FINANCIAL STATEMENTS AND REPORTS FOR 2019

BANCA SISTEMA
CONTEMPORARY BANK

Banca SISTEMA Group

DRAFT CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

BANCA SISTEMA

CONTENTS

DIRECTORS' REPORT
AT 31 DECEMBER 2019

COMPOSITION OF THE PARENT'S MANAGEMENT BODIES

Board of Directors

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

Board of Statutory Auditors

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

Independent Auditors

BDO Italia S.p.A.

Manager in charge of financial reporting

Mr. Alexander Muz

[1] Meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but it also does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.

COMPOSITION OF THE INTERNAL COMMITTEES

Internal Control and Risk Management Committee

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

Appointments Committee

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

Remuneration Committee

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

Ethics Committee

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

Supervisory Body

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

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2019

Statement of financial position data (€,000)

	31 Dec 19	31 Dec 18	
Total Assets	3,730,081	3,144,903	18.6%
Securities Portfolio	991,560	739,880	34.0%
Loans - Factoring	1,714,661	1,566,613	9.5%
Loans - Salary-backed loans and SME	829,227	679,589	22.0%
Funding - Banks and REPOs	845,429	875,016	-3.4%
Funding - Term Deposits	1,325,794	958,193	38.4%
Funding - Current Accounts	681,577	657,082	3.7%

Income statement data (€,000)

	31 Dec 19	31 Dec 18	
Net interest income	80,694	74,565	8.2%
Net fee and commission income	16,068	15,255	5.3%
Total Income	100,913	91,085	10.8%
Personnel Expenses	(23,166)	(19,908)	16.4%
Other administrative expenses	(22,939)	(20,954)	9.5%
Profit for the year	29,719	27,167	9.4%

Performance Indicators

	31 Dec 19	31 Dec 18	
Cost/Income	50.0%	46.3%	8.0%
ROAE	18.0%	21.5%	-16.4%

SIGNIFICANT EVENTS FROM 1 JANUARY TO 31 DECEMBER 2019

On 5 February 2019, following the exercise of the put option by Banca Sistema, the shares of Axactor Italy S.p.A. were sold to Axactor Holding S.r.l., with registered office in Cuneo, for a total price of € 2,399,413.36, equal to approximately 8.42% of the share capital, as part of the shareholders' agreement signed on 28 June 2016.

On 22 February 2019, the shareholders of Banca Sistema, Società di Gestione delle Partecipazioni in Banca Sistema S.r.l., Fondazione Sicilia and Fondazione Cassa di Risparmio di Alessandria (jointly, the “Foundations” and, together with SGBS, the “Parties”) agreed to amend the shareholders' agreement they signed on 29 June 2018, which became effective on 2 July 2018 and will expire on 1 July 2020 (the "Agreement"). Also under the new agreement, no shareholder exercises individual control over the Bank.

On 13 March 2019, the Bank received authorisation from the Bank of Italy to acquire and subsequently merge Atlantide S.p.A., a financial intermediary pursuant to article 106 of the Consolidated Law on Banking, which is active in the granting of salary- and pension-backed personal loans. The acquisition was completed on 3 April 2019. Subsequently, on 18 June 2019, the merger of Atlantide S.p.A. into Banca Sistema S.p.A. was finalised and became effective on 30 June 2019.

On 13 May 2019, the Bank sold all its equity investments:

- equal to 19.90% of the share capital of ADV Finance S.p.A. to Top Partecipazioni S.r.l. for a price of € 619,806;
- equal to 19.90% of the quota capital of Procredit S.r.l. to ADV Finance S.p.A. for a price of € 158,205.

On the same date, the investment agreements related to the two equity investments were terminated.

On 23 May 2019, Banca Sistema issued a Tier II subordinated bond. The € 6 million bond, placed with an institutional investor (private placement), has a 10-year maturity with a fixed coupon of 7% and an early redemption option following a regulatory event.

On 26 June 2019, the Bank of Italy issued authorisation to ProntoPegno S.p.A., a wholly-owned subsidiary of the Bank, to engage in the activities referred to in art. 106 of the Consolidated Law on Banking. The company was thus authorised to grant collateralised loans to the public. Subsequently, on 23 July 2019, the deed of transfer of Banca Sistema’s “Collateralised Lending” business unit to the subsidiary ProntoPegno S.p.A. was signed. The transfer became effective beginning on 1 August 2019, the date the company was entered in the register pursuant to art. 106 of the Consolidated Law on Banking and began operating. The transferred business unit, with total assets of approximately € 8 million, is almost entirely made up of collateral-backed loans and includes 11 employees and 6 branches. The business unit, which was appraised by an expert commissioned to prepare the report pursuant to art. 2343 ter, paragraph 2, letter b) of the Italian Civil Code, was valued at € 4.66 million. The transfer of the collateralised lending business to a separate company will make it possible to capitalise on the growth opportunities that have already been identified in the two years since the business was launched. On 30 August 2019, in accordance with the required authorisation by the Bank of Italy, Banca Sistema introduced a treasury share purchasing programme with the aim of creating a “stock of treasury shares” to be used to pay for part of the variable remuneration assigned to “key personnel” on the basis of the remuneration and incentive policies approved by the Shareholders' Meeting. The programme ended on 12 September 2019 when it reached the maximum limit of € 300,000 in shares authorised by the Bank of Italy.

On 17 September 2019, the third securitisation of Banca Sistema's CQS portfolio (Salary- and Pension-Backed Loans), Quinto Sistema Sec. 2019, began with the issue of three classes of partly-paid asset-backed securities (ABS) by Quinto Sistema Sec. 2019, a special purpose vehicle set up pursuant to Law 130/99. The securities issued had an initial value of approximately € 152 million, which can be increased through the partly-paid mechanism up to a maximum of € 780 million. As with previous transactions, securities can be used by Banca Sistema for refinancing transactions with institutional investors. Then, once a

rating has been obtained, senior-class securities may also be used for refinancing transactions with the ECB, in particular TLTRO III transactions.
As such, the Bank will have access to up to € 295 million under the new TLTRO III programme. The availability period has been set at 3 years from the date the company takes part in the auction (the last auction is in March 2021), while the rate is set at 0%.
On 27 September 2019, the Bank completed the placement of the second tranche of the subordinated Tier II bond issue (2019-2029) equal to € 12 million. The first tranche was issued in May with the simultaneous early redemption of the subordinated lower tier 2 loan (2012-2022), in accordance with the authorisation issued by the Bank of Italy on 16 August 2019. The new bond was completely subscribed by an institutional investor (private placement).
On 12 November 2019, the liquidity provider mandate started on 13 November 2018 and carried out by Intermonte SIM, an independent intermediary that trades the shares of Banca Sistema in its own name to support the liquidity of the security, was extended. The mandate will continue for a further three months, until 12 February 2020, under the same conditions as before.
On 18 November 2019, the Bank entered into a binding agreement to acquire the collateralised lending business unit of the Intesa Sanpaolo Group. The business unit, which is profitable, consists of loans and receivables amounting to approximately € 60 million, six branches (Turin, Naples, Florence, Mestre, Parma and Civitavecchia) and employees. Loans, which have remained stable over the last two years, have generated total income of approximately € 9 million per year. Through this acquisition, the Group, while continuing to focus on assets with high returns and low risk, has taken a significant step forward in this business and has strengthened its market position. The business unit's six branches will join those of ProntoPegno thereby guaranteeing increased geographical diversification. The transaction, valued at € 34 million including goodwill, will be carried out by the subsidiary ProntoPegno, which will be adequately capitalised. A number of banking foundations will become shareholders of ProntoPegno without compromising Banca Sistema's control of the company.

THE MACROECONOMIC SCENARIO

Italy's gross domestic product remained relatively constant in the last few months of 2019 due in large part to the crisis in the manufacturing sector. There was a decrease in investment, especially in capital goods. Surveys carried out by ISTAT show that orders and foreign demand were positive, although there is still growing uncertainty in the economy due to heightened trade tensions.

In the final months of 2019, household consumption increased thanks to the increase in disposable income. Household purchasing power increased by 0.3% while the propensity to save held steady at around 9%. Italian household debt as a percentage of disposable income decreased and is well below the average for the Euro Area (61.7%). The average cost of new mortgages to households for the purchase of new homes decreased (1.4% in November).

Exports in the first quarters of 2019 were also affected by weak growth in world trade (down 0.1%, mainly sales of services), but in the last quarter, exports of goods to both EU and non-EU countries grew.

Imports increased by 1.3% in volume terms. In 2019, the current account surplus widened compared to the previous year due to the increase in the surplus of assets.

The number of people employed increased, especially in the private sector, as did the number of working hours per employee. As a result, the employment rate rose to 59.2% and the unemployment rate fell to 9.7%.

Inflation continued to be very low due to the effect of energy prices. Consumer price inflation increased to 0.5% in December as a result of the acceleration in food prices. Core inflation remained low (0.6% in December). The cost of household credit decreased significantly. Business lending contracted slightly, in line with the weakness in demand. Loans to businesses declined, particularly to small businesses and primarily in the construction sector. There was a slight decrease in general government debt. The impact of new non-performing loans on total loans granted by banking groups continued to decline (to 1.2%) especially in the services and construction sectors. The return on equity increased to 7.9% compared to 7.0% in 2018.

Overall, the picture described in the Bank of Italy's Economic Bulletin predicts modest but gradually recovering growth in world trade which could lead to a steady increase in GDP over the next three years. The main risks to this scenario are still significant and are mainly related to increasing geopolitical uncertainty.

The Italian factoring market

According to preliminary sector data published by Assifact, in the year just ended the market recorded volume growth of 6.44%, well above the expectations of specialised observers and all the more significant if we consider that 2018 closed with an increase of 8.07%. This acceleration, most of which occurred in the first half of the year, is partly due to high-value transactions carried out by some operators with retail debtors which made it possible to achieve a total turnover of over € 255 billion (14.5% of GDP). Without recourse factoring is by far the most common form of factoring used by the market, accounting for 78% of total turnover versus 22% for recourse factoring transactions. In terms of amounts outstanding, these percentages do not vary much (73% versus 27%), thereby confirming that the assigning customers prefer completing assignments by hedging the risk associated with the assigned debtors.

Receivables turnover is at a slightly better level than last year due to a small reduction in average collection times. In fact, the outstanding amounts (loans and receivables to be collected as at 31 December 2019 totalling € 66.2 billion) were down 2.11% compared to 2018. The advance payments/consideration on assignments, amounting to € 54.5 billion, are, on the other hand, essentially unchanged from the previous year. The proportion of advances to outstanding receivables (81.23% compared to 80.81% in 2018) allows banks/intermediaries to maintain a conservative margin for any possible credit dilution risks.

Unlike the trend in bank loans, which was severely affected by the prolonged economic crisis that began in 2007, factoring did not experience the same repercussions in terms of its business, which, by contrast, continued to grow at a rapid pace (turnover steadily increased from € 120 billion in 2007 to the current € 255 billion), thus proving its resilience to negative economic cycles.

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

The sector's low level of risk is also confirmed by Assifact's estimates: at the end of 2019, gross non-performing loans decreased again to 4.44% of outstanding receivables (6.33% in 2018), of which 0.95% (1.69% in 2018) related to past due exposures, 1.66% (1.87% in 2018) were unlikely to pay, and 1.83% (2.78% in 2018) were bad exposures. Net of adjustments, non-performing loans stood at 2% (3.10% in 2018), considerably lower than those reported by commercial banks in their financing.

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

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

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

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

SMEs represent 60% of assignor companies and, with regard to economic sectors, 30% are manufacturers, 11% are commercial enterprises and 8% are construction companies.

In the Italian market, one of the most developed not only in Europe, but in the world, a significant share of turnover is made up of factored receivables due from the Public Administration with extremely long payment terms and complex bureaucratic procedures for recognising and reconciling the receivable.

According to estimates provided by Assifact, more than € 12.8 billion of outstanding receivables are due from Public Administration debtors, which is essentially in line with the previous year, representing 21% of all outstanding receivables. A total of 26% of receivables are due from entities of the National Health Service, 27% are due from the Central Authorities, and 19% are due from Territorial Entities, with the remainder of 28% due from Public Sector Entities.

The efforts made by the Government in recent years through the establishment of ad hoc funds aimed at rectifying the payment of certain, liquid and collectable pre-existing Public Administration debt, and the transposition of the EU regulation on late payments which exacerbated the amount of default interest for late payments beyond 60 days, have led to only a slight reduction in payment times by the Public Administration, which today stand at just under 90 days. In fact, on 28 January 2020, the European Court of Justice delivered a judgement against Italy for violating the directive. According to Assifact estimates, at the end of 2019 about 32% of the receivables due from the Public Administration were past due (in 2018, the past due amount was 34%). However, it should be noted that more than 65% of the past due amount is over one year (a deterioration from 55% in 2018) and 22% from 90 days to one year (an improvement from 24% in 2018).

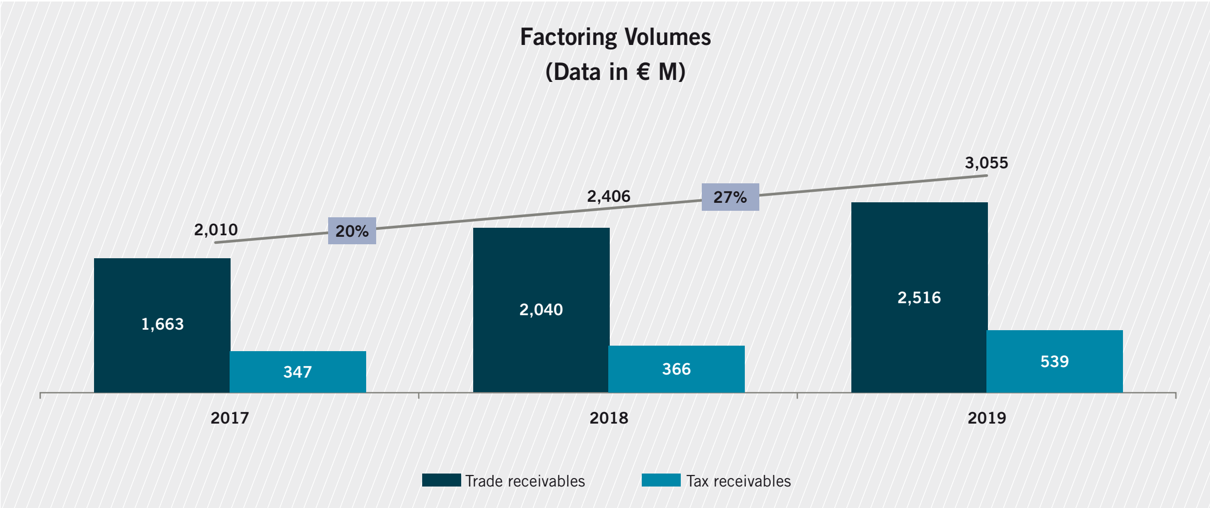
In order to speed up the payment of the debts accumulated by the Public Administrations, the Budget Law approved at the end of 2018 allows the Territorial Entities and the National Health Service Companies to obtain treasury advances from Cassa Depositi e Prestiti at a variable rate against payment deductions. Unlike Decree Law 35 of 2013, under which non-recurring advances were used to reduce the stock of debt with repayment up to a maximum of 30 years and which effectively allowed for a reduction of accumulated debts by approximately € 40 billion, the new measure has only served to reduce the time taken to pay current expenses but not to significantly reduce pre-existing stock since the advance has to be repaid within one year.

With regard to the “DoD", the new definition of default introduced by EBA which also includes receivables more than 90 days past due and whose application is expected to start on 1 January 2021, Assifact, the Association of Factoring Operators, conducted an impact study to assess its effects. Based on the findings that would demonstrate that past due items are of little relevance in identifying default with respect to traditional forms of financing, the Association has submitted a proposal to the Bank of Italy that aims to provide an interpretation of the rule that is more consistent with the business, focusing on commercial rather than financing transactions. The DoD is also being dealt with by the EU Federation for Factoring, which will soon put forward its own position to the competent authorities that is in line with that of Assifact.

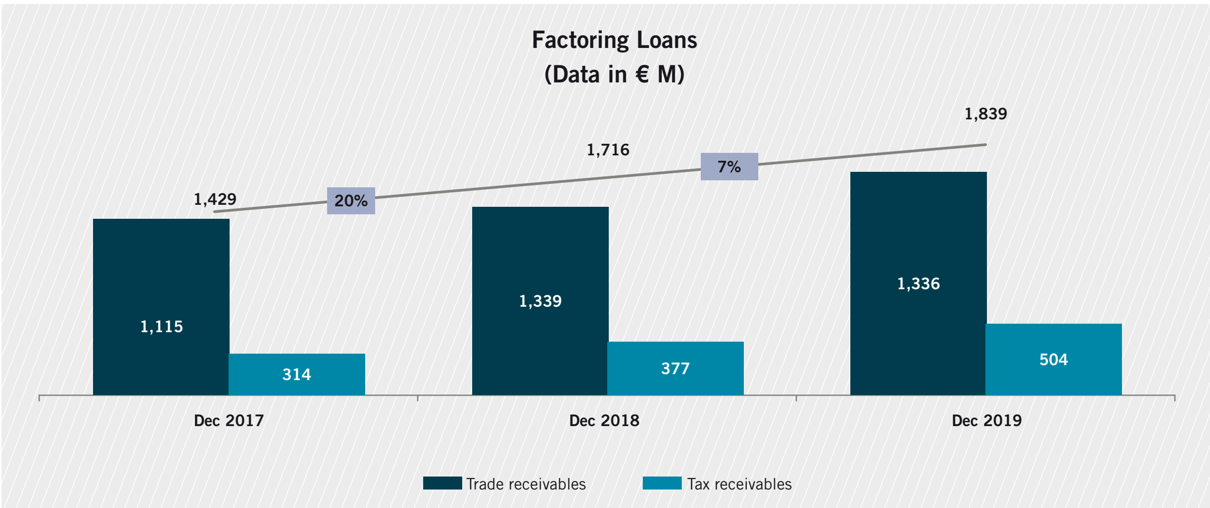
Even the Italian Banking Association (ABI) and the European Banking Association (EBA) are working on this issue to support Assifact's proposal to protect the low-risk business.

Banca Sistema and factoring activities

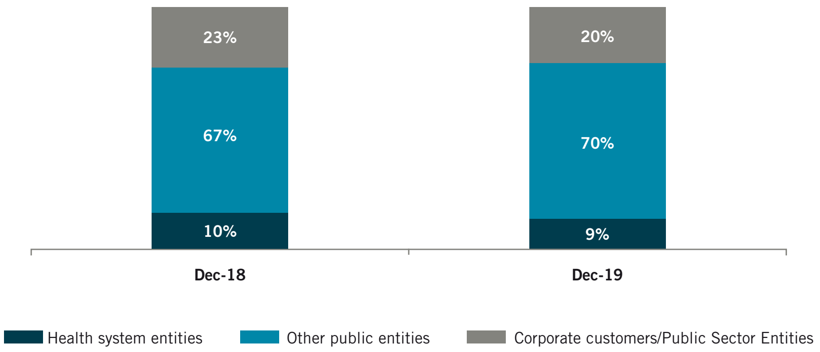
Total volumes for the year ended 31 December 2019 of the Banca Sistema Group were € 3,055 million, up 27% on 2018, thus continuing to confirm its ability to post solid year over year growth.



Loans as at 31 December 2019 amounted to € 1,839 million, up 7% on the € 1,716 million at 31 December 2018 mainly due to increased volumes acquired in 2019 compared to collections during the year.



The chart below shows the ratio of debtors to the total exposure in the loans and receivables portfolio at 31 December 2019 and 2018. The Group's core factoring business remains the Public Administration entities segment.



Volumes were generated through both its own internal commercial network, or through banks with which the Group has entered into distribution agreements. In December 2019, existing distribution agreements accounted for 26% of total volumes. The following table shows the factoring volumes by product type:

PRODUCT (amounts in millions of Euro)	31.12.2019	31.12.2018	€ Change	% Change
Trade receivables	2,516	2,040	476	23%
of which, without recourse	*2,165*	*1,711*	*454*	*27%*
of which, with recourse	*351*	*329*	*22*	*7%*
Tax receivables	539	366	173	47%
of which, without recourse	*535*	*353*	*182*	*51%*
of which, with recourse	*4*	*13*	*(9)*	*-71%*
TOTAL	**3,055**	**2,406**	**649**	**27%**

In absolute terms, the growth in volumes derives mainly from the purchase of receivables from public debtors or debtors with similar risk.

SALARY- AND PENSION-BACKED LOANS AND QUINTOPUOI

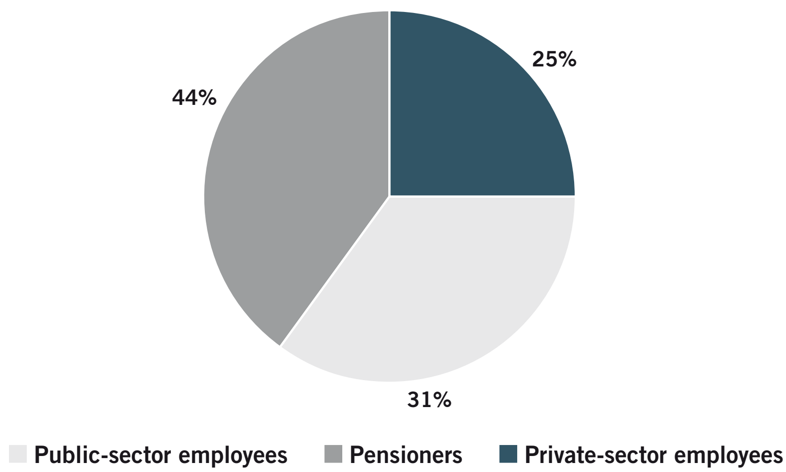
At 31 December 2019, the Group had operated in the salary- and pension-backed loans segment mainly through the purchase of receivables generated by other specialist operators. Starting from the second quarter of 2019 following the acquisition of Atlantide, the Banca Sistema Group has expanded its retail offering with the direct origination of salary- and pension-backed loans through a new product, QuintoPuoi. QuintoPuoi is distributed through a network of 20 single-company agents and specialised brokers located throughout Italy and is supported by a dedicated structure within the Bank.

The volumes of acquired portfolios and directly originated receivables from the beginning of the year until December 2019 amounted to € 266 million, including private-sector employees (25%), pensioners (44%) and public-sector employees (31%). Therefore, over 75% of the volumes refer to pensioners and employees of Public Administration, which remains the Bank's main debtor.

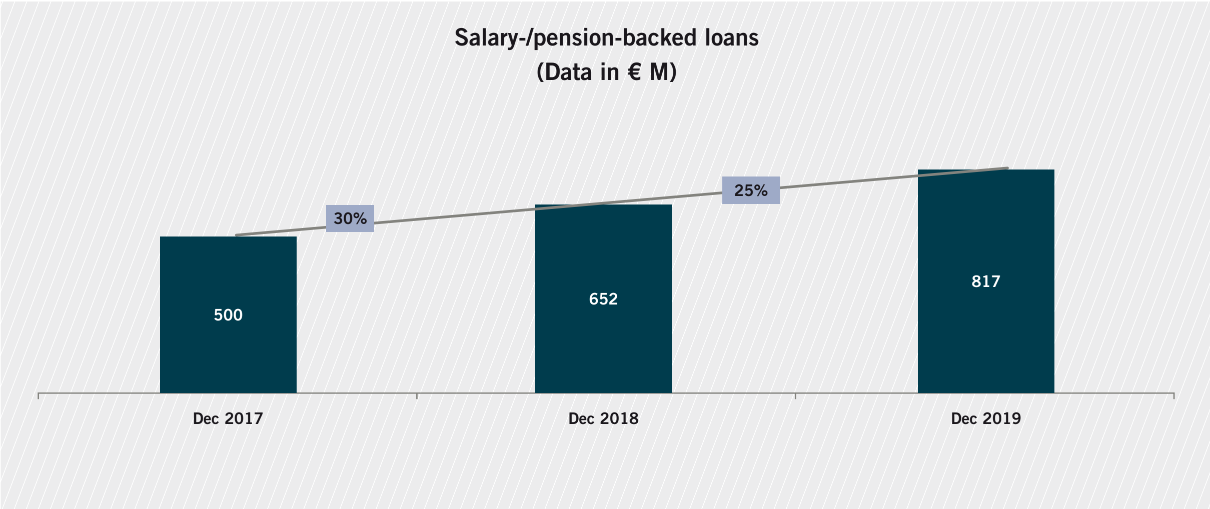
	31.12.2019	31.12.2018	€ Change	% Change
No. of applications	14,087	10,571	3,516	33%
of which originated	*1,047*	-	*na*	*na*
Volumes disbursed (millions of Euro)	266	212	54	26%
of which originated	*22*	-	*na*	*na*

As shown in the table, the amount disbursed at December 2019 is up compared to the amount disbursed at December 2018.

CQ disbursed volumes - Breakdown



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



COLLATERALISED LENDING AND PRONTOPEGNO

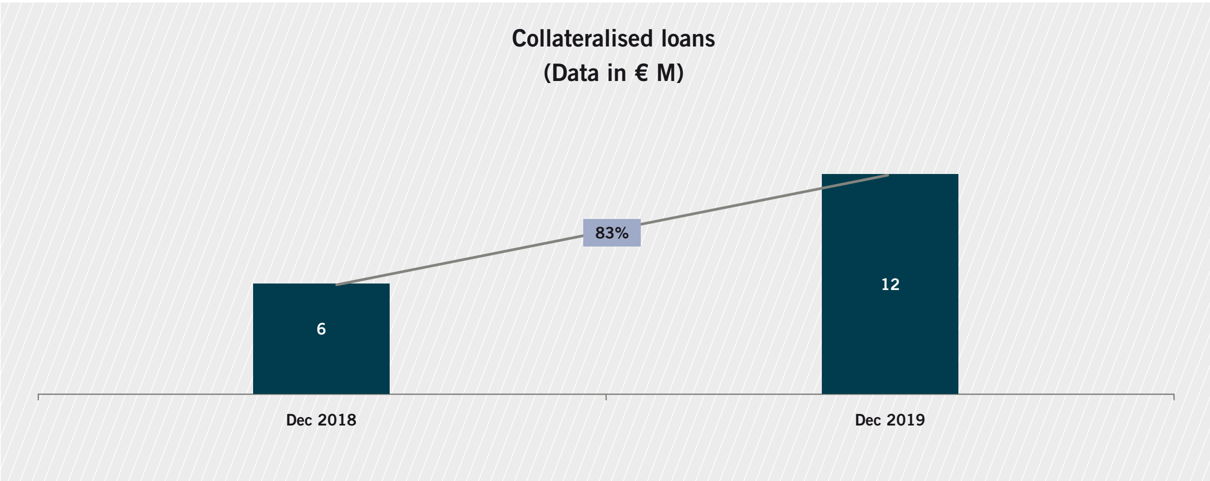
The Banca Sistema Group began working in the collateralised lending business at the beginning of 2017, combining the credentials of a solid bank with the advantages of a specialist that is continuously willing to innovate and grow to offer greater value to customers, in terms of professionalism and timeliness.

To take advantage of the growth prospects that have emerged since starting this business, the Bank has decided to transfer its "collateralised lending" business to a dedicated company.

Today ProntoPegno, the Pawnbroker of the Banca Sistema Group, has 6 branches across the country: Milan, Rome, Pisa, Naples, Palermo and Rimini.

Key figures are provided below:

	31.12.2019	31.12.2018	€ Change	% Change
No. of applications	13,977	9,139	4,838	53%
Volumes disbursed (millions of Euro)	18	9	8	87%
Loans (millions of Euro)	12	6	5	83%



The statement of financial position as at 31 December 2019 is provided below.

ASSETS	31.12.2019
Cash and cash equivalents	498,620
Financial assets measured at amortised cost	12,869,378
a) loans and receivables with banks	*1,112,216*
c) loans and receivables with customers	*11,757,162*
Property and equipment	489,041
Tax assets	175,910
a) current	*618*
b) deferred	*175,292*
Other assets	36,143
Total assets	**14,069,092**

LIABILITIES AND EQUITY	31.12.2019
Financial liabilities measured at amortised cost	8,501,719
a) liabilities	8,501,719
Other liabilities	690,718
Post-employment benefits	95,081
Provisions for risks and charges:	221,704
c) other provisions for risks and charges	*221,704*
Share capital	5,000,000
Valuation reserve	(12,037)
Loss for the year (+/-)	(428,093)
Total liabilities and equity	**14,069,092**

The assets consist mainly of loans to customers for the collateralised lending business, the contracts for which were transferred at their carrying amount by the Bank on 1 August.

Liabilities, on the other hand, in addition to the initial capital contribution of € 5 million, consist of the liability to the parent resulting from the transfer of the business unit.

The other "financial liabilities measured at amortised cost" include the premium (€ 259 thousand) resulting from the auctions carried out between January 2018 and September 2019. For 5 years, this amount is recognised in the financial statements as due to customers; if customers do not collect the amount, it is recognised as revenue.

The income statement for the period from 1 August to 31 December 2019 is provided below.

INCOME STATEMENT	Period from 01.08 to 31.12.2019
Interest and similar income	316,640
of which interest income calculated under the effective interest method	316,640
Interest and similar expense	(15,423)
Net interest income	**301,217**
Fee and commission income	230,444
Fee and commission expense	(2,113)
Net fee and commission income	**228,331**
Total income	**529,547**
Net impairment losses on:	(1,545)
a) financial assets measured at amortised cost	(1,545)
Net financial income	**528,002**
Administrative expenses:	(1,147,881)
a) personnel expense	(680,080)
b) other administrative expenses	(467,802)
Net impairment losses on property and equipment	(44,445)
Other operating income	65,506
Operating costs	**(1,126,821)**
Pre-tax loss from continuing operations	**(598,819)**
Income taxes	170,726
Loss for the year	**(428,093)**

The loss for the first five months of operations was impacted by non-recurring IT and start-up costs totalling € 40 thousand. The company is expected to break even next year when it has sufficient critical mass to be profitable.

Personnel expenses mostly include the cost of the 16 employees transferred from the Bank to the Company, as well as the allocation of the variable incentive for the year.

The pro-forma total income for the period since the beginning of the year is provided below. It includes the performance of the collateralised lending business unit for the first 7 months of the year which are included in the Bank's income statement.

INCOME STATEMENT	Period from 01.08 to 31.12.2019 - pro-forma
Interest and similar income	667
Interest and similar expense	-15
Net interest income	**652**
Fee and commission income	455
Fee and commission expense	-2
Net fee and commission income	**453**
Total income	**1,105**

FUNDING AND TREASURY ACTIVITIES

Treasury portfolio

A treasury portfolio has been established in order to support the Bank's liquidity commitments solely through short-term investment in Italian government bonds.
The balance at 31 December 2019 increased to a nominal € 985 million from € 735 million at 31 December 2018.
The treasury portfolio allowed for optimal management of the Treasury commitments which are increasingly characterised by a concentration of transactions in very specific periods.
At 31 December, the nominal amount of securities in the HTCS (formerly AFS) portfolio amounted to € 550 million (compared to € 300 million as at 31 December 2018) with a duration of 20.1 months (13.5 months at 31 December 2018).
At 31 December, the HTC portfolio amounted to € 435 million with a duration of 14.5 months.

Wholesale funding

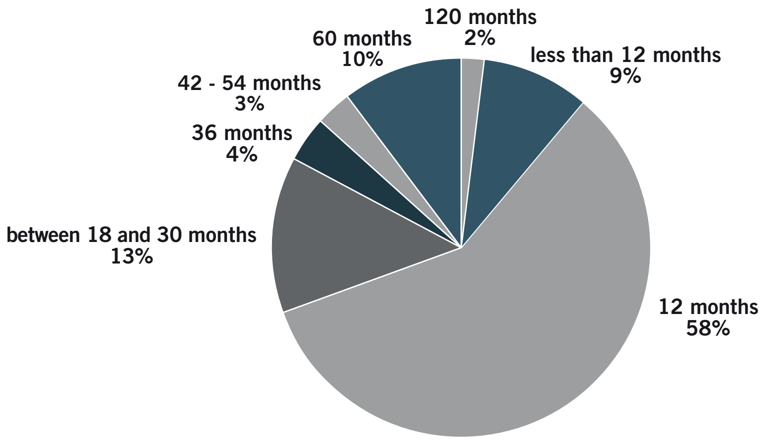
As at 31 December 2019, wholesale funding was about 39% of the total, mainly comprising bonds, inter-bank deposits and refinancing transactions with the ECB (41% as at 31 December 2018).
The issue of both senior and subordinated bonds over the past two years placed with institutional investors has enabled a diversification of the sources of funding and a significant increase in the duration of funding.
Securitisations with salary- and pension-backed loans as collateral completed with a partly-paid securities structure continue to allow Banca Sistema to efficiently refinance its CQS/CQP portfolio and to continue to grow its salary- and pension-backed loan business, whose funding structure is optimised by the securitisation.
For its short-term liquidity needs, the Group used the interbank deposit market. Existing bank deposits at 31 December 2019 totalled € 30 million (€ 282 million at 31 December 2018). Interbank funding was significantly reduced as a result of a decrease in short-term liquidity needs.

Retail funding

The funding policy of the banking division is strictly linked to changes in trade loans and market conditions.
Retail funding accounts for 61% of the total and is composed of the account SI Conto! Corrente and the product SI Conto! Deposito.
Total term deposits as at 31 December 2019 amounted to € 1,326 million, an increase of 38% compared to 31 December 2018.
The above-mentioned amount also includes total term deposits of € 799 million (obtained with the help of partner platforms) held with entities resident in Germany, Austria and Spain (accounting for 60% of total deposit funding), an increase of € +436 million over the previous year.

The breakdown of funding by term is shown below. The average residual life of the portfolio is 12 months.

Breakdown of deposit accounts as at 31 December



Current accounts increased from 5,790 (as at 31 December 2018) to 6,902 as at 31 December 2019, while the current account balance at 31 December 2019 increased +4% on 2018 to € 682 million.

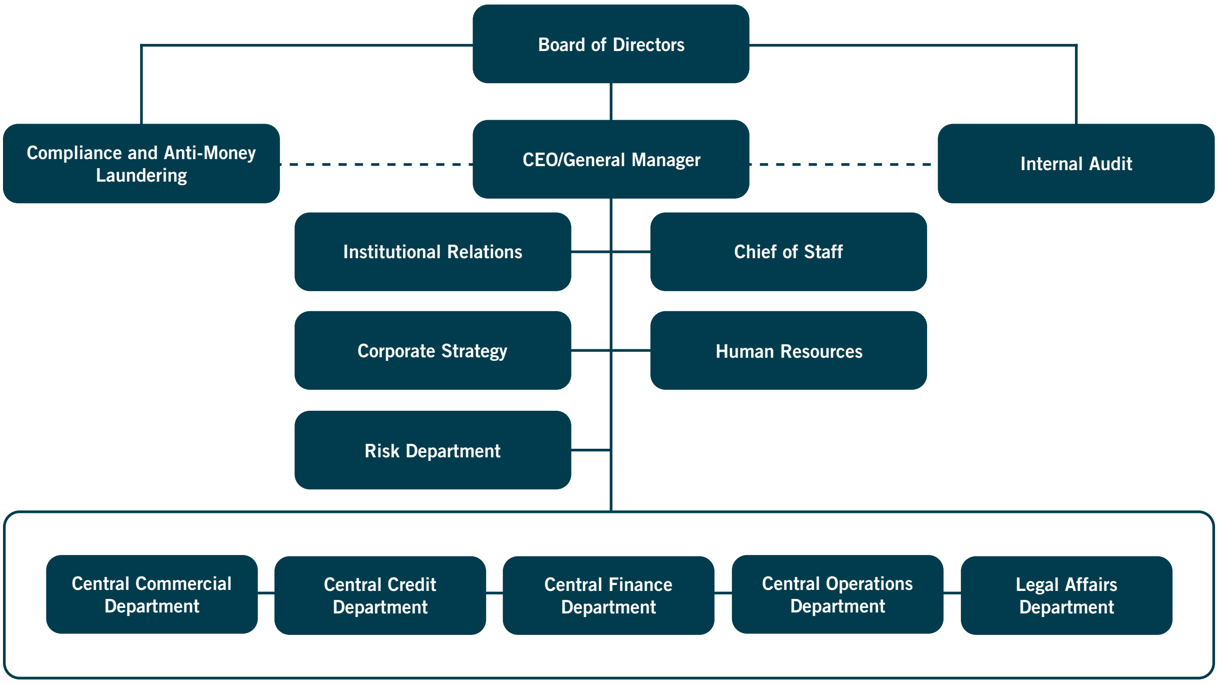
COMPOSITION AND ORGANISATIONAL STRUCTURE OF THE GROUP

Scope of the banking group

At 31 December 2019, the Banca Sistema Group comprised the Parent, Banca Sistema S.p.A., Specialty Finance Trust Holding Limited, a company incorporated under U.K. Law, Largo Augusto Servizi e Sviluppo S.r.l. (incorporated on 25 August 2016), and the newly incorporated ProntoPegno S.p.A, all fully owned by the Bank.

Organisational chart

The organisational chart of the Parent, Banca Sistema, as at 31 December 2019 is shown below:



REGISTERED OFFICES AND BRANCHES OF THE BANCA SISTEMA GROUP

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

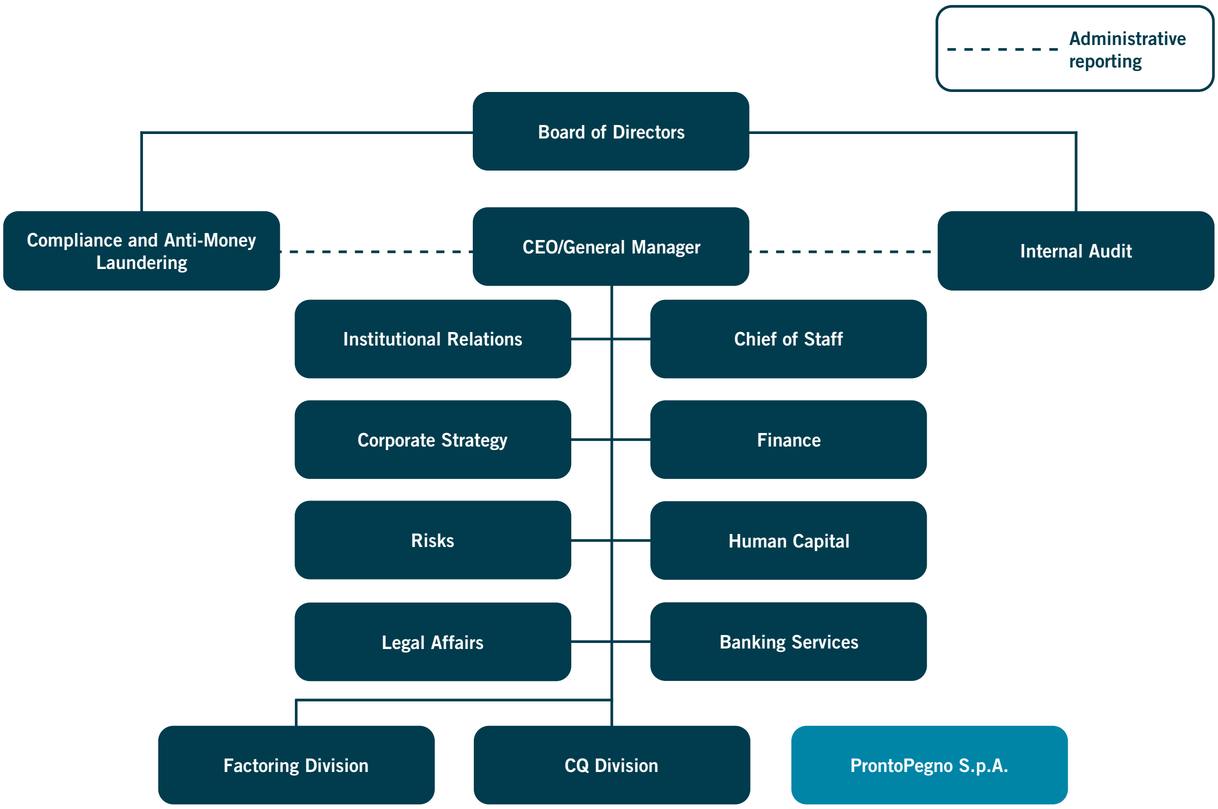
- Milan - Largo Augusto 1/A, angolo Via Verziere 13 (registered office and branch)
- Milan - Piazza Napoli, Ang. Via Vespri Siciliani, 1 (collateralised loan branch)
- Rome - Via Romagna, 25 (bank and collateralised loan branch)
- Rome - Via Campania, 59 (administrative office)
- Pisa - Galleria Chiti,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

As at the date this Directors' Report was prepared, the organisational structure has undergone significant changes, moving from the functional organisational model described above to a divisional organisational model.

This reorganisation - which is also part of the Business Plan approved for the three-year period 2018-2020 - is the result of a comprehensive project, carried out with the support of qualified external consultants, intended to update and focus the Group's organisational structure, responsibilities and mandates, human capital and information system on the increasing diversification and specialisation of its business.

As of 1 February 2020, two business divisions, one of which is responsible for supervising and developing the Factoring business and the other for developing salary- and pension-backed loans (CQ), became operational and separate from the other "central" departments (besides the control departments of Internal Audit and Compliance & AML, also Risks, Finance, Corporate Strategy, Chief of Staff, Institutional Relations, Human Capital, which together form the "Corporate Centre").

Each of these two Divisions is equipped with structures in charge of managing commercial, credit and operational activities, as well as a direct staff responsible for managing the main business processes (planning and monitoring, pricing, operational marketing, human resource management and recruiting). By operating within the guidelines, processes and tools developed by the "Corporate Centre" departments, the Business Divisions will be able to concentrate, with even greater speed and focus, on growing their respective customer segments and innovating products and processes. The organisational chart in force since 1 February 2020 is as follows:



HUMAN RESOURCES

As at 31 December 2019, the Group had a staff of 215, broken down by category as follows:

FTES	31.12.2019	31.12.2018
Senior managers	24	21
Middle managers (QD3 and QD4)	45	41
Other personnel	146	121
Total	**215**	**183**

Over the course of the year the Bank realigned the organisational structure based on market changes and performance in order to support the achievement of its strategic objectives. In particular, with the aim of entering the primary CQS/CQP market and in keeping with the operational objectives set out in the 2018-2020 Business Plan, the Bank merged the Bologna-based company Atlantide S.p.A. thereby also expanding the number of offices operating in Italy. The merger resulted in 24 employees being acquired, including 2 senior managers, 4 managers and 18 from the Professional Areas.

During the year, as part of an increasingly focused business specialisation strategy, the Bank sold the collateralised lending business unit to the newly formed company ProntoPegno S.p.A. This transaction involved a total of 14 permanent employees, including 9 managers, 1 senior manager and 4 from the Professional Areas.

During the year, a total 32 new resources joined the Group, mainly in the CQ Operations and Commercial Factoring Departments, in the Departments that oversee the credit and collection process, in Compliance and Anti-Money Laundering, in Corporate Affairs and in Marketing (23 replaced the same number of people who had left or were long-term absent and 9 to improve professional and managerial expertise).

During the same period 24 employees left the Bank (including 7 following the expiry of their term contract), of which 2 were senior managers and 5 were managers.

During the year, various professional training courses were organised covering regulatory topics affecting the Bank, both with internal and external instructors. More specifically, training was provided on Privacy, Transparency, Legislative Decree 231 and Anti-Money Laundering, Mifid 2, Related Party Transactions, the New Bankruptcy Law and Market Abuse. Specific training courses and coaching programmes were also developed and launched focusing on managerial and professional topics mainly for the Commercial Department and new managers, as well as language training, for a total of 309 days and 835 participants. Some of these programmes will continue during 2020 in order to complete the continuing professional development of the remaining employees.

The average age of Group employees is 43 for men and 39 for women. The breakdown by gender remains essentially stable compared to 2018 with women accounting for 48% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€ ,000)	2019	2018	€ Change	% Change
Net interest income	80,694	74,565	6,129	8.2%
Net fee and commission income	16,068	15,255	813	5.3%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	208	(129)	337	<100%
Gain from sales or repurchases of financial assets/liabilities	3,716	1,167	2,549	>100%
Total income	**100,913**	**91,085**	**9,828**	**10.8%**
Net impairment losses on loans and receivables	(9,055)	(6,814)	(2,241)	32.9%
Net financial income	**91,858**	**84,271**	**7,587**	**9.0%**
Personnel expense	(23,166)	(19,908)	(3,258)	16.4%
Other administrative expenses	(22,939)	(20,954)	(1,985)	9.5%
Net accruals to provisions for risks and charges	(1,996)	(414)	(1,582)	>100%
Net impairment losses on property and equipment/intangible assets	(1,632)	(532)	(1,100)	>100%
Other operating expense	(768)	(396)	(372)	93.9%
Operating costs	**(50,501)**	**(42,204)**	**(8,297)**	**19.7%**
Gains (losses) on equity investments	-	8	(8)	-100.0%
Gains (losses) on sales of investments	(8)	-	(8)	n.a.
Pre-tax profit from continuing operations	**41,349**	**42,075**	**(726)**	**-1.7%**
Income taxes for the year	(12,192)	(14,554)	2,362	-16.2%
Post- tax profit for the year	**29,157**	**27,521**	**1,636**	**5.9%**
Post-tax profit (loss) from discontinued operations	562	(354)	916	<100%
Profit for the year attributable to the owners of the parent	**29,719**	**27,167**	**2,552**	**9.4%**

Profit for the year was € 29.8 million, an increase of 9.5% on the previous year, thanks to the growth in total income generated mainly by the factoring sector, and to a large extent by the salary- and pension-backed loans sector and the securities portfolio, which offset higher impairment losses on loans and receivables and the natural increase in operating costs.

The profit for 2019 includes, beginning in the second quarter of 2019, the revenue and costs of Atlantide as a result of the acquisition of the company becoming effective on 3 April 2019: merger-related costs of € 571 thousand and a negative contribution to gross profit for the nine months included in the accounts were quantified, offset to a large extent by the use of the company's previous losses, which generate a benefit of € 1.5 million on profit for the year.

In the third quarter of 2019, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2019 were updated in the light of the progressive consolidation of the historical data series; the adjustment of these estimates led to the recognition of higher total interest income of € 5.1 million at 31 December 2019 (€ 7.8 million in 2018).

The profit for 2019 includes the consolidated profit from the sale of the remaining 10% of Axactor Italia to the parent Axactor AB.

NET INTEREST INCOME (€ ,000)	2019	2018	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	105,751	96,870	8,881	9.2%
Securities portfolio	750	258	492	>100%
Other	3,823	2,582	1,241	48.1%
Financial liabilities	12	-	12	n.a.
Total interest income	**110,336**	**99,710**	**10,626**	**10.7%**
Interest and similar expense				
Due to banks	(579)	(2,537)	1,958	-77.2%
Due to customers	(21,007)	(14,572)	(6,435)	44.2%
Securities issued	(7,930)	(6,992)	(938)	13.4%
Financial assets	(126)	(1,044)	918	-87.9%
Total interest expense	**(29,642)**	**(25,145)**	**(4,497)**	**17.9%**
Net interest income	**80,694**	**74,565**	**6,129**	**8.2%**

Net interest income increased by 8.2% from the previous year, due to the contribution from the loans and receivables portfolio which more than offset the increase in interest expense as a result of higher average lending.

The total contribution of the factoring portfolio was € 81 million (equal to 74% of the entire loans and receivables portfolio), which is up 8.0% on the previous year thanks to the tax receivables portfolio which was able to benefit from earlier than expected collections; when considering the commission component associated with the factoring business, the contribution increased by 9.5% over 31 December 2018. The component linked to default interest from legal action at 31 December 2019 was € 29 million (€ 28.4 million in 2018):

- of which € 5.1 million resulting from the updated recovery estimates (€ 7.8 million at 31 December 2018);
- of which € 12.0 million that results from maintaining the recovery estimates (€ 10.3 million at 31 December 2018) which is in line with the previous year thanks to the activation of a loans and receivables portfolio for a significant amount;
- of which € 11.9 million (€ 10.3 million at 31 December 2018) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 21.6 million (€ 19.2 million in 2018) and that recognised on an accruals basis in previous years. This item includes collections from sales made to third parties at the end of the first and second half of the year.

The amount of the stock of default interest from legal actions accrued at 31 December 2019, relevant for the allocation model, was € 107.1 million (€ 96 million at the end of 2018) while the loans and receivables recognised in the financial statements amounted to € 49.9 million.

During the year, factoring portfolios were sold that generated a total profit of € 1.1 million recognised in the item Gain from sales or repurchases of financial assets/ liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 19.6 million to € 23 million, an increase of 17.6% over the previous year.

The item “Other" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements at negative rates, which accounts for € 2.7 million, and interest on collateralised loans of € 664 thousand.

The increase in the cost of funding compared to the previous year is closely related to the increase in average lending. In particular, interest on term deposits from customers increased as a direct result of the increase in the underlying stock.

The cost of funding from banks for 2018 included € 0.8 million resulting from the reversal of the positive rate component of the TLTRO II recognised in 2017, which the Bank was unable to use.

NET FEE AND COMMISSION INCOME (€ ,000)	2019	2018	€ Change	% Change
Fee and commission income				
Collection activities	1,247	1,127	120	10.6%
Factoring activities	18,409	15,772	2,637	16.7%
Fee and commission income - off-premises	1,859	-	1,859	n.a.
Other	975	726	249	34.3%
Total fee and commission income	**22,490**	**17,625**	**4,865**	**27.6%**
Fee and commission expense				
Placement	**(3,925)**	**(1,837)**	**(2,088)**	**>100%**
Fees - off-premises	(1,936)	-	(1,936)	n.a.
Other	(561)	(533)	(28)	5.3%
Total fee and commission expense	**(6,422)**	**(2,370)**	**(4,052)**	**>100%**
Net fee and commission income	**16,068**	**15,255**	**813**	**5.3%**

Net fee and commission income of € 16.1 million increased by 5.3% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year. Other fee and commission income includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 456 thousand.

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 1.9 million, which should be considered together with the item Fees - off-premises, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the year-end bonuses payable to them.

The increase in placement fees and commissions paid to third parties is attributable to higher returns to third party intermediaries for the placement of the SI Conto! Deposito product, following the higher volumes placed under the passporting regime. This item also includes the origination costs of factoring receivables, which remained in line with those reported the previous year.

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

GAIN FROM SALES OR REPURCHASES (€ ,000)	2019	2018	€ Change	% Change
Gains from HTCS portfolio debt instruments	2,610	1,167	1,443	>100%
Gains from receivables	1,106	-	1,106	n.a.
Total	**3,716**	**1,167**	**2,549**	**>100%**

The item Gain from sales or repurchases mainly includes gains generated by the proprietary HTCS portfolio which increased by € 1.4 million over the previous year; the securities portfolio also generated gains of € 0.2 million from the trading portfolio which is included in the item Trading income.

Gains from receivables of € 1.1 million derive, as described above, from the sale of factoring portfolios. Impairment losses on loans and receivables recognised at 31 December 2019 increased over the previous years to € 9.2 million. Impairment losses are attributable to slight impairment of some factoring loans and bring the loss rate to 0.36% (0.33% at 31 December 2018).

PERSONNEL EXPENSE (€ ,000)	2019	2018	€ Change	% Change
Wages and salaries	(21,682)	(18,612)	(3,069)	16.5%
Social security contributions and other costs	(339)	(308)	(32)	10.1%
Directors' and statutory auditors' remuneration	(1,145)	(988)	(157)	15.9%
Total	**(23,166)**	**(19,908)**	**(3,258)**	**16.4%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 174 to 202. This increase was influenced by the 21 new employees of the recently acquired company, Atlantide, who joined the Bank's personnel in the second quarter of the year. This item also includes an additional cost component of € 0.8 million for estimated redundancy charges, the cost of non-compete agreements and the variable component of wages and salaries.

OTHER ADMINISTRATIVE EXPENSES (€ ,000)	2019	2018	€ Change	% Change
IT expenses	(5,614)	(4,372)	(1,242)	28.4%
Consultancy	(4,300)	(3,823)	(477)	12.5%
Resolution Fund	(1,146)	(942)	(204)	21.7%
Servicing and collection activities	(2,992)	(2,736)	(256)	9.4%
Indirect taxes and duties	(2,355)	(2,171)	(184)	8.5%
Rent and related fees	(950)	(2,054)	1,104	-53.7%
Expense reimbursement and entertainment	(840)	(770)	(70)	9.1%
Car hire and related fees	(644)	(858)	214	-24.9%
Insurance	(487)	(394)	(93)	23.6%
Advertising	(502)	(568)	66	-11.6%
Membership fees	(310)	(265)	(45)	17.0%
Expenses related to management of the SPVs	(450)	(536)	86	-16.0%
Audit fees	(368)	(314)	(54)	17.2%
Infoprovider expenses	(638)	(255)	(383)	>100%
Other	(430)	(385)	(45)	11.7%
Telephone and postage expenses	(190)	(179)	(11)	6.1%
Maintenance of movables and real properties	(174)	(235)	61	-26.0%
Stationery and printing	(61)	(97)	36	-37.1%
Merger-related costs	(488)	-	(488)	n.a.
Total	**(22,939)**	**(20,954)**	**(1,985)**	**9.5%**

Administrative expenses include costs related to the merger of Atlantide into the Bank amounting to € 488 thousand (total merger-related costs amounted to € 571 thousand, including the cost recognised under reduction in value due to amortisation).

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

The amount of the items Rent and Car hire for the first half of 2019 was impacted by the application of the new IFRS 16. In 2019, these items include only property management costs and utility costs, and, unlike in 2018, does not include lease payments, the cost of which, in 2019, is mainly reflected in the item depreciation of the “right-of-use” asset.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions.

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

The contribution to the Resolution Fund represents the required amount of ex-ante contributions for 2019 and includes the payment of the additional contribution of € 0.3 million required in June.

The increase in impairment losses on property and equipment/intangible assets is the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16. This item includes € 82 thousand in merger-related costs attributable to the accelerated amortisation of software belonging to Atlantide that is no longer being used.

The increase in accruals to provisions for risks is mainly attributable to the measurement of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks.

Other operating income and expense was adversely affected by the increased contribution from the Bank to the Interbank Deposit Protection Fund (FITD), which amounted to € 1.4 million in 2019 (€ 0.6 million in 2018), due to the higher amount of customer deposits.

The item Post-tax profit (loss) from discontinued operations is composed of the profit realised on the put option exercised for the sale of the 10% equity investment in Axactor Italy S.p.A.

The Group’s tax rate improved significantly due to full utilisation of the losses that Atlantide had accumulated up to the date of its acquisition and subsequent merger with the Bank, which resulted in a benefit of € 1.5 million. In addition to this benefit, the Group benefited from the reintroduction by the legislator of "ACE" (Aid to Economic Growth), which is aimed at strengthening the capital structure of companies, a measure that was introduced in 2011, abolished by the previous 2019 Budget Law and then reintroduced with the 2020 Budget Law.

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)	2019	2018	€ Change	% Change
Cash and cash equivalents	652	289	363	>100%
Financial assets measured at fair value through other comprehensive income	556,383	304,469	251,914	82.7%
Financial assets measured at amortised cost	3,112,387	2,786,692	325,695	11.7%
a) loans and receivables with banks	81,510	56,861	24,649	43.3%
b1) loans and receivables with customers - loans	2,595,700	2,294,420	301,280	13.1%
b2) loans and receivables with customers - debt instruments	435,177	435,411	(234)	-0.1%
Equity investments	-	786	(786)	-100.0%
Property and equipment	29,002	27,910	1,092	3.9%
Intangible assets	3,921	1,788	2,133	>100%
Tax assets	8,476	7,817	659	8.4%
Non-current assets held for sale and disposal groups	-	1,835	(1,835)	-100.0%
Other assets	19,260	13,317	5,943	44.6%
Total assets	**3,730,081**	**3,144,903**	**585,178**	**18.6%**

The year ended 31 December 2019 closed with total assets up 18.4% (at € 3.7 billion) on the end of 2018, due to the effect of the increase in the portfolios of loans and receivables with customers and the securities portfolio.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS" or "Held to collect and Sell") of the Group was increased and continues to be mainly comprised of Italian government bonds with an average duration of about 20.1 months (the average remaining duration at the end of 2018 was 13.5 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 550 million at 31 December 2019 (€ 300 million at 31 December 2018). The associated valuation reserve was positive at the end of the year, amounting to € 468 thousand before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 31 December 2019 had a positive net fair value reserve, resulting in a year-end amount of € 1.2 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€ ,000)	2019	2018	€ Change	% Change
Factoring	1,714,661	1,566,613	148,048	9.5%
Salary-/pension-backed loans (CQS/CQP)	817,229	652,040	165,189	25.3%
Collateralised loans	11,757	6,428	5,329	82.9%
Loans to SMEs	11,998	27,549	(15,551)	-56.4%
Current accounts	18,213	23,186	(4,973)	-21.4%
Compensation and Guarantee Fund	20,676	17,413	3,263	18.7%
Other loans and receivables	1,166	1,191	(25)	-2.1%
Total loans	**2,595,700**	**2,294,420**	**301,280**	**13.1%**
Securities	435,177	435,411	(234)	-0.1%
Total loans and receivables with customers	**3,030,877**	**2,729,831**	**301,046**	**11.0%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and, beginning in 2018, the "held-to-maturity securities" portfolios.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were in line with the end of 2018 at 66%. Their absolute value grew as a result of volumes generated over the year which were up by 27% on the previous year to € 3,055 million (€ 2,406 million at 31 December 2018).

Salary- and pension-backed loans grew thanks to new loans, which increased by 25% compared to the previous year (the new volumes acquired in 2019 amounted to € 266 million), while government-backed loans to SMEs fell, which is in line with the strategic decision to discontinue this line of business.

The collateralised loan business, carried out through the branches in Milan, Rome, Pisa, Naples, Palermo and Rimini, reported loans of € 11.8 million at 31 December 2019, which are the result of loans granted during the first half of the year and renewals with existing customers. Since August, following the sale of a business unit, this business is being managed through the newly formed company ProntoPegno, a wholly-owned subsidiary of the Bank.

Securities are composed entirely of Italian government securities with an average duration of 14.5 months for an amount of € 435 million. The mark-to-market valuation of the securities at 31 December 2019 was a positive fair value of € 1.4 million.

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

STATUS	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Bad exposures	57,467	55,877	54,124	57,319	50,622
Unlikely to pay	87,189	98,206	113,462	122,738	139,349
Past due	80,507	76,183	68,733	59,674	55,647
Non-performing	**225,163**	**230,266**	**236,319**	**239,731**	**245,618**
Performing	**2,104,711**	**2,305,247**	**2,428,104**	**2,372,450**	**2,392,985**
Stage 2	106,473	119,559	114,250	124,252	124,252
Stage 1	1,998,238	2,185,688	2,313,854	2,248,198	2,268,733
Total loans and receivables with customers	**2,329,874**	**2,535,513**	**2,664,423**	**2,612,181**	**2,638,603**
Individual impairment losses	**29,169**	**32,220**	**33,662**	**34,746**	**37,217**
Bad exposures	18,451	18,944	19,602	20,394	20,078
Unlikely to pay	9,277	11,672	12,665	13,588	16,042
Past due	1,441	1,604	1,395	764	1,097
Collective impairment losses	**6,284**	**6,299**	**6,791**	**7,302**	**5,686**
Stage 2	579	680	585	807	667
Stage 1	5,705	5,619	6,206	6,495	5,019
Total impairment losses	**35,453**	**38,519**	**40,453**	**42,048**	**42,903**
Net exposure	**2,294,421**	**2,496,994**	**2,623,970**	**2,570,133**	**2,595,700**

The ratio of gross non-performing loans to the total portfolio went from 9.7% at 31 December 2018 to 9.3% at the end of December 2019. The increase in the absolute value of non-performing loans compared to 31 December 2018 is mainly due to new factoring positions with local authorities in financial difficulty and private-sector assignors. The amount of past due loans and local authorities in financial difficulty is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.2% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 15.2%.

The item Equity investments, with the sale of the non-controlling interests in ADV Finance S.p.A. and its subsidiary Procredit S.r.l. in the second quarter of 2019, is no longer recognised.

Also during the year, following the exercise of the put option by Banca Sistema, the shares were sold to Axactor Holding S.r.l. As a result, the item Non-current assets held for sale and disposal groups is no longer recognised.

Property and equipment includes the property located in Milan which is also being used as Banca Sistema's new offices. The property purchased in 2017 was renovated and completed in October 2018; its carrying amount, including capitalised items, is € 26.6 million after the accumulated depreciation of the building. The other capitalised costs include furniture, fittings and IT devices and equipment, as well as the right of use relating to the lease payments for branches and company cars.

Intangible assets increased following the recognition of the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019.

The allocation of the purchase price for Atlantide is provided below:

ATLANTIDE PRICE ALLOCATION

Spot purchase price	3,022
Estimated earn-out	1,301
Recognised equity investment price (A)	**4,323**
Atlantide equity at 31 March 2019 (B)	(2,189)
Residual value to be allocated (A+B)	**2,134**
Provisional allocation to goodwill	**(2,134)**

As mentioned above, part of the goodwill is the result of an estimate of the earn-out value at € 1,301 thousand to be recognised in relation to the production volumes set out in the business plan prepared by Atlantide's management: in fact, the acquisition includes a deferred payment mechanism in the form of an earn-out to be paid to the sellers, which will be determined based on target production volumes for 2021. Other assets totalling € 14.7 million mainly include amounts being processed after the end of the year and advance tax payments.

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

LIABILITIES AND EQUITY (€ ,000)	31.12.2019	31.12.2018	€ Change	% Change
Financial liabilities measured at amortised cost	3,416,486	2,898,740	517,746	17.9%
a) due to banks	388,359	695,197	(306,838)	-44.1%
b) due to customers	2,551,600	1,898,556	653,044	34.4%
c) securities issued	476,527	304,987	171,540	56.2%
Tax liabilities	16,433	15,676	757	4.8%
Other liabilities	94,662	65,638	29,024	44.2%
Post-employment benefits	3,051	2,402	649	27.0%
Provisions for risks and charges	22,297	9,293	13,004	>100%
Valuation reserves	267	(1,131)	1,398	<100%
Reserves	137,749	117,666	20,083	17.1%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(199)	(35)	17.6%
Profit for the year	29,719	27,167	2,552	9.4%
Total liabilities and equity	**3,730,081**	**3,144,903**	**585,178**	**18.6%**

Wholesale funding, which represents about 39% (41% at 31 December 2018) of the total, decreased in relative terms from the end of 2018 following the increase in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 50.4% (34.2% at the end of 2018).

DUE TO BANKS (€ ,000)	31.12.2019	31.12.2018	€ Change	% Change
Due to Central banks	358,250	412,850	(54,600)	-13.2%
Due to banks	30,109	282,347	(252,238)	-89.3%
Current accounts and demand deposits	*20*	*53*	*(33)*	*-62.3%*
Term deposits	*30,089*	*282,294*	*(252,205)*	*-89.3%*
Total	**388,359**	**695,197**	**(306,838)**	**-44.1%**

The total of the sub-item "Due to banks" decreased by 44% compared to 31 December 2018 due to the decrease in interbank funding; refinancing with the ECB is backed primarily by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation. The Bank has been granted access to the new TLTRO III programme for an amount of up to € 295 million, of which € 108 million is currently being used. The availability period has been set at 3 years from the date the company takes part in the auction (the last auction is in March 2021), while the rate is set at 0%.

DUE TO CUSTOMERS (€ ,000)	31.12.2019	31.12.2018	€ Change	% Change
Term deposits	1,325,794	958,193	367,601	38.4%
Financing (repurchase agreements)	457,070	179,819	277,251	>100%
Current accounts	681,577	657,082	24,495	3.7%
Due to assignors	83,783	87,397	(3,614)	-4.1%
Other payables	3,376	16,065	(12,689)	-79.0%
Total	**2,551,600**	**1,898,556**	**653,044**	**34.4%**

The item Due to customers increased compared to the end of the year, mainly due to an increase in funding from repurchase agreements and from term deposits. The year-end amount of term deposits increased by 38.4% compared to the end of 2018, reflecting net positive deposits (net of interest accrued) of € 368 million; gross deposits from the beginning of the year were € 1,190 million, against withdrawals totalling € 822 million.

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

SECURITIES ISSUED (€ ,000)	31.12.2019	31.12.2018	€ Change	% Change
Bond - AT1	8,016	8,017	(1)	0.0%
Bond - Tier II	37,547	31,570	5,977	18.9%
Bonds - other	430,964	265,400	165,564	62.4%
Total	**476,527**	**304,987**	**171,540**	**56.2%**

The nominal amount of securities issued at 31 December 2019 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7% issued on 18 December 2012;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Tier 2 subordinated loan of € 18 million, 2019-2029 with a fixed coupon of 7%;
- Senior bonds (market placement) of € 175 million, 2017-2020 with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 90 million, 2018-2021 with a fixed coupon of 2%.

Other bonds include 95% of the senior share of the ABS in the Quinto Sistema Sec. 2019 securitisation subscribed by a third-party institutional investor.

The provision for risks and charges of € 22.3 million includes the provision for possible liabilities attributable to past acquisitions, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to lawsuits with customers and the estimated charges for other lawsuits and legal disputes. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years, and the provision for supplementary customer allowances. Also included is the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries.

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

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

Figures are in thousands of Euro.

(€ ,000)	PROFIT (LOSS)	EQUITY
Profit/equity of the parent	**29,956**	**179,624**
Assumption of value of investments	-	(20,000)
Consolidated profit loss/equity	(237)	17,528
Equity attributable to the owners of the parent	**29,719**	**177,152**
Equity attributable to non-controlling interests	-	(32)
Group equity	**29,719**	**177,120**

CAPITAL ADEQUACY

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

OWN FUNDS (€ ,000) AND CAPITAL RATIOS	31.12.2019	31.12.2018
Common Equity Tier 1 (CET1)	**165,119**	**144,293**
ADDITIONAL TIER1	8,000	8,000
Tier 1 capital (T1)	**173,119**	**152,293**
TIER2	37,500	28,799
Total Own Funds (TC)	**210,619**	**181,092**
Total risk-weighted assets	**1,405,890**	**1,317,043**
of which, credit risk	1,236,603	1,160,521
of which, operational risk	169,252	156,522
of which, CVA	35	-
Ratio - CET1	11.7%	11.0%
Ratio - T1	12.3%	11.6%
Ratio - TCR	15.0%	13.7%
Pro-forma CET1 (CRR II amendment) (*)	13.9%	12.5%
Pro-forma T1 (CRR II amendment) (*)	14.6%	13.2%
Pro-forma TCR (CRR II amendment) (*)	17.8%	15.7%

(*) = estimate of the impact on the capital ratios resulting from the application of the reduction in the weighting of the CQS/CQP assets set out in Regulation 876/2019 that will be applied as of 28 June 2021

Total own funds were € 211 million at 31 December 2019 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. The increase was due to the combined effect of the profit for 2019, the merger of Atlantide (which generated goodwill of € 2.1 million, classified on the Statement of financial position under intangible assets) and the issue, in the second quarter and third quarter of 2019, of a TIER 2 subordinated loan for a total of € 18 million (in conjunction with the repayment of another Lower TIER 2 subordinated loan of € 12 million, which can no longer be fully included as a capital). The increase in capital ratios compared to 31 December 2018 is attributable to higher profits and lower capital absorption from loans.

With notice received on 9 March 2020, the Bank of Italy issued its final decision regarding the consolidated capitalisation requirements to be observed from the first reporting date for own funds after the date of receipt of the decision, following the outcome of the Supervisory Review and Evaluation Process (SREP). The Group's consolidated capitalisation requirements, according to the transitory criteria, are as follows:

- CET1 ratio of 7.75%;
- TIER1 ratio of 9.55%;
- Total Capital Ratio of 11.90%.

The additional ratio for the CET1 ratio is unchanged from that expected for 2019, while the T1 ratio and the Total Capital Ratio, the OCR, were increased by 5 basis points. The SREP decision does not include any specific quantitative liquidity requirements.

CAPITAL AND SHARES

Capital and ownership structure

The share capital of Banca Sistema is composed of 80,421,052 ordinary shares, for a total paid-in share capital of € 9,650,526.24. All outstanding shares have regular dividend entitlement from 1 January.
Based on evidence from the Shareholders' Register and more recent information available, as at 7 February 2020 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%
Garbifin S.r.l.	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Market	*61.08%*

Treasury shares

At 31 December 2019, after the launch in 2019 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 168,669 shares (equal to 0.21% of the share capital).

Stock performance

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

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

Investor Relations

During 2019, the Bank, in addition to the information provided through press releases and earnings conference calls with the market, also met with analysts and institutional investors, the latter both collectively and individually, for a total of around 175 investors (over 10% more than in 2018), also thanks to the participation in 18 events (16 events in 2018), including Conferences and Roadshows, in 8 European cities.

RISK MANAGEMENT AND SUPPORT CONTROL METHODS

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

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

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

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

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

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

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

With reference to the risk management framework, the Group 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 Group 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 Group to conduct ongoing tests of its structure for determining risks and to update the related safeguards included in its RAF.

With regard to protecting against credit risk, along with the well-established second level controls and the periodic monitoring put in place by the Risk Department, a specific project has been implemented related to the introduction of the new definition of default, whose implementation date is 31 December 2020. This initiative will enable the determination of the qualitative and quantitative impact on the financial statements, and the identification and implementation of the necessary organisational, internal policy and applicable IT system changes.

Regarding the monitoring of credit risk, the Group, with the goal of attaining greater operating synergies, has launched the divisionalisation project which aims to maximise the value of each individual line of business, making it easily comparable with its respective specialist peers.

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

In order to measure "Pillar 1 risks", the Group has adopted standard methods to calculate the capital requirements for Prudential Regulatory purposes. In order to evaluate "Pillar 2 risks", the Group 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 Group are assessed.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2019 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree No. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft consolidated financial statements as at and for the year ended 31 December 2019 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2019.

Future activities and new initiatives

In line with the Bank's values and corporate culture and with the activities already in place in terms of sustainability, the Banca Sistema Group intends to pursue, on a voluntary basis, a structured approach for defining its positioning on ESG issues, a sustainability reporting process aligned with industry best practices and leading international guidelines, as well as an action plan aimed at identifying ways of improving its sustainability profile.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of the Parent, Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the year, 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

With regard to the recent epidemic emergency caused by COVID-19, the Banca Sistema Group took immediate action to monitor the situation and adopt appropriate measures to protect the health of its employees, customers and contacts. In this context, the Group ensured that all its offices and branches, including those of ProntoPegno, are fully operational. The increase in operating costs to ensure that employees can work remotely is not significant.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

The 2019 financial year ended with continuing growth in volumes in the factoring sector and in terms of salary- and pension-backed loans. At the end of the year, the Group, as part of its diversification and growth strategy in the collateralised lending business, entered into a binding agreement to acquire the collateralised lending business of the Intesa Sanpaolo Group, thus strengthening its market position.

In 2020, the Group will continue to evaluate options for non-organic growth in its core business areas.

It is also envisaged that, during the year, activities will be launched for the development of the Group’s new business plan.

With regard to the COVID-19 epidemic emergency, the effect of the ongoing threat, which will have a negative impact on the country's economy and a foreseeable increase in public spending, particularly in the healthcare sector, is not currently expected to have a significant impact on the Group's activities in the short term, which by their nature are counter-cyclical. However, the situation will be continuously monitored, as indirect effects linked to a decrease in production by the transferor companies with which the Group works may be expected.

Milan, 11 March 2020

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of Euro)

	Assets	31.12.2019	31.12.2018
10.	Cash and cash equivalents	652	289
30.	Financial assets measured at fair value through other comprehensive income	556,383	304,469
40.	Financial assets measured at amortised cost	3,112,387	2,786,692
	a) loans and receivables with banks	81,510	56,861
	b) loans and receivables with customers	3,030,877	2,729,831
70.	Equity investments	-	786
90.	Property and equipment	29,002	27,910
100.	Intangible assets	3,921	1,788
	of which:		
	- goodwill	3,920	1,786
110.	Tax assets	8,476	7,817
	a) current	1	-
	b) deferred	8,475	7,817
120.	Non-current assets held for sale and disposal groups	-	1,835
130.	Other assets	19,260	13,317
	Total assets	**3,730,081**	**3,144,903**

	Liabilities and equity	31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,416,486	2,898,740
	a) due to banks	388,359	695,197
	b) due to customers	2,551,600	1,898,556
	c) securities issued	476,527	304,987
60.	Tax liabilities	16,433	15,676
	a) current	2,213	3,445
	b) deferred	14,220	12,231
80.	Other liabilities	94,662	65,638
90.	Post-employment benefits	3,051	2,402
100.	Provisions for risks and charges:	22,297	9,293
	a) commitments and guarantees issued	44	7
	c) other provisions for risks and charges	22,253	9,286
120.	Valuation reserves	267	(1,131)
150.	Reserves	98,617	78,452
160.	Share premium	39,100	39,184
170.	Share capital	9,651	9,651
180.	Treasury shares (-)	(234)	(199)
190.	Equity attributable to non-controlling interests (+/-)	32	30
200.	Profit for the year	29,719	27,167
	Total liabilities and equity	**3,730,081**	**3,144,903**

INCOME STATEMENT

(Amounts in thousands of Euro)

		31.12.2019	31.12.2018
10.	Interest and similar income	110,336	99,710
	of which: interest income calculated with the effective interest method	107,644	98,031
20.	Interest and similar expense	(29,642)	(25,145)
30.	**Net interest income**	**80,694**	**74,565**
40.	Fee and commission income	22,490	17,625
50.	Fee and commission expense	(6,422)	(2,370)
60.	**Net fee and commission income**	**16,068**	**15,255**
70.	Dividends and similar income	227	227
80.	Net trading income (expense)	208	(129)
100.	Gain from sales or repurchases of:	3,716	1,167
	a) financial assets measured at amortised cost	1,106	-
	b) financial assets measured at fair value through other comprehensive income	2,610	1,167
120.	**Total income**	**100,913**	**91,085**
130.	Net impairment losses on:	(9,055)	(6,814)
	a) financial assets measured at amortised cost	(8,950)	(6,812)
	b) financial assets measured at fair value through other comprehensive income	(105)	(2)
150.	**Net financial income**	**91,858**	**84,271**
190.	Administrative expenses:	(46,105)	(40,862)
	a) personnel expense	(23,166)	(19,908)
	b) other administrative expenses	(22,939)	(20,954)
200.	Net accruals to provisions for risks and charges	(1,996)	(414)
	a) commitments and guarantees issued	(36)	-
	b) other net accruals	(1,960)	(414)
210.	Net impairment losses on property and equipment	(1,499)	(529)
220.	Net impairment losses on intangible assets	(133)	(3)
230.	Other operating expense	(768)	(396)
240.	**Operating costs**	**(50,501)**	**(42,204)**
250.	Gains (losses) on equity investments	-	8
280.	Gains (losses) on sales of investments	(8)	-
290.	**Pre-tax profit from continuing operations**	**41,349**	**42,075**
300.	Income taxes	(12,192)	(14,554)
310.	**Post-tax profit from continuing operations**	**29,157**	**27,521**
320.	Post-tax profit (loss) from discontinued operations	562	(354)
330.	**Profit for the year attributable to the owners of the parent**	**29,719**	**27,167**
350.	**Profit for the year attributable to the owners of the parent**	**29,719**	**27,167**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in thousands of Euro)

		31.12.2019	31.12.2018
10.	**Profit for the year**	**29,719**	**27,167**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(32)	39
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,430	(2,064)
150.	Non-current assets held for sale	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive income (expense), net of income tax**	**1,398**	**(2,025)**
180.	**Comprehensive income (Items 10+170)**	**31,117**	**25,142**
190.	**Comprehensive income attributable to non-controlling interests**	**-**	**-**
200.	**Comprehensive income attributable to the owners of the parent**	**31,117**	**25,142**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2019

Amounts in thousands of Euro

	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Allocation of prior year profit		Changes during the year									Equity attributable to the owners of the parent at 31.12.2019	**Equity attributable to non-controlling interests at 31.12.2019**
							Transactions on equity									
				Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Changes in equity investments	Comprehensive income for 2019		
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**39,184**	-	39,184	-	-	(84)	-	-	-	-	-	-	-	-	**39,100**	-
Reserves	**78,452**	-	78,452	20,170	-	(5)	-	-	-	-	-	-	-	-	**98,617**	-
a) income-related	**78,792**	-	78,792	20,170	-	(20)	-	-	-	-	-	-	-	-	**98,942**	-
b) other	**(340)**	-	(340)	-	-	15	-	-	-	-	-	-	-	-	**(325)**	-
Valuation reserves	**(1,131)**	-	(1,131)	-	-	-	-	-	-	-	-	-	-	1,398	**267**	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(199)**	-	(199)	-	-	(35)	-	-	-	-	-	-	-	-	**(234)**	-
Profit for the year	**27,167**	-	27,167	(20,170)	(6,997)	-	-	-	-	-	-	-	-	29,719	**29,719**	-
Equity attributable to the owners of the parent	153,124	-	**153,124**	-	**(6,997)**	**(124)**	-	-	-	-	-	-	-	**31,117**	**177,120**	-
Equity attributable to non-controlling interests	**30**	-	**30**	-	-	**2**	-	-	-	-	-	-	-	-	-	**32**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2018

Amounts in thousands of Euro

				Allocation of prior year profit		Changes during the year										
							Transactions on equity									
	Balance at 31.12.2017	Change in opening balances	Balance at 1.1.2018	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 2018	Equity attributable to the owners of the parent at 31.12.2018	**Equity attributable to non-controlling interests at 31.12.2018**
Share capital:																
a) ordinary shares	**9,651**	-	9,651	-	-	-	-	-	-	-	-	-	-	-	**9,651**	-
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium	**39,268**	-	39,268	-	-	(84)	-	-	-	-	-	-	-	-	**39,184**	-
Reserves	**58,807**	(224)	58,583	19,877	-	(8)	-	-	-	-	-	-	-	-	**78,452**	-
a) income-related	**59,133**	(224)	58,909	19,877	-	6	-	-	-	-	-	-	-	-	**78,792**	-
b) other	**(326)**	-	(326)	-	-	(14)	-	-	-	-	-	-	-	-	**(340)**	-
Valuation reserves	**367**	527	894	-	-	-	-	-	-	-	-	-	-	(2,025)	**(1,131)**	-
Equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Treasury shares	**(149)**	-	(149)	-	-	(50)	-	(149)	-	-	-	-	-	-	**(199)**	-
Profit for the year	**26,793**	-	26,793	(19,877)	(6,916)	-	-	-	-	-	-	-	-	27,167	**27,167**	-
Equity attributable to the owners of the parent	**134,737**	**303**	**135,040**	**-**	**(6,916)**	**(142)**	**-**	**(149)**	**-**	**-**	**-**	**-**	**-**	**25,142**	**153,124**	-
Equity attributable to non-controlling interests	**30**	**-**	**30**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**

STATEMENT OF CASH FLOWS (indirect method)

Amounts in thousands of Euro

	2019	2018
A. OPERATING ACTIVITIES		
1. Operations	**49,577**	**55,204**
▪ Profit for the year (+/-)	29,719	27,167
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	8,950	6,812
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,632	532
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,996	414
▪ Taxes, duties and tax assets not yet paid (+/-)	1,868	2,151
▪ Other adjustments (+/-)	5,412	18,128
2. Cash flows used for financial assets	**(566,474)**	**(833,520)**
▪ Financial assets held for trading	-	1,201
▪ Financial assets designated at fair value through profit or loss	-	-
▪ Other assets mandatorily measured at fair value through profit or loss	-	-
▪ Financial assets measured at fair value through other comprehensive income	(250,516)	(20,289)
▪ Financial assets measured at amortised cost	(313,636)	(815,661)
▪ Other assets	(2,322)	1,229
3. Cash flows generated by financial liabilities	**527,062**	**791,354**
▪ Financial liabilities measured at amortised cost	501,242	797,655
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	25,820	(6,301)
Net cash flows generated by operating activities	**10,165**	**13,038**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**786**	**-**
▪ Sales of equity investments	786	-
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	-
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	-
2. Cash flows used in	**(3,556)**	**(5,944)**
▪ Purchases of equity investments	-	-
▪ Purchases of property and equipment	(2,591)	(1,777)
▪ Purchases of intangible assets	(965)	(4,167)
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(2,770)**	**(5,944)**
C. FINANCING ACTIVITIES		
▪ Repurchases of treasury shares	(35)	(50)
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	(6,997)	(6,916)
Net cash flows used in financing activities	**(7,032)**	**(6,966)**
NET CASH FLOWS FOR THE YEAR	**363**	**128**

KEY:
(+) generated
(–) used

RECONCILIATION

Cash and cash equivalents at the beginning of the year	289	161
Total net cash flows for the year	363	128
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	652	289

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Banca Sistema Group at 31 December 2019 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

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

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

- is relevant to the economic decision-making needs of users;
- is reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the Bank;
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - are neutral, i.e. free from bias;
  - are prudent;
  - are complete in all material respects.

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

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

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

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

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

The financial statements were audited by BDO Italia S.p.A.

SECTION 2 - General basis of preparation

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

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

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

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

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

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the year.

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 valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank’s main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank’s customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and quantitative elements into consideration;
- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;

- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

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

Application of the new IFRS 16

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

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

The economic impact does not change over the lease term, but is instead allocated differently over time.

The Group has chosen to use the modified retrospective approach for the first-time adoption (FTA) of IFRS 16, which provides the option to recognise the cumulative effect of applying the Standard at the date of initial application and excludes the restatement of comparative data from the financial statements prepared upon first-time adoption of IFRS 16. Therefore, the figures of the financial statements for 2019 will not be comparable for the valuation of the rights of use and the corresponding lease liability.

The effects of first-time adoption (FTA) of IFRS 16

The adoption of IFRS 16 using the modified retrospective approach resulted in an increase in property and equipment due to the recognition of new rights of use at Group level (€ 1.9 million) and financial liabilities (payable to the lessor) for the same amount.

Consequently, from the first-time adoption of the standard, there has been no impact on equity following the decision to adopt the modified approach.

SECTION 3 - Scope and methods of consolidation

The consolidated financial statements include the Parent, Banca Sistema S.p.A., and the companies directly or indirectly controlled by or connected with it.

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

	Registered office	Type of Relationship (1)	Investment		% of votes available (2)
			Investing company	% held	
Companies					
Subject to full consolidation					
S.F. Trust Holdings Ltd	**UK**	**1**	**Banca Sistema**	**100%**	**100%**
Largo Augusto Servizi e Sviluppo S.r.l.	**Italy**	**1**	**Banca Sistema**	**100%**	**100%**
ProntoPegno S.p.A.	**Italy**	**1**	**Banca Sistema**	**100%**	**100%**

Key:
(1) Type of relationship.
1. = majority of voting rights at the ordinary Shareholders' Meeting
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 the 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. 2017 S.r.l.
- Quinto Sistema Sec. 2019 S.r.l.
- Atlantis SPV S.r.l.

Changes in the scope of consolidation

Compared to the situation as at 31 December 2018, the scope of consolidation changed as a result of the following events:

- the equity investments in ADV Finance S.p.A. and ProCredit S.r.l. were excluded from the scope of consolidation after their sale.

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 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:

- the carrying amount of the investments held by the Parent and the corresponding part of the equity are eliminated;
- 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 "100 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 income, 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 similar transactions and events. If a subsidiary uses accounting standards different from those adopted in the consolidated financial statements for similar transactions and events in similar circumstances, adjustments are made to the financial 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 at equity

Associates are consolidated at equity.

The equity method provides for the initial recognition of the investment at cost and subsequent adjustment based on the relevant share of the investee's equity.

The differences between the value of the equity investment and the equity of the relevant investee are included in the carrying amount of the investee.

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 investee 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 recoverable value prove lower than the carrying amount, the difference is recognised in the income statement.

SECTION 4 - Subsequent events

With regard to IAS 10, after 31 December 2019, the reporting date of the financial statements, and up to 11 March 2020, the date when the financial statements were presented to the Board of Directors, no events occurred that would require any adjustments to the figures in the financial statements.

SECTION 5 - Other aspects

With reference to the transparency rules on public funding introduced by article 1, paragraphs 125-129 of Italian Law no. 124/2017 and subsequently supplemented by the 'Sicurezza' Law Decree (no. 113/2018) and the 'Semplificazione' Law Decree (no. 135/2018), it

should be noted that there were issues regarding their interpretation and application. On the basis of the guidelines and interpretations formulated by Assonime in Circular no. 5 of 22 February 2019, amounts received by companies related to 'paid assignments' are to be excluded from this report. Moreover, the requirement that they be disclosed in the notes to the financial statements was understood to exclude the general measures available to all companies. Based on this interpretation, there is nothing to report.
There are no significant aspects to note.

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

Financial assets measured at fair value through profit or loss

Classification criteria

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

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

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

In particular, this item includes:

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

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

Derecognition criteria

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

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

Classification criteria

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

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

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

In particular, this item includes:

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

Except for the equity instruments which cannot be reclassified, financial assets may be reclassified to other categories of financial assets only if the entity changes its own business model for management of the financial assets.

In such cases, which are expected to be absolutely infrequent, the financial assets may be reclassified from those measured at fair value through other comprehensive income to one of the other two categories established by IFRS 9 (Financial assets measured at amortised cost or Financial assets measured at fair value through profit or loss). The transfer value is the fair value at the time of the reclassification and the effects of the reclassification apply prospectively from the reclassification date. In the event of reclassification from this category to the amortised cost category, the cumulative gain (loss) recognised in the valuation reserve is allocated as an adjustment to the fair value of the financial asset at the reclassification date. In the event of reclassification to the fair value through profit or loss category, the cumulative gain (loss) previously recognised in the valuation reserve is reclassified from equity to profit (loss).

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

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

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

In particular, this item includes:

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

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

Recognition criteria

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

Measurement and recognition criteria for income components

Following initial recognition, loans and receivables with customers are stated at amortised cost, equal to the initial recognition amount reduced/increased by principal repayments, by impairment losses/gains and the amortisation - calculated on the basis of the effective interest rate - of the difference between the amount provided and that repayable at maturity, usually the cost/ income directly attributed to the individual loan.
The effective interest rate is the rate that discounts future payments estimated for the expected duration of the loan, in order to obtain the exact carrying amount at the time of initial recognition, which includes both the directly attributable transaction costs/income and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the receivable.
The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment.
The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss).
The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historic series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

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

Hedging transactions

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

Equity investments

Classification criteria

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

Recognition criteria

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

Measurement criteria

In the consolidated financial statements, equity investments in subsidiaries are consolidated using the full line-by-line method. Equity investments in associates and joint ventures are both measured at equity. At the end of each financial year or interim report date, an assessment is performed to determine if any objective evidence exists that an investment has been impaired. The recoverable value is then calculated taking into account the present value of the future cash flows that the investment will be able to generate, including the final disposal value of the investment. Any lower value, compared to the carrying amount, resulting from this calculation is charged to the income statement under "250 Gains (losses) on equity investments". The item also includes any future impairment gains where the reasons for the previous impairment losses no longer apply.

Derecognition criteria

Equity investments are derecognised from the financial statements when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and rewards. Gains and losses on the sale of equity investments are charged to the income statement under the item "240 Gains (losses) on equity investments"; gains and losses on the sale of investments other than those measured at equity are charged to the income statement under the item "280 Gains (losses) on sales of investments".

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.

They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".

Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.

"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.

The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.

Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.

Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

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

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

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

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

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

Intangible assets

Classification criteria

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

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

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

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

Measurement criteria

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

Derecognition criteria

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

Non-current assets held for sale and disposal groups

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

Financial liabilities measured at amortised cost

Classification criteria

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

Recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities held for trading

Classification and recognition criteria

In particular, this category of liabilities includes the liabilities originating from technical exposures deriving from security trading activities.

Financial instruments are recognised at the date of their subscription or issue at a value equal to their fair value, without including any transaction costs or income directly attributable to the instruments themselves.

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Group's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under "Tax assets" and the latter under "Tax liabilities".

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under "current tax assets" or "current tax liabilities" depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under *"personnel expense"*. The provisions that refer to risks and charges of a tax nature are reported as *"income taxes"*, whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as *"net accruals to provisions for risks and charges"*.

Other information

Post-employment benefits

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

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

The actuarial gains and losses, defined as the difference between the carrying amount of the liability and the present value of the obligation at year end, are recognised in equity. An independent actuary assesses the post-employment benefits in compliance with the method indicated above.

Repurchase agreements

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

Criteria for determining the fair value of financial instruments

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

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

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

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If

market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;

5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

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

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2** - the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).

  The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement;

  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner;
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

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

- identification of the acquirer;
- measurement of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

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

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions:

- the cost of the combination is the aggregate cost of the individual transactions;
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date on which control of the acquiree is obtained.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

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

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

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

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

No financial instruments were transferred between portfolios.

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

No financial assets were reclassified.

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

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

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

- Level 1 - Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Group.

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	-	1.201	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	551,383	-	5,000	299,469	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**551,383**	**-**	**5,000**	**299,469**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2019				31.12.2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,112,388	435,177	-	2,677,211	2,786,692	435,482	-	2,351,210
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	1,835	-	-	1,835
TOTAL	**3,112,388**	**435,177**	**-**	**2,677,211**	**2,788,527**	**435,482**	**-**	**2,353,045**
1. Financial liabilities measured at amortised cost	3,416,485	-	-	3,416,485	2,898,740	-	-	2,898,740
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,416,485**	**-**	**-**	**3,416,485**	**2,898,740**	**-**	**-**	**2,898,740**

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

A.5 DISCLOSURE CONCERNING “DAY ONE PROFIT/LOSS”

Nothing to report.

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2019	31.12.2018
a. Cash	652	289
b. Demand deposits with Central Banks	-	-
TOTAL	**652**	**289**

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

	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**550,219**	**-**	**-**	**298,292**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	550,219	-	-	298,292	-	-
2. Equity instruments	**1,164**	**-**	**5,000**	**1,177**	**-**	**5,000**
3. Financing	**-**	**-**	**-**	**-**	**-**	**-**
Total	**551,383**	**-**	**5,000**	**299,469**	**-**	**5,000**

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

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

	31.12.2019	31.12.2018
1. Debt instruments	**550,219**	**298,292**
a. Central Banks	-	-
b. Public administrations	550,219	298,292
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**6,164**	**6,177**
a. Banks	5,000	5,000
b. Other issuers:	1,164	1,177
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	1,164	1,177
- other	-	-
4. Financing	**-**	**-**
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**556,383**	**304,469**

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

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	550,373	-	-	-	154	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2019	**550,373**	-	-	-	**154**	-	-	-
Total at 31.12.2018	**298,341**	-	-	-	**49**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

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

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

	31.12.2019						31.12.2018					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**19,966**	**-**	**-**			**19,966**	**12,460**	**-**	**-**			**12,460**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	19,912	-	-	X	X	X	12,437	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	54	-	-	X	X	X	23	-	-	X	X	X
B. Loans and receivables with banks	**61,544**	**-**	**-**			**61,544**	**44,401**	**-**	**-**			**44,401**
1. Financing	61,544	-	-			61,544	44,401	-	-			44,401
1.1 Current accounts and demand deposits	53,011	-	-	X	X	X	24,213	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	19,996	-	-	X	X	X
1.3. Other financing:	8,533	-	-	X	X	X	192	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	8,533	-	-	X	X	X	192	-	-	X	X	X
2. Debt instruments	-	**-**	**-**				-	**-**	**-**			-
2.1 Structured instruments	-	**-**	**-**				-	**-**	**-**			-
2.2 Other debt instruments	-	**-**	**-**				-	**-**	**-**			-
Total	**81,510**	**-**	**-**			**81,510**	**56,861**	**-**	**-**			**56,861**

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

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

	31.12.2019						31.12.2018					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,387,301**	**208,399**	**27,527**	-	**-**	**2,595,700**	**2,098,425**	**195,995**	**25,776**	**-**	**-**	**2,294,420**
1.1 Current accounts	30,106	56	-	X	X	X	23,248	70	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	6,753	1,970	-	X	X	X	27,602	8,470	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	796,368	6,012	-	X	X	X	636,134	291	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	963,352	188,869	27,527	X	X	X	974,942	176,942	25,776	X	X	X
1.7 Other financing	590,722	11,492	-	X	X	X	436,499	10,222	-	X	X	X
2. Debt instruments	**435,177**	**-**	**-**	**435,177**	**-**	**-**	**435,411**	**-**	**-**	**435,411**	**-**	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	435,177	-	-	435,177	-	-	435,411	-	-	435,411	-	-
Total	**2,822,478**	**208,399**	**27,527**	**435,177**	**-**	**2,595,700**	**2,533,836**	**195,995**	**25,776**	**435,411**	**-**	**2,294,420**

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

Financing mainly includes the loans and receivables of companies that supply goods and services mainly to the Public Administration (ASL - local health authorities - and Territorial Entities) and receivables related to the pension and salary-backed loans segment. Salary- and pension-backed loans grew thanks to new loans, which increased by 25% compared to the previous year.

Factoring receivables include default interest recognised on an accruals basis for € 49.9 million.

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

Measuring loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity involving the use of measurement models that take into account numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate.

Securities are composed entirely of Italian government securities with an average duration of 14.5 months for an amount of € 435 million. The mark-to-market valuation of the securities at 31 December 2019 was a positive fair value of € 1.4 million.

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

	31.12.2019			31.12.2018		
	First and second stage	Third stage	of which: purchased or originated credit-impaired assets	First and second stage	Third stage	of which: purchased or originated credit-impaired assets
1. Debt instruments	**435,177**	**-**	**-**	**435,411**	**-**	**-**
a) Public administrations	435,177	-	-	435,411	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,387,301**	**208,399**	**27,527**	**2,098,425**	**195,995**	**25,776**
a) Public administrations	1,281,129	142,646	27,527	1,068,192	139,952	25,776
b) Other financial companies	60,481	4	-	43,429	1	-
of which: insurance companies	9	3	-	4	1	-
c) Non-financial companies	210,459	56,872	-	306,520	52,484	-
d) Households	835,232	8,877	-	680,284	3,558	-
Total	**2,822,478**	**208,399**	**27,527**	**2,533,836**	**195,995**	**25,776**

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

	Gross amount				Total impairment losses			
	First stage							
		of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
Debt instruments	435,299	-	-	-	122	-	-	-
Financing	2,350,269	1,248,699	124,252	245,618	5,045	667	37,217	-
Total at 31.12.2019	**2,785,568**	**1,248,699**	**124,252**	**245,618**	**5,167**	**667**	**37,217**	**-**
Total at 31.12.2018	**2,490,590**	**1,086,780**	**106,473**	**225,164**	**5,785**	**580**	**29,169**	**-**
of which: purchased or originated credit-impaired financial assets	X	X	24,888	2,857	X	91	128	-

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	100%	100%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income (expense)	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	117	817	1,902	324	-	(73)	-	(258)	(267)	-	(267)	-	(267)
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	27,945	13,507	228	1,352	(136)	(602)	65	62	-	62	-	62
3. ProntoPegno S.p.A.	499	12,869	701	8,502	1,008	613	301	(44)	(599)	(428)	-	(428)	-	(440)

7.5 Equity investments: changes

	31.12.2019	31.12.2018
A. Opening balance	**786**	**1,190**
B. Increases	**-**	**1,785**
B.1 Purchases	-	1,777
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	-	8
C. Decreases	**786**	**2,189**
C.1 Sales	786	-
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	2,189
D. Closing balance	**-**	**786**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

The item Equity investments, with the sale of the non-controlling interests in ADV Finance S.p.A. and its subsidiary Procredit S.r.l. in the second quarter of 2019, is no longer recognised.

Also during the year, following the exercise of the put option by Banca Sistema, the shares were sold to Axactor Holding S.r.l. As a result, the item Non-current assets held for sale and disposal groups is no longer recognised.

SECTION 9 - PROPERTY AND EQUIPMENT - ITEM 90

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

	31.12.2019	31.12.2018
1. Owned	**27,373**	**27,910**
a) land	8,416	8,416
b) buildings	18,211	18,785
c) furniture	329	246
d) electronic equipment	417	434
e) other	-	29
2. Under finance lease	**1,629**	**-**
a) land	-	-
b) buildings	905	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	724	-
TOTAL	**29,002**	**27,910**
of which: obtained from the enforcement of guarantees received	-	-

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

Depreciation rates:

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

9.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**8,416**	**18,912**	**1,230**	**2,084**	**90**	**30,732**
A.1 Total net impairment losses	-	127	984	1,650	61	2,822
A.2 Net opening balances	**8,416**	**18,785**	**246**	**434**	**29**	**27,910**
B. Increases	**-**	**1,630**	**154**	**131**	**1,104**	**3,019**
B.1 Purchases	-	280	154	95	468	997
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. conto economico	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Altre variazioni	-	-	-	36	-	36
B.8 Operazioni di aggregazione aziendale	-	56	-	-	-	56
B.9 First-time adoption of IFRS 16	-	1,294	-	-	636	1,930
C. Decreases	**-**	**1,299**	**71**	**148**	**409**	**1,927**
C.1 Sales	-	-	-	-	-	-
C.2 Depreciation	-	1,086	71	148	356	1,661
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	165	-	-	53	218
C.8 Business combination transactions	-	48	-	-	-	48
D. Net closing balance	**8,416**	**19,116**	**329**	**417**	**724**	**29,002**
D.1 Total net impairment losses	-	1,426	1,055	**1,798**	470	4,749
D.2 Gross closing balance	**8,416**	**20,542**	**1,384**	**2,215**	**1,194**	**33,751**
E. Measurement at cost	**8,416**	**19,116**	**329**	**417**	**724**	**29,002**

SECTION 10 - INTANGIBLE ASSETS - ITEM 100

10.1 Intangible assets: breakdown by type of asset

	31.12.2019		31.12.2018	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	**X**	**3,920**	**X**	**1,786**
A.1.1 attributable to the owners of the Parent	X	3,920	X	1,786
A.1.2 attributable to non-controlling interests	X	-	X	-
A.2 Other intangible assets	**1**	-	**2**	-
A.2.1 Assets measured at cost:	1	-	2	-
a. Internally developed assets	-	-	-	-
b. Other	1	-	2	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**1**	**3,920**	**2**	**1,786**

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

Goodwill includes

- the goodwill originating from the merger of the former subsidiary Solvi S.r.l. which took place in 2013 amounting to € 1,786 thousand;
- the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019 amounting to € 2,134 thousand.

The impairment test of the goodwill from the former subsidiary Solvi S.r.l. was conducted referring to the "Value in use" based on an estimate of expected cash flows for the 2020-2024 period, conservatively assuming an estimated growth rate of 1.5% on an annual basis.

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

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

The main parameters used for estimation purposes were as follows:

Risk Free Rate + country risk premium	1.95%
Equity Risk Premium	5.25%
Beta	0.90
Cost of equity	6.70%
Growth rate "g"	1.5%

The estimated value in use obtained based on the parameters used and the growth assumptions is considerably greater than equity as at 31 December 2019. Furthermore, considering that the value in use was determined via estimates and assumptions that may introduce elements of uncertainty, sensitivity analyses - as required by IFRS - were performed with the purpose of verifying the variations of the results previously obtained as a function of the basic assumptions and parameters.
In particular, the quantitative exercise was completed by a stress test of the parameters related to the Bank's growth rate and the discount rate of the expected cash flows (quantified in an isolated or simultaneous movement of 50 bps), that confirmed the absence of impairment indicators, confirming a value in use once again significantly greater than the carrying amount of goodwill in the financial statements.
Considering all the above, with no qualitative trigger events that suggest a need for impairment having been identified, the conditions necessary to recognise an impairment loss on goodwill in the financial statements at 31 December 2019 do not exist.

The goodwill generated by the acquisition of Atlantide S.p.A. originates from the following Purchase Price Allocation:

ATLANTIDE PRICE ALLOCATION

Spot purchase price	3,022
Estimated earn-out	1,301
Recognised equity investment price (A)	**4,323**
Atlantide equity at 31 March 2019 (B)	(2,189)
Residual value to be allocated (A+B)	**2,134**
Provisional allocation to goodwill	**(2,134)**

As illustrated in the table above, part of the goodwill is the result of an estimate of the earn-out value at € 1,301 thousand to be recognised in relation to the production volumes set out in the business plan prepared by Atlantide’s management: in fact, the acquisition includes a deferred payment mechanism in the form of an earn-out to be paid to the sellers, which will be determined based on target production volumes for 2021.
Since the goodwill in question was generated by an acquisition made during the year, the impairment test will be performed starting from next year.

10.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		Fin	Indef	Fin	Indef	
A. Opening balance	**1,786**	**-**	**-**	**3,104**	**-**	**4,890**
A.1 Total net impairment losses	-	-	-	3,102	-	3,102
A.2 Net opening balances	**1,786**	**-**	**-**	**2**	**-**	**1,788**
B. Increases	**2,134**	**-**	**-**	**-**	**-**	**2,134**
B.1 Purchases	-	-	-	-	-	-
B.2 Increases in internally developed assets	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
B.7 Business combination transactions	2,134	-	-	-	-	-
C. Decreases	-	-	-	**-**	-	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	1	-	1
- Amortisation	-	-	-	1	-	1
- Impairment losses:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-		-	-
- profit or loss	-	-	-	-	-	-
C.4 Transfers to disposal groups via di dismissione	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**3,920**	-	-	**1**	-	**3,921**
D.1 Total net impairment losses	-	-	-	3,103	-	3,103
E. Gross closing balance	**3,920**	-	-	**3,104**	-	**7,024**
F. Measurement at cost	**3,920**	-	-	**1**	-	**3,921**

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

SECTION 11 - TAX ASSETS AND TAX LIABILITIES - ITEM 110 OF ASSETS AND ITEM 60 OF LIABILITIES

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

	31.12.2019	31.12.2018
Current tax assets	**10,995**	**9,086**
IRES prepayments	8,249	6,781
IRAP prepayments	2,609	2,278
Other	137	27
Current tax liabilities	**(13,208)**	**(12,531)**
Provision for IRES	(9,658)	(9,321)
Provision for IRAP	(3,523)	(3,210)
Provision for substitute tax	(27)	-
Total	**(2,213)**	**(3,445)**

11.1 Deferred tax assets: breakdown

	31.12.2019
Deferred tax assets through profit or loss:	**8,143**
Impairment losses on loans	2,756
Non-recurring transactions	427
Other	4,960
Deferred tax assets through equity:	**333**
Non-recurring transactions	247
Other	86
Total	**8,476**

11.2 Deferred tax liabilities: breakdown

	31.12.2019
Deferred tax liabilities through profit or loss:	**14,060**
Uncollected default interest income	14,000
Other	60
Deferred tax liabilities through equity:	**160**
HTCS securities	160
Total	**14,220**

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

	31.12.2019	31.12.2018
1. Opening balance	**6,907**	**6,313**
2. Increases	**2,068**	**1,923**
2.1 Deferred tax assets recognised in the year	2,068	1,923
a. related to previous years	-	206
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	2,068	1,717
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**832**	**1,329**
3.1 Deferred tax assets derecognised in the year	195	1,329
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	195	1,329
3.2 Tax rate reductions	-	-
3.3 Other decreases	637	-
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	637	-
4. Closing balance	**8,143**	**6,907**

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

	31.12.2019	31.12.2018
1. Opening balance	**3,376**	**3,429**
2. Increases	**53**	**-**
3. Decreases	**-**	**53**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	53
4. Closing balance	**3,429**	**3,376**

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

	31.12.2019	31.12.2018
1. Opening balance	**12,222**	**9,829**
2. Increases	**2,049**	**5,802**
2.1 Deferred tax liabilities recognised in the year	2,049	5,802
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	2,049	5,802
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**211**	**3,409**
3.1 Deferred tax liabilities derecognised in the year	68	3,409
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	68	3,409
3.2 Tax rate reductions	-	-
3.3 Other decreases	143	-
4. Closing balance	**14,060**	**12,222**

11.6 Change in deferred tax assets (through equity)

	31.12.2019	31.12.2018
1. Opening balance	**910**	**414**
2. Increases	**21**	**600**
2.1 Deferred tax assets recognised in the year	21	600
a. related to previous years	-	-
b. due to changes in accounting policies i	-	-
c. other	21	600
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**598**	**104**
3.1 Deferred tax assets derecognised in the year	598	104
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	588	104
3.2 Tax rate reductions	-	-
3.3 Other decreases	10	-
4. Closing balance	**333**	**910**

11.7 Change in deferred tax liabilities (through equity)

	31.12.2019	31.12.2018
1. Opening balance	**9**	**289**
2. Increases	**160**	**9**
2.1 Deferred tax liabilities recognised in the year	160	9
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	160	9
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**9**	**289**
3.1 Deferred tax liabilities derecognised in the year	9	289
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	9	289
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**160**	**9**

SECTION 12 - NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS AND ASSOCIATED LIABILITIES - ITEM 120 OF ASSETS AND ITEM 70 OF LIABILITIES

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

	31.12.2019	31.12.2018
A. Assets held for sale	-	-
A.1 Financial assets	-	-
A.2 Equity investments	-	1,835
A.3 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
TOTAL A	**-**	**1,835**
of which measured at cost	-	1,835
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	1,835
B. Discontinued operations	-	-
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value through profit or loss	-	-
- other financial assets mandatorily measured at fair value through profit or loss	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
TOTAL B	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
C. Liabilities associated with assets held for sale	-	-
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
TOTAL C	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
D. Liabilities associated with discontinued operations	-	-
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value through profit or loss	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
TOTAL D	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-

SECTION 13 - OTHER ASSETS - ITEM 130

13.1 Other assets: breakdown

	31.12.2019	31.12.2018
Tax advances	7,584	7,523
Other	4,172	2,235
Work in progress	2,944	896
Trade receivables	2,335	616
Prepayments not related to a specific item	1,962	1,711
Leasehold improvements	187	256
Security deposits	76	80
Total	**19,260**	**13,317**

The item is mainly composed of tax advances relative to virtual stamp duties and withholding taxes on interest expense.

LIABILITIES

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**358,250**	X	X	X	**412,850**	X	X	X
2. Due to banks	**30,109**	X	X	X	**282,347**	X	X	X
2.1 Current accounts and demand deposits	20	X	X	X	53	X	X	X
2.2 Term deposits	30,089	X	X	X	282,294	X	X	X
2.3 Financing	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	X	X	X	-	X	X	X
2.3.2 Other	-	X	X	X	-	X	X	X
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-				-			
2.6 Other payables	-	X	X	X	-	X	X	X
TOTAL	**388,359**			**388,359**	**695,197**			**695,197**

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	681,500	X	X	X	657,251	X	X	X
2. Term deposits	1,325,741	X	X	X	957,862	X	X	X
3. Financing	544,200	X	X	X	283,244	X	X	X
3.1 Repurchase agreements	457,070	X	X	X	179,819	X	X	X
3.2 Other	87,130	X	X	X	103,425	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-				-			
6. Other payables	159	X	X	X	199	X	X	X
TOTAL	**2,551,600**			**2,551,600**	**1,898,556**			**1,898,556**

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1. bonds	**476,527**	**176,657**	**-**	**135,722**	**304,987**	**-**	**-**	**304,987**
1.1 structured	-		-	-	-	-	-	-
1.2 other	476,527	176,657	-	135,722	304,987	-	-	304,987
2. other securities	**-**		**-**	**-**	**-**	**-**	**-**	**-**
1.1 structured	-		-	-	-	-	-	-
1.2 other	-		-	-	-	-	-	-
TOTAL	**476,527**	**176,657**	**-**	**135,722**	**304,987**	**-**	**-**	**304,987**

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

1.4 Breakdown of subordinated loans/securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate	Until 17 June 2023, fixed rate at 7% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,016
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 4.5%	30/03/2027	19,500	19,506
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	Fixed rate at 7%	20/06/2029	18,000	18,041
TOTAL					**45,500**	**45,563**

SECTION 6 - TAX LIABILITIES - ITEM 60

The breakdown as well as the change in the deferred tax liabilities were illustrated in Part B Section 11 of assets in these notes to the financial statements.

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2019	31.12.2018
Payments received in the reconciliation phase	54,893	37,777
Accrued expenses	10,820	5,993
Tax liabilities with the Tax Authority and other tax authorities	9,471	9,267
Work in progress	9,365	4,761
Trade payables	6,660	6,163
Finance lease liabilities	1,710	-
Due to employees	903	797
Pension repayments	699	654
Other	141	226
TOTAL	**94,662**	**65,638**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2019	31.12.2018
A. Opening balance	**2,402**	**2,172**
B. Increases	**1,057**	**460**
B.1 Accruals	537	460
B.2 Other increases	302	-
B.3 Business combination transactions	218	-
C. Decreases	**408**	**230**
C.1 Payments	273	196
C.2 Other decreases	135	34
D. Closing balance	**3,051**	**2,402**
TOTAL	**3,051**	**2,402**

9.2 Other Information

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

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

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

Annual discount rate	0.77%
Annual inflation rate	1.20%
Annual post-employment benefits increase rate	2.40%
Annual salary increase rate	1.00%

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

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2019	31.12.2018
1. Provisions for credit risk related to commitments and financial guarantees issued	**44**	**7**
2. Provisions for other commitments and other guarantees issued	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	**22,253**	**9,286**
4.1 legal and tax disputes	4,481	3,029
4.2 personnel expense	7,726	6,211
4.3 other	10,046	46
TOTAL	**22,297**	**9,293**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions or risks and charges	Total
A. Opening balance	**7**	**-**	**9,286**	**9,293**
B. Increases	**37**	**-**	**15,505**	**15,542**
B.1 Accruals	37	-	7,301	7,338
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	5,792	5,792
B.5 Business combination transactions	-	-	2,412	2,412
C. Decreases	**-**	**-**	**2,538**	**2,538**
C.1 Utilisations	-	-	2,057	2,057
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	481	481
D. Closing balance	**44**	**-**	**22,253**	**22,297**

The provision for risks and charges of € 22.3 million includes the provision for possible liabilities attributable to past acquisitions, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to lawsuits with customers and the estimated charges for other lawsuits and legal disputes. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years, and the provision for supplementary customer allowances. Also included is the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries. The provisions for commitments and guarantees issued refer to provisions for credit risk related to commitments to disburse funds and financial guarantees issued.

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

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	**Total**
Commitments to disburse funds	-	-	-	-
Financial guarantees issued	44	-	-	44
Total	**44**	**-**	**-**	**44**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2019	31.12.2018
Legal and tax disputes	4,481	3,029
Personnel expense	7,726	6,211
Other	10,046	46
TOTAL	**22,253**	**9,286**

"Personnel expense" includes:

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

The calculation method can be summarised in the following steps:

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

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

SECTION 13 - EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT - ITEMS 120, 130, 140, 150, 160, 170 AND 180

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

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

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Market	*61.08%*

At 31 December 2019, after the launch in 2019 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 168,669 shares (equal to 0.21% of the share capital).

The breakdown of equity attributable to the owners of the parent is shown below:

	31.12.2019	31.12.2018
1. Share capital	9,651	9,651
2. Share premium	39,100	39,184
3. Reserves	98,617	78,452
4. (Treasury shares)	(234)	(199)
5. Valuation reserves	267	(1,131)
6. Equity attributable to non-controlling interests	32	30
7. Profit for the year	29,719	27,167
TOTAL	**177,152**	**153,154**

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

13.2 Share capital - Parent's number of shares: changes

	Ordinary	Other
A. Opening balance	**80,421,052**	**-**
- fully paid-in	80,421,052	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	104,661	-
A.2 Outstanding shares: opening balance	**80,316,391**	**-**
B. Increases	**174,240**	**-**
B.1 New issues	174,240	-
against consideration:	-	
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
bond issues:	174,240	
- to employees	29,822	-
- to directors	144,418	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**238,248**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	238,248	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,252,383**	**-**
D.1 Treasury shares (+)	168,669	-
D.2 Closing balance	80,421,052	-
- fully paid-in	80,421,052	-
- not fully paid-in	-	-

13.4 Income-related reserves: other information

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

	Amount as at 31.12.2019	Possible use	Available portion
A. Share capital:	9,651	-	-
B. Equity-related reserves	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	267	-	-
Negative goodwill	1,774	A,B,C	-
Retained earnings	95,775	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	(1,062)	-	-
E. Treasury shares	(234)	-	-
TOTAL	**147,401**	-	-
Profit for the year	29,719	-	-
TOTAL EQUITY	**177,120**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

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

SECTION 14 - EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS - ITEM 190

14.1 Breakdown of item 210 "Equity attributable to non-controlling interests"

	31.12.2019	31.12.2018
Other investments	32	30
TOTAL	**32**	**30**

This is the equity of the three special-purpose vehicles, Quinto Sistema S.r.l. 2017, Quinto Sistema S.r.l. 2019, and Atlantis S.r.l..

OTHER INFORMATION

1. Commitments and financial guarantees issued

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	31.12.2019	31.12.2018
Commitments to disburse funds	**217,236**	**7,057**	**22,196**	**246,489**	**285,910**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	121,035	-	-	121,035	176,660
e) Non-financial companies	91,119	7,057	22,196	120,372	106,899
f) Households	5,082	-	-	5,082	2,351
Financial guarantees issued	**3,118**	**-**	**-**	**3,118**	**2,446**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	2,446	-	-	2,446	2,446
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	627	-	-	627	-
f) Households	45	-	-	45	-

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

2. Other commitments and other guarantees issued

	Nominal amount	
	31.12.2019	31.12.2018
Other guarantees issued	**-**	**970**
of which: impaired exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	900
f) Households	-	70
Other commitments	-	**-**
of which: impaired exposures	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral for liabilities and commitments

	31.12.2019	31.12.2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	192,101	91,989
3. Financial assets measured at amortised cost	469,875	258,235
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

6. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**1,597,241**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	45,702
1. securities issued by the reporting entity	4,062
2. other securities	41,640
c) third-party securities deposited with third parties	45,702
d) securities owned by the bank deposited with third parties	1,505,837
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2019	2018
1. Financial assets measured at fair value through profit or loss:	-	-		-	-
1.1 Financial assets held for trading	-	-		-	-
1.2 Financial assets designated at fair value through profit or loss	-	-		-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-		-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	750	106,896		107,646	98,031
3.1 Loans and receivables with banks	-	146	X	146	51
3.2 Loans and receivables with customers	750	106,750	X	107,500	97,980
4. Hedging derivatives	X	X		-	-
5. Other assets	X	X		-	-
6. Financial liabilities	X	X	X	2,690	1,679
TOTAL	**750**	**106,896**		**110,336**	**99,710**
of which: interest income on impaired financial assets	-	-		-	-
of which: interest income on finance leases	-	-		-	-

The total contribution of the factoring portfolio was € 81 million (equal to 74% of the entire loans and receivables portfolio), which is up 8.0% on the previous year thanks to the tax receivables portfolio which was able to benefit from earlier than expected collections on significant positions; when considering the commission component associated with the factoring business, the contribution increased by 9.5% over 31 December 2018. The component linked to default interest from legal action at 31 December 2019 was € 29.0 million (€ 28.4 million in 2018):

- of which € 5.1 million resulting from the updated recovery estimates (€ 7.8 million at 31 December 2018);
- of which € 12.0 million that results from maintaining the recovery estimates (€ 10.3 million at 31 December 2018) which is in line with the previous year thanks to the activation of a loans and receivables portfolio for a significant amount;
- of which € 11.9 million (€ 10.3 million at 31 December 2018) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 21.6 million (€ 19.2 million in 2018) and that recognised on an accruals basis in previous years. This item includes gross collections of € 7.0 million (€ 4.0 million net contribution to the income statement) from transfers to third parties at the end of the first and second half

of the year (€ 6.1 million net contribution to the income statement in 2018), and default interest of € 1.6 million from portfolios of the former Pubblica Funding special-purpose vehicle.

The amount of the stock of default interest from legal actions accrued at 31 December 2019, relevant for the allocation model, was € 107.1 million (€ 96 million at the end of 2018) while the loans and receivables recognised in the financial statements amounted to € 49.9 million.

During the year, factoring portfolios were sold that generated a total profit of € 1.1 million recognised in the item Gain from sales or repurchases of financial assets/ liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 19.6 million to € 23 million, an increase of 17.6% over the previous year.

The item "Other" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements at negative rates, which accounts for € 2.7 million, and interest on collateralised loans of € 664 thousand.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2019	2018
1. Financial liabilities measured at amortised cost	21,586	7,930		29,516	24,101
1.1 Due to Central banks	-	X	X	-	786
1.2 Due to banks	579	X	X	579	1,751
1.3 Due to customers	21,007	X	X	21,007	14,572
1.4 Securities issued	X	7,930	X	7,930	6,992
2. Financial liabilities held for trading	-	-		-	-
3. Financial liabilities designated at fair value through profit or loss	-	-		-	-
4. Other liabilities and provisions	X	X		-	-
5. Hedging derivatives	X	X		-	-
6. Financial assets	X	X	X	126	1,044
TOTAL	**21,586**	**7,930**		**29,642**	**25,145**
of which: interest expense related to lease liabilities	21			21	-

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

2.1 Fee and commission income: breakdown

	2019	2018
a. guarantees issued	13	18
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	124	165
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. asset management	10	7
4. securities custody and administration	2	1
5. depositary services	-	-
6. placement of securities	72	97
7. order collection and transmission	40	60
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d. collection and payment services	63	100
e. services for securitisations	-	-
f. services for factoring	18,409	15,772
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	91	48
j. other services	3,790	1,522
TOTAL	**22,490**	**17,625**

Net fee and commission income of € 16.1 million increased by 5.3% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business. Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year. Other fee and commission income includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 456 thousand.

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 1.9 million, which should be considered together with the item Fees - off-premises, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the year-end bonuses payable to them.

2.2 Fee and commission expense: breakdown

	2019	2018
a. guarantees received	-	1
b. credit derivatives	-	-
c. management and brokerage services:	4,719	712
1. trading in financial instruments	70	61
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	4,649	651
d. collection and payment services	222	162
e. other services	1,481	1,495
TOTAL	**6,422**	**2,370**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2019		2018	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	TOTAL	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income (expense) [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**220**	**-**	**(5)**	**215**
1.1 Debt instruments	-	220	-	(5)	215
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
Financial assets and liabilities: exchange rate losses	**X**	**X**	**X**	**X**	**(7)**
3. Derivatives	**-**	**-**	**-**	**-**	**-**
3.1 Financial derivatives:	-	-	-	-	-
On debt instruments and interest rates	-	-	-	-	-
On equity instruments and equity indexes	-	-	-	-	-
On currencies and gold	X	X	X	X	-
Other	-	-	-	-	-
3.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**220**	**-**	**(5)**	**208**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2019			2018		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	1,106	-	1,106	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	1,106	-	1,106	-	-	-
2. Financial assets measured at fair value through other comprehensive income	4,140	(1,530)	2,610	1,545	(378)	1,167
2.1 Debt instruments	4,140	(1,530)	2,610	1,545	(378)	1,167
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS (A)	**5,246**	**(1,530)**	**3,716**	**1,545**	**(378)**	**1,167**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
TOTAL LIABILITIES (B)	**-**	**-**	**-**	**-**	**-**	**-**

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

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

	Impairment losses (1)			Impairment gains (2)		2019	2018
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	**25**	**-**	**-**	**(8)**	**-**	**17**	**-**
- financing	25	-	-	(8)	-	17	-
- debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**1,440**	**-**	**7,930**	**(388)**	**(49)**	**8,933**	**6,812**
- financing	1,389	-	7,930	(388)	(49)	8,882	6,755
- debt instruments	51	-	-	-	-	51	57
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
Total	**1,465**	**-**	**7,930**	**(396)**	**(49)**	**8,950**	**6,812**

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

	Impairment losses (1)			Impairment gains (2)		2019	2018
	First and second stage	Third stage		First and second stage	Third stage		
		write-off	Other				
A. Debt instruments	**105**	**-**	**-**	**-**	**-**	**105**	**2**
B. Financing	**-**	-	-	-	-	**-**	-
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
Of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**105**	-	-	-	-	**105**	**2**

SECTION 12 - ADMINISTRATIVE EXPENSES - ITEM 190

12.1 Personnel expense: breakdown

	2019	2018
1) Employees	21,563	18,507
a) wages and salaries	11,926	11,214
b) social security charges	3,142	2,776
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	884	676
f) accrual for pension and similar provisions:	884	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	339	307
- defined contribution plans	339	307
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	5,272	3,534
2) Other personnel	458	413
3) Directors and statutory auditors	1,145	988
4) Retired personnel	-	-
TOTAL	**23,166**	**19,908**

12.2 Average number of employees by category

Employees

a) Senior managers:	24
b) Managers:	45
c) Remaining employees:	140

__12.5 Other administrative expenses: breakdown__

Other administrative expenses (€,000)	2019	2018
IT expenses	5,614	4,372
Consultancy	4,300	3,823
Resolution Fund	1,146	942
Servicing and collection activities	2,992	2,736
Indirect taxes and duties	2,355	2,171
Rent and related fees	950	2,054
Expense reimbursement and entertainment	840	770
Car hire and related fees	644	858
Insurance	487	394
Advertising	502	568
Membership fees	310	265
Expenses related to management of the SPVs	450	536
Audit fees	368	314
Infoprovider expenses	638	255
Other	430	385
Telephone and postage expenses	190	179
Maintenance of movables and real properties	174	235
Stationery and printing	61	97
Merger-related costs	488	-
TOTAL	**22,939**	**20,954**

Administrative expenses include costs related to the merger of Atlantide into the Bank amounting to € 488 thousand (total merger-related costs amounted to € 571 thousand, including the cost recognised under reduction in value due to amortisation).

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

The amount of the items Rent and Car hire for the first half of 2019 was impacted by the application of the new IFRS 16. In 2019, these items include only property management costs and utility costs, and, unlike in 2018, does not include lease payments, the cost of which, in 2019, is mainly reflected in the item depreciation of the "right-of-use" asset.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions.

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

The contribution to the Resolution Fund represents the required amount of ex-ante contributions for 2019 and includes the payment of the additional contribution of € 0.3 million required in June.

SECTION 13 - NET ACCRUALS TO PROVISIONS FOR RISKS AND CHARGES - ITEM 200

13.2 Net accruals for other commitments and other guarantees issued: breakdown

	2019	2018
Net accruals for other commitments and other guarantees	(36)	-
TOTAL	**(36)**	**-**

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

	2019	2018
Provisions for risks and charges - other provisions and risks	(1,960)	(414)
Release of provisions for risks and charges	-	-
TOTAL	**(1,960)**	**(414)**

SECTION 14 - NET IMPAIRMENT LOSSES ON PROPERTY AND EQUIPMENT - ITEM 210

14.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment				
1. Operating assets	**1,499**	-	-	**1,499**
▪ Owned	823	-	-	823
▪ Right-of-use assets acquired under a lease	676	-	-	676
2. Investment property	**-**	-	-	**-**
▪ Owned	-	-	-	-
▪ Right-of-use assets acquired under a lease	-	-	-	-
TOTAL	**1,499**	-	-	**1,499**

SECTION 15 - NET IMPAIRMENT LOSSES ON INTANGIBLE ASSETS - ITEM 220

15.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	**133**	-	-	**133**
▪ Developed internally	-	-	-	-
▪ Other	133	-	-	133
A.2 Right-of-use assets acquired under a lease	-	-	-	-
TOTAL	**133**	-	-	**133**

SECTION 16 - OTHER OPERATING INCOME AND EXPENSE - ITEM 230

16.1 Other operating expense: breakdown

	2019	2018
Amortisation of leasehold improvements	42	80
Other operating expense	2,071	742
TOTAL	**2,113**	**822**

16.2 Other operating income: breakdown

	2019	2018
Recoveries of expenses on current accounts and deposits for sundry taxes	333	265
Recoveries of sundry expenses	106	11
Other income	906	150
TOTAL	**1,345**	**426**

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

SECTION 17 - GAINS ON EQUITY INVESTMENTS - ITEM 250

17.1 Gains on equity investments: breakdown

	2019	2018
A. Income	-	13
1. Revaluations	-	-
2. Gains on sale	-	-
3. Impairment gains	-	-
4. Other income	-	13
B. Expense	-	5
1. Impairment	-	-
2. Impairment losses	-	-
3. Losses on sale	-	-
4. Other expense	-	5
Net gain	**-**	**8**

SECTION 20 - GAINS ON SALES OF INVESTMENTS - ITEM 280

20.1 Gains on sales of investments: breakdown

	2019	2018
A. Property	-	-
- Gains on sale	-	-
- Losses on sale	-	-
B. Other assets	-	-
- Gains on sale	13	-
- Losses on sale	(5)	-
Net gain	**8**	**-**

SECTION 21 - INCOME TAXES - ITEM 300

21.1 Income taxes: breakdown

		2019	2018
1.	Current taxes (-)	(12,442)	(12,531)
2.	Changes in current taxes of previous years (+/-)	852	(223)
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	1,236	593
5.	Changes in deferred tax liabilities (+/-)	(1,838)	(2,393)
6.	Tax expense for the year (-) (-1+/-2+3+3.bis+/-4+/-5)	(12,192)	(14,554)

21.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (corporate income tax)	%
Theoretical IRES expense	**42,131**	**(11,587)**	**27.50%**
Permanent increases	1,982	(545)	1.29%
Temporary increases	8,976	(2,468)	5.86%
Permanent decreases	(11,912)	3,276	-7.77%
Temporary decreases	(7,451)	2,049	-4.86%
Effective IRES expense	**33,726**	**(9,275)**	**22.01%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (regional business tax)	%
Theoretical IRAP expense	**42,131**	**(2,346)**	**5.57%**
Permanent increases	59,585	(3,319)	7.88%
Temporary increases	4,592	(256)	0.61%
Permanent decreases	(49,840)	2,776	-6.59%
Temporary decreases	-	-	0.00%
Effective IRAP expense	56,468	(3,145)	7.47%
▪ Other tax expense	-	-	-
Total effective IRES and IRAP expense	**90,194**	**(12,420)**	**29.48%**

SECTION 22 - POST-TAX PROFIT (LOSS) FROM DISCONTINUED OPERATIONS - ITEM 320

22.1 Post-tax profit (loss) from discontinued operations: breakdown

	2019	2018
Gains (losses) on sales	565	(354)
Taxes and duties	(3)	-
Profit (loss)	**562**	**(354)**

22.2 Breakdown of income taxes from discontinued operations

	2019	2018
1. Current taxes (-)	(3)	**-**
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**(3)**	**-**

SECTION 24 - OTHER INFORMATION

Nothing to report.

SECTION 25 - EARNINGS PER SHARE

Earnings per share (EPS)	2019	2018
Profit for the year (thousands of Euro)	29,956	28,071
Average number of outstanding shares	80,279,993	80,345,506
Basic earnings per share (basic EPS) (in Euro)	0,373	0,349
Diluted earnings per share (diluted EPS) (in Euro)	0,373	0,349

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

Breakdown of comprehensive income

		2019	2018
10.	**Profit for the year**	**29,719**	**27,167**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(32)	39
80.	Non-current assets held for sale	-	-
90.	Share of valuation reserves of equity-accounted investments	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

	2019	2018
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	1,430	(2,064)
a) fair value gains (losses)	325	(1,001)
b) reclassification to profit or loss	-	-
- impairment losses due to credit risk	104	49
- gains/losses on sales	1,001	(585)
c) other changes	-	(527)
160. Non-current assets held for sale and disposal groups:	-	-
a) fair value gains (losses)	-	-
b) reclassification to profit or loss	-	-
c) other changes	-	-
170. Share of valuation reserves of equity-accounted investments:	-	-
a) fair value gains (losses)	-	-
b) reclassification to profit or loss		
- impairment losses	-	-
- gains/losses on sales	-	-
c) other changes	-	-
180. Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190. Total other comprehensive income (expense)	**1,398**	**(2,025)**
200. Comprehensive income (10+190)	**31,117**	**25,142**
210. Comprehensive income attributable to non-controlling interests	**-**	**-**
220. Comprehensive income attributable to the owners of the parent	**31,117**	**25,142**

SECTION 1 - CONSOLIDATION RISKS

QUANTITATIVE DISCLOSURE

A. CREDIT QUALITY

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

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Impaired past due exposures	Other impaired exposures	Unimpaired exposures	Total
1. Financial assets measured at amortised cost	30,544	123,306	54,549	709,093	2,194,896	3,112,388
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	550,219	550,219
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
5. AFinancial assets held for sale	-	-	-	-	-	-
Total at 31.12.2019	**30,544**	**123,306**	**54,549**	**709,093**	**2,745,115**	**3,662,607**
Total at 31.12.2018	**39,017**	**77,912**	**79,066**	**265,500**	**2,623,491**	**3,084,986**

A.1.2 Breakdown of financial assets by portfolio and by credit quality (gross amount and carrying amount)

	Impaired				Unimpaired			
	Gross amount	Total impairment losses	Carrying amount	Overall partial write-offs	Gross amount	Total impairment losses	Carrying amount	Total (carrying amount)
1. Financial assets measured at amortised cost								3,112,388
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	550,373	154	550,219	550,219
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2019	**245,616**	**37,217**	**208,399**	**-**	**3,460,195**	**5,988**	**3,454,208**	**3,662,607**
Total at 31.12.2018	**225,163**	**29,169**	**195,994**	**-**	**2,895,407**	**6,415**	**2,888,992**	**3,084,986**

Disclosure of structured entities (other than securitisation companies)

B.1. Consolidated structured entities

At 31 December 2019 there were no such cases.

B.2. Unconsolidated structured entities

At 31 December 2019 there were no such cases.

B.2.1. Prudentially consolidated structured entities

At 31 December 2019 there were no such cases.

B.2.2. Other structured entities

At 31 December 2019 there were no such cases

SECTION 2 - PRUDENTIAL CONSOLIDATION RISKS

1.1 Credit risk

QUALITATIVE DISCLOSURE

1. General aspects

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

In particular, this system hinges on four core principles:

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

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

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

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

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

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

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

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

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

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

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

Starting from 1 January 2014, the Group used an integrated reference framework both to identify its own risk appetite and for the internal process entailing the determination of the capital adequacy (Internal Capital Adequacy Assessment Process - ICAAP).

As concerns this matter, the Bank fulfils the public disclosure requirements with the issuing of Circular no. 285 of 17 December 2013 “Prudential supervisory provisions for banks” in which the Bank of Italy transposed Directive 2013/36/EU (CRD IV) of 26 June 2013. This regulation, together with that contained in Regulation (EU) no. 575/2013 (the so-called “CRR”) incorporates the standards defined by the Basel Committee on Banking Supervision (the so-called “Basel III”).

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

As at 31 December 2019, the Group uses the appraisal issued by the ECAI “DBRS”, for the exposures to Central Authorities, and Public Sector Institutions and Entities, whereas, as concerns the valuations related to the regulatory business segment, it uses the agency “Fitch Ratings Ltd”.

The identification of a reference ECAI does not represent in any way, in subject matter or in purposes, an assessment on the merit of the opinions made by the ECAI or a support of the methodologies used, for which the External Credit Assessment Institutions remain solely responsible.

The assessments issued by the rating agencies do not exhaust the creditworthiness assessment process that the Group performs with regard to its customers; rather they represent a further contribution to define the information framework regarding the credit quality of the customer.

The satisfactory appraisal of the borrower’s creditworthiness, with regards to capital and income, and of the correct remuneration of the risk, are made based on documentation acquired by the Group; the information acquired from the Bank of Italy Central Credit Register and from other infoproviders, both when decisions are made and during the subsequent monitoring, complete the informational framework.

For Banca Sistema, credit risk is one of the Group’s main components of overall exposure; the loans and receivables portfolio predominantly consists of National Institutions of the Public Administration, such as local health authorities/Hospitals, Territorial entities (Regions, Provinces and Municipalities) and Ministries that, by definition, entail a very limited default risk.

The main components of Banca Sistema Group’s operations that generate credit risk are:

- Factoring activities (with and without recourse);
- Loans to SMEs (with guarantee from the National Guarantee Fund - FNG);
- Acquisition without recourse of salary-/pension-backed loans;
- Collateralised Lending (mainly secured by gold).

2. Credit Risk Management Policies

2.1 Organisational aspects

The Group’s organisational model provides that the preliminary credit assessment procedure be performed carefully in accordance with the decision-making powers reserved to the decision-making bodies.

In order to maintain high credit quality in its loan portfolio, the Bank, as the Parent, deemed it expedient to concentrate all phases related to the assumption and control of risk upon its internal structures, thus obtaining, through the specialisation of resources and the segregation of duties at each decision-making level, a degree of standardisation in the granting of credit and robust monitoring of the individual positions.

In light of the above, the Bank’s Underwriting Department, which reports to the Central Credit Department, performs the analyses for the granting of credit. The Department performs assessments focused on the separate analysis and extension of credit to counterparties (assignor, debtor) and on managing the related financial transactions. This takes place in all normal phases of the credit process, summarised as follows:

- "analysis and assessment": the gathering of quantitative and qualitative information from the counterparties under examination and within the system allows an opinion of the party's reliability to be obtained and is helpful in quantifying the proposed line of credit;
- "deliberation and formalisation": once the proposal has been deliberated upon, the contractual documentation to be signed by the counterparty is prepared;
- "monitoring the relationship": the continuous control of the counterparties benefiting from the credit allows any anomalies to be identified and consequentially prompt intervention.

Credit risk is mainly generated as a direct result of the definitive acquisition of credit from the customer company versus the insolvency of the assigned debtor. In particular, the credit risk generated by the factoring portfolio essentially consists of public entities.

With regard to each credit acquired, Banca Sistema performs, via the Out-of-Court Collection and Legal Collection Departments, both of which report to the Central Credit Department, activities described further on in order to verify the credit status, and whether or not there are any impediments to the payment of the invoices to be assigned, and the date scheduled for the payment thereof. Specifically, the structure endeavours:

- to verify that each credit is certain, liquid and collectable, i.e. there are no disputes or complaints and that there is no further request for clarification or information with regard to said credit and should there be any, that said requests are promptly satisfied;
- to verify that the debtor has received and recognised in its system the related deed of assignment, i.e. it is aware that the credit has been assigned to Banca Sistema;
- to verify that the debtor, where provided for by the assignment agreement and by the purchase offer, has formalised its acceptance of the assignment of the related credit or has not rejected it in accordance with law;
- to verify that the debtor has received all the documentation required to proceed with the payment (copy of invoice, orders, bills, transportation documents, etc.) and that it has recognised the corresponding debt in its system (existence of the credit);
- to verify c/o the local and/or regional institutions: the existence of specific allocations, available cash;
- to verify the payment status of the credits via meetings c/o the Public Administrations and/or debtor agencies, telephone contacts, emails, etc. in order to facilitate the ascertainment and the removal of any obstacles that could delay and/or impede payment.

With regard to the SME Loans product, beginning in February 2017, it was decided to exit this segment of the market as well as the run-off of prior exposures in the portfolio. On this basis, credit risk is associated with the inability of the two counterparties involved in the loan to honour their financial commitments, i.e.:

- the debtor (SME);
- the Guarantee Fund (the Government of Italy).

The type of loan follows the usual operating process concerning the preliminary assessment, the disbursement and the monitoring of the credit.

In particular, two separate due-diligence procedures are performed on this type of loan (one by the Bank and the other by Mediocredito Centrale, so-called MCC) on the borrower of funds.

The debtor's insolvency risk is mitigated by direct (i.e. that referring to an individual exposure), explicit, unconditional and irrevocable guarantee by the Guarantee Fund, the sole Manager of which is MCC.

As regards, instead, the acquisition of salary-/pension-backed loan portfolios, the credit risk is associated with the inability of the three counterparties involved in the loan process to honour their financial commitments, i.e.:

- the employer (ATC);
- the financial assigning company ;
- the insurance company.

The insolvency risk of the employer (ATC) / debtor is generated in the following cases:

- default of employer (e.g.: bankruptcy);

- the debtor losing his job (e.g.: resignation/ dismissal of the debtor) or reduction of remuneration (e.g.: redundancy fund);
- death of the debtor.

The risks described above are mitigated by the mandatory subscription of life and employment insurance policies. In detail:

- the employment risk policy fully covers any insolvency deriving from the reduction of the debtor's remuneration whereas, in case of default by the employer or debtor's loss of job, the coverage is limited to the portion of the residual debt in excess of the post-employment benefits accrued;
- the life risk policy provides that the insurance company will intervene to cover the portion of the residual debt expiring subsequent to death; any instalments previously not settled remain instead incumbent upon by the heirs.

The Bank is subject to the insolvency risk of the insurance company in the event that a claim is made upon a loan. In order to mitigate this risk, the Bank requires that the outstanding loans and receivables portfolio be insured by several insurance companies observing the following terms:

- an individual company with no rating or with rating lower than Investment Grade may insure a maximum of 30% of the cases;
- an individual company of Investment Grade may insure a maximum of 40% of the cases.

The employer insolvency risk is generated in the event that a case is retroceded back to the employee, which must therefore, repay the credit to the Bank. The Framework Agreement initialled with the employer provides for the possibility of returning the credit in the cases of fraud on the part of the employer/debtor or in any case, of non-observance, on the part of the employer, of the criteria underwritten in the Framework Agreement.

Following the acquisition of Atlantide which was then merged on xxxx, the Group also began working in the direct origination of salary- and pension-backed loans which, at the end of 2019, was rather limited when compared to the indirect origination business.

As concerns the financial instruments held on its own account, the Bank performs security purchase transactions regarding Italian government debt, which are allocated based on the investment strategy, to the HTC, HTCS and HTS portfolios.

With reference to the aforementioned transactions the Bank identified and selected specific IT applications to manage and monitor the treasury limits on the securities portfolio and to set up the second level controls.

The Treasury Department, operating within the limits allowed by the Board of Directors, conducts said transactions.

2.2 Management, measurement and control systems

The Group sets effective Credit Risk Management as a strategic objective via instruments and processes integrated to ensure a correct credit management in all phases (processing, disbursement, monitoring and management, intervening on loans with credit quality problems).

By involving the various central structures of Banca Sistema and through the specialisation of the resources and the segregation of duties at each decision-making level, it seeks to guarantee a high degree of efficiency and standardisation in overseeing credit risk and monitoring the individual positions.

With specific reference to the monitoring of credit activities, the Bank, via the collection meetings, assesses and inspects the loans and receivables portfolio based upon the guidelines defined within the "collection policy".

The framework related to the above credit risk ex-post monitoring sets the objective of promptly identifying any anomalies and/or discontinuities and evaluating the persistence of risk profiles, in-line with the strategic indications provided.

The purchase activities of government securities classified among HTCS financial assets (formerly classified as available-for-sale) continued during 2019 in relation to the credit risk associated with the bond securities portfolios. Said financial assets, which in virtue of their classification fall within the perimeter of the "banking book" although outside of the bank's traditional investment activity, are sources of credit risk. This risk consists in the issuer's inability to redeem, upon maturity, all or part of the bonds subscribed.

The securities held by Banca Sistema consist exclusively of Italian government securities, with an average duration of less than two years for the overall portfolio.

Furthermore, the formation of a portfolio of highly liquid assets is also expedient for anticipating the trend of the prudential regulations in relation to the governance and management of liquidity risk.

As concerns counterparty risk, Banca Sistema's operations call for extremely prudent reverse repurchase and repurchase agreements being that Italian government securities are the predominant underlying instrument and the Compensation and Guarantee Fund is the predominant counterparty.

2.3 Methods of measuring expected losses

The general approach defined by IFRS 9 for estimating impairment is based on a process aimed at giving evidence of the deterioration of a financial instrument's credit quality from the date of initial recognition to the reporting date. The regulatory guidance on assigning loans and receivables to the various stages under the Standard ("staging" or "stage allocation") calls for the identification of significant changes in credit risk based on the changes in a counterparty's creditworthiness since initial recognition, the expected life of the financial asset and other forward-looking information that may affect credit risk.

Consistently with the provisions of IFRS 9, performing loans are therefore divided into two categories:

- Stage 1: this bucket contains assets that do not show signs of significant deterioration in credit quality. For this stage the expected one-year credit loss is calculated on a collective basis;
- Stage 2: this bucket contains assets that show signs of significant deterioration in credit quality from the date of initial recognition to the reporting date. The expected loss for this bucket must be calculated on a lifetime basis, i.e. over the entire duration of the instrument, on a collective basis.

2.4 Credit Risk mitigation techniques

It should be noted that, at the reporting date, the Bank did not implement any hedging of the loans and receivables portfolio.

As concerns credit and counterparty risk on the securities portfolio and on the repurchase agreements, risk mitigation is pursued by a careful management of the operational autonomy, establishing limits in terms of both responsibility and consistency and composition of the portfolio by type of securities.

3. Impaired loans

The Banca Sistema Group defined its credit quality policy based on the provisions in the Bank of Italy Circular no. 272 (Accounts matrix), the main definitions of which are provided on the following pages.

The Supervisory Provisions for Banks assign to intermediaries specific obligations concerning the monitoring and classification of loans: "The obligations of the operating units in the monitoring phase of the loan granted must be deducible from the internal regulation. In particular, the terms and methods of action must be set in the event of anomalies. The criteria for measurement, management and classification of irregular loans, as well as the related responsible units, must be set through a resolution by the Board of Directors in which the methods for connecting these criteria with those required for the supervisory reports are indicated. The Board of Directors must be regularly informed on the performance of the irregular loans and the related recovery procedures".

According to the definitions in the above-mentioned Bank of Italy Circular, "impaired" financial assets are defined as those that lie within the "bad exposures", "unlikely to pay" or "past due and/or overdrawn exposures" categories. Exposures whose anomalous situation is attributable to factors related to "country risk" are not included in "impaired" financial assets.

In particular, the following definitions apply:

Bad exposures

On- and off-statement of financial position exposures (loans, securities, derivatives, etc.) owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of any loss forecast formulated by the Group (cf. art. 5 bankruptcy law). The definition therefore applies regardless of the existence of any collateral or personal guarantee provided as protection against the exposures.

This class also includes:

- the exposure to local institutions (municipalities and provinces) in state of financial difficulty for the portion subject to the applicable liquidation procedure;
- receivables acquired from third parties in which the main debtors are non-performing, regardless of the portfolio's accounting allocation.

Unlikely to pay

The classification in this category is first and foremost based on the Bank's judgement regarding the unlikelihood that, without having to resort to actions such as enforcing the guarantees, the debtor will completely (with regard to principal and/or interest) fulfil its credit obligations. This assessment is made independently of whether any sums (or instalments) are past due and not paid. It is therefore unnecessary to wait for explicit symptoms of irregularity (non-repayment) if there are elements that entail a situation of default risk on the part of the debtor (e.g. a crisis in the industrial sector in which the debtor operates). The set of on- and off-statement of financial position exposures to the same debtor in the above conditions is named "unlikely to pay", unless the conditions for classifying the debtor under bad exposures exist. The exposures to retail parties may be classified in the unlikely to pay category at the level of the individual transaction, provided that the Bank has assessed that the conditions for classifying the set of exposures to the same debtor in that category do not exist.

Past due and/or overdrawn exposures

These are understood to be the on-statement of financial position exposures at carrying amount and off-statement of financial position exposures (loans, securities, derivatives, etc.), other than those classified as bad exposures, unlikely to pay, that, on the reference date of the report, are past due or have been overdrawn by more than 90 days.

In order to verify the continuity of the past due exposure in connection with factoring transactions, the following should be noted:

- for "with recourse" transactions, a past due exposure, other than one associated with the assignment of future receivables, becomes such only if both of the following conditions exist:
  - the amount of the advance is equal to, or greater than the total amount of receivables that are coming due;
  - at least one invoice has not been honoured (past due) by more than 90 days and the set of the past due invoices (including those by less than 90 days) exceeds 5% of the total receivables;
- for "without recourse" transactions, reference must be made to the invoice that is furthest past due for each assigned debtor.

In the calculation of the capital requirement for the credit and counterparty risk, Banca Sistema uses the standardised approach. This envisages that the exposures that lie within the portfolios related to "Central Authorities and Central Banks", "Territorial entities", and "Public sector institutions" and "Businesses", must apply the notion of past due and/or overdrawn exposures at the level of the debtor party.

The regulation requires that the debtor's total exposure be considered past due and/or overdrawn, on the reference date of the report, any time the 5% materiality level is exceeded.

Forborne exposures

Forborne exposures are defined as exposures that fall into the category "Non-performing exposures with forbearance measures" and "Forborne performing exposures" as defined by the Implementing Technical Standards (ITS).

A forbearance measure represents a concession towards a debtor which faces or is about to face difficulties in fulfilling its financial obligations ("financial difficulties"); a "concession" indicates one of the following actions:

- an amendment of the previous terms and conditions of a contract which the debtor is considered unable to fulfil due to its financial difficulties, that would not have been granted if the debtor was not in financial difficulty;
- a total or partial refinancing of a problem loan that would not have been granted if the debtor was not in financial difficulty.

Art. 172 of the EBA ITS sets some situations which, if occurring, lead in any case to the presence of forbearance measures, i.e. when:

- a modified contract was classified as non-performing or would in the absence of modification be classified as non-performing;
- the modification made to a contract involves a total or partial cancellation by write-offs of the debt;
- the institution approves the use of embedded forbearance clauses for a debtor who is under non-performing status or who would be considered as non-performing without the use of these clauses;
- simultaneously with or close in time to the concession of additional debt by the institution, the debtor made payments of principal or interest on another contract with the institution that was non-performing or would in the absence of refinancing be classified as non-performing.

According to these criteria, forbearance is presumed to have taken place when:

- the modified contract was totally or partially past-due by more than 30 days (without being non-performing) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification;
- simultaneously with or close in time to the concession of additional debt by the institution, the debtor made payments of principal or interest on another contract with the institution that was totally or partially 30 days past due (without being non-performing) at least once during the three months prior to its modification or would be more than 30 days past-due, totally or partially, without modification;
- the institution approves the use of embedded forbearance clauses for 30 days past-due debtors or debtors who would be 30 days past-due without the exercise of these clauses.

3.1 Management strategies and policies

The current regulatory framework requires impaired financial assets to be classified according to their criticality. More specifically, there are three categories: “bad exposures”, “unlikely to pay” and “past due and/or overdrawn exposures”.

- Bad exposures: exposures owed by a party in state of insolvency (even if not judicially ascertained) or in broadly similar situations, regardless of the loss forecasts formulated by the institution.
- Unlikely to pay: exposures for which the institution considers it unlikely that the debtor will fully meet its obligations without having to resort to actions such as the enforcement of guarantees, regardless of whether there are any past due and/or overdrawn amounts.
- Past due and/or overdrawn exposures: exposures, other than those classified as bad exposures or unlikely to pay, which have been continuously past due and/or overdrawn for more than 90 days.

Forborne exposures, which refer to exposures that are subject to renegotiation and/or refinancing due to the customer's financial difficulties (whether evident or developing), are also classified. These exposures may constitute a subset of non-performing loans (non-performing exposures with forbearance measures) and performing loans (forborne performing exposures). The management of these exposures, in compliance with the regulatory provisions regarding timing and classification methods, is supported by specific work processes and IT tools.

The Group has a policy that establishes criteria and methods for recognising impairment losses by standardising the rules that, depending on the type of non-performing loan and its original technical form, define the methods and processes used to determine expected losses. The management of non-performing exposures is assigned to a specific organisational unit, the Central Credit Department, which is responsible for identifying strategies for maximising collection on individual positions and establishing the impairment losses to be recognised for those positions through a formalised process.

The expected loss reflects a number of elements derived from various internal and external assessments of the financial condition of the main debtor and any guarantors. Expected losses are continuously monitored and compared to the changes in each position. The Risk Department oversees the collection of non-performing loans.

In order to maximise collections, the relevant departments identify the best strategy for managing non-performing exposures, which, based on the subjective characteristics of the individual counterparty/exposure and internal policies, may include amending the contractual terms (forbearance), establishing the methods for loan collection, or assigning the credit to third parties (either for individual exposures or for a group of positions with similar characteristics).

3.2 Write-offs

Non-performing exposures for which collection is not possible (whether in full or in part) are written off from the accounting records in compliance with the policies in force at the time and subject to approval by the Group's Board of Directors.

3.3 Purchased or originated credit-impaired financial assets

In accordance with "IFRS 9 - Financial Instruments", in some cases a financial asset is considered impaired at initial recognition because the credit risk is very high, and in the case of a purchase, it is acquired at a significant discount (compared to the original disbursement value). If the financial assets in question, based on the application of the classification drivers (i.e. SPPI test and business model), are classified among assets measured at amortised cost or at fair value through other comprehensive income, they are classified as "Purchased or Originated Credit-Impaired" (in short "POCI") and are subject to specific treatment. More specifically, impairment losses equal to the lifetime expected credit loss (ECL) are recognised from the date of initial recognition over the asset's entire life. In light of the above, POCI financial assets are initially recognised in stage 3, although they may be subsequently reclassified to performing loans, in which case an expected loss equal to the lifetime ECL (stage 2) will continue to be recognised. A POCI financial asset is therefore classified as such in the expected credit loss (ECL) reporting and calculation processes.

4. Financial assets subject to commercial renegotiation and forborne exposures

In the event the debtor is experiencing financial difficulties, the contractual terms of the exposures may be amended in favour of the debtor in order to make repayment financially sustainable. Depending on the subjective characteristics of the exposure and the reasons behind the debtor's financial difficulties, the amendments may be short term (temporary suspension of the payment of the principal of a loan or extension of a maturity) or long term (extension of the duration of a loan, adjustment of the interest rate) and result in the exposure (both performing and non-performing) being classified as "forborne". "Forborne" exposures are subject to specific provisions for classification in accordance with EBA ITS 2013-35, as transposed in the Group's credit policies. If the forbearance measures are applied to performing exposures, these are included in the group of stage 2 exposures. All exposures classified as "forborne" are included in specific monitoring processes by the relevant departments.

QUANTITATIVE DISCLOSURE

A. Credit quality

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

A.1.1 Prudential consolidation - Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	29,272	24,744	647,530	999	463	6,753	1,218	3,652	155,153
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	**29,272**	**24,744**	**647,530**	**999**	**463**	**6,753**	**1,218**	**3,652**	**155,153**
Total at 31.12.2018	**27,148**	**24,474**	**202,713**	**1,047**	**3,672**	**6,900**	**295**	**10,975**	**126,523**

A.1.2 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																Overall accruals to provisions on commitments to disburse funds and financial guarantees issued			
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage									
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Of which: purchased or originated credit-impaired financial assets	First stage	Second stage	Third stage	**Total**
Opening total impairment losses	**5,836**	**49**	**-**	**-**	**5,885**	**580**	**580**	**-**	**-**	**580**	**29,116**	**-**	**-**	**29,116**	**-**	**286**	**-**	**-**	**-**	**35,581**
Increases in purchased or originated financial assets	0	-	-	-	-	50	50	-	-	50	26	-	-	26	-	76	-	-	-	76
Derecognition other than write-offs	1,171	-	-	-	1,170	56	56	-	-	56	310	-	-	310	-	31	-	-	-	1,537
Net impairment losses/gains due to credit risk (+/-)	502	105	-	-	606	93	93	-	-	93	8,385	-	-	8,385	-	(119)	44	-	-	9,085
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**5,167**	**154**	**-**	**-**	**5,321**	**667**	**667**	**-**	**-**	**667**	**37,217**	**-**	**-**	**37,217**	**-**	**212**	**44**	**-**	**-**	**43,205**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.3 Prudential consolidation - Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. 1. Financial assets measured at amortised cost	48,951	9,242	25,418	3,947	65,066	41,774
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale	-	-	-	-	-	-
4. Commitments to disburse funds and financial guarantees issued	16	1,315	6,186	109	8,017	1,400
TOTAL AT 31.12.2019	**48,967**	**10,557**	**31,604**	**4,056**	**73,083**	**43,174**
TOTAL AT 31.12.2018	**108,953**	**1,106**	**4,398**	**2,813**	**172,206**	**5,909**

A.1.4 Prudential consolidation - On- and off-statement of financial position loans and receivables with banks: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES			-	-	-
a) Bad exposures		X	-	-	-
of which: forborne exposures		X	-	-	-
b) Unlikely to pay		X	-	-	-
of which: forborne exposures		X	-	-	-
c) Impaired past due exposures		X	-	-	-
of which: forborne exposures		X	-	-	-
d) Unimpaired past due exposures	X		-		-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	81,536	26	81,510	-
of which: forborne exposures	X				
TOTAL A		**81,536**	**26**	**81,510**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES			**-**	**-**	**-**
a) Impaired		X	-	-	-
b) Unimpaired	X	2,446	-	2,446	-
TOTAL B		**2,446**	**-**	**2,446**	**-**
TOTAL A+B		**83,982**	**26**	**83,956**	**-**

A.1.5 Prudential consolidation - On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					-
a) Bad exposures	50,622	X	20,078	30,544	-
of which: forborne exposures		X			-
b) Unlikely to pay	139,348	X	16,042	123,306	-
of which: forborne exposures	1,294	X	259	1,035	-
c) Impaired past due exposures	55,646	X	1,097	54,549	-
of which: forborne exposures	763	X	176	587	-
d) Unimpaired past due exposures	X	710,677	1,584	709,093	-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	2,668,982	4,377	2,663,605	-
of which: forborne exposures	X				
TOTAL A	**245,616**	**3,379,659**	**43,178**	**3,581,097**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					**-**
a) Impaired	22,196	X		22,196	-
b) Unimpaired	X	213,447	44	213,404	-
TOTAL B	**22,196**	**213,447**	**44**	**235,600**	**-**
TOTAL A+B	**267,812**	**3,593,106**	**43,222**	**3,816,697**	**-**

A.1.6 Prudential consolidation - On-statement of financial position loans and receivables with banks: gross impaired positions

No positions to report.

A.1.6bis Prudential consolidation - On-statement of financial position loans and receivables with banks: breakdown of gross forborne exposures by credit quality

No positions to report.

A.1.7 Prudential consolidation - On-statement of financial position loans and receivables with customers: gross impaired positions

	Bad exposures	Unlikely to pay	Impaired past due exposures
A. Opening gross balance	**57,468**	**87,188**	**80,508**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**16,814**	**91,084**	146,047
B.1 transfers from performing loans	32	49,231	83,357
B.2 transfers from purchased or originated credit-impaired financial assets	1,734	491	166
B.3 transfers from other categories of impaired loans	6,512	11,519	2,649
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	8,536	29,843	59,875
C. Decreases	**23,659**	**38,924**	**170,908**
C.1 transfers to performing loans	7,487	527	82,034
C.2 write-offs	105	-	-
C.3 collections	13,673	32,436	75,080
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	2,394	5,961	13,793
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**50,623**	**139,348**	**55,647**
- of which: positions transferred but not derecognised	-	-	-

A.1.7bis Prudential consolidation - On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**1,434**	
- of which: positions transferred but not derecognised		
B. Increases	**3,210**	**1,153**
B.1 transfers from performing exposures without forbearance measures		
B.2 transfers from forborne performing exposures	763	X
B.3 transfers from non-performing exposures with forbearance measures	X	
B.4 transfers from non-performing exposures without forbearance measures	1,294	
B.5 other increases	1,153	1,153
C. Decreases	**2,587**	**1,153**
C.1 transfers to performing exposures without forbearance measures	X	
C.2 transfers to forborne performing exposures		X
C.3 transfers to non-performing exposures with forbearance measures	X	763
C.4 write-offs		
C.5 collections	2,587	391
C.6 gains on sales		
C.7 losses on sales		
C.8 other decreases		
D. Closing gross balance	**2,057**	
- of which: positions transferred but not derecognised		

A.1.8 Prudential consolidation - On-statement of financial position non-performing loans and receivables with banks: changes in impaired positions

No positions to report.

A.1.9 Prudential consolidation - On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**18,451**		**9,277**		**1,442**	**15**
- of which: positions transferred but not derecognised	**-**		-		**-**	
B. Increases	**3,658**		**8,262**		**1,024**	**176**
B.1 impairment losses on purchased or originated credit-impaired financial assets	14	X	3	X	10	X
B.2 other impairment losses	3,297		8,104		720	176
B.3 losses on sales	-		-		-	
B.4 transfers from other categories of impaired loans	274		35		218	
B.5 contract amendments without derecognition	-	X	-	X	-	X
B.6 other increases	73		120		76	
C. Decreases	**2,032**		**1,496**		**1,369**	**15**
C.1 impairment gains	1,429		1,032		876	
C.2 impairment gains due to collections	55		176		79	
C.3 gains on sales	-		-		-	
C.4 write-offs	-		-		-	
C.5 transfers to other categories of impaired loans	209		272		51	15
C.6 contract amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	339		16		363	
D. Closing total impairment losses	**20,077**		**16,043**		**1,097**	**176**
- of which: positions transferred but not derecognised	**-**		-		-	

A.2 Classification of the exposures based on external and internal rating

A.2.1 Prudential consolidation - Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/ guarantors pursuant to prudential requirements (cf. Circular no. 285 of 2013 "Supervisory Provisions for Banks" and subsequent updates).

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- "DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities.

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**1**	**-**	**443,826** -	**-**	**-**	**-**	**2,711,612**	**3,155,438**
- First stage	1	-	443,826	-	-	-	2,341,743	2,785,569
- Second stage	-	-	-	-	-	-	124,253	124,253
- Third stage	-	-	-	-	-	-	245,616	245,616
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**550,373**	**-**	**-**	**-**	**-**	**550,373**
- First stage	-	-	550,373	-	-	-	-	550,373
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	**1**	**-**	**994,199**	**-**	**-**	**-**	**2,711,612**	**3,705,811**
of which: purchased or originated credit-impaired financial assets	-	-	- -	-	-	-	27,746	27,746
C. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**249,608**	**249,608**
- First stage	-	-	-	-	-	-	220,355	220,355
- Second stage	-	-	-	-	-	-	7,057	7,057
- Third stage	-	-	-	-	-	-	22,196	22,196
Total C	**-**	**-**	**-**	**-**	**-**	**-**	**249,607**	**249,607**
Total (A + B + C)	**1**	**-**	**994,199**	**-**	**-**	**-**	**2,961,220**	**3,955,419**

of which long-term rating

Creditworthiness class	Risk weighting factors: Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	ECAI: DBRS Ratings Limited
1	0%	20%	20%	20%	from AAA to AAL
2	20%	50%	50%	50%	from AH to AL
3	50%	100%	50%	100%	from BBBH to BBBL
4	100%	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	150%	from BH to BL
6	150%	150%	150%	150%	CCC

of which short-term rating (for exposures to companies)

Creditworthiness class	Risk weighting factors	ECAI: DBRS Ratings Limited
1	20%	R-1 (high), R-1 (middle), R-1 (low)
2	50%	R-1 (high), R-2 (middle), R-2 (low)
3	100%	R-3
4	150%	R-4, R-5
5	150%	
6	150%	

“Fitch Ratings”, for exposures to companies and other parties.

of which long-term rating

Creditworthiness class	Risk weighting factors: Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	ECAI: Fitch Ratings
1	0%	20%	20%	20%	from AAA to AA-
2	20%	50%	50%	50%	from A+ to A-
3	50%	100%	50%	100%	from BBB+ to BBB-
4	100%	100%	100%	100%	from BB+ to BB-
5	100%	100%	100%	150%	from B+ to B-
6	150%	150%	150%	150%	CCC+ and lower

of which short-term rating (for exposures to companies)

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

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

A.3.1 Prudential consolidation - Guaranteed on- and off-statement of financial position loans and receivables with banks

No positions to report.

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

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**879,799**	**874,209**	**-**	**-**	**17,590**	**812,949**	**-**	**-**	**-**	**-**	**-**	**8,381**	**-**	**21,986**	**12,760**	**873,666**
1.1 fully guaranteed	873,432	869,255	-	-	17,590	812,949	-	-	-	-	-	4,893	-	21,986	11,837	869,255
- of which impaired	18,485	16,013	-	-	-	6,012	-	-	-	-	-	1,776	-	107	8,118	16,013
1.2 partially guaranteed	6,367	4,954	-	-	-	-	-	-	-	-	-	3,488	-	-	923	4,411
- of which impaired	2,550	1,241	-	-	-	-	-	-	-	-	-	1,099	-	-	123	1,222
2. Guaranteed off-statement of financial position loans:	**24,102**	**24,059**	**-**	**-**	**906**	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,552**	**9,535**	**24,030**
2.1 fully guaranteed	23,967	23,924	-	-	906	37	-	-	-	-	-	-	-	13,552	9,430	23,925
- of which impaired	1,905	1,905	-	-	-	-	-	-	-	-	-	-	-	-	1,905	1,905
2.2 partially guaranteed	135	135	-	-	-	-	-	-	-	-	-	-	-	-	105	105
- of which impaired	135	135	-	-	-	-	-	-	-	-	-	-	-	-	105	105

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Prudential consolidation - Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position loans and receivables					-					
A1. Bad exposures	17,573	1,493	-	-	-	-	12,816	17,988	155	597
- of which: forborne exposures						-				
A.2 Unlikely to pay	90,470	4,751	-	-	-	-	30,475	10,216	2,361	1,075
- of which: forborne exposures						-	1,035	259		
A.3 Impaired past due exposures	34,604	502	4	-	3	-	13,581	539	6,360	57
- of which: forborne exposures						-	587	176		
A.4 Unimpaired exposures	2,242,908	3,157	72,341	57	9	-	210,459	1,137	847,988	1,609
- of which: forborne exposures						-				
TOTAL (A)	**2,385,555**	**9,903**	**72,345**	**57**	**12**	**-**	**267,331**	**29,880**	**856,864**	**3,338**
B. Off-statement of financial position loans and receivables	-	-	-	-	-		-	-	-	-
B.1 Impaired exposures	-	-	-	-	-	-	22,196	-	-	-
B.2 Unimpaired exposures	-	-	121,035	-	-	-	98,760	43	5,127	-
TOTAL (B)	**-**	**-**	**121,035**	**-**	**-**	**-**	**120,956**	**43**	**5,127**	**-**
TOTAL (A+B) at 31.12.2019	**2,385,555**	**9,903**	**193,380**	**57**	**12**	**-**	**388,287**	**29,923**	**861,991**	**3,338**
TOTAL (A+B) at 31.12.2018	**1,957,131**	**8,567**	**148,013**	**55**	**5**	**-**	**453,170**	**24,434**	**686,261**	**2,527**

B.2 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

Esposizioni/Aree geografiche	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	30,544	20,078	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	123,306	16,042	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	54,549	1,097	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	3,317,643	5,759	53,915	198	1,094	4	-	-	46	-
Total (A)	**3,526,042**	**42,975**	**53,915**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**
B. Off-statement of financial position loans and receivables	-	-	-	-	-	-	-	-	-	-
B.1 Impaired exposures	22,196	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	210,220	44	3,184	-	-	-	-	-	-	-
Total (B)	**232,416**	**44**	**3,184**	-	-	-	-	-	-	-
Total (A+B) at 31.12.2019	**3,758,458**	**43,020**	**57,099**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**
Total (A+B) at 31.12.2018	**3,213,690**	**35,421**	**34,402**	**108**	**5,011**	**19**	**5,044**	**34**	**400**	**1**

B.3 Prudential consolidation - Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses	Net amount	Total impairment losses
A. On-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	81,393	26	117	-	-	-	-	-	-	-
Total (A)	**81,393**	**26**	**117**	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables	**-**	**-**	-	-	-	-	-	-	-	-
B.1 Esposizioni deteriorate	-	-	-	-	-	-	-	-	-	-
B.2 Esposizioni non deteriorate	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	**-**	-	-	-	-	-	-	-	-
Total A+B at 31.12.2019	**83,839**	**26**	**117**	-	-	-	-	-	-	-
Total A+B at 31.12.2018	**38,027**	**159**	-	-	-	-	-	-	-	-

B.4 Large exposures

As at 31 December 2019, the large exposures of the Parent are as follows:

- Amount (carrying amount): 2,291,599 (in thousands)
- Amount (weighted amount): 187,666 (in thousands)
- Number: 19 (in units)

D. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

The financial assets transferred and not derecognised refer to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

QUANTITATIVE DISCLOSURE

D.1. Prudential consolidation - Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-		-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**192,101**	-	**192,101**		**191,983**	-	**191,983**
1. Debt instruments	192,101	-	192,101		191,983	-	191,983
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
Total at 31.12.2019	**192,101**	-	**192,101**		**191,983**	-	**191,983**
Total at 31.12.2018	-	-	-		-	-	-

E. PRUDENTIAL CONSOLIDATION - MODELS FOR THE MEASUREMENT OF CREDIT RISK

1.2 Market risks

The Group did not conduct trading activity on financial instruments. At 31 December 2019 asset positions, except for shares, included in the regulatory trading portfolio that may generate market risk are not recognised. The existing limit system defines a careful and balanced management of the operational autonomy, establishing limits in terms of portfolio amounts and composition by type of security.

1.2.1 Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE DISCLOSURE

A. General aspects

The trading risk changed only following the trading of the only shares held in the portfolio; due to the size of the investment the price risk is limited.

B. Management procedures and methods of measuring the interest rate risk and the price risk

QUANTITATIVE DISCLOSURE

1. Regulatory trading portfolio: breakdown by residual term (by repricing date) of on-statement of financial position financial assets and liabilities and financial derivatives

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**6**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	6	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	6	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	6	-	-	-	-	-	-

1.2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Interest rate risk is defined as the risk that the financial assets/liabilities increase/decrease because of movements contrary to the interest rate curve. The Bank identified the sources that generate interest rate risk with reference to the credit processes and to the Bank's funding.

The exposure to interest rate risk on the banking book is calculated as provided for by current regulations, via the simplified regulatory approach (Cf. Circular no. 285/2013, Part One, Title III, Chapter 1, Schedule C); by using this method the Bank is able to monitor the impact of unexpected changes in market conditions on equity, thus identifying the related mitigation measures to be implemented.

In greater detail, the process of estimating the exposure to interest rate risk of the banking book provided by the simplified method is organised in the following phases:

- Determination of material currencies. "Material currencies" are considered those that represent a portion of total assets, or also of the banking book liabilities, greater than 5%. For the purposes of the methodology for calculating exposure to interest rate risk, the positions denominated in "material currencies" are considered individually, while the positions in "non-material currencies" are aggregated for the equivalent amount in Euro;
- Classification of the assets and liabilities in time buckets. 14 time buckets are defined. The fixed-rate assets and liabilities are classified based on their residual maturity, while those at floating rates based on the interest rate renegotiation date. Specific classification rules are prescribed for specific assets and liabilities. With particular reference to the deposit and savings product "Si conto! Deposito", the Bank proceeded with the bucketisation that takes into account the implied redemption option.
- Weighting the net exposures of each bucket. The asset and liability positions are offset within each bucket, obtaining a net position. The net position by bucket is multiplied by the corresponding weighting factor obtained as the product between a hypothetical change of the rates and an approximation of the modified duration for the individual bucket;
- Sum of the weighted net exposures of the various buckets. The weighted exposures calculated for each bucket (sensitivity) are summed together. The net weighted exposure thus obtained approximates the change of the present value of the items, denominated in a certain currency, in the event of the assumed rate shock;
- Aggregation in the various currencies. The absolute values of the exposures regarding the individual "material currencies" and the aggregate of the "non-material currencies" are summed together, obtaining an amount that represents the change of the economic value of the Bank based on the assumed rate trends.

With reference to the Bank's financial assets, the main sources that generate interest rate risk are loans and receivables with customers and the bond securities portfolio. As concerns the financial liabilities, relevant instead are the customer deposits and savings activities via current accounts, the deposit account, and funding on the interbank market.

Given the foregoing submissions, it should be noted that:

- the interest rates applied to the factoring customers are at a fixed rate and can also be modified unilaterally by the Bank (in compliance with regulations in force and existing contracts);
- the average financial term of the bond securities portfolio is less than one year;
- the salary/pension-backed loan portfolio that contains fixed rate contracts is that with the longest duration, however on the reporting date this portfolio was small and it was not deemed necessary to enter into interest rate hedge transactions on said maturities;
- the REPO deposits c/o the Central Bank are of short duration (the maximum maturity is equal to 3 months);
- the customers' deposits on the deposit account

product are at a fixed rate for the entire duration of the constraint, which can be unilaterally renegotiated by the Bank (in compliance with regulations in force and existing contracts);

- the REPO and reverse REPO agreements are generally of short duration, without prejudice to different funding needs.

The Bank continuously monitors the main assets and liabilities subject to interest rate risk; furthermore, no hedging instruments were used as at the reporting date.

QUANTITATIVE DISCLOSURE

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	Open term
1. Assets	**1,367,233**	**141,622**	**51,979**	**435,414**	**1,330,219**	**336,133**	**6**	**-**
1.1 Debt instruments	-	-	13,042	150,219	822,136	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	13,402	150,219	822,136	-	-	-
1.2 Financing to banks	61,510	19,947	53	-	-	-	-	-
1.3 Financing to customers	1,305,723	121,675	38,884	285,195	508,083	336,133	6	-
- current accounts	18,405	-	-	-	-	2	-	-
- other financing	1,287,318	121,675	38,884	285,195	508,083	336,131	6	-
- with early repayment option	136,044	43,171	38,419	285,046	508,083	309,305	6	-
- other	1,151,274	78,504	465	149	-	26,826	-	-
2. Liabilities	**701,066**	**1,172,493**	**171,329**	**572,774**	**578,304**	**55,741**	**23**	**-**
2.1 Due to customers	700,957	872,987	163,313	397,350	379,434	37,536	23	-
- current accounts	697,887	436,674	159,879	388,703	299,675	24,401	23	-
- other payables	3,070	436,313	3,434	8,647	79,759	13,135	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	3,070	436,313	3,434	8,647	79,759	13,135	-	-
2.2 Due to banks	109	280,000	-	-	108,250	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	109	280,000	-	-	108,250	-	-	-
2.3 Debt instruments	-	19,506	8,016	175,424	90,620	18,205	-	-
- with early repayment option	-	19,506	-	175,424	90,620	18,205	-	-
- other	-	-	8,016	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**4,136**	**905**	**1,040**	**507**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	4,136	905	1,040	507	-	-	-
- Options	-	4,136	905	1,040	507	-	-	-
+ long positions	-	842	905	1,040	507	-	-	-
+ short positions	-	3,294	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

1.2.3 Currency risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**1,164**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	1,164
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**6**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	6	-
+ long positions	-	-	-	-	6	-
+ short positions	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**6**	**1,164**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**6**	**1,164**

The amount refers to the Axactor shares held by the Bank partly in the Held to Collect and Sell (HTCS) portfolio. They are listed securities traded in Norwegian krone.

1.3 Derivatives and hedging policies

1.3.1 Derivatives held for trading

A. Financial derivatives

At 31 December 2019 no amount was recognised for this item.

B. Credit derivatives

At 31 December 2019 no amount was recognised for this item.

1.3.2 Hedge Accounting

The Bank did not perform any such transactions in 2019.

1.3.3 Other disclosure of derivatives (held for trading and hedging)

At 31 December 2019 there were no such cases.

1.4 Liquidity risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the liquidity risk

Liquidity risk is represented by the possibility that the Group is unable to maintain its payment commitments due to the inability to procure funds or to the inability to sell assets on the market to manage the financial imbalance. It is also represented by the inability to procure adequate new financial resources, in terms of amount and cost, with respect to operational need/advisability, that forces the Group to slow or stop the development of activity, or to incur excessive funding costs to deal with its commitments, with significant negative impacts on the profitability of its activity.

The financial sources are represented by capital, funding from customers, the funds procured on the domestic and international interbank market as well from the Eurosystem.

To monitor the effects of the intervention strategies and to limit the liquidity risk, the Group identified a specific section dedicated to monitoring the liquidity risk in the Risk Appetite Framework (RAF).

Furthermore, in order to promptly detect and manage any difficulties in procuring the funds necessary to conduct its activity, every year, Banca Sistema, consistent with the prudential supervisory provisions, updates its liquidity policy and Contingency Funding Plan, i.e. the set of specific intervention strategies in case of liquidity stress, establishing procedures to procure funds in the event of an emergency.

This set of strategies is of fundamental importance to attenuate liquidity risk.

The aforesaid policy defines, in terms of liquidity risk, the objectives, the processes and the intervention strategies in case of liquidity stress, the organisational structures responsible for implementing the interventions, the risk indicators, the relevant calculation method and warning thresholds, and procedures to procure the funding sources that can be used in case of emergency.

In 2019, the Bank continued to pursue a particularly prudent financial policy aimed at funding stability. This approach allowed a balanced distribution between inflows from retail customer and corporate and institutional counterparties.

To date, the financial resources available are satisfactory for the current and forward-looking volumes of activity. The Bank is continuously active ensuring a coherent business development, always in line with the composition of its financial resources.

In particular, Banca Sistema, prudentially, has constantly maintained a high quantity of securities and readily liquid assets to cover all of the deposits and savings products oriented towards the retail segment.

Moreover, the Bank uses as source of funding the ABS securities of the securitisation transactions, whose SPVs were established solely for funding purposes. As these transactions are self-securitisations, the receivables assigned to the SPV remain entirely recognised in the Bank's financial statements.

Details of the ABS securities of the existing self-securitisations are provided below.

At 31 December 2019, the characteristics of the securities of the Quinto Sistema Sec. 2017 transaction were as follows.

Quinto Sistema Sec. 2017	ISIN	Amount outstanding at 31.12.2019	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005246811	343,953,684.41	A-high / Aa3	0.40%	2034
Class B1 (mezzanine)	IT0005246837	42,745,256.29	A-low / Ba1	0.50%	2034
Class B2 (sub-mezzanine)	IT0005246845	53,327,792.99	n.a.	0.50%	2034
Class C (junior)	IT0005246852	2,137,262.81	n.a.	0.50%	2034
		442,163,996.49			

The transaction is held entirely by Banca Sistema, which uses the senior securities in bilateral ECB and repo transactions under the GMRA framework, and the class B1 security in repo transactions under the GMRA framework.

At 31 December 2019, the characteristics of the securities of the Quinto Sistema Sec. 2019 transaction were as follows.

Quinto Sistema Sec. 2019	ISIN	Amount outstanding at 31.12.2019	Rating (DBRS/Moody's)	Interest Rate	Maturity
Class A (senior)	IT0005382996	173,600,000.00	Not Rated	1M Euribor +0.65%	2038
Class B (mezzanine)	IT0005383002	21,800,000	Not Rated	0.50%	2038
Class C (junior)	IT0005383010	30,000,000.00	Not Rated	0.50%	2038
		225,400,000			

The senior security is held by a third party for funding purposes.

At 31 December 2019, the characteristics of the securities of the Atlantis SPV transaction were as follows, and 100% of the securities were subscribed and held by Banca Sistema.

Atlantis SPV	ISIN	Amount outstanding at 31.12.2019	Rating	Interest Rate	Maturity
Class A Notes (Senior)	IT0005218802	100.00	n.a.	1.00%	2028
Class B Notes (junior)	IT0005218810	15,320,804.43	n.a.	5.00%	2028
		32,822,470.53			

QUANTITATIVE DISCLOSURE

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

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	Open term
A. Assets	**1,325,838**	**6,291**	**1,227**	**23,433**	**53,243**	**69,4667**	**464,766**	**1,319,805**	**300,507**	**19,912**
A.1 Government securities	-	-	-	-	-	13,285	150,320	821,759	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,325,838	6,291	1,227	23,433	53,243	56,182	314,446	498,046	300,507	19,912
- banks	61,214	-	-	35	-	55	-	-	-	19,912
- customers	1,264,624	6,291	1,227	23,398	53,243	56,127	314,446	498,046	300,507	-
B. Liabilities	**693,664**	**704,759**	**65,112**	**120,033**	**263,997**	**165,790**	**580,628**	**577,684**	**247,979**	**-**
B.1 Deposits and current accounts	690,594	19,743	64,458	119,902	263,084	160,522	391,686	299,675	24,424	-
- banks	108	-	8,000	7,000	15,000	-	-	-	-	-
- customers	690,486	19,743	56,458	112,902	248,084	160,522	391,686	299,675	24,424	-
B.2 Debt instruments	-	-	-	-	401	1,830	180,293	90,000	210,420	-
B.3 Other liabilities	3,070	685,016	654	131	512	3,438	8,649	188,009	13,135	-
C. Off-statement of financial position transactions	**91,129**	**6**	**-**	**-**	**209**	**60**	**-**	**657**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	6	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	6	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	88,656	-	-	-	209	60	-	56	-	-
- long positions	44,165	-	-	-	209	60	-	56	-	-
- short positions	44,491	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,473	-	-	-	-	-	-	601	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

With reference to the financial assets subject to “self-securitisation”, at the end of 2019, Banca Sistema has three securitisation transactions in place.

1.5 Operational risks

QUALITATIVE DISCLOSURE

Operational risk is the risk of loss arising from inadequate or non-functioning internal processes, human resources or systems, or from external events. This type of risk includes - among other things - the ensuing losses from fraud, human errors, business disruption, unavailability of systems, breach of contract, and natural catastrophes. Operational risk, therefore, refers to other types of events that, under present conditions, would not be individually relevant if not analysed jointly and quantified for the entire risk category.

A. General aspects, management processes and methods of measuring operational risk

In order to calculate the internal capital generated by the operational risk, the Group adopts the Basic Indicator Approach, which provides for the application of a regulatory coefficient (equal to 15%) to the three-year average of the relevant indicator defined in Article 316 of Regulation (EU) no. 575/2013 of 26 June 2013. The above-said indicator is given by the sum (with sign) of the following elements:

- interest and similar income;
- interest and similar expense;
- income on shares, quotas and other variable/fixed yield securities;
- income for commissions/fees;
- expense for commissions/fees;
- profit (loss) from financial transactions;
- other operating income.

Consistent with that provided for by the relevant legislation, the indicator is calculated gross of provisions and operating costs; also excluded from computation are:

- profits and losses on the sale of securities not included in the trading portfolio;
- income deriving from non-recurring or irregular items;
- income deriving from insurance.

As of 2014, the Bank measured the operational risk events via a qualitative performance indicator (IROR - Internal Risk Operational Ratio) defined within the operational risk management and control process (ORF - Operational Risk Framework). This calculation method allows a score to be defined between 1 and 5, inclusive (where 1 indicates a low risk level and 5 indicates a high risk level) for each event that generates an operational risk.

The Bank assesses and measures the level of the identified risk by also considering the controls and the mitigating actions implemented. This method requires a first assessment of the possible associated risks in terms of probability and impact (so-called "Gross risk level") and a subsequent analysis of the existing controls (qualitative assessment on the effectiveness and efficiency of the controls) which could reduce the gross risk, on the basis of which specific risk levels (the so-called "Residual risk") are determined. Finally, the residual risks are mapped on a predefined scoring grid, useful for the subsequent calculation of IROR via appropriate aggregation of the scores defined for the individual operational procedure.

Moreover, the Bank assesses the operational risk associated with the introduction of new products, activities, processes and relevant systems mitigating the onset of the operational risk via a preliminary evaluation of the risk profile.

The Bank places strong emphasis on possible ICT risks. The Information and Communication Technology (ICT) risk is the risk of incurring financial, reputational and market losses in relation to the use of information and communication technology. In the supplemented representation of the business risks, this type of risk is considered, in accordance with the specific aspects, among operational, reputational and strategic risks.

The Bank monitors the ICT risks based on the continuous information flows between the departments concerned defined in its IT security policies.

In order to conduct consistent and complete analyses with respect to the activities performed by the Bank's other control departments, the results of the compliance risks audits conducted by the Compliance and Anti-Money Laundering Department were shared internally with the Risk Management and Compliance Department, the Internal Control and Risk Management Committee, as well as with the CEO. The Internal Audit Department also monitors the Bank's operations and processes to ensure they are properly carried out and assesses the overall effectiveness and efficiency of the internal control system put in place to oversee activities that are exposed to risks.

Finally, as an additional protection against operational risk, the Bank has:

- insurance coverage on the operational risks deriving from actions of third parties or caused to third parties. In order to select the insurance coverage, the Bank initiated specific assessment activities, with the support of a primary market broker, to identify the best offers in terms of price/conditions proposed by several insurance undertakings;
- appropriate contractual riders to cover damages caused by infrastructure and service suppliers;
- a business continuity plan;
- the assessment of each operational procedure in effect, in order to define the controls implemented to protect against risk activities.

PART F - INFORMATION ON EQUITY

SECTION 1 - EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Group’s equity management are inspired by the prudential supervisory provisions, and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.

The income allocation policy aims to strengthen the Group's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Equity: breakdown by business type

		31.12.2019	31.12.2018
1	Share capital	9,651	9,651
2	Share premium	39,100	39,184
3	Reserves	98,617	78,452
4	Equity instruments		
5	(Treasury shares)	(234)	(199)
6	Valuation reserves	267	(1,131)
	- Equity instruments designated at fair value through other comprehensive income	154	19
	- Hedging of equity instruments designated at fair value through other comprehensive income		
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	324	(972)
	- Property and equipment		
	- Intangible assets		
	- Hedges of foreign investments		
	- Cash flow hedges		
	- Hedging instruments (non-designated elements)		
	- Exchange rate gains (losses)		
	- Non-current assets held for sale and disposal groups		
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)		
	- Net actuarial gains (losses) on defined benefit pension plans	(211)	(178)
	- Shares of valuation reserves of equity-accounted investees		
	- Special revaluation laws		
7	Group profit (loss) for the year (+/-)	29,719	27,167
	Total	**177,120**	**153,124**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	TOTAL AT 31.12.2019		TOTAL AT 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	467	-	-	972
2. Equity instruments	11	-	19	-
3. Financing	-	-	-	-
Total	**478**	-	**19**	**972**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(972)**	**19**	-
2. Increases	**2,098**	**64**	-
2.1 Fair value gains	-	54	-
2.2 Impairment losses due to credit risk	105	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	1,525	X	-
2.4 Transfers to other equity items (equity instruments)	-	-	-
2.5 Other increases	468	10	-
3. Decreases	**659**	**72**	-
3.1 Fair value losses	-	68	-
3.2 Impairment gains due to credit risk	-	-	-
3.3 Reclassifications of positive reserves to profit or loss: on sale	-	X	
3.4 Transfers to other equity items (equity instruments)	-	-	-
3.5 Other decreases	**659**	**4**	-
4. Closing balance	**467**	**11**	-

B.4 Valuation reserves related to defined benefit plans: changes

A. Opening balance	**(179)**
B. Increases	**12**
B.1 Actuarial gains	12
B.2 Other increases	-
C. Decreases	**44**
C.1 Actuarial losses	-
C.2 Other decreases	44
D. Closing balance	**(211)**
Total	**(211)**

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2019 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Group equity and Own Funds

	31.12.2019
Group equity	177,120
Equity attributable to non-controlling interests	32
Equity attributable to the owners of the parent	**177,152**
Dividends distributed and other foreseeable expenses	(7,479)
Equity assuming dividends are distributed to shareholders	**169,673**
Regulatory adjustments	**(4,554)**
- Commitment to repurchase treasury shares	(45)
- Deduction of intangible assets	(3,921)
- Prudential filter for Prudent Valuation (1)	(556)
- Filter for equity attributable to non-controlling interests	(32)
Common Equity Tier 1 (CET1)	**165,119**
Security issued by Banca Sistema	8,000
Additional Tier 1 Capital	**8,000**
Securities issued by Banca Sistema (2)	37,500
Tier 2 Capital	**37,500**
Total Own Funds	**210,619**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101.
(2) Included in the item “Financial liabilities at amortised cost”.

A. QUANTITATIVE DISCLOSURE

	31.12.2019
A. Common Equity Tier 1 (CET1) before application of prudential filters	**169,596**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**169,596**
D. Items to be deducted from CET1	**4,477**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**165,119**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**8,000**
of which AT1 instruments covered by transitional measures	-
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	-
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**37,500**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P Total Tier 2 (T2) (M-N+/-O)	**37,500**
Q. Total Own Funds (F+L+P)	**210,619**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

Total own funds were € 211 million at 31 December 2019 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. The increase was due to the combined effect of the profit for 2019, the merger of Atlantide (which generated goodwill of € 2.1 million, classified on the Statement of financial position under intangible assets) and the issue, in the second quarter and third quarter of 2019, of a TIER 2 subordinated loan for a total of € 18 million (in conjunction with the repayment of another Lower TIER 2 subordinated loan of € 12 million, which can no longer be fully included as a capital). The increase in capital ratios compared to 31 December 2018 is attributable to higher profits and lower capital absorption from loans.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	4,453,157	3,577,376	1,236,603	1,160,521
1. Standardised approach	4,453,157	3,577,376	1,236,603	1,160,521
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			98,928	92,842
B.2 Credit assessment adjustment risk			3	-
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			13,540	12,522
1. Basic indicator approach			13,540	12,522
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			112,471	105,364
C. EXPOSURES AND CAPITAL RATIOS			**1,405,890**	**1,317,043**
C.1 Risk-weighted assets			1,405,890	1,317,043
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			11.7%	11.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			12.3%	11.6%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			15.0%	13.7%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

On 3 April 2019 the acquisition of 100% of Atlantide S.p.A., a company subsequently merged into the Bank on 30 June 2019, was completed.

Key information concerning this transaction is summarised below:

	TRANSACTION DATE (1)	TRANSACTION COST	% HELD	TOTAL INCOME (2)	GROUP NET PROFIT (2)
Atlantide S.p.A.	3 April 2019	3,022	100%	100,926	29,118

(1) Date on which control was acquired and from which the financial results of Atlantide are included
(2) The amounts, in accordance with IFRS 3, are determined assuming that the combination was carried out at the beginning of the year

Section 2 - Transactions performed after the end of the year

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Law on Banking, it should be noted that they, where applicable, have been included in the Board of Directors' resolutions and received approval from the Board of Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	2019
Remuneration to Board of Directors and Board of Statutory Auditors	1,700	82	-	**1,782**
Short-term benefits for employees	-	-	1,401	**1,401**
Post-employment benefits	68	-	105	**173**
Other long-term benefits	300	-	37	**337**
Termination benefits	-	-	248	**248**
Share-based payments	220	-	45	**265**
Total	**2,288**	**82**	**1,836**	**4,206**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2019, 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	22,696	6	-	0.7%
Due to customers	-	1,449	7,473	0.3%
Other liabilities	693	-	-	0.7%

The following table indicates the costs and income for 2019, 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	1,119	1	-	1.0%
Interest expense	1	20	44	0.2%
Other administrative expenses	427	-	-	1.9%

The following tables set forth the details of each related party:

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**22,696**	**0.61%**
Loans and receivables with customers		
ProntoPegno S.p.A.	7,359	0.20%
Largo Augusto Servizi e Sviluppo S.r.l.	13,507	0.36%
Speciality Finance Trust Holdings Ltd	1,830	0.05%
LIABILITIES	**5,070**	**0.14%**
Due to customers		
Shareholders - SGBS	755	0.03%
Shareholders - Fondazione CR Alessandria	2,512	0.10%
Shareholders - Fondazione Sicilia	1,110	0.04%
Other liabilities		
Speciality Finance Trust Holdings Ltd	255	0.01%
ProntoPegno S.p.A.	83	0.09%
Largo Augusto Servizi e Sviluppo S.r.l.	355	0.38%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**1,119**	**1.01%**
Interest income		
Speciality Finance Trust Holdings Ltd	328	0.30%
ProntoPegno S.p.A.	99	0.09%
Largo Augusto Servizi e Sviluppo S.r.l.	692	0.63%
COSTS	**447**	**0.85%**
Interest expense		
Shareholders - SGBS	4	0.02%
Shareholders - Fondazione Sicilia	10	0.03%
Shareholders - Fondazione CR Alessandria	5	0.02%
ProntoPegno S.p.A.	1	0.00%
Other administrative expenses		
ProntoPegno S.p.A.	427	1.86%

PART I - SHARE-BASED PAYMENT PLANS

The Banca Sistema Group's 2017-2019 Stock Grant Plan prepared in accordance with article 114-bis of Legislative Decree no. 58/98 and article 84-bis of regulation no. 11971/99 approved by Consob on 14 May 1999 as amended, approved by the Board of Directors on 28 March 2017 and published on the Bank's website, establishes the means and rules for granting, assigning and the availability of the Bank's ordinary shares to key management personnel and other persons who fall under the category of "key personnel" who are granted a bonus for which - in accordance with the rules set out in the Remuneration Policies Document applicable for each year in question (the "Policy") - the deferral and subordination mechanisms upon achieving specific corporate and individual performance targets are defined.

In 2019, the variable component of remuneration will be paid as follows upon approval of the financial statements:

- for amounts less than € 30,000, the full amount is paid up-front, in cash;
- for amounts greater than € 30,000 and up to € 435,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 435,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The aforesaid limits and parameters are established by the Bank, even though, in accordance with the principles of proportionality set out in Paragraph 7 of Circular 285, Title IV, Chapter 2 - General provisions, governing medium-sized banks, more flexible, less complex terms and proportions may be established in regard to the deferral and balancing of shares and cash.

Please see Annex 3 "Bonus Payment Regulation", and insofar as it applies, the Information Document published in the 'Governance' section of the website www.bancasistema.it, regarding the calculation of the Bank shares to be assigned and the applicable provisions.

Disclosure of the fees paid to the independent auditors

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the independent auditors BDO Italia S.p.A. and to the companies included in the same network is reported below for the following services:

- Audit services that include:
- The audit of the annual accounts, for the purpose of expressing an opinion thereon.
- The audit of the interim accounts.
- Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party with a degree of confidence concerning said specific element.
- Tax advisory services.
- Other services.

The fees presented in the table, pertaining to 2019, are those contracted, including any index-linking (but do not include out-of-pocket expenses, any supervisory contribution and VAT).

They do not include, in accordance with the cited provision, the fees paid to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Addressee	Remuneration
Audit of the separate and consolidated financial statements and interim reports	BDO Italia S.p.A.	Banca Sistema S.p.A.	180
Other certifications	BDO Italia S.p.A.	Banca Sistema S.p.A.	15
Audit of the separate financial statements	BDO Italia S.p.A.	Largo Augusto Servizi e Sviluppo S.r.l	13
Audit of the separate financial statements	BDO Italia S.p.A.	Quinto Sistema SEC. 2017	22
Audit of the separate financial statements	BDO Italia S.p.A.	ProntoPegno S.p.A.	20

PART L - SEGMENT REPORTING

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement for 2019

	2019			
Amounts in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated total**
Net interest income	62,055	16,161	2,478	**80,694**
Net fee and commission income (expense)	18,463	887	(3,282)	**16,068**
Other costs/income	1,106	-	3,045	**4,151**
Total income	**81,624**	**17,048**	**2,241**	**100,913**
Net impairment losses on loans and receivables	(7,926)	(950)	(179)	**(9,055)**
Net financial income	**73,698**	**16,098**	**2,063**	**91,858**

Breakdown by segment: income statement for 2018

	2018			
Amounts in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated total**
Net interest income	59,136	15,313	116	**74,565**
Net fee and commission income (expense)	15,713	726	(1,184)	**15,255**
Other costs/income	-	-	1,265	**1,265**
Total income	**74,849**	**16,039**	**197**	**91,085**
Net impairment losses on loans and receivables	(4,857)	(1,880)	(77)	**(6,814)**
Net financial income	**69,992**	**14,159**	**120**	**84,271**

Breakdown by segment: statement of financial position data as at 31 December 2019

Amounts in thousands of Euro	31.12.2019			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets (HTS and HTCS)	-	-	556,383	**556,383**
Loans and receivables with banks	-	-	81,510	**81,510**
Loans and receivables with customers	1,714,661	842,150	474,066	**3,030,877**
Due to banks	-	-	388,359	**388,359**
Due to customers	83,783	-	2,467,817	**2,551,600**

Breakdown by segment: statement of financial position data as at 31 December 2018

Amounts in thousands of Euro	31.12.2018			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets (HTS and HTCS)	-	-	304,469	**304,469**
Loans and receivables with banks	-	-	56,861	**56,861**
Loans and receivables with customers	1,566,613	687,208	476,010	**2,729,831**
Due to banks	-	-	695,197	**695,197**
Due to customers	87,397	-	1,811,159	**1,898,556**

The Factoring division includes the business segment related to the origination of trade and tax receivables with and without recourse. In addition, the division includes the business segment related to the management and recovery of receivables on behalf of third parties.

The Banking segment includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios, collateralised loans, run-off portfolios related to guaranteed loans to small and medium-sized enterprises, and costs/income from assets under administration and the placement of third-party products.

The Corporate segment includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. Moreover, this segment includes all the consolidation entries, as well as all the interbank eliminations.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

The Group has contracts that fall within the scope of IFRS 16 attributable to the following categories:

- Property used for business and personal purposes;
- Cars.

At 31 December 2019, there were 48 leases, 8 of which were property leases for a total right of use value of € 1 million, while 40 were for cars, for a total right of use value of € 0.7 million.

Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 4 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

QUANTITATIVE DISCLOSURES

The following table provides a summary of the Statement of Financial Position items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use	Lease liabilities
Property lease payments	975,375	983,713
Long-term car lease	725,393	729,399
Total	**1,700,768**	**1,713,112**

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	13,493	363,738
Long-term car lease	8,191	354,591
Total	**21,684**	**718,329**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

At the reporting date, the Group does not engage in leases as a lessor.

STATEMENTS ON THE 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 Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the consolidated financial statements as at and for the year ended 31 December 2019.
2. The suitability and effective application of the administrative and accounting procedures for the drafting of the consolidated financial statements at 31 December 2019 was verified based on internally defined methods, in accordance with the provisions of the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:

   3.1 the consolidated financial statements:

   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

   3.2 The Directors' report includes a reliable analysis of business performance and results, as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 11 March 2020

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Consolidated financial statements as at December 31, 2019

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

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20131 Milano

Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

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

Report on the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Banca Sistema Group (the Group), which comprise the consolidated balance sheet as at December 31, 2019, the profit and loss account, the statement of other comprehensive income, the statement of changes in net equity, the cash flow statement for the year then ended, and notes and comments to the financial statements.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well as article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Banca Sistema S.p.A. (the Company) in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST	
Notes: Part A) Accounting policies - paragraph A.2, "Information on the main items of the consolidated financial statements": "Financial assets measured at amortised cost"; Part B) Information on the statement of financial position, Assets - Section 4 "Financial assets measured at amortised cost"; Part C) Information on the income statement - Section 8.1 "Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown"; Part E) Information concerning risk and related hedging policies Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2019, are equal to Euro 3,031 million and represent the 81% of the Group's total assets. The acquisition by the Company of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the "factoring credits") and origination of credits relating to the sector of the transfers of salary or pension backed loans (the "CQS/CQP credits") represens the Company's main activities. Factoring credits and CQS/CQP credits as of December 31, 2019, are equal to, respectively, Euro 1,715 million and Euro 817 million. For classification purposes, the directors of the Company carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system. The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Company's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables, future scenarios and risks of the sectors in which the Group customers operate.	Our main audit procedures carried out in response to the key audit matter relating to the classification and evaluation of loans and receivables with customers, concerned the following activities: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015; ▪ examination of the disclosures provided in the notes.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE.

Notes: Part A) Accounting policies - paragraph A.2., "Information on the main items of the consolidated financial statements"; Part C) Information on the income statement - Section 1 "interest - item 10 and 20"; Part E) Information concerning risk and related hedging policies

The Company's directors account for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis in the year ended on 31 December 2019 amount to Euro 17,1 million and represent the 15% of the Group's interest and similar income.

The default interest deemed recoverable by the directors of the Company is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, feeds analysis models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Bank's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our experts, concerned the following activities:

- understanding of the business processes and the related IT environment of the Company with reference to the estimation of default interest;
- examination of the configuration and implementation of the controls and performance of procedures to evaluate the operational effectiveness of controls which are considered relevant, with particular reference to the estimation of default interest;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them, with the support of our experts;
- analysis of the adequacy of the information provided in the explanatory notes.

Other Matter

The consolidated financial statements of Banca Sistema S.p.A. for the year ended on December 31, 2018, were audited by another auditor, who expressed an unmodified opinion on those statements on March 27, 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provide by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the holding Banca Sistema S.p.A. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2019, including their consistency with the consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the consolidated financial statements of Banca Sistema S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the consolidated financial statements of Banca Sistema Group as at December 31, 2019 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2020

BDO Italia S.p.A.
(signed in the original)
Rosanna Vicari
Partner

Banca SISTEMA Group

SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2019

BANCA SISTEMA

CONTENTS

DIRECTORS' REPORT
AT 31 DECEMBER 2019

Introduction to the Directors' Report of Banca Sistema S.p.A.

This Directors' Report provides commentary on the Parent's performance and the related figures and results. For other information required by the applicable legal and regulatory provisions, please see the Directors' Report in the Banca Sistema Group's consolidated financial statements as regards the following:

- composition of management bodies
- composition of the internal committees
- significant events during the year
- the macroeconomic scenario
- factoring
- salary- and pension-backed loans
- funding activities
- composition and organisational structure of the Group
- capital and shares
- risk management and support control methods
- significant events after the reporting date
- business outlook and main risks and uncertainties.

With respect to the notes to the separate financial statements, the sections where reference is made to the consolidated financial statements are provided below:

REFERRING SECTION OF THE SEPARATE FINANCIAL STATEMENTS	SECTION OF THE CONSOLIDATED FINANCIAL STATEMENTS TO WHICH REFERENCE IS MADE
Part B Section 9 - Intangible assets - Item 90 Narrative section	Part B Section 10 - Intangible assets - Item 100 Narrative section
Part E Section 1 - Credit risk Qualitative disclosure	Part E Section 2 - Prudential consolidation risks, 1.1 Credit risk Qualitative disclosure
Part E Section 2 - Market risk 2.1 Interest rate risk and price risk - regulatory trading portfolio Qualitative disclosure	Part E 1.2 Market risk 1.2.1 Interest rate risk and price risk - regulatory trading portfolio Qualitative disclosure
Part E Section 2 - Market risk 2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure	Part E 1.2 Market risk 1.2.2 Interest rate risk and price risk - Banking Book Qualitative disclosure
Part E Section 2 - Market risk 2.3 Currency risk Qualitative disclosure	Part E 1.2 Market risk 1.2.3 Currency risk Qualitative disclosure
Part E Section 4 - Liquidity risk Qualitative disclosure	Part E 1.4 Liquidity risk Qualitative disclosure
Part E Section 5 - Operational risks Qualitative disclosure	Part E 1.4 Operational risks Qualitative disclosure

FINANCIAL HIGHLIGHTS AT 31 DECEMBER 2019

Statement of financial position data (€,000)

	31 Dec 2019	31 Dec 2018	
Total Assets	3,736,555	3,150,153	18.6%
Securities Portfolio	991,560	739,880	34.0%
Loans - Factoring	1,714,661	1,566,613	9.5%
Loans - Salary-backed loans and SME	829,227	679,589	22.0%
Funding - Banks and REPOs	845,428	875,016	-3.4%
Funding - Term Deposits	1,325,794	958,193	38.4%
Funding - Current Accounts	682,289	660,582	3.3%

Income statement data (€,000)

	31 Dec 2019	31 Dec 2018	
Net interest income	80,552	74,746	7.8%
Net fee and commission income	15,841	15,257	3.8%
Total Income	100,551	91,272	10.2%
Personnel Expenses	(22,316)	(19,811)	12.6%
Other administrative expenses	(22,512)	(20,710)	8.7%
Profit for the year	29,956	28,071	6.7%

Performance Indicators

	31 Dec 2019	31 Dec 2018
Cost/Income	49.1%	45.8%
ROAE	17.9%	21.5%

HUMAN RESOURCES

As at 31 December 2019, the Bank had staff of 199, broken down by category as follows:

FTES	31.12.2019	31.12.2018
Senior managers	23	20
Middle managers (QD3 and QD4)	40	41
Other personnel	136	121
Total	**199**	**182**

Over the course of the year the Bank realigned the organisational structure based on market changes and performance in order to support the achievement of its strategic objectives. In particular, with the aim of entering the primary CQS/CQP market and in keeping with the operational objectives set out in the 2018-2020 Business Plan, the Bank merged the Bologna-based company Atlantide S.p.A. thereby also expanding the number of offices operating in Italy. The merger resulted in 24 employees being acquired, including 2 senior managers, 4 managers and 18 from the Professional Areas.

During the year, as part of an increasingly focused business specialisation strategy, the Bank sold the collateralised lending business unit to the newly formed company ProntoPegno S.p.A. This transaction involved a total of 14 permanent employees, including 9 managers, 1 senior manager and 4 from the Professional Areas.

During the year, a total 32 new resources joined the Group, mainly in the CQ Operations and Commercial Factoring Departments, in the Departments that oversee the credit and collection process, in Compliance and Anti-Money Laundering, in Corporate Affairs and in Marketing (23 replaced the same number of people who had left or were long-term absent and 9 to improve professional and managerial expertise).

During the same period 24 employees left the Bank (including 7 following the expiry of their term contract), of which 2 were senior managers and 5 were managers.

During the year, various professional training courses were organised covering regulatory topics affecting the Bank, both with internal and external instructors. More specifically, training was provided on Privacy, Transparency, Legislative Decree 231 and Anti-Money Laundering, Mifid 2, Related Party Transactions, the New Bankruptcy Law and Market Abuse. Specific training courses and coaching programmes were also developed and launched focusing on managerial and professional topics mainly for the Commercial Department and new managers, as well as language training, for a total of 309 days and 835 participants. Some of these programmes will continue during 2020 in order to complete the continuing professional development of the remaining employees.

The average age of Group employees is 43 for men and 39 for women. The breakdown by gender remains essentially stable compared to 2018 with women accounting for 48% of the total.

INCOME STATEMENT RESULTS

INCOME STATEMENT (€,000)	2019	2018	€ Change	% Change
Net interest income	80,552	74,746	5,806	7.8%
Net fee and commission income	15,841	15,257	584	3.8%
Dividends and similar income	227	227	-	0.0%
Net trading income (expense)	215	(125)	340	<100%
Gain from sales or repurchases of financial assets/liabilities	3,716	1,167	2,549	>100%
Total income	**100,551**	**91,272**	**9,279**	**10.2%**
Net impairment losses on loans and receivables	(9,053)	(6,814)	(2,239)	32.9%
Net financial income	**91,498**	**84,458**	**7,040**	**8.3%**
Personnel expense	(22,316)	(19,811)	(2,505)	12.6%
Other administrative expenses	(22,512)	(20,710)	(1,802)	8.7%
Net accruals to provisions for risks and charges	(1,996)	(414)	(1,582)	>100%
Net impairment losses on property and equipment/intangible assets	(1,748)	(404)	(1,344)	>100%
Other operating expense	(795)	(419)	(376)	88.6%
Operating costs	**(49,367)**	**(41,758)**	**(7,609)**	**18.2%**
Pre-tax profit from continuing operations	**42,131**	**42,700**	**(569)**	**-1.3%**
Income taxes for the year	(12,351)	(14,629)	2,278	-15.6%
Post- tax profit for the year	**29,780**	**28,071**	**1,709**	**6.1%**
Post-tax profit (loss) from discontinued operations	176	-	176	n.a.
Profit for the year	**29,956**	**28,071**	**1,885**	**6.7%**

Profit for the year was € 30.0 million, an increase of 6.7% on the previous year, thanks to the growth in total income generated mainly by the factoring sector, and to a large extent by the salary- and pension-backed loans sector and the securities portfolio, which offset higher impairment losses on loans and receivables and the natural increase in operating costs.

The profit for 2019 includes, beginning in the second quarter of 2019, the revenue and costs of Atlantide as a result of the acquisition of the company becoming effective on 3 April 2019: merger-related costs of € 571 thousand and a negative contribution to gross profit for the nine months included in the accounts were quantified, offset to a large extent by the use of the company's previous losses, which generate a benefit of € 1.5 million on profit for the year.

In the third quarter of 2019, the expected rates of recovery of default interest on factoring and the related collection times used for the estimate as at 30 September 2019 were updated in the light of the progressive consolidation of the historical data series; the adjustment of these estimates led to the recognition of higher total interest income of € 5.1 million at 31 December 2019 (€ 7.8 million in 2018).

The profit for 2019 includes the consolidated profit from the sale of the remaining 10% of Axactor Italia to the parent Axactor AB.

NET INTEREST INCOME (€,000)	2019	2018	€ Change	% Change
Interest and similar income				
Loans and receivables portfolios	105,437	96,870	8,567	8.8%
Securities portfolio	750	258	492	>100%
Other	4,057	2,762	1,295	46.5%
Total interest income	**110,244**	**99,890**	**10,354**	**10.4%**
Interest and similar expense				
Due to banks	(578)	(2,537)	1,959	-77.3%
Due to customers	(21,056)	(14,571)	(6,485)	44.5%
Securities issued	(7,930)	(6,992)	(938)	13.4%
Financial assets	(128)	(1,144)	916	-87.7%
Total interest expense	**(29,692)**	**(25,144)**	**(4,548)**	**18.1%**
Net interest income	**80,552**	**74,746**	**5,806**	**7.8%**

Net interest income increased by 7.8% from the previous year, due to the contribution from the loans and receivables portfolio which more than offset the increase in interest expense as a result of higher average lending.

The total contribution of the factoring portfolio was € 81 million (equal to 74% of the entire loans and receivables portfolio), which is up 8.4% on the previous year thanks to the tax receivables portfolio which was able to benefit from earlier than expected collections; when considering the commission component associated with the factoring business, the contribution increased by 9.9% over 31 December 2018. The component linked to default interest from legal action at 31 December 2019 was € 28.9 million (€ 28.4 million in 2018):

- of which € 5.1 million resulting from the updated recovery estimates (€ 7.8 million at 31 December 2018);
- of which € 12.0 million that results from maintaining the recovery estimates (€ 10.3 million at 31 December 2018) which is in line with the previous year thanks to the activation of a loans and receivables portfolio for a significant amount;
- of which € 11.8 million (€ 10.3 million at 31 December 2018) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 21.6 million (€ 19.2 million in 2018) and that recognised on an accruals basis in previous years. This item includes collections from sales made to third parties at the end of the first and second half of the year.

The amount of the stock of default interest from legal actions accrued at 31 December 2019, relevant for the allocation model, was € 107.1 million (€ 96 million at the end of 2018) while the loans and receivables recognised in the financial statements amounted to € 49.9 million.

During the year, factoring portfolios were sold that generated a total profit of € 1.1 million recognised in the item Gain from sales or repurchases of financial assets/liabilities.

The positive impact on income was also driven by growth in interest on the salary- and pension-backed portfolios, which rose from € 19.6 million to € 23 million, an increase of 17.6% over the previous year.

The item “Other" mainly includes income arising from the financing activity of the securities portfolio in repurchase agreements at negative rates, which accounts for € 2.7 million.

The increase in the cost of funding compared to the previous year is closely related to the increase in average lending. In particular, interest on term deposits from customers increased as a direct result of the increase in the underlying stock.

The cost of funding from banks for 2018 included € 0.8 million resulting from the reversal of the positive rate component of the TLTRO II recognised in 2017, which the Bank was unable to use.

NET FEE AND COMMISSION INCOME (€,000)	2019	2018	€ Change	% Change
Fee and commission income				
Collection activities	1,247	1,127	120	10.6%
Factoring activities	18,409	15,772	2,637	16.7%
Fee and commission income - off-premises	1,859	-	1,859	n.a.
Other	745	726	19	2.6%
Total fee and commission income	**22,260**	**17,625**	**4,635**	**26.3%**
Fee and commission expense				
Placement	(3,925)	(1,837)	(2,088)	>100%
Fees - off-premises	(1,936)	-	(1,936)	n.a.
Other	(558)	(531)	(27)	5.1%
Total fee and commission expense	**(6,419)**	**(2,368)**	**(4,051)**	**>100%**
Net fee and commission income	**15,841**	**15,257**	**584**	**3.8%**

Net fee and commission income of € 15.8 million increased by 3.8% due to the greater commissions from factoring. These should be considered together with interest income, since it makes no difference from a management point of view whether profit is recognised in the commissions and fees item or in interest in the without recourse factoring business.

Commissions on collection activities, related to the service of reconciliation of third-party invoices collected from Public Administration are in line with the previous year. Other fee and commission income includes commissions and fees from collection and payment services, the keeping and management of current accounts, and fees related to the collateral-backed loan business, amounting to € 456 thousand.

Fee and commission income - off-premises refers to the commissions on the new salary- and pension-backed loan (CQ) origination business of € 1.9 million, which should be considered together with the item Fees - off-premises, which are composed of the commissions paid to financial advisers for the off-premises placement of the salary- and pension-backed loan product, including the year-end bonuses payable to them.

The increase in placement fees and commissions paid to third parties is attributable to higher returns to third party intermediaries for the placement of the SI Conto! Deposito product, following the higher volumes placed under the passporting regime. This item also includes the origination costs of factoring receivables, which remained in line with those reported the previous year.

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

GAIN FROM SALES OR REPURCHASES (€,000)	2019	2018	€ Change	% Change
Gains from HTCS portfolio debt instruments	2,610	1,167	1,443	>100%
Gains from receivables	1,106	-	1,106	n.a.
Total	**3,716**	**1,167**	**2,549**	**>100%**

The item Gain from sales or repurchases mainly includes gains generated by the proprietary HTCS portfolio which increased by € 1.4 million over the previous year; the securities portfolio also generated gains of € 0.2 million from the trading portfolio which is included in the item Trading income.

Gains from receivables of € 1.1 million derive, as described above, from the sale of factoring portfolios. Impairment losses on loans and receivables recognised at 31 December 2019 increased over the previous years to € 9.2 million. Impairment losses are attributable to slight impairment of some factoring loans and bring the loss rate to 0.36% (0.33% at 31 December 2018).

PERSONNEL EXPENSE (€,000)	2019	2018	€ Change	% Change
Wages and salaries	(20,883)	(18,529)	(2,354)	12.7%
Social security contributions and other costs	(335)	(307)	(28)	9.1%
Directors' and statutory auditors' remuneration	(1,098)	(975)	(123)	12.6%
Total	**(22,316)**	**(19,811)**	**(2,505)**	**12.6%**

The increase in personnel expense is mainly due to the increase in the average number of employees from 174 to 187. This increase was influenced by the 21 new employees of the recently acquired company, Atlantide, who joined the Bank’s personnel in the second quarter of the year. This item also includes an additional cost component of € 0.8 million for estimated redundancy charges, the cost of non-compete agreements and the variable component of wages and salaries.

OTHER ADMINISTRATIVE EXPENSES (€,000)	2019	2018	€ Change	% Change
IT expenses	(5,552)	(4,372)	(1,180)	27.0%
Consultancy	(4,156)	(3,696)	(460)	12.4%
Resolution Fund	(1,146)	(942)	(204)	21.7%
Servicing and collection activities	(2,992)	(2,736)	(256)	9.4%
Indirect taxes and duties	(2,108)	(2,010)	(98)	4.9%
Rent and related fees	(1,029)	(2,195)	1,166	-53.1%
Expense reimbursement and entertainment	(825)	(726)	(99)	13.6%
Car hire and related fees	(635)	(858)	223	-26.0%
Insurance	(486)	(385)	(101)	26.2%
Advertising	(502)	(568)	66	-11.6%
Membership fees	(304)	(265)	(39)	14.7%
Expenses related to management of the SPVs	(530)	(535)	5	-0.9%
Audit fees	(329)	(295)	(34)	11.5%
Infoprovider expenses	(638)	(255)	(383)	150.2%
Other	(375)	(366)	(9)	2.5%
Telephone and postage expenses	(187)	(175)	(12)	6.9%
Maintenance of movables and real properties	(170)	(235)	65	-27.7%
Stationery and printing	(60)	(96)	36	-37.5%
Merger-related costs	(488)	-	(488)	n.a.
Total	**(22,512)**	**(20,710)**	**(1,802)**	**8.7%**

Administrative expenses include costs related to the merger of Atlantide into the Bank amounting to € 488 thousand (total merger-related costs amounted to € 571 thousand, including the cost recognised under reduction in value due to amortisation).

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

The amount of the items Rent and Car hire for the first half of 2019 was impacted by the application of the new IFRS 16. In 2019, these items include only property management costs and utility costs, and, unlike in 2018, does not include lease payments, the cost of which, in 2019, is mainly reflected in the item depreciation of the "right-of-use" asset.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions.

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

The contribution to the Resolution Fund represents the required amount of ex-ante contributions for 2019 and includes the payment of the additional contribution of € 0.3 million required in June.

The increase in impairment losses on property and equipment/intangible assets is the result of higher provisions for property used for business purposes, as well as the depreciation of the "right-of-use" asset following the application of IFRS 16. This item includes € 82 thousand in merger-related costs attributable to the accelerated amortisation of software belonging to Atlantide that is no longer being used.

The increase in accruals to provisions for risks is mainly attributable to the measurement of contingent liabilities for ongoing lawsuits, and the assessment and quantification of possible future risks.

Other operating income and expense was adversely affected by the increased contribution from the Bank to the Interbank Deposit Protection Fund (FITD), which amounted to € 1.4 million in 2019 (€ 0.6 million in 2018), due to the higher amount of customer deposits.

The item Post-tax profit (loss) from discontinued operations is composed of the profit realised on the put option exercised for the sale of the 10% equity investment in Axactor Italy S.p.A.

The tax rate improved significantly due to full utilisation of the losses that Atlantide had accumulated up to the date of its acquisition and subsequent merger with the Bank, which resulted in a benefit of € 1.5 million. In addition to this benefit, the Group benefited from the reintroduction by the legislator of "ACE" (Aid to Economic Growth), which is aimed at strengthening the capital structure of companies, a measure that was introduced in 2011, abolished by the previous 2019 Budget Law and then reintroduced with the 2020 Budget Law.

THE MAIN STATEMENT OF FINANCIAL POSITION AGGREGATES

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

ASSETS (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Cash and cash equivalents	154	288	(134)	-46.5%
Financial assets measured at fair value through other comprehensive income	556,383	304,469	251,914	82.7%
Financial assets measured at amortised cost	3,123,738	2,801,813	321,925	11.5%
a) loans and receivables with banks	81,002	56,694	24,308	42.9%
b1) loans and receivables with customers - loans	2,607,559	2,309,708	297,851	12.9%
b2) loans and receivables with customers - debt instruments	435,177	435,411	(234)	-0.1%
Equity investments	20,000	19,278	722	3.7%
Property and equipment	6,061	710	5,351	>100%
Intangible assets	3,921	1,788	2,133	>100%
Tax assets	8,099	7,626	473	6.2%
Non-current assets held for sale and disposal groups	-	2,221	(2,221)	-100.0%
Other assets	18,198	11,960	6,238	52.2%
Total assets	**3,736,554**	**3,150,153**	**586,401**	**18.6%**

The year ended 31 December 2019 closed with total assets up 18.6% (at € 3.7 billion) on the end of 2018, due to the effect of the increase in the portfolios of loans and receivables with customers and the securities portfolio.

The securities portfolio relating to Financial assets measured at fair value through other comprehensive income ("HTCS" or "Held to collect and Sell") of the Bank was increased and continues to be mainly comprised of Italian government bonds with an average duration of about 20.1 months (the average remaining duration at the end of 2018 was 13.5 months). This is consistent with the Group investment policy. The HTCS portfolio amounted to € 550 million at 31 December 2019 (€ 300 million at 31 December 2018). The associated valuation reserve was positive at the end of the year, amounting to € 154 thousand before the tax effect. In addition to government securities, the HTCS portfolio also includes 200 shares of the Bank of Italy, amounting to € 5 million, and the Axactor Norway shares, which at 31 December 2019 had a positive net fair value reserve, resulting in a year-end amount of € 1.2 million.

LOANS AND RECEIVABLES WITH CUSTOMERS (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Factoring	1,714,661	1,566,613	148,048	9.5%
Salary-/pension-backed loans (CQS/CQP)	817,229	652,040	165,189	25.3%
Collateralised loans	-	6,428	(6,428)	-100.0%
Loans to SMEs	11,998	27,549	(15,551)	-56.4%
Current accounts	41,829	38,473	3,356	8.7%
Compensation and Guarantee Fund	20,676	17,413	3,263	18.7%
Other loans and receivables	1,166	1,192	(26)	-2.2%
Total loans	**2,607,559**	**2,309,708**	**297,851**	**12.9%**
Securities	435,177	435,411	(234)	-0.1%
Total loans and receivables with customers	**3,042,736**	**2,745,119**	**297,617**	**10.8%**

The item loans and receivables with customers under Financial assets measured at amortised cost (hereinafter HTC, or "Held to Collect"), is composed of loan receivables with customers and, beginning in 2018, the "held-to-maturity securities" portfolios.

Outstanding loans for factoring receivables compared to Total loans, therefore excluding the amounts of the securities portfolio, were in line with the end of 2018 at 66%. Their absolute value grew as a result of volumes generated over the year which were up by 27% on the previous year to € 3,055 million (€ 2,406 million at 31 December 2018).

Salary- and pension-backed loans grew thanks to new loans, which increased by 25% compared to the previous year (the new volumes acquired in 2019 amounted to € 266 million), while government-backed loans to SMEs fell, which is in line with the strategic decision to discontinue this line of business.

Securities are composed entirely of Italian government securities with an average duration of 14.5 months for an amount of € 435 million. The mark-to-market valuation of the securities at 31 December 2019 was a positive fair value of € 1.4 million.

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

STATUS	31.12.2018	31.03.2019	30.06.2019	30.09.2019	31.12.2019
Bad exposures	57,467	55,877	54,124	57,319	50,622
Unlikely to pay	87,189	98,206	113,462	122,738	139,349
Past due	80,507	76,183	68,733	59,674	55,647
Non-performing	**225,163**	**230,266**	**236,319**	**239,731**	**245,618**
Performing	**2,119,998**	**2,320,728**	**2,443,616**	**2,387,358**	**2,404,841**
Stage 2	106,473	119,559	114,250	123,782	124,252
Stage 1	2,013,525	2,201,169	2,329,366	2,263,576	2,280,589
Total loans and receivables with customers	**2,345,161**	**2,550,994**	**2,679,935**	**2,627,089**	**2,650,459**
Individual impairment losses	**29,169**	**32,220**	**33,662**	**34,746**	**37,217**
Bad exposures	18,451	18,944	19,602	20,394	20,078
Unlikely to pay	9,277	11,672	12,665	13,588	16,042
Past due	1,441	1,604	1,395	764	1,097
Collective impairment losses	**6,284**	**6,299**	**6,791**	**7,303**	**5,684**
Stage 2	579	680	585	806	667
Stage 1	5,705	5,619	6,206	6,497	5,017
Total impairment losses	**35,453**	**38,519**	**40,453**	**42,049**	**42,901**
Net exposure	**2,309,708**	**2,512,475**	**2,639,482**	**2,585,040**	**2,607,558**

The ratio of gross non-performing loans to the total portfolio went from 9.7% at 31 December 2018 to 9.3% at the end of December 2019. The increase in the absolute value of non-performing loans compared to 31 December 2018 is mainly due to new factoring positions with local authorities in financial difficulty and private-sector assignors. The amount of past due loans and local authorities in financial difficulty is attributed to factoring receivables without recourse from Public Administration and is considered normal for the sector and does not represent an issue in terms of credit quality and probability of collection.

Net bad exposures remained at moderate levels and amounted to 1.2% of total loans and receivables with customers, while the coverage ratio of non-performing loans was equal to 15.2%.

The item Equity investments, with the sale of the non-controlling interests in ADV Finance S.p.A. and its subsidiary Procredit S.r.l. in the second quarter of 2019, is no longer recognised.

Also during the year, following the exercise of the put option by Banca Sistema, the shares were sold to Axactor Holding S.r.l. As a result, the item Non-current assets held for sale and disposal groups is no longer recognised.

Property and equipment includes the right of use for the property located in Milan which is also being used as Banca Sistema's new offices.

Intangible assets increased following the recognition of the goodwill generated by the acquisition of Atlantide S.p.A. on 3 April 2019.

A hypothetical allocation of the purchase price for Atlantide is provided below:

ATLANTIDE PROVISIONAL PRICE ALLOCATION

Spot purchase price	3,022,124
Estimated earn-out	1,300,773
Recognised equity investment price (A)	**4,322,897**
Atlantide equity at 31 March 2019 (B)	(2,188,958)
Residual value to be allocated (A+B)	**2,133,939**
Provisional allocation to goodwill	**(2,133,939)**

As mentioned above, part of the goodwill is the result of an estimate of the earn-out value at € 1,301 thousand to be recognised in relation to the production volumes set out in the business plan prepared by Atlantide's management: in fact, the acquisition includes a deferred payment mechanism in the form of an earn-out to be paid to the sellers, which will be determined based on target production volumes for 2021. Other assets totalling € 14.7 million mainly include amounts being processed after the end of the year and advance tax payments.

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

LIABILITIES AND EQUITY (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Financial liabilities measured at amortised cost	3,416,940	2,902,240	514,700	17.7%
a) due to banks	388,358	695,197	(306,839)	-44.1%
b) due to customers	2,716,975	1,902,056	814,919	42.8%
c) securities issued	311,607	304,987	6,620	2.2%
Tax liabilities	16,433	15,676	757	4.8%
Other liabilities	98,810	65,234	33,576	51.5%
Post-employment benefits	2,955	2,402	553	23.0%
Provisions for risks and charges	21,791	9,221	12,570	>100%
Valuation reserves	279	(1,131)	1,410	<100%
Reserves	139,973	118,988	20,985	17.6%
Share capital	9,651	9,651	-	0.0%
Treasury shares (-)	(234)	(199)	(35)	17.6%
Profit for the year	29,956	28,071	1,885	6.7%
Total liabilities and equity	**3,736,555**	**3,150,153**	**586,401**	**18.6%**

Wholesale funding, which represents about 37% (41% at 31 December 2018) of the total, decreased in relative terms from the end of 2018 following the increase in funding through deposit accounts. The contribution of bond funding to total wholesale funding was 56.4% (34.2% at the end of 2018).

DUE TO BANKS (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Due to Central banks	358,250	412,850	(54,600)	-13.2%
Due to banks	30,108	282,347	(252,239)	-89.3%
Current accounts and demand deposits	*30,108*	*53*	*30,055*	*>100%*
Term deposits	-	*282,294*	*(282,294)*	*-100.0%*
Total	**388,358**	**695,197**	**(306,839)**	**-44.1%**

The total of the sub-item "Due to banks" decreased by 44% compared to 31 December 2018 due to the decrease in interbank funding; refinancing with the ECB is backed primarily by ABS from the salary- and pension-backed loans (CQS/CQP) securitisation. The Bank has been granted access to the new TLTRO III programme for an amount of up to € 295 million, of which € 108 million is currently being used. The availability period has been set at 3 years from the date the company takes part in the auction (the last auction is in March 2021), while the rate is set at 0%.

DUE TO CUSTOMERS (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Term deposits	1,325,794	958,193	367,601	38.4%
Financing (repurchase agreements)	457,070	179,819	277,251	>100%
Current accounts	682,289	660,582	21,707	3.3%
Due to assignors	83,783	87,397	(3,614)	-4.1%
Other payables	168,039	16,065	151,974	>100%
Total	**2,716,975**	**1,902,056**	**814,919**	**42.8%**

The item Due to customers increased compared to the end of the year, mainly due to an increase in funding from repurchase agreements and from term deposits. The year-end amount of term deposits increased by 38.4% compared to the end of 2018, reflecting net positive deposits (net of interest accrued) of € 368 million; gross deposits from the beginning of the year were € 1,190 million, against withdrawals totalling € 822 million.

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

SECURITIES ISSUED (€,000)	31.12.2019	31.12.2018	€ Change	% Change
Bond - AT1	8,016	8,017	(1)	0.0%
Bond - Tier II	37,547	31,570	5,977	18.9%
Bonds - other	266,044	265,400	644	0.2%
Total	**311,607**	**304,987**	**6,620**	**2.2%**

The nominal amount of securities issued at 31 December 2019 is broken down as follows:

- Tier 1 subordinated loan of € 8 million, with no maturity (perpetual basis) and a fixed coupon until 18 December 2022 at 7% issued on 18 December 2012;
- Tier 2 subordinated loan of € 19.5 million, 2017-2027 with a variable coupon equal to 6-month Euribor + 4.5%;
- Tier 2 subordinated loan of € 18 million, 2019-2029 with a fixed coupon of 7%;
- Senior bonds (market placement) of € 175 million, 2017-2020 with a fixed coupon of 1.75%;
- Senior bonds (private placement) of € 90 million, 2018-2021 with a fixed coupon of 2%.

The provision for risks and charges of € 22.3 million includes the provision for possible liabilities attributable to past acquisitions, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to lawsuits with customers and the estimated charges for other lawsuits and legal disputes. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years, and the provision for supplementary customer allowances. Also included is the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries.

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

CAPITAL ADEQUACY

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

OWN FUNDS (€,000) AND CAPITAL RATIOS	31.12.2019	31.12.2018
Common Equity Tier 1 (CET1)	**165,119**	**144,293**
ADDITIONAL TIER 1	8,000	8,000
Tier 1 capital (T1)	**173,119**	**152,293**
TIER2	37,500	28,799
Total Own Funds (TC)	**210,619**	**181,092**
Total risk-weighted assets	**1,405,890**	**1,317,043**
of which, credit risk	1,236,603	1,160,521
of which, operational risk	169,252	156,522
of which, CVA	35	-
Ratio - CET1	11.7%	11.0%
Ratio - T1	12.3%	11.6%
Ratio - TCR	15.0%	13.7%
Pro-forma CET1 (CRR II amendment) (*)	*13.9%*	*12.5%*
Pro-forma T1 (CRR II amendment) (*)	*14.6%*	*13.2%*
Pro-forma TCR (CRR II amendment) (*)	*17.8%*	*15.7%*

(*) = estimate of the impact on the capital ratios resulting from the application of the reduction in the weighting of the CQS/CQP assets set out in Regulation 876/2019 that will be applied as of 28 June 2021.

Total own funds were € 211 million at 31 December 2019 and included the profit for the year, net of dividends estimated on the profit for the year which were equal to a pay-out of 25% of the Parent's profit. The increase was due to the combined effect of the profit for 2019, the merger of Atlantide (which generated goodwill of € 2.1 million, classified on the Statement of financial position under intangible assets) and the issue, in the second quarter and third quarter of 2019, of a TIER 2 subordinated loan for a total of € 18 million (in conjunction with the repayment of another Lower TIER 2 subordinated loan of € 12 million, which can no longer be fully included as a capital). The increase in capital ratios compared to 31 December 2018 is attributable to higher profits and lower capital absorption from loans.

With notice received on 9 March 2020, the Bank of Italy issued its final decision regarding the consolidated capitalisation requirements to be observed from the first reporting date for own funds after the date of receipt of the decision, following the outcome of the Supervisory Review and Evaluation Process (SREP). The Group's consolidated capitalisation requirements, according to the transitory criteria, are as follows:

- CET1 ratio of 7.75%;
- TIER1 ratio of 9.55%;
- Total Capital Ratio of 11.90%.

The additional ratio for the CET1 ratio is unchanged from that expected for 2019, while the T1 ratio and the Total Capital Ratio, the OCR, were increased by 5 basis points. The SREP decision does not include any quantitative liquidity requirements.

OTHER INFORMATION

Report on corporate governance and ownership structure

Pursuant to art. 123-bis, paragraph 3 of Legislative Decree no. 58 dated 24 February 1998, a "Report on corporate governance and ownership structure" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2019 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Remuneration Report

Pursuant to section 84-quater, paragraph 1 of the Issuers' Regulation implementing Legislative Decree No. 58 dated 24 February 1998, a "Remuneration Report" has been drawn up; the document - published jointly with the draft financial statements as at and for the year ended 31 December 2019 - is available in the "Governance" section of the Banca Sistema website (www.bancasistema.it).

Research and Development Activities

No research and development activities were carried out in 2019.

RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of Banca Sistema S.p.A. Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, based on mutual financial advantage and in compliance with all procedures.

ATYPICAL OR UNUSUAL TRANSACTIONS

During the year, the Bank 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

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, and specifically to the events relating to the parent Banca Sistema S.p.A., which is deemed to be fully reported here.

BUSINESS OUTLOOK AND MAIN RISKS AND UNCERTAINTIES

Reference should be made to the corresponding section of the Directors' Report in the Banca Sistema Group's consolidated financial statements, which is deemed to be fully reported here.

PROPOSED ALLOCATION OF PROFIT FOR THE YEAR

Dear Shareholders,

The separate financial statements as at and for the year ended 31 December 2019, which we submit for your approval, show a profit for the year of € 29,955,723.45. We recommend allocating the profit for the year as follows:

- a dividend of € 7,479,157.84;
- the remainder of € 22,476,565.61 to retained earnings.

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

Milan, 11 March 2020

On behalf of the Board of Directors

The Chairperson

Luitgard Spögler

The CEO

Gianluca Garbi

SEPARATE FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

(Amounts in Euros)

	Assets	31.12.2019	31.12.2018
10.	Cash and cash equivalents	153,601	288,431
30.	Financial assets measured at fair value through other comprehensive income	556,383,266	304,469,478
40.	Financial assets measured at amortised cost	3,123,737,882	2,801,812,681
	a) loans and receivables with banks	*81,002,261*	*56,694,080*
	b) loans and receivables with customers	*3,042,735,621*	*2,745,118,601*
70.	Equity investments	20,000,000	19,278,011
80.	Property and equipment	6,061,393	709,928
90.	Intangible assets	3,920,808	1,788,397
	of which:		
	goodwill	*3,919,700*	*1,785,760*
100.	Tax assets	8,099,379	7,626,222
	a) current	-	-
	b) deferred	*8,099,379*	*7,626,222*
110.	Non-current assets held for sale and disposal groups	-	2,220,930
120.	Other assets	18,197,732	11,959,252
	Total Assets	**3,736,554,061**	**3,150,153,330**

	Liabilities and equity	31.12.2019	31.12.2018
10.	Financial liabilities measured at amortised cost	3,416,939,923	2,902,239,596
	a) due to banks	*388,357,667*	*695,196,627*
	b) due to customers	*2,716,975,290*	*1,902,056,238*
	c) securities issued	*311,606,966*	*304,986,731*
60.	Tax liabilities	16,433,038	15,676,925
	a) current	*2,213,198*	*3,445,454*
	b) deferred	*14,219,840*	*12,231,471*
80.	Other liabilities	98,810,084	65,235,054
90.	Post-employment benefits	2,955,435	2,402,013
100.	Provisions for risks and charges:	21,791,092	9,221,203
	a) commitments and guarantees issued	*43,590*	*7,326*
	c) other provisions for risks and charges	*21,747,502*	*9,213,877*
110.	Valuation reserves	278,968	(1,131,458)
140.	Reserves	100,872,736	79,803,766
150.	Share premium	39,100,168	39,184,038
160.	Share capital	9,650,526	9,650,526
170.	Treasury shares (-)	(233,632)	(198,893)
180.	Profit for the year	29,955,723	28,070,560
	Total liabilities and equity	**3,736,554,061**	**3,150,153,330**

INCOME STATEMENT

(Amounts in Euros)

		2019	2018
10.	Interest and similar income	110,243,896	99,889,812
	of which: interest income calculated with the effective interest method	107,552,012	98,210,888
20.	Interest and similar expense	(29,691,485)	(25,144,185)
30.	**Net interest income**	**80,552,411**	**74,745,627**
40.	Fee and commission income	22,260,029	17,625,263
50.	Fee and commission expense	(6,418,953)	(2,367,900)
60.	**Net fee and commission income**	**15,841,076**	**15,257,363**
70.	Dividends and similar income	226,667	226,667
80.	Net trading income (expense)	214,846	(124,809)
100.	Gain from sales or repurchases of:	3,716,224	1,167,196
	a) financial assets measured at amortised cost	*1,105,860*	-
	b) financial assets measured at fair value through other comprehensive income	*2,610,364*	*1,167,196*
120.	**Total income**	**100,551,224**	**91,272,044**
130.	Net impairment losses on:	(9,053,279)	(6,814,326)
	a) financial assets measured at amortised cost	*(8,948,421)*	*(6,812,268)*
	b) financial assets measured at fair value through other comprehensive income	*(104,858)*	*(2,058)*
150.	**Net financial income**	**91,497,945**	**84,457,718**
160.	Administrative expenses	(44,827,766)	(40,521,280)
	a) personnel expense	*(22,315,805)*	*(19,811,309)*
	b) other administrative expenses	*(22,511,961)*	*(20,709,971)*
170.	Net accruals to provisions for risks and charges	(1,996,083)	(414,040)
	a) commitments and guarantees issued	*(36,264)*	-
	b) other net accruals	*(1,959,819)*	*(414,040)*
180.	Net impairment losses on property and equipment	(1,640,515)	(400,881)
190.	Net impairment losses on intangible assets	(107,062)	(3,250)
200.	Other operating expense	(795,556)	(418,294)
210.	**Operating costs**	**(49,366,982)**	**(41,757,745)**
260.	**Pre-tax profit from continuing operations**	**42,130,963**	**42,699,973**
270.	Income taxes	(12,350,772)	(14,629,413)
280.	**Post-tax profit from continuing operations**	**29,780,191**	**28,070,560**
290.	Post-tax profit (loss) from discontinued operations	175,532	-
300.	**Profit for the year**	**29,955,723**	**28,070,560**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euros)

		2019	2018
10.	**Profit for the year**	**29,955,723**	**28,070,560**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	**-**	**-**
20.	Equity instruments designated at fair value through other comprehensive income	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(19,660)	39,019
80.	Non-current assets held for sale and disposal groups	-	-
90.	Share of valuation reserves of equity-accounted investments:	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	**-**	**-**
100.	Hedges of foreign investments	-	-
110.	Exchange rate gains (losses)	-	-
120.	Cash flow hedges	-	-
130.	Hedging instruments (non-designated elements)	-	-
140.	Financial assets (other than equity instruments) measured at fair value through other comprehensive income	1,430,086	(2,064,140)
150.	Non-current assets held for sale and disposal groups	-	-
160.	Share of valuation reserves of equity-accounted investments:	-	-
170.	**Total other comprehensive income (expense), net of income tax**	**1,410,426**	**(2,025,121)**
180.	**Comprehensive income (Items 10+170)**	**31,366,149**	**26,045,439**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2019

(Amounts in Euros)

				Allocation of prior year profit		Changes during the year								
							Transactions on equity							
	Balance at 31.12.2018	Change in opening balances	Balance at 1.1.2019	Reserves	Dividends and other allocations	Changes in reserves	Issue of new shares	Repurchase of treasury shares	Extraordinary dividend distribution	Change in equity instruments	Derivatives on treasury shares	Stock Options	Comprehensive income for 2019	**Equity at 31.12.2019**
Share capital:														
a) ordinary shares	**9,650,526**	-	9,650,526	-	-	-	-	-	-	-	-	-	-	**9,650,526**
b) other shares	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium	**39,184,038**	-	39,184,038	-	-	(83,870)	-	-	-	-	-	-	-	**39,100,168**
Reserves	**79,803,766**	-	79,803,766	21,073,928	-	(4,958)	-	-	-	-	-	-	-	**100,872,736**
a) income-related	**80,628,056**	-	80,628,056	21,073,928	-	(20,165)	-	-	-	-	-	-	-	**101,681,819**
b) other	**(824,290)**	-	(824,290)	-	-	15,207	-	-	-	-	-	-	-	**(809,083)**
Valuation reserves	**(1,131,458)**	-	(1,131,458)	-	-	-	-	-	-	-	-	-	1,410,426	**278,968**
Equity instruments	**-**	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Treasury shares	**(198,893)**	-	(198,893)	-	-	(34,739)	-	-	-	-	-	-	-	**(233,632)**
Profit for the year	**28,070,560**	-	28,070,560	(21,073,928)	(6,996,632)	-	-	-	-	-	-	-	29,955,723	**29,955,723**
Equity	**155,378,539**	**-**	**155,378,539**	**-**	**(6,996,632)**	**(123,567)**	-	-	-	-	-	-	**31,366,149**	**179,624,489**

STATEMENT OF CHANGES IN EQUITY AS AT 31.12.2018

(Amounts in Euros)

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

STATEMENT OF CASH FLOWS (indirect method)

(Amounts in Euros)

	Amount 2019	Amount 2018
A. OPERATING ACTIVITIES		
1. Operations	**49,939,249**	**84,218,785**
▪ Profit for the year (+/-)	29,955,723	28,070,560
▪ Gains/losses on financial assets held for trading and other financial assets/liabilities measured at fair value through profit or loss (-/+)	-	-
▪ Gains/losses on hedging activities (-/+)	-	-
▪ Net impairment losses due to credit risk (+/-)	8,948,421	6,812,268
▪ Net impairment losses on property and equipment and intangible assets (+/-)	1,747,577	404,131
▪ Net accruals to provisions for risks and charges and other costs/income (+/-)	1,996,083	414,040
▪ Taxes, duties and tax assets not yet paid (+)	1,492,987	5,570,030
▪ Other adjustments (+/-)	5,798,458	42,947,756
2. Cash flows used for financial assets	**(562,424,429)**	**(864,298,946)**
▪ Financial assets held for trading	-	1,201,206
▪ Financial assets designated at fair value through profit or loss	-	-
▪ Other assets mandatorily measured at fair value through profit or loss	-	-
▪ Financial assets measured at fair value through other comprehensive income	(250,503,362)	(20,923,805)
▪ Financial assets measured at amortised cost	(309,864,973)	(845,337,933)
▪ Other assets	(2,056,094)	761,586
3. Cash flows generated by financial liabilities	**528,034,390**	**792,749,735**
▪ Financial liabilities measured at amortised cost	498,196,976	801,154,448
▪ Financial liabilities held for trading	-	-
▪ Financial liabilities designated at fair value through profit or loss	-	-
▪ Other liabilities	29,837,414	(8,404,713)
Net cash flows generated by operating activities	**15,549,210**	**12,669,574**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**-**	**101,877**
▪ Sales of equity investments	-	-
▪ Dividends from equity investments	-	-
▪ Sales of property and equipment	-	103,708
▪ Sales of intangible assets	-	-
▪ Sales of business units	-	(1,831)
2. Cash flows used in	**(8,652,669)**	**(5,678,242)**
▪ Purchases of equity investments	(721,989)	(5,277,361)
▪ Purchases of property and equipment	(6,991,980)	(400,881)
▪ Purchases of intangible assets	(938,700)	-
▪ Purchases of business units	-	-
Net cash flows used in investing activities	**(8,652,669)**	**(5,576,365)**
C. FINANCING ACTIVITIES		
▪ Repurchases of treasury shares	(34,739)	(49,465)
▪ Issues/repurchases of equity instruments	-	-
▪ Dividend and other distributions	(6,996,632)	(6,916,210)
Net cash flows used in financing activities	**(7,031,371)**	**(6,965,675)**
NET CASH FLOWS FOR THE YEAR	**(134,830)**	**127,534**

KEY:
(+) generated
(–) used

RECONCILIATION

Cash and cash equivalents at the beginning of the year	288,431	160,897
Total net cash flows for the year	(134,830)	127,534
Cash and cash equivalents: effect of change in exchange rates	-	-
Cash and cash equivalents at the end of the year	153,601	288,431

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

A.1 - GENERAL PART

SECTION 1 - Statement of compliance with International Financial Reporting Standards

The separate financial statements of Banca Sistema S.p.A. at 31 December 2019 were drawn up in accordance with International Financial Reporting Standards - called IFRS - issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and endorsed by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002, adopted in Italy by art. 1 of Legislative Decree no. 38 of 28 February 2005 and considering the Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, regarding the forms and rules for drafting the Financial Statements of banks.

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

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

- is relevant to the economic decision-making needs of users;
- is reliable, in that the financial statements:
  - represent faithfully the financial position, financial performance and cash flows of the Bank;
  - reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
  - are neutral, i.e. free from bias;
  - are prudent;
  - are complete in all material respects.

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

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

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

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

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

The financial statements were audited by BDO Italia S.p.A.

SECTION 2 - General basis of preparation

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

The financial statements are accompanied by the

Directors' Report on the Bank's performance.

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

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

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

Within the scope of drawing up the financial statements in accordance with the IFRS, bank management must make assessments, estimates and assumptions that influence the amounts of the assets, liabilities, costs and income recognised during the year.

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 valuation of loans and receivables with customers: the acquisition of performing receivables from companies that supply goods and services represents the Bank's main activity. Estimating the value of these receivables is a complex activity with a high degree of uncertainty and subjectivity. Their value is estimated by using models that include numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate;
- the valuation of default interest pursuant to Legislative Decree no. 231 of 9 October 2002 on performing receivables acquired without recourse: estimating the expected recovery percentages of default interest is complex, with a high degree of uncertainty and subjectivity. Internally developed valuation models are used to determine these percentages, which take numerous qualitative and

quantitative elements into consideration;

- the estimate related to the possible impairment losses on goodwill and equity investments recognised in the financial statements;
- the quantification and estimate made for recognising liabilities in the provision for risks and charges, the amount or timing of which are uncertain;
- the recoverability of deferred tax assets.

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

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

Application of the new IFRS 16

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

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

The economic impact does not change over the lease term, but is instead allocated differently over time.

The Group has chosen to use the modified retrospective approach for the first-time adoption (FTA) of IFRS 16, which provides the option to recognise the cumulative effect of applying the Standard at the date of initial application and excludes the restatement of comparative data from the financial statements prepared upon first-time adoption of IFRS 16. Therefore, the figures of the financial statements for 2019 will not be comparable for the valuation of the rights of use and the corresponding lease liability.

The effects of first-time adoption (FTA) of IFRS 16

The adoption of IFRS 16 using the modified retrospective approach resulted in an increase in property and equipment due to the recognition of new rights of use of € 1.9 million and financial liabilities (payable to the lessor) for the same amount.

Consequently, from the first-time adoption of the standard, there has been no impact on equity following the decision to adopt the modified approach.

SECTION 3 - Subsequent events

With regard to IAS 10, after 31 December 2019, the reporting date of the separate financial statements, and up to 11 March 2020, the date when the separate financial statements were presented to the Board of Directors, no events occurred that would require any adjustments to the figures in the separate financial statements.

SECTION 4 - Other aspects

With reference to the transparency rules on public funding introduced by article 1, paragraphs 125-129 of Italian Law no. 124/2017 and subsequently supplemented by the 'Sicurezza' Law Decree (no. 113/2018) and the 'Semplificazione' Law Decree (no. 135/2018), it should be noted that there were issues regarding their interpretation and application. On the basis of the guidelines and interpretations formulated by Assonime in Circular no. 5 of 22 February 2019, amounts received by companies related to 'paid assignments' are to be excluded from this report. Moreover, the requirement that they be disclosed in the notes to the financial statements was understood to exclude the general measures available to all companies. Based on this interpretation, there is nothing to report.

There are no significant aspects to note.

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

Financial assets measured at fair value through profit or loss

Classification criteria

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

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

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

Recognition criteria

Initial recognition of financial assets occurs at the settlement date for debt instruments and equity instruments, at the disbursement date for loans and at the subscription date for derivative contracts.

On initial recognition, financial assets measured at fair value through profit or loss are recognised at fair value, without considering transaction costs or income directly attributable to the instrument.

Measurement and recognition criteria for income components

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

In particular, this item includes:

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

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

Derecognition criteria

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

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

Classification criteria

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

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

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

In particular, this item includes:

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

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

Recognition criteria

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

The initial fair value of a financial instrument is usually the cost incurred for its acquisition.

Measurement and recognition criteria for income components

Following initial recognition, financial assets are measured at their fair value with any gains or losses resulting from a change in the fair value compared to the amortised cost recognised in a specific equity reserve recognised in the statement of comprehensive income up until said financial asset is derecognised or an impairment loss is recognised.

For more details on the methods of calculating the fair value please refer to paragraph 17.3 below "Criteria for determining the fair value of financial instruments".

Equity instruments, for which the choice has been made to classify them in this category, are measured at fair value and the amounts recognised in other comprehensive income cannot be subsequently transferred to profit or loss, not even if they are sold (the so-called OCI exemption). The only component related to these equity instruments that is recognised through profit or loss is their dividends. Fair value is determined on the basis of the criteria already described for Financial assets measured at fair value through profit or loss.

For the equity instruments included in this category, which are not quoted on an active market, the cost approach is used as the estimate of fair value only on a residual basis and in a small number of circumstances, i.e., when all the measurement methods referred to above cannot be applied, or when there are a wide range of possible measurements of fair value, in which cost represents the most significant estimate.

Financial assets measured at fair value through other comprehensive income are subject to the verification of the significant increase in credit risk (impairment) required by IFRS 9, with the consequent recognition through profit or loss of an impairment loss to cover the expected losses.

Derecognition criteria

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

Financial assets measured at amortised cost

Classification criteria

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

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

In particular, this item includes:

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

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

Recognition criteria

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

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

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

Measurement and recognition criteria for income components

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

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

The measurement criteria are strictly connected with the stage to which the receivable is assigned, where stage 1 contains performing loans, stage 2 consists of under-performing loans, i.e. loans that have undergone a significant increase in credit risk ("significant deterioration") since the initial recognition of the instrument, and stage 3 consists of non-performing loans, i.e. the loans that show objective evidence of impairment. The impairment losses recognised through profit or loss for the performing loans classified in stage 1 are calculated by considering an expected loss at one year, while for the performing loans in stage 2 they are calculated by considering the expected losses over the entire residual contractual lifetime of the asset (Lifetime Expected Loss). The performing financial assets are measured according to probability of default (PD), loss given default (LGD) and exposure at default (EAD) parameters, derived from internal historic series. For impaired assets, the amount of the loss, to be recognised through profit or loss, is established based on individual measurement or determined according to uniform categories and, then, individually allocated to each position, and takes account of forward-looking information and possible alternative recovery scenarios. Impaired assets include financial instruments classified as bad exposures, unlikely-to-pay or past due/overdrawn by over ninety days according to the rules issued by the Bank of Italy, in line with the IFRS and EU Supervisory Regulations. The expected cash flows take into account the expected recovery times and the estimated realisable value of any guarantees. The original effective rate of each asset remains unchanged over time even if the relationship has been restructured with a variation of the contractual interest rate and even if the relationship, in practice, no longer bears contractual interest. If the reasons for impairment are no longer applicable following an event subsequent to the recognition of impairment, impairment gains are recognised in the income statement. The impairment gains may not in any case exceed the amortised cost that the financial instrument would have had in the absence of previous impairment losses. Impairment gains with time value effects are recognised in net interest income.

Derecognition criteria

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

Hedging transactions

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

Equity investments

Classification criteria

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

Recognition criteria

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

Measurement criteria

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

Derecognition criteria

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

Property and equipment

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, operating property, investment property, technical installations, furniture and fittings and equipment of any nature and works of art.
They also include leasehold improvements to third party assets if they can be separated from the assets in question. If the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recognised under "other assets" and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease. Depreciation is recognised under "Other operating income (expense)".
Property and equipment also include payments on account for the purchase and renovation of assets not yet part of the production process and therefore not yet subject to depreciation.
"Operating" property and equipment are represented by assets held for the provision of services or for administrative purposes, while property and equipment held for "investment purposes" are those held to collect lease instalments and/or held for capital appreciation.
The item also includes rights of use associated with leased assets and fees for use.

Recognition criteria

Property and equipment are initially recognised at cost, including all costs directly attributable to installation of the asset.
Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets, and are depreciated based on their residual useful life.
Under IFRS 16, leases are accounted for in accordance with the right-of-use model, whereby, at the commencement date, the lessee incurs an obligation to make payments to the lessor for the right to use the underlying asset for the term of the lease. When the asset is made available for use by the lessee, the lessee recognises both the liability and the right-of-use asset.

Measurement criteria

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

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

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

At the end of each year, if there is any evidence that property or equipment that is not held for investment purposes may have suffered an impairment loss, a comparison is made between its carrying amount and its recoverable value, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the present value of future cash flows expected from the asset. Any impairment losses are recognised in the income statement under "net impairment losses on property and equipment".

If the reasons that led to recognition of the impairment loss cease to apply, an impairment gain is recognised that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

For investment property, which comes within the scope of application of IAS 40, the measurement is made at the market value determined using independent surveys and the changes in fair value are recognised in the income statement under the item "fair value gains (losses) on property, equipment and intangible assets".

The right-of-use asset, recognised in accordance with IFRS 16, is measured using the cost model under IAS 16 Property, plant and equipment. In this case, the asset is subsequently depreciated and tested for impairment if impairment indicators are present.

Derecognition criteria

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

Intangible assets

Classification criteria

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

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

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recognised as a cost in the year in which it was incurred.

Intangible assets include software to be used over several years and other identifiable assets generated by legal or contractual rights.

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

Measurement criteria

Intangible assets are systematically amortised from the time of their input into the production process.

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

Derecognition criteria

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

Non-current assets held for sale and disposal groups

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

Financial liabilities measured at amortised cost

Classification criteria

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

Recognition criteria

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

The initial fair value of a financial liability is usually equivalent to the amount collected.

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities held for trading

Classification and recognition criteria

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

Measurement and recognition criteria for income components

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

Derecognition criteria

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

Financial liabilities designated at fair value through profit or loss

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

Current and deferred taxes

Income taxes, calculated in compliance with prevailing tax regulations, are recognised in the income statement on an accruals basis, in accordance with the recognition in the financial statements of the costs and income that generated them, apart from those referring to the items recognised directly in equity, where the recognition of the tax is made to equity in order to be consistent.

Income taxes are provided for on the basis of a prudential estimate of the current and deferred taxes. More specifically, deferred taxes are determined on the basis of the temporary differences between the carrying amount of assets and liabilities and their tax bases. Deferred tax assets are recognised in the financial statements to the extent that it is probable that they will be recovered based on the Group's ability to continue to generate positive taxable income.

Deferred tax assets and liabilities are accounted for in the statement of financial position with open balances and without offsetting entries, recognising the former under "Tax assets" and the latter under "Tax liabilities".

With respect to current taxes, at the level of individual taxes, advances paid are offset against the relevant tax charge, indicating the net balance under "current tax assets" or "current tax liabilities" depending on whether it is positive or negative.

Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made at the reporting date. Where the temporary deferral in sustaining the charge is significant, and therefore the extent of the discounting will be significant, provisions are discounted at current market rates.

The provisions are reviewed at the reporting date of the annual financial statements and the interim financial statements and adjusted to reflect the current best estimate. These are recognised under their own items in the income statement in accordance with a cost classification approach based on the "nature" of the cost. Provisions related to future charges for employed personnel relating to the bonus system appear under "personnel expense". The provisions that refer to risks and charges of a tax nature are reported as "income taxes", whereas the provisions connected to the risk of potential losses not directly chargeable to specific items in the income statement are recognised as "net accruals to provisions for risks and charges".

Other information

Post-employment benefits

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

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

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

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

Repurchase agreements

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

Criteria for determining the fair value of financial instruments

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

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

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

1. of the most recent NAV (Net Asset Value) published by the management investment company for the harmonised funds (UCITS - Undertakings for Collective Investment in Transferable Securities), the Hedge Funds and the SICAVs;
2. of the recent transaction prices observable in the markets;
3. of the price indications deducible from infoproviders (e.g., Bloomberg, Reuters);
4. of the fair value obtained from measurement models (for example, Discounting Cash Flow Analysis, Option Pricing Models) that estimate all the possible factors that influence the fair value of a financial instrument (cost of money, credit exposure, liquidity risk, volatility, foreign exchange rates, prepayment rates, etc.) based on data observable in the market, also with regards to similar instruments on the measurement date. If market data cannot be referenced for one or more risk factors, metrics internally determined on a historical-statistical basis are used. The measurement models are subject to periodic review to guarantee complete and constant reliability;
5. of the price indications provided by the counterparty issuer adjusted if necessary to take into account the counterparty and/or liquidity risk (for example, the price resolved on by the Board of Directors and/or the Shareholders for the shares of unlisted cooperative banks, the unit value communicated by the management investment company for the closed-end funds reserved to institutional investors or for other types of OEICs other than those cited in paragraph 1, the redemption value calculated in compliance with the issue regulation for the insurance contracts);
6. for the equity-linked instruments, where the measurement techniques pursuant to the previous paragraphs are not applicable: i) the value resulting

from independent surveys if available; ii) the value corresponding to the portion of equity held resulting from the company's most recently approved financial statements; iii) the cost, adjusted if necessary to take into account significant reductions in value, where the fair value cannot be reliably determined.

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

- **Level 1** - prices (without adjustments) reported on an active market: the measurements of the financial instruments quoted on an active market based on quotations that can be understood from the market;
- **Level 2 -** the measurement is not based on prices of the same financial instrument subject to measurement, but on prices or credit spreads obtained from the official prices of essentially similar instruments in terms of risk factors, by using a given calculation method (pricing model).

  The use of this approach translates to the search for transactions present on active markets, relating to instruments that, in terms of risk factors, are comparable with the instrument subject to measurement.

  The calculation methods (pricing models) used in the comparable approach make it possible to reproduce the prices of financial instruments quoted on active markets (model calibration) without including discretionary parameters - i.e. parameters whose value cannot be obtained from the prices of financial instruments present on active markets or cannot be fixed at levels as such to replicate prices present on active markets - which may influence the final valuation price in a decisive manner.
- **Level 3** - inputs that are not based on observable market data: the measurements of financial instruments not quoted on an active market, based on measurement techniques that use significant inputs that are not observable on the market, involving the adoption of estimates and assumptions by management (prices supplied by the issuing counterparty, taken from independent surveys, prices corresponding to the fraction of the equity held in the company or obtained using measurement models that do not use market data to estimate significant factors that condition the fair value of the financial instrument). This level includes measurements of financial instruments at cost price.

Business combinations

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

- identification of the acquirer;
- measurement of the cost of the business combination;
- allocation, at the acquisition date, of the cost of the business combination to the assets acquired and liabilities and contingent liabilities assumed.

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

The acquisition date is the date on which control of the acquiree is effectively obtained. When this is achieved through a single exchange transaction, the date of exchange coincides with the acquisition date.

If the business combination is carried out through several exchange transactions:

- the cost of the combination is the aggregate cost of the individual transactions
- the date of exchange is the date of each exchange transaction (i.e. the date that each individual investment is recognised in the financial statements of the acquirer), whereas the acquisition date is the date

on which control of the acquiree is obtained

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the acquisition date.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised separately at the acquisition date only if they satisfy the following criteria at that date:

- in the case of an asset other than an intangible asset, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably;
- in the case of a liability other than a contingent liability, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and its fair value can be measured reliably;
- in the case of an intangible asset or a contingent liability, its fair value can be measured reliably.

The positive difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities must be accounted for as goodwill.

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

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

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

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

No financial instruments were transferred between portfolios.

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

No financial assets were reclassified.

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

No financial assets held for trading were transferred.

A.4 - FAIR VALUE DISCLOSURE

QUALITATIVE DISCLOSURE

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

Please refer to the accounting policies.

A.4.2 Processes and sensitivity of measurements

The carrying amount of financial assets and liabilities due within one year has been assumed to be a reasonable approximation of fair value, while for those due beyond one year, the fair value is calculated taking into account both interest rate risk and credit risk.

A.4.3 Fair value hierarchy

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

- Level 1- Effective market quotes

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

A.4.4 Other Information

The item is not applicable for the Bank.

QUANTITATIVE DISCLOSURE

A.4.5 Fair value hierarchy

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

Financial assets/liabilities measured at fair value	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Financial assets measured at fair value through profit or loss	-	-	-	-	-	-
a) financial assets held for trading	-	-	-	-	-	-
b) financial assets designated at fair value through profit or loss	-	-	-	-	-	-
c) other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	551,383	-	5,000	299,469	-	5,000
3. Hedging derivatives	-	-	-	-	-	-
4. Property and equipment	-	-	-	-	-	-
5. Intangible assets	-	-	-	-	-	-
TOTAL	**551,383**	**-**	**5,000**	**299,469**	**-**	**5,000**
1. Financial liabilities held for trading	-	-	-	-	-	-
2. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-
3. Hedging derivatives	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-

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

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

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	31.12.2019				31.12.2018			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets measured at amortised cost	3,123,738	435,177	-	2,688,561	2,801,813	435,482	-	2,366,331
2. Investment property	-	-	-	-	-	-	-	-
3. Non-current assets held for sale and disposal groups	-	-	-	-	2,221	-	-	2,221
TOTAL	**3,123,738**	**435,177**	**-**	**2,688,561**	**2,804,034**	**435,482**	**-**	**2,368,552**
1. Financial liabilities measured at amortised cost	3,416,940	-	-	3,416,940	2,902,240	-	-	2,902,240
2. Liabilities associated with disposal groups	-	-	-	-	-	-	-	-
TOTAL	**3,416,940**	**-**	**-**	**3,416,940**	**2,902,240**	**-**	**-**	**2,902,240**

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

A.5 Disclosure concerning "day one profit/loss"

Nothing to report.

ASSETS

SECTION 1 - CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

	31.12.2019	31.12.2018
a. Cash	154	288
b. Demand deposits with Central Banks	-	-
TOTAL	**154**	**288**

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

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

	31.12.2019			31.12.2018		
	L1	L2	L3	L1	L2	L3
1. Debt instruments	**550,219**	**-**	**-**	**298,292**	**-**	**-**
1.1 Structured instruments	-	-	-	-	-	-
1.2 Other debt instruments	550,219	-	-	298,292	-	-
2. Equity instruments	**1,164**	**-**	**5,000**	**1,177**	**-**	**5,000**
3. Financing	**-**	-	**-**	**-**	**-**	**-**
Total	**551,383**	-	**5,000**	**299,469**	**-**	**5,000**

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

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

	31.12.2019	31.12.2018
1. Debt instruments	**550,219**	**298,292**
a. Central Banks	-	-
b. Public administrations	550,219	298,292
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
2. Equity instruments	**6,164**	**6,177**
a. Banks	5,000	5,000
b. Other issuers:	1,164	1,177
- other financial companies	-	-
of which: insurance companies	-	-
- non-financial companies	1,164	1,177
- other	-	-
4. Financing	-	-
a. Central Banks	-	-
b. Public administrations	-	-
c. Banks	-	-
d. Other financial companies	-	-
of which: insurance companies	-	-
e. Non-financial companies	-	-
f. Households	-	-
Total	**556,383**	**304,469**

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

	Gross amount				Total impairment losses			Overall partial write-offs (*)
	First stage	of which instruments with low credit risk	Second stage	Third stage	First stage	Second stage	Third stage	
Debt instruments	550,373	-	-	-	154	-	-	-
Financing	-	-	-	-	-	-	-	-
Total at 31.12.2019	**550,373**	-	-	-	**154**	-	-	-
Total at 31.12.2018	**298,341**	-	-	-	**49**	-	-	-
of which: purchased or originated credit-impaired financial assets	X	X	-	-	X	-	-	-

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

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

	31.12.2019						31.12.2018					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
A. Loans and receivables with Central Banks	**19,966**	**-**	**-**	**-**	**-**	**19,966**	**12,460**	**-**	**-**	**-**	**-**	**12,460**
1. Term deposits	-	-	-	X	X	X	-	-	-	X	X	X
2. Minimum reserve	19,912	-	-	X	X	X	12,437	-	-	X	X	X
3. Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
4. Other	54	-	-	X	X	X	23	-	-	X	X	X
B. Loans and receivables with banks	**61,036**	**-**	**-**	**-**	**-**	**61,036**	**44,234**	**-**	**-**	**-**	**-**	**44,234**
1. Financing	61,036	-	-	-	-	61,036	44,234	-	-	-	-	44,234
1.1 Current accounts and demand deposits	52,503	-	-	X	X	X	24,046	-	-	X	X	X
1.2. Term deposits	-	-	-	X	X	X	19,996	-	-	X	X	X
1.3. Other financing:	8,533	-	-	X	X	X	192	-	-	X	X	X
- Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
- Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
- Other	8,533	-	-	X	X	X	192	-	-	X	X	X
2. Debt instruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-	-	-
Total	**81,002**	**-**	**-**	**-**	**-**	**81,002**	**56,694**	**-**	**-**	**-**	**-**	**56,694**

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

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

	31.12.2019						31.12.2018					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3	First and second stage	Third stage	of which: purchased or originated credit-impaired	L1	L2	L3
1. Financing	**2,399,160**	**208,399**	**27,527**	-	-	**2,632,328**	**2,113,713**	**195,995**	**25,776**	**-**	-	**2,309,708**
1.1 Current accounts	41,966	56	-	X	X	X	38,536	70	-	X	X	X
1.2 Reverse repurchase agreements	-	-	-	X	X	X	-	-	-	X	X	X
1.3 Loans	6,753	1,970	-	X	X	X	27,602	8,470	-	X	X	X
1.4 Credit cards, personal loans and salary- and pension-backed loans	796,367	6,012	-	X	X	X	636,134	291	-	X	X	X
1.5. Finance leases	-	-	-	X	X	X	-	-	-	X	X	X
1.6 Factoring	963,352	188,869	27,527	X	X	X	974,942	176,942	25,776	X	X	X
1.7 Other financing	590,722	11,492	-	X	X	X	436,499	10,222	-	X	X	X
2. Debt instruments	**435,177**	**-**	**-**	**436,634**	**-**	**-**	**435,411**	**-**	**-**	**435,411**	**-**	-
2.1 Structured instruments	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other debt instruments	435,177	-	-	436,634	-	-	435,411	-	-	435,411	-	-
Total	**2,834,337**	**208,399**	**27,527**	**436,634**	**-**	**2,632,328**	**2,549,124**	**195,995**	**25,776**	**435,411**	**-**	**2,309,708**

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

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

Factoring receivables include default interest recognised on an accruals basis for € 49.9 million.

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

Measuring loans and receivables with customers is an activity with a high degree of uncertainty and subjectivity involving the use of measurement models that take into account numerous quantitative and qualitative elements. These include the historical data for collections, expected cash flows and the related expected recovery times, the existence of indicators of possible impairment, the valuation of any guarantees, and the impact of risks associated with the sectors in which the Bank's customers operate.

Securities are composed entirely of Italian government securities with an average duration of 14.5 months for an amount of € 435 million. The mark-to-market valuation of the securities at 31 December 2019 was a positive fair value of € 1.4 million.

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

	31.12.2019			31.12.2018		
	First and second stage	Third stage	of which: purchased or originated credit-impaired assets	First and second stage	Third stage	of which: purchased or originated credit-impaired assets
1. Debt instruments	**435,177**	**-**	**-**	**435,411**	**-**	**-**
a) Public administrations	435,177	-	-	435,411	-	-
b) Other financial companies	-	-	-	-	-	-
of which: insurance companies	-	-	-	-	-	-
c) Non-financial companies	-	-	-	-	-	-
2. Financing to:	**2,399,160**	**208,399**	**27,527**	**2,113,713**	**195,995**	**25,776**
a) Public administrations	1,281,129	142,646	27,527	1,083,480	139,952	25,776
b) Other financial companies	72,341	4	-	43,429	1	-
of which: insurance companies	9	3	-	4	1	-
c) Non-financial companies	210,459	56,872	-	306,520	52,484	-
d) Households	835,231	8,877	-	680,284	3,558	-
Total	**2,834,337**	**208,399**	**27,527**	**2,549,124**	**195,995**	**25,776**

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

	Gross amount				Total impairment losses			
	First stage		Second stage	Third stage	First stage	Second stage	Third stage	Overall partial write-offs (*)
		of which instruments with low credit risk						
Debt instruments	435,299	-	-	-	122	-	**-**	**-**
Financing	2,361,618	1,248,699	124,252	245,618	5,043	667	**37,217**	-
Total at 31.12.2019	**2,796,917**	**1,248,699**	**124,252**	**245,618**	**5,165**	**667**	**37,217**	**-**
Total at 31.12.2018	**2,505,711**	**1,086,780**	**106,473**	**225,164**	**5,785**	**580**	**29,169**	-
of which: purchased or originated credit-impaired financial assets	X	X	24,888	2,857	X	91	128	-

SECTION 7 - EQUITY INVESTMENTS - ITEM 70

7.1 Equity investments: information on investment relationships

	Registered office	Interest %	% of votes available
A. Fully-controlled companies			
1. S.F. Trust Holdings Ltd	**London**	100%	100%
2. Largo Augusto Servizi e Sviluppo S.r.l.	**Milan**	100%	100%
3. ProntoPegno S.p.A.	**Milan**	100%	100%

7.3 Significant equity investments: accounting information

	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total income	Net interest income	Net impairment gains and losses on property and equipment/intangible assets	Pre-tax profit (loss) from continuing operations	Post-tax profit (loss) from continuing operations	Post-tax profit (loss) from discontinued operations	Profit (loss) for the year	Other comprehensive income (expense), net of income tax	Comprehensive income (expense)
A. Fully-controlled companies														
1. S.F. Trust Holdings Ltd	-	117	817	1,902	324	-	(73)	-	(258)	(267)	-	(267)	-	(267)
2. Largo Augusto Servizi e Sviluppo S.r.l.	-	-	27,945	13,507	228	1,352	(136)	(602)	65	62	-	62	-	62
3. ProntoPegno S.p.A.	499	12,869	701	8,502	1,008	613	301	(44)	(599)	(428)	-	(428)	-	(440)

7.5 Equity investments: changes

	31.12.2019	31.12.2018
A. Opening balance	**19,278**	**16,222**
B. Increases	**1,500**	**5,277**
B.1 Purchases	-	5,277
B.2 Impairment gains	-	-
B.3 Revaluations	-	-
B.4 Other increases	1,500	-
C. Decreases	**778**	**2,221**
C.1 Sales	778	-
C.2 Impairment losses	-	-
C.3 Write-offs	-	-
C.4 Other decreases	-	2,221
D. Closing balance	**20,000**	**19,278**
E. Total revaluations	**-**	**-**
F. Total impairment losses	**-**	**-**

The increase of € 1.5 million relates to the transfer of the Bank's collateralised lending business unit to its subsidiary ProntoPegno. The decreases in the item Equity investments are linked to the sale of the non-controlling interests in ADV Finance S.p.A. and its subsidiary Procredit S.r.l. in the second quarter of 2019.

SECTION 8 - PROPERTY AND EQUIPMENT - ITEM 80

8.1 Operating property and equipment: breakdown of property and equipment

	31.12.2019	31.12.2018
1 Owned	**356**	**710**
a) land	-	-
b) buildings	-	-
c) furniture	172	260
d) electronic equipment	184	421
e) other	-	29
2 Under finance lease	**5,705**	**-**
a) land	-	-
b) buildings	5,018	-
c) furniture	-	-
d) electronic equipment	-	-
e) other	687	-
Total	**6,061**	**710**
of which: obtained from the enforcement of guarantees received	-	-

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

Depreciation rates:

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

The item “Under finance lease” includes the right of use relating to rents, of which the most significant amount refers to the property owned by the subsidiary Largo Augusto Servizi e Sviluppo S.r.l. (LASS) located in Milan, and the item “Other” includes the right of use relating to leased company cars.

8.6 Operating assets: changes

	Land	Buildings	Furniture	Electronic equipment	Other	Total
A. Gross opening balances	**-**	**-**	**1,213**	**1,975**	**90**	**3,278**
A.1 Total net impairment losses	-	-	953	1,554	61	2,568
A.2 Net opening balances	-	-	260	421	29	710
B. Increases	**-**	**6,321**	**30**	**142**	**1,086**	**7,579**
B.1 Purchases	-	4,971	30	93	450	5,544
B.2 Capitalised improvement costs	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Transfers from investment property	-	-	-	-	-	-
B.7 Other increases	-	-	-	49	-	49
B.8 Business combination transactions	-	56	-	-	-	56
B.9 First-time adoption of IFRS 16	-	1,294	-	-	636	1,930
C. Decreases	**-**	**1,303**	**118**	**379**	**428**	**2,228**
C.1 Sales	-	223	54	251	32	560
C.2 Depreciation	-	1,032	49	128	343	1,552
C.3 Impairment losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.4 Fair value losses recognised in	-	-	-	-	-	-
a. equity	-	-	-	-	-	-
b. profit or loss	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a. investment property	-	-	-	-	-	-
b. non-current assets held for sale and disposal groups	-	-	-	-	-	-
C.7 Other decreases	-	-	15	-	53	68
B.8 Business combination transactions	-	48	-	-		48
D. Net closing balance	**-**	**5,018**	**172**	**184**	**687**	**6,061**
D.1 Total net impairment losses	-	1,303	1,071	1,933	489	4,796
D.2 Gross closing balance	-	6,321	1,243	2,117	1,176	10,857
E. Measurement at cost	**-**	**5,018**	**172**	**184**	**687**	**6,061**

SECTION 9 - INTANGIBLE ASSETS - ITEM 90

9.1 Intangible assets: breakdown by type of asset

	31.12.2019		31.12.2018	
	Finite useful life	Indefinite useful life	Finite useful life	Indefinite useful life
A.1 Goodwill	-	**3,920**	-	**1,786**
A.2 Other intangible assets	**1**	-	**2**	-
A.2.1 Internally developed assets	1	-	2	-
a. Internally developed assets	-	-	-	-
b. Other	1	-	2	-
A.2.2 Assets measured at fair value:	-	-	-	-
a. Internally developed assets	-	-	-	-
b. Other	-	-	-	-
TOTAL	**1**	**3,920**	**2**	**1,786**

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

With respect to information related to goodwill, reference should be made to Part B - Information on the statement of financial position, Section 10 - Intangible assets - Item 100 of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

9.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally developed		Other intangible assets: Other		Total
		Fin	Indef	Fin	Indef	
A. Opening balance	**1,786**	-	-	**3,104**	-	**4,890**
A.1 Total net impairment losses	-	-	-	3,102	-	3,102
A.2 **Net opening balances**	**1,786**	-	-	**2**	-	**1,788**
B. Increases	**2,134**	-	-	**-**	-	**2,134**
B.1 Purchases	-	-	-	-	-	-
B.2 Increases in internally developed assets	-	-	-	-	-	-
B.3 Impairment gains	-	-	-	-	-	-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-	-	-	-
B.5 Exchange rate gains	-	-	-	-	-	-
B.6 Other increases	-	-	-	-	-	-
B.7 Business combination transactions	2,134	-	-	-	-	-
C. Decreases	**-**	-	-	-	-	**-**
C.1 Sales	-	-	-	-	-	-
C.2 Impairment losses	-	-	-	1	-	1
- Amortisation	-	-	-	1	-	1
- Impairment losses:	-	-	-	-	-	-
+ equity	-	-	-	-	-	-
+ profit or loss	-	-	-	-	-	-
C.3 Fair value losses recognised in:	-	-	-	-	-	-
- equity	-	-	-	-	-	-
- profit or loss	-	-	-		-	-
C.4 Transfers to disposal groups	-	-	-	-	-	-
C.5 Exchange rate losses	-	-	-	-	-	-
C.6 Other decreases	-	-	-	-	-	-
D. Net closing balance	**3,920**	-	-	**1**	-	**3,921**
D.1 Total net impairment losses	-	-	-	3,103	-	3,103
E. Gross closing balance	**3,920**	-	-	**3,104**	-	**7,024**
F. Measurement at cost	3,920	-	-	1	-	3,921

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

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

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

	31.12.2019	31.12.2018
Current tax assets	**10,995**	**9,086**
IRES prepayments	8,249	6,781
IRAP prepayments	2,609	2,278
Other	137	27
Current tax liabilities	**(13,208)**	**(12,531)**
Provision for IRES	(9,658)	(9,321)
Provision for IRAP	(3,523)	(3,210)
Provision for substitute tax	(27)	-
Total	**(2,213)**	**(3,445)**

10.1 Deferred tax assets: breakdown

	31.12.2019	31.12.2018
Deferred tax assets through profit or loss:	**7,771**	**6,716**
Impairment losses on loans	2,756	2,756
Non-recurring transactions	427	533
Other	4,588	3,427
Deferred tax assets through equity:	**328**	**910**
Non-recurring transactions	247	311
HTCS securities	-	504
Other	81	95
Total	**8,099**	**7,626**

10.2 Deferred tax liabilities: breakdown

	31.12.2019	31.12.2018
Deferred tax liabilities through profit or loss:	**14,060**	**12,222**
Uncollected default interest income	14,000	12,094
Other	60	128
Deferred tax liabilities through equity:	**160**	**9**
HTCS securities	160	9
Total	**14,220**	**12,231**

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

	31.12.2019	31.12.2018
1. Opening balance	**6,716**	**6,198**
2. Increases	**1,852**	**1,847**
2.1 Deferred tax assets recognised in the year	1,852	1,847
a. related to previous years	-	206
b. due to changes in accounting policies	-	-
c. impairment gains	-	-
d. other	1,852	1,641
e. business combination transactions	-	-
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**797**	**1,329**
3.1 Deferred tax assets derecognised in the year o	160	1,329
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. changes in accounting policies	-	-
d. other	160	1,329
3.2 Tax rate reductions	-	-
3.3 Other decreases	637	-
a. conversion into tax assets pursuant to Law 214/2011	-	-
b. other	637	-
4. Closing balance	**7,771**	**6,716**

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

	31.12.2019	31.12.2018
1. Opening balance	**3,376**	**3,429**
2. Increases	**53**	**-**
3. Decreases	**-**	**53**
3.1 Reversals	-	-
3.2 Conversions into tax assets	-	-
a) arising on loss for the year	-	-
b) arising on tax losses	-	-
3.3 Other decreases	-	53
4. Closing balance	**3,429**	**3,376**

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

	31.12.2019	31.12.2018
1. Opening balance	**12,222**	**9,829**
2. Increases	**2,049**	**5,802**
2.1 Deferred tax liabilities recognised in the year	2,049	5,802
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	2,049	5,802
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**211**	**3,409**
3.1 Deferred tax liabilities derecognised in the year	68	3,409
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	68	3,409
3.2 Tax rate reductions	-	-
3.3 Other decreases	143	-
4. Closing balance	**14,060**	**12,222**

10.5 Change in deferred tax assets (through equity)

	31.12.2019	31.12.2018
1. Opening balance	**910**	**414**
2. Increases	**16**	**600**
2.1 Deferred tax assets recognised in the year	16	600
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	16	600
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**598**	**104**
3.1 Deferred tax assets derecognised in the year	598	104
a. reversals	-	-
b. impairment due to non-recoverability	-	-
c. due to changes in accounting policies	-	-
d. other	588	104
3.2 Tax rate reductions	-	-
3.3 Other decreases	10	-
4. Closing balance	**328**	**910**

10.6 Change in deferred tax liabilities (through equity)

	31.12.2019	31.12.2018
1. Opening balance	**9**	**289**
2. Increases	**160**	**9**
2.1 Deferred tax liabilities recognised in the year	160	9
a. related to previous years	-	-
b. due to changes in accounting policies	-	-
c. other	160	9
2.2 New taxes or tax rate increases	-	-
2.3 Other increases	-	-
3. Decreases	**9**	**289**
3.1 Deferred tax liabilities derecognised in the year	9	289
a. reversals	-	-
b. due to changes in accounting policies	-	-
c. other	9	289
3.2 Tax rate reductions	-	-
3.3 Other decreases	-	-
4. Closing balance	**160**	**9**

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

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

	31.12.2019	31.12.2018
A. Assets held for sale	-	-
A.1 Financial assets	-	-
A.2 Equity investments	-	2,221
A.3 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
A.4 Intangible assets	-	-
A.5 Other non-current assets	-	-
Total A	**-**	**2,221**
of which measured at cost	-	2,221
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	2,221
B. Discontinued operations	-	-
B.1 Financial assets measured at fair value through profit or loss	-	-
- financial assets held for trading	-	-
- financial assets designated at fair value through profit or loss	-	-
- other financial assets mandatorily measured at fair value through profit or loss	-	-
B.2 Financial assets measured at fair value through other comprehensive income	-	-
B.3 Financial assets measured at amortised cost	-	-
B.4 Equity investments	-	-
B.5 Property and equipment	-	-
of which: obtained from the enforcement of guarantees received	-	-
B.6 Intangible assets	-	-
B.7 Other assets	-	-
Total B	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
C. Liabilities associated with assets held for sale	-	-
C.1 Payables	-	-
C.2 Securities	-	-
C.3 Other liabilities	-	-
Total C	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-
D. Liabilities associated with discontinued operations	-	-
D.1 Financial liabilities measured at amortised cost	-	-
D.2 Financial liabilities held for trading	-	-
D.3 Financial liabilities designated at fair value through profit or loss	-	-
D.4 Provisions	-	-
D.5 Other liabilities	-	-
Total D	-	-
of which measured at cost	-	-
of which measured at fair value - level 1	-	-
of which measured at fair value - level 2	-	-
of which measured at fair value - level 3	-	-

SECTION 12 - OTHER ASSETS - ITEM 120

12.1 Other assets: breakdown

	31.12.2019	31.12.2018
Tax advances	7,175	6,939
Other	3,531	1,587
Work in progress	2,970	951
Trade receivables	2,446	610
Prepayments not related to a specific item	1,952	1,711
Leasehold improvements	70	113
Security deposits	54	48
Total	**18,198**	**11,959**

The item is mainly composed of tax advances relative to virtual stamp duties and withholding taxes on interest expense.

LIABILITIES

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Due to Central banks	**358,250**	**X**	**X**	**X**	**412,850**	**X**	**X**	**X**
2. Due to banks	**30,108**	**X**	**X**	**X**	**282,347**	**X**	**X**	**X**
2.1 Current accounts and demand deposits	19	X	X	X	53	X	X	X
2.2 Term deposits	30,089	X	X	X	282,294	X	X	X
2.3 Financing	-	X	X	X	-	X	X	X
2.3.1 Repurchase agreements	-	**X**	**X**	**X**	-	**X**	**X**	**X**
2.3.2 Other	-	**X**	**X**	**X**	-	**X**	**X**	**X**
2.4 Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
2.5 Lease liabilities	-	X	X	X	-	X	X	X
2.6 Other payables	-	X	X	X	-	X	X	X
TOTAL	**388,358**			**388,358**	**695,197**			**695,197**

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
1. Current accounts and demand deposits	682,214	X	X	X	660,751	X	X	X
2. Term deposits	1,325,742	X	X	X	957,862	X	X	X
3. Financing	543,941	X	X	X	283,244	X	X	X
3.1 Repurchase agreements	457,070	X	X	X	179,819	X	X	X
3.2 Other	86,871	X	X	X	103,425	X	X	X
4. Commitments to repurchase own equity instruments	-	X	X	X	-	X	X	X
5. Lease liabilities	-	X	X	X	-	X	X	X
6. Other payables	165,078	X	X	X	199	X	X	X
TOTAL	**2,716,975**			**2,716,987**	**1,902,056**			**1,902,056**

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

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

	31.12.2019				31.12.2018			
	Carrying amount	Fair value			Carrying amount	Fair value		
		L1	L2	L3		L1	L2	L3
A. Securities								
1. bonds	**311,607**	**177,657**	**-**	**135,722**	**304,987**	**-**	**-**	**304,987**
1.1 structured	-	-	-	-	-	-	-	-
1.2 other	311,607	177,657	-	135,722	304,987	-	-	304,987
2. other securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 structured	-	-	-	-	-	-	-	-
2.2 other	-	-	-	-	-	-	-	-
TOTAL	**311,607**	**177,657**	**-**	**135,722**	**304,987**	**-**	**-**	**304,987**

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

1.4 Breakdown of subordinated loans/securities

	Issuer	Type of issue	Coupon	Maturity date	Nominal amount	IFRS amount
Tier 1 Capital	Banca Sistema S.p.A.	Tier 1 subordinated loans with mixed rate	Until 17 June 2023, fixed rate at 7% From 18 June 2023, 6-month Euribor +5% variable rate	Perpetual	8,000	8,016
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	6-month Euribor + 4.5%	30/03/2027	19,500	19,506
Tier 2 Capital	Banca Sistema S.p.A.	Subordinated ordinary loans (Tier 2)	Fixed rate at 7%	20/06/2029	18,000	18,041
TOTAL					**45,500**	**45,563**

SECTION 6 - TAX LIABILITIES - ITEM 60

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

SECTION 8 - OTHER LIABILITIES - ITEM 80

8.1 Other liabilities: breakdown

	31.12.2019	31.12.2018
Payments received in the reconciliation phase	54,893	37,959
Accrued expenses	10,714	6,043
Tax liabilities with the Tax Authority and other tax authorities	9,458	9,121
Work in progress	9,180	4,760
Trade payables	6,485	5,767
Finance lease liabilities	5,736	-
Due to employees	838	797
Pension repayments	699	654
Due to group companies	697	92
Other	110	42
TOTAL	**98,810**	**65,235**

SECTION 9 - POST-EMPLOYMENT BENEFITS - ITEM 90

9.1 Post-employment benefits: changes

	31.12.2019	31.12.2018
A. Opening balance	**2,402**	**2,172**
B. Increases	**911**	**460**
B.1 Accruals	513	460
B.2 Other increases	180	-
B.3 Business combination transactions	218	-
C. Decreases	**358**	**230**
C.1 Payments	222	196
C.2 Other decreases	136	34
D. Closing balance	**2,955**	**2,402**
TOTAL	**2,955**	**2,402**

9.2 Other Information

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

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

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

Annual discount rate	0.77%
Annual inflation rate	1.20%
Annual post-employment benefits increase rate	2.40%
Annual salary increase rate	1.00%

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

SECTION 10 - PROVISIONS FOR RISKS AND CHARGES - ITEM 100

10.1 Provisions for risks and charges: breakdown

	31.12.2019	31.12.2018
1. Provisions for credit risk related to commitments and financial guarantees issued	44	7
2. Fondi su altri impegni e altre garanzie rilasciate	-	-
3. Internal pension funds	-	-
4. Other provisions for risks and charges	21,747	9,214
4.1 legal and tax disputes	4,481	3,029
4.2 personnel expense	7,220	6,139
4.3 other	10,046	46
TOTAL	**21,791**	**9,221**

10.2 Provisions for risks and charges: changes

	Provisions for other commitments and other guarantees issued	Pension funds	Other provisions for risks and charges	**Total**
A. Opening balance	**7**	**-**	**9,214**	**9,221**
B. Increases	**37**	**-**	**15,047**	**15,084**
B.1 Accruals	37	-	6,843	6,880
B.2 Discounting	-	-	-	-
B.3 Changes due to discount rate changes	-	-	-	-
B.4 Other increases	-	-	5,792	5,792
B.5 Business combination transactions	-		2,412	2,412
C. Decreases	**-**	**-**	**2,514**	**2,514**
C.1 Utilisations	-	-	1,985	1,985
C.2 Changes due to discount rate changes	-	-	-	-
C.3 Other decreases	-	-	529	529
D. Closing balance	**44**	**-**	**21,747**	**21,791**

The provision for risks and charges of € 22.3 million includes the provision for possible liabilities attributable to past acquisitions, the estimated portion of the bonus for the year, the deferred portion of the bonus accrued in previous years, and the estimate related to the non-compete agreement. The provision also includes an estimate of the charges relating to lawsuits with customers and the estimated charges for other lawsuits and legal disputes. Following the acquisition of Atlantide, the provision increased as a result of the estimated earn-out to be paid to the sellers linked to the achievement of production volume targets for the next three years, and the provision for supplementary customer allowances. Also included is the provision to cover the estimated adverse effect of possible early repayments on CQS portfolios purchased from third-party intermediaries.

The provisions for commitments and guarantees issued refer to provisions for credit risk related to commitments to disburse funds and financial guarantees issued.

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

	Provisions for credit risk related to commitments and financial guarantees issued			
	First stage	Second stage	Third stage	**Total**
1. Commitments to disburse funds	-	-	-	-
2. Financial guarantees issued	44	-	-	44
Total	**44**	**-**	**-**	**44**

10.5 Internal defined benefit pension funds

Nothing to report.

10.6 Provisions for risks and charges - other provisions

	31.12.2019	31.12.2018
Legal and tax disputes	4,481	3,029
Personnel expense	7,220	6,139
Other	10,046	46
TOTAL	**21,747**	**9,214**

"Personnel expense" includes:

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

The calculation method can be summarised in the following steps:

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

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

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

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

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

SHAREHOLDERS	% HELD
SGBS S.r.l.	23.10%
Garbifin S.r.l.	0.51%
Fondazione Sicilia	7.40%
Fondazione Cassa di Risparmio di Alessandria	7.91%
Market	*61.08%*

At 31 December 2019, after the launch in 2019 of a plan for the repurchase of treasury shares designed to create a stock of securities to be used for the incentive plan for the Group's key personnel, the Bank held 168,669 shares (equal to 0.21% of the share capital).

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

	31.12.2019	31.12.2018
1. Share capital	9,651	9,651
2. Share premium	39,100	39,184
3. Reserves	100,873	79,804
4. (Treasury shares)	(234)	(199)
5. Valuation reserves	279	(1,131)
6. Equity instruments	-	-
7. Profit for the year	29,956	28,071
TOTAL	**179,625**	**155,380**

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

12.2 Share capital - Number of shares: changes

	Ordinary	Other
A. Opening balance	**80,421,052**	**-**
- fully paid-in	80,421,052	-
- not fully paid-in	-	-
A.1 Treasury shares (-)	104,661	-
A.2 Outstanding shares: opening balance	**80,316,391**	**-**
B. Increases	**174,240**	**-**
B.1 New issues	174,240	-
- against consideration:	-	
- business combination transactions	-	-
- conversion of bonds	-	-
- exercise of warrants	-	-
- other	-	-
- bond issues:	174,240	
- to employees	29,822	-
- to directors	144,418	-
- other	-	-
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**238,248**	**-**
C.1 Cancellation	-	-
C.2 Repurchase of treasury shares	238,248	-
C.3 Disposal of equity investments	-	-
C.4 Other decreases	-	-
D. Outstanding shares: closing balance	**80,252,383**	**-**
D.1 Treasury shares (+)	168,669	-
D.2 Closing balance	80,421,052	-
- fully paid-in	80,421,052	-
- not fully paid-in	-	-

12.4 Income-related reserves: other information

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

	Amount as at 31.12.2019	Possible use	Available portion
A. Share capital	9,651	-	-
B. Equity-related reserves	-	-	-
Share premium reserve	39,100	A,B,C	-
Reserve to provide for losses	-	-	-
C. Income-related reserves:	-	-	-
Legal reserve	1,930	B	-
Valuation reserve	279	-	-
Negative goodwill	1,774	A,B,C	-
Retained earnings	98,031	A,B,C	-
Reserve for treasury shares	200	-	-
Reserve for future capital increase	-	-	-
D. Other reserves	(1,062)	-	-
E. Treasury shares	(234)	-	-
TOTAL	**149,669**	-	-
Profit for the year	29,956	-	-
TOTAL EQUITY	**179,625**	-	-
Undistributable portion	-	-	-
Distributable portion	-	-	-

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

OTHER INFORMATION

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

	Nominal amount of commitments and financial guarantees issued				
	First stage	Second stage	Third stage	31.12.2019	31.12.2018
Commitments to disburse funds	**217,236**	**7,057**	**22,196**	**246,489**	**285,910**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	-	-	-	-	-
d) Other financial companies	121,035	-	-	121,035	176,660
e) Non-financial companies	91,119	7,057	22,196	120,372	106,899
f) Households	5,082	-	-	5,082	2,351
Financial guarantees issued	**3,118**	**-**	**-**	**3,118**	**2,446**
a) Central Banks	-	-	-	-	-
b) Public administrations	-	-	-	-	-
c) Banks	2,446	-	-	2,446	2,446
d) Other financial companies	-	-	-	-	-
e) Non-financial companies	627	-	-	627	-
f) Households	45	-	-	45	-

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

2. Other commitments and other guarantees issued

	Nominal amount	
	31.12.2019	31.12.2018
Other guarantees issued	**-**	**970**
of which: impaired	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	900
f) Households	-	70
Other commitments	-	-
of which: impaired	-	-
a) Central Banks	-	-
b) Public administrations	-	-
c) Banks	-	-
d) Other financial companies	-	-
e) Non-financial companies	-	-
f) Households	-	-

3. Assets pledged as collateral for liabilities and commitments

	31.12.2019	31.12.2018
1. Financial assets measured at fair value through profit or loss	-	-
2. Financial assets measured at fair value through other comprehensive income	192,101	91,989
3. Financial assets measured at amortised cost	469,875	258,235
4. Property and equipment	-	-
of which: Property and equipment included among inventories	-	-

5. Management and trading on behalf of third parties

	Amount
1. Execution of orders on behalf of customers	**-**
a) purchases	-
1. settled	-
2. unsettled	-
b) sales	-
1. settled	-
2. unsettled	-
2. Individual asset management	**-**
3. Securities custody and administration	**1,597,241**
a) third-party securities held as part of depositary bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third-party securities on deposit (excluding asset management): other	45,702
1. securities issued by the reporting entity	4,062
2. other securities	41,640
c) third-party securities deposited with third parties	45,702
d) securities owned by the bank deposited with third parties	1,505,837
4. Other transactions	**-**

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1. Interest and similar income: breakdown

	Debt instruments	Financing	Other transactions	2019	2018
1. Financial assets measured at fair value through profit or loss:	-	-	-	-	-
1.1 Financial assets held for trading	-	-	-	-	-
1.2 Financial assets designated at fair value through profit or loss	-	-	-	-	-
1.3 Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-
2. Financial assets measured at fair value through other comprehensive income	-	-	X	-	-
3. Financial assets measured at amortised cost:	750	106,802	-	107,552	98,211
3.1 Loans and receivables with banks	-	146	X	146	51
3.2 Loans and receivables with customers	750	106,656	X	107,406	98,160
4. Hedging derivatives	X	X	-	-	-
5. Other assets	X	X	-	-	-
6. Financial liabilities	X	X	X	2,692	1,679
TOTAL	**750**	**106,802**	**-**	**110,244**	**99,890**
of which: interest income on impaired assets	-	-	-	-	-
of which: interest income on finance leases	-	-	-	-	-

The total contribution of the factoring portfolio was € 81 million (equal to 74% of the entire loans and receivables portfolio), which is up 8.0% on the previous year thanks to the tax receivables portfolio which was able to benefit from earlier than expected collections; when considering the commission component associated with the factoring business, the contribution increased by 9.5% over 31 December 2018. The component linked to default interest from legal action at 31 December 2019 was € 29 million (€ 28.4 million in 2018):

- of which € 5.1 million resulting from the updated recovery estimates (€ 7.8 million at 31 December 2018);
- of which € 12.0 million that results from maintaining the recovery estimates (€ 10.3 million at 31 December 2018) which is in line with the previous year thanks to the activation of a loans and receivables portfolio for a significant amount;
- of which € 11.9 million (€ 10.3 million at 31 December 2018) coming from net collections during the year, i.e. the difference between the amount collected during the year, equal to € 21.6 million (€ 19.2 million in 2018) and that recognised on an accruals basis in previous years. This item includes collections from sales made to third parties at the end of the first and second half of the year.

The other significant element of this item is attributable to the interest on the salary- and pension-backed portfolios, which rose from € 19.6 million to € 23 million, an increase of 17.6% over the previous year.

1.3 Interest and similar expense: breakdown

	Liabilities	Securities	Other transactions	2019	2018
1. Financial liabilities measured at amortised cost	21,634	7,930	-	29,564	24,100
1.1 Due to Central banks		X	-	-	786
1.2 Due to banks	578	X	-	578	1,750
1.3 Due to customers	21,056	X	-	21,056	14,572
1.4 Securities issued	X	7,930	-	7,930	6,992
2. Financial liabilities held for trading	-	-	-	-	-
3. Financial liabilities designated at fair value through profit or loss	-	-	-	-	-
4. Other liabilities and provisions	X	X	-	-	-
5. Hedging derivatives	X	X	-	-	-
6. Financial assets	X	X	X	127	1,044
TOTAL	**21,634**	**7,930**	**-**	**29,691**	**25,144**
of which: interest expense related to lease liabilities	69	-	-	69	-

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

2.1 Fee and commission income: breakdown

	2019	2018
a. guarantees issued	13	18
b. credit derivatives	-	-
c. management, brokerage and consultancy services:	124	165
1. trading in financial instruments	-	-
2. foreign currency transactions	-	-
3. individual asset management	10	7
4. securities custody and administration	2	1
5. depositary services	-	-
6. placement of securities	72	97
7. order collection and transmission	40	60
8. consultancy services	-	-
8.1. on investments	-	-
8.2. on financial structure	-	-
9. distribution of third party services	-	-
9.1. asset management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d. collection and payment services	62	100
e. services for securitisations	-	-
f. services for factoring	18,409	15,772
g. tax collection services	-	-
h. management of multilateral trading facilities	-	-
i. keeping and management of current accounts	91	48
j. other services	3,561	1,522
TOTAL	**22,260**	**17,625**

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

	2019	2018
A) at its branches:	**82**	**104**
1. asset management	10	7
2. placement of securities	72	97
3. third-party services and products	-	-
B) off-premises:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-
c) other distribution channels:	**-**	**-**
1. asset management	-	-
2. placement of securities	-	-
3. third-party services and products	-	-

2.3 Fee and commission expense: breakdown

	2019	2018
a. guarantees received	-	1
b. credit derivatives	-	-
c. management and brokerage services:	4,719	712
1. trading in financial instruments	70	61
2. foreign currency transactions	-	-
3. asset management	-	-
3.1 own portfolio	-	-
3.2 third party portfolios	-	-
4. securities custody and administration	-	-
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	4,649	651
d. collection and payment services	222	162
e. other services	1,478	1,493
TOTAL	**6,419**	**2,368**

SECTION 3 - DIVIDENDS AND SIMILAR INCOME - ITEM 70

3.1 Dividends and similar income: breakdown

		2019		2018	
		dividends	similar income	dividends	similar income
A.	Financial assets held for trading	-	-	-	-
B.	Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-
C.	Financial assets measured at fair value through other comprehensive income	227	-	227	-
D.	Equity investments	-	-	-	-
	TOTAL	**227**	**-**	**227**	**-**

SECTION 4 - NET TRADING INCOME - ITEM 80

4.1 Net trading income: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading income [(A+B) - (C+D)]
1. Financial assets held for trading	**-**	**220**	**-**	**(5)**	**215**
1.1 Debt instruments	-	220	-	(5)	215
1.2 Equity instruments	-	-	-	-	-
1.3 OEIC units	-	-	-	-	-
1.4 Financing	-	-	-	-	-
1.5 Other	-	-	-	-	-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-		-
3. Financial assets and liabilities: exchange rate gains (losses)	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**-**	**-**	**-**	**-**	**-**
4.1 Financial derivatives:	-	-	-	-	-
- On debt instruments and interest rates	-	-	-	-	-
- On equity instruments and equity indexes	-	-	-	-	-
- On currencies and gold	X	X	X	X	-
- Other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
of which: natural hedges connected to the fair value option	X	X	X	X	-
TOTAL	**-**	**220**	**-**	**(5)**	**215**

SECTION 6 - GAIN FROM SALES OR REPURCHASES - ITEM 100

6.1 Gain from sales or repurchases: breakdown

	2019			2018		
	Gain	Loss	Net gain	Gain	Loss	Net gain
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**-**
1. Financial assets measured at amortised cost:	1,106	-	1,106	-	-	-
1.1 Loans and receivables with banks	-	-	-	-	-	-
1.2 Loans and receivables with customers	1,106	-	1,106	-	-	-
2. Financial assets measured at fair value through other comprehensive income	4,140	(1,530)	2,610	1,545	(378)	1,167
2.1 Debt instruments	4,140	(1,530)	2,610	1,545	(378)	1,167
2.2 Financing	-	-	-	-	-	-
TOTAL ASSETS (A)	**5,246**	**(1,530)**	**3,716**	**1,545**	**(378)**	**1,167**
B. Financial liabilities measured at amortised cost	**-**	**-**	**-**	**-**	**-**	**-**
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Securities issued	-	-	-	-	-	-
TOTAL LIABILITIES (B)	**-**	**-**	**-**	**-**	**-**	**-**

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

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

	Impairment losses (1)			Impairment gains (2)		2019	2018
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	Other				
A. Loans and receivables with banks	**25**	**-**	**-**	**(8)**	**-**	**17**	**-**
- Financing	25	-	-	(8)	-	17	-
- Debt instruments	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
B. Loans and receivables with customers:	**1,438**	**-**	**7,930**	**(388)**	**(49)**	**8,931**	**6,812**
- Financing	1,388	-	7,930	(388)	(49)	8,881	6,755
- Debt instruments	50	-	-	-	-	50	57
of which: purchased or originated credit-impaired loans and receivables	-	-	-	-	-	-	-
Total	**1,463**	**-**	**7,930**	**(396)**	**(49)**	**8,948**	**6,812**

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

	Impairment losses (1)			Impairment gains (2)		2019	2018
	First and second stage	Third stage		First and second stage	Third stage		
		write-offs	other				
A. Debt instruments	**105**	**-**	**-**	**-**	**-**	**105**	**2**
B. Financing	**-**	-	-	-	-	**-**	**-**
- To customers	-	-	-	-	-	-	-
- To banks	-	-	-	-	-	-	-
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	-
Total	**105**	-	-	-	-	**105**	**2**

SECTION 10 - ADMINISTRATIVE EXPENSES - ITEM 160

10.1 Personnel expense: breakdown

	2019	2018
1) Employees	20,251	18,206
a) wages and salaries	11,280	10,957
b) social security charges	2,968	2,741
c) post-employment benefits	-	-
d) pension costs	-	-
e) accrual for post-employment benefits	857	676
f) accrual for pension and similar provisions:	-	-
- defined contribution plans	-	-
- defined benefit plans	-	-
g) payments to external supplementary pension funds:	335	307
- defined contribution plans	335	307
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	4,811	3,525
2) Other personnel	458	413
3) Directors and statutory auditors	1,098	975
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	509	217
TOTAL	**22,316**	**19,811**

10.2 Average number of employees by category

Employees

a) Senior managers:	23
b) Managers:	40
c) Remaining employees:	124

10.5 Other administrative expenses: breakdown

	2019	2018
IT expenses	5,552	4,372
Consultancy	4,156	3,696
Resolution Fund	1,146	942
Servicing and collection activities	2,992	2,736
Indirect taxes and duties	2,108	2,010
Rent and related fees	1,029	2,195
Expense reimbursement and entertainment	825	726
Car hire and related fees	635	858
Insurance	486	385
Advertising	502	568
Membership fees	304	265
Expenses related to management of the SPVs	530	535
Audit fees	329	295
Infoprovider expenses	638	255
Other	375	366
Telephone and postage expenses	187	175
Maintenance of movables and real properties	170	235
Stationery and printing	60	96
Merger-related costs	488	-
TOTAL	**22,512**	**20,710**

Administrative expenses include costs related to the merger of Atlantide into the Bank amounting to € 488 thousand (total merger-related costs amounted to € 571 thousand, including the cost recognised under reduction in value due to amortisation).

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

The amount of the items Rent and Car hire for the first half of 2019 was impacted by the application of the new IFRS 16. In 2019, these items include only property management costs and utility costs, and, unlike in 2018, does not include lease payments, the cost of which, in 2019, is mainly reflected in the item depreciation of the "right-of-use" asset.

The increase in consulting expenses is mainly due to the costs incurred for legal expenses related to pending lawsuits and enforceable injunctions.

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

The contribution to the Resolution Fund represents the required amount of ex-ante contributions for 2019 and includes the payment of the additional contribution of € 0.3 million required in June.

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

11.2 Net accruals for other commitments and other guarantees issued: breakdown

	2019	2018
Net accruals for other commitments and other guarantees	(36)	-
TOTAL	**(36)**	**-**

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

	2019	2018
Provisions for risks and charges - other provisions and risks	(1,960)	(414)
Release of provisions for risks and charges	-	-
TOTAL	**(1,960)**	(414)

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

12.1 Net impairment losses on property and equipment: breakdown

	Depreciation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Property and equipment	**-**			**-**
1. Operating assets	**1,641**	-	-	**1,641**
- Owned	220	-	-	220
- Right-of-use assets acquired under a lease	1,421	-	-	1,421
2. Investment property	**-**	-	-	**-**
- Owned	-	-	-	-
- Right-of-use assets acquired under a lease	-	-	-	-
3. Inventories	**-**	-	-	**-**
TOTAL	**1,641**	**-**	**-**	**1,641**

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

13.1 Net impairment losses on intangible assets: breakdown

	Amortisation (a)	Impairment losses (b)	Impairment gains (c)	**Carrying amount (a + b - c)**
A. Intangible assets				
A.1 Owned	107	-	-	107
▪ Developed internally	-	-	-	-
▪ Other	107	-	-	107
A.2 Acquired under finance lease	-	-	-	-
TOTAL	**107**	-	-	**107**

SECTION 14 - OTHER OPERATING INCOME (EXPENSE) - ITEM 200

14.1 Other operating expense: breakdown

	2019	2018
Amortisation of leasehold improvements	42	80
Other operating expense	1,857	735
TOTAL	**1,899**	**815**

14.2 Other operating income: breakdown

	2019	2018
Recoveries of expenses on current accounts and deposits for sundry taxes	333	265
Recoveries of sundry expenses	155	11
Other income	615	121
TOTAL	**1,103**	**397**

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

SECTION 19 - INCOME TAXES - ITEM 270

19.1 Income taxes: breakdown

		2019	2018
1.	Current taxes (-)	(12,420)	(12,531)
2.	Changes in current taxes of previous years (+/-)	852	(223)
3.	Decrease in current taxes for the year (+)	-	-
3.bis	Decrease in current taxes for the year due to tax assets pursuant to Law no. 214/2011 (+)	-	-
4.	Changes in deferred tax assets (+/-)	1,055	518
5.	Changes in deferred tax liabilities (+/-)	(1,838)	(2,393)
6.	Tax expense for the year (-) (-1+/-2+3+/-4+/-5)	(12,351)	(14,629)

19.2 Reconciliation between theoretical and effective tax expense

IRES (CORPORATE INCOME TAX)	Taxable income	IRES (corporate income tax)	%
Theoretical IRES expense	**42,131**	**(11,587)**	**27.50%**
Permanent increases	*1,982*	*(545)*	*1.29%*
Temporary increases	*8,976*	*(2,468)*	*5.86%*
Permanent decreases	*(11,912)*	*3,276*	*-7.77%*
Temporary decreases	*(7,451)*	*2,049*	*-4.86%*
Effective IRES expense	**33,726**	**(9,275)**	**22.01%**
IRAP (REGIONAL BUSINESS TAX)	Taxable income	IRAP (regional business tax)	%
Theoretical IRAP expense	**42,131**	**(2,346)**	**5.57%**
Permanent increases	*59,585*	*(3,319)*	*7.88%*
Temporary increases	*4,592*	*(256)*	*0.61%*
Permanent decreases	*(49,840)*	*2,776*	*-6.59%*
Temporary decreases	-	-	*0.00%*
Effective IRAP expense	**56,468**	**(3,145)**	**7.47%**
▪ Other tax expense	-	-	-
Total effective IRES and IRAP expense	**90,194**	**(12,420)**	**29.48%**

SECTION 20 - POST-TAX (LOSS) PROFIT FROM DISCONTINUED OPERATIONS - ITEM 290

20.1 Post-tax profit (loss) from discontinued operations: breakdown

	2019	2018
Gains (losses) on sales	179	-
Taxes and duties	(3)	-
Profit (loss)	**176**	**-**

20.2 Breakdown of income taxes from discontinued operations

	2019	2018
1. Current taxes (-)	(3)	-
2. Changes in deferred tax assets (+/-)	-	-
3. Changes in deferred tax liabilities (-/+)	-	-
4. Income taxes for the year (-1+/-2+/-3)	**(3)**	**-**

SECTION 21 - OTHER INFORMATION

Nothing to report.

SECTION 22 - EARNINGS PER SHARE

Earnings per share (EPS)	2019
Profit for the year (thousands of Euro)	29,956
Average number of outstanding shares	80,279,993
Basic earnings per share (in Euro)	0.373
Diluted earnings per share (in Euro)	0.373

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

PART D - OTHER COMPREHENSIVE INCOME

Breakdown of comprehensive income

		2019	2018
10.	**Profit for the year**	**29,956**	**28,070**
	Items, net of tax, that will not be reclassified subsequently to profit or loss	-	-
20.	Equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
30.	Financial liabilities designated at fair value through profit or loss (changes in own credit rating):	-	-
	a) fair value gains (losses)	-	-
	b) transfers to other equity items	-	-
40.	Hedging of equity instruments designated at fair value through other comprehensive income:	-	-
	a) fair value gains (losses) - hedged item	-	-
	b) fair value gains (losses) - hedging instrument	-	-
50.	Property and equipment	-	-
60.	Intangible assets	-	-
70.	Defined benefit plans	(20)	39
80.	Non-current assets held for sale	-	-
90.	hare of valuation reserves of equity-accounted investments:	-	-
100.	Income taxes on items that will not be reclassified subsequently to profit or loss	-	-
	Items, net of tax, that will be reclassified subsequently to profit or loss	-	-
110.	Hedges of foreign investments:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
120.	Exchange rate gains (losses):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
130.	Cash flow hedges:	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-
	of which: net position gains (losses)	-	-
140.	Hedging instruments (non-designated elements):	-	-
	a) fair value gains (losses)	-	-
	b) reclassification to profit or loss	-	-
	c) other changes	-	-

	2019	2018
150. Financial assets (other than equity instruments) measured at fair value through other comprehensive income:	1,430	(2,064)
a) fair value gains (losses)	325	(1,001)
b) reclassification to profit or loss	-	-
- impairment losses due to credit risk	104	49
- gains/losses on sales	1,001	(585)
c) other changes	-	(527)
160. Non-current assets held for sale and disposal groups:		-
a) fair value gains (losses)	-	-
b) reclassification to profit or loss	-	-
c) other changes	-	-
170. Share of valuation reserves of equity-accounted investments:	-	-
a) fair value gains (losses)	-	-
b) reclassification to profit or loss		
- impairment losses	-	-
- gains/losses on sales	-	-
c) other changes	-	-
180. Income taxes on items that will be reclassified subsequently to profit or loss	-	-
190. Total other comprehensive income (expense)	**1,410**	**(2,025)**
200. Comprehensive income (10+190)	**31,366**	**26,045**

PART E - INFORMATION CONCERNING RISKS AND RELATED HEDGING POLICIES

SECTION 1 - CREDIT RISK

QUALITATIVE DISCLOSURE

1. General aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2. Credit Risk Management Policies

2.1 Organisational aspects

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Management, measurement and control systems

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.3 Methods of measuring expected losses

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.4 Credit Risk mitigation techniques

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3. Impaired loans

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.1 Management strategies and policies

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.2 Write-offs

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

3.3 Purchased or originated credit-impaired financial assets

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

4. Financial assets subject to commercial renegotiation and forborne exposures

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

A. Credit quality

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

A.1.1 Breakdown of financial assets by portfolio and by credit quality (carrying amounts)

	Bad exposures	Unlikely to pay	Impaired past due exposures	Unimpaired past due exposures	Other unimpaired exposures	Total
1. Financial assets measured at amortised cost	30,544	123,306	54,549	709,093	2,206,246	3,123,738
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	550,219	550,219
3. Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
Total at 31.12.2019	**30,544**	**123,306**	**54,549**	**709,093**	**2,756,465**	**3,673,957**
Total at 31.12.2018	**39,017**	**77,912**	**79,066**	**265,500**	**2,638,610**	**3,100,105**

The financial assets measured at fair value through other comprehensive income do not include the shares of the Bank of Italy and Axactor.

A.1.2 Breakdown of financial assets by portfolio and by credit quality (gross amount and carrying amount)

	Impaired				Unimpaired			
	Gross amount	Total impairment losses	Carrying amount	overall partial write-offs (*)	Gross amount	Total impairment losses	Carrying amount	overall partial write-offs (*)
1. Financial assets measured at amortised cost	245,616	37,217	208,399	-	2,921,171	5,832	2,915,339	3,123,738
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	550,373	154	550,219	550,219
3. Financial assets designated at fair value through profit or loss	-	-	-	-	X	X	-	-
4. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-	-	X	X	-	-
5. Financial assets held for sale	-	-	-	-			-	-
Total at 31.12.2019	**245,616**	**37,217**	**208,399**	**-**	**3,471,544**	**5,986**	**3,465,558**	**3,673,957**
Total at 31.12.2018	**225,163**	**29,169**	**195,994**	**-**	**2,910,526**	**6,415**	**2,904,111**	**3,100,105**

A.1.3 Breakdown of financial assets by past due range (carrying amounts)

	First stage			Second stage			Third stage		
	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days	From 1 day to 30 days	From more than 30 days to 90 days	More than 90 days
1. Financial assets measured at amortised cost	29,272	24,744	647,530	999	464	6,753	1,218	3,652	155,153
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total at 31.12.2019	**29,272**	**24,744**	**647,530**	**999**	**464**	**6,753**	**1,218**	**3,652**	**155,153**
Total at 31.12.2018	**27,148**	**24,474**	**202,713**	**1,047**	**3,672**	**6,900**	**295**	**10,975**	**126,523**

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in impaired positions and accruals to provisions

	Total impairment losses																Overall accruals to provisions on commitments to disburse funds and financial guarantees issued			Total
	Assets included in the first stage					Assets included in the second stage					Assets included in the third stage					Of which: purchased or originated credit-impaired financial assets				
	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses	Financial assets measured at amortised cost	Financial assets measured at fair value through other comprehensive income	Financial assets held for sale	of which: individual impairment losses	of which: collective impairment losses		First stage	Second stage	Third stage	
Opening total impairment losses	**5,836**	**49**	**-**	**-**	**5,885**	**580**	**-**	**-**	**-**	**580**	**29,116**	**-**	**-**	**29,116**	**-**	**286**	**-**	**-**	**-**	**35,581**
Increases in purchased or originated financial assets	-	-	-	-	-	50	-	-	-	50	26	-	-	26	-	76	-	-	-	76
Derecognition other than write-offs	1,171	-	-	-	1,171	56	-	-	-	56	310	-	-	310	-	31	-	-	-	1,537
Net impairment losses/gains due to credit risk (+/-)	500	105	-	-	605	93	-	-	-	93	8,385	-	-	8,385	-	(119)	44	-	-	9,083
Contract amendments without derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in estimation method	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs not recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing total impairment losses	**5,165**	**154**	**-**	**-**	**5,318**	**667**	**-**	**-**	**-**	**667**	**37,217**	**-**	**-**	**37,217**	**-**	**212**	**44**	**-**	**-**	**43,203**
Recoveries from collection on financial assets that have been written off	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs recognised directly through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between different credit risk stages (gross amount and nominal amount)

	Gross amount / Nominal amount					
	Transfers between the first and second stage		Transfers between the second and third stage		Transfers between the first and third stage	
	From the first to the second stage	From the second to the first stage	From the second to the third stage	From the third to the second stage	From the first to the third stage	From the third to the first stage
1. Financial assets measured at amortised cost	48,951	9,242	25,418	3,947	65,066	41,774
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets held for sale						
4. Commitments to disburse funds and financial guarantees issued	16	1,315	6,186	109	8,017	1,400
Total at 31.12.2019	**48,967**	**10,557**	**31,604**	**4,056**	**73,083**	**43,174**
Total at 31.12.2018	**108,953**	**1,106**	**4,398**	**2,813**	**172,206**	**5,909**

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

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs*
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-	-	-	-	-
a) Bad exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
b) Unlikely to pay	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
c) Impaired past due exposures	-	X	-	-	-
of which: forborne exposures	-	X	-	-	-
d) Unimpaired past due exposures	X	-	-	-	-
of which: forborne exposures	X	-	-	-	-
e) Other unimpaired exposures	X	81,028	26	81,002	-
of which: forborne exposures	X				
TOTAL A	-	**81,028**	**26**	**81,002**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES	-	-	-	-	-
a) Impaired	-	X	-	-	-
b) Unimpaired	X	2,446	-	2,446	-
TOTAL B	-	**2,446**	**-**	**2,446**	**-**
TOTAL A+B	-	**83,474**	**26**	**83,448**	**-**

A.1.7 On- and off-statement of financial position loans and receivables with customers: gross amounts and carrying amounts

	Gross amount		Total impairment losses and accruals to provisions	Carrying amount	Overall partial write-offs*
	Impaired	Unimpaired			
A. ON-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Bad exposures	50,622	X	20,078	30,544	-
of which: forborne exposures		X			-
b) Unlikely to pay	139,348	X	16,042	123,306	-
of which: forborne exposures	1,294	X	259	1,035	-
c) Impaired past due exposures	55,646	X	1,097	54,549	-
of which: forborne exposures	763	X	176	587	-
d) Unimpaired past due exposures	X	710,677	1,584	709,093	-
of which: forborne exposures	X				
e) Other unimpaired exposures	X	2,679,839	4,376	2,675,463	-
of which: forborne exposures	X				
TOTAL A	**245,616**	**3,390,516**	**43,177**	**3,592,955**	**-**
B. OFF-STATEMENT OF FINANCIAL POSITION LOANS AND RECEIVABLES					
a) Impaired	22,196	X		22,196	-
b) Unimpaired	X	224,965	44	224,922	-
TOTAL B	**22,196**	**224,965**	**44**	**247,118**	**-**
TOTAL A+B	**267,812**	**3,615,481**	**43,221**	**3,840,073**	**-**

A.1.9 On-statement of financial position loans and receivables with customers: gross impaired positions

	Bad exposures	Unlikely to pay	Impaired past due exposures
A. Opening gross balance	**57,468**	**87,188**	**80,508**
- of which: positions transferred but not derecognised	-	-	-
B. Increases	**16,814**	**91,084**	**146,047**
B.1 transfers from performing loans	32	49,231	83,357
B.2 transfers from purchased or originated credit-impaired financial assets	1,734	491	166
B.3 transfers from other categories of impaired loans	6,512	11,519	2,649
B.4 contract amendments without derecognition	-	-	-
B.5 other increases	8,536	29,843	59,875
C. Decreases	**23,659**	**38,924**	**170,908**
C.1 transfers to performing loans	7,487	527	82,034
C.2 write-offs	105	-	-
C.3 collections	13,673	32,436	75,080
C.4 gains on sales	-	-	-
C.5 losses on sales	-	-	-
C.6 transfers to other categories of impaired loans	2,394	5,961	13,793
C.7 contract amendments without derecognition	-	-	-
C.8 other decreases	-	-	-
D. Closing gross balance	**50,623**	**139,348**	**55,647**
- of which: positions transferred but not derecognised	-	-	-

A.1.9bis On-statement of financial position loans and receivables with customers: breakdown of gross forborne exposures by credit quality

	Non-performing exposures with forbearance measures	Other forborne exposures
A. Opening gross balance	**1,434**	-
- of which: positions transferred but not derecognised	-	-
B. Increases	**3,210**	**1,153**
B.1 transfers from performing exposures without forbearance measures	-	-
B.2 transfers from forborne performing exposures	763	X
B.3 transfers from non-performing exposures with forbearance measures	X	-
B.4 transfers from non-performing exposures without forbearance measures	1,294	-
B.5 other increases	1,153	1,153
C. Decreases	**2,587**	**1,153**
C.1 transfers to performing exposures without forbearance measures	X	-
C.2 transfers to forborne performing exposures	-	X
C.3 transfers to non-performing exposures with forbearance measures	X	763
C.4 write-offs	-	-
C.5 collections	2,587	391
C.6 gains on sales	-	-
C.7 losses on sales	-	-
C.8 other decreases	-	-
D. Closing gross balance	**2,057**	-
- of which: positions transferred but not derecognised	-	-

A.1.11 On-statement of financial position non-performing loans and receivables with customers: changes in impaired positions

	BAD EXPOSURES		UNLIKELY TO PAY		IMPAIRED PAST DUE EXPOSURES	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
A. Opening total impairment losses	**18,451**		**9,277**		**1,442**	15
- of which: positions transferred but not derecognised	-		-		-	
B. Increases	**3,658**		**8,262**	**259**	**1,024**	**176**
B.1 impairment losses on purchased or originated credit-impaired financial assets	14	X	3	X	10	X
B.2 other impairment losses	3,297		8,104	259	720	176
B.3 losses on sales	-		-		-	
B.4 transfers from other categories of impaired loans	274		35		218	
B.5 contract amendments without derecognition	-	X	-	X	-	X
B.6 other increases	73		120		76	
C. Decreases	**2,032**		**1,496**		**1,369**	**15**
C.1 impairment gains	1,429		1,032		876	
C.2 impairment gains due to collections	55		176		79	
C.3 gains on sales	-		-		-	
C.4 write-offs	-		-		-	
C.5 transfers to other categories of impaired loans	209		272		51	15
C.6 contract amendments without derecognition	-	X	-	X	-	X
C.7 other decreases	339		16		363	
D. Closing total impairment losses	**20,077**		**16,043**	**259**	**1,097**	**176**
- of which: positions transferred but not derecognised	-		-		-	

A.2 CLASSIFICATION OF FINANCIAL ASSETS, COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED BASED ON EXTERNAL AND INTERNAL RATING

A.2.1 Breakdown of financial assets, commitments to disburse funds and financial guarantees issued by external rating class (gross amounts)

The risk categories for the external rating indicated in this table refer to the creditworthiness classes of the debtors/guarantors pursuant to prudential requirements (cf. Circular no. 285 of 2013 "Supervisory Provisions for Banks" and subsequent updates).

The Bank uses the standardised approach in accordance with the risk mapping of the rating agencies:

- *"DBRS Ratings Limited", for exposures to: central authorities and central banks; supervised brokers; public sector institutions; territorial entities.*

	External rating class							
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6	Without rating	**Total**
A. Financial assets measured at amortised cost	**1**	**-**	**443,826**	**-**	**-**	**-**	**2,722,961**	**3,166,787**
- First stage	1	-	443,826	-	-	-	2,353,092	2,796,918
- Second stage	-	-	-	-	-	-	124,253	124,253
- Third stage	-	-	-	-	-	-	245,616	245,616
B. Financial assets measured at fair value through other comprehensive income	**-**	**-**	**550,373**	**-**	**-**	**-**	**-**	**550,373**
- First stage	-	-	550,373	-	-	-	-	550,373
- Second stage	-	-	-	-	-	-	-	-
- Third stage	-	-	-	-	-	-	-	-
Total (A+B)	**1**	**-**	**994,199**	**-**	**-**	**-**	**2,722,961**	**3,717,160**
of which: purchased or originated credit-impaired financial assets	-	-	-	-	-	-	27,746	27,746
C. Commitments to disburse funds and financial guarantees issued	**-**	**-**	**-**	**-**	**-**	**-**	**249,608**	**249,608**
- First stage	-	-	-	-	-	-	220,355	220,355
- Second stage	-	-	-	-	-	-	7,057	7,057
- Third stage	-	-	-	-	-	-	22,196	22,196
Total C	**-**	**-**	**-**	**-**	**-**	**-**	**249,607**	**249,607**
Total (A + B + C)	**1**	**-**	**994,199**	**-**	**-**	**-**	**2,972,569**	**3,966,768**

of which long-term rating

Creditworthiness class	Risk weighting factors: Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	ECAI: DBRS Ratings Limited
1	0%	20%	20%	20%	from AAA to AAL
2	20%	50%	50%	50%	from AH to AL
3	50%	100%	50%	100%	from BBBH to BBBL
4	100%	100%	100%	100%	from BBH to BBL
5	100%	100%	100%	150%	from BH to BL
6	150%	150%	150%	150%	CCC

of which short-term rating (for exposures to companies)

Creditworthiness class	Risk weighting factors	ECAI: DBRS Ratings Limited
1	20%	R-1 (high), R-1 (middle), R-1 (low)
2	50%	R-1 (high), R-2 (middle), R-2 (low)
3	100%	R-3
4	150%	R-4, R-5
5	150%	
6	150%	

"Fitch Ratings", for exposures to companies and other parties.

of which long-term rating

Creditworthiness class	Risk weighting factors: Central authorities and central banks	Supervised brokers, public sector institutions and territorial entities	Multilateral development banks	Companies and other parties	ECAI: Fitch Ratings
1	0%	20%	20%	20%	from AAA to AA-
2	20%	50%	50%	50%	from A+ to A-
3	50%	100%	50%	100%	from BBB+ to BBB-
4	100%	100%	100%	100%	from BB+ to BB-
5	100%	100%	100%	150%	from B+ to B-
6	150%	150%	150%	150%	CCC+ and lower

of which short-term rating (for exposures to companies)

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

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

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

	Gross amount	Carrying amount	Collateral (1)				CLN	Personal guarantees (2)								Total (1)+(2)
								Credit derivatives				Endorsement credits				
								Other derivatives								
			Mortgaged estate	Properties under finance lease	Securities	Other collateral		Central Counterparties	Banks	Other financial companies	Other	Public administrations	Banks	Other financial companies	Other	
1. Guaranteed on-statement of financial position loans:	**868,060**	**862,472**	**-**	**-**	**17,590**	**801,215**	**-**	**-**	**-**	**-**	**-**	**8,381**	**-**	**21,986**	**12,760**	**861,932**
1.1 fully guaranteed	861,696	857,521	-	-	17,590	801,215	-	-	-	-	-	4,893	-	21,986	11,837	857,521
- of which impaired	18,485	16,013	-	-	-	6,012	-	-	-	-	-	1,776	-	107	8,118	16,013
1.2 partially guaranteed	6,364	4,951	-	-	-	-	-	-	-	-	-	3,488	-		923	4,411
- of which impaired	2,550	1,241	-	-	-	-	-	-	-	-	-	1,099	-		123	1,222
2. Guaranteed off-statement of financial position loans:	**24,102**	**24,059**	**-**	**-**	**906**	**37**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,552**	**9,535**	**24,030**
2.1 fully guaranteed	23,967	23,924	-	-	906	37	-	-	-	-	-	-	-	13,552	9,430	23,925
- of which impaired	1,905	1,905	-	-	-	-	-	-	-	-	-	-	-	-	1,905	1,905
2.2 partially guaranteed	135	135	-	-	-	-	-	-	-	-	-	-	-	-	105	105
- of which impaired	135	135	-	-	-	-	-	-	-	-	-	-	-	-	105	105

B. BREAKDOWN AND CONCENTRATION OF CREDIT EXPOSURES

B.1 Breakdown by business segment of on- and off-statement of financial position loans and receivables with customers

	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	-	-	-	-		-	-	-	-	-
A1. Bad exposures	17,573	1,493	-	-	-	-	12,816	17,988	155	597
- of which: forborne exposures			-	-	-	-				
A.2 Unlikely to pay	105,447	4,770	-	-	-	-	30,475	10,216	2,361	1,075
- of which: forborne exposures			-	-	-	-	1,035	259		
A.3 Impaired past due exposures	34,604	502	4	-	3	-	13,581	539	6,360	57
- of which: forborne exposures						-	587	176		
A.4 Unimpaired exposures	2,251,547	3,138	72,341	57	9	-	210,459	1,137	835,231	1,609
- of which: forborne exposures						-				
TOTAL (A)	**2,409,171**	**9,903**	**72,345**	**57**	**12**	**-**	**267,331**	**29,880**	**844,107**	**3,338**
B. Off-statement of financial position loans and receivables	-	-	-	-		-	-	-	-	-
B.1 Impaired exposures	-	-	-	-		-	22,196	-	-	-
B.2 Unimpaired exposures	**-**	**-**	**121,035**	**-**		**-**	**98,760**	**43**	**5,127**	-
Total (B)	**-**	**-**	**121,035**	**-**		**-**	**120,956**	**43**	**5,127**	-
Total (A+B) at 31.12.2019	**2,409,171**	**9,903**	**193,380**	**57**	**12**	**-**	**388,287**	**29,923**	**849,234**	**3,338**
Total (A+B) at 31.12.2018	**1,957,131**	**8,567**	**155,159**	**55**	**5**	**-**	**466,797**	**24,434**	**686,261**	**2,527**

B.2 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with customers

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment	Carrying amount	Total impairment
A. On-statement of financial position loans and receivables	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Bad exposures	30,544	20,078	-	-	-	-	-	-	-	**-**
A.2 Unlikely to pay	138,283	16,061	-	-	-	-	-	-	-	**-**
A.3 Impaired past due exposures	54,549	1,097	-	-	-	-	-	-	-	**-**
A.4 Unimpaired exposures	3,312,676	5,739	55,763	198	1,094	4	-	-	46	-
Total (A)	**3,536,052**	**42,975**	**55,763**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**
B. Off-statement of financial position loans and receivables	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Impaired exposures	22,196	-	-	-	-	-	-	-	**-**	-
B.2 Unimpaired exposures	221,738	44	3,184	-	-	-	-	-	-	-
Total (B)	**243,934**	**44**	**3,184**	-	**-**	**-**	**-**	**-**	**-**	**-**
Total (A+B) at 31.12.2019	**3,779,986**	**43,019**	**58,947**	**198**	**1,094**	**4**	**-**	**-**	**46**	**-**
Total (A+B) at 31.12.2018	**3,220,836**	**35,421**	**34,062**	**108**	**5,011**	**19**	**5.044**	**34**	**400**	**1**

B.3 Breakdown by geographical segment of on- and off-statement of financial position loans and receivables with banks

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD	
	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses	Carrying amount	Total impairment losses
A. On-statement of financial position loans and receivables										
A.1 Bad exposures	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Unimpaired exposures	81,002	26	-	-	-	-	-	-	-	-
Total (A)	**81,002**	**26**	-	-	-	-	-	-	-	-
B. Off-statement of financial position loans and receivables										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Unimpaired exposures	2,446	-	-	-	-	-	-	-	-	-
Total (B)	**2,446**	-	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2019	**83,448**	**9**	-	-	-	-	-	-	-	-
Total (A+B) at 31.12.2018	**59,140**	**9**	-	-	-	-	-	-	-	-

B.4 Large exposures

As at 31 December 2019, the Bank's large exposures are as follows:

a) Carrying amount € 2,305,241 (in thousands)

b) Weighted value € 187,666 (in thousands)

c) No. of positions 20.

E. TRANSFERS

A. Financial assets transferred and not derecognised

QUALITATIVE DISCLOSURE

The financial assets transferred and not derecognised refer predominantly to Italian government securities used for repurchase agreements. Said financial assets are classified in the financial statements among the available-for-sale financial assets, while the repurchase agreement loan is predominantly presented in due to customers. As a last resort the financial assets transferred and not derecognised comprise trade receivables used for loan transactions in the ECB (Abaco).

QUANTITATIVE DISCLOSURE

E.1 Financial assets transferred and recognised in full, and associated financial liabilities: carrying amount

	Financial assets transferred and recognised in full				Associated financial liabilities		
	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement	of which impaired	Carrying amount	of which: subject to securitisation transactions	of which: subject to a sales contract with repurchase agreement
A. Financial assets held for trading	-	-	-	X	-	-	-
1. Debt instruments	-	-	-	X	-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-	X	-	-	-
4. Derivatives	-	-	-	X	-	-	-
B. Other financial assets mandatorily measured at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-		-	-	-
C. Financial assets designated at fair value through profit or loss	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
D. Financial assets measured at fair value through other comprehensive income	**192,101**	-	**192,101**		**191,983**	-	**191,983**
1. Debt instruments	192,101	-	192,101		191,983	-	191,983
2. Equity instruments	-	-	-	X	-	-	-
3. Financing	-	-	-		-	-	-
E. Financial assets measured at amortised cost	-	-	-		-	-	-
1. Debt instruments	-	-	-		-	-	-
2. Financing	-	-	-		-	-	-
Total at 31.12.2019	**192,101**	-	**192,101**		**191,983**	-	**191,983**
Total at 31.12.2018	-	-	-		-	-	-

F. MODELS FOR THE MEASUREMENT OF CREDIT RISK

SECTION 2 - MARKET RISK

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.1- Interest rate risk and price risk - regulatory trading portfolio

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

2.2 Interest rate risk and price risk - Banking Book

QUALITATIVE DISCLOSURE

A. General aspects, management procedures and methods of measuring the interest rate risk and the price risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

1. Banking book: Breakdown by residual term (by repricing date) of financial assets and liabilities

Currency of denomination: Euro	on demand	up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	from more than 5 years up to 10 years	more than 10 years	Open term
1. Assets	**1,387,769**	**137,739**	**46,687**	**435,403**	**1,330,219**	**336,133**	**6**	**-**
1.1 Debt instruments	-	-	13,042	150,219	822,136	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	13,402	150,219	822,136	-	-	-
1.2 Financing to banks	61,002	19,947	53	-	-	-	-	-
1.3 Financing to customers	1,326,767	117,792	33,592	285,184	508,083	336,133	6	-
- current accounts	42,021	-	-	-	-	2	-	-
- other financing	1,284,746	117,792	33,592	285,184	508,083	336,131	6	-
- with early repayment option	133,472	39,288	33,127	285,035	508,083	309,305	6	-
- other	1,151,274	78,504	465	149	-	26,826	-	-
2. Liabilities	**701,520**	**1,172,493**	**171,329**	**572,774**	**578,304**	**220,496**	**23**	**-**
2.1 Due to customers	701,412	872,987	163,313	397,350	379,434	202,456	23	-
- current accounts	698,601	436,674	159,879	388,703	299,675	24,401	23	-
- other payables	2,811	436,313	3,434	8,647	79,759	178,055	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	2,811	436,313	3,434	8,647	79,759	178,055	-	-
2.2 Due to banks	108	280,000	-	-	108,250	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	108	280,000	-	-	108,250	-	-	-
2.3 Debt instruments	-	19,506	8,016	175,424	90,620	18,040	-	-
- with early repayment option	-	19,506	-	175,424	90,620	18,040	-	-
- other	-	-	8,016	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**4,136**	**905**	**1,040**	**507**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	4,136	905	1,040	507	-	-	-
- Options	-	4,136	905	1,040	507	-	-	-
+ long positions	-	842	905	1,040	507	-	-	-
+ short positions	-	3,294	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
4. Other off-statement of financial position transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2.3 Currency risk

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the currency risk

All items are in Euro, except for the security in the HTCS portfolio. The currency risk is limited due to the size of the investment.

QUANTITATIVE DISCLOSURE

1. Breakdown of assets, liabilities and derivatives by currency of denomination

	CURRENCIES					
	US DOLLARS	UK POUNDS	YEN	CANADIAN DOLLARS	SWISS FRANCS	OTHER CURRENCIES
A. Financial assets	**-**	**-**	**-**	**-**	**-**	**1,164**
A.1 Debt instruments	-	-	-	-	-	-
A.2 Equity instruments	-	-	-	-	-	1,164
A.3 Financing to banks	-	-	-	-	-	-
A.4 Financing to customers	-	-	-	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**-**	**-**	**-**	**-**	**-**	**-**
C. Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Due to banks	-	-	-	-	-	-
C.2 Due to customers	-	-	-	-	-	-
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**-**	**-**	**-**	**-**	**6**	**-**
- Options	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-
- Other derivatives	-	-	-	-	6	-
+ long positions	-	-	-	-	6	-
+ short positions	-	-	-	-	-	-
Total assets	**-**	**-**	**-**	**-**	**6**	**1,164**
Total liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Difference (+/-)	**-**	**-**	**-**	**-**	**6**	**1,164**

The amount refers to the Axactor shares held by the Bank partly in the Held to Collect and Sell (HTCS) portfolio. They are listed securities traded in Norwegian krone.

SECTION 3 - DERIVATIVES AND HEDGING POLICIES

3.1 Derivatives held for trading

A. Financial derivatives

At 31 December 2019 no amount was recognised for this item.

B. Credit derivatives

At 31 December 2019 no amount was recognised for this item.

3.2 Hedge Accounting

The Bank did not perform any such transactions in 2019.

3.3 Other disclosure of derivatives (held for trading and hedging)

At 31 December 2019 there were no such cases.

SECTION 4 - LIQUIDITY RISK

QUALITATIVE DISCLOSURE

A. General aspects, management processes and methods of measuring the liquidity risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

QUANTITATIVE DISCLOSURE

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

	on demand	from more than 1 day up to 7 days	from more than 7 days up to 15 days	from more than 15 days up to 1 month	from more than 1 month up to 3 months	from more than 3 months up to 6 months	from more than 6 months up to 1 year	from more than 1 year up to 5 years	over 5 years	Open term
A. Assets	**1,347,486**	**6,080**	**833**	**22,689**	**50,708**	**64,173**	**464,756**	**1,319,805**	**300,507**	**19,912**
A.1 Government securities	-	-	-	-	-	13,285	150,320	821,759	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	1,347,486	6,080	833	22,689	50,708	50,888	314,436	498,046	300,507	19,912
- banks	61,020	-	-	35	-	55	-	-	-	19,912
- customers	1,286,466	6,080	833	22,654	50,708	50,833	314,436	498,046	300,507	-
B. Liabilities	**693,405**	**704,759**	**65,112**	**120,033**	**263,997**	**165,790**	**580,628**	**577,684**	**247,979**	**-**
B.1 Deposits and current accounts	690,594	19,743	64,458	119,902	263,084	160,522	391,686	299,675	24,424	-
- banks	108	-	8,000	7,000	15,000	-	-	-	-	-
- customers	690,486	19,743	56,458	112,902	248,084	160,522	391,686	299,675	24,424	-
B.2 Debt instruments	-	-	-	-	401	1,830	180,293	90,000	45,500	-
B.3 Other liabilities	2,811	685,016	654	131	512	3,438	8,649	188,009	178,055	-
C. Off-statement of financial position transactions	**91,129**	**6**	**-**	**-**	**209**	**60**	**-**	**657**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	6	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	6	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	88,656	-	-	-	209	60	-	56	-	-
- long positions	44,166	-	-	-	209	60	-	56	-	-
- short positions	44,490	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	2,473	-	-	-	-	-	-	601	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-
C.8 Credit derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- long positions	-	-	-	-	-	-	-	-	-	-
- short positions	-	-	-	-	-	-	-	-	-	-

SECTION 5 - OPERATIONAL RISKS

QUALITATIVE DISCLOSURE

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

A. General aspects, management processes and methods of measuring operational risk

Reference should be made to the paragraph in Part E of the notes to the consolidated financial statements of the Banca Sistema Group, which is deemed to be fully reported here.

PART F - INFORMATION ON EQUITY

SECTION 1 - BANK EQUITY

A. QUALITATIVE DISCLOSURE

The objectives pursued in the Bank's equity management are inspired by the prudential supervisory provisions and are oriented towards maintaining adequate levels of capitalisation to take on risks typical to credit positions.
The income allocation policy aims to strengthen the Bank's capital with special emphasis on common equity, to the prudent distribution of the operating results, and to guaranteeing a correct balance of the financial position.

B. QUANTITATIVE DISCLOSURE

B.1 Bank equity: breakdown

		31.12.2019	31.12.2018
1	Share capital	9,651	9,651
2	Share premium	39,100	39,184
3	Reserves	100,873	79,803
	- income-related	100,868	79,794
	a) legal	1,930	1,930
	b) established under the Articles of Association	-	-
	c) treasury shares	200	200
	d) other	98,738	77,664
	- other	5	9
3.bis	Interim dividends (-)	-	-
4	Equity instruments	-	-
5	(Treasury shares)	(234)	(199)
6	Valuation reserves	279	(1,131)
	- Equity instruments designated at fair value through other comprehensive income	154	19
	- Hedging of equity instruments designated at fair value through other comprehensive income	-	-
	- Financial assets (other than equity instruments) measured at fair value through other comprehensive income	324	(972)
	- Property and equipment	-	-
	- Intangible assets	-	-
	- Hedges of foreign investments	-	-
	- Cash flow hedges	-	-
	- Hedging instruments (non-designated elements)	-	-
	- Exchange rate gains (losses)	-	-
	- Non-current assets held for sale and disposal groups	-	-
	- Financial liabilities designated at fair value through profit or loss (changes in own credit rating)	-	-
	- Net actuarial losses on defined benefit pension plans	(199)	(178)
	- Shares of valuation reserves of equity-accounted investees	-	-
	- Special revaluation laws	-	-
7	Profit for the year	29,956	28,071
	Total	**179,625**	**155,379**

B.2 Valuation reserves for financial assets measured at fair value through other comprehensive income: breakdown

	TOTAL AT 31.12.2019		TOTAL AT 31.12.2018	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt instruments	467	-	-	972
2. Equity instruments	11	-	19	-
3. Financing	-	-	-	-
Total	**478**	**-**	**19**	**972**

B.3 Valuation reserves for financial assets measured at fair value through other comprehensive income: changes

	Debt instruments	Equity instruments	Financing
1. Opening balance	**(972)**	**19**	-
2. Increases	**2,098**	**64**	-
2.1 Fair value gains	-	54	-
2.2 Impairment losses due to credit risk	105	X	-
2.3 Reclassifications of negative reserves to profit or loss on sale	1,525	X	-
2.4 Transfers to other equity items (equity instruments)	-		-
2.5 Other increases	468	10	-
3. Decreases	**659**	**72**	-
3.1 Fair value losses	-	68	-
3.2 Impairment gains due to credit risk	-		-
3.3 Reclassifications of positive reserves to profit or loss: on sale	-	X	
3.4 Transfers to other equity items (equity instruments)	-		-
3.5 Other decreases	**659**	**4**	-
4. Closing balance	**467**	**11**	-

B.4 Valuation reserves related to defined benefit plans: changes

A. Opening balance	**(179)**
B. Increases	**7**
B.1 Actuarial gains	7
B.2 Other increases	-
C. Decreases	**27**
C.1 Actuarial losses	-
C.2 Other decreases	27
D. Closing balance	**(199)**
Total	**(199)**

2.1 Own funds

A. QUALITATIVE DISCLOSURE

Own funds, risk-weighted assets and solvency ratios as at 31 December 2019 were determined based on the new regulation, harmonised for Banks, contained in Directive 2013/36/EU (CRD IV) and in Regulation (EU) 575/2013 (CRR) of 26 June 2013, that transpose in the European Union the standards defined by the Basel Committee on Banking Supervision (the so-called Basel 3 framework), and based upon Bank of Italy Circulars no. 285 and no. 286 (enacted in 2013), and the update of Circular no. 154. The Banca Sistema Group has not availed itself of the option provided for by Article 473 bis of Regulation (EU) 575/2013 (CRR), which concerns the transitional measures aimed at mitigating the impact of the introduction of IFRS 9.

Reconciliation of Group equity and Own Funds

	31.12.2019
Equity of the parent	**179,624**
Dividends distributed and other foreseeable expenses	(7,479)
Equity assuming dividends are distributed to shareholders	172,145
Regulatory adjustments	**(4,522)**
- Commitment to repurchase treasury shares	(45)
- Deduction of intangible assets	(3,921)
- Prudential filter for Prudent Valuation (1)	(556)
- Filter for equity attributable to non-controlling interests	-
Common Equity Tier 1 (CET1)	**167,623**
Security issued by Banca Sistema	8,000
Additional Tier 1 Capital	**8,000**
Securities issued by Banca Sistema (2)	37,500
Tier 2 Capital	**37,500**
Total Own Funds	**213,123**

(1) Regulatory filter for additional valuation adjustments (AVA) to the prudential valuation under the provisions of Regulation 2016/101.
(2) Included in the item “Financial liabilities at amortised cost”

A. QUANTITATIVE DISCLOSURE

	31.12.2019
A. Common Equity Tier 1 (CET1) before application of prudential filters	**172,100**
of which CET 1 instruments covered by transitional measures	-
B. CET1 prudential filters (+/-)	-
C. CET1 including items to be deducted and the effects of the transitional regime (A+/-B)	**172,100**
D. Items to be deducted from CET1	**4,477**
E. Transitional regime - Impact on CET (+/-)	**-**
F. Total Common Equity Tier 1 (CET1) (C-D+/-E)	**167,623**
G. Additional Tier 1 (AT1) including items to be deducted and the effects of the transitional regime	**8,000**
of which AT1 instruments covered by transitional measures	**-**
H. Items to be deducted from AT1	**-**
I. Transitional regime - Impact on AT1 (+/-)	**-**
L. Total Additional Tier 1 (AT1) (G-H+/-I)	**8,000**
M. Tier 2 (T2) including items to be deducted and the effects of the transitional regime	**37,500**
of which T2 instruments covered by transitional measures	-
N. Items to be deducted from T2	-
O. Transitional regime - Impact on T2 (+/-)	-
P Total Tier 2 (T2) (M-N+/-O)	**37,500**
Q. Total Own Funds (F+L+P)	**213,123**

2.2 Capital adequacy

A. QUALITATIVE DISCLOSURE

The Own funds totalled € 213 million, against risk-weighted assets of € 1,400 million, derived almost exclusively from credit risk.

As at 31 December 2019, Banca Sistema had a CET1 capital ratio equal to 12.0%, a Tier 1 capital ratio equal to 12.6% and a Total capital ratio of 15.2%.

B. QUANTITATIVE DISCLOSURE

	UNWEIGHTED AMOUNTS		WEIGHTED AMOUNTS/ REQUIREMENTS	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
A. EXPOSURES	-	-	-	-
A.1 Credit and counterparty risk	4,410,113	3,577,376	1,231,519	1,160,521
1. Standardised approach	4,410,113	3,577,376	1,231,519	1,160,521
2. Internal ratings based approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS			-	-
B.1 Credit and counterparty risk			98,522	92,842
B.2 Credit assessment adjustment risk			3	-
B.3 Settlement risk			-	-
B.4 Market risk			-	-
1. Standard approach			-	-
2. Internal models			-	-
3. Concentration risk			-	-
B.5 Operational risk			13,508	12,522
1. Basic indicator approach			13,508	12,522
2. Standardised approach			-	-
3. Advanced measurement approach			-	-
B.6 Other calculation elements			-	-
B.7 Total prudential requirements			112,030	105,364
C. EXPOSURES AND CAPITAL RATIOS			**1,400,404**	**1,317,043**
C.1 Risk-weighted assets			1,400,404	1,317,043
C.2 CET1 capital/risk-weighted assets (CET1 Capital Ratio)			12.0%	11.0%
C.3 Tier 1 capital/risk-weighted assets (Tier 1 Capital Ratio)			12.5%	11.6%
C.4 Total Own Funds/risk-weighted assets (Total Capital Ratio)			15.2%	13.7%

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions performed in the year

On 3 April 2019 the acquisition of 100% of Atlantide S.p.A., a company subsequently merged into the Bank on 30 June 2019, was completed.

Key information concerning this transaction is summarised below:

	TRANSACTION DATE (1)	TRANSACTION COST	% HELD	TOTAL INCOME (2)	GROUP NET PROFIT (2)
Atlantide S.p.A.	3 April 2019	3,022	100%	100,564	29,355

(1) Date on which control was acquired and from which the financial results of Atlantide are included
(2) The amounts, in accordance with IFRS 3, are determined assuming that the combination was carried out at the beginning of the year

Section 2 - Transactions performed after the end of the year

No transactions to report.

Section 3 - Retrospective adjustments

No transactions to report.

PART H - RELATED PARTY TRANSACTIONS

Related party transactions including the relevant authorisation and disclosure procedures, are governed by the "Procedure governing related party transactions" approved by the Board of Directors and published on the internet site of Banca Sistema S.p.A.

Transactions between Group companies and related parties were carried out in the interests of the Bank, including within the scope of ordinary operations; these transactions were carried out in accordance with market conditions and, in any event, on the basis of mutual financial advantage and in compliance with all procedures.

With respect to transactions with parties who exercise management and control functions in accordance with article 136 of the Consolidated Law on Banking, it should be noted that they, where applicable, have been included in the Board of Directors' resolutions and received approval from the Board of Statutory Auditors, subject to compliance with the obligations provided under the Italian Civil Code with respect to matters relating to the conflict of interest of directors.

Pursuant to IAS 24, the related parties of Banca Sistema include:

- shareholders with significant influence;
- companies belonging to the banking Group;
- companies subject to significant influence;
- key management personnel;
- the close relatives of key management personnel and the companies controlled by (or connected with) such personnel or their close relatives.

DISCLOSURE ON THE REMUNERATION OF KEY MANAGEMENT PERSONNEL

The following data show the remuneration of key management personnel, as per IAS 24 and Bank of Italy Circular no. 262 of 22 December 2005 as subsequently updated, which requires the inclusion of the members of the Board of Statutory Auditors.

In thousands of Euro	BOARD OF DIRECTORS	BOARD OF STATUTORY AUDITORS	OTHER MANAGERS	2019
Remuneration to Board of Directors and Board of Statutory Auditors	1,700	82	-	**1,782**
Short-term benefits for employees	-	-	1,401	**1,401**
Post-employment benefits	68	-	105	**173**
Other long-term benefits	300	-	37	**337**
Termination benefits	-	-	248	**248**
Share-based payments	220	-	45	**265**
Total	**2,288**	**82**	**1,836**	**4,206**

DISCLOSURE ON RELATED PARTY TRANSACTIONS

The following table shows the assets, liabilities, guarantees and commitments as at 31 December 2019, differentiated by type of related party with an indication of the impact on each individual caption.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARDOF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Loans and receivables with customers	22,696	6	-	0.7%
Due to customers	-	1,449	7,473	0.3%
Other liabilities	693	-	-	0.7%

The following table indicates the costs and income for 2019, differentiated by type of related party.

In thousands of Euro	SUBSIDIARIES	DIRECTORS, BOARDOF STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL	OTHER RELATED PARTIES	% OF CAPTION
Interest income	1,119	1	-	1.0%
Interest expense	1	20	44	0.2%
Other administrative expenses	427	-	-	1.9%

The following tables set forth the details of each related party:

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
ASSETS	**22,696**	**0.61%**
Loans and receivables with customers		
ProntoPegno S.p.A.	7,359	0.20%
Largo Augusto Servizi e Sviluppo S.r.l.	13,507	0.36%
Speciality Finance Trust Holdings Ltd	1,830	0.05%
LIABILITIES	**5,070**	**0.14%**
Due to customers		
Shareholders - SGBS	755	0.03%
Shareholders - Fondazione CR Alessandria	2,512	0.10%
Shareholders - Fondazione Sicilia	1,110	0,04%
Other liabilities		
Speciality Finance Trust Holdings Ltd	255	0.01%
ProntoPegno S.p.A.	83	0.09%
Largo Augusto Servizi e Sviluppo S.r.l.	355	0.38%

	AMOUNT (Thousands of Euro)	PERCENTAGE (%)
INCOME	**1,119**	**1.01%**
Interest income		
Speciality Finance Trust Holdings Ltd	328	0.30%
ProntoPegno S.p.A.	99	0.09%
Largo Augusto Servizi e Sviluppo S.r.l.	692	0.63%
COSTS	**447**	**0.85%**
Interest expense		
Shareholders - SGBS	4	0.02%
Shareholders - Fondazione Sicilia	10	0.03%
Shareholders - Fondazione CR Alessandria	5	0.02%
ProntoPegno S.p.A.	1	0.00%
Other administrative expenses		
ProntoPegno S.p.A.	427	1.86%

PART I - SHARE-BASED PAYMENT PLANS

QUALITATIVE DISCLOSURE

The Banca Sistema Group's 2017-2019 Stock Grant Plan prepared in accordance with article 114-bis of Legislative Decree no. 58/98 and article 84-bis of regulation no. 11971/99 approved by Consob on 14 May 1999 as amended, approved by the Board of Directors on 28 March 2017 and published on the Bank's website, establishes the means and rules for granting, assigning and the availability of the Bank's ordinary shares to key management personnel and other persons who fall under the category of "key personnel" who are granted a bonus for which - in accordance with the rules set out in the Remuneration Policies Document applicable for each year in question (the "Policy") - the deferral and subordination mechanisms upon achieving specific corporate and individual performance targets are defined.

In 2019, the variable component of remuneration will be paid as follows upon approval of the financial statements:

- for amounts less than € 30,000, the full amount is paid up-front, in cash;
- for amounts greater than € 30,000 and up to € 435,000, 70% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank), and the remaining 30% (50% in cash and 50% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period;
- for amounts greater than € 435,000, 60% of the variable remuneration shall be paid up-front (50% in cash and 50% in shares of the Bank) and the remaining 40% (24% in cash and 76% in shares of the Bank) shall be deferred and paid at the end of the three-year deferral period.

The aforesaid limits and parameters are established by the Bank, even though, in accordance with the principles of proportionality set out in Paragraph 7 of Circular 285, Title IV, Chapter 2 - General provisions, governing medium-sized banks, more flexible, less complex terms and proportions may be established in regard to the deferral and balancing of shares and cash.

Please see Annex 3 "Bonus Payment Regulation", and insofar as it applies, the Information Document published in the 'Governance' section of the website www.bancasistema.it, regarding the calculation of the Bank shares to be assigned and the applicable provisions.

Disclosure of the fees paid to the independent auditors

Pursuant to the provisions of Art. 149 duodecies of the Consob Issuers' Regulations, the information regarding the fees paid to the independent auditors BDO Italia S.p.A. and to the companies included in the same network is reported below for the following services:

- Audit services that include:
- The audit of the annual accounts, for the purpose of expressing an opinion thereon;
- The audit of the interim accounts;
- Certification services that include tasks whereby the auditor evaluates a specific element, the determination of which is performed by another party who is responsible thereof, through appropriate criteria, in order to express a conclusion that provides the recipient party with a degree of confidence concerning said specific element;
- Tax advisory services;
- Other services.

The fees presented in the table, pertaining to 2019, are those contracted, including any index-linking (but do not include out-of-pocket expenses, any supervisory contribution and VAT).

They do not include, in accordance with the cited provision, the fees paid to any secondary auditors or to parties of the respective networks.

Type of services	Entity providing the service	Addressee	Remuneration
Audit of the separate financial statements and interim reports	BDO Italia S.p.A.	Banca Sistema S.p.A.	180
Other certifications	BDO Italia S.p.A.	Banca Sistema S.p.A.	15

PART L - SEGMENT REPORTING

For the purposes of segment reporting as per IFRS 8, the income statement is broken down by segment as follows.

Breakdown by segment: income statement for 2019

	2019			
Amounts in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated total**
Net interest income	62,055	15,847	2,792	80,694
Net fee and commission income (expense)	18,463	657	(3,052)	16,068
Other costs/income	1,106	-	3,045	4,151
Total income	**81,624**	**16,504**	**2,785**	**100,913**
Net impairment losses on loans and receivables	11,643	(293)	(20,405)	(9,055)
Net financial income (expense)	**93,266**	**16,211**	**(17,619)**	**91,858**

Breakdown by segment: income statement for 2018

	2018			
Amounts in thousands of Euro	**Factoring**	**Banking**	**Corporate**	**Consolidated total**
Net interest income	59,136	14,992	618	74,746
Net fee and commission income (expense)	15,713	726	(1,182)	15,257
Other costs/income	-	-	1,269	1,269
Total income	**74,849**	**15,718**	**705**	**91,272**
Net impairment losses on loans and receivables	(4,857)	(1,880)	(77)	(6,814)
Net financial income	**69,992**	**13,838**	**628**	**84,458**

Breakdown by segment: statement of financial position data as at 31 December 2019

Amounts in thousands of Euro	31.12.2019			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets (HTS and HTCS)	-	-	556,383	**556,383**
Loans and receivables with banks	-	-	81,510	**81,510**
Loans and receivables with customers	1,714,661	842,150	474,066	**3,030,877**
Due to banks	-	-	388,359	**388,359**
Due to customers	83,783	-	2,467,817	**2,551,600**

Breakdown by segment: statement of financial position data as at 31 December 2018

Amounts in thousands of Euro	31.12.2018			
	Factoring	**Banking**	**Corporate**	**Consolidated total**
Financial assets (HTS and HTCS)	-	-	304,469	**304,469**
Loans and receivables with banks	-	-	56,694	**56,694**
Loans and receivables with customers	1,566,613	687,209	491,297	**2,745,119**
Due to banks	-	-	695,197	**695,197**
Due to customers	87,397	-	1,814,659	**1,902,056**

The Factoring division includes the business segment related to the origination of trade and tax receivables with and without recourse. In addition, the division includes the business segment related to the management and recovery of receivables on behalf of third parties.

The Banking segment includes the business segment related to the purchase of salary- and pension-backed loans (CQS/CQP) portfolios, collateralised loans, run-off portfolios related to guaranteed loans to small and medium-sized enterprises, and costs/income from assets under administration and the placement of third-party products.

The Corporate segment includes activities related to the management of the Group's financial resources and costs/income in support of the business activities. Moreover, this segment includes all the consolidation entries, as well as all the interbank eliminations.

The secondary disclosure by geographical segment has been omitted as immaterial, since the customers are mainly concentrated in the domestic market.

PART M - LEASE DISCLOSURE

SECTION 1 - LESSEE

QUALITATIVE DISCLOSURES

The Bank has contracts that fall within the scope of IFRS 16 attributable to the following categories:

- Property used for business and personal purposes;
- Cars.

At 31 December 2019, there were 44 leases, 7 of which were property leases for a total right of use value of € 5 million, while 37 were for cars, for a total right of use value of € 0.7 million.

Property leases, which refer to lease payments for buildings used for business purposes such as offices and for personal use, have terms exceeding 12 months and typically have renewal and termination options that may be exercised by the lessor and the lessee as provided for by law.

Contracts referring to other leases are long-term leases for cars which are generally used exclusively by the employees to whom they are assigned. These contracts have a maximum term of 4 years with monthly lease payments, no renewal option, and no option to purchase the asset.

Contracts with a term of less than 12 months or those for which the replacement value of the individual leased asset is low, i.e. less than € 20 thousand, are excluded from the application of the standard.

QUANTITATIVE DISCLOSURES

The following table provides a summary of the Statement of Financial Position items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Right of use (*)	Lease liabilities
Property lease payments	5,018,381	5,044,796
Long-term car lease	687,181	690,736
Total	**5,705,562**	**5,735,532**

(*) This is the right of use value net of accumulated depreciation.

The following table provides a summary of the Income Statement items relating to leases; for further information, please refer to Part B of the notes to the financial statements:

Type of contract	Interest expense	Net impairment losses on property and equipment
Property lease payments	61,771	1,106,439
Long-term car lease	7,435	350,437
Total	**69,206**	**1,456,876**

SECTION 2 - LESSOR

QUALITATIVE DISCLOSURES

At the reporting date, the Bank does not engage in leases as a lessor.

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

1. The undersigned, Gianluca Garbi, in his capacity as CEO, and Alexander Muz, in his capacity as Manager in charge of financial reporting of Banca Sistema S.p.A., hereby state, having taken into account the provisions of Art. 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
   - the suitability as regards the characteristics of the bank and
   - the effective application of the administrative and accounting procedures for the drafting of the separate financial statements as at and for the year ended 31 December 2019.
2. The suitability and effective application of the administrative and accounting procedures for the drafting of the separate financial statements at 31 December 2019 was verified based on internally defined methods, in accordance with the provisions of the reference standards for the internal control system generally accepted on an international level.
3. Moreover, the undersigned hereby state that:

   3.1 the separate financial statements:

   a) were drafted in accordance with the applicable international accounting standards endorsed by the European Union, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the accounting books and records;

   c) are suitable for providing a true and fair view of the financial position, results of operations and cash flows of the issuer.

   3.2 The Directors' report includes a reliable analysis of business performance and results, as well as of the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Milan, 11 March 2020

Gianluca Garbi

Chief Executive Officer

Alexander Muz

Manager in charge of financial reporting

BOARD OF STATUTORY AUDITORS' REPORT

BANCA SISTEMA S.P.A.

* * *

BOARD OF STATUTORY AUDITORS' REPORT

TO THE SHAREHOLDERS' MEETING CALLED TO APPROVE

THE FINANCIAL STATEMENTS AT 31 DECEMBER 2019

IN ACCORDANCE WITH ARTICLE 153 OF LEGISLATIVE DECREE 58/1998 and ARTICLE 2429 OF THE ITALIAN CIVIL CODE

***

Part One: introduction

Dear Shareholders of Banca Sistema S.p.A. ("**Bank**"),

pursuant to Article 153 of Legislative Decree 58/1998 and Article 2429 of the Italian Civil Code, we give you this report on our supervisory activities during the calendar year (and, for the sake of completeness, on the most significant events occurring after the end of the year), and also make proposals concerning the financial statements and their approval.

This report has been approved by the whole board and by the legal deadline pursuant to law.

As required by law and the Articles of Association, we monitored compliance with the law, regulations, and Articles of Association during 2019, whose compliance we confirm. We also monitored the application of proper management methods, the adequacy and functioning of the organisational, management and accounting structure, and the other acts and aspects as envisaged by law.

We have examined the draft separate financial statements of Banca Sistema S.p.A. at 31 December 2019 (the "**Financial Statements**"), comprised of the Statement of Financial Position, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows and the Notes to the Financial Statements, and accompanied by the Directors' Report and complementary financial statements, showing profit for the year of € 29,955,723.45.

After approving the draft financial statements on 11 March 2019, the Board of Directors sent us the reporting package by the statutory deadline.

Between the meeting dedicated to drafting the previous report on the financial statements and today, the current Board of Statutory Auditors held 15 meetings (including the meeting concerning the preparation of this report), and participated in all the meetings of the Board of Directors and the Internal Control and Risk Management Committee, as confirmed by the documents provided to you in the package prepared for this Shareholders' Meeting.

We shall provide you with detailed information in this report about all of our activities.

Part Two: monitoring legal compliance and compliance with the Articles of Association

In this part we report on the activities performed by the Board of Statutory Auditors pursuant to Article 2403 of the Italian Civil Code.

During the year, the Board of Statutory Auditors monitored compliance with the law, the memorandum of association and compliance with the principles of proper management. These activities adhere to the principles of conduct of the Board of Statutory Auditors of listed companies recommended by the National Board of Business Experts and Accountants.

In addition to the meetings referred to above, the Board of Statutory Auditors participated in all meetings held in 2019 by the corporate bodies in compliance with the Articles of Association, the law and regulatory provisions that govern their proceedings. Therefore, we can reasonably assure that the adopted resolutions complied with the law and the Articles of Association, were not manifestly imprudent, reckless or potentially in conflict of interest or counter to the resolutions approved by the Shareholders' Meeting or of a nature that could compromise the solidity of the company assets.

In the course of performing its own duties at meetings, the Board of Statutory Auditors met periodically with the heads of the principal internal departments of the Company (risk, compliance, legal affairs, corporate affairs, internal control system and audit, underwriting). It examined the documents submitted to it and performed its own analyses and assessments, as summarised in its own minutes. These did not reveal anything that could cast doubt on compliance with the law, the Articles of Association, and principles of proper management. It analysed the most important operating, financial and equity transactions, verifying their compliance with the law and the memorandum of association, finding that they were not manifestly imprudent or reckless and/or in potential conflict of interest and/or in conflict with the resolutions passed by the Shareholders' Meeting and/or prejudicial to the operating, asset and liability, and financial performance of the Bank. It participated in working groups on specific matters and held special meetings on particularly significant issues. The Board of Statutory Auditors has approved all examined transactions as being consistent with the corporate interest.

The Board of Statutory Auditors acknowledges that the key information concerning the Bank's transactions with related parties has been provided during the Board of Directors meetings and in the Financial Statements. In this regard, the Board of Statutory Auditors deems it appropriate to call the shareholders' attention to the interpretation of the paragraphs in the Directors' Report and Notes to the Financial Statements where those events are described.

Among the significant events that occurred in 2019, we note:

- on 5 February 2019, following the exercise of the put option by Banca Sistema, the shares of Axactor Italy S.p.A. were sold to Axactor Holding S.r.l., with registered office in Cuneo, for a total price of € 2,399,413.36, equal to approximately 8.42% of the share capital;
- on 22 February 2019, the shareholders of Banca Sistema, Società di Gestione delle Partecipazioni in Banca Sistema S.r.l., Fondazione Sicilia and Fondazione Cassa di Risparmio di Alessandria, together with SGBS, agreed to amend the shareholders' agreement they signed on 29 June 2018, which became effective on 2 July 2018 and will expire on 1 July 2020;
- on 1 March 2019, the report was issued on the inspections carried out by the Bank of Italy, which were completed on 14 December 2018. The purpose of the inspections was to verify compliance with anti-money laundering legislation and the effectiveness of the organisational structures in reporting the AOER correctly and preventing the risks associated with violations of usury regulations. The inspections concluded with an assessment that was "partially favourable considering the adequacy of controls on the risks of money laundering, terrorist financing and usury, although there is room for improvement in a situation of growth in operating volumes and number of customers".

- on 13 March 2019, the Bank received authorisation from the Bank of Italy to acquire and subsequently merge Atlantide S.p.A., a financial intermediary pursuant to article 106 of the Consolidated Law on Banking, which is active in the granting of salary- and pension-backed personal loans. The acquisition was completed on 3 April 2019. Subsequently, on 18 June 2019, the merger of Atlantide S.p.A. into Banca Sistema S.p.A. was finalised and became effective on 30 June 2019.
- on 13 May 2019, the Bank sold its entire 19.90% equity investment in the share capital of ADV Finance S.p.A. to Top Partecipazioni S.r.l. for a price of € 619,806, together with its entire 19.90% equity investment in the quota capital of Procredit S.r.l. to ADV Finance S.p.A. for a price of € 158,205.
- on 23 May 2019, the Bank issued a Tier II subordinated bond. The € 6 million bond, placed with an institutional investor (private placement), has a 10-year maturity with a fixed coupon of 7% and an early redemption option following a regulatory event;
- on 26 June 2019, the Bank of Italy issued authorisation to ProntoPegno S.p.A., a wholly-owned subsidiary of the Bank, to engage in the activities referred to in art. 106 of the Consolidated Law on Banking;
- on 23 July 2019, the deed of transfer of Banca Sistema's "Collateralised Lending" business unit to the subsidiary ProntoPegno S.p.A. was signed for a value of € 4.66 million. The transfer took effect on 1 August 2019;
- on 30 August 2019, upon authorisation from the Bank of Italy, Banca Sistema initiated a treasury share purchasing programme, which ended on 12 September 2019, having reached the maximum limit of € 300,000;
- on 17 September 2019, the Bank initiated the third securitisation of the CQS portfolio (Salary- and Pension-Backed Loans), with the issue of three classes of partly-paid asset-backed securities (ABS) by Quinto Sistema Sec. 2019, a special purpose vehicle set up pursuant to Law 130/99. The securities issued had an initial value of approximately € 152 million, which can be increased through the partly-paid mechanism up to a maximum of € 780 million.
- on 27 September 2019, the Bank completed the placement of the second tranche of the subordinated Tier II bond issue (2019-2029) equal to € 12 million. The first tranche was issued in May with the simultaneous early redemption of the subordinated lower tier 2 loan (2012-2022), in accordance with the authorisation issued by the Bank of Italy on 16 August 2019. The new bond was completely subscribed by an institutional investor (private placement);

- on 18 November 2019, the Bank entered into a binding agreement to acquire the collateralised lending business unit of the Intesa Sanpaolo Group for a price of € 34 million;

The Board of Statutory Auditors also carried out the following activities during the year:

- The exchanges of correspondence with supervisory authorities concerning the clarifications requested as part of its ordinary control activities;
- The periodic exchanges of information with the independent auditors;
- The meeting with the Supervisory Body for the exchange of information;
- The meeting with the independent directors;
- The approval of the Remuneration Policies Document;
- The analysis and monitoring of business activities in accordance with the Risk Appetite Framework;
- The meeting with the management and control bodies of the banking group companies;
- The verification of anti-money laundering compliance and procedures.

With regard to “significant events during the year”, reference is made to the Directors’ Report.

The Board of Statutory Auditors has issued the following opinions pursuant to law:

- The reasoned proposal for the award of the engagement for the legal auditing of the accounts pursuant to Article 13, paragraph 1, of Legislative Decree no. 39 of 27 January 2010;
- The opinions for the approval of non-audit services, requested by the Independent Auditors.

On 17 April 2019, the Board of Statutory Auditors issued its Observations on the Bank’s Restructuring Plan, as well as the report prepared by the Internal Audit Department on the controls carried out on the major outsourced departments, any deficiencies found and the consequent corrective measures adopted.

Finally, pursuant to Article 2408 of the Italian Civil Code, we declare that in 2019, no complaint from Shareholders or any other complaints were received, no wrongdoing or other significantly negative acts or omissions were reported by the Independent Auditors or others, that required reporting to the Bank of Italy.

Significant events after the reporting date.

The significant events that occurred after the reporting date included the outbreak in February 2020 of the COVID-19 epidemic emergency, which had a significant impact on Italy and is spreading both in Europe and the rest of the world.

Banca Sistema took immediate action to adopt appropriate measures to protect the health of its employees, customers and stakeholders, and guaranteed the functioning of all its offices and branches and the full operation of all its businesses, also by means of smart-working solutions.

With regard to the COVID-19 epidemic emergency, having assessed the effects of the ongoing threat, which will have a negative impact on the country's economy and a foreseeable increase in public spending, particularly in the healthcare sector, the Bank – as reported by the directors in the financial statements – does not currently expect there to be a significant impact on the Group's activities in the short term, which by their nature are counter-cyclical. The situation, which will not have any effects on business continuity, will be continuously monitored to verify the indirect effects linked to a decrease in production by the transferor companies with which the Group works.

Part Three: supervision of the financial statements

In this section we report on our control activities related to the preparation and drafting of the separate financial statements of Banca Sistema S.p.A. for the year ended 31 December 2019.

The Financial Statements have been drafted in accordance with the International Financial Reporting Standards (IAS/IFRS), as endorsed by the European Commission and transposed in Italy by Legislative Decree 38 of 28 February 2005, while also considering the instructions issued by the Bank of Italy with Circular 262 of 22 December 2005, as amended.

Pursuant to Legislative Decree 39/2010, the person or entity responsible for the statutory audit of the accounts must give an opinion on the financial statements as to whether they comply with the laws and regulations governing their preparation and whether they give a true and fair view of the capital and financial position, the cash flows and the profit and loss for the year. In this regard, BDO Italia S.p.A. ("BDO"), from the time it took over from the previous independent auditors, exchanged material information with the Board of Statutory Auditors pursuant to the regulations in force and issued its own audit report on the financial statements at 31 December 2019 today. The report does not contain any objections or censures.

Therefore, the Board of Statutory Auditors assumes that the financial data correspond to the data resulting from the internal accounts, which are regularly kept in compliance with the principles set out in current regulations.

That said, the Board of Statutory Auditors has monitored activities to ensure that the general process of preparing and drafting the financial statements complies with current laws and regulations.

The Statement of Financial Position contained in the financial statements submitted for approval to the Shareholders' Meeting is summarised as follows (in thousands of Euro):

Assets	3,736,554
Liabilities	3,556,695
Share capital and reserves	149,903
Profit for the year	29,956

The Income Statement shows the following, summary values (in Euros):

Total income	100,551,224
Net impairment losses on loans and receivables	(9,053,279)
Operating costs (administrative expenses and other income/expenses)	(49,366,982)
Net impairment losses on property and equipment/intangible assets	(1,747,577)
Net accruals to provisions for risks and charges	(1,996,083)
Pre-tax profit from continuing operations	42,130,963
Income taxes	(12,370,772)
Post-tax profit from discontinued operations	175,532
Profit for the year	29,955,723

Part Four: relations with the independent auditors

Material information was exchanged during the year with representatives of the Independent Auditors so that they could perform their duties during the periodic meetings held pursuant to the regulations in force. These did not reveal any critical and/or significant problems.

In compliance with Article 6, paragraph 2), letter a) of European Regulation 537/2014 and paragraph 17 of international auditing standard (ISA Italia) no. 260, BDO has certified that, during the period between 1 January 2019 and today, it found no situations compromising the independence of the Independent Auditors or causes for incompatibility.

Likewise, BDO has informed the Board of Statutory Auditors that the legal audit carried out as at 31 December 2019 has not revealed significant shortcomings in the internal control system related to the financial reporting process that need to be brought to the attention of the Board of Statutory Auditors.

Part five: Acceptance of the Code of Conduct

The Bank adheres to the Code of Conduct of the Corporate Governance Committee for listed companies. Information about certain essential elements is provided as follows.

Internal Control Committee

Banca Sistema S.p.A. has its own Internal Control and Risk Management Committee, whose current members were appointed by the BoD on 24 May 2018. Mr. Franco Pozzi was nominated and appointed to head the Internal Control Committee. The Committee and the head of the Internal Control Committee meet periodically.

Other Committees

The Appointments Committee, the Remuneration Committee, and the Ethics Committee have been established.

Board of Directors

- The BoD supervises general operating performance, dedicating special attention to situations exhibiting conflicts of interest, giving special consideration to the information received from the CEO and the Internal Control and Risk Management Committee, by periodically comparing the results achieved with those planned.

- The BoD examines and approves transactions having a significant economic, asset and liability, and financial impact, especially in regard to related party transactions.
- The composition of the Board of Directors includes seven independent directors.
- The Chairperson of the Board of Directors meets the independence requirement pursuant to art. 147-ter, paragraph 4, and art. 148, paragraph 3 of Legislative Decree no. 58 of 24 February 1998, but does not meet the provisions of art. 3, application criteria 3.c.1.b and 3.c.2 of the Code of Conduct issued by Borsa Italiana.
- The CEO makes periodic reports to the BoD on his activities in the course of exercising his delegated authority.
- The CEO provides adequate information about the related party transactions whose examination is not reserved to the BoD.

The number of BoD, Internal Control Committee, and all Board committee meetings, and the attendance by the members of the Board of Statutory Auditors are shown in the document "Report on Corporate Governance".

Part Six: disclosure pursuant to Consob Communication no. 1025564 / 2001

This section presents the information required under Consob Communication no. 1025564 of 6 April 2001, as amended. In certain cases, that information has already been reported in other paragraphs of this Report.

- The Company did not execute any atypical or unusual transactions with:
  - Group companies;
  - Related parties;
  - Third parties.

  See also page 42 of the Financial Statements for more information in this regard.
- Significant transactions affecting the financial position, and assets and liabilities of the Bank were executed, and they have been illustrated in the financial statements.
- Ordinary / recurring transactions were executed with related parties, as described (with reference to them for reading) on page 42 and pages 168-170 of the Financial Statements. In this regard, we inform you that they have always been appropriate and in the Bank's interest.

- The directors have explicitly stated the company's interest in execution of the transactions in their report on operations.
- The organisational structure of the Bank was revised during 2019. The actions approved by the BoD and subsequently implemented to improve the organisational structure have been illustrated.
- The orders issued by the company to its subsidiaries pursuant to Article 114, paragraph 2 of the Consolidated Law on Finance are considered adequate.
- The Board of Statutory Auditors has exchanged the required information with the corporate bodies of the subsidiaries L.A.S.S. s.r.l. and ProntoPegno S.p.A., with no significant issues having arisen.
- The organisational structure has been found to be adequate in regard to the matters under the responsibility of the Board of Statutory Auditors.
- The internal control system has been found adequate, just as has been the administrative and accounting system. This is deemed to give a reliable and fair presentation of operating events.
- Please refer to "Part Two" of this Report for other assessments, observations and comments.
- No omissions, wrongdoing or irregularities have been found during supervisory activity.
- It is not considered necessary to make proposals to the shareholders' meeting in regard to the financial statements and their approval, aside from those approved by the Board of Directors and transcribed in the "summary and conclusions".
- The Board of Statutory Auditors has not had to exercise its powers to call the shareholders' meeting or the BoD.
- Pursuant to paragraph 2, sub-paragraph 2 of the Consob Communication, the following details are noted:
  - the transactions indicated in paragraph 2, sub-paragraph 2, in paragraph 2,sub-paragraph 2.1, and in paragraph 2, sub-paragraph 2.2 of Consob Communication no. 1025564 of 6 April 2001. No atypical and/or unusual transactions were executed, including intercompany transactions or related party transactions. Consequently, no additional description needs to be given in this regard;

- the transactions indicated in paragraph 2, sub-paragraph 2.3 of the Consob Communication: as previously mentioned, reference is made to the reading of pages 42, 168, 169 and 170 of the Financial Statements.

Summary and conclusions

Dear Shareholders of Banca Sistema S.p.A.,

On the basis of the foregoing report and given what has been brought to the attention of the Board of Statutory Auditors, and what has been confirmed by its periodic controls, it is believed that no reasons exist not to approve the draft financial statements of Banca Sistema at 31 December 2019, as drafted and proposed to you by the Board of Directors, and consequently approve the distribution of dividends.

Likewise, the Board of Statutory Auditors has taken note of and brings to your attention the contents of the report of the Independent Auditors BDO Italia, issued pursuant to Articles 14 of Legislative Decree 39/2010 and Article 10 of Regulation (EU) no. 537 of 16 April 2014, which shows that the financial statements have been clearly written and give a true and fair view of the operating result, assets and liabilities, financial position and cash flows of the Bank, the "additional report" prepared in accordance with Article 11 of Regulation (EU) no. 537/2014, and the result of the exchanges of information with the Independent Auditors, who have confirmed their own independence, have not found material errors, believe that the books are properly kept, and confirm that there are no material aspects requiring a report to the governance bodies.

Consequently, and notwithstanding all the references to the individual paragraphs of the Financial Statements previously made in this Report, the Board of Statutory Auditors reports that the proposal of the Board of Directors of Banca Sistema S.p.A. regarding the allocation of the profit for the year is as follows:

"Dear Shareholders,

The financial statements as at and for the year ended 31 December 2019, which we submit for your approval, show a profit for the year of €29,955,723.45.

We recommend allocating the profit for the year as follows:

- *a dividend of € 7,479,157.84;*
- *the remainder of € 22,476,565.61 to retained earnings.*

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

Please note that on 27 March 2020 the Bank of Italy, having accepted the request made by the European Central Bank (ECB), extended the ECB's Recommendation to significant banks to include less significant banks under its direct supervision. The aim of the Recommendation is to allocate profits to strengthening own funds, and to ensure that the financial system is in the best position to absorb the losses that will arise from the COVID-19 health emergency and to continue supporting the economy. This Recommendation reinforces the decision to allow intermediaries to operate temporarily below the level of the Target Component, assigned following the SREP (Pillar 2 Guidance - P2G) process, as well as the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR). The Bank of Italy has therefore recommended the following to all the banks and banking groups under its supervision, at least until 1 October 2020:

1. to not pay dividends, including the distribution of reserves, and make no irrevocable commitments to pay dividends for the financial years 2019 and 2020;

2. to refrain from share buy-backs aimed at remunerating shareholders.

In this regard, the Board of Statutory Auditors notes that Banca Sistema has always adopted a prudent dividend distribution policy, which has had beneficial effects in terms of equity capital, also with respect to the capital ratios. The distribution proposal, made by the Board of Directors on 11 March 2020 and, therefore, prior to the Bank of Italy's recommendation, maintains the prudential approach adopted over time, with a distribution equal to 25% of the profits achieved.

In light of the above, the Board of Statutory Auditors invites the Shareholders' Meeting to approve the financial statements as at 31 December 2019 as prepared by the Board of Directors and to take due account of the Bank of Italy's recommendation for the purposes of the resolution regarding the allocation of the profit for the year.

Milan, 30 March 2020

Board of Statutory Auditors

Massimo Conigliaro	**Lucia Abati**	**Biagio Verde**
Chairperson	*Standing Auditor*	*Standing Auditor*
(signed on the original)	(signed on the original)	(signed on the original)

INDEPENDENT AUDITORS' REPORT

Banca Sistema S.p.A.

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

Financial statements as at December 31, 2019

This report has been translated into English from the original, which was prepared in Italian and represents the only authentic copy, solely for the convenience of international readers.

RVC/FBR/cpo - RC043882019BD1045

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Viale Abruzzi, 94
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Independent auditor's Report
pursuant to article 14 of Legislative Decree n. 39, dated January 27 2010 and article 10 of EU Regulation n. 537/2014

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

Report on the financial statements

Opinion

We have audited the financial statements of Banca Sistema S.p.A. (the Company), which comprise the balance sheet as at December 31, 2019, the profit and loss account, the statement of other comprehensive income, statement of changes in net equity, the cash flow statement for the year then ended and notes and comments to the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 as well and article 43 of Legislative Decree NO. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical and independence requirements applicable in Italy to the audit of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Bari, Bergamo, Bologna, Brescia, Cagliari, Firenze, Genova, Milano, Napoli, Padova, Palermo, Pescara, Roma, Torino, Treviso, Trieste, Verona, Vicenza

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Key audit matters	Audit responses
CLASSIFICATION AND MEASUREMENT OF LOANS AND RECEIVABLES WITH CUSTOMERS BOOKED UNDER THE FINANCIAL ASSETS MEASURED AT AMORTISED COST Notes: Part A) Accounting policies - paragraph A.2, “Information on the main items of the separate financial statements”: “Financial assets measured at amortised cost”; Part B) Information on the statement of financial position, Assets - Section 4 “Financial assets measured at amortised cost”; Part C) Information on the income statement - Section 8.1 “Net impairment losses due to credit risk related to financial assets measured at amortised cost: breakdown”; Part E) Information concerning risk and related hedging policies - Section 1 “Credit risk” Loans and receivables with customers, which are booked under the financial assets measured at amortised cost as of December 31, 2019, are equal to Euro 3,043 million and represent the 81% of the Bank’s total assets. The acquisition by the Bank of non-impaired loans claimed by companies supplying goods and services, mainly towards the public administration (the “factoring credits”) and origination of credits relating to the sector of the transfers of salary or pension backed loans (the “CQS/CQP credits”) represent the Bank's main activities. Factoring credits and CQS/CQP credits as of December 31, 2019, are equal to, respectively, Euro 1,715 million and Euro 817 million. For classification purposes, the directors of the Bank carry out analyses, sometimes complex, aimed at identifying the positions which, after the disbursement and / or acquisition, show evidence of a possible loss of value, considering both internal information related to the trend credit positions, and external information related to the sector of reference or to the overall exposure of such debtors to the banking system. The evaluation of loans and receivables with customers is a complex estimation activity, characterized by a high degree of uncertainty and subjectivity, in which the Bank's directors use evaluation models that take into consideration numerous quantitative and qualitative elements such as, among others, historical data relating to collections, expected cash flows and related recovery times, the existence of indicators of possible impairment, the assessment of any guarantee, the impact of macroeconomic variables,	Our main audit procedures carried out in response to the key audit matter relating to the classification and evaluation of loans and receivables with customers, concerned the following activities: ▪ analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; ▪ analysis of the adequacy of the IT environment related to IT applications that are relevant to the process of evaluating loans to banks and customers; ▪ procedures for reconciling data between management systems and information reported in the financial statements; ▪ comparative analysis procedures and analysis of the results with the management involved; ▪ analysis of the criteria and methods for the evaluation of credits (analytical and collective) and verification on a sample basis of the reasonableness of the assumptions and of the components used for the assessment and the relative results; ▪ examination on a sample basis of the classification and valuation in the financial statements in accordance with the IFRS adopted by the European Union and the provisions issued pursuant to Article 43 of Legislative Decree 136/2015; ▪ examination of the disclosures provided in the notes.

future scenarios and risks of the sectors in which the Bank's customers operate.

For these reasons, we have considered the classification and evaluation of loans and receivables with customers booked under financial assets valued at amortized cost, a significant key matter in the context of the auditing activity.

DETECTION OF DEFAULT INTEREST PURSUANT TO LEGISLATIVE DECREE NO. 231 OF 9 OCTOBER 2002 ON PERFORMING RECEIVABLES ACQUIRED WITHOUT RECOURSE.

Notes: Part A) Accounting policies - paragraph A.2., "Information on the main items of the separate financial statements"; Part C) Information on the income statement - Section 1 "interest - item 10 and 20"; Part E) Information concerning risk and related hedging policies - Section 1 "Credit risk"

The Bank's directors account for accrued default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse.

Default interest recognized on an accrual basis in the year ended on 31 December 2019 amount to Euro 17,1 million and represent the 16% of the Bank's interest and similar income.

The default interest deemed recoverable by the directors of the Bank is estimated by using models based on the analysis of the time series concerning the recovery percentages and actual collection times observed internally.

These analyses are periodically updated following the progressive consolidation of the time series.

The aforementioned estimate, characterized by a high degree of uncertainty and subjectivity, feeds analysis models that take into account numerous quantitative and qualitative elements such as, among others, the historical data relating to collections, expected cash flows, the relative times collection costs and the impact of the risks associated with the geographical areas in which the Bank's customers operate.

For these reasons, we have considered the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse a significant key matter in the context of the auditing activity.

The main audit procedures carried out in response to the key audit matter relating to the detection of default interest pursuant to legislative decree no. 231 of 9 october 2002 on performing receivables acquired without recourse, also carried out with the support of our experts, concerned the following activities:

- understanding of the business processes and the related IT environment of the Bank with reference to the estimation of default interest;
- examination of the configuration and implementation of the controls and performance of procedures to evaluate the operational effectiveness of controls which are considered relevant, with particular reference to the estimation of default interest;
- analysis of the models used to estimate default interest and examination of the reasonableness of the main assumptions contained in them, with the support of our experts;
- analysis of the adequacy of the information provided in the explanatory notes.

Other Matter

The separate financial statements of Banca Sistema S.p.A. for the year ended on December 31, 2018, were audited by another auditor, who expressed an unmodified opinion on those statements on March 27, 2019.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree NO. 38/05, as well as the regulation issued to implement article 9 of Legislative Decree NO. 38/05 and article 43 of Legislative Decree NO. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the

disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of Regulation (EU) 537/2014

We were initially engaged by the shareholders meeting of Banca Sistema S.p.A. on April 18, 2019 to perform the audit of the separate and the consolidated financial statements of each fiscal year starting from December 31, 2019 to December 31, 2027.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of Regulation (EU) 537/2014, and that we remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10 and of article 123-bis of Legislative Decree n. 58/98.

The directors of Banca Sistema S.p.A. are responsible for the preparation of the report on operations and of the corporate governance report of Banca Sistema S.p.A. as at December 31, 2019, including their consistency with the financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and of specific information of the corporate governance report as provided by article 123-bis, paragraph. 4, of Legislative Decree n. 58/98, with the financial statements of Banca Sistema S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations and the above mentioned specific information of the corporate governance report are consistent with the financial statements of Banca Sistema S.p.A. as at December 31, 2019 and are compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Milan, March 30, 2020

BDO Italia S.p.A.

(signed in the original)
Rosanna Vicari
Partner

FINANCIAL STATEMENTS AND REPORTS FOR 2019

BANCA SISTEMA
CONTEMPORARY BANK