SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

BANCA SISTEMA

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DIRECTORS' REPORT

COMPOSITION OF MANAGEMENT BODIES

Board of Directors

Chairperson:	Ms.	Luitgard Spögler
Deputy Chairperson:	Mr.	Giovanni Puglisi
CEO and General Manager:	Mr.	Gianluca Garbi
Directors:	Mr.	Claudio Pugelli
	Mr.	Giorgio Barba Navaretti *(independent)*
	Mr.	Daniele Pittatore *(independent)*
	Ms.	Carlotta De Franceschi *(independent)*
	Mr.	Diego De Francesco[1] *(independent)*

Board of Statutory Auditors[2]

Chairman:	Mr.	Massimo Conigliaro
Standing Auditors:	Mr.	Biagio Verde
	Ms.	Lucia Abati[3]
Alternate Auditors:	Mr.	Marco Armarolli[4]
	Ms.	Daniela D'Ignazio

Internal Control and Risk Management Committee

Chairman:	Mr.	Daniele Pittatore
Members:	Ms.	Carlotta De Franceschi
	Mr.	Giorgio Barba Navaretti
	Ms.	Luitgard Spögler

Appointments Committee

Members:	Mr.	Diego De Francesco[5]
	Mr.	Giorgio Barba Navaretti[6]
	Ms.	Luitgard Spögler

Remuneration Committee

Chairman:	Mr.	Giorgio Barba Navaretti
Members:	Mr.	Diego De Francesco[7]
	Mr.	Giovanni Puglisi

Ethics Committee

Chairman:	Mr.	Giovanni Puglisi
Members:	Ms.	Carlotta De Franceschi[8]
	Mr.	Marco Pompeo

Supervisory Body

Chairman:	Mr.	Massimo Conigliaro[9]
Members:	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

[1] Director co-opted by the Board of Directors on 28 April 2017, effective as from 1 May 2017, replacing Mr. Andrea Zappia who tendered his resignation from the position on 14 April 2017 with effect from 1 May 2017. He was then appointed at the Shareholders' Meeting on 14 December 2017, pursuant to Article 2386 of the Italian Civil Code, and shall remain in office until the end of the Board of Directors' term.
[2] The Board of Statutory Auditors was appointed at the Shareholders' Meeting on 27 April 2017.
[3] 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.
[4] Previously an Alternate Auditor, he took over as a Standing Auditor pursuant to the articles of association and current regulations following the resignation of the Standing Auditor, Ms. Maria Italiano, on 25 July 2017. 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.
[5] Appointed to the Appointments Committee by the Board of Directors on 28 April 2017 with effect from 1 May 2017, and subsequently reappointed on 15 December 2017 following his appointment as a Director at the Shareholders' Meeting on 14 December 2017.
[6] Appointed to the Appointments Committee by the Board of Directors on 15 December 2017.
[7] Appointed to the Remuneration Committee by the Board of Directors on 28 April 2017 with effect from 1 May 2017, and subsequently reappointed on 15 December 2017 following his appointment as a Director at the Shareholders' Meeting on 14 December 2017.
[8] Appointed to the Ethics Committee by the Board of Directors on 15 December 2017.
[9] Appointed Chairman of the Supervisory Body by the Board of Directors on 28 April 2017.

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2017

Statement of financial position data (€,000)

	31 Dec 2017	31 Dec 2016	
Total Assets	2,310,427	1,982,510	16.5%
Securities Portfolio	370,989	515,833	-28.1%
Loans - Factoring	1,285,726	930,812	38.1%
Loans - Salary-backed loans and SME	556,061	344,911	61.2%
Funding - Banks and REPOs	733,156	753,707	-2.7%
Funding - Term Deposits	447,093	443,395	0.8%
Funding - Current Accounts	510,349	451,281	13.1%

Income statement data (€,000)

	31 Dec 2017	31 Dec 2016	
Interest Margin	70,809	68,501	3.4%
Net fee and commission income	10,667	8,625	23.7%
Operating Income	82,652	78,615	5.1%
Personnel Expenses	(17,549)	(14,171)	23.8%
Other administrative expenses (*)	(19,259)	(20,393)	-5.6%
Profit before Taxes (*)	39,767	36,182	9.9%

Performance Indicators

	31 Dec 2017	31 Dec 2016	
Cost/Income (*)	45%	44%	3.2%
ROAE (**)	22%	25%	-4.1%

(*) Amounts and indicators for 2016 were calculated using profit or loss data adjusted for non-recurrent costs.
(**) The Return on Average Equity (ROAE) was calculated as the ratio of the profit for the year to average equity.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

The merger of Beta Stepstone into Banca Sistema was completed with tax and legal effect beginning on 1 January 2017. Beginning on this date, in accordance with Article 2504-bis of the Italian Civil Code, Banca Sistema has therefore assumed all asset and liability relationships that previously belonged to Beta Stepstone.

On 18 January 2017, the Board of Directors approved the new "MiFID Policy" which was updated to incorporate regulatory changes and developments in the Bank's operations.

On 8 February 2017, the Board of Directors approved the 2017 Remuneration Policies Document of Banca Sistema S.p.A., and the Activity Plan for 2017 related to the II Level Internal Control Departments, (Risk, Compliance and Anti-Money laundering) and Internal Audit Department; the Board of Directors also acknowledged the quarterly report from the Internal Control Department as at 31 December 2016 (Risk Reporting, Tableau de bord of the Compliance Department and Tableau de bord of the Internal Audit Department), as well as the quarterly report on Related Party Transactions within the scope of the Master Resolution, the annual Report of the Head of internal whistleblowing systems, and the Periodic Report from the Supervisory Body concerning the application of the "Organisational, management and control model pursuant to Legislative Decree no. 231/2001". On the same date, the Board of Directors also resolved: i) to suspend the business of granting guaranteed loans to SMEs, guaranteed by the National Guarantee Fund managed by the Medio Credito Centrale (MCC), but still guaranteeing that loan applications received prior to that date that meet the conditions are granted; ii) to approve the opening of a new Banca Sistema branch office in Rome to house the current administrative offices and the offices of the collateralised loan business.

On 8 March 2017 the Board of Directors approved: (i) the "Annual report on the procedures for providing services, investment activities, ancillary services and activities related to the distribution of financial products issued by insurance companies and banks as per CONSOB decision no. 17297", (ii) the "2016 Risks Department Annual Report", (iii) the "2016 Compliance Department Annual Report", (iv) the "2016 Anti-Money Laundering Department Annual Report", (v) the "Compliance Department Annual Report on complaints received by the Bank", and (vi) the "Annual Report on the activities carried out by the Internal Audit Department during 2016". The Board of Directors also approved the Report on Corporate Governance and Ownership Structure prepared in accordance with art. 123-bis of Legislative Decree no. 58/1998, and the 2016 Remuneration Report pursuant to art. 123-ter of Legislative Decree no. 58/1998.

On 28 March 2017, the Board of Directors approved the issue of a floating rate, Tier II subordinated Bond with a maximum nominal amount of € 14 million. Settlement is to be carried out in a single tranche on 30 March 2017 and is reserved for institutional investors.

At their ordinary meeting held on 27 April 2017, the shareholders resolved on the following:

1. the approval of the Financial Statements of Beta Stepstone S.p.A. at 31 December 2016;
2. the approval of the Separate financial statements of Banca Sistema S.p.A. at 31 December 2016;
3. the allocation of the profit for 2016, with the payment of a dividend of € 0.076 per share;
4. the appointment, pursuant to art. 2386 of the Italian Civil Code, of Ilaria Bennati, confirmed as 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 2017;
5. the appointment of the Board of Statutory Auditors - Massimo Conigliaro (Chairman), Biagio Verde and Maria Italiano (Standing Auditors) and Marco Armarolli and Daniela D'Ignazio (Alternate Auditors) - who shall remain in office until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2019;
6. the approval of the Remuneration Policies of Banca Sistema S.p.A. for the year 2017 and setting of the maximum limit of 2:1 as the ratio between the variable

and fixed components of remuneration for employees and "key personnel";

7. to acknowledge the Remuneration Report, drafted in accordance with Part One, Title IV, Chapter 2, of Bank of Italy Circular no. 285 of 17 December 2013, with a favourable opinion on Section I;
8. the authorisation to purchase and dispose of treasury shares after first cancelling the previous buy-back plan authorised by the Shareholders' Meeting held on 27 November 2015 with respect to that portion not implemented (i) to assign shares as payment in non-recurring transactions, including share purchase and/or exchange, with other parties in the context of transactions of interest for the Bank, and (ii) to allocate said shares as part of the variable remuneration to be paid to some bank figures in compliance with policies from time to time approved at the Shareholders' Meeting.

On 28 April 2017, the Board of Directors acknowledged the quarterly report by the Internal Control Department at 31 March 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 Pillar III Disclosure. On the same date, the Board of Directors also approved the "Annual report from the internal audit department concerning audits conducted on outsourced operating departments", the update to the "MiFid Policy", the "Complex Securities Management Policy", the updated IT System documentation and the procedures regarding Market Abuse.

On 1 June 2017, the Board of Directors approved the 2017 Restructuring Plan in compliance with the current provision in the Consolidated Banking Act, which was submitted to the Bank of Italy on 14 June 2017.

On 22 June 2017, an agreement was reached with Fortress for the early closing of all agreements entered into for the acquisition of Beta Stepstone related to guarantees and obligations in favour of the Bank contained within the Standard Purchase Agreement (SPA). With the early closing of the agreement, the Bank has benefited from the return of a portion of the cash that was being held in an escrow account.

Following the resolutions passed by the Shareholders of the subsidiary Axactor Italy S.p.A. (previously CS Union S.p.A.) at their extraordinary meeting held on 22 June 2017, Banca Sistema subscribed to its share (equal to 10%) of the capital increase which went from € 2,922,647.14 to € 7,500,548.58, of which € 6,000,748.74 fully paid in.

On 27 July 2017, the Board of Directors acknowledged the quarterly report by the Internal Control Department at 30 June 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de Bord of the Internal Audit Department), as well as the quarterly report on Related Party Transactions within the scope of the Master Resolution, for which the update was approved and the due date set for July 2018.

The Board of Directors, having acknowledged the request of an institutional investor to reopen, for € 1.5 million, the TIER II subordinated bond issued on 30 March 2017 with a 10-year maturity, six-month EURIBOR + 450bps coupon (and early redemption option in case of a regulatory event), resolved to comply with the request to reopen the bond for € 1.5 million and to authorise the acceptance of additional reopening requests at market conditions, up to a maximum of an additional € 13.5 million. The issue of € 1.5 million was settled on 4 August 2017.

The shareholder of the subsidiary LASS S.r.l. at its extraordinary meeting held on 27 July 2017 authorised a capital increase from € 4,000,000 to € 15,000,000 through a bonus issue of a quota with a nominal amount of € 11,000,000 assigned to the company's sole shareholder. The capital increase entered into effect on 31 August 2017.

On 21 September 2017 the Board of Directors approved the opening of two new branches for collateralised lending business in Palermo and Naples.

On 9 October 2017 Banca Sistema concluded the placement of its first public bond offering for institutional investors as approved by the Board of Directors on 27 July 2017. This senior unsecured bond has a total amount of € 175 million and a maturity of three years. The bond pays a fixed annual coupon of 1.75% and has an issue price of 99.836.

On 27 October 2017, the Board of Directors acknowledged the launch a self-assessment process of the Corporate

Bodies which was completed during the meeting on 15 December 2017 with the approval of the Board of Directors Self-Assessment Document and the document on the Optimal qualitative and quantitative composition of the Board of Directors. On 27 October 2017, the Board of Directors also acknowledged the quarterly report by the Internal Control Department as at 30 September 2017 (Risk Reporting, Tableau de Bord of the Compliance Department and Tableau de Bord of the Internal Audit Department).

Within the framework of its commercial agreements with originators, Banca Sistema also entered into an agreement governing the acquisition of a 19.90% interest in ADV Finance S.p.A. ("ADV Finance") for € 0.6 million and for the acquisition of a 19.90% interest in Procredit S.r.l., in which ADV Finance also holds an interest, for approximately € 0.2 million. The conclusion of the transaction is contingent, among other conditions, on authorisation from the competent authorities. Pending authorisation of its registration in the register governed by Art. 106 of the Consolidated Banking Act, ADV Finance conducts salary- and pension-backed personal lending business throughout Italy. An origination partnership has also been signed with the above company, in addition to the seven such agreements already in place.

At their ordinary meeting held on 14 December 2017, the shareholders resolved on the following:

1. the appointment, pursuant to Article 2401 of the Italian Civil Code and to Article 18.5 of the Articles of Association of Banca Sistema S.p.A., of Lucia Abati as Standing Auditor and Marco Armarolli as Alternate Auditor who shall remain in office for the term of office of the present Board of Statutory Auditors, and thus until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2019;
2. the appointment, pursuant to Article 2386 of the Italian Civil Code, of Diego De Francesco, confirmed as 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 2017;
3. the amendment of the resolution of the shareholders' meeting held on 27 April 2017 as regards point 7 of the agenda "approval of the remuneration policies of Banca Sistema S.p.A. for 2017 and setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for employees and "key personnel";
4. the proposal, solely in relation to the CEO-General Manager, to set the variable-fixed remuneration ratio to a max-imum of 2:1, subject to meeting the individual and bank-level targets established in the 2017 Remuneration Policies.

On 15 December 2017, the Board of Directors approved (i) the adoption of a procedure that regulates aspects of anti-money laundering with regard to the distribution of its deposit account under the freedom to provide services in Spain.

The Bank of Italy carried out, from 18 October 2016 to 20 January 2017, an inspection concerning "the governance, management and control of credit risk", extended during the inspection to some additional profiles, also within the competence of CONSOB. The inspection report, concluded without any objections, was illustrated by the Bank of Italy representatives to the Board of Directors during a meeting hold on 4 May 2017 and in the presence of the Board of Statutory Auditors. As a result of the appropriate assessments conducted by the Board of Directors, also with the support of the competent corporate functions of the Bank, has been defined a remediation plan, containing the corrective measures and the related implementation timelines, necessary to respond to the observations made in the inspection report. The aforementioned corrective measures have been completed, in line with the action plan.

Furthermore, it should be noted that in May 2017 the Bank of Italy conducted a transparency audit at the Milan Branch of the Bank in Corso Monforte, 20. The inspections, whose outcome was communicated to the Bank by the Bank of Italy via a specific letter dated 27 September 2017, revealed some anomalies which had largely already been resolved during these inspections; the remaining anomalies, being dealt with, were addressed in a plan for corrective measures drawn up by the relevant Departments of the Bank after being reported to the Bank of Italy.

In the final months of 2017, economic activity in the main advanced economies was in continuous expansion: the US showed sustained growth; the United Kingdom showed signs of recovery especially in private consumption; in Japan, economic activity accelerated with respect to the fourth quarter of the previous year.

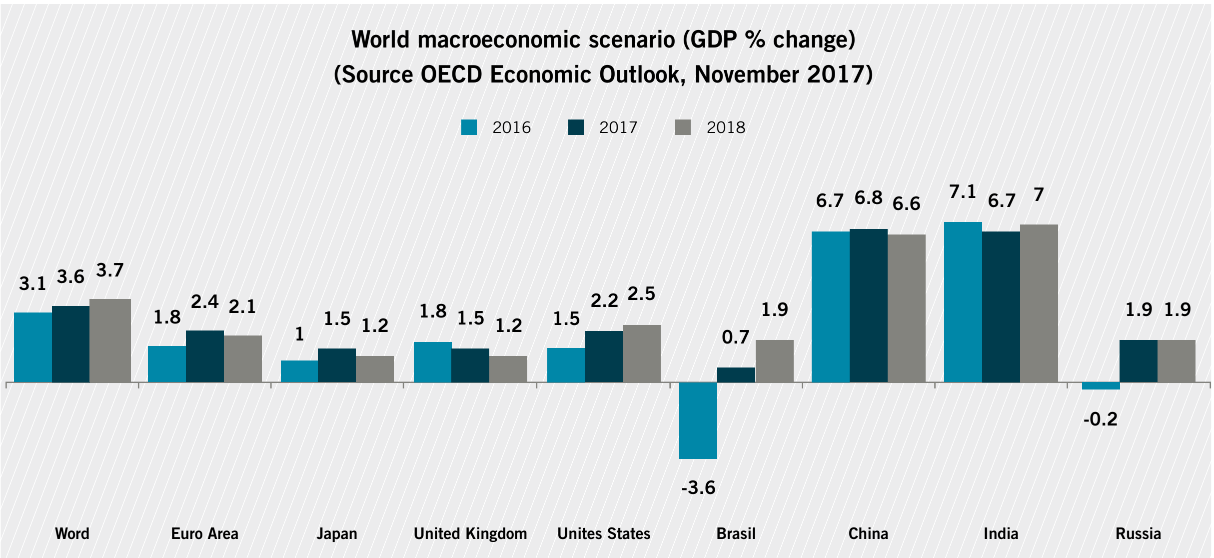
In the emerging countries, the economic recovery which began at the start of the year continued: China reported modest growth in the fourth quarter of 2017, while in Brazil and India GDP accelerated. The principal risk for the world economy is the growing volatility in the financial markets caused by the unexpected rise in geopolitical tension, particularly in North Korea, and the uncertainty in economic policies.

Growth in the Euro area continues as shown in Economic Bulletin no. 1 2018 issued by the Bank of Italy on 19 January 2018. During the third quarter of 2017 GDP increased by 0.7% driven mainly by net foreign demand and consumption.

According to the Bulletin estimates, even the last quarter was influenced by a sustained rate of growth. The €-coin indicator prepared by the Bank of Italy, which measures the underlying performance of the area's GDP, increased yet again reaching the highest level since the spring of 2006, confirming that economic activity is expanding.

Inflation in December was 0.9%, just slightly below the average, as a result of modest wage growth in many of the economies in the area. In order to monitor the trend in inflation to guarantee that monetary conditions ensure it increases, at the meeting on 14 December, the ECB Governing Council recalibrated its asset acquisition programme, continuing to forecast that official rates will remain at current levels for an extended period of time.

Loans to households increased in all of the major economies (except for Spain). In the final months of 2017, the Euro increased by 3.6% against the Dollar and indications are that it is expected to continue to increase in the short term, thanks to the prevalence of long positions on the derivatives markets.



ITALY

The Italian recovery continues at a modest rate which is lower compared to the average of the other European countries.

As indicated in the Economic Bulletin of the Bank of Italy, in the fourth quarter of 2017 GDP was up 0.4% which is in line with the previous period.

In the final months of 2017, industrial activity continued its expansion although at a slower rate than during the summer months.

Business confidence indicators are high in all the major business sectors, making conditions very favourable for investing.

2017 saw a sharp increase in investments driven by expenditures in machinery and equipment. The Bank of Italy forecasts continued increases with a significant improvement mainly in construction companies operating in the non-residential sector. Considering production prices for manufactured goods and the structure of commercial transactions in our country, a worsening of business competitiveness has been recorded in the final months of 2017 compared to the previous period. In 2017, household consumption increased as a result of purchases of both goods, especially durable goods, and services. Italian household debt decreased in proportion to disposable income (equal to 61.3%), coming much lower than the European average (equal to 94.1% at the end of September). Interest rates on new mortgages continue to stabilise at minimum values in historical terms.

Exports have returned to a sustained rate of growth, especially sales of goods (1.8%), thanks to countries belonging to the European Union that are not part of the Euro area, and non EU countries. The most significant increase was in the mechanical and metal products sectors.

Export of services also increased (0.4%), with expansion coming mainly in EU markets.

Imports continue to grow (1.2%) especially with regard to goods from European countries and services from all of the main markets. In 2017, the current account surplus increased compared to last year in that growth in total primary income more than offset the decrease in trade accounts as a result of increased spending for energy raw materials.

Foreign purchases of Italian securities reached € 25.5 billion, both for government bonds and private sector issues (especially shares and bonds issued by banks).

Employment continues to rise thanks mainly to the number of employees on fixed-term contracts.

The growth concerned all sectors with the exception of agriculture. The increase in the number of employees includes both fixed-term and permanent employees along with a reduction in the number of independent contractors caused mainly by a decrease in the use of collaboration type contracts.

Despite the first positive signs regarding wages, consumer inflation remains rather weak (1% in December), caused by the easing in fresh food prices that offset the increases in processed foods and in services. Core inflation remained low (0.5% in December) thanks mainly to a reduction in university tuition fees decided in the stability law for 2017. Loans to the private sector are growing at a moderate pace. Loans to households accelerated (2.8%) while loans to businesses continue to slow as a result of the vast amount of internal resources and the increased reliance on the issuance of corporate bonds. Credit quality continues to improve with a drop in the rate of impaired loans.

Overall, the scenario described in the Economic Bulletin predicts accommodating financial conditions that favour a gradual adjustment in short and long-term interest rates. The main risks that weigh on this scenario are still tied to the international outlook and the trend in the financial markets: high volatility could result from global tensions or from increased uncertainty with regard to economic policies in the various areas that could negatively impact the economy of the Euro area.

FACTORING

The Italian factoring market

The market situation, as previously highlighted in the first half of 2017, is characterised by overall growth of the sector that exceeds the forecasts published by the most important specialised observers. In fact, data from Assifact in December 2017 report that total turnover reached a notable € 221.5 billion (equal to 13% of GDP), up 9.48% on the same period in 2016. Without recourse factoring is by far the most common form of factoring used by the market: about 74% of total turnover compared to 26% of factoring with recourse.

Thanks to improvements in collection times, the amount of outstanding (receivables to be collected as at 31 December 2017) and advances/consideration from assignments, both recorded lower growth (+2.19% and +1.40% respectively).

Unlike the trend in bank loans, which were severely impacted by the economic crisis that characterised the last 10 years, factoring saw continuous turnover growth of more than 80% over the same period (in 2007, turnover was € 120 billion), demonstrating a certain resilience to negative economic events, as well as being essentially anti-cyclical.

The capacity of the sector to support businesses during the downward phase of the cycle is related to the operators' unique approach to managing risks in which evaluation is not limited to the party being financed, but the quality of the receivables acquired and the solvency of the assigned debtors are also considered. The attention paid to managing the factored receivables allows for risk to be better contained with respect to normal bank loans.

The moderate risk in this sector is confirmed by Assifact figures at 31 December 2017: non-performing loans accounted for 6.45% of the outstanding receivables, while bad exposures were 3.04%, levels that are considerably lower than those reported by traditional commercial banks.

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.

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.

The importance gained by the sector is evidenced by the fact that, between assignors and assigned debtors, more than one million companies are involved in a factoring relationship. SMEs represent 58% of assignor companies and, with regard to economic sectors, 36% are manufacturers, 15% are commercial enterprises and 12% 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 debt.

According to data provided by Assifact, at the end of 2017 more than € 13.5 billion of outstanding receivables are due from Public Administration debtors, which represents 22% of all outstanding receivables (this percentage was higher in 2016). A total of 41% of receivables are due from entities of the National Health Service, while 34% are receivables due from the Central Authorities with the remainder 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 led to a slight improvement in payment times by the Public Administration.

Nonetheless, three years from the start of the EU's infringement proceeding, average payment times for the Public Administrations in Italy are still 100 days, with peaks that are significantly higher, compared to the European average which is below 45 days. As a result, the European Commission referred the Italian Government to the EU Court of Justice for violating the directive.

Evidence of the difficulty in complying with the payment terms set out in the regulation can be found in the past-due data provided by Assifact: 34% of outstanding invoices issued to the Public Administration at the end of the years are past due, of which 26% under 90 days, 18% between 90 days and one year, and 56% more than one year past due.

In this context, for suppliers the assignment of receivables from public entities, especially without recourse, represents an important tool for rebalancing their finances and entrusting credit collection to third parties.

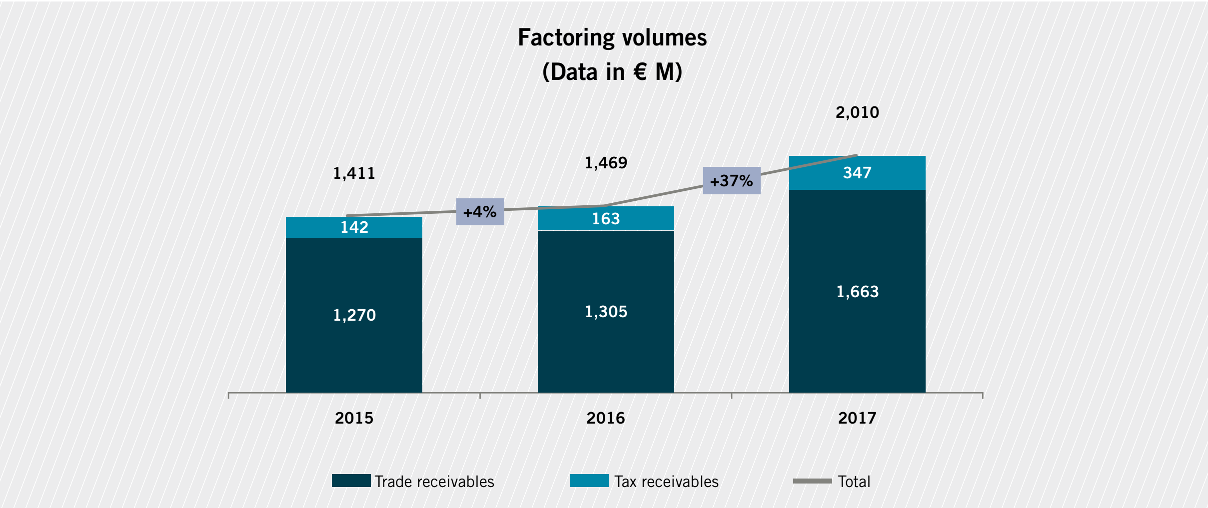
Therefore, factoring will continue to play an important role in supporting businesses even in relation to the difficulties in lending that have come forth in the banking system because of increased risk and the subsequent capital reinforcement requirements from the Supervisory Authorities.

The significant growth of factoring in recent decades bears witness to the strategic value of the product and connected services in supporting growth of the real economy.

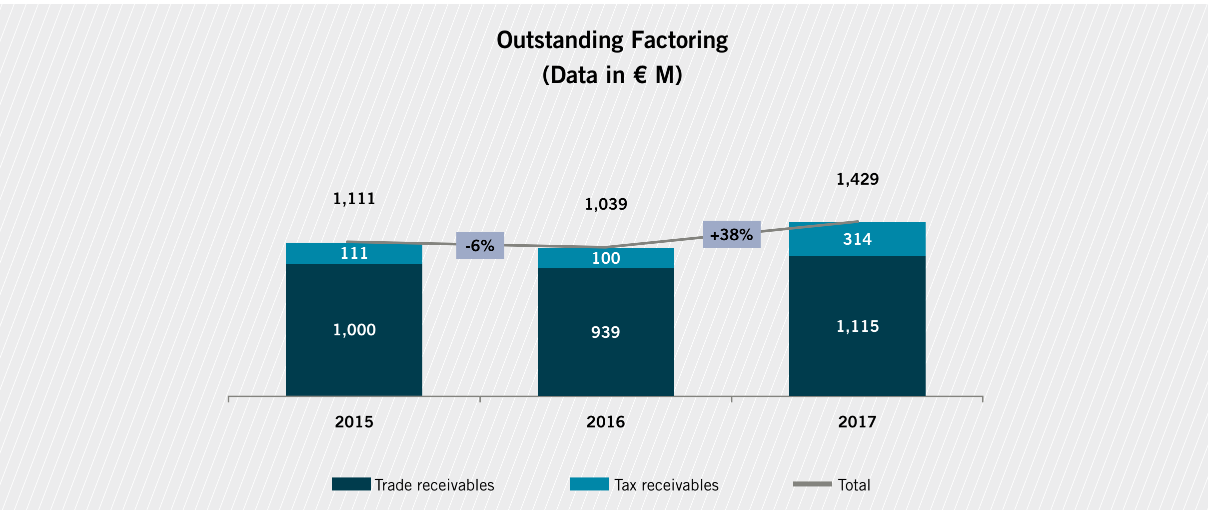
Even in light of the situation and the developments in the European macroeconomic scenario, prospects for the sector remain favourable and capable of guaranteeing additional growth.

Banca Sistema and factoring activities

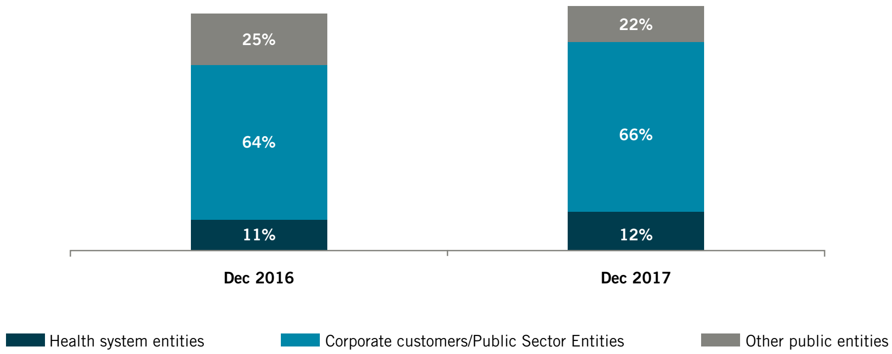
Total turnover for the year ended 31 December 2017 of Banca Sistema was € 2,010 million, up 37% on 2016, confirming its ability to continuously post year over year growth.



Outstanding loans as at 31 December 2017 amounted to € 1,429 million, up 38% on the € 1,039 million at 31 December 2016 mainly due to increased volumes acquired in 2017 compared to collections during the same period.



The chart below shows the ratio of debtors to the total exposure in the outstanding receivables portfolio at 31 December 2017 and 2016. The bank's core business remains the segment of the Public Administration.



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

In 2017 the external networks accounted for 29% of total turnover. The following table shows the factoring turnover by product type:

PRODUCT (amounts in millions of Euro)	31.12.2017	31.12.2016	€ CHANGE	% CHANGE
Trade receivables	1,663	1,290	373	29%
of which, without recourse	*1,219*	*1,002*	*217*	*22%*
of which, with recourse	*444*	*288*	*156*	*54%*
Tax receivables	347	163	184	113%
of which, without recourse	*339*	*142*	*197*	*139%*
of which, with recourse	*8*	*21*	*(13)*	*-62%*
TOTAL	**2,010**	**1,453**	**557**	**38%**

In absolute terms, the growth in turnover derives mainly from the purchase of receivables from public or similar type debtors, while in relative terms the best performance was recorded in the tax receivables sector.

Collection and debt recovery activities

For the purposes of its collection management activities, the Bank uses both its own internal structures, and a network of external operators and companies specialised in debt recovery that are active across the entire country. The network of freelancers used by the Bank enables an exact adjustment of the debt collection activities regarding each specific debtor or an increase in the number of operators when it becomes necessary to focus on specific areas.

In December 2017, collections managed by the Bank under its credit factoring portfolios totalled € 1,599 million (up 3% on 2016).

Recovery and reconciliation of collections is divided into out-of-court recovery activity, when invoices are paid according to the internally-estimated schedule, and legal recovery activity. In particular, the policy for managing and recovering receivables claimed by Banca Sistema from the Public Administration has been characterised, since the launch of the business, by an approach that involves legal action only after an unsuccessful out-of-court recovery process.

Clearly, legal action, even if late is part of the ordinary collection process, remains the sole remedy available in the event of voluntary non-payment or failure to reach out-of-court agreements with the factored debtor. In particular, legal action, with the resulting collection of default interest, is initiated when it is necessary to avoid a loss for the Bank.

At the end of the first half of 2016, the Bank had revised its accounting treatment of default interest on the loans under legal action portfolio, transitioning from cash accounting to accruals accounting on 30 June 2016, based on the expected recovery percentages.

The expected recovery percentages estimated up to 30 June 2017 (65% for the national health system and 15% for other Public Administration debtors) were updated to 30 September 2017, and will continue to be updated in the future, based on the progressive consolidation of historical data series mainly for the non-health segment, where recovery percentages higher than 80% have been confirmed for the sample under observation and from the back-testing. Accordingly, the estimated probability of collection of default interest at 31 December 2017 results in a total weighted average default interest charged of 37% which is still lower than the actual collection percentages during 2017 which exceeded 80%.

The revision of these recovery estimates led to the recognition of € 9.6 million of greater interest income during the year ended 31 December 2017, of which € 3.7 million attributable to previous financial years.

Default interest accrued for during the year ended 31 December 2017 was € 17.6 million and form part of the default interest receivable at 31 December 2017 amounting to € 34.1 million.

At 31 December 2017 receivables subject to legal action amounted to € 364 million, corresponding to total interest accrued of € 126 million, whereas total interest accrued not subject to legal action stood at € 71 million.

These estimates, as required by relevant legislation, will be reviewed and revised if there is a change in the circumstances upon which the estimates were formed, or if there is new information or more experience.

The organisational structure of the collections area was merged with credit management services, with the aim of improving the entire credit management and recovery process.

SALARY-BACKED LOANS

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

Banca Sistema entered the salary- and pension-backed loan (CQS/CQP and to a lesser extent, salary deductions and severance payment) market in 2014, through the acquisition from other specialist intermediaries of loans and receivables portfolios derived from this specific type of financing. As at 31 December 2017, the Bank has eight ongoing agreements with specialist distributors in the sector.

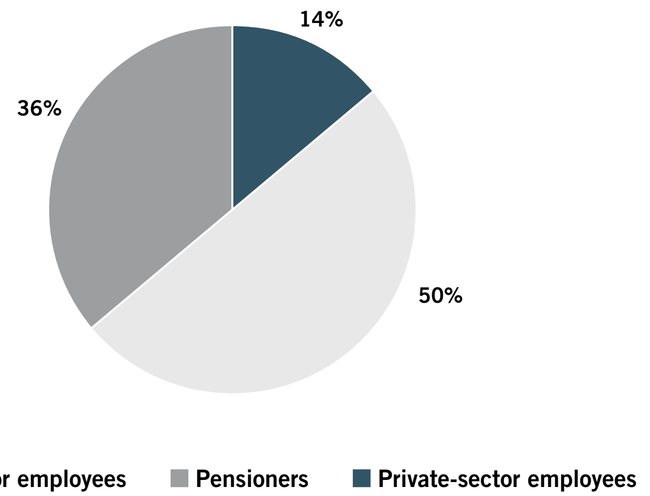
A salary- or pension-backed loan (CQS/CQP) is a consumer loan product that allows customers to allocate up to a fifth of their salaries or pensions to the payment of loan instalments.

The volumes acquired from the beginning of the year until December 2017 amounted to € 257.6 million, including private-sector employees (14%), pensioners (36%) and public-sector employees (50%). Therefore, over 86% of the volumes refer to pensioners and employees of the Public Administration, which remains the bank's main debtor.

	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
No. of applications	12,536	7,641	4,895	64%
Volumes disbursed (millions of Euro)	258	157	101	64%

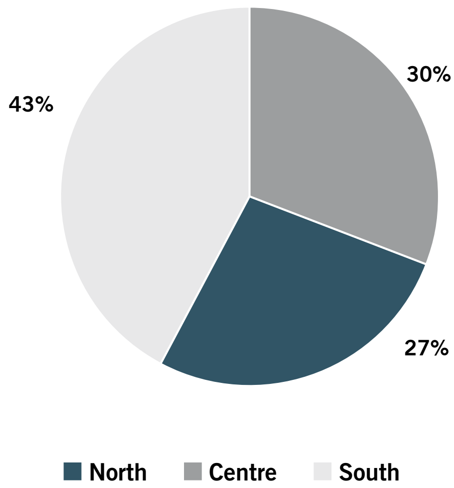
As shown in the table, the amounts disbursed in 2017 were considerably higher than in 2016 as a result of the agreements concluded by the Bank during 2017.

CQS disbursed volumes - Breakdown



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

CQS disbursed volumes - Breakdown by geographical area



FUNDING ACTIVITIES

Treasury portfolio

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

The balance at 31 December 2017 decreased by 45% with respect to the end of 2016. The nominal amount of securities in the AFS portfolio amounts to € 279 million (compared to € 508 million as at 31 December 2016) with a duration of 7.3 months (6.7 months in the previous year). The decrease in the securities portfolio is the result of the decline in government bonds yields which reached negative levels, and the expectations of a gradual rise in interest rates.

During 2017 the held-to-maturity securities portfolio was established, made up entirely of Italian government securities. At 31 December, the HTM portfolio amounted to € 84 million with an average residual duration of 1 year and 8 months.

In 2017, transactions involving government bonds totalled € 4.1 billion versus € 3.4 billion traded in 2016.

Government bonds are mainly traded on the electronic markets: the European Bond Market (EBM), BondVision and BrokerTec.

Wholesale funding

As at 31 December 2017, wholesale funding was about 51% of the total, mainly comprising bonds, repurchase agreements, inter-bank deposits and refinancing transactions with the ECB (49% as at 31 December 2016).

The issue of € 175 million of senior bonds maturing on 13 October 2020 and € 16.5 million of the subordinated loan maturing on 30 March 2027 placed with institutional investors, have enabled a diversification of the sources of funding and a significant increase in their duration.

The securitisation 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 to be maintained throughout the year. The mezzanine debt from the securitisation of Quinto Sistema 2016 and the senior debt from Quinto Sistema 2017 were refinanced as "repo-over-the-counter" at advantageous conditions that led to an increase in the duration of the deposits in view of its stabilisation. The Quinto Sistema 2016 senior debt along with the Italian government securities in the treasury portfolio and the eligible trade receivables from Public Administration entities formed the collateral for the refinancing of Eurosistema, consisting of both ordinary transactions with a weekly duration, and the TLTRO transaction maturing in 2020 for an amount of € 122.85 million.

In 2017, trading on the MMF Repo screen-based market totalled about € 56 billion compared to € 82 billion in 2016. The decrease in volumes is the result of the downsizing of the securities portfolio.

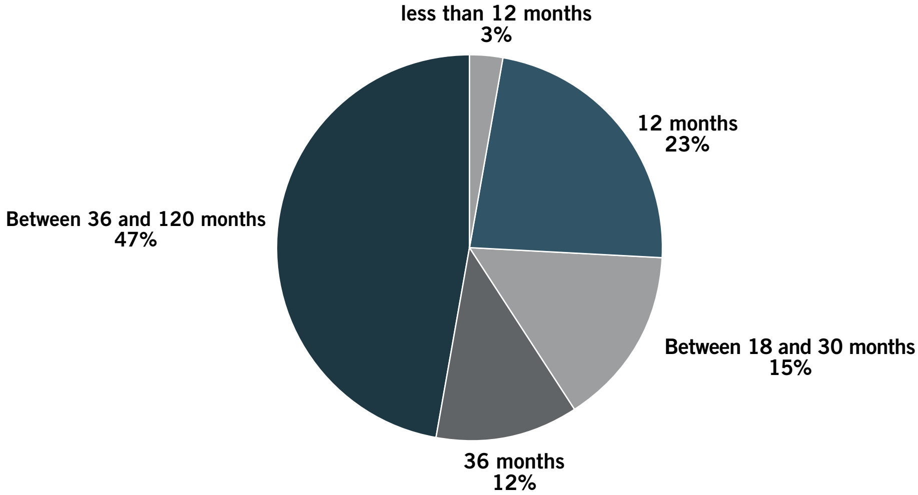
The Bank also used the interbank deposit market both through the e-MID platform and through bilateral agreements with other banks. At 31 December 2017 existing bank deposits amounted to € 325 million compared to € 300 million at 31 December 2016. In 2017 trading volumes were € 1.8 billion, compared to € 2.2 billion in 2016. Such funding allows short-term treasury needs to be met by exploiting the extremely low level of interest rates as well as the possibility of diversifying 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 49% 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 2017 amounted to € 447 million, an increase of 1% compared to 31 December 2016. The above-mentioned amount also includes total term deposits of € 118 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 29% of total deposit funding), an increase of € 8 million over the previous year. The increase was due to the increase in interest rates in Germany over the course of the year.

The breakdown of funding by term is shown below. The average duration of the portfolio is 21 months.

Breakdown of deposit accounts as at 31 December

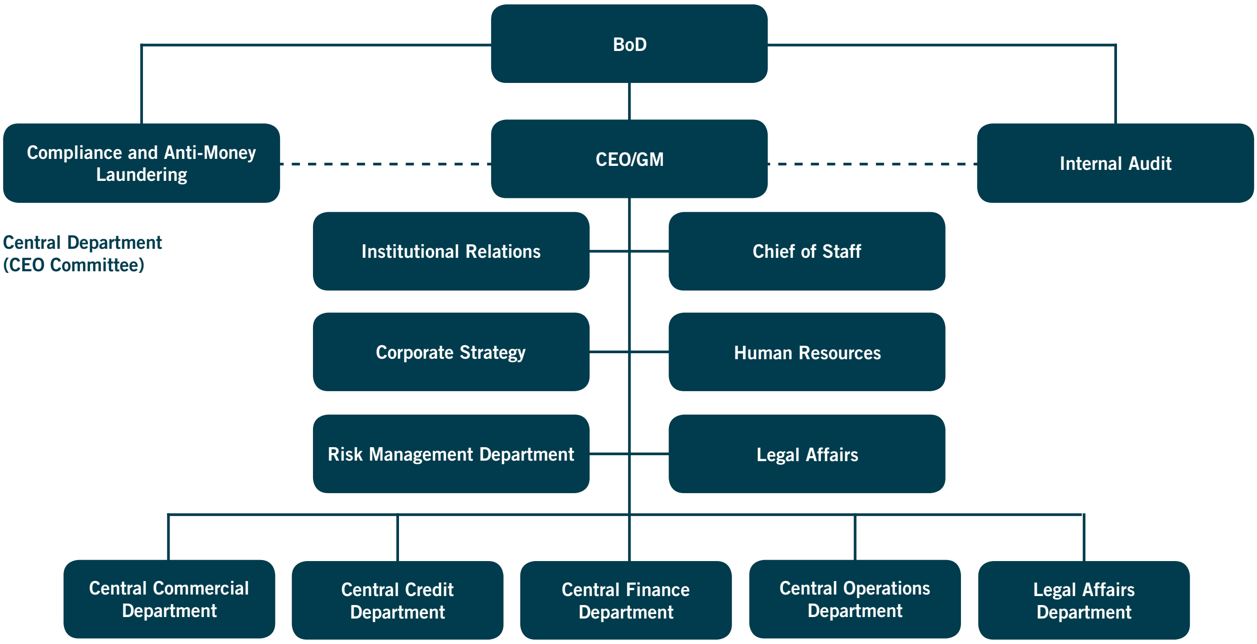


Current accounts increased from 4,111 (as at 31 December 2016) to 4,675 as at 31 December 2017, while the current account balance as at 31 December 2017 was € 510 million up € 73 million compared with 31 December 2016.

COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE BANK

ORGANISATIONAL CHART

An updated organisational chart of Banca Sistema is shown below:



GENERAL MANAGEMENT

The following report to the CEO and General Manager:

- Head of Commercial Division
- Head of Finance
- Head of Credit
- Head of Operations
- CRO
- Head of Legal Affairs
- Corporate Affairs Manager
- Human Resources Manager
- Chief of Staff
- Institutional Relations Manager
- Corporate Strategy Manager

REGISTERED OFFICES AND BRANCHES OF BANCA SISTEMA

The registered offices and branches of Banca Sistema are:

- Milan - Corso Monforte, 20 (Registered office and branch)
- Milan - Via Vespri Siciliani,1 (branch)
- Rome - Via Romagna, 25 (branch)
- Rome - Via Campania, 59 (Administrative office)
- Pisa - Galleria Chiti,1 (branch)
- Palermo - Via della Libertà, 52 (Administrative office)
- Naples - Via Toledo, 156 (Administrative office)
- Watfor - (UK) CP House, Otterspool Way (Representative office)

HUMAN RESOURCES

As at 31 December 2017, the Bank had staff of 155, broken down by category as follows:

FTEs	31/12/2017	31/12/2016
Senior managers	18	18
Middle managers (QD3 and QD4)	39	40
Other personnel	98	72
Total	**155**	**130**

Over the course of the year 23 people left the Bank, of which 5 were senior managers, while a total of 35 people were hired to replace the leavers and to strengthen the organisation, 3 of which were senior managers. The increase in staff is also attributed to the merger of Beta which resulted in 13 employees of the subsidiary being transferred to the Bank.

Two senior managers were also appointed in the Central Finance Department and the Central Commercial 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. More specifically: a new Corporate Strategy Department was established (July 2017); the Corporate Affairs Department now reports directly to the CEO (July 2017); a new Central Credit Department was established (November 2017) that brings the Underwriting and Collection activities together.

In the Central Finance Department, the role of the CFO was separated from the role of Manager in charge of financial reporting.

During the year the Milan and Rome branches dedicated to collateralised loans were opened and 3 specialised experts were hired.

With the exception of the senior managers mentioned above which were external hires, all the newly established management positions were internal hires chosen from among the key personnel with most extensive professional and managerial characteristics.

During the year various internally organised professional training sessions were held on Privacy, Transparency, Legislative Decree 231 and Anti-money laundering, involving a total of 91 people as of the end of the year.

These programmes will continue into 2018 in order to involve the participation of all the Bank's employees and will also include sessions on Mifid 2, Market Abuse and Related Party Transactions.

The average age of Bank employees is 41 for men and 39 for women, with women accounting for 43% of the total.

These figures are similar to those reported in 2016.

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)	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
Cash and cash equivalents	161	96	65	67.7%
Financial assets held for trading	1,201	996	205	20.6%
Available-for-sale financial assets	285,610	514,838	(229,228)	-44.5%
Held-to-maturity investments	84,178	-	84,178	n.a.
Loans and receivables with banks	35,809	71,282	(35,473)	-49.8%
Loans and receivables with customers	1,861,118	1,312,636	548,482	41.8%
Equity investments	16,222	61,628	(45,406)	-73.7%
Property and equipment	814	812	2	0.2%
Intangible assets	1,790	1,821	(31)	-1.7%
of which: goodwill	*1,786*	*1,786*	-	*0.0%*
Tax assets	10,083	4,954	5,129	103.5%
Other assets	13,441	13,447	(6)	0.0%
Total assets	**2,310,427**	**1,982,510**	**327,917**	**16.5%**

2017 ended with total assets of approximately € 2.3 billion, up 16.5% on the end of 2016, mainly because of an increase in turnover in the factoring and salary- and pension-backed loans (CQS/CQP) portfolios.

The merger of Beta Stepstone into the Bank became effective on 1 January 2017. For accounting purposes, since this is a restructuring transaction within the group, in accordance with OPI 2 it was excluded from the scope of application of IFRS 3, and the principle of continuity was applied; as a result, the entry in the separate financial statements of the merging company of the equity from the merged company did not lead to the issue of current amounts higher than those expressed in the consolidated financial statements.

The Bank's AFS (available-for-sale) securities portfolio is mainly comprised of Italian government bonds with an average remaining duration of about 7.3 months (the average duration at the end of 2016 was 6.7 months) and is in line with the Bank investment policy to retain securities with durations of under 12 months.

The government bond portfolio amounted to € 279 million at 31 December 2017 (€ 508 million as at 31 December 2016). The valuation reserve for government securities at the end of the year was € 259 thousand gross of tax. The AFS portfolio, in addition to government securities, also includes 200 shares of the Bank of Italy amounting to € 5 million purchased in July 2015 and the Axactor Norway shares, which represented the part of the price paid in the form of shares within the framework of the agreement for the sale of the shares of Axactor Italy. At 31 December, the fair value gain on these securities came to € 614 thousand, resulting in a year-end amount of € 1.8 million.

The Axactor Norway security is also the only position in the trading book.

During 2017, a held-to-maturity securities portfolio was established, made up entirely of Italian government securities with an average duration of 1.8 years and amounting to € 84 million.

The decrease in the item "loans and receivables with banks" can be attributed to lower liquidity funding in the ECB account, whose 2016 balance was due to a loan to be made between the end of the year and the start of next year.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
Factoring	1,285,726	930,812	354,914	38.1%
Salary-/pension-backed loans (CQS/CQP)	500,480	265,935	234,545	88.2%
Loans to SME	55,581	78,976	(23,395)	-29.6%
Pledge on receivables	1,366	26	1,340	>100%
Current accounts	16,803	31,977	(15,174)	-47.5%
Compensation and Guarantee Fund	865	4,684	(3,819)	-81.5%
Other loans and receivables	297	226	71	31.4%
Total	**1,861,118**	**1,312,636**	**548,482**	**41.8%**

Outstanding loans for factoring receivables compared to the total in the item go from 71% to 69% and increase in absolute value thanks to the cumulative turnover in 2017 which amounted to 2 billion (up +41.8% on the same period of the previous year). Salary- and pension-backed loans grew by 88% compared to the end of 2016 as a result of new volumes acquired in 2017 equal to € 258 million, while government-backed loans to SMEs fell as a result of marginal disbursement volumes and in line with the strategic decisions dictated by the changes in regulations regarding State guarantees and the pursuit of new lines of business. Guarantees cover 80% of the € 55 million in loans to SMEs. Thus, the actual unsecured exposure is € 11 million. At the end of the previous year, the Bank began developing the collateralised loan business. To this end, a new branch dedicated to this type of business was opened in Milan during the first quarter, and another in Rome during the second quarter, in addition to the expansion of this type of business at the existing Pisa branch. Over the course of 2017 € 1.7 million had been granted.

During 2017, the salary- and pension-backed loan factoring programme to the special purpose vehicle Quinto Sistema 2016 was terminated and a new securitisation began through the SPV Quinto Sistema 2017 S.r.l.. The associated sale of the ABS, which was expected to be made by the end of June 2017 in view of capital enhancement, was not completed because satisfactory levels of return were not reached for the senior securities. The failure to proceed with the sale did not allow a gain to be realised in 2017.

Since the securities of both special purpose vehicles (2016 and 2017) are completely held by the Bank, the conditions for derecognition of the loans have not been met. Therefore, the loans have been re-recognised in the accounts as assets sold and not derecognised as a balancing entry to the subscribed asset-backed securities (ABS).

The following table shows the quality of receivables in the loans and receivables with customers item.

STATUS	31/12/2016	31/03/2017	30/06/2017	30/09/2017	31/12/2017
Bad exposures	35,229	40,643	38,004	39,799	44,577
Unlikely to pay	19,748	17,676	29,677	24,083	24,061
Past due/overdrawn>180 days	64,775	85,828	78,735	89,145	74,690
Non-performing	**119,752**	**144,147**	**146,416**	**153,027**	**143,328**
Performing	1,176,646	1,282,010	1,372,667	1,483,603	1,737,006
Other loans and receivables with customers	36,816	19,278	17,670	6,828	8,667
Total loans and receivables with customers	**1,333,214**	**1,445,435**	**1,536,753**	**1,643,458**	**1,889,001**
Total loans					
Individual impairment losses	**16,246**	**16,329**	**17,707**	**19,864**	**22,293**
Bad exposures	12,260	10,119	10,279	11,262	12,238
Unlikely to pay	4,027	4,440	6,079	7,340	8,617
Past due	170	1,770	1,349	1,262	1,438
Collective impairment losses	**4,331**	**5,502**	**6,040**	**5,703**	**5,590**
Total impairment losses	**20,578**	**21,831**	**23,747**	**25,567**	**27,883**
Net exposure	**1,312,636**	**1,423,604**	**1,513,006**	**1,617,891**	**1,861,118**

The ratio of gross non-performing loans to the total portfolio is down from 9% at 31 December 2016 to 7.6% at the end of 2017, mainly due to the increase in outstanding volumes. The increase in the absolute value of non-performing loans compared to 31 December 2016 is mainly tied to new distressed entities and to one large position in the factoring portfolio with exposures to private entities that has moved to the bad exposures category, as well as an increase in past due loans. The amount of past due loans is attributed to factoring receivables without recourse from the 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 amounted to 2.4% of total loans and receivables with customers, remaining at moderate levels. Within the scope of reviewing the model for expected losses and the related recovery times for bad exposures with Public Administration debtors, the amounts prudently allocated in previous years were revised. Part of this exercise also included a thorough recalculation of the estimated impairment losses on the “unlikely to pay” category. The coverage ratio of non-performing loans increased to 15.6% at 31 December 2017, compared to 13.3% at 31 December 2016.

Equity investments include the Bank's current equity investment of 10.0% in Axactor Italy S.p.A., a company operating on the bad financial and commercial exposures management market, as well as in the management and recovery of receivables between individuals. The decrease in this item is attributable to the merger of the subsidiary Beta.

Other assets include amounts being processed after the end of the year and advance tax payments of approximately € 8.9 million.

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

LIABILITIES AND EQUITY (€,000)	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
Due to banks	517,533	458,126	59,407	13.0%
Due to customers	1,284,132	1,256,843	27,289	2.2%
Securities issued	281,770	90,330	191,440	211.9%
Tax liabilities	10,118	3,570	6,548	183.4%
Other liabilities	71,916	58,086	13,830	23.8%
Post-employment benefits	2,172	1,640	532	32.4%
Provisions for risks and charges	6,698	279	6,419	2300.7%
Valuation reserves	367	518	(151)	-29.2%
Reserves	98,659	79,038	19,621	24.8%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(149)	(52)	(97)	186.5%
Profit for the year	27,560	24,481	3,079	12.6%
Total liabilities and equity	**2,310,427**	**1,982,510**	**327,917**	**16.5%**

Wholesale funding represents about 51% of the total (49% as at 31 December 2016) and is in line with the end of 2016. The contribution of bond funding increased from 11.4% to 36.5% of the total wholesale funding following the placement in October of a new bond aimed at institutional investors for an amount equal to € 175 million.

DUE TO BANKS (€,000)	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
Due to Central banks	192,064	192,850	(786)	-0.4%
Due to banks	325,469	265,276	60,193	22.7%
Current accounts and demand deposits	*13,969*	*20,039*	*(6,070)*	*-30.3%*
Term deposits	*311,500*	*245,237*	*66,263*	*27.0%*
Totale	**517,533**	**458,126**	**59,407**	**13.0%**

The item due to banks grew by 13% compared to 31 December 2016 with an increase in interbank funding with an average duration of 2 months. The collateral for ECB refinancing are mainly ABS from the securitisation of salary- and pension-backed securities and retail loans for the remaining amount. The Bank also participated in the TLTRO II auction for € 123 million, with a duration of four years and current expected rate of -40bps, the interest from which has been accrued from the second half of 2017.

DUE TO CUSTOMERS (€,000)	31/12/2017	31/12/2016	€ CHANGE	% CHANGE
Term deposits	447,093	443,395	3,698	0.8%
Financing (repurchase agreements)	215,623	295,580	(79,957)	-27.1%
Current accounts and demand deposits	510,349	451,281	59,068	13.1%
Deposits with Cassa Depositi e Prestiti	38,959	35,615	3,344	9.4%
Due to assignors	72,108	30,974	41,134	>100%
Total	**1,284,132**	**1,256,843**	**27,289**	**2.2%**

Customer deposits increased compared to the end of the year, mainly due to an increase in funding from current accounts. Financing from repurchase agreements decreased as a result of a decrease in the securities portfolio. The collateral for repurchase agreements are mainly ABS from the securitisation of 2017 salary- and pension-backed securities. The year-end amount of term deposits increased slightly, up 0.8% on the end of 2016, reflecting net negative deposits (net of interest accrued) of € 1 million; gross deposits from the beginning of the year were € 245 million, against withdrawals caused mainly by non-renewals totalling € 246 million.

Due to customers also includes financing of € 39 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank.

Other payables include payables related to receivables acquired but not financed.

The balance of securities issued increased compared to 31 December 2016 due to the new issue of bonds placed with institutional customers. The item's composition was as follows:

- Tier 2 subordinated loan of € 12 million, set to mature on 15 November 2022;
- Tier 2 subordinated loan of € 16.5 million, set to mature on 30 March 2027;
- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis);
- Senior bonds (private placement) of € 70 million, set to mature on 3 May 2018;
- Senior bonds (market placement) of € 175 million, set to mature on 13 October 2020.

The provision for risks and charges of € 6.7 million includes the amount of € 3 million, representing the estimated future liabilities attributable to Beta, calculated based on the price allocation in accordance with IFRS 3. The remaining balance refers to the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and 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 under deed of arrangement with its creditors, and the estimated charge related to a lawsuit with personnel who are no longer active within the company.

In the fourth quarter of 2017, the tax dispute that the Italian Revenue Office had filed against Beta was concluded: this amount paid out was fully covered by the previous controlling shareholder as part of the early closing of the purchase agreement and therefore had no impact on profit or loss.

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 show below.

OWN FUNDS (€,000) AND CAPITAL RATIOS	31/12/2017	31/12/2016
Common Equity Tier 1 (CET1)	**127.119**	**103.937**
ADDITIONAL TIER 1	8.000	8.000
Additional Tier 1 capital (T1)	**135.119**	**111.937**
TIER2	28.239	12.092
Total Own Funds (TC)	**163.358**	**124.028**
Total risk weighted assets	**1.049.315**	**795.949**
of which, credit risk	900.968	661.824
of which, operational risk	142.828	129.531
of which, market risk	2.402	4.595
of which, CVA	3.116	-
Ratio - CET1	12,1%	13,1%
Ratio - AT1	12,9%	14,1%
Ratio - TCR	**15,6%**	**15,6%**

Total own funds were € 162 million at 31 December 2017 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 the Bank'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.

Banca Sistema received notice of the Bank of Italy’s decision regarding the consolidated capitalisation requirements that came into effect on 1 January 2018 following the outcome of the Supervisory Review and Evaluation Process (SREP). The capitalisation requirements, according to the transitory criteria, are as follows:

- CET1 ratio of 7.125% + additional +0.75% above the minimum regulatory requirement;
- TIER1 ratio of 8.875% + additional +1.0% above the minimum regulatory requirement;
- Total capital ratio of 11.225% + additional +1.35% above the minimum regulatory requirement.

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed by 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24.

All shares have regular dividend entitlement from 1 January.

Based on the most recent information available, as at 31 December 2017, the shareholders with stakes of more than 5% were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l. (Management Company)	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Schroders	6.73%
Oyster SICAV (SYZ AM)	5.23%
Market	*41.51%*

Treasury shares

On 12 April 2017 the Plan for the repurchase of treasury shares to support liquidity ended. As at 30 June 2017 Banca Sistema did not hold any treasury shares ("Treasury Shares") having used the 25,000 shares (equal to an equity interest of 0.031%) it held to service the incentive plans for the Bank's key personnel.

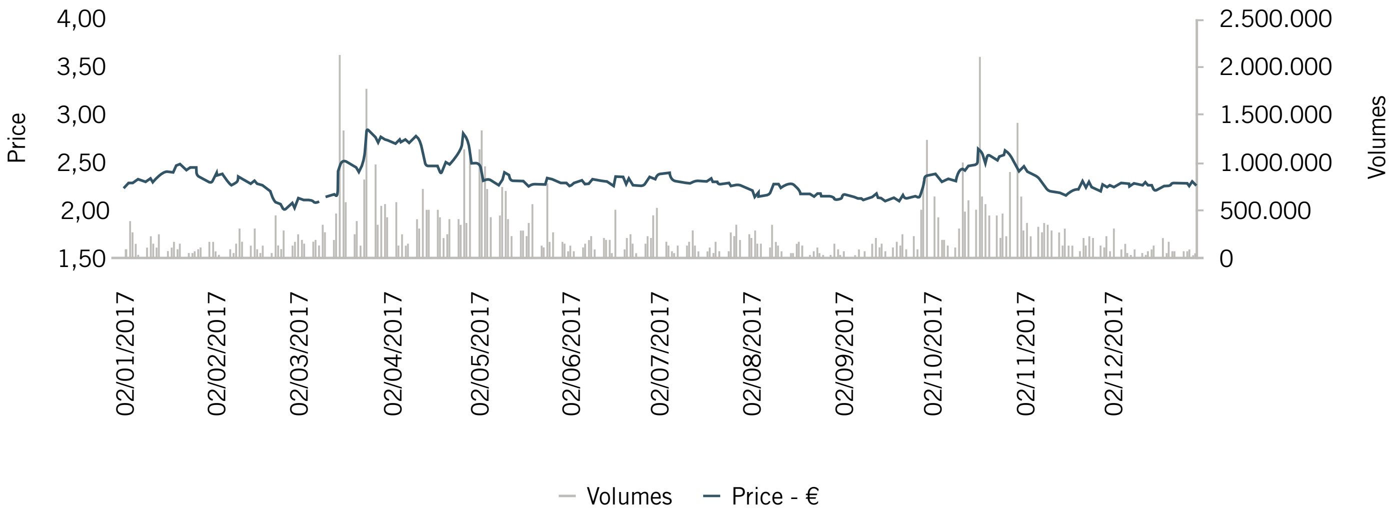
As at 31 December 2017 Banca Sistema held 70,000 ordinary shares (equal to an equity interest of 0.09%), acquired between 22 and 27 September 2017 to service the incentive plans for the Bank's key personnel. At their meeting held on 27 April 2017, the Shareholders of Banca Sistema approved the new Plan to repurchase treasury shares.

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.

The following table presents stock performance from 2 January 2017 to 29 December 2017.



Source: Bloomberg

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2017	2016	€ CHANGE	% CHANGE
Net interest income	70.809	68.501	2.308	3,4%
Net fee and commission income	10.667	8.625	2.042	23,7%
Dividends and similar income	227	313	(86)	-27,5%
Net trading income (expense)	18	(105)	123	n.a.
Gain from sales or repurchases of financial assets	931	1.280	(349)	-27,3%
Total income	**82.652**	**78.614**	**4.038**	**5,1%**
Net impairment losses on loans and receivables	(5.352)	(10.226)	4.874	-47,7%
Net financial income	**77.300**	**68.388**	**8.912**	**13,0%**
Personnel expense	(17.549)	(14.171)	(3.378)	23,8%
Other administrative expenses	(19.259)	(20.393)	1.134	-5,6%
Net accruals to provisions for risks and charges	(8)	69	(77)	n.a.
Net impairment losses on property and equipment/intangible assets	(303)	(299)	(4)	1,3%
Other operating income (expense)	(414)	215	(629)	n.a.
Operating costs	**(37.533)**	**(34.579)**	**(2.954)**	**8,5%**
Gains (losses) on equity investments	-	2.373	(2.373)	n.a.
Pre-tax profit	**39.767**	**36.182**	**3.585**	**9,9%**
Income taxes for the year	(12.207)	(10.606)	(1.601)	15,1%
Profit for the year	**27.560**	**25.576**	**1.984**	**7,8%**

The results at 31 December 2016 are not completely homogeneous with those reported at the end of 2017 because they do not include the contribution of Beta Stepstone which entered the scope of consolidation of the Group starting from 1 July 2017 and was merged into the Bank on 1 January 2017.

It should also be noted that the 2016 results were normalised to exclude the non-recurring contribution to the National Resolution Fund of € 1.3 million (€ 0.9 million net of tax) and costs related to the merger of Beta for € 0.3 million, both of which are classified under the other administrative expenses.

Profit in 2017 was € 27.6 million, up compared to the previous year, benefiting from, as mentioned above, the change of the estimated probability of collection of default interest in the non-health business, which had an impact of € 9.6 million, of which € 3.7 million accrued in previous years.

In application of IAS 8, concerning accounting estimates, estimated recovery percentages will be periodically revised based on the updated data series for collection figures.

The realised capital gain deriving from the partial sale of an interest in Axactor Italy of € 2.3 million and the impairment losses made also contributed to the results reported during 2016.

NET INTEREST INCOME (€,000)	2017	2016	€ CHANGE	% CHANGE
Interest and similar income				
Loans and receivables portfolios	87,677	83,460	4,217	5.1%
Securities portfolio	(1,077)	(237)	(840)	>100%
Other	793	636	157	24.7%
Total interest income	**87,393**	**83,859**	**3,534**	**4.2%**
Interest and similar expense				
Due to banks	(816)	(1,832)	1,016	-55.5%
Due to customers	(11,959)	(11,385)	(574)	5.0%
Securities issued	(3,809)	(2,141)	(1,668)	77.9%
Total interest expense	**(16,584)**	**(15,358)**	**(1,226)**	**8.0%**
Net interest income	**70,809**	**68,501**	**2,308**	**3.4%**

Net interest income grew by 3.4% with respect to the previous year from the combined effect of higher income on the salary- and pension-backed loan portfolio and a concurrent increase in the cost of funding.

Compared to the previous year, the factoring sector, net of the default interest component, was impacted by a reduction in market margins on the most recent production.

The overall contribution of default interest on the factoring portfolio under legal action at 31 December 2017 was € 29.6 million, of which € 17.6 million allocated on an accrual basis.

The amount of default interest from legal actions accrued at 31 December 2017, relevant for the allocation model, was € 92 million including the component that already passed through the income statement. This amount will, for the most part, either on an accruals or cash basis, pass through the income statement in the following years. In total, the estimated default interest accrued at 31 December 2017, including interest relevant for the allocation model (€ 92 million) amounted to € 197 million.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 7.4 million to € 13.1 million, whereas interest declined on the SME portfolios, which contributed € 3.7 million to the total, following the strategic decision to stop developing this area of the business. Pro-forma net interest income is presented at the end of this section.

The negative performance of the securities portfolio, a result of the ECB's interest rate policy, should be linked to the funding cost which was positive. Overall, the carry trade remains positive.

Other interest income mainly includes income generated from hot money transactions and current accounts.

The cost of funding increased compared to the previous year following the increase in interest on issued securities 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.

As a result of the current interbank rates and ECB policies, funding through REPOs did not generate any interest expense.

The cost of funding also includes the positive component coming from the current expected rate of -40bps on the amount resulting from participation in the TLTRO II auction (for € 123 million as at 30 June 2016), equal to € 786 thousand, of which € 295 thousand related to 2016.

NET FEE AND COMMISSION INCOME (€,000)	2017	2016	€ CHANGE	% CHANGE
Fee and commission income				
Collection activities	1,014	968	46	4.8%
Factoring activities	11,462	8,749	2,713	31.0%
Other	571	788	(217)	-27.5%
Total fee and commission income	**13,047**	**10,505**	**2,542**	**24.2%**
Fee and commission expense				
Placement	(1,940)	(1,509)	(431)	28.6%
Other	(440)	(371)	(69)	18.6%
Total fee and commission expense	**(2,380)**	**(1,880)**	**(500)**	26.6%
Net fee and commission income	**10,667**	**8,625**	**2,042**	**23.7%**

Net fee and commission income of € 10.7 million increased by 23.7% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference whatsoever whether profit is taken in one area or the other in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from the Public Administration are in line with the previous year, while other fee and commission income, which primarily includes commissions on collection and payment services and the keeping and management of current accounts, has decreased.

The placement fees and commissions paid to third parties increased due to their close correlation with the increase in the factoring volumes disbursed. Fee and commission expense includes the origination costs of factoring receivables of € 1.4 million (up 47% on the previous year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product on volumes placed in Germany and Austria.

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

RESULTS OF THE SECURITIES PORTFOLIO (€,000)	2017	2016	€ CHANGE	% CHANGE
Net trading income (expense)				
Realised gains	18	(105)	123	<100%
Total	**18**	**(105)**	**123**	**<100%**
Gain (loss) from sales or repurchases				n.a.
Gain from AFS portfolio debt instruments	931	1,280	(349)	-27.3%
Total	**931**	**1,280**	**(349)**	**-27.3%**
Total profit from the securities portfolio	**949**	**1,175**	**(226)**	**-19.2%**

The profits generated by the proprietary portfolio made a smaller contribution than in the previous year due to the performance of market rates.

Impairment losses on loans and receivables for 2017 amounted to € 5.4 million, down € 4.9 million compared to the previous year.

Impairment losses in 2017 were impacted by releases of € 3.9 million tied to bad exposures with troubled local authorities, and to a lesser extent by an increase in the collective value adjustment percentage on the SME portfolio. An impairment loss on a single transferor who filed an application for deed of arrangement also had an impact on 2017.

The amount reported in 2016 however, was impacted by the increase in the impairment loss percentage to 100% specifically for the SME portfolio which resulted from a thorough and more conservative overall assessment of 20% of the portfolio that is not guaranteed by the Guarantee fund of the Ministry of Economic Development, and also from the impairment losses on specific factoring positions between private parties classified as "unlikely to pay".

The loss rate, following that illustrated above, amounted to 33 bps.

PERSONNEL EXPENSE (€,000)	2017	2016	€ CHANGE	% CHANGE
Wages and salaries	(13,798)	(11,055)	(2,743)	24.8%
Social security contributions and other costs	(2,958)	(2,261)	(697)	30.8%
Directors' and statutory auditors' remuneration	(793)	(855)	62	-7.3%
Totale	**(17,549)**	**(14,171)**	**(3,378)**	**23.8%**

The increase in personnel expense is due to the increase in the average number of employees, mainly due to the addition of Beta employees subsequent the merger, an increase in gross annual salaries, and an additional cost component in 2017 related to the non-compete agreement signed in 2017.

For the year ended 31 December 2017 the item also includes total costs relating to voluntary redundancy payments paid out during the year of € 362 thousand, compared to € 326 thousand in the previous year.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2017	2016	€ CHANGE	% CHANGE
IT expenses	(4,384)	(3,556)	(828)	23.3%
Consultancy	(3,225)	(4,650)	1,425	-30.6%
Servicing and collection activities	(3,063)	(4,337)	1,274	-29.4%
Rent and related fees	(1,963)	(1,839)	(124)	6.7%
Indirect taxes and duties	(1,477)	(1,920)	443	-23.1%
Resolution Fund	(807)	(654)	(153)	23.4%
Car hire and related fees	(863)	(705)	(158)	22.4%
Expense reimbursement and entertainment	(697)	(558)	(139)	24.9%
Other	(413)	(442)	29	-6.6%
Vehicle expenses	(462)	(169)	(293)	173.4%
Membership fees	(262)	(255)	(7)	2.7%
Insurance	(349)	(204)	(145)	71.1%
Advertising	(284)	(204)	(80)	39.2%
Audit fees	(265)	(294)	29	n.a.
Infoprovider expenses	(278)	(305)	27	n.a.
Stationery and printing	(173)	(102)	(71)	69.6%
Telephone and postage expenses	(177)	(153)	(24)	15.7%
Maintenance of movables and real properties	(112)	(44)	(68)	n.a.
Discretionary payments	(4)	(3)	(1)	33.3%
Total	**(19,258)**	**(20,394)**	**1,136**	**-5.6%**

Other administrative expenses decreased by 5.6% compared to the same period of the previous year, primarily due to the combined effect of a reduction in servicing and consultancy costs, which more than offset the increases in other costs.

Costs related to servicing and collection activities decreased as a result of the insourcing of the management of some portfolios that were previously managed externally and from a reduction in the cost percentage applied to managed collections.

The rise in IT expenses is linked to the increase in services provided by the outsourcer due to the increase in Bank operations and IT updates on new products.

Also, Banca Sistema's ordinary contribution to the European Bank Resolution Fund of € 807 thousand, was higher by € 153 thousand.

Consultancy costs include a portion of the project costs correlated with new initiatives in 2017 and legal expenses net of recovery costs for credit collection activities through enforceable injunctions.

The decrease was mainly due to the costs relating to the rating process for the ABS issued in the previous year's securitisation.

Other expenses include € 430 thousand for the 2017 contribution to the Deposit Guarantee Schemes (€ 347 thousand in 2016). Other expenses and income in 2016 included income deriving from the refund by the National Interbank Deposit Guarantee Fund of the sum of € 290 thousand paid by the Bank in 2014 for the default of Banca Tercas and later returned.

Pro-forma total income

PRO-FORMA TOTAL INCOME (€,000)	2017	2016
Net interest income	70,809	68,501
Change in % expected recovery of default interest	(3,745)	(2,329)
Pro-forma net interest income	**67,064**	**66,172**
Net fee and commission income	10,667	8,625
Dividends and similar income	227	313
Net trading income (expense)	18	(105)
Gain from sales or repurchases of financial assets	931	1,280
Pro-forma total income	**78,907**	**76,285**

The figures for the years ended 31 December 2016 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 following shows the reconciliation of the normalised and statutory income statement for 2016.

INCOME STATEMENT (€,000)	2016 NORMALISED	NORMALISATION	2016 STATUTORY
Net interest income	68,501		68,501
Net fee and commission income	8,625		8,625
Dividends and similar income	313		313
Net trading expense	(105)		(105)
Gain from sales or repurchases of financial assets	1,280		1,280
Total income	**78,614**		**78,614**
Net impairment losses on loans and receivables	(10,226)		(10,226)
Net financial income	**68,388**		**68,388**
Personnel expense	(14,171)		(14,171)
Other administrative expenses	(20,393)	(1,622)	(22,015)
Net accruals to provisions for risks and charges	69		69
Net impairment losses on property and equipment/intangible assets	(299)		(299)
Other operating income	215		215
Operating costs	**(34,579)**		**(36,201)**
Gains on equity investments	2,373		2,373
Pre-tax profit	**36,182**		**34,560**
Income taxes for the year	(10,606)	527	(10,079)
Profit for the year attributable to the owners of the parent	**25,576**		**24,481**

The normalisation of other administrative expenses refers to the non-recurring contribution to the National Resolution Fund for € 1.3 million and costs related to the merger of Beta for € 0.3 million.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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.

Management 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 Management Committee and ALM, whose mission is to help the Bank define strategies, risk policies, and profitability and liquidity targets.

The Risk Management Committee and ALM continuously monitor relevant risks and any new or potential risks arising from changes in the working environment or scheduled Bank operations.

Pursuant to the eleventh amendment of Bank of Italy Circular 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 Committee and Risk Management 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.

During the year, the Bank strengthened the organisational structures of the second level business units, increasing the headcount of the Compliance and Anti-money Laundering Department and Risk Management which were previously separated from an organisational perspective.

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. The objective of this initiative is to determine the qualitative and quantitative impact on the financial statements, and identify and implement 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.

New regulatory and tax provisions

IFRS 9

On 24 July 2014, the IASB completed its review of IAS 39 by issuing IFRS 9 "Financial Instruments", which must be applied beginning on 01 January 2018.

At the beginning of 2017, the Bank initiated a project aimed at determining the qualitative and quantitative impact on the financial statements, as well as to identify and then implement the necessary changes at organisational, internal policy and IT system levels.

IFRS 9, which will replace the current IAS 39 "Financial Instruments: Recognition and Measurement", introduces important new requirements with regard to:

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

With regard to classification and measurement, the Bank has ended its detailed review of the cash flow characteristics of the financial instruments classified at amortised cost under IAS 39. No financial assets have been identified that must be measured at their fair value since the SPPI (Solely Payments of Principal and Interest) test was passed in all cases that were analysed. The activity will end when the Board of Directors approves the new policies.

Simulations carried out thus far at a financial position/ results and organisational level from implementing the new impairment model based on the "expected loss" concept, compared to the current "incurred loss" model, did not identify any significant impact, within a range of about 3 basis points against the TCR.

Therefore, with regard to the transitory measures aimed at minimising the impact of introducing IFRS 9, Banca Sistema has decided not to apply the provisions set out in regulations 2017/2395 during the transitory period. Therefore, beginning on 1 January 2018, Banca Sistema will fully implement the effects of applying IFRS 9 to its own funds and large exposures.

The balancing entry of the final impact will be recognised in equity upon first-time adoption.

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 2017.

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 2017, 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

There were no additional significant events after the reporting date to be mentioned.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The 2017 financial year ended with continuing growth in volumes in the factoring sector and in terms of salary-backed loans (CQS).

Further improvements in these two businesses are one of the main objectives for 2018. The strategic business plan now in the process of being approved highlights Banca Sistema's guidelines for growth for the following years.

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2017, which we submit for your approval, show a profit for the year of € 27,560,433.46. We recommend allocating the profit for the year as follows:

- a dividend of € 6,916,210.47;
- the remainder of € 20,644,222.99 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, 8 March 2018

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	31/12/2017	31/12/2016
10.	Cash and cash equivalents	160,897	95,755
20.	Financial assets held for trading	1,201,206	996,363
40.	Available-for-sale financial assets	285,609,813	514,837,601
50.	Held-to-maturity investments	84,177,932	-
60.	Loans and receivables with banks	35,808,941	71,282,041
70.	Loans and receivables with customers	1,861,118,444	1,312,635,594
100.	Equity investments	16,221,580	61,628,184
110.	Property and equipment	813,636	811,539
120.	Intangible assets	1,789,816	1,821,104
	of which goodwill	1,785,760	1,785,760
130.	Tax assets	10,083,293	4,953,426
	a) current	3,471,483	618,755
	b) deferred	6,611,810	4,334,671
	of which as per Law no. 214/2011	3,428,884	2,372,378
150.	Other assets	13,441,001	13,448,146
	Total assets	**2,310,426,559**	**1,982,509,753**

	Liabilities and equity	31/12/2017	31/12/2016
10.	Due to banks	517,532,691	458,125,711
20.	Due to customers	1,284,131,980	1,256,842,964
30.	Securities issued	281,770,202	90,329,669
80.	Tax liabilities	10,117,999	3,569,992
	b) deferred	10,117,999	3,569,992
100.	Other liabilities	71,916,098	58,087,635
110.	Post-employment benefits	2,171,668	1,640,222
120.	Provisions for risks and charges	6,698,378	278,922
	b) other provisions	6,698,378	278,922
130.	Valuation reserves	366,663	517,664
160.	Reserves	59,391,440	39,686,132
170.	Share premium	39,267,909	39,351,779
180.	Share capital	9,650,526	9,650,526
190.	Treasury shares (-)	(149,428)	(52,476)
200.	Profit for the year (+/-)	27,560,433	24,481,013
	Total liabilities and equity	**2,310,426,559**	**1,982,509,753**

INCOME STATEMENT

(Amounts in Euros)

		2017	2016
10.	Interest and similar income	87,392,999	83,858,668
20.	Interest and similar expense	(16,583,720)	(15,357,677)
30.	**Net interest income**	**70,809,279**	**68,500,991**
40.	Fee and commission income	13,047,029	10,505,344
50.	Fee and commission expense	(2,379,853)	(1,879,862)
60.	**Net fee and commission income**	10,667,176	8,625,482
70.	Dividends and similar income	226,667	312,953
80.	Net trading income (expense)	18,204	(104,576)
100.	Gain from sales or repurchases of:	930,565	1,280,214
	b) available-for-sale financial assets	930,565	1,280,214
120.	**Total income**	**82,651,891**	**78,615,064**
130.	Net impairment losses on:	(5,352,297)	(10,226,423)
	a) loans and receivables	(5,352,297)	(10,226,423)
140.	**Net financial income**	**77,299,594**	**68,388,641**
150.	Administrative expenses:	(36,808,119)	(36,185,907)
	a) personnel expense	(17,549,337)	(14,171,058)
	b) other administrative expenses	(19,258,782)	(22,014,849)
160.	Net accruals to provisions for risks and charges	(8,228)	69,448
170.	Net impairment losses on property and equipment	(268,567)	(248,096)
180.	Net impairment losses on intangible assets	(34,043)	(50,792)
190.	Other operating income (expense)	(412,740)	213,639
200.	**Operating costs**	**(37,531,697)**	**(36,201,708)**
210.	Gains (losses) on equity investments	-	2,372,709
250.	**Pre-tax profit from continuing operations**	**39,767,897**	**34,559,642**
260.	Income taxes	(12,207,464)	(10,078,629)
290.	**Profit for the year**	**27,560,433**	**24,481,013**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2017	2016
10.	**Profit for the year**	**27,560,433**	**24,481,013**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
40.	Defined benefit plans	(56,148)	(95,249)
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
100.	Available-for-sale financial assets	(94,853)	262,500
130.	**Total other comprehensive income (expense), net of income tax**	**(151,001)**	**167,251**
140.	**Comprehensive income (Items 10+130)**	**27,409,432**	**24,648,264**

STATEMENTS OF CHANGES IN EQUITY AS AT 31/12/2017

(Amounts in Euros)

	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Allocation of prior year profit		Changes during the year								
							Operations on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Derivati su proprie azioni	Stock Options	Comprehensive income for the year ended 31.12.2017	**Equity at 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 CHANGES IN EQUITY AS AT 31/12/2016

(Amounts in Euros)

	Balance at 31.12.2015	Change in opening balanc	Balance at 1.1.2016	Allocation of prior year profit		Changes during the year								Equity at 31.12.2016
							Operations on shareholders' equity							
				Reserves	Dividends and other allocations	Changes in reserve	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for the year ended 31.12.201	**Equity at 31.12.2016**
Share capital:														
a) ordinary shares	9,650,526	-	9,650,526	-	-		-	-	-	-	-	-	-	**9,650,526**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium	39,435,649	-	39,435,649	-	-	(83,870)	-	-	-	-	-	-	-	**39,351,779**
Reserves	26,929,739	-	26,929,739	12,774,792	1,325	(19,724)	-	-	-	-	-	-	-	**39,686,132**
a) income-related	27,704,190	-	27,704,190	12,774,792	1,325		-	-	-	-	-	-	-	**40,480,307**
b) other	(774,451)	-	(774,451)	-	-	(19,724)	-	-	-	-	-	-	-	**(794,175)**
Valuation reserves	350,413	-	350,413	-	-	-	-	-	-	-	-	-	167,251	**517,664**
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-		-	-	(52,476)	-	-	-	-	-	**(52,476)**
Profit for the year	17,037,107	-	17,037,107	(12,774,792)	(4,262,315)	-	-	-	-	-	-	-	24,481,013	**24,481,013**
Equity	**93,403,434**	-	**93,403,434**	-	**(4,260,990)**	**(103,594)**	-	**(52,476)**	-	-	-	-	**24,648,264**	**113,634,638**

STATEMENT OF CASH FLOWS (direct method)

(Amounts in Euros)

	2017	2016
A. OPERATING ACTIVITIES		
1. Operations	**32,696,435**	**29,052,795**
▪ interest income collected	87,392,999	83,858,668
▪ interest expense paid	(16,583,720)	(15,357,677)
▪ dividends and similar income	226,667	
▪ net fees and commissions	10,667,176	8,625,482
▪ personnel expense	(13,124,704)	(12,241,166)
▪ other expenses	(19,671,523)	(39,785,185)
▪ taxes and duties	(16,210,460)	3,952,673
2. Cash flows generated by (used for) financial assets	**(228,473,220)**	**484,937,051**
▪ financial assets held for trading	(186,639)	(1,100,939)
▪ available-for-sale financial assets	230,100,416	412,011,710
▪ loans and receivables with customers	(493,753,072)	136,392,983
▪ loans and receivables with banks: on demand	35,473,100	(69,285,763)
▪ loans and receivables with banks: other	-	-
▪ other assets	(107,025)	6,919,060
3. Cash flows generated by (used for) financial liabilities	**297,705,342**	**(451,575,684)**
▪ due to banks: on demand	59,406,980	96,050,457
▪ due to banks: other	-	-
▪ due to customers	27,289,016	(621,495,884)
▪ securities issued	191,440,533	70,227,350
▪ other liabilities	19,568,813	3,642,393
Net cash flows generated by operating activities	**101,928,557**	**62,414,162**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**3,239,875**
▪ sales of equity investments	-	2,926,922
▪ dividends from equity investments	-	312,953
▪ sales/reimbursements of held-to-maturity investments	-	-
▪ sales of property and equipment	-	-
▪ sales of intangible assets	-	-
▪ sales of subsidiaries and business units	-	-
▪ merger	-	-
2. Cash flows used in	**(95,751,415)**	**(61,349,067)**
▪ purchases of equity investments	(11,300,064)	(61,336,332)
▪ purchases of held-to-maturity investments	(84,177,932)	-
▪ purchases of property and equipment	(270,664)	(12,735)
▪ purchases of intangible assets	(2,755)	-
▪ purchases of subsidiaries and business units	-	-
Net cash flows used in investing activities	**(95,751,415)**	**(58,109,192)**
C. FINANCING ACTIVITIES		
▪ issues/repurchases of treasury shares	-	(52,476)
▪ issues/repurchases of equity instruments	-	-
▪ dividend and other distributions	(6,112,000)	(4,260,991)
Net cash flows used in financing activities	**(6,112,000)**	**(4,313,467)**
NET CASH FLOWS FOR THE YEAR	**65,142**	**(8,496)**

RECONCILIATION

Cash and cash equivalents at the beginning of the year	95,755	104,251
Total net cash flows for the year	65,142	-8,496
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	160,897	95,755

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 2017 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 by the Bank of Italy Circular no. 262 of 22 December 2005 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, revenues, 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 accounting policies

The Separate financial statements are drawn up with clarity and are a true and fair presentation of the financial position, results of operations, cash flows, and changes in equity and comprise the statement of financial position, the income statement, statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the separate financial statements. The Separate financial statements are accompanied by the Director's Report on management 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 presentation 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 an ongoing business guaranteed by the financial support of the Shareholders;
- costs and income are accounted for on an accrual 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 financial 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 relevance 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. The valuations are performed using models that include numerous quantitative and qualitative elements such as, among others, historical collection data, expected cash flows and their relative expected recovery times, the existence of indicators pointing to possible impairment, the valuation of any guarantees and the impact of risks relative to 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. Amounts presented in the separate financial statements are in thousands of Euro.

Note the following in reference to regulatory developments in the IFRS:

IFRS 9

On 24 July 2014, the IASB completed its review of IAS 39 by issuing IFRS 9 "Financial Instruments", which must be applied beginning on 01 January 2018.

At the beginning of 2017, the Bank initiated a project aimed at determining the qualitative and quantitative impact on the separate financial statements, as well as to identify and then implement the necessary changes at organisational, internal policy and IT system levels.

IFRS 9, which will replace the current IAS 39 "Financial Instruments: Recognition and Measurement", introduces important new requirements with regard to:

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

With regard to classification and measurement, the Bank has ended its detailed review of the cash flow characteristics of the financial instruments classified at amortised cost under IAS 39. No financial assets have been identified that must be measured at their fair value since the SPPI (Solely Payments of Principal and Interest) test was passed in all cases that were analysed. The activity will end when the Board of Directors approves the new policies.

Simulations carried out thus far at a financial position/results of operations and organisational level from implementing the new impairment model based on the "expected loss" concept, compared to the current "incurred loss" model, did not identify any significant impact.

Therefore, with regard to the transitory measures aimed at minimising the impact of introducing IFRS 9, the Banca Sistema Group has decided not to apply the provisions set out in regulations 2017/2395 during the transitory period. Therefore, beginning on 1 January 2018, the Banca Sistema Group will fully implement the effects of applying IFRS 9 to its own funds and large exposures.

Please note that the balancing entry of the final impact will be recognised in equity upon first-time adoption.

IFRS 15

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" whose adoption is mandatory beginning on 1 January 2018.

This standard sets a new revenue recognition model based on five steps that will be applied to all contracts entered into with customers except for:

- lease contracts that fall under the scope of IAS 17;
- insurance contracts that fall under the scope of IFRS 4;
- financial instruments and other rights and obligations that fall under the scope of IFRS 9, IFRS 10, IFRS 11, IAS 27 and IAS 28, respectively.

The five steps necessary for recognising revenues according to the new model are:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations;
- recognise revenue when (or as) each performance obligation is satisfied.

Based on an analysis of the regulatory provisions of the standard, as well as the main types of contracts that fall within them, the provisionally estimated quantitative impacts of first application are not significant. Therefore, the main effects are the increased volume of required disclosures under the new standard.

IFRS 16

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

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.

During the 2018 financial year, the Bank will perform an analysis of the main innovations introduced by this standard.

SECTION 3 - Subsequent events

With regard to IAS 10, after 31 December 2017, the reference date of the separate financial statements, and up to 08 March 2018, the date that 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

1. Financial assets held for trading

Classification criteria

This item classifies the financial instruments on a cash basis held for trading[10]. A financial asset or liability is classified as held-for-trading (so-called Fair Value Through Profit or Loss - FVPL), and recognised under item 20 "Financial assets held for trading" or 40 "Financial liabilities held for trading", if it is:

- purchased or held mainly to sell it or repurchase it in the short term;
- part of a portfolio of identified financial instruments managed on a single basis and where there is evidence of a recent and effective strategy aimed at obtaining profit in the short term;
- a derivative (apart from designated derivatives that are effective hedging instruments - see paragraph below on this issue).

Recognition criteria

Initial recognition of financial assets held for trading occurs: i) at the settlement date for debt instruments, equity instruments and OEIC units; ii) at the subscription date for derivative contracts.

The initial recognition of financial assets held for trading is at fair value, not including any transaction costs or income that are directly recognised on the income statement even though directly attributable to the instrument.

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 held for trading are measured at fair value with any fair value gains or losses charged to the income statement.

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".

The realised profits and losses deriving from the transfer or repayment, and the unrealised gains and losses from changes in the fair value of financial assets held for trading are recognised in the item "net trading income (expense)" on the income statement.

Derecognition criteria

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

[10] The positions held for trading purposes are those that are meant to be subsequently transferred in the short term and/or held in order to provide short-term benefits in the difference between the purchase and the sales price or other price changes or interest rate changes. The positions are intended to mean own positions or positions resulting from customer services or trading support (Market making).

2. Available-for-sale financial assets

Classification criteria

The non-derivative financial assets that are not classified as "financial assets held for trading" or "financial assets at fair value through profit or loss" or "held-to-maturity investments" or "loans and receivables" are classified in this item.

The investments "available for sale" are financial assets that are intended to be retained for an indefinite period and that may be sold for reasons of liquidity, changes in interest rates, exchange rates or market prices.

A financial instrument is designated to the category in question when it is initially recognised or following any reclassifications in accordance with paragraphs 50 to 54 of IAS 39, as amended by Regulation (EC) no. 1004/2008 of the European Commission of 15 October 2008.

Recognition criteria

Initial recognition of available-for-sale 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, available-for-sale 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".

With reference to the valuation reserves relating to debt instruments issued by the Central Authorities of countries belonging to the European Union, the Bank of Italy issued an order on 18 May 2010 recognising - for the purposes of calculating the regulatory capital (prudential filters) - the option of fully neutralising the capital gains and losses reported in the aforesaid reserves after 31 December 2009. The Bank availed of that option starting from calculation of the regulatory capital.

Impairment testing is performed in accordance with paragraphs 58 et seq. of IAS 39 at every year-end. As regards equity instruments listed on an active market, a significant or prolonged reduction of the fair value below the purchase cost is also evidence of impairment.

If the fair value is reduced in cost by more than 50% or in duration by more than 18 months, the impairment is considered to be permanent. If, however, the decrease in the fair value of the cost of the instrument is lower than or equal to 50% but above 20%, or in duration by not more than 18 months but not less than 9, the Bank will analyse other income and market indicators. If the results of said analysis are such as to shed doubt on the possibility of recovering the amount originally invested, permanent impairment will be recognised. The amount transferred to the income statement is therefore equal to the difference between the carrying amount (acquisition cost net of any impairment losses already recognised in the income statement) and the current fair value.

The amount of any impairment is recognised under the income statement item "net impairment losses on available-for-sale financial assets". This amount also includes the reversal to the income statement of the gains/losses on the fair value measurement previously recognised in the specific equity reserve. If, in a future period, the fair value of the financial instrument increases and the increase can objectively be correlated to an event that occurred after the impairment loss was reported in the income statement, the impairment loss must be eliminated by recognising a reversal of impairment losses in the same income statement line where monetary items (debt instruments, for example) are recognised, and to equity when they relate to non-monetary elements (equity instruments, for example). The reversal of impairment losses that can be recognised in the income statement cannot in any case exceed the amortised cost that the instrument would have had in the absence of previous impairment losses.

Interest income on the aforesaid financial assets is calculated by applying effective interest rate criteria with recognition of the result under the income statement item “interest and similar income”.

The gains or losses deriving from the disposal or reimbursement of the aforementioned financial assets are recognised in the income statement item "Gain (loss)from sales or repurchase of: available-for-sale financial assets" and include the possible reversal to the income statement of the gains/losses on the fair value measurement previously recognised in the specific equity reserve.

Derecognition criteria

Available-for-sale 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.

3. Held-to-maturity investments

Held-to-maturity investments (HTM) are non-derivative financial assets, with fixed or calculable payments and fixed maturities for which there is the objective intention and capacity to hold them to maturity. The following are not included:

(a) those held for trading and those carried at fair value upon initial recognition reported in the income statement (see par-agraph 1: financial assets held for trading);

(b) those designated as available for sale (see previous paragraph);

(c) those that meet the definition of receivables and loans (see paragraph below).

When the separate financial statements or interim accounts are being drafted, the intention and capacity to hold financial assets to maturity is assessed.

These assets are reported under item “50 Held-to-maturity investments”.

Recognition criteria

Held-to-maturity investments are initially recognised when, and only when, the Bank becomes party to the contractual clauses of the instrument, or at the time of disbursement, at an amount equal to the cost, inclusive of any directly attributable costs and income. If the recognition of this asset in this category derives from reclassification from the “available-for-sale financial assets” of - only in rare circumstances if the asset is no longer owned for the purpose of selling or repurchasing it in the short term - by the “financial assets held for trading”, the fair value of the asset, recognised at the time of transfer, is taken as the new measurement of the amortised cost of this asset.

Measurement criteria

Held-to-maturity investments are measured at amortised cost, using the effective interest rate method (for a definition of this, please refer to the paragraph below “Receivables and Loans”). Profits resulting from the application of this method are recognised on the income statement under “10 Interest and similar income”.

Impairment testing of the assets is performed when drafting the separate financial statements or the interim reports. If there is impairment, the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the original effective interest rate, is charged to the income statement under “130 Net impairment losses on c) held-to-maturity investments”. The same income statement item also reports any reversals of impairment losses recognised if the reasons behind the previous impairment losses are no longer valid.

The fair value of the held-to-maturity investments is determined for information purposes or to ensure effective hedging against exchange risk or credit risk (in relation to the risk subject to hedging).

Derecognition criteria

Held-to-maturity investments are derecognised when the contractual rights on the cash flows deriving from the assets are expired, or in the case of a transfer, when the same entails the substantial transfer of all risks and rewards related to the assets. Gains and losses from the sale of held-to-maturity investments are charged to the income statement under the item "100 Gain (loss) from sales or repurchases of c) held-to-maturity investments".

4. Loans and receivables

4.1. Loans and receivables with banks

Classification criteria

This category includes cash financial assets held at banks that provide for fixed or calculable payments and are not listed on a market (current accounts, guarantee deposits, debt instruments etc.).

It also includes loans and receivables with Central Banks that are not demand deposits (which are recognised under "Cash and cash equivalents").

Please refer to paragraph 4.2 below "Loans and receivables with customers" for information regarding classification, measurement, derecognition and recognition of the income items of the receivables.

4.2. Loans and receivables with customers

Classification criteria

Loans and receivables with customers include unstructured cash financial assets for customers that have fixed or calculable payments and that are not quoted on an active market.

Most loans and receivables with customers comprise on demand advances to customers as part of the factoring of non-recourse receivables acquired with respect to the Public Administration, where there are no contractual clauses that would prevent them from being recognised.

In accordance with the general principle of the precedence of economic substance over legal form, a company may derecognise a financial asset from its financial statements only if it is through a transfer of the risks and rewards related to the transferred instrument.

IAS 39 provides that a company can only derecognise a financial asset from its financial statements if and only if:

a) the financial asset is transferred and, with this, essentially all of the risks and contractual rights to the cash flows deriving from the asset;
b) the rewards attached to ownership of the asset are no longer valid.

The following conditions must be checked on an alternative basis in order for the financial asset to be transferred:

a) the company has transferred the rights to receive cash flows from the financial asset;
b) the company has maintained the right to receive the cash flows from the financial asset, but has assumed the obligation to pay them to one or more beneficiaries as part of an agreement in which the following conditions are met:
   - the company is under no obligation to pay predetermined sums to any beneficiary apart from what is received from the original financial asset;
   - the company may not sell or pledge the financial asset;
   - the company is under an obligation to transfer any cash flows that it collects, on behalf of any beneficiaries, without delay. Any investment of the cash flows for a period between collection and payment must take place only with financial assets that are equivalent to cash and therefore with no right to any interest that has accrued on said invested sums.

In order to verify the transfer of a financial asset that results in the derecognition of the assignor from the financial statements, for each transfer the assigning company must assess the extent of any risks and rewards connected to the financial asset it holds.

In order to evaluate the actual transfer of the risks and rewards, the exposure of the assigning company must be compared with the variability of the present value or the cash flows generated by the financial asset transferred, before and after the assignment.

The assigning company essentially maintains all the risks and rewards when its exposure to the "variability" of the present value of the net future cash flows does not change significantly following its transfer. However, there is a transfer when the exposure to this "variability" is no longer significant.

In summary, there can be three situations and each has specific effects, namely:

a) if the company transfers almost all of the risks and rewards of ownership of the financial asset, it must derecognise the financial asset and recognise the rights or obligations deriving from the assignment separately as assets or liabilities;

b) if the company maintains almost all the risks and rewards of ownership of the financial asset, it must continue to recognise the financial asset;

c) if the company does not transfer or maintain almost all of the risks and rewards of ownership of the financial asset, it must evaluate the elements of control of the financial asset, and:
   - if it does not have control, it must derecognise the financial asset and separately recognise the individual assets/liabilities resulting from the rights/obligations of the assignment;
   - if it maintains control, it must continue to recognise the financial asset up to the limit of its investment commitment.

In order to check control, the discriminating factor to consider is the beneficiary's capacity to unilaterally assign the financial asset without any restrictions by the assigning company. If the beneficiary of a financial asset transfer can sell the entire financial asset to a non-related third party and can do it unilaterally without having to impose any further limitations on the transfer, the assigning company no longer controls the financial asset. In all other cases, it maintains control over the financial asset.

The most frequently used forms of assigning a financial instrument may have profoundly different accounting effects:

- in the case of non-recourse transactions (with no guarantee restrictions), the assigned assets may be derecognised from the assigning company's financial statements;
- in the case of a with-recourse assignment, in the majority of cases, the risk connected to the transferred asset re-mains with the seller and, therefore the assignment does not meet the requirements to have the instrument sold derecognised.

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/reversals of impairment losses 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 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 estimation of future payments and of contractual duration of the loan considers all contractual clauses that may influence the amounts and the maturities (such as, for example, early repayment and various exercisable options), without considering, on the other hand, any losses expected on the loan.

Furthermore, an analysis is always performed to identify problem loans that show objective evidence of possible impairment at year end. The methods used to calculate the analytical and generic impairment losses applied to the loans and receivables portfolio are described below.

In particular, exposures classified as non-performing loans are analysed in order to quantify the potential impairment of the individual loan. With reference to the non-performing positions from the factoring portfolio with the Public Administration, the Bank recognises an analytical impairment loss for the Municipalities who are registered as having “financial difficulty” status in accordance with Legislative Decree 267/00.

If appropriate impairment losses were not recognised at the pricing stage, the Bank recognises an analytical impairment loss on the outstanding amount of the loan net of the rediscount, which has not yet fallen due. The impairment percentage, without the Bank loss figures, was defined in accordance with the market benchmark.

On the other hand, with respect to the credit positions from the factoring portfolio where the debtor counterparty is a private company, the Bank does not recognise bad exposures and therefore only applies a collective impairment loss to those positions.

For all the factoring portfolio credit positions that are classified as unimpaired and past due (Public Administration and private), the Bank recognises a prudential impairment loss, defining a segment of the portfolio through specific clusters defined when acquiring the portfolios and for which it makes in-depth assessments at the pricing stage, and therefore on those types of receivables and also exposures to Central Administration offices (for example Ministries).

On the other hand, with respect to the exposures related to ordinary factoring receivables, a generic impairment loss was recognised by applying a fixed percentage to the factoring portfolio.

With reference to the non-performing loans forming part of the SME portfolio, the Bank recognises an impairment loss on the entire portion of the loan that is not backed by the Guarantee Fund issued by Mediocredito Centrale.

With respect to performing SME loans, the Bank defined a generic impairment loss in accordance with the percentage of non-performing income observed on its portfolio.

With respect to the pension and salary-backed loans, since no non-performing positions have been recognised, the Bank recognised impairment losses on the receivables based on market benchmarks.

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.

5. Financial assets at fair value through profit or loss

At the reporting date, the Bank did not hold any “Financial assets at fair value through profit or loss”.

6. Hedging transactions

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

7. 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.

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, reversals of impairment losses are made to 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.

Recognition criteria of income components

In accordance with IAS 18, dividends are recognised when the right of the shareholder to receive payment has been established and, therefore, after the date of resolution of the Shareholders' Meeting of the investee.

8. 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 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 to 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, a reversal of impairment losses 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 the 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.

9. 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 equity components 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 equity elements acquired, it is recognised directly to 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.

10. Non-current assets classified as held for sale

At the date of the separate financial statements, the Bank did not hold any non-current assets classified as held for sale.

11. Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement based on the accruals criteria, 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 the “current tax liabilities” depending on whether it is positive or negative.

12. 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 recognised as “net accruals to provisions for risks and charges”.

13. Liabilities and securities issued

Classification criteria

Due to banks and due to customers include the various forms of inter-banking or customer financing deposits (current accounts, demand and bonded deposits, loans, repurchase agreements, etc.) whereas securities issued include all the liabilities issued (bond loans not classified as “financial liabilities at fair value through profit or loss”, etc.).

All the financial instruments issued by the Bank are expressed in the separate financial statements net of any amounts repurchased and include those that have matured at the reporting date but have not yet been reimbursed.

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.
Any derivative contracts included in said financial liabilities, which are subject to the provisions of IAS 32 and 39, are broken down and measured separately.

Measurement criteria

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.

14. Financial liabilities held for trading

At the reporting date, the Bank did not have any "Financial liabilities held for trading".

15. Financial liabilities at fair value through profit or loss

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

16. Foreign currency transactions

Foreign currency assets and liabilities include, in addition to those explicitly designated in a currency other than the Euro, those that include financial indexing clauses associated with the Euro exchange rate with a designated currency or a designated bundle of currencies.
In accordance with the translation methods to be used, the assets and liabilities in currencies are subdivided between monetary and non-monetary items.

Recognition criteria

Foreign currency transactions are recognised, at the time of initial recognition, in Euro, applying the spot exchange rates in force on the date of the transaction to the amount in foreign currency.

Measurement criteria

At each reporting date:

- the monetary items in foreign currencies are translated using the closing exchange rates;
- the non-monetary items measured at historical cost in foreign currencies are translated at the transaction-date exchange rate;
- the non-monetary items measured at fair value in foreign currencies are translated at the exchange rate in effect on the date the fair value is determined.

The differences in the exchange rates that result from the settlement of monetary items or the translation of monetary items at rates that differ from the initial translation rates, or the translation rates on the date of the previous separate financial statements, are recognised in the income statement for the financial year in which they occur in "Net trading income (expense)" or if they relate to financial assets/liabilities for which the fair value option is used in accordance with IAS 39, in the "Net fair value gains (losses) on financial assets and liabilities".
When a gain or a loss related to a non-monetary item is recognised in equity, the translation difference relative to said item is also recognised in equity in the year in which it occurs. On the other hand, if the gains or losses of a non-monetary item are recognised in the income statement, the translation difference is also recognised in the income statement in the year in which they occur as stated above.

17. Other information

17.1. 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.

17.2. 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 that 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 from the difference between the spot price and the forward price thereof, are recognised for the accrual period under interest in the income statement.

17.3. 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-type 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 Bank 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 mon-ey, 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 ref-erenced 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 counter-party 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 Bank 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 valuation is not based on prices of the same financial instrument subject to valuation, 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 valuation.

  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 counterpar-ty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or ob-tained 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.

17.4 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 a participatory relation 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, capital 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 operations;

- the exchange date is the date of each transaction operation (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 body'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.

17.5 Derecognition

This is the removal from the statement of financial position of a financial asset or liability that had previously been recognised.

Before assessing the existence of the conditions for removing financial assets from the financial statements, it has to be checked whether these conditions must be applied to these assets as a whole or only in part in accordance with IAS 39. The derecognition rules are applied to the part of the financial assets to be transferred only if at least one of the following requirements have been met:

- the part comprises only cash flows that relate to a financial asset (or a group of assets) that are specifically identified (for example, only the portion of interest relating to the asset);
- the part comprises the cash flows in accordance with a precisely identified percentage of their total (for example, 90% of all cash flows deriving from the asset);
- the part includes a precisely identified portion of specifically identified cash flows (for example, 90% of cash flows only of the portion relating to the asset).

If the aforementioned criteria are not met, the derecognition standards must apply to the financial asset (or group of financial assets) as a whole.

The conditions for the complete derecognition of a financial asset are the extinction of the contractual rights, such as their natural maturity, or the transfer to another counterparty of cash flows deriving from this asset.

Payment rights are considered to be transferred if contractual rights are held to receive the cash flows from the asset, but an obligation is assumed to pay these flows to one or more entities and all three of the following conditions are satisfied (pass-through agreement):

- the Bank is under no obligation to pay out amounts uncollected from the original assets;
- the sale and offering as guarantees of the original asset is prohibited, except if it guarantees the obligation to pay finan-cial flows;
- the Bank is obliged to transfer immediately all the financial flows that it receives and has no right to invest them, except for investments in liquid assets during the short period between the collection and payment dates, under the condition that the interest accrued over the period is paid.

In addition, the derecognition of a financial asset is subject to a check being carried out that all the risks and rewards deriving from holding the rights have effectively been transferred (true sale). If there is a transfer of substantially all the risks and rewards, the transferred asset (or group of assets) will be derecognised and the rights and obligations relating to the transfer will be recognised as assets or liabilities. On the other hand, if the risks and rewards are maintained, the transferred asset (or group of assets) must continue to be recognised. In that case, a liability corresponding to the amount received as consideration for the transfer, and subsequently, all the income accrued on the assets as well as all the expenses accrued on the liabilities must be recognised.

The main transactions that do not allow a financial asset to be derecognised fully are receivable securitisation transactions, repurchase agreements and security lending transactions based on the aforementioned rules. In the case of repurchase agreements and security lending transactions, the assets that are the object of the transactions are not derecognised from the separate financial statements since the terms of the transactions require all the associated risks and rewards to be maintained.

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

A.3.1 Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

No financial instruments were transferred between portfolios.

A.3.2 Reclassified financial assets: effects on comprehensive income before transfer

No financial assets were reclassified.

A.3.3 The transfer of financial assets held for trading

No financial assets held for trading were transferred.

A.3.4 Effective interest rate and expected cash flows from the reclassified assets

No cash flows are expected from the reclassified assets.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

A.4.1 Fair value levels 2 and 3: measurement 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

In order to prepare the separate financial statements, the fair value hierarchy used was the following:

- 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.

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.

	31/12/2017			31/12/2016		
Financial assets/Liabilities measured at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	1,201	-	-	996	-	-
2. Financial assets at fair value through profit or loss	-	-	-	-	-	-
3. Available-for-sale financial assets	280,610	-	5,000	509,838	-	5,000
4. Hedging derivatives	-	-	-	-	-	-
5. Property and equipment	-	-	-	-	-	-
6. Intangible assets	-	-	-	-	-	-
TOTAL	**281,811**	-	**5,000**	**510,834**	-	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

On.4.5.2 Changes in assets measured at fair value on a recurring basis (level 3)

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Hedging derivatives	Property and equipment	Intangible assets
1. Opening balance	**-**	**-**	**5,000**	**-**	**-**	**-**
2. Increases	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Purchases	-	-	-	-	-	-
2.2 Gains recognised in:	-	-	-	-	-	-
2.2.1 Profit or loss	-	-	-	-	-	-
- *of which: gains on sales*	-	-	-	-	-	-
2.2.2 Equity	-	-	-	-	-	-
2.3 Transfers from other levels	-	-	-	-	-	-
2.4 Other increases	-	-	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**	**-**	**-**
3.1 Sales	-	-	-	-	-	-
3.2 Repayments	-	-	-	-	-	-
3.3 Losses recognised in:	-	-	-	-	-	-
3.3.1 Profit or loss	-	-	-	-	-	-
- of which losses on sales	-	-	-	-	-	-
3.3.2 Equity	-	-	-	-	-	-
3.4 Transfers to other levels	-	-	-	-	-	-
3.5 Other decreases	-	-	-	-	-	-
4. Closing balance	**-**	**-**	**5,000**	**-**	**-**	**-**

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	31/12/2017				31/12/2016			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity investments	84,178	84,178	-	-	-	-	-	-
2. Loans and receivables with banks	35,809	-	-	35,809	71,282	-	-	71,282
3. Loans and receivables with customers	1,861,118	-	-	1,861,118	1,312,636	-	-	1,312,636
4. Investment property	-	-	-	-	-	-	-	-
5. Non-current assets classified as held for sale and disposal groups	-	-	-	-	-	-	-	-
Total	**1,981,105**	**84,178**	**-**	**1,896,927**	**1,383,918**	**-**	**-**	**1,383,918**
1. Due to banks	517,533	-	-	517,533	458,126	-	-	458,126
2. Due to customers	1,284,132	-	-	1,284,132	1,256,843	-	-	1,256,843
3. Securities issued	281,770	-	-	281,770	90,330	-	-	90,330
4. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
Total	**2,083,435**	**-**	**-**	**2,083,435**	**1,805,299**	**-**	**-**	**1,805,299**

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

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

Nothing to report.

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31/12/2017	31/12/2016
a. Cash	161	96
TOTAL	**161**	**96**

SECTION 2 - FINANCIAL ASSETS HELD FOR TRADING - ITEM 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Assets						
1. Debt instruments	-	-	-	-	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	-	-	-	-	-	-
2. Equity instruments	1,201	-	-	996	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
TOTAL A	**1,201**	-	-	**996**	-	-
B. Derivatives	-			-		
1. Financial derivatives	-	-	-	-	-	-
1.1 Trading	-	-	-	-	-	-
1.2 Associated with fair value option	-	-	-	-	-	-
1.3 Other	-	-	-	-	-	-
Credit derivatives	-	-	-	-	-	-
2.1 Trading	-	-	-	-	-	-
2.2 Associated with fair value option	-	-	-	-	-	-
2.3 Other	-	-	-	-	-	-
TOTAL B	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL (A+B)	**1,201**	**-**	**-**	**996**	**-**	**-**

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

	31/12/2017	31/12/2016
A. ASSETS		
1. Debt instruments	-	-
a. Governments and Central Banks	-	-
b. Other public institutions	-	-
c. Banks	-	-
d. Other issuers	-	-
2. Equity instruments	**1,201**	**996**
a. Banks	-	-
b. Other issuers:	1,201	996
▪ insurance companies	-	-
▪ financial companies	-	-
▪ non-financial companies	1,201	996
▪ other	-	-
3. OEIC units	-	-
4. Financing	-	-
a. Governments and Central Banks	-	-
b. Other public institutions	-	-
c. Banks	-	-
d. Other	-	-
TOTAL A	**1,201**	**996**
B. DERIVATIVES	-	-
a. Banks	-	-
▪ fair value	-	-
b. Customers	-	-
▪ fair value	-	-
TOTAL B	-	-
TOTAL (A+B)	**1,201**	**996**

SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - ITEM 40

4.1 Available-for-sale financial assets: breakdown by product

	31/12/2017			31/12/2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	278,847	-	-	507,873	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	278,847	-	-	507,873	-	-
2. Equity instruments	1,763	-	5,000	1,965	-	5,000
2.1 FVTPL	*1,763*	-	*5,000*	*1,965*	-	*5,000*
2.2 Cost	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
TOTAL	**280,610**	**-**	**5,000**	**509,838**	**-**	**5,000**

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

	31/12/2017	31/12/2016
1. Debt instruments	**278,847**	**507,873**
a) Governments and Central Banks	278,847	507,873
b) Other public institutions	-	-
c) Banks	-	-
d) Other issuers	-	-
2. Equity instruments	**6,763**	**6,965**
a) Banks	5,000	5,000
b) Other issuers	1,763	1,965
insurance companies	-	-
financial companies	-	-
non-financial companies	1,763	1,965
other	-	-
3. OEIC units	**-**	**-**
4. Financing	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public institutions	-	-
c) Banks	-	-
d) Other	-	-
TOTAL	**285,610**	**514,838**

SECTION 5 - HELD-TO-MATURITY INVESTMENTS - ITEM 50

5.1 Held-to-maturity investments: breakdown by product

	31/12/2017				31/12/2016			
	CA	Fair value			CA	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments	84,178	84,178						
1.1 Structured instruments								
1.2 Other debt instruments	84,178	84,178						
2. Financing								
TOTAL	**84,178**	**84,178**						

Key:
CA = carrying amount

5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2017	31/12/2016
1. Debt instruments	**84,178**	
a) Governments and Central Banks	84,178	
b) Other public institutions		
c) Banks		
d) Other issuers		
2. Financing		
a) Governments and Central Banks		
b) Other public institutions		
c) Banks		
d) Other		
TOTAL	**84,178**	
TOTAL FAIR VALUE	**84,178**	

SECTION 6 - LOANS AND RECEIVABLES WITH BANKS - ITEM 60

6.1 Loans and receivables with banks: breakdown by product

	31/12/2017				31/12/2016			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Loans and receivables with Central Banks	**18,534**				**62,441**			
1. Term deposits	-	X	X	X	-	X	X	X
2. Minimum reserve	18,534	X	X	X	62,441	X	X	X
3. Reverse repurchase agreements	-	X	X	X	-	X	X	X
4. Other	-	X	X	X	-	X	X	X
B. Loans and receivables with banks	**17,275**	**-**	**-**	**-**	**8,841**	**-**	**-**	**-**
1. Financing	**17,275**	**-**	**-**	-	**8,841**	**-**	**-**	-
1.1 Current accounts and demand deposits	17,252	X	X	X	8,491	X	X	X
1.2. Term deposits	-	X	X	X	-	X	X	X
1.3. Other financing:	23	-	-	-	350	-	-	-
Reverse repurchase agreements	-	X	X	X	-	X	X	X
Finance leases	-	X	X	X	-	X	X	X
Other	23	X	X	X	350	X	X	X
2. Debt instruments	**-**	-	-	-	-	-	-	-
2.1 Structured instruments	-	X	X	X	-	X	X	X
2.2 Other debt instruments	-	X	X	X	-	X	X	X
TOTAL	**35,809**	**-**	**-**	**35,809**	**71,282**	**-**	**-**	**71,282**

Key:
CA = Carrying amount
FV = Fair Value

SECTION 7 - LOANS AND RECEIVABLES WITH CUSTOMERS - ITEM 70

7.1 Loans and receivables with customers: breakdown by product

	31/12/2017						31/12/2016					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Non-performing		L1	L2	L3	Performing	Non-performing		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**1,740,082**	**1,103**	**119,933**	-	-	**1,861,118**	**1,209,126**	**1,059**	**102,451**			**1,312,636**
1. Current accounts	17,237	-	57	X	X	X	31,972	-	5	X	X	X
2. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
3. Loans	54,768	-	1,993	X	X	X	62,857	-	16,119	X	X	X
4. Credit cards, personal loans and salary-backed loans	481,160	-	1	X	X	X	265,829	-	320	X	X	X
5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
6. Factoring	837,181	1,103	101,712	X	X	X	743,389	1,059	85,951	X	X	X
7. Other financing	349,736	-	16,170	X	X	X	105,079	-	56	X	X	X
Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
8. Structured instruments	-	-	-	X	X	X	-	-	-	X	X	X
9. Other debt instruments	-	-	-	X	X	X	-	-	-	X	X	X
TOTAL (carrying amount)	**1,740,082**	**1,103**	**119,933**	**-**	**-**	**1,861,118**	**1,209,126**	**1,059**	**102,451**	**-**	**-**	**1,312,636**

This item includes the performing 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.

Factoring Receivables and Salary- and Pension-backed Loans which are mainly recognised not only under their own items but also under "Other financing", amounted to €1,286 million and €500 million respectively. Factoring Receivables include accrued default interest of € 34.1 million. For classification purposes, after granting-acquisition, analyses are performed, that are sometimes complex, aimed at identifying positions that show signs of possible impairment. These analyses take into consideration both internal information tied to the performance of the position, and external information tied to the relevant sector. The valuation of loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity in which valuation models are used that take into consideration numerous quantitative and qualitative elements such as, among others, historical collection data, expected cash flows and their relative expected recovery times, the existence of indicators pointing to possible impairment, the valuation of any guarantees and the impact of risks relative to the sectors in which the Bank's customers operate.

7.2 Loans and receivables with customers: breakdown by debtor/issuer

	31/12/2017			31/12/2016		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Debt instruments:	**-**	**-**	**-**	-	-	-
a) Governments	-	-	-	-	-	-
b) Other Public institutions	-	-	-	-	-	-
c) Other issuers	-	-	-	-	-	-
non-financial companies	-	-	-	-	-	-
financial companies	-	-	-	-	-	-
insurance companies	-	-	-	-	-	-
other	-	-	-	-	-	-
2. Financing to:	**1,740,082**	**1,103**	**119,933**	**1,209,125**	**1,059**	**102,452**
a) Governments	425,515	-	89	236,261	,	736
b) Other Public institutions	532,848	1,103	81,939	440,749	1,059	58,924
c) Other	781,719	-	37,905	532,115	-	42,792
non-financial companies	238,642	-	35,369	249,579	-	41,183
financial companies	7,575	-	-	15,361	-	-
insurance companies	3	-	13	2	-	1
other	535,499	-	2,523	267,173	-	1,608
TOTAL	**1,740,082**	**1,103**	**119,933**	**1,209,125**	**1,059**	**102,452**

SECTION 10 - EQUITY INVESTMENTS - ITEM 100

10.1 Equity investments: information on investment relationships

Names	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
3. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
C. Companies under significant influence			
1. Axactor Italy S.p.A.	**Cuneo, Italy**	10,00%	10,00%

The merger of Beta Stepstone into the Bank became effective on 1 January 2017. For accounting purposes, since this is a restructuring transaction within the group, in accordance with OPI 2 it was excluded from the scope of application of IFRS 3, and the principle of continuity was applied; as a result, the entry in the separate financial statements of the merging company of the equity from the merged company did not lead to the issue of current amounts higher than those expressed in the consolidated financial statements.

10.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest 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	-	159	704	1,543	134	-	(64)	-	(251)	(251)	-	(251)	-	(251)
3. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	23,898	9,286	118	-	(106)	(303)	(462)	(376)	-	(376)	-	(376)

10.4 Non-significant equity investments: accounting information

	Carrying amount of equity investments	Total assets	Total liabilities	Total income	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
C. Companies under significant influence									
1. Axactor Italy S.p.A.	2,678	62,428	57,359	6,736	(1,398)	-	(1,398)	-	(1,398)

Figures presented in accordance with the International Financial Reporting Standards.

10.5 Equity investments: changes

Items/Values	31/12/2017	31/12/2016
A. Opening balance	**61,628**	**2,377**
B. Increases	**11,300**	**60,707**
B.1 Purchases	11,000	60,707
B.2 Reversals of impairment losses	-	-
B.3 Revaluations	-	-
B.4 Other changes	300	-
C. Decreases	**56,706**	**1,456**
C.1 Sales	-	1,456
C.2 Impairment losses	-	-
C.3 Other changes	-	-
C.4 Business combination transactions	56,706	-
D. Closing balance	**16,222**	**61,628**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

The decreases refer to the carrying amount of the equity investment in the subsidiary Beta Stepstone which was merged into the Bank on 1 January 2017.
The increase of € 11 million relates to the share capital increase in the Largo Augusto Servizi e Sviluppo S.r.l. subsidiary which was fully subscribed by Banca Sistema.

SECTION 11 - PROPERTY AND EQUIPMENT - ITEM 110

11.1 Property and equipment: breakdown of the assets measured at cost

	31/12/2017	31/12/2016
1.1. Owned	**814**	**812**
a) land	-	-
b) buildings	-	-
c) furniture	264	247
d) electronic equipment	525	565
e) other	25	-
1.2. Under finance lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
TOTAL	**814**	**812**

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 2017. Depreciation rates:

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

11.5 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**-**	**954**	**1.548**	**-**	**2.502**
A.1 Total net impairment losses	-	-	707	983	-	1.690
A.2 Net opening balances	**-**	**-**	**247**	**565**	**-**	**812**
B. Increases	**-**	**-**	**208**	**196**	**70**	**474**
B.1 Purchases	-	-	49	123	70	242
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
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 Other increases	-	-	-	-	-	-
B.8 Business combination transactions	-	-	159	73	-	232
C. Decreases	**-**	**-**	**191**	**236**	**45**	**472**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	-	53	171	45	269
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) disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	-	-	-	-
C.8 Business combination transactions	-	-	138	65	-	203
D. Net closing balance	**-**	**-**	**264**	**525**	**25**	**814**
D.1 Total impairment losses	-	-	898	1.219	45	2.162
D.2 Gross closing balance	**-**	**-**	**1.162**	**1.744**	**70**	**2.976**
E. Measurement at cost	-	-	264	525	25	814

SECTION 12 - INTANGIBLE ASSETS - ITEM 120

12.1 Intangible assets: breakdown by type of asset

	31/12/2017		31/12/2016	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	**1,786**	-	**1,786**
A.2 Other intangible assets	**4**	-	**35**	-
A.2.1 Assets measured at cost:	4	-	35	-
a. Internally developed assets	-	-	-	-
b. Other	4	-	35	-
A.2.2 Assets measured at fair value	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**4**	**1,786**	**35**	**1,786**

The other intangible assets are recognised at purchase cost including also 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 in 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 Srl 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 2015-2018 period and to a forecast of expected cash flows for the 2019-2021 period, conservatively assuming an estimated growth rate of 2% on an annual basis.

The main parameters used for estimation purposes were as follows:

Risk Free Rate + country risk premium	2.1%
Equity Risk Premium	4.8%
Beta	1.4%
Cost of equity	8.9%
Growth rate "g"	2.0%

The estimated value in use obtained based on the parameters used and the growth assumptions is considerably greater than equity as at 31 December 2017. 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 relative to the Bank's growth rate and the discounting rate of the expected cash flows (quantified in an isolated or simultaneous movement of 50bps), 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 2017.

12.2 Intangible assets: changes

		Other intangible assets: internally generated		Other intangible assets: Other		
	Goodwill	Fin	Indef	Fin	Indef	Total
A. Opening balance	**1,786**	-	-	**3,100**	-	**4,886**
A.1 Total net impairment losses	-	-	-	3,065	-	3,065
A.2 Net opening balances	**1,786**	-	-	**35**	-	**1,821**
B. Increases	-	-	-	**3**	-	-
B.1 Purchases	-	-	-	3	-	-
B.2 Increases in internally generated assets	-	-	-	-	-	-
B.3 Reversals of impairment losses	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
C. Decreases	-	-	-	**34**	-	-
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	34	-	-
- Amortisation	-	-	-	34	-	-
- Impairment losses:	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**1,786**	-	-	**4**	-	**1,790**
D.1 Total net impairment losses	-	-	-	3,099	-	3,099
E. Gross closing balance	**1,786**	-	-	**3,103**	-	**4,889**
F. Measurement at cost	**1,786**	-	-	**4**	-	**1,790**

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 13 - TAX ASSETS AND TAX LIABILITIES - ITEM 130 OF ASSETS AND ITEM 80 OF LIABILITIES

Below is the breakdown of the current tax assets

	31/12/2017	31/12/2016
Current tax assets	**12,308**	**8,777**
IRES prepayments	9,467	6,920
IRAP prepayments	2,811	1,806
Other	30	50
Current tax liabilities	**(8,837)**	**(8,158)**
Provision for IRES	(6,618)	(5,994)
Provision for IRAP	(2,219)	(2,129)
Provision for substitute tax	-	(34)
Total	**3,471**	**619**

13.1 Deferred tax assets: breakdown

	31/12/2017	31/12/2016
Deferred tax assets through profit or loss:	**6,198**	**3,784**
Impairment losses on loans	2,756	1,647
Non-recurring transactions	705	844
Other	2,737	1,293
Deferred tax assets through equity:	**414**	**551**
Non-recurring transactions	414	551
Total	**6,612**	**4,335**

“Other” mainly includes deferred taxes on temporary differences arising from the allocation of the purchase price of Beta.

13.2 Deferred tax liabilities: breakdown

	31/12/2017	31/12/2016
Deferred tax liabilities through profit or loss:	**9,829**	**3,234**
Uncollected default interest income	9,633	3,231
AFS (available-for-sale) securities	-	-
Other	196	3
Deferred tax liabilities through equity:	**289**	**336**
AFS (available-for-sale) securities	289	336
Total	**10,118**	**3,570**

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

	31/12/2017	31/12/2016
1. Opening balance	**3,784**	**3,197**
2. Increases	**4,388**	**1,086**
2.1 Deferred tax assets recognised in the year	-	1,086
a. related to previous years	-	-
b. due to the changes in accounting policies	-	-
c. reversals of impairment losses	-	-
d. other	1,170	1,086
e. business combination transactions	3,218	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**1,974**	**499**
3.1 Deferred tax assets derecognised in the year	1,974	499
a. reversals	-	499
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	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	**6,198**	**3,784**

13.3.1 Change in deferred tax assets pursuant to Law 214/2011

	31/12/2017	31/12/2016
1. Opening balance	**2,373**	**2,658**
2. Increases	**1,362**	**-**
3. Decreases	**306**	**285**
3.1 Reversals	-	72
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	306	213
4. Closing balance	**3,429**	**2,373**

13.4 Change in deferred tax liabilities (through profit or loss)

	31/12/2017	31/12/2016
1. Opening balance	**3,234**	**598**
2. Increases	**7,934**	**3,231**
2.1 Deferred tax liabilities recognised in the year	7,934	3,231
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	4,007	3,231
d. business combination transactions	3,927	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**1,339**	**595**
3.1 Deferred tax liabilities derecognised in the year	1,339	595
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	1,339	595
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**9,829**	**3,234**

13.5 Change in deferred tax assets (recognised in equity)

	31/12/2017	31/12/2016
1. Opening balance	**551**	**618**
2. Increases	-	**37**
2.1 Deferred tax assets recognised in the year	-	37
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	-	37
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**137**	**104**
3.1 Deferred tax assets derecognised in the year	137	104
a. reversals	137	104
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	-	-
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**414**	**551**

13.6 Change in deferred tax liabilities (recognised in equity)

	31/12/2017	31/12/2016
1. Opening balance	**336**	**206**
2. Increases	**289**	**336**
2.1 Deferred tax liabilities recognised in the year	289	336
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	289	336
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**336**	**206**
3.1 Deferred tax liabilities derecognised in the year	336	206
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	336	206
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**289**	**336**

SECTION 15 - OTHER ASSETS - ITEM 150

15.1 Other assets: breakdown

	31/12/2017	31/12/2016
Tax advances	8,357	10,550
Other	2,777	65
Work in progress	995	1,592
Prepayments not related to a specific item	630	537
Trade receivables	473	386
Leasehold improvements	156	264
Security deposits	53	54
TOTAL	**13,441**	**13,448**

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 2018.

LIABILITIES

SECTION 1 - DUE TO BANKS - ITEM 10

1.1 Due to banks: breakdown by product

	31/12/2017	31/12/2016
1. Due to Central banks	**192,064**	**192,850**
2. Due to banks	**325,469**	**265,276**
2.1 Current accounts and demand deposits	13,688	20,039
2.2 Term deposits	311,781	245,237
2.3 Financing	-	-
2.3.1 Repurchase agreements	-	-
2.3.2 Other	-	-
2.4 Commitments to repurchase own equity instruments	-	-
2.5 Other payables	-	-
Total	**517,533**	**458,126**
Fair value - level 1	**-**	**-**
Fair value - level 2	**-**	**-**
Fair value - level 3	**517,533**	**458,126**
Fair value	**517,533**	**458,126**

SECTION 2 - DUE TO CUSTOMERS - ITEM 20

2.1 Due to customers: breakdown by product

	31/12/2017	31/12/2016
1. Current accounts and demand deposits	510,970	451,229
2. Term deposits	446,366	443,396
3. Financing	326,687	362,163
3.1 Repurchase agreements	215,624	295,581
3.2 Other	111,063	66,582
4. Commitments to repurchase own equity instruments	-	-
5. Other payables	109	55
Total	**1,284,132**	**1,256,843**
Fair value - level 1	-	-
Fair value - level 2	-	-
Fair value - level 3	**1,284,132**	**1,256,843**
Total Fair value	**1,284,132**	**1,256,843**

SECTION 3 - SECURITIES ISSUED - ITEM 30

3.1 Securities issued: breakdown by product

	31/12/2017				31/12/2016			
		Fair Value				Fair Value		
	Carrying amount	Level 1	Level 2	Level 3	Carrying amount	Level 1	Level 2	Level 3
A. Securities								
1. bonds	281,770	-	-	281,770	90,330	-	-	90,330
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	281,770	-	-	281,770	90,330	-	-	90,330
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**281,770**	-	-	**281,770**	**90,330**	-	-	**90,330**

3.2 Breakdown of item 30 "Securities issued": subordinated securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Innovative equity instruments: mixed rate -	Until 13 June 2023, fixed rate at 7%	Perpetual	8,000	8,017
Tier 2 Capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Tier 2): ISIN IT0004869712	6 month Euribor + 5.5%	15/11/2022	12,000	12,082
Tier 2 capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Tier 2): ISIN IT0005247397	6 month Euribor + 4.5%	30/03/2027	16,500	16,621
TOTAL					**36,500**	**36,720**

SECTION 8 - TAX LIABILITIES - ITEM 80

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 13 of assets in these notes to the separate financial statements.

SECTION 10 - OTHER LIABILITIES - ITEM 100

10.1 Other liabilities: breakdown

	31/12/2017	31/12/2016
Payments received in the reconciliation phase	43,912	8,234
Tax liabilities with the Tax Authority and other tax authorities	10,261	9,133
Work in progress	7,176	26,812
Trade payables	5,591	5,259
Accrued expenses	3,411	6,398
Due to employees	735	1,651
Pension repayments	659	450
Due to group companies	107	138
Other	64	13
TOTAL	**71,916**	**58,088**

SECTION 11 - POST-EMPLOYMENT BENEFITS - ITEM 110

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

11.1 Post-employment benefits: changes

	31/12/2017	31/12/2016
A. Opening balance	**1,640**	**1,303**
B. Increases	**770**	**557**
B.1 Accruals	412	426
B.2 Other increases	-	132
B.3 Business combination transactions	358	-
C. Decreases	**238**	**221**
C.1 Payments	222	197
C.2 Other decreases	16	23
D. Closing balance	**2,172**	**1,640**
TOTAL	**2,172**	**1,640**

The other increases refer to the actuarial loss accounted for in 2017. The other decreases mainly refer to post-employment benefits paid in 2017.

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

Annual discount rate	1.30%
Annual inflation rate	1.50% for 2017
Annual post-employment benefits increase rate	2.625% for 2017
Annual real 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 12 - PROVISIONS FOR RISKS AND CHARGES - ITEM 120

12.1 Provision for risks and charges: breakdown

	31/12/2017	31/12/2016
1. Internal pension funds		
2. Other provisions for risks and charges	6,698	279
2.1 legal disputes	3,008	-
2.2 personnel expense	3,690	279
2.3 other	-	-
TOTAL	**6,698**	**279**

12.2 Provision for risks and charges: changes

	Pension funds	Other provisions	**Total**
A. Opening balance		**279**	**279**
B. Increases		**9,736**	
B.1 Accruals		3,735	
B.2 Discounting			
B.3 Changes due to discount rate changes			
B.4 Other increases		2,176	
B.5 Business combination transactions		3,826	
C. Decreases		**3,317**	
C.1 Utilisations		100	
C.2 Changes due to discount rate changes			
C.3 Other decreases		2,176	
C.5 Business combination transactions		1,041	
D. Closing balance		**6,698**	**6.698**

The provision for risks and charges of € 6.7 million includes the amount of € 3 million, representing the estimated future liabilities attributable to Beta (merged effective from 1 January 2017). The remaining balance refers to the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and 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 in voluntary arrangement with its creditors, and the estimated charge related to a lawsuit with personnel that is no longer active within the company. In the fourth quarter of 2017, the tax dispute that the Italian Revenue Office had filed against Beta was concluded: this amount paid out was fully covered by the previous controlling shareholder as part of the early closing of the purchase agreement and therefore had no impact on the profit and loss.

SECTION 14 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT- ITEMS 130, 150, 160, 170, 180, 190, 200 AND 220

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

The share capital of Banca Sistema is composed by 80,421,052 ordinary shares with a nominal amount of € 0.12 for 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 S.r.l. (Management Company)	23.10%
Garbifin	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Fondazione Pisa	7.61%
Schroders Group	6.73%
Oyster SICAV (SYZ AM)	5.23%
Market	41.51%

As at 31 December 2017 Banca Sistema held 70,000 treasury shares to service the incentive plan for the Group's key personnel.

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

	Amount 2017	Amount 2016
1. Share capital	9,651	9,651
2. Share premium	39,268	39,352
3. Reserves	59,391	39,686
4. (Treasury shares)	(149)	(53)
5. Valuation reserves	367	517
6. Equity instruments	-	-
7. Profit for the year	27,560	24,481
TOTAL	**136,088**	**113,634**

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

14.2 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 (-)	25,000	-
A.2 Outstanding shares: opening balance	**80,396,052**	**-**
B. Increases	**25,000**	**-**
B.1 New issues	-	-
- against consideration:	-	-
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bond issues:	-	-
- to employees	-	-
- to directors	25,000	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**70,000**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	70,000	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,351,052**	**-**
D.1 Treasury shares (+)	70,000	-
D.2 Closing balance	80,421,052	-
- fully paid-in	80,421,052	-
- not fully paid-in	-	-

14.4 Income-related reserves: other information

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

	Amount as at 31/12/2017	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves		-	-
Share premium reserve	39,268	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	367	-	-
Negative goodwill	435	A,B,C	-
Retained earnings	56,297	A,B,C	
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	**529**		
Treasury shares	(149)	-	-
TOTAL	**108,528**	-	-
Profit fot the year	27,560	-	-
TOTAL EQUITY	**136,088**	-	-
Undistributable portion	**-**	-	-
Distributable portion	-	-	-

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

OTHER INFORMATION

1. Guarantees issued and commitments

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.

Transactions	31/12/2017	31/12/2016
1. Financial guarantees issued	2,804	45
a) Banks	2,159	-
b) Customers	645	45
2. Commercial guarantees issued	-	-
a) Banks	-	-
b) Customers	-	-
3. Irrevocable commitments to disburse funds	-	-
a) Banks	-	-
i) certain use	-	-
ii) uncertain use	-	-
b) Customers	-	-
i) certain use	-	-
ii) uncertain use	-	-
4. Commitments underlying credit derivatives: protection sales	-	-
5. Assets pledged as collateral for third-party commitments	-	-
6. Other commitments	-	-
TOTAL	**2,804**	**45**

2. Assets pledged as collateral for liabilities and commitments

	31/12/2017	31/12/2016
1. Financial assets held for trading	-	-
2. Financial assets at fair value through profit or loss	-	-
3. Available-for-sale financial assets	43,154	402,657
4. Held-to-maturity investments	-	-
5. Loans and receivables with banks	-	-
6. Loans and receivables with customers	75,260	314,931
7. Property and equipment	-	-

4. 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. Asset management	**-**
a) individual	-
b) collective	-
3. Securities custody and administration	**952,652**
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	87,152
1. securities issued by the reporting entity	4,782
2. other securities	82,370
c) third-party securities deposited with third parties	87,151
d) securities owned by the bank deposited with third parties	865,500
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2017	2016
1. Financial assets held for trading	-	-	-	-	-
2. Available-for-sale financial assets	(1,087)	-	-	(1,087)	(242)
3. Held-to-maturity investments	203	-	-	203	-
4. Loans and receivables with banks	-	37	-	37	16
5. Loans and receivables with customers	-	88,240	-	88,240	84,085
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
TOTAL	**(884)**	**88,277**	**-**	**87,393**	**83,859**

The negative performance of the securities portfolio, a result of the ECB's interest rate policy, should be linked to the cost of funding which was positive. Overall, the carry trade remains positive.

Default interest accrued for during the year ended 31 December 2017 was € 17.6 million and form part of the default interest receivable at 31 December 2017 amounting to € 34.1 million.

1.4. Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2017	2016
1. Due to Central banks	-	-	-	-	7
2. Due to banks	816	-	-	816	1,825
3. Due to customers	11,959	-	-	11,959	11,385
4. Securities issued	-	3,809	-	3,809	2,141
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities at fair value through profit or loss	-	-	-	-	-
7. Other liabilities and provisions	-	-	-	-	-
8. Hedging derivatives	-	-	-	-	-
TOTAL	**12,775**	**3,809**	**-**	**16,584**	**15,358**

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

2.1 Fee and commission income: breakdown

	2017	2016
a) guarantees given	13	1
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	96	173
1. trading in financial instruments	-	27
2. foreign currency transactions	-	-
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. securities custody and administration	1	1
5. depositary services	-	-
6. placement of securities	49	58
7. order collection and transmission	46	48
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	39
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	39
9.3. other products	-	-
d) collection and payment services	117	90
e) services for securitisations	-	-
f) services for factoring	11,462	8.749
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	75	69
j) other services	1,284	1,423
TOTAL	**13,047**	**10,505**

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

	2017	2016
a) at its branches:	**49**	**97**
1. asset management	-	-
2. placement of securities	49	58
3. third-party services and products	-	39
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

	2017	2016
a) guarantees received	**31**	**87**
b) credit derivatives	**-**	**-**
c) management brokerage and services:	**612**	**633**
1. trading in financial instruments	60	70
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	17	8
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	535	555
d) collection and payment services	**148**	**137**
e) other services	**1,589**	**1,023**
TOTAL	**2,380**	**1,880**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2017		2016	
		dividends	income from OEIC units	dividends	income from OEIC units
A.	Financial assets held for trading	-	-	-	-
B.	Available-for-sale financial assets	227	-	227	-
C.	Financial assets at fair value through profit or loss	-	-	-	-
D.	Equity investments	-	-	86	-
	Total	**227**	**-**	**313**	**-**

SECTION 4 - NET TRADING INCOME (EXPENSE) - ITEM 80

4.1 Net trading income (expense): breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) ([(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**123**	**(80)**	**(25)**	**18**
1.1 Debt instruments	-	-	-	-	-
1.2 Equity instruments	-	123	(14)	-	109
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	(66)	(25)	(91)
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange rate losses	**-**	**-**	**-**	**-**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt securities and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	-	-	-	-	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
TOTAL	**-**	**123**	**(80)**	**(25)**	**18**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2017			2016		
	Gain	Loss	Net gain	Gain	Loss	Net gain
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	1,071	(140)	931	1,476	(196)	1,280
3.1 Debt instruments	982	(140)	842	1,279	(196)	1,083
3.2 Equity instruments	89	-	89	197	-	197
3.3 OEIC units	-	-	-	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
TOTAL ASSETS	**1,071**	**(140)**	**931**	**1,476**	**(196)**	**1,280**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
TOTAL LIABILITIES	**-**	**-**	**-**	**-**	**-**	**-**

SECTION 8 - NET IMPAIRMENT LOSSES - ITEM 130

8.1 Net impairment losses on loans and receivables: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				2017	2016
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Loans and receivables with banks:	-	-	-	-	-	-	-	-	-
- financing	-	-	-	-	-	-	-	-	-
- debt instruments	-	-	-	-	-	-	-	-	-
B. Loans and receivables with customers:	-	8,849	1,529	-	(4,122)	-	(904)	5,352	(10,226)
Non-performing loans purchased	-	-	-	-	-	-	-	-	-
- financing	-	-		-	-	-	-	-	-
- debt instruments	-	-		-	-	-	-	-	-
Other loans and receivables	-	8,849	1,529	-	(4,122)	-	(904)	5,352	(10,226)
- financing	-	8,849	1,529	-	(4,122)	-	(904)	5,352	(10,226)
- debt instruments	-	-	-	-	-	-	-	-	-
C. Total	**-**	**8,849**	**1,529**	**-**	**(4,122)**	**-**	**(904)**	**5,352**	**(10,226)**

Key:
A = from interest
B = other reversals

SECTION 9 - ADMINISTRATIVE EXPENSES - ITEM 150

9.1 Personnel expense: breakdown

	2017	2016
1) Employees	16,225	13,062
a) wages and salaries	10,020	8,369
b) social security charges	2,630	2,012
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	613	486
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	329	249
- defined contribution plans	329	249
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	2,633	1,946
2) Other personnel	330	14
3) Directors and statutory auditors	793	855
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	201	240
TOTAL	**17,549**	**14,171**

9.2 Average number of employees by category

Personnel:

a) Senior managers: 19

b) Managers: 37

c) Remaining employees: 95

9.5 Other administrative expenses: breakdown

	2017	2016
IT expenses	4,384	3,557
Consultancy	3,225	4,945
Servicing and collection activities	3,063	4,337
Rent and related fees	1,963	1,839
Indirect taxes and duties	1,477	1,917
Resolution Fund	807	1,967
Car hire and related fees	863	705
Expense reimbursement and entertainment	697	558
Other	414	456
Vehicle expenses	462	169
Membership fees	262	255
Insurance	349	204
Advertising	284	204
Audit fees	265	294
Infoprovider expenses	278	305
Stationery and printing	173	103
Telephone and postage expenses	177	153
Maintenance of movables and real properties	112	44
Discretionary payments	4	3
TOTAL	**19,259**	**22,015**

SECTION 10 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 160

10.1 Net accruals to provisions for risks and charges: breakdown

	2017	2016
Provisions for risks and charges - other provisions and risks	(223)	-
Release of provisions for risks and charges - other risks and charges	215	69
TOTAL	**(8)**	**69**

SECTION 11 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 170

11.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	**Carrying amount (a+b-c)**
A. Property and equipment				
A.1 Owned	269	-	-	269
- Operating assets	269	-	-	269
- Investment property	-	-	-	-
A.2 Acquired under finance lease	-	-	-	-
- Operating assets	-	-	-	-
- Investment property	-	-	-	-
TOTAL	**269**	-	-	**269**

SECTION 12 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 180

12.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Reversals of impairment losses(c)	**Carrying amount (a+b-c)**
A. Intangible assets				
A.1 Owned	34			34
- Generated internally				
- Other	34			34
A.2 Acquired under finance lease				
TOTAL	**34**			**34**

SECTION 13 - OTHER OPERATING INCOME (EXPENSE) - ITEM 190

13.1 Other operating expense: breakdown

	2017	2016
Amortisation of leasehold improvements	207	248
Other operating expense	515	520
TOTAL	**722**	**768**

13.2 Other operating income: breakdown

	2017	2016
Recoveries of expenses on current accounts and deposits for sundry taxes	231	271
Recoveries of factoring legal expenses	-	280
Recoveries of sundry expenses	25	25
Other income	53	406
TOTAL	**309**	**982**

"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 14 - GAINS (LOSSES) ON EQUITY INVESTMENTS - ITEM 210

	2017	2016
A. Income		2,373
1. Revaluations		
2. Gains on sale		2,373
3. Reversals of impairment losses		
4. Other income		
B. Expense		
1. Impairment		
2. Impairment losses		
3. Losses on sale		
4. Other expense		
Net gains (losses)		**2,373**

SECTION 18 - INCOME TAXES - ITEM 260

18.1 Income taxes: breakdown

		2017	2016
1.	Current taxes (-)	(8,836)	(8,124)
2.	Changes in current taxes of previous years (+/-)	101	95
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 (+/-)	(804)	586
5.	Changes in deferred tax liabilities (+/-)	(2,668)	(2,636)
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(12,207)	(10,079)

18.2 Reconciliation between theoretical and effective tax expense

IRES (Corporate Income Tax)	Taxable income	IRES (Corporate Income Tax)	% Change
Theoretical IRES expense	**39,768**	**(10,936)**	**27.50%**
Permanent increases	6,167	(1,696)	4.26%
Temporary increases	3,424	(942)	2.37%
Permanent decreases	(10,816)	2,974	-7.48%
Temporary decreases	(14,479)	3,982	-10.01%
Effective IRES expense	**24,064**	**(6,618)**	**16.64%**
IRAP (Regional Business Tax)	Taxable income	IRAP (Regional Business Tax)	% Change
Theoretical IRAP expense	**39,768**	**(2,215)**	**5.57%**
Permanent increases	43,193	(2,405)	6.05%
Temporary increases	1,985	(111)	0.28%
Permanent decreases	(44,539)	2,481	-6.24%
Temporary decreases	(574)	32	-0.08%
Effective IRAP expense	**39,833**	**(2,218)**	**5.58%**
- Other tax expense			
Total effective IRES and IRAP expense	**63,897**	**(8,836)**	**22.22%**

SECTION 20 - OTHER INFORMATION

Nothing to report.

SECTION 21 - EARNINGS PER SHARE

Earnings per share (EPS)	2017
Profit for the year (thousands of Euro)	27,560
Average number of outstanding shares	80,393,942
Basic earnings per share (in Euro)	0.343

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

Breakdown of comprehensive income

		Gross amount	Income Tax	Carrying amount
10.	**Profit for the year**	-	-	**26,793**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-	-
20.	Property and equipment	-	-	-
30.	Intangible assets	-	-	-
40.	Defined benefit plans	(77)	21	(56)
50.	Non-current assets held for sale	-	-	-
60.	Share of valuation reserves of equity-accounted investments	-	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-	-
70.	**Hedges of foreign investments:**	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	**Exchange rate gains (losses):**	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	**Cash flow hedges:**			
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
100.	**Available-for-sale financial assets:**	**(142)**	**47**	**(95)**
	a) fair value gains (losses)	259	(86)	174
	b) reclassification to profit or loss			
	- impairment losses	-	-	-
	- gains/losses on sales	(401)	133	(268)
	c) other changes	-	-	-
110.	**Non-current assets held for sale:**			
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
120.	**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	-	-	-
130.	**Total other comprehensive income (expense)**	**(219)**	**68**	**(151)**
140.	**Comprehensive income (expense) (10+130)**	**(219)**	**68**	**26,642**

SECTION 1 - RISKS

1.1 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 Management 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 Management 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 committee within a 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 Management 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 263 - New regulations for the prudential supervision of banks), a series of obligations on management and risk 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 Risks Management Committee level and subsequent communication to the Board of Directors and the level II thresholds, that required direct discussion in the Board of Director's Meeting to determine the actions to be taken are associated with the various key ratios.

The I and II level 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, to risk exposure and to 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 the Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in (EU) Regulations 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 2017, 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 local health authorities / Hospitals, Territorial entities (Regions, Provinces and Municipalities) and Ministries that, by definition, entail a very limited default risk.

- 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;

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 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 Collection 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 relative deed of assignment, i.e. 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 anticipates 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, for prudential supervision purposes, in the banking book.

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.

Also, with reference to the new regulatory framework, specifically to Circular no. 285 and to the respective Supervisory Bulletin no. 12 of December 2013, paragraph II.6 in matters of own funds, the Bank adhered to the extension of the prudential treatment of unrealised profits and losses, related to the exposure to the Central Authorities classified in the "available-for-sale financial assets" category for the entire period provided for by art. 467(2), last paragraph of the CCR.

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 relative to the above credit risk ex-post management 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 available-for-sale financial assets continued during 2015 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 a year 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 Credit Risk mitigation techniques

It should be noted that, as of the reporting date, the Bank did not implement any hedging of the credit portfolio.
As concerns credit and counterparty risk on the AFS 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.

2.4. Impaired financial assets

Banca Sistema defined its credit quality policy based on the provisions in the Bank of Italy Circular 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 relative 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 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:
  - othe 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 relative 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 operation of a problem loan that would not have been granted if the debtor was not in financial difficulty.

Art. 172 of ITS EBA 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.

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

A.1 Impaired and unimpaired loans: carrying amounts, impairment losses, performance, business and geographical breakdown

A.1.1 Breakdown of loans by portfolios and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Impaired past due exposures	Unimpaired past due exposures	Unimpaired assets	**Total**
1. Available-for-sale financial assets	-	-	-	-	278,847	**278,847**
2. Held-to-maturity investments	-	-	-	84,178	-	**84,178**
3. Loans and receivables with banks	-	-	-	-	35,809	**35,809**
4. Loans and receivables with customers	32,340	15,445	73,251	246,874	1,493,208	**1,861,118**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for sale	-	-	-	-	-	**-**
Total at 31/12/2017	**32,340**	**15,445**	**73,251**	**331,052**	**1,807,864**	**2,259,952**
Total at 31/12/2016	**22,969**	**15,932**	**64,608**	**239,149**	**1,549,131**	**1,891,789**

A.1.2 Breakdown of loans by portfolio and by credit quality (gross amounts and carrying amounts)

	Impaired assets			Unimpaired assets			
	Gross amount	Specific adjustments	Carrying amount	Gross amount	Portfolio adjustments	Net exposure	Total (carrying amount)
1. Available-for-sale financial assets	-	-	-	278,847	-	278,847	278,847
2. Held-to-maturity investments	-	-	-	84,178	-	84,178	84,178
3. Loans and receivables with banks	-	-	-	35,809	-	35,809	35,809
4. Loans and receivables with customers	143,328	22,292	121,036	1,745,672	5,590	1,740,082	1,861,118
5. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
6. Financial assets held for disposal	-	-	-	-	-	-	-
Total at 31/12/2017	**143,328**	**22,292**	**121,036**	**2,144,506**	**5,590**	**2,138,916**	**2,259,952**
Total at 31/12/2016	**119,756**	**16,246**	**103,510**	**1,792,612**	**4,332**	**1,788,280**	**1,891,790**

A.1.2.1 Breakdown of loans by portfolio

	OTHER LOANS					
	Past due up to 3 months	Past due by more than 3 months up to 6 months	Past due by more than 6 months up to 1 year	Past due by more than 1 year	Not past due	**Total (carrying amount)**
1. Available-for-sale financial assets	-	-	-	-	278,847	**278,847**
2. Held-to-maturity investments	84,178	-	-	-	-	**84,178**
3. Loans and receivables with banks	-	-	-	-	35,809	**35,809**
4. Loans and receivables with customers	36,411	26,717	56,797	126,947	1,493,210	**1,740,082**
5. Financial assets at fair value through profit or loss	-	-	-	-	-	**-**
6. Financial assets held for disposal	-	-	-	-	-	**-**
Total at 31/12/2017	**120,589**	**26,717**	**56,797**	**126,947**	**1,807,866**	**2,138,916**
Total at 31/12/2016	**51,872**	**26,959**	**67,505**	**92,813**	**1,549,131**	**1,788,280**

A.1.3 On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount					Individual impairment losses	Collective impairment losses	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From more than 3 months up to 6 months	From more than 6 months up to 1 year	More than one year				
A. ON-STATEMENT OF FINANCIAL POSITION	-	-	-	-		-	-	
a) Bad exposures	-	-	-	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-	-	-	-
b) Unlikely to pay	-	-	-	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-	-	-	-
c) Impaired past due exposures	-	-	-	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due exposures	-	-	-	-	-	-	-	-
of which: forborne exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	35,809	-	-	35,809
of which: forborne exposures	-	-	-	-	-	-	-	-
TOTAL A	-	-	-	-	**35,809**	-	-	**35,809**
B. OFF-STATEMENT OF FINANCIAL POSITION	-	-	-	-		-	-	-
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	2,159	-	-	2,159
TOTAL B	-	-	-	-	**2,159**	-	-	**2,159**
TOTAL (A+B)	-	-	-	-	**37,968**	-	-	**37,968**

A.1.4 On-statement of financial position loans and receivables with banks: gross impaired positions

On-statement of financial position exposures to banks are all unimpaired.

A.1.5 On-statement of financial position loans and receivables with banks: changes in impaired positions

There are no impaired loans and receivables with banks.

A.1.6 On- and off-statement of financial position loans and receivables with customers: gross amounts and net amounts

	Gross amount					Individual impairment losses	Collective impairment losses	Carrying amount
	Impaired assets				Unimpaired assets			
	Up to 3 months	From more than 3 months up to 6 months	From more than 6 months up to 1 year	More than one year				
A. ON-STATEMENT OF FINANCIAL POSITION	-	-	-	-	-	-	-	-
a) Bad exposures	11	422	358	43,787	-	12,237	-	32,340
of which: forborne exposures	-	-	-	-	-	-	-	-
b) Unlikely to pay	23,461	285	315	-	-	8,616	-	15,445
of which: forborne exposures	-	-	-	-	-	-	-	-
c) Impaired past due exposures	26,718	4,419	12,051	31,502	-	1,439	-	73,251
of which: forborne exposures	-	-	-	-	-	-	-	-
d) Unimpaired past due exposures	-	-	-	-	331,780	-	728	331,051
of which: forborne exposures	-	-	-	-	-	-	-	-
e) Other unimpaired exposures	-	-	-	-	1,776,918	-	4,862	1,772,055
of which: forborne exposures	-	-	-	-	-	-	-	-
TOTAL A	**50,190**	**5,125**	**12,723**	**75,289**	**2,108,698**	**22,292**	**5,590**	**2,224,143**
B. OFF-STATEMENT OF FINANCIAL POSITION	-	-	-	-	-	-	-	-
a) Impaired	-	-	-	-	-	-	-	-
b) Unimpaired	-	-	-	-	645	-	-	645
TOTAL B	-	-	-	-	**645**	-	-	**645**
TOTAL (A+B)	**50,190**	**5,125**	**12,723**	**75,289**	**2,109,342**	**22,292**	**5,590**	**2,224,788**

A.1.7 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	**35,231**	**19,749**	**64,778**
of which: positions transferred but not derecognised	-	-	-
B. Increases	**27,611**	**18,696**	**164,204**
B.1 transfers from performing loans	6,321	11,639	120,568
B.2 transfers from other categories of impaired loans	8,009	1,699	-
B.3 other increases	13,281	4,918	40,072
B.4 business combination transactions	-	440	3,564
C. Decreases	**18,264**	**14,384**	**154,292**
C.1 transfers to performing loans	219	260	76,323
C.2 derecognitions	-	-	-
C.3 collections	13,469	8,170	74,215
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	-	5,954	3,754
C.7 other decreases	4,576	-	-
D. Closing gross balance	**44,578**	**24,061**	**74,690**
of which: positions transferred but not derecognised	-	-	-

A.1.8 On-statement of financial position 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	**12,260**	-	**3,817**	-	**169**	-
of which: positions transferred but not derecognised	-	-	-	-	-	-
B. Increases	**4,161**	-	**5,149**	-	**1,390**	-
B.1 impairment losses	3,721	-	4,870	-	198	-
B.2 losses from sales	-	-	-	-	-	-
B.3 transfers from other categories of impaired loans	330	-	1	-	-	-
B.4 other increases	110	-	68	-	84	-
B.5 business combination transactions	-	-	210	-	1,180	-
C. Decreases	**4,184**	-	**350**	-	**120**	-
C.1 reversals of impairment losses	3,446	-	11	-	40	-
C.2 reversals of impairment losses due to collections	738	-	8	-	24	-
C.3 gains on sales	-	-	-	-	-	-
C.4 derecognitions	-	-	-	-	-	-
C.5 transfers to other categories of impaired loans	-	-	330	-	1	-
C.6 other decreases	-	-	1	-	55	-
D. Closing total impairment losses	**12,237**	-	**8,616**	-	**1,439**	-
of which: positions transferred but not derecognised	-	-	-	-	-	-

A.2 CLASSIFICATION OF THE EXPOSURES BASED ON EXTERNAL AND INTERNAL RATING

A.2 Breakdown of on- and off-statement of financial position credit exposures by external rating class

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. On-statement of financial position loans and receivables	**-**	**363,025**	**-**	**-**	**-**	**-**	**1,896,927**	**2,259,952**
B. Derivatives	-	-	-	-	-	-	**-**	**-**
B.1 Financial derivatives	-	-	-	-	-	-	**-**	**-**
B.2 Credit derivatives	-	-	-	-	-	-	**-**	**-**
C. Guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**2,804**	**2,804**
D. Commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
E. Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**-**	**363,025**	**-**	**-**	**-**	**-**	**1,899,731**	**2,262,756**

of which long-term rating

	Risk weighting factors				ECAI
Creditworthiness class	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)

		ECAI
Creditworthiness class	Risk weighting factors	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

Risk weighting factors					ECAI
Creditworthiness class	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)

		ECAI
Creditworthiness class	Risk weighting factors	Fitch Ratings
1	20%	F1+, F1
2	50%	F2
3	100%	F3
da 4 a 6	150%	less than F3

A.3 Breakdown of guaranteed credit exposures by type of Guarantee

A.3.2 Guaranteed on-statement of financial position loans and receivables with customers

	Net amount	Collateral (1)				CLN	Personal security (2)								Total (1)+(2)
							Credit derivatives				Endorsement credits				
							Other derivatives								
		Mortgaged estate	Properties under finance lease	Securities	Other collateral		Governments and Central Banks	Other public institutions	Banks	Other	Governments and Central Banks	Other public institutions	Banks	Other entities	
1. Guaranteed on-statement of financial position loans:	572,505	-	-	4,589	482,527	-	-	-	-	-	44,646	-	-	37,926	**569,688**
1.1 fully guaranteed	551,134	-	-	4,589	482,527	-	-	-	-	-	26,734	-	-	37,283	**551,133**
- of which impaired	7,052	-	-	-	1	-	-	-	-	-	4,922	-	-	2,128	**7,051**
1.2 partially guaranteed	21,371	-	-	-	-	-	-	-	-	-	17,912	-	-	643	**18,555**
- of which impaired	6,171	-	-	-	-	-	-	-	-	-	5,136	-	-	643	**5,779**
2. Guaranteed off-statement of financial position loans:	573	-	-	573	-	-	-	-	-	-	-	-	-	-	**573**
2.1 fully guaranteed	573	-	-	573	-	-	-	-	-	-	-	-	-	-	**573**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
2.2 partially guaranteed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**

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 (carrying amount)

	Governments			Other public institutions			Financial companies			Insurance companies			Non-financial companies			Other subjects		
	Net amount	Specific impairment	Portfolio impairment	Net amount	Specific impairment	Portfolio impairment	Net amount	Specific impairment	Portfolio impairment	Net amount	Specific impairment	Portfolio impairment	Net amount	Specific impairment	Portfolio impairment	Net amount	Specific impairment	Portfolio impairment
A. On-statement of financial position	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A1. Bad exposures	-	-	-	20,374	2,660	-	-	-	-	-	-	-	11,811	8,992	-	155	585	-
of which:																		
forborne exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	13,854	8,135	-	1,591	481	-
of which:																		
forborne exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	89	-	-	62,668	1,209	-	-	-	-	13	-	-	9,705	221		776	9	-
of which:																		
forborne exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	788,540	-	501	532,848	-	2,070	7,575	-	-	3	-	-	238,642	-	2,405	535,499	-	614
of which:																		
forborne expo-sures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL A	**788,629**	**-**	**501**	**615,890**	**3,869**	**2,070**	**7,575**	**-**	**-**	**16**	**-**	**-**	**274,012**	**17,348**	**2,405**	**538,021**	**1,075**	**614**
B. Off-statement of financial position	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B1. Bad exposures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B2. Unlikely to pay	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B3. Other impaired assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B4. Unimpaired exposures	-	-	-	-	-	-	-	-	-	-	-	-	609	-	-	36	-	-
TOTAL B	-	-	-	-	-	-	-	-	-	-	-	-	**609**	-	-	**36**	-	-
TOTAL (A+B) at 31/12/2017	**788,629**	**-**	**501**	**615,890**	**3,869**	**2,070**	**7,575**	-	-	**16**	-	-	**274,621**	**17,348**	**2,405**	**538,057**	**1,075**	**614**
TOTAL (A+B) at 31/12/2016	**744,870**	**-**	**89**	**500,732**	**5,267**	**1,913**	**15,361**	-	-	3	-	-	**290,770**	**10,395**	**1,689**	**268,817**	**585**	**641**

B.2 Breakdown by geographical segment of the on-statement of financial position and off-statement of financial position loans and receivables with customers (carrying amount)

	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	-	-	-	-	-	-	-	-	-	-
A.1 Bad exposures	32,340	12,237	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	15,445	8,616	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	73,251	1,439	-	-	-	-	-	-	-	-
A.4 Other unimpaired exposures	2,085,027	5,542	14,982	39	1,080	3	2,018	6	-	-
Total	**2,206,063**	**27,834**	**14,982**	**39**	**1,080**	**3**	**2,018**	**6**	**-**	**-**
B. Off-statement of financial position	-	-	-	-	-	-	-	-	-	-
B.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other unimpaired exposures	645	-	-	-	-	-	-	-	-	-
Total	**645**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31/12/2017	**2,206,708**	**27,834**	**14,982**	**39**	**1,080**	**3**	**2,018**	**6**	**-**	**-**
Total (A+B) at 31/12/2016	**1,809,319**	**20,550**	**9,609**	**25**	**1,625**	**5**	**-**	**-**	**-**	**-**

	NORTH WEST Italy		NORTH EAST Italy		CENTRAL Italy		SOUTHERN Italy and the ISLANDS	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position	-	-	-	-	-	-	-	-
A.1 Bad exposures	4,052	2,275	1,031	1,547	3,172	2,396	24,085	6,020
A.2 Unlikely to pay	126	18	43	11	4,498	2,641	10,777	5,947
A.3 Impaired past due exposures	3,944	41	3,385	47	8,485	149	57,437	1,202
A.4 Other unimpaired exposures	259,411	1,073	105,464	361	945,698	1,294	774,455	2,814
Total	**267,533**	**3,407**	**109,923**	**1,966**	**961,853**	**6,480**	**866,754**	**15,983**
B. Off-statement of financial position	-	-	-	-	-	-	-	-
B.1 Bad exposures	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Other unimpaired exposures	636	-	-	-	9	-	-	-
Total	**636**	**-**	**-**	**-**	**9**	**-**	**-**	**-**
Total (A+B) at 31/12/2017	**268,169**	**3,407**	**109,923**	**1,966**	**961,862**	**6,480**	**866,754**	**15,983**
Total (A+B) at 31/12/2016	**222,446**	**2,673**	**92,293**	**1,205**	**872,224**	**3,026**	**622,525**	**13,646**

B.3 Breakdown by geographical segment of the on-statement of financial position and off-statement of financial position loans and receivables with banks (carrying amount)

Exposures/Geographical Segments	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	-	-	-	-	-	-	-	-	-	-
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Other unimpaired exposures	35,809	-	-	-	-	-	-	-	-	-
Total A	**35,809**	-	-	-	-	-	-	-	-	-
B. Off-statement of financial position	-	-	-	-	-	-	-	-	-	-
B.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other unimpaired exposures	2,159	-	-	-	-	-	-	-	-	-
Total B	**2,159**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31/12/2017	**37,968**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31/12/2016	**71,282**	-	-	-	-	-	-	-	-	-

	NORTH WEST Italy		NORTH EAST Italy		CENTRAL Italy		SOUTHERN Italy and the ISLANDS	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Bad exposures	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-
A.4 Other unimpaired exposures	17,188	-	3	-	18,617	-	1	-
Total	**17,188**	**-**	**3**	**-**	**18,617**	**-**	**1**	**-**
B. Off-statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Bad exposures	-	-	-	-	-	-	-	-
B.2 Unlikely to pay	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-
B.4 Other unimpaired exposures	-	-	-	-	2,159	-	-	-
Total	**-**	**-**	**-**	**-**	**2,159**	**-**	**-**	**-**
Total (A+B) at 31/12/2017	**17,188**	**-**	**3**	**-**	**20,776**	**-**	**1**	**-**
Total (A+B) at 31/12/2016	**8,489**	**-**	**122**	**-**	**62,671**	**-**	**-**	**-**

B.4 Large exposures

As at 31 December 2017, the Bank's large exposures are as follows:

- Carrying amount € 1,186,353 (in thousands)
- Weighted value € 136,263 (in thousands)
- No. of positions 17

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.1 Financial assets transferred and not derecognised: carrying amount and entire amount

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets			Held-to-maturity investments			Loans and receivables with banks			Loans and receivables with customers			Total	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	31/12/2017	31/12/2016
A. Assets	-	-	-	-	-	-	**43,154**	-	-	-	-	-	-	-	-	**455,550**	-	-	**498,704**	**498,718**
1. Debt instruments	-	-	-	-	-	-	43,154	-	-	-	-	-	-	-	-	-	-	-	43,154	295,528
2. Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	455,550	-	-	455,550	203,190
B. Derivatives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at 31/12/2017	-	-	-	-	-	-	**43,154**	-	-	-	-	-	-	-	-	**455,550**	-	-	**498,704**	-
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total at 31/12/2016	-	-	-	-	-	-	**498,718**	-	-	-	-	-	-	-	-	-	-	-	-	**498,718**
of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Key:
A = financial assets disposed and recorded in whole (carrying amount)
B = financial assets disposed and recorded partially (carrying amount)
C = financial assets disposed and recorded in partially (entire value)

E.2 Financial liabilities for financial assets transferred but not derecognised: carrying amount

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables with banks	Loans and receivables with customers	**Total**
1. Due to customers	**-**	**-**	**43,149**	**-**	**-**	**-**	**43,149**
a) for fully recognised assets	-	-	43,149	-	-	-	43,149
b) for partially recognised assets	-	-	-	-	-	-	-
2. Due to banks	**-**	**-**	-	**-**	-	-	-
a) for fully recognised assets	-	-	-	-	-	-	-
b) for partially recognised assets	-	-	-	-	-	-	-
Total at 31/12/2017	**-**	**-**	**43,149**	**-**	**-**	**-**	**43,149**
Total at 31/12/2016	-	-	**295,581**	-	**-**	**-**	**295,581**

SECTION 2 - MARKET RISK

Banca Sistema does not conduct trading activity on financial instruments. At 31 December 2017 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

QUALITY DISCLOSURE

The trading risk moved exclusively following the trading of the security 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 INFORMATION

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 collection.

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:

- <u>Determination of the relevant currencies.</u> "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 position in "non-material currencies" are aggregated for the equivalent amount in Euro;
- <u>Classification of the assets and liabilities in time brackets.</u> 14 time brackets 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;
- <u>Weighting the net exposures of each bracket.</u> The asset and liability positions are offset within each bucket, obtaining a net position. The net position by bracket 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 bracket;
- <u>Sum of the weighted net exposures of the various brackets.</u> The weighted exposures calculated for each bracket (sensitivity) are summed together. The net weighted exposure thus obtained approximates the change of the present value of the posting, denominated in a certain currency, in the event of the assumed rate shock;
- <u>Aggregation in the various currencies.</u> 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 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 asset and liability postings subject to interest rate risk; furthermore, no hedging instruments were used as at the reporting date.

B. Fair value hedges

The Bank did not perform any such transactions in 2017.

C. Cash flow hedging

The Bank did not perform any such transactions in 2017.

QUANTITATIVE DISCLOSURE

1. 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	**886,369**	**105,453**	**34,059**	**443,629**	**553,209**	**237,194**	**11**	**-**
1.1 Debt instruments	-	13,018	-	265,829	84,178	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	13,018	-	265,829	84,178	-	-	-
1.2 Financing to banks	28,803	6,978	-	-	-	-	-	-
1.3 Financing to customers	857,566	85,457	34,059	177,800	469,031	237,194	11	-
- current accounts	17,293	-	-	-	-	-	-	-
- other financing	840,273	85,457	34,059	177,800	469,031	237,194	11	-
- with early repayment option	12,103	18,503	30,212	176,332	386,933	216,379	11	-
- other	828,170	66,954	3,847	1,468	82,098	20,815	-	-
2. Liabilities	**541,388**	**469,343**	**372,779**	**101,636**	**574,528**	**23,761**	**-**	**-**
2.1 Due to customers	527,419	113,722	239,952	101,636	277,642	23,761	-	-
- current accounts	526,977	55,197	62,096	87,873	211,719	13,474	-	-
- other payables	442	58,525	177,856	13,763	65,923	10,287	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	442	58,525	177,856	13,763	65,923	10,287	-	-
2.2 Due to banks	13,969	339,000	42,500	-	122,064	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	13,969	339,000	42,500	-	122,064	-	-	-
2.3 Debt instruments	-	16,621	90,327	-	174,822	-	-	-
- with early repayment option	-	16,621	12,082	-	174,822	-	-	-
- other	-	-	78,245	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**17,382**	**2,042**	**3,520**	**8,556**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	17,382	2,042	3,520	8,556	-	-	-
- Options	-	17,382	2,042	3,520	8,556	-	-	-
+ long positions	-	1,632	2,042	3,520	8,556	-	-	-
+ short positions	-	15,750	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

Currency of denomination: other currencies

	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	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	28	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- 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.

2.4 Derivatives

A. Financial derivatives

The Bank does not operate on its own account with derivative instruments.

B. Credit derivatives

As at 31 December 2016, the Bank had not entered into any derivative contract to hedge the credit portfolio.

Items	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**2,992**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	2,964
A.3 Financing to banks	-	-	-	-	-	28
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	**-**	**-**	**-**	**-**	**-**	**2,992**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**-**	**2,992**

The amount refers to the Axactor shares held by the bank partly in the AFS portfolio and partly in the Trading portfolio. They are listed securities (in Swedish krona) but traded in Norwegian krone.

C. FINANCIAL AND CREDIT DERIVATIVES

At 31 December 2017 the Bank did not report any amount for this item.

SECTION 3 - 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 the 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, anticipating the procedure 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 2017, 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.

As of today, the financial resources available are satisfactory for the current and forward looking volumes of activity.

The Bank is continuously active ensuring a coherent 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.

QUANTITATIVE DISCLOSURE

1. Breakdown of financial assets and liabilities by remaining contractual term

Currency of denomination: Euro

	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
Assets	**939,863**	**26**	**2,096**	**14,384**	**38,635**	**66,926**	**455,923**	**480,431**	**217,984**	**6,959**
A.1 Government securities	-	-	2,001	-	11,006	25	265,602	84,500	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	939,863	26	95	14,384	27,629	66,901	190,321	395,931	217,984	6,959
- banks	28,832	-	-	18	-	-	-	-	-	6,959
- customers	911,031	26	95	14,366	27,629	66,901	190,321	395,931	217,984	-
Liabilities	**535,838**	**179,078**	**4,007**	**28,113**	**241,986**	**354,209**	**106,797**	**586,706**	**49,261**	**-**
B.1 Deposits and current accounts	535,396	51,157	3,983	27,972	241,174	104,992	88,952	211,719	13,474	-
- banks	13,969	47,500	-	20,000	201,500	42,500	-	-	-	-
- customers	521,427	3,657	3,983	7,972	39,674	62,492	88,952	211,719	13,474	-
B.2 Debt instruments	-	-	-	-	373	71,304	4,031	187,000	25,500	-
B.3 Other liabilities	442	127,921	24	141	439	177,913	13,814	187,987	10,287	-
Off-statement of financial position transactions	**2,159**	**-**	**-**	**-**	**27**	**-**	**-**	**618**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,159	-	-	-	27	-	-	618	-	-
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 2017, Banca Sistema has two securitisation transactions in place for which it signed the set of securities issued.

SECTION 4 - OPERATIONAL RISKS

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 Committee and Risk Management, 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 - 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

As at 31 December 2017, equity was composed as follows:

		31/12/2017	31/12/2016
1.	Share capital	9,651	9,651
2.	Share premium	39,268	39,352
3.	Reserves	59,391	39,686
	- income-related	59,388	39,686
	a) legal	1,930	1,930
	b) statutory	-	-
	c) treasury shares	200	1,478
	d) other	57,258	36,278
	- other	3	-
3.bis	Dividends paid	-	-
4.	Equity instruments	-	-
5.	(Treasury shares)	(149)	(52)
6.	Valuation reserves	367	518
	- Available-for-sale financial assets	585	680
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale	-	-
	- Net actuarial losses on defined benefit pension plans	(218)	(162)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
7.	Profit for the year	27,560	24,481
	Total	**136,088**	**113,636**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

	31/12/2017		31/12/2016	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	173	-	221	-
2. Equity instruments	412	-	458	-
3. OEIC units	-	-	-	-
4. Financing	-	-	-	-
Total	**585**	**-**	**679**	**-**

B.3 Valuation reserves for available-for-sale financial assets: changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**221**	**458**	-	-
2. Increases	**368**	**269**	-	-
2.1 Fair value gains	259	43	-	-
2.2 Reclassifications of negative reserves to profit or lost:	-	-	-	-
▪ due to impairment	-	-	-	-
▪ on sale	-	-	-	-
2.3 Other increases	109	226	-	-
3. Decreases	**416**	**315**	-	-
3.1 Fair value losses	331	70	-	-
3.2 Impairment losses	-	-	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	-	-	-	-
3.4 Other decreases	85	245	-	-
4. Closing balance	**173**	**412**	-	-

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk weighted assets and solvency ratios as at 31 December 2017 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 legislative provisions relative to own funds require the gradual introduction of the new regulatory framework, through a transitory period, in general until 31 December 2017, during which certain elements that under normal circumstances will be computable or fully deductible in the Common Equity, impact the Common Equity Tier 1 capital only by percentage.

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 reserve of € 39.3 million;
- Other reserves including undistributed profits of € 80.1 million.

In particular, this item includes a profit of € 20.6 million recognised in Own funds pursuant to article 26 of the CRR, net of foreseeable dividends pertaining to the Bank and of the other positive accumulated income components of € 367 thousand composed as follows:

- Actuarial reserve in accordance with the application of the new IAS 19 amounting to € 218 thousand;
- Reserves related to available-for-sale financial assets amounting to € 585 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;

E) Transitional regime - Impact on CET1 (+/-), including the non-controlling interest subject to the transitional regime.

This item includes the following transitional adjustments:

- The exclusion of unrealised gains on AFS securities, issued by Central Authorities, amounting to € 173 thousand (-);
- A positive filter on actuarial reserves (IAS 19), amounting to € 44 thousand (+);
- Application of the prudential filter for realised gains measured at fair value, amounting to € 82 thousand (-).

2) Additional Tier 1 (AT1) capital

G) Additional Tier1 (AT1) 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) Tier2 (T2) 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 € 11.7 million following application of the conservatively recognised amortisation described in Article 64 of Regulation 575/2013 starting from the third quarter of 2017;
- the security IT0005247397 issued by Banca Sistema as an ordinary subordinated loan (Tier 2) equal to € 16.5 million.

O) a positive filter from the application of the national filters on the AFS reserve, pursuant to Circular 285/2013 equal to € 41 thousand (+).

B. QUANTITATIVE DISCLOSURE

	31/12/2017
A. Common Equity Tier 1 (CET1) before application of prudential filters	**129,121**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including elements to be deducted and of the effects of the transitional regime (A+/-B)	**129,121**
D. Items to be deducted from CET1	**1,790**
E. Transitional regime - Impact on CET (+/-)	**-212**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**127,119**
G. Additional Tier1 (AT1) including elements to be deducted and the effects del regime transitorio 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. Tier2 (T2) including elements to be deducted and the effects of the transitional regime	**28,198**
of which T2 instruments subject to transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - impact on T2 (+/-)	**41**
P. Total Tier 2 (T2) (M-N+/-O)	**28,239**
Q. Total Own Funds (F+L+P)	**163,358**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

The Own funds totalled 163 million, against risk-weighted assets of 1,049 million, derived almost exclusively from credit risk.

Based on article 467(2) of the CRR, implemented by the Bank of Italy in Circular 285, the Bank adopted the option to exclude, from its own funds, unrealised gains or losses related to loans and receivables with the Central Authorities classified in the Available-for-sale financial assets (AFS) category.

The effects of said exclusion on the capital ratios are marginal.

As at 31 December 2017, Banca Sistema presented a CET1 capital ratio equal to 12.1%, a Tier 1 capital ratio equal to 12.9% and a Total capital ratio of 15.6%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	2,754,827	2,468,245	900,968	661,824
1. Standardised approach	2,754,827	2,468,245	900,968	661,824
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			72,077	52,946
B.2 Credit assessment adjustment risk			249	-
B.3 Regulation risk			-	-
B.4 Market risk			192	368
1. Standard approach			192	368
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			11,426	10,362
1. Basic indicator approach			11,426	10,362
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			83,945	63,676
C. EXPOSURES AND CAPITAL RATIOS			-	-
C.1 Risk-weighted assets			1,049,315	795,949
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.11%	13.06%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			12.88%	14.06%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			15.57%	15.58%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

On 15 November 2016, the Board of Directors decided on the merger which was then finalised on 12 December 2016. The merger became effective beginning on 1 January 2017.

For accounting purposes, since this is a transaction to restructure companies existing within the same group, in accordance with OPI 2 it was excluded from the scope of application of IFRS 3. The merger accounting entries, as a consequence, were posted in accordance with the guidelines of IAS 8.101. In particular, the principle continuity was applied; as a result, the entry in the merging company's separate financial statements of the equity from the merged company did not lead to the issue of higher current amounts than those expressed in the consolidated financial statements. The merger of Beta reproduced the same effects presented in the consolidated financial statements prepared for statutory purposes.

Section 2 - Transactions performed after the end of the year

The Bank did not carry out business combinations after the end of the year.

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 the Parent, Banca Sistema S.p.A..

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, 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	31/12/2017
Remuneration to Board of Directors and Board of Statutory Auditors	1,332	76	-	1,408
Short-term benefits for employees	-	-	1,919	1,919
Post-employment benefits	48	-	183	232
Other long-term benefits	181	-	27	208
Termination benefits	-	-	140	140
Share-based payments	53	-	-	53
Totale	**1,615**	**76**	**2,269**	**3,959**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2017, 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 MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	10,723	183	5,135	0.9%
Due to customers	-	14,724	32,260	3.7%
Securities issued	-	-	20,839	7.4%
Other liabilities	177	-	-	0.2%

The following table indicates the costs and income for 2017, differentiated by type of related party.

in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGERS	OTHER RELATED PARTIES	% OF CAPTION
Interest income	283	1	55	0.4%
Interest expense	-	32	1,412	8.7%

The following table sets forth the details of each related party.

	AMOUNT (thousands of euro)	PERCENTAGE (%)
ASSETS	**15,768**	**0.74%**
Loans and receivables with customers	-	**-**
Axactor Italy S.p.A.	5,045	0.27%
Speciality Finance Trust Holdings Ltd	1,543	0.08%
Lass S.r.l.	9,180	0.49%
LIABILITIES	**21,878**	**0.01%**
Due to customers	**-**	**-**
Shareholders - SGBS	86	0.01%
Shareholders - Fondazione CR Alessandria	258	0.02%
Shareholders - Fondazione Sicilia	518	0.04%
Other liabilities	-	-
Speciality Finance Trust Holdings Ltd	107	0.15%
Lass S.r.l.	70	-
Securities issued	-	-
Shareholders - Fondazione Pisa	20,839	7.40%

	AMOUNT (thousands of euro)	PERCENTAGE (%)
INCOME	**338**	**0.39%**
Interest income	**-**	-
Axactor Italy S.p.A.	55	0.06%
Speciality Finance Trust Holdings Ltd	107	0.12%
Lass S.r.l.	176	0.20%
COSTS	**1,372**	8.27%
Interest expense	-	-
Axactor Italy S.p.A.	1	0.01%
Shareholders - SGBS	2	0.01%
Shareholders - Fondazione Pisa	1,342	8.09%
Shareholders - Fondazione CR Alessandria	24	0.14%
Shareholders - Fondazione Sicilia	4	0.02%

PART I - PAYMENT AGREEMENTS BASED ON OWN EQUITY INSTRUMENTS

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 2017 Remuneration Policies Document (the "2017 Policy") - the deferral and subordination mechanisms upon achieving specific corporate and individual performance targets are defined.

In the three-year period 2017-2019, 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).

For the calculation of the Bank's shares to be assigned and the applicable provisions, please refer to Attachment 2 of the 2017 Policy and the Information Document relating to the 2017-2019 Stock Grant Plan published on the Bank's website www.bancasistema.it in the Governance section, especially for information regarding the definition of the Vesting period and Retention, and for the application of the Malus and Claw-Back mechanisms.

Disclosure of the consideration paid to the auditing company

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 are 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 a confidence level concerning said specific element;
- Tax advisory services;
- Other services.

The fees presented in the table, pertaining to 2017, are those contracted out, 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 financial statements and quarterly reports	KPMG S.p.A.	Banca Sistema S.p.A.	184
Certification services	KPMG S.p.A.	Banca Sistema S.p.A.	45

PART L - SEGMENT REPORTING

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 2017

Amounts in thousands of Euro	2017			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Net interest income	57,633	12,134	1,043	**70,809**
Net fee and commission income (expense)	11,071	418	(822)	**10,667**
Other costs/income	-	-	1,176	**1,176**
Total income	**68,704**	**12,551**	**1,397**	**82,652**
Net impairment losses on loans and receivables	(2,936)	(2,416)	-	**(5,352)**
Net financial income	**65,768**	**10,135**	**1,397**	**77,300**

Breakdown by segment: statement of financial position data as at 31 December 2017

Amounts in thousands of Euro	31/12/2017			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets	-	-	286,811	**286,811**
Loans and receivables with banks	-	-	35,809	**35,809**
Due to banks	-	-	517,533	**517,533**
Loans and receivables with customers	1,285,726	556,358	19,034	**1,861,118**
Due to customers	72,108	-	1,212,024	**1,284,132**

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 origination of guaranteed loans to small and medium-sized enterprises, pension- and salary-backed loan portfolios 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 31 December 2017 for the year from 1 January 2017 to 31 December 2017.
2. The suitability and effective application of the administrative and accounting process for the drafting of the separate financial statements at 31 December 2017 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, 8 March 2018

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

AT THE SHAREHOLDERS' MEETING CALLED TO APPROVE THE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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 2017, 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 2017 (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 profit for the year of € 27,560,433.

After approving the draft financial statements on 8 March 2018, 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 15 meetings (including the meeting held to draft this report), and participated in the meetings of the corporate bodies, 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 2017 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, collection). 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. 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 2017, we note:

- the announcement of the results of the Bank of Italy inspection, with delivery of the inspection report on 4 May 2017. That inspection concluded with a "*partially negative*" finding, albeit without the imposition of any penalties. The Supervisory Authority made comments on strategic and governance issues and on matters related to bookkeeping, supervisory reports and the lending process. The Bank has implemented all consequent corrective measures and completed its activities on the basis of a time schedule reported to the Supervisory Authority;
- in May 2017 the Bank of Italy conducted a transparency audit at the Milan Branch of the Bank. That audit revealed several anomalies. Some of those were resolved during the audit. The remaining anomalies were addressed in a plan for corrective measures drawn up by the relevant Departments of the Bank after being reported to the Bank of Italy;
- the exchanges of correspondence and meetings between the Chairman of 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 co-option and subsequent confirmation of a member of the Board of Directors, Mr. Diego De Francesco, after Director Andrea Zappia resigned;
- the renewal of the Board of Statutory Auditors in the persons of Massimo Conigliaro (Chairman), Biagio Verde, and Maria Italiano (Standing Auditors), and the subsequent replacement of Ms. Maria Italiano, who resigned in compliance with the law against holding interlocking corporate positions, by the Alternate Auditor Marco Armarolli until the following ordinary shareholders' meeting. On 14 December that shareholders' meeting appointed Ms. Lucia Abati as Standing Auditor and Mr. Marco Armarolli as Alternate Auditor;

- approval of the new MIFID Policy;
- approval of the Remuneration Policies Document;
- interruption of the SME lending activity;
- the issue of a floating rate, Tier II subordinated Bond with a maximum nominal amount of € 14 million. Settlement is to be carried out in a single tranche on 30 March 2017 and is reserved for institutional investors;
- approval of the Restructuring Plan 2017 in accordance with the applicable provisions of the Consolidated Law on Banking;
- the subscription of part (10%) of the share capital increase of the investee Axactor Italy S.p.a. from € 2,922,647.14 to € 7,500,548.58, of which € 6,000,748.74 fully paid in;
- the subscription of a free share capital increase of the subsidiary LASS S.r.l. from € 4,000,000 to € 15,000,000, through the issuance of a unit having a par value of € 11,000,000, assigned to the sole shareholder of the company;
- the public placement of the bond reserved to institutional investors, for the amount of € 175 million, senior unsecured, having a 3-year maturity. The bond pays a fixed annual coupon of 1.75% and has an issue price of 99.836;
- the amendment of the resolution of the shareholders' meeting held on 27 April 2017 as regards point 7 of the agenda "approval of the remuneration policies of Banca Sistema S.p.A. for the year 2017 and setting of the maximum limit of 2:1 as the ratio between the variable and fixed components of remuneration for employees and "key personnel"";
- the proposal, solely in relation to the CEO-General Manager, to set the variable-fixed remuneration ratio at a maximum of 2:1, subject to meeting the individual and company-level targets established in the 2017 Remuneration Policies;
- completion of the merger of Beta Stepstone S.p.a.;
- the start of remodelling works on the building owned by the subsidiary Largo Augusto Servizi and Sviluppo Srl, and used as the head office of the Bank;
- implementation of the activities in the collateralised loan sector, pursuant to Article 48 of Legislative Decree 385/1993, with the opening of the Rome branch;
- the approval of the opening of two new branches for operating the collateralised loan business in Palermo and Naples, approved by the Bank of Italy on 21 March 2018;
- 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 has issued the following opinions pursuant to law:

- 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 27 April, the Board of Statutory Auditors issued its own Observations on 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 2016.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2017, 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, such as would have entailed reporting to the Bank of Italy and/or a mention in this report. The sole exception is represented by a letter sent to the corporate bodies – including the Board of Statutory Auditors – with which six senior managers of the bank asked the Board of Directors to reconsider the management incentive system. The Bank has conducted investigations and reviews in this case, and the Board of Statutory Auditors has fully examined the issue to the extent of its own powers without finding any items to be mentioned.

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 2017.

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 statutory 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...2,310,426,559

Liabilities...2,174,339,016

Capital and reserves.. 108,527,110

Profit for the year..27,560,433

The reclassified Income Statement shows the following, summary values:

Total income...82,651,891

Net impairment losses on loans and receivables.........................(5,352,297)

Operating costs (administrative expenses and other income / expenses) ...(37,220,859)

Net impairment losses on property and equipment/intangible assets............(302,610)

Net accruals to provisions for risks and charges..8,228

Pre-tax profit...39,767,897

Income taxes...(12,207,464)

Profit for the year..27,560,433

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 Article 17 of the International Accounting Principle (ISA Italia) no. 260, KPMG has certified that, during the period between 1st and today, it found no situations compromising the independence of the Independent Auditors or causes for incompatibility. Likewise, KPMG has informed the Board of Statutory Auditors that the legal audit carried out as at 31 December 2017 has not revealed significant shortcomings in the internal control system related to the financial reporting process which would have to be brought to the attention of the Board of Statutory Auditors .In regard to the possibility of additional responsibilities being granted to the independent auditors and/or to entities belonging to its network, the only mandate performed in addition to the mandatory statutory audit consisted in the issuance of an opinion on a comfort letter requested by the Bank from KPMG in regard to the financial data included in the Prospectus prepared as part of a bond issue. The Board of Statutory Auditors issued a positive opinion on this request, finding that no critical issues existed in regard to the independence of the independent auditors.

Part Five: Acceptance of 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 10 June 2016. 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 BoD originally had five independent directors, reduced to four in December 2017 after Director Ilaria Bennati resigned, when she assumed the position of CFO. The Board of Statutory Auditors believes that that number is adequate in terms of the composition of the BoD and hopes that the shareholders' meeting keeps it there.
- 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.

  Also see page 41 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 41 and pages 148-150 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 2017. The actions approved by the BoD and subsequently implemented to improve the organisational structure have been illustrated. In particular, the Board of Statutory Auditors has given its own favourable opinion on the appointment of the new Manager in charge of financial reporting.
- 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 41, 148, 149 and 150 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 2017, as drafted and proposed to you by the Board of Directors, and consequently approve the distribution of dividends.

Likewise, the Board of Statutory Auditors has taken note of and brings to your attention both the contents of the report of the Independent Auditors KPMG, issued pursuant to Articles 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, 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 2017, which we submit for your approval, show a profit of € 27,560,433.

We recommend the following distribution of profits:

- *a dividend of € 6,916,210.47;*
- *the remainder of € 20,644,222.99 to be carried forward.*

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, 29 March 2018

Board of Statutory Auditors

Massimo Conigliaro	Lucia Abati	Biagio Verde
Chairman	*Standing Auditor*	*Standing Auditor*

INDEPENDENT AUDITORS' REPORT

KPMG S.p.A.
Revisione e organizzazione contabile
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20124 MILANO MI
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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 2017, the income statement and the statements of other 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 2017 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 Banca Sistema S.p.A. 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

Notes to the separate financial statements "Part A - Accounting policies": section A.2. "Information on the main items of the financial statements"

Notes to the separate financial statements "Part B - Information on the statement of financial position - Assets": Section 7 "Loans and receivables with customers"

Notes to the separate financial statements "Part C - Information on the income statement": Section 8 "Net impairment losses"

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
Loans and receivables with customers at 31 December 2017 amount to €1,861 million, accounting for 81% 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 2017, the factoring receivables and the S/P-B loans amount to €1,286 million and €500 million, respectively. Net impairment losses on loans and receivables recognised in profit or loss during the year totalled €5.4 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. 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 Bank's processes and IT environment in relation to the disbursement, acquisition, monitoring, classification and measurement of loans and receivables with customers; — examining the design and implementation of controls and the performance of procedures to assess the operating effectiveness of the controls held to be relevant, with particular reference to the identification of exposures with indicators of impairment and the calculation of the impairment losses; — analysing the criteria used to classify loans and receivables with customers in the official categories and sample-based test of their classification; — analysing the individual and collective impairment assessment models used and checking the reasonableness of the main assumptions and variables included therein;

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, an assessment of any guarantees and the impact of 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 to customers is 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 official categories and in the related impairment rates compared to the previous years' figures and discussing the results with the relevant Bank's departments; — checking the appropriate disclosures on loans and receivables with customers in the financial statements.

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 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 been recognising 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 financial statements at 31 December 2016. Default interest recognised on an accruals basis in 2017 amounts to €17.6 million and accounts for 44% of the pre-tax profit from continuing operations.	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
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; — checking the appropriate disclosures on default interest in the financial statements.

Responsibilities of the directors and board of statutory auditors ("Collegio Sindacale") of Banca Sistema S.p.A. 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 Banks'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 shareholders of Banca Sistema S.p.A. 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 directors of Banca Sistema S.p.A. are responsible for the preparation of the Bank's directors' report and report on corporate governance and ownership structure at 31 December 2017 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 December 2017 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 separate financial statements of Banca Sistema S.p.A. at 31 December 2017 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, 29 March 2018

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2017

BANCA
SISTEMA
CONTEMPORARY BANK