Public Administration are over one year old.

In order to speed up the payment of the debts accumulated by the Public Administrations at 31 December 2018, the recent Budget Law allows the Territorial Entities and the National Health Service Companies to obtain treasury advances from Cassa Depositi e Prestiti at a variable rate (currently equal to 0.67%) against payment deductions. Unlike Decree Law 35 of 2013, under which non-recurring advances were used to reduce the stock of debt with repayment up to a maximum of 30 years and which effectively allowed for a reduction of accumulated debts by approximately € 40 billion, the new measure is unlikely to contribute to the reduction of the pre-existing stock, as the repayment of the advance must be made by 15 December 2019.

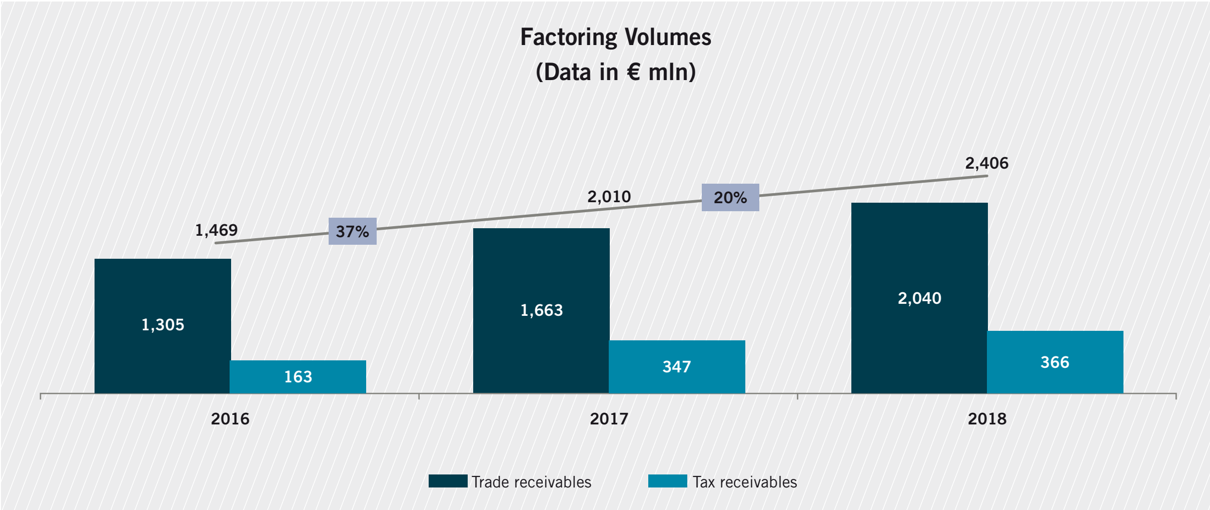
As to the relative effectiveness of the Late Payment Directive even in other EU countries, in the second half of 2018 the EU took action to monitor the EU countries and sent a questionnaire to the various stakeholders which aimed to identify possible new recommendations or suggestions.

The E.U.F.- European Federation for Factoring, bearing in mind the responses to the Assifact questionnaire, noted that a further tightening of the sanctions, which are already significant, would not lead to results different from those obtained so far due to the differences in bargaining power between assignors and large debtors who - if requested to pay default interest - would terminate the supply contract. It would be better to work through the various legal systems to eliminate the refusal to assign the receivables or to prevent the assigned debtors from not accepting the assignment, particularly where the assignors are SMEs, thus avoiding the effects that late payments would have on their working capital.

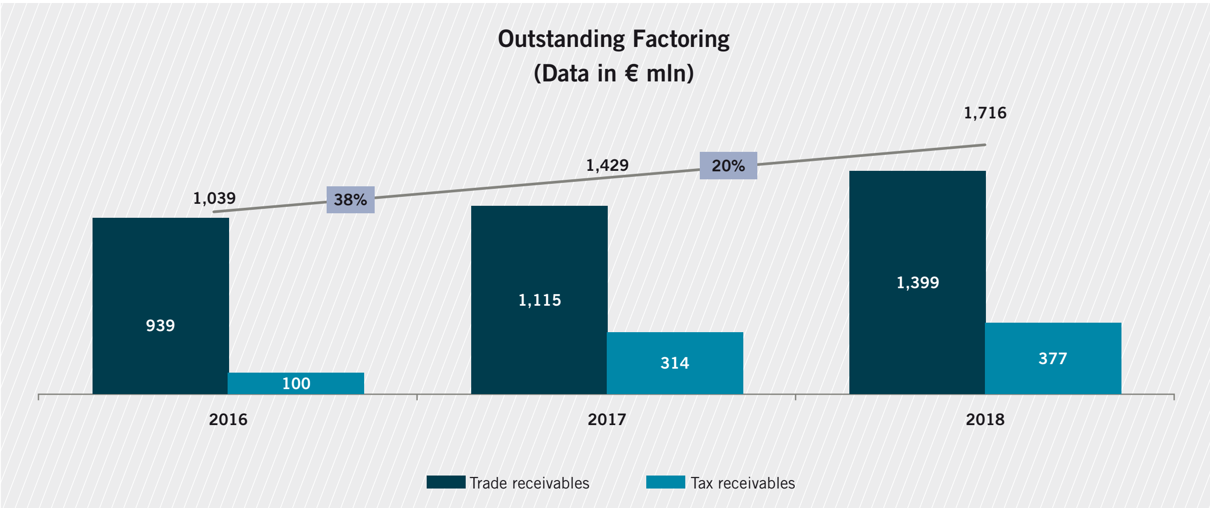
The projected decline in GDP, as evidenced over the last 10 years, is unlikely to affect the sector's performance as it will continue to play an important role in supporting businesses, even as commercial banks are struggling to increase their lending due to capital constraints.

Banca Sistema and factoring activities

Banca Sistema's total turnover in 2018 was € 2,406 million, up 20% on 2017, confirming its ability to continue growing year-on-year.

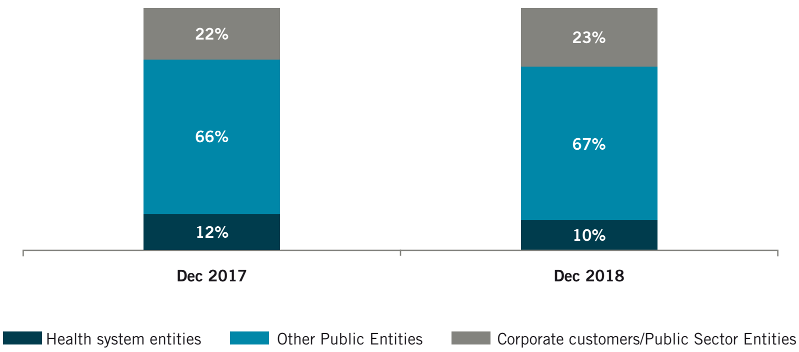


Outstanding loans as at 31 December 2018 amounted to € 1,716 million, up 20% on € 1,429 million at 31 December 2017 mainly due to increased volumes acquired in 2018 compared to collections during the same year.



The chart below shows the ratio of debtors to the total exposure in the outstanding loans and receivables portfolio at 31 December 2018 and 2017.

The Bank's core factoring business remains almost exclusively the Public Administration entities segment.



Turnover was generated through both its own internal commercial network, or through banks with which the Bank has entered into distribution agreements.

In 2018 the external networks accounted for 28% of total turnover. The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of Euro)	31.12.2018	31.12.2017	€ CHANGE	% CHANGE
Trade receivables	2,040	1,663	377	23%
of which, without recourse	*1,711*	*1,219*	*492*	*40%*
of which, with recourse	*329*	*444*	*(115)*	*-26%*
Tax receivables	366	347	19	5%
of which, without recourse	*353*	*339*	*14*	*4%*
of which, with recourse	*13*	*8*	*5*	*63%*
TOTAL	**2,406**	**2,010**	**396**	**20%**

In absolute terms, the growth in turnover derives mainly from the purchase of receivables from the public administration.

SALARY- AND PENSION-BACKED LOANS

Salary-backed loans (CQS) and Pension-backed loans (CQP)

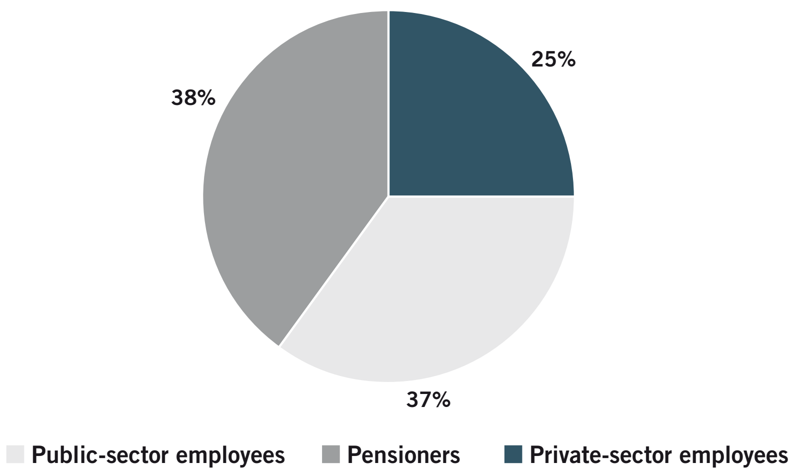
A salary- or pension-backed loan (CQS/CQP) is a consumer loan product that allows customers to allocate up to a fifth of their salaries or pensions to the payment of loan instalments. In 2018, the Bank acquired portfolios through agreements with specialist distributors in the sector.

The volumes acquired in 2018 amounted to € 212 million, including private-sector employees (25%), pensioners (38%) and public-sector employees (37%). Therefore, over 75% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

	31.12.2018	31.12.2017	€ CHANGE	% CHANGE
No. of applications	10,571	12,536	(1,965)	-16%
Volumes disbursed (millions of Euro)	212	258	(46)	-18%

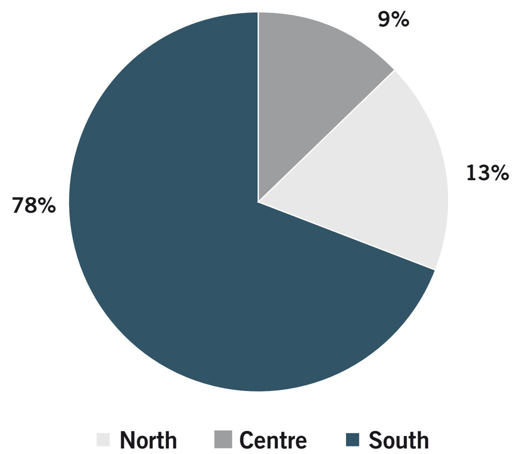
As inferred from the table, the amounts disbursed in 2018 are down slightly from what was disbursed in 2017.

CQ disbursed volumes - Breakdown



The geographical breakdown of the pension- and salary-backed loan portfolio is shown below:

CQ disbursed volumes - Breakdown by geographical area



FUNDING ACTIVITIES

Treasury portfolio

A treasury portfolio has been established in order to support liquidity commitments mainly through short-term investment in Italian government bonds.

The balance at 31 December 2018 increased compared to 31 December 2017 and was equal to a nominal € 735 million (compared to € 362.5 million at 31 December 2017). The increase in the treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly characterised by a concentration of transactions in very specific periods.

In the first part of the year, the trend in the fair value of the securities portfolio was affected by the significant volatility of the markets associated with political uncertainties. During the fourth quarter, following the stabilisation of the Italian political situation, government bond yields and spreads between Italian and German bonds decreased.

At 31 December 2018, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounts to € 300 million (compared to € 279 million as at 31 December 2017) with a duration of 1 year and 2 months (7.3 months in the previous year).

During 2018 the securities at amortised cost portfolio ("HTC" or "Held to Collect") was established again, made up entirely of Italian government securities. At 31 December, the HTC portfolio amounted to € 435 million with an average residual duration of 2 years and 2 months. The average duration of the total portfolio is 1 year and 9 months.

Wholesale funding

As at 31 December 2018, wholesale funding was about 41% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB (51% as at 31 December 2017).

The 2018 issues of € 100 million of senior bonds maturing on 31 May 2021 and the reopening of the € 3 million subordinated loan maturing on 30 March 2027 have enabled a diversification of the sources of funding and an increase in their duration. The senior bond was issued at the end of May in a club deal reserved for institutional investors that are not related parties, for a total subscribed amount of € 90 million, a term of three years, with a fixed rate and an all-inclusive cost of 200 bps. This issue replaced the senior loan of € 75 million which expired in May.

The securitisation transactions of Quinto Sistema Sec. 2016 and Quinto Sistema Sec. 2017, completed with a partly-paid securities structure and "progressive growth of the securitised portfolio" (a "warehouse" structure), permitted an efficient and effective source of funding dedicated to the CQS portfolio. On 25 June 2018, the Quinto Sistema Sec. 2017 Senior securities (Class A) and Mezzanine securities (Class B1) of the salary- and pension-backed loan (CQ) securitisation transaction were given a rating by Moody's of Aa2 and Baa3, respectively (on 25 October downgraded to "Aa3" and "Ba1" respectively as a result of Moody's downgrading of the rating of the sovereign debt of the Italian Republic) and by DBRS (A-high and A-low, respectively) and were admitted to trading on the Luxembourg Stock Exchange. The Senior class securities can be used as collateral in Eurosystem refinancing transactions. Quinto Sistema Sec. 2017 is the second ABS transaction of salary- and pension-backed loans by Banca Sistema to be given a rating. The Quinto Sistema Sec. 2017 transaction later incorporated the loans portfolio from the first securitisation (whose securities have been fully reimbursed), thus bringing it to around € 400 million. After obtaining the rating, a ramp up period began, which allowed the transaction to reach approximately 440 million at the end of 2018 and which will end with an amount of € 508 million.

The transaction will allow Banca Sistema to continue to grow its salary-/pension-backed loan business, thus optimising its funding structure dedicated to this same segment.

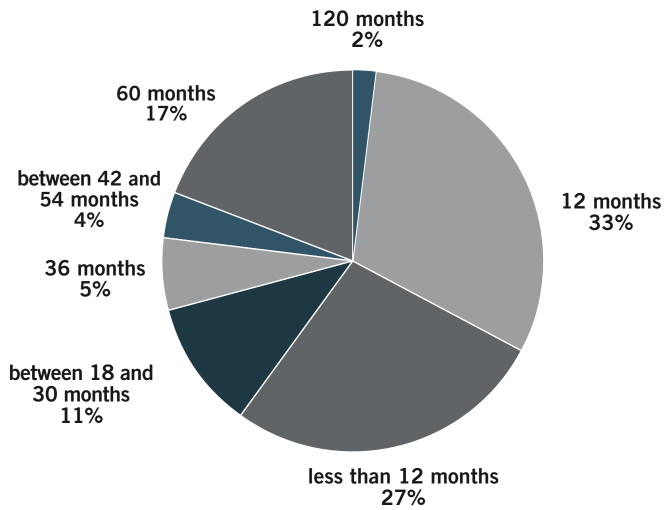
The Bank also used the interbank deposit market both through the e-MID platform and through bilateral agreements with other banks. Existing bank deposits at 31 December 2018 totalled € 282 million. Such funding allows short-term treasury needs to be met by exploiting the moderate level of interest rates and enables the diversification of funding.

Retail funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.
Retail funding accounts for 59% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.
Total term deposits as at 31 December 2018 amounted to € 958 million, an increase of 114% compared to 31 December 2017. The above-mentioned amount also includes total term deposits of € 294 million (obtained with the help of partner platfor8s) held with entities resident in Germany, Austria and Spain (accounting for 31% of total deposit funding), an increase of € +169 million over the previous year.

The breakdown of funding by term is shown below. The average duration of the portfolio is 15 months.

Breakdown of deposit accounts as at 31 December 2018

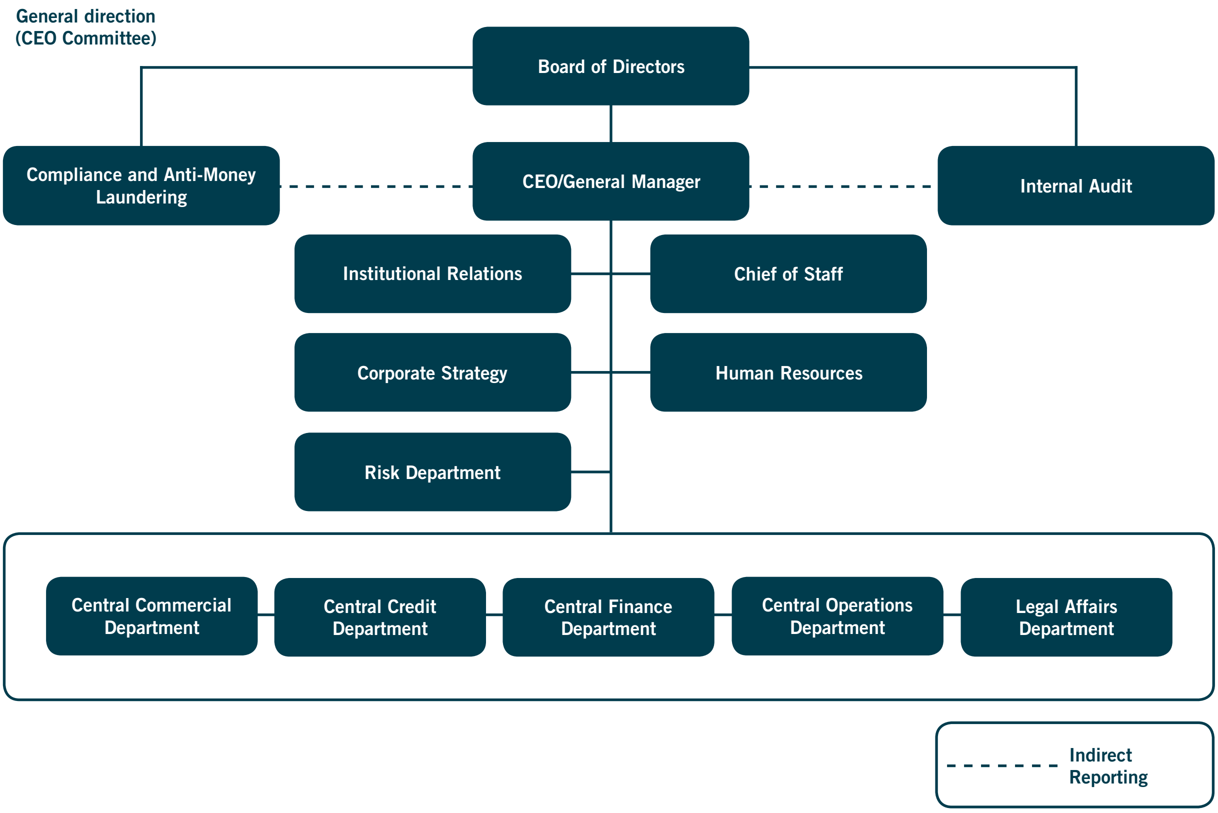


Current accounts decreased from 4,675 (as at 31 December 2017) to 4,492 as at 31 December 2018, while the current account balance at 31 December 2018 increased +29% on 2017 to € 657 million.

COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE GROUP

Organisational chart

An updated organisational chart of Banca Sistema is shown below:



REGISTERED OFFICES AND BRANCHES OF THE BANCA SISTEMA GROUP

The Registered Offices and Branches of the Banca Sistema Group are as follows:

- Milan - Largo Augusto 1/A, at the corner of Via Verziere 13 (registered office and branch)
- Milan - Piazza Napoli, at the corner of Via Vespri Siciliani, 1 (collateralised loan branch)
- Rome - Via Romagna, 25 (bank and collateralised loan branch)
- Rome - Via Campania, 59 (Administrative office)
- Pisa - Galleria Chiti, 1 (bank and collateralised loan branch)
- Palermo - Via Bara all'Olivella 2 (administrative office)
- Palermo - Via Marco Polo 7 (collateralised loan branch)
- Naples - Via Verdi 35 (administrative office)
- Naples - Via Verdi 36 (collateralised loan branch)
- Rimini - Corso d'Augusto 68 (collateralised loan branch)
- Watford - (UK) CP House, Otterspool Way (Representative office)

HUMAN RESOURCES

As at 31 December 2018, the Bank had staff of 182, broken down by category as follows:

FTES	31.12.2018	31.12.2017
Senior managers	20	18
Middle managers (QD3 and QD4)	41	39
Other personnel	121	98
Total	**182**	**155**

During the year, 38 new resources joined the Group, mainly in the Factoring, Collateral and CQ commercial structures, in the departments that oversee the credit and collection process, in Compliance and Anti-Money Laundering, in Administration and Operations (14 replaced the same number of people who had left or were long-term absent and 24 to improve professional and managerial expertise).

During the year 11 employees left the Bank, of which 2 were senior managers and 2 were managers.

In addition, three senior managers were appointed respectively to the Legal Department, the Commercial Banking Department and the Risk Department, and five promoted to the manager category in General Management, Central Credit Department and Central Operations Department.

Over the course of the year the Bank realigned the organisational structure based on market changes and performance in order to support the achievement of its strategic objectives. The branches in Naples, Palermo and Rimini were opened, dedicated to collateralised lending and for which six specialised experts were hired.

During the year, various professional training courses were organised on issues relating to the Bank's regulatory scope, both with internal and external instructors. More specifically, training was provided on Privacy, Transparency, Legislative Decree 231 and Anti-Money Laundering, Mifid 2, Related Party Transactions and New Bankruptcy Law, with a total of 146 people participating. These programmes will continue during 2019 in order to complete the continuing professional development of the remaining employees.

The average age of Bank employees is 41 for men and 39 for women. The breakdown by gender remains essentially stable compared to 2017 with women accounting for 43% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2018	2017	€ Change	% Change
Net interest income	74,746	70,809	3,937	5.6%
Net fee and commission income	15,257	10,667	4,590	43.0%
Dividends and similar income	227	227	-	-
Net trading income (expense)	(125)	18	(143)	<100%
Gain from sales or repurchases of financial assets/liabilities	1,167	931	236	25.3%
Total income	**91,272**	**82,652**	**8,620**	**10.4%**
Net impairment losses on loans and receivables	(6,814)	(5,352)	(1,462)	27.3%
Net financial income	**84,458**	**77,300**	**7,158**	**9.3%**
Personnel expense	(19,811)	(17,549)	(2,262)	12.9%
Other administrative expenses	(20,710)	(19,259)	(1,451)	7.5%
Net accruals to provisions for risks and charges	(414)	(8)	(406)	>100%
Net impairment losses on property and equipment/intangible assets	(404)	(303)	(101)	33.3%
Other operating expense	(419)	(414)	(5)	1.2%
Operating costs	**(41,758)**	**(37,533)**	**(4,225)**	**11.3%**
Pre-tax profit from continuing operations	**42,700**	**39,767**	**2,933**	**7.4%**
Income taxes for the year	(14,629)	(12,207)	(2,422)	19.8%
Post- tax profit for the year	**28,071**	**27,560**	**511**	**1.9%**

The comparative figures represent a mere restatement of the statutory figures at 31 December 2017 in accordance with IFRS 9. Therefore, they do not represent the net amounts resulting from retrospective application of the aforementioned accounting standard and consequently are not perfectly comparable with each other.

Profit for 2018 amounted to € 28.1 million, an increase compared to the previous year, mainly due to an increase in total income that more than offset the normal growth in operating costs. In the third quarter of 2018, the expected rates of recovery of default interest on factoring and the related collection times used were updated in the light of the progressive consolidation of the historical data series; the adjustment of these estimates led to the recognition of higher interest income for 2018 of € 7.8 million, of which € 4.9 million attributable to previous years. The results for the previous year also benefited from the change in the estimate for the probability of collection of default interest which led to the recognition of higher interest income of € 9.6 million, of which € 3.7 related to prior years. Results in the prior year also benefited from a € 3.9 million release related to bad exposures with troubled local authorities and greater tax benefits which had a positive impact on lowering the tax rate.

NET INTEREST INCOME (€,000)	2018	2017	€ Change	% Change
Interest and similar income				
Loans and receivables portfolio	96,549	87,792	8,757	10.0%
Securities portfolio	258	203	55	27.1%
Other	1,404	521	883	>100%
Financial liabilities	1,679	1,777	(98)	-5.5%
Total interest income	**99,890**	**90,293**	**9,597**	**10.6%**
Interest and similar expense				
Due to banks	(2,536)	(1,603)	(933)	58.2%
Due to customers	(14,572)	(12,949)	(1,623)	12.5%
Securities issued	(6,992)	(3,809)	(3,183)	83.6%
Financial assets	(1,044)	(1,123)	79	-7.0%
Total interest expense	**(25,144)**	**(19,484)**	**(5,660)**	**29.0%**
Net interest income	**74,746**	**70,809**	**3,937**	**5.6%**

Net interest income was higher than the previous year, due to the contribution from the loans and receivables portfolio which more than offset the increase in interest expense which, in 2018, included the non-recurring interest expense component of € 0.8 million linked to the higher benefit provided by TLTRO II.

The total contribution of the factoring portfolio was € 75 million (equal to 78% of the entire loans and receivables portfolio), increasing by 6% over the previous year; when considering the commission component associated with the factoring business, the contribution increased by 10.4%. The component linked to default interest from legal action at 31 December 2018 was € 28.4 million (€ 26.8 million in 2017, excluding € 2.8 million related to the early termination of the guarantee agreement provided by the former shareholder of Beta Stepstone, the company acquired in 2016 and then merged into Banca Sistema the following year):

- of which € 18.1 million resulting from the actual recovery estimates (€ 7.8 million from the updated recovery estimates, of which € 4.9 million attributable to previous years: € 17.6 million in 2017, of which € 3.7 million from previous years);
- of which € 10.3 million (€ 9.2 million in 2017) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 19.2 million (€ 14.8 million in 2017) and what was recognised on an accruals basis in previous years.

The amount of the stock of default interest from legal actions accrued at 31 December 2018, relevant for the allocation model, was € 96 million (€ 92 million at the end of 2017) while the loans and receivables recognised in the financial statements amounted to € 42.5 million. The decrease in the stock compared to the € 100 million recognised in the third quarter of 2018 is attributable to collections from both debtors and, in part, from parties to whom some interest has been definitively assigned.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 13.1 million to € 19.6 million (an increase of 48% over the previous year), whereas interest declined on the SME portfolios, which contributed € 2.0 million to the total, following the strategic decision to discontinue this area of the business.

Beginning in 2018, the new financial statements require that the negative components of financial assets, for example securities, and the positive components of technical forms of funding be aggregated in the items interest expense and interest income respectively according to their sign (under the items “financial assets” and “financial liabilities”). As a result, financial liabilities include the interest income from funding through REPOs.

The “other" interest income mainly includes income generated from hot money transactions and interest generated by collateral-backed loan activities which contributed € 0.3 million.

The increase in the cost of funding compared to the previous year is closely related to the increase in average lending. In particular, there was an increase in interest on securities issued that was strictly related to the new bond issues, and therefore to higher stock compared to the previous year, which allowed for greater diversification in the forms of funding and a duration greater than the previous funding mix.

The cost of funding also includes reversal of the positive component coming from the previously expected rate of -40 bps on the amount resulting from participation in the TLTRO II auction (for € 123 million in June 2016), equal to € 0.8 million as previously recognised.

Financial assets at 31 December 2018 were largely composed of the negative yield on Italian government bonds and the above par acquisition of a loan portfolio consisting of collateral-backed loans.

NET FEE AND COMMISSION INCOME (€,000)	2018	2017	€ Change	% Change
Fee and commission income				
Collection activities	1,127	1,014	113	11.1%
Factoring activities	15,772	11,462	4,310	37.6%
Other	726	571	155	27.1%
Total fee and commission income	**17,625**	**13,047**	**4,578**	**35.1%**
Fee and commission expense				
Placement	(1,837)	(1,940)	103	-5.3%
Other	(531)	(440)	(91)	20.7%
Total fee and commission expense	**(2,368)**	**(2,380)**	**12**	**-0.5%**
Net fee and commission income	**15,257**	**10,667**	**4,590**	**43.0%**

Net fee and commission income of € 15.3 million increased by 43% due to the greater commissions from factoring. These 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.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year, while other fee and commission income, which primarily includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 192 thousand, have increased.

The placement fees and commissions paid to third parties decreased slightly; they include the origination costs of factoring receivables of € 1,186 thousand (€ 1,405 thousand last year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product on volumes placed in Germany, Austria and Spain.

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

PROFIT FROM THE SECURITIES PORTFOLIO (€,000)	2018	2017	€ Change	% Change
Net trading income (expense)				
Realised gains (losses)	(125)	18	(143)	<100%
Total	**(125)**	**18**	**(143)**	**<100%**
Gain from sales or repurchases				
Gains from HTCS portfolio debt instruments	1,167	931	236	25.3%
Total	**1,167**	**931**	**236**	**25.3%**
Total profit from the securities portfolio	**1,042**	**949**	**93**	**9.8%**

Net trading income (expense) is mainly generated by the market value of the Italian government bonds included in the trading portfolio that have suffered a decrease in fair value as a result of the continuing tensions in the financial markets. The short remaining duration of the securities in the trading portfolio sold during the fourth quarter of 2018 made it possible to recover the temporary loss from market valuation that had emerged at 30 September 2018. The gains generated by the proprietary HTCS portfolio made a greater contribution than in the previous year.

Impairment losses on loans and receivables at 31 December 2018 amounted to € 6.8 million and were up on the previous year, inasmuch as 2017 had been influenced by releases of € 3.9 million tied to bad exposures with troubled local authorities; net of these releases, these impairment losses are decreasing. On the other hand, while not significant, the new method resulting from the application of IFRS 9, which is based on an "expected loss" model compared to the previous "incurred loss" model, led to an increase in impairment losses on performing loans classified as stage 2. The loss rate at 31 December 2018 amounts to 33 bps.

PERSONNEL EXPENSE (€,000)	2018	2017	€ Change	% Change
Wages and salaries	(18,529)	(16,427)	(2,102)	12.8%
Social security contributions and other costs	(307)	(329)	22	-6.70%
Directors' and statutory auditors' remuneration	(975)	(793)	(182)	23.0%
Total	**(19,811)**	**(17,549)**	**(2,262)**	**12.9%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 146 to 174, an increase in an additional cost component related to the variable portion and some new non-compete agreements executed.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2018	2017	€ Change	% Change
IT expenses	(4,372)	(4,354)	(18)	0.4%
Consultancy	(3,696)	(3,150)	(546)	17.3%
Servicing and collection activities	(2,736)	(3,063)	327	-10.7%
Rent and related fees	(2,195)	(1,963)	(232)	11.8%
Indirect taxes and duties	(2,010)	(1,658)	(352)	21.2%
Resolution Fund	(942)	(807)	(135)	16.7%
Car hire and related fees	(858)	(863)	5	-0.6%
Expense reimbursement and entertainment	(726)	(697)	(29)	4.2%
Advertising	(568)	(284)	(284)	100.0%
Expenses related to management of the SPVs	(536)	(462)	(74)	16.0%
Insurance	(385)	(349)	(36)	10.3%
Other	(365)	(416)	51	-12.3%
Audit fees	(295)	(265)	(30)	11.3%
Membership fees	(265)	(262)	(3)	1.1%
Infoprovider expenses	(255)	(278)	23	-8.3%
Maintenance of movables and real properties	(235)	(112)	(123)	109.8%
Telephone and postage expenses	(175)	(177)	2	-1.1%
Stationery and printing	(96)	(99)	(3)	-3.0%
Total	**(20,710)**	**(19,259)**	**(1,451)**	**7.5%**

IT expenses, which represent the most significant cost, remained in line with the previous year despite the increase in business.

The increase in consulting expenses is mainly due to the costs incurred in 2018 for the assignment of the rating and admission to listing of the securities of the Quinto Sistema Sec. 2017 securitisation, which also included the merger of the previous Quinto Sistema Sec. 2016 securitisation into it.

The increase in indirect taxes and duties is mainly due to the increase in contributions paid for the enforceable injunctions deposited with Public Administration.

Contributions to the Resolution Fund, up again versus the previous year, amounted to € 942 thousand.

The Bank has never become a member of the Voluntary Deposit Guarantee Fund, but only of the mandatory fund. As such, the Bank did not contribute to the subscription of the subordinated bond issued by Carige.

Pro-forma total income

PRO-FORMA TOTAL INCOME (€,000)	2018	2017
Net interest income	74,746	70,809
Change in % expected recovery of default interest	7,746	(3,745)
Pro-forma net interest income	**82,492**	**67,064**
Net fee and commission income	15,257	10,667
Dividends and similar income	227	227
Net trading income (expense)	(125)	18
Gain from sales or repurchases of financial assets	1,167	931
Pro-forma total income	**99,018**	**78,907**

The figures for the years ended 31 December 2018 and 2017 set out above have been restated to emphasise and ensure the comparability of the accounting impact of the change in the estimate of the expected recovery of default interest.

In particular, total income has been restated as if the current probability of collection of default interest had also been applied in the previous years.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Cash and cash equivalents	288	161	127	78.9%
Financial assets measured at fair value through profit or loss		1,201	(1,201)	n.a.
Financial assets measured at fair value through other comprehensive income	304,469	285,610	18,859	6.6%
Financial assets measured at amortised cost	2,801,813	1,981,105	820,708	41.4%
a) loans and receivables with banks	56,694	35,809	20,885	58.3%
b1) loans and receivables with customers - loans	2,309,708	1,861,118	448,590	24.1%
b2) loans and receivables with customers - debt instruments	435,411	84,178	351,233	>100%
Equity investments	19,278	16,222	3,056	18.8%
Property and equipment	710	814	(104)	-12.8%
Intangible assets	1,788	1,790	(2)	-0.1%
Tax assets	7,626	10,083	(2,457)	-24.4%
Non-current assets held for sale and disposal groups	2,221	-	2,221	n.a.
Other assets	11,960	13,441	(1,481)	-11.0%
Total assets	**3,150,153**	**2,310,427**	**839,726**	**36.3%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 in continuity with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9. The reader is referred to the following paragraphs and notes to the financial statements for a description and presentation of the effects resulting from application of IFRS 9.

The year ended 31 December 2018 closed with total assets up 36.3% (at € 3.2 billion) on the end of 2017, mainly due to the effect of the increase in the portfolios of receivables with customers and the securities portfolio.

The government securities portfolio, which was included in the item Financial assets measured at fair value through profit or loss ("HTS"), was completely disposed of during the fourth quarter, thus recovering the temporary loss recognised until 30 September 2018.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income (“HTCS” or “Held to Collect and Sell”) of the Bank is mainly comprised of Italian government bonds with an average remaining duration of about 1 year and 1.5 months (the average remaining duration at the end of 2017 was 7.3 months). This is consistent with the Bank investment policy. The government securities portfolio amounted to € 300 million at 31 December 2018 (€ 279 million at 31 December 2017). The associated valuation reserve was negative at the end of the year, amounting to € 1.5 million before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million and purchased in July 2015, and the Axactor Norway shares, which at 31 December 2018 had a break-even net fair value reserve, resulting in a year-end amount of € 1.2 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Factoring	1,566,613	1,285,726	280,887	21.8%
Salary-/pension-backed loans (CQS/CQP)	652,040	500,480	151,560	30.3%
Loans to SMEs	27,549	55,581	(28,032)	-50.4%
Current accounts	38,473	16,803	21,670	>100%
Pledge on receivables	6,428	1,366	5,062	>100%
Compensation and Guarantee Fund	17,413	865	16,548	>100%
Other loans and receivables	1,192	297	895	>100%
Total loans	**2,309,708**	**1,861,118**	**448,590**	**24.1%**
Securities	435,411	84,178	351,233	>100%
Total loans and receivables with customers	**2,745,119**	**1,945,296**	**799,823**	**41.1%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Hold to Collect"), is composed of loan receivables with customers and, beginning in 2018, the securities portfolios that were classified separately until 31 December 2017 in the line "held-to-maturity securities".

Outstanding loans for factoring receivables compared to the total in the item, excluding the amounts of the securities portfolio, were unchanged from the end of 2017 at 68%. Their absolute value grew as a result of turnover generated during the year which was up by 20% compared to last year to € 2,406 million (€ 2,010 million at 31 December 2017). Salary- and pension-backed loans grew in terms of their outstanding amount thanks to new loans, which fell by 18% compared to the previous year (the new volumes acquired during the year amounted to € 212 million), while government-backed loans to SMEs fell, which is in line with the strategic decision to discontinue this line of business.

At the end of 2016, the Bank began developing the collateralised loan business. Accordingly, in addition to the Milan, Rome and Pisa branches, the branches in Naples, Palermo and Rimini were opened. Outstanding volumes at 31 December 2018, totalling € 6.4 million, are the result of loans granted during the year of € 9.2 million, which includes the acquisition of three portfolios of third party receivables amounting to € 1.9 million.

The increase in exposure to the Compensation and Guarantee Fund is due to the increase in the number of repurchase agreements as well as to the increased volatility of the underlying securities.

Securities are composed entirely of Italian government securities with an average duration of 2 years and 2 months for an amount of € 435 million.

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

STATUS	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2018
Bad exposures	44,577	44,867	53,412	60,566	57,467
Unlikely to pay	24,061	37,621	30,765	31,305	87,189
Past due	74,690	76,626	89,355	97,263	80,507
Non-performing	**143,328**	**159,114**	**173,532**	**189,134**	**225,163**
Performing	**1,745,673**	**1,788,833**	**2,016,559**	**2,122,685**	**2,119,998**
Stage 2	-	73,131	67,260	101,813	106,473
Stage 1	-	1,715,702	1,949,299	2,020,872	2,013,525
Total loans and receivables with customers	**1,889,001**	**1,947,947**	**2,190,091**	**2,311,819**	**2,345,161**
Individual impairment losses	**22,293**	**23,413**	**26,629**	**27,662**	**29,169**
Collective impairment losses	**5,590**	**5,324**	**5,496**	**5,856**	**6,284**
Stage 2	-	454	437	569	579
Stage 1	-	4,870	5,059	5,287	5,705
Total impairment losses	**27,883**	**28,737**	**32,125**	**33,518**	**35,453**
Net exposure	**1,861,118**	**1,919,210**	**2,157,966**	**2,278,301**	**2,309,708**

The ratio of gross non-performing loans to the total portfolio went from 7.6% at 31 December 2017 to 9.6% at the end of 2018. The increase in the absolute value of non-performing loans compared to 31 December 2017 is mainly due to a new factoring position with a local authority: since local authorities are not subject to bankruptcy and knowing that the receivable will be collected in full, including default interest, there are doubts as to whether it is correct to classify it as non-performing. In-depth analyses are underway to understand whether substance should prevail over form. If the substance prevails, the receivables from troubled local authorities that are not subject to bankruptcy proceedings should no longer be included among non-performing loans. The amount of past due loans is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.7% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 13%.

Equity investments include the acquisition for € 0.6 million of a 19.90% stake in the share capital of ADV Finance S.p.A. (“ADV Finance”), and 19.90% of its subsidiary Procredit S.r.l. for € 0.2 million, as well as LASS S.r.l., the Group's real estate company. During the fourth quarter, the 10% equity investment in Axactor Italy S.p.A. was reclassified under Non-current assets held for sale and disposal groups, following the Board of Directors' resolution of December 2018 to sell the same equity investment through the exercise of the put option provided for in the contract. The carrying amount, which according to the International Financial Reporting Standards is the lower of the carrying amount and the fair value, is € 2,221 thousand.

Other assets include amounts being processed after the end of the year and advance tax payments of approximately € 7.5 million.

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

LIABILITIES AND EQUITY (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Financial liabilities measured at amortised cost	2,902,240	2,083,435	818,805	39.3%
a) due to banks	695,197	517,533	177,664	34.3%
b) due to customers	1,902,056	1,284,132	617,924	48.1%
c) securities issued	304,987	281,770	23,217	8.2%
Tax liabilities	15,676	10,118	5,558	54.9%
Other liabilities	65,234	71,916	(6,682)	-9.3%
Post-employment benefits	2,402	2,172	230	10.6%
Provisions for risks and charges	9,221	6,698	2,523	37.7%
Valuation reserves	(1,131)	367	(1,498)	<100%
Reserves	118,988	98,659	20,329	20.6%
Share capital	9,651	9,651	-	-
Treasury shares (-)	(199)	(149)	(50)	33.6%
Profit for the year	28,071	27,560	511	1.9%
Total liabilities and equity	**3,150,153**	**2,310,427**	**839,726**	**36.3%**

The comparative data represent a mere restatement of the statutory figures at 31 December 2017 in continuity with respect to the previously applicable accounting standard IAS 39. Therefore, they do not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9.

Wholesale funding, which represents about 41% (51% at 31 December 2017) of the total, rose in absolute terms from the end of 2017 following the increase in ECB deposits. The contribution of bond funding to total wholesale funding was 34.2% (36.5% at 31 December 2017).

DUE TO BANKS (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Due to Central banks	412,850	192,064	220,786	>100%
Due to banks	282,347	325,469	(43,122)	-13.2%
Current accounts and demand deposits	*53*	*13,969*	*(13,916)*	*-99.6%*
Term deposits	*282,294*	*311,500*	*(29,206)*	*-9.4%*
Totale	**695,197**	**517,533**	**177,664**	**34.3%**

The total of the sub-item "Due to banks" increased by 34.3% compared to 31 December 2017 due to the increase in funding through refinancing with the ECB, whose underlying assets are primarily ABS from the salary- and pension-backed loans (CQS/CQP) securitisation.

DUE TO CUSTOMERS (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Term deposits	958,193	447,093	511,100	>100%
Financing (repurchase agreements)	179,819	215,623	(35,804)	-16.6%
Current accounts	660,582	510,349	150,233	29.4%
Due to assignors	87,397	72,108	15,288	21.2%
Other payables	16,065	38,959	(22,894)	-58.8%
Total	**1,902,056**	**1,284,132**	**617,924**	**48.1%**

Customer deposits increased compared to the end of the year, mainly due to an increase in funding from term deposits and partly from current accounts. The year-end amount of term deposits increased by more than 100% compared to the end of 2017, reflecting net positive deposits (net of interest accrued) of € 469 million; gross deposits from the beginning of the year were € 1,071 million, against withdrawals caused mainly by non-renewals totalling € 603 million.

Due to customers also includes financing of € 16 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank.

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

SECURITIES ISSUED (€,000)	31.12.2018	31.12.2017	€ Change	% Change
Bond - Tier I	8,017	8,017	-	-
Bond - Tier II	31,570	28,703	2,867	10.0%
Bonds - other	265,400	245,050	20,350	8.3%
Total	**304,987**	**281,770**	**23,217**	**8.2%**

The nominal amount of securities issued at 31 December 2018 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7%;
- Tier 2 subordinated loan of € 12 million, set to mature on 15 November 2022 and with a variable coupon equal to 6-month Euribor + 5.5%;
- Tier 2 subordinated loan of € 19.5 million, set to mature on 30 March 2027 and with a variable coupon equal to 6-month Euribor + 4.5%;
- Senior bonds (market placement) of € 175 million, set to mature on 13 October 2020 and with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 90 million, set to mature on 31 May 2021 and with a fixed coupon of 2%.

At the end of May a senior bond was successfully issued in a club deal reserved for institutional investors that are not related parties, for a total subscribed amount of € 90 million, a term of three years, with a fixed rate and an all-inclusive cost of 200 bps. This issue replaced the senior loan of € 75 million which expired in May.

The provision for risks and charges of € 9.2 million includes the estimated liabilities attributable to the Beta acquisition, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the update to the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to legal actions within the framework of a lending transaction in which the end borrower is bankrupt, and the estimated charges for labour-related lawsuits and legal disputes.

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.

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2018	31.12.2017
Common Equity Tier 1 (CET1)	**146,549**	**127,119**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**154,549**	**135,119**
TIER2	28,799	28,239
Total Own Funds (TC)	**183,348**	**163,358**
Total risk weighted assets	**1,308,721**	**1,049,315**
of which, credit risk	1,152,293	900,968
of which, operational risk	156,428	142,829
of which, market risk	-	2,402
of which, CVA	-	3,116
CET1	**11.2%**	**12.1%**
T1	**11.8%**	**12.9%**
TCR	**14.0%**	**15.6%**

Total own funds were € 183.3 million at 31 December 2018 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of Banca Sistema's profit.

The increase in RWAs compared to 31 December 2017 was primarily due to the increase in loans, particularly salary- and pension-backed loans and non-performing loans.

Starting from 1 January 2019, as a result of the increase in the capital conservation buffer from 1.875% to 2.500%, the OCR (Overall Capital Requirement) for Banca Sistema is as follows:

- CET1 ratio of 7.750% + additional +0.75% above the minimum regulatory requirement;
- TIER1 ratio of 9.500% + additional +1.0% above the minimum regulatory requirement;
- Total capital ratio of 11.850% + additional +1.35% above the minimum regulatory requirement.

The additional ratios remained unchanged from those already communicated last year.

At the ECOFIN meeting of 4 December 2018, a number of amendments to EU Regulation no. 575/2013, better known as the "CRR", were approved, including the reduction of the risk capital weighting for salary- (CQS) and pension-backed (CQP) loans. The amendment reduces the weighting to 35% from the current 75% for salary- and pension-backed personal loans. The deadline for its entry into force has not yet been set, as it may be at the same time as its publication in the Official Journal or it may be postponed for a certain amount of time.

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.
Based on evidence from the Shareholders' Register and more recent information available, as at 11 February 2019 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Finance Act) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Market	*53.47%*

Treasury shares

At 31 December 2018, after the launch in 2018 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 104,661 shares (equal to 0.13% of the share capital).

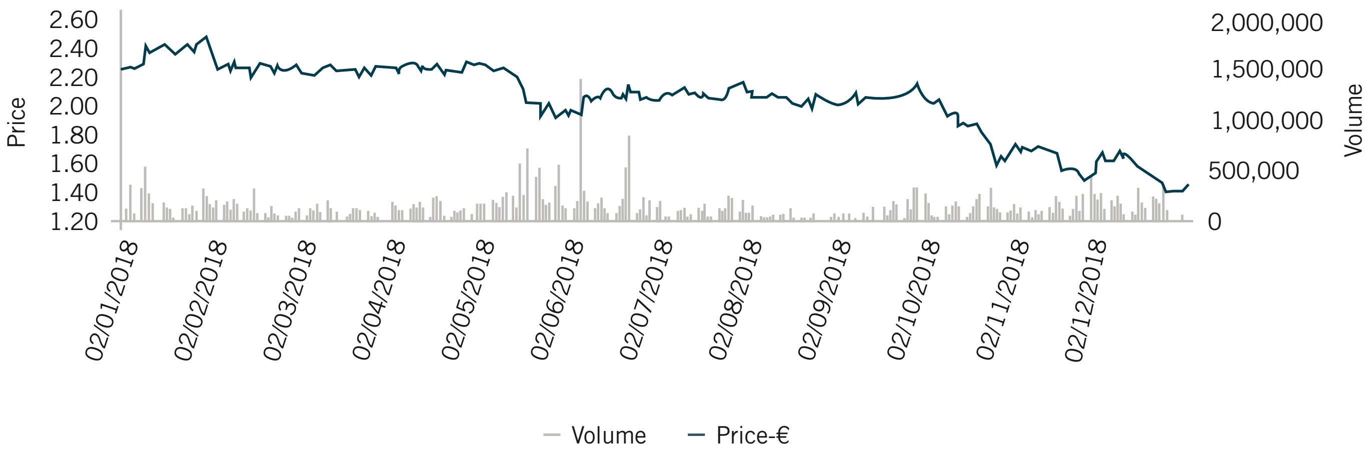
Stock performance

The shares of Banca Sistema are traded on the Mercato Telematico Azionario - Italian Equities Market (MTA) of the Italian Stock Exchange, STAR segment. The Banca Sistema stock is included in the following Italian Stock Exchange indices:

- FTSE Italia All-Share Capped;
- FTSE Italia All-Share;
- FTSE Italia STAR;
- FTSE Italia Servizi Finanziari;
- FTSE Italia Finanza;
- FTSE Italia Small Cap.

Investor Relations

During 2018, the Bank, in addition to the information provided through press releases and earnings conference calls with the market, also met with analysts and institutional investors, the latter both collectively and individually, for a total of around 150 investors (over 15% more than in 2017), also thanks to the participation in 16 events, including Conferences and Roadshows, in 8 European cities.



Source: Bloomberg

Reclassification reconciliation statement as at 31 December 2017

Below is a reconciliation statement between the approved financial statements at 31 December 2017, and the financial statements in accordance with the new Circular no. 262 from the Bank of Italy. Therefore, it does not represent net amounts resulting from retrospective application of the new accounting standard IFRS 9.

Statement of financial position - Liabilities	31.12.2017	Due to banks	Due to customers	Securities issued	Tax liabilities	Other liabilities	Post-employment benefits	Provisions for risks and charges	Equity	Total
Financial liabilities measured at amortised cost	2,083,434,873	-	-	-	-	-	-	-	-	**2,083,434,873**
a) due to banks	*517,532,691*	*517,532,691*	-	-	-	-	-	-	-	***517,532,691***
b) due to customers	*1,284,131,980*	-	*1,284,131,980*	-	-	-	-	-	-	***1,284,131,980***
c) securities issued	*281,770,202*	-	-	*281,770,202*	-	-	-	-	-	***281,770,202***
Tax liabilities	10,117,999	-	-	-	10,117,999	-	-	-	-	**10,117,999**
Other liabilities	71,916,098	-	-	-	-	71,916,098	-	-	-	**71,916,098**
Post-employment benefits	2,171,668	-	-	-	-	-	2,171,668	-	-	**2,171,668**
Provisions for risks and charges	6,698,378	-	-	-	-	-	-	6,698,378	-	**6,698,378**
Equity	136,087,543	-	-	-	-	-	-	-	136,087,543	**136,087,543**
Total liabilities and equity	**2,310,426,559**	**517,532,691**	**1,284,131,980**	**281,770,202**	**10,117,999**	**71,916,098**	**2,171,668**	**6,698,378**	**136,087,543**	**2,310,426,559**

Statement of financial position - Assets	31.12.2017	Cash and cash equivalents	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	Equity investments	Property and equipment	Intangible assets	Tax assets	Other assets	Total
Cash and cash equivalents	160,897	160,897	-	-	-	-	-	-	-	-	-	-	160,897
Financial assets measured at fair value through profit or loss	1,201,206	-	1,201,206	-	-	-	-	-	-	-	-	-	1,201,206
Financial assets measured at fair value through other comprehensive income	285,609,813	-	-	285,609,813	-	-	-	-	-	-	-	-	285,609,813
Financial assets measured at amortised cost	1,981,105,317	-	-	-	-	-	-	-	-	-	-	-	1,981,105,317
a) loans and receivables with banks	35,808,941	-	-	-		35,808,941		-	-	-	-	-	35,808,941
b) loans and receivables with customers	1,945,296,376	-	-	-	84,177,932	-	1,861,118,444	-	-	-	-	-	1,945,296,376
Equity investments	16,221,580	-	-	-	-	-	-	16,221,580	-	-	-	-	16,221,580
Property and equipment	813,636	-	-	-	-	-	-	-	813,636	-	-	-	813,636
Intangible assets	1,789,816	-	-	-	-	-	-	-	-	1,789,816	-	-	1,789,816
Tax assets	10,083,293	-	-	-	-	-	-	-	-	-	10,083,293	-	10,083,293
Other assets	13,441,001	-	-	-	-	-	-	-	-	-	-	13,441,001	13,441,001
Total Assets	**2,310,426,559**	**160,897**	**1,201,206**	**285,609,813**	**84,177,932**	**35,808,941**	**1,861,118,444**	**16,221,580**	**813,636**	**1,789,816**	**10,083,293**	**13,441,001**	**2,310,426,559**

An equity reconciliation statement is shown below with a description of the impact from application of IFRS 9. Additional details are provided in the Accounting policies section.

Book equity at 31 December 2017 (IAS 39)	**136,088**
FTA reserve	**(224)**
Application of the new impairment model	**(224)**
Performing loans (stages 1 and 2)	(273)
Non-performing loans (stage 3)	-
Debt instruments	(61)
Tax effect	110
Classification and measurement effects	**527**
Adjustment of carrying amount of financial assets deriving from application of the Business Model as a balancing entry for the valuation reserve	787
Tax effect	(260)
Total effects of transition to IFRS 9	**303**
Book equity at 1 January 2018 (IFRS 9)	**136,391**

Application of the new impairment rules ("expected credit losses") has resulted in:

- Greater impairment losses on performing loans by € 334 thousand (€ 224 thousand net of the tax effect), substantially related to the portion of the performing portfolio in Stage 2, based on the defined stage allocation criteria, with the consequent need to calculate the expected loss for the entire residual lifetime of the financial assets;
- Greater impairment losses on performing securities by € 61 thousand (€ 50 thousand net of the tax effect), mainly related to inclusion in the calculation of expected losses of new parameters set by the standard.

No additional impairment losses have been recognised on non-performing loans.

The impact deriving from first-time adoption of IFRS 9 on the consolidated CET 1 ratios of the Group is 2 bps. Therefore, the Bank has decided to allocate this impact in full to Equity.

With reference to the functioning of the "Risk Management System", the Bank has adopted a system based on four leading principles:

- suitable supervision by relevant bank bodies and departments;
- suitable policies and procedures to manage risks (both in terms of credit risk and the granting of loans);
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques;
- thorough internal controls and independent audit.

The "Risk Management System" is monitored by the Risk Department, which ensures that capital adequacy and the degree of solvency with respect to its business are kept under constant control.

The Risk Department continuously analyses the Bank's operations to fully identify the risks the Bank is exposed to (risk map).

To reinforce its ability to manage corporate risks, the Bank has set up a Risk and ALM Committee, whose mission is to help the Bank define strategies, risk policies, and profitability and liquidity targets.

The Risk and ALM Committee continuously monitors relevant risks and any new or potential risks arising from changes in the working environment or Bank forward-looking operations.

Pursuant to the eleventh amendment of Bank of Italy Circular no. 285/13, within the framework of the Internal Control System (Part I, Section IV, Chapter 3, Subsection II, Paragraph 5) the Bank entrusted the Internal Control and Risk Management Committee with the task of coordinating the second and third level Control Departments; to that end, the Committee allows the integration and interaction between these Departments, encouraging cooperation, reducing overlaps and supervising operations.

With reference to the risk management framework, the Bank adopts an integrated reference framework both to identify its own risk appetite and for the internal process of determining capital adequacy. This system is the Risk Appetite Framework (RAF), designed to make sure that the growth and development aims of the Bank are compatible with capital and financial solidity.

The RAF comprises monitoring and alert mechanisms and related processes to take action in order to promptly intervene in the event of discrepancies with defined targets. The framework is subject to annual review based on the strategic guidelines and regulatory changes.

The ICAAP (the Internal Capital Adequacy Assessment Process) allows the Bank to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Management Department, a specific project has been implemented related to the introduction of the new IFRS 9 "Financial Instruments" which will be mandatory starting from 1 January 2018. This initiative enabled the determination of the qualitative and quantitative impact on the financial statements, and the identification and implementation of the necessary organisational, internal policy and applicable IT system changes.

Regarding the monitoring of credit risk, the Bank, with the goal of attaining greater operating synergies, has incorporated the Collection Department into the Underwriting Department, and renamed it Central Credit Department. This Department reports directly to the CEO.

It should also be noted that, in accordance with the obligations imposed by the applicable regulations, each year the Bank publishes its report (Pillar 3) on capital adequacy, risk exposure and the general characteristics of the systems for identifying, measuring and managing risks. The report is available on the website www.bancasistema.it in the Investor Relations section.

In order to measure "Pillar 1 risks", the Bank has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate "Pillar 2 risks", the Bank adopts - where possible - the methods set out in the Regulatory framework or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Bank are assessed.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a “Report on corporate governance and ownership structure” has been drawn up; the document - published jointly with the draft separate financial statements as at and for the year ended 31 December 2017 - is available in the “Governance” section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of the Issuers’ Regulation implementing Legislative Decree No. 58 dated 24 February 1998, a “Remuneration Report” has been drawn up; the document - published jointly with the draft separate financial statements as at and for the year ended 31 December 2017 - is available in the “Governance” section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2018.

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 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 2018, the Bank did not carry out atypical or unusual transactions, as defined in Consob Communication 6064293 dated 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

On 9 January 2019, a put option was exercised that consists of the sale of all the shares of Axactor Italy that the parent Axactor AB is obliged to buy, as provided for in Article 3.5 of the existing shareholders' agreement, which is scheduled for 4 February 2019 for a price of € 2,399 thousand.

On 22 February 2019, the shareholders and quotaholders of Banca Sistema, Società di Gestione delle Partecipazioni in Banca Sistema S.r.l., Fondazione Sicilia and Fondazione Cassa di Risparmio di Alessandria, announced that they had determined that Article 3 (Board of Directors and Committees) and Article 5 (Consultation at the Shareholders' Meeting) of the Shareholders' Agreement, which became effective on 2 July 2018 and will expire on 1 July 2020, are not effective. The other provisions of the Agreement remain valid. These decisions do not affect the current composition of the Board of Directors, which will remain in office until it approves the financial statements as at and for the year ending 31 December 2020. An abstract of the Shareholders' Agreement, including the above amendments, which was drafted pursuant to article 129 of the Issuers' Regulation approved by Consob Resolution no. 11971/99, and essential information pursuant to article 130 of the Issuers' Regulation have been made available on the Parent's website www.bancasistema.it and on the storage mechanism authorised by Consob www.1info.it in accordance with the legal terms.

After the reporting date of these financial statements, 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.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The 2018 financial year ended with continuing growth in volumes in the factoring sector and in terms of salary- and pension-backed loans.

In 2019, the Bank will continue to follow the guidelines set out in the business plan and will continue to evaluate options for non-organic growth in the Bank's core business areas.

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2018, which we submit for your approval, show a profit for the year of € 28,070,559.59. We recommend allocating the profit for the year as follows:

- a dividend of € 6,996,631.52;
- the remainder of € 21,073,928.07 to retained earnings.

An allocation to the Legal Reserve was not made since the limits set out in Article 2430 of the Italian Civil Code were reached.

Milan, 1 March 2019

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in Euros)

	Assets	31.12.2018	31.12.2017 (*)
10.	Cash and cash equivalents	288,431	160,897
20.	Financial assets measured at fair value through profit or loss	-	1,201,206
	a) financial assets held for trading	-	1,201,206
30.	Financial assets measured at fair value through other comprehensive income	304,469,478	285,609,813
40.	Financial assets measured at amortised cost	2,801,812,681	1,981,105,317
	a) loans and receivables with banks	56,694,080	35,808,941
	b) loans and receivables with customers	2,745,118,601	1,945,296,376
70.	Equity investments	19,278,011	16,221,580
80.	Property and equipment	709,928	813,636
90.	Intangible assets	1,788,397	1,789,816
	goodwill	1,785,760	1,785,760
100.	Tax assets	7,626,222	10,083,293
	a) current	-	3,471,483
	b) deferred	7,626,222	6,611,810
110.	Non-current assets held for sale and disposal groups	2,220,930	-
120.	Other assets	11,959,252	13,441,001
	Total assets	**3,150,153,330**	**2,310,426,559**

(*) Restatement of the net amounts of the separate financial statements at 31 December 2017 in compliance with the new Circular no. 262 issued by the Bank of Italy.

	Liabilities and equity	31.12.2018	31.12.2017 (*)
10.	Financial liabilities measured at amortised cost	2,902,239,596	2,083,434,873
	a) due to banks	695,196,627	517,532,691
	b) due to customers	1,902,056,238	1,284,131,980
	c) securities issued	304,986,731	281,770,202
60.	Tax liabilities	15,676,925	10,117,999
	a) current	3,445,454	-
	b) deferred	12,231,471	10,117,999
80.	Other liabilities	65,235,054	71,916,098
90.	Post-employment benefits	2,402,013	2,171,668
100.	Provisions for risks and charges:	9,221,203	6,698,378
	a) commitments and guarantees issued	7,326	-
	c) other provisions for risks and charges	9,213,877	6,698,378
110.	Valuation reserves	(1,131,458)	366,663
140.	Reserves	79,803,766	59,391,440
150.	Share premium	39,184,038	39,267,909
160.	Share capital	9,650,526	9,650,526
170.	Treasury shares (-)	(198,893)	(149,428)
180.	Profit for the year	28,070,560	27,560,433
	Total liabilities and equity	**3,150,153,330**	**2,310,426,559**

(*) Restatement of the net amounts of the separate financial statements at 31 December 2017 in compliance with the new Circular no. 262 issued by the Bank of Italy.

INCOME STATEMENT

(Amounts in Euros)

		2018	2017 (*)
10.	Interest and similar income	99,889,812	90,293,622
	of which interest income calculated with the effective interest method	98,210,888	89,303,685
20.	Interest and similar expense	(25,144,185)	(19,484,342)
30.	**Net interest income**	**74,745,627**	**70,809,280**
40.	Fee and commission income	17,625,263	13,047,029
50.	Fee and commission expense	(2,367,900)	(2,379,853)
60.	**Net fee and commission income**	**15,257,363**	**10,667,176**
70.	Dividends and similar income	226,667	226,667
80.	Net trading income (expense)	(124,809)	18,204
100.	Gain from sales or repurchases of:	1,167,196	930,565
	b) financial assets measured at fair value through other comprehensive income	1,167,196	930,565
120.	**Total income**	**91,272,044**	**82,651,891**
130.	Net impairment losses on:	(6,814,326)	(5,352,297)
	a) financial assets measured at amortised cost	(6,812,268)	(5,352,297)
	b) financial assets measured at fair value through other comprehensive income	(2,058)	-
150.	**Net financial income**	**84,457,718**	**77,299,594**
160.	Administrative expenses:	(40,521,280)	(36,808,119)
	a) personnel expense	(19,811,309)	(17,549,337)
	b) other administrative expenses	(20,709,971)	(19,258,782)
170.	Net accruals to provisions for risks and charges	(414,040)	(8,228)
	b) other net accruals	(414,040)	(8,228)
180.	Net impairment losses on property and equipment	(400,881)	(268,567)
190.	Net impairment losses on intangible assets	(3,250)	(34,043)
200.	Other operating expense	(418,294)	(412,740)
210.	**Operating costs**	**(41,757,745)**	**(37,531,697)**
260.	**Pre-tax profit from continuing operations**	**42,699,973**	**39,767,897**
270.	Income taxes	(14,629,413)	(12,207,464)
300.	**Profit for the year**	**28,070,560**	**27,560,433**

(*) Restatement of the net amounts of the interim financial report at 31 December 2017 in compliance with the new Circular no. 262 issued by the Bank of Italy.

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2018	2017
10.	**Profit for the year**	**28,070,560**	**27,560,433**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	-
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	39,019	(56,148)
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	**-**
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	-
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(2,064,140)	(94,853)
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive expense, net of income tax**	**(2,025,121)**	**(151,001)**
180.	**Comprehensive income (Items 10+170)**	**26,045,439**	**27,409,432**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2018

(Amounts in Euros)

	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	Allocation of prior year profit		Changes during the year									**Equity at 31.12.2018**
							Transactions on equity								
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for 2018		
Share capital:															
a) ordinary shares	**9,650,526**	-	9,650,526	-	-	-	-	-	-	-	-	-	-		**9,650,526**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-		**-**
Share premium	**39,267,909**	-	39,267,909	-	-	(83,871)	-	-	-	-	-	-	-		**39,184,038**
Reserves	**59,391,440**	(223,650)	59,167,790	20,644,223	-	(8,247)	-	-	-	-	-	-	-		**79,803,766**
a) income-related	**60,201,614**	(223,650)	59,977,964	20,644,223	-	5,869	-	-	-	-	-	-	-		**80,628,056**
b) other	**(810,174)**	-	(810,174)	-	-	(14,116)	-	-	-	-	-	-	-		**(824,290)**
Valuation reserves	**366,663**	527,000	893,663	-	-	-	-	-	-	-	-	-	(2,025,121)		**(1,131,458)**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-		**-**
Treasury shares	**(149,428)**	-	(149,428)	-	-	(49,465)	-	-	-	-	-	-	-		**(198,893)**
Profit for the year	**27,560,433**	-	27,560,433	(20,644,223)	(6,916,210)	-	-	-	-	-	-	-	28,070,560		**28,070,560**
Equity	**136,087,543**	**303,350**	**136,390,893**	-	**(6,916,210)**	**(141,583)**	-	-	-	-	-	-	**26,045,439**		**155,378,539**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2017

(Amounts in Euros)

				Allocation of prior year profit		Changes during the year									
							Transactions on equity								
	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for 2017	**Patrimonio netto al 31.12.2017**
Share capital:														
a) ordinary shares	**9,650,526**	-	9,650,526	-	-	-	-	-	-	-	-	-	-	**9,650,526**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium	**39,351,779**	-	39,351,779	-	-	(83,870)	-	-	-	-	-	-	-	**39,267,909**
Reserves	**39,686,132**	-	39,686,132	18,369,013		1,336,295	-	-	-	-	-	-	-	**59,391,440**
a) income-related	**40,480,307**	-	40,480,307	18,369,013	-	1,352,294	-	-	-	-	-	-	-	**60,201,614**
b) other	**(794,175)**	-	(794,175)	-	-	(15,999)	-	-	-	-	-	-	-	**(810,174)**
Valuation reserves	**517,664**	-	517,664	-	-	-	-	-	-	-	-	-	(151,001)	**366,663**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**(52,476)**	-	(52,476)	-	-	52,476	-	(149,428)	-	-	-	-	-	**(149,428)**
Profit for the year	**24,481,013**	-	24,481,013	(18,369,013)	(6,112,000)	-	-	-	-	-	-	-	27,560,433	**27,560,433**
Equity	**113,634,638**	-	**113,634,638**	**-**	**(6,112,000)**	**1,304,901**	-	**(149,428)**	-	-	-	-	**27,409,432**	**136,087,543**

STATEMENT OF CASH FLOWS (direct method)

(Amounts in Euros)

	2018	2017
A. OPERATING ACTIVITIES		
1. Operations	**44,287,349**	**32,696,435**
▪ interest income collected	99,889,812	87,392,999
▪ interest expense paid	(25,144,185)	(16,583,720)
▪ dividends and similar income	226,667	226,667
▪ net fees and commissions	15,257,364	10,667,176
▪ personnel expense	(13,500,759)	(13,124,704)
▪ other expenses	(21,128,265)	(19,671,523)
▪ other income	-	-
▪ taxes and duties	(11,313,285)	(16,210,460)
▪ costs/income from discontinued operations, net of tax effect	-	-
2. Cash flows used for financial assets	**(845,378,424)**	**(312,651,152)**
▪ financial assets held for trading	1,076,397	(186,639)
▪ financial assets designated at fair value through profit or loss	-	-
▪ financial assets measured at fair value through profit or loss	-	-
▪ financial assets measured at fair value through other comprehensive income	(19,192,648)	145,922,484
▪ financial assets measured at amortised cost	(827,519,632)	(458,279,972)
▪ other assets	257,459	(107,025)
3. Cash flows generated by financial liabilities	**813,711,184**	**297,705,342**
▪ financial liabilities measured at amortised cost	818,804,723	278,136,529
▪ financial liabilities held for trading	-	-
▪ financial liabilities designated at fair value through profit or loss	-	-
▪ other liabilities	(5,093,539)	19,568,813
Net cash flows generated by operating activities	**12,620,109**	**17,750,625**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**-**
▪ sales of equity investments	-	-
▪ dividends from equity investments	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of business units	-	-
2. Cash flows used in	**(5,576,365)**	**(11,573,483)**
▪ purchases of equity investments	(5,277,361)	(11,300,064)
▪ purchases of property and equipment	(297,173)	(270,664)
▪ purchases of intangible assets	(1,831)	(2,755)
▪ purchases of business units	-	-
Net cash flows used in investing activities	**(5,576,365)**	**(11,573,483)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	-
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	(6,916,210)	(6,112,000)
Net cash flows used in financing activities	**(6,916,210)**	**(6,112,000)**
NET CASH FLOWS FOR THE YEAR	**127,534**	**65,142**

RECONCILIATION

Cash and cash equivalents at the beginning of the year	160,897	95,755
Total net cash flows for the year	127,534	65,142
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	288,431	160,897

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements of Banca Sistema S.p.A. at 31 December 2018 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005[8] as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

The International Financial Reporting Standards are applied by referring to the "Framework for the Preparation and Presentation of Financial Statements" (Framework).

If there is no standard or interpretation that applies specifically to a transaction, other event or circumstance, the Board of Directors uses its judgement to develop and apply an accounting standard in order to provide disclosure that:

- is relevant to the purposes of the financial decisions made by the users;
- is reliable, so that the separate financial statements:
  - faithfully represent the capital/financial position, the profit or loss and the cash flows of the bank;
  - reflect the economic substance of transactions, other events and circumstances and not merely the legal form;
  - are neutral, i.e. devoid of prejudice;
  - are prudent;
  - are complete, with reference to all relevant aspects.

When exercising the aforementioned judgement, the Board of Directors of the Bank has made reference to and considered the applicability of the following sources, described in descending order of importance:

- the provisions and application guidelines contained in the Standards and Interpretations governing similar or related cases;
- the definitions, recognition criteria and measuring concepts for accounting for the assets, liabilities, revenue, and costs contained in the "Framework".

When expressing an opinion, the Board of Directors may also consider the most recent provisions issued by other bodies that rule on accounting standards that use a similar "Framework" in concept for developing accounting standards, other accounting literature and consolidated practices in the sector.

In accordance with Art. 5 of Legislative Decree no. 38 of 28 February 2005, if, in exceptional cases, the application of a provision imposed by the IFRS were incompatible with the true and fair representation of the financial position or results of operations, the provision would not apply. The justifications for any exceptions and their influence on the presentation of the financial position and results of operations would be explained in the Notes to the separate financial statements.

Any profits resulting from the exception would be recognised in a non-distributable reserve if they did not correspond to the recovered amount in the financial statements. However, no exceptions to the IFRS were applied. The separate financial statements were audited by KPMG S.p.A.

SECTION 2 - General basis of preparation

The financial statements are drawn up with clarity and give a true and fair view of the financial position, profit or loss, cash flows, and changes in equity and comprise the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and

[8] With the 5th update of Circular no. 262 published on 22 December 2017, the new provisions introduced by IFRS 9 and IFRS 1 were transposed. For the sake of completeness, it should be noted that, on 30 November 2018, the Bank of Italy published the 6th update of Circular no. 262. The update, which transposes the changes introduced by IFRS 16, will be effective for financial years ending on or after 31 December 2019.

the notes to the separate financial statements.

The separate financial statements are accompanied by the Director's Report on the Bank's performance.

If the information required by the IFRS and provisions contained in Circular no. 262 of 22 December 2005 and/or the subsequent updates issued by the Bank of Italy are not sufficient to give a true and fair view that is relevant, reliable, comparable and understandable, the notes to the separate financial statements provide the additional information required.

The general principles that underlie the drafting of the separate financial statements are set out below:

- the measurements are made considering that the bank will continue as a going concern guaranteed by the financial support of the Shareholders;
- costs and income are accounted for on an accruals basis;
- to ensure the comparability of the data and information in the separate financial statements and the notes to the separate financial statements, the methods of presentation and classification are kept constant over time unless they are changed to present the data more appropriately;
- each material class of similar items is presented separately in the statement of financial position and income statement; items of a dissimilar nature or function are presented separately unless they are considered immaterial;
- items that have nil balances at year end or for the financial year or for the previous year are not indicated in the statement of financial position or the income statement;
- if an asset or liability comes under several items in the statement of financial position, the notes to the separate financial statements make reference to the other items under which it is recognised if it is necessary for a better understanding of the separate financial statements;
- the items are not offset against one another unless it is expressly requested or allowed by an IFRS or an interpretation or the provisions of the aforementioned Circular no. 262 of 22 December 2005 as amended by the Bank of Italy;
- the separate financial statements are drafted by favouring substance over form and in accordance with the principle of materiality and significance of the information;
- comparative data for the previous financial year are presented for each statement of financial position and income statement item; if the items are not comparable to those of the previous year, they are adapted and the non-comparability and adjustment/or impossibility thereof are indicated and commented on in the notes to the separate financial statements;
- the layout recommended by the Bank of Italy was used with reference to the information reported in the notes to the separate financial statements; they were not presented if they were not applicable to the bank's business.

Within the scope of drawing up the separate 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 year.

The use of estimates is essential to preparing the separate financial statements. In particular, the most significant use of estimates and assumptions in the separate 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 separate financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

Pursuant to the provisions of Art. 5 of Legislative Decree no. 38 of 28 February 2005, the separate financial statements use the Euro as the currency for accounting purposes. The separate financial statements are expressed in Euro. Unless otherwise stated, the notes to the separate financial statements are expressed in thousands of Euro.

The transition to financial reporting standard IFRS 9

Regulatory provisions

The new financial reporting standard IFRS 9, issued by the IASB in July 2014 and endorsed by the European Commission through Regulation no. 2067/2016, replaced IAS 39 effective as of 1 January 2018.

IFRS 9 has introduced significant changes, particularly in regard to the following aspects:

- Classification and measurement of financial instruments;
- Impairment;
- Hedge Accounting.

The new international financial reporting standard "IFRS 9 - Financial Instruments" (the "Standard"), in force since 1 January 2018, replaces accounting standard "IAS 39 - Financial Instruments: Recognition and Measurement" for the measurement and recognition of financial instruments.

The Standard imposes new rules for classifying financial assets in the following categories:

- Amortised Cost - "AC": this category implies use of the amortised cost measurement method;
- Fair Value through Other Comprehensive Income - "FVOCI": this classification entails measurement at fair value, with recognition of the changes in fair value in a special equity reserve. This reserve is transferred to profit or loss when the financial instrument is sold/redeemed;
- Fair Value through Profit or Loss - "FVTPL": this class governs the measurement of instruments at fair value, with recognition of changes in profit or loss. The FVTPL category is defined by the Standard as a residual category, in which the financial instruments that cannot be classified in the preceding categories are classified based on the Business Model or the results of the test on the characteristics of contractual cash flows (SPPI test).

The classification is then made according to the Business Model that the Bank has associated with each of the identified portfolios and the characteristics of the contractual cash flows of the financial instrument.

The classification and measurement of financial assets represented by loans and receivables and instruments are based on a two-step approach:

- association of the Business Model with the identified uniform portfolios, where the aggregation by uniform portfolios is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective;
- analysis of the characteristics of the contractual cash flows of the instrument carried out on the individual assets at the origination date.

Thus, the Business Model represents the way in which the Bank manages its financial assets, i.e. with which it intends to realise the cash flows of the debt instruments. It reflects the way in which groups of financial assets are managed together to achieve a particular business objective. It does not depend on management intentions concerning an individual instrument but is decided at a higher level of aggregation.

The possible Business Models delineated by the

Standard are as follows:

- "Hold to collect (HTC)": this requires the realisation of contractually agreed cash flows. This Business Model is associated with assets that will presumably be held until maturity (IFRS 9 - B4.1.2C);
- "Hold to Collect and Sell (HTCS)": this calls for the realisation of cash flows as contractually agreed or through sale of the instrument. This Business Model is associated with assets that may be held until maturity, but also sold (IFRS 9 – B4.1.4);
- "Other": this calls for the realisation of cash flows through disposal of the instrument. This Business Model is associated with assets whose cash flows will be realised through trading (IFRS 9 - B4.1.5).

As regards impairment, the new financial reporting standard requires:

- the introduction of a model for expected loss on loans and debt instruments recognised at Amortised Cost or FVTOCI;
- inclusion of Irrevocable Commitments and Guarantees Issued in the scope;
- introduction of the 3-stage portfolio classification according to the deterioration of the credit risk, i.e. stage 1 for performing loans, stage 2 for under-performing loans, and stage 3 for non-performing loans;
- a calculation of expected credit losses ("ECLs") for either a "lifetime" or on a 12-month horizon according to the stage;
- the need to incorporate forward-looking information tied, among other things, to the developments in the macroeconomic scenario.

When calculating impairment losses on loans and receivables classified in stage 1, the expected loss in the first year is considered, while for the loans classified in stages 2 and 3, the expected losses are calculated on a lifetime basis.

Adoption of IFRS 9

In regard to the methods used to present the effects of first-time adoption of the Standard, the Bank has exercised the option envisaged in paragraph 7.2.15 of IFRS 9 and paragraphs E1 and E2 of IFRS 1 "First-Time Adoption of International Financial Reporting Standards". According to those rules – without prejudice to retrospective application of the new measurement and presentation rules prescribed by the Standard – there is no obligation to restate the comparative data in the financial statements on a uniform basis in the financial statements prepared upon first-time adoption of the new standard. According to the instructions given in the report accompanying issuance of Circular no. 262 "Bank financial statements: forms and drafting rules" - version 5 of 22 December 2017, the banks that claim exemption from the obligation to restate their comparative values will nonetheless have to include, in the first financial statements prepared pursuant to the update to Circular no. 262, a reconciliation statement showing the method used and provide a reconciliation between the data of the last approved financial statements and the first financial statements prepared in accordance with the new rules. Moreover, the form and contents of that disclosure will depend on the autonomous choices of the delegated corporate bodies.

The main areas of impact as previously defined are briefly examined as follows.

The effects of first-time adoption (FTA) of IFRS 9

Classification and measurement of financial instruments

Application of the new classification and measurement methods introduced by IFRS 9 has resulted in reclassification of the securities held in the HTM portfolio pursuant to IAS 39 among financial assets measured at amortised cost. No other effects deriving from definition of the business models and the SPPI test have been recognised.

Impairment

Application of the new impairment rules ("expected credit losses") has resulted in:

- greater impairment losses on performing loans by € 273 thousand (€ 183 thousand net of the tax effect), substantially related to the portion of the performing portfolio in Stage 2, based on the defined stage allocation criteria, with the consequent need to calculate the expected loss for the entire residual lifetime of the financial assets;

- greater impairment losses on performing securities by € 61 thousand (€ 41 thousand net of the tax effect), mainly related to inclusion in the calculation of expected losses of new parameters set by the standard.

No additional impairment losses have been recognised on non-performing loans.

Details are provided in the table below:

STATUS	31.12.2017	FTA	01.01.2018
Bad exposures	44,577	-	44,577
Unlikely to pay	24,061	-	24,061
Past due/overdrawn	74,690	-	74,690
Gross non-performing loans - Stage 3	**143,328**	-	**143,328**
Individual impairment losses	(22,293)	-	(22,293)
Total net non-performing loans	**121,035**	-	**121,035**
Gross performing loans	**1,745,673**	-	**1,745,673**
Performing - Stage 1	-	1,630,418	1,630,418
Performing - Stage 2	-	115,255	115,255
Collective impairment losses	**(5,590)**	**(241)**	**(5,831)**
of which Stage 1	(5,152)	(49)	(5,201)
of which Stage 2	(438)	(192)	(630)
Total net performing loans	**1,740,083**	**-**	**1,739,842**
Gross exposure on securities	363,025	-	363,025
Impairment losses on securities	-	(61)	(61)
Net exposure	**363,025**	**-**	**362,964**
Gross off-statement of financial position exposure	645	-	645
Impairment losses on endorsement credit	**-**	(23)	(23)
Net exposure	**645**	**-**	**622**
Gross exposure on loans and receivables with banks	-	-	-
Impairment losses on endorsement credit	-	(9)	(9)
Net exposure	**-**	**-**	**(9)**

The following tables show the reconciliation between the net balances on the statement of financial position at 31 December 2017 (under IAS 39) and the opening balances at 1 January 2018, which include the effect of first-time adoption of IFRS 9.

Reconciliation between the statement of financial position at 31 December 2017 (under IAS 39) and the statement of financial position at 1 January 2018 (IFRS 9).

STATEMENT OF FINANCIAL POSITION - ASSETS (Amounts in Euros)	31.03.2018	31.12.2017	Change in opening balances	01.01.2018
Cash and cash equivalents	198,839	160,897	-	160,897
Financial assets measured at fair value through profit or loss	843,591	1,201,206	-	1,201,206
Financial assets measured at fair value through other comprehensive income	453,500,917	285,609,813	84,903,608	370,513,421
Financial assets measured at amortised cost	2,075,748,467	1,981,105,317	(84,450,870)	1,896,654,447
a) loans and receivables with banks	*24,532,502*	*35,808,941*	-	*35,808,941*
b) loans and receivables with customers	*2,051,215,965*	*1,945,296,376*	*(84,450,870)*	*1,860,845,506*
Equity investments	16,371,354	16,221,580	-	16,221,580
Property and equipment	836,289	813,636	-	813,636
Intangible assets	1,788,235	1,789,816	-	1,789,816
Tax assets	8,129,968	10,083,293	110,505	10,193,798
Other assets	15,299,024	13,441,001	-	13,441,001
Total Assets	**2,572,716,684**	**2,310,426,559**	**563,243**	**2,310,989,802**

STATEMENT OF FINANCIAL POSITION - LIABILITIES (Amounts in Euros)	31.03.2018	31.12.2017	Change in opening balances	01.01.2018
Financial liabilities measured at amortised cost	2,326,279,707	2,083,434,873	-	2,083,434,873
a) due to banks	*566,194,371*	*517,532,691*	-	*517,532,691*
b) due to customers	*1,477,072,064*	*1,284,131,980*	-	*1,284,131,980*
c) securities issued	*283,013,272*	*281,770,202*	-	*281,770,202*
Financial liabilities held for trading	10,218,656	-	-	-
Tax liabilities	10,331,202	10,117,999	260,226	10,378,225
Other liabilities	76,212,229	71,916,098	-	71,916,098
Post-employment benefits	2,237,359	2,171,668	-	2,171,668
Provisions for risks and charges	6,862,512	6,698,378	-	6,698,378
Valuation reserves	214,082	366,663	526,667	893,330
Reserves	86,729,390	59,412,408	(223,650)	59,188,758
Share premium	39,246,941	39,246,941	-	39,246,941
Share capital	9,650,526	9,650,526	-	9,650,526
Treasury shares (-)	(145,671)	(149,428)	-	(149,428)
Profit for the period/year (+/-)	4,879,751	27,560,433	-	27,560,433
Total liabilities and equity	**2,572,716,684**	**2,310,426,559**	**563,243**	**2,310,989,802**

Finally, in the Statement of "Reconciliation between equity calculated under IAS 39 and equity calculated under IFRS 9", shown below, a quantitative disclosure is provided on the principal effects on Equity.

Book equity at 31 December 2017 (IAS 39)	**136,088**
FTA reserve	**(224)**
Application of the new impairment model	**(224)**
Performing loans (stages 1 and 2)	(273)
Non-performing loans (stage 3)	-
Debt instruments	(61)
Tax effect	110
Classification and measurement effects	**527**
Adjustment of carrying amount of financial assets deriving from application of the Business Model as a balancing entry for the valuation reserve	787
Tax effect	(260)
Total effects of transition to IFRS 9	**303**
Book equity at 1 January 2018 (IFRS 9)	**136,391**

The impact deriving from first-time adoption of IFRS 9 on the CET 1 ratio of Banca Sistema is 2 bps. Therefore, the Bank has decided to allocate this impact in full to Equity.

IFRS 15

With regard to the introduction of IFRS 15, the analyses carried out did not reveal any significant impact on the accounts.

IFRS 16

Effective from 1 January 2019, IFRS 16 "Leases" will replace the current IAS 17 "Leases".

This standard introduces new accounting requirements for lessees (i.e. the user of the assets that are the object of the lease) which define a lease as a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Under this new approach, starting on 1 January 2019, the right to use the leased asset will be recognised on the asset side of the statement of financial position, and the liability for future lease payments still to be paid to the lessor will be recognised on the liability side of the statement of financial position.

In addition, recognition in the income statement will also differ under this new method, whereby for lease payments previously recognised under administrative expenses, under IFRS 16 the depreciation of the "right-of-use" asset and interest expense on the lease liability will be recognised.

The economic impact does not change over the lease term, but is instead allocated differently over time. In 2018, the Bank carried out a special recognition project for all contracts so as to identify which were affected by the new accounting standard and the impact on the statement of financial position and income statement. From an information point of view, the external software house that supplies the Bank with accounting information systems has developed a system to handle the operations.

The analysis of the contracts revealed that there were impacts regarding property and company car leases. Property leases represent the most significant implementation impact area in terms of estimated rights of use.

The Bank's choices

The Bank has chosen to use the modified retrospective approach for the first-time application (FTA), which permits the recognition of the cumulative effect of applying the Standard at the date of initial application and excludes the restatement of comparative data from the financial statements prepared upon first-time adoption of IFRS 16. Therefore, the figures for 2019 will not be comparable for the valuation of the rights of use and the corresponding lease liability. Contracts with a residual duration of less than or equal to 12 months were excluded.

With reference to the duration of the lease, at the date of initial application the Group has decided to consider only the term of the contract, without considering renewals as reasonably certain, unless there are particular contractual clauses, facts or circumstances which indicate that additional renewals should be considered or that the lease should be terminated.

With regard to the discount rate, the Group has decided to use the average cost of funding.

The estimated impact on the opening balances following the application of IFRS 16 using the modified retrospective approach resulted in an increase in assets due to the recognition of the right of use of € 7 million, and an increase in financial liabilities (payable to the lessor) for the same amount. Consequently, there is no impact on equity since, following the decision to adopt the modified approach (option B), on first-time application the two amounts, assets and liabilities, are the same.

The increase in RWAs due to the recognition of the total estimated rights of use results in a negative impact on CET 1 of about 6 bps.

SECTION 3 - Subsequent events

With regard to IAS 10, after 31 December 2018, the reporting date of the separate financial statements, and up to 1 March 2019, the date when the separate financial statements were presented to the Board of Directors, no events occurred that would require any adjustments to the figures in the separate financial statements.

SECTION 4 - Other aspects

There are no significant aspects to note.

A.2 - INFORMATION ON THE MAIN ITEMS OF THE SEPARATE FINANCIAL STATEMENTS

Financial assets measured at fair value through profit or loss

Classification criteria

Financial assets other than those classified as Financial assets measured at fair value through other comprehensive income and Financial assets measured at amortised cost are classified in this category. In particular, this item includes:

- financial assets held for trading;
- equity instruments, except for the possibility of their being classified in the new category Financial assets measured at fair value through other comprehensive income, excluding the possibility of subsequent reclassification to profit or loss;
- the financial assets mandatorily measured at fair value, and which have not met the requirements to be measured at amortised cost;
- the financial assets that are not held under a Held to Collect (or "HTC") business model or as part of a mixed business model, whose aim is achieved by collecting the contractual cash flows of financial assets held in the Bank's portfolio or also through their sale, when this is an integral part of the strategy ("Held to Collect and Sell" business model);
- financial assets designated at fair value, i.e. financial assets that are defined as such upon initial recognition and when the conditions apply. For this type of financial assets, upon recognition an entity may irrevocably recognise a financial asset as measured at fair value through profit or loss only if this eliminates or significantly reduces a measurement inconsistency;
- derivative instruments, which shall be recognised as financial assets held for trading if their fair value is positive and as liabilities if their fair value is negative. Positive and negative values may be offset only for transactions executed with the same counterparty if the holder currently holds the right to offset the amounts recognised in the books and it is decided to settle the offset positions on a net basis. Derivatives also include those embedded in complex financial contracts - where the host contract is a financial liability which has been recognised separately.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through profit or loss to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through other comprehensive income). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In this case, the effective interest rate of the reclassified financial asset is determined based on its fair value at the reclassification date and that date is considered as the initial recognition date for the credit risk stage assignment for impairment purposes.

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.
On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

After initial recognition, the financial assets measured at fair value through profit or loss are recognised at fair value. The effects of the application of this measurement criterion are recognised in the income statement. For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and measurement techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: measurement of quoted instruments with the same characteristics, calculation of discounted cash flows, option pricing models, recent comparable transactions, etc.. For equity and derivative instruments that have equity instruments as underlying assets, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
In particular, this item includes:

- debt instruments held for trading;
- equity instruments held for trading.

For more details on the methods of calculating the fair value please refer to the paragraph below "Criteria for determining the fair value of financial instruments".

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at fair value through other comprehensive income (FVOCI)

Classification criteria

This category includes the financial assets that meet both the following conditions:

- financial assets that are held under a business model whose aim is achieved both through the collection of contractual cash flows and through sale ("Held to Collect and Sell" business model);
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

This item also includes equity instruments, not held for trading, for which the option was exercised upon initial recognition of their designation at fair value through other comprehensive income.
In particular, this item includes:

- debt instruments that can be attributed to a Held to Collect and Sell business model and that have passed the SPPI test;
- equity interests, that do not qualify as investments in subsidiaries, associates or joint ventures and are not held for trading, for which the option has been exercised of their designation at fair value through other comprehensive income.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

Initial recognition of the financial assets is at the date of disbursement, based on their fair value including the transaction costs/income directly attributable to the acquisition of the financial instrument. Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.
For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".
Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.
For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.
Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

Financial assets are derecognised when the contractual rights on the cash flows deriving from the assets expire, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the financial assets.

Financial assets measured at amortised cost

Classification criteria

This category includes the financial assets that meet both the following conditions:

- the financial asset is held under a business model whose objective is achieved through the collection of expected contractual cash flows (Held to Collect business model);

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI Test" passed).

In particular, this item includes:

- loans and receivables with banks;
- loans and receivables with customers;
- debt instruments.

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets. In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from the amortised cost category to one of the other two categories established by IFRS 9 (Financial assets measured at fair value through other comprehensive income or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. Gains and losses resulting from the difference between the amortised cost of a financial asset and its fair value are recognised through profit or loss in the event of reclassification to Financial assets measured at fair value through profit or loss and under equity, in the specific valuation reserve, in the event of reclassification to Financial assets measured at fair value through other comprehensive income.

Recognition criteria

Initial recognition of a receivable is at the date of disbursement based on its fair value including the costs/income of the transaction directly attributable to the acquisition of the receivable.

Costs/income having the previously mentioned characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

The initial fair value of a financial instrument is usually equivalent to the amount granted or the cost incurred by the acquisition.

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.

The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.

The impairment losses recognised in profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss).

The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historic series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

Loans and receivables are derecognised from the separate financial statements when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and rewards.

Hedging transactions

At the reporting date, the Bank had not made any "Hedging transactions".

Equity investments

Classification criteria

This category includes equity investments in subsidiaries, associates, and joint ventures by Banca Sistema.

Recognition criteria

Equity investments are recognised in the separate financial statements at purchase cost plus any related charges.

Measurement criteria

If there is evidence that an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment and/ or other measurement elements. The amount of any impairment, calculated based on the difference between the carrying amount of the investment and its recoverable value is recognised in the income statement under "Gains (losses) on equity investments". If the reasons for impairment are removed following an event occurring after recognition of the impairment, impairment gains are recognised in the income statement under the same item as above to the extent of the previous impairment loss.

Derecognition criteria

Equity investments are derecognised from the separate financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "220 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "250 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.
They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and restructuring of assets not yet part of the production process and therefore not yet subject to depreciation.
"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.
Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Measurement and recognition criteria for income components

Following initial recognition, "operating" property and equipment are recognised at cost, less accumulated depreciation, and any impairment losses, in line with the "cost model" illustrated in paragraph 30 of IAS 16. More specifically, property and equipment are systematically depreciated each year based on their estimated useful life, using the straight-line basis method apart from:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated;
- works of art, which are not depreciated as their useful life cannot be estimated and their value typically appreciates over time;
- investment property which is recognised at fair value in accordance with IAS 40.

For assets acquired during the financial year, depreciation is calculated on a daily basis from the date of entry into use of the asset. For assets transferred and/or disposed of during the financial year, depreciation is calculated on a daily basis until the date of transfer and/or disposal.

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".
If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.
For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

Derecognition criteria

Property and equipment is derecognised from the statement of financial position upon disposal thereof or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.
Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.
Goodwill is also included under this item, representing

the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of the assets and liabilities acquired and the acquisition cost represents the future capacity of the equity investment to generate profit (goodwill). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets and liabilities acquired, it is recognised directly in the income statement.

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.
With reference to the goodwill, on an annual basis (or when impairment is detected), an assessment test is carried out on the adequacy of its carrying amount. For this purpose, the cash-generating unit to which the goodwill is attributed, is identified. The amount of any impairment is determined by the difference between the goodwill carrying amount and its recoverable value, if lower. This recoverable value is equal to the higher amount between the fair value of the cash-generating unit, net of any costs to sell, and its value in use. As stated above, any consequent impairment losses are recognised in the income statement.

Derecognition criteria

An intangible asset is derecognised from the statement of financial position at the time of its disposal and if there are no expected future economic benefits.

Non-current assets held for sale and disposal groups

Non-current assets or groups of assets for which a disposal process has been initiated and whose sale is considered highly probable are classified under "Non-current assets held for sale and disposal groups". These assets are measured at the lower of their carrying amount and their fair value, net of disposal costs, with the exception of certain types of assets (e.g. financial assets falling within the scope of IFRS 9) for which IFRS 5 specifically requires that the measurement criteria of the relevant accounting standard be applied. Income and expenses (net of the tax effect) relating to groups of assets being disposed of or recognised as such during the year, are shown in the income statement as a separate item.

Financial liabilities measured at amortised cost

Classification criteria

This item includes Due to banks, Due to customers and Securities issued.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt instruments are issued. Initial recognition is based on the fair value of the liabilities, increased by the costs/income of the transaction directly attributable to the acquisition of the financial instrument.
Costs/income having the previously mentioned characteristics that will be repaid by the creditor or that can be considered as standard internal administrative costs are excluded.
The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

After the initial recognition, the previously mentioned financial liabilities are measured at amortised cost with the effective interest rate method.

Derecognition criteria

The above financial liabilities are derecognised from the statement of financial position when they expire or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the carrying amount of the extinguished liability and the amount paid is recognised in the income statement, under “Gain (loss) from sales or repurchases of: financial liabilities”. If the Bank, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recognised at the new placement price.

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.
Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

The financial instruments are measured at fair value with recognition of the measurement results in the income statement.

Derecognition criteria

Financial liabilities held for trading are derecognised when the contractual rights on the related cash flows expire or when the financial liability is sold with a substantial transfer of all risks and rewards related to the liabilities.

Financial liabilities designated at fair value through profit or loss

At the reporting date, the Bank did not hold any "Financial liabilities designated at fair value through profit or loss".

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the separate financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.
Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the separate financial statements to the extent that it is probable that they will be recovered based on the Bank's ability to continue to generate positive taxable income. Deferred tax assets and liabilities are accounted for at equity level with open balances and without offsetting entries, recognising the former under "Tax assets" and the latter under "Tax liabilities". With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under "current tax assets" or "current tax liabilities" depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.
The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel expense".
The provisions that refer to risks and charges of a tax nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as "net accruals to provisions for risks and charges".

Other information

Post-employment benefits

According to the IFRIC, the post-employment benefits can be equated with a post-employment benefit of the "defined-benefit plan" type which, based on IAS 19, is to be calculated via actuarial methods. Consequentially, the end of the year measurement of the item in question is made based on the accrued benefits method using the Projected Unit Credit Method.

This method calls for the projection of the future payments based on historical, statistical, and probabilistic analysis, as well as in virtue of the adoption of appropriate demographic fundamentals. It allows the post-employment benefits vested at a certain date to be calculated actuarially, distributing the expense for all the years of estimated remaining employment of the existing workers, and no longer as an expense to be paid if the company ceases its activity on the reporting date.

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity.

An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

"Repurchase agreements" that oblige the party selling the relevant assets (for example securities) to repurchase them in the future and the "securities lending" transactions where the guarantee is represented by cash, are considered equivalent to swap transactions and, therefore, the amounts received and disbursed appear in the separate financial statements as payables and receivables. In particular, the previously mentioned "repurchase agreements" and "securities lending" transactions are recognised in the separate financial statements as payables for the spot price received, while those for investments are recognised as receivables for the spot price paid. Such transactions do not result in changes in the securities portfolio. Consistently, the cost of funds and the income from the investments, consisting of accrued dividends on the securities and of the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

Criteria for determining the fair value of financial instruments

Fair value is defined as "the price that would be collected for the sale of an asset or also that would be paid for the transfer of a liability in an orderly transaction between market participants", at a specific measurement date, excluding forced transactions. Underlying the definition of fair value in fact is the presumption that the company is in operation, and that it has no intention or need to liquidate, significantly reduce the volume of its assets, or engage in a transaction at unfavourable terms.

In the case of financial instruments listed in active markets, the fair value is determined based on the deal pricing (official price or other equivalent price on the last stock market trading day of the financial year of reference) of the most advantageous market to which the Group has access. For this purpose, a financial instrument is considered to be listed in an active market if the quoted prices are readily and regularly available from a price list, trader, intermediary, industrial sector, agencies that determine prices, or regulatory authority and said prices represent actual market transactions that regularly take place in normal dealings.

In the absence of an active market, the fair value is determined using measurement techniques generally accepted in financial practice, aimed at establishing what price the financial instrument would have had, on the valuation date, in a free exchange between knowledgeable and willing parties. Such measurement techniques require, in the hierarchical order in which they are presented, the use:

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);

4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of UCIs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

Based on the foregoing considerations and in compliance with the IFRS, the Group classifies the measurements at fair value based on a hierarchy of levels that reflects the significance of the inputs used in the measurements. The following levels are noted:

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2 -** the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).
  The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.
  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretional parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

A business combination involves the combination of separate companies or business activities in a single party who has to draft the financial statements. A business combination may give rise to an investment relationship between the parent (acquirer) and the subsidiary (acquired). A combination may also provide for the acquisition of the net assets of another entity, including any goodwill, or the acquisition of another entity's capital (mergers and contributions). Based on the provisions of IFRS 3, business combinations must be accounted for by applying the acquisition method, which comprises the following phases:

- identification of the acquirer;
- determination of the cost of the business combination;
- allocation, on the acquisition date, of the business combination cost in terms of the assets acquired and the liabilities, and potential liabilities taken on.

More specifically, the cost of a business combination must be determined as the total fair value as at the date of exchange of the assets transferred, liabilities incurred or assumed, equity-linked instruments issued by the acquirer in exchange for control of the acquired company and all costs directly attributable to the business combination.

The acquisition date is the date on which control over the acquired company is actually obtained. If the acquisition is completed through a single transfer, the date of the transfer will be the acquisition date.

If the business combination is carried out through several transfers:

- the cost of the combination is the overall cost of the individual transactions
- the exchange date is the date of each exchange transaction (namely the date on which each investment is recognised in the acquiring company's financial statements), whereas the acquisition date is the one on which control is obtained over the acquired company.

The cost of a business combination is assigned by recognising the assets, liabilities and potential liabilities that are identifiable in the acquired company, at the relevant fair values at the date of acquisition.

The assets, liabilities and potential liabilities that can be identified in the acquired company are recognised separately on the acquisition date only if, on this date, they meet the following criteria:

- if an asset is not an intangible asset, it is probable that any future connected economic benefits will flow to the acquiring company and it is possible to assess its fair value reliably;
- if a liability is not a potential liability, it is probable that, in order to extinguish the obligation, investment in resources will be required to produce economic benefits and it is possible to assess the fair value reliably;
- in the case of an intangible asset or a potential liability, the relevant fair value may be assessed reliably.

The positive difference between the cost of the business combination and the acquiring company's profit sharing at the fair value net of the assets, liabilities and identifiable potential liabilities, must be accounted for as goodwill.

After the initial recognition, the goodwill acquired in a business combination is measured at the relevant cost and is submitted to an impairment test at least once a year.

If the difference is negative, a new measurement is made. This negative difference, if confirmed, is recognised immediately as income in the income statement.

A.3 - DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

A.3.1 Reclassified financial assets: change in business model, carrying amount and interest income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: change in business model, fair value and effects on comprehensive income

No financial assets were reclassified.

A.3.3 Reclassified financial assets: change in business model and effective interest rate

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

A.4.1 Fair value levels 2 and 3: valuation techniques and inputs used

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount was assumed as a reasonable approximation of the fair value.

A.4.3 Fair value hierarchy

The following fair value hierarchy was used in order to prepare the separate financial statements:

- Level 1- Effective market quotes
- The valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.
- Level 2 - Comparable Approach
- Level 3 - Mark-to-Model Approach

A.4.4 Other Information

The item is not applicable for the Bank.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value level.

Financial assets/liabilities measured at fair value	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	-	1,201	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	299,469	-	5,000	280,610	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**299,469**	**-**	**5,000**	**281,811**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis:

breakdown by fair value level

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2018				31.12.2017			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	2,801,813	435,482	-	2,366,331	1,981,105	84,178	-	1,896,927
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	2,221	-	-	-	-	-	-	-
TOTAL	**2,804,034**	**435,482**	**-**	**2,366,331**	**1,981,105**	**84,178**	**-**	**1,896,927**
1. Financial liabilities measured at amortised cost	2,902,240	-	-	2,902,240	2,083,435	-	-	2,083,435
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**2,902,240**	**-**	**-**	**2,902,240**	**2,083,435**	**-**	**-**	**2,083,435**

Key:
CA = carrying amount
L1 = Level 1
L2 = Level 2
L3 = Level 3

A.5 DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

PART B - INFORMATION ON THE STATEMENT OF FINANCIAL POSITION

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2018	31.12.2017
a. Cash	288	161
b. Demand deposits with Central Banks	-	-
TOTAL	**288**	**161**

SECTION 2 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS - ITEM 20

2.1 Financial assets held for trading: breakdown by product

	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
A. On-statement of financial position assets						
1. Debt instruments	-	-	-	-	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	-	-	-	-	-	-
2. Equity instruments	-	-	-	1,201	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	-	-	-	**1,201**	-	-
B. Derivatives						
1. Financial derivatives	-	-	-	-	-	-
1.1 trading	-	-	-	-	-	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B)		**-**	**-**	**1,201**	**-**	**-**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

2.2 Financial assets held for trading: breakdown by debtor/issuer/counterparty

	31.12.2018	31.12.2017
A. ON-STATEMENT OF FINANCIAL POSITION ASSETS		
1. Debt instruments	-	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	-	**1,201**
a. Banks	-	-
b. Other financial companies	-	-
of which: insurance companies	-	-
c. Non-financial companies	-	1,201
d. Other issuers	-	-
3. OEIC units	-	-
4. Financing	-	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
TOTAL A	-	**1,201**
B. DERIVATIVES		
a. Central Counterparties	-	-
b. Other	-	-
TOTAL B	-	-
TOTAL (A+B)	-	**1,201**

SECTION 3 - FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - ITEM 30

3.1 Financial assets measured at fair value through other comprehensive income: breakdown by product

	31.12.2018			31.12.2017		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**298,292**	-	**-**	**278,847**	-	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	298,292	-	-	278,847	-	-
2. Equity instruments	**1,177**	-	**5,000**	**1,763**	-	**5,000**
3. Financing	-	-	-	**-**	-	-
Total	**299,469**	-	**5,000**	**280,610**	-	**5,000**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

3.2 Financial assets measured at fair value through other comprehensive income: breakdown by debtor/issuer

	31.12.2018	31.12.2017
1. Debt instruments	**298,292**	**278,847**
a) Central Banks	-	**-**
b) Public administrations	298,292	278,847
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
2. Equity instruments	**6,177**	**6,763**
a) Banks	5,000	5,000
b) Other issuers:	1,177	1,763
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	1,177	1,763
- other	-	-
3. Financing	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
of which: insurance companies	-	-
e) Non-financial companies	-	-
f) Households	**-**	**-**
Total	**304,469**	**285,610**

3.3 Financial assets measured at fair value through other comprehensive income: gross amount and total impairment losses

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	298,341	-	-	-	49	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2018	**298,341**	-	-	-	**49**	-	-	-
Total at 31.12.2017	**278,847**	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

SECTION 4 - FINANCIAL ASSETS MEASURED AT AMORTISED COST - ITEM 40

4.1 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with banks

	31.12.2018						31.12.2017					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**12,460**	**-**	**-**	-	-	**12,460**	**18,534**	**-**	**-**	-	-	**18,534**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	12,437	-	-	X	X	X	18,534	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	23	-	-	X	X	X	-	-	-	X	X	X
B. Loans and receivables with banks	**44,234**	**-**	**-**	**-**	**-**	**44,234**	**17,275**	**-**	**-**	**-**	**-**	**17,275**
1. Financing	44,234	-	-	-	-	44,234	17,275	-	-	-	-	17,275
1.1 Current accounts and demand deposits	24,046	-	-	X	X	X	17,252	-	-	X	X	X
1.2. Term deposits	**19,996**	**-**	**-**	**X**	**X**	**X**	**-**	**-**	**-**	**X**	**X**	X
1.3. Other financing:	192	-	-	X	X	X	23	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X		-	-	X	X	X
- Other	192	-	-	X	X	X	23	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**56,694**	**-**	**-**	**-**	**-**	**56,694**	**35,809**	**-**	**-**	**-**	**-**	**35,809**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

4.2 Financial assets measured at amortised cost: breakdown by product of the loans and receivables with customers

	31.12.2018						31.12.2017					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,113,713**	**195,995**	**25,776**	-	-	**2,309,708**	**1,740,082**	**121,036**	**1,103**	**-**	-	**1,861,118**
1.1 Current accounts	38,536	70	-	X	X	X	17,237	57	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	27,602	8,470	-	X	X	X	54,768	1,993	-	X	X	X
1.4 Credit cards, personal loans and salary-backed loans	636,134	291	-	X	X	X	481,160	1	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	974,942	176,942	25,776	X	X	X	837,181	102,815	1,103	X	X	X
1.7 Other financing	436,499	10,222	-	X	X	X	349,736	16,170	-	X	X	X
2. Debt instruments	**435,411**	**-**	**-**	**435,411**	**-**	**-**	**84,178**	**-**	**-**	**84,178**	**-**	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	435,411	-	-	435,411	-	-	84,178	-	-	-	-	-
Total	**2,549,124**	**195,995**	**25,776**	**435,411**	**-**	**2,309,708**	**1,824,260**	**121,036**	**1,103**	**84,178**	**-**	**1,861,118**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

Financing mainly includes the loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL - local health authorities - and Territorial Entities) and receivables related to the pension and salary-backed loans segment.

Receivables for factoring and salary- and pension-backed loans (CQS-CQP), mainly classified under their own captions as well as under "Other financing", amount to € 1,567 million and € 652 million respectively.

Factoring receivables include default interest recognised on an accruals basis for € 42.5 million.

For classification purposes analyses are performed, some of which are complex, aimed at identifying positions which, subsequent to disbursement/acquisition, show evidence of possible impairment based on both internal information, associated with the performance of credit positions, and external information, associated with the specific sector in question.

Measuring loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity involving the use of measurement models that take into account 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.

Securities are composed entirely of Italian government securities with an average duration of 2 years and 2 months for an amount of € 435 million.

4.4 Financial assets measured at amortised cost: breakdown by debtor/issuer of the loans and receivables with customers

	31.12.2018			31.12.2017		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	First and second stage	Third stage	of which: purchased or originated credit-impaired
1. Debt instruments	**435,411**	**-**	**-**	**84,178**	**-**	**-**
a) Public administrations	435,411	-	-	84,178	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,113,713**	**195,995**	**25,776**	**1,740,082**	**121,036**	**1,103**
a) Public administrations	1,083,480	139,952	25,776	958,363	83,131	1,103
b) Other financial companies	43,429	1	-	7,578	13	-
of which: insurance companies	4	1	-	3	13	-
c) Non-financial companies	306,520	52,484	-	238,642	35,369	-
d) Households	680,284	3,558	-	535,499	2,523	-
Total	**2,549,124**	**195,995**	**25,776**	**1,824,260**	**121,036**	**1,103**

4.5 Financial assets measured at amortised cost: gross amount and total impairment losses

	Gross amount				Total impairment losses			
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs
		of which instruments with low credit risk						
Debt instruments	435,482	-	-	-	71	-	-	-
Financing	2,070,229	1,086,780	106,473	225,164	5,714	580	29,169	-
Total at 31.12.2018	**2,505,711**	**1,086,780**	**106,473**	**225,164**	**5,785**	**580**	**29,169**	**-**
of which: purchased or originated credit-impaired financial assets	X	X		26,062	X	-	286	-

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	100%	100%
C. Companies under significant influence			
1. ADV Finance S.p.A.	**Milan**	19.90%	19.90%
2. Procredit S.r.l.	**Milan**	19.90%	19.90%

Equity investments include the acquisition for € 0.6 million of a 19.90% stake in the share capital of ADV Finance S.p.A. ("ADV Finance"), and 19.90% of its subsidiary Procredit S.r.l. for € 0.2 million, as well as LASS S.r.l., the Group's real estate company. During the fourth quarter, the 10% equity investment in Axactor Italy S.p.A. was reclassified under Non-current assets held for sale and disposal groups, following the Board of Directors' resolution of December 2018 to sell the same equity investment through the exercise of the put option provided for in the contract. The carrying amount, which under the International Financial Reporting Standards is the lower of the carrying amount and the fair value, is € 2,221 thousand.

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income (expense)	Net impairment losses on property and equipment/intangible assets	Pre-tax loss from continuing operations	Post-tax loss from continuing operations	Profit (loss) on groups of assets held for sale after tax	Loss for the year	Other comprehensive income (expense), net of income tax	Comprehensive expense
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	55	688	1,660	108	-	(67)	-	(212)	(212)	-	(212)	-	(212)
3. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	28,423	13,627	647	-	(113)	-	(421)	(421)	-	(346)	-	(421)

7.4 Non-significant equity investments: accounting information

	Carrying amount of equity investments	Total assets	Total liabilities	Total income	Post-tax profit (loss) from continuing operations	Profit (loss) on groups of assets held for sale after tax	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
C. Companies under significant influence									
1. ADV Finance S.p.A.	620	5,283	2,177	2,710	66	-	66	-	66
2 . Procredit Srl	158	727	194	306	(25)	-	(25)	-	(25)

Figures presented in accordance with the International Financial Reporting Standards.

7.5 Equity investments: changes

	31.12.2018	31.12.2017
A. Opening balance	**16,222**	**61,628**
B. Increases	**5,277**	**11,300**
B.1 Purchases	5,277	11,000
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	-	300
C. Decreases	**2,221**	**56,706**
C.1 Sales	-	-
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	2,221	56,706
D. Closing balance	**19,278**	**16,222**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

The increases in Equity investments relate to the acquisition for € 0.6 million of a 19.90% stake in the share capital of ADV Finance S.p.A. (“ADV Finance”), and 19.90% of its subsidiary Procredit S.r.l. for € 0.2 million, in addition to the contribution of € 3.5 million for the incorporation of ProntoPegno, a company awaiting authorisation from the Bank of Italy to be entered in the Register referred to in Article 106 of Legislative Decree No. 385/1993. Once the authorisation to conduct business has been obtained, all the assets and liabilities relating to the collateralised loan business will be transferred to the company, in addition to the personnel dedicated to the management and development of the business. During the fourth quarter, the 10% equity investment in Axactor Italy S.p.A. was reclassified under Non-current assets held for sale and disposal groups, following the Board of Directors' resolution of December 2018 to sell the same equity investment through the exercise of the put option provided for in the contract. The carrying amount, which under the International Financial Reporting Standards is the lower of the carrying amount and the fair value, is € 2,221 thousand.

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 Operating property and equipment: breakdown of the assets measured at cost

	31.12.2018	31.12.2017
1. Owned	**710**	**814**
a) land	-	-
b) buildings	-	-
c) furniture	260	264
d) electronic equipment	421	525
e) other	29	25
2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
TOTAL	**710**	**814**
of which: obtained from the enforcement of guarantees received	**-**	-

Property and equipment are recognised in the separate financial statements in accordance with the general acquisition cost criteria, including the related charges and any other expenses incurred to place the assets in conditions useful for the bank, in addition to indirect costs for the portion reasonably attributable to assets that refer to the costs incurred, as at the end of 2018.

Depreciation rates:

- Office furniture: 12%
- Furnishings: 15%
- Electronic machinery and miscellaneous equipment: 20%
- Assets less than Euro 516: 100%

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**-**	**1,162**	**1,744**	**70**	**2,976**
A.1 Total net impairment losses	-	-	898	1,219	45	2,162
A.2 Net opening balances	**-**	**-**	264	525	25	814
B. Increases	**-**	**-**	**51**	**231**	**20**	**302**
B.1 Purchases	-	-	51	231	20	302
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Altre variazioni	-	-	-	-	-	-
C. Diminuzioni	**-**	**-**	**55**	**335**	**16**	**406**
C.1 Sales	-	-	2	1	-	3
C.2 Depreciation	-	-	53	331	16	400
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	3	-	3
D. Net closing balance	**-**	**-**	**260**	**421**	**29**	**710**
D.1 Total net impairment losses	-	-	953	1,554	61	2,568
D.2 Gross closing balance	-	-	1,213	1,975	90	3,278
E. Measurement at cost	**-**	**-**	**260**	**421**	**29**	**710**

SECTION 9 - INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2018		31.12.2017	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	**1,786**	-	**1,786**
A.2 Other intangible assets	**2**	-	**4**	-
A.2.1 Assets measured at cost:	2	-	4	-
a. Internally developed assets	-	-	-	-
b. Other	2	-	4	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**2**	**1,786**	**4**	**1,786**

The other intangible assets are recognised at purchase cost including related costs, and are systematically amortised over a period of 5 years. The item mainly refers to software.

The goodwill originates from the merger of the subsidiary Solvi S.r.l. which took place in 2013.

Subsequent to the merger, the former Solvi's assets were fully integrated with those of the Bank with the purpose of pursuing efficiencies both in terms of expected synergies with the other businesses and in terms of overall operating costs. Since the activities once performed by Solvi S.r.l. are now fully integrated and inseparable from the rest of Banca Sistema's operations, the Bank is not currently able to distinguish the expected cash flows of the merged entity from those of the Bank itself.

Therefore, in this specific case, the goodwill of € 1.8 million recognised in the separate financial statements is an asset that cannot be separated from the rest of the Bank.

In particular, the impairment test pursuant to IAS 36 requires that the recoverable value of goodwill be greater than its carrying amount in the separate financial statements; in detail, as provided for by paragraph 18 of IAS 36, the recoverable value has been defined as "the higher of the fair value of an asset or of a cash-generating unit less costs to sell and its value in use".

Specifically, the impairment test was conducted referring to the "Value in use" based on the flows indicated in the Bank's business plan in relation to the 2018-2020 period and to a forecast of expected cash flows for the 2021-2023 period, conservatively assuming an estimated growth rate of 1.5% on an annual basis.

The main parameters used for estimation purposes were as follows:

Risk Free Rate + country risk premium	2.9%
Equity Risk Premium	4.6%
Beta	1.3%
Cost of equity	9.0%
Growth rate "g"	1.5%

The estimated value in use obtained based on the parameters used and the growth assumptions is considerably greater than equity as at 31 December 2018. Furthermore, considering that the value in use was determined via estimates and assumptions that may introduce elements of uncertainty, sensitivity analyses -

as required by IFRS - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.
In particular, the quantitative exercise was completed by a stress test of the parameters related to the Bank's growth rate and the discount rate of the expected cash flows (quantified in an isolated or simultaneous movement of 50 bps), that confirmed the absence of impairment indicators, confirming a value in use once again significantly greater than the carrying amount of goodwill in the separate financial statements.
Considering all the above, with no qualitative trigger events that suggest a need for impairment having been identified, management deemed it appropriate not to recognise an impairment loss on goodwill recognised in the separate financial statements at 31 December 2018.

9.2 Intangible assets: changes

		Other intangible assets: internally developed		Other intangible assets: Other		
	Goodwill	Fin	Indef	Fin	Indef	Total
A. Opening balance	**1,786**	-	-	**3,103**	-	**4,889**
A.1 Total net impairment losses	-	-	-	3,099	-	3,099
A.2 Net opening balances	**1,786**	-	-	**4**	-	**1,790**
B. Increases	**-**	-	-	**1**	-	**1**
B.1 Purchases	-	-	-	1	-	1
B.2 Increases in internally developed assets	X	-	-	**-**	-	-
B.3 Impairment gains	X	-	-	**-**	-	-
B.4 Fair value gains recognised in:	-	-	-	**-**	-	-
- equity	X	-	-	**-**	-	-
- profit or loss	X	-	-	**-**	-	-
B.5 Exchange rate gains	-	-	-	**-**	-	-
B.6 Other increases	-	-	-	**-**	-	-
C. Decreases	**-**	-	-	**3**	-	**3**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	3	-	3
- Amortisation	X	-	-	3	-	3
- Impairment losses:	-	-	-	**-**	-	-
+ equity	X	-	-	**-**	-	-
+ profit or loss	-	-	-	**-**	-	-
C.3 Fair value losses recognised in:	-	-	-	**-**	-	-
- equity	X	-	-	**-**	-	-
- profit or loss	X	-	-	**-**	-	-
C.4 Transfers to disposal groups	-	-	-	**-**	-	-
C.5 Exchange rate losses	-	-	-	**-**	-	-
C.6 Other decreases	-	-	-	**-**	-	-
D. Net closing balance	**1,786**	-	-	**2**	-	**1,788**
D.1 Total net impairment losses	-	-	-	3,102	-	3,102
E. Gross closing balance	**1,786**	-	-	**3,104**	-	**4,890**
F. Measurement at cost	1,786	-	-	2	-	1,788

Key - Fin: finite useful life | Indef: indefinite useful life

Goodwill refers to the merger of the subsidiary Solvi S.r.l. which took place on 1 August 2013.

SECTION 10 - TAX ASSETS AND TAX LIABILITIES - ITEM 100 OF ASSETS AND ITEM 60 OF LIABILITIES

Below is the breakdown of the current tax assets and current tax liabilities

	31.12.2018	31.12.2017
Current tax assets	**9,086**	**12,308**
IRES prepayments	6,781	9,467
IRAP prepayments	2,278	2,811
Other	27	30
Current tax liabilities	**(12,531)**	**(8,837)**
Provision for IRES	(9,321)	(6,618)
Provision for IRAP	(3,210)	(2,219)
Provision for substitute tax	-	-
Total	**(3,445)**	**3,471**

10.1 Deferred tax assets: breakdown

	31.12.2018	31.12.2017
Deferred tax assets through profit or loss:	**6,716**	**6,198**
Impairment losses on loans	2,756	2,756
Non-recurring transactions	533	705
Other	3,427	2,737
Deferred tax assets through equity:	**910**	**414**
Non-recurring transactions	311	414
HTCS securities	504	-
Other	95	-
Total	**7,626**	**6,612**

10.2 Deferred tax liabilities: breakdown

	31.12.2018	31.12.2017
Deferred tax liabilities through profit or loss:	**12,222**	**9,829**
Uncollected default interest income	12,094	9,633
Other	128	196
Deferred tax liabilities through equity:	**9**	**289**
HTCS securities	9	289
Total	**12,231**	**10,118**

10.3 Changes in deferred tax assets (through profit or loss)

	31.12.2018	31.12.2017
1. Opening balance	**6,198**	**3,784**
2. Increases	**1,847**	**4,388**
2.1 Deferred tax assets recognised in the year	1,847	4,388
a. related to previous years	206	-
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	1,641	1,170
e. business combination transactions	-	3,218
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**1,329**	**1,974**
3.1 Deferred tax assets derecognised in the year	1,329	1,974
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	1,329	1,974
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	-	-
4. Closing balance	**6,716**	**6,198**

10.3 bis Change in deferred tax assets pursuant to Law 214/2011

	31.12.2018	31.12.2017
1. Opening balance	**3,429**	**2,373**
2. Increases	**-**	**1,362**
3. Decreases	**53**	**306**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	53	306
4. Closing balance	**3,376**	**3,429**

10.4 Changes in deferred tax liabilities (through profit or loss)

	31.12.2018	31.12.2017
1. Opening balance	**9,829**	**3,234**
2. Increases	**5,802**	**7,934**
2.1 Deferred tax liabilities recognised in the year	5,802	7,934
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	5,802	4,007
d. business combination transactions	-	3,927
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**3,409**	**1,339**
3.1 Deferred tax liabilities derecognised in the year	3,409	1,339
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	3,409	1,339
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**12,222**	**9,829**

10.5 Change in deferred tax assets (through equity)

	31.12.2018	31.12.2017
1. Opening balance	**414**	**551**
2. Increases	**600**	**-**
2.1 Deferred tax assets recognised in the year	600	-
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	600	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**104**	**137**
3.1 Deferred tax assets derecognised in the year	104	137
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	104	137
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**910**	**414**

10.6 Change in deferred tax liabilities (through equity)

	31.12.2018	31.12.2017
1. Opening balance	**289**	**336**
2. Increases	**9**	**289**
2.1 Deferred tax liabilities recognised in the year	9	289
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	9	289
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**289**	**336**
3.1 Deferred tax liabilities derecognised in the year	289	336
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	289	336
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**9**	**289**

SECTION 11 - NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND ASSOCIATED LIABILITIES ITEM 110 OF ASSETS AND ITEM 70 OF LIABILITIES

11.1 Non-current assets held for sale and disposal groups: breakdown by type of asset

	31.12.2018	31.12.2017
A. Assets held for sale	-	-
A.1 Financial assets	-	-
A.2 Equity investments	2,221	-
A.3 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
TOTAL A	**2,221**	**-**
of which measured at cost	2,221	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	2,221	-
B. Discontinued operations	-	-
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value through profit or loss	-	-
- other financial assets mandatorily measured at fair value through profit or loss	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
TOTAL B	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
C. Liabilities associated with assets held for sale	-	-
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
TOTAL C	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
D. Liabilities associated with discontinued operations	-	-
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value through profit or loss	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
TOTAL D	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	31.12.2018	31.12.2017
Tax advances	6,939	8,357
Prepayments not related to a specific item	1,711	630
Other	1,587	2,777
Work in progress	952	995
Trade receivables	610	473
Leasehold improvements	113	156
Security deposits	48	53
Total	**11,960**	**13,441**

The item is mainly composed of tax advances relative to virtual stamp duties and withholding taxes on interest expense. “Work in progress” predominantly relates to bank transfers allocated to their own items and set to zero in January 2019.

LIABILITIES

SECTION 1 - FINANCIAL LIABILITIES MEASURED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities measured at amortised cost: breakdown by product of due to banks

	31.12.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	412,850	X	X	X	192,064	X	X	X
2. Due to banks	282,347	X	X	X	325,469	X	X	X
2.1 Current accounts and demand deposits	53	X	X	X	13,688	X	X	X
2.2 Term deposits	282,294	X	X	X	311,781	X	X	X
2.3 Financing	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
2.3.2 Other	**-**	**X**	**X**	**X**	**-**	**X**	**X**	**X**
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Other payables	-	X	X	X	-	X	X	X
TOTAL	**695,197**			**695,197**	**517,533**			**517,533**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.2 Financial liabilities measured at amortised cost: breakdown by product of due to customers

	31.12.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	660,751	X	X	X	510,970	X	X	X
2. Term deposits	957,862	X	X	X	446,366	X	X	X
3. Financing	283,244	X	X	X	326,687	X	X	X
3.1 Repurchase agreements	179,819	X	X	X	215,624	X	X	X
3.2 Other	103,425	X	X	X	111,063	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Other payables	199	X	X	X	109	X	X	X
TOTAL	**1,902,056**			**1,902,056**	**1,284,132**			**1,284,132**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.3 Financial liabilities measured at amortised cost: breakdown by product of the securities issued

	31.12.2018				31.12.2017			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**304,987**	**-**	**-**	**304,987**	**281,770**	**-**	**-**	**281,770**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	304,987	-	-	304,987	281,770	-	-	281,770
2. other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**304,987**	**-**	**-**	**304,987**	**281,770**	**-**	**-**	**281,770**

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

1.4 Breakdown of subordinated loans/securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate	Until 17 June 2023, fixed rate at 7% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,017
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 5.5%	15/11/2022	12,000	12,081
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 4.5%	30/03/2027	19,500	19,489
TOTAL					**39,500**	**39,587**

SECTION 6 - TAX LIABILITIES - ITEM 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 10 of assets in these notes to the separate financial statements.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2018	31.12.2017
Payments received in the reconciliation phase	37,959	43,912
Tax liabilities with the Tax Authority and other tax authorities	9,121	10,261
Accrued expenses	6,043	3,411
Trade payables	5,767	5,591
Work in progress	4,760	7,176
Due to employees	797	735
Pension repayments	654	659
Due to group companies	92	107
Other	41	64
TOTAL	**65,234**	**71,916**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2018	31.12.2017
A. Opening balance	**2,172**	**1,640**
B. Increases	**460**	**770**
B.1 Accruals	460	412
B.2 Other increases	-	358
C. Decreases	**230**	**238**
C.1 Payments	196	222
C.2 Other decreases	34	16
D. Closing balance	**2,402**	**2,172**
TOTAL	**2,402**	**2,172**

9.2 Other Information

The actuarial amount of post-employment benefits was calculated by an external actuary, who issued an appraisal.

The other decreases refer to the actuarial gain accounted for in 2018. The payments made refer to post-employment benefits paid in 2018.

The technical valuations were conducted on the basis of the assumptions described in the following table:

Annual discount rate	1.57%
Annual inflation rate	1.50%
Annual post-employment benefits increase rate	2.625%
Annual salary increase rate	1.00%

The discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month.

To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2018	31.12.2017
1. Provisions for credit risk related to commitments and financial guarantees issued	7	-
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	9,214	6,698
4.1 legal and tax disputes	3,029	3,008
4.2 personnel expense	6,139	3,690
4.3 other	46	-
TOTAL	**9,221**	**6,698**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**-**	**-**	**6.698**	**6.698**
B. Increases	**22**	**-**	**4.482**	**4.504**
B.1 Accruals	-	-	4.314	4.314
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	22	-	168	190
C. Decreases	**15**	**-**	**1.966**	**1.981**
C.1 Utilisations	-	-	1.403	1.403
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	15	-	563	578
D. Closing balance	**7**	**-**	**9.214**	**9.221**

The provision for risks and charges of € 9.2 million includes the estimated liabilities attributable to the Beta acquisition, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the update to the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to legal actions within the framework of a lending transaction in which the end borrower is bankrupt, and the estimated charges for labour-related lawsuits and legal disputes.

The other increases refer mainly to the actuarial loss for the NCA accounted for in 2018.

10.3 Provisions for credit risk related to commitments and financial guarantees issued

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	**Total**
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	7	-	-	7
Total	**7**	**-**	**-**	**7**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2018	31.12.2017
Legal and tax disputes	3,029	3,008
Personnel expense	6,139	3,690
Other	46	-
TOTAL	**9,214**	**6,698**

"Personnel expense" includes:

- the provisions made for variable remuneration to be paid to employees in subsequent years, for which the due date and/or amount are uncertain;
- an estimate of labour-related disputes;
- the amount resulting from the actuarial valuation of the non-compete agreement under IAS 19, as described below.

The calculation method can be summarised in the following steps:

- projection for each employee in service at the valuation date of the NCA that has already been accrued, and the future NCA portions that will be accrued up to an uncertain payment date;
- determination for each employee of the NCA payments that the Bank will have to make should the employee leave due to dismissal or retirement;
- discounting, at the valuation date, of each probable payment.

In particular, the annual discount rate used for determining the present value of the obligation was calculated, pursuant to IAS 19.83, from the Iboxx Corporate AA index with 10+ duration during the valuation month. To this end, a choice was made to select the yield with a duration comparable to the duration of the set of workers subject to valuation.

SECTION 12 - BANK EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares with a nominal amount of € 0.12 for a total paid-in share capital of € 9,651 thousand. All outstanding shares have regular dividend entitlement from 1 January. Based on evidence from the Shareholders' Register and more recent information available, as at 2 July 2015 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Finance Act) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Market	*53.47%*

At 31 December 2018, after the launch in 2018 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 104,661 shares (equal to 0.13% of the share capital).

The breakdown of the bank's equity is shown below:

	31.12.2018	31.12.2017
1. Share capital	9,651	9,651
2. Share premium	39,184	39,268
3. Reserves	79,804	59,391
4. (Treasury shares)	(199)	(149)
5. Valuation reserves	(1,131)	367
6. Equity instruments	-	-
7. Profit for the year	28,071	27,560
TOTAL	**155,380**	**136,088**

For changes in reserves, please refer to the statement of changes in equity.

12.2 Share capital - Number of shares: changes

	Ordinary	Other
A. Opening balance	**80,421,052**	**-**
- fully paid-in	80,421,052	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	70,000	-
A.2 Outstanding shares: opening balance	**80,351,052**	**-**
B. Increases	**69,515**	**-**
B.1 New issues	69,515	-
against consideration:	-	
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
bond issues:	69,515	
- to employees	24,346	-
- to directors	45,169	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**104,176**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	104,176	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,316,391**	**-**
D.1 Treasury shares (+)	104,661	-
D.2 Closing balance	80,421,052	-
- fully paid-in	80,421,052	-
- not fully paid-in	-	-

12.4 Income-related reserves: other information

In compliance with art. 2427(7 bis) of the Italian Civil Code, below is the detail of the equity items revealing the origin and possibility of use and distributability.

Natura	Amount as at 31.12.2018	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves	-	-	-
Share premium reserve	39,184	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	(1,131)	-	-
Negative goodwill	1,774	A,B,C	-
Retained earnings	76,948	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	(1,048)	-	-
Treasury shares	(199)	-	-
TOTAL	**127,309**	-	-
Profit for the year	28,071	-	-
TOTAL EQUITY	**155,380**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

Key
A: for share capital increase
B: to cover losses
C: for distribution to shareholders

1. Commitments and financial guarantees issued (other than those designated at fair value)

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	31.12.2018	31.12.2017
Commitments to disburse funds	**249,013**	**18,966**	**17,931**	**285,910**	**2,804**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	2,159
d) Other financial companies	176,660	-	-	176,660	645
e) Non-financial companies	70,002	18,966	17,931	106,899	-
f) Households	2,351	-	-	2,351	-
Financial guarantees issued	**2,446**	**-**	**-**	**2,446**	-
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	2,446	-	-	2,446	-
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	-	-	-	-	-
f) Households	-	-	-	-	-

The item “financial guarantees issued - banks” includes the commitments taken on with the interbank guarantee systems; the item “Irrevocable commitments to disburse funds” is related to the equivalent value of the securities to receive for transactions to be settled.

2. Other commitments and other guarantees issued

	Nominal amount	
	31.12.2018	31.12.2017
Other guarantees issued	**970**	**-**
of which: impaired	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	900	-
f) Households	70	-
Other commitments	-	-
of which: impaired	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral for liabilities and commitments

	31.12.2018	31.12.2017
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	91,989	43,154
3. Financial assets measured at amortised cost	258,235	75,260
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

5. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**1,378,087**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	67,276
1. securities issued by the reporting entity	3,857
2. other securities	63,419
c) third-party securities deposited with third parties	67,276
d) securities owned by the bank deposited with third parties	1,243,535
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2018	2017
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	258	97,953	-	98,211	89,303
3.1 Loans and receivables with banks	-	51	X	51	825
3.2 Loans and receivables with customers	258	97,902	X	98,160	88,478
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	1,679	990
TOTAL	**258**	**97,953**	**-**	**99,890**	**90,293**
of which: interest income on impaired financial assets	-	-	-	-	-

The main contribution came from interest income on the factoring portfolio of € 75 million (equal to 78% of the entire loans and receivables portfolio), increasing by 6% over the previous year. The component linked to default interest from legal action at 31 December 2018 was € 28.4 million (€ 26.8 million in 2017, excluding € 2.8 million related to the early termination of the guarantee agreement provided by the former shareholder of Beta Stepstone, the company acquired in 2016 and then merged into Banca Sistema the following year):

- of which € 18.1 million resulting from the actual recovery estimates (€ 7.8 million from the updated recovery estimates, of which € 4.9 million attributable to previous years: € 17.6 million at 31 December 2017, of which € 3.7 million from previous years);
- of which € 10.3 million (€ 9.2 million in 2017) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 19.2 million (€ 14.8 million in 2017) and that recognised on an accruals basis in previous years.

The other significant element of this item is attributable to interest on the salary- and pension-backed portfolios, which rose from € 13.2 million to € 19.6 million (an increase of 48% over the previous year), whereas interest declined on the SME portfolios, which contributed € 2.0 million to the total, following the strategic decision to discontinue this area of the business.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2018	2017
1. Financial liabilities measured at amortised cost	17,108	6,992	-	24,100	18,361
1.1 Due to Central banks	786	X	X	786	-
1.2 Due to banks	1,750	X	X	1,750	1,603
1.3 Due to customers	14,572	X	X	14,572	12,949
1.4 Securities issued	X	6,992	X	6,992	3,809
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	1,044	1,123
TOTAL	**17,108**	**6,992**	**-**	**25,144**	**19,484**

Financial assets at 31 December 2018 were largely composed of the negative yield on Italian government bonds and the above par acquisition of a loan portfolio consisting of collateral-backed loans.

SECTION 2 - NET FEE AND COMMISSION INCOME - ITEMS 40 AND 50

2.1 Fee and commission income: breakdown

	2018	2017
a. guarantees given	18	13
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	165	96
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	7	-
4. securities custody and administration	1	1
5. depositary services	-	-
6. placement of securities	97	49
7. order collection and transmission	60	46
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d. collection and payment services	100	117
e. services for securitisations	-	-
f. services for factoring	15,772	11,462
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	48	75
j. other services	1,522	1,284
TOTAL	**17,625**	**13,047**

2.2 Fee and commission income: distribution channels of products and services

	2018	2017
A) at its branches:	**104**	**49**
1. asset management	7	-
2. placement of securities	97	49
3. third-party services and products	-	-
B) off-premises:	**-**	**-**
1. asset management	-	-
2. distribution of securities	-	-
3. third-party services and products	-	-
C) other distribution channels:	**-**	**-**
1. asset management	-	-
2. distribution of securities	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

	2018	2017
A) guarantees received	1	31
B) credit derivatives	-	-
C) management and brokerage services:	712	612
1. trading in financial instruments	61	60
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	17
5. placement of financial instruments		-
6. off-premises distribution of securities, products and services	651	535
D) collection and payment services	162	148
E) other services	1,493	1,589
Total	**2,368**	**2,380**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2018		2017	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	TOTAL	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING EXPENSE - ITEM 80

4.1 Net trading expense: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading expense [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**77**	**-**	**(202)**	**(125)**
1.1 Debt instruments	-	30	-	(202)	**(172)**
1.2 Equity instruments	-	47	-	-	47
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
3. Financial assets and liabilities: exchange rate losses	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**77**	**-**	**(202)**	**(125)**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2018			2017		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	-	-	-	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	1,545	(378)	1,167	1,071	(140)	931
2.1 Debt instruments	1,545	(378)	1,167	1,071	(140)	931
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS (A)	**1,545**	**(378)**	**1,167**	**1,071**	**(140)**	**931**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
TOTAL LIABILITIES (B)	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 8 - NET IMPAIRMENT LOSSES DUE TO CREDIT RISK - ITEM 130

8.1 Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown

	Impairment losses (1)			Impairment gains (2)		2018	2017
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	-	-	-	-	-	-	-
- Financing	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**1,915**	**-**	**6,176**	**(1,279)**	**-**	**6,812**	**5,352**
- Financing	1,858	-	6,176	(1,279)	-	6,755	5,352
- Debt instruments	57	-	-	-	-	57	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
Total	**1,915**	**-**	**6,176**	**(1,279)**	**-**	**6,812**	**5,352**

8.2 Net impairment losses due to credit risk related to financial assets measured at fair value through other comprehensive income: breakdown

	Impairment losses (1)			Impairment gains (2)		2018	2017
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Debt instruments	**2**	**-**	**-**	**-**	**-**	**2**	**-**
B. Financing	**-**	-	-	-	-	**-**	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**2**	-	-	-	-	**2**	-

SECTION 10 - ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expense: breakdown

	2018	2017
1) Employees	18,206	16,225
a) wages and salaries	10,957	10,020
b) social security charges	2,741	2,630
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	676	613
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	307	329
- defined contribution plans	307	329
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	3,525	2,633
2) Other personnel	413	330
3) Directors and statutory auditors	975	793
4) Retired personnel	-	-
5) Recovery of costs for employees of the Bank seconded to other entities	-	-
6) Reimbursement of costs for employees of other entities seconded to the Bank	217	201
TOTAL	**19,811**	**17,549**

10.2 Average number of employees by category

Personnel:

a) Senior managers:	21
b) Managers :	41
c) Remaining employees:	120

10.5 Other administrative expenses: breakdown

	2018	2017
IT expenses	4,372	4,354
Consultancy	3,696	3,150
Servicing and collection activities	2,736	3,063
Rent and related fees	2,195	1,963
Indirect taxes and duties	2,010	1,658
Resolution Fund	942	807
Car hire and related fees	858	863
Expense reimbursement and entertainment	726	697
Advertising	568	284
Expenses related to management of the SPVs	536	462
Insurance	385	349
Other	352	412
Audit fees	295	265
Membership fees	265	262
Infoprovider expenses	255	278
Maintenance of movables and real properties	235	112
Telephone and postage expenses	175	177
Stationery and printing	96	99
Discretionary payments	13	4
Total	**20,710**	**19,259**

IT expenses, which represent the most significant cost, remained in line with the previous year despite the increase in business.

The increase in consulting expenses is mainly due to the costs incurred in 2018 for the assignment of the rating and admission to listing of the securities of the Quinto Sistema Sec. 2017 securitisation, which also included the merger of the previous Quinto Sistema Sec. 2016 securitisation into it.

The increase in indirect taxes and duties is mainly due to the increase in contributions paid for the enforceable injunctions deposited with public administration.

Contributions to the Resolution Fund, up again versus the previous year, amounted to € 942 thousand.

SECTION 11 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 170

11.3 Net accruals to other provisions for risks and charges: breakdown

	2018	2017
Provisions for risks and charges - other provisions and risks	(414)	(223)
Release of provisions for risks and charges	-	215
TOTAL	**(414)**	**(8)**

SECTION 12 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 180

12.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
A.1 Owned	401	-	-	401
▪ Operating assets	401	-	-	401
▪ Investment property	-	-	-	-
▪ Inventories	X	-	-	-
A.2 Acquired under finance lease	-	-	-	-
▪ Operating assets	-	-	-	-
▪ Investment property	-	-	-	-
TOTAL	**401**	**-**	**-**	**401**

SECTION 13 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 190

13.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	3	-	-	3
▪ Developed internally	-	-	-	-
▪ Other	3	-	-	3
A.2 Acquired under finance lease	-	-	-	-
TOTAL	**3**	-	-	**3**

SECTION 14 - OTHER OPERATING EXPENSE - ITEM 200

14.1 Other operating expense: breakdown

	2018	2017
Amortisation of leasehold improvements	80	207
Other operating expense	735	515
TOTAL	**815**	**722**

14.2 Other operating income: breakdown

	2018	2017
Recoveries of expenses on current accounts and deposits for sundry taxes	265	231
Recoveries of sundry expenses	11	25
Other income	120	53
TOTAL	**396**	**309**

"Recoveries of expenses on current accounts and deposits for sundry taxes" include the amounts recovered from customers for the substitute tax on medium and long-term loans and for the stamp duty on current account and security statements of account.

SECTION 19 - INCOME TAXES - ITEM 270

19.1 Income taxes: breakdown

		2018	2017
1.	Current taxes (-)	(12,531)	(8,836)
2.	Changes in current taxes from previous years (+/-)	(223)	101
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	518	(804)
5.	Changes in deferred tax liabilities (+/-)	(2,393)	(2,668)
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(14,629)	(12,207)

19.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (Corporate income tax)	%
Theoretical IRES expense	**42,700**	**(11,742)**	**27.50%**
Permanent increases	1,631	(448)	1.05%
Temporary increases	17,435	(4,795)	11.23%
Permanent decreases	(3,378)	929	-2.18%
Temporary decreases	(24,492)	6,735	-15.77%
Effective IRES expense	**33,896**	**(9,321)**	**21.83%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (Regional business tax)	%
Theoretical IRAP expense	**42,700**	**(2,378)**	**5.57%**
Permanent increases	49,173	(2,739)	6.41%
Temporary increases	1,945	(108)	0.25%
Permanent decreases	(35,207)	1,961	-4.59%
Temporary decreases	974	54	0.13%
Effective IRAP expense	**57,637**	**(3,210)**	**7.52%**
▪ Other tax expense			
Total effective IRES and IRAP expense	**91,533**	**(12,531)**	**29.35%**

SECTION 21 - OTHER INFORMATION

Nothing to report.

SECTION 22 - EARNINGS PER SHARE

Earnings per share (EPS)	2018
Profit for the year (thousands of Euro)	28,071
Average number of outstanding shares	80,345,506
Basic earnings per share (in Euro)	0.349
Diluted earnings per share (in Euro)	0.349

EPS is calculated by dividing the profit attributable to holders of ordinary shares of Banca Sistema (numerator) by the weighted average number of ordinary shares (denominator) outstanding during the year.

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of comprehensive income

		2018	2017
10.	**Profit for the year**	**28,070**	**27,560**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	39	(56)
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

		2018	2017
150.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	(2,064)	(95)
	a) fair value gains (losses)	(1,001)	174
	b) reclassification to profit or loss	-	-
	- impairment losses due to credit risk	49	-
	- losses on sales	(585)	(268)
	c) other changes	(527)	-
160.	Non-current assets held for sale and disposal groups:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
170.	Share of valuation reserves of equity-accounted investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	- impairment losses	-	-
	- gains/losses on sales	-	-
	c) other changes	-	-
180.	Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190.	**Total other comprehensive expense**	**(2,025)**	**(151)**
200.	**Comprehensive income (10+190)**	**26,045**	**27,409**

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

In order to manage the significant risks to which it is or could be exposed, Banca Sistema has set up a risk management system that reflects the characteristics, size and complexity of its operations.

In particular, this system hinges on four core principles:

- suitable supervision by relevant bank bodies and departments;
- satisfactory risk management policies and procedures;
- suitable methods and instruments to identify, monitor and manage risks, with suitable measuring techniques; thorough internal controls and independent reviews.

In order to reinforce its ability to manage corporate risks, the Bank established the Risk and ALM Committee - a committee independent of the Board of Directors, which supports the CEO in defining strategies, risk policies and profitability targets.

The Risk Committee continuously monitors the relevant risks and any new or potential risks arising from changes in the working environment or forward-looking operations.

With reference to the new regulation in matters of the operation of the internal control system, in accordance with the principle of collaboration between the control functions, the Internal Control and Risk Management Committee (a Board committee) was assigned the role of coordinating all the control functions.

The methods used to measure, assess and aggregate risks are approved by the Board of Directors, based on proposals from the Risk Department, subject to approval by the Risk Committee. In order to measure “Pillar 1 risks”, the Bank has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate non-measurable “Pillar 2 risks”, the Bank adopts - where possible - the methods stipulated under Supervisory regulations or those established by trade associations. If there are no such indications, standard market practices by operators working at a level of complexity and with operations comparable to those of the Bank are assessed.

With reference to the new provisions in matters of regulatory supervision (15th update of circular no. 263 - New regulations for the prudential supervision of banks), a series of obligations on risk management and control, including the Risk Appetite Framework (RAF) and the regulatory instructions defined by the Basel Committee were introduced. The Bank has tied the strategic objectives to the RAF. The key ratios and the respective levels were assessed and any revisions needed were made while defining the bank's annual objectives.

In particular, the RAF was designed with key objectives to verify that over time, the business grows and develops observing capital strength and liquidity obligations, implementing monitoring and alert mechanisms and related series of actions that allow prompt intervention in case of significant discrepancies.

The structure of the RAF is based on specific indicators so-called Key Risk Indicators (KRI) which measure the Bank's solvency in the following areas:

- Share capital;
- Liquidity;
- Quality of the loans and receivables portfolio;
- Profitability;
- Other specific risks the Bank is exposed to.

Target levels, consistent with the plan's defined values, the level I thresholds, defined as “warning” thresholds, that trigger discussion at Risk Management Committee level and subsequent communication to the Board of Directors and the level II thresholds, that require direct discussion in the Board of Director's meeting to determine the actions to be taken are associated with the various key indicators.

The level I and II thresholds are defined with scenarios of potential stress with respect to the plan's objectives and on dimensions having a clear impact for Banca Sistema.

Starting from 1 January 2014, the Bank used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital

Adequacy Assessment Process - ICAAP).

Furthermore, the Internal Capital Adequacy Assessment Process allows the Bank to comply with the public disclosure obligation, with appropriate tables, concerning its capital adequacy, risk exposure and the general characteristics of the management, control, and monitoring systems of the risks themselves (the so-called "third pillar"). As concerns this matter, the Bank fulfils the public disclosure requirements with the issuing of Circular no. 285 of 17 December 2013 "Prudential supervisory provisions for banks" in which the Bank of Italy transposed Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in (EU) Regulation no. 575/2013 (the so-called "CRR") incorporates the standards defined by the Basel Committee on Banking Supervision (the so-called "Basel III").

1. General aspects

The prudential supervisory provisions, provide for the banks the possibility to determine the weighting coefficients for the calculation of the capital requirement with respect to credit exposure within the standardised approach based on the creditworthiness ratings issued by External Credit Assessment Institutions (ECAI) of the Bank of Italy.

Banca Sistema, as at 31 December 2018, uses the appraisal issued by the ECAI "DBRS", for the exposures to Central Authorities, and Public Sector Institutions and Entities, whereas, as concerns the valuations related to the regulatory business segment, it uses the agency "Fitch Ratings Ltd".

The identification of a reference ECAI does not represent in any way, in subject matter or in purposes, an assessment on the merit of the opinions made by the ECAI or a support of the methodologies used, for which the External Credit Assessment Institutions remain solely responsible.

The assessments issued by the rating agencies do not exhaust the creditworthiness assessment process that the Bank performs with regard to its customers; rather they represent a further contribution to define the information framework regarding the credit quality of the customer.

The satisfactory appraisal of the borrower's creditworthiness, with regards to capital and income, and of the correct remuneration of the risk, are made based on documentation acquired by the Bank; the information acquired from the Bank of Italy Central Credit Bureau and from other infoproviders, both when decisions are made and during the subsequent monitoring, complete the informational framework.

For Banca Sistema, Credit risk is one of the Group's main components of overall exposure; the composition of the credit portfolio predominantly consists of National Institutions of the Public Administration, such as local health authorities / Hospitals, Territorial entities (Regions, Provinces and Municipalities) and Ministries that, by definition, entail a very limited default risk.

The main components of Banca Sistema's operations that generate credit risk are:

- Factoring activities (with and without recourse);
- Loans to SMEs (with guarantee from the National Guarantee Fund - FNG);
- Acquisition without recourse of salary-/pension-backed loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

2.1 Organisational aspects

Banca Sistema's organisational model provides that the preliminary credit assessment procedure be performed carefully in accordance with the decision-making powers reserved to the decision-making bodies.

In order to maintain high credit quality in its loan portfolio, the Bank, as the Parent, deemed it expedient to concentrate all phases related to the assumption and control of risk upon its internal structures, thus obtaining, through the specialisation of resources and the segregation of duties at each decision-making level, a degree of standardisation in the granting of credit and robust monitoring of the individual positions.

In light of the above, the Bank's Underwriting Department, which reports to the Central Credit Department, performs the analyses for the granting of credit. The Department performs assessments focused on the separate analysis and extension of credit to counterparties (assignor, debtor) and on managing the related financial transactions. This takes place in all normal phases of the credit process, summarised as follows:

- “analysis and assessment”: the gathering of quantitative and qualitative information from the counterparties under examination and within the system allows an opinion of the party’s reliability to be obtained and is helpful in quantifying the proposed line of credit;
- “deliberation and formalisation”: once the proposal has been deliberated upon, the contractual documentation to be signed by the counterparty is prepared;
- “monitoring the relationship”: the continuous control of the counterparties benefiting from the credit allows any anomalies to be identified and consequentially prompt intervention.

Credit risk is mainly generated as a direct result of the definitive acquisition of credit from the customer company versus the insolvency of the assigned debtor. In particular, the credit risk generated by the factoring portfolio essentially consists of public entities.

With regard to each credit acquired, Banca Sistema performs, via the Out-of-Court Collection and Legal Collection Departments, both of which report to the Central Credit Department, activities described further on in order to verify the credit status, and whether or not there are any impediments to the payment of the invoices to be assigned, and the date scheduled for the payment thereof. Specifically, the structure endeavours:

- to verify that each credit is certain, liquid and collectable, i.e. there are no disputes or complaints and that there is no further request for clarification or information with regard to said credit and should there be any, that said requests are promptly satisfied;
- to verify that the debtor has received and recognised in its system the related deed of assignment, i.e. it is aware that the credit has been assigned to Banca Sistema;
- to verify that the debtor, where provided for by the assignment agreement and by the purchase offer, has formalised its acceptance of the assignment of the related credit or has not rejected it in accordance with law;
- to verify that the debtor has received all the documentation required to proceed with the payment (copy of invoice, orders, bills, transportation documents, etc.) and that it has recognised the corresponding debt in its system (existence of the credit);
- to verify c/o the local and/or regional institutions: the existence of specific allocations, available cash;
- to verify the payment status of the credits via meetings c/o the Public Administrations and/or debtor agencies, telephone contacts, emails, etc. in order to facilitate the ascertainment and the removal of any obstacles that could delay and/or impede payment.

With regard to the SME Loans product, beginning in February 2017, it was decided to exit this segment of the market as well as the run-off of prior exposures in the portfolio. On this basis, credit risk is associated with the inability of the two counterparties involved in the loan to honour their financial commitments, i.e.:

- the debtor (SME);
- the Guarantee Fund (the Government of Italy).

The type of loan follows the usual operating process concerning the preliminary assessment, the disbursement and the monitoring of the credit.

In particular, two separate due-diligence procedures are performed on this type of loan (one by the Bank and the other by Medio Credito Centrale, the so-called MCC) on the borrower of funds.

The debtor's insolvency risk is mitigated by direct (i.e. that referring to an individual exposure), explicit, unconditional and irrevocable guarantee by the Guarantee Fund, the sole Manager of which is “MCC”.

As regards, instead, the acquisition of salary-/pension-backed loan portfolios, the credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

- the employer (ATC);
- the financial assigning company;
- the insurance company.

The insolvency risk of the employer (ATC) / debtor is generated in the following cases:

- default of employer (e.g.: bankruptcy);
- the debtor losing his job (e.g.: resignation/ dismissal of the debtor) or reduction of remuneration (e.g.:

redundancy fund);

- death of the debtor.

The risks described above are mitigated by the mandatory subscription of life and employment insurance policies. In detail:

- the employment risk policy fully covers any insolvency deriving from the reduction of the debtor's remuneration whereas, in case of default by the employer, the coverage is limited to the portion of the residual debt in excess of the post-employment benefits accrued;
- the life risk policy provides that the insurance company will intervene to cover the portion of the residual debt expiring subsequent to death; any instalments previously not settled remain instead incumbent upon by the heirs.

The Bank is subject to the insolvency risk of the insurance company in the event that a claim is made upon a loan. In order to mitigate this risk, the Bank requires that the outstanding credit portfolio be insured by several insurance companies observing the following terms:

- an individual company with no rating or with rating lower than Investment Grade may insure a maximum of 30% of the cases;
- an individual company of Investment Grade may insure a maximum of 40% of the cases.

The employer insolvency risk is generated in the event that a case is retroceded back to the employee, which must therefore, repay the credit to the Bank. The Framework Agreement initialled with the employer provides for the possibility of returning the credit in the cases of fraud on the part of the employer/debtor or in any case, of non-observance, on the part of the employer, of the criteria underwritten in the Framework Agreement.

As concerns the financial instruments held on its own account, the Bank performs security purchase transactions regarding Italian government debt, which are allocated based on the investment strategy, to the HTC, HTCS and HTS portfolios.

With reference to aforementioned transactions the Bank identified and selected specific IT applications to manage and monitor the treasury limits on the securities portfolio and to set up the second level controls.

The Treasury Department, operating within the limits allowed by the Board of Directors, conducts said transactions.

2.2 Management, measurement and control systems

The Bank sets effective Credit Risk Management as a strategic objective via instruments and processes integrated to ensure a correct credit management in all phases (processing, disbursement, monitoring and management, intervening on loans with credit quality problems).

By involving the various central structures of Banca Sistema and through the specialisation of the resources and the segregation of duties at each decision-making level, it seeks to guarantee a high degree of efficiency and standardisation in overseeing credit risk and monitoring the individual positions.

With specific reference to the monitoring of credit activities, the Bank, via the collection meetings, assesses and inspects the credit portfolio based upon the guidelines defined within the "collection policy".

The framework related to the above credit risk ex-post monitoring sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in-line with the strategic indications provided.

The purchase activities of government securities classified among HTCS financial assets (formerly classified as available-for-sale) continued during 2018 in relation to the credit risk associated with the bond securities portfolios. Said financial assets, which in virtue of their classification fall within the perimeter of the "banking book" although outside of the bank's traditional investment activity, are sources of credit risk. This risk consists in the issuer's inability to redeem, upon maturity, all or part of the bonds subscribed.

The securities held by Banca Sistema consist exclusively of Italian government securities, with an average duration of less than two years for the overall portfolio.

Furthermore, the formation of a portfolio of highly liquid assets is also expedient for anticipating the trend of the prudential regulations in relation to the governance and management of liquidity risk.

As concerns counterparty risk, Banca Sistema's operations call for extremely prudent reverse repurchase and repurchase agreements being that Italian government securities are the predominant underlying instrument and the Compensation and Guarantee Fund is the predominant counterparty.

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 for estimating impairment is based on a process aimed at giving evidence of the deterioration of a financial instrument's credit quality from the date of initial recognition to the reporting date. The regulatory guidance on assigning loans and receivables to the various stages under the Standard ("staging" or "stage allocation") calls for the identification of significant changes in credit risk based on the changes in a counterparty's creditworthiness since initial recognition, the expected life of the financial asset and other forward-looking information that may affect credit risk.

Consistently with the provisions of IFRS 9, performing loans are therefore divided into two categories:

- Stage 1: this bucket contains assets that do not show signs of significant deterioration in credit quality. For this stage the expected one-year credit loss is calculated on a collective basis;
- Stage 2: this bucket contains assets that show signs of significant deterioration in credit quality from the date of initial recognition to the reporting date. The expected loss for this bucket must be calculated on a lifetime basis, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit Risk mitigation techniques

It should be noted that, at the reporting date, the Bank did not implement any hedging of the credit portfolio.

As concerns credit and counterparty risk on the securities portfolio and on the repurchase agreements, risk mitigation is pursued by a careful management of the operational autonomy, establishing limits in terms of both responsibility and consistency and composition of the portfolio by type of securities.

3. Impaired loans

Banca Sistema defined its credit quality policy based on the provisions in the Bank of Italy Circular no. 272 (Accounts matrix), the main definitions of which are provided on the following pages.

The Supervisory Provisions for Banks assign to intermediaries specific obligations concerning the monitoring and classification of loans: "The obligations of the operating units in the monitoring phase of the loan granted must be deducible from the internal regulation. In particular, the terms and methods of action must be set in the event of anomalies. The criteria for measurement, management and classification of irregular loans, as well as the related responsible units, must be set through a resolution by the Board of Directors in which the methods for connecting these criteria with those required for the supervisory reports are indicated. The Board of Directors must be regularly informed on the performance of the irregular loans and the related recovery procedures".

According to the definitions in the above-mentioned Bank of Italy Circular, "impaired" financial assets are defined as those that lie within the "bad exposures", "unlikely to pay" or "past due and/or overdrawn exposures" categories.

Exposures whose anomalous situation is attributable to factors related to "country risk" are not included in "impaired" financial assets.

In particular, the following definitions apply:

Bad exposures

On- and off-statement of financial position exposures (loans, securities, derivatives, etc.) owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of any loss forecast formulated by the Bank (cf. Art. 5 bankruptcy law). The definition therefore applies regardless of the existence of any collateral (real or private) provided as protection against the exposures.

This class also includes:

- the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure;
- receivables acquired from third parties in which the main debtors are non-performing, regardless of the portfolio's accounting allocation.

Unlikely to pay

The classification in this category is first and foremost based on the Bank's judgement regarding the unlikelihood that, without having to resort to actions such as enforcing the guarantees, the debtor will completely (with regard to principal and/or interest) fulfil its credit obligations. This assessment is made independently of whether any sums (or instalments) are past due and not paid. It is therefore unnecessary to wait for explicit symptoms of irregularity (non-repayment) if there are elements that entail a situation of default risk on the part of the debtor (e.g. a crisis in the industrial sector in which the debtor operates). The set of on- and off-statement of financial position exposures to the same debtor in the above conditions is named "unlikely to pay", save that the conditions for classifying the debtor under bad exposures do not exist. The exposures to retail parties may be classified in the unlikely to pay category at the level of the individual transaction, provided that the Bank has assessed that the conditions for classifying the set of exposures to the same debtor in that category do not exist.

Past due and/or overdrawn exposures

These are understood to be the on-statement of financial position exposures at carrying amount and off-statement of financial position exposures (loans, securities, derivatives, etc.), other than those classified as bad exposures, unlikely to pay, that, on the reference date of the report, are past due or have been overdrawn by more than 90 days. In order to verify the continuity of the past due exposure in connection with factoring transactions, the following should be noted:

- for "with recourse" transactions, a past due exposure, other than one associated with the assignment of future receivables, becomes such only if both of the following conditions exist:
    - the amount of the advance is equal to, or greater than the total amount of receivables that are coming due;
    - at least one invoice has not been honoured (past due) by more than 90 days and the set of the past due invoices (including those by less than 90 days) exceeds 5% of the total receivables.
- for "without recourse" transactions, reference must be made to the invoice that is furthest past due for each assigned debtor.

In the calculation of the capital requirement for the credit and counterparty risk, Banca Sistema uses the standardised approach. This envisages that the exposures that lie within the portfolios related to "Central Authorities and Central Banks", "Territorial entities", and "Public sector institutions" and "Businesses", must apply the notion of past due and/or overdrawn exposures at the level of the debtor party.

The regulation requires that the debtor's total exposure be considered past due and/or overdrawn, on the reference date of the report, any time the 5% materiality level is exceeded.

Forborne exposures

Forborne exposures are defined as exposures that fall into the category "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined by the International Technical Standard (ITS).

A forbearance measure represents a concession towards a debtor which faces or is about to face difficulties in fulfilling its financial obligations ("financial difficulties"); a "concession" indicates one of the following actions:

- an amendment of the previous terms and conditions of a contract which the debtor is considered unable to fulfil due to its financial difficulties, that would not have been granted if the debtor was not in financial difficulty;
- a total or partial refinancing of a problem loan that would not have been granted if the debtor was not in financial difficulty.

Art. 172 of the EBA ITS sets some situations which, if occurring, lead in any case to the presence of forbearance measures, i.e. when:

- an amended contract was classified as non-performing and would have been so in the absence of the amendment;
- the amendment made to the contract implies a partial or total cancellation of the debt;
- the intermediary approves the use of forbearance clauses incorporated in the contract for a debtor classified as non-performing or that would have been so without resorting to these clauses;
- at the same time or close to the additional granting of credit by the intermediary, the debtor makes payments

of principal or interest on another contract with the intermediary that was classified as non-performing or that would have been classified so in the absence of the refinancing.

According to these criteria, forbearance is presumed to have taken place when:

- the amended contract has totally or partially expired for more than 30 days (without being classified as non-performing) at least once during the three months before the amendment or it would have been so in the absence of the amendment;
- at the same time or near the time additional credit is granted by the intermediary, the debtor makes principal or interest payments on another contract with the intermediary that was classified as totally or partially past due by more than 30 days (without it being classified as non-performing) at least once during the three months previous to the amendment or it would have been had the amendment not been made;
- the intermediary approves the use of forbearance clauses incorporated in the contract for a debtor which has expired for more than 30 days or that would have been so without resorting to these clauses.

3.1 Management strategies and policies

The current regulatory framework requires impaired financial assets to be classified according to their criticality. More specifically, there are three categories: “bad exposures”, “unlikely to pay” and “past due and/or overdrawn exposures”.

- Bad exposures: exposures owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of the loss forecasts formulated by the intermediary.
- Unlikely to pay: exposures for which the intermediary considers it unlikely that the debtor will fully meet its obligations without having to resort to actions such as the enforcement of guarantees, regardless of whether there are any past due and/or overdrawn amounts.
- Past due and/or overdrawn exposures: exposures, other than those classified as bad exposures or unlikely to pay, which have been continuously past due and/or overdrawn for more than 90 days.

Forborne exposures, which refer to exposures that are subject to renegotiation and/or refinancing due to the customer's financial difficulties (whether evident or developing), are also classified. These exposures may constitute a subset of non-performing loans (non-performing exposures with forbearance measures) and performing loans (forborne performing exposures). The management of these exposures, in compliance with the regulatory provisions regarding timing and classification methods, is supported by specific work processes and IT tools.

The Group has a policy that establishes criteria and methods for recognising impairment losses by standardising the rules that, depending on the type of non-performing loan and its original technical form, define the methods and processes used to determine expected losses. The management of non-performing exposures is assigned to a specific organisational unit, the Central Credit Department, which is responsible for identifying strategies for maximising collection on individual positions and establishing the impairment losses to be recognised for those positions through a formalised process.

The expected loss reflects a number of elements derived from various internal and external assessments of the financial condition of the main debtor and any guarantors. Expected losses are continuously monitored and compared to the changes in each position. The Risk Department oversees the collection of non-performing loans.

In order to maximise collections, the relevant departments identify the best strategy for managing non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, may include amending the contractual terms (forbearance), establishing the methods for loan collection, or assigning the credit to third parties (either for individual exposures or for a group of positions with similar characteristics).

3.2 Write-offs

Non-performing exposures for which collection is not possible (whether in full or in part) are written off from the accounting records in compliance with the policies in force at the time and subject to approval by the Bank's Board of Directors.

3.3 Purchased or originated credit-impaired financial assets

In accordance with “IFRS 9 - Financial Instruments”, in some cases a financial asset is considered impaired at initial recognition because the credit risk is very high, and in the case of a purchase, it is acquired at a significant discount (compared to the original disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and business model), are classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as "Purchased or Originated Credit-Impaired" (in short "POCI") and are subject to specific treatment. More specifically, impairment losses equal to the lifetime expected credit loss (ECL) are recognised from the date of initial recognition over the asset’s entire life. In light of the above, POCI financial assets are initially recognised in stage 3, although they may be subsequently reclassified to performing loans, in which case an expected loss equal to the lifetime ECL (stage 2) will continue to be recognised. A POCI financial asset is therefore classified as such in the expected credit loss (ECL) reporting and calculation processes.

4. Financial assets subject to commercial renegotiation and forborne exposures

In the event the debtor is experiencing financial difficulties, the contractual terms of the exposures may be amended in favour of the debtor in order to make repayment financially sustainable. Depending on the subjective characteristics of the exposure and the reasons behind the debtor's financial difficulties, the amendments may be short term (temporary suspension of the payment of the principal of a loan or extension of a maturity) or long term (extension of the duration of a loan, adjustment of the interest rate) and result in the exposure (both performing and non-performing) being classified as “forborne”. “Forborne” exposures are subject to specific provisions for classification in accordance with EBA ITS 2013-35, as transposed in the Group's credit policies. If the lending measures are applied to performing exposures, these are included in the group of stage 2 exposures. All exposures classified as “forborne” are included in specific monitoring processes by the relevant departments.

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance and business breakdown

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Financial assets measured at amortised cost	39,017	77,912	79,066	265,500	2,340,318	2,801,813
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	298,292	298,292
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2018	**39,017**	**77,912**	**79,066**	**265,500**	**2,638,610**	**3,100,105**
Total at 31.12.2017	**32,340**	**15,445**	**73,251**	**331,052**	**1,807,864**	**2,259,952**

A.1.2 Breakdown of financial assets by portfolio and by credit quality (gross amount and carrying amount)

	Impaired assets				Unimpaired assets			
	Gross amount	Total impairment losses	Net exposure	Overall partial write-offs (*)	Gross amount	Total impairment losses	Net exposure	Total (carrying amount)
1. Financial assets measured at amortised cost	225,163	29,169	195,994	-	2,612,185	6,366	2,605,819	2,801,813
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	298,341	49	298,292	298,292
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-	-	-	-	-
Total at 31.12.2018	**225,163**	**29,169**	**195,994**	**-**	**2,910,526**	**6,415**	**2,904,111**	**3,100,105**
Total at 31.12.2017	**143,328**	**22,292**	**121,036**	**-**	**2,144,506**	**5,590**	**2,138,916**	**2,259,952**

A.1.3 Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	27,148	24,474	202,713	1,047	3,672	6,900	295	10,975	126,523
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
TOTAL at 31.12.2018	**27,148**	**24,474**	**202,713**	**1,047**	**3,672**	**6,900**	**295**	**10,975**	**126,523**
TOTAL at 31.12.2017	**40,196**	**80,393**	**210,462**	**-**	**-**	**-**	**934**	**3,427**	**74,940**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses													Overall accruals to provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets included in the first stage				Assets included in the second stage				Assets included in the third stage				Of which: purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	of which: individual impairment losses	of which: collective impairment losses		First stage	Second stage	Third stage	
Opening balance	**5,590**	**-**	**-**	**5,590**	**-**	**-**	**-**	**-**	**22,292**	**-**	**22,292**	**-**	**571**	**-**	**-**	**-**	**27,882**
Increases in purchased or originated financial assets	53	-	20	32	-	-	-	-	164	-	164	-	216	-	-	-	217
Derecognition other than write-offs	4,133	-	3,013	1,120	5	-	-	5	26	-	26	-	-	-	-	-	4,164
Net impairment losses/gains due to credit risk (+/-)	(3,990)	49	(2,888)	(1,053)	575	-	-	575	6,687	-	6,648	40	(502)	-	-	-	3,321
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing balance	**5,786**	**49**	**145**	**5,689**	**580**	**-**	**-**	**580**	**29,169**	**-**	**29,130**	**40**	**285**	**-**	**-**	**-**	**35,584**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	92,292	472	4,253	861	156,920	5,909
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Commitments to disburse funds and financial guarantees issued	16,661	634	145	1,952	15,286	-
TOTAL at 31.12.2018	**108,953**	**1,106**	**4,398**	**2,813**	**172,206**	**5,909**

A.1.6 On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-				
a) Bad exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	1	-	1	-
of which: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	56,702	9	56,693	-
of which: forborne exposures	X				
TOTAL A	-	**56,703**	**9**	**56,694**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-				
a) Impaired	-	X	-	-	-
b) Unimpaired	X	2,446	-	2,446	-
TOTAL B	-	**2,446**	**-**	**2,446**	**-**
TOTAL A+B	-	**59,149**	**9**	**59,140**	**-**

A.1.7 On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Bad exposures	57,468	X	18,451	39,017	-
of which: forborne exposures		X			-
b) Unlikely to pay	87,188	X	9,277	77,912	-
of which: forborne exposures		X			-
c) Impaired past due exposures	80,508	X	1,442	79,066	-
of which: forborne exposures	1,434	X	15	1,419	-
d) Unimpaired past due exposures	X	266,322	823	265,499	-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	2,587,500	5,583	2,581,917	-
of which: forborne exposures	X				
TOTAL A	**225,164**	**2,853,822**	**35,576**	**3,043,411**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Impaired	17,931	X		17,931	-
b) Unimpaired	X	204,018	7	204,011	-
TOTAL B	**17,931**	**204,018**	**7**	**221,942**	**-**
TOTAL (A+B)	**243,095**	**3,057,840**	**35,583**	**3,265,353**	**-**

A.1.9 On-statement of financial position loans and receivables with customers: gross impaired positions

	Bad exposures	Unlikely to pay	Impaired past due exposures
A. Opening gross balance	**44,578**	**24,061**	**74,690**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**95,699**	**140,870**	**429,094**
B.1 transfers from performing loans	21,821	125,125	336,332
B.2 transfers from purchased or originated credit-impaired financial assets	5,007	-	709
B.3 transfers from other categories of impaired loans	32,779	15,416	6,117
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	36,092	329	85,936
C. Decreases	**82,809**	**77,743**	**423,276**
C.1 transfers to performing loans	5,120	5	207,451
C.2 write-offs	3,888	-	-
C.3 collections	73,801	44,927	194,324
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	-	32,811	21,501
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**57,468**	**87,188**	**80,508**
- of which: positions transferred but not derecognised	-	-	-

A.1.9bis On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne performing exposures
A. Opening gross balance	**-**	
- of which: positions transferred but not derecognised	**-**	
B. Increases	**1,465**	
B.1 transfers from performing exposures without forbearance measures	1,465	
B.2 transfers from forborne performing exposures	-	X
B.3 transfers from non-performing exposures with forbearance measures	X	
B.4 other increases	-	
C. Decreases	**31**	
C.1 transfers to performing exposures without forbearance measures	X	X
C.2 transfers to forborne performing exposures	-	
C.3 transfers to non-performing exposures with forbearance measures	X	
C.4 write-offs	-	
C.5 collections	31	
C.6 gains on sales	-	
C.7 losses on sales	-	
C.8 other decreases	-	
D. Closing gross balance	**1,434**	
- of which: positions transferred but not derecognised	**-**	

A.1.11 On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**12,237**		**8,616**		**1,439**	
- of which: positions transferred but not derecognised	-		-		-	
B. Increases	**11,238**		**8,252**		**3,432**	**15**
B.1 impairment losses on purchased or originated credit-impaired financial assets	164	X	-	X	-	X
B.2 other impairment losses	6,765		8,010		522	15
B.3 losses on sales	-		-		-	
B.4 transfers from other categories of impaired loans	4,119		41		2,664	
B.5 contract amendments without derecognition	-	X	-	X	-	X
B.6 other increases	190		201		246	
C. Decreases	**5,024**		**7,591**		**3,429**	
C.1 impairment gains	1,911		476		2,767	
C.2 impairment gains due to collections	2,082		461		469	
C.3 gains on sales	-		-		-	
C.4 write-offs	-		-		-	
C.5 transfers to other categories of impaired loans	104		6,654		67	
C.6 contract amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	927		-		126	
D. Closing total impairment losses	**18,451**		**9,277**		**1,442**	**15**
- of which: positions transferred but not derecognised	**-**		**-**		**-**	

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BASED ON EXTERNAL AND INTERNAL RATING

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/ guarantors pursuant to prudential requirements (cf. Circular no. 285 of 2013 "Regulations for the supervision of banks" and subsequent updates).

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities.

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**-**	**2,196**	**435,482**	**-**	**-**	**-**	**2,834,551**	**2,822,229**
- First stage	-	-	435,482	-	-	-	2,055,618	2,491,100
- Second stage	-	-	-	-	-	-	106,473	106,473
- Third stage	-	2,196	-	-	-	-	222,460	224,656
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**298,341**	**-**	**-**	**-**	**-**	**298,341**
- First stage	-	-	298,341	-	-	-	-	298,341
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	**-**	**2,196**	**733,823**	**-**	**-**	**-**	**2,384,551**	**3,120,570**
of which: purchased or originated credit-impaired financial assets	-	-	- -	-	-	-	26,062	26,062
C. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**282,870**	**282,870**
- First stage	-	-	-	-	-	-	245,973	245,973
- Second stage	-	-	-	-	-	-	18,966	18,966
- Third stage	-	-	-	-	-	-	17,931	17,931
Total C	**-**	**-**	**-**	**-**	**-**	**-**	**282,870**	**282,870**
Total (A + B + C)	**-**	**2,196**	**733,823**	**-**	**-**	**-**	**2,667,421**	**3,403,440**

of which long-term rating

Creditworthiness class	Risk weighting factors				ECAI
	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	DBRS Ratings Limited
1	0%	20%	20%	20%	from AAA to AAL
2	20%	50%	50%	50%	from AH to AL
3	50%	100%	50%	100%	from BBBH to BBBL
4	100%	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	150%	from BH to BL
6	150%	150%	150%	150%	CCC

of which short-term ratings (for exposures to companies)

Creditworthiness class	Risk weighting factors	ECAI
		DBRS Ratings Limited
1	20%	R-1 (high), R-1 (middle), R-1 (low)
2	50%	R-1 (high), R-2 (middle), R-2 (low)
3	100%	R-3
4	150%	R-4, R-5
5	150%	
6	150%	

“Fitch Ratings”, for exposures to companies and other parties.

of which long-term rating

Creditworthiness class	Risk weighting factors				ECAI
	Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	Fitch Ratings
1	0%	20%	20%	20%	from AAA to AA-
2	20%	50%	50%	50%	from A+ to A-
3	50%	100%	50%	100%	from BBB+ to BBB-
4	100%	100%	100%	100%	from BB+ to BB-
5	100%	100%	100%	150%	from B+ to B-
6	150%	150%	150%	150%	CCC+ and lower

of which short-term ratings (for exposures to companies)

Creditworthiness class	Risk weighting factors	ECAI
		Fitch Ratings
1	20%	F1+, F1
2	50%	F2
3	100%	F3
from 4 to 6	150%	less than F3

A.3 Breakdown of guaranteed credit exposures by type of guarantee

A.3.2 Guaranteed on- and off-statement of financial position loans and receivables with customers

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**744,217**	**732,093**	**-**	**-**	**23,029**	**640,797**	**-**	**-**	**-**	**-**	**-**	**21,660**	**-**	**12**	**45,287**	**730,785**
1.1 fully guaranteed	731,625	720,916	-	-	23,029	640,796	-	-	-	-	-	12,526	-	12	44,554	720,917
- of which impaired	7,351	5,661	-	-	-	499	-	-	-	-	-	3,342	-	-	1,820	5,661
1.2 partially guaranteed	12,592	11,177	-	-	-	1	-	-	-	-	-	9,134	-	-	733	9,868
- of which impaired	4,668	3,639	-	-	-	-	-	-	-	-	-	2,848	-	-	643	3,491
2. Guaranteed off-statement of financial position loans:	**33,218**	**33,212**	**-**	**-**	**949**	**300**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,938**	**29,187**
2.1 fully guaranteed	28,342	28,336	-	-	949	300	-	-	-	-	-	-	-	-	27,086	28,335
- of which impaired	1,506	1,506	-	-	-	-	-	-	-	-	-	-	-	-	1,506	1,506
2.2 partially guaranteed	4,876	4,876	-	-	-	-	-	-	-	-	-	-	-	-	852	852
- of which impaired	292	292	-	-	-	-	-	-	-	-	-	-	-	-	266	266

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A1. Bad exposures	28,522	2,365	-	-	-	-	10,339	15,504	155	582
- of which: forborne exposures										
A.2 Unlikely to pay	59,807	2,384	-	-	-	-	16,405	6,229	1,700	663
- of which: forborne exposures										
A.3 Impaired past due exposures	51,623	397	1	-	1	-	25,740	1,023	1,702	22
- of which: forborne exposures							1,419	15		
A.4 Unimpaired exposures	1,817,179	3,421	43,429	55	4	-	306,520	1,672	680,284	1,259
- of which: forborne exposures										
TOTAL (A)	**1,957,131**	**8,567**	**43,430**	**55**	**5**	**-**	**359,004**	**24,428**	**683,841**	**2,526**
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	-	-	-	-	-	-	17,931	-	-	-
B.2 Unimpaired exposures	-	-	111,729	-	-	-	89,862	6	2,420	1
TOTAL (B)	**-**	**-**	**111,729**	**-**	**-**	**-**	**107,793**	**6**	**2,420**	**1**
Total (A+B) at 31.12.2018	**1,957,131**	**8,567**	**155,159**	**55**	**5**	**-**	**466,797**	**24,434**	**686,261**	**2,527**
Total (A+B) at 31.12.2017	**1,404,519**	**6,440**	**7,575**	**-**	**16**	**-**	**274,621**	**19,753**	**538,057**	**1,689**

B.2 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	39,017	18,451	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	77,912	9,277	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	76,893	1,419	-	-	-	-	2,173	23	-	-
A.4 Unimpaired exposures	2,808,499	6,267	30,635	108	5,011	19	2,871	11	400	1
Total (A)	**3,002,321**	**35,414**	**30,635**	**108**	**5,011**	**19**	**5,044**	**34**	**400**	**1**
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	17,931	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	200,584	7	3,427	-	-	-	-	-	-	-
Total (B)	**218,515**	**7**	**3,427**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31.12.2018	**3,220,836**	**35,421**	**34,062**	**108**	**5,011**	**19**	**5,044**	**34**	**400**	**1**
Total (A+B) at 31.12.2017	**2,206,708**	**27,834**	**14,982**	**39**	**1,080**	**3**	**2,018**	**6**	**-**	**-**

B.3 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	56,694	9	-	-	-	-	-	-	-	-
Total (A)	**56,694**	**9**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31/12/2018	**59,140**	**9**	-	-	-	-	-	-	-	-
Total (A+B) at 31/12/2017	**37,968**	-	-	-	-	-	-	-	-	-

B.4 Large exposures

As at 31 December 2018, the Bank's large exposures are as follows:

a) Carrying amount € 1,760,427 (in thousands)

b) Weighted value € 200,240 (in thousands)

c) No. of positions 19.

E. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

The financial assets transferred and not derecognised refer predominantly to Italian government securities used for repurchase agreements. Said financial assets are classified in the separate financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

QUANTITATIVE DISCLOSURE

E.2 Financial assets transferred and recognised partially, and associated financial liabilities: carrying amount

	Entire amount of original assets before transfer	Carrying amount of partially recognised assets	of which impaired	Carrying amount of associated financial liabilities
A. Financial assets held for trading	-	-	X	-
1. Debt instruments	-	-	X	-
2. Equity instruments	-	-	X	-
3. Financing	-	-	X	-
4. Derivatives	-	-	X	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-		-
1. Debt instruments	-	-		-
2. Equity instruments	-	-	X	-
3. Financing	-	-		-
C. Financial assets designated at fair value through profit or loss	-	-		-
1. Debt instruments	-	-		-
2. Financing	-	-		-
D. Financial assets measured at fair value through other comprehensive income	-	-		-
1. Debt instruments	-	-		-
2. Equity instruments	-	-		-
3. Financing	-	-	X	-
E. Financial assets measured at amortised cost	**455,905**	-		-
1. Debt instruments	-	-		-
2. Financing	455,905	-		-
Total at 31.12.2018	455,905	-		-
Total at 31.12.2017	**455,550**	-		**43,149**

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

SECTION 2 - MARKET RISK

Banca Sistema did not conduct trading activity on financial instruments. At 31 December 2018 asset positions, except for shares, included in the regulatory trading portfolio that may generate market risk are not recognised.

The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

2.1 Interest rate risk and price risk - regulatory trading portfolio

The trading risk changed only following the trading of the only shares held in the portfolio; due to the size of the investment the price risk is limited.

2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Interest rate risk is defined as the risk that the financial assets/liabilities increase /decrease because of movements contrary to the interest rate curve. The Bank identified the sources that generate interest rate risk with reference to the credit processes and to the Bank's funding.

The exposure to interest rate risk on the banking book is calculated as provided for by current regulations, via the simplified regulatory approach (Cf. Circular no. 285/2013, Part One, Title III, Chapter 1, Schedule C); by using this method the Bank is able to monitor the impact of unexpected changes in market conditions on equity, thus identifying the related mitigation measures to be implemented.

In greater detail, the process of estimating the exposure to interest rate risk of the banking book provided by the simplified method is organised in the following phases:

- Determination of material currencies. "Material currencies" are considered those that represent a portion of total assets, or also of the banking book liabilities, greater than 5%. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in "material currencies" are considered individually, while the positions in "non-material currencies" are aggregated for the equivalent amount in Euro;
- Classification of the assets and liabilities in time buckets. 14 time buckets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating-rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With particular reference to the deposit and savings product "Si conto! Deposito", the Bank proceeded with the bucketisation that takes into account the implied redemption option;
- Weighting the net exposures of each bucket. The asset and liability positions are offset within each bucket, obtaining a net position. The net position by bucket is multiplied by the corresponding weighting factor obtained as the product between a hypothetical change of the rates and an approximation of the modified duration for the individual bucket;
- Sum of the weighted net exposures of the various buckets. The weighted exposures calculated for each bucket (sensitivity) are summed together. The net weighted exposure thus obtained approximates the change of the present value of the items, denominated in a certain currency, in the event of the assumed rate shock;
- Aggregation in the various currencies. The absolute values of the exposures regarding the individual "material currencies" and the aggregate of the "non-material currencies" are summed together, obtaining an amount that represents the change of the economic value of the Bank based on the assumed rate trends.

With reference to the Bank's financial assets, the main sources that generate interest rate risk are loans and receivables with customers and the bond securities portfolio. As concerns the financial liabilities, relevant instead are the customer deposits and savings activities via current accounts, the savings account, and the collections on the interbank market.

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is less than one year;
- the salary/pension-backed loan portfolio that contains fixed rate contracts is that with the longest duration, however on the reporting date this portfolio was small and it was not deemed necessary to enter into interest rate hedge transactions on said maturities;
- the REPO deposits c/o the Central Bank are of short duration (the maximum maturity is equal to 3 months);
- the customers' deposits on the deposit account product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank (in compliance with regulations in force and the existing contracts);
- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs.

The Bank continuously monitors the main assets and liabilities subject to interest rate risk; furthermore, no hedging instruments were used as at the reporting date.

QUANTITATIVE DISCLOSURE

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

Currency of denomination: Euro

	On demand	Up to 3 months	From more than 3 months to 6 months	From more than 6 months up to 1 year	From more than 1 year up to 5 years	From more than 5 years up to 10 years	More than 10 years	Open term
1. Assets	**1,178,497**	**177,881**	**245,826**	**159,169**	**1,041,158**	**297,570**	**4**	**-**
1.1 Debt instruments	-	-	157,894	36,949	538,860	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	157,894	36,949	538,860	-	-	-
1.2 Financing to banks	24,211	32,469	14	-	-	-	-	-
1.3 Financing to customers	1,154,286	145,412	87,918	122,220	502,298	297,570	4	-
- current accounts	38,603	-	-	-	-	2	-	-
- other financing	1,115,683	145,412	87,918	122,220	502,298	297,568	4	-
- with early repayment option	13,874	41,058	84,608	122,070	502,298	264,397	4	-
- other	1,101,809	104,354	3,310	150	-	33,171	-	-
2. Liabilities	**678,655**	**910,076**	**270,729**	**326,779**	**682,013**	**33,975**	**13**	**-**
2.1 Due to customers	678,307	378,588	190,631	326,779	293,763	33,975	13	-
- current accounts	678,108	184,313	183,028	311,428	241,646	20,078	13	-
- other payables	199	194,275	7,603	15,351	52,117	13,897	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	199	194,275	7,603	15,351	52,117	13,897	-	-
2.2 Due to banks	348	511,999	60,000	-	122,850	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	348	511,999	60,000	-	122,850	-	-	-
2.3 Debt instruments	-	19,489	20,098	-	265,400	-	-	-
- with early repayment option	-	19,489	12,081	-	265,400	-	-	-
- other	-	-	8,017	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**74,752**	**66,483**	**2,316**	**3,316**	**-**	**-**	**-**
3.1 With underlying security	-	64,931	64,940	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	64,931	64,940	-	-	-	-	-
+ long positions	-	-	64,940	-	-	-	-	-
+ short positions	-	64,931	-	-	-	-	-	-
3.2 Without underlying security	-	9,821	1,543	2,316	3,316	-	-	-
- Options	-	9,821	1,543	2,316	3,316	-	-	-
+ long positions	-	1,323	1,543	2,316	3,316	-	-	-
+ short positions	-	8,498	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2.3 Currency risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the trading portfolio. The currency risk is limited due to the size of the investment.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**1,178**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	1,178
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**-**	**1,178**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**-**	**1,178**

The amount refers to the Axactor shares held by the Bank partly in the Held to Collect and Sell (HTCS) portfolio. They are listed securities traded in Norwegian krone.

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 Derivatives held for trading

A. Financial derivatives

At 31 December 2018 the Bank did not recognise any amount for this item.

B. Credit derivatives

At 31 December 2018 the Bank did not recognise any amount for this item.

3.2 Hedge Accounting

The Bank did not perform any such transactions in 2018.

3.3 Other disclosure of derivatives (held for trading and hedging)

At 31 December 2018 there were no such cases.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the liquidity risk

Liquidity risk is represented by the possibility that the Bank is unable to maintain its payment commitments due to the inability to procure funds or to the inability to sell assets on the market to manage the financial imbalance. It is also represented by the inability to procure adequate new financial resources, in terms of amount and cost, with respect to operational need/advisability, that forces the Bank to slow or stop the development of activity, or to incur excessive funding costs to deal with their commitments, with significant negative impacts on the profitability of its activity. The financial sources are represented by capital, funding from customers, the funds procured on the domestic and international interbank market as well from the Eurosystem. To monitor the effects of the intervention strategies and to limit the liquidity risk, the Bank identified a specific section dedicated to monitoring the liquidity risk in the Risk Appetite Framework (RAF).

Furthermore, in order to promptly detect and manage any difficulties in procuring the funds necessary to conduct its activity, every year, Banca Sistema, consistent with the prudential supervisory provisions, updates its liquidity policy and Contingency Funding Plan, i.e. the set of specific intervention strategies in case of liquidity stress, establishing procedures to procure funds in the event of an emergency.

This set of strategies is of fundamental importance to attenuate liquidity risk.

The aforesaid policy defines, in terms of liquidity risk, the objectives, the processes and the intervention strategies in case of liquidity stress, the organisational structures responsible for implementing the interventions, the risk indicators, the relevant calculation method and warning thresholds, and procedures to procure the funding sources that can be used in case of emergency.

In 2018, the Bank continued to pursue a particularly prudent financial policy aimed at funding stability. This approach allowed a balanced distribution between inflows from retail customer and corporate and institutional counterparties.

To date, the financial resources available are satisfactory for the current and forward-looking volumes of activity.

The Bank is continuously active ensuring a coherent business development, always in line with the composition of its financial resources.

In particular, Banca Sistema, prudentially, has constantly maintained a high quantity of securities and readily liquid assets to cover all of the deposits and savings products oriented towards the retail segment.

The Bank subscribed to all the securities issued by the securitisation vehicles Quinto Sistema Sec. 2017 and Atlantis SPV, the first in connection with the securitisation of a portfolio of salary- and pension-backed loans and payment deductions ("CQS loans”), and the second in connection with the securitisation of loans deriving from “uncontested" enforceable injunctions against Italian Public Administrations that are not in difficulty.

At 31 December 2018, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount as at 31/12	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	343,953,684	A-high / Aa3	0.40%	2034
Class B1 (mezzanine)	IT0005246837	42,745,256	A-low / Ba1	0.50%	2034
Class B2 (sub-mezzanine)	IT0005246845	53,327,792	n.a.	0.50%	2034
Class C (junior)	IT0005246852	2,137,262	n.a.	0.50%	2034
		442,163,994			

At 31 December 2018, the characteristics of the securities of the Atlantis SPV transaction were as follows.

Atlantis SPV	ISIN	Amount as at 31/12	Rating	Interest Rate	Maturity
Class A Notes (senior)	IT0005218802	17,501,570	n.a.	1.00%	2028
Class B Notes (junior)	IT0005218810	15,320,900	n.a.	5.00%	2028
		32,822,470			

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by remaining contractual term

	On demand	From more than 1 day to 7 days	From more than 7 days to 15 days	From more than 15 days to 1 month	From more than 1 month to 3 months	From more than 3 months to 6 months	From more than 6 months up to 1 year	From more than 1 year up to 5 years	Over 5 years	Open term
A. Assets	**1,145,697**	**159**	**151**	**23,229**	**72,983**	**262,197**	**187,609**	**1,075,017**	**274,231**	**12,437**
A.1 Government securities	-	-	-	-	-	158,296	37,338	540,000	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,145,697	159	151	23,229	72,983	103,901	150,271	535,017	274,231	12,437
- banks	24,213	-	-	36	20,001	15	-	-	-	12,437
- customers	1,121,484	159	151	23,193	52,982	103,886	150,271	535,017	274,231	-
B. Liabilities	**666,703**	**442,007**	**51,779**	**78,657**	**318,893**	**253,161**	**334,900**	**693,613**	**61,488**	**-**
B.1 Deposits and current accounts	666,504	29,041	51,762	68,053	257,793	244,030	314,554	241,646	20,091	-
- banks	348	25,000	35,000	34,499	127,500	60,000	-	-	-	-
- customers	666,156	4,041	16,762	33,554	130,293	184,030	314,554	241,646	20,091	-
B.2 Debt instruments	-	-	-	-	412	1,505	4,977	277,000	27,500	-
B.3 Other liabilities	199	412,966	17	10,604	60,688	7,626	15,369	174,967	13,897	-
C. Off-statement of financial position transactions	**143,595**	**64,931**	**-**	**-**	**300**	**65,000**	**-**	**611**	**25**	**-**
C.1 Financial derivatives with exchange of principal	-	64,931	-	-	-	65,000	-	-	-	-
- long positions	-	-	-	-	-	65,000	-	-	-	-
- short positions		64,931	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	141,122	-	-	-	-	-	-	-	-	-
- long positions	70,561	-	-	-	-	-	-	-	-	-
- short positions	70,561	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,473	-	-	-	300	-	-	611	25	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

With reference to the financial assets subject to “self-securitisation”, at the end of 2018, Banca Sistema has two securitisation transactions in place for which it subscribed to the set of securities issued.

QUALITATIVE DISCLOSURE

Operational risk is the risk of loss arising from inadequate or non-functioning internal processes, human resources or systems, or from external events. This type of risk includes - among other things - the ensuing losses from fraud, human errors, business disruption, unavailability of systems, breach of contract, and natural catastrophes. Operational risk, therefore, refers to other types of events that, under present conditions, would not be individually relevant if not analysed jointly and quantified for the entire risk category.

A. General aspects, management processes and methods of measuring operational risk

In order to calculate the internal capital generated by the operational risk, the Bank adopts the Basic Indicator Approach, which provides for the application of a regulatory coefficient (equal to 15%) to the three-year average of the relevant indicator defined in Article 316 of EU Regulation no. 575/2013 of 26 June 2013. The above-said indicator is given by the sum (with sign) of the following elements:

- interest and similar income;
- interest and similar expense;
- income on shares, quotas and other variable/fixed yield securities;
- income for commissions/fees;
- expense for commissions/fees;
- profit (loss) from financial transactions;
- other operating income.

Consistent with that provided for by the relevant legislation, the indicator is calculated gross of provisions and operating costs; also excluded from computation are:

- profits and losses on the sale of securities not included in the trading portfolio;
- income deriving from non-recurring or irregular items;
- income deriving from insurance.

As of 2014, the Bank measured the operational risk events via a qualitative performance indicator (IROR - Internal Risk Operational Ratio) defined within the operational risk management and control process (ORF - Operational Risk Framework). This calculation method allows a score to be defined between 1 and 5, inclusive (where 1 indicates a low risk level and 5 indicates a high risk level) for each event that generates an operational risk.

The Bank assesses and measures the level of the identified risk by also considering the controls and the mitigating actions implemented. This method requires a first assessment of the possible associated risks in terms of probability and impact (so-called “Gross risk level”) and a subsequent analysis of the existing controls (qualitative assessment on the effectiveness and efficiency of the controls) which could reduce the gross risk, on the basis of which specific risk levels (the so-called “Residual risk”) are determined. Finally, the residual risks are mapped on a predefined scoring grid, useful for the subsequent calculation of IROR via appropriate aggregation of the scores defined for the individual operational procedure.

Moreover, the Bank assesses the operational risk associated with the introduction of new products, activities, processes and relevant systems mitigating the onset of the operational risk via a preliminary evaluation of the risk profile.

The Bank places strong emphasis on possible ICT risks. The Information and Communication Technology (ICT) risk is the risk of incurring financial, reputational and market losses in relation to the use of information and communication technology. In the supplemented representation of the business risks, this type of risk is considered, in accordance with the specific aspects, among operational, reputational and strategic risks.

The Bank monitors the ICT risks based on the continuous information flows between the departments concerned defined in its IT security policies.

In order to conduct consistent and complete analyses with respect to the activities performed by the Bank’s other control departments, the results of the compliance risks audits conducted by the Compliance and Anti-Money Laundering Department were shared internally with the Risk Management and Compliance Department, the Internal Control and Risk Management Committee, as well as with the CEO. The Internal Audit Department also monitors the Bank's operations and processes to ensure they are properly carried out and assesses the overall effectiveness and efficiency of the internal control system put in place to oversee activities that are exposed to risks. Finally, as an additional protection against operational risk, the Bank has:

- insurance coverage on the operational risks deriving from actions of third parties or procured to third parties. In order to select the insurance coverage, the Bank initiated specific assessment activities, with the support of a primary market broker, to identify the best offers in terms of price/conditions proposed by several insurance undertakings;
- appropriate contractual riders to cover damages caused by infrastructure and service suppliers;
- a business continuity plan;
- the assessment of each operational procedure in effect, in order to define the controls implemented to protect against risk activities.

PART F - INFORMATION ON EQUITY

SECTION 1 - BANK EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Bank's equity management are inspired by the prudential supervisory provisions and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Bank's capital with special emphasis on primary capital, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Bank equity: breakdown

		31.12.2018	31.12.2017
1	Share capital	9,651	9,651
2	Share premium	39,184	39,268
3	Reserves	79,803	59,391
	- income-related	79,794	59,388
	a) legal	1,930	1,930
	b) established under the Articles of Association	-	-
	c) treasury shares	200	200
	d) other	77,664	57,258
	- other	9	3
3.bis	Equity instruments	-	-
4	Interim dividends (-)	-	-
5	(Treasury shares)	(199)	(149)
6	Valuation reserves	(1,131)	367
	- Equity instruments designated at fair value through other comprehensive income	19	412
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	(972)	173
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(178)	(218)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
7	Profit for the year	28,071	27,560
	TOTAL	**155,379**	**136,088**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	TOTAL AT 31.12.2018		TOTAL AT 31.12.2017	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	-	972	173	-
2. Equity instruments	19	-	412	-
3. Financing	-	-	-	-
Total	**19**	**972**	**585**	-

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**173**	**412**	-
2. Increases	**639**	**280**	-
2.1 Fair value gains	-	77	-
2.2 Impairment losses due to credit risk	49	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	-	X	-
2.4 Transfers to other equity items (equity instruments)	-		-
2.5 Other increases	590	203	-
3. Decreases	**1,784**	**673**	-
3.1 Fair value losses	-	663	-
3.2 Impairment gains due to credit risk	-		-
3.3 Reclassifications of positive reserves to profit or loss: on sale	259	X	
2.4 Transfers to other equity items (equity instruments)	-		-
2.5 Other decreases	1,525	10	-
4. Closing balance	**(972)**	**19**	-

B.4 Valuation reserves related to defined benefit plans: changes

A. Opening balance	**(217)**
B. Increases	**54**
B.1 Actuarial gains	54
B.2 Other increases	-
C. Decreases	**15**
C.1 Actuarial losses	-
C.2 Other decreases	15
D. Closing balance	**(178)**
Total	**(178)**

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk weighted assets and solvency ratios as at 31 December 2018 were determined based on the new regulation, harmonised for Banks, contained in the Directive 2013/36/EU (CRD IV) and in the Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon the Circular of the Bank of Italy no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154.

The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Own funds are characterised by a 3-tier structure:

1) Common Equity Tier 1 (CET1) capital

A) Common Equity Tier 1 (CET1) capital

This item includes:

- Fully paid-in capital of € 9.7 million;
- A share premium of € 39.2 million;
- Other reserves including undistributed profits of € 99.8 million.

In particular, this item includes a profit of € 21.1 million recognised in Own funds pursuant to article 26 of the CRR, net of foreseeable dividends pertaining to the Bank and of the other negative accumulated income statement components of € 1.1 million composed as follows:

- Actuarial reserve in accordance with the application of the new IAS 19 amounting to € 179 thousand;
- Reserves on financial assets measured at fair value through other comprehensive income for € 952 thousand;
- Negative component for treasury shares of € 244 thousand.

D) Items to be deducted from CET1

This item includes the following main aggregates:

- Goodwill and other intangible assets, equal to € 1.8 million;

2) Additional Tier 1 (AT1) capital

G) Additional Tier1 (AT1) capital including elements to be deducted and the effects of the transitional regime.

This item includes the security ISIN IT0004881444 issued by Banca Sistema as an innovative equity instrument with mixed rate amounting to € 8 million.

3) Tier 2 (T2) capital

M) Tier 2 (T2) capital including elements to be deducted and the effects of the transitional regime.

This item includes:

- the security ISIN IT0004869712 issued by Banca Sistema as an ordinary subordinated loan (Lower Tier 2) equal to € 12 million, considered in Tier 2 capital for € 9.3 million following application of the conservatively recognised amortisation described in Article 64 of Regulation 575/2013 starting from 2017;
- the security IT0005247397 issued by Banca Sistema as an ordinary subordinated loan (Tier 2) equal to € 19.5 million.

A. QUANTITATIVE DISCLOSURE

	31.12.2018
A. Common Equity Tier 1 (CET1) before application of prudential filters	**148,337**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**148,337**
D. Items to be deducted from CET1	**1,788**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**146,549**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**8,000**
of which AT1 instruments covered by transitional measures	**-**
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**28,799**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P. Total Tier 2 (T2) (M-N+/-O)	**28,799**
Q. Total Own Funds (F+L+P)	**183,348**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

The Own funds totalled € 183 million, against risk-weighted assets of € 1,309 million, derived almost exclusively from credit risk.

As at 31 December 2018, Banca Sistema had a CET1 capital ratio equal to 11.2%, a Tier 1 capital ratio equal to 11.8% and a Total capital ratio of 14.0%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	3,591,235	2,754,827	1,152,293	900,968
1. Standardised approach	3,591,235	2,754,827	1,152,293	900,968
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			92,183	72,077
B.2 Credit assessment adjustment risk			-	249
B.3 Settlement risk			-	-
B.4 Market risk			-	192
1. Standard approach			-	192
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			12,514	11,426
1. Basic indicator approach			12,514	11,426
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			104,698	83,945
C. EXPOSURES AND CAPITAL RATIOS			**1,308,721**	**1,049,315**
C.1 Risk-weighted assets			1,308,721	1,049,315
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			11.2%	12.1%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			11.8%	12.9%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			14.0%	15.6%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

No transactions to report.

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - 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 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, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Banking Act, it should be noted that they, where applicable, have been included in the Board of Directors' resolutions and received approval from the Board of Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	2018
Remuneration to Board of Directors and Board of Statutory Auditors	1,550	88	-	**1,638**
Short-term benefits for employees	-	-	1,286	1,286
Post-employment benefits	60	-	96	156
Other long-term benefits	187	-	10	197
Termination benefits	-	-	-	-
Share-based payments	95	-	54	149
Total	**1,892**	**88**	**1,446**	**3,426**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2018, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	38,694	220	69,641	4.0%
Due to customers	-	2,051	30,844	1.7%
Other liabilities	321	-	-	0.5%

The following table indicates the costs and income for 2018, differentiated by type of related party.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	500	-	176	0.7%
Interest expense	-	19	102	0.5%

The following table sets forth the details of each related party:

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**108,334**	**3.44%**
Loans and receivables with customers		
Axactor Italy Spa	69,641	2.54%
Speciality Finance Trust Holdings Ltd	1,593	0.06%
Largo Augusto Servizi E Sviluppo Srl	37,100	1.35%
LIABILITIES	**7,373**	**0.23%**
Due to customers		
Soci - SGBS	2,257	0.12%
Soci - Fondazione CR Alessandria	2,052	0.11%
Soci - Fondazione Sicilia	1,817	0.10%
Adv Finance S.P.A.	927	0.05%
Other liabilities		
Speciality Finance Trust Holdings Ltd	91	0.14%
Largo Augusto Servizi E Sviluppo Srl	229	0.35%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**675**	**0.68%**
Interest income		
Axactor Italy Spa	174	0.17%
Speciality Finance Trust Holdings Ltd	158	0.16%
Largo Augusto Servizi E Sviluppo Srl	342	0.34%
Adv Finance S.P.A.	1	-
COSTS	**26**	**0.10%**
Interest expense		
Soci - SGBS	5	0.02%
Soci - Fondazione Sicilia	6	0.02%
Soci - Fondazione CR Alessandria	14	0.06%
Adv Finance S.P.A.	1	0.01%

PART I - PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

QUALITATIVE DISCLOSURE

The Banca Sistema Group's 2017-2019 Stock Grant Plan prepared in accordance with article 114-bis of Legislative Decree no. 58/98 and article 84-bis of regulation no. 11971/99 approved by Consob on 14 May 1999 as amended, approved by the Board of Directors on 28 March 2017 and published on the Bank's website, establishes the means and rules for granting, assigning and the availability of the Bank's ordinary shares to key management personnel and other persons who fall under the category of "key personnel" who are granted a bonus for which - in accordance with the rules set out in the Remuneration Policies Document applicable for each year in question (the "Policy") - the deferral and subordination mechanisms upon achieving specific corporate and individual performance targets are defined.

In 2018, the variable component of remuneration will be paid as follows upon approval of the separate financial statements:

- for amounts less than € 20,000, the full amount is paid up-front, in cash;
- for amounts between € 20,000 and € 50,000, 50% of the variable remuneration is paid up-front in cash and the remaining 50% is deferred and paid in shares of the Bank at the end of the 3-year deferral period;
- for amounts greater than € 50,000, 60% of the variable remuneration is paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% is deferred and paid at the end of the 3-year deferral period (50% in cash and 50% in shares of the Bank).

Please see Annex 2 to the 2017 Policy and the Information Document relating to the 2017-2019 Stock Grant Plan in the 'Governance' section of the website www.bancasistema.it regarding the calculation of the Bank shares to be assigned and the applicable provisions.

Disclosure of the fees paid to the independent auditors

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the independent auditors KPMG S.p.A. and to the companies included in the same network is reported below for the following services:

- Audit services that include:
- The audit of the annual accounts, for the purpose of expressing an opinion thereon;
- The audit of the interim accounts;
- Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party with a degree of confidence concerning said specific element;
- Tax advisory services;
- Other services.

The fees presented in the table, pertaining to 2018, are those contracted, including any index-linking (but do not include out-of-pocket expenses, any supervisory contribution and VAT).

They do not include, in accordance with the cited provision, the fees paid to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Addressee	Remuneration
Audit of the separate financial statements and interim reports	KPMG S.p.A.	Banca Sistema S.p.A.	184

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement for 2018

Amounts in thousands of Euro	2018			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Net interest income (expense)	67,621	18,742	(11,617)	**74,746**
Net fee and commission income (expense)	15,713	603	(1,059)	**15,257**
Other costs/income	-	-	1,269	**1,269**
Total income (expense)	**83,334**	**19,345**	**(11,407)**	**91,272**
Net impairment losses on loans and receivables	(2,077)	(4,737)	-	**(6,814)**
Net financial income (expense)	**81,257**	**14,608**	**(11,407)**	**84,458**

Breakdown by segment: statement of financial position data as at 31 December 2018

Amounts in thousands of Euro	31.12.2018			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets (HTS and HTCS)	-	-	304,469	**304,469**
Loans and receivables with banks	-	-	56,694	**56,694**
Loans and receivables with customers	1,566,613	680,781	497,725	**2,745,119**
Due to banks	-	-	695,197	**695,197**
Due to customers	87,396	-	1,814,660	**1,902,056**

The Factoring division includes the business segment related to the origination of trade and tax receivables with and without recourse. In addition, the division includes the business segment related to the management and recovery of receivables on behalf of third parties.

The Banking segment includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios, collateralised loans, run-off portfolios related to guaranteed loans to small and medium-sized enterprises, and costs/income from assets under administration and the placement of third-party products. The Corporate segment includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. Moreover, this segment includes all the consolidation entries, as well as all the interbank eliminations.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

STATEMENTS ON THE SEPARATE FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

1. The undersigned, Gianluca Garbi, in his capacity as CEO, and Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the separate financial statements as at and for the year ended 31 December 2018.
2. The suitability and effective application of the administrative and accounting process for the drafting of the separate financial statements at 31 December 2018 was verified based on internally defined methods, in accordance with the provisions of the reference standards for the internal audit system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:

   3.1 the separate financial statements:

   a) were drafted in accordance with the applicable International Financial Reporting Standards endorsed by the European Community, pursuant to regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

   3.2 The Directors' report includes a reliable analysis of business performance and results, as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 1 March 2019

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

BOARD OF STATUTORY AUDITORS' REPORT

BANCA SISTEMA S.P.A.

* * *

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE

THE FINANCIAL STATEMENTS AT 31 DECEMBER 2018

IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL CODE

***

Part One: introduction

Dear Shareholders of Banca Sistema S.p.A. ("**Bank**"),

pursuant to Article 153 of Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code, we give you this report on our supervisory activities during the calendar year (and, for the sake of completeness, on the most significant events occurring after the end of the year), and also make proposals concerning the financial statements and their approval.

This report has been approved by the whole board and by the legal deadline pursuant to law.

As required by law and the Articles of Association, we monitored compliance with the law, regulations, and Articles of Association during 2018, whose compliance we confirm. We also monitored the application of proper management methods, the adequacy and functioning of the organisational, management and accounting structure, and the other acts and aspects as envisaged by law.

We have examined the draft financial statements of Banca Sistema S.p.A. at 31 December 2018 (the "**Financial Statements**"), comprised of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Financial Statements, and is accompanied by the Directors' Report and complementary financial statements, showing a profit for the year of € 28,070,559.59.

After approving the draft financial statements on 1 March 2019, the Board of Directors sent us the reporting package by the statutory deadline.

Between the meeting dedicated to drafting the previous report on the financial statements and today, the current Board of Statutory Auditors held 17 meetings (including the meeting held to draft this report), and participated in all the meetings of the Board of Directors and the Internal Control and Risk Management Committee, as confirmed by the documents provided to you in the package prepared for this shareholders' meeting.

We shall provide you with detailed information in this report about all of our activities.

Part Two: monitoring legal compliance and compliance with the Articles of Association

In this part we report on the activities performed by the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code.

During the year, the Board of Statutory Auditors monitored compliance with the law, the memorandum of association and compliance with the principles of proper management. These activities adhere to the principles of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Business Experts and Accountants.

In addition to its previously discussed meetings, the Board of Statutory Auditors participated in all meetings held in 2018 by the corporate bodies in compliance with the Articles of Association, the law and regulatory provisions that govern their proceedings. Therefore, we can reasonably assure that the adopted resolutions complied with the law and the Articles of Association, were not manifestly imprudent, reckless or potentially in conflict of interest or conflicting with the resolutions approved by the Shareholders' Meetings or such as might compromise the solidity of corporate assets.

In the course of performing its own duties at meetings, the Board of Statutory Auditors met periodically with the principal internal departments of the Company (risk, compliance, legal affairs, corporate affairs, internal control and audit system, underwriting). It examined the documents submitted to it and performed its own analyses and assessments, as summarised in its own minutes. These have not revealed any elements that might cast doubt on compliance with the law, the Articles of Association, and principles of proper management. It analysed the most important operating, financial and equity transactions, verifying their compliance with the law and the memorandum of association, finding that they were not manifestly imprudent or reckless and/or in potential conflict of interest and/or in conflict with the resolutions passed by the shareholders' meetings and/or prejudicial to the operating, asset and liability, and financial performance of the Bank. It also participated in work groups on specific matters. The Board of Statutory Auditors has approved all examined transactions as being consistent with the corporate interest.

The Board of Statutory Auditors acknowledges that the key information concerning the Bank's transactions with related parties has been provided during the Board of Directors meetings and in the Financial Statements. In this regard, the Board of Statutory Auditors deems it appropriate to call the shareholders' attention to the interpretation of the paragraphs in the Directors' Report and Notes to the Financial Statements where those events are described.

Among the significant events that occurred in 2018, we note:

- On 9 April 2018, following the authorisations granted by the Bank of Italy, two new branches dedicated exclusively to the collateralised lending business were opened in Naples and Palermo.
- On 10 April, the Board of Directors of Banca Sistema approved the 2018-2020 Strategic Plan, which was presented to analysts and investors on 11 April 2018.
- On 23 April 2018, the shareholders' meeting was held during which the Board of Directors' mandate was renewed with the appointment of nine members.
- Following the renewal, the Board of Directors approved the appointment of Gianluca Garbi as CEO of the Bank, conferring on him necessary operational powers.
- At the end of May 2018, the placement was completed for a senior bond issue. The placement in a club deal reserved for institutional investors that are not related parties, in the total amount of € 90 million, has a term of 3 years, with a fixed rate and an all-inclusive cost of 200 bps.
- On 19 June 2018, the Bank completed the acquisition of a 19.90% stake in the share capital of ADV Finance S.p.A. ("ADV Finance"), a registered financial intermediary (under art. 106 of the Consolidated Banking Act) that since 2010 has offered in Italy, through agents and brokers, a complete range of services related to salary- and pension-backed personal loans (CQS/CQP). Subsequently, on 18 December 2018, it acquired from ADV Finance, 19.90% of the quota capital of the subsidiary Procredit S.r.l., a company specialising in services related to salary- and pension-backed personal loans (CQS/CQP).
- On 22 June 2018, the Board of Directors approved the start of market making activities and thus allocated € 40,000 to it for the purchase and disposal of treasury shares within the scope of the authorisation granted at the Shareholders' Meeting of

27 April 2017 and in accordance with the terms authorised by the Bank of Italy on 13 September 2017. The programme was suspended on 5 October 2018 to start the treasury share repurchase programme for the purpose of supporting the remuneration and incentive policies for key personnel for an overall amount not exceeding € 200,000, which was concluded on 12 October 2018, the day on which the market making activity programme resumed and which was terminated on 27 October 2018.

- On 29 June 2018, notice was given that the shareholders Società di Gestione delle Partecipazioni in Banca Sistema S.r.l. (SGBS), Fondazione Cassa di Risparmio di Alessandria and Fondazione Sicilia, in anticipation of the imminent expiry date of the Shareholders' Agreement signed on 3 June 2015 along with Fondazione Pisa, having taken note of the intention expressed by Fondazione Pisa not to join the new Shareholders' Agreement, signed a new Shareholders' Agreement which came into effect on this date until 1 July 2020. The new Shareholders' Agreement reflects a shareholding of 38.41% in Banca Sistema's share capital.
- Given the above, Claudio Pugelli, a non-executive and non-independent Director of Banca Sistema, tendered his resignation from the position with effect from 30 June.
- On 13 July 2018, the Board of Directors co-opted a Director in the person of Mr. Daniele Pittatore.
- An abstract of the new Shareholders' Agreement, which was drafted pursuant to article 129 of the Issuers' Regulation approved by Consob Resolution no. 11971/99, and essential information pursuant to article 130 of the Issuers' Regulation have been made available on the Parent's website www.bancasistema.it and on the website of the storage mechanism authorised by Consob www.1info.it in accordance with the legal terms.
- On 28 September 2018, the Bank signed a binding agreement for the acquisition of 100% of Atlantide S.p.A., a registered financial intermediary (under art. 106 of the Consolidated Banking Act) and active in the granting of salary- and pension-backed personal loans (CQS/CQP) since 2010. The administrative procedure was completed on 12 March 2019 with the order of the Bank of Italy that authorised the acquisition of the entire shareholding and the subsequent merger pursuant to art. 2505 of the Italian Civil Code.
- During 2018, work was completed on the renovation of the building to be used for the new registered office and the transfer to Milan, Largo Augusto, 1/A at the corner of

Via Verziere, 13, which began on 12 October 2018, was completed on 9 November 2018.

- On 12 October 2018, the company ProntoPegno S.p.A. was incorporated, with Banca Sistema S.p.A. as sole shareholder. The registered office of the company is in Largo Augusto 1/A, Milan (at the corner of Via Verziere 13) and the share capital amounts to € 3,500,000.
- On 9 November 2018, the application was sent to the Bank of Italy for the registration of ProntoPegno S.p.A. in the Register referred to in Article 106 of Legislative Decree no. 385/1993, in accordance with the provisions of Circular no. 288 of 3 April 2015.
- On 8 November 2018, following the authorisation issued by the Bank of Italy, a new branch dedicated exclusively to the collateralised loan business was opened in the city of Rimini. This branch joins the branches in Milan, Rome, Pisa, Naples and Palermo.
- On 7 November, Banca Sistema also acquired the portfolio of Credit Agricole, formerly Carim, a collateralised lender based in Rimini.
- On 16 October 2018, the Bank was subject to inspections by the Bank of Italy, in accordance with the banking and financial regulations. The purpose of the inspections was to verify compliance with anti-money laundering legislation and the effectiveness of the organisational structures in reporting the AOER correctly and preventing the risks associated with violations of usury regulations. The inspections were completed on 14 December 2018 and the inspection report was notified on 1 March 2019. The inspections concluded with an assessment that was "partially favourable considering the adequacy of controls on the risks of money laundering, terrorist financing and usury, although there is room for improvement in a situation of growth in operating volumes and number of customers".
- The exchanges of correspondence and meetings between the Board of Statutory Auditors and the Bank of Italy officers concerning the clarifications requested by the Supervisory Authority as part of its ordinary control activities;
- The exchanges of correspondence with Consob concerning the clarifications requested as part of its ordinary control activities;
- The periodic exchanges of information with the independent auditors;
- The meeting with the Supervisory Body for the exchange of information;
- The meeting with the independent directors;
- The approval of the Remuneration Policies Document;

- The monitoring of business activities in accordance with the Risk Appetite Framework.

With regard to “significant events during the year”, reference is also made to the Directors’ Report.

The Board of Statutory Auditors issued the following opinions pursuant to law:

- Request for approval of non-audit services, requested by the Independent Auditors;
- Opinion on the appointment of the new Manager in charge of financial reporting, pursuant to Article 154-bis of Legislative Decree 58 of 24 February 1998.

On 23 April 2018, the Board of Statutory Auditors issued its Observations on the Bank’s Restructuring Plan, as well as the report prepared by the Internal Audit Department on the controls carried out on the major outsourced departments, any deficiencies found and the consequent corrective measures adopted for the year 2017.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2018, no complaint from Shareholders or any other complaints were received, no wrongdoing or other significantly negative acts or omissions were reported by the Independent Auditors or others, that required reporting to the Bank of Italy.

Part Three: supervision of the financial statements

In this section we report on our control activities related to the preparation and drafting of the financial statements of Banca Sistema S.p.A. for the year ended 31 December 2018.

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Commission and transposed in Italy by Legislative Decree 38 of 28 February 2005, while also considering the instructions issued by the Bank of Italy with Circular 262 of 22 December 2005, as amended.

Pursuant to Legislative Decree 39/2010, the person or entity responsible for the independent audit of the accounts must give an opinion on the financial statements as to whether they comply with the laws and regulations governing their preparation and whether they give a true and fair view of the capital financial position, the cash flows and the profit and loss for the year. In this regard, KPMG S.p.A. (“KPMG”) exchanged material information with the Board of

Statutory Auditors pursuant to Article 2409-septies and issued its own audit report on the financial statements at 31 December 2017 today. The report does not contain any objections or censures.

Therefore, the Board of Statutory Auditors assumes that the financial data correspond to the data resulting from the internal accounts, which are regularly kept in compliance with the principles set out in current regulations.

That said, the Board of Statutory Auditors has monitored activities to ensure that the general process of preparing and drafting the financial statements complies with current laws and regulations.

The Statement of Financial Position contained in the financial statements submitted for approval to the Shareholders' Meeting is summarised as follows (in thousands of Euro):

Assets…………………………………………………………………...3,150,153

Liabilities………..…………………………...2,994,775

Capital and reserves………………………………………………………… 127,307

Profit for the year………………………………………………………….28,071

The reclassified Income Statement shows the following, summary values (in Euro):

Total income……………………………………………………………..91,272,044

Net impairment losses on loans and receivables………………....................(6,814,326)

Operating costs (administrative expenses and other income / expenses) …(40,939,574)

Net impairment losses on property and equipment/intangible assets…………(404,131)

Net accruals to provisions for risks and charges…………......………….........(414,040)

Pre-tax profit………………………………………………………………42,699,973

Income taxes………………………………………………………………(14,629,413)

Profit for the year………………………..………………………………...28,070,560

Part Four: relations with the independent auditor

Material information was exchanged during the year with representatives of the Independent Auditors, KPMG so that it could perform its duties during the periodic meetings held pursuant to Article 150 of the Consolidated Law on Finance. These did not reveal any critical and/or significant problems.

In compliance with Article 6, paragraph 2), letter a) of European Regulation 537/2014 and paragraph 6 of the international standard in auditing (ISA Italia) 260, KPMG has certified that, during the period between 1^{st} of January 2018 and today's date, it found no situations compromising the independence of the Independent Auditors or causes for incompatibility.

KPMG has also informed the Board of Statutory Auditors that the independent audit carried out as at 31 December 2018 did not reveal significant shortcomings in the internal control system related to the financial reporting process that needed to be brought to the attention of the Board of Statutory Auditors.

There are no other engagements that have been awarded to the independent auditors and/or to entities belonging to its "network".

Part Five: Adherence to the Corporate Governance Code

The Bank adheres to the Corporate Governance Code of the Corporate Governance Committee for listed companies. Information about certain essential elements is provided as follows.

Internal Control Committee

Banca Sistema S.p.A. has its own Internal Control and Risk Management Committee, whose current members were appointed by the BoD on 24 May 2018. Mr. Franco Pozzi was nominated and appointed to head the Internal Control Committee. The Committee and the head of the Internal Control Committee meet periodically.

Other Committees

The Appointments Committee, the Remuneration Committee, and the Ethics Committee have been established.

<u>*Board of Directors*</u>

- The BoD supervises general operating performance, dedicating special attention to situations exhibiting conflicts of interest, giving special consideration to the information received from the CEO and the Internal Control and Risk Management Committee, by periodically comparing the results achieved with those planned.
- The BoD examines and approves transactions having a significant economic, asset and liability, and financial impact, especially in regard to related party transactions.
- The composition of the Board of Directors includes six independent directors.
- The Chairman of the Board of Directors meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but it also does not meet the provisions of art. 3, criteria for application 3.c.1.b and 3.c.2 of the Self-regulation Corporate Governance Code issued by Borsa Italiana.
- The CEO makes periodic reports to the BoD on his activities in the course of exercising his delegated authority.
- The CEO provides adequate information about the related party transactions whose examination is not reserved to the BoD.

The number of BoD, Internal Control Committee, and all Board committee meetings, and the attendance by the members of the Board of Statutory Auditors are shown in the document "Report on Corporate Governance".

Part Six: disclosure pursuant to Consob Communication no. 1025564 / 2001

This section presents the information required under Consob Communication no. 1025564 of 6 April 2001, as amended. In certain cases, that information has already been reported in other paragraphs of this Report.

- The Company did not execute any atypical or unusual transactions with:
    - Group companies;
    - Related parties;
    - Third parties.

See also page 44 of the Financial Statements for more information in this regard.

- Significant transactions affecting the financial position, and assets and liabilities of the Bank were executed, and they have been illustrated in the financial statements.
- Ordinary / recurring transactions were executed with related parties, as described (with reference to them for reading) on page 44 and pages 179-181 of the Financial Statements. In this regard, we inform you that they have always been appropriate and in the Bank's interest.
- The directors have explicitly stated the company's interest in execution of the transactions in their report on operations.
- The organisational structure of the Bank was revised during 2018. The actions approved by the BoD and subsequently implemented to improve the organisational structure have been illustrated.
- The orders issued by the company to its subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance are considered adequate.
- The Board of Statutory Auditors has exchanged the required information with the corporate bodies of the subsidiary L.A.S.S. s.r.l., with no significant issues having arisen.
- The organisational structure has been found to be adequate in regard to the matters under the responsibility of the Board of Statutory Auditors.
- The internal control system has been found adequate, just as has been the administrative and accounting system. This is deemed to give a reliable and fair presentation of operating events.
- Please refer to "Part Two" of this Report for other assessments, observations and comments.
- No omissions, wrongdoing or irregularities have been found during supervisory activity.
- It is not considered necessary to make proposals to the shareholders' meeting in regard to the financial statements and their approval, aside from those approved by the Board of Directors and transcribed in the "summary and conclusions".
- The Board of Statutory Auditors has not had to exercise its powers to call the shareholders' meeting or the BoD.
- Pursuant to paragraph 2, sub-paragraph 2 of the Consob Communication, the following details are noted:

- the transactions indicated in paragraph 2, sub-paragraph 2, in paragraph 2, sub-paragraph 2.1, and in paragraph 2, sub-paragraph 2.2 of Consob Communication no. 1025564 of 6 April 2001. No atypical and/or unusual transactions were executed, including intercompany transactions or related party transactions. Consequently, no additional description needs to be given in this regard;
- the transactions indicated in paragraph 2, sub-paragraph 2.3 of the Consob Communication: as previously mentioned, reference is made to the reading of pages 44, 179, 180 and 181 of the Financial Statements.

***

Summary and conclusions

Dear Shareholders of Banca Sistema S.p.A.,

on the basis of the foregoing report and given what has been brought to the attention of the Board of Statutory Auditors, and what has been confirmed by its periodic controls, it is believed that no reasons exist not to approve the draft financial statements of Banca Sistema at 31 December 2018, as drafted and proposed to you by the Board of Directors, and consequently approve the distribution of dividends.

The Board of Statutory Auditors has also taken note of and brings to your attention the contents of the report of the Independent Auditors KPMG, issued pursuant to Article 14 of Legislative Decree 39/2010 and Article 10 of EU Regulation no. 537 of 16 April 2014, which shows that the financial statements have been clearly written and give a true and fair view of the operating result, assets and liabilities, financial position and cash flows of the Bank, the “additional report” prepared in accordance with Article 11 of EU Regulation no. 537/2014, and the result of the exchanges of information with the Independent Auditors, who have confirmed their own independence, have not found material errors, believe that the books are properly kept, and confirm that there are no material aspects requiring a report to the governance bodies.

Consequently, and notwithstanding all the references to the individual paragraphs of the Financial Statements previously made in this Report, the Board of Statutory Auditors asks you to approve the proposal of the Board of Directors of Banca Sistema S.p.A., which is copied here:

"Dear Shareholders,

The financial statements for the period ended 31 December 2018, which we submit for your approval, show a profit of € 28,070,559.59.

We recommend the following distribution of profits:

- *a dividend of € 6,996,631.52;*
- *the remainder of € 21,073,928.07 to retained earnings.*

No provision to the Legal Reserve is made since the limits set out in Article 2430 of the Italian Civil Code have been reached".

***

Milan, 27 March 2019

<u>Board of Statutory Auditors</u>

Massimo Conigliaro	Lucia Abati	Biagio Verde
Chairman	*Standing Auditor*	*Standing Auditor*

INDEPENDENT AUDITORS' REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
Via Vittor Pisani, 25
20124 MILANO MI
Telefono +39 02 6763.1
Email it-fmauditaly@kpmg.it
PEC kpmgspa@pec.kpmg.it

(Translation from the Italian original which remains the definitive version)

Independent auditors' report pursuant to article 14 of Legislative decree no. 39 of 27 January 2010 and article 10 of Regulation (EU) no. 537 of 16 April 2014

To the shareholders of
Banca Sistema S.p.A.

Report on the audit of the separate financial statements

Opinion

We have audited the separate financial statements of Banca Sistema S.p.A. (the "bank"), which comprise the statement of financial position as at 31 December 2018, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and notes thereto, which include a summary of the significant accounting policies.

In our opinion, the separate financial statements give a true and fair view of the financial position of Banca Sistema S.p.A. as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the separate financial statements*" section of our report. We are independent of the bank in accordance with the ethics and independence rules and standards applicable in Italy to audits of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the separate financial statements of the current year. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification and measurement of loans and receivables with customers recognised under financial assets measured at amortised cost

Notes to the separate financial statements "Part A - Accounting policies": section A.2. "Information on the main items of the separate financial statements": "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part B - Information on the statement of financial position - Assets": section 4 "Financial assets measured at amortised cost"

Notes to the separate financial statements "Part C - Information on the income statement": section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"

Notes to the separate financial statements "Part E - Information concerning risks and related hedging policies": Section 1 "Credit risk"

Key audit matter	**Audit procedures addressing the key audit matter**
Loans and receivables with customers at 31 December 2018 amount to €2,745 million, accounting for 87% of total assets. The bank's core business is the acquisition of performing receivables from companies that supply goods and services, mainly due from the public administration (the "factoring receivables"), and salary- or pension-backed loans (the "S/P-B loans"). At 31 December 2018, the factoring receivables and the S/P-B loans amount to €1,567 million and €652 million, respectively. Net impairment losses on loans and receivables with customers recognised in profit or loss during the year totalled €6.8 million. For classification purposes, the bank's directors make analyses that are sometimes complex in order to identify those positions that show evidence of impairment after disbursement and/or acquisition. To this end, they consider both internal information about the performance of exposures and external information about the reference sector and borrowers' overall exposure to banks. Measuring loans and receivables with customers is a complex activity, with a high degree of uncertainty and subjectivity, with	Our audit procedures included: — gaining an understanding of the banks' processes and IT environment in relation to the disbursement, acquisition, monitoring, classification and measurement of loans and receivables with customers; — assessing the design and implementation of controls and performing procedures to assess the operating effectiveness of material controls, especially in relation to the identification of exposures with indicators of impairment and the calculation of impairment losses; — analysing the classification criteria used for allocating loans and receivables with customers to the IFRS 9 categories (staging); — analysing the individual and collective impairment assessment policies and models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network;

Key audit matter	Audit procedures addressing the key audit matter
respect to which the bank's directors apply valuation models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows and related estimated collection dates, the existence of any indicators of impairment, the borrower's estimated repayment ability, an assessment of any guarantees, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the classification and measurement of loans and receivables with customers recognised under financial assets at amortised cost are a key audit matter.	— selecting a sample of exposures tested collectively, checking the application of the measurement models applied and checking that the impairment rates applied complied with those provided for in such models; — selecting a sample of exposures tested individually and checking the reasonableness of the indicators of impairment identified and of the assumptions about their recoverability, including considering the guarantees received; — analysing the significant changes in the financial asset categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant internal departments; — assessing the appropriateness of the disclosures about loans and receivables with customers recognised under financial assets measured at amortised cost.

Recognition of default interest on performing loans and receivables with customers acquired without recourse pursuant to Legislative decree no. 231 of 9 October 2002

Notes to the separate financial statements "Part A - Accounting policies": section A.2. "Information on the main items of the separate financial statements"

Notes to the separate financial statements "Part C - Information on the income statement": section 1 "Interest"

Notes to the separate financial statements "Part E - Information concerning risks and related hedging policies": paragraph 1.1 "Credit risks"

Key audit matter	Audit procedures addressing the key audit matter
The bank's directors have recognised default interest accrued on performing loans and receivables with customers acquired without recourse and not yet collected pursuant to Legislative decree no. 231 of 9 October 2002 on an accruals basis ("default interest") since the separate financial statements at 31 December 2016. Default interest recognised on an accruals basis in 2018 amounts to €18.1 million and	Our audit procedures included: — gaining an understanding of the bank's processes and IT environment in relation to the estimation of default interest; — assessing the design and implementation of controls and procedures to assess the operating effectiveness of material controls, especially as regards the estimation of default interest;

Key audit matter	Audit procedures addressing the key audit matter
accounts for 18% of the bank's interest and similar income. The bank's directors estimate recoverable default interest using models based on historical recovery percentages and the actual collection times observed internally. These analyses are regularly updated following the progressive confirmation of the historical figures. The above estimate is highly uncertain and subjective and feeds the analysis models that consider many quantitative and qualitative factors, including historical collection flows, expected cash flows, the related actual collection times and the impact of risks of the sectors in which the bank's customers operate. For the above reasons, we believe that the recognition of default interest is a key audit matter.	— analysing the default interest estimation models used and checking the reasonableness of the main assumptions and variables included therein; we carried out these procedures with the assistance of experts of the KPMG network; — assessing the appropriateness of the disclosures about default interest.

Responsibilities of the bank's directors and board of statutory auditors ("Collegio Sindacale") for the separate financial statements

The directors are responsible for the preparation of separate financial statements that give a true and fair view in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05 and article 43 of Legislative decree no. 136/15 and, within the terms established by the Italian law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the bank's ability to continue as a going concern and for the appropriate use of the going concern basis in the preparation of the separate financial statements and for the adequacy of the related disclosures. The use of this basis of accounting is appropriate unless the directors believe that the conditions for liquidating the bank or ceasing operations exist, or have no realistic alternative but to do so.

The *Collegio Sindacale* is responsible for overseeing, within the terms established by the Italian law, the bank's financial reporting process.

Auditors' responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;

— conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the bank to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance, identified at the appropriate level required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the ethics and independence rules and standards applicable in Italy and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current year and are, therefore, the key audit matters. We describe these matters in our auditors' report.

Other information required by article 10 of Regulation (EU) no. 537/14

On 27 April 2010, the bank's shareholders appointed us to perform the statutory audit of its separate and consolidated financial statements as at and for the years ending from 31 December 2010 to 31 December 2018.

We declare that we did not provide the prohibited non-audit services referred to in article 5.1 of Regulation (EU) no. 537/14 and that we remained independent of the bank in conducting the statutory audit.

We confirm that the opinion on the separate financial statements expressed herein is consistent with the additional report to the *Collegio Sindacale*, in its capacity as audit committee, prepared in accordance with article 11 of the Regulation mentioned above.

Report on other legal and regulatory requirements

Opinion pursuant to article 14.2.e) of Legislative decree no. 39/10 and article 123-bis.4 of Legislative decree no. 58/98

The bank's directors are responsible for the preparation of a report and a report on corporate governance and ownership structure at 31 December 2018 and for the consistency of such reports with the related separate financial statements and their compliance with the applicable law.

We have performed the procedures required by Standard on Auditing (SA Italia) 720B in order to express an opinion on the consistency of the directors' report and the specific information presented in the report on corporate governance and ownership structure indicated by article 123-bis.4 of Legislative decree no. 58/98 with the bank's separate financial statements at 31 February 2018 and their compliance with the applicable law and to state whether we have identified material misstatements.

In our opinion, the directors' report and the specific information presented in the report on corporate governance and ownership structure referred to above are consistent with the bank's separate financial statements at 31 December 2018 and have been prepared in compliance with the applicable law.

With reference to the above statement required by article 14.2.e) of Legislative decree no. 39/10, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, 27 March 2019

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

BANCA SISTEMA
CONTEMPORARY BANK

ALLEGATO "C".

SCHEDA 1
PUNTO 1 ALL'ODG
BILANCIO
GIALLA

189

n°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA: IN PROPRIO	PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	F	C	A	NV	azioni Favorevoli	%	azioni Contrari	%	azioni Astenute	%	azioni NV	%
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	TOTALE AZIONI CON DI[illegible] AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	T[illegible]			42.083.938	52,3295%	42.083.938	52,3977%	Totali				42.083.938	100,00%	0	0,00%	0	0,00%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%	1				400.000	0,95%	0	0,00%	0	0,00%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%	1				73.000	0,17%	0	0,00%	0	0,00%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%	1				25.000	0,06%	0	0,00%	0	0,00%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%	1				15.000	0,04%	0	0,00%	0	0,00%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%	1				1.000	0,00%	0	0,00%	0	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%	1				545.000	1,30%	0	0,00%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retirement System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%	1				509.822	1,21%	0	0,00%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%	1				507.598	1,21%	0	0,00%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTER[illegible]TIONAL SMALL CAP FU[illegible]		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%	1				401.520	0,95%	0	0,00%	0	0,00%	0	0,00%
19	SH[illegible] NTERN SELE[illegible]N FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	STATE TEACHER RETIREMENT SYSTEM OF OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%	1				290.306	0,69%	0	0,00%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%	1				169.084	0,40%	0	0,00%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%	1				166.095	0,39%	0	0,00%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND I		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%	1				129.847	0,31%	0	0,00%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%	1				118.271	0,28%	0	0,00%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%	1				95.626	0,23%	0	0,00%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%	1				62.602	0,15%	0	0,00%	0	0,00%	0	0,00%
29	Schroder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%	1				50.000	0,12%	0	0,00%	0	0,00%	0	0,00%
30	wisdomtree europe hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%	1				45.802	0,11%	0	0,00%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%	1				40.595	0,10%	0	0,00%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0482%	38.791	0,0483%	1				38.791	0,09%	0	0,00%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%	1				37.678	0,09%	0	0,00%	0	0,00%	0	0,00%
34	MIRF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%	1				29.821	0,07%	0	0,00%	0	0,00%	0	0,00%
35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%	1				29.095	0,07%	0	0,00%	0	0,00%	0	0,00%
36	OR[illegible]LIC EMPLOYEES RET[illegible]S SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%	1				22.385	0,05%	0	0,00%	0	0,00%	0	0,00%
37	GBVF GCIT INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%	1				11.710	0,03%	0	0,00%	0	0,00%	0	0,00%
38	FLORIDA RETIREMENT SYSTEM		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%	1				11.360	0,03%	0	0,00%	0	0,00%	0	0,00%
39	wisdomtree DYNAMIC CURRENCY hedged INTRNL small cap equity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%	1				10.730	0,03%	0	0,00%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%	1				8.964	0,02%	0	0,00%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%	1				7.900	0,02%	0	0,00%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%	1				3.740	0,01%	0	0,00%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%	1				2.700	0,01%	0	0,00%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%	1				2.300	0,01%	0	0,00%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%	1				300	0,00%	0	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%	1				992.642	2,36%	0	0,00%	0	0,00%	0	0,00%
												84.167.876	2						

legenda:

F	= FAV[illegible]OLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= C[illegible]	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTE[illegible]TO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

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nr	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA		NUMERO AZIONI	QUORUM COSTITUTIVO	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO	SCHEDA 2 PUNTO 2 ALL'ODG DIVIDENDO AZZURRA											
		IN PROPRIO	PER DELEGA		% sul capitale sociale		% su totale con diritto di voto	F	C	A	NV	azioni Favorevoli		azioni Contrari		azioni Astenuti		azioni NV	
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	T[illegible]E AZIONI CON [illegible]) AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	TOTALE			42.083.938	52,3295%	42.083.938	52,3977%	Totali				41.369.938	98,30%	1.000	0,00%	713.000	1,69%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%			1		0	0,00%	0	0,00%	400.000	0,95%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%			1		0	0,00%	0	0,00%	200.000	0,48%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%			1		0	0,00%	0	0,00%	73.000	0,17%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%			1		0	0,00%	0	0,00%	25.000	0,06%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%			1		0	0,00%	0	0,00%	15.000	0,04%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%		1			0	0,00%	1.000	0,00%	0	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%	1				545.000	1,30%	0	0,00%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%	1				509.822	1,21%	0	0,00%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%	1				507.598	1,21%	0	0,00%	0	0,00%	0	0,00%
18	CL[illegible]DGE I[illegible]ONAL SMALL CAP FU[illegible]		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%	1				401.520	0,95%	0	0,00%	0	0,00%	0	0,00%
19	SHROEDER INTERN SELECTION FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	STATE TEACHER RETIREMENT SYSTEM OF OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%	1				290.306	0,69%	0	0,00%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%	1				169.084	0,40%	0	0,00%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%	1				166.095	0,39%	0	0,00%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%	1				129.847	0,31%	0	0,00%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%	1				118.271	0,28%	0	0,00%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%	1				95.626	0,23%	0	0,00%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%	1				62.602	0,15%	0	0,00%	0	0,00%	0	0,00%
29	Schroeder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%	1				50.000	0,12%	0	0,00%	0	0,00%	0	0,00%
30	wisdomtree europe hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%	1				45.802	0,11%	0	0,00%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%	1				40.595	0,10%	0	0,00%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0482%	38.791	0,0483%	1				38.791	0,09%	0	0,00%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%	1				37.678	0,09%	0	0,00%	0	0,00%	0	0,00%
34	M1RF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%	1				29.821	0,07%	0	0,00%	0	0,00%	0	0,00%
35	RV[illegible]WI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%	1				29.095	0,07%	0	0,00%	0	0,00%	0	0,00%
36	ORE[illegible]UBLIC EMPLOYEES RETIREMENTS SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%	1				22.385	0,05%	0	0,00%	0	0,00%	0	0,00%
37	GBVF GCIT INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%	1				11.710	0,03%	0	0,00%	0	0,00%	0	0,00%
38	FLORIDA RETIREMENT SYSTEM		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%	1				11.360	0,03%	0	0,00%	0	0,00%	0	0,00%
39	wisdomtree DYNAMIC CURRENCY hedged INTRNL small cap equity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%	1				10.730	0,03%	0	0,00%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%	1				8.964	0,02%	0	0,00%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%	1				7.900	0,02%	0	0,00%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%	1				3.740	0,01%	0	0,00%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%	1				2.700	0,01%	0	0,00%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%	1				2.300	0,01%	0	0,00%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%	1				300	0,00%	0	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%	1				992.642	2,36%	0	0,00%	0	0,00%	0	0,00%

legenda:

F	= F[illegible]E	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONT[illegible]O	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

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N°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA: IN PROPRIO	PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	SCHEDA 3 PUNTO 3 ALL'ODG NOMINA AMMINISTRATORE - PROPOSTA ALESSANDRIA VERDE: F	C	A	NV	Azioni Favorevoli	%	Azioni Contrari	%	Azioni Astenute	%	Azioni NV	%
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	TOTALE AZIONI CON DI[illegible]AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	TO[illegible]			42.083.938	52,3295%	42.083.938	52,3977%	Totali				33.008.645	78,44%	9.074.293	21,56%	1.000	0,002%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%	1				400.000	0,95%	0	0,00%	0	0,00%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%	1				73.000	0,17%	0	0,00%	0	0,00%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%	1				25.000	0,06%	0	0,00%	0	0,00%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%	1				15.000	0,04%	0	0,00%	0	0,00%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%			1		0	0,00%	0	0,00%	1.000	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%		1			0	0,00%	900.000	2,14%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%		1			0	0,00%	545.000	1,30%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%		1			0	0,00%	509.822	1,21%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%	1				507.598	1,21%	0	0,00%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%		1			0	0,00%	401.520	0,95%	0	0,00%	0	0,00%
19	SHROEDER INTERAN SELF[illegible]UND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%		1			0	0,00%	1.959.940	4,66%	0	0,00%	0	0,00%
20	STA[illegible]ER RETIREMENT SYSTE[illegible] OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%	1				290.306	0,69%	0	0,00%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%		1			0	0,00%	2.540.996	6,04%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%		1			0	0,00%	200.000	0,48%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%		1			0	0,00%	169.084	0,40%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%		1			0	0,00%	166.095	0,39%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%		1			0	0,00%	129.847	0,31%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%		1			0	0,00%	118.271	0,28%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%		1			0	0,00%	95.626	0,23%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%		1			0	0,00%	62.602	0,15%	0	0,00%	0	0,00%
29	Schroeder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%		1			0	0,00%	50.000	0,12%	0	0,00%	0	0,00%
30	wisdomtree europe hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%		1			0	0,00%	45.802	0,11%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%		1			0	0,00%	40.595	0,10%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0481%	38.791	0,0483%		1			0	0,00%	38.791	0,09%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%	1				37.678	0,09%	0	0,00%	0	0,00%	0	0,00%
34	M1RF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%		1			0	0,00%	29.821	0,07%	0	0,00%	0	0,00%
35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%		1			0	0,00%	29.095	0,07%	0	0,00%	0	0,00%
36	OREGON PUBLIC EMPLOYEES RETIREMENTS SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%	1				22.385	0,05%	0	0,00%	0	0,00%	0	0,00%
37	GBVF GCIT INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%		1			0	0,00%	11.710	0,03%	0	0,00%	0	0,00%
38	FLO[illegible]REMENT SYS[illegible]		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%	1				11.360	0,03%	0	0,00%	0	0,00%	0	0,00%
39	wisdo[illegible]DYNAMIC CURRENCY hedged INTRNL small cap equity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%		1			0	0,00%	10.730	0,03%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%		1			0	0,00%	8.964	0,02%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%		1			0	0,00%	7.900	0,02%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%		1			0	0,00%	3.740	0,01%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%		1			0	0,00%	2.700	0,01%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%		1			0	0,00%	2.300	0,01%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%		1			0	0,00%	300	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%		1			0	0,00%	992.642	2,36%	0	0,00%	0	0,00%

legenda:

F	= FAVOREVOLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONTRARIO	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

MOTIVATED PROPOSAL FOR THE ASSIGNMENT FOR THE STATUTORY AUDIT OF THE ACCOUNTS PURSUANT TO SECTION 13, PAR. 1 OF LEGISLATIVE DECREE 39 DATED 27 JANUARY 2010

To: The Shareholders' Meeting of Banca Sistema S.p.A.

Re: Motivated proposal for the assignment for the statutory audit of the accounts pursuant to section 13, par. 1 of Legislative Decree dated 27 January 2010.

Whereas:

- the Shareholders' Meeting for the approval of the Financial Statements for the period ended 31/12/2018 scheduled for 18/04/2019 the appointment of an independent auditor pursuant to section 2409-bis of the Italian Civil Code and section 13 and subsequent sections of Legislative Decree 39 dated 27 January 2010, will come to a natural end;
- section 13, par. 1, of Legislative Decree 39 dated 27 January 2010 states that "... *the Shareholders' Meeting, on the motivated recommendation of the control body, appoints an independent auditor and establishes the fee for the independent auditor or auditing firm for the entire period of the appointment and the criteria for reviewing the fee during the period of the appointment";*
- for public-interest entities section 17, par. 1 of Legislative Decree 39 dated 27 January 2010, states that *"the assignment for the statutory audit is for nine financial periods for an auditing firm and seven financial periods for an independent auditor";*

and whereas:

- via the Board of Directors, the Board of Statutory Auditors has received two different offers for the statutory audit of the company accounts for the period from 01/01/2019 to 31/12/2027 until the Shareholders' Meeting to approve the Financial Statements for the last period of the appointment;

- the above-mentioned offers were received *respectively from:* i) Pricewaterhousecoopers S.p.A (hereafter for the sake of brevity PWC) and *ii)* BDO Italia S.p.A. (hereafter for the sake of brevity BDO) both in the Register pursuant to section 7 of Legislative Decree 39 dated 27 January 2010;

- Deloitte & Touche s.p.a, and Reconta Ernst&Young s.p.a. have stated they are unable to respond to the invitation to offer because they are or may be in a position of incompatibility due to conflicting appointments;

- the offers analysed include a specific undertaking by the offerors to verify the occurrence of situations governed by sections 10 *("Independence and objectivity")* and 17 *("Independence")* of Legislative Decree 39 dated 27 January 2010, and, if necessary, on the basis of the definitions set out in section *149-bis* of the Issuers' Regulation and sections *149-quater* to *149-undecies* of that Regulation;

- in order to verify and constantly monitor the non-existence of causes of incompatibility which could compromise the appointment of the independent auditing firm, each candidate has:

- submitted a list of the names of its partners/associates and members of the administrative body and of the entities in its network;

- asked the company making the appointment to promptly notify any change in its shareholder base and that of its subsidiaries or companies subject to joint control;

- made the commitment to confirm annually in writing to the Internal Control and Statutory Auditing Committee its independence and to communicate to the Committee any services other than auditing provided by its network and to discuss with the Committee risks to its independence and suitable preventive measures;

- for the financial years included in the assignment, the offers set out the following activities:

- statutory audit pursuant to sections 14 and 16 of Legislative Decree 39 dated 27 January 2010, and section 155 and subsequent sections of Legislative Decree 58 dated 24 February 1998, of the separate Financial Statements and consolidated Financial Statements of the Banca Sistema group;

- verification pursuant to section 14, par. 1, subsection b) of Legislative Decree 39 dated 27 January 2010, of proper corporate accounting and the proper recording of events in the course of the management of the company in the accounts; verification of the coherence of the Management Report pursuant to section 14, par. 2, subsection e), of Legislative Decree 39 dated 27 January 2010, regarding *"Report on corporate governance and the ownership structures"* restricted to the information set out in section *123-bis*, par. 1, subsections c), d), f), I), m), and par. 2, subsection b), of Legislative Decree 58 dated 24 February 1998, with the Financial Statements and the *consolidated Financial Statements;*

- limited review of the condensed interim financial statements drawn up on the basis of the applicable international accounting standard on interim financial reporting (IAS 34) endorsed by the European Union pursuant to section *154-ter*, par. 2, of Legislative Decree 58 dated 24 February 1998, and Consob Resolution 10867 dated 31 July 1997;

- issue of certificates relating to the auditing carried out in order to include the profits under formation at the end of the first 6-month period and the period-end profits before adopting a formal decision confirming the final result for the period, via calculation of Common Equity Tier 1 capital pursuant to section 26, par. 2 subsection a) of EU Regulation 575/2013 dated 26 June 2013;

- the limited review of the interim financial statement schemes as at 31 March and 30 September, for the issue of certificates to include the interim result in the calculation of Common Equity Tier 1 capital pursuant to section 26, par. 2 subsection a) of EU Regulation 575/2013 dated 26 June 2013;

- preliminary activities prior to the signature of tax returns pursuant to section 1, par. 5, of Presidential Decree 322 dated 22 July 1998;

- the statutory auditing of the following investees: Largo Augusto Servizi e Sviluppo S.r.l.

QuintoSistema SEC and Pronto Pegno S.p.A.;

- pursuant to sections 11 and 12 of Legislative Decree 39 dated 27 January 2010, the activities regarding statutory audit set out in the offers are to be carried out pursuant to the International Standards on Auditing (ISA Italia) adopted by Determination of the Accountant General of the Republic dated 23 December 2014;

- from examination of the offers the related fees for each financial period included in the mandate – in addition to expenses and/or related costs, social security payments (Pension Funds, Consob or other supervisory authorities), VAT and the review of the fees in line with the Istat cost of living index from 1/01/2020 in light of the number of hours for each candidate are as follows

Description of the service

PWC BDO

Fee no. of hours Fee • no. of hours

Description of the service	PWC		BDO	
	Fee	No. of hours	Fee	No. of hours
Auditing of the separate Financial Statements and Consolidated Financial Statements	160,000	1,985	120,000	1,780
Limited review of interim Financial Statements	30,000	470	30,000	435
Quarterly review	30,000	385	30,000	435
Total Banca Sistema	**220,000**	**2,840**	**180,000**	**2,650**
Auditing of Largo Augusto Servizi e Sviluppo S.r.l.	13,500	180	13,000	188
Auditing of Quinto Sistema SEC. 2017	18,000	250	22,000	320
Auditing of Pronto Pegno SpA (at full regimen)	48,000	625	35,000	500
Total for the Group	**299,500**	**3,895**	**250,000**	**3,658**
expenses	**4,493**		**5,000**	
Total for the Group, inclusive of VAT	**370,871**		**311,000**	

Before starting the selection process consisting of making a request for offers, the Board of Statutory Auditors established transparent and objective selection criteria in order to ensure that the selection process and resulting decision would be transparent and traceable. In defining the selection principles, both the qualitative aspects (to which predominant importance was given) and the quantitative aspects, expressed as specific assessment profiles to which weighting coefficients were allocated (with scores indicated as percentages) were taken into account, allocating to each a score on a scale of values (conventionally decided as 1 to 5). The following assessment criteria and weightings were allocated to each:

a) Qualitative aspects (70%): knowledge of the Bank: 15%; assessment of the Independent Auditing Firm and its network: 15%; assessment of the methodological approach: 15%; assessment of the Auditing Team: 35%)

b) Quantitative aspects (30%): for the quantitative aspects, importance was given to the subdivision of the total number of hours by professional category (senior partner, specialist partner, specialist managing advisers and expert/senior auditors and assistants) (15%) and the total fee (15%).

- According to the documents received, and taking into account the selection criteria defined, the

Board of Statutory Auditors analysed the offers of the two auditing companies by identifying, for each indicator, the distinguishing and qualifying aspects of each company as indicated by the offers. The analysis also took into account the provisions and/or information of the Supervisory Authorities as regards statutory audit of accounts (for example in terms of independence, mandatory insurance coverage, professionalism of the members of the team) as well as the information and experience provided by the Manager in charge of financial reporting.

The analyses of the offers and the supplementary information received demonstrated, moreover, that: the methods used to perform the audit described by the offers, above all taking account the number of hours and professional resources envisaged, are on the whole adequate for the scope and complexity of the assignment and that although the offering auditing companies have different specialisations and qualitative characteristics, both have adequate professional expertise and organisation in terms of the dimensions and complexity of the assignment.

- according to the information obtained, there are no aspects that might impair the independence of the candidates nor grounds of incompatibility of the same;
- the subject matter of the assignment as defined in the offers examined for the statutory audit of accounts for the financial years 2019 to 2027, appears to be substantially consistent.

Given the above and taking into account, above all, the result of the weighting procedure of the qualitative and quantitative aspects described above, after the selection process as a whole, the Board of Statutory Auditors expressed its opinion for the assignment of statutory audit for the financial years 2019 to 2027, **proposing to the Shareholders' Meeting of Banca Sistema S.p.A.,** subject to acceptance of the fees for the entire term of office together with the principles for adjustment of the fees during the validity of the engagement, that **the Assignment** for the statutory audit of the accounts for the years 2019 to 2027, should **be entrusted to BDO Italia S.p.A.** in accordance with the offer formulated on 22 January 2019.

According to the process described above and given the information acquired during the cognitive process described, the Board of Statutory Auditors considered the aspects in favour of BDO Italia S.p.A. to be the following:

i. the company's considerable experience as auditor of financial companies and banking groups having an organisation structure and management complexity comparable to those of Banca Sistema;

ii. a work team consisting of resources with tried and tested skills and experience in the sector. Recognised professionalism of the senior partner and the partners in specialist areas (Financial Risk Management, Legal, Technical Accounting, Capital Markets & Accounting Advisory, tax legislation);

iii. an audit approach that entails an initial investment of man/hours and a professional mix appropriate to the scope and complexity of the assignment;

iv. membership to an international network that offers services in 160 countries;

v. the offer was the most economically advantageous offer.

Should BDO Italia S.p.A. not accept the assignment, as an alternative, the Board of Statutory Auditors proposes that the assignment for the statutory audit for the years 2019-2017 be allocated to

Pricewaterhousecoopers S.p.A.

Milan, 19 March 2019

	Board of Statutory Auditors	
Mr. Massimo Conigliaro	Ms Lucia Abati	Mr. Biagio Verde
Chairman (Signature)	Standing Auditor (Signature)	Standing Auditor (Signature)

ALLEGATO "G".

SCHEDA 4
PUNTO 4 ALL'ODG
SOCIETA' DI REVISIONE
GRIGIA

197

N°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA: IN PROPRIO	PRESENZA IN PROPRIO O PER DELEGA: PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	F	C	A	NV	azioni Favorevoli		azioni Contrari		azioni Astenute		azioni NV	
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	TOTALE AZIONI CON [illegible] AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	T[illegible]ALE			42.083.938	52,3295%	42.083.938	52,3977%	Totali				42.082.938	99,998%	0	0,00%	1.000	0,002%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%	1				400.000	0,95%	0	0,00%	0	0,00%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%	1				73.000	0,17%	0	0,00%	0	0,00%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%	1				25.000	0,06%	0	0,00%	0	0,00%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%	1				15.000	0,04%	0	0,00%	0	0,00%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%			1		0	0,00%	0	0,00%	1.000	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%	1				545.000	1,30%	0	0,00%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%	1				509.822	1,21%	0	0,00%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%	1				507.598	1,21%	0	0,00%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%	1				401.520	0,95%	0	0,00%	0	0,00%	0	0,00%
19	SHROEDER INTERN SELE[illegible] FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	S[illegible]ER RETIREMENT SY[illegible]OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%	1				290.306	0,69%	0	0,00%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%	1				169.084	0,40%	0	0,00%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%	1				166.095	0,39%	0	0,00%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%	1				129.847	0,31%	0	0,00%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%	1				118.271	0,28%	0	0,00%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%	1				95.626	0,23%	0	0,00%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%	1				62.602	0,15%	0	0,00%	0	0,00%	0	0,00%
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35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%	1				29.095	0,07%	0	0,00%	0	0,00%	0	0,00%
36	OREGON PUBLIC EMPLOYEES RETIREMENTS SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%	1				22.385	0,05%	0	0,00%	0	0,00%	0	0,00%
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38	FLORIDA RETIREMENT SYST[illegible]		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%	1				11.360	0,03%	0	0,00%	0	0,00%	0	0,00%
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41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%	1				7.900	0,02%	0	0,00%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%	1				3.740	0,01%	0	0,00%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%	1				2.700	0,01%	0	0,00%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%	1				2.300	0,01%	0	0,00%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%	1				300	0,00%	0	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%	1				992.642	2,36%	0	0,00%	0	0,00%	0	0,00%

legenda:

F	= FAVOREVOLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONTRARIO	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

2019 Remuneration Policies Document of the Banca Sistema Group

Document approved by the Board of Directors meeting

of 1 March 2019

CONTENTS

1. INTRODUCTION

This document (the "**Remuneration Policy Document**" or "**Policies**") was drawn up in accordance with Part One, Section IV, Chapter 2 of the Bank of Italy Circular No. 285 of 17 December 2013, as subsequently amended and supplemented concerning "Remuneration and incentive policies and practices" (hereinafter "**Circular 285**") and in compliance with the prescriptions of the Corporate Governance Code for listed companies promoted and amended by Borsa Italiana S.p.A. and adopted by the Corporate Governance Committee in March 2006 (the "**Corporate Governance Code**") and with the guidelines of the European Banking Authority ("**EBA**") on sound remuneration policies (hereinafter, the "**Guidelines**", and jointly the "**Provisions**").

The Provisions are further supplemented by the Regulatory Technical Standards issued by the European Commission on proposal of the EBA.

The Provisions also implement the Directive 2013/36/EU (hereinafter "**CRD IV**"), insofar as the prescriptions governing remuneration and incentive policies and practices adopted by banks and banking groups are concerned. The Provisions also take into account the guidelines and criteria agreed at international level, including those issued by the EBA and the Financial Stability Board (hereinafter "**FSB**").

In particular, the Provisions set out the specific principles and criteria that banks are required to comply with in order that:

- remuneration systems are correctly established and implemented;
- any conflicts of interest are effectively dealt with;
- the remuneration system takes due account of current and potential risks, and of each intermediary's capitalisation and liquidity level;
- the degree of transparency vis-à-vis the market is increased;
- control by the Supervisory Authorities may be strengthened.

The aim of the Provisions is to establish - in the interests of all stakeholders - a remuneration system in keeping with the company's long-term goals, values and strategies linked to company results that are appropriately adjusted to take into account all associated risks. The system must be consistent with the levels of capital and liquidity required to run the business. Incentive distortions of the type which encourage recipients to breach the provisions or expose the bank and the financial system in general to excessive risks must be avoided at all times.

The Provisions require the parent company of each banking group to prepare a remuneration policy document for the entire group, taking into account the characteristics of each group company, ensuring overall consistency, providing implementation guidelines and verifying the proper application of the policy by all companies within the group.

This document, drawn up by Banca Sistema S.p.A. (hereinafter "**Banca Sistema**" or the "**Parent Company**", or the "**Bank**"), applies throughout the Banca Sistema Group (hereinafter the "**Group**").

Each company of the Group is responsible for ensuring compliance with the Provisions and, in general, with the provisions of law applicable to remuneration policy, and for the due implementation of the guidelines issued by the Parent Company.

Pursuant to Part I, Title IV, Chapter 2, Section I, Paragraph 7 of Circular 285, in application of the proportional principle, each bank shall implement the remuneration provisions according to the methods that best reflect the bank's characteristics and size, and the risk levels and complexity of its business activities.

In particular, for the purposes of Circular 285 banks are divided into the following three categories:

- "*larger and more complex banks*": those that are deemed to be significant under art. 6(4) of the (EU) Regulation no. 1024/2013 (the Single Supervisory Mechanism - hereinafter "**SSM**") ([1]);
- "*smaller and less complex banks*": banks whose balance sheet assets are equal to or below € 3.5 billion, which are not deemed to be significant under art. 6(4) of the SSM;
- "*medium size banks*": banks whose balance sheet assets are between € 3.5 and 30 billion and banks which belong to a group whose consolidated balance sheet assets are between € 3.5 and 30 billion, which are not deemed to be significant under art. 6(4) of the SSM.

Banca Sistema, having total assets of less than € 3.5 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in view of its status as a listed company and considering also the EBA guidelines, the Bank has opted to apply the rules relating to "medium-sized" banks under Circular 285, Title IV, Chapter 2.

2. MISSION OF THE BANCA SISTEMA GROUP AND OBJECTIVES OF THE REMUNERATION POLICIES

Banca Sistema has adopted a specific business model whereby its mission is to become the leading independent operator in the field of "Specialty Finance". Its growth strategy focuses on leveraging the expertise and capabilities of its resources.

Bearing in mind the aforementioned mission, the Provisions and the Guidelines, the Group's chosen remuneration strategy pursues the following goals:

- to direct the efforts of executive directors and employees towards the priorities and objectives established at Bank and Group level, supporting the creation of value over the medium and long term;
- to attract and retain highly qualified personnel, also through external remuneration competitiveness;
- to motivate personnel, by recognising merit and encouraging the development of professional skills;
- to develop and improve the quality of the services provided to customers;
- to ensure sound and prudent management of the Bank and its risk profile;
- to ensure remuneration fairness, rewarding individual employees for their contribution and the responsibilities given;
- to ensure conduct that is consistent with the Code of Ethics of the Group (hereinafter the "**Code of Ethics**"), the Group's internal regulations and the legislative and regulatory provisions applicable to Banca Sistema and the Group.

([1]) According to art. 6(4) of the SSM, "*a credit institution or financial holding company or mixed financial holding company shall not be considered less significant, unless justified by particular circumstances to be specified in the methodology, if any of the following conditions is met:*

i) the total value of its assets exceeds € 30 billion;

ii) the ratio of its total assets to the GDP of the participating Member State of establishment exceeds 20%, unless the total value of its assets is below € 5 billion;

iii) following notification by the appointed national authority stating that such an institution is of significant importance for the domestic economy, the ECB takes a decision confirming such significance following a comprehensive assessment by the ECB, including a balance-sheet assessment, of that credit institution".

The Group’s remuneration strategy also takes account of the RAF (Risk Appetite Framework) adopted by the Bank, which includes specific performance indicators that take account of risk propensity. Furthermore, the Group’s remuneration strategy takes account of the cost and level of capital and liquidity required to deal with the business operations undertaken, and it is designed to avoid incentives that are in conflict with the Bank’s long-term interests.

The Bank does not provide for any form of employee remuneration or incentives (e.g. payments or other benefits) using special purpose vehicles, instruments or means that do not conform to the Provisions, also in regard to any foreign branches or offices (regardless of where they are located). On the basis of specific agreements, the Bank requires its personnel not to avail themselves of personal coverage strategies or insurance on remuneration or other elements that could undermine or affect the risk alignment effects embedded in remuneration arrangements.

In order to ensure compliance with the foregoing, the company control departments or the Human Resources Department conduct sample checks on securities custody and administration deposits held with the Bank by “key personnel” (as defined in paragraph 4 below). The Bank requires, in any case, that “key personnel” inform the Bank, on the basis of the aforementioned individual agreements, of the existence or opening of custody and administration accounts with other intermediaries. These agreements shall be drawn up each year by the Human Resources Department, and expressly accepted by each person belonging to the category of “Key Personnel”. Failure to expressly accept said specific agreements shall result in the individual employee in question being excluded from the provisions and benefits of these Policies.

In order to prevent any avoidance of the Policies, the Bank, in establishing and implementing them, shall take due account of any transactions carried out independently, either directly or indirectly, by personnel, on the shares, or on any financial instruments with the Bank’s shares underlying them, including:

- transactions on derivatives with the shares, or in general the deferred part of variable remuneration, underlying them;

- securities lending transactions concerning the shares.

In any case, the Bank requires “key personnel” to report any financial transactions and investments that come within the aforementioned categories, and it shall take account of such in order to adjust the Policies, in particular with regard to the risk alignment mechanisms and to the Bank’s financial position and results of operations (e.g. duration of the deferral period, malus and claw-back mechanisms, etc.).

3. PROCESS OF FORMATION OF REMUNERATION POLICIES

The Policies are defined in accordance with the process described below, in compliance with the Provisions and with Banca Sistema’s Articles of Association, which are in effect consistent with said Provisions.

The following company bodies and departments are involved in establishing the Policies, according to the remits and responsibilities described hereinafter:

The **Board of Directors** (or the “**Board**”) formulates and approves the Bank’s Policies, submits them to the Shareholders’ Meeting, and reviews them at least once a year, and is responsible for their correct implementation. It also approves the results of any procedure for the exclusion of “key personnel” referred to in Paragraph 4 and in Annex 1 to the Policies, and periodically reviews the criteria for such exclusion. The Board of Directors ensures that the Remuneration Policies are duly documented and accessible within the company, and that personnel are aware of the consequences of any breach of the provisions contained in these Policies; it defines the incentives scheme for those persons within the “key personnel” category (see Paragraph 4 below and Annex 1), as well as for all other Group employees; it also ensures that the Bank’s Policies are effectively implemented and that they are consistent with the Bank’s management strategy, corporate culture, risk propensity and the associated governance processes.

The Board ensures that the granting, payment and accrual of variable remuneration, including application of the malus and claw-back rules, do not negatively affect the need to maintain a strong capital base in accordance with the Group’s remuneration policies.

Furthermore, the Board submits a clear and complete information document concerning the Policies to be adopted, to the Shareholders’ Meeting. The purpose of this information document is to illustrate: the reasons, aims and means of implementation of the Policies; the controls carried out in regard to said Policies; the characteristics of the remuneration system; the consistency of such characteristics with the established guidelines and objectives; compliance with applicable law; the principal information regarding the process of identification of “key personnel” and the corresponding outcomes, including any exclusions (see Paragraph 4 below and Annex 1); any changes to systems and processes that have already been approved; the evolution of the dynamics of remuneration, also compared to the trend within the sector. The information document contains at least the information set out in paragraph 5 of the Policies.

The Board of Directors discharges its duties with the support of the following company departments:

- the **Human Resources Department**, which coordinates the Policies definition process and contributes to the drawing up the Policies, providing the required information also in relation to the organisational structure, the remuneration levels and the incentive systems. In particular, the Human Resources Department lends its support to the Compliance Department, ensuring, among other things, that the Policies are consistent with the Bank’s personnel management procedures and remuneration and incentives systems;

- the **Risk Department**, which is involved in identifying events that could potentially affect the Company’s business, analysing the impacts of such events in relation to acceptable levels of risk, and periodically monitoring the effects of implementation of the remuneration policies on the Group’s risk profiles. The Risk Department is invited to meetings of the Remuneration Committee to discuss the drawing up, implementation and monitoring of the Policies; in particular, it helps to ensure compliance with the reference framework for measuring risk propensity and with the risk governance and management policies defined in the Risk Appetite Framework (RAF), also by establishing risk indicators to be used for (ex ante and ex post) adjustment mechanisms; it also expresses its opinion on the correct use of these mechanisms. Based on their respective remits, the Risk Department and the Compliance Department are of support in deciding the “bonus pool” (as defined below), the result indicators and the remuneration to be granted and highlight any possible impacts which these factors may have on the conduct of employees and/or in terms of the riskiness of the activities undertaken;

- the **Compliance Department**, which verifies ex ante the compliance of the Policies and checks, on an annual basis, that the remuneration policies are consistent with the applicable legal framework and the internal policies, including the Group’s Code of Ethics so as to take into account legal and reputational risks present, in particular, in relations with customers. The Compliance Department informs the Board of Directors of any findings in a specific report, in order that due account may be taken of such report by the Board when approving and assessing the Policies;

- the **Internal Audit Department**, which when drawing up and implementing the Policies, in compliance with the Provisions and the Guidelines, conducts an independent review of the personnel remuneration and incentive practices to be approved and implemented in order to assess, at least once a year, the effects these may have on the Bank’s risk profile; among other things it assesses, at least yearly, whether the remuneration practices are consistent with the approved Policies and with the current provisions of law;

- the **Central Finance Department**, which verifies the compliance of the Policies with the Bank's medium-long term objectives and strategies, so as to ensure financial sustainability over the medium-long term;

- the **Manager in charge of financial reporting**, who verifies the compliance and consistency of the Policies with accounting and company documents, and in particular their accuracy with respect to the approved accounting entries. The Manager in charge of financial reporting – jointly with the Head of the Risk Department – evaluates and confirms the level of satisfaction of the corporate access conditions and criteria and the level of achievement of the targets assigned.

The **Remuneration Committee** assists the Board of Directors in reviewing the Policies to be submitted to the Shareholders' Meeting, with support also from the previously specified company departments, and has the following responsibilities:

- to make proposals on the remuneration paid to "key personnel" and other employees;

- to provide advice in determining the remuneration criteria for "key personnel";

- to offer its opinion, also on the basis of the information received from the relevant company departments, regarding the outcome of the process of identification of "key personnel", including any exclusions pursuant to paragraph 4 and to Annex 1 of the Policies;

- to carefully monitor due application of the rules on the remuneration of the managers in charge of the corporate control departments, in close coordination with the Board of Statutory Auditors;

- to prepare the documentation to be submitted to the body tasked with the strategic supervision of the related decisions;

- to cooperate with the other committees within the Board of Directors, in particular with the Internal Control and Risk Management Committee;

- to ensure that all appointed departments are involved in the process of preparing and monitoring the Policies;

- to provide input, based also on the information received from the company departments concerned, on the achievement of the performance targets to which the incentive plan is subject and to verify the other requirements for payment of the remuneration;

- to assess the need to make ex-post adjustments to the variable remuneration (malus and claw-back) and to submit proposals in this respect to the Board of Directors;

- to provide adequate feedback on the activities carried out to the corporate bodies, including the Shareholders' Meeting, checking the adequacy of the information to be provided to shareholders in relation to the Policies, particularly concerning any proposals to exceed the variable-fixed remuneration ratio of 1:1;

- to make proposals to the Board of Directors concerning the use of external experts specialised in Remuneration and Incentive Policies;

- to check that the existing remuneration policy is up-to-date, and to propose any required amendments.

In order to perform its duties effectively and responsibly, the Remuneration Committee is given access to all data and information associated with the Board of Directors' decision-making process in relation to the preparation, implementation, monitoring and review of the Policies. The Committee is also provided with the necessary resources, and has unconditional access to all information and data produced by the control departments; it interacts with said control departments and with other relevant departments (e.g. the Human

Resources, Legal and Finance Departments), whose resources may be asked to attend the Committee's meetings.

The **Shareholders' Meeting** approves:

- the Policies applicable to Group employees and "key personnel";
- the remuneration plans based on financial instruments (for example, stock option and stock grant plans);
- the criteria for determining any compensation to be paid in the event of early termination of employment or early exit from office, including the limits upon such compensation in terms of the number of years of fixed remuneration and the maximum amount resulting from application of such criteria (so-called golden parachute) ([2]).

On approving the Policies, the Shareholders' Meeting also resolves on any proposal to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 1:1, but not in excess of the maximum limit of 2:1([3]).

The Group companies are also given the opportunity to cap the ratio between the variable and fixed remuneration paid to individual staff members at more than 1:1, but not in excess of the maximum limit of 2:1. In this regard, being a Group, the Shareholders' Meeting empowered to decide on the proposal to set a ratio of more than 1:1 is that of the Group company in which the personnel to whom the decision refers are employed. Banca Sistema may vote in favour of the proposal to increase the limit submitted for approval to the Shareholders' Meeting of a Group company.

In this regard, the Shareholders' Meeting is informed of the fact that the cap on the ratio between variable and fixed remuneration includes any amounts payable as discretionary pension benefits, in anticipation of or as a result of the early termination of employment, or early exit from office (so-called golden parachutes).

The **Board of Statutory Auditors** has an advisory function and monitors the proper application of the remuneration policies based on the provisions and regulations in force at the time.

Banca Sistema's control departments, together with those of the Group companies, cooperate and exchange all relevant information.

The Policies are reviewed at least annually, and the associated activities and any amendments which are proposed, approved and implemented thereof are documented in written reports or in the minutes of the related meetings.

4. KEY PERSONNEL IDENTIFICATION AND EXCLUSION PROCESS

The process of identifying "key personnel" (employees whose professional activity has or may have a significant material impact on the Group's risk profile) takes into account the provisions of Delegated Regulation (EU) no. 604/2014 ("**Regulatory Technical Standards**" or "**RTS**"), together with any further criteria established by the Bank and set out in Annex 1.

"Key personnel" are identified at least once a year by the Bank's Board of Directors, and at the time of any change to the organisational structure, based on a structured self-assessment process which sees the involvement of the Remuneration Committee and the internal control departments, as described in greater

[2] Banca Sistema has not entered into any agreement providing for the assignment of amounts in the event of early termination of employment or early exit from office.

[3] The resolution is voted on with the abstention of those employees who are shareholders in the Bank, if the decision concerns the approval of an increase in the cap on their own remuneration.

detail in Annex 1. This process enables the aforementioned rules and criteria to be applied on the basis of the actual capacity of individual members of personnel to impact the Bank's risk profile.

"Key personnel" are governed by more stringent rules with regard to the structuring of remuneration, in order that remuneration is fully consistent with economic-financial performance, both currently and with a view to the future. This is achieved by taking account of the risks taken and the sustainability over the course of time of the company's performance.

In accordance with the Provisions, the Bank, following the aforementioned identification process, and on the basis of the exclusion process, may consider certain members of personnel identified as above not to be "key personnel" (see Annex 1).

5. DISCLOSURE REQUIREMENTS

In regard to remuneration policies and practices, the Bank shall meet its disclosure requirements under the Provisions, vis-à-vis both the public and the Bank's corporate bodies and personnel.

In compliance with art. 450 of Regulation (EU) no. 575/2013 (hereinafter "**CRR**") and in accordance with the Guidelines, the following information regarding "key personnel" is published on the Bank's website:

- information regarding the decision-making process followed to define the Policies;
- information on the link between remuneration and performance;
- the key features of the remuneration system, including the criteria used to assess performance and make risk adjustments, the deferral rules and the assignment criteria;
- the ratios between the fixed and variable components of remuneration;
- the performance assessment criteria underlying the assignment of options, shares and other variable remuneration components;
- information on the total remuneration paid to the Chairperson of the Board of Directors and to the CEO.

The Bank's website also includes information on the method of implementation of the Provisions and on the subject of corporate governance, as per Title IV, Section VII, Chapter I, paragraph 1 of Circular 285.

Information on the Remuneration Policies will be provided in Section I of the Remuneration Report in accordance with Section 123-ter of the Consolidated Law on Finance. The Report will be published in accordance with the methods and timeframes set out in the applicable provisions of law.

6. THE STRUCTURE OF REMUNERATION AT GROUP LEVEL

6.1 General Principles

Pursuant to Part I, Title IV, Chapter 2, Section I, Paragraph 3, of Circular 285:

i) remuneration shall mean: "*any payment or benefit, including any additional items (allowances), provided directly or indirectly to personnel in the form of cash, financial instruments or services, or fringe benefits, for the work or professional services they provide to the Bank or to other companies of the banking group. Marginal payments or benefits granted to personnel on a non-discretionary basis, which come within a general policy of the Bank and do not have any effect in terms of incentives to take or manage risks, may not be included*";

ii) fixed remuneration shall mean: "*remuneration of a stable, irrevocable nature calculated and paid on the basis of pre-established, non-discretionary criteria - such as, in particular, the levels of professional experience and responsibility - that do not create incentives to the taking of risks and do not depend on the Bank's performance*";

iii) variable remuneration shall mean: "*(i) any remuneration that is granted and paid subject to performance, however measured (income-based targets, volume targets, etc.) or that is conditional on other parameters (e.g. seniority of service), excluding severance pay paid pursuant to employment laws, and indemnity in lieu of notice, where their amount is determined in accordance with, and within the limits set by, the provisions of law; (ii) discretionary pension benefits and compensation agreements stipulated by the Bank and personnel in anticipation of, or as a result of, early termination of employment or early exit from office, regardless of the entitlement to, the legal qualification of, and the financial grounds for, payment of this remuneration. These amounts include those granted in relation to non-compete agreements, or within the context of an agreement for the settlement of an existing or potential dispute, regardless of where such agreement is reached; (iii) carried interest, as classified by the provisions on remuneration and incentive policies and practices within the asset management sector, in implementation of Directives 2009/65/EC (UCITS) and 2011/61/EU (AIFMD); (iv) any other form of remuneration that is not clearly classifiable as fixed remuneration".*

In light of the preceding definitions, the remuneration paid to the Group's personnel includes a fixed component, which is paid to all employees, a "benefit" component, and a variable component that is paid to the "key personnel" (without prejudice to the exceptions indicated by this Remuneration Policy Document), that may be applied to other employees of the Bank in line with the guidelines and principles of these Policies and in compliance with the applicable law.

The ratio between the variable and fixed components of remuneration is duly balanced, accurately calculated and carefully assessed in relation to the characteristics of Banca Sistema and of the various categories of personnel, particularly that of "key personnel" (for further information on the ratio between the variable and fixed components of remuneration, see paragraph 6.5 of the Policies).

The remuneration paid to the Group's employees consists of the components described below.

6.2 Fixed component

The fixed component of remuneration:

- is paid to all personnel;
- is based on an employee's technical, professional and managerial skills and the responsibilities assigned to that employee, and is monitored constantly and reviewed annually to ensure fairness, both internally and compared to the rest of the sector, taking also into account any assessments conducted by external consultants appointed by the Parent Company; the Bank adopts two collective bargaining agreements (CCNL): (i) one applicable to Middle Managers and Personnel of Banks, Financial Companies and Associated Companies, and (ii) the other applicable to Senior Managers of Banks, Financial Companies and Associated Companies;
- is based on the principle of sustainability, to a degree that allows the variable component to be substantially reduced - and in extreme cases, to be reduced to zero - in relation to the results actually achieved.

6.3 Benefits

The corporate bodies and employees receive certain non-monetary benefits - the definition and assignment of which takes place on the basis of company plans, policy and rules that require compliance with sustainability parameters connected to the Bank's general medium/long-term performance - which may be assigned provided that the Group reports a gross annual profit at consolidated level. The nature of such benefits shall depend on the employee's role and seniority within the company, and they mainly consist in medical insurance, company cars and the Flexible Benefits Plan.

The benefits expected to be granted in 2019 can be summarised as follows:

- medical insurance for all employees and for the members of the Bank's Board of Directors;
- company cars for senior managers and for sales and business development staff;
- Flexible Benefits Plan for all Personnel.

Banca Sistema has adopted a Flexible Benefits Plan to support employees and their families in connection with social and cultural activities, public transport and education/schooling costs for their children, and with the purchase of homes, in accordance with the limits and conditions set out in the specific applicable Regulation, and in application of the applicable provisions of tax law.

6.4 Variable component

The variable component of remuneration (hereinafter also referred to as the "**Bonus**"):

- is paid to personnel classifiable as "key personnel" when certain set targets are achieved (without prejudice to the provisions of the Remuneration Policies Document);
- may also be paid to personnel other than "key personnel";
- is based on performance indicators measured net of risks and consistently with the measures used for management purposes by the Risk Department (the so-called ex ante risk adjustment);
- is subject to attaining specific performance targets both at bank and personal level, as per Annex 2 to this Remuneration Policies Document;
- is composed as follows:
    - as regards "key personnel", by a part in cash ("**Cash**") and a part in the Bank's shares ("**Shares**") (see paragraph 6.4.2 below and Annex 3);
    - as regards personnel not classifiable as "key personnel", by cash only (see paragraph 6.4.3 below).

In order to ensure the financial sustainability of the Bonus, and to guarantee the Bank's ability to maintain a sufficient level of capital, the overall value of the Bonuses assigned and paid to employees and "key personnel" cannot exceed the total value of the Bonus Pool, as defined in paragraph 6.4.1. If it is necessary to increase the level of capital, the bonus pool, as described below, is reduced and/or ex-post adjustment mechanisms are applied.

The variable component is subject, on the basis of specific agreements, to ex-post adjustment mechanisms (malus as per point 6.4.2.3 and claw-back as per point 6.4.2.4 below) capable of reflecting performance and capital levels net of the risks actually taken or incurred. Pursuant to the aforesaid provisions, the Company, without prejudice to the right to greater damages, following disbursement of the Bonus accrued, and in accordance with the applicable terms and conditions, may request the refund of the Bonus paid, regardless of whether the beneficiary's employment is still on-going or has been terminated.

6.4.1 The Bonus Pool

The total amount of the variable component to be paid to the Bank's personnel ("**Bonus Pool**") is based on actual, long-term results and also takes into account financial and non-financial qualitative and quantitative targets, including those established by the business plan approved by the Board of Directors and indicated by the annual budgets, and the RAF. The Bonus Pool, both the granted one and the one actually paid, is sustainable in terms of the Bank’s financial situation, and does not limit the Bank’s ability to maintain or reach a level of capitalisation in keeping with the risks taken. If it is necessary to increase the level of capital, the Bonus Pool may be reduced and/or ex-post adjustment mechanisms may be applied.

Specifically, the “bonus pool” can only be distributed if the Bank’s gross earnings are positive. The “gross earnings” considered in this respect are the consolidated gross earnings of the Group for the year (if necessary adjusted to ensure their comparability with previous years’ figures) as represented in the Directors’ Report submitted to the Bank’s Board of Directors (“**Gross Earnings**”).

Furthermore, the indicators of company-level performance - to which the distribution of the variable component under the Bonus Pool is subject - are as follows:

- **CONDITION FOR DISTRIBUTION** - distribution of the Bonus shall be subject to the achievement of positive Consolidated Gross Earnings, which is a requirement for distribution of the Bonus Pool.

- **CONDITION FOR ACCESS** - satisfying the Key Risk Indicators (“KRIs”), which are equally weighted and envisaged in the RAF for the reference year, in the three-year period 2017/2019: **Common Equity Tier 1 - CET1 and Liquidity Coverage Ratio - LCR**.

Failure to reach the first-level threshold, as indicated in the RAF, for even just one of the aforementioned 2 KRIs shall result in the Bank not distributing any Bonus.

The achievement of company-level performance targets is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedures described in the Policies.

The Bonus Pool is calculated as a set percentage (not exceeding 10% of Gross Earnings), when the Bank’s annual budget is defined, and is approved each year by the Bank’s Board of Directors, together with approval of the budget for the year, upon the proposal of the CEO, following consultation with the CFO, the Manager in charge of financial reporting, the Head of the Risk Department and the Head of the Compliance Department. The CEO’s proposal shall be assessed by the Remuneration Committee, which in turn shall submit its opinion to the Board of Directors.

Calculation of the Bonus Pool is also subject to adjustment mechanisms that may result in a reduction, even of a substantial nature, or in the zeroing of the variable remuneration, particularly in the event of much worse results than those established, or of negative results, or if the Bank is not capable of maintaining or recovering a sound capital base. In particular, the Bonus Pool is subject to ex-post adjustment according to the value of the Return on Risk Adjusted Capital (“RORAC”) given in the preceding year's RAF, as detailed below:

- should the RORAC achieved the previous year exceed the target as set out in the RAF, the Bonus Pool shall be distributable in the amount of 150% (the RORAC, CET1 and LCR may not fall below this target, as a result of said greater amount);

- if the RORAC value for the period exceeds the first level threshold specified in the RAF, 100% of the Bonus Pool is distributed;

- if the RORAC value for the period is between the first and second level threshold, 80% of the Bonus Pool is distributed;

- if the RORAC value is below the second level threshold specified in the RAF, the Bank’s Board of Directors shall decide not to pay the Bonuses.

If the Bonus Pool is reduced in accordance with the foregoing criteria, the individual Bonuses, calculated on the basis of individual performance as set out in Annex 2 - Performance Indicators, shall be reduced proportionately for all beneficiaries.

6.4.2 Rules governing the Bonus payable to "key personnel"

As indicated in the Introduction, Banca Sistema, having total assets of less than € 3.5 billion at both separate and consolidated levels, could be considered to be a "smaller bank". However, in virtue of its status as a listed company, and of the EBA guidelines, the Bank has opted to apply the rules relating to "medium-sized" banks under Circular 285, Title IV, Chapter 2.

As a medium-sized bank, therefore, and in accordance with the principle of proportionality, it shall apply the provisions relating to key personnel subject to percentages and to deferral and retention periods that may be reduced to less than half of those set out in the applicable legislation, but in doing so it shall weigh up a prudential alignment criterion also in relation to the provisions of the Corporate Governance Code, for longer deferral in the case of members of the Board of Directors and key management personnel, that are thus extended to all Key Personnel.

The Bank also indicates 25% of average total remuneration of Italian high earners, as indicated in the latest EBA report published for 2019, as being a particularly high level of variable remuneration ([4]).

In 2019, the variable component of remuneration for "key personnel" will be paid as follows upon approval of the financial statements:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;

- for amounts greater than € 30,000 and up to € 435,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;

- for amounts greater than € 435,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The aforesaid limits and parameters are established by the Bank, even though, in accordance with the principles of proportionality set out in Paragraph 7 of Circular 285, Title IV, Chapter 2 - General provisions, governing medium-sized banks, more flexible, less complex terms and proportions may be established in regard to the deferral and balancing of shares and cash.

Please see Annex 3 "Bonus Payment Regulation", and insofar as it applies, the Information Document published in the 'Governance' section of the website www.bancasistema.it, regarding the calculation of the Bank shares to be assigned and the applicable provisions.

[4] Pursuant to Title IV, Chapter 2, Section III, Paragraph 2, no. 4: "*Particularly high variable remuneration means the lower of: i) 25 per cent of the average total remuneration of Italian high earners, as indicated in the latest EBA report; and ii) 10 times the average total remuneration of the Bank's employees. The banks' remuneration policies shall indicate the level of variable remuneration that they consider to be particularly high, and they shall update this figure at least once every three years*". An examination of the EBA Report on figures for the end of 2016 shows that the amount referred to in point i) above is € 435,000.

6.4.2.1 Deferral

The overall timeline of deferral is 3 (three) years, in that a deferred portion of the Bonuses will be paid in the three-year period 2020/2022 in accordance with Annex 3 of the Policies, and it is established by adopting a prudential alignment principle also in relation to the provisions of the Corporate Governance Code regarding longer deferral for members of the Board of Directors and for key management personnel.

6.4.2.2 Retention

The retention period (holding period during which shares cannot be transferred) for the assigned shares is set - prudentially and adopting the more stringent criteria previously referred to in relation to the provisions of the Corporate Governance Code, for members of the Board of Directors and key management personnel - at 12 months, both for shares assigned up-front and for shares assigned subject to deferral.

6.4.2.3 Malus

With a view to allowing the use of suitable ex-post adjustment mechanisms, during the deferral period, whether relating to variable remuneration in cash or shares, the Bank may reduce or cancel altogether the deferred portion of the remuneration to reflect actual performance throughout the whole three-year period, net of risks assumed or incurred, and/or to take into account the Bank's financial and liquidity position or any unexpected situations/extraordinary events (e.g. new risks, unexpected losses) or the beneficiary's individual conduct.

The amount of the reduction (or cancellation) of the deferred portion of variable remuneration shall be decided by the Bank's Board of Directors, on proposal of the Remuneration Committee.

The malus mechanism is specifically applied if during the three-year deferral period, the Bank has not satisfied, for each year of said period, the conditions set out in Annex 2 "Performance Indicators" of these Policies, under point 1 "Distribution and Access Criteria", and in particular the **Condition for Distribution** (distribution of the Bonus shall be conditional upon the achievement of positive Consolidated Gross Earnings by the Group) and the **Condition for Access** (satisfaction of the access criteria at least to the first level threshold indicated in the RAF of the year concerned by the Key Risk Indicators, which are equally weighted: Common Equity Tier 1 - CET1 and Liquidity Coverage Ratio – LCR, as well as exceeding the second level threshold of the RORAC).

The amount of the reduction (or cancellation) of the deferred portion of variable remuneration may be applied in the same circumstances in those cases provided for in relation to the claw-back referred to point 6.4.2.4 below.

Any disciplinary measures adopted during the deferral period shall be taken into consideration for evaluation purposes, in regard to individual conduct as per the first paragraph of this section, in particular conduct implying an impact on the risks actually taken or incurred, or to the following conduct:

- conduct that does not comply with the provisions of law, regulations, Articles of Association or any codes of ethics or conduct that apply to the Bank, which results in a significant loss for the bank or for customers;
- other conduct that does not comply with the provisions of law, regulations, Articles of Association or any codes of ethics or conduct that apply to the Bank, in those cases provided for by the Bank;
- breach of the requirements set out in article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the TUB (Consolidated Law on Banking) or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank.

6.4.2.4 Claw-back

Incentives that have already been granted and/or paid to employees are subject to claw-back (i.e. the incentives granted are no longer paid or those already paid must be refunded) when it is found that the beneficiaries are responsible for or involved in:

- conduct that does not comply with the Remuneration Policies, provisions of law, regulations or Articles of Association that apply to the Bank or with the Code of Ethics adopted, in those cases provided for by the Bank, which result in a significant loss for the Bank or for customers;
- other conduct that does not comply with the Remuneration Policies, provisions of law, regulations or Articles of Association that apply to the Bank or with the Code of Ethics adopted, in those cases provided for by the Bank (including but not limited to the breach of the prohibition to use personal hedging strategies or insurance on remuneration or other elements that could undermine or affect the risk alignment effects embedded in remuneration arrangements);
- breach of the requirements set out in article 26, or, if the employee is an interested party, the breach of the requirements of article 53, paragraph 4 ff. of the TUB (Consolidated Law on Banking) or of the requirements associated with remuneration and incentives;
- fraudulent conduct or gross negligence to the detriment of the Bank.

The period of application of the claw-back clauses for “key personnel” is 5 years, and this period shall run from payment of the single (up-front or deferred) portion of variable remuneration.

6.4.2.5 Specific rules governing the deferred portion of the Bonus

The following are the terms and conditions governing relations between the Bank and the beneficiaries of the Bonuses upon occurrence of certain specific events.

<u>Dismissal, resignation, consensual termination</u>

If a beneficiary is dismissed by the Bank for any reason or leaves the company due to resignation, but excluding retirement or disability, the beneficiary shall lose the entitlement to receive the deferred portion of the Bonus still outstanding at the date of employment termination, unless otherwise decided on justifiable grounds by the Bank’s Board of Directors, on proposal of the Remuneration Committee.

The variable part of remuneration cannot be paid during the notice period, whether worked or not.

In the case of consensual termination of the employment relationship, Beneficiaries are entitled to the variable remuneration accrued, calculated on a “pro-rata temporis” basis, subject to the level of achievement of the pre-established individual and company-level performance targets. The payment of the full amount to the beneficiary is approved by the Board of Directors, subject to the opinion of the Remuneration Committee.

<u>Retirement, disability</u>

The rules governing the consensual termination of the employment relationship shall apply if the Beneficiary gains access to old age pension, contribution-based pension or disability pension rights when this results in the termination of the employment relationship.

<u>Death</u>

In the event of the death of the Beneficiary, his/her heirs, at the opening of the succession, shall be entitled to request payment of the Bonus (accrued but not distributed) still payable to the Beneficiary in accordance with the applicable terms and conditions.

6.4.3 Rules governing the Bonus payable to personnel other than "key personnel"

The variable component of the remuneration payable to personnel other than "key personnel", which must be established and granted subject to the limits of the Bonus Pool on the basis of the criteria referred to in paragraph 6.4.1. above, shall be fully paid up-front and in cash.

In order to allocate the Bonus, the Bank, following approval of the financial statements, sends a letter to the beneficiaries indicating, among other things, the amount paid.

The Bonus granted to personnel other than "key personnel" remains subject to the same claw-back mechanisms referred to in paragraph 6.4.2.4. above that apply to the Bonus for "key personnel".

6.5 Ratio of the variable to fixed components of remuneration

The ratio between the fixed and variable components of remuneration is accurately determined and carefully evaluated in relation to the characteristics of the Bank and of the various categories of personnel.

As a rule, the variable component of remuneration may not exceed 100% of the fixed component (ratio of 1:1). However, as permitted under the applicable legislation and in the Bank's Articles of Association, the Board of Directors may request the Shareholders' Meeting to grant to one or more "key personnel" positions or uniform categories of personnel a variable remuneration in excess of 100% but not exceeding 200% of the fixed remuneration (ratio of 2:1). This applies only in exceptional cases and the reasons for the proposal to exceed the aforementioned ratio must be clearly stated, with indication also of the current and future implications on the Bank's ability to continue to comply with all prudential rules.

In detail, the Board of Directors' proposal to the Shareholders' Meeting will indicate at least the following information: (i) the departments to which those persons affected by the decision belong and their number, for each department; (ii) the reasons underlying the proposed increase; (iii) the implications, even in a forward-looking perspective, for the Company's ability to continue to comply with all applicable prudential rules.

The Board of Directors sends the Bank of Italy:

- at least 60 days prior to the date set for the Shareholders' Meeting's decision, the proposal it intends to submit to the Shareholders' Meeting, together with details and proof of the fact that the higher limit(s) for "key personnel" or for certain categories of such, does/do not prejudice compliance with prudential rules, and in particular those rules regarding requirements concerning own funds;
- without delay, and in any case no later than 30 days after the date on which the Shareholders' Meeting resolved to increase the limit, the Shareholders' Meeting's decision complete with details of the approved limit(s) for each category of personnel concerned.

If the Shareholders' Meeting approves the increased limit, then there shall be no need to submit a new resolution to the Shareholders' Meeting in subsequent years, provided that the underlying premises, on the basis of which the increase was decided, nor the personnel to whom it refers or the amount of the limit itself, do not change. In any case, the remuneration policy contains suitable information about the increase in the previously-agreed limit, and about the reasons why it is not subject to a further decision by the Shareholders' Meeting. The Shareholders' Meeting may however decide, at any time, on a reduction of the limit exceeding

1:1, on the basis of the majorities envisaged for the ordinary Shareholders' Meeting. Within five days of the Shareholders' Meeting's decision, the Bank shall inform the Bank of Italy of the decision taken.

Without prejudice to the derogations provided for by applicable law, the calculation of the limit to the variable/fixed remuneration ratio includes:

- retention bonuses;
- long- term incentive plans;
- discretionary pension benefits;
- the agreements stipulated in anticipation of, or as a result of, early termination of employment ("golden parachute" payments), with the exceptions provided for in paragraph 6.6 below.

6.6 *Golden Parachute payments*

The amount of the payments agreed on in anticipation of, or as a result of, early termination of employment or early exit from office ("golden parachute" payments), is established taking account of the length of service, in accordance with applicable law, and the following principles:

- the safeguarding of the Bank's level of capitalisation;
- no reward for failure;
- the blamelessness of individual conduct;
- consistency with national and international best practices;
- the connection with the role of, and the risks taken by, the person they concern, in keeping with the principles of the Policies.

The golden parachute payments are considered to constitute variable remuneration, and are taken into account for the purposes of the calculation of the 2:1 limit applicable to the ratio between the fixed component and the variable component of remuneration referred to in paragraph 6.5 above, with the exception of:

(i) amounts paid on the basis of a non-compete agreement in regard to the portion which for each year of said agreement, does not exceed the most recent annual fixed remuneration;

(ii) amounts paid within the context of an agreement between the Bank and its personnel for the settlement of an existing or potential dispute, regardless of where such agreement is reached, if calculated on the basis of a predetermined formula: for such purposes, the Bank shall indicate, as the basis for the calculation of these amounts, the sum of the cost of the notice period and the maximum number of monthly salaries established by the applicable National Collective Bargaining Agreement, in relation to the unfair termination of employment, increased by up to 15%;

(iii) voluntary redundancy benefits, including those connected to non-recurring transactions (e.g. mergers) or company reorganisation processes, granted to personnel other than key personnel, provided they meet all of the following requirements: i) they are aimed exclusively at containing company costs and rationalising personnel; ii) they favour compliance with supporting measures provided for by law or by national collective bargaining agreements, for all employees; iii) they do not produce ex-ante distortive effects on the conduct of personnel; iv) they provide for claw-back mechanisms that at the least cover cases of fraudulent conduct or gross negligence to the detriment of the Bank.

The golden parachute payments are subject to ex-post adjustment mechanisms (malus and claw-back), and if made to “key personnel”, are subject to the balancing of cash and shares, and are governed by the deferral and retention conditions. It should be noted that Banca Sistema has not entered into any agreement providing for the assignment of amounts in the event of early termination of employment or early exit from office.

6.6 *Personal data protection*

The Beneficiary expressly authorises the Company, through its own representatives, together with all those persons involved in the management and administration of the Policies, to use his/her personal data in accordance with Italian Legislative Decree no. 196 of 30 June 2003, with EU Regulation 679/2016 on personal data protection, and with other related provisions of law, for the purposes of the Remuneration Policies.

However, it should be noted that any information relating to application of the Remuneration Policies and the relations between the Company and the individual Beneficiaries, is of a strictly confidential nature and may not be disclosed or transferred to third parties, without prejudice to legal obligations.

7. STRUCTURE OF THE REMUNERATION OF SPECIFIC CATEGORIES

7.1 The remuneration of the members of the Board of Directors

The remuneration of the members of the Board of Directors is determined by the Shareholders’ Meeting, and consists in a fixed annual amount for each Director. Directors are paid a fee of different amounts for the Chairperson of the Board of Directors, the CEO and the Directors, as resolved by the Board of Directors.

With the exception of the Chairperson of the Board of Directors and the CEO, each member of the Board of Directors is paid an additional fixed annual fee for each internal Committee they are members of, plus the reimbursement of documented expenses incurred in relation to their offices. Furthermore, each member of the Board of Directors receives an attendance fee for each meeting of the Board of Directors he/she attends in person.

The fee paid to the Chairperson of the Board of Directors, proportional to the role assigned, is determined ex ante for a value not exceeding the fixed remuneration received by the CEO.

The CEO receives a fee determined by the Board of Directors. Furthermore, as General Manager, and thus as an employee of the Bank, he/she receives a gross annual remuneration, determined again by the Board of Directors, in addition to the series of benefits for which the Bank’s senior managers are eligible, as specified in paragraph 6.4.

Any variable component of the remuneration paid to the CEO is subject to the provisions of paragraph 6.4 and of Annexes 2 and 3, as well as to the rules applying to the Bonus Pool.

No incentive schemes are provided for non-executive directors. Where established, these schemes would not represent a significant part of remuneration. In such case, the financial instruments used to pay the variable component are subject to retention until expiry or termination of the term of office. For the sake of completeness of information, it should be noted that renewals do not constitute a case of expiry of the term of office.

The remuneration due to employees who hold offices as directors in subsidiaries and/or associated companies is included in the remuneration they receive as employees of the Group.

7.1.1 Non-compete agreement between the Bank and the CEO

Banca Sistema has signed a non-compete agreement with the CEO, pursuant to and for the purposes of Article 2125 of the Italian Civil Code. The amount related to such agreement is calculated for the purposes of the limitation on the ratio of fixed to variable components of remuneration (see paragraph 6.5). In relation to the aforesaid non-compete undertaking, it has been agreed that for each of the three years following the exit from office, the CEO will receive 25% of the value of the gross annual salary received in the last year of office, including any flexible benefits granted. Therefore, in accordance with the rules established, such payments shall not be included in the calculation of the 1:1 ratio of fixed to variable remuneration.

The foregoing amount will be calculated from the date the relationship is terminated, and the settlement of the sum shall be deferred to the end of the month preceding the last month of the non-compete undertaking (that is, at the end of the three-year non-compete period). In the event of breach of the foregoing non-compete undertaking, the CEO shall immediately repay a sum amounting to overall cost incurred by Banca Sistema in payment of the non-compete undertaking and shall also immediately pay, as a contractual penalty pursuant to articles 1382 ff. of the Italian Civil Code, a net amount equal to 35% of the gross annual salary received in the last year of office, inclusive of flexible benefits. Furthermore, should any of the additional undertakings of the agreement be breached (e.g. information, confidentiality, staff poaching), the CEO shall be required to pay a net penalty for each breach, pursuant to articles 1382 ff. of the Italian Civil Code, equal to 20% of the gross annual salary received in the last year of office, inclusive of flexible benefits.

7.2 The remuneration of the members of the Board of Statutory Auditors

The remuneration paid to the members of the Board of Statutory Auditors is of a fixed nature only, and the entity of such remuneration is established by the Shareholders’ Meeting at the time of appointment, and is valid for the entire term of office.

7.3 The remuneration of the members of the Bank’s Control Departments, Human Resources Department, and Manager in charge of financial reporting

In the case of personnel employed in the Bank’s Control Departments and Human Resources Department, and of the Manager in charge of financial reporting, the variable component of remuneration is limited, and granting of the Bonus is subject to the achievement of targets consistent with the duties assigned to the departments, in particular with corporate sustainability targets (e.g. cost containment, strengthening of capital, etc.) provided that they do not result in possible conflicts of interest, that are in no way linked to the Bank’s financial performance and are independent of the results achieved by those areas under their control.

For key personnel in the Control Departments and in the Human Resources Department, and for the Manager in charge of financial reporting, fixed remuneration is commensurate with key responsibilities and with the commitment associated with the role performed.

The variable component of the remuneration payable to personnel of control departments may not exceed the limit of 1/3 (one-third) of the fixed component.

The Bank’s control departments include the Internal Audit Department, the Risk Department, and the Compliance and Anti-Money Laundering Department.

ANNEX 1

KEY PERSONNEL IDENTIFICATION AND EXCLUSION PROCESS

1. “Key personnel” identification process

The process of identification of “key personnel” referred to in paragraph 4 of the Policies, is carried out by the Bank annually and involves various corporate bodies. This process enables all the rules and criteria to be applied on the basis of the actual capacity of individual members of personnel to impact the Bank’s and Group’s risk profile.

The Human Resources Department coordinates the process of identification and exclusion of “key personnel”, with the support of the Bank’s control departments, and it submits the results of this process to the Board’s internal Committees, as identified by paragraph 3 of the Policies.

More specifically, the Human Resources Department, bearing in mind the criteria established by the RTS, gathers all the necessary information, including that relating to the personnel of the Group’s companies, in order to conduct relevant analyses.

The Human Resources Department then prepares a list of persons who could be classified as “key personnel” (the “**List**”), accompanied by a brief evaluation of the aforementioned criteria, the number of persons identified for the first time, the roles and responsibilities of such personnel, and the comparison with the results of previous evaluations conducted for the previous year, which shall be promptly transmitted to the Risk Department, the Compliance Department, the Internal Audit Department and, together with any observations made by them, to the Remuneration Committee, in order to collect any amendment proposals.

The process of identification of “key personnel” conducted by the Bank shall actively involve the Group’s companies, which shall provide the necessary information and comply with the instructions received.

Once the control departments’ contributions have been received, together with those of the Remuneration Committee, said contributions shall be processed and formalised by the Human Resources Department in a single document containing the proposed List. The proposed List is then sent by the Remuneration Committee to the Board of Directors to be duly assessed and decided on.

The Bank’s Board of Directors:

- approves the List, re-examines it regularly, and approves any derogations;
- is involved in, and constantly monitors, the process.

In this respect, the “key personnel” category includes key management personnel, namely, those persons who have direct or indirect powers and responsibilities over the planning, management and control of the Bank’s business activity. Key management personnel include the Bank's directors (executive and non-executive).

In accordance with the quantitative and qualitative criteria set out in the RTS, the further criteria described above, and on the basis of an evaluation of the various risk levels regarding the Group’s different businesses activities, a total of 32 positions have been identified for 2019, falling into the following categories:

A. Directors who hold executive offices

- Directors who hold executive offices in the Parent Company (one position)[5];

B. Non-executive Directors

- Directors who do not hold executive offices in the Parent Company (8 positions);

C. Managers of key company departments (9 positions)

- Central Commercial Department
- Central Commercial Factoring Department
- Central Commercial Collateralised Lending Department
- Central Credit Department
- Central Finance Department
- Central Operations Department
- Legal Department
- Corporate Strategy Department
- Institutional Relations Department

D. Managers and other high ranking staff members of the Control Departments and the Human Resources Department, and the Manager in charge of financial reporting (5 positions);

- Internal Audit Department
- Risk Department
- Compliance and Anti-Money Laundering Department
- Manager in charge of financial reporting
- Human Resources Department

E. Other "risk takers" (9 positions)

- Treasury Department
- Operations Department
- Investor Relations Department
- Preliminary Credit Assessment and Disbursement Department
- Out-of-Court Collection Department
- Legal Collection Department
- ICT Department
- Pricing & Structuring Department
- Chief of Staff

([5]) The CEO also holds the office of General Manager.

2. Exclusion from the category of key personnel

Following the procedure illustrated above, which is conducted bearing in mind the quantitative criteria set out in the RTS ([6]), the Board of Directors, on the proposal of the Remuneration Committee, may decide that certain identified persons are not to be considered "key personnel".

In such event, following the decision of the Board of Directors taken also on the basis of analyses conducted by the Human Resources Department, with the support of the Risk Department, the Compliance Department, the Internal Audit Department and the Remuneration Committee, the Bank of Italy shall be sent the authorisation notification or request promptly, and in any event no later than six months after the end of the previous financial year, pursuant to and for the purposes of Circular 285, paragraph 6.1 "Key Personnel exclusion procedure".

With regard to the financial year 2019, the Bank has decided not to apply the exclusion procedure for any member of personnel identified as "key personnel". Therefore, this category shall remain as previously mentioned.

[6] Paragraph 1 of Article 4 of the RTS establishes that: "*Subject to paragraphs 2 to 5, staff shall be deemed to have a material impact on an institution's risk profile where any of the following quantitative criteria are met: (a) the staff member has been awarded total remuneration of EUR 500 000 or more in the preceding financial year; (b) the staff member is within the 0.3 % of the number of staff, rounded up to the next integer, who have been awarded the highest total remuneration in the preceding financial year; (c) the staff member was in the preceding financial year awarded total remuneration that is equal to or greater than the lowest total remuneration awarded in that financial year to a member of senior management or meets any of the criteria in points (1), (3), (5), (6), (8), (11), (12), (13) or (14) of Article 3*".

ANNEX 2

PERFORMANCE INDICATORS

This Annex describes the individual and company-level performance indicators to which granting of the variable remuneration (“**Bonus**”) is linked, following the definition of the Bonus Pool in accordance with the Bank’s Remuneration Policies Document.

The Bank uses these indicators to measure performance and subsequently to calculate individual Bonuses. With regard to “key personnel”, the indicators are also used as ex-post adjustment mechanisms (malus) for the evaluation of performance during the deferral period, and in particular to establish whether the beneficiary shall be entitled to the initially granted Bonus, at the end of said period. As specified in the Policies, the application of malus mechanisms could result in a reduction, even of a substantial nature, or in the zeroing of the Bonus, particularly in the case where company-level or individual performance is significantly below the set targets.

Total variable remuneration resulting from individual incentives may not exceed the amount of the Bonus Pool in any case. If this value is exceeded, the individual incentives are reduced pro-quota to eliminate any amount in excess of the Bonus Pool.

1. Distribution and Access Criteria

The indicators of company-level performance - to which the distribution of the variable component under the Bonus Pool is subject - are as follows:

CONDITION FOR DISTRIBUTION - distribution of the Bonus Pool is subject to the achievement of positive Consolidated Gross Earnings.

CONDITION FOR ACCESS - satisfying the Key Risk Indicators (“KRIs”), which are equally weighted and envisaged in the RAF for the reference year, in the three-year period 2017/2019: **Common Equity Tier 1 - CET1 and Liquidity Coverage Ratio - LCR**.

Failure to reach the first-level threshold, as indicated in the RAF, for even just one of the aforementioned 2 KRIs shall result in the Bank not distributing any Bonus.

The achievement of company-level performance targets is assessed by the Board of Directors, with input from the Remuneration Committee, in accordance with the procedures described in the Policies.

2. Assignable targets

After verifying the satisfaction of the distribution and access conditions, the bonuses will be calculated on the basis of the results actually achieved relative to each target set in the bonus sheet defined for the key personnel in the year considered.

In fact, at the beginning of the year, all beneficiaries of the incentive system are assigned specific quantitative and qualitative “Business” targets linked to their Department and/or Business Line/Division.

The performance appraisal process is carried out yearly as follows: the Bank’s employees log onto their personal account on the Banca Sistema HR web portal http://studioripamonti.zucchetti.com/HRPortal/ and share the quantitative and qualitative targets for the year with their direct heads.

Each quantitative and qualitative target is assigned a percentage weight, indicating its importance, and includes a precise description of the performance standards in terms of methods, timeframes and content so as to enable the accurate appraisal of the results achieved.

Examples are given below of some of the indicators used, based on the different roles involved in each category of targets linked to the Bank's performance, the performance of the Department and/or Business Line/Division and the beneficiary's own managerial and professional activities.

2.1. Targets linked to the Bank's performance

The targets set for the assessment of the Bank's performance are linked to the following indicators:

- **Profitability of the Bank** (determined by means of any one of the following alternative indicators: consolidated gross earnings at Group level, ROE/RORAC, Cost/Income, Risk profile/RWA Density, etc.), having an overall weight of at least 30% relative to the overall score of the targets;
- **Growth of the Bank** (determined by means of any one of the following alternative indicators: growth vs. budget of total income, market shares, etc.), having an overall weight of at least 30% relative to the overall score of the targets;
- **Increase in the value of the Bank** (determined by means of any one of the following alternative indicators: increase in the value of the Bank's shares, sustainability indicators, accomplishment of the business plan or specific company projects, development of human capital, etc.).

2.2. Targets linked to the performance of the Beneficiary's Department and/or Business Line/Division (the tool's "targets sheet"):

Meeting the budget targets set for the Department/Business Line/Division: these targets can mostly be measured in quantitative terms, primarily linked to **sales volumes**, **credit facilities granted**, **containment/reduction of costs**, **profitability and overall capital**, **risk assessment** on individual business dealings, etc., especially where a measurable quantitative or qualitative indicator exists or in relation to which precise performance standards can be described (e.g. sales volumes vs. budget, annual savings on cost funding vs. budget, containment of consultancy costs, reducing overtime, reducing maintenance and management costs, etc.).

Managing and reducing risks: capital and liquidity indicators at division/business line level, cost of risks, Risk profile/RWA Density, again at division/business line level, projects and actions implemented to reduce risks, NPE ratio, etc.

Value creation: these targets measure the **value added** of a new product or new service, the correct performance of a company process or its redesign, the growth and enhancement of the Bank's technical and human resources (e.g. the contribution of marketing activities to the achievement of the factoring target, revenues from new products, the timely management of complaints, the professional growth of collaborators).

Management of operations: these targets are linked to increasing **customer satisfaction**, internal and external, and to actions that improve the **effectiveness of internal management of operations** (e.g. timeliness of reporting adjustments to the budget, number of applications priced/headcount, timeliness in closing Open Issues reported by the control departments, correct and timely performance of management processes linked to the human resources allocated).

Increased efficiency: These targets are based on a comparison with the same activities performed in the previous years in connection with **increasing the overall performance of the Bank** (e.g. reducing the percentage of operating errors, increasing the equivalent advertising value, compliance with project completion timelines, reducing the completion time of business processes, etc.).

Management of the technical and human resources allocated: these targets are linked to the **improved management of human resources**, for example: the creation of a constructive working environment, the growth of talent and the best allocation and development of professional skills, the dissemination and capitalisation of company knowledge, effectiveness and awareness in the use of company tools and processes, also with a view to minimising costs.

2.3. Targets linked to individual managerial and professional activities

The individual qualitative targets assigned through the “performance sheet” of the tool are linked to the beneficiary's contribution to the financial results, customer relations (internal and external), organisational and managerial skills and personal qualities, each divided into 2 specific competencies, which provide a detailed description of the targets and are included in the performance sheet on the aforementioned website.

There are 4 performance levels:

a) exceeds the requested level;

b) adequate for the position held;

c) room for improvement for the position held;

d) well below expectations for the position held.

The assessment of these targets determines the overall performance score which each Manager assigns annually to each direct report and adds to the appropriate section of the tool. The overall score, which is based on the level of achievement of the individual and business targets described above, is supplemented with the assessment of:

- the observance and respect of the “values” that underpin the Bank’s activity, in compliance with the applicable regulations and the Group’s Code of Ethics;
- appropriateness of customer retention and customer relationships;
- professional ability and skills;
- constant dedication to work, cooperation with co-workers and teamwork;
- the ability to find effective and possibly innovative solutions, whilst continuing to pursue the objectives of sound and prudent management of the Bank and its value over the long-term;
- the tendency to take responsibility for decisions and the timely achievement of the identified individual targets;
- the ability to use resources efficiently, to involve and motivate collaborators and make sensible use of delegation to promote growth;
- the containment of legal and reputational risks.

* * * * *

3. Performance of the CEO/General Manager

The Bonus awarded to the CEO/General Manager is subject to the Bank meeting the abovementioned performance targets (see the distribution and access criteria).

If the aforesaid targets and requirements are satisfied, the payment of the Bonus is subject to the assessment of the achievement of the targets linked to a number of alternative indicators, as per the examples below, which are weighted accordingly in percentage terms relative to the overall targets:

- **Profitability of the Bank** (determined by means of any one of the following alternative indicators: consolidated gross earnings, ROE/RORAC, Cost/Income, etc.), having an overall weight of at least 30% relative to the overall score of the targets;
- **Growth of the Bank** (determined by means of any one of the following alternative indicators: growth vs. budget of total income, market shares, etc.), having an overall weight of at least 30% relative to the overall score of the targets;
- **Increase in the value of the Bank** (determined by means of any one of the following alternative indicators: increase in the value of the Bank's shares, sustainability indicators, risk profile, level of accomplishment of the business plan or specific company projects, development of human capital, etc.).

The granting of the CEO's Bonus is also subject to meeting the target threshold of the **adjustment criteria** (Key Risk Indicators, hereinafter **KRIs**) provided for in the RAF of the reference year:

- **Common Equity Tier 1 ratio (CET1)**
- **Liquidity Coverage Ratio (LCR)**

If the target threshold indicated in the RAF approved by the Bank's Board of Directors is not achieved, even in relation to one only of the 2 KRIs specified, and provided that the first level threshold has been met, the overall variable component of remuneration payable to the CEO/General Manager shall not exceed 80% of the fixed component of remuneration payable.

The targets assigned to the CEO/General Manager are assessed on the basis of the following thresholds:

- **threshold** means achieving at least 80% of the targets linked to the Bank's profitability, growth and increase in value;
- **overperformance** means achieving more than 120% of the targets linked to the Bank's profitability, growth and increase in value.

The Bonus is measured, for each of the three targets, as follows:

- threshold = 50% of Gross Annual Salary,

- target = 100% of Gross Annual Salary,

- overperformance = 200% of Gross Annual Salary.

The Bank's Board of Directors assesses the CEO's level of achievement of the targets upon approval of the financial statements relating to each year.

4. Targets set for other "key personnel"

The targets set for other "**key personnel**" are:

- Targets linked to the Bank's performance, to an extent not less than 30% of the overall targets sheet,
- "Business" targets linked to the performance of the Beneficiary's Department and/or Business Line/Division, not less than two targets and having an overall approximate weight of at least 30% relative to the overall targets sheet,
- Individual targets linked to the Beneficiary's managerial and professional activities, not less than two targets and having an overall approximate weight of at least 40% relative to the overall targets sheet.

These targets, and the indicators and weightings described above, are defined by the CEO/General Manager for his/her own direct reports, who, in turn, may apply them to any of their own "key personnel" direct reports.

Targets linked to the Bank's performance are identical for all direct reports of the CEO. The targets linked to the performance of the Department and/or Business Line/Division are likewise defined by the CEO/General Manager and are assigned to all key personnel of the Department/Business Line/Division concerned.

The **heads of the control departments** have access to the variable incentive system described in these Policies but in such case, the incentive mechanisms are in line with the duties assigned and are not linked to the results achieved by any of the areas controlled by them. Therefore, bonuses linked to financial results are excluded. For the **Manager in charge of financial reporting** and the **Head of Human Resources**, the award of the variable component of remuneration is subject to meeting the sustainability targets (e.g. cost containment, strengthening of capital) and with prior verification that this will not give rise to conflicts of interest.

For all beneficiaries, the targets are described, assigned and appraised in the "targets sheet" of the aforementioned tool. For qualitative targets which cannot be measured directly, the required performance standards and the processes followed to assess achievement levels must be communicated in advance.

Deviations from the target are defined in relation to each department-level and individual target.

The Bank's Board of Directors will assess the level of bonus achievable by key personnel, based on the level of overall achievement of the Bank's targets, upon approval of the financial statements relating to each year considered in the Regulation.

5. Targets set for other employees

For the remaining employees - pursuant to the relevant National Collective Bargaining Agreement and in line with the principles and instruments described in the Policies - the Bank may assign "Business" targets linked to the performance of each employee's Department and/or Business Line/Division (not less than one and with an approximate weight of 30%), as well as individual targets linked to their managerial and professional activity (not less than two) - to be assigned and documented through the "targets" sheet of the tool - and individual performance targets ("performance" sheet of the tool).

ANNEX 3

Bonus Payment Regulation

Introduction

This document ("Regulation") sets out in detail the rules governing the assignment and award of the variable component of remuneration (hereinafter, "**Bonus**") to the Group's "key personnel". Pursuant to the rules defined in these Policies, the Bonus is subject to deferral mechanisms and to the assignment of financial instruments/shares of the Bank, in accordance with the relevant provisions herein.

1. Definitions

The following capitalised terms and expressions (and their grammatical inflections) shall have the meaning shown beside each term. The terms and expressions defined in the masculine shall be treated as including any female terms, and those defined in the singular shall be treated as referring also to the plural.

Shares	The ordinary shares of Banca Sistema, giving regular dividend rights and having a nominal value of € 0.12 each.
Assignment	The entitlement to a hypothetical Bonus amount for 2019, irrespective of when the amount will be paid. The entitlement is formalised in the letter of assignment.
Award	The actual award - subject to verification of the achievement of the performance targets (company, business line / Department and individual targets) specified in the Remuneration Policies for each reference Cycle - of the Cash or Shares to be awarded to each Beneficiary for each Cycle, as resolved by the Board of Directors at the end of the reference period.
Banca Sistema or Bank	Banca Sistema S.p.A. having registered office in Milan, Largo Augusto 1/A, at the corner of Via Verziere 13, 20122, registered with the Milan Companies' Register under No. 12870770158.
Beneficiaries	Key Personnel.
Bonus Pool	The maximum total amount which the Bank can pay out as variable remuneration to all categories of personnel, as established by the Bank's Board of Directors.
Bonus	The variable component of remuneration for 2019 - as provided in the Policies - consisting of a portion in Cash and a portion in Shares.
Transfer	Any transfer, including but not limited to, the sale, donation, pledge, usufruct, contribution or exchange of the shares, the granting of a beneficial interest on them or the forced sale of the shares, or any other form of disposal (free of charge or at a cost), which directly or indirectly transfers to a third party the ownership of the Banca Sistema ordinary shares or any associated right.
Cycle	Each financial year in which the payment of the variable

	component of remuneration is deferred, as set out in the 2019 Policies: - 1st Cycle: 01/01/2020 - 31/12/2020 (the 1st Cycle ends on the date of approval of the 2020 consolidated financial statements); - 2nd Cycle: 01/01/2021 - 31/12/2021 (the 2nd Cycle ends on the date of approval of the 2021 consolidated financial statements); - 3rd Cycle: 01/01/2022 - 31/12/2022 (the 3rd Cycle ends on the date of approval of the 2022 consolidated financial statements).
Circular 285	The supervisory provisions for banks, as adopted in Circular No. 285 of 17 December 2013, as amended.
Corporate Governance Code	The Corporate Governance Code of listed companies, as amended, which is promoted by Borsa Italiana S.p.A. and adopted by the Corporate Governance Committee in March 2006.
Remuneration Committee	The Committee set up by Banca Sistema in implementation of the recommendations set out in the Corporate Governance Code and in Circular 285.
Board of Directors	The Board of Directors of Banca Sistema.
Remuneration Policies Document or Policies	The Document containing the remuneration policies of the Banca Sistema Group, which was approved by the Board of Directors for the year 2019.
Banca Sistema Group or Group	Banca Sistema and the companies over which it has or may in the future have direct or indirect control pursuant to Article 2359 of the Italian Civil Code and to Section 93 of the Consolidated Law on Finance (TUF).
Permanent disability	Any medically certified condition which permanently impairs the Beneficiary's ability to work and that leads to the termination of the employment relationship.
Letter of Assignment	A specific letter notifying the Beneficiary of the hypothetical Bonus entity and the terms and conditions subject to which the Bonus is granted.
Award Letter	A specific letter by means of which Banca Sistema notifies the Beneficiary of: (i) the actual Bonus amount paid in Cash (by bank transfer to the account registered in the Beneficiary's name); (ii) the actual number of Shares awarded (deposited in an administered time deposit account); (iii) the Deferral Period; (iv) the Retention Period applicable to the Shares awarded.
Key Personnel	The employees indicated specifically in the Policies.

Retention period	The period during which the Beneficiary undertakes not to Transfer the awarded Shares.
Price of Shares	The price of Shares determined on the basis of the arithmetic average of the official prices achieved by the Banca Sistema shares on the MTA Italian Equities Market - STAR segment in the three months prior to the date on which the Board of Directors resolves on the free Award of the Shares.

2. Subject matter and purpose of the Regulation

The Regulation contains detailed rules on the Assignment and subsequent Award of the deferred Bonus to the Beneficiaries (in Cash and in Shares) in accordance with the Policies, subject to meeting the company-level and individual performance targets, as described and measured in the Policies referring to each Cycle.

By implementing the Regulation, Banca Sistema, in addition to the fulfilment of legal obligations, intends to promote and pursue the following objectives:

- to link the remuneration awarded to Beneficiaries to the actual performance of the Company and to the creation of new value for the Banca Sistema Group, in line also with the objectives pursued in the Corporate Governance Code for Listed Companies;
- to direct the efforts of “key personnel” toward the creation of value and the adoption of strategies oriented towards medium-long term results;
- to align the interests of Beneficiaries with those of shareholders and investors;
- to adopt retention policies aimed at increasing the loyalty of the Beneficiaries and incentivising them to stay with the Bank or within Banca Sistema Group;
- to motivate and increase the loyalty of the Bank’s existing management and develop the Bank’s ability to attract potential new managers, in accordance with practices in use in the banking sector.

3. Assignment and Award of the Bonus

The Assignment of the Bonus is subject to the satisfaction of the bonus distribution and access conditions described in the Policies and also to meeting the specified performance targets, at both company and individual level, as set out in the Policies referring to each Cycle.

The Beneficiary, at the time of the Assignment and/or Award of the Bonus, must meet the following requirements:

- have a permanent employment contract with the Company and not have taken a period of extended leave;
- not have given notice of resignation;
- not have been given notice of dismissal;
- not have mutually agreed to terminate the employment relationship.

For the purposes of the variable component of remuneration and of determination of the amount of the Bonus to be distributed, please refer to the Policies.

Beneficiaries are informed of the ways in which the Bonus will be assigned in the Letter of Assignment, while the actual payment of the Bonus is communicated in the Award Letter, to be sent out within 60 days of approval of the consolidated financial statements.

The Shares awarded in accordance with these Policies give regular dividend rights, and the Beneficiaries become the holders of all the related administrative and ownership rights on award of the Shares, without prejudice to the provisions specified hereinafter.

At the discretion of the Board of Directors, the Award of Shares may take place using shares purchased and/or held by Banca Sistema.

For the calculation of the number of Shares to be awarded to each Beneficiary, see the Information Document published in the Governance section of the Bank's website (www.bancasistema.it).

Subsequent to verification that the performance targets referring to each Cycle have been met, the Board of Directors determines the number of Shares to be assigned to each Beneficiary at the end of each Cycle, taking into account the Price of the Shares.

The part of the Bonus paid in Shares shall be awarded to the Beneficiary via an intermediary authorised by the Bank and shall be held in a securities deposit account (a time deposit during the Retention Period) which the Beneficiary will open at the Bank in accordance with the instructions received from the Bank. The costs associated with the foregoing transactions shall be borne by the Bank. By the last day of the month in which the Bonus is awarded in Shares, the Beneficiary shall pay the Bank an amount sufficient to cover any withholding taxes and/or contributions due from the Beneficiary. If such a sum is not received from the Beneficiary, the Bank may deduct this from other amounts due to the Beneficiary for any reason, including salaries. The costs associated with the transfer or sale of the Shares subsequent to the Award of the Bonus in Shares shall be borne by the Beneficiary.

It is understood that Beneficiaries shall maintain, *mutatis mutandis*, the rights acquired under this Regulation if the individual employment relationship is transferred by the Bank to another company of the Group or terminated to take employment with another company of the Group.

4. Deferral and Retention Periods

In accordance with Circular 285 and the EBA guidelines, the Regulation accompanying the Policies provides for a variable Deferral Period and Retention Period, depending on the value of the Bonus awarded.

Save as provided in the rules governing the Bonus Deferral Period and Retention Period, the payment of the Bonus is subject to the provisions of paragraph 6.4.2 of the Policies - "*Rules governing the Bonus payable to "key personnel".*

Dividends and interest accruing in the Deferral Period associated with the Shares awarded cannot be paid to the Beneficiary during said Period or at the end of said Period.

The Retention Period for the Shares awarded is 12 months from the Award date, for both Shares awarded up-front and Shares awarded after the Deferral Period.

Shares shall continue to be subject to the Retention Period even if the employment contract is terminated, except in the case of death or permanent disability of the Beneficiary; in these cases the Retention Period shall not apply.

Shares that are subject to a Retention Period remain in a time deposit at the Bank for the entire Retention Period.

Dividends and interest accruing in the Retention Period are credited to the aforesaid time deposit. The resulting amounts shall be released together with the Shares at the end of the Retention Period.

The Bank reserves the right to use other Share deposit methods in order to improve the contributory, tax or financial effects of the Policies for the Company, in accordance with the applicable provisions of law.

The Shares will become freely tradable at the end of the corresponding Retention Period.

5. Restrictions on the transfer of the entitlement to the free assignment of the Shares

The entitlement to be assigned the Shares is personal, granted to the named person and cannot be transferred or traded (except to heirs in the case of death). Any attempted or completed transfer shall be invalid, and in any case ineffective vis-à-vis the Company.

6. General provisions

6.1 *Management and administration of the financial instruments*

The Board of Directors approves this document without prejudice to the rights of the Bank's Shareholders' Meeting with regard to share plans and other similar plans. Resolutions adopted by the Board of Directors on the interpretation and application of the Regulation are final and binding for all parties concerned.

The Bank's Board of Directors is responsible for the management of any financial instruments awarded and assigned under this Regulation and has all-encompassing operating powers in this respect, which may be delegated.

6.2 *Costs and tax-contribution system*

Beneficiaries shall bear the cost of any taxes and contributions due in connection with:

- the award of the Shares,
- the ownership of the Shares,
- the transfer of Shares.

Banca Sistema shall act as the withholding agent in all cases envisaged by law, withholding the required taxes and contributions in accordance with the applicable laws. The Beneficiary undertakes to provide Banca Sistema with all the information the Bank requires in order to properly fulfil its duties as withholding agent, including any information that Banca Sistema itself requests, both during the employment relationship and after termination of such.

6.3 *Employment relationships*

Access is voluntary and involves no obligation on the Beneficiary's part to maintain the employment relationship, nor shall it give rise to any entitlement or expectation, present or future, including expectations of an "economic" nature which - directly or indirectly - arise out of, or in connection with, any relationship existing between the Beneficiary and the Bank.

All benefits arising out of the Regulation shall be of an extraordinary nature and shall have no effect whatsoever on or in relation to the calculation of direct and indirect components of salary, which are governed by law and by the collective bargaining agreements.

6.4 *Amendments*

Without prejudice to the responsibilities of the Shareholders' Meeting pursuant to the Provisions and the Policies, the Board of Directors may at any time amend this Regulation as it deems appropriate, also in order to render it compliant with the applicable laws at the time.

The Board of Directors is vested with the necessary and/or appropriate powers to fully implement the rules under this Regulation, subject to the applicable laws and regulations and, in particular, Circular 285.

The Board of Directors will notify the Beneficiaries of any amendment within 10 business days from the date of approval of such amendment.

6.5 *Communications*

Without prejudice to the specific prescriptions of this annex, all communications between Banca Sistema and the Beneficiary regarding this Regulation must be made in writing and delivered by registered letter with return receipt or by hand and signed for by the recipient, and shall be construed as having been delivered on the date the communication is received by the addressee. Communications are to be addressed to:

- the registered office, for communications sent to Banca Sistema;
- the employee's address, as registered with Banca Sistema, for communications sent to the Beneficiary concerning the employment relationship and the position held.

All documents requiring delivery under this Annex should be forwarded to the foregoing addresses.

6.6 *Personal data protection*

The Beneficiary expressly authorises the Company, through its own representatives, together with all those persons involved in the management and administration of the Plan, to use his/her personal data in accordance with EU Regulation 679/2016 on personal data protection, and with other related provisions of law, for the purposes of this document.

However, it should be noted that any information relating to this annex and the relations between the Company and the individual Beneficiaries, is of a strictly confidential nature and may not be disclosed or transferred to third parties, without prejudice to legal obligations.

6.7 *Acceptance*

By signing the document "Acceptance of the Remuneration Policies and the specific Agreements", the Beneficiaries express their full acceptance of the provisions and the terms and conditions provided for and governed therein.

6.8 *Specific events*

See the Policies for the rules governing dismissal, resignation, consensual termination, retirement, disability and death.

6.9 *Governing law*

The Regulation is governed by Italian law and shall be interpreted accordingly.

6.10 *Jurisdiction*

Any dispute arising out of or relating to this document shall be referred to the exclusive jurisdiction of the Court of Milan.

BANCA
SISTEMA

INFORMATION DOCUMENT ON STOCK GRANT PLAN OF THE BANCA SISTEMA GROUP, DRAWN UP IN ACCORDANCE WITH ART. 114–BIS OF LEG. DECREE 58/98 AND ART. 84-BIS OF REGULATION 11971, AS APPROVED BY CONSOB RESOLUTION DATED 14 MAY 1999, AS SUBSEQUENTLY AMENDED

2019 UPDATE

Milan, 1 March 2019

Banca SISTEMA S.p.A.
Corso Monforte, 20 - 20122 Milan
Tel +39 02 802801 Fax +39 02 72093979
Tax Code and VAT number 12870770158
Fully paid-up share capital € 9,650,526.24
Parent company of Banca Sistema banking group – No. 3158 in the Register of Banking Groups
Register of Banks – ABI No. 03158.3 and subject to the supervisory activity of the Bank of Italy
Member of the Interbank Deposit Protection Fund and National Guarantee Fund

bancasistema.it

Definitions

In addition to the terms defined in other paragraphs of this information document, the following terms and expressions shall have the meaning shown beside each term:

Shares	The ordinary shares of Banca Sistema, giving regular dividend rights and having a nominal value of € 0.12 each.
Assignment	The granting of the potential amount of the Bonus for 2019, irrespective of when the amount will be paid. The entitlement is formalised in the Letter of Assignment.
Award	The actual award - subject to verification of the achievement of the performance targets (company, business line / Department and individual targets) specified in the Remuneration Policies for each reference Cycle - of the Cash or Shares to be awarded to each Beneficiary as resolved by the Board of Directors at the end of the reference period.
Banca Sistema or Bank	Banca Sistema S.p.A. having registered office in Milan, Largo Augusto 1/A, at the corner of Via Verziere 13, 20122, registered with the Milan Companies' Register under No. 12870770158.
Beneficiaries	Key Personnel
Bonus Pool	The maximum total amount which the Bank can pay out as variable remuneration to all categories of personnel, as established by the Bank's Board of Directors.
Bonus	The variable component of remuneration for 2019 pursuant to the Policies, consisting of a portion in Cash and a portion in Shares.
Transfer	Any transfer, including but not limited to, the sale, donation, pledge, usufruct, contribution or exchange of the shares, the granting of a beneficial interest on them or the forced sale of the shares, or any other form of disposal (free of charge or at a cost), which directly or indirectly transfers to a third party the ownership of the Banca Sistema ordinary shares or any associated right.
Cycle	Each financial year in which the payment of the variable component of remuneration is deferred, as set out in the 2019 Policies. - 1st Cycle: 01/01/2020 - 31/12/2020 (the 1st Cycle ends on the date of approval of the 2020 consolidated financial statements);

	- 2nd Cycle: 01/01/2021 - 31/12/2021 (the 2nd Cycle ends on the date of approval of the 2021 consolidated financial statements); - 3rd Cycle: 01/01/2022 - 31/12/2022 (the 3rd Cycle ends on the date of approval of the 2022 consolidated financial statements);
Circular 285	The supervisory provisions for banks, as adopted in the Bank of Italy Circular No. 285 of 17 December 2013, as amended.
Corporate Governance Code	The Corporate Governance Code of listed companies, as amended, which is promoted by Borsa Italiana S.p.A. and adopted by the Corporate Governance Committee in March 2006.
Remuneration Committee	The Committee set up by Banca Sistema in implementation of the recommendations set out in the Corporate Governance Code and in Circular 285.
Board of Directors	The Board of Directors of Banca Sistema.
Remuneration Policies Document or Policies	The Document containing the remuneration policies of the Banca Sistema Group, which was approved by the Board of Directors for year 2019.
Banca Sistema Group or Group	Banca Sistema and the companies over which it has or may in the future have direct or indirect control pursuant to Article 2359 of the Italian Civil Code and to Section 93 of the Consolidated Law on Finance (TUF).
Permanent disability	Any medically certified condition which permanently impairs the Beneficiary’s ability to work and that leads to the termination of the employment relationship.
Letter of Assignment	A specific letter notifying the Beneficiary of the hypothetical Bonus entity and the terms and conditions subject to which the Bonus is granted.
Award Letter	A specific letter by means of which Banca Sistema notifies the Beneficiary of: (i) the actual Bonus amount paid in Cash (by bank transfer to the account registered in the Beneficiary’s name); (ii) the actual number of Shares awarded (deposited in an open administered time deposit account); (iii) the Deferral Period; (iv) the Retention Period applicable to the Shares awarded.

Key Personnel	The employees indicated specifically in the Policies.
Retention period	The period during which the Beneficiary undertakes not to Transfer the awarded Shares.
Price of Shares	The price of Shares determined on the basis of the arithmetic average of the official prices achieved by the Banca Sistema shares on the MTA Italian Equities Market - STAR segment in the three months prior to the date on which the Board of Directors resolves on the free Assignment of the Shares.

Introduction

This information document ("**Information Document**") was drawn up in accordance with the combined provisions of art. 114-bis of the Consolidated Law on Finance (TUF) and art 84-bis of the Issuers' Regulation, and in line with Schedule 7 of Annex 3A of the aforesaid Regulation, which sets out the information to be disclosed to the market concerning stock grant plan.

The 2019 Remuneration Policies Document (the "**Policy**") provides for a reward system based on the award of ordinary shares of the Company to "key personnel". In particular, the Policy provides that:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;

- for amounts from Euro 30,000 to Euro 435,000, 70% of the variable remuneration shall be paid up-front (50% in cash ("**Cash**") and 50% in Shares of the Bank ("**Shares**")) and the remaining 30% (50% in Cash and 50% in Shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;

- for amounts greater than Euro 435,000, 60% of the variable remuneration shall be paid up-front (50% in Cash and 50% in Shares of the Bank) and the remaining 40% (24% in Cash and 76% in Shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The procedures by which the variable component of remuneration is assigned and awarded, specifically regarding the portion in Shares, is governed by a specific regulation ("**Regulation**"), which is annexed to the Policies and forms an integral part thereof.

On [1 March 2019], the Board of Directors resolved to submit the 2019 Policies for approval by the ordinary Shareholders' Meeting, scheduled for 18 April 2019 on single call.

This Information Document therefore aims to provide the shareholders with the information necessary to exercise their voting rights in an informed manner.

This Information Document is made available to the public at the registered office and in the "Governance" section/Shareholders' Meeting of the Bank's website www.bancasistema.it, in accordance with laws in force.

The Regulation is to be deemed "of particular importance" pursuant to article 114-bis, paragraph 3 of the Consolidated Law on Finance and pursuant to article 84-bis, paragraph 2, letters a) and b) of the Issuers' Regulation.

1. Persons to whom the Regulation applies

The Regulation accompanying the Policy applies to all Group employees and/or Directors who are identified as “key personnel” (in accordance with the criteria established in the applicable provisions and approved by the Board of Directors) and who therefore, pursuant to Circular 285 and the Policy, may be entitled to a variable component of remuneration, with a portion awarded in shares.

1.1 Indication of the names of recipients who are members of the Boards of Directors of the Bank, its Controlling companies and its Subsidiaries

The addressees of the Regulation accompanying the Policy, and hence, the potential Beneficiaries of the Shares, include the following Group Directors:

- Gianluca Garbi (Chief Executive Officer).

The names of the Beneficiaries and the other information required under paragraph 1 of Schedule 7 of Annex 3A to the Issuers’ Regulation will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers’ Regulation.

1.2 Indication of the categories of employees or collaborators of the Bank, its Controlling companies or its subsidiaries

The Regulation accompanying the Policy applies to Group employees falling under the category of “key personnel”, who have been identified in accordance with Circular 285 and the Policy and in compliance with the Delegated Regulation (EU) No. 604/2014 (“***Regulatory Technical Standards***” or “**RTS**”).

The Beneficiary, at the time of the Assignment and/or Award of the Bonus, must meet the following requirements:

- have a permanent employment contract with the Company and not have taken a period of extended leave;
- not have given notice of resignation;
- not have been given notice of dismissal;
- not have mutually agreed to terminate the employment relationship.

The names of the Beneficiaries and the other information required under paragraph 1 of Schedule 7 of Annex 3A to the Issuers’ Regulation will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers’ Regulation.

1.3 Indication of the names of the persons in the categories set out in point 1.3, letter a), b) and c) of Schedule 7 of Annex 3A to the Issuers’ Regulation who are identified as Beneficiaries under the Regulation accompanying the Policy

a) *general managers of the issuer of financial instruments*

The potential Beneficiaries under the Regulation accompanying the Policy include Gianluca Garbi, the Chief Executive Officer and General Manager.

b) *other key management personnel of the issuer of financial instruments, where not of “smaller size” pursuant to article 3, paragraph 1, letter f) of Regulation No. 1771 of 12 March 2010, if, in the course of the year, the total remuneration awarded to them (the sum of cash remuneration and remuneration based on financial instruments) is greater than the highest total remuneration* *awarded to the members of the board of directors, or the members of the management body, and to the general managers of the issuer of financial instruments*

- None

c) *natural persons controlling the issuer of shares, if employees or collaborators of the issuer of shares*

- None

The names of the Beneficiaries and the other information required under paragraph 1 of Schedule 7 of Annex 3A to the Issuers' Regulation will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

1.4 Description and indication of the number of beneficiaries, broken down by the categories set out in point 1.4, letters a), b), c) and d) of Schedule 7 of Annex 3A to the Issuers' Regulation

a) *key management personnel other than those indicated in letters a) and b) of paragraph 1.3;*

At the date of this document, there are no Beneficiaries in the category set out in this paragraph.

b) *in the case of "smaller companies", as set out in article 3, paragraph 1, letter f) of Regulation No. 1771 of 12 March 2010, indication, in aggregate form, of all key management personnel of the issuer of financial instruments*

Not applicable as Banca Sistema is not a "smaller company" pursuant to article 3, paragraph 1, letter f) of Regulation No. 1771 of 12 March 2010.

c) *other categories of employees or collaborators in relation to whom differentiated provisions are envisaged in the plan (e.g. senior managers, middle managers, employees, etc.)*

Not applicable since there are no categories of employees for whom differentiated provisions are envisaged in the Regulation.

The description and number of Beneficiaries and the other information required under paragraph 1.4 of Schedule 7 of Annex 3A to the Issuers' Regulation will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

2. Reasons that led to the adoption of the Regulation

2.1 Aims which the Bank expects to achieve by making the awards under the plans

The aim of the incentive system is to enable the Bank to comply with the provisions of Circular 285, whereby the variable component of remuneration granted to Key Personnel is to be awarded in part in financial instruments and be subject to meeting specific performance targets, at both company and individual level.

By implementing the Regulation, Banca Sistema intends to promote and pursue the following objectives:

- to link the remuneration awarded to Beneficiaries to the actual performance of the Company and to the creation of new value for the Banca Sistema Group, in line also with the objectives pursued in the Corporate Governance Code for Listed Companies;
- to direct the efforts of "key personnel" toward the creation of value and the adoption of strategies oriented towards medium-long term results;

- to align the interests of Beneficiaries with those of shareholders and investors;
- to adopt retention policies aimed at increasing the loyalty of the Beneficiaries and incentivising them to stay with the Bank or within Banca Sistema Group;
- to motivate and increase the loyalty of the Bank's existing management and develop the Bank's ability to attract potential new managers, in accordance with practices in use in the banking sector.

2.2 Key variables and performance indicators

The Policy provides that:

- for amounts equal to or lower than € 30,000, variable remuneration shall be paid entirely up-front and in cash, subject to the necessary approval of the Board of Directors and of the Shareholders' Meeting provided for in these Policies;
-
- for amounts from Euro 30,000 to Euro 435,000, 70% of the variable remuneration shall be paid up-front (50% in Cash and 50% in Shares of the Bank) and the remaining 30% (50% in Cash and 50% in Shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than Euro 435,000, 60% of the variable remuneration shall be paid up-front (50% in Cash and 50% in Shares of the Bank) and the remaining 40% (24% in Cash and 76% in Shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The variable component of remuneration is subject to meeting individual and company-level targets, which the Bank uses to measure performance and subsequently to calculate individual Bonuses. The indicators are also used as ex-post adjustment mechanisms (malus) for the evaluation of performance during the deferral period, and in particular to establish whether the beneficiary shall be entitled to the initially granted Bonus, at the end of said period.

A. Distribution and Access Criteria

The indicators of company-level performance - to which the distribution of the variable component under the Bonus Pool is subject - are as follows:

CONDITION FOR DISTRIBUTION - the achievement of positive Consolidated Gross Earnings is the requirement needed for distribution of the Bonus Pool.

CONDITION FOR ACCESS - satisfying the Key Risk Indicators ("KRIs"), which are equally weighted and envisaged in the RAF for the reference year, in the three-year period 2017/2019: **Common Equity Tier 1 - CET1 and Liquidity Coverage Ratio - LCR**.

Failure to reach the first-level threshold, as indicated in the RAF, for even just one of the aforementioned 2 KRIs shall result in the Bank not distributing any Bonus.

B. Assignable targets

i. Targets linked to the Bank's performance

The targets set for the assessment of the Bank's performance are linked to the following indicators:

- **Profitability of the Bank** (determined by means of any one of the following alternative indicators: consolidated gross earnings, ROE/RORAC, Cost/Income, etc.), having an overall weight of at least 30% relative to the overall score of the targets.

- **Growth of the Bank** (determined by means of any one of the following alternative indicators: growth vs. budget of total income, market shares, etc.), having an overall weight of at least 30% relative to the overall score of the targets;

- **Increase in the value of the Bank** (determined by means of any one of the following alternative indicators: increase in the value of the Bank's shares, sustainability indicators, risk profile, accomplishment of the business plan or specific company projects, development of human capital, etc.).

ii. Targets linked to the performance of the Beneficiary's Department and/or Business Line/Division:

The business targets linked to the performance of the Beneficiary's Department and/or Business Line/Division are:

- *Meeting the budget targets set for the Department/Business Line/Division*, primarily linked to sales volumes, credit facilities granted, containment/reduction of costs, profitability and level of capitalisation, cost assessment on individual business dealings;

- *Managing and reducing risks: capital and liquidity indicators at division/business line level, cost of risks, Risk profile/RWA Density, again at division/business line level, projects and actions implemented to reduce risks, NPE ratio, etc.*

- *Value creation*, specifically, the value added of a new product or new service, the correct performance of a company process or its redesign, the growth and enhancement of the Bank's technical and human resources;

- *Management of operations*: targets linked to increasing customer satisfaction, internally and externally, and actions that improve the efficiency of internal management of operations;

- *Increased efficiency:* these targets are based on a comparison with the same activities performed in the previous years in connection with improving the overall performance of the Bank.

- *Management of the technical and human resources allocated*: these targets are linked to the creation of a constructive working environment, the growth of talent and the best allocation and development of professional skills, the dissemination and capitalisation of company knowledge, effectiveness and awareness in the use of company tools and processes, also with a view to minimising costs.

iii. Targets linked to individual managerial and professional activities

Individual qualitative targets linked to the contribution to the financial results, customer relations (internal and external), organisational and managerial skills and personal qualities.

* * * * *

Targets set for the Chief Executive Officer/General Manager

The Bonus awarded to the Chief Executive Officer/General Manager is subject to the Bank meeting the abovementioned performance targets (see the distribution and access criteria).

If the aforesaid targets and requirements are satisfied, the payment of the Bonus is subject to the assessment of the achievement of the targets linked to a number of alternative indicators, as per the examples below, which are weighted accordingly in percentage terms relative to the overall targets:

- **Profitability of the Bank** (determined by means of any one of the following alternative indicators: consolidated gross earnings, ROE/RORAC, Cost/Income, etc.), having an overall weight of at least 30% relative to the overall score of the targets.

- **Growth of the Bank** (determined by means of any one of the following alternative indicators: growth vs. budget of total income, market shares, etc.), having an overall weight of at least 30% relative to the overall score of the targets;

- **Increase in the value of the Bank** (determined by means of any one of the following alternative indicators: increase in the value of the Bank's shares, sustainability indicators, risk profile, accomplishment of the business plan or specific company projects, development of human capital, etc.).

* * * * *

Targets set for other "key personnel"

The targets set for other "key personnel" are:

- Targets linked to the Bank's performance, to an extent not less than 30% of the overall targets sheet,
- "Business" targets linked to the performance of the Beneficiary's Department and/or Business Line/Division, not less than two, having an approximate total weight of not less than 30% relative to the overall targets sheet,
- Individual targets linked to the Beneficiary's managerial and professional activities, not less than two and having an approximate total weight of 40% relative to the overall targets sheet,

* * * * *

Targets set for other employees

For the remaining employees - pursuant to the relevant National Collective Bargaining Agreement and in line with the principles and instruments described in the Policies - the Bank may assign "Business" targets linked to the performance of each employee's Department and/or Business Line/Division (not less than one and with an approximate weight of 30%), as well as individual targets linked to their managerial and professional activity (not less than two) - to be assigned and documented through the "targets" sheet of the tool - and individual performance targets ("performance" sheet of the tool).

2.3 Criteria for determining the number of shares to be assigned

Subsequent to verification that the performance targets provided for in the Policy have been met, the Board of Directors determines the number of Shares to be assigned to each Beneficiary at the end of each year, based on the Price of Shares.

2.4 Reasons that led to any decision to implement remuneration plans based on financial instruments not issued by the issuer, including financial instruments issued by

subsidiaries or controlling companies or entities outside the group; where such instruments are not traded on regulated markets, provide information on the criteria used to determine the value assigned to them

Not applicable since the Policy only provides for the award of Shares of the Bank.

2.5 Considerations on significant tax and accounting implications that influenced the definition of the plans

The definition of the Regulation accompanying the Policy was not affected by the applicable tax provisions or accounting-type implications.

2.6 Possible support for the plan from the special Fund for incentivizing the participation of workers in enterprises, as per article 4, paragraph 112 of Italian Law No. 350 of 24 December 2003

The Regulation accompanying the Policy does not receive support from the special Fund for incentivizing the participation of workers in enterprises, as per art. 4, paragraph 112 of Italian Law No. 350 of 24 December 2003.

3. Approval process and share assignment timing

3.1 Powers and functions which the Shareholders' Meeting delegated to the Board of Directors to implement the plan

At the meeting held on 1 March 2019, the Board of Directors resolved to submit the following draft proposal to the ordinary session of the Shareholders' Meeting:

"*The ordinary Shareholders' Meeting of Banca Sistema S.p.A.,*

- *having examined the 2019 Remuneration Policies of the Banca Sistema Group and its annexes, made available to the public pursuant to the applicable regulatory provisions;*
- *having also examined the Information Document of the Regulation relevant to the 2019 Policies prepared in accordance with article 84-bis of Consob Regulation No. 11971/99, implementing the provisions of article 114-bis of the Consolidated Law on Finance;*
- *having heard and approved the proposal of the Board of Directors concerning the 2019 Remuneration Policies of the Banca Sistema Group;*
- *having heard the proposal of the Board of Directors to set the variable-fixed remuneration ratio at a maximum of 200% (ratio of 2:1) for the CEO and General Manager;*

resolves

1) *to approve the 2019 Remuneration Policies of the Banca Sistema Group;*
2) *to set the variable-fixed remuneration ratio for the CEO and General Manager at a maximum of 2:1;*
3) *to grant the Board of Directors, in the persons of the Chairperson of the Board of Directors and the CEO, the powers necessary to fully implement the aforesaid 2019 Remuneration Policies of the Banca Sistema Group, severally and with the authority to sub-delegate such powers - to be exercised in accordance with the application criteria described above, making any necessary amendment or addition for the subject matter resolved on to be implemented.*

Information on the criteria adopted by the Board of Directors to take the decisions by means of which the Incentive System will be implemented, as well as the content of such decisions, will be notified in accordance with the procedures set out in art. 84-bis, paragraph 5, letter a) of the Issuers' Regulation and, in event, in accordance with the applicable laws and regulations.

3.2 Persons appointed to manage the plan and their functions and responsibilities

The Board of Directors approves the Regulation, without prejudice to the rights of the Bank's Shareholders' Meeting with regard to share plans and other similar plans. Resolutions adopted by the Board of Directors on the interpretation and application of the Regulation are final and binding for all parties concerned.

The Bank's Board of Directors is responsible for the implementation of the Regulation. The Board has all-encompassing operating powers for the management of the Regulation, that may be delegated.

3.3 Any existing procedures concerned with the review of the plans, including the amendment of the underlying targets

the Board of Directors may at any time amend the Regulation as it deems opportune, in order to render it complaint with the applicable laws at the time.

The Board of Directors is vested with the necessary and/or appropriate powers to fully implement the Regulation, subject to the applicable laws and regulations and, in particular, Circular 285.

3.4 Description of procedures for determining the availability and the assignment of financial instruments on which the plans are based

At the discretion of the Board of Directors, the Award of Shares may take place using shares purchased and/or held by Banca Sistema.

In this regard, the Shareholders' Meeting is required to authorise the Board of Directors to purchase and make available treasury shares pursuant to and for the purposes of article 2357 ff. of the Italian Civil Code and article 132 of the Consolidated Law on Finance, subject to the obtainment of the authorization required under the applicable provisions and up to the maximum amount authorised by the Supervisory Authority.

3.5 The role of each Director in defining the features of the plans; possible instances of conflict of interest involving the directors concerned

The Bank's Remuneration Committee, consisting of three non-executive directors, two being independent, was involved in the various phases of the preparation of the Policy and the Regulation.

3.6 For the purpose of the requirements set out in art. 84-bis, paragraph 1, the date the decision was taken by the competent management body to propose that the Shareholders' Meeting approve the plans and the date of any proposal made by the remuneration committee

The Policy and the accompanying Regulation were submitted for approval by the Shareholders' Meeting upon proposal of the Board of Directors approved on 1 March 2019, subsequent to the expression of a favourable opinion by the Remuneration Committee on 27 February 2019.

3.7 For the purpose of the requirements set out in art. 84-bis, paragraph 5, letter a), the date the decision was taken by the competent management body concerning the assignment of the instruments and the date of any proposal made by the remuneration committee to said management body

Once the Board of Directors, with input from the Remuneration Committee, has verified the achievement of the performance targets relating to each Cycle, the Board of Directors then determines the number of Shares to be awarded to each Beneficiary and awards the Shares.

Beneficiaries are informed of the ways in which the Bonus will be assigned in the Letter of Assignment, while the actual payment of the Bonus is communicated in the Award Letter, to be sent out within 60 days of approval of the consolidated financial statements.

The dates of Award of the Shares will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

3.8 The market price, recorded on said dates, of the financial instruments underlying the plans, if traded on regulated markets

The price of the Shares on the Italian Equities Market organised and managed by Borsa Italiana S.p.A., at the end of the trading day on which the proposal was approved by the Board of Directors, was Euro 1.69.

3.9 In the case of plans based on financial instruments traded on regulated markets, in what terms and in which ways has the issuer taken into account - in defining the timing of the assignment of the instruments underlying the plan - of the possible time correlation between: (i) the date of the assignment or the date of any related decisions by the remuneration committee, and (ii) the date of publication of the disclosures required under art. 114, paragraph 1; for example, where such information: (a) has not yet been published and is likely to positively influence the market quotations, or (b) has been published and is likely to negatively influence the market quotations

The timing of the Award of the Shares is established in the remuneration policies adopted annually, prior to and from a viewpoint of neutrality with respect to any events that could potentially affect the market value of the Shares of the Company. Any disclosures required under the provisions and regulations in force at the time shall be provided to the market during the implementation phase of the Regulation.

4. Features of the instruments awarded

4.1 Description of the structure of stock grant plans

The Regulation accompanying the Policy is based on the award of Shares in accordance with the procedures described in paragraph 2.3 above.

4.2 Period of implementation of the plan with reference also to any other cycles envisaged

The Regulation is annual but the Shares may also be assigned in subsequent financial years in accordance with the deferral mechanism described in paragraph 2.3 above.

4.3 End date of the plan

The end date of the Regulation accompanying the Policy is indicated in point 4.2 above.

4.4 Maximum number of financial instruments, including in the form of options, assigned in

each financial year to the named beneficiaries or to the categories indicated

It is currently impossible to indicate the number of Shares that will be assigned under the Regulation accompanying the Policy, since their precise calculation is subject to the performance targets being met.

Said information will be provided in accordance with the terms and procedures set forth in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

4.5 Implementation procedures and clauses of the plan, specifying whether the actual award of the instruments is subject to meeting certain conditions or achieving specific results, including performance targets; description of said conditions and results

See paragraph 2.2 and 2.3 above.

4.6 Any restrictions on the availability of the options or the financial instruments resulting from the exercise of said options, with particular regards to the terms within which their subsequent transfer to the company or third parties is permitted or prohibited

The Policy provides that a portion of the variable component of remuneration is paid upfront and the remaining portion is deferred and assigned at the end of the three-year deferral period.

The Policy also provides that the Shares awarded are subject to a retention period of 12 months (holding period during which shares cannot be transferred), which applies to both Shares awarded upfront and Shares awarded at the end of the deferral period.

Shares shall continue to be subject to the Retention Period even if the employment contract is terminated, except in the case of death or permanent disability of the Beneficiary; in these cases the Retention Period shall not apply.

Shares that are subject to a Retention Period remain in a time deposit at the Bank for the entire Retention Period.

Dividends and interest accruing in the Retention Period are credited to the aforesaid time deposit. The resulting amounts shall be released together with the Shares at the end of the Retention Period.

The Bank reserves the right to use other Share deposit methods in order to improve the contributory, tax or financial effects of the Regulation for the Company, in accordance with the applicable provisions of law.

The Shares will become freely tradable at the end of the corresponding Retention Period.

4.7 Description of any termination conditions affecting the awards made under the plans if the beneficiaries enter into hedging transactions which neutralise any restrictions on the sale of the financial instruments assigned, including those in the form of options, or on the sale of the financial instruments resulting from the exercise of those options

In line with Circular 285, the Beneficiaries will be asked - on the basis of specific agreements - not to avail themselves of personal hedging strategies or insurance arrangements that could undermine or affect the risk alignment effects embedded in the assignment of the Shares.

4.8 Description of the effects of termination of the employment relationship

The following are the terms and conditions of the Policy governing relations between the Bank and the beneficiaries of the Bonuses upon occurrence of certain specific events.

<u>Dismissal, resignation, consensual termination</u>

If a beneficiary is dismissed by the Bank for any reason or leaves the company due to resignation, but excluding retirement or disability, the beneficiary shall lose the entitlement to receive the deferred portion of the Bonus still outstanding at the date of employment termination, unless otherwise decided on justifiable grounds by the Bank's Board of Directors, on proposal of the Remuneration Committee.

The variable part of remuneration cannot be paid during the notice period, whether worked or not.

In the case of consensual termination of the employment relationship, Beneficiaries are entitled to the variable remuneration accrued, calculated on a "pro-rata temporis" basis, subject to the level of achievement of the pre-established individual and company-level performance targets. The payment of the full amount to the beneficiary is approved by the Board of Directors, subject to the opinion of the Remuneration Committee.

Retirement, disability

The rules governing the consensual termination of the employment relationship shall apply if the Beneficiary gains access to old age pension, contribution-based pension or disability pension rights when this results in the termination of the employment relationship.

Death

In the event of the death of the Beneficiary, his/her heirs, at the opening of the succession, shall be entitled to request payment of the Bonus (accrued but not distributed) still payable to the Beneficiary in accordance with the applicable terms and conditions.

Pursuant to the Regulation, Beneficiaries shall maintain, *mutatis mutandis*, the rights acquired under the Regulation if the individual employment relationship is transferred by the Bank to another company of the Group or terminated to take employment with another company of the Group.

Furthermore, Shares shall continue to be subject to the Retention Period set forth in paragraph 4.6 above even if the employment contract is terminated, except in the case of death or permanent disability of the Beneficiary; in the latter cases, the Retention Period shall not apply.

4.9 Any other reasons for the cancellation of the plans

No cancellation clauses are provided for in the Regulation.

4.10 Reasons for any clauses which entitle the Company to redeem the financial instruments underlying the plans pursuant to articles 2357 ff. of the Italian Civil Code and indication, by the beneficiaries of the redemption, of whether this applies only to specific categories of employees, as well as any effects that the termination of the employment relationship may have on the aforementioned redemption

No right of redemption is envisaged for Banca Sistema in the Regulation accompanying the Policy.

4.11 Possible loans or subsidies to be granted to purchase the Shares pursuant to art. 2358 of the Italian Civil Code

No loans or subsidies will be granted to purchase the Shares pursuant to art. 2358, paragraph 3 of the Italian Civil Code.

4.12 Measurement of the expected cost for the Company at the assignment date, based on the previously defined terms and conditions, with indication of the total amount and the amount relating to each instrument of the plan

It is currently impossible to accurately quantify the cost involved, since the quantification of this amount is subject to the satisfaction of specific conditions and the achievement of performance targets.

The total cost will be notified in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

4.13 Possible dilutive effects on capital resulting from the remuneration plans

Minor dilutive effects on capital are expected. These effects are not significant and are not expected to significantly change the current ownership structure of the Bank.

4.14 Possible restrictions on voting rights and on the right to dividends

No restrictions are envisaged in relation to dividend rights and voting rights resulting from the Shares, which will be granted in accordance with the Regulation accompanying the Policy.

4.15 Information *on the assignment of Shares which are not traded on regulated markets*

Not applicable. The Shares of Banca Sistema are listed on the Italian Equities Market - STAR Segment - organised and managed by Borsa Italiana S.p.A..

4.16 Table

Table No. 1 referenced in paragraph 4.24 of Schedule 7 of Annex 3A to the Issuers' Regulation will be provided in accordance with the terms and procedures set out in article 84-bis, paragraph 5, letter a) of the Issuers' Regulation.

BANCA
SISTEMA

Milano, 16 aprile 2019

Oggetto: Parere della Funzione Compliance e Antiriciclaggio in merito alle politiche di remunerazione del Gruppo Banca Sistema S.p.A. per l'esercizio 2019.

La Funzione Compliance e Antiriciclaggio (di seguito "**la Funzione**") è chiamata a esprimere il proprio parere sulle nuove politiche di remunerazione del Gruppo Banca Sistema S.p.A. (il "**Gruppo**") per l'esercizio 2019 (di seguito, le "**Politiche 2019**").

Secondo quanto previsto dalle disposizioni in materia di politiche e prassi di remunerazione e incentivazione di cui alla Parte I, Titolo IV, Capitolo 2, Sezione II, paragrafo 3 della Circolare di Banca d'Italia n. 285 del 17 dicembre 2013 (di seguito le "**Disposizioni**"), la Funzione è chiamata a verificare *"che il sistema premiante aziendale sia coerente con gli obiettivi di rispetto delle norme, dello statuto nonché di eventuali codici etici o altri standard di condotta applicabili alla banca, in modo che siano opportunamente contenuti i rischi legali e reputazionali insiti soprattutto nelle relazioni con la clientela"*.

In particolare, la Funzione ha verificato la conformità delle Politiche 2019 con il Codice Etico, approvato dal Consiglio di Amministrazione di Banca Sistema S.p.A. (di seguito la "**Banca**") del 31 luglio 2013 e aggiornato in data 8 febbraio 2017, nonché con la normativa esterna applicabile, con particolare riferimento al Codice di Autodisciplina per le Società Quotate nonché alle disposizioni in materia previste dal D.Lgs. 58/98 (Testo Unico della Finanza), dal D.Lgs. 385/93 (Testo Unico Bancario) e successivi aggiornamenti e provvedimenti attuativi emanati dalla Consob, tenendo anche in considerazione gli orientamenti dell'European Banking Authority (di seguito gli "**Orientamenti EBA**") su sane politiche di remunerazione.

La Funzione Compliance e Antiriciclaggio ha avuto dei confronti con il Direttore Risorse Umane, che ha coordinato il processo di definizione delle politiche di remunerazione e con il supporto di consulenti specializzati nel settore.

Le Politiche 2019 prevedono, ai fini dell'applicazione della normativa in materia di remunerazione, la classificazione della Banca come operatore di livello intermedio, così come indicato al paragrafo 2 delle Politiche 2019. Banca Sistema, pur avendo un totale attivo inferiore a 3,5 miliardi di euro sia a livello individuale, sia a livello consolidato, potrebbe essere considerata come rientrante nella definizione di banche "minori". Tuttavia, in ragione dello status di società quotata e degli Orientamenti EBA, si è ritenuto applicare la disciplina riferibile alle banche "intermedie".

La remunerazione del personale del Gruppo è formata da una componente fissa, prevista per tutto il personale, da una componente di "benefit" e da una componente variabile, prevista per i soggetti rientranti nella categoria del "personale più rilevante", che può essere eventualmente accordata anche al personale meno rilevante della Banca secondo le linee guida e i principi mutuati dalle Politiche 2019 e nel rispetto della normativa vigente.

La componente variabile della remunerazione è composta:

- per il "personale più rilevante", da una parte in denaro (*cash*) e da una parte in azioni della Banca;
- per il personale non rientrante nella categoria del "personale più rilevante", esclusivamente da denaro.

Per importi inferiori o pari a Euro 30.000 la remunerazione variabile per il "personale più rilevante" relativa all'anno 2019 sarà interamente corrisposta *upfront* e in *cash*, subordinatamente alle approvazioni previste dalle Politiche 2019.

Il rapporto tra la componente fissa e quella variabile è opportunamente bilanciato, puntualmente determinato e attentamente valutato in relazione alle caratteristiche della Banca e delle diverse categorie di personale, in specie di quello rientrante tra il "personale più rilevante".

Le principali modifiche rispetto alle politiche per la remunerazione adottate per l'esercizio 2019 riguardano principalmente l'adeguamento al nuovo quadro normativo applicabile a seguito dell'entrata in vigore del 25° aggiornamento delle Disposizioni e, in particolare:

- l'integrazione dei parametri in relazione ai quali la Banca deve stabilire il proprio sistema retributivo (i.e., del costo e del livello del capitale e della liquidità necessaria a fronteggiare le attività intraprese);
- la previsione di ulteriori presidi atti a prevenire eventuali elusioni delle Politiche 2019 e delle Disposizioni, tra cui (i) la conduzione di verifiche a campione sui conti interni di custodia e amministrazione almeno del personale più rilevante, (ii) la sottoscrizione di specifiche pattuizioni con il personale più rilevante al fine di prevenire situazioni che possano alterare o inficiare gli effetti di allineamento al rischio insiti nei meccanismi retributivi, (iii) il monitoraggio delle operazioni effettuate direttamente o indirettamente dal personale su base autonoma sulle azioni della Banca, ovvero sugli strumenti finanziari che abbiano come sottostante tali azioni;
- l'aggiornamento delle competenze degli organi della Banca e delle funzioni aziendali coinvolte nella definizione, adozione, attuazione e revisione delle Politiche 2019;
- la declinazione del processo di identificazione e di esclusione del personale più rilevante, con una chiara ripartizione dei soggetti coinvolti e delle competenze ad essi attribuite;
- l'aggiornamento dei parametri per la determinazione e quantificazione del "*bonus pool*", nonché dei meccanismi di correzione *ex ante* ed *ex post*;
- l'aggiornamento della disciplina dei *golden parachute*;
- l'aggiornamento della struttura della componente variabile della remunerazione del "personale più rilevante" e di alcune particolari categorie e le modalità di attribuzione;
- la modifica degli indicatori di performance individuali ed aziendali a cui è legata l'erogazione della remunerazione variabile;
- la previsione del regolamento per l'assegnazione ed attribuzione al "personale più rilevante" del Gruppo della componente variabile della remunerazione.

***

Alla luce di quanto verificato dalla scrivente Funzione, è ragionevole ritenere che le Politiche 2019 siano coerenti con gli obiettivi di rispetto delle norme, dello statuto nonché del codice etico della Banca.

Responsabile della Funzione Compliance e Antiriciclaggio

ALLEGATO "L".

SCHEDA 5
PUNTO 5 ALL'ODG
POLITICHE DI REMUNERAZIONE
ROSA

251

N°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA - IN PROPRIO	PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	F	C	A	NV	azioni Favorevoli		azioni Contrari		azioni Astenute		azioni NV	
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	T[illegible]AZIONI CON [illegible]AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	TOTALE			42.083.938	52,3295%	42.083.938	52,3977%	Totali				37.077.254	88,10%	4.293.684	10,20%	713.000	1,6942%	0	0,0000%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	25,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%			1		0	0,00%	0	0,00%	400.000	0,95%	0	0,00%
8	Cristalini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%			1		0	0,00%	0	0,00%	200.000	0,48%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%			1		0	0,00%	0	0,00%	73.000	0,17%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%			1		0	0,00%	0	0,00%	25.000	0,06%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%			1		0	0,00%	0	0,00%	15.000	0,04%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%		1			0	0,00%	1.000	0,00%	0	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%		1			0	0,00%	545.000	1,30%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%		1			0	0,00%	509.822	1,21%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%		1			0	0,00%	507.598	1,21%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%		1			0	0,00%	401.520	0,95%	0	0,00%	0	0,00%
19	SHROEDER INTERN SEL[illegible]FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	S[illegible]ER RETIREMENT SYS[illegible]OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%		1			0	0,00%	290.306	0,69%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%		1			0	0,00%	169.084	0,40%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%		1			0	0,00%	166.095	0,39%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%		1			0	0,00%	129.847	0,31%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%		1			0	0,00%	118.271	0,28%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%		1			0	0,00%	95.626	0,23%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%		1			0	0,00%	62.602	0,15%	0	0,00%	0	0,00%
29	Schroeder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%	1				50.000	0,12%	0	0,00%	0	0,00%	0	0,00%
30	wisdomtree europa hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%		1			0	0,00%	45.802	0,11%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%		1			0	0,00%	40.595	0,10%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0482%	38.791	0,0483%		1			0	0,00%	38.791	0,09%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%		1			0	0,00%	37.678	0,09%	0	0,00%	0	0,00%
34	MIRF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%		1			0	0,00%	29.821	0,07%	0	0,00%	0	0,00%
35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%		1			0	0,00%	29.095	0,07%	0	0,00%	0	0,00%
36	OREGON PUBLIC EMPLOYEES RETIREMENTS SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%		1			0	0,00%	22.385	0,05%	0	0,00%	0	0,00%
37	GBVF GCIT INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%		1			0	0,00%	11.710	0,03%	0	0,00%	0	0,00%
38	FLORIDA RETIREMENT SYSTEM		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%		1			0	0,00%	11.360	0,03%	0	0,00%	0	0,00%
39	WI[illegible] DYNAMIC CU[illegible]dged INTRNL sma[illegible]uity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%		1			0	0,00%	10.730	0,03%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%		1			0	0,00%	8.964	0,02%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%		1			0	0,00%	7.900	0,02%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%		1			0	0,00%	3.740	0,01%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%		1			0	0,00%	2.700	0,01%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%		1			0	0,00%	2.300	0,01%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%		1			0	0,00%	300	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%		1			0	0,00%	992.642	2,36%	0	0,00%	0	0,00%

legenda:

F	= FAVOREVOLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONTRARIO	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

BANCA
SISTEMA

Relazione della funzione Internal Audit in merito alla corretta applicazione delle politiche di remunerazione 2018

All'attenzione dell'Assemblea degli Azionisti di Banca Sistema S.p.A.

La presente relazione riporta gli esiti delle valutazioni della funzione Internal Audit (di seguito "**Funzione**") in merito alle verifiche di competenza relative alla rispondenza delle prassi remunerative adottate dal Gruppo Banca Sistema S.p.A. (o "**Banca**") rispetto al "Documento sulle Politiche di Remunerazione 2018" (di seguito "**Politiche 2018**") e alla normativa applicabile[1].

Le verifiche sono state condotte nell'ambito di un *framework*[2] di controlli standard ritenuto idoneo a fornire la richiesta *assurance* agli Organi aziendali e, in ultima istanza, all'Autorità di Vigilanza.

Il processo di predisposizione delle Politiche 2018 è stato coordinato dalla Direzione Risorse Umane della Banca, al fine di garantire il rispetto della normativa in materia e un allineamento con i principali *competitor* mediante un'analisi di mercato condotta da una società di consulenza.

Le Politiche 2018 sono state preventivamente condivise dal Comitato per la Remunerazione e dal Consiglio di Amministrazione della Banca, per poi essere formalmente approvate dall'Assemblea degli Azionisti nella riunione del 23 aprile 2018, in conformità alle previsioni statutarie (art. 9.2) e alla Circolare di Banca d'Italia n. 285 del 17 dicembre 2013[3], così come attestato in tale sede anche dalla funzione Compliance e Antiriciclaggio[4] della Banca.

La funzione Risk Management della Banca ha collaborato nella determinazione delle metriche di calcolo delle performance aziendali, validando i risultati e la loro coerenza con quanto previsto dal *Risk Appetite Framework*.

Dalle verifiche effettuate dalla scrivente Funzione sull'applicazione delle Politiche 2018 si evidenzia quanto segue:

- Il Comitato per la Remunerazione e il Consiglio di Amministrazione hanno valutato, ciascuno per le rispettive competenze, l'allocazione degli incentivi 2018, verificando il raggiungimento dei seguenti "gate di accesso" al sistema incentivante delle Politiche 2018: i) conseguimento di un utile lordo positivo; ii) raggiungimento delle soglie di primo livello indicate nel RAF dei

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[1] Le disposizioni in materia di politiche e prassi di remunerazione e incentivazione di cui alla Parte I, Titolo IV, Capitolo 2, Sezione II, Paragrafo 3 della Circolare Banca d'Italia n. 285 del 17 dicembre 2013, stabiliscono che: *"La funzione di revisione interna (internal audit) verifica, tra l'altro, con frequenza almeno annuale, la rispondenza delle prassi di remunerazione alle politiche approvate e alla presente normativa"*.

[2] Cfr. *Position Paper* dell'Associazione Italiana Internal Audit (AIIA) sulle "Disposizioni in materia di politiche e prassi di remunerazione e incentivazione nelle banche e nei gruppi bancari".

[3] Con il 7° aggiornamento del 18 novembre 2014 della Circolare 285 è stato inserito nella Parte I, Titolo IV, il nuovo Capitolo 2 "Politiche e prassi di remunerazione e incentivazione", recependo i principi della Direttiva 2013/36/UE (c.d. "CRD IV") e gli indirizzi e i criteri concordati in sede internazionale, tra cui quelli dell'*European Banking Authority* (EBA) e del *Financial Stability Board* (FSB).

[4] Si rimanda al "Parere della Funzione Compliance e Antiriciclaggio in merito alle politiche di remunerazione del Gruppo Banca Sistema S.p.A. per l'esercizio 2018" presentato alla riunione assembleare del 23 aprile 2018.

KRI di Common Equity Tier 1 ratio (CET 1) e di Liquidity Coverage Ratio (LCR). In proposito è stato verificato il raggiungimento per entrambi i suddetti indicatori delle soglie di primo livello e, di conseguenza, si è potuto procedere al riconoscimento della componente variabile.

- Il Comitato per la Remunerazione e il Consiglio di Amministrazione della Banca hanno valutato il livello di raggiungimento degli obiettivi dell'Amministratore Delegato/Direttore Generale rispetto ai parametri previsti dalle Politiche 2018. Per la definizione della componente variabile riferita all'esercizio 2018 sono stati considerati i compensi previsti per entrambi i ruoli e l'importo della remunerazione variabile non ha superato il limite del rapporto 1:1.
- L'entità della componente variabile della remunerazione per l'esercizio 2018 è stata determinata rispettando il rapporto 1:1 per tutti i beneficiari, applicando i criteri di differimento previsti dalle Politiche 2018 per gli importi superiori a € 20mila; per tutti i membri delle funzioni di controllo interno[5] la componente variabile non ha superato il limite di 1/3 rispetto alla remunerazione fissa previsto dalle Politiche 2018.
- A maggio 2018 sono state liquidate le quote differite dei bonus collegati al sistema di incentivazione relativi agli esercizi 2015 e 2016, in base al raggiungimento degli obiettivi di performance riferiti all'esercizio 2017. Le politiche di remunerazione 2015 prevedevano una parte differita (40% dei bonus superiori a € 10mila) da corrispondersi pro-rata nei 3 anni successivi a partire da quello in cui è stata pagata la parte *up-front* (2016). Si precisa che le quote differite liquidate a maggio 2018 sono state decurtate del 25% per l'intervento del meccanismo di correzione sul mancato raggiungimento del target sull'indice ROE riferito all'esercizio 2017. La quota differita dell'esercizio 2016 riferita alle performance 2017 invece, il cui unico "Beneficiario A" è l'Amministratore Delegato/Direttore Generale, non è stata liquidata per il mancato raggiungimento di uno degli obiettivi di performance aziendale (RORAC).
- La componente variabile relativa al 2018 sarà erogata a conclusione dell'iter deliberativo previsto per l'approvazione del bilancio d'esercizio 2018 da parte dell'Assemblea degli Azionisti convocata il 18 aprile 2019 e, di conseguenza, non è stato possibile verificare l'effettiva liquidazione[6] degli importi deliberati prima dell'emissione della presente relazione. Per un campione di dipendenti è stata invece verificata l'erogazione dei bonus relativi al 2017, effettuata a maggio 2018, senza riscontrare eccezioni.
- I compensi del Presidente del Consiglio di Amministrazione, degli Amministratori e dei membri del Collegio Sindacale per l'attività svolta sono coerenti con quanto deliberato dall'Assemblea del 23 aprile 2018 e senza alcun meccanismo di incentivazione, ad eccezione

[5] Le Politiche 2018 individuano come funzioni di controllo interno le funzioni Risk Management, Compliance/Antiriciclaggio, Internal Audit, Risorse Umane e il Dirigente Preposto.
[6] La liquidazione della parte "cash" del bonus 2018 sarà effettuata con il cedolino paga del mese di aprile 2019.

dell'Amministratore Delegato che, come già evidenziato, ricopre anche il ruolo di Direttore Generale.

Dagli accertamenti effettuati sono emersi inoltre i seguenti aspetti che si riportano all'attenzione degli Azionisti:

1) A partire dall'esercizio 2015 la Banca ha sottoscritto dei patti di non concorrenza con tutti i dirigenti e con alcuni dipendenti che occupano posizioni chiave o commerciali, ai sensi e per gli effetti di quanto previsto dall'art. 2125 del Codice Civile. Gli importi sono stati determinati in proporzione alla remunerazione fissa dei beneficiari e, nel triennio 2015-2017, sono stati erogati degli anticipi. A marzo 2017 il suddetto patto è stato rivisto e formalizzato in sede protetta per allinearlo ai più recenti orientamenti giurisprudenziali in materia che, tra gli altri, non prevedono l'erogazione degli anticipi. Pertanto, la Banca si è allineata a questa interpretazione e dal 2018 non ha erogato ulteriori anticipi in costanza di rapporto. Al 31 dicembre 2018 gli accantonamenti per il patto di non concorrenza, al netto degli anticipi già erogati, ammontano a Euro 1,59 milioni.

2) Le verifiche svolte dalla scrivente Funzione si sono basate su verbali del Comitato per la Remunerazione e del Consiglio di Amministrazione relativi a riunioni tenutesi nel 2019 non ancora trascritti sui rispettivi libri sociali.

3) In data 11 febbraio 2019 la Presidente del Consiglio di Amministrazione ha informato Banca d'Italia che, nella riunione consiliare tenutasi lo scorso 8 febbraio, è stato deliberato di sottoporre alla prossima assemblea dei soci, in programma il 18 aprile 2019, la proposta di innalzare il limite del rapporto 1:1 (tra la componente variabile e quella fissa della remunerazione) per il solo Amministratore Delegato/Direttore Generale, al limite massimo del 2:1, rinnovando quanto previsto nell'esercizio precedente.

Milano, 15 aprile 2019

Il Responsabile della funzione Internal Audit
di Banca Sistema S.p.A.

ALLEGATO "N".

SCHEDA 6
PUNTO 6 ALL'ODG
RELAZIONE REMUNERAZIONE
ROSSA

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N°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA: IN PROPRIO	PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	F	C	A	NV	AZIONI FAVOREVOLI	%	AZIONI CONTRARIE	%	AZIONI ASTENUTE	%	AZIONI NV	%
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	TOTALE AZIONI CON DIRITTO AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	TOTALE			42.083.938	52,3295%	42.083.938	52,3977%	Totali				37.077.254	88,10%	4.292.684	10,20%	714.000	1,70%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%			1		0	0,00%	0	0,00%	400.000	0,95%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%			1		0	0,00%	0	0,00%	200.000	0,48%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%			1		0	0,00%	0	0,00%	73.000	0,17%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%			1		0	0,00%	0	0,00%	25.000	0,06%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%			1		0	0,00%	0	0,00%	15.000	0,04%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%			1		0	0,00%	0	0,00%	1.000	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%		1			0	0,00%	545.000	1,30%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%		1			0	0,00%	509.822	1,21%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%		1			0	0,00%	507.598	1,21%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%		1			0	0,00%	401.520	0,95%	0	0,00%	0	0,00%
19	SHROEDER INTERN SELECTION FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	ST[illegible]ER RETIREMENT SY[illegible]OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%		1			0	0,00%	290.306	0,69%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%		1			0	0,00%	169.084	0,40%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%		1			0	0,00%	166.095	0,39%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%		1			0	0,00%	129.847	0,31%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%		1			0	0,00%	118.271	0,28%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%		1			0	0,00%	95.626	0,23%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%		1			0	0,00%	62.602	0,15%	0	0,00%	0	0,00%
29	Schroeder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%	1				50.000	0,12%	0	0,00%	0	0,00%	0	0,00%
30	wisdomtree europe hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%		1			0	0,00%	45.802	0,11%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%		1			0	0,00%	40.595	0,10%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0482%	38.791	0,0483%		1			0	0,00%	38.791	0,09%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%		1			0	0,00%	37.678	0,09%	0	0,00%	0	0,00%
34	M1RF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%		1			0	0,00%	29.821	0,07%	0	0,00%	0	0,00%
35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%		1			0	0,00%	29.095	0,07%	0	0,00%	0	0,00%
36	OREGON PUBLIC EMPLOYEES RETIREMENTS SYSTEMS		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%		1			0	0,00%	22.385	0,05%	0	0,00%	0	0,00%
37	GBVF GCIT INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%		1			0	0,00%	11.710	0,03%	0	0,00%	0	0,00%
38	FLORIDA RETIREMENT SYST		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%		1			0	0,00%	11.360	0,03%	0	0,00%	0	0,00%
39	wi[illegible] DYNAMIC CU[illegible]edged INTRNL small cap equity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%		1			0	0,00%	10.730	0,03%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%		1			0	0,00%	8.964	0,02%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%		1			0	0,00%	7.900	0,02%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%		1			0	0,00%	3.740	0,01%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%		1			0	0,00%	2.700	0,01%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%		1			0	0,00%	2.300	0,01%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%		1			0	0,00%	300	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%		1			0	0,00%	200	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%		1			0	0,00%	992.642	2,36%	0	0,00%	0	0,00%

legenda:

F	= FAVOREVOLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONTRARIO	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI

ALLEGATO "O".

SCHEDA 7
PUNTO 7 ALL'ODG
AZIONI PROPRIE
VIOLA

256

N°	NOMINATIVO AZIONISTA	PRESENZA IN PROPRIO O PER DELEGA: IN PROPRIO	PER DELEGA	NUMERO AZIONI	QUORUM COSTITUTIVO % sul capitale sociale	NUMERO AZIONI CON DIRITTO DI VOTO	QUORUM DELIBERATIVO % su totale con diritto di voto	F	C	A	NV	azioni favorevoli		azioni contrari		azioni astenute		azioni non votanti	
	TOTALE AZIONI			80.421.052	100%														
	AZIONI PROPRIE			104.661	0,13%														
	TOTALE AZIONI CON [illegible] AL VOTO			80.316.391	99,87%	80.316.391	100%												
48	TOTALE			42.083.938	52,3295%	42.083.938	52,3977%	Totali				41.537.938	98,70%	546.000	1,30%	0	0,00%	0	0,00%
1	Società di Gestione partecipazioni Banca Sistema		BONIVICINI DANIELE	18.578.900	23,1020%	18.578.900	23,1321%	1				18.578.900	44,15%	0	0,00%	0	0,00%	0	0,00%
2	FONDAZIONE CASSA DI RISPARMIO DI ALESSANDRIA		TONIOLO FLAVIO TULLIO	6.361.731	7,9105%	6.361.731	7,9208%	1				6.361.731	15,12%	0	0,00%	0	0,00%	0	0,00%
3	Fondazione Sicilia		RICCI RAFFAELLO	5.950.104	7,3987%	5.950.104	7,4083%	1				5.950.104	14,14%	0	0,00%	0	0,00%	0	0,00%
4	Garbifin SRL		SISMONDI RICCARDO	409.453	0,5091%	409.453	0,5098%	1				409.453	0,97%	0	0,00%	0	0,00%	0	0,00%
5	Garbi Gianluca		SISMONDI RICCARDO	111.669	0,1389%	111.669	0,1390%	1				111.669	0,27%	0	0,00%	0	0,00%	0	0,00%
6	Girello Anna		SISMONDI RICCARDO	10.461	0,0130%	10.461	0,0130%	1				10.461	0,02%	0	0,00%	0	0,00%	0	0,00%
7	Pollastrelli Rosa Angela		POLLASTRELLI GIOVANNI	400.000	0,4974%	400.000	0,4980%	1				400.000	0,95%	0	0,00%	0	0,00%	0	0,00%
8	Cristallini Deanna		POLLASTRELLI GIOVANNI	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
9	MORGONI MARIO		POLLASTRELLI GIOVANNI	73.000	0,0908%	73.000	0,0909%	1				73.000	0,17%	0	0,00%	0	0,00%	0	0,00%
10	Pollastrelli Andrea		POLLASTRELLI GIOVANNI	25.000	0,0311%	25.000	0,0311%	1				25.000	0,06%	0	0,00%	0	0,00%	0	0,00%
11	Zengarini Cristina		POLLASTRELLI GIOVANNI	15.000	0,0187%	15.000	0,0187%	1				15.000	0,04%	0	0,00%	0	0,00%	0	0,00%
12	Rugarli Giorgio	RUGARLI GIORGIO		1.000	0,0012%	1.000	0,0012%		1			0	0,00%	1.000	0,00%	0	0,00%	0	0,00%
13	Tocchetti Giuseppe	TOCCHETTI GIUSEPPE		4.000	0,0050%	4.000	0,0050%	1				4.000	0,01%	0	0,00%	0	0,00%	0	0,00%
14	Schroeder Capital Management Collective T		MEUCCI FILIPPO	900.000	1,1191%	900.000	1,1206%	1				900.000	2,14%	0	0,00%	0	0,00%	0	0,00%
15	ALLIANZ AZIONI ITALIA ALLA STARS		MEUCCI FILIPPO	545.000	0,6777%	545.000	0,6786%		1			0	0,00%	545.000	1,30%	0	0,00%	0	0,00%
16	Missouri Local Government Employees Retiremente System		MEUCCI FILIPPO	509.822	0,6339%	509.822	0,6348%	1				509.822	1,21%	0	0,00%	0	0,00%	0	0,00%
17	METIS EQUITY TRUST		MEUCCI FILIPPO	507.598	0,6312%	507.598	0,6320%	1				507.598	1,21%	0	0,00%	0	0,00%	0	0,00%
18	CLEARBRIDGE INTERNATIONAL SMALL CAP FUND		MEUCCI FILIPPO	401.520	0,4993%	401.520	0,4999%	1				401.520	0,95%	0	0,00%	0	0,00%	0	0,00%
19	SH[illegible] INTERN S[illegible] FUND		MEUCCI FILIPPO	1.959.940	2,4371%	1.959.940	2,4403%	1				1.959.940	4,66%	0	0,00%	0	0,00%	0	0,00%
20	STA[illegible]CHER RETIREMENT SYSTEM OF OHIO		MEUCCI FILIPPO	290.306	0,3610%	290.306	0,3615%	1				290.306	0,69%	0	0,00%	0	0,00%	0	0,00%
21	VANGUARD INT EXPLORER FUND		MEUCCI FILIPPO	2.540.996	3,1596%	2.540.996	3,1637%	1				2.540.996	6,04%	0	0,00%	0	0,00%	0	0,00%
22	National Council For Social Security Fund		MEUCCI FILIPPO	200.000	0,2487%	200.000	0,2490%	1				200.000	0,48%	0	0,00%	0	0,00%	0	0,00%
23	The arrowstreet common contractual fund		MEUCCI FILIPPO	169.084	0,2102%	169.084	0,2105%	1				169.084	0,40%	0	0,00%	0	0,00%	0	0,00%
24	AECOM DC RETIREMENT PLANS SMA MASTER TRUST		MEUCCI FILIPPO	166.095	0,2065%	166.095	0,2068%	1				166.095	0,39%	0	0,00%	0	0,00%	0	0,00%
25	ARROWSTREET (CANADA) GLOBAL WORLD SMALL CAP FUND II		MEUCCI FILIPPO	129.847	0,1615%	129.847	0,1617%	1				129.847	0,31%	0	0,00%	0	0,00%	0	0,00%
26	WF VALERO ENERGY CORP PENS PLVCM		MEUCCI FILIPPO	118.271	0,1471%	118.271	0,1473%	1				118.271	0,28%	0	0,00%	0	0,00%	0	0,00%
27	MERCER GE INTERNATIONAL EQUITY FUND		MEUCCI FILIPPO	95.626	0,1189%	95.626	0,1191%	1				95.626	0,23%	0	0,00%	0	0,00%	0	0,00%
28	KEYBK TTE CHARITABLE INTL EF SMID CAP		MEUCCI FILIPPO	62.602	0,0778%	62.602	0,0779%	1				62.602	0,15%	0	0,00%	0	0,00%	0	0,00%
29	Schroeder International Small Companies P		MEUCCI FILIPPO	50.000	0,0622%	50.000	0,0623%	1				50.000	0,12%	0	0,00%	0	0,00%	0	0,00%
30	wisdormtree europe hedged small cap equity fund		MEUCCI FILIPPO	45.802	0,0570%	45.802	0,0570%	1				45.802	0,11%	0	0,00%	0	0,00%	0	0,00%
31	Church of england investment fund for pensions		MEUCCI FILIPPO	40.595	0,0505%	40.595	0,0505%	1				40.595	0,10%	0	0,00%	0	0,00%	0	0,00%
32	ARROWSTREET (CANADA) INTL DEVELOPED MARKET EX US FUND I		MEUCCI FILIPPO	38.791	0,0482%	38.791	0,0483%	1				38.791	0,09%	0	0,00%	0	0,00%	0	0,00%
33	GERANA SICAV SIF S.A.		MEUCCI FILIPPO	37.678	0,0469%	37.678	0,0469%	1				37.678	0,09%	0	0,00%	0	0,00%	0	0,00%
34	M1RF ARROWSTREET FOREIGNL		MEUCCI FILIPPO	29.821	0,0371%	29.821	0,0371%	1				29.821	0,07%	0	0,00%	0	0,00%	0	0,00%
35	RWSF CIT ACWI		MEUCCI FILIPPO	29.095	0,0362%	29.095	0,0362%	1				29.095	0,07%	0	0,00%	0	0,00%	0	0,00%
36	OREGON PUBLIC EMPLOYEES RETIREMENTS SYSTEM		MEUCCI FILIPPO	22.385	0,0278%	22.385	0,0279%	1				22.385	0,05%	0	0,00%	0	0,00%	0	0,00%
37	GBV[illegible] INTL SM CAP OPP		MEUCCI FILIPPO	11.710	0,0146%	11.710	0,0146%	1				11.710	0,03%	0	0,00%	0	0,00%	0	0,00%
38	FL[illegible]REMENT SYS[illegible]		MEUCCI FILIPPO	11.360	0,0141%	11.360	0,0141%	1				11.360	0,03%	0	0,00%	0	0,00%	0	0,00%
39	wisdormtree DYNAMIC CURRENCY hedged INTRNL small cap equity fund		MEUCCI FILIPPO	10.730	0,0133%	10.730	0,0134%	1				10.730	0,03%	0	0,00%	0	0,00%	0	0,00%
40	ISHARES VII PLC		MEUCCI FILIPPO	8.964	0,0111%	8.964	0,0112%	1				8.964	0,02%	0	0,00%	0	0,00%	0	0,00%
41	CC AND L Q GLOBAL EQUITY MARKET NEUTRAL MASTER FUND LTD		MEUCCI FILIPPO	7.900	0,0098%	7.900	0,0098%	1				7.900	0,02%	0	0,00%	0	0,00%	0	0,00%
42	MARYLAND STATE RETIREMENT & PENSION SYSTEM		MEUCCI FILIPPO	3.740	0,0047%	3.740	0,0047%	1				3.740	0,01%	0	0,00%	0	0,00%	0	0,00%
43	CC&L STRATEGIES FUND		MEUCCI FILIPPO	2.700	0,0034%	2.700	0,0034%	1				2.700	0,01%	0	0,00%	0	0,00%	0	0,00%
44	CONNOR, CLARK & LUNN INVESTMENT MANAGEMENT		MEUCCI FILIPPO	2.300	0,0029%	2.300	0,0029%	1				2.300	0,01%	0	0,00%	0	0,00%	0	0,00%
45	CC AND L Q 130/30 FUND II		MEUCCI FILIPPO	300	0,0004%	300	0,0004%	1				300	0,00%	0	0,00%	0	0,00%	0	0,00%
46	CC AND L Q EQUITY EXTENSION FUND II		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
47	CC&L MARKET NEUTRAL FUND		MEUCCI FILIPPO	200	0,0002%	200	0,0002%	1				200	0,00%	0	0,00%	0	0,00%	0	0,00%
48	POLAR CAPITAL FUNDS		MEUCCI FILIPPO	992.642	1,2343%	992.642	1,2359%	1				992.642	2,36%	0	0,00%	0	0,00%	0	0,00%

legenda:

F	= FAVOREVOLE	AZIONI F	= NUMERO AZIONI FAVOREVOLI
C	= CONTRARIO	AZIONI C	= NUMERO AZIONI CONTRARIE
A	= ASTENUTO	AZIONI A	= NUMERO AZIONI ASTENUTE
NV	= NON VOTANTE	AZIONI NV	= NUMERO AZIONI NON VOTANTI