INTERIM CONSOLIDATED FINANCIAL REPORT AT 30 JUNE 2017

BANCA SISTEMA
CONTEMPORARY BANK

BANCA SISTEMA Group

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BANCA SISTEMA

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DIRECTORS' REPORT

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

Chairperson	Ms.	Luitgard Spögler
Deputy Chairperson:	Mr.	Giovanni Puglisi
CEO and General Manager	Mr.	Gianluca Garbi
Directors:	Mr.	Claudio Pugelli
	Mr.	Giorgio Barba Navaretti (*Independent*)
	Ms.	Ilaria Bennati[1] (*Independent*)
	Mr.	Daniele Pittatore (*Independent*)
	Ms.	Carlotta De Franceschi (*Independent*)
	Mr.	Diego De Francesco[2] (*Independent*)

Board of Statutory Auditors[3]

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

Internal Control and Risk Management Committee

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

Appointments Committee

Chairman	Mr.	Diego De Francesco
Members:	Ms.	Ilaria Bennati
	Ms.	Luitgard Spögler

Remuneration Committee

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

Ethics Committee

Chairman	Mr.	Giovanni Puglisi
Members:	Ms.	Ilaria Bennati
	Ms.	Marco Pompeo

Supervisory Body

Chairman	Mr.	Massimo Conigliaro
Members:	Mr.	Daniele Pittatore
	Mr.	Franco Pozzi

[1] The CEO was confirmed at the Shareholders' Meeting held on 27 April 2017.

[2] 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.

[3] The Board of Statutory Auditors was appointed at the Shareholders' Meeting on 27 April 2017.

[4] Previously an Alternate Auditor, he took over as a Standing Auditor pursuant to the parent's articles of association and current regulations following the resignation of the Standing Auditor, Ms. Maria Italiano, on 25 July 2017, and shall remain in office until the next Shareholders' Meeting.

FINANCIAL HIGHLIGHTS AT 30 JUNE 2017

30 Jun 2017

31 Dec 2016

30 Jun 2016

Statement of financial position data (€,000)

Total Assets	2,038,599 1,999,363	2.0%
Securities Portfolio	363,673 514,838	-29.4%
Loans - Factoring	1,058,959 986,169	7.4%
Loans - Salary-backed loans and SME	426,754 344,911	23.7%
Funding - Banks and REPOs	743,050 753,706	-1.4%
Funding - Term Deposits	453,658 443,395	2.3%
Funding - Current Accounts	478,879 436,986	9.6%

Income statement data (€,000)

Net interest income	29,885 34,647	-13.7%
Net fee and commission income	4,607 4,415	4.4%
Total Income	35,157 40,092	-12.3%
Personnel Expense	(8,872) (7,466)	18.8%
Other administrative expenses	(10,030) (10,239)	-2.0%
Pre-tax profit	14,547 21,737	-33.1%

Performance Indicators

Cost/income	54% 44%	25.0%
ROAE	16% 25%	-34.0%

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 the Banca Sistema Group, 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 Mediocredito Centrale S.p.A. (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 new administrative offices that are currently located in another building in Rome, and the offices of the collateralised loan business. The Board of Directors approved the opening of a new branch in Rome on via Campania 59/C, together with the administrative office currently located in Piazzale delle Belle Arti, 8, which will also be transferred to this new location; iii) to approve the establishment of a held-to-maturity securities portfolio through the purchase of Italian government securities.

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 which was prepared in accordance with art. 123-bis of Legislative Decree no. 58/1998, as well as the Remuneration Report in accordance with 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 in private placement.

On 28 April 2017, the Board of Directors acknowledged the quarterly report by the Internal Control Department as at 31.3.2017 (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 Law on Banking, which was submitted to the Bank of Italy on 14 June 2017.

The Bank's Board also approved the succession plan for management functions and the corporate bodies, acknowledging the recommendations for "larger and more complex banks" introduced under EU Directive 2013/36 and the Supervisory Provisions under Bank of Italy circular 285/2013. 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 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.

It should be noted that from 18 October 2016 to 20 January 2017, the Bank of Italy performed an inspection regarding "governance, management and control of credit risk" that was expanded during the inspection to include other profiles, including those that are the responsibility of CONSOB. The inspection report was presented by representatives of the Bank of Italy, in the presence of the Board of Statutory Auditors, at the Board meeting that was specifically called on 04 May 2017. The inspections did not result in any regulatory sanctions being initiated.

The results of the analysis and the assessment conducted by the Bank of Italy identified the measures needed to correct the observed weaknesses. The corrective actions will be periodically monitored by the corporate bodies and will be completed during the current financial year.

HUMAN RESOURCES

As at 30 June 2017, the Group had a staff of 148, broken down by category as follows:

FTES	30.06.2017	31.12.2016	30.06.2016
Senior managers	21	19	16
Middle managers (QD3 and QD4)	41	43	36
Other personnel	86	82	79
Total	**148**	**144**	**131**

In the first half of the year,16 new employees joined the Group and 12 employees left the Group.

The new employees were hired to strengthen the collections area, including one manager, and the Banking area following the opening of a new branch in Milan dedicated to collateralised loans, and the Rome branch dedicated to both collateralised loans and services in the Banking area. Among the new employees is the Human Resources Director (a manager) that replaces the previous one who is leaving the Group. The average age of Group employees is 42 for men and 39 for women, with women accounting for 43% of the total.

The Italian factoring market

The Italian factoring market represents about 9% of the global market and more than 13% of the European market. During 2016, total turnover from factoring operators grew by 9.5% over the previous year reaching € 202.5 billion.

The market situation in the first few months of 2017 is characterised by strong overall growth in the sector that is greater than the forecasts published by the most important specialised observers. Data from Assifact in June 2017 shows operator turnover up 16% on the same period in 2016. Preliminary sector turnover estimates for the first half of 2017 are more than € 109 billion compared to € 93 billion in the same period in the previous year. Without recourse factoring is by far the most common form of factoring used by the market (about 60% of total turnover).

Unlike the trend in bank loans, which were severely impacted by the economic crisis that characterised the last 9 years, factoring saw continuous turnover growth of more than 60% over the same period (in 2007, turnover was € 120 billion), demonstrating a certain resilience to negative economic events, as well as being clearly 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 factored receivables and the solvency of the 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. This further bears out the validity of debtor financing, and factoring in general, from various points of view.

Factoring, as an opportunity for diversification of access to sources of financing for the business world - as in the specific case small and medium-sized enterprises - which is often subject to considerable credit restrictions imposed by the traditional banking industry, has contributed productively to providing financial support for business continuity and growth.

In addition, for large companies, factoring services, especially factoring without recourse, are of strategic importance due to their significant contribution to improving net financial position.

These elements are further supported by the data on credit quality. In fact, even in 2016 the sector reported a decrease in the ratio of non-performing positions on factoring exposures, going from 7.65% at the end of 2015 to 6.67% at 31 December 2016; significantly lower than the ratio of non-performing exposures on total funding in the banking sector (17.8% at the end of 2016).

The analysis of the data provided by ASSIFACT further emphasises that, from the operators' perspective, the Italian market still appears quite concentrated: with over 60% of turnover in 2016, market share is solidly in the hands of the top three factoring companies.

In the Italian market, one of the most important in the world, the demand for factoring services towards Public Administration represents a significant portion of the market. According to Assifact estimates, around 30% of outstanding receivables are Public Administration debtors, while the sector's exposure is 25%.

Despite the efforts made by the Government with the enactment of Legislative Decree no. 35 of 08 April 2013, converted by Law no. 64 of 06 June 2013 with the aim of rectifying the payment of certain, liquid and collectable pre-existing Public Administration debt through the allocation of about € 40 billion and the transposition of the EU regulation on late payments that exacerbated the amount of default interest for late payments beyond 60 days, public entities continue to have difficulties in fulfilling payment commitments at agreed due dates.

In this regard, mention is quite frequently made in the Italian press of the constant difficulties in relations between suppliers and government entities, as a result of which Italy is still today the worst payer in Europe, with average payment times that are still above 130 days compared the European average of 45 days.

In the interest of completeness, it should be noted that, while there are still considerable difficulties in properly identifying actual amounts, recent sources in the press indicate that the total of outstanding, unpaid receivables is estimated at approximately € 65 billion.

If a particular segment of the Public Administration is considered, namely goods and services provided to Italy's National Health Service, the average payment times in June 2017 were 135 days (according to Assobiomedica).

From a geographical standpoint, regional payment performance is rather well defined and may be broken down into three different groups:

Up to 90 days past due: Valle d'Aosta, Friuli Venezia Giulia, Trentino Alto Adige, Lombardy, Marche, Liguria and Veneto.

Up to 180 days past due: Emilia Romagna, Umbria, Basilicata, Abruzzo, Puglia, Tuscany, Lazio and Piedmont.

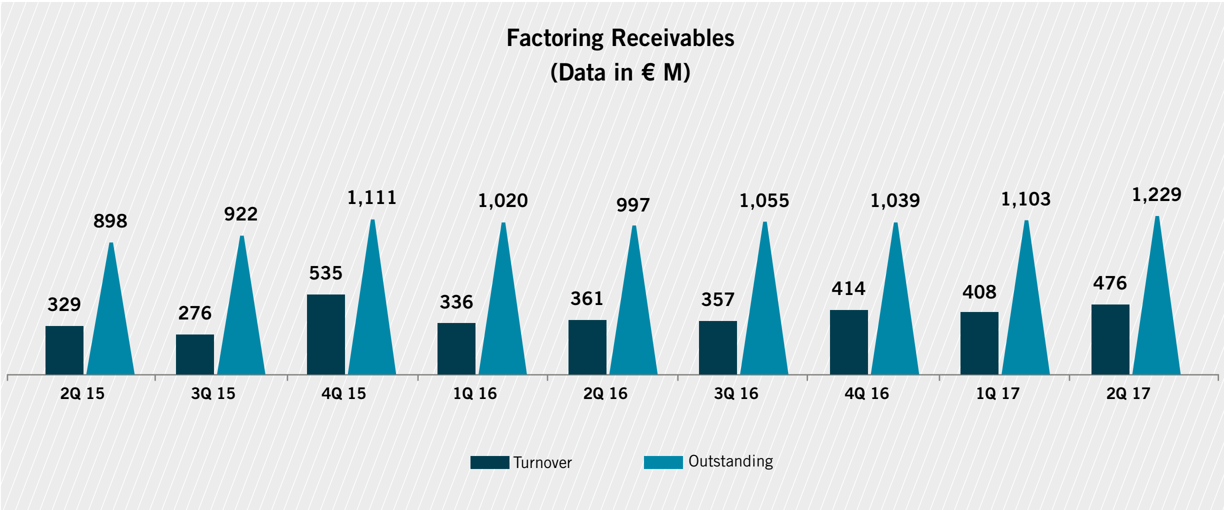
More than 180 days past due: Sardinia, Sicily, Campania, Calabria, and Molise.

Considering these statistics, for suppliers the assignment of receivables from public entities, especially without recourse, continues to represent an important tool for rebalancing their finances and entrusting credit collection to third parties. In this context, the sector plays, and will continue to play, an important role in supporting SMEs 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.

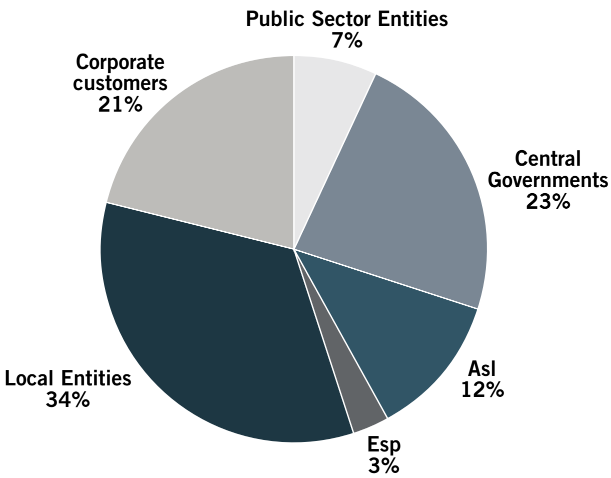
The significant growth of factoring in recent decades bears witness to the strategic value of this service in supporting the economic system. In the light of recent developments in the European political situation, the sector's prospects remain stably tied to aspects of development (factoring of tax credits, export factoring, etc.) capable of guaranteeing further margins of volume growth and extension to new services.

The Banca Sistema Group and factoring activities

Turnover for the first half of 2017 of the Banca Sistema Group was € 883 million, up 27% on the same period of 2016.



Outstanding loans as at 30 June 2017 amounted to € 1,229 million, up 18% on the € 1,039 million at 31 December 2016 mainly due to increased volumes acquired in the first half of 2017 compared to collections during the same period. The chart below shows the ratio of debtors to the outstanding portfolio as at 30 June 2017. The Group's core business remains the Public Administration entities segment.



The Group works through both direct assignments by companies and within the framework of regional agreements for restructuring or re-organising public entity debts. These transactions include traditional factoring agreements, as well as reverse factoring agreements with highly reliable public entities, which are seeking to use factoring with their suppliers in their role as debtors.

The following table shows the factoring turnover by product type:

PRODUCT	30.06.2017	30.06.2016	€ Change	% Change
Trade receivables	794	606	188	31%
of which, without recourse	*533*	*463*	*70*	*15%*
of which, with recourse	*261*	*143*	*118*	*82%*
Tax receivables	89	91	(2)	-2%
of which, without recourse	*82*	*81*	*1*	*1%*
of which, with recourse	*7*	*10*	*(3)*	*-30%*
TOTAL	**883**	**697**	**186**	**27%**

The growth in turnover derives mainly from the purchase of with recourse trade receivables. The number of turnover-generating customers for the first half of 2017 was 266 and in line with the first half of 2016 (+43) due to the extension of the sales network which began in 2015, and as a result of the agreements entered into with banks.

Collection and debt recovery activities

For the purposes of its debt recovery activities, the Group 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.

For the first half of 2017, collections managed by the Bank under its credit factoring portfolios totalled € 662 million (down 16% on the first half of 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 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 is initiated when it is necessary to avoid a loss for the Bank. In addition, the recovery of the late payment interest component is necessary in some cases to achieve the expected profitability.

At the end of the first half of 2016, the Bank 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 (65% for debtors in the national health system, and 15% for other Public Administration debtors) were estimated based on the best judgement and assessment using the knowledge and evidence available at the date of these financial statements. These estimates, unchanged from 31

December 2016, were back tested, and will continue to be used temporarily for allocation purposes despite the recovery percentages being significantly greater than 15%. These estimates, as required by relevant legislation, will be reviewed and adjusted if necessary if there is a change in the circumstances upon which the estimates were formed, or if there is new information or more experience.

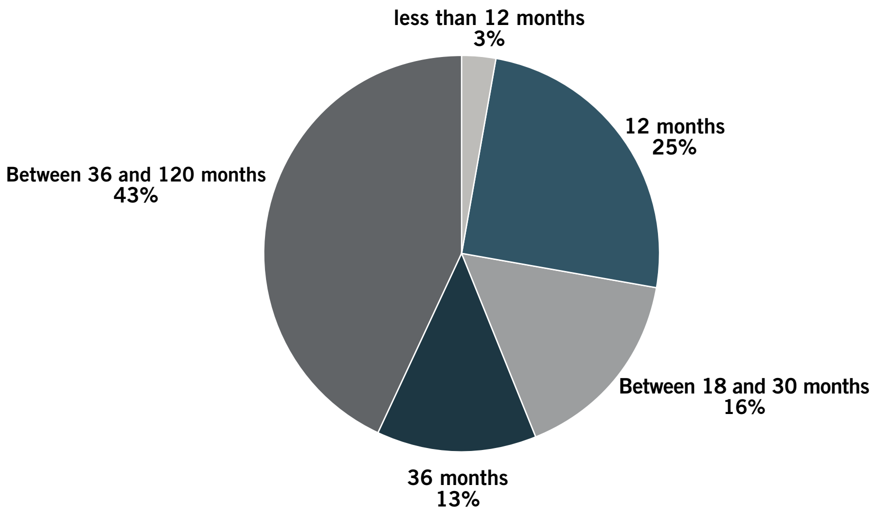
BANKING

Direct funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.
Retail funding accounts for 53% of the total and is composed of the account Si Conto! Corrente and the product Sì Conto! Deposito.
Total term deposits as at 30 June 2017 amounted to € 454 million, an increase of 2% compared to 31 December 2016.
The above-mentioned amount also includes total term deposits of € 119 million (obtained with the help of a partner platform) held with entities resident in Germany and Austria (accounting for 27% of total deposit funding), an increase of € 21 million over the first half of the previous year.
The increase benefited from the increase in interest rates in Germany over the course of the year.

There were 10,383 individual customers with term deposits as at 30 June 2017, a decline compared with the figures as at 30 June 2016 (11,039).
The average deposit was € 42 thousand, an increase compared with the figures as at 30 June 2016 (€ 41 thousand).
The breakdown of funding by term is shown below.
The average duration of the portfolio is 22 months.

Breakdown of deposit accounts as at 30 June



Current accounts increased from 3,874 (as at 30 June 2016) to 4,374 as at 30 June 2017, while the current account balance as at 30 June 2017 was € 479 million, up € 28 million compared with 31 December 2016.

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

The Banca Sistema Group entered the salary- and pension-backed loan (CQS/CQP and to a lesser extent, salary deductions) market in 2014, through the acquisition from other specialist intermediaries of loans and receivables portfolios derived from this specific type of financing.

As at 30 June 2017, the Bank has seven ongoing agreements with specialist distributors in the sector.

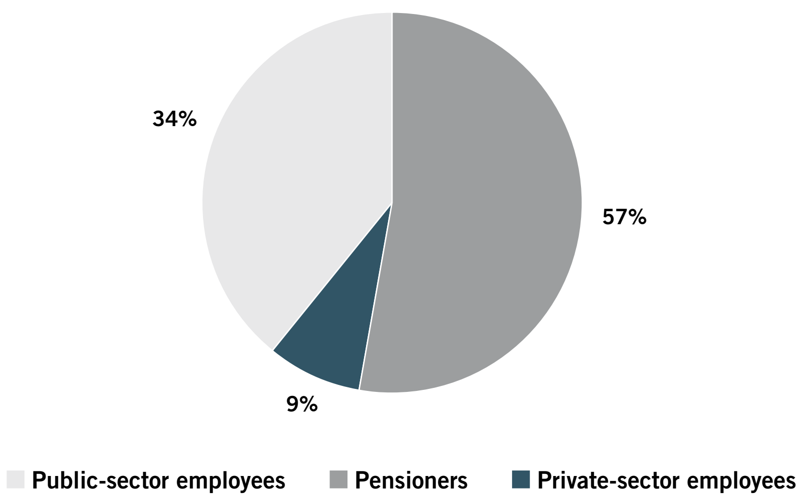
A salary-backed loan (CQS) is a consumer loan product that allows customers to allocate up to a fifth of their salaries to the payment of loan instalments.

The volumes acquired in the first half of 2017 amounted to € 105.3 million, including private-sector employees (9%), pensioners (57%) and public-sector employees (34%).

Therefore, over 91% of the volumes refer to pensioners and employees of the PA, which remains the Bank's main debtor.

	30.06.2017	30.06.2016	€ Change	% Change
No. of applications	5,090	3,132	1,958	63%
Volumes disbursed	105,270	65,138	40,132	62%

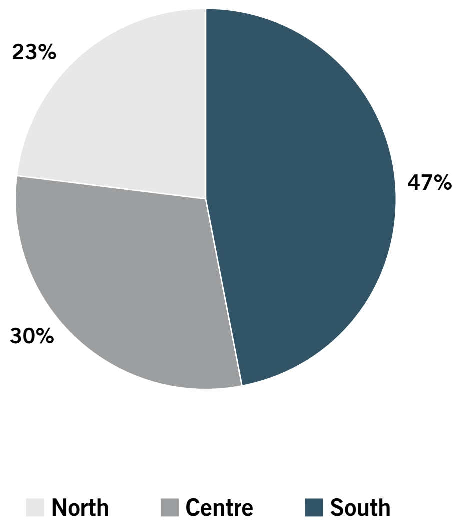
CQS disbursed volumes - Breakdown



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

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

CQS disbursed volumes - Breakdown by geographical segment



TREASURY ACTIVITIES

Treasury portfolio

A treasury portfolio has been established in order to support liquidity commitments through short-term investment in Italian government bonds.
The nominal value of the treasury portfolio at 30 June 2017 amounts to € 448 million (€ 364 million in the AFS securities portfolio and € 84 million in the HTM securities portfolio) with a duration of 9.2 months (5.2 months for AFS securities and 2.2 years for HTM securities). The decline in yields on Italian government bonds to all-time lows following the introduction of quantitative easing by the European Central Bank considerably reduced market volatility and thus trading volumes. During the first half of 2017, total transactions involving government bonds totalled € 2.9 billion (against € 2.2 billion traded in the same period in 2016).
Government bonds are mainly traded on the MTS market and BrokerTec in which the Bank trades as a market dealer.

Wholesale funding

As at 30 June 2017, wholesale funding was about 47% of the total, mainly comprising repurchase agreements traded on the MTS MMF Repo platform, inter-bank deposits and refinancing transactions with the ECB (49% as at 31 December 2016).
Secured transactions were carried out using proprietary portfolio Italian government securities, trade receivables and senior debt from securitised "Quinto Sistema Sec 2016" securities officially eligible as collateral for Eurosystem refinancing transactions.
The choice between the above-mentioned funding sources is mainly driven by the contingent performance of short-term liquidity market. In particular, during the first half of the year, priority was given to repurchase agreements since they were more advantageous compared to the financing transactions proposed by the ECB.
Trading on the MMF Repo screen-based market during the first half of 2017 totalled about € 36.3 billion compared to € 52.2 billion during the same period in 2016.
During the first half of 2017, open market transactions proposed by the ECB were carried out valued at € 410 million compared to € 277 million in the same period in 2016 (including participation in the TLTRO II transactions proposed by the European Central Bank for an amount of € 122.85 million maturing on 24 June 2020).
The Group used the interbank deposit market both through the e-MID market and through bilateral agreements with other banks.
The listing of the shares of Banca Sistema on the Milan Stock Exchange permitted a sharp improvement in interbank relations, facilitating the granting of MM lines of credit. Such funding allows short-term needs to be met by exploiting the extremely low level of interest rates, with the possibility of drawing funds from the interbank market in a manner useful to diversifying funding.
Existing deposits from banking counterparties at 30 June 2017 were € 310 million, an increase compared to the € 224 million at 30 June 2016.
The diversification of funding sources continued during the first half of 2017 with the issue of a TIER II subordinated bond to institutional investors maturing on 30 March 2027.

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)	30.06.2017	31.12.2016	€ Change	% Change
Cash and cash equivalents	191	98	93	94.9%
Financial assets held for trading	827	996	(169)	-17.0%
Available-for-sale financial assets	363,673	514,838	(151,165)	-29.4%
Held-to-maturity investments	84,084	-	84,084	n.a.
Loans and receivables with banks	35,564	83,493	(47,929)	-57.4%
Loans and receivables with customers	1,503,150	1,348,329	154,821	11.5%
Equity investments	1,298	1,030	268	26.0%
Property and equipment	23,791	23,313	478	2.1%
Intangible assets	1,803	1,835	(32)	-1.7%
of which: goodwill	*1,786*	*1,786*	-	*0.0%*
Tax assets	9,491	10,528	(1,037)	-9.8%
Other assets	14,727	14,903	(176)	-1.2%
Total assets	**2,038,599**	**1,999,363**	**39,236**	**2.0%**

The first half of 2017 ended with total assets of approximately € 2 billion, up 2% on the end of 2016, mainly because of an increase in turnover in the factoring and salary-backed loans (CQS) portfolios. The merger of Beta Stepstone into the Parent 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 Group's AFS (available-for-sale) securities portfolio is mainly comprised of Italian government bonds with an average remaining duration of about 5 months as at 30 June 2017 (the average duration at the end of 2016 was 7 months) and is in line with the Group investment policy to retain securities with durations of under 12 months. The government bond portfolio amounted to € 359 million at 30 June 2017 (€ 508 million as at 31 December 2016). The valuation reserve for government securities at the end of the period was € 119 thousand gross of tax.

The AFS portfolio also includes 200 share of the Bank of Italy amounting to € 5 million purchased in July 2015 and the amount at 31 December of the Axactor security, 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 30 June, the net fair value reserve was positive at € 275 thousand resulting in a period-end amount of € 1.5 million. During 2017, a held-to-maturity securities portfolio was established made up entirely of Italian government securities with an average duration of 2.2 years and amounting to € 84 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	30.06.2017	31.12.2016	€ Change	% Change
Factoring	1,058,959	986,169	72,790	7.4%
Salary-/pension-backed loans (CQS/CQP)	356,637	265,935	90,702	34.1%
Loans to SME	70,117	78,975	(8,858)	-11.2%
Current accounts	9,986	12,255	(2,269)	-18.5%
Compensation and Guarantee Fund	7,000	4,684	2,316	49.4%
Other loans and receivables	451	311	140	45.0%
Total	**1,503,150**	**1,348,329**	**154,821**	**11.5%**

"Loans and receivables with customers" mainly comprise outstanding loans for factoring receivables, down from 73% to 70% of the caption. The cumulative turnover figure in the first half amounted to € 883 million (up 27% on the same period of the previous year). Salary- and pension-backed loans grew by 34% compared to the end of 2016 as a result of newly acquired volumes equal to € 105 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. In particular, at the end of last year the Parent began developing the gold 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. At 30 June € 250 thousand had been granted.

During 2017, the salary-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. with the first sale amounting to € 45.5 million. The sale, which was expected to be made by the end of June 2017 with the aim of improving capital, was not completed because despite the fact that the orders for the junior securities and mezzanine were three time greater than the offering, satisfactory levels of return were not reached for the senior securities.

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-recorded 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, without considering the amount relating to reverse REPOs during the periods in which that investment was present.

STATUS	31.12.2016	31.03.2017	30.06.2017
Doubtful	35,231	40,643	38,004
Unlikely to pay	20,189	17,676	29,677
Overdue payments/defaults>180 days	68,342	85,828	78,735
Non-performing	**123,762**	**144,147**	**146,416**
Performing	1,242,832	1,272,618	1,362,811
Other loans and receivables with customers (excluding REPOs)	4,033	19,278	17,670
Total excluding REPOs	**1,370,628**	**1,436,043**	**1,526,897**
Individual impairment losses	**16,457**	**16,329**	**17,707**
Doubtful	12,260	10,119	10,279
Unlikely to pay	4,027	4,440	6,079
Past due	170	1,770	1,349
Collective impairment losses	**5,842**	**5,502**	**6,040**
Total impairment losses	**22,299**	**21,831**	**23,747**
Net exposure	**1,348,329**	**1,414,212**	**1,503,150**

The ratio of gross non-performing loans to the total portfolio is up from 9% at 31 December 2016 to 9.6% at the end of the first half of 2017, mainly due to increases in past due and "unlikely to pay", with the latter tied to new receivables coming from the factoring portfolio and particularly from a single, with recourse transferor.

Net doubtful loans amounted to 1.8% of total loans and receivables with customers, remaining at moderate levels. The amount of past due loans is mainly attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Within the scope of reviewing the model for expected losses and the related recovery times for doubtful receivables from Public Administration debtors, the amounts prudently allocated in previous years were reviewed. Part of this exercise also included a thorough recalculation of the estimated value adjustments on the "unlikely to pay" category. The coverage ratio of non-performing loans is down from 13.3% at 31 December 2016 to 12.1% in June 2017.

Equity investments include the Bank's current equity investment of 10.0% in Axactor Italy S.p.A., a company operating on the doubtful financial and commercial loans management market, as well as in the management and recovery of receivables between individuals. The increase during the period is mainly attributed to the pro-quota capital increase of € 300 thousand subscribed by Banca Sistema.

Property and equipment includes the property located in Milan, which will primarily be used as Banca Sistema's new offices following the completion of the renovation work. Other assets include amounts being processed after the end of the reference period and advance tax payments of approximately € 5 million.

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

LIABILITIES AND EQUITY (€,000)	30.06.2017	31.12.2016	€ Change	% Change
Due to banks	512,709	458,126	54,583	11.9%
Due to customers	1,236,719	1,262,123	(25,404)	-2.0%
Securities issued	104,470	90,330	14,140	15.7%
Tax liabilities	8,222	8,539	(317)	-3.7%
Other liabilities	48,532	59,825	(11,293)	-18.9%
Post-employment benefits	2,018	1,998	20	1.0%
Provisions for risks and charges	8,080	4,105	3,975	96.8%
Valuation reserves	58	425	(367)	-86.4%
Reserves	98,157	78,980	19,177	24.3%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	-	(52)	52	-100.0%
Profit for the period/year	9,983	25,313	(15,330)	-60.6%
Total liabilities and equity	**2,038,599**	**1,999,363**	**39,236**	**2.0%**

Wholesale funding represents about 47% 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% to 13.7% of the total wholesale funding thanks to the placement of a new bond included in TIER 2 equal to € 14 million.

DUE TO BANKS (€,000)	30.06.2017	31.12.2016	€ Change	% Change
Due to Central banks	202,311	192,850	9,461	4.9%
Due to banks	310,384	265,276	45,108	17.0%
Current accounts and demand deposits	*312*	*20,276*	*(19,964)*	*-98.5%*
Term deposits	*310,072*	*245,000*	*65,072*	*26.6%*
Other	14	-	14	n.a.
Total	**512,709**	**458,126**	**54,583**	**11.9%**

Due to banks grew by 12% compared to 31 December 2016 with an increase in interbank funding with an average duration of 2.35 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)	30.06.2017	31.12.2016	€ Change	% Change
Term deposits	453,658	443,396	10,262	2.3%
Funding (repurchase agreements)	230,341	295,581	(65,240)	-22.1%
Current accounts and demand deposits	478,879	436,986	41,893	9.6%
Deposits with Cassa Depositi e Prestiti	21,786	35,615	(13,829)	-38.8%
Due to assignors	52,055	50,545	1,508	3.0%
Total	**1,236,719**	**1,262,123**	**(25,404)**	**-2.0%**

Customer deposits decreased slightly compared to the end of the year, resulting mainly from a decrease in funding from repurchase agreements, mainly as a result of a decrease in the securities portfolio. Current account funding increased as did the period-end amount of term deposits which is up 2.3% on the end of 2016, reflecting net positive deposits (net of interest accrued) of € 9 million; gross deposits from the beginning of the year were € 164 million, against withdrawals caused mainly by non-renewals totalling € 156 million.

Due to customers also include funding of € 21.8 million from Cassa Depositi e Prestiti obtained against collateral consisting solely of loans to SMEs by the Bank. The amount has decreased as a result of the expected principal repayments.

“Due to assignors” include payables related to receivables acquired but not funded.

The balance of debt instruments 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 € 14 million, set to mature on 30 March 2027;
- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis);
- senior bond of € 70 million, set to mature on 3 May 2018.

The provision for risks and charges of € 8.1 million includes the amount of € 3.2 million, representing the estimated future liabilities attributable to Beta, calculated based on the price allocation in accordance with IFRS 3, along with a settlement in the tax dispute that the Italian Revenue Office had filed against Beta: this amount was fully covered by the previous controlling shareholder as part of the aforementioned early closing of the purchase agreement. The remaining amount refers to the portion of the bonus deferred to future periods and the estimate related to the non-compete agreement. Some service providers have initiated legal action seeking payment of consideration for services rendered that, in the Bank’s opinion, did not require any additional provisions.

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

The reconciliation between the profit for the period and equity of the parent and the figures from the consolidated financial statements is shown below.

(€ ,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**10,330**	**118,749**
Assumption of value of investments	-	(14,924)
Consolidated loss equity	(347)	14,024
Equity attributable to the owness of the parent	9,983	117,849
Equity attributable to non-controlling interests	-	30
Group equity	**9,983**	**117,819**

CAPITAL ADEQUACY

Due to the incorporation of LASS, it is no longer possible to opt out of consolidated financial reporting.

Accordingly, financial reporting was prepared on a consolidated basis starting from the third quarter of 2016.

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	30.06.2017	31.12.2016
Common Equity Tier 1 (CET1)	**113,409**	**104,621**
ADDITIONAL TIER 1	8,000	8,000
Additional Tier 1 capital (T1)	**121,409**	**112,621**
TIER2	26,024	12,092
Total Own Funds (TC)	**147,433**	**124,713**
Total risk weighted assets	**903,652**	**788,041**
of which, credit risk	771,552	652,999
of which, operational risk	130,447	130,447
of which, market risk	1,653	4,595
of which, CVA (credit value adj. on derivatives)	-	-
Ratio - CET1	12.6%	13.3%
Ratio - AT1	13.4%	14.3%
Ratio - TCR	**16.3%**	**15.8%**

Total own funds were € 147 million as at 30 June 2017 and included the profit for the first half of 2017, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit.

The increase in RWAs compared to 31 December 2016 was primarily due to the increase in loans, particularly salary- and pension-backed loans, and the increase in past-due loans to Public Administration.

In compliance with the EBA and Guidelines on common SREP (Supervisory Review and Evaluation Process), the Bank of Italy requested that the following minimum requirements be maintained:

- CET1 ratio of 7.2% + additional 0.2% above the minimum regulatory requirement;
- TIER1 ratio of 9.6% + additional 1.1% above the minimum regulatory requirement;
- Total capital ratio of 12.9% + additional 2.4% 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 outstanding shares have regular dividend entitlement from 1 January.

Based on evidence from the Shareholders' Register and more recent information available, as at 30 June 2017 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows.

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.1%
Fondazione Sicilia	7.4%
Fondazione Cassa di Risparmio di Alessandria	7.4%
Fondazione Pisa	7.4%
Schroders	6.7%
Market	*48.0%*

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 at the end of the Plan to service the incentive plans for the Group's key personnel.
At their meeting held on 27 April 2017, the Shareholders of Banca Sistema approved the new Plan to repurchase treasury shares.

Dividends paid

The dividend for 2016 amounting to € 6,111,999.95 or € 0.076 per share, drawn on the profit of the Parent, was paid with a value date of 04 May 2017.

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.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	FIRST HALF OF 2017	FIRST HALF OF 2016	€ Change	% Change
Net interest income	29,885	34,647	(4,762)	-13.7%
Net fee and commission income	4,607	4,415	192	4.3%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	(216)	1	(217)	n.a.
Gain from sales or repurchases of financial assets	654	802	(148)	-18.5%
Total income	**35,157**	**40,092**	**(4,935)**	**-12.3%**
Net impairment losses on loans and receivables	(1,427)	(3,130)	1,703	54.4%
Net financial income	**33,730**	**36,962**	**(3,232)**	**-8.7%**
Personnel expense	(8,872)	(7,466)	(1,406)	18.8%
Other administrative expenses	(10,030)	(10,239)	209	-2.0%
Net accruals to provisions for risks and charges	(58)	69	(127)	n.a.
Net impairment losses on property and equipment/intangible assets	(153)	(151)	(2)	1.3%
Other operating income (expense)	(38)	321	(359)	n.a.
Operating costs	**(19,151)**	**(17,466)**	**(1,685)**	**9.6%**
Gains (losses) on equity investments	(32)	2,241	(2,273)	n.a.
Pre-tax profit	**14,547**	**21,737**	**(7,190)**	**-33.1%**
Income taxes	(4,564)	(6,052)	1,488	-24.6%
Profit for the period attributable to the owners of the parent	**9,983**	**15,685**	**(5,702)**	**-36.4%**

Following the acquisition of Beta Stepstone on 01 July 2016, the consolidated results at 30 June 2016 do not include the contribution of the merged Beta Stepstone. Therefore, the results at 30 June 2016 are not completely comparable.

The first half of 2017 ended with a profit of € 9.9 million, a decrease compared to the same period of the previous year, mainly due to a decrease in net interest income. During the first half of 2016, the portion of default interest accrued to that date that may reasonably be expected to be recovered was recorded for the first time. The amount resulting from the change of the methods to estimate the recoverability of such interest which is not attributable to the period was € 5.0 million.

Also contributing to the results reported during the first half of 2016 was the realised capital gain deriving from the partial sale of an interest in Axactor Italy of € 2.3 million.

NET INTEREST INCOME (€,000)	30.06.2017	30.06.2016	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	37,811	42,279	(4,468)	-10.6%
Securities portfolio	(497)	34	(531)	n.a.
Other	250	278	(28)	-10.1%
Total interest income	**37,564**	**42,588**	**(5,024)**	**-11.8%**
Interest and similar expense				
Due to banks	(221)	(1,029)	808	-78.5%
Due to customers	(6,020)	(6,080)	60	-1.0%
Securities issued	(1,438)	(832)	(606)	72.8%
Total interest expense	**(7,679)**	**(7,941)**	**262**	**-3.3%**
Net interest income	**29,885**	**34,647**	**(4,762)**	**-13.7%**

Net interest income decreased by 13.7% compared to the same period of the previous year mainly caused by a lower contribution from factoring, following the change in the estimation and recognition method for default interest described previously that occurred in 2016, that was partially offset by higher income from the salary- and pension-backed loan portfolios.

The contribution of the factoring portfolio is mainly the result of a reduction in market margins on the most recent production. In the first quarter of 2016, factoring income benefited from collections made earlier than expected.

It should be noted that the early closing of the guarantee agreement provided by the former shareholder of Beta Stepstone (following its acquisition by Banca Sistema) regarding the collection of default interest on receivables from entities in the healthcare sector, resulted in higher accrued default interest being recorded in the second quarter of 2017. This should be viewed within the context of the Bank's strategy to evaluate transactions related to default interest on a case-by-case basis as was previously done in the fourth quarter of 2016. Sale and purchase transactions regarding default interest may become more frequent even in the future.

The amount of default interest coming from the factoring portfolio under legal action at 30 June 2017 was € 6.3 million, of which € 3.4 million allocated. The collection of this default interest was € 2.9 million compared to € 1.2 million in the first half of 2016. The adoption of the model for estimating the recognition of default interest has resulted in an expected recovery percentage of 65% for debtors in the national health system. Conversely, for default interest related to other Public Administration debtors, despite the recovery percentages for default interest and as a consequence of the model providing an allocation percentage significantly greater than 15%, this recovery percentage will continue to be used temporarily for allocation purposes.

The amount of default interest accrued on settled and outstanding invoices net of the amount already allocated amounted to approximately € 108.4 million (€ 104.3 million at 31 December 2016).

The positive impact on income was also driven by the marked growth in interest on the salary-backed portfolios, which rose from € 3.0 million to € 5.4 million, while the decrease in income on the SME portfolios which contributed about € 2.1 million to the total following the strategic decision to stop developing this area of the business.

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 by revenue from hot money transactions and current accounts.

The cost of funding was essentially unchanged compared to the same period of the previous year, in line with the general decrease in market rates, and thanks to a continued and careful funding diversification policy and retail funding management. The increase in interest on issued securities is strictly related to the new bond issues and therefore to higher stock compared to the previous year.

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 € 540 thousand, of which € 295 thousand related to 2016.

NET FEE AND COMMISSION INCOME (€,000)	FIRST HALF OF 2017	FIRST HALF OF 2016	€ Change	% Change
Fee and commission income				
Collection activities	511	493	18	3.7%
Factoring activities	4,945	4,564	381	8.3%
Other	286	355	(69)	-19.4%
Total fee and commission income	**5,742**	**5,412**	**330**	**6.1%**
Fee and commission expense				
Placement	(909)	(838)	(71)	8.5%
Other	(226)	(159)	(67)	42.1%
Total fee and commission expense	**(1,135)**	**(997)**	**(138)**	**13.8%**
Net fee and commission income	**4,607**	**4,415**	**192**	**4.3%**

Net fee and commission income of € 4.6 million was up by 4%, primarily due to greater commissions from factoring.

Commissions on collection activity, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the same period of 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 € 613 thousand (up 19% on the same period of last year) while the remainder includes returns to third party intermediaries for the placement of the SI Conto! Deposito product on volumes placed in Germany.

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

RESULTS OF THE SECURITIES PORTFOLIO (€,000)	FIRST HALF OF 2017	FIRST HALF OF 2016	€ Change	% Change
Net trading income (expense)				
Realised gains	1	1	-	0.0%
Valuation loss/gain	(217)	-	(217)	n.a.
Total	**(216)**	**1**	**(217)**	**n.a.**
Gain (loss) from sales or repurchases				
Gain (loss) from AFS portfolio debt instruments	654	802	(148)	-18.5%
Total	**654**	**802**	**(148)**	**-18.5%**
Total profit (loss) from the securities portfolio	**438**	**803**	**(365)**	**-45.5%**

During the first half of 2017, profits generated by the proprietary portfolio made a smaller contribution than they did in the same period of the previous year due to less favourable market performance. It had a negative impact on the current share price of the trading portfolio.

Impairment losses on loans and receivables at 30 June 2017 amounted to € 1.3 million considering the impact of releases tied to doubtful loans to troubled local authorities and the higher allowances on the SME portfolio mainly because of the new reclassification of doubtful loans and an increase in the collective value adjustment percentage on the SME portfolio.

The loss rate, following that illustrated above, amounted to 20 bps.

PERSONNEL EXPENSE (€,000)	FIRST HALF OF 2017	FIRST HALF OF 2016	€ Change	% Change
Wages and salaries	(6,967)	(5,673)	(1,294)	22.8%
Social security contributions and other costs	(1,537)	(1,371)	(166)	12.1%
Directors' and statutory auditors' remuneration	(368)	(422)	54	-12.8%
Total	**(8,872)**	**(7,466)**	**(1,406)**	**18.8%**

The increase in personnel expense is mainly due to the increase in the average number of employees which went from 131 to 145 following the entrance of 13 Beta employees that were out of scope in the first half of 2016, and an increase in gross annual salaries which includes an additional cost component in 2017 related to the new non-compete agreement. For the first half of 2017 the item also includes total costs relating to voluntary redundancy payments of € 164 thousand, compared to € 287 thousand in the same period of the previous year.

OTHER ADMINISTRATIVE EXPENSES (€,000)	FIRST HALF OF 2017	FIRST HALF OF 2016	€ Change	% Change
IT expenses	(2,128)	(1,696)	(432)	25.5%
Consultancy	(2,100)	(2,072)	(28)	1.4%
Servicing and collection activities	(1,381)	(2,379)	998	-42.0%
Resolution Fund	(807)	(654)	(153)	23.4%
Rent and related fees	(953)	(942)	(11)	1.2%
Indirect taxes and duties	(611)	(720)	109	-15.1%
Advertising	(135)	(88)	(47)	53.4%
Auditing fees	(137)	(158)	21	-13.3%
Other	(153)	(294)	141	-48.0%
Car hire and related fees	(389)	(351)	(38)	10.8%
Expense reimbursement and entertainment	(394)	(279)	(115)	41.2%
Membership fees	(195)	(169)	(26)	15.4%
Infoprovider expenses	(147)	(194)	47	-24.2%
Vehicle expenses	(168)	(32)	(136)	n.a.
Maintenance of movables and real properties	(47)	(25)	(22)	88.0%
Telephone and postage expenses	(89)	(84)	(5)	6.0%
Stationery and printing	(37)	(65)	28	-43.1%
Insurance	(158)	(36)	(122)	n.a.
Discretionary payments	(1)	-	(1)	n.a.
Total	**(10,030)**	**(10,239)**	**209**	**-2.0%**

Other administrative expenses decreased by 2% compared to first half of 2016, primarily due to the combined effect of a reduction in servicing costs that more than offset the increases in IT costs. Also, the Group's contribution to the European Bank Resolution Fund was up by € 153 thousand.

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 Group operations and IT updates on new products.

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.

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.

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 company 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 abilities in managing 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 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 Group operations.

In addition, 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.

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.

The annual assessment for 2016 was sent to the Supervisory Authority in April 2017 through the ICAAP Annual Report for 2016.

It should also be noted that in accordance with the obligations imposed by the applicable regulations, on the basis of its 2016 results the Bank published its report 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 Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes.

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

OTHER INFORMATION

Research and Development Activities

No research and development activities were carried out in the first half of 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 the Parent, Banca Sistema S.p.A..
Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.
With respect to transactions with parties who exercise management and control functions in accordance with art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the 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.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the first half of 2017, the Group did not carry out any atypical or unusual transactions, as defined in Consob Communication no. 6064293 of 28 July 2006.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

The 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-monthly EURIBOR 6 + 450bps coupon (and early redemption option in case of a regulatory event), given the favourable market conditions, resolved to:

- comply with the request to reopen for an amount of € 1.5 million;
- establish a mandate to accept additional reopening requests at market conditions up to a maximum additional amount of € 13.5 million.

The settlement date for the € 1.5 million issue is 5 August of the current year.
There were no additional significant events after the reporting date to be mentioned.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

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

Particularly in factoring, the commercial agreements entered into contributed to the Group's growth, and product and customer diversification process, much like the way the Beta acquisition is providing an increased ability to manage Collection/Servicing of loans under legal actions at Group level.

The objective for this year is to consolidate growth in the core factoring business and to take advantage of additional growth opportunities in salary-backed loans (CQS).

The reduced focus on guaranteed loans to SMEs will be offset by new product lines and the evaluation of strategic and complementary acquisitions.

Milan, 27 July 2017

On behalf of the Board of Directors

The Chairman

Luitgard Spögler

The CEO

Gianluca Garbi

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AT 30 JUNE 2017

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	30.06.2017	31.12.2016
10.	Cash and cash equivalents	191	98
20.	Financial assets held for trading	827	996
40.	Available-for-sale financial assets	363,673	514,838
50.	Held-to-maturity investments	84,084	-
60.	Loans and receivables with banks	35,564	83,493
70.	Loans and receivables with customers	1,503,150	1,348,329
100.	Equity investments	1,298	1,030
120.	Property and equipment	23,791	23,313
130.	Intangible assets	1,803	1,835
	of which goodwill	1,786	1,786
140.	Tax assets	9,491	10,528
	a) current	1,367	3,034
	b) deferred	8,124	7,494
	b1) of which as per Law no. 214/2011	5,042	3,984
160.	Other assets	14,727	14,903
	Total assets	**2,038,599**	**1,999,363**

(Amounts in thousands of Euro)

	Liabilities and equity	30.06.2017	31.12.2016
10.	Due to banks	512,709	458,126
20.	Due to customers	1,236,719	1,262,123
30.	Securities issued	104,470	90,330
80.	Tax liabilities	8,222	8,539
	a) current	410	1,076
	b) deferred	7,812	7,463
100.	Other liabilities	48,532	59,825
110.	Post-employment benefits	2,018	1,998
120.	Provisions for risks and charges	8,080	4,105
	b) other provisions	8,080	4,105
140.	Valuation reserves	58	425
170.	Reserves	58,817	39,608
180.	Share premium reserve	39,310	39,352
190.	Share capital	9,651	9,651
200.	Treasury shares (-)		(52)
210.	Equity attributable to non-controlling interests	30	20
220.	Profit for the period/year	9,983	25,313
	Total liabilities and equity	**2,038,599**	**1,999,363**

INCOME STATEMENT

(Amounts in thousands of Euro)

	Items	FIRST HALF OF 2017	FIRST HALF OF 2016
10.	Interest and similar income	37,564	42,588
20.	Interest and similar expense	(7,679)	(7,941)
30.	**Net interest income**	**29,885**	**34,647**
40.	Fee and commission income	5,742	5,412
50.	Fee and commission expense	(1,135)	(997)
60.	**Net fee and commission income**	**4,607**	**4,415**
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	(216)	1
100.	Gain from sales or repurchases of:	654	802
	b) available-for-sale financial assets	654	802
120.	**Total income**	**35,157**	**40,092**
130.	Net impairment losses on:	(1,427)	(3,130)
	a) loans and receivables	(1,427)	(3,130)
140.	**Net financial income**	**33,730**	**36,962**
180.	Administrative expenses:	(18,902)	(17,705)
	a) personnel expense	(8,872)	(7,466)
	b) other administrative expenses	(10,030)	(10,239)
190.	Net accruals to provisions for risks and charges	(58)	69
200.	Net impairment losses on property and equipment	(132)	(125)
210.	Net impairment losses on intangible assets	(21)	(26)
220.	Other operating income (expense)	(38)	321
230.	**Operating costs**	**(19,151)**	**(17,466)**
240.	Gains (losses) on equity investments	(32)	2,241
270.	Gains (losses) on sales of investments	-	-
280.	**Pre-tax profit from continuing operations**	**14,547**	**21,737**
290.	Income taxes	(4,564)	(6,052)
300.	**Post-tax profit from continuing operations**	**9,983**	**15,685**
320.	**Profit for the period**	**9,983**	**15,685**
340.	**Profit for the period attributable to the owners of the parent**	**9,983**	**15,685**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

	Items	FIRST HALF OF 2017	FIRST HALF OF 2016
10.	**Profit for the period**	**9,983**	**15,685**
	Items, net of tax, that will not be reclassified subsequently to profit or loss		
40.	Defined benefit plans	156	(106)
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
100.	Available-for-sale financial assets	(16)	(178)
130.	**Total other comprehensive income (expense), net of income tax**	140	(284)
140.	**Comprehensive income (Items 10+130)**	**10,123**	**15,401**
150.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
160.	**Comprehensive income attributable to the owners of the parent**	**10,123**	**15,401**

STATEMENTS OF CHANGES IN EQUITY AS AT 30/06/2017

Amounts in thousands of Euro

				Allocation of net result from previous year		Changes during the year										
							Operations on shareholders' equity									
	Balance at 31.12.2016	Change in opening balances	Balance at 1.1.2017	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first half of 2017	**Equity attributable to the owners of the parent at 30.06.2017**	**Equity attributable to non-controlling interests at 30.06.2017**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Share premium reserve	**39,352**	-	39,352	-	-	(42)	-	-	-	-	-	-	-	-	**39,310**	-
Reserves	**39,608**	-	39,608	19,201	-	8	-	-	-	-	-	-	-	-	**58,817**	-
a) income related	**39,918**	-	39,918	19,201	-	14	-	-	-	-	-	-	-	-	**59,133**	-
b) other	**(310)**	-	(310)	-	-	(6)	-	-	-	-	-	-	-	-	**(316)**	-
Valuation reserves	**425**	-	425	-	-	-	-	-	-	-	-	-	-	(367)	**58**	-
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
Treasury shares	**(52)**	-	(52)	-	-	52	-	-	-	-	-	-	-	-	**-**	-
Profit for the period	**25,313**	-	25,313	(19,201)	(6,112)	-	-	-	-	-	-	-	-	9,983	**9,983**	-
Equity attributable to the owners of the parent	**114,296**	-	**114,296**	**(19,201)**	**(6,112)**	**18**	-	-	-	-	-	-	-	**9,616**	**117,819**	-
Equity attributable to non-controlling interests	**20**	-	**20**	**-**	**-**	**10**	-	-	-	-	-	-	-	**-**		**30**

STATEMENT OF CHANGES IN EQUITY AS AT 30/06/2016

Amounts in thousands of Euro

				Allocation of net result from previous year		Changes during the year										
							Operations on shareholders' equity									
	Balance at 31.12.2015	Change in opening balances	Balance at 1.1.2016	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for the first half of 2016	**Equity attributable to the owners of the parent at 30.06.2016**	**Equity attributable to non-controlling interests at 30.06.2016**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	**-**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Share premium reserve	**39,436**	-	39,436	-	-	(42)	-	-	-	-	-	-	-	-	**39,394**	**-**
Reserves	**26,314**	-	26,314	13,345	-	(41)	-	-	-	-	-	-	-	-	**39,618**	**-**
a) income related	**26,573**	-	26,573	13,345	-	-	-	-	-	-	-	-	-	-	**39,918**	**-**
b) other	**(259)**	-	(259)	-	-	(41)	-	-	-	-	-	-	-	-	**(300)**	**-**
Valuation reserves	**350**	-	350	-	-	-	-	-	-	-	-	-	-	(284)	**66**	**-**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	**-**
Treasury shares	**-**	-	-	-	-	-	-	(65)	-	-	-	-	-	-	**(65)**	**-**
Profit for the period	**17,607**	-	17,607	(13,345)	(4,262)	-	-	-	-	-	-	-	-	15,685	**15,685**	**-**
Equity attributable to the owners of the parent	**93,358**	-	**93,358**	**-**	**(4,262)**	**(83)**	-	**(65)**	-	-	-	-	-	**15,401**	**104,349**	**X**
Equity attributable to non-controlling interests	**-**		**-**	**-**	**-**	**10**	**-**	**-**	-	-	-	-	-	**-**	**X**	**10**

STATEMENT OF CASH FLOWS (direct method)

Amounts in thousands of Euro

	FIRST HALF OF 2017	FIRST HALF OF 2016
A. OPERATING ACTIVITIES		
1. Operations	**12,619**	**29,701**
▪ interest income collected	37,564	86,321
▪ interest expense paid	(7,679)	(15,321)
▪ dividends and similar income	227	-
▪ net fees and commissions	4,607	9,060
▪ personnel expense	(5,612)	(13,518)
▪ other expenses	(10,068)	(22,810)
▪ taxes and duties	(6,420)	(14,031)
2. Cash flows generated by financial assets	**46,183**	**429,438**
▪ financial assets held for trading	(47)	(1,080)
▪ available-for-sale financial assets	151,452	411,919
▪ loans and receivables with customers	(156,248)	99,896
▪ due from banks: on demand	47,939	(81,397)
▪ other assets	3,087	100
3. Cash flows generated by (used for) financial liabilities	**32,386**	**(434,916)**
▪ due to banks: on demand	54,583	96,051
▪ due to customers	(25,404)	(616,216)
▪ securities issued	14,140	70,228
▪ other liabilities	(10,933)	15,021
Net cash flows generated by operating activities	**91,188**	**24,223**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**2,610**
▪ sales of equity investments	-	2,383
▪ dividends from equity investments	-	227
▪ sales of intangible assets	-	-
2. Cash flows used in	**(84,983)**	**(22,526)**
▪ purchases of equity investments	(300)	
▪ purchases of held-to-maturity investments	(84,084)	-
▪ purchases of property and equipment	(610)	(22,505)
▪ purchases of intangible assets	11	(21)
Net cash flows used in investing activities	**(84,983)**	**(19,916)**
C. FINANCING ACTIVITIES		
▪ issues/repurchase of treasury shares	-	(52)
▪ dividend and other distributions	(6,112)	(4,261)
Net cash flows used in financing activities	**(6,112)**	**(4,313)**
NET CASH FLOWS FOR THE YEAR	**93**	**(6)**

RECONCILIATION

Cash and cash equivalents at the beginning of the period	98	104
Total net cash flows for the year	93	(6)
Cash and cash equivalents at the end of the period	191	98

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

Statement of compliance with International Financial Reporting Standards

This condensed interim consolidated financial statements were drafted in accordance with Legislative Decree no. 38 of 28 February 2005, pursuant to the IFRS issued by the International Accounting Standards Board (IASB) as authorised and in force on 30 June 2017, including the interpretation documents (SIC) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as established by EU Regulation no. 1606 of 19 July 2002. These standards were used to prepare the comparative data and opening balances as at 01 January 2017.

In preparing the condensed interim consolidated financial statements, the Bank followed the instructions concerning financial statements issued by the Bank of Italy in its Regulation of 22 December 2005, the simultaneous Circular no. 262/05, the amendments and clarification notes, supplemented by the general provisions of the Italian Civil Code and other relevant legislative and regulatory provisions. The condensed interim consolidated financial statements were drafted in summary form and in accordance with IAS 34, with specific reference to the arrangements for disclosing financial information, supplemented by the other relevant legislative and regulatory standards.

The specific accounting standards adopted have been applied consistently with regard to the financial statements at 31 December 2016. There were no derogations to the application of the IFRS.

The condensed interim consolidated financial statements were reviewed by KPMG S.p.A..

General basis of preparation

The condensed interim consolidated financial statements comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to the condensed interim consolidated financial statements and are accompanied by a Directors' Report on management performance, the financial results achieved and the financial position of the Banca Sistema Group.

The condensed interim consolidated financial statements, drawn up in accordance with the general guidelines laid down by IFRS, show the data for the period compared with the data from the previous financial year or corresponding period of the previous financial year as regards statement of financial position and income statement figures, respectively.

Pursuant to the provisions of art. 5 of Legislative Decree no. 38/2005, the condensed interim consolidated financial statements use the Euro as the currency for accounting purposes. The amounts in the financial statements and the notes thereto are expressed (unless expressly specified) in thousands of Euro.

The financial statements were drafted in accordance with the specific accounting standards endorsed by the European Commission, as well as pursuant to the general assumptions laid down by the Framework for the preparation and presentation of financial statements issued by the IASB.

The Directors' Report and notes to the condensed interim consolidated financial statements provide the information required by the IFRS, the Law and Bank of Italy, along with other non-mandatory information deemed equally necessary for giving a true and fair view of the consolidated position.

Scope and methods of consolidation

The condensed interim consolidated financial statements include the Parent, Banca Sistema S.p.A., and the companies directly or indirectly controlled by or connected with it. Compared with the situation as at 31 December 2016, no changes to the scope of consolidation have been reported.

The following statement shows the investments included within the scope of consolidation of the condensed interim consolidated financial statements.

It should be noted that on 01 January 2017 the wholly

-owned subsidiary Beta Stepstone S.p.A. was merged into the parent in continuity of values with regard to the consolidated financial statements, and therefore with no impact upon them.

COMPANY NAMES	REGISTERED OFFICE	TYPE OF RELATIONSHIP (1)	INVESTMENT: INVESTING COMPANY	INVESTMENT: % HELD	% OF VOTES AVAILABLE (2)
Companies					
Companies subject to full consolidation					
S.F. Trust Holdings Ltd	London	1	**Banca Sistema**	100%	100%
Largo Augusto Servizi e Sviluppo S.r.l.	Italy	1	**Banca Sistema**	100%	100%
Consolidated at equity					
Axactor Italy S.p.A.	Italy	4	**Banca Sistema**	10%	10%

Key:

(1) Type of relationship.

1. = majority of voting rights at the ordinary shareholders' meetings
2. = a dominant influence in the ordinary Shareholders' Meeting
3. = agreements with other shareholders
4. = other forms of control
5. = unitary management as defined in Art. 26, paragraph 1 of 'Legislative Decree 87/92'
6. = unitary management as defined in Art. 26, paragraph 2 of 'Legislative Decree 87/92'
7. = joint control

(2) Available voting rights at ordinary shareholders' meeting, with separate indication of effective and potential rights

The scope of consolidation also includes the following special purpose securitisation vehicles whose receivables are not subject to derecognition:

- Quinto Sistema Sec. 2016 S.r.l.
- Quinto Sistema Sec. 2017 S.r.l.
- Atlantis SPV S.r.l.

Full consolidation method

The investments in subsidiaries are consolidated using the full consolidation method. The concept of control goes beyond owning a majority of the percentage of stakes in the share capital of the subsidiary and is defined as the power of determining the management and financial policies of the said subsidiary to obtain benefits from its business.

Full consolidation provides for line-by-line aggregation of the statement of financial position and income statement aggregates from the accounts of the subsidiaries. To this end, the following adjustments were made:

a) the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;

(b) the portion of equity and profit or loss for the year is shown in a specific caption.

The results of the above adjustments, if positive, are shown - after allocation to the assets or liabilities of the subsidiary - as goodwill in item '130 Intangible Assets' on the date of initial consolidation. The resulting differences, if negative, are recognised in the income statement. Intra-group balances and transactions, including revenue, costs and dividends, are entirely eliminated. The financial results of a subsidiary acquired during the financial year are included in the consolidated financial statements from the date of acquisition. At the same time, the financial results of a transferred subsidiary are included in the consolidated financial statements up to the date on which the subsidiary is transferred. The accounts used in the preparation of the consolidated financial statements are drafted on the same date. The consolidated financial statements were drafted using consistent accounting standards for transactions and similar events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for transactions and events in similar circumstances, adjustments are made to the accounting position for consolidation purposes.

Detailed information with reference to art. 89 of Directive 2013/36/EU of the European Parliament and Council (CRD IV) is published at the link www.bancasistema.it/pillar3.

Consolidation with the equity method

Associates are consolidated with the equity method.
The equity method provides for the initial recognition of the investment at cost and subsequent value adjustment based on the relevant share of the equity of the subsidiary. The differences between the value of the equity investment and the equity of the relevant subsidiary are included in the carrying amount of the subsidiary.
In the valuation of the relevant share, any potential voting rights are not taken into consideration. The relevant share of the annual results of the subsidiary is shown in a specific item of the consolidated income statement.
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. Should the recovery value prove lower than the carrying amount, the difference is recognised in the income statement.

Events after the reporting date

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, given the favourable market conditions, resolved to:

- comply with the request to reopen for an amount of € 1.5 million;
- establish a mandate to accept additional reopening requests at market conditions up to a maximum additional amount of € 13.5 million.

The settlement date for the € 1.5 million issue is 5 August of the current year.
After the reporting date, there were no events worthy of mention in the notes to the condensed interim consolidated financial statements which would have had an impact on the financial position, results of operations and cash flows of the Bank and Group.

Information on the main financial statement items

The accounting policies adopted for the drafting of the condensed interim consolidated financial statements, with reference to the classification, recognition, valuation and derecognition criteria for the various assets and liabilities, like the guidelines for recognising costs and revenues, have remained unchanged compared with those adopted in the annual consolidated financial statements at 31 December 2016, to which reference is made. The condensed interim consolidated financial statements were prepared by applying IFRS and valuation criteria on a going concern basis, and in accordance with the accruals and relevance of information principles, as well as the general principle of the precedence of economic substance over legal form. The application of these principles at times involves the adoption of estimates and assumptions that can have a significant impact on the amounts recognised in the statement of financial position and the income statement. The use of estimates is essential to preparing the financial statements. In particular, the most significant use of estimates and assumptions in the financial statements can be attributed to:

- the recording of late payment interest in the financial statements based on the expected percentage of recovery and their collection times;
- the identification and quantification of potential losses on loans and receivables recognised in the financial statements;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the 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 period in which the change takes place.

IFRS 9 Project

On 24 July 2014, 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 nearly ended its detailed review of the cash flow characteristics of the financial instruments classified at amortised cost under IAS 39.

As of today, 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.

In an early assessment, the expected impacts identified 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, were not critical with respect to the current capitalisation and regulatory levels.

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

DISCLOSURE ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

There were no financial assets transferred between portfolios.

DISCLOSURE ON FAIR VALUE

Qualitative disclosure

Fair value levels 2 and 3: valuation techniques and inputs used

There were no deviations from the valuation guidelines and techniques in use as at 31 December 2016.

Processes and sensitivity of valuations

The portfolio of financial instruments classified at level 3 has no significant impact on the Bank's financial statements.

Fair value hierarchy

The following fair value hierarchy was used in order to prepare the condensed interim consolidated financial statements:

Level 1 - Effective market quotes: the valuation is the market price of said financial instrument subject to valuation, obtained on the basis of quotes expressed by an active market.

Level 2 - Comparable Approach

Level 3 - Mark-to-Model Approach

Transfer of assets and liabilities measured at fair value (levels 1 and 2) (levels 2 and 3)

Nothing to report.

DISCLOSURE CONCERNING "DAY ONE PROFIT/LOSS"

Nothing to report.

DETAILED TABLES

ASSETS

CASH AND CASH EQUIVALENTS - ITEM 10

Cash and cash equivalents: breakdown

	30/06/2017	31/12/2016
a) Cash	191	98
b) Demand deposits with Central Banks	-	-
Total	**191**	**98**

FINANCIAL ASSETS HELD FOR TRADING- ITEM 20

Financial assets held for tading: breakdown by product

	30.06.2017			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	827	-	-	996	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Reverse repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**827**	-	-	**996**	-	-
B. Derivatives				-		
1. Financial derivatives	-	-	-	-	-	-
1.1 trading	-	-	-	-	-	-
1.2 associated with fair value option	-	-	-	-	-	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	-	-	-	-	-	-
TOTAL (A+B)	**827**	-	-	**996**	-	-

AVAILABLE-FOR-SALE FINANCIAL ASSETS - ITEM 40

Available-for-sale financial assets: breakdown by type

	30.06.2017			31.12.2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	357,131	-	-	507,873	-	-
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	357,131	-	-	507,873	-	-
2. Equity instruments	1,542	-	5,000	1,965	-	5,000
2.1 FVTPL	1,542	-	5,000	1,965	-	5,000
2.2 Cost	-	-	-	-	-	-
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
TOTAL	**358,673**	-	**5,000**	**509,838**	-	**5,000**

HELD-TO-MATURITY INVESTMENTS - ITEM 50

Held-to-maturity investiments: breakdown by product

	30.06.2017				31.12.2016			
	CA	FV Level 1	FV Level 2	FV Level 3	CA	FV Level 1	FV Level 2	FV Level 3
1. Debt instruments	84,084	84,084	-	-	-	-	-	-
1.1 Structured instruments	-	-	-	-	-	-	-	-
1.2 Other debt instruments	84,084	84,084	-	-	-	-	-	-
2. Financing	-	-	-	-	-	-	-	-
TOTAL	**84,084**	**84,084**	**-**	**-**	**-**	**-**	**-**	**-**

Key:

FV = fair value

CA = carrying amount

LOANS AND RECEIVABLES WITH BANKS - ITEM 60

Loans and receivables with banks: breakdown by type

	30.06.2017				31.12.2016			
	CA	FV Level 1	FV Level 2	FV Level 3	CA	FV Level 1	FV Level 2	FV Level 3
A. Loans and receivables with Central Banks	**22,844**	-	-	**-**	**62,441**	-	-	-
1. Term deposits	-	X	X	X	-	X	X	X
2. Minimum reserve	22,844	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	**12,720**	-	-	-	**21,051**	-	-	-
1. Financing	**12,720**	-	-	X	**21,051**	-	-	-
1.1 Current accounts and demand deposits	12,704	X	X	X	8,671	X	X	X
1.2. Term deposits	-	X	X	X	12,030	X	X	X
1.3. Other financing:	16	-	-	-	350	-	-	-
- Reverse repurchase agreements	-	X	X	X	-	X	X	X
- Finance leases	-	X	X	X	-	X	X	X
- Other	16	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	**35,564**	**-**	**-**	**35.564**	**83,492**	**-**	**-**	**83,492**

Key:
FV = fair value
CA = carrying amount

LOANS AND RECEIVABLES WITH CUSTOMERS - ITEM 70

Loans and receivables with customers: breakdown by type

	30.06.2017						31.12.2016					
	Carrying amount			Fair value			Carrying amount			Fair value		
	Unimpaired	Impaired		L1	L2	L3	Unimpaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Financing	**1,374,371**	**1,136**	**127,643**			**1,503,150**	**1,241,026**	**1,059**	**106,244**			**1,348,329**
1. Current accounts	10,300	-	73	x	x	X	12,249	-	5	x	x	X
2. Reverse repurchase agreements	-	-	-	x	x	X	-	-	-	x	x	X
3. Loans	53,526	-	3,989	x	x	X	62,857	-	16,119	x	x	X
4. Credit cards, personal loans and salary-backed loans	352,916	-	26	x	x	X	265,829	-	320	x	x	X
5. Finance leases	-	-	-	x	x	X	-	-	-	x	x	X
6. Factoring	764,697	1,136	108,496	x	x	X	795,012	1,059	89,744	x	x	X
7. Other financing	192,932	-	15,059	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)	**1,374,371**	**1,136**	**127,643**	-	-	**1,503,150**	**1,241,026**	**1,059**	**106,244**	-	-	**1,348,329**

On- and off-balance sheet loans and receivables with customers: gross and net amounts

	30.06.2017			31.12.2016		
	Carrying amount			Carrying amount		
	Unimpaired	Impaired		Unimpaired	Impaired	
		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:	**1,374,371**	**1,136**	**127,643**	**1,241,026**	**1,059.00**	**106,244.00**
a) Governments	269,993.00	-	146	236,261	-	736
b) Other Public institutions	466,482.00	1,136	68,446	421,026	1,059.00	58,924
c) Other parties	637,896.00	-	59,051	583,739	-	46,584
- non-financial companies	232,780.00	-	57,262	301,203	-	44,975
- financial companies	19,248.00	-	-	15,361	-	
- insurance companies	2.00	-	1	2	-	1
- other	385,866.00	-	1,788	267,173	-	1,608
Total (carrying amount)	**1,374,371**	**1,136**	**127,643**	**1,241,026**	**1,059**	**106,244**

EQUITY INVESTMENTS - ITEM 100

	30.06.2017	31.12.2016
A. OPENING BALANCE	**1,030**	**2,696**
B. INCREASES	**300**	**31**
B.1 Purchases	-	-
B.2 Write-backs	-	-
B.3 Revaluations	-	-
B.4 Other changes	300	31
C. DECREASES	**32**	**1,697**
C.1 Sales	-	1,697
C.2 Impairment losses	-	-
C.3 Other changes	32	-
D. CLOSING BALANCE	**1,298**	**1,030**
E. TOTAL REVALUATIONS	**-**	**-**
F. TOTAL IMPAIRMENT LOSSES	**-**	**-**

The increase reported in the other increases is mainly attributed to the pro-quota capital increase of € 300 thousand subscribed by Banca Sistema.

PROPERTY AND EQUIPMENT - ITEM 120

Property and equipment used in operations: breakdown of the assets measured at cost

	30.06.2017	31.12.2016
1.1. OWNED	**23,791**	**23,313**
a) land	8,416	8,416
b) buildings	14,445	14,055
c) furniture	266	255
d) electronic equipment	664	587
e) other		
1.2. UNDER FINANCE LEASE	**-**	-
a) land	-	-
b) buildings	-	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	-	-
TOTAL	**23,791**	**23,313**

INTANGIBLE ASSETS - ITEM 130

Intangible assets: breakdown per type of asset

	30.06.2017		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	**17**	-	**49**	-
A.2.1 Assets measured at cost:	17	-	49	-
a) Internally developed assets	-	-	-	-
b) Other	17	-	49	-
A.2.2 Assets measured at fair value	-	-	-	-
a) Internally developed assets	-	-	-	-
b) Other	-	-	-	-
TOTAL	**17**	**1,786**	**49**	**1,786**

OTHER ASSETS - ITEM 160

Other assets: breakdown

	30.06.2017	31.12.2016
Tax advances	6,030	10,038
Work in progress	3,433	1,611
Prepayments not related to a specific item	1,011	548
Trade receivables	495	507
Leasehold improvements	251	264
Other	3,440	1,868
Security deposits	67	68
TOTAL	**14,727**	**14,904**

LIABILITIES

DUE TO BANKS - ITEM 10

Due to banks: breakdown by type

	30.06.2017	31.12.2016
1. Due to Central banks	**202,311**	**192,850**
2. Due to banks	**310,398**	**265,276**
2.1 Current accounts and demand deposits	312	20,039
2.2 Term deposits	310,072	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	14	-
TOTAL	**512,709**	**458,126**
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	*512,709*	*458,126*
Fair value	*512,709*	*458,126*

DUE TO CUSTOMERS - ITEM 20

Due to customers: breakdown by type

	30.06.2017	31.12.2016
1. Current accounts and demand deposits	478,879	436,934
2. Term deposits	453,658	443,396
3. Financing	304,183	362,163
3.1 Repurchase agreements	230,341	295,581
3.2 Other	73,841	66,582
4. Commitments to repurchase own equity instruments		-
5. Other payables	-	19,630
TOTAL	**1,236,719**	**1,262,123**
Fair value - Level 1	-	-
Fair value - Level 2	-	-
Fair value - Level 3	*1,236,719*	*1,262,123*
Fair value	*1,236,719*	*1,262,123*

SECURITIES ISSUED - ITEM 30

Securities issued: breakdown by type

	30.06.2017				31.12.2016			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. SECURITIES								
1. Bonds	104,470	-	-	104,470	90,330	-	-	90,330
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	104,470	-	-	104,470	90,330	-	-	90,330
2. Other securities	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**104,470**	**-**	**-**	**104,470**	**90,330**	**-**	**-**	**90,330**

Breakdown of item 30 "Securities issued": subordinated securities

	ISSUER	TYPE OF ISSUE	COUPON	MATURITY DATE	NOMINAL VALUE	IFRS VALUE
Tier 1 capital	Banca Sistema S.p.A.	Innovative equity instruments: mixed rate	Until 13 June 2023, fixed rate at 7%	Perpetual	8,000	8,018
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	12,085
Tier 2 capital	Banca Sistema S.p.A.	Subordinate ordinary loans (Tier 2): ISIN IT0005247397	6 month Euribor + 4.5%	30.03.2027	14,000	14,151
TOTAL					**34,000**	**34,254**

OTHER LIABILITIES - ITEM 100

Other liabilities: breakdown

	30.06.2017	31.12.2016
Payments received in the reconciliation phase	23,285	26,896
Trade payables	6,973	6,187
Tax payables to the Tax Authority and other tax authorities	5,964	9,212
Accrued expenses	5,454	6,439
Work in progress	4,184	8,669
Due to employees	1,708	1,728
Pension repayments	493	508
Other	471	188
TOTAL	**48,532**	**59,827**

POST-EMPLOYMENT BENEFITS - ITEM 110

Post-employment benefits: changes

	30.06.2017	31.12.2016
A. OPENING BALANCE	**1,998**	**1,303**
B. INCREASES	**102**	**1,090**
B.1 Accruals	168	544
B.2 Increases	(66)	132
Business combination transactions	-	414
C. DECREASES	**82**	**395**
C.1 Benefits paid	29	372
C.2 Other decreases	53	23
D. CLOSING BALANCE	**2,018**	**1,998**
TOTAL	**2,018**	**1,998**

The other increases refer to the actuarial adjustment amount accounted for as at 30/06/2017.

The other decreases mainly refer to post-employment benefits paid in the first half of the year.

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

Annual discount rate	1.67%
Annual inflation rate	1.500% for 2017
	1.700% for 2018
	1.600% for 2019
	2.000% from 2020 onwards
Annual post-employment benefits increase rate	2.850% for 2017
	2.775% for 2018
	2.700% for 2019
	3.000% from 2020 onwards
Annual real salary increase rate	1.000%

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.

PROVISIONS FOR RISKS AND CHARGES - ITEM 120

Provisions for risks and charges: breakdown

	30.06.2017	31.12.2016
1. Internal pension funds	-	-
2. Other provisions for risks and charges	8,080	4,105
2.1 legal disputes	4,059	500
2.2 personnel expense	2,021	279
2.3 other	2,000	3,326
TOTAL	**8,080**	**4,105**

Provisions for risks and charges: changes

	PENSION FUNDS	OTHER PROVISIONS	TOTAL
A. OPENING BALANCE	-	**4,105**	**4,105**
B. INCREASES	-	**4,115**	**4,115**
B.1 Accruals	-	4,115	4,115
B.2 Discounting	-	-	-
B.3 Changes due to discount rate changes	-	-	-
B.4 Other increase	-	-	-
C. DECREASES	-	**140**	**140**
C.1 Utilisations	-	140	140
C.2 Changes due to discount rate changes	-	-	-
C.3 Other decreases	-	-	-
D. CLOSING BALANCE	-	**8,080**	**8,080**

The provision for risks and charges of €8.1 million includes the €3.2 million representing the estimated future liabilities attributable to Beta (which was merged into Banca Sistema), calculated based on the price allocation in accordance with IFRS 3, along with a settlement in the tax dispute that the Italian Revenue Office had filed against Beta: this amount was fully covered by the previous controlling shareholder as part of the aforementioned early closing of the purchase agreement. The remaining amount refers to the portion of the bonus deferred to future periods and the estimate related to the non-compete agreement.

The liability related to the non-compete agreement was valued using market parameters and the following violation probability percentages: 0% chief executive officer, 50% commercial area, 20% remaining personnel.

Some service providers have initiated legal action seeking payment of consideration for services rendered that, in the Bank's opinion, did not require any additional provisions. Some factoring customers have put forward judicial claims regarding the payment of the fee for the sale of receivables.

EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT - ITEMS 140, 160, 170, 180, 190, 200 and 220

"Share capital" and "Treasury shares": breakdown

The share capital of Banca Sistema is composed by 80,421,052 ordinary shares with a par value of Euro 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 02 July 2015 the shareholders with stakes of more than 5%, the threshold above which Italian law (art. 120 of the Consolidated Law on Finance) requires disclosure to the investee and Consob, were as follows:

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.40%
Fondazione Pisa	7.40%
Schroders	6.73%
Market	47.97%

The Group does not hold treasury shares of the ultimate parent.

The following shows the equity of the parent:

Items / Values	AMOUNT 30.06.2017	AMOUNT 30.06.2016
1. Share capital	9,651	9,651
2. Share premium reserve	39,310	39,352
3. Reserves	58,817	39,608
4. (Treasury shares)	-	-53
5. Valuation reserves	58	425
6. Equity attributable to non-controlling interests	30	20
7. Profit for the year/period	9,983	25,313
TOTAL	**117,849**	**114,316**

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

EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS - ITEM 210

Breakdown of item 210 “Equity attributable to non-controlling interests”

Quinto Sistema 2016 S.r.l.	30.06.2017
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
TOTAL	**10**

Quinto Sistema 2017 S.r.l.	30.06.2017
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
TOTAL	**10**

Atlantis Spv S.r.l.	30.06.2017
Equity investments in consolidated companies with significant non-controlling interests	
1. Share capital	10
TOTAL	**10**

INCOME STATEMENT

INTEREST - ITEMS 10 and 20

Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	First half of 2017	First half of 2016
1. Financial assets held for trading	-	-	-	-	-
2. Available-for-sale financial assets	(497)	-	-	(497)	30
3. Held-to-maturity investments	84	-	-	84	-
4. Loans and receivables with banks	-	12	-	12	8
5. Loans and receivables with customers	-	37,965	-	37,965	42,550
6. Financial assets at fair value through profit or loss	-	-	-	-	-
7. Hedging derivatives	-	-	-	-	-
8. Other assets	-	-	-	-	-
TOTAL	**(413)**	**37,977**	**-**	**37,564**	**42,588**

Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	First half of 2017	First half of 2016
1. Due to Central banks	-	-	-	-	7
2. Due to banks	221	-	-	221	1,022
3. Due to customers	6,020	-	-	6,020	6,080
4. Securities issued	-	1,438	-	1,438	832
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	**6,241**	**1,438**	**-**	**7,679**	**7,941**

NET FEE AND COMMISSION INCOME - ITEMS 40 and 50

Fee and commission income: breakdown

	FIRST HALF OF 2017	FIRST HALF OF 2016
a) guarantees given	12	-
b) credit derivatives	-	-
c) management, brokerage and consultancy services:	40	105
1. trading in financial instruments	-	21
2. currency trading	-	-
3. asset management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	-	-
5. depositary bank	-	-
6. placement of securities	14	22
7. income from collection and transmission of orders	26	23
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	149	45
e) servicing related to securitisations	-	-
f) services related to factoring	4,945	4,564
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) keeping and management of current accounts	63	36
j) other services	533	662
TOTAL	**5,742**	**5,412**

Fee and commission expense: breakdown

	FIRST HALF OF 2017	FIRST HALF OF 2016
a) guarantees received	-	11
b) credit derivatives	-	-
c) management brokerage and services:	343	358
1. trading in financial instruments	47	33
2. currency trading	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. custody and administration of securities	-	-
5. placement of financial instruments	-	-
6. "out-of-branch" sale of financial instruments, products and services	296	325
d) collection and payment services	68	68
e) other services	724	560
TOTAL	**1,135**	**997**

DIVIDENDS AND SIMILAR INCOME - ITEM 70

Dividend and similar income: breakdown

	FIRST HALF OF 2017		FIRST HALF OF 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	-	-	-	-
TOTAL	**227**	**-**	**227**	**-**

NET TRADING INCOME (EXPENSE) - ITEM 80

Net trading income (expense): breakdown

	CAPITAL GAINS (A)	TRADING INCOME (B)	CAPITAL LOSS (C)	TRADING LOSSES (D)	TRADING INCOME (EXPENSE) [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**7**	**(54)**	**(164)**	**(211)**
1.1 Debt instruments	-	-	-	-	-
1.2 Equity instruments	-	7	-	-	7
1.3 OEIC units	-	-	-	(164)	(164)
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	(54)	-	(54)
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	-	-	-	**(5)**	**(5)**
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	-	**7**	**(54)**	**(169)**	**(216)**

GAIN FROM SALES OR REPURCHASES - ITEM 100

Gain from sales or repurchases: breakdown

	FIRST HALF OF 2017			FIRST HALF OF 2016		
	Profits	Losses	Net income (loss)	Profits	Losses	Net income (loss)
Financial assets						
1. Loans and receivables with banks	-	-	-	-	-	-
2. Loans and receivables with customers	-	-	-	-	-	-
3. Available-for-sale financial assets	792	(138)	654	938	(136)	802
3.1 Debt instruments	792	(138)	654	938	(136)	802
3.2 Equity instruments	-			-	-	-
3.3 OEIC units	-	-	-	-	-	-
3.4 Financing	-	-	-	-	-	-
4. Held-to-maturity investments	-	-	-	-	-	-
Total assets	**792**	**(138)**	**654**	**938**	**(136)**	**802**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-		
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**

NET IMPAIRMENT LOSSES - ITEM 130

	Impairment losses (1)			Reversals of impairment losses (2)				First half of 2017	First half of 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:	-	4,816	941	-	(3,586)	-	(744)	1,427	(3,130)
Impaired loans pur-chased	-	-	-	-	-	-	-	-	-
- financing	-	4,816	941	-	(3,586)	-	(744)	1,427	(3,130)
- debt instruments	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
- financing	-	-	-	-	-	-	-	-	-
- debt instruments	-	-	-	-	-	-	-	-	-
C. TOTAL	**-**	**4,816**	**941**	**-**	**(3,586)**	**-**	**(744)**	**1,427**	**(3,130)**

ADMINISTRATIVE EXPENSES - ITEM 180

Personnel expense: breakdown

	FIRST HALF OF 2017	FIRST HALF OF 2016
1) Employees	8,343	7,036
a) wages and salaries	4,782	4,485
b) social security charges	1,379	1,044
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	289	210
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	159	117
- defined contribution plans	159	117
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	1,734	1,180
2) Other personnel	161	2
3) Directors and statutory auditors	368	422
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	0	6
TOTAL	**8,872**	**7,466**

Other administrative expenses: breakdown

	FIRST HALF OF 2017	FIRST HALF OF 2016
IT expenses	2,128	1,696
Consultancy	2,100	2,072
Servicing and collection activities	1,381	2,379
Resolution Fund	807	654
Rent and related fees	953	942
Indirect taxes and duties	611	720
Advertising	135	88
Auditing fees	137	158
Other	153	294
Car hire and related fees	389	351
Expense reimbursement and entertainment	394	279
Membership fees	195	169
Infoprovider expenses	147	194
Vehicle expenses	168	32
Maintenance of movables and real properties	47	25
Telephone and postage expenses	89	84
Stationery and printing	37	65
Insurance	158	36
Discretionary payments	1	-
TOTAL	**10,030**	**10,239**

Income taxes: breakdown

	FIRST HALF OF 2017	FIRST HALF OF 2016
1. Current taxes (-)	(4,837)	(4,268)
2. Changes in current taxes from previous years (+/-)	141	95
3. Decrease in current taxes for the year (+)	-	-
3.bis Decrease in current taxes for the year for assets pursuant to Law no. 214/2011 (+)	-	-
4. Changes in deferred tax assets (+/-)	656	(156)
5. Changes in deferred tax liabilities (+/-)	(524)	(1,723)
6. Income tax for the year (-) (-1+/-2+3+/-4+/-5)	(4,564)	(6,052)

Earnings per share

Earnings per share (EPS)	FIRST HALF OF 2017
Net income (thousands of Euro)	10,330
Average number of outstanding shares (1)	80,421,052
Basic earnings per share (basic EPS) (in Euro)	0.128
Diluted earnings per share (diluted EPS) (in Euro)	0.128

(1) The average corresponds to the actual number at 30 June 2017.

Other Information

The dividend for 2016 amounting to € 6,111,999.95 or € 0.076 per share, drawn on the profit of the Parent, was paid with a value date of 04 May 2017.

INFORMATION CONCERNING THE PARENT'S EQUITY

OWN FUNDS AND CAPITAL RATIOS

Own funds
Quantitative disclosure

	TOTAL 30.06.2017
A. COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS	**115,235**
of which CET 1 instruments subject to transitional provisions	-
B. CET1 PRUDENTIAL FILTERS (+/-)	**-**
C. CET1 INCLUDING ITEMS TO BE DEDUCTED AND OF THE EFFECTS OF THE TRANSITIONAL PROVISIONS (A+/-B)	**115,235**
D. ITEMS TO BE DEDUCTED FROM CET1	**1,803**
E. TRANSITIONAL PROVISIONS - IMPACT ON CET (+/-)	**(23)**
F. TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)	**113,409**
G. ADDITIONAL TIER1 (AT1) INCLUDING ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL PROVISIONS	**8,000**
of which AT1 instruments subject to transitional provisions	-
H. ITEMS TO BE DEDUCTED FROM AT1	**-**
I. TRANSITIONAL PROVISIONS - IMPACT ON AT1 (+/-)	**-**
L. TOTAL ADDITIONAL TIER 1 (AT1) (G-H+/-I)	**8,000**
M. TIER2 (T2) INCLUDING ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL PROVISIONS	**26,000**
of which T2 instruments subject to transitional provisions	-
N. ITEMS TO BE DEDUCTED FROM T2	**-**
O. TRANSITIONAL PROVISIONS - IMPACT ON T2 (+/-)	**24**
P. TOTAL TIER 2 (T2) (M-N+/-O)	**26,024**
Q. TOTAL OWN FUNDS (F+L+P)	**147,433**

Quantitative disclosure

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016
A. EXPOSURES				
A.1 Credit and counterparty risk	**2,499,797**	**2,469,702**	**771,552**	**652,999**
1. Standardised approach	2,499,797	2,469,702	771,552	652,999
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			61,724	52,240
B.2 Credit assessment adjustment risk			-	-
B.3 Regulation risk			-	-
B.4 Market risk			132	368
1. Standard approach			132	368
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			10,436	10,436
1. Basic indicator approach			10,436	10,436
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			72,292	63,044
C. EXPOSURES AND CAPITAL RATIOS			**903,652**	**788,041**
C.1 Risk-weighted assets			903,652	788,041
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.55%	13.28%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			13.44%	14.29%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			16.32%	15.83%

INFORMATION CONCERNING RISKS AND REVELANT HEDGING POLICIES

Significant exposures

As at 30 June 2017, the Parent’s major risks are as follows:

a) Carrying amount € 1,213,057 (in thousands)

b) Weighted amount € 84,025 (in thousands)

C) No. of positions 16.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing 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 Company, 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 art. 136 of the Consolidated Law on Banking, they are included in the Executive Committee resolution, specifically authorised by the Board of Directors and with the approval of the 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	OTHER MANAGEMENT PERSONNEL	BOARD OF STATUTORY AUDITORS
Remuneration to Board of Directors and Board of Statutory Auditors	329	-	39
Short-term benefits	273	892	-
Post-employment benefits	34	105	-
Other long-term benefits	-	-	-
Termination benefits	-	-	-
Total	**636**	**997**	**39**

Disclosure on related party transactions

The following table shows the assets, liabilities, guarantees and commitments as at 30 June 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 MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	9,856	780	5,204	1.1%
Due to customers	-	705	39,896	3.3%
Securities issued	-	-	34,253	32.8%
Other assets	-	-	23	0.1%
Other liabilities	240	-	-	0.5%

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

in thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARD OF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	88	2	50	0.4%
Interest expense	-	8	760	10.0%

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

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
ASSETS	**15,059**	**0.74%**
Loans and receivables with customers		
Axtactor Italy S.p.A.	5,204	0.35%
Speciality Finance Trust Holdings Ltd	1,447	0.10%
Largo Augusto Servizi e Sviluppo S.r.l.	8,409	0.56%
LIABILITIES	**73,900**	**3.63%**
Due to customers		
Shareholders - SGBS	1,405	0.11%
Shareholders - Fondazione Pisa	35,914	2.90%
Shareholders - Fondazione CR Alessandria	1,569	0.13%
Shareholders - Fondazione Sicilia	518	0.04%
Other liabilities		
Speciality Finance Trust Holdings Ltd	240	0.50%
Securities issued		
Shareholders - Fondazione Pisa	34,253	32.79%

	AMOUNT (THOUSANDS OF EURO)	PERCENTAGE (%)
REVENUE	**136**	
Interest income		
Axtactor Italy S.p.A.	1	0.00%
Speciality Finance Trust Holdings Ltd	26	0.07%
Shareholders - Fondazione CR Alessandria	7	0.02%
Shareholders - Fondazione Pisa	41	0.11%
Largo Augusto Servizi e Sviluppo S.r.l.	62	0.16%
COSTS	**744**	
Interest expense		
Shareholders - Fondazione Pisa	744	9.69%

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 data for the first half of 2017

	FIRST HALF OF 2017			
in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Net interest income	24,091	5,597	197	**29,885**
Net fee and commission income	4,843	185	(421)	**4,607**
Other costs/revenue	-	-	665	**665**
Total income	**28,934**	**5,782**	**441**	**35,157**
Net impairment losses on loans and receivables	992	(1,902)	-	**(1,427)**
Net financial income	**29,926**	**3,880**	**441**	**33,730**

Breakdown by segment: statement of financial posistion data as at 30 June 2017

	30 June 2017			
in thousands of Euro	FACTORING	BANKING	CORPORATE	CONSOLIDATED TOTAL
Financial assets	-	-	364,500	**364,500**
Loans and receivables with banks	-	-	35,564	**35,564**
Due to banks	-	-	512,709	**512,709**
Loans and receivables with customers	1,058,959	427,205	16,986	**1,503,150**
Due to customers	52,055	-	1,184,664	**1,236,719**

The Factoring segment includes the business area 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 guaranteed loans to small and medium-sized enterprises, purchases of 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 geographic segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

STATEMENT ON THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS AMENDED AND SUPPLEMENTED

STATEMENT ON THE CONDENSED INTERIM CONSOLIDATED 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 Margherita Mapelli, in her 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 group, and
   - the effective application of the administrative and accounting procedures for the drafting of the condensed interim consolidated financial statements, during the first half of 2017.
2. The suitability and effective application of the administrative and accounting process for the drafting of the condensed interim consolidated financial statements at 30 June 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 condensed interim consolidated 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 results of 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 and all the companies included in the scope of consolidation.

   3.2 The directors' report includes a reliable analysis of the important events which occurred during the first half of the year and their impact on the condensed interim consolidated financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year.

   The directors' report includes, moreover, a reliable analysis of the information concerning significant related party transactions.

Milan, 27 July 2017

Gianluca Garbi
CEO

Margherita Mapelli
Manager in charge of financial reporting

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(Translation from the Italian original which remains the definitive version)

Report on review of condensed interim consolidated financial statements

To the shareholders of
Banca Sistema S.p.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of the Banca Sistema Group, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto, as at and for the six months ended 30 June 2017. The parent's directors are responsible for the preparation of these condensed interim consolidated financial statements in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Consob (the Italian Commission for Listed Companies and the Stock Exchange) guidelines set out in Consob resolution no. 10867 dated 31 July 1997. A review of condensed interim consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed interim consolidated financial statements.

KPMG S.p.A. è una società per azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero

Ancona Aosta Bari Bergamo
Bologna Bolzano Brescia
Catania Como Firenze Genova
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Padova Palermo Parma Perugia
Pescara Roma Torino Treviso
Trieste Varese Verona

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Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of the Banca Sistema Group as at and for the six months ended 30 June 2017 have not been prepared, in all material respects, in accordance with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34), endorsed by the European Union.

Milan, 3 August 2017

KPMG S.p.A.

(signed on the original)

Alberto Andreini
Director of Audit